



**CORPORATE GOVERNANCE AND CORPORATE SOCIAL
RESPONSIBILITY REPORTING: A CASE STUDY OF MALAYSIA**

A thesis submitted by

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ABSTRACT

Corporate social responsibility (CSR) is relatively a new concept to developing countries, hence it is less prevalent as compared to developed countries. There is growing consensus that CSR is highly contextual. The literature indicates that the concept and practices of CSR vary depending on the country, region, culture, management perspectives, and geographical and business systems. Accordingly, it can be concluded that existing CSR in developed countries cannot be employed in developing countries. The need for companies to be positively perceived by their stakeholders and to stay competitive has led to the necessity of companies to communicate their social responsibility initiatives. Loss of social confidence due to crises has also prompted companies to report on their CSR activities to enable consumers and investors to make informed choices and rational investment decisions. Various efforts have been undertaken to encourage companies to report on CSR activities. Nevertheless, the practise of CSR reporting in developing countries remains in embryonic form. Researchers propose corporate governance good practice should promote ethics, fairness, transparency and accountability which form the foundation of CSR practices.

Given the increasing importance attached to both corporate governance and CSR, this study's primary objective is to investigate the effects of corporate governance practices on the extent of CSR reporting in Malaysia. Hypotheses are developed by reference to several theoretical constructs namely agency, resource dependence, neo-institutional sociology and stakeholder-agency theories. This study employs content analysis to examine the annual reports of 450 non-financial companies listed on Bursa Malaysia over the years 2008-2013. A self-constructed CSR checklist consisting of 51 CSR-related items categorised under six themes was used to measure the extent of CSR reporting in the annual reports. To determine the influence of corporate governance on CSR reporting, multiple regression analysis was utilised.

The results show that over time, companies are increasingly disclosing more information on CSR, suggesting that this area is increasingly gaining the attention of companies. The effective role played by government and regulators is seen as the likely reason for the increasing reporting trend. Theme wise, most companies are inclined towards reporting human resource information; demonstrating that

satisfying the needs of their workers is central to their success. Although on the whole the reported levels in Malaysia fall short of disclosure in developed countries and also several countries in the same region, the increasing trend appears promising. Given more time, CSR reporting levels may approach those reported in developed countries.

This study also looks at the influence of ownership structure and board of directors attributes on the level of CSR reporting in Malaysia. Specifically, it attempts to examine the effect of ownership by directors and institutions, board independence, board meeting frequency, board diversity and CEO duality on CSR reporting. Nevertheless, despite continuous government efforts to improve the practise of corporate governance among companies, this study failed to find any significant impact of board meeting frequency, board diversity and CEO duality on CSR reporting level. Meanwhile, the association between board independence and directors who are finance experts and CSR reporting are found to be industry-specific, suggestive that the environments in certain industries deter the board from increasing CSR. Interestingly, this study exhibits significant results for both ownership by directors and institutions. Shareholdings by directors prove to have negative bearing on CSR reporting due to the entrenchment effect. Institutional ownership while demonstrating a significant result, contributes to a lower reporting of CSR information. On the whole, the results imply that the prevalent dominant family ownership of companies in Malaysia is an impediment to the effective practise of CSR.

This study is significant because it is one of the first to provide empirical evidence on the effect of corporate governance mechanisms on CSR reporting in a developing country. This study provides feedback to regulators and policymakers on the effectiveness of their efforts in promoting accountability and transparency through increased CSR reporting. In addition, it also offers an overview of the effectiveness of corporate governance practices in Malaysia which should enable regulators to improve the system of corporate governance especially increasing CSR practices.

CERTIFICATION OF THESIS

I, Nurulyasmin Binti Ju Ahmad, declare that this thesis is entirely my own work, except where otherwise acknowledged. The work is original and has not previously been submitted either in whole or in part for any other award, except where acknowledged.

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LIST OF ABBREVIATIONS

ACCA	Association of Certified Chartered Accountant
ACE	Access Certainty and Efficiency
BNM	Bank Negara Malaysia
CCM	Company Commission of Malaysia
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
EPF	Employee Provident Fund
EQA	Environmental Quality Act
FCCG	Finance Committee on Corporate Governance
FDI	Foreign Direct Investment
FPLC	Federation of Public Listed Companies
FRF	Financial Reporting Framework
FRS	Financial Reporting Standard
FTSE	Financial Times Stock Exchange
GLC	Government Link Company
GRI	Global Reporting Initiative
KLSE	Kuala Lumpur Stock Exchange
KLCI	Kuala Lumpur Composite Index
LHDN	Lembaga Hasil Dalam Negeri
LTAT	Lembaga Tabung Angkatan Tentera
LTH	Lembaga Tabung Haji
MASB	Malaysian Accounting Standard Board
MCCG	Malaysian Code on Corporate Governance
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotations Berhad
MICG	Malaysian Institute of Corporate Governance
MIDA	Malaysian Industrial Development Authority
MOF	Ministry of Finance
MSWG	Malaysian Shareholder Watchdog Group
MTUC	Malaysian Trade Union Congress
MWFCD	Ministry of Women, Family and Community Development
NACRA	National Annual Corporate Report Awards

NDP	New Development Plan
NEAC	National Economic Action Council
NEM	New Economic Model
NEP	New Economic Plan
NGO	Non-Governmental Organization
NIP	National Integrity Plan
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square
PCG	Putrajaya Committee on GLC High Performance
PLC	Public Listed Company
PETRONAS	Petroleum Nasional Berhad
PNM	Permodalan Nasional Berhad
SC	Securities Commission
SEDC	State Economic Development Corporation
SIC	Standard Industrial Classification
SOCSSO	National Social Security Organization
TDC	Tourist Development Corporation
WWF	World Wildlife Federation

LIST OF PUBLICATIONS

1. Corporate Social Responsibility (CSR) Reporting in Malaysia: A Research Note, Submitted to *International Journal of Public Policy*
2. Board Independence and Corporate Social Responsibility (CSR) Reporting in Malaysia, Submitted to *Australasian Accounting, Finance and Business Journal*
3. Board Meeting Frequency and Corporate Social Responsibility: Evidence from Malaysia, Submitted to *Corporate Board: Role, Duties and Composition*
4. Corporate Board Diversity and Corporate Social Responsibility (CSR) Reporting in Malaysia, Submitted to *Gender, Technology and Development Journal*
5. CEO Duality and CSR Reporting: Evidence from Malaysia, accepted in *Corporate Ownership and Control Journal*, Vol. 14 No 2, Winter 2017, pp.66 - 80

CHAPTER 1: INTRODUCTION

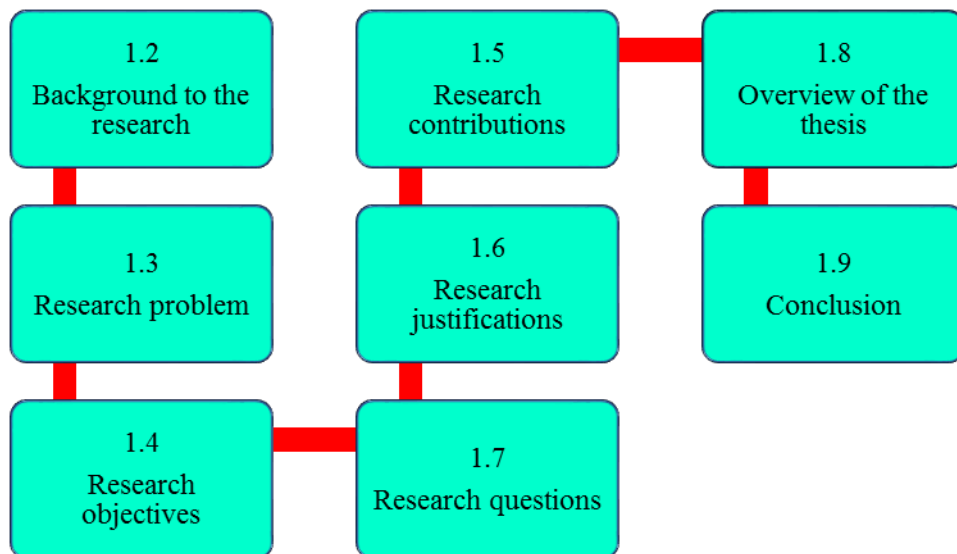
Research is the process of going up alleys to see if they are blind

– Marston Bates

1.1 Introduction

This study investigates Corporate Social Responsibility (CSR) reporting and how company reporting behaviour is impacted by corporate governance mechanisms. In doing so, this chapter introduces the broad overview of the topic, followed by the issues of the interest which leads to the purpose and research questions of the study. Research justifications and contributions are also presented. This chapter concludes with a brief outline of the remaining chapters. Figure 1.1 exhibits the flow of this chapter.

Figure 1.1 Flow of Chapter 1



1.2 Background to the research

1.2.1 Corporate Social Responsibility (CSR)

CSR is a reaction to the public's concerns about businesses' pursuit of profit at the cost of social and environmental degradations (Li, Fetscherin, Alon, Lattemann & Yeh 2010). Over the past four decades, the pressure to consider the social and environmental impact of business operations has been growing steadily (Castelo Branco & Delgado 2011). Fundamentally, companies are accountable to stakeholders

in four areas: to ensure financial returns, to adhere to laws and regulations, to act ethically beyond legal requirement and be prepared to perform voluntary activities. Accordingly, the European Commission (2002, p. 5) defines CSR as “behaviour by businesses over and above legal requirements, voluntarily adopted because businesses deem it to be in their long-term interest”. At the start, the role of the company is viewed as shareholder primacy where maximising shareholder returns is the main purpose of its existence. However, as the consequences of globalisation, wider stakeholder activism, and the free flow of information, it has become necessary for companies to do their business in a socially responsible and transparent manner. Through adopting and nurturing social responsible practices, the role of a company has expanded to become a social agent with enormous responsibilities to society (Ghelli 2013). It is anticipated that companies will behave ethically and act as good corporate citizens with the intention to ensure a company’s long term existence. The concept of CSR takes into account the transparency of companies as well as stakeholder expectations and supports the notion that companies function better when they fuse together not only their business interests but also the interests of their stakeholders. In its broadest sense, CSR takes as its premise that companies ought to justify their existence in terms of service to the community rather than mere profit (Abaeian, Yeoh & Khong 2014).

Nevertheless, acceptance of CSR is not without controversy. Business experts continually question the rationale of companies to be responsible for issues beyond their narrow technical, economic and legal requirements when their central role is to serve the interests of their shareholders. When individuals invest their capital in companies, management has the obligation to ensure the maximum return for those investments. Any activity that does not contribute to “the bottom line” or to maximizing shareholder wealth is a disruption to the functioning of modern business corporations. Furthermore, engagement in CSR would only meddle the processes that they either have no expertise in or should be better left to other actors in society, such as government. To society, CSR is not more than a facade for the sole purpose of concealing companies past deeds and also a way to distract the government from issuing new CSR regulations (Lu 2013). This has put companies in a quandary. They are pressured to improve their CSR practices but at the same time they are criticised by society and business experts when they engage in CSR. Yet, despite those

daunting obstacles, CSR has nowadays become one of the company's priorities in order to attain its goals.

CSR is a set of policies, practices, and programs that are integrated throughout business operations and decision-making processes. They are intended to ensure the company maximizes the positive impacts of its operations on society (Visser 2008). CSR holds many opportunities for the betterment of companies and the societies they operate in (KPMG 2013). Companies today engage in CSR with a strategic intent as it is considered to be a long-term investment. CSR has been associated with improved financial performance as it is a source of profits, creation of new business networks, improved recruitment and staff retention, enhanced brand image, all of which enhance a company's reputation (Kahreh, Babania, Tive & Mirmehdi 2014). Companies that integrate CSR into corporate strategies enjoy better internal control and decision-making systems; producing cost-savings; and continuously improving products and services, besides minimising the risk of powerful consumer boycotts (Adams 2002). CSR also provide better access to valuable resources apart from creating unforeseen opportunities (Cheng, Ioannou & Serafeim 2014). In fact, CSR is believed to have the ability to mitigate the likelihood of negative regulatory, legislative or fiscal action (Cheng et al. 2014). Nevertheless, the issues of competitive advantage and good corporate governance are increasing in prevalence (Amaladoss & Manohar 2013). Imposing a framework like CSR onto a local business system presents a risk. Due to that, top management needs to prioritise their business practices strategically, optimise overall economic return on environmental investments and transform these investments into sources of competitive advantage (Yusoff, Othman & Yatim 2014).

1.2.2 CSR in developing countries

There is growing consensus that CSR is highly contextual. In a comparative survey of CSR in 15 countries across Europe, North America and Asia, it was speculated that the low response rates from countries like Hong Kong, Malaysia, Mexico and Thailand may in itself be an indicator of CSR being less prevalent in developing countries (Welford 2004). These countries fairly consistently underperform when compared with developed countries across 20 measured aspects of CSR (Welford 2004). Several studies show that the concept and practices of CSR vary depending on the country, region, and corporation, with country of origin the

strongest influence (Amaladoss & Manohar 2013; Khan, Muttakin & Siddiqui 2013). The background to discussions about CSR and the important aspects and future challenges of CSR also vary. CSR practices in developing countries emphasise philanthropy and community development as compared to environmental, ethical, or stakeholder issues which are of major concern in developed countries (Amaladoss & Manohar 2013). Institutions, standards, and systems which are the foundation of CSR in Europe and the USA; are comparatively weak in developing countries (Amaladoss & Manohar 2013). For instance, the Asian equity markets are relatively more illiquid, when compared to western markets (Zain 1999). The Asian business community is characterised by high levels of family ownership and lack of transparency. Due to the absence of a separation of management from ownership, the traditional agency problem is generally not applicable in Asia. In addition, market discipline mechanisms, such as hostile takeovers, occur less regularly in Asia because of the concentrated family ownership. These factors strongly suggest why the take up of CSR in Asia specifically and developing countries generally is low.

Not only do CSR practices differ between developed and developing countries, variations are also apparent among developing countries themselves. Chapple and Moon (2005) argue that CSR in Asia is not homogeneous because of factors such as the country's level of development, globalisation, and national business systems. Asia is more diverse culturally, linguistically and economically than other regions of the world (Visser 2008). A number of quantitative studies confirm this picture of CSR variance. In a survey of CSR reporting in Asia, Chapple and Moon (2005) find that nearly 75% of large companies in India present themselves as having CSR policies and practices versus only 25% in Indonesia. Falling somewhere between these two extremes are Thailand (42%), Malaysia (32%), and the Philippines (30%) (Visser 2008). Birch and Moon (2004) also note that CSR performance varies greatly between countries in Asia, with a wide range of CSR issues being tackled (e.g. education, environment, employee welfare) and modes of action (e.g. foundations, volunteering, and partnerships). They also infer that the evolution of CSR in Asia tends to occur in three waves, with community involvement being the most established form of CSR, following by successive second and third waves of socially responsible production processes and employee relations, respectively (Visser 2008).

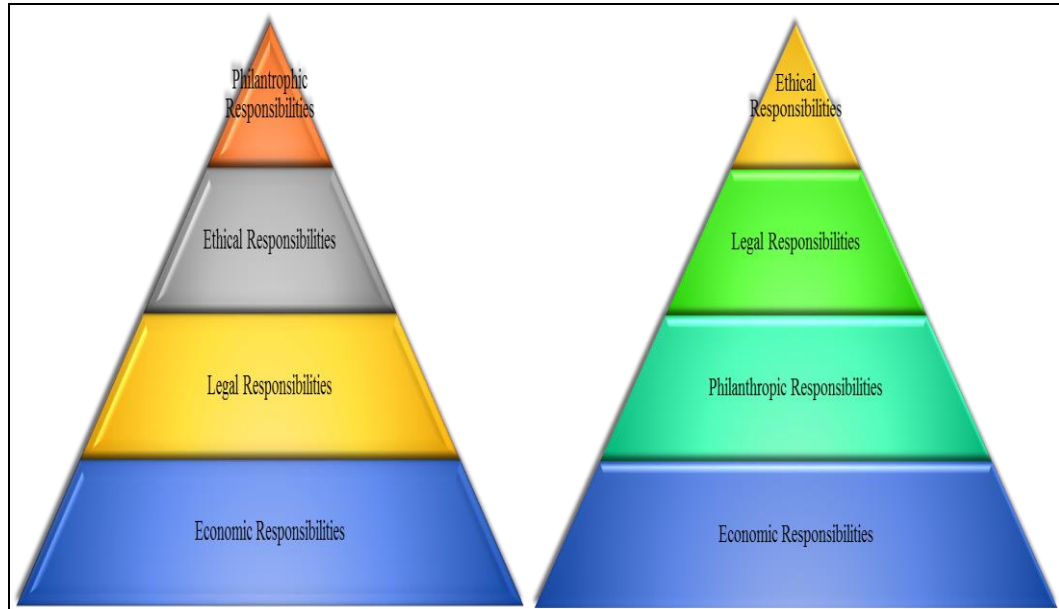
Although many believe CSR is a Western invention, there is ample evidence that CSR in developing countries draws strongly on deep-rooted indigenous cultural traditions of philanthropy, business ethics, and community embeddedness. For example, the spirit and practice of CSR in China has strong resonance with cultural and traditional communitarian values like coexistence (*kyosei*) and harmonious society (*xiaokang*) (Romero & Lamadrid 2014). In other words, CSR has long been practised in developing countries, yet it was not called CSR. In developing countries, CSR is a channel to in part overcome the shortcomings of the government in providing various social services such as housing, education, health care as well as poverty alleviation (Sharma 2013). Accordingly, companies have assumed many of these roles. Asia is experiencing the most rapid economic growth of any of the world's regions. The promise and reality of rising living standards remain foremost in the minds of policymakers and businesses. Hence, it is not surprising that this forms the basis of the CSR approach adopted by many Asian companies. Moreover, making an economic contribution is often seen as the most important and effective way for business to make a social impact, i.e. through investment, job creation and technology transfer (Romero & Lamadrid 2014). CSR is also portrayed as an enabler for companies to access developed markets. This is especially relevant as more companies from developing countries are expanding internationally and need to comply with international stock market listing requirements, including various forms of sustainability performance reporting and CSR code compliance (Visser 2008). Peer pressure, particularly from leading-edge companies within each Asian country, also plays an important role in creating new demands on businesses to adopt greater responsibility. Business or industry associations play a dominant role in creating these pressures and in putting a spotlight on the CSR activities of their members (Visser 2008). In short, these factors have contributed to the initiation and also development of CSR in developing countries. With some of them being unique to developing countries, they build up a distinctive picture of how CSR is conceived and practised in these countries.

Given the unique practices of CSR in developing countries, there were doubts as to whether the CSR model developed by Carroll (1991) is compatible. Carroll's (1991) CSR Pyramid, comprising economic, legal, ethical, and philanthropic responsibilities is almost entirely based on research in an American context (see Figure 1.2). While the pyramid illustrates the similar CSR constructs found in

developing countries, Visser (2008) has proposed a modified CSR model (see Figure 1.3).

**Figure 1.2: Carroll's CSR Pyramid
(Carroll 1991)**

**Figure 1.3: Visser's CSR Pyramid
(Visser 2008)**



Source: Visser (2008)

Similar to developed countries, economic responsibilities remain the basis of CSR practices; owing to a shortage of foreign direct investment, presence of high unemployment and widespread poverty. Therefore, CSR is a way of generating investment and income, produces better products and services, creating local jobs and supporting technology transfers (Visser 2008). Philanthropy is given the second highest priority. This is a result of strong indigenous traditions of philanthropy in developing countries. Besides, companies require support from society in order to be successful. Hence, philanthropic activities are crucial to ensure society is in good shape to provide full support to companies. Legal responsibilities come next in the pyramid. Generally, developing countries are associated with poorly developed legal infrastructure besides lacking independence, resources and administrative efficiency (Visser 2008). This is the result of government's role which is constrained and retracted. Given less pressure for good conduct, it reduces the effectiveness of legislation as a CSR driver. Unlike in developed countries, ethical responsibilities seem less prevalent as CSR catalyst. Despite attempts to improve governance, corruption and bribery are closely found. In other words, embedding ethical responsibilities requires a lot more effort and time than anticipated. Nevertheless, this

pyramid, according to Visser (2008) reflects the actual practice of CSR in developing countries. In fact, Nasir, Halim, Sallem, Jasni and Aziz (2015) mention that Malaysian stakeholders ranked the economic dimension as the most important dimension, followed by ethical, legal and philanthropic dimensions. This demonstrates that the CSR dimensions ranking from Malaysian perspective is almost similar to Visser (2008)'s proposed model.

Despite the fact that CSR has long existed in developing countries, formal practise is challenging. The commonly held view is that profit is the primary reason for operating a business. Furthermore, many companies are still struggling in stabilising their positions to compete with other stable local companies. Hence, business ethics could undermine their competitive position in the market and be a constraint on shareholder wealth maximization. Besides, many Asian companies lack a sound leadership structure to spearhead CSR initiatives effectively (PwC 2013). However, due to profound external forces such as regulatory obligations and responding to public opinion that demand higher standards of accountability, CSR is currently progressing in developing countries.

1.2.3 CSR reporting

In the absence of legislative requirements, voluntary CSR disclosure demonstrates a commitment to society (Mathews 1997). While CSR brings enormous benefits to the company, practicing it, without doubt, costs money. Likewise, failing to report on social responsibility also generate costs, in terms of fines, increased regulation, negative publicity, public disfavour, or loss of customers (Deegan & Gordon 1996). Even worse, media scrutiny of a company's environmental violations can lead to significant share price decline (Xu, Zeng, Zou & Shi 2014) which is the major concern of shareholders.

Intrinsically, CSR is about a company's action that has social consequences and causes public attention, and thus should be publicly conveyed through corporate communications (Li et al. 2010). The growing need for companies to be positively perceived by their stakeholders and be competitive has further intensify the need to communicate their social responsibility initiatives (Castelo Branco & Delgado 2011). CSR communications by companies is a reaction to the call by various stakeholders for more transparency and greater company involvement in community welfare (Li et al. 2010). Reporting on non-financial data is equally important as financial reporting

to overcome the loss of social confidence following the 2007-2008 financial crisis (Hąbek & Wolniak 2015).

Sustainability Reporting Guidelines describes CSR reporting as the report made by the company on economic, environmental, and social impacts (Global Reporting Index 2006). It is a discrete, independent corporate editorial work that provides information about CSR and corporate citizenship (Lock & Seele 2015) which can take the form of online reporting or CSR information in annual reports or separate CSR reports. Producing a decent CSR report is imperative as it helps form stakeholders' perceptions towards companies and their social responsibilities. At the same time, it reflects companies' commitment to environmental and social issues (Brammer & Pavelin 2008). Relatively, CSR reporting practice supports the discharge of corporate accountability through transparency and completeness and the communication of actual and potential CSR performance (Yusoff et al. 2014). Therefore, a good CSR report should provide both positive and negative contributions to give a balanced representation of the company's sustainability performance. CSR reporting is the process by which a company can gather and analyse the data it needs to create long term value and resilience to environmental and social change. Through CSR reporting, investors can be convinced of a continuous business future (KPMG 2013). Following this, there has been an increasing number of major companies proclaiming their social responsibility credentials, and backing up their claims by producing substantial environmental, social and sustainability reports (Cooper & Owen 2007).

Reporting on CSR information is claimed to be a way to gain, maintain and repair legitimacy (Deegan 2002). This means gaining public and key stakeholders' acceptance of the company's operations. CSR reporting can enhance company reputation and also assist in risk management (Bebbington et al. 2008). Almost half of the reporting companies in KPMG 2013 Sustainability survey indicate this reason as one of the main push factors for CSR reporting. Further, the report may serve to secure a continuing good relationship with the company's stakeholders as it signals a company's willingness to communicate about and deal with societal issues. These companies may face less friction and problems in their business relationships with suppliers, traders, public authorities and other stakeholders. As a result, companies gain a competitive advantage in comparison to other companies that do not engage in sustainability activities or that do not communicate their achievements effectively

enough (Herzig & Schaltegger 2006). While many believe that CSR reporting promises various benefits to companies, some people think that producing reports that are normally dense and dull is a waste of time and money (KPMG 2013). There are also those who consider CSR reporting as vehicles for corporate green wash. This happens when companies exaggerate their social and environmental credentials and do not report based on their concrete actions (KPMG 2013; Lock & Seele 2015). Normally this occurs among companies in sensitive industries (like chemicals), which are often subject to stakeholder criticism and scepticism regarding their corporate responsibilities toward the environment (Lock & Seele 2015). In addition, the fear of losing business opportunities to their competitors when they are being too transparent can deter them from disclosing CSR information. These views together with low stakeholders pressure and low CSR awareness, have made CSR reporting less prevalent, especially in developing countries.

Studies have demonstrated that country-specific factors such as culture influence companies' disclosure orientation (e.g. Haniffa & Cooke 2002; Mohamed Adnan 2012). Countries with cultural values that promotes openness and transparency are driven to report more CSR information. This culture exists in developed countries. On the contrary, the dominant secretive culture of companies in many developing countries gives them less incentive for transparent disclosure. This culture has contributed to the low levels of CSR reporting in such countries (Yusoff et al. 2014). As a way of improving the level of reporting, regulators in several countries such as Malaysia, Singapore, Indonesia and Taiwan have started introducing mandatory CSR reporting. Most of them are currently focusing on listed companies. The approach seems promising with an increase in the levels of CSR reporting of developing countries (KPMG 2013). Globalisation and increased number of multinational companies operating locally have also contributed to improved CSR reporting. With the passage of time, the importance of reporting CSR information has gradually been accepted among companies. Companies have started to integrate CSR practices into their core business activities, thereby embedding CSR behaviour in their central management processes (Amaladoss & Manohar 2013).

1.2.4 CSR reporting and corporate governance

More recent attention has focused on the association between the practice of CSR with a company's governance (Jamali et al. 2008). This implies the possibility

of an overlap between CSR and corporate governance (Jamali et al. 2008). Sir Arthur Cadbury in his report (Cadbury Report 1993, p. 15) defines corporate governance as “the system by which companies are directed and controlled”. Generally, this involves the establishment of structures and processes through which management is accountable to shareholders with the objective of enhancing shareholder value. Specifically, corporate governance is about how an organisation is managed, its corporate and other structures, its culture, its policies and the ways in which it deals with its various stakeholders. It is concerned with structures and processes for decision-making and with the control and behaviour that support effective accountability for performance outcomes (Siladi 2006). In his observation of CSR in developing countries, Visser (2008) proposes that incorporation of good governance in countries in Asia, Africa as well as Latin America should be prioritised in order to take CSR to the next level. To him, governance reform holds the key to improvements in all the other dimensions, including economic development, rule of law, and voluntary action. Hence, embracing more transparent and ethical governance practices should form the foundation of CSR practice in developing countries. In other words, good practice of corporate governance that promotes ethics, fairness, transparency and accountability is assumed to have a positive effect on a company’s overall performance, both financial and non-financial. Concurrently, better-governed companies are more likely to engage in CSR practices as a credible way of signalling their governance quality (Beekes & Brown 2006). Nevertheless, it can also be argued that institutional differences could influence governance and thus the level of disclosure (Mohamed Adnan 2012). Institutional environments comprise the variety of national institutions (e.g. political, economic and cultural institutions) that commonly shape the behaviour of companies (Jamali 2014). This in turn, would be reflected as the management response to their relevant stakeholders through the level and type of CSR disclosure (Van der Laan Smith et al. 2010). Hence, these differences help explain the variations in CSR reporting globally. Given this assumption, this study is concerned with the impact of corporate governance on CSR reporting in Malaysia.

The following sections of this chapter outlines the research problem, the objectives of the research, the research questions in assisting the fulfilment of the research objectives, the justifications for conducting the research, the research contributions and finally an overview of the thesis.

1.3 Research problem

In Malaysia, the CSR concept has been incorporated in the National Integrity Plan, the Malaysia Plan and the Capital Market Master Plan. CSR principles are also reflected in the plan to transform Malaysia into a developed country called Vision 2020. The Vision outlines five strategic objectives of which one of it is the need to enhance the standards of corporate governance and business ethics as well as improving the quality of life and the quality of Malaysian citizens (Amran & Devi 2008). Bursa Malaysia introduced the Bursa Malaysia CSR framework in 2006, followed by mandatory CSR reporting for all public listed companies in 2007. Together with other various initiatives by the government and regulators, there has been a significant increase over time in CSR reporting (Esa & Mohd Ghazali 2012). A survey by KPMG in 2013 showed that 98% of companies in Malaysia produce such reports. Nevertheless, the contributing factors to the changes remains unclear. Some believe that corporate governance is instrumental in driving companies to report more on CSR information (e.g. Rashid & Lodh 2008; Giannarakis 2014; Muttakin & Subramaniam 2015; Haji 2013; Ntim & Soobaroyen 2013). Since being established in 2000, Malaysian Code on Corporate Governance (MCCG) has been reviewed twice, in 2007 and 2012, to ensure the management of company is always centred on shareholders' interest. Besides strengthening the governance landscape, the 2012 amendment emphasised the importance of companies promoting sustainability through their strategies. This means, attention should be given to environmental, social and governance aspects in formalising their strategies. While the amendments are seen as strategies to bridge the trust between stakeholders and the company (Amran, Ishak, Zulkafli & Nejati 2010), their effectiveness in improving and enhancing CSR reporting in Malaysia is yet to be proven. The domination of family ownership in Malaysia is likely be a threat to effective corporate governance practices. Besides, whether there has been a change in what is reported is also vague. Hence, elucidation on these issues are imperative.

1.4 Research objectives

Operating in the modern business world requires companies to embrace and embed sustainability concept in their operations. Various initiatives (e.g. CSR rewards, tax incentives and introduction of CSR Framework) and regulation (mandating CSR reporting for PLCs) have been introduced by regulators to help

companies achieve their CSR goals. Whilst CSR concepts appear to have been accepted by most companies, there is still doubts as to whether its understanding is in tandem with implementation. CSR in developing countries is still embedded in a more philanthropic culture (Jamali & Mirshak 2007; Abdulrazak & Ahmad 2014) with little emphasis on formal accountability processes, namely formal planning and reporting of CSR activities. Furthermore, earlier reporting seems to be confined to community initiatives. Little is known whether there has been a shift in the type of information reported. Given this backdrop, the study wishes to undertake an empirical investigation of the current state of CSR reporting practices in Malaysia. Concurrently, the *first* objective of this study is:

RO 1 To examine the nature and extent of CSR reporting of Malaysian PLCs

Companies that perform CSR activities should report these activities to various stakeholders. CSR reporting enables companies to manage their socially responsible activities systematically, identify future risks and opportunities, contribute to increasing the competitiveness of the company and finally derive profit for the company. CSR reports also assist in the decision-making processes of different types of stakeholders. This points to the importance of CSR reporting to many parties. Thus producing a complete and credible CSR report is crucial. While there are many factors that can shape the production of CSR report, Li et al. (2010) demonstrate that a country's governance environment is the most important driving force behind CSR communications intensity. Fundamentally, a good corporate governance environment has four principles namely; (1) transparency, (2) accountability, (3) responsibility and (4) fairness (Janggu, Darus, Zain & Sawani 2014). These principles are important in safeguarding various stakeholders' interests. Information disclosure is a necessary activity in corporate governance; information transparency plays a unique role in corporate governance in the era of knowledge-based economy. Lack of transparency can lead to confusion, misinformation, and distrust. Interestingly, the concept of CSR embraces almost similar principles as corporate governance such as being responsible and accountable to the stakeholders. Aras and Crowther (2008) believed that corporate governance should address points of sustainable value creation, achieving the firm's goals and keeping a balance between economic and social benefit. The similarities demonstrate the connection

between corporate governance and CSR and the likeliness of corporate governance influencing company's CSR reporting behaviour. This view provides the path to the *second* objective of this study which is:

RO 2 To examine the relationship between corporate governance attributes and CSR reporting of Malaysian PLCs.

1.5 Research questions

In an attempt to analyse the current state of CSR reporting in Malaysia as well as to understand the plausible influence of corporate governance attributes on company CSR reporting, this study has developed several research questions. The research questions are as depicted in Figure 1.4. These research questions provide the foundations for hypotheses development, which are portrayed in Chapter 5, 6, 7, 8, 9 and 10.

Figure 1.4 Research questions

RQ 1 (To answer RO 1)	•What is the nature and level of CSR reporting in Malaysia?
RQ 2 (To answer RO 2)	•What is the relationship between directors' ownership and CSR reporting?
RQ 3 (To answer RO 2)	•What is the relationship between institutional ownership and CSR reporting?
RQ 4 (To answer RO 2)	•What is the relationship between board independence and CSR reporting?
RQ 5 (To answer RO 2)	•What is the relationship between board meeting frequency and CSR reporting?
RQ 6 (To answer RO 2)	•What is the relationship between gender diversity and CSR reporting?
RQ 7 (To answer RO 2)	•What is the relationship between directors who are financial experts and CSR reporting?
RQ 8 (To answer RO 2)	*What is the relationship between directors who are law experts and CSR reporting?
RQ 9 (To answer RO 2)	* What is the relationship between CEO duality and CSR reporting?

1.6 Research justification

This study is based on several justifications. *Firstly*, following the Asian financial crisis, many countries have attempted to improve corporate governance to

protect shareholders wealth, since poor governance has been regarded as one of the main reasons for the massive decline in shareholder value during the crisis. In Malaysia, the MCCG has been revised twice; in 2007 and 2012. Not only they are meant to strengthen various corporate governance practices but the issue of enhanced transparency is also accentuated. Implicitly, this suggests a link between corporate governance and companies' CSR reporting practices. The continuous process of reinforcing provides an opportunity for an in-depth study of the extent of information communicated to external users. Such an understanding is valuable to regulators, policy makers, professional bodies as well as to other users of financial information.

Secondly, a great deal of previous research into CSR reporting has focused on developed countries (e.g. Harjoto & Jo 2008; Dienes & Velte 2016; Lewis, Walls & Dowell 2014; Lu, Abeysekera & Cortese 2015; Giannarakis 2014) where the capital markets are mature, the approach to CSR is more business model oriented and stakeholder awareness of business accountability is high (Muttakin & Subramaniam 2015). However, there are scant studies that explore CSR reporting practices in developing countries, such as Malaysia (e.g. Haniffa & Cooke 2005; Ramasamy & Ting 2004; Mohd Ghazali 2007; Haji 2013; Anas, Abdul Rashid & Annuar 2015), Indonesia (e.g. Djajadikerta & Trireksani 2012), Bangladesh (e.g. Rashid & Lodh 2008; Khan et al. 2013; Muttakin, Khan & Subramaniam 2015), Africa (e.g. Ntim & Soobaroyen 2013), Sri Lanka (e.g. Shamil, Shaikh, Ho & Krishnan 2014) and India (e.g. Muttakin & Subramaniam 2015). The evolving institutional frameworks of developing countries offer a valuable opportunity to generate new insights. Furthermore, developing countries are confronted with relatively dissimilar CSR challenges from those in developed countries (Visser 2008). Matten and Moon (2008) mention that country differences in CSR maybe due to governmental and legal institutions, as well as norms and incentives entrenched in institutions. There is a lack of understanding in the literature regarding CSR research within developing countries (Belal & Momin 2009).

Thirdly, there are considerable differences of corporate governance practices in developed and developing countries. In developing countries, corporate governance practices are heavily influenced by cultural diversity and political and legal structures (Khan et al. 2013). Consequently, the corporate governance systems are typically embedded in close, usually, family relationships. This brings about the unique principal-principal conflicts in family companies which reflects a severe

corporate governance problem in developing countries (Young, Peng, Ahlstrom, Bruton & Jiang 2008). Institutional differences, particularly in ownership structures and legal enforcement mechanisms, may lead to significant variations in information disclosure. Similar to other developing countries, Malaysia is characterised by high family ownership concentration and significant proportions of listed family-controlled companies (Claessens, Djankov & Lang 2000). The existence of this unique agency problem results to the prevalence of expropriation of minority shareholders by controlling shareholders (Liew 2007). With the presence of strong family control, the effectiveness of corporate governance mechanisms has always been questioned. Given the institutional backdrop, there is likely to be less demand for corporate disclosures. Hence, family ownership may become a hindrance to transparent reporting. These environmental settings provide a compelling basis to examine the impact of corporate governance mechanisms on CSR reporting.

Fourthly, this study looks at the impact of a set of corporate governance attributes on CSR reporting. Farooq, Ullah and Kimani (2015) mention that studying individual corporate governance attributes may provide useful information about the individual impact of each corporate governance factor on CSR practices as well as its remedy, if relevant. Nevertheless, the effect of individual corporate governance attributes may not necessarily reflect the impact of overall corporate governance improvement on CSR. Hence, to get a comprehensive view of whether the existing corporate governance attributes drive better CSR practices, it is logical to look at a set of governance attributes. This in turn, will not only assist government and regulators to better identify the best possible solutions to improve corporate governance practices, but also will enhance the reporting of CSR information.

Fifthly, this study takes the form of a longitudinal study that relies on a large number of samples. Most prior studies have depended on a small number of companies, for example, 85 PLCs (Haji 2013), 99 PLCs (Nik Ahmad & Sulaiman 2004) and 100 PLCs (Ho, Tower & Taylor 2013) while Das, Dixon and Michael (2015) cover 29 listed banking companies and Rahman, Zain and Al-Haj (2011) look at 44 government linked companies in Malaysia. With the intention of increasing the rate of generalizability, this study explores the CSR reporting trends of 450 companies across a wide range of industries in Malaysia. Another distinguishing factor is the longer time frame used in this study. The six year time period should illustrate clearer CSR reporting trends.

1.7 Research contributions

This study seeks to contribute to the extant literature by extending, as well as attempting to overcome the limitation of existing studies in a number of ways. *First*, it will extend the literature on the extent of CSR reporting, particularly in the Malaysian context. Hence, it will provide a better picture of the influence of corporate governance on CSR reporting. In addition, Beekes and Brown (2006) mentioned that good corporate governance can enhance the dissemination of company information. Accordingly, this study will assist Malaysian policymakers to identify company's best practices that can assist in achieving accountability thus improve CSR reporting. Further, it will offer useful insights to policy makers and regulators in facilitating their evaluation of the effectiveness of the revised corporate governance code.

Second, this study contributes to the knowledge of CSR practices by expanding the scope of earlier studies to the context of Malaysia. While there are limited studies investigating the relationship between CSR reporting and corporate governance in the extant literature, this study fills several voids by including recent highlighted issues. For instance, examining specifically the link between CSR reporting and board diversity and also the impact of board meeting frequency on CSR reporting. This may help policymakers in Malaysia to embark on appropriate initiatives to improve diversity in the boardroom as well as making board meetings more effective.

Third, this study is underpinned by four specific theoretical frameworks: agency, neo-institutional sociology, resource dependence and stakeholder-agency theory. The outcome of this study is expected to contribute to an enhanced understanding of the relevance of the aforementioned theories in explaining the behaviour of corporate governance practices in Malaysia.

Fourth, this study will provide an insight of the current practises of CSR reporting. Furthermore, since Malaysia is in the midst of transforming into a developed country, adopting good CSR practices is imperative. Hence, this study will help government and regulators to identify useful measures to foster company CSR practices.

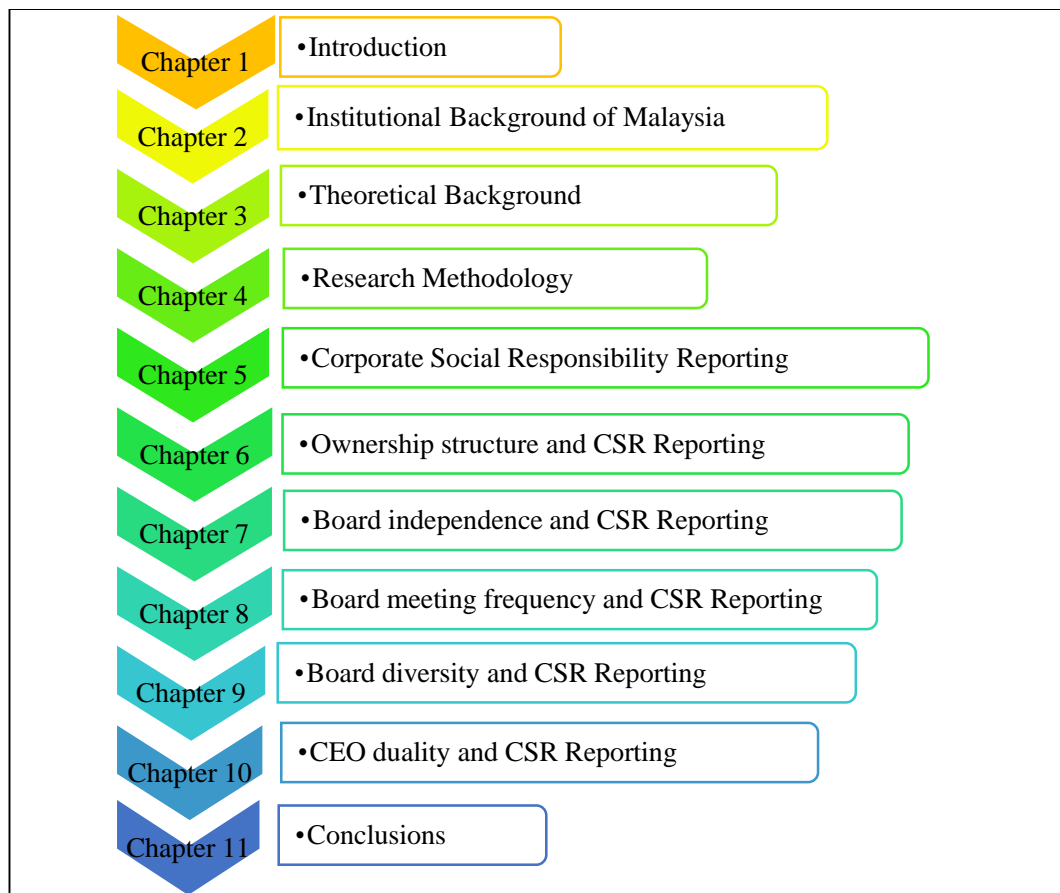
Finally, this study aims to provide new evidence on how external forces such as legislation may influence CSR reporting practices. The positive impact of mandatory reporting is evident in more developed countries (Criado-Jiménez,

Fernández-Chulián, Larrinaga-González & Husillos-Carqués 2008). Hence it is beneficial to know whether such a command-and-control system may improve corporate social responsibility behaviour which would subsequently translate into better-quality CSR reporting.

1.8 Overview of the thesis

This thesis as outlined in Figure 1.5 has eleven chapters.

Figure 1.5 Thesis outline



Chapter 1 provides the background of the study; emphasizing CSR practices in developing countries and the emergence of CSR reporting. Connections between CSR reporting and corporate governance is also presented as a foundation for choosing this topic. This chapter also highlights the research problem, followed by the objectives of the research. Research justification is highlighted to reinforce the reasons for embarking on the research, followed by its contributions. This study looks at CSR reporting of public listed companies in Malaysia. Since CSR practices

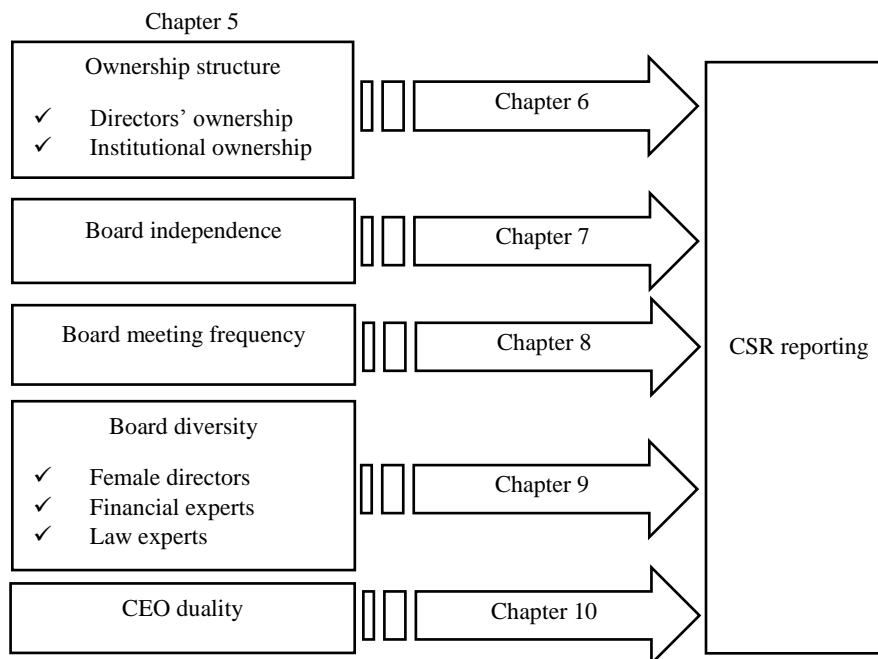
generally differ contextually, thus to help better understand the practice, the overview of Malaysia is given in *Chapter 2*. Amongst others it focuses on the Malaysian economy, culture, legal system, the development of CSR practices as well as the evolution of the corporate governance system. *Chapter 3* discusses the theoretical framework of the research. These theories: agency, neo-institutional sociology, resource dependence and stakeholder-agency are used to examine the research questions. Based on the perspectives of the theories, several hypotheses are formed in chapters 5 to 10 to accomplish the research objectives. *Chapter 4* presents the adopted methodology for the study. It begins with an explanation of the research design and descriptions of all variables are also given. For data analyses, this study uses content analysis and regression analysis.

Chapter 5 looks at the state of CSR reporting of public listed companies in Malaysia. This chapter also focuses on the reported CSR themes and attempts to reveal the possible motives behind reporting patterns. In doing so, content analysis is employed and descriptive statistics produced. The state of CSR reporting provides the basis for investigating the factors that prompt companies to produce CSR reports. This study looks at the influence of corporate governance mechanisms on company CSR reporting. This quest is initiated by examining the impact of ownership structure on company CSR reporting behaviour in *Chapter 6*. Directors owning a majority company shares threatens the practice of good governance when directors use the opportunity to meet their personal needs. Institutional investors are associated with better alignment of shareholders and management's interests. Chapter 6 examines these claims. Board of directors influence has been continuously debated as the most important mechanism of corporate governance practices. This study examines the effect of board of directors' attributes on CSR reporting. *Chapter 7* looks at whether the presence of independent directors leads to a better CSR reporting. The role of independent directors is debated from a principal-principal agency conflict. This chapter provides a different perspective on the challenges confronted by independent directors in trying to enhance company CSR reporting.

Attempts to determine whether board of directors impacts on CSR reporting level is continued in *Chapter 8*. Board meetings are presumed to be one of the governance mechanisms that has the ability to encourage better reporting. Board meetings offer an opportunity for vigilance by directors to reduced control management activities. *Chapter 9* examines the influence of a diverse board on a

company’s reporting behaviour. Board diversity has received enormous attention from regulators given its ability to benefit the corporate governance of companies. Therefore, analyses have been carried out examining the role of female directors and directors with financial and law expertise. The final empirical analysis is presented in **Chapter 10**. This chapter explores whether combining the role of CEO and Chairman enhances CSR reporting. The practice of CEO duality occurs regularly in countries with concentrated ownership such as Malaysia. While some argue that the combined role can lead to better company management, others oppose to the idea claiming that CEO duality promotes the abuse of power. Given these divergent views, analyses were performed to test whether duality roles have a bearing on CSR reporting. Finally, conclusions of the study are given in **Chapter 11**. This chapter also outlines the research limitations and recommendations for future research. Figure 1.6 provides the framework of the linkage between the empirical analysis chapters.

Figure 1.6 Linkages between the empirical analysis chapters



In brief, this study is interested in examining the corporate governance mechanisms impact on CSR reporting. In doing so, this objective is achieved through a series of empirical analyses chapters. As such, some repetition in Chapters 5 to 10 are evident and listed as follows:

- a. CSR information is captured using the same CSR checklist. The process of preparing the checklist is initially explained in detail in Chapter 4 (Section

4.4.1.2). However, the similar procedure has been briefly explained in Chapters 5 to 10 with the inclusion of the CSR checklist in each respective chapter.

- b. Derivation of the CSR index is based on the same formula which appears firstly in Chapter 4 (Section 4.4.1.2) and repeated in Chapters 6 to 10.
- c. Data testing using Ordinary Least Square (OLS) regression analysis is based on the same assumptions, discussed in Chapter 4 (Section 4.6.3) and appears in Chapters 6 to 10.
- d. To examine the link between corporate governance mechanisms and CSR reporting, this study employs OLS regression analysis in Chapters 6 to 10.
- e. Econometric models to analyse the association between board of directors attributes and CSR reporting have been developed in Chapter 4 (Section 4.5) but each model reappears in the related chapter (either Chapter 6, 7, 8, 9 or 10).

Nevertheless, Chapter 5 is somewhat different where it highlights descriptive analysis as well as content analysis in determining the level of CSR reporting. As stated previously, this study consists of discussions on institutional background, theoretical background and research methodology, presented by Chapter 2, 3 and 4 respectively. While the information contained in Chapter 2 (Institutional Background) and Chapter 4 (Research Methodology) are discussed in every empirical analysis chapter, they are not deliberated upon in depth. Chapters 2 and 4 offer a better understanding of the study as a whole. Likewise, Chapter 3 (Theoretical Background) although discussed in the related empirical analysis chapters, is fully explained here.

1.9 Conclusions

This chapter has summarised the foundations and structure of this thesis. It provides a brief overview of the thesis: the background of the research problem, its objective, the research questions; the contribution this study makes to the current literature and justifications of the study. Seemingly, CSR has been touted as an effective management tool to strengthen organisations' performance through more responsible behaviour toward society and the environment. Although CSR is more prevalent in environmental organisations, the interest in using CSR is increasing in every type of business. This includes reporting on CSR activities. Of late, many believe that good practise of corporate governance can assist companies in producing

Chapter 1: Introduction

better CSR reporting. This is the association between corporate governance and reporting behaviour linkage discussed earlier. As both CSR practices and corporate governance are highly contextual, the next chapter, Chapter 2 provides the overview of both practices in Malaysia.

CHAPTER 2: INSTITUTIONAL BACKGROUND OF MALAYSIA

A nation's culture resides in the heart and in the soul of its people

Mahatma Gandhi

2.1 Introduction

This chapter discusses the institutional context of Malaysia. Nevertheless, other dimensions relevant to the existence and roots of CSR in Malaysia such as economic history are also discussed for better understanding. This chapter also looks at development and the current state of corporate governance. Sections 2.2 to 2.6 outline the historical development, legal system, cultural and social factors, economic development and company ownership structures respectively. The corporate governance features are explained in Section 2.7. Section 2.8 looks at the development of CSR practices. Finally, the conclusion to this chapter is in Section 2.9.

2.2 Historical development

Malaysia is a federation of 13 states and three federal territories, located in Southeast Asia. These are divided between two regions, with 11 states and two federal territories on Peninsular Malaysia and the other two states and one federal territory in East Malaysia. Malaysia is the 66th largest country by total land area, with a land area of 330,803 square kilometres (Nations On Line 2016). It has land borders with Thailand in West Malaysia, and Indonesia and Brunei in East Malaysia.

Governance of the states is divided between the federal and the state governments, with different powers reserved for each, and the Federal government has direct administration of the federal territories. Lower-level administration is carried out by local authorities, which include city councils, district councils, and municipal councils (Ministry of Urban Wellbeing 2016). Autonomous statutory bodies can be created by the federal and state governments to deal with certain tasks. The federal constitution puts local authorities outside of the federal territories under the exclusive jurisdiction of state governments, although in practice the federal government has intervened in the affairs of state and local governments. Currently, there are 149 local authorities, consisting of 13 city councils, 38 municipal councils, and 98 district councils (Ministry of Urban Wellbeing 2016).

2.3 Legal system

Malaysia is a federal constitutional elective monarchy. Since Malaysia was a former British colony, the government system is closely modelled on that of the Westminster parliamentary system while the legal system is based on common law (Ahmad 1999). It has three branches of government, namely the Executive, the Legislature and the Judicial (Ahmad 1999). The head of state is the king, known as the Yang di-Pertuan Agong. He is an elected monarch chosen from the hereditary rulers of the nine traditional Malay states every five years. The government is headed by the prime minister which is elected through national elections held every five years.

Governance of companies' activities is done through the Companies Act 1965. This act is based originally on the UK Companies Act 1948 and the Australian Uniformed Companies Act 1961 with several amendments to account for developments in the corporate sector (Liew 2007). Until today, the act remains as the principal Malaysian company law. Meanwhile, the Malaysian accounting and auditing standards replicate those found in the UK as well as other Commonwealth countries such as Australia and New Zealand (Hashim 2012).

2.4 Cultural and social factors

As of July 2016, Malaysia has a population of 31,417,124 which ranks it as the 44th most populous country in the world (Worldometers 2016). Malaysia is a multi-ethnic and multi-cultural country with the main ethnic groups being Malay (54.8 percent), Chinese (24.2 percent) and Indians (7.3 percent) (Economic Planning Unit 2013). The Malays are also known as *Bumiputera*. Islam is the dominant religion of the Malays. Thus, Malaysia is a Muslim-majority nation and they play a dominant role politically. Their native language is Malay (Bahasa Melayu), which is also the national language of the country and the official language of civil administration. Nevertheless, due to colonial British rule, English is the business language. While Malaysia declares Islam as the state religion, it allows freedom of religion for all people. For instance, Chinese who constitutes almost a quarter of the Malaysian population, are mostly Buddhists, Taoists or Christian, and speak a variety of Chinese dialects. Indians comprise about 7.3 percent of the population, and include Hindus, Muslims, Sikhs, Christians, and Buddhists. They are mainly Hindu

Tamils from southern India, speaking Tamil, Telugu, Malayalam and Hindi (Lu 2013).

Since pre-independence, each ethnic group has played an important role in the development of the Malaysian economy (Yusoff 2010). Although the Malays are the majority group in Malaysia, the Malays were left out of the economic mainstream during the colonial period (Hashim 2012). They were often associated with agriculture and farming. As such, the Malays did not have the same strong history of entrepreneurial involvement as other ethnic groups in Malaysia. In contrast, Chinese people in Malaysia, have been business oriented particularly in mining, retail and wholesale trade. That experience provides the Chinese leaders with excellent entrepreneurship skills, good self-discipline and assists them to think strategically (Wah 2002). This expertise has successfully help them to lead and grow their family-managed businesses into professionally-managed companies (Wah 2002). A similar situation can be observed in many East Asian countries where Chinese family groups have played a dominant role in business (Ball, Robin & Wu 2003). In 1994, Hong Kong companies top the list of market capitalisation of 500 largest public companies in Asia with \$155 billion, followed by Malaysia (\$55 billion), Singapore (\$42 billion) and Thailand (\$35 billion) (Ball et al. 2003). The economic power of ethnic minority Chinese is more than double that of Malays. The Indian community was synonymous with rubber plantations. Obviously, separation of ethnic groups in Malaysia has occurred not only in culture and society but has triggered a huge economic gap between them (Hashim 2012). These variances have been argued as sources of racial tension in many Southeast Asian countries including Indonesia, Thailand and Malaysia (Ball et al. 2003).

Following ethnic rioting in 1969, the government intervened in an attempt to eliminate the identification of race with economic functions (Tam & Tan 2007). As a result, the New Economic Policy (NEP) was formulated in 1970 with a twenty year effective period. The NEP had two main objectives: to reduce poverty and inequality among different sections of the Malaysian population, and to abolish inter and intra racial concentrations of monopolistic economic power in various professions and enterprises (Economic Planning Unit 2016). To put it simply, the NEP aimed to foster inter-ethnic economic parity and eradicate poverty by 1990 through the restructuring of the economic activity of the corporate sector (Yusoff 2010). In fulfilling the objectives, the NEP aimed to achieve 30 percent *Bumiputera* ownership

of companies by 1990. Literally, *Bumiputera* means “prince of the soil” in the Malay language and consisted of Malays, native groups in Sabah, Sarawak and Peninsular Malaysia (Yusoff 2010). This policy resulted in affirmative action in favour of the *Bumiputera*. Since then, the *Bumiputera* have been given priority of various concessions. Among others, preferred share allocation schemes, whereby all Malaysian companies listing on the Kuala Lumpur Stock Exchange (KLSE) must offer at least 30% of their shares to *Bumiputera*, 20% of loans offered by commercial banks must go to *Bumiputera* and 30% of government tenders were reserved for *Bumiputera* (Yusoff 2010). To ensure the achievement of 30% *Bumiputera* equity, various state agencies were also established. These agencies acquire about 20% to 50% of company shares on behalf of *Bumiputera* (Yusoff 2010). As a result, *Bumiputera* ownership has grown tremendously from 2.4 percent in 1970 to 18.9 percent in 2004 (Hashim 2012). Thus the Malaysian corporate sector is characterised by the existence of politically favoured companies (Hashim 2012). NEP has been the catalyst for the development of *Bumiputera* capitalists (Yusoff 2010). The involvement of political individuals especially in securing government projects has led to the low accountability and transparency among these companies (Yusoff 2010). Further, the 30% share allocation schemes for *Bumiputera* is seen as constraining companies’ ability to raise capital from other sources, thus deterring overall investment. On a negative note, NEP has weakened corporate governance and decelerated the economic development in Malaysia (Salleh 2009).

2.5 Economic development

Malaysia experienced a period of rapid growth and urbanization beginning in the 1980s. Since independence in 1957, Malaysia has moved from an agriculturally-based economy to a more diversified and export-oriented economy that includes consumer products, electrical and electronic goods and agricultural products (Yusoff 2010). Since 1987, manufacturing has emerged as the leading economic sector followed by agriculture and mining. Leading export-oriented manufactured products are electrical and electronic products, textiles and clothing as well as rubber-based products. Malaysia is the world's largest exporter of palm oil, natural rubber, tropical timber, and a leading world exporter of cocoa beans and pepper. Malaysia is considered the mini dragon of Asia next to Japan, Korea, Taiwan and Singapore (Lu 2013).

The New Development Policy (NDP) was announced in 1990 to overcome the shortcomings of the NEP. While NEP concentrated on redistribution of wealth, the NDP's aim was to achieve a more united and just society through more balanced development. For that, the NDP emphasised higher levels of economic growth. One of its objectives was for the industrial sector to play a more dynamic role compared to services (Zain 1999). Responding to the government's call, the predominantly mining and agricultural-based economy began a transition towards a more multi-sector economy and finally transformed into an industrial-led economy. In fact, the industry sector is the highest contributor to the country's GDP with 40.6% in 2013 (Economic Planning Unit 2013). It appears that the government efforts to further develop the country through the introduction of the NDP has been rewarded. Privatisation of many government owned companies has also boosted the economy. These companies that operated with the use of government resources and capital eventually became relatively large companies in terms of market capitalisation (Amran & Devi 2008). They are known as government-linked companies (GLCs) and listed on the Malaysian stock exchange (Bursa Malaysia).

In 1991, former Prime Minister of Malaysia, Mahathir Mohamad announced a new national strategy. Vision 2020 aimed to make Malaysia an advanced industrialised nation by the year 2020, not only in economic terms but encompassing political stability, social justice and other aspirations. Since then Malaysia has pursued socio-economic development on a number of fronts, such as construction of expressway networks and other infrastructure projects, and development of the Multimedia Super Corridor Project which envisions construction of a new city in an area southwest of Kuala Lumpur, featuring an advanced information network based on fibre-optics. Nevertheless, Malaysia was hard hit economically by the Asian currency and economic crisis that began in the summer of 1997. During that time, the economic growth contracted tremendously and foreign direct investment fell at an alarming rate. The Malaysian Ringgit depreciated substantially, and there were sharp declines of the Malaysian stock market and the property market. In response, the Malaysian government imposed capital controls and pegged the Malaysian Ringgit at US\$1:RM3.80. The government was forced to cut spending. Malaysia emerged from the crisis successfully and managed to recover earlier than neighbouring countries (Bozyk 2006). Malaysia continued to post solid growth rates, averaging 5.5 percent per year over 2000-2008 (The World Bank 2010). The success of Malaysia's

economic development has been influenced by several factors such as prudent monetary and fiscal policy management, supportive legal and regulatory environment and a supportive physical infrastructure and economic deregulation (Yusoff 2010). Malaysia also managed to recover rapidly when hit by the Global Financial Crisis in 2009. Malaysia is one of the most successful non-western countries to have achieved a relatively smooth transition to modern economic growth during the last century (Yusoff 2010).

Malaysia has been working continuously to address the challenges of transforming into a developed economy as outlined in “Vision 2020”. Malaysia launched the New Economic Model (NEM) in 2010, which aimed for the country to reach high income status by 2020 while ensuring that growth is also sustainable and inclusive. The NEM includes a number of reforms to achieve economic growth that is primarily driven by the private sector and moves the Malaysian economy into higher value-added activities in both industry and service (The World Bank 2016). A Government Transformation Programme and an Economic Transformation Programme have also been introduced in an attempt to accelerate the process. For many years, the Malaysian economy has been relying on foreign direct investment, international trade and foreign capital to grow, conceivably due to strong regulatory oversight that has underpinned investor confidence. The Foreign Direct Investment (FDI) Confidence Index assesses the impact of political, economic and regulatory changes on FDI intentions and preferences of the leaders of top companies around the world. Malaysia was ranked 15th in the 2014 Foreign Direct Investment Confidence Index, 9th in 2012, 16th in 2007 and 21st in 2010 (MIDA 2015). Consequently, foreign direct investment has been a key part of an outward-oriented development strategy. In 2013, foreign direct investment mainly came from by the United States (30.1 percent) and Japan (20.2 percent) (Economic Planning Unit 2013). The Malaysia's economy is in 14th spot of the most competitive economies in the world in 2015 (Capital Markets Malaysia 2016).

2.5.1 The role of Government

Government's involvement especially in allocating public resources, ownership of public sector and control of business enterprises has been significant since the NDP was initiated. Public enterprises were generally established to increase participation of *Bumiputera* in commerce and industry. These enterprises were given

a greater role in the economy as an effort to fulfil the NDP objectives. There are three categories of public enterprises. Firstly, departmental enterprises that are responsible for providing public services such as water, telecommunications, civil aviation and refuse collection. Secondly, statutory bodies such as the Malaysian Industrial Development Authority (MIDA), Petroliam Nasional Bhd (Petronas), the Tourist Development Corporation (TDC) and various state economic development corporations (SEDCs), etc. Thirdly, the government-owned private or public companies established under the Companies Act of 1965. The equity of the latter group is either fully or partly held by the government.

While the federal government promotes private enterprise and ownership in the economy, the economic direction of the country is also heavily influenced by the government through five year development plans. The plans, called the Malaysian Plan started in 1950 during the British colonial rule. The plans were largely centred on accelerating the growth of the economy by investing in selective sectors of the economy and building infrastructure to support them. The Eleventh Malaysian Plan which covers the period 2016 until 2020 is considered the final leg in the journey towards realising Vision 2020. It emphasises strengthening infrastructure to support economic expansion, re-engineering economic growth for greater prosperity and improving the wellbeing of the people (Economic Planning Unit 2013).

The economy is also influenced by the government through agencies such as the Economic Planning Unit and government-linked wealth funds such as Khazanah Nasional Berhad, Employee Provident Fund (EPF) and Permodalan Nasional Berhad (PNB). These investment vehicles invest in and sometimes own major companies in sectors of the Malaysian economy with the aim of advancing *Bumiputera* share of corporate equity. Those companies, known as Government Linked Companies (GLC) have the government as the main controlling stake (Yusoff 2010). In terms of revenue and asset base, GLCs account for a substantial component of the Malaysian economy. GLCs dominate several sectors of the economy and account for 34% of the market capitalisation of the Bursa Malaysia, formerly the Kuala Lumpur Stock Exchange (Silver Book 2007). Indeed, the activities and economic contribution of GLCs form a major part of the nation's economy.

2.5.2 Capital market

The public trading of shares in Malaysia commenced in 1960 when the Malayan Stock Exchange was established. However, when Singapore separated from Malaysia in 1965, it was known as the Stock Exchange of Malaysia and Singapore. Finally on 14 December 1976 the Kuala Lumpur Stock Exchange (KLSE) was incorporated as a company limited by guarantee. In an effort to become more competitive and to respond to global trends in the exchange sector, the KLSE has been renamed as Bursa Malaysia in 2004, with total market capitalisation of RM688 billion. Currently as part of the demutualisation exercise, the KLSE transformed themselves to be more market driven and customer oriented. As of 31 March 2016, Bursa Malaysia had 904 listed firms with a market capitalisation of RM1313 billion (Bursa Malaysia). The main index for Bursa Malaysia is the Kuala Lumpur Composite Index (KLCI). A new index series, a joint index by FTSE and Bursa Malaysia was introduced in June 2006. At the beginning of its establishment, Bursa Malaysia consisted of the Main Board and Second Board. The Main Board is meant for larger companies while medium sized companies were listed under the Second Board. Companies are also classified into sectors based on their core businesses. These boards are regulated by the Securities Commission. Established on 1st March 1993, Securities Commission's main roles were to act as a single regulatory body to promote the development of the capital market and to take responsibility for streamlining regulation of the securities market and for speeding up the processing and approval of corporate transactions. Meanwhile, the Malaysia Exchange of Securities Dealing and Automated Quotations Berhad (MESDAQ) was initially approved as a separate stock exchange in October 1997 to promote high growth and technology companies. However, due to its ability to list only three companies by the end of 2000, MESDAQ decided to join KLSE in 2002 and re-launched as MESDAQ market.

In August 2009, Bursa Malaysia decided to merge the Main and Second Boards and renamed them the Main Market. Bursa Malaysia has a range of progressive products and services which covers equities, derivatives, offshore listings and services, bonds and Islamic offerings. Ever since its establishment, Bursa Malaysia has been committed to improving its product and service offerings, increasing the liquidity and velocity of its markets, improving the efficiency of its businesses and achieving economies of scale in its operations.

2.6. Ownership structures

As in other East Asian economies, many Malaysian companies are closely owned or privately held with the principal shareholders typically playing an active role in management (Hashim & Ibrahim 2013). A study by Yunos, Smith and Ismail (2010) of Malaysian companies during 2001 to 2007 revealed that approximately 97% of companies were closely held. The corporate ownership concentration and structure in Malaysia has very much shaped the announcement of the New Economic Model (NEM) in 2010. The NEM aimed to improve foreign direct investment and also to reduce the fiscal disparity between the wealthy and the result in an increase in *Bumiputera* ownership which has occurred (Lim 2012). Interestingly, despite the rapid growth of Malaysia's economy, the ownership structure of Malaysian companies remains concentrated (Tam & Tan 2007). Government-controlled institutions also hold significant shares in Malaysian listed companies. Generally, large shareholders' ownership provides an incentive to use their influence to maximize value, to exert control, and to protect their interests in the company. The large shareholders may use their positions to extract private benefits including paying themselves special dividends (Claessens & Fan 2002), committing the company to a disadvantaged business relationship with other companies over which they have control (Singham 2003), and appointing directors who have similar outlooks to protect their interests (Tam & Tan 2007). In return, minority shareholders are faced with significant downside risks (Claessens et al. 2000). An attempt to reduce the risk appears to be complicated as governmental activism in the corporate sector diminishes incentives for institutional investors to actively monitor returns on their investments. Consequently, this has led to greater information asymmetry and free rider problems (Salleh 2009). Clearly, when ownership is concentrated, it can contribute to poor corporate governance such as weak legal systems, corruption, lack of uniform accounting standards, and poor disclosure of information (Yusoff 2010).

2.6.1 Family ownership

In examining the ownership structure of Malaysian companies, Haniffa and Hudaib (2006) showed that 31% of companies were controlled by a single shareholder. Tam and Tan (2007) revealed companies with single shareholders were at 43% while Yunos et al. (2010) found that single-shareholder companies dominates 53% of the total companies studied. This increasing trend overtime proves that the

rate of family ownership of listed companies in Malaysia is among the highest in the world (Claessens & Fan 2002; Claessens et al. 2000). This type of ownership is characterised by fewer number of shareholders and higher proportion of board members who are family related and shareholders as well. Among the various ethnic groups in Malaysia, the Chinese have dominated the economy, controlling more than 50 per cent of corporate assets (Goh 2008). This is made possible due to the practise of cross-shareholdings and adopting pyramid company structure. Through creation of conglomerates, the Chinese are able to secure ownership of a large number of companies listed on the Bursa Malaysia. This allows Chinese family members to hold several interlocking directorships and enable them to control the companies but with funds provided by minority shareholders (Goh 2008). The pyramid structure creates significant divergence between the control and cash flow rights of the shareholders through the three tier pyramid model (Goh 2008). In short, family members are able to enhance their control rights and maintain ultimate control as well as to facilitate the expropriations of minority shareholders' funds (Claessens et al. 2000).

With their large initial endowment, the majority shareholders feel the need to concentrate shareholding in order to maintain a dominating voice in company policies and decisions. By acquiring full controlling power, they have a better chance of passing the businesses down to coming generations. Family-owned companies are normally a one-man show with decisions and authority highly centralised. Internal control system are usually relatively weak in these companies. This lessens the ability of independent directors to monitor management effectively since they are normally considered as "rubber stamp" and are selected for reasons other than monitoring (Salleh 2009).

2.6.2 Government ownership

The launching of the NEP and subsequently the NDP to assist the country's development brought large scale intervention by government. This has heavily influenced the unique political economy of Malaysia. Government is commonly one of the largest direct shareholders in a company. This means that government has control over the appointment of board members and senior management, and of major decisions. Malaysia is the second country in the world, after Singapore, to have the highest number of government-controlled listed companies (GLCs)

(Claessens & Djankov 1999). Basically, Malaysian GLCs can be categorised into three types. The first is where the government exercises direct control. Examples are Khazanah Nasional Berhad, the National Pension Fund and Bank Negara Malaysia. The second is when companies are controlled by the government indirectly through other federal government-linked agencies such as Permodalan Nasional Berhad, the Employees Provident Fund, and Tabung Haji. The third consists of companies that are controlled by the government through state agencies.

Unlike other companies that focus on maximising profit, government or state-owned companies also give consideration to other factors like public good (Ingley & Van der Walt 2003). In addition, being government owned companies, it is expected to lead others in good accountability, transparency and disclosure (Esa & Zahari 2016). Nevertheless, it is contended that the involvement of government leaves a significant agency problem since government can use ownership to favour certain parties and expropriate rents from minority shareholders.

2.6.3 Institutional ownership

Domestic institutional investors are another group of important players in the capital market. There are five largest institutional investors namely Permodalan Nasional Berhad (PNB); Employee Provident Fund (EPF); Lembaga Tabung Angkatan Tentera (LTAT); Lembaga Tabung Haji (LTH) and National Social Security Organization of Malaysia (SOCSO). However, among these five institutions, EPF is the largest of all (Abdul Jalil & Abdul Rahman 2010). It was established in 1951 to manage Malaysia's mandatory national pension system. It is also the world's oldest provident fund (Abdul Jalil & Abdul Rahman 2010). Collectively, the five represent about 70% of total institutional shareholdings in Malaysian Main Board listed companies (Wahab et al. 2007) which was about 13% of total market capitalisation of Bursa Malaysia in 2003. The existence of institutional investors is mainly driven by the need to reduce equity ownership imbalance between the various ethnic groups and increase *Bumiputera* equity ownership. As domestic institutional investors report directly to the Ministry of Finance (MOF), they provide a vehicle for the government to implement some of its economic policies such as providing employment, subsidies and other benefits (Lim 2012). These major institutional investors have quite significant patterns of investment in Malaysian companies. Hence, they are expected to be more proactive

in monitoring their investee companies on behalf of minority shareholders (Abdul Jalil & Abdul Rahman 2010). In so doing, the government has established the Minority Shareholder Watchdog Group (MSWG) in 2000 which serves as an avenue for institutional investors to monitor governance procedures in order to mitigate actions that may be detrimental to the rights and interest of minority shareholders (Abdul Jalil & Abdul Rahman 2010). A further discussion on MSWG is provided in Section 2.7.2.

2.7 Corporate governance

The economic meltdown caused by the financial crisis in 1997 was remarkable in several ways. First, the crisis hit the most rapidly growing economies in the world. Second, it prompted the largest financial bailouts in history. Third, it was the sharpest financial crisis to hit the developing world since the 1982 debt crisis. Finally, it was the least anticipated financial crisis in years (Furuoka et al. 2012). In Malaysia, the impact of the crisis was indeed devastating. Investors and foreign currency managers' confidence starting to dissipate as stock market capitalisation collapsed. In early 1998, the value of the ringgit took a nose-dive and its lowest point at 4.88 ringgit to one US dollar, compare to its pre-crisis value of 2.57 ringgit in July 1997 (Tinggi et al. 2015). In the same period, the Bank Negara of Malaysia found that it has lost US\$10 billion in its effort to shore up the value of Malaysian currency. Indeed, two thirds of the value of the Malaysian stock market was wiped out in six months.

It is believed that the primary contributing factor to the 1997's economic problems in Malaysia stemmed from poor corporate governance, specifically in the private sector (Salleh 2009; Furuoka et al. 2012). The absence of independent directors, lack of impartial audit committees and independent auditors in overseeing and disciplining corporate misbehaviour (Liew 2007), lack of transparency, financial disclosure and accountability (Mitton 2002), poor legal protection of minority investors against expropriation by corporate insiders (Claessens & Djankov 1999) and allegations of cronyism (Johnson & Mitton 2003) are amongst the much talked about factors that contributed to the fragility of corporate governance practises. In addition, significant dominance and participation of major shareholders in company management in Malaysia have provided them with the opportunities to act in their own interests, leading to corporate misbehaviour (Khoo 2003). These flaws

eventually led to the fall of several large companies in Malaysia. Examples include Renong, Malaysian Resources Corporation Berhad and Lion Group. Khatri et al. (2002) revealed underlying vulnerability in Malaysian companies before the crisis, exacerbated by weak corporate governance characterised by a highly concentrated ownership structure with complex cross holdings and poor debt management. These features increase the probability that companies will be operating away from the best practice frontier and therefore be susceptible to crisis (Liew 2007).

Despite the devastation caused, the calamity serves as an eye opener to many on the importance of adopting good corporate governance. Subsequently the government has worked closely with various authorities such as the Central Bank of Malaysia (BNM), the Securities Commission (SC) and Bursa Malaysia, to strengthen corporate governance by bringing together a number of reforms. Issues such as board composition and fiduciary responsibilities, directors' remuneration, shareholder participation and protection and transparency and disclosure have been given much attention. To initiate the adoption of best practices in the industry, government took a major step by establishing the Finance Committee on Corporate Governance (FCCG) in 1998. The FCCG focused on three major areas. First, was the creation and development of the Malaysian Code on Corporate Governance (MCCG), which identifies a framework for best practices in corporate governance. To assist in MCCG development, the Malaysian Institute of Corporate Governance (MICG) was established in 1998. The inception of MICG was to raise awareness of good corporate governance practices. Further, it also provides an independent platform for various stakeholders to interact and debate corporate governance issues to promote continuous improvement. In fulfilling its mission, MICG runs activities such as:

- ❖ conducting regular seminars and talks on corporate governance issues jointly with various professional bodies and industry groups;
- ❖ conducting education public seminars, especially for investors;
- ❖ providing assistance for various regulatory agencies in developing training programmes for directors of PLCs;
- ❖ networking with international organisations such as the Organisation for Economic Co-operation and Development (OECD), the World Bank, the Asian Development Bank and other corporate governance institutions; and
- ❖ developing a multi-disciplinary institute for service, research and education in corporate governance.

Second is the reformation of laws and regulations and rules with the aim of enhancing the regulatory framework for all public listed companies. The final area emphasised by FCCG is the training and education of directors and future directors. Table 2.1 provides a chronological account of corporate governance initiatives over the past 25 years.

Table 2.1 Corporate Governance Initiatives and Reforms

Year	Initiatives
1987	Establishment of the Federation of Public Listed Companies Bhd.(FPLC) Recognized as the official spokesperson for PLCs in Malaysia
	Amendments to Companies Act 1965. Section 132E, Section 132F and Section 132G pertaining to substantial transaction involving directors
1989	FPLC introduced a Code of Ethics for PLCs
1993	Establishment of the Securities Commission
1994	Audit Committees mandated by KLSE Listing Requirements
1996	Establishment of the Companies Commission of Malaysia which introduced Code of Ethics for Directors
1997	Establishment of the Financial Reporting Act 1997
	Establishment of the Malaysian Accounting Standards Board (MASB)
1998	Establishment of the National Economic Action Council (NEAC)
	Establishment of High Level Finance Committee on Corporate Governance to conduct a detailed study on corporate governance and to make recommendation for improvements
	Establishment of Malaysian Institute of Corporate Governance
	Amendments to Companies Act 1965 to mandate the compliance with Approved Accounting Standards Section 166A – Directors required to make a statutory declaration regarding compliance with approved accounting standards. Section 169(15)
1999	Issue of the Malaysian Code on Corporate Governance
2000	Malaysian Code on Corporate Governance amended
	Setting up Task Force by KLSE to formulate guidelines for Statement of Internal Control by Directors of PLCs
	Issue of Guidelines for Statement of Internal Control by Directors of PLCs
2001	Revamped Listing Requirement by KLSE issued. Chapter 15 addresses issues of Corporate Governance
	Practice Note 5/2001 mandates Training for Directors
	The Malaysian Capital Market master plan was launched to further streamline and regulate the capital market and to chart the course for the capital market for the next ten years
	The Financial Sector master plan was launched to chart the future direction of the financial system over the next ten years. It outlined the strategies to achieve a diversified, effective, efficient and resilient financial system
	Securities Commission establishes industry taskforce to formulate guidelines on Internal Audit Function
	Exposure Draft: Guidelines on Internal Audit Function issued by the Institute of Internal Auditors
Establish Minority Shareholders Watchdog Group (MSWG): Aimed at creating awareness among minority shareholders of their rights and at the same time acts on behalf of the minority shareholders to monitor and deter any abuses by the majority shareholders who control the decision making process of PLCs	

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	The mandatory disclosure of corporate governance code compliance was introduced
2002	The internal audit guidelines for PLCs were introduced
2003	Director's Continuing Education Programme commences
2004	Amendments to the security laws and takeover codes for better investors' protection were made
	Launched National Integrity Plan (NIP)
	Launched Government-Linked Companies (GLCs) Transformation Program
2005	A review in respect of accounting for minority interests in companies' financial statements and guidelines on compliance functions for fund managers to further strengthen investors' protection were introduced
2006	Launched the Green Book on Board effectiveness
2007	Launched Malaysia's Corporate Governance: Report on the Observance of Standards and Codes
	Amendment to Companies (Amendment) Act 2007 [Act 1299] to include Corporate Governance framework
	Amendments to audit committee guidelines were made
	The Malaysian Code on Corporate Governance was revised
2009	Launched Corporate Governance Guide: Towards Boardroom Excellence
2012	Revision of the Malaysian Code on Corporate Governance
2013	Launched 2 nd edition of Corporate Governance Guide: Towards Boardroom Excellence

Source: Salleh (2009) and Lu (2013) with all initiatives until 2009; initiatives for 2012 onwards were added by the author

Essentially, efforts to improve corporate governance practices of public listed companies started as early as 1993 when audit committees became mandatory under the KLSE listing requirements. Further, the introduction of the Code of Ethics for Directors in 1996 by the Companies Commission of Malaysia acknowledged board of directors as the most effective supervision body. Unfortunately, such initiatives failed to constrain the negative effects of the financial crisis, which either suggests that they were largely rhetorical, superficial reforms, or that they were implemented too late or that corporate governance reforms can do little to prevent runs on a nation's currency or major capital outflows (Liew 2007). In the aftermath of the crisis, a collaborative effort between the government and regulatory bodies has further led to the creation of the MCCG and the Minority Shareholder Watchdog Group (MSWG). The motives for these changes were to reassure investors both domestic and international (Salleh 2009).

Since then, the development of Malaysian corporate governance has progressed steadily and on an ongoing basis including the launching of both National Integrity Plan (NIP) and the GLCs Transformation Program in 2004. NIP is an attempt towards creating an ethical Malaysian society with zero tolerance for corruption. The Government is also pushing to reform state-owned companies by initiating the GLC Transformation Program in May 2004, to be tracked and

monitored by the Putrajaya Committee on GLC High Performance (PCG). Since then the PCG has launched ten initiatives, two of which include the Green Book and the Silver Book. These two initiatives aim to transform GLCs into high performing entities. The Green Book outlines ways to improve a board of directors' effectiveness, and the Silver Book outlines ways to contribute to society while still creating value for shareholders (Lu 2013). Another type of governance established to oversee public listed companies is the KLSE Listing Requirements. It specifically addresses key issues including substantial and related party transactions, board composition, the role and function of audit committees, directors' rights, training, and disclosures, in relation to the state of controls and compliance with the MCCG (Yusoff 2010). In January 2001, the Listing Requirements underwent a comprehensive revamp which provide a greater obligation for publicly listed companies to enhance their corporate governance (Salleh 2009). Among the initiatives after the economic downturn, the introduction of the MCCG in 2000 is seen as the most important.

2.7.1 Malaysian Code on Corporate Governance (MCCG)

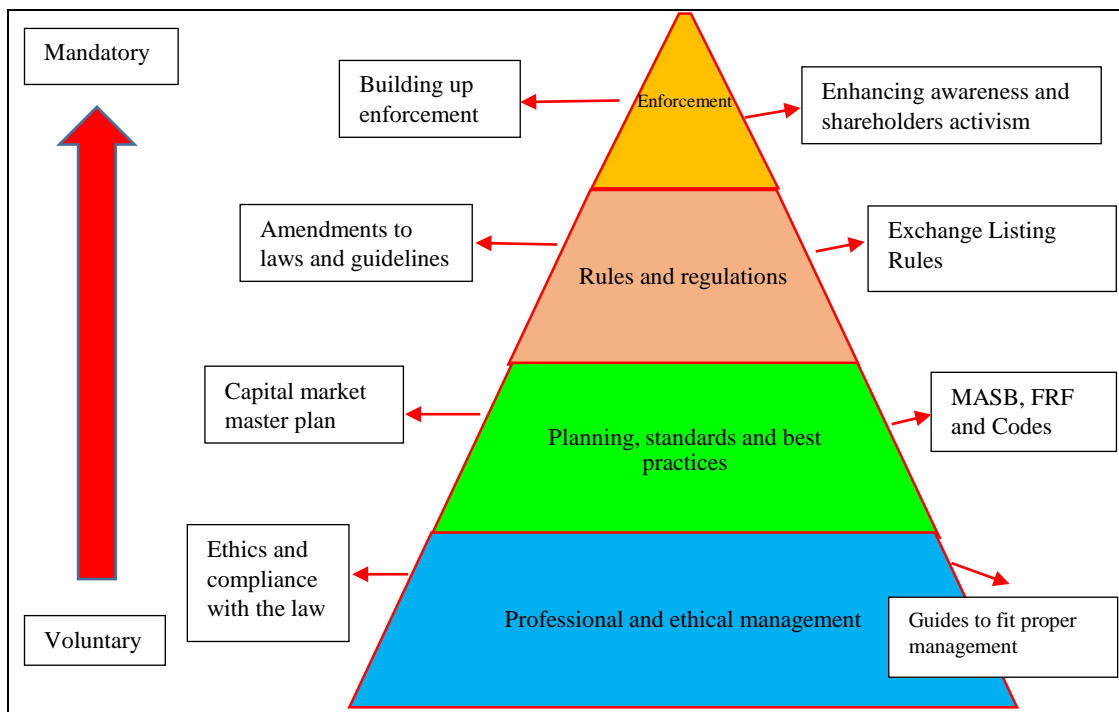
MICG was given the responsibility to review the corporate framework and make recommendations to improve the level of corporate governance in the country. The review uncovered several corporate governance weaknesses particularly in the areas of transparency and disclosure requirement, corporate monitoring responsibilities and accountability of company directors (Das 2001). The MCCG is considered the landmark in Malaysian corporate governance reform. The Code draws from the United Kingdom's (UK) experience set out in the Hampel Report (1998) and Cadbury Report (1993).

2.7.1.1 MCCG framework

The Malaysian corporate governance framework is premised on a broad-based approach (Figure 2.1), which takes into account the fundamental considerations that are needed for effective governance. The framework is driven mainly by concern for shareholders' interest (Haniffa 1999) and was influenced by the Anglo-American systems. These include: professional and ethical management; planning; standards and best practices; amendments to laws and guidelines; development of a code of conduct; implementing awareness programmes; and

enforcement. At the foundation is the professional and ethical management of companies. This is the first line of defence against corporate misconduct (Yusoff 2010). In addition, there are also rules and regulations enforced by relevant regulatory bodies to ensure a high standard of corporate governance and effective execution of the practise. Four regulatory bodies that have been entrusted with the responsibilities are the Securities Commission (SC), Bursa Malaysia (formerly known as the KLSE), the Company Commission of Malaysia (CCM) and the Central Bank of Malaysia (BNM) (Yusoff 2010).

Figure 2.1 Holistic approach of corporate governance framework



Source: Yusoff (2010)

The code is premised on the hybrid approach and prescriptive in nature (Goh 2008). Through a hybrid approach, companies are allowed to apply the code flexibly and with common sense to their varying circumstances. A company is still required to disclose the extent to which its custom-made corporate governance complies with the MCCG principles. It enables investors to assess company performance and governance practices and then respond to them in an informed way. However, compliance to best practices remains voluntary (MICG 2000).

2.7.1.2 MCCG principles

The MCCG essentially aims to encourage transparency management of a company besides providing relevant information to investors. This code can also serve as guidelines to the board of directors on how to manage the company based on their roles and responsibilities. Fundamentally, the MCCG is divided into two parts. Part 1 provides 13 broad principles for good corporate governance in listed companies. These principles relate to good board practices, the need for independent directors, transparent procedure for the appointment of directors, re-elections of directors, directors' remunerations, shareholders' rights, accountability and audit (see Figure 2.2). Good board practices are dependent on honest and well intentioned directors and CEOs. There are 33 best practices in Part 2 of the Code. Wide ranging, they relate to all aspects of the company's structure including the board, the audit responsibilities and the relationship between the board and shareholders.

Figure 2.2 The 13 principles of the MCCG



Source: Malaysian Code on Corporate Governance 2000

In order to enhance transparency and corporate governance of PLCs, improve capital market efficiency, increase investor protection and strengthen confidence of investors, Bursa Malaysia has incorporated most of the recommendations of the

Malaysian Code on Corporate Governance into its Listing Requirements. From June 2001 onwards companies were required to include in their annual report - the statement of corporate governance, a statement of internal control, composition of the board of directors, composition of audit committee, quorum of audit committee and any additional statements by the board of directors (Bursa Malaysia).

Further efforts to strengthen and enhance the corporate governance framework can be seen with the revision of the MCCG and amendments to the Companies Act 1965 in 2007 (Salleh 2009). Hence, the key amendments to the code mainly strived at strengthening the board of directors and audit committees and ensuring that they discharged their roles and responsibilities effectively (Abdullah 2004). In this revision, the eligibility criteria for appointment of directors, the role of nominating committees, audit committee member, committee composition, the frequency of meetings and the need for continuous training were spelt out (Salleh 2009). A second revision of the MCCG was made in 2012. The revised MCCG sets out 8 broad principles followed by 26 corresponding recommendations. Among others, the principles and recommendations focus on:

- ❖ Laying a strong foundation for the Board and its committees to carry out their roles effectively besides reinforcing independence;
- ❖ Promoting timely and balanced disclosure;
- ❖ Safeguarding the integrity of financial reporting;
- ❖ Emphasising the importance of risk management and internal controls; and
- ❖ Encouraging shareholder participation in general meetings.

Bursa Malaysia requires all directors to undergo continuous training (i.e. Mandatory Accreditation Programme and Continuing Education Programme) to enhance their capabilities in performing their responsibilities as directors as well as to influence corporate thinking on issues relating to corporate governance (Zulkafli, Abdul Samad & Ismail 1999). The programme is a prerequisite to continued listing. From 2005 onwards companies were required to disclose the directors training in their annual report (Wan Hussin & Ibrahim 2003). In 2009, Bursa Malaysia launched another guide intended for directors to gain a clear and constructive direction on corporate governance best practices called the “Corporate Governance Guide: Towards Boardroom Excellence”. This guide focuses on bringing clarity to the roles

and requirements needed to enhance corporate governance practices among boards and committees (Lu 2013).

2.7.2 The Minority Shareholders Watchdog Group

The domination of family-owned businesses means that minority shareholders are exposed to the threat of wealth expropriation by major shareholders. To protect minority shareholders a monitoring body on corporate governance was set up by the EPF in 2001. The Minority Shareholders Watchdog Group (MSWG) acts as a voice and provides an avenue for minority shareholders to institute proceedings against listed issuers who fail to comply with the principles and practices of good corporate governance. The MSWG was set up to create awareness among minority shareholders of their three basic rights: to seek information, voice opinion and seek redress (Ameer & Rahman 2009). The MSWG monitors companies to deter abuse from majority shareholders, provide advice on best practice, and to offer other services like proxy voting (Liew 2007). Part of its activities is to establishing direct dialogues with PLCs management to express legitimate concerns to them (Abdul Jalil & Abdul Rahman 2010). MSWG encourages independent and proactive shareholder participation in listed companies. It initiates shareholders' activism to ensure shareholders' equality and value maximisation. MSWG is another initiative to strengthen the Malaysian corporate governance system. The committee members of these group were from the government fund institutions such as EPF, LTAT, LTH, SOCSO and PNB (Salleh 2009).

2.7.3 Interplay between government and politics

A unique characteristic of Malaysia is the existence of a large number of politically connected companies. The *Bumiputera* policy has ingrained Malaysian government intervention in the corporate sector resulting to business and politics to become intertwined (Tam & Tan 2007). By the mid-1990s numerous Malaysian companies owned by *Bumiputera* were found to be linked to at least one powerful politician and exhibited strong political loyalty (Lim 2012). They develop ties with powerful political agents who in turn provide easy access to business and finance (Lim 2012). Hence, they do not have to worry about funding nor to attract potential investors since they can easily obtain it from local banks at lower cost. They are also given priority in obtaining various Government project work despite other companies

being more eligible. Many projects run by *Bumiputera* companies failed to be properly executed or worse are abandoned. These politically favoured companies are also at advantage when they are given leeway in legal compliance. This is possible mainly due to the ability of the politicians to exert influence on the regulatory institutions (Goh 2008). This implies that regulatory institutions may be used as tools by powerful politicians with vested interests. The policy and company behaviour pose a threat to the execution of good corporate governance in Malaysia.

2.7.4 Issues in corporate governance

The 1997 Asian financial crisis moved Asian governments generally and the Malaysian government especially to tighten company laws, competition law and corporate governance requirements of listed companies. Although corporate governance was not the primary cause leading to the economic meltdown, the economic crisis had taught companies that good corporate governance or rather the lack of it, could extract a heavy toll from the markets (Liew 2007). While there were many carefully-thought out governance initiatives like MCCG commenced, several shortcomings currently remain.

Concentration of ownership in Malaysia is seen as the biggest impediment to better corporate governance practices. Shareholders with voting rights that far exceed their cash flow rights tend to extract private benefits from such control, which may include the expropriation of wealth from minority shareholders. Despite the existence of MSWG intended to protect minority shareholders' rights, this initiative seems to be ineffective. There appears to be weak enforcement of the laws and they are frequently violated. La Porta, Lopez-de-Silanes, Shleifer & Vishny (2000) contend that Malaysia has a relatively low level of investor protection, which suggests that minority shareholders would be less protected in the event of corporate wrongdoings. One reason provided by Satkunasingam and Shanmugam (2006) is that large institutional shareholders are often subject to political pressure. Since institutional shareholders in GLCs are subject to political interference, their effectiveness to assist minority shareholders in gaining their rights is relatively questionable (Ameer & Rahman 2009). Furthermore, the board of directors of the MSWG who are from the founding members, may not take action against the company that appointed them to the MSWG. Satkunasingam and Shanmugam (2006) further highlight the reluctance of minority shareholders to take action against any wrongdoings is likely associated

with respect for status as well as power differential. Khoo (2003) states the Eastern social culture norm of no open confrontation is not conducive to openness. Hence it is a norm in society to allow powerful individuals to have rights to certain privileges because of their status (Satkunasingam & Shanmugam 2006). Khoo (2003) also suggested a few factors contributing to weak shareholders activism such as prevalence of large controlling shareholders, minority shareholders free-riding on the controlling shareholder if the company is consistently generating good returns. Private individual investors prefer to move their investment out rather than confront management on issues that they disagree with. The high cost of instituting legal action and obtaining compensation from companies deters minority shareholders from exercising their rights. Finally, private individual investors lack the required knowledge to fully comprehend the disclosures and the impacts of any dubious transactions. Shareholder activism is weak with minority shareholders not able to ensuring good corporate governance practices by their boards (Goh 2008). Many are sceptical that the MSWG can mitigate the principal-agent problem, information asymmetry and other conflicts of interests. Thus, protection of shareholders rights, particularly those of the minority shareholders remains a key negative in corporate governance.

The majority of companies evolved into family-controlled companies with corporate governance therefore largely a family matter (Goh 2008). These companies are reluctant to adopt the best-practise culture. To them, the push for good corporate governance is a threat to their entrepreneurial drive and spirit (Yusoff 2010). The prevalence of ownership concentration has also cast doubt on the composition of the board of directors. While independent directors are present in all companies, their independence is largely questionable. Observably, companies with political connections are able to reap significant preferential benefits. Therefore, a major proportion of the financial assets and productive capacity of the corporate economy are concentrated in a few large companies (Liew 2007). The practise of good corporate governance remains mainly a theoretical concept. The market characteristics that can enhance corporate governance are not found in Malaysia (Ameer & Rahman 2009). Therefore, those shareholders who do not work towards the maximisation of shareholder value can easily engage in wrongdoings without punishment. It can be argued that Malaysian companies are still lagging behind in complying with the recommendation of best practices. It is also likely that they are

still at an early stage in appreciating the benefits of corporate governance (Yusoff 2010). In that view, more needs to be done to improve compliance with corporate governance. Having a sound legislative framework is one thing but unless it is accompanied by timely and effective enforcement then it is set for a failure.

2.7.5 Board of directors

Under law, company directors are primarily responsible for the governance of their companies, and the shareholders' role in governance is to appoint directors and external auditors in order to satisfy themselves, among other things, that an appropriate governance structure is in place.

2.7.5.1 Appointment of directors

Every incorporated company is required to appoint a minimum of two directors who must reside within the country. This requirement is made mandatory through Section 122(1) of the Companies Act 1965. The appointment of a director is through a show of hands vote during a general meeting, as outlined by Section 126 of the Companies Act. The appointment of directors for Malaysian PLCs is also subject to the Bursa Malaysia that relies on the MCCG guidelines. The selection of non-executive directors, should be formally made through a nomination committee to ensure transparency. Further, the nomination committee should also consists of a majority of non-executive directors to be transparent as recommended by the Cadbury Report (1993).

2.7.5.2 Board composition

2.7.5.2.1 Independent directors

The MCCG views the composition of the board of a listed company as one of the most crucial channels through which effective corporate governance is ensured. To this end, the Principles Provision A I in Part 1 of the MCCG (2007) suggests that every listed company should be headed by an effective board which should lead and control the organisation. The Code places a great emphasis on independence of directors. According to the Bursa Malaysia Listing Requirements, an independent director is a director who is independent of the management and free from any business or other relationship that could interfere with the exercise of independent judgment or the ability to act in the best interests of the company. In order for the

board to perform effectively and efficiently, the Principles Provision A II in Part 1 of the MCCG (2007) proposes the following:-

“The Board should include a balance of executive directors and non-executive directors (including independent non-executives directors) such that no individual or small group of individuals can dominate the Board’s decision making”.

To provide a clearer view of what “balance” means ideally, the MCCG further recommends, as best practise, at least two directors or one third of the board, whichever is higher, must be independent. This, it is believed, will enable the independent directors to fulfill their responsibilities adequately by bringing their independent judgment to the board (Siladi 2006). Basically, the scope of responsibilities of an independent director in Malaysia covers six roles which are to:

- i. act as chairman of the respective committees;
 - ii. evaluate and monitor the decision-making process;
 - iii. provide an objective and positive contribution;
 - iv. provide an assertive and influencing presence for the company’s interest;
 - v. to provide independent views and judgements relating to conflict issues;
- and
- vi. carry out functions specifically required by the Bursa Malaysia Listing Requirements.

(Yusoff 2010, p. 126)

Nevertheless, being independent alone is insufficient to ensure the effectiveness of independent directors in executing their responsibilities. It is also required from them to have the appropriate skill sets and experience to make better assessments. This would mean an independent director needs to have a clear understanding of formal governance structures and policies with a strong knowledge of the business which he/she is responsible for directing and guiding and also be aware of any changes in the accounting, regulatory and business environment that the companies operate in. In addition, the MCCG requires every director to attend appropriate training that can assist in the discharging of his/her duty. In accordance with the requirement, under Paragraph 15.08 of the Main Market Listing Requirements, it is mandatory for every director to attend appropriate training programmes as prescribed by Bursa Malaysia from time to time. Bursa Malaysia recently enforced new amendment on 3rd January 2012 which was directors’

qualities. Paragraph 2.20A highlights the importance of directors to possess certain qualities as follows:-

“Every listed corporation must ensure that each of its directors, CEOs or CFOs has the character, experience, integrity, competence and time to effectively discharge his/her role as a director, CEO or CFO as the case may be, of the listed corporation”.

Tenure of independent directors is also one of the crucial factors that companies should monitor. Holding a position for too long may cause the director to become affiliated with the major shareholder or management; hence impairing their independence. Ideally, the maximum period to sit on the board must neither be too short nor too long and must take into consideration the learning curve of any person (Lee 2013). The corporate governance codes in the United Kingdom bar independent directors from sitting longer than nine years while the Chinese Securities Regulatory Commission (CSRC) allows a maximum tenure of six years (Lee 2013). Taking a similar measure, Bursa Malaysia through its 2012 revision, has announced a limitation to an independent director's tenure to nine years. However, he/she is allowed to continue serving the board upon reaching the maximum tenure but as a non-independent director.

While great efforts have been taken by the regulators to ensure effective execution of directors' responsibilities, the extent to which these directors are truly independent remains an issue. In reality they are still accountable to specific shareholders (Yusoff 2010). In Malaysia where ownership concentration is high, the controlling shareholders have the ultimate power to appoint the independent directors. In addition, the nomination committee is allowed to consider candidates for directorships proposed by the Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any director or shareholder (MCCG 2000). This practice obviously contributes to the possibility of appointing a less independent individual as independent director. The majority of independent directors of Malaysian PLCs were appointed because of personal contacts and to the satisfaction of majority shareholders (Yusoff 2010). As a result, many independent directors lack the necessary qualities expected to serve on the board. This practise also leads to a board with a lack of diversity (Yusoff 2010).

2.7.5.2.2 Board diversity

With a population of 30 million, women constitute 48% of the Malaysian population and 52.4% of the total workforce (MWFCD, 2014). The participation of women in the workforce has increased significantly, from 37% in 1970 to 45.7% in 2005 (Economic Planning Unit 2007). This can be attributed to the changes in the Malaysian economy where the nation's focus shifted from agriculture to manufacturing and services and because women's participation in the labour force became progressively acceptable to Malaysian society. While women seem to outnumber men in the workforce, they are severely under-represented on corporate boards. The majority of women are clustered in the lower and middle-income category jobs such as clerical, service and production workers, and operators (Yusoff 2010).

Driven by the need to encourage more women to contribute to national development, the government has announced a policy requiring decision making positions in the public sector to be occupied by women at a minimum rate of 30%. The policy has led to an increase of almost 14% of women in the top positions of public sector companies from 2004 to 2014 (MWFCD 2014). Following its success, the same policy was applied to the private sector effective from 2011; expecting to reach its goal by 2016. Further, the 2012 revision of MCCG included direction for public listed companies to have a boardroom diversity policy formally established, disclosed in the annual report and demonstrate how the goals were to be accomplished. While these moves exhibit government's desire to increase the involvement of women in the private sector, the outcome is still a long way from reaching the 30% level (MWFCD 2014). There are a few factors that have contributed to the slow pace. The community still holds the mindset that women should stay home and take care of the family. This view has been the main deterrent women seeking directorship or leading companies. Female directors are also perceived as possessing an unattractive leadership style that makes male directors feel uncomfortable (Koshal et al. 1998). As a result, the number of women joining top management remains low.

The government has undertaken various initiatives. One is the provision of more child care centres either at the workplace or in the nearby vicinity. Another initiative was the introduction of the "Women Directors' Programme" in 2012. The

programme is designed to equip women with the appropriate skills and knowledge to become leaders.

2.7.5.3 Board structure and process

2.7.5.3.1 CEO duality

Malaysian companies are governed by a unified board performing both management and supervisory functions. In this type of board structure, the CEO is responsible for the running of the board as well as the running of the company's operation. Hence, it is presumed that members of the board cannot be completely objective and independent in monitoring and assessing the performance of the management team, since they may also be a part of the management team (Yusoff 2010). There is also an overwhelming presence of family dominance in the corporate sector. Given those scenarios, the practise of CEO duality is incontestable. The increasing trend of CEO duality is evident in the study by Abdul Rahman and Haniffa (2005). There was a sharp increase from 8.8% in 1996 to 17.9% in 1999. Despite the absence of a mandatory rule for the separation of roles between both chairman and CEO, the MCCG strongly recommends this as best practice. This is to make certain that power and authority is balanced to avoid the existence of individual directors having unrestrained power in the decision-making process (Ponnu 2008). Plausibly when both monitoring and implementing roles are vested in a single person, the monitoring roles of a board will be severely impaired, and this could affect board incentives to ensure that management is pursuing value-increasing activities (Yusoff 2010). The segregation of these positions is seen as a key characteristic of an effective and an independent board. Nevertheless, should duality become inevitable, the MCCG (2007) recommends that a strong independent element must exist. It is crucial to have a clear acceptance of division between the chairperson and CEO and such information be disclosed to the public. However, compliance with the MCCG recommendation remains an issue as family owned companies are prevalent. Himmelberg, Hubbard and Love (2004) revealed that 72% of companies listed on Bursa Malaysia are family controlled. It is common for companies with this type of ownership structure to practise CEO duality (Ho & Wong 2001). Thus, MCCG's recommendations of separation of roles of the chairperson and CEO are significant for all PLCs (Yusoff 2010). A recent study by Sundarasan et al. (2016) shows that CEO duality affects company CSR initiatives

negatively. This warrants further examination on the practice of CEO duality in Malaysia.

2.7.5.3.2 Board meetings

Board monitoring is crucial to good corporate governance. MCCG explicitly recommends that boards should meet frequently, with due notice of issues to be discussed and should record its conclusions. The recommendation was refined in the revised MCCG 2007 where it requires boards to properly record not only decisions but also all the issues discussed in arriving at the decision. This serves to provide a historical record and insight into those decisions (MCCG 2007). As the Code emphasizes flexibility, therefore, the frequency of board meetings depends very much on a company's interpretation and requirement. Nevertheless, the Bursa Malaysia Listing Requirements however stipulate that every board should conduct at least four meetings per year. Further, the Code also requires a company to disclose the number of board meetings attended by each individual director. These are viewed as evidence of the directors' accountability towards shareholders. Similarly, the OECD Principles of Corporate Governance (2004) justify this requirement to enable shareholders to evaluate their performance. If directors of PLCs have more than 50% absence from board meetings in a year, then there should be an automatic disqualification according to the Bursa Malaysia Listing Requirements.

2.8 CSR in Malaysia

Evidence of CSR in Malaysia can be traced back as early as in the 1970s (Teoh & Thong 1984). Arguably, religion is the cornerstone for the early awareness of CSR. Irrespective of whether the religion is Islam, Confucianism or Hinduism, religions emphasise the concept of mutual prosperity by helping fellow human beings. Hence, CSR began in the form of small contributions which were traditionally driven by religion and racial motivations. This culture of giving continues which now makes philanthropy the most common form of CSR practice (Abdulrazak & Ahmad 2014). For Muslims, the concept of CSR is something close to their hearts where it is considered "religious duty rather than choice" (Lu 2013). Similar to other religions, Islam provides guidelines based on comprehensive rules that form a basis for conducting business in a responsible and socially beneficial manner. There are similarities between Islamic teaching and the modern view of

CSR, specifically in three broad categories: Human rights, Labour and Environment (Lu 2013). Angelidis and Ibrahim (2004) suggest that there is a positive relationship between religion and socially-responsible behaviour. Further, Abdul Rashid and Ibrahim (2002) has shown that family upbringing, traditional beliefs and customs have had much influence in the improvement of the level of CSR awareness among the Malaysian executives and managers.

The impetus for CSR awareness has also come from the degradation of environmental quality. Environmental pollution problems have a long history. The rapid development of tin mining polluted rivers through mine wastewater and sludge while waste water from natural rubber and palm oil production has further exacerbated the problem. From the late 1960s, Malaysia pursued rapid industrialisation supported by foreign investment. While it provides employment opportunities and wealth generation, it has caused raft of pollution problems. Another recent problem is haze (smoke and fog caused by particulate matter), which has occurred on a large scale for several months annually and causes respiratory complaints and other health problems. The collapse of a condominium in the Kuala Lumpur in 1993 with a death toll of 49 and a big fireworks factory fire in 1992 are among the disasters that caused the emergence of safety and labour issues to national prominence (Zain 1999).

Several precautionary measures, such as the inclusion of environmental policies in the Malaysia Plan, have resulted. The Third Malaysia Plan (1976 to 1980), was the first to incorporate an environmental policy aimed at integrating environmental concerns into development planning. Since then, government has made its environmental policies more substantial in every subsequent Malaysia Plan in order to reconcile the interests of development and the environment. Following the strong urge to deal with various pollution problems, the government announced the Environmental Quality Act (EQA) 1974. This marked the beginning of environmental legislation and it has been subsequently strengthened with more stringent and stiffer penalties for non-compliance in 1998 and again in 2001 to include the prohibition of open burning (EQA 1974). These developments attest to increasing governmental concern about the environmental impacts of business operations in Malaysia.

2.8.1 Awareness

At the initial stage of CSR introduction, one of the core challenges that the government faced was to understand the concept of CSR, comprehend the understanding of CSR by the public, the types of CSR activities practiced and the types of assistance the government can offer to motivate the adoption CSR (Abdul Rashid & Ibrahim 2002). Starting with the introduction of EQA in 1974, CSR awareness among Malaysians appears to be increasing, especially on environment quality awareness. The emergence of non-governmental organisations (NGO) such as Malaysia Trade Unions Congress (MTUC), the Federation of Malaysia Consumers Association, Consumer Association of Penang, Malaysian Nature Society and World Wildlife Federation (WWF) Malaysia proves the growing awareness of CSR in recent years. These NGOs and numerous CSR initiatives contribute extensively towards a growing publicity about CSR and raise social responsibility and environmental awareness (Zain 1999). It came to no surprise when there was a strong display of opposition against the manmade structures such as the Sarawak Bakun Hydraulic Dam in 1990 and the proposed Sabah Coal Power Plant in 2011 due to their immediate and long term environmental impacts. This public's level of interest on matters relating to the environment is on the rise and companies are taking cues from it. However, to ensure continuous awareness in existing companies and to create awareness in new companies, CSR education will be continually needed (Lu 2013).

2.8.2 CSR drivers

The principles of CSR are embedded in three out of nine challenges of Vision 2020 that are to become (1) a moral and ethical community, (2) a fully caring culture, and (3) an economically just society. Due to the importance of realising these ideals, Zain (1999) highlighted Vision 2020 as one of the significant drivers of CSR development in Malaysia. To compete with multinational companies and their established brands, companies' business strategy must reflect the current and growing trends in marketing and customer behaviour. One such key trend is CSR. CSR has become prominent in sourcing for funds internationally with the introduction of Socially Responsible Investment (SRI). Similar emphasis has also been reflected in the Silver Book, which has positioned CSR as a means for GLCs to

gain competitive advantage, whilst contributing to social and environmental issues (Silver Book 2007). In general, the Silver Book outlines three guiding principles:

Principle 1: The GLCs primary objective should be to enhance shareholder returns and meet the needs of other key stakeholders,

Principle 2: GLCs should proactively contribute to society in ways that create value for their shareholders and other key stakeholders,

Principle 3: GLCs should actively manage their contributions to society in the most efficient and effective manner, in line with industry norms and best practices as well as the relevant regulatory framework.

It is worth mentioning that “contribution” in Principle 3 is more than philanthropy; it is about “creating benefits to society as an integral part of an organisation’s business and operations, with the opportunity to derive a competitive or commercial advantage for the organisation itself” (Lu 2013). Concerned about the need to maintain well-balanced development, the government has further intensified the incorporation of environmental considerations into corporate life.

Companies practicing CSR does not happen by itself and not overnight. A study by ACCA (2002) reveals various drivers for CSR adoption in Malaysia. Primarily, the MCCG increased demand for corporate governance and accountability as a result of privatisation, business and marketing strategies, improved corporate image, the introduction of NACRA Environmental Reporting award, strengthening of stakeholder relationships, improve access to capital investment and advancements in information and communication technology. Nik Ahmad and Sulaiman (2004) claimed three primary drivers: to meet legal obligation, compliance with ISO 14000 requirement and to provide true and fair view to shareholder or investor. Teoh and Thong (1984) believe any commitment to social action appears to stem from top management initiatives. It is argued that behaviour at work is a continuation of behaviour learned earlier, either from the family environment or school (Ramasamy et al. 2007). Therefore, culture and values play a large role in nurturing the attitudes of future executives and managers towards CSR.

The financial crisis of 1997-1998 changed the political perceptions of corporate governance and perhaps nurtured the rise of a new CSR discourse. Ever since then, the government had adopted a more concerted approach towards corporate governance reform, with the aim to recover investors’ confidence. At the same time, companies were made aware of the importance of safeguarding the

welfare of all stakeholders, not only shareholders. Through the Securities Commission improved corporate governance was to include the CSR agenda. Interest and concern for CSR has continued with the recent 2012 revision of the MCCG emphasising sustainability factors. Enhancement of global competitiveness of Malaysian companies to ensure long term business success and to attract foreign investment into the country. Multinational companies are awarded tax exemptions and many other government incentives. Those appealing benefits together with political and social stability has helped to increase the number of foreign-owned companies in this country. Besides supporting economic growth, these companies has also enhanced the development of CSR by incorporating their CSR culture in the country.

Over the past few years, Malaysia has made great strides in CSR development, through adoption to company's policies, strategies, programmes and commitments towards society and environment. The Securities Commission is always keen to see more companies incorporate CSR into their corporate governance agenda to increase their profile, so that they can gain recognition from the perspective of international and domestic institutional investors.

2.8.3 Initiatives and regulations

In recent years, CSR has attracted much attention from the government, PLCs and private companies in Malaysia. This can be seen from various governmental and non-governmental efforts in initiatives. In November 2006, to further encourage its practise, CSR Malaysia was established. It is a network of corporate and academic organisations dedicated to improving responsible business practices. It has the objective of raising the level of CSR consciousness among domestic companies and to increase their capability to tackle social issues which aim to promote responsible business (Ahmad & Saad 2013). Further, the Institute of Corporate Social Responsibility Malaysia (ICRM), a not-for-profit network of corporations, was also created. Prior to that, government has established the Malaysia Institute of Integrity (IIM) in 2004 to promote the practice of ethical principles, good values and integrity in both the public and private sectors. There are also regulatory institutions such as the Securities Commission, Bursa Malaysia Berhad and Khazanah Nasional Berhad with a commitment to promote the development of socially responsible business practices (Ahmad & Saad 2013).

The introduction of different CSR-related awards may also act as a catalyst for companies to start taking appropriate action to further CSR implementation. These awards act as a “push factor” for CSR diffusion by encouraging companies to assimilate CSR values in their business strategies and goals (Selvanathan 2012). Awards are given to recognise and honour companies that demonstrate outstanding CSR practises as well as reporting. While several awards have ceased to exist, many of the awards are still granted as a way of encouraging CSR practices. Table 2.2 summarises some of the awards.

Table 2.2 Various CSR-related awards in Malaysia

Year	Name of award	Issuer	Main Issues
1990	Quality Management Excellence Awards (QMEA)	Malaysia Productivity Corporation (MPC)	Top Management Leadership and Management of Quality, Use of Quality Data and Information, Human Resource Management, Customer Focus, Quality Assurance of External Suppliers, Process Management, Quality and Operational/Business Results
1990	Prime Minister’s Quality Award	National Productivity Corporation (NPC), recently known as MPC	Same as above (applicable to large companies)
1996	Prime Minister’s Hibiscus Award (PMHA)	Business Council for Sustainable Development (BCSDM)	Environment
2000	National Annual Corporate Reward Awards (NACRA)	Malaysian Institute of Accountants (MIA) Malaysian Institute of Certified Public Accountants (MICPA) Bursa Malaysia	3 categories: Employees, Communities, Environment
2002	ACCA Malaysia Environmental Reporting Awards (ACCA MERA)	Association of Chartered Certified Accountants (ACCA)	Corporate transparency
2002	Malaysian Business Corporate Governance Award	Malaysian Business	Corporate Governance
2004	ACCA Malaysia Environmental and Social Reporting Awards (ACCA MESRA)	Association of Chartered Certified Accountants (ACCA)	2 categories: Environment, Social
2005	Malaysian Business Ethics Excellence Awards	Business Ethics Institute of Malaysia (BEIM)	Business ethic, Code of Ethics
2007	Prime Minister’s CSR Awards	Ministry of Women, Family and Community Development	7 categories: Education, Environment, Culture & Heritage, Community & Social Welfare, Small company CSR, Workplace, Media Reporting
2008	StarBiz-ICR Malaysia Corporate Responsibility Awards	Star Biz & ICR Malaysia	4 categories: Marketplace, Workplace, Environment, Community
2009	Malaysian Sustainability Reporting Awards (MaSRA)	Association of Chartered Certified Accountants (ACCA)	3 categories: Environment, Economic, Social

Source: Lu (2013)

There are also tax incentives for companies to implement CSR programmes. Automatic tax exemptions are given for donations made to registered organisations such as trusts, foundations and associations through the Lembaga Hasil Dalam Negeri (LHDN). Special requests for tax exemptions are also available for certain charitable and community projects, for example the conservation or preservation of the environment. There is a 7% ceiling on tax rebates (Lu 2013) given for businesses incurring expenses on charitable or community projects (relating to education, health, housing, infrastructure as and information, and communication technology). It is reported that a significant amount of environmental expenditure at RM2,106 million has been spent on overall environmental compliance by companies in 2010 and the amount increased to RM2,236.7 million by 2013 (Department of Statistics 2015).

2.8.4 The environment of CSR reporting in Malaysia

Reporting on CSR information is now compulsory for all companies. In the past, issues related to CSR received little attention from companies, let alone to be reported. Most of the earlier companies reporting on social aspects were generally large public-based companies with major foreign ownership (Zain 1999). The reluctance of companies to report CSR information can be attributed to many factors. Among others: costliness, fear of disclosing information that is commercially sensitive, fear that increase disclosure will encourage society to demand greater social responsibility and management not being accustomed to reporting non-financial information (Zain 1999). It is also likely that companies prefer to keep their corporate affairs internally (Zain 1999; Thompson & Zakaria 2004; Haniffa & Cooke 2005; Aaijaz & Ibrahim 2012). Companies in Malaysia are commonly less keen to report due to a lack of pressure from stakeholders, as well as weak legislation enforcement pertaining to CSR practices. Furthermore, most companies in developing countries have their focus more on accumulating profits to accelerate growth (Zain 1999). In view of this constraint, CSR reporting is not their primary concern. Nevertheless, if a company chooses to report on CSR information, they prefer to make it in the simplest form.

To assist companies in reporting on CSR activities, there are several authoritative guidelines that explicitly make reference to environmental and later, CSR reporting. These include the publications of FRS 101 and FRS 137 (formerly

known as MASB 1 and MASB 20) by the Malaysian Accounting Standards Board (MASB) in 1999 and 2001, respectively; the MCCG in 2000; the ACCA's Environmental Reporting Guidelines in 2003; and later the Sustainability Reporting Guidelines in 2005. For instance, through the MASB Financial Reporting Standard (FRS) 101, companies are promoted to disclose any information that can guide users to make better decisions. FRS 137 shows the disclosure requirements for the recognition of contingent liabilities which include environmental liabilities and assets. In September 2006, Bursa Malaysia launched its CSR framework for publically listed companies. This is a set of voluntary and flexible guidelines that outline key focal areas and initiatives covering the environment, community, workplace and marketplace. As part of the GLCs Transformation Programme, the Silver Book was also launched by Khazanah Malaysia Berhad in the same year. It addresses matters related to responsibility and ethics. GLCs were encouraged to include CSR in their business objectives and corporate philosophy (Zainal et al. 2013b). This was in line with the primary commercial objective of GLCs to serve the nation. These efforts are clearly geared towards improving the reporting of CSR. With enhanced information, stakeholders and investors can make better decisions.

Reporting on CSR information was initially a voluntary practice. During that time, companies were inspired to disclose their CSR activities to improve their relationship with stakeholders and to demonstrate a good corporate image (Zainal et al. 2013b). Owing to the absence of mandatory CSR reporting standards, there were lack of uniformity and scarcity of information (Zainal, Zulkifli & Saleh 2013b). Recognizing the importance of guidelines that highlight the issues of transparency and accountability, Bursa Malaysia, acting as a complement to MCCG, has integrated the Code recommendations in the Listing Requirements to impose such requirements for their companies which listed on it. Similar to stock exchange in many countries like Spain, Denmark and Sweden, Bursa Malaysia has taken the lead in holding companies to higher standards of governance, operational accountability and disclosure or transparency of corporate data including CSR information (Zainal et al. 2013b). From 2007 Malaysian PLCs were the first in Asia to be mandated to report CSR activities. Apart from CSR awards and tax benefits (as discussed in Section 2.8.3), there are other initiatives shown in Table 2.3 that demonstrate the desire of government and also several other parties in increase CSR reporting.

Table 2.3 CSR Regulations, Guidelines and Initiatives

Year	Initiatives	Function
1974	Environmental Quality Act (Regulation)	This act provides for prevention, abatement and control of pollution through licensing, and mandates the conducting of an Environmental Assessment Report for proposed private and public sector projects to determine and prevent, or prepare for, the environmental consequences of the project
2006	CSR Framework (Guideline)	Bursa Malaysia Stock Exchange issued a set of guidelines for Malaysian public listed companies that wish to practice CSR. It aims to guide PLCs in defining their CSR priorities, implementation and reporting. The Bursa Malaysia CSR Framework looks at four main focal areas for CSR practice – the Environment, the Workplace, the Community and the Marketplace
2007	CSR in Annual Report (Regulation)	Bursa Malaysia (Stock Exchange of Malaysia) has worked closely with regulatory authorities and legislators. Malaysian public listed companies are required to include a description of the CSR activities or practices undertaken by the listed issuer and its subsidiaries or, if there are none, a statement to that effect. This requirement has been incorporated into the Listing Requirements of Bursa Malaysia (Appendix 9C, Part A, paragraph 29)
2010	Business Sustainability Program (Initiative)	Bursa Malaysia launched its Business Sustainability Program to encourage Malaysian public listed companies to include sustainability in their business strategies. The program includes the publication of a sustainability guide for company directors and the introduction of a Sustainability Knowledge Portal on Bursa Malaysia's website
2015	Sustainability Framework (Guideline)	Introduced by Bursa Malaysia with the aim of improving listed issuers' sustainability disclosures, with specific focus being given to managing and reporting material sustainability risks and opportunities
2016	Sustainability Engagement Series (Initiative)	These programmes are customised for mainly 2 groups of participants: listed issuers' directors, CEOs/CFOs, and Chief Sustainability Officers/practitioners. The series is intended to enhance participants' understanding of the significance of embedding sustainability into corporate strategy and implementing sustainability throughout the organisation (including preparing them in their sustainability disclosures pursuant to the amended Listing Requirements)

Source: Author's initiative

Despite mandatory CSR reporting for all listed companies, there is lack of specific requirements on the content and extent of the reporting. This provides an opportunity for wide variability of CSR reporting. CSR reporting symbolises reputation through impressive reports (Sharma 2013) rather than fulfilling transparency and accountability functions (Zainal et al. 2013b). On the contrary, companies that pose threats to the environment are normally passive in CSR reporting (Ahmad and Mohamad 2014). There was also a lack of understanding around key CSR concepts of supply chain management, product responsibility and stakeholder engagement as revealed in a survey by CSR Asia in 2008. Earlier studies

(e.g. Hasnah, Sofri, Sharon & Ishak 2006; Janggu, Joseph & Madi 2007; Nik Ahmad & Sulaiman 2004; Saleh, Zulkifli & Muhamad 2010; Thompson & Zakaria 2004) showed that workplace initiatives have been the preferred theme reported, followed by marketplace and community while environment was the theme least disclosed. The environmental theme seems to be acknowledged most by companies that have huge impacts on the environment (Amran & Devi 2008), such as manufacturing, plantation and industrial products sectors (Saleh et al. 2010). Although there is a gradual increase in CSR reporting, the government and other related agencies are constantly striving to improve the quality of the reporting. In a recent effort to assist companies in producing better CSR reports, Bursa Malaysia has announced a new guideline called the Sustainability Framework in 2015 which emphasises reporting material sustainability risks and opportunities. This initiative should change the nature and level of CSR reporting by companies in the future.

2.9 Conclusions

This study aims to determine whether corporate governance has any impact on company CSR reporting behaviour. Differences in CSR practices among countries are observed. Prior to that, some background of Malaysia has also been explained. Initially the chapter outlined the historical development and the legal system governing Malaysia. Regarding the economy, this chapter highlighted early economic development and how it survived the severe Asian Financial Crisis. Culture and structure of company ownership were also examined. This chapter has finally discussed the development of corporate governance in Malaysia.

In discussing corporate governance, two important elements were featured; the Malaysian Code on Corporate Governance and the Minority Shareholders Watchdog Group. Further, the unique interplay between government and politics in Malaysia which has led to several issues in corporate governance was also discussed. Being at the apex of Malaysian corporate governance, the role of board of directors was highlighted, examining board composition, board structure and processes. Finally, the evolvement of CSR in Malaysia was discussed.

Since the economic downturn in 1997, the government has taken steps to strengthen corporate governance and reporting quality by implementing and enforcing new rules and regulations. Following that, better transparency has been exhibited through improved levels of reporting of both financial and non-financial

items. Explicitly, it appears that better corporate governance can contribute to reporting enhancement. Nevertheless, an in depth examination into the relationship between corporate governance and CSR reporting is likely to provide clarity on this issue. To this end, the next chapter provides a review of the theoretical literature that forms a framework to examine the link between corporate governance and CSR reporting.

CHAPTER 3: THEORETICAL FRAMEWORK

Experience without theory is blind, but theory without experience is merely intellectual play

Immanuel Kant

3.1 Introduction

The aim of this chapter is to provide the theoretical background within which the relationship between corporate governance and CSR reporting is examined. Subsequent to the introduction section, this chapter has two main sections. Section 3.2 discusses theories applied in this study. The theories are then explained specifically in four sub-sections. A conclusion of this chapter is provided in Section 3.3.

3.2 Theories in CSR reporting

A theory is an explanation of the relationship between two or more observable attributes of individuals or groups. The theory attempts to establish a link between what the researcher observes and the conceptual understanding of why certain phenomena are related to each other in a particular way (Frankfort-Nachmias & Leon-Guerrero 2010). In short, a theory is a set of interrelated concepts, definitions and propositions that explains or predicts events or situations by specifying relations among variables. Theories vary in the extent to which they have been conceptually developed and empirically tested; however, testability is an important feature of a theory (Frankfort-Nachmias & Leon-Guerrero 2010). There are several well-developed theoretical perspectives that are available to researchers to aid them in exploring the issues of corporate governance and CSR. Studies examining the link between both issues have been generally informed by a number of theories such as legitimacy and stakeholder theories (Ntim & Soobaroyen 2013; Anas et al. 2015), agency and resource dependence theories (Deegan 2002), political economy theory (Amran & Devi 2008), neo-institutional sociology theory (Amran 2007; Amran & Haniffa 2011) and of late, shared value theory (Abdulrazak & Ahmad 2014). This is to suggest that societal, political and economic issues cannot be isolated from one another (Gray, Owen & Adams 1996). Gray, Kouhy and Lavers (1995) propose three broad groups of theories in CSR research: decision-usefulness studies, economic theory studies, and social and political theory studies. In the

decision-usefulness theory, it is assumed that companies disclose CSR information because of a belief in the users' usefulness of this information. For studies using economic theory, like agency theory for instance assumes that voluntary disclosure by company is used as a means of reducing agency costs that could arise in the form of legislation and regulation (Joseph 2010). Meanwhile, the social and political theory group consists of stakeholder theory, legitimacy theory and political economy theory (Gray et al. 1995). These theories are claimed to be neither separate nor competing (Amran 2011). Deegan (2006) sees many similarities between stakeholder and legitimacy theory. Further, institutional theory, has similarities with legitimacy theory in understanding how organisations recognise and respond to changing social and institutional pressures and expectations (Deegan 2006). Both theories are looking at the same issue which is about gaining legitimacy and homogenisation towards conformance with social values and norms (Joseph 2010). These aspects are considered essential for social acceptance by society.

Despite the various theories adopted in explaining CSR practices, there is no dominant theory that is capable of fully explaining the CSR phenomenon (Amran & Siti-Nabiha 2009; Reverte 2009). A theory can only provide a partial explanation and it depends on the scope and the variables that the researcher intends to investigate (Amran 2007; Dalton & Dalton 2005). Gray et al. (1995) claim CSR reporting is a very complex activity unable to be explained adequately by any single theoretical point of view. Thus, in order to obtain a fuller and superior explanation of CSR reporting, it is suggested that scholars develop multi-theoretic approaches (Dalton & Dalton 2005; Deegan 2002). In view of that, studying CSR with multiple theories is logical, as the concept is multidimensional and is expected to impact stakeholders in different ways. Gray et al. (1995) claim that social and political theories provide more insightful theoretical perspectives to CSR disclosure. Nevertheless, through their literature review of peer reviewed journal articles from 2000 to 2015, Jain and Jamali (2016) discover that there are four main theoretical frameworks that guide empirical research at the intersection of corporate governance and CSR. They are: agency theory, institutional theory, stakeholder theory and resource dependency theory. In an attempt to explain the influence of corporate governance on company CSR reporting behaviour, this thesis adopts these four theories and these are explained in the following sub-sections.

3.2.1 Agency theory

Agency theory has been the most influential in explaining corporate governance (Jain & Jamali 2016). Agency theory explains how to best organise an agency relationship, where Jensen and Meckling (1976, p. 308) define the relationship as “a contract under which the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent”. Agency theory assumes that principals (shareholders) and agents (managers and board members) have divergent interests, risk tolerances, capacities and information (Jain & Jamali 2016). Due to different risk preferences, they always seek to maximise own benefits and personal utility (Chambers, Harvey, Mannion, Bond & Marshall 2013) through wealth expropriation from other shareholders and stakeholders (Fama & Jensen 1983b). Thus, moral responsibility to act in someone else’s interest runs second to self-interest. Agency loss is the difference between the best possible outcome for the principal and the consequences of the acts of the agent. The more the agent’s interest deviate from the interest of the principal, the higher the agency loss. In a contract, both parties will need to monitor and find ways to ensure that their interests are aligned. Otherwise, companies are likely to face agency problems and incur agency loss. The principal is forced to implement certain incentive systems and monitoring mechanisms to curb agent opportunism. Healy and Palepu (2001) suggest two mechanisms to achieve this: transparency and monitoring. The transparency mechanism requires management to disclose relevant information to help investors to evaluate whether the company’s resources have been managed in their best interest or not. A higher disclosure policy helps to reduce information asymmetry and ensures investors pay higher prices for shares (Sartawi, Hindawi, Bsoul & Ali 2014). The second mechanism is to effectively monitor the behaviour and actions of management. According to Healy and Palepu (2001) board monitoring ensures that management behaves in shareholders’ interests and discloses credible information. This is vital since management is less inclined to provide investors with full and fair information if disclosure is left to their discretion (Sartawi et al. 2014). These explanation implies that agency theory regards board of directors as an instrument of control which reduces agency costs while maximizing shareholder wealth (Zhang 2012).

Agency theory generally concerns the principal-agent relationships between managers and capital providers who can either be shareholders or debt holders

(Jensen & Meckling 1976). This relationship is especially important in developed countries where ownership of shares is dispersed leaving shareholders with little power and hence little incentive to monitor management. Consequently, agency conflicts are pronounced in this type of agency setting. On the contrary, developed countries are known for their concentrated ownership patterns. This provides direct controls of shareholders upon management. As such, shareholders are able to steer managers' to act in their best interests. While this situation seems to suggest a weaker agency effect in developing countries (Mustapha & Che Ahmad 2011), it is actually the main source of principal–principal conflicts, which represent a key corporate governance challenge in these nations (Young et al. 2008). It is an environment where a dominant shareholder controls senior managers at the expense of minor shareholders' interests (Dharwadkar, George & Brandes 2000; Young et al. 2008) and poor institutional protection of minority shareholders exists concurrently (Young et al. 2008). Gaining effective control of a company enables the controlling owner to determine not just how the company is run, but also how profits are being shared among shareholders. Although minority shareholders are entitled to the cash flow rights corresponding to their share of equity ownership, they face the uncertainty that an entrenched controlling owner may opportunistically deprive them of their rights. These conflicts are unique in the sense that they occur 'between two classes of principals, namely, controlling shareholders (often a family or the state) and minority shareholders. Therefore they are different in nature than agency conflicts described by the conventional principal–agent theory.

Regardless of which type of agency conflict, the role of the board of directors is imperative in mitigating the problem. Generally, companies in developing countries are characterised by heavy debt financing. Borrowing creates a direct obligation for repayment. Although creditors are not given the power to influence the companies on CSR matters, they can indirectly sway directors since the cost attached to CSR activities might jeopardise the company's ability to pay their debts. From the company's perspective, there is a need to maintain a good re-payment pattern since the company may require additional capital from creditors. In light of these problems, independent directors especially, are instrumental in aligning the conflict between controlling and minority shareholders. The principal-principal agency problem can also emerge when the role of CEO and Chairperson is entrusted to the same individual. This unified role brings about centralisation of power that provides

the CEO with full authority to make all decisions; most likely in favour of the CEO's wants. Hence, CSR practices are often ignored. To counter this action, separating the role of CEO and Chairperson is highly recommended.

3.2.2 Neo-institutional sociology

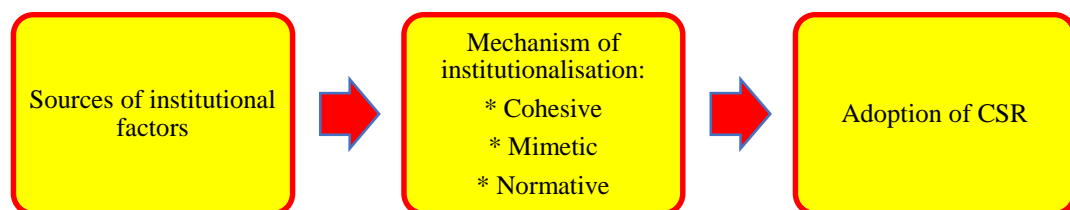
Neo-institutional sociology is one of the main theoretical perspectives used to understand organisational behaviour. Institutional approaches emphasise the role of rules in shaping organisational forms and processes. Institutional rules are shared norms and expectations held by members of a society and they function as tradition to which organisations adapt in exchange for legitimacy. Legitimacy is the generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions. The sociology approach to institutional theory suggests that individuals, groups and companies seek social approval for the right to exist (social legitimacy) (Ntim & Soobaroyen 2013). Hence, compliance with certain rules and procedures, as well as, adoption of certain organisational practices so as to attain legitimacy is crucial. These are done through isomorphism; a process that forces one unit to conform to other units in the population that deal with similar situations (Di Maggio & Powell 1983). Accordingly, organisations will become progressively more alike within certain areas and comply with the expectations of the wider institutional environment (Joseph 2010). Organisations that adopt recognised formal structures and conform to external assessment criteria as seen as legitimate thus enhancing their survival chances. In view of that, legitimacy and isomorphism are believed to complement each other in ensuring the success of an organisation.

Isomorphism could be achieved through three different mechanisms, specifically, coercive, mimetic and normative. Coercive isomorphism is the most cited type of institutional force (Joseph 2010). This type of isomorphism is a result of pressures exerted by organisations that the company depends upon on. It can originate from political influence, regulation, law and the public at large (Amran & Siti-Nabiha 2009). The higher the inter-organisational dependence, the greater the level of coercive isomorphism. In the case of CSR, it is argued that regulations and regulatory enforcements have been the main stimulus of the practices that caused all companies in industry to implement similar practices (Joseph 2010). Larrinaga (2007) provides example on this isomorphism mentioning the existence of regulation

to make environmental disclosures compulsory in European financial statements. The same rule applies in Malaysia especially for public listed companies. Meanwhile mimetic isomorphism is fostered due to uncertainty between means and ends and ambiguity of goals. A company will tend to model itself on other successful companies when proper reference or guidelines are absent (Di Maggio & Powell 1983). It will imitate or benchmark those companies that are viewed to be more legitimate and successful than others. Normative pressure stems from professional networks. The more reliance on academic credentials in choosing personnel and participation in trade and professional organisations, the greater the extent to which the organisation becomes similar to other organisations in the field (Di Maggio & Powell 1983). This is achieved via formal and informal communication, for example, seminars, meeting and websites (Joseph 2010). In short, this theory implies that companies are pressured to become similar due to environmental constraints and also network ties with other similar organisations.

Institutional theory has been used to examine CSR issues and practices since the decision to report on CSR activities results from both external pressure and internal forces. Neo-institutional sociology explains how companies adopt policies and procedures that are considered socially legitimate by external stakeholders. Compliance with good CSR practices in the form of increased CSR reporting can facilitate congruence of corporate goals and norms with those of the larger society, thereby improve company legitimacy. As CSR reporting is increasingly becoming a common practise, undoubtedly, an institutionalisation process is evident. Figure 1 summarises the model illustrating the institutionalisation of CSR.

Figure 3.1: Institutionalisation process of CSR reporting phenomenon



Source: Amran (2007)

Business organisations operating in different nations are embedded in distinct institutional environments and experience different degrees of coercive pressures to

engage in CSR. For CSR in developing countries, government has an important role in motivating socially responsible behaviour in companies. Based on coercive isomorphism, neo-institutional sociology suggests that regulative institutional pressures can force economic units to conform to expected social behaviour and international standards as it can enhance legitimacy and social acceptance (Arya & Zhang 2009). In the past decade, many developing countries have passed legislation on CSR related issues. Although CSR is understood as doing more than what is required by law, it is contended that government regulation plays a considerable part in formulating the element of social initiatives, and providing guidance for its implementation. In neo-institutional sociology, managers have incentives to increase CSR information to comply with regulatory requirements and social norms in order to justify their actions and to deflect criticisms regarding their activities. Arya and Zhang (2009) argue that during the early stages of institutional reforms, political, legal and societal changes in institutions create significant volatility and uncertainty. Accordingly, diverse organisational responses to social reform policies can be expected. Nevertheless, as the new institutional regime eventually becomes the main driver of social change, normative and mimetic institutional pressures are likely to promote greater isomorphism in corporate social strategies to achieve legitimacy (Arya & Zhang 2009).

Mimetic isomorphism, on the other hand, describes what seems to be institutionalised conceptually correct (Di Maggio & Powell 1983). Hence, companies tend to copy or model procedures used in other organisations. Normally, large companies benchmark against their peers while smaller companies benchmark against industry leaders. With regard to CSR practices, similar businesses competing in the same industry are more likely to benchmark and imitate those companies considered to be superior. This is done with the intention of being at par with other companies besides yearning for increased reputation (Othman, Darus & Arshad 2011).

Normative isomorphism takes place when companies internalise the norms that derive from the professionalisation of a field (de Villiers & Alexander 2014; Di Maggio & Powell 1983). Companies seek professional CSR reporting guidance in the form of consultants and guidelines, e.g. the GRI guidelines. Companies increasingly follow the GRI guidelines (KPMG 2013) because they believe it will assist in producing a good CSR report. In addition, training and professional

membership socialise individuals into common beliefs regarding what constitutes accepted norms (de Villiers & Alexander 2014). For example, MBA programmes teach similar norms; accounting bodies, such as chartered accounting and certified public accounting bodies encourage similar norms; and the same goes for other degree programmes and professions. Table 3.1 explains in more detail the general transition of a field from a formative phase (mimetic and coercive isomorphism) to a more mature phase (normative isomorphism).

Table 3.1: Application of institutional theory

	Mimetic Isomorphism	Coercive Isomorphism	Normative Isomorphism
Phase	Formative phase	Formative phase	Field matures
Characteristics	Environmental uncertainty	Public influence and the problem of legitimacy	Professionalisation and standardization
Forces	Uncertain how to respond	External pressure from institutions the organization is dependent on internal pressure to conform to societal expectations	Professionals receives similar training and interact with other professionals, socialising them into similar views
Response	Copy superior performer	Conformance to demands	Conformance to expectations
Processes	Benchmarking Identify to best practices	Informal or formal influences Persuasion	Internalization of established norms and values through social or peer network
Applied to CSR reporting	Public listed companies follow more profitable companies or companies which have received recognition in CSR practices	CSR reporting in response to real or anticipated pressure in the environment, such as following legislation or pre-empting legislation i.e. following corporate governance guidelines, Bursa Malaysia Listing Requirement	Management's MBA and chartered accountant training combined with consultants' shared experiences with GRI and Bursa Malaysia CSR Framework, leading to these guidelines implementation and institutionalisation

Adaptation from de Villiers and Alexander (2014)

In conclusion, the common idea of institutional theory is to encourage homogenisation and achieve legitimacy. While the type of pressure exerted within fields by institutions differs as well as the variation of cultures and environment, companies will typically copy the practices of their peers when new activities reach a degree of acceptability or are seen to deliver important business benefits. Companies would also increase their reporting if they saw their competitors doing it more. Thus,

there is some evidence of isomorphic pressure (Di Maggio & Powell 1983) in relation to reporting amongst companies.

3.2.3 Resource dependence theory

Resource dependence theory derives from the economics and sociology disciplines and is concerned with the distribution of power in the company. It was developed by Zahra and Pearce (1989) and Pfeffer and Salancik (1978). According to resource dependence theory, the company is a combination of various tangible and intangible assets as well as capabilities. Yet, a company cannot be completely self-sufficient in terms of all its resource needs. A company is dependent on its surroundings to guarantee the flow of critical resources. Thus, to survive and thrive, it should seek to collaborate with them to acquire higher performance in the long run (Ramanathan, Poomkaew & Nath 2014). It has been found that interactions with important external groups help to improve a company's environmental performance. Kassinis and Vafeas (2002) found that companies with greater dependence on their local community exhibit better environmental performance in that community, while Ramanathan et al. (2014) linked improvements in environmental performance to stakeholder pressures, economic pressures as well as environmental regulation.

For the purpose of managing the external relationships to leverage influence and resources, resource dependency theory suggests mandating the role to the board of directors. They are viewed as strategic resources who are valuable, rare, inimitable and non-substitutable (Chambers et al. 2013). The resource dependence perspective views the board as one of the instruments that management may use to facilitate access to resources critical to the company's success. Hence, it is not surprising that board members are selected for their background, contacts and skills in 'boundary-spanning' (Aguilera, Desender and Kabbach-Castro 2012). Specifically, board of directors provide four benefits to the organisation: (1) advice, (2) access to information, (3) safeguard and preferential access to resources and (4) legitimacy (Pfeffer & Salancik 1978). The board provides security in the form of ensuring proper disclosure of information. Connections from the directors' business contacts are a benefit to the company. Boards consisting of directors with ties to strategically related organisations are believed to be able to provide better advice and counsel (Aguilera et al. 2012). The connections they provide promise a better information flow, more open communication, and/or potential influence with government

(Aguilera et al. 2012). It is also beneficial if a company has a representation of financial institutions on their boards as this will provide easy access to financial resources. The types of financial institutions represented on aboard affect the finance the companies obtain (Hillman, Withers & Collins 2009). The heavy reliance on board reflects its potential in fostering long-term relationships with key external constituencies. This, in turn, minimises uncertainty caused by external environmental factors and dependence on outside organisations (Chambers et al. 2013). There are several studies that highlight the role of the board of directors in ensuring the flow of critical resources (knowledge, personal ties or legitimacy) to the company as portrayed by resource dependence theory (e.g. Hafsi & Turgut 2013; de Villiers, Naiker & van Staden 2011; Mallin, Michelon & Raggi 2013). Hafsi and Turgut (2013) found the diversity of the board has a positive effect on the company's social performance. de Villiers et al. (2011) found that environmental performance is higher in companies that have larger boards, larger representation of active CEOs on the board, and more legal experts on the board.

Taken together, this theory argues that corporate boards are one of the mechanisms for managing external dependencies (Pfeffer & Salancik 1978), reducing environmental uncertainty (Pfeffer 1972), which in turn lessens the transaction costs associated with environmental interdependency. Inevitably, board members are a rich source of knowledge and guidance (Pfeffer & Salancik 1978) and can provide critical linkages to resources and leverage social capital through their social networks (Hillman & Dalziel 2003). Directors with backgrounds in finance or law facilitates the company in obtaining financial resources or when dealing with authorities, especially concerning CSR issues. In return, these benefits enable managers to adopt specific pro-social practices that could be value-enhancing for the company (Jain & Jamali 2016) and ultimately aid in the survival of the company (Aguilera et al. 2012). In the same way, humanitarian activities, environmental protection and employee welfare is often associated with women than men; suggesting that female directors maybe able to lead the company to adopt better CSR practices. These explanations provide strong foundation for the usage of resource dependence theory in relation to the role of board of directors. Hillman et al. (2009) assert that resource dependence theory is a more successful lens for understanding boards than agency theory despite its rare application.

3.2.4 Stakeholder-agency theory

Hill and Jones (1992) developed stakeholder-agency theory through their views of the shortcomings of agency theory. Generally, Jensen and Meckling (1976) view agency contract as involving primarily the agents (managers) and the principal (shareholders) only. The domain of agency theory are relationships that mirror the basic agency structure of a principal and an agent who are engaged in cooperative behaviour, but have differing goals and attitudes toward risk (Shankman 1999). Agency theory only recognises the economic responsibilities between principals and agents. The interests of the principal are viewed as having primary importance. Nevertheless, it is silent on other responsibilities that may be implied in the agency perspective (Culpan & Trussel 2005). Hill and Jones (1992) take the initiative to expand the accountability of the agents to include other stakeholders. These stakeholders, such as creditors, suppliers, customers and communities are assumed to have a legitimate claim on the company (Hill & Jones 1992). Although stakeholders are generally instrumental to the company's survival, their importance varies according to the size of their stake in the company. The stakeholder-agency theory highlights the role of the managers who have direct control over decision making in the company. It demonstrates that managers are also agents for other stakeholders. It is increasingly acknowledged that managing for stakeholders involves attention to more than simply maximising shareholder wealth. Attention to the interests and well-being of those who can assist or hinder the achievement of the company's objectives is imperative (Mitchell, Agle & Wood 1997). Stakeholder theory addresses morals and values explicitly as a central feature of managing companies (Culpan & Trussel 2005). Hence the weakness of agency theory is addressed through the adoption of stakeholder theory simultaneously.

The cornerstone of stakeholder-agency theory lies in the assumption of an inefficient market mechanism which brings about power differentials between parties to a contract. Hill and Jones (1992) introduce the concept of friction that leads to market inefficiency. Among others, friction can take the form of barriers to entry and exit and also organisation inertia. Unlike agency theory that assumes efficient markets, stakeholder-agency theory predicts that markets require time to make adjustments to friction before reaching equilibrium. Stakeholder-agency theory also puts forward the idea that apart from shareholders, other stakeholders are eligible for a claim on the company (Hill & Jones 1992). Consequently, this reduces the

availability of funds that can be utilised for company growth. Divergence of interest between managers and stakeholders further limits the claim available for stakeholders due to utility loss besides lowering the ability to maximise shareholders interests. To align these interests, various accountability mechanisms are employed.

Managerial ownership is another measure usually employed to capture agency problems between managers and shareholders (Shuto & Takada 2010). Earlier studies acknowledge two types of managerial ownership effects. The incentive alignment effect predicts that managers with larger shareholdings have stronger incentives to act in line with shareholders' interests, thus reducing opportunistic managerial behaviour (Shuto & Takada 2010). However, when managerial ownership is at the lower level, it poses higher agency costs. Meanwhile, the management entrenchment effect suggests that larger shareholdings by managers enable them to have greater control over companies. As such, they are in better position to pursue their own private interests since they are less likely to be disciplined (Shuto & Takada 2010) and are also a way of stabilising their position in the company. Despite this claim, scholars believe that the entrenchment effect is ineffective if a manager has a sufficiently large number of shares. Nevertheless, when the shareholding is extremely low, managers have no control of the company. In short, arguments by Shuto and Takada (2010) suggest that the entrenchment effect is dominant within intermediate levels of ownership patterns. With regard to family owned companies, shareholdings by managers are likely to have an entrenchment effect instead of helping to congruent the interests of conflicting parties. Since managers are usually appointed from family members, managers' ownership provides additional power to them to prioritise their interests. Holding the view that CSR practices are costly and do not provide immediate returns, managers who own company shares have the power to opt for low reporting of CSR information.

Financial institutions as major capital providers enable them to exert influence over management. The ease of exit from the market to some extent determines the governance role of institutional investors like banks (Hill & Jones 1992). Exit can be costly as the option may lead to massive losses to specific investors. Additionally, some institutional investors, particularly the more activist, favour both financial and social performance criteria in assessing company performance. Hence, institutional investors are considered suitable to control agency problems through their monitoring function. Their ability to exert influence on the

management helps to assist the enhancement of CSR reporting. The integration of stakeholder and agency theory by Hill and Jones (1992) provides multiple insights in describing managers' roles conventionally and socially, besides the controlling role of stakeholders. Given these explanations, stakeholder-agency theory can provide a useful foundation in explaining the relationship between ownership by managers and the levels of institutional and CSR reporting.

3.3 Conclusion

This chapter introduces the theories that will be applied in explaining the relationship between corporate governance attributes and CSR reporting. Since most theories on CSR reporting offer a single analytical perspective, they may have limitations in explaining CSR issues. In view of that deficiency, this study relies on multiple theories to examine companies' behaviour towards CSR practices.

CHAPTER 4: RESEARCH METHODOLOGY

Design is the process of expending considerable time, thought and energy into making something that looks and feels effortless

Christopher Anton

4.1 Introduction

This study aims to determine the pattern of CSR reporting as well as to investigate whether the revealed reporting form is shaped by corporate governance mechanisms. In fulfilling the objectives of the research, the study was focused on nine research questions. To answer these questions, this chapter specifically addresses the methodology used in this study.

This chapter begins with explaining the research design in Section 4.2. In Section 4.3, the sample used in the study is outlined. Description and measurement of independent, dependent and control variables is done in Section 4.4. Section 4.5 presents the econometric models used for estimation. Section 4.6 discusses how data are analysed. Finally this chapter is summarised in section 4.7.

4.2 Research design

The research design is the plan that enables a researcher to seek clarifications to the problems investigated and assists him or her in the various stages of the research (Frankfort-Nachmias & Leon-Guerrero 2010). A research design refers to the overall strategy to integrate the different components of the study coherently and in a logical way. In other words, it is a detailed outline of how an investigation will take place (De Vaus 2001). Fundamentally, research design links research questions to the data to be collected and then the results of a research from which conclusions are drawn. A proper research design helps minimise bias but maximises the reliability of data. Subsequently, it assists in producing quality information and reduces experimental errors.

Research design revolves around two types of approach, namely quantitative and qualitative approaches (Zikmund 2003). The quantitative paradigm is based on positivism (Sale, Lohfeld & Brazil 2002) and adopts a deductive process (Hyde 2000) underpinned by systematically collecting and analysing numerical data (Amaratunga, Baldry, Sarshar & Newton 2002). This helps to make generalisation across groups of people or explain a particular phenomenon. It uses deductive

reasoning requiring the researcher to form a hypothesis and then collects data and uses them in an investigation of the problem. After analysis is done, conclusions are made which then prove whether the hypotheses are true or false. Quantitative research focus on the confirmation of extant theory rather than the discovery and development of new theory (Guba & Lincoln 1994). Normally, this type of research is aimed at determining the relationship between an independent variable and a dependent or outcome variable in a population.

Quantitative research designs are either descriptive (subjects usually measured once) or experimental (subjects measured before and after a treatment). A descriptive study establishes only associations between variables. In other words, it attempts to determine the extent of a relationship between two or more variables using statistical data. In this type of design, relationships between and among a number of facts are sought and interpreted (BCPS 2010). The outcome of this type of research is usually recognition of trends and patterns in data. However, but it does not go so far in its analysis to prove causes for these observed patterns. Variables are only identified and are studied as they occur in a natural setting. When analyses and conclusions are made, determining causes must be done carefully, as other variables, both known and unknown, could still affect the outcome (BCPS 2010).

Arguably, every research designs have their own drawbacks that renders limited conclusion to be drawn (Scandura & Williams 2000). Further, Crotty (1998) claims that there are no set method tied to any particular methodology and theoretical perspective, however, certain methods fit more comfortably with certain methodologies and theoretical perspectives. Commonly, selection of the chosen approach depends primarily on what is intended to be accomplished by the researcher (Cavana, Delahaye & Sekaran 2001). This study employs a positivist paradigm, focusing on the quantitative approach. The basis of this study stems from the need to make generalisations on company CSR reporting patterns. Fundamentally, it is believed that there is an underlying and measurable reality that governs company behaviour. The idea was to determine the pattern of CSR reporting by companies and to find possible influence of corporate governance mechanisms in explaining the pattern. In doing so, various publicly available information were gathered using company annual reports; representing objective and replicable data sources. Data were then transformed using various accounting formula to obtain CSR index and corporate governance attributes measures. To this end, the method chosen

for this study relate to quantitative method; specifying on descriptive research. Neuman (2000) argues that descriptive research has dominated much social research since it is suitable in presenting a picture of the specific details of a situation, social setting or relationship. Further, descriptive research has the ability to describe a phenomenon more clearly by offering a profile of the factors (Zikmund 2003). Hence, this justifies the usage of a descriptive quantitative research method in this study.

One of the basic procedures of a quantitative research is data collection. Prior to that, a sample of the study will need to be determined. The next section explains how the sample is specified and data are collected.

4.3 Sampling

Generally, there are four ways to obtain a sample that are selecting largest companies, selecting large, medium and unlisted companies, selecting companies from The Times 100 and also selecting “interesting” or “best practice” (Gray et al. 1995). This study draws on the largest non-financial companies listed on the Main Market of Bursa Malaysia from 2008 until 2013. This sample was chosen based on several grounds. Public companies are normally well established with healthy financial positions and also strong business prospects. These companies are perceived to embrace good corporate governance. Prior to being listed on the Main Market, a company is required to have an uninterrupted profit after tax (PAT) for 3 to 5 years with the accumulation amounting to a minimum of RM (Ringgit Malaysia) 20 million. Also, its recent full year PAT should be worth at least RM6 million. Upon listing, the company should have a recorded market capitalisation of RM500 million. These criteria reflect the large and stable the companies that are listed on the Main Market. Hence, these companies are believed to have more resources to embark on social and environmental initiatives (Cormier & Magnan 2003; Ramasamy & Ting 2004). With good corporate governance in place as well as readily available CSR reports following the mandatory disclosure requirement passed in 2007, these companies are presumed to be suitable sample for this study. Nevertheless, this study focus on listed companies in Malaysia only. Since corporate governance practices differ among countries and generally not internationally comparable, selecting a single country helps to control for differences in corporate governance systems.

This study takes the form of a longitudinal study that offers a number of advantages. Primarily, it enables detection of development of changes in the characteristics of the target population at both the group and the individual level. In other words, it has the ability to show clear patterns of a variable overtime. As a result, sequences of events can be established. Longitudinal study is unique as it provides useful data about individual changes. Hence, it is perfect for doing research on development trends. In addition, it ensures high accuracy when it comes to observation of changes since the focus is on the same object, overtime. While the usage of longitudinal study seems appealing, there are several hiccups that requires equal attention. Longitudinal study is commonly associated with panel attrition. This can reduce the number of useable data. Subsequently, longitudinal study requires a large sample size. However, despite its drawbacks, Sartawi et al. (2014) contends that this type of study may reveal more dependable trends of companies CSR reporting as practices tend to change over time. The large sample size enhances the reliability of the results (Jitaree 2015; Farook, Kabir Hassan & Lanis 2011; Burritt, Schaltegger, Ferreira, Moulang & Hendro 2010; Cheung, Tan, Ahn & Zhang 2010). Earlier studies conducted in the Malaysian context mostly relied on small sample sizes: Haji (2013) (85 PLCs), Said, Hariri, Haron & Zainuddin (2011) (150 PLCs), Abdullah (2014) (100 PLCs), Said, Omar and Nailah Abdullah (2013) (120 PLCs) and Amran and Devi (2008) (133 PLCs). In this study, 450 companies are examined.

The time span covering 2008 to 2013 were selected for several reasons. *First*, this period is the recovery period from the financial crisis that hit Asian countries hard. *Second*, reporting on CSR information during this period was desirable to gain shareholders confidence after the financial downturn. *Finally*, the time span is inclusive of major fundamental reforms of MCCG which took place in 2007 and 2012. Haji (2013) confirmed that changes in regulation and occurrence of specific events bring about changes in company reporting. Considering the reasons already noted, the selection for 6 year period is justified as it should provide a clearer picture of the trend in CSR reporting. The next section explains how the sample frame.

4.3.1 Data selection and sources

This study was based on panel data which is data collected for individual units observed over a period of time (Korathotage 2012). Panel data is deemed the most appropriate type of data for the present study because it uses both cross-

sectional and time-series data. A number of researchers have applied this class of data to investigate issues that could not be studied independently using either time series or cross-sectional settings (Greene 2007). Panel data offers several benefits. It helps to correct problems of endogeneity (Martínez-Ferrero, Garcia-Sanchez & Cuadrado-Ballesteros 2015), results in less collinearity among the variables (Amran 2011) and provides a better measurement than pure cross section or pure time series data (Gujarati 2003; Baltagi 2008). Further, the panel data approach makes it possible to control for unobservable heterogeneity presented in the different companies in the sample (Martínez-Ferrero et al. 2015; Himmelberg et al. 2004). Further, the availability of a large data set enhances the efficiency of the statistical estimates (Hsiao 2007). Panel data analysis has been applied in several previous CSR studies (e.g. Mahoney & Roberts 2007; Saleh et al. 2008; Martínez-Ferrero et al. 2015; Amran 2011; Korathotage 2012). The data in this study was verified with the necessary tests to ascertain that the multiple regression assumptions are not violated.

In order for a company to be included in the sample, the following requirements had to be met for all the six-year period (2008-2013). *Firstly*, companies were continuously listed on Bursa Malaysia. *Secondly*, companies have annual reports available for download. There were 813 companies listed on the Main Market of Bursa Malaysia as at 31st December 2013. However, only 613 companies had completely uploaded their annual reports over the six year period. Companies were then group into nine sectors according to Bursa Malaysia classifications. Generally, all companies are subject to the same regulatory and disclosure requirements except for finance companies which also experience material differences in their types of operation. Consequently, many prior studies have excluded them (e.g. Haniffa & Cooke 2005; Cheng & Courtenay 2006; Mohd Ghazali 2007; Said et al. 2009). Following this line of research, 136 finance companies were excluded from the target population, limiting the population to 477 companies. The annual reports for each company were downloaded from the Bursa Malaysia website at www.bursamalaysia.com.my. Given incomplete information contained in annual reports, other data sources were also sought. These are explained in Section 4.3.2. After a thorough process of data extraction, 27 companies with incomplete data were omitted from the sample. Finally, the total sample comprised 450 companies, representing 55.35% of the total Bursa Malaysia population as at 31st

December 2013. The sample size is larger than previous study in this field. Table 4.1 explains how the sampled companies were derived.

Table 4.1: Sampling frame

	No of companies	Total companies	No of observations	Total observations
Total companies listed on 31 st December 2013	813	813	4,878	4,878
Less: companies with incomplete annual reports from 2008 - 2013	(200)	613	(1,200)	3,678
Less: finance companies	(136)	477	(816)	2,862
Less: companies with missing data	(27)	450	(162)	2,700
Total companies		450		2,700
Total sampled companies in %	55.35			

The distribution of the sampled companies categorised by Bursa Malaysia criteria is given in Table 4.2.

Table 4.2: Distribution of companies according to Bursa Malaysia criteria

No	Sector	Number of companies	%
1	Industrial	162	36.00
2	Trading	104	23.11
3	Consumer	93	20.67
4	Construction	33	7.33
5	Plantation	32	7.11
6	Technology	18	4.00
7	Infrastructure	4	0.89
8	Hotels	4	0.89
	Total	450	100.00

The companies have been re-classified based on the international two-digit Standard Industrial Classification (SIC) code as shown in Table 4.3.

Table 4.3: Sample company characteristics

SIC Code	Sector	Number of companies in the sample	Observed company years	Observation in %	Sector in %
	Category A: Agriculture, Forestry and Fishing (AFF)				
01	Agricultural Production - Crops	25	150	5.56	6.89

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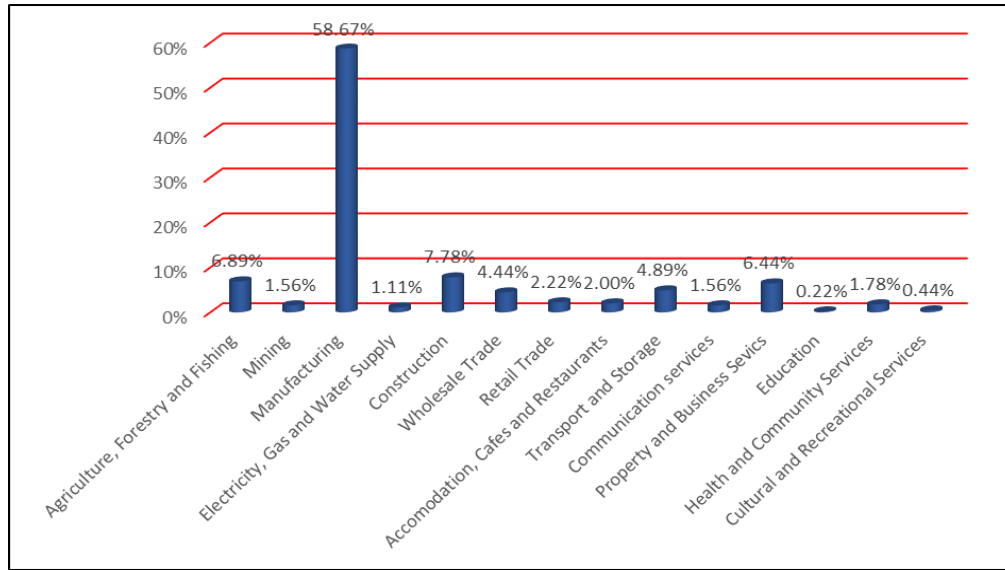
02	Agricultural Production - Livestock	5	30	1.11	
09	Fishing, Hunting and Trapping	1	6	0.22	
	Category B: Mining (MIN)				
10	Metal Mining	3	18	0.67	1.56
13	Oil and Gas Extraction	4	24	0.89	
	Category C: Manufacturing (MAN)				
20	Food and Kindered Products	32	192	7.11	58.67
21	Tobacco Products	1	6	0.22	
22	Textile Mill Products	2	12	0.44	
23	Apparel and Other Textile Products	8	48	1.78	
24	Lumber and Wood Products	25	150	5.56	
25	Furniture and Fixtures	13	78	2.89	
26	Paper and Allied Products	19	114	4.22	
27	Printing and Publishing	7	42	1.56	
28	Chemicals and Allied Products	11	66	2.44	
29	Petroleum and Coal Products	4	24	0.89	
30	Rubber and Misc. Plastics Products	18	108	4.00	
31	Leather and Leather Products	1	6	0.22	
32	Stone, Clay and Glass Products	21	126	4.67	
33	Primary Metal Industries	23	138	5.11	
34	Fabricated Metal Products	6	36	1.33	
35	Industrial, Machinery and Equipment	15	90	3.33	
36	Electronic and Other Electric Equipment	24	144	5.33	
37	Transportation Equipment	11	66	2.44	
39	Misc. Manufacturing Industries	23	138	5.11	
	Category D: Electricity, Gas and Water Supply (EGW)				
49	Electricity, Gas and Sanitary Services	5	30	1.11	1.11
	Category E: Construction (CON)				
15	General Building Contractors	21	126	4.67	7.78
16	Heavy Construction, Ex. Building	14	84	3.11	
	Category F: Wholesale Trade (WST)				
50	Wholesale Trade- Durable Goods	11	66	2.44	4.44
51	Wholesale Trade- Non-Durable Goods	9	54	2.00	
	Category G: Retail Trade (RTT)				
53	General Merchandise Stores	4	24	0.89	2.22
54	Food Stores	1	6	0.22	
55	Automotive Dealers and Service Stations	3	18	0.67	
56	Apparel and Accessory Stores	2	12	0.44	
	Category H: Accommodation, Cafes and Restaurants (ACR)				

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58	Eating and Drinking Places	1	6	0.22	2.00
70	Hotels and Other Lodging Places	8	48	1.78	
	Category I: Transport and Storage (TAS)				
42	Trucking and Warehousing	4	24	0.89	4.89
44	Water Transportation	11	66	2.44	
45	Transportation By Air	1	6	0.22	
47	Transportation Services	6	36	1.33	
	Category J: Communication Services (COM)				
48	Communications	7	42	1.56	1.56
	Category K: Property and Business Services (PBS)				
65	Real Estate	11	66	2.44	6.44
73	Business Services	18	108	4.00	
	Category L: Education (EDU)				
82	Educational Services	1	6	0.22	0.22
	Category M: Health and Community Services (HCS)				
80	Health Services	8	48	1.78	1.78
	Category N: Cultural and Recreational Services (CUL)				
79	Amusement and Recreational Services	2	12	0.44	0.44
	Total	450	2700	100.00	100.00

The sample is dominated by the manufacturing sector with 58.67% of companies. Then follows the Electricity, Gas and Water sector at 11.1% and the Construction sector at 7.78%. Meanwhile Education and Cultural and Recreational services sectors were among the lowest contributors to the sample with less than 1% of companies. Although there seemed to be a huge disparity among the sectors, the sample was assumed to be adequate to represent all PLCs during 2008-2013. Figure 4.1 shows graphically the distribution of companies based on the SIC code.

Figure 4.1: Distribution of sampled companies based on SIC code



4.4 Description of variables

In developing a model for hypotheses testing, it is essential to ascertain that all important variables are included and irrelevant variables have been omitted. Redundant or irrelevant variables can mask the true effects of variables through multicollinearity and over-fitting the model (Zikmund 2003). The constructed model comprises three categories of variables and an error factor. They are the dependent variable (CSR reporting), the independent variables (the selected corporate governance mechanisms) and control variables. Meanwhile, the error represents changes in the dependent variable that cannot be explained by the independent variables and the control variables (Smith 2009). The next section defines and measures all variables.

4.4.1 Dependent variable – CSR reporting

CSR reports give information about economic, environmental, social and governance performance.

4.4.1.1 Content analysis

Those investigating CSR have employed a variety of methodological approaches to conduct their research: from case studies (e.g. Adams 2004) and interviews (e.g. O'Dwyer 2002), to surveys using questionnaires (e.g. Deegan

& Rankin 1997), longitudinal studies (e.g. Guthrie & Parker 1989; O'Dwyer & Gray 1998) and experiments (e.g. O'Donovan 2002). Still, it appears that the research method that is most commonly used to assess companies' social and environmental disclosures is content analysis (Milne & Adler 1999). An observation of empirical research done within 2008-2013 by Sapkauskiene and Leitonienė (2014) revealed that content analysis is the preferred method in analysing CSR reporting. Berelson (1952, p. 18) has defined content analysis as "a technique for objective, systematic, and quantitative description of the manifest content of communication" whilst Krippendorff (1989) considers it as a research technique that enables replicable and valid conclusions to be made from data to their context. This method determines the presence of certain words and concepts in the text (Sapkauskiene & Leitonienė 2014) and codifies them based on selected criteria (Weber 1990). In the words of Djajadikerta and Trireksani (2012), content analysis combines both the qualitative and quantitative methods, transforming information into scores.

Content analysis can be done using either the index approach or volume-amount approach (Vourvachis 2007). The index approach generally checks for the presence or absence of specific items of information, whereas the volume-amount approach check for the overall volume of disclosure, most frequently by counting words, sentences or proportions of an A4 page. At its simplest, CSR scores can be based on a binary coding system; also known as unweighted index to measure the extent of CSR reporting. Alternatively, the CSR index can also assess the quality of disclosure where it will be based on an ordinal scale; also called weighted index which can range from poor to excellent (Guthrie & Abeysekera 2006). Opponents to the binary coding system contend that some disclosure items are more important than others. Hence it is undesirable to treat all items as being of equal value (Guthrie & Abeysekera 2006). Further, Abbott and Monsen (1979) argue that the usage of a binary coding system only reflects various CSR activities but fails to measure the depth of each activity. In comparison to the volumetric approach, this method can cause confusion as it treats disclosure of one item as equal to a company that makes 50 disclosures. The volumetric approach has flaws as merely counting words without examining the sentences will not reflect the exact meaning of the context (Jitaree 2015). Guthrie et al. (2004) and Guthrie and Abeysekera (2006) also view word counting as very subjective. Further, evaluating CSR reporting through the number

of words raises reliability concerns as the quality of the reported items may not be assessed clearly (Jitaree 2015).

Nevertheless, the usage of binary coding is believed to be more reliable (Milne & Adler 1999) as it provides lesser choice in the coding decision, hence lessening disagreements (Vourvachis 2007). Milne and Adler (1999, p. 242) state that reliability “is gained at the expense of potential refinements to the understanding of social and environmental disclosure”. Likewise, Cooke (1989) supports the binary coding system since the overall effect of subjective evaluation by various groups of respondents is minimal. Further, the implied assumption is that each disclosure item is equally significant for all user groups. Additionally, this approach allows a variety of information to be gathered regardless of how the sentence is constructed. Hence, it may be appropriate for an international comparison (Jitaree 2015). Yet, regardless of method similar research conclusions are likely to be derived (Mohamed Adnan 2012). Evidently, both index and volumetric approaches have their own strengths and weaknesses. Consequently, the basis of choosing the most appropriate approach is the posed research question (Vourvachis 2007). Based on the arguments above, this study opted for the unweighted index approach or the binary coding to access, compare and explain differences. This is in line with prior studies (e.g. Haniffa & Cooke 2005; Abdullah, Mohamad & Mokhtar 2011; Ibrahim & Samad 2011; Chan, Watson & Woodliff 2014; Amran & Devi 2008; Haji 2013).

4.4.1.2 CSR checklist

Prior to assessing the CSR reporting, a checklist of items was constructed. Milne and Adler (1999) emphasise the importance of constructing a checklist with categories in a content analysis research. This involves the selection and development of categories into which content units can be classified (Tilt 2001). In other words, identifying the themes for the checklist becomes a priori in constructing a checklist. The CSR framework focuses on four themes: Environment, Community, Marketplace and Workplace. Reference to the framework is also consistent with the procedures undertaken by earlier local studies (e.g. Abdullah et al. 2011; Haji 2013; Haniffa & Cooke 2005). To construct a more comprehensive checklist, previous international CSR disclosure checklists were also referenced (e.g. Hackston & Milne 1996; Barako & Brown 2008). Gray et al. (1995) note that there are four major CSR themes employed in the literature namely marketplace (consumers, creditors),

workplace (employees), community, and environment. In addition to these themes, they further suggest a development of an “Other” theme. This is to accommodate those items that cannot be classified under any of the four themes. Finally, a “General” theme was also included based on the work of Chan et al. (2014). This theme basically reflects company policy towards CSR. Thus, this study adopted six themes: General, Community, Environment, Workplace, Marketplace and Other.

To facilitate the process of classifying CSR information to the corresponding theme, a checklist requires definitions as what comprises each theme. These definitions allow comparability with other researcher. Checklists from various international and local studies were again referenced (e.g. Hackston & Milne 1996; Barako & Brown 2008; Haniffa & Cooke 2002; Mohd Ghazali 2007; Haji 2013). Based on their suitability, checklists developed by Mohamed Adnan (2012), Abdullah et al. (2011) and Chan et al. (2014) have been chosen as the main references. The first checklist by Abdullah et al. (2011) was an adoption of the work of Mohd Ghazali (2007) with some changes according to the checklists by Hackston and Milne (1996) and Ng (1985). The second checklist by Mohamed Adnan (2012) adapted the internationally recognised Global Reporting Initiatives (GRI) indicators. Finally, Chan et al. (2014) developed their checklist based on the Ernst and Ernst (1979) six themes with the addition of a “General” theme. Given that the checklist was formed based on various sources, it presumably reflects a comprehensive form of CSR reporting. The merged checklists results to a total of 151 items. To avoid redundancy in classification, items with similar meaning were excluded. To ensure compatibility with the Malaysian context, the checklist was pre-tested using 30 annual reports randomly selected across industries. This is consistent with the work of Abdullah et al. (2011). Accordingly, a few items have been removed from the checklist. Like any research study, validity of the research instrument is important and this study followed the work of Said et al. (2011) to further validate the checklist. Experts in the area of CSR were also called upon to review the checklist. Said et al. (2011) used auditors and academia. Opting for a similar method, the checklist was reviewed by a CSR expert who was also an academician. After going through several series of revisions and refinements, the final checklist containing 51 items was produced with General containing 7 items, Community 9 items, Environment 14 items, Workplace 14 items, Marketplace 5 items and Other containing 2 items. Table 4.4 presents the full checklist.

Table 4.4: CSR checklist

CSR Reporting Items	
A	General (maximum 7 scores)
1	Acknowledgement or management of corporate social responsibility
2	Disclosure of corporate objectives or policies with regard to corporate social responsibility
3	Company's strategy for addressing sustainability
4	Mission/ values/ codes of conduct relevant to CSR topics
5	Commitments to external initiatives (e.g. membership)
6	Awards received relating to social, environmental and best practices
7	Discussion on stakeholder engagement
B	Community (maximum 9 scores)
8	Charitable donations and activities (<i>such as donations of cash, products or employee services to support established community activities, events, organizations, education and the arts</i>)
9	Supporting government/ non-governmental organization campaign (<i>such as supporting national pride/government-sponsored campaigns</i>)
10	Support for public health/ volunteerism (<i>such as blood donation, sponsoring public health or recreational projects</i>)
11	Aid medical research
12	Sponsoring educational programs/ scholarship (<i>such as sponsoring educational conferences, seminars or art exhibits, funding scholarship programs or activities</i>)
13	Discussion on public policy involvement
14	Graduate employment
15	Sponsoring sports project
16	Acquisition from local suppliers
C	Environment (maximum 14 scores)
17	Statements indicating that pollution from operations have been or will be reduced
18	Discussion on recycling efforts (<i>such as recycled inputs/ recycled waste</i>)
19	Preventing waste
20	Disclosure on significant spills/ environmental accidents
21	Hazardous waste disclosure
22	Fines/ sanction for non-compliance
23	Design facilities that are harmonious with the environment/ landscaping (<i>such as contributions in terms of cash or art/sculptures to beautify the environment, restoring historical buildings and structures</i>)
24	Impacts on biodiversity
25	Strategies/ plans for managing impacts on biodiversity (<i>such as wildlife conservation, protection of the environment, e.g., pest controls</i>)
26	Environmental review and audit (<i>such as reference to environmental review, scoping, audit, and assessment including independent attestation</i>)
27	Conservation of energy in the conduct of business operations (<i>using energy more efficiently during the manufacturing process</i>)
28	Utilizing waste materials for energy production
29	Disclosure of carbon/ green gas emissions
30	Initiatives to reduce carbon/ green gas emissions
D	Workplace (maximum 14 scores)
31	Employee profiles (<i>such as number of employees in the company and/or at each branch/ subsidiary, information on the qualifications and experience of employees recruited</i>)
32	Employee appreciation (<i>such as information on purchase scheme/ pension program</i>)
33	Discussion of significant benefit program provided (<i>such as remuneration, providing staff accommodation or ownership schemes</i>)
34	Employee training (<i>such as through in-house training, establishing training centers</i>)
35	Support to employee education (<i>such as giving financial assistance to employees in educational institutions; continuing education courses</i>)

36	Information on management-employee relationship/ efforts to improve job satisfaction (<i>such as providing information about communication with employees on management styles and management programs which may directly affect the employees</i>)
37	Employee diversity (<i>such as disclosing the percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels</i>)
38	Employee receiving regular reviews
39	Recreational activities/ facilities
40	Establishment of a safety department/ committee/ policy
41	Provision of health care for employee
42	Compliance to health and safety standards and regulations
43	Award for health and safety
44	Rates of work-related injury/ illness/ deaths (<i>such as disclosing accident statistics</i>)
E	Marketplace (maximum 5 scores)
45	Information on any research project set up by the company to improve its products in any way (<i>such as the amount/percentage figures of research and development expenditure and/or its benefits</i>)
46	Verifiable information that the quality of the firm's products has increased (<i>such as ISO9000</i>)
47	Disclosure of products meeting applicable safety standards (<i>such as information on the safety of the firm's product</i>)
48	Product sustainability/ use of child labour
49	Customer service improvements/ awards/ ratings
F	Other (maximum 2 scores)
50	Value added statements
51	Value added ratios

Note: Adaptation from Abdullah et al. (2011), Mohamed Adnan (2012) and Chan et al. (2014)

4.4.1.2.1 Measurement

In order to assess company CSR reporting, a disclosure index was used. A disclosure index “is a research instrument comprising a series of pre-selected items which, when scored, provide a measure that indicates a level of disclosure in the specific context for which the index was devised” (Guthrie & Abeysekera 2006, p. 11). This measurement has been used extensively in earlier studies (e.g. Haniffa & Cooke 2005; Mohd Ghazali 2007; Rashid & Lodh 2008; Haji 2013; Abdullah et al. 2011; Muttakin & Subramaniam 2015). This study employs the binary coding system in order to score the CSR items, where a value “1” will be awarded to a particular item if it is disclosed and “0” if it is not disclosed. In many instances of index usage, researchers have employed the sentence as the unit of analysis (e.g. Hackston & Milne 1996; Hooks & van Staden 2011). However, any unit of measurement that does not take account of graphs, charts, or photographs can be questionable as they can be potentially powerful and highly effective methods of communication (Beattie & Jones 1997). This study followed the work of Lock and Seele (2015) where attention was paid to all text included in the reports as well as pictures and graphical tools like text boxes. The scores were then transformed into a CSR reporting index by dividing the aggregate disclosure score of each company based on the six CSR

themes to the maximum possible score (i.e. 1 x 51= 51). This CSR measurement is also referred to as the relative index (Owusu-Ansah 1998). Generally, the formula used to calculate the CSR index (CSRI) is shown below:

$$CSRI = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$$

CSRI = CSR reporting index; n_j = number of items expected for j th company; $X_{ij} = 1$ if i th item disclosed; 0 if i th item not disclosed.

4.4.2 Independent variables – Corporate governance attributes

Neuman and Kreuger (2003, p. 149) defined independent variables as “the cause variable, or the one that identifies forces or conditions that act on something else” and the independent variable is independent of prior cause that act on it”.

4.4.2.1 Ownership structure

Ownership is defined as the legal right over the use of a company’s factors of production. The ownership structure of any company portrays the different owners and their percentage of voting rights in terms of the proportion of shares owned. In general, corporate ownership in Malaysia is highly concentrated (Mohd Ghazali 2007). This means that there are several large shareholders whose rights and control are significant. In Malaysia, company ownership is basically dominated by family and government. Prior studies show that degree of engagement in CSR will differ amongst companies with different ownership structure (e.g. Eng & Mak 2003; Liu & Anbumozhi 2009; Elsayed & Hoque 2010). Based on those findings, this study specifically looked at ownership by directors and institution.

4.4.2.1.1 Directors’ ownership

The primary objective of providing opportunity to directors to hold shares is premised on its ability to align the interests of the directors with those of the owners. By owning significant volume of shares, they are more likely to make decisions maximising shareholders’ value (Oh, Chang & Martynov 2011). Yet, the absence of institutional pressures on directors to make socially responsible decisions may lead to differing outcomes. In such cases, directors may be more likely to pursue short-term

strategies that boost the company's profits and positively affect their compensation (Oh et al. 2011). As a result, directors' ownership makes them less accountable to the public (Khan et al. 2013). Subsequently, they are more inclined to opt for lower CSR disclosure to avoid unnecessary costs that may affect the company's return. This study measures directors' ownership (DIROWN) by the percentage of directors' shareholding in a company. This is in line with Khan et al. (2013), Fauzi and Musallam (2015), Sartawi et al. (2014) and Chou, Chung and Yin (2013). Information on directors' ownership were extracted from annual reports under "Shareholdings by directors".

4.4.2.1.2 Institutional ownership

Institutional investors are more prone to taking long-term decisions. Hence, they are often associated with promotion of CSR activities in a company (Ullah & Jamali 2010). Consequently, these companies are expected to have better CSR reports. Malaysian corporations that are owned by institutional investors disclosed a high quality of CSR information (Mohamed Adnan 2012). Institutional ownership (INSTITUT) was measured by taking the percentage of institutional shareholdings in the annual report but that it is limited to only the top thirty shareholders. Accordingly, the data on institutional ownership was augmented by the Bursa Malaysia Historical Data Package.

4.4.2.2 Board of directors

This study looks at several board attributes that may influence company CSR reporting. They are explained below:

4.4.2.2.1 Board independence

Independent directors are commonly associated with better monitoring where board independence refers to independent directors who have no affiliation with the company except for their directorship. As such, they have important impact on monitoring activities (Fama & Jensen 1983a). Consequently, their presence will check the possibility of shareholders' wealth expropriation by management. Although independent directors have been criticized for having shallow information about the company that may compromise their ability to make good decisions (e.g. Markarian & Parbonetti 2007; Haniffa & Cooke 2005), the inadequacy is addressed

with their experience, knowledge as well as external connections. Board independence (BIND) was the number of independent directors on the board relative to the total number of directors. This is consistent with the work of Arora and Dharwadkar (2011), Harjoto and Jo (2011) and Das et al. (2015). Information pertaining to independent directors were found under various headings such as “Director’s profile”, “Profile of directors” or “Corporate information” in the annual report.

4.4.2.2.2 Board meetings

Board meetings are commonly held at definite intervals to consider policy issues and major problems. Laksmana (2008) claims that attendance at board meetings can be used as a proxy for board diligence. It is a decisive dimension to improve the effectiveness of a board and the level of monitoring activity (Laksmana 2008; Giannarakis 2014). Frequent board meetings are also associated with better CSR reporting. This study measured board meeting (BMEETING) by taking the number of board meetings held during the financial year which is consistent with Haji (2013) and Van Staden and Chen (2010). The information on board meetings could be found under “Statement of corporate governance” in the annual report.

4.4.2.2.3 Board diversity

4.4.2.2.3.1 Gender diversity

Diversity of board members is assumed to bring broad and heterogeneous perspectives to the decision making process. Diversity has an infinite number of dimensions ranging from age to nationality, from religious background to functional background, from task skills to relational skills and from political preference to sexual preference (Rao & Tilt 2015). It can be visible/ observable (race/ethnic background, nationality, gender, age, etc.) or less visible (educational, functional and occupational background, industry experience and organisational membership). A majority of studies indicate that diversity on boards has the potential to outperform homogeneity. Of many diversity aspects, gender diversity has raised most attention. There have been claims that the presence of female directors could enhance a company’s governance (Adams & Ferreira 2009; Abbott, Parker & Presley 2012). Further, womanly instincts can bring female directors closer to community activities compared to male directors (Betz, O’Connell & Shepard 2013). Studies have

exhibited that better CSR reporting outcomes result from the presence of woman (e.g. Liao, Luo & Tang 2015; Frias-Aceituno, Rodriguez-Ariza & Garcia-Sanchez 2013). Gender diversity (FEMALE) was measured by taking the percentage of female directors to the total number of directors. This is consistent with Adams and Ferreira (2009), Bear, Rahman and Post (2010), Post, Rahman and Rubow (2011), Said et al. (2013), Rao and Tilt (2015), Sundarasan, Je-Yen and Rajangam (2016), Ujunwa, Okoyeuzu and Nwakoby (2012) and Hafsi and Turgut (2013). Based on the list of directors shown under “Director’s profile”, “Profile of directors” or “Corporate information” in the annual report, the information on female directors were obtained by counting.

4.4.2.2.3.2 Board educational background

One of the ingredients to board effectiveness is having a good mixture of experiences and competencies (Roberts, McNulty & Stiles 2005). Bantel (1993) asserts that diverse educational background leads to better decision making. Similarly, Carter and Lorsch (2013) and Charan (1998) indicate the importance of directors possessing both the functional and firm-specific knowledge and skills. In line with the study by Said et al. (2013), the variables were measured as follows:

- i. Board with management background (BMGT) was measured by taking the percentage number of directors with a management background (such as finance, accounting and business administration) to the total number of directors.
- ii. Board with law background (BLAW) was measured by taking the percentage number of directors with a law background to the total number of directors.

Information on board educational background was obtained from the annual report under the heading “Director’s profile” or “Profile of directors”.

4.4.2.2.4 CEO duality

CEO duality occurs when the role of CEO and Chairperson is the same individual. Many believe that by having the same person occupying the operational and monitoring position jeopardises the independence of directors (Dalton & Dalton 2005; Krause, Semadeni & Cannella 2014). The practise of duality is likely to

hamper efficient monitoring by directors which eventually leads to lower transparency (Allegrini & Greco 2013). The presence of CEO duality (CEOD) is measured by a dummy variable coded “1” if the CEO is also the Chairperson of the board and “0” otherwise. This is consistent with Allegrini and Greco (2013), Rashid (2013) and Haniffa and Hudaib (2006). The information on CEO duality was sourced from “Director Profile” or “Profile of Directors” in the annual report.

4.4.3 Control variables

Control variables are not linked to the hypotheses and theories being tested. They can either contaminate the measurement of the variables of interest or affect the underlying constructs. As such, inclusion of control variables is hoped to refine the relationships among the variables of interest.

Numerous studies have shown support that CSR reporting is significantly influenced by various companies’ characteristics (e.g. Michelon & Parbonetti 2012; Lu & Abeysekera 2014; Khan 2010; Naser, Al-Hussaini, Al-Kwari & Nuseibeh 2006; Ho & Taylor 2007; Al-Shubiri, Al-Abedallat & Orabi 2012). Hence, to eliminate their impact on the level of reporting, this study considered board size, CEO founder and CEO tenure, company size, profitability, leverage, company growth, market capitalisation, liquidity and company age as control variables. These variables are discussed next.

4.4.3.1 Board size

Board size refers to the number of directors that make up the board (Said, Zainuddin & Haron 2009; Siregar & Bachtiar 2010; Ntim & Soobaroyen 2013; Jizi, Salama, Dixon & Stratling 2014; Amran, Zain, Sulaiman, Sarker & Ooi 2013). Although there is no universal “best” size, García Sánchez, Rodríguez Domínguez and Gallego Álvarez (2011) claimed that an ideal board should compose of a considerable number of experienced and knowledgeable directors. They should be adequate enough to allow for full deliberation and diversity of thinking on governance and other organisational matters. Smaller boards are expected to benefit from more efficient communication, coordination and accountability of individual board members (Jizi et al. 2014). However, they suffer from a limited monitoring ability due to high workloads and a less diversified range of expertise. Similarly, larger boards are inefficient because they result in weaker control of management

and increases agency costs but can offer more knowledge and expertise, as well as more capacity for monitoring and sharing of workloads (Larmou & Vafeas 2010). Other studies that reported positive associations between board size and CSR reporting are Ntim and Soobaroyen (2013), Shamil et al. (2014) and Akhtaruddin, Hossain, Hossain & Yao (2009). Board size (BSIZE) is defined as the natural logarithm of total number of directors as used by Rashid (2013), Reddy and Bather (2013) and Chou et al. (2013). The information on board size were found under “Statement of corporate governance” in annual reports.

4.4.3.2 CEO Founder

CEO founder is associated with greater power by virtue of his role in the company’s history and his influence on the board. Following Daily and Dalton (1993), CEOFOUNDER takes the binary code of 1 if CEO is also the founder and 0 if otherwise. The information on CEO founder were extracted from “Directors Profile” or “Profile of directors” in annual reports.

4.4.3.3 CEO Tenure

CEO tenure refers to the length of time a CEO has held that position (Bathala & Rao 1995). Mohd–Saleh, Mohd–Sanusi, Abd–Rahman and Bukit (2012) revealed that long-tenured CEOs are associated with low levels of reporting. CEO TENURE is represented by the natural logarithm of the number of years the CEO held the post. CEO tenure information were extracted from annual reports through “Directors Profile” or “Profile of directors” section.

4.4.3.4 Firm size

It has been persistently argued that large companies are more motivated to provide higher financial and non-financial disclosures due to several reasons (Michelon & Parbonetti 2012). Large companies are likely to have a broad-based ownership, which would require more comprehensive and detailed disclosure to meet the information needs of diverse groups of investors (Boesso & Kumar 2007). Large companies are more likely to disclose information to enhance their corporate reputation as visibility to the public increases (Branco & Rodrigues 2008).

Perrini, Russo and Tencati (2007) found that size explains the differences in company willingness to engage in specific CSR strategies. A positive social image is

normally a major concern of large companies (Korathotage 2012). There is a consensus on the existence of a relationship between company size and the extent of CSR disclosures (Cormier, Ledoux & Magnan 2011; Lu & Abeysekera 2014). Availability of funds, power and expertise in large companies enable them to engage in more activities (including CSR activities), produce more information on these activities and their implications, and bear the cost of such processes (Andrew, Gul, Guthrie & Teoh 1989; Nelling & Webb 2009).

Company size has been measured with different bases such as the number of employees, total revenues, sales volumes, total assets, number of shareholders and also market capitalisation. This study employed the natural logarithm of total assets as the proxy for company size (SIZE). This is consistent with Das et al. (2015), Sartawi et al. (2014), Rashid (2014), Jitaree (2015), Reddy and Bather (2013) and Fauzi and Musallam (2015). Information on total assets of the company was extracted from annual reports, under the heading “Financial Statements”.

4.4.3.5 Profitability

Profitability has been proven to have effect on sustainability activities and reporting levels. Since CSR activities are not cost-free, profitability allows management the freedom and flexibility to undertake more extensive responsibility programs (Yaftian 2011). Studies by Haniffa and Cooke (2005), Said et al. (2009) and Khan (2010) confirm the importance of profitability when reporting levels of CSR reporting.

Earlier studies measured company profitability using various bases such as return on assets, return on equity, return on sales and stock price. Aupperle, Carroll and Hatfield (1985) argue that Return on Assets (ROA) is the most reliable profitability measurement. It has been widely used by other researchers (e.g. Bliss & Balachandran 2003; Nasir & Abdullah 2004; Rashid 2014; Sartawi et al. 2014; Barako, Hancock & Izan 2006; Haniffa & Cooke 2005). This study employed Return on Assets (ROA) to measure profitability. Return on assets (ROA) was obtained by dividing Profit/ Earnings Before Interest and Tax (EBIT) with Total Assets.

$$\text{Return on assets (ROA)} = \frac{EBIT}{\sum \text{Assets}}$$

The information for both EBIT and Total Assets were taken from “Financial Statements” in annual reports.

4.4.3.6 Leverage

Companies require financial resources for their continuing operations and creditors are an important source of such resources (Pfeffer & Salancik 1978). Important stakeholders like significant creditors are likely to be interested in a company’s social responsibility activities (Abdullah et al. 2011). Therefore, the more a company relies on external funding the more its management would be expected to respond to creditor expectations concerning the company’s CSR activities (Chan et al. 2014). This would mean higher CSR disclosure as financial leverage increases. At the same time, further debt level would cause a company to have unstable incomes due to extra interest expense.

Naser et al. (2006) and Chan et al. (2014) found that leverage is positively related to CSR reporting although companies tend to report less especially if they have closer relationships with their creditors. These companies may use other means to communicate their social responsibility activities (Purushothaman, Tower, Hancock & Taplin 2000; Yaftian 2011). A study by Barnea and Rubin (2010) suggests a negative relationship between leverage and CSR disclosure. Nevertheless, Reverte (2009), Elijido-Ten (2004) and Rahman et al. (2011) found a neutral association between debt ratio and CSR reporting. Several researchers measure financial leverage based on the gearing ratio which is calculated as the ratio of long term debt to equity (Haniffa & Cooke 2005; Purushothaman et al. 2000; Yaftian 2011). Alternatively, this study measured leverage using total liabilities over total assets; as used by Akhtaruddin and Haron (2010), Reddy and Bather (2013) and Chou et al. (2013).

$$\text{Leverage} = \frac{\sum \text{Liabilities}}{\sum \text{Assets}}$$

To obtain both total liabilities and total assets information, annual reports were referenced under “Financial Statements”.

4.4.3.7 Growth

Growth is a result of an interaction between a company's productive resources and its market opportunities. When a company is growing rapidly, it tends to pay less dividends and seek financing from outside, thus forcing more disclosure (Naser et al. 2006). Rapid growth companies are also believed to have greater information asymmetry and agency costs (Eng & Mak 2003). To reduce those problems, companies are expected to disclose more information. Following Rashid (2013), Braun and Sharma (2007), Bathala and Rao (1995) and Chou et al. (2013), company growth (GROWTH) is expressed as percentage of annual change in sales. Information on annual sales was obtained from "Financial Statements" section in annual reports.

4.4.3.8 Market capitalisation

While some view market capitalisation as representing company size, the investing public considers it as an external measure of a company's importance (Wallace & Naser 1996). Watts and Zimmerman (1990) argue that highly capitalised companies have greater exposure to various political attacks. Society may demand more exercise of social responsibility or for greater regulation such as price controls and higher rate of tax. Such potential action can be minimised by disclosing more comprehensively. Conversely, companies with low market capitalisation are more likely to feel that greater disclosure would be detrimental to its competitiveness. Market capitalisation (CAP) is expressed in its natural logarithm. Information on market capitalisation were extracted from "Financial summary" section in annual reports. Nevertheless, if the information was not directly available from the specified section, market capitalisation was derived by multiplying the current year's closing share price by the number of shares. Alternatively, market capitalisation data were also extracted from DataStream database.

4.4.3.9 Liquidity

Liquidity is an important company characteristic that can potentially affect a company's reporting behaviour. When companies have high degrees of liquidity, this means that the company is missing the potential investment opportunities by retaining cash and not investing. Subsequently, financial providers may envisage that this company is lacking financial management efficiency. In an effort to allay the

apprehension of future investors, companies may feel extra motivated to provide sufficient information pertaining to their operational efficiency. Following this, there is an expectation that companies with high liquidity will disclose more information on their CSR activities. Ho and Taylor (2007) confirmed a positive relationship between liquidity and company reporting. There are a number of financial ratios that can be used to evaluate companies' liquidity position. Among others are the current ratio, the quick ratio or acid test ratio and net working capital. This study followed Rashid (2013, 2014) and Ho and Taylor (2007) by measuring liquidity as the current ratio. The information for current assets and current liabilities were obtained from annual reports under "Financial Statements".

4.4.3.10 Firm age

The level of CSR reporting is said to differ with company age. As suggested by Peloza (2006), younger companies are not as inclined to carry out CSR activities as well as report them. This phenomena is driven by several factors (Owusu-Ansah 1998). Since young companies are basically in the process of strengthening their business positions, it is feared that disclosing too much information will expose them to competition which may undermine their survival. Hence, their main focus is to maintain financial performance (Peloza 2006). Furthermore, lacking an attractive track record may demotivate young companies from producing comprehensive CSR reports. Conversely, mature companies have sufficient capital and well-known brand names to ensure that disclosing more information is essential in protecting their reputation (Khan et al. 2013). Owusu-Ansah (1998) and Al-Shubiri, Al-abadallat and Orabi (2012) confirm a positive relationship between company age and level of disclosure. However, several studies revealed insignificant results (Hossain & Reaz 2007; Menassa 2010). This study determined company age (AGE) by the number of years it has been listed on Bursa Malaysia, expressed in natural logarithm as employed by Rashid (2009), Fauzi and Musallam (2015) and Das et al. (2015). The company's initial listed date on Bursa Malaysia was extracted from DataStream database.

4.4.4 Dummy variables

4.4.4.1 Type of industry

Many researchers have asserted that industry affiliation affects CSR reporting because of the unique characteristics of each industry (Wallace, Naser & Mora 1994; Haniffa & Cooke 2005). Reverte (2009) noted that industries with a negative impact on environment such as the oil, chemical and mining industries provide more disclosures than other industries. Companies in industries that are more politically vulnerable tend to use voluntary disclosure to minimise political costs such as increased regulation (Bowrin 2013). Clarke and Gibson-Sweet (1999) stated that industries with high visibility to consumers are more likely to engage in their disclosures related to community involvement. However, some researchers have found that industry type is insignificant for CSR reporting (e.g. Eng & Mak 2003; Arcay & Vazquez 2005).

Hafsi and Turgut (2013) state the rationale for different company behaviour towards reporting is the result of different industries facing different stakeholders. Logically, these stakeholders have diverse agendas and interests. Thus, the needs of different stakeholders' interest results in CSR reporting varying in terms of depth and issues. In order to control for the effects of 43 industries, type of industry was represented by INDUSTRY; following Rashid (2014) and Anas et al. (2015). These industries were classified based on SIC code as presented in Table 4.3. Table 4.5 provides the summary of all the variables used in this study.

Table 4.5: Summary of variables

Variable name	Variable acronym	Variable type	Measurement
The extent of sustainability reporting	CSRI	Dependent	A binary coding of the extent of sustainability reporting with score of "0" if item is not disclosed and "1" if item is disclosed
Directors' ownership	DIROWN	Independent	Percentage of shares owned by directors to total number of shares issued
Institutional ownership	INSTITUT	Independent	Percentage of shares owned by institutional owners to total number of shares issued
Board composition	BIND	Independent	Percentage of independent directors to total directors
Board education background	BMGT	Independent	Percentage of directors with management background to total directors

$$\beta_6\text{AGE}_{i,t} + \beta_7\text{SIZE}_{i,t} + \beta_8\text{ROA}_{i,t} + \beta_9\text{GROWTH}_{i,t} + \beta_{10}\text{CAP}_{i,t} + y\text{INDUSTRY} + \varepsilon_{i,t} \dots \text{Equation 1b}$$

4.5.2 Board independence and CSR reporting

Equation 2 examined the relationship between board independence and CSR reporting. Equation 2a is with industry effect:

$$\text{CSRI}_{i,t} = \alpha + \beta_1\text{BIND}_{i,t} + \beta_2\text{BSIZE}_{i,t} + \beta_3\text{DIROWN}_{i,t} + \beta_4\text{INSTITUT}_{i,t} + \beta_5\text{DR}_{i,t} + \beta_6\text{LIQ}_{i,t} + \beta_7\text{AGE}_{i,t} + \beta_8\text{SIZE}_{i,t} + \beta_9\text{ROA}_{i,t} + \beta_{10}\text{GROWTH}_{i,t} + \beta_{11}\text{CAP}_{i,t} + \varepsilon_{i,t} \dots \text{Equation 2a}$$

Equation 2b is without industry effect:

$$\text{CSRI}_{i,t} = \alpha + \beta_1\text{BIND}_{i,t} + \beta_2\text{BSIZE}_{i,t} + \beta_3\text{DIROWN}_{i,t} + \beta_4\text{INSTITUT}_{i,t} + \beta_5\text{DR}_{i,t} + \beta_6\text{LIQ}_{i,t} + \beta_7\text{AGE}_{i,t} + \beta_8\text{SIZE}_{i,t} + \beta_9\text{ROA}_{i,t} + \beta_{10}\text{GROWTH}_{i,t} + \beta_{11}\text{CAP}_{i,t} + y\text{INDUSTRY} + \varepsilon_{i,t} \dots \text{Equation 2b}$$

4.5.3 Board meeting frequency and CSR reporting

Equation 3 examined the relationship between board meeting and CSR reporting. Equation 3a is with industry effect:

$$\text{CSRI}_{i,t} = \alpha + \beta_1\text{BFREQUENCY}_{i,t} + \beta_2\text{BIND}_{i,t} + \beta_3\text{BSIZE}_{i,t} + \beta_4\text{DIROWN}_{i,t} + \beta_5\text{DR}_{i,t} + \beta_6\text{LIQ}_{i,t} + \beta_7\text{AGE}_{i,t} + \beta_8\text{SIZE}_{i,t} + \beta_9\text{ROA}_{i,t} + \beta_{10}\text{GROWTH}_{i,t} + \beta_{11}\text{CAP}_{i,t} + \varepsilon_{i,t} \dots \text{Equation 3a}$$

Equation 3b is without industry and year effect:

$$\text{CSRI}_{i,t} = \alpha + \beta_1\text{BFREQUENCY}_{i,t} + \beta_2\text{BIND}_{i,t} + \beta_3\text{BSIZE}_{i,t} + \beta_4\text{DIROWN}_{i,t} + \beta_5\text{DR}_{i,t} + \beta_6\text{LIQ}_{i,t} + \beta_7\text{AGE}_{i,t} + \beta_8\text{SIZE}_{i,t} + \beta_9\text{ROA}_{i,t} + \beta_{10}\text{GROWTH}_{i,t} + \beta_{11}\text{CAP}_{i,t} + \Omega\text{YEAR} + y\text{INDUSTRY} + \varepsilon_{i,t} \dots \text{Equation 3b}$$

4.5.4 Board diversity and CSR reporting

Equation 4 examined the relationship between board diversity and CSR reporting. Equation 4a is with industry effect:

$$\text{CSRI}_{i,t} = \alpha + \beta_1\text{BFEMALE}_{i,t} + \beta_2\text{BMGT}_{i,t} + \beta_3\text{BLAW}_{i,t} + \beta_4\text{BSIZE}_{i,t} + \beta_5\text{DIROWN}_{i,t} + \beta_6\text{DR}_{i,t} + \beta_7\text{LIQ}_{i,t} + \beta_8\text{AGE}_{i,t} + \beta_9\text{SIZE}_{i,t} +$$

$$\beta_{10}ROA_{i,t} + \beta_{11}GROWTH_{i,t} + \beta_{12}CAP_{i,t} + \epsilon_{i,t} \dots \dots \dots \text{Equation 4a}$$

Equation 4b is without industry effect:

$$CSRI_{i,t} = \alpha + \beta_1BFEMALE_{i,t} + \beta_2BMGT_{i,t} + \beta_3BLAW_{i,t} + \beta_4BSIZE_{i,t} + \beta_5DIROWN_{i,t} + \beta_6DR_{i,t} + \beta_7LIQ_{i,t} + \beta_8AGE_{i,t} + \beta_9SIZE_{i,t} + \beta_{10}ROA_{i,t} + \beta_{11}GROWTH_{i,t} + \beta_{12}CAP_{i,t} + yINDUSTR + \epsilon_{i,t} \dots \dots \dots \text{Equation 4b}$$

4.5.5 CEO duality and CSR reporting

Equation 5 examined the relationship between CEO duality and CSR reporting. Equation 5a is with industry effect:

$$CSRI_{i,t} = \alpha + \beta_1CEOD_{i,t} + \beta_2BIND_{i,t} + \beta_3BSIZE_{i,t} + \beta_4DIROWN_{i,t} + \beta_5CEOFOUNDER_{i,t} + \beta_6CEOTENURE_{i,t} + \beta_7DR_{i,t} + \beta_8LIQ_{i,t} + \beta_9AGE_{i,t} + \beta_{10}SIZE_{i,t} + \beta_{11}ROA_{i,t} + \beta_{12}GROWTH_{i,t} + \beta_{13}CAP_{i,t} + \epsilon_{i,t} \dots \dots \dots \text{Equation 5a}$$

Equation 5b is without industry effect:

$$CSRI_{i,t} = \alpha + \beta_1CEOD_{i,t} + \beta_2BIND_{i,t} + \beta_3BSIZE_{i,t} + \beta_4DIROWN_{i,t} + \beta_5CEOFOUNDER_{i,t} + \beta_6CEOTENURE_{i,t} + \beta_7DR_{i,t} + \beta_8LIQ_{i,t} + \beta_9AGE_{i,t} + \beta_{10}SIZE_{i,t} + \beta_{11}ROA_{i,t} + \beta_{12}GROWTH_{i,t} + \beta_{13}CAP_{i,t} + yINDUSTRY + \epsilon_{i,t} \dots \dots \dots \text{Equation 5b}$$

Where $CSRI_{i,t}$ is CSR index for i th company at time t . $DIROWN_{i,t}$ is percentage of director ownership for i th company at time t . $INSTITUT_{i,t}$ is percentage of institutional ownership for i th company at time t . $BIND_{i,t}$ is number of independence director to total number of directors for i th company at time t . $BFREQUENCY_{i,t}$ is the natural logarithm of number of board meetings throughout the financial year for i th company at time t . $CEOD_{i,t}$ takes the value of 1 if the role of CEO and Chairperson is combined; otherwise it takes 0 for i th company at time t . $BFEMALE_{i,t}$ is the proportion of female directors to total number of directors for i th company at time t . $BMGT_{i,t}$ is the proportion of directors with financial background to total number of directors for i th company at time t . $BLAW_{i,t}$ is the proportion of directors with law background to total number of directors for i th company at time t . $BSIZE_{i,t}$ is the total number of directors for i th company at time t .

CEOFOUNDER_{i,t} is coded as 1 if CEO is also the founder of the company; 0 if otherwise for *i*th company at time *t*. **CEO TENURE_{i,t}** is natural logarithm of CEO service length for *i*th company at time *t*. **DR_{i,t}** is debt ratio for *i*th company at time *t*. **LIQ_{i,t}** is liquidity ratio for *i*th company at time *t*. **AGE_{i,t}** is number of listed years on Bursa Malaysia for *i*th company at time *t*. **SIZE_{i,t}** is natural logarithm of total assets for *i*th company at time *t*. **ROA_{i,t}** is profitability for *i*th company at time *t*. **GROWTH_{i,t}** is the company growth in sales for *i*th company at time *t*. **CAP_{i,t}** is the market capitalisation for *i*th company at time *t*. **INDUSTRY** is the type of industry. α is the intercept, β is the regression coefficient and ϵ is the error term.

4.6 Data analysis

Answering research questions requires testing the relationship between a number of predictors that are expected to affect the outcome (in this case the identified corporate governance characteristics and the control variables) and CSR reporting (the dependent variable). Subsequently, this study performed statistical analyses using various programs such as SPSS, EViews and also Stata. In general, analyses comprise descriptive statistics, correlation analysis and also regression analysis which are discussed below.

4.6.1 Descriptive statistics

Descriptive statistics are a set of brief descriptive coefficients that summarises a given data set, which can either be a representation of the entire population or a sample. The measures used to describe the data set are measures of central tendency (mean, median and mode) and measures of variability or dispersion (standard deviation (or variance) and also the minimum and maximum values). Table 4.6 presents the descriptive statistics of the sample.

Table 4.6: Descriptive statistics

Panel A: Independent Variables					
	Mean	Median	Minimum	Maximum	Std. Deviation
DIROWN	0.0438	0.0030	0.0000	0.5680	0.0879
INSTITUT	0.2627	0.2040	0.0000	0.9590	0.2208
BIND	0.4519	0.4300	0.1700	1.0000	0.1281

CEOD	0.1400	0.0000	0.0000	1.0000	0.3500
BFEMALE	0.0820	0.0000	0.0000	0.5000	0.1069
BMGT	0.5200	0.5000	0.0000	1.0000	0.2061
BLAW	0.0743	0.0000	0.0000	0.6700	0.0970
BFREQUENCY	5.1018	4.9530	2.0138	27.1126	1.3442
Panel B: Control Variables					
	Mean	Median	Minimum	Maximum	Std. Deviation
BFSIZE	7.2362	6.6859	3.0042	18.1741	1.2960
CEO TENURE	6.7255	8.0045	1.0000	46.0625	2.5659
CEOFOUNDER	0.1400	0.0000	0.0000	1.0000	0.3450
DR	0.4024	0.3775	0.0030	10.3190	0.3623
LIQ	3.0531	0.1785	0.0070	96.1110	5.1989
AGE	13.9782	15.0293	6.0000	52.9845	1.6403
SIZE (LogTA)	12.8784	12.6500	9.3690	18.4110	1.4467
ROA	0.0619	0.0580	-2.8980	5.5470	0.1782
GROWTH	0.0533	0.0265	-4.9410	8.5780	0.4777
CAP (LogCAP)	18.7976	18.5030	12.3710	24.8100	1.8112
Panel C: Dependent Variable					
	Mean	Median	Minimum	Maximum	Std. Deviation
CSRI	0.2167	0.1961	0.0392	0.7255	0.1198

Panel A of Table 4.6 illustrates that on average directors only own 4.4% of company shares; with the highest ownership of 56.8%. This result is lower than that reported in Jordan (53%) (Sartawi et al. 2014). In the same way, large ownership by directors is evident only in certain companies. This result implies that companies prefer to keep directors ownership low on the grounds that it may encourage misappropriation of shareholders' wealth. While this result reflects the practice of more independent boards, it was rather surprising as CEO duality is commonly practised in owner managed companies (Mohd Ghazali 2007). On the contrary, there is an extreme difference between the minimum (0%) and maximum (95.9%) shareholdings by institutions. Institutional investor ownership accounts for 26.3% of the total company shareholding. This is considerably lower than the rate reported in

Pakistan (70.52%) (Majeed, Aziz & Saleem 2015) and also Jordan (45%) (Sartawi et al. 2014).

In board independence, on average the board comprises 45.2% independent directors. With average independent directors ranging from 17% to 100%, it generally implies that most PLCs responded well to the regulators' call to include independent directors as a way of enhancing board monitoring effectiveness.

CEO duality shows a slightly different scenario. The result portrays that on average there are only 14% of companies that have the same individual acting as CEO and Chairperson. Comparing the result with several local studies, the rate seems slightly higher than Sundarasan et al. (2016) (12.44%) and Yusoff (2010) (10%) but relatively lower than Abdullah (2001) (21.4%). However, studies in other countries have revealed a much higher rate of CEO duality such as Egypt (61%) (Samaha et al. 2012a), Italy (41.24%) (Allegrini & Greco 2013) and Bangladesh (46.7%) (Rashid 2013). Nevertheless, this result matches Lu et al. (2015) in China and also Sartawi et al. (2014) in Jordan. Although there seems to be variations in the percentage of Malaysian companies with duality roles, there appears to be a marked fall as compared to the start of the millennium. Apparently, CEO duality in Malaysia is now not a common practise.

Board of directors reflects a male-dominated culture where only 8.2% were female but an increase from 6.3% as reported by Abdullah (2014). In comparison the result is higher than in Nigeria (4.6%) (Ujunwa et al. 2012) and Jordan (5%) (Sartawi et al. 2014) but is lower than in Germany (13.52%) (Dienes & Velte 2016), New Zealand (17%) (Fauzi & Locke 2012), South Africa (10%) (Ntim & Soobaroyen 2013) and the USA (10.4%) (Gupta, Lam, Sami & Zhou 2014). Abdullah (2014) believes that religion contributes to the formation of Malaysian perceptions of gender issues. The Malays and Chinese, who follow Islam and Confucianism respectively, generally discourage women from being leaders. While directors with financial background make up 52% of the total directors, there are only 7.43% directors who had a law background. This result is anticipated since accountancy has the highest enrolment rate in both public and private universities in Malaysia (MWFC, 2014).

The mean of board meeting frequency reveals that companies conduct approximately five meetings per year up to a maximum of 27 meetings. The result is much lower compared to studies by Jallow and Al-Najjar (2012) (7 meetings), Brick and Chidambaran (2010) and Saiful et al. (2007) (8 meetings) and Boyle and Ji

(2013) (11 times). Nevertheless, this finding is in line with proponents of board meeting who suggested meetings should occur frequently. More board meetings usually reflect better monitoring by directors.

Control variables were listed under Panel B. On average, Malaysian PLCs have seven directors on the board. This result is confirmed elsewhere (MCG Index, 2011) and comparable to the study of Amran et al. (2010). This demonstrate that most companies opt for a more moderate board size despite companies listed on the Main Board being among the largest companies in Malaysia. Overall, companies in this study have been listed, on average for 14 years and a maximum of 53 years. As for CEO tenure, on average a CEO holds the post for six years. However, since Malaysian companies are mostly family-run businesses, it is not odd to find CEOs managing companies for an extended period of up to 46 years in this study.

Panel C shows that on average the level of CSR reporting of PLCs is 21.67%. This result is lower than in Bangladesh (22.23%) (Khan et al. 2013) and also in the US and Europe (49.18%) (Michelon & Parbonetti 2012). A huge variation between the highest and the lowest level of reporting is observed. Gray (1988) suggests that managers in Asia are more inclined to be secretive. As a result, they are not motivated to disclose more information (Aaijaz & Ibrahim 2012).

In short, descriptive statistics of the variables in this study exhibit diverse results of which some were anticipated while others seemed to be rather surprising.

4.6.2 Correlation analysis

Correlation analysis quantifies the direction and strength of the linear association between two variables in a sample (Coakes 2010). Normally, the correlation coefficient ranges from -1 to +1. The sign indicates the direction of the association which can either be positive or negative. Positive association generally means, higher scores on one variable tend to be paired with higher scores on the other and that lower scores on one variable tend to be paired with lower scores on the other. Alternatively, negative association indicates higher levels of one variable are associated with lower levels of the other. There is also a possibility of getting zero coefficient that denotes no correlation between variables. The correlation analysis was performed using SPSS and EViews. The results of the analysis are presented in Table 4.7.

4.6.2.1 Correlation matrix

To analyse the association between two variables, Pearson two tailed correlations were run for all variables in the regression model and the results are displayed in Table 4.7. The Pearson correlations between each pair of variables varied from -0.009 to 0.839; indicating a combination of strong and weak associations. The highest correlation was detected between market capitalisation (CAP) and company size (SIZE). Meanwhile, the correlation coefficient between board independence (BIND) and profitability (ROA) was lowest at -0.009. Although the correlation coefficients of most variables were relatively low, the coefficient between CAP and SIZE raises some concerns. The presence of a high correlation between variables can result to multicollinearity. This problem can, in turn, threaten the reliability of results (Smith 2009). As such, it is important to identify its presence and rectify the problem prior to the regression.

4.6.3 Multiple regression analysis

In order to test the relationships between corporate governance attributes and CSR reporting, regression analysis was utilised. This technique allows predictions to be made of the dependent variable (i.e. CSR reporting) based on several predictor variables (independent variables and control variables) (Field 2009).

A regression model is considered to provide better robust results because it examines the combined influence of all variables to explain their relations to CSR reporting, and how each variable influences reporting (Coakes 2010). Besides objectively assessing the predictive power of explanatory variable, multi-regression models also improves the prediction of the dependent variable (Hair, Black, Babin & Anderson 2010). Based on its capabilities, this study employed the ordinary least square (OLS) regression model. While multiple regression has various uses, its reliability is premised on a number of assumptions that must be met and are now briefly discussed.

Table 4.7 Pearson Product Moment Correlation Coefficient Matrix

	BIND	BFREQUENCY	BFEMALE	BMGT	BLAW	CEOD	INSTITUT	DIROWN	BSIZE	DR	LIQ	AGE	SIZE	ROA	GROWTH	CAP	CEO TENURE	CEO FOUNDER	VIF
BIND	1.000																		1.335
BFREQUENCY	0.098**	1.000																	1.163
BFEMALE	-0.074**	0.022	1.000																1.040
BMGT	0.106**	0.052**	0.028	1.000															1.171
BLAW	0.156**	0.103**	-0.031	-0.132**	1.000														1.121
CEOD	-0.010	-0.062**	0.076**	-0.030	-0.012	1.000													1.046
INSTITUT	-0.077**	0.084**	0.030	-0.031	-0.042*	0.061**	1.000												1.1111
DIROWN	0.057**	-0.018	-0.061**	-0.018	-0.069**	-0.041*	-0.256**	1.000											1.146
BSIZE	-0.414**	0.098**	0.046*	-0.176**	-0.079**	-0.084**	0.071**	-0.089**	1.000										1.485
DR	0.085**	0.120**	-0.072**	-0.038*	-0.013	-0.037	-0.013	-0.035	0.007	1.000									1.149
LIQ	0.094**	-0.041*	-0.041*	0.090**	0.067**	0.037	0.002	-0.008	-0.045*	-0.274**	1.000								1.149
AGE	0.151**	0.047*	-0.048*	0.123**	0.108**	-0.062**	0.017	-0.177**	-0.011	0.005	0.063**	1.000							1.258
SIZE	-0.053**	0.236**	0.022	0.031	0.068**	-0.016	0.061**	-0.181**	0.339**	0.055**	-0.067**	0.337**	1.000						4.017
ROA	-0.009	-0.047*	0.032	-0.021	0.018	-0.008	0.062**	-0.073**	0.084**	-0.129**	0.049*	0.051**	0.111**	1.000					1.062
GROWTH	-0.029	-0.037	0.031	-0.030	0.042*	0.005	0.049*	-0.009	0.025	0.018	-0.059**	0.000	0.073**	0.039	1.000				1.021
CAP	-0.063**	0.174**	0.024	0.062**	0.101**	-0.010	0.071**	-0.156**	0.321**	-0.069**	0.035	0.268**	0.839**	0.174**	0.071**	1.000			3.764
CEO TENURE	-0.090**	-0.167**	0.057**	-0.172**	-0.062**	0.081**	0.052**	0.016	0.027	-0.046*	0.083**	0.024	-0.024	0.042*	-0.006	-0.047*	1.000		1.153
CEOFOUNDER	-0.076**	-0.087**	0.096**	-0.183**	-0.078**	0.125**	-0.013	0.053**	0.034	0.009	-0.055**	-0.162**	-0.032	0.043*	-0.009	-0.055**	0.236**	1.000	1.145

** . Correlation is significant at the 0.01 level (2-tailed). * . Correlation is significant at the 0.05 level (2-tailed)

4.6.4 Assumptions of multiple regression analysis

Prior running the regression, it is important to ascertain that the data satisfy several assumptions such as normality, multicollinearity, linearity, independence, homoscedasticity and endogeneity (Tabachnick, Fidell & Osterlind 1985). Failure to fulfil these statistical assumptions may generate invalid statistical results. Conversely, when the appropriate assumptions are satisfied, OLS regression is considered the best unbiased estimator. The assumptions to be satisfied are briefly explained below.

4.6.4.1 Normality assumption

Assumption of normality asserts that the distribution of the means across samples is normal. Normality can be measured in a number of ways both graphically and non-graphically (Stevens 1992). In terms of graphic, this can best be checked with a histogram and a fitted normal curve or a Q-Q-Plot. A plotted normally distributed data will exhibit a bell-curve shape. Alternatively, normality can be checked with a goodness of fit test, for instance the Kolmogorov-Smirnoff test. Stevens (1992) states that non-graphical measures are more convincing in terms of interpreting data normality. Data normality can also be tested by observing the skewness or by conducting a kurtosis test. Whenever the data is found to be not normally distributed, a non-linear transformation, for instance, log-transformation might fix this issue. While normality is essential in ensuring the validity of statistical results, Berry and Feldman (1985) claims that this assumption is critical only with small samples. The normality assumption is relatively insignificant when more than 30 data points are used (Pallant 2007). The normality assumption for this study was not an issue as there are 450 data points involved. However, despite this anomaly, the data was nevertheless tested using a Residual Test/Histogram-Normality Test and the result confirmed normality of the data.

4.6.4.2 Multicollinearity assumption

When multiple regression is used to test hypotheses, meeting the multicollinearity assumption is imperative. Multicollinearity is a phenomenon where the independent variables are not independent from each other (Osborne & Waters 2002). In its simplest form, there exists two or more variables that are highly correlated. Thus it makes it difficult to establish how much of the effect on the

dependent variable should be attributed to each of the independent variables. As a result, it may affect the accuracy of the regression test result. Conversely, when multicollinearity is absent, results of the regression analysis can be interpreted with a greater degree of confidence. In this study, multicollinearity is checked against two criteria: the Pearson Product Moment Correlation Coefficient matrix and the Variance Inflation Factor (VIF). Table 4.7 shows the correlation coefficients between independent variables vary from -0.009 to 0.839. Gujarati (2003) recommends that multicollinearity is a problem when the correlation value exceeds 0.80. Company size and market capitalisation at 0.839 suggests the possibility of multicollinearity. However, Hair et al. (2010) advocate a higher cut off point where a value not exceeding 0.90 between the independent variables should not be considered harmful. Further, the Variance Inflation Factor (VIF) for each independent variable was measured to reconfirm whether the assumption is violated or not. A VIF value exceeding 10 shows multicollinearity is present (Gujarati 2003; Osborne & Waters 2002). Nevertheless, VIF values fall within acceptable levels ranging from 1.040 to 4.017. Accordingly, the results indicate that multicollinearity was not a cause for concern in this study.

4.6.4.3 Linearity assumption

Multiple linear regression requires the relationship between the independent and dependent variables to be linear. This assumption can be tested by observing the scatter plot of residuals versus predicted values (Hair et al. 2010). Preferably, the points should be symmetrically distributed along the horizontal line. The linearity test of this study showed a relationship between dependent and independent variables; hence meeting the assumption.

4.6.4.4 Independence assumption/Auto-correlation assumption

The independence assumption is when there is no correlation between two error terms (Gujarati 2014). In other words, the standard mean error of the dependent variable is independent from the independent variables. Alternatively, when the error terms are dependent with each other, autocorrelation occurs. Detection of autocorrelation can be made using the Durbin-Watson test. The test statistic assumes values between 0 and 4; with 2 indicating no autocorrelation. Meanwhile, if the statistic is substantially less than 2, there is evidence of positive serial correlation and

a statistic of more than 2 indicates negative correlation (Osborne & Waters 2002). While serial correlation does not affect the consistency of the estimated regression coefficient, it might affect the ability to conduct valid statistical tests. Nevertheless, the study sample showed that companies are not related in any way. Therefore this assumption is not violated.

4.6.4.5 Homoscedasticity assumption

Homoscedasticity is where the variance of errors is the same across all levels of the independent variables (Osborne & Waters 2002). If otherwise, the traditional formula used to calculate the standard error of coefficient estimates produces a biased value of the true standard deviation of the OLS estimates. Berry and Feldman (1985) and Tabachnick et al. (2001) comment that heteroscedasticity has little effect on significance tests. However, when heteroscedasticity is marked it can lead to serious distortion of results obtained. A scatter plot is a good way to check for homoscedasticity. Ideally, the error terms along the regression line should be equal. However, when the residuals are not evenly scattered around the line, heteroscedasticity is present. Testing of the homoscedasticity assumption in this study was made by examining the scatter plot of the residuals (ZRESID) against the predicted value (ZPRED) of the model. It turned out to be the classic cone-shape pattern of heteroscedasticity. As this warranted concern, the Breush-Pagan test was then conducted. Likewise, the chi-square and p value of that test proved that there is a difference between the variances in the sample; indicating that heteroscedasticity is a problem. To correct it, heteroscedasticity-consistent standard errors using White's (1980) method was applied.

4.6.4.6 Endogeneity test

A potential problem that may occur in any economic model is endogeneity. A variable is said to be endogenous if it is correlated with some error term (Kaur & Arora 2015). In this case, the Ordinary Least Square (OLS) is not capable of delivering consistent parameter estimates. This causes the regression coefficient in OLS regression to be biased. Endogeneity problem is normally diagnosed through adoption of a control variable approach. By adding a control variable to the regression model, the regressors and the unobservable will be independent (Kaur &

Arora 2015). Following Rashid (2014), this study performed an endogeneity test (F test) using the Instrumental Variables approach.

4.7 Conclusion

This chapter has begun by describing the research design. Following that is the explanation on how sample was selected and data are collected. All the variables employed in this study are subsequently explained and measured. For hypotheses testing, econometric models were then developed. Finally, an explanation of the various data analysis techniques was done highlighting multiple regression as the predominant method used in the study. The proceeding chapters, Chapters 5, 6, 7, 8, 9 and 10 will present the empirical results of the study based on the two research objectives utilizing the methodology outlined here.

CHAPTER 5: CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING

Abstract

This chapter assesses the level of corporate social responsibility (CSR) reporting of public companies listed on Bursa Malaysia. CSR reporting is increasingly utilised by investors globally to make decisions. Therefore, to penetrate into international markets, companies need to report on their CSR activities. Malaysia has carried out many initiatives to inculcate a culture of undertaking reporting CSR activities with mandating PLCs reporting effective from 2008 being the most prominent. Based on content analysis, CSR reporting among PLCs is observed to be increasing steadily. It is postulated that this increase is industry/sector specific. This chapter provides an insight to current CSR practices in Malaysia.

5.1 Introduction

Corporate social responsibility (CSR) is neither new nor recent (Friedman 1970); rather it has varied and extended history. The pressure to consider the social and environmental impact of business operations have been growing steadily over the past four decades (Castelo Branco & Delgado 2011). Despite diverse views on the concept and practice of CSR, there is increasing consensus that companies are social enterprises and therefore, have enormous responsibilities to society (Rowe 2006). The impact of globalisation, wider stakeholder activism, and the free flow of information demand that companies do their business in a socially responsible and transparent manner. Hence, companies are expected to behave ethically and to act as good corporate citizens; by dealing fairly with employees, suppliers and customers, as well as focusing on corporate philanthropy and promoting environmental sustainability. The acknowledgement of CSR implies the need to recognize the importance of disclosure of information on companies' activities related to such responsibilities (Castelo Branco & Delgado 2011). This points to the theme of this chapter: CSR communication. CSR reporting, as given by Sustainability Reporting Guidelines, describes the report made by the company on its economic, environmental, and social impacts (Global Reporting Index 2006).

The beginnings of CSR reporting in developed countries can be traced back to shareholder pressure, environment legislation and lobbying groups such as those concerned with shareholders activism, socially responsible investment and gender equity (Thompson 2008). In Malaysia and Asia generally, however, concern about employee health and occupational safety, environment and community support activities have been identified as the main drivers of CSR reporting (Othman & Ameer 2009). Despite the numerous benefits associated with CSR reporting, companies are still reluctant to disclose information voluntarily. The production of these reports has been portrayed as too complex, too costly, require too much human resources but with dubious return-on-investment (KPMG 2013). Perry and Tse Sheng (1999) relate low CSR disclosure levels with the perception of the business community that their organizations do not have an environmental impact. Unlike shareholders in developing countries, those from developed countries associate their spending on CSR with the market value of the company. Given the ability of CSR to increase a company's reputation (Othman et al. 2011), the perceived liability will eventually turn into an asset as the company's share price increases. Lack of regulation was one of the most common problems that authorities in developing countries faced in their efforts to encourage corporations to increase their CSR reporting. Furthermore, the shortage of qualified accountants in developing countries is part of the problem because introducing social and environmental issues into the reporting system requires a combination of expertise in various fields including law, engineering and sociology (Ismail & Ibrahim 2012).

Unlike developed countries where the impetus for development of CSR were greatly driven by the human rights and consumer movements, most developing countries have had different experiences. Stakeholder activism is relatively weak as compared to those in developed countries. A study by Elijido-Ten (2009) revealed that there is generally no demand from shareholders and creditors in Malaysia, for disclosure relating to environmental issues. Amran (2007) associates this phenomenon to the low level of CSR awareness among the local people. Even if stakeholders' pressure exists, local managers perceived it as being of no consequence (Nik Ahmad & Sulaiman 2004). Hence this explains why developing economies such as Malaysia lag behind in terms of CSR reporting.

CSR was initiated and institutionalised in developed countries. Various studies have addressing a plethora of subjects within the still-evolving field of CSR

and its communication realm. However, only a handful of studies have been conducted into CSR reporting in Malaysia (e.g. Haniffa & Cooke 2005; Mohd Ghazali 2007; Haji 2013). Since the public now appears to be more concerned with the adverse impact of business on society, the Malaysian government has increased efforts to encourage CSR reporting. Yet, the level of reporting remains low compared to developed countries (Said et al. 2011). This study aims to determine the extent of CSR reporting in Malaysia especially after a series of important regulatory regime and governance changes since the 1997 Asian financial crisis. The evolutionary process of strengthening the governance landscape presents an opportunity for an in-depth study of the extent of information communicated to external users.

This study examines the nature and extent of CSR reporting of Malaysian public listed companies (PLCs) from 2008 until 2013, as well as determining the reporting trends over the examination period. The period under investigation was chosen based on several grounds. First, the country's growing economy and openness to foreign investment. Second, the period during and after the 2008 global financial crisis. Haji (2013) showed that companies' reporting levels tend to vary with the occurrence of certain events. Third, the Malaysia stock exchange has mandated listed companies to disclose CSR information in their annual reports from the 2007 financial year (Bursa Malaysia 2006). Abdul Fatima, Abdullah and Sulaiman (2015) indicate that mandatory regulation has had some impact on the level of reporting. Fourth, a number of CSR awards such as the Malaysian Prime Minister's CSR award were subsequently launched to encourage community development initiatives. A recent study by Anas et al. (2015) indicates the positive effect of awards on the extent and quality of CSR disclosures.

This study seeks to contribute to the extant literature by extending and attempting to overcome the limitation of existing studies in a number of ways. First, it will extend the literature on the extent of CSR reporting in Malaysia. Second, it aims to provide new evidence on how external forces such as legislation, influence CSR reporting practices. Regulation is alleged to have the ability to increase a company's reporting level given that several countries like Australia, Belgium, China, Denmark, Sweden, UK and the US have also taken the same measure (Hung, Shi & Wang 2013). The positive impact of mandatory reporting pertaining to social and environmental aspects is evident in more developed countries (Criado-Jiménez,

Fernández-Chulián, Larrinaga-González & Husillos-Carqués 2008). Hence it is beneficial to know whether such a command-and-control system may improve CSR behaviour in Malaysia.

The rest of the chapter is organised along the following lines. The second section is concerned with the CSR reporting environment in Malaysia. The third section reviews the literature about CSR reporting. The fourth section discusses theory development. The fifth section describes the research method. The results are discussed in the sixth section. Finally, concluding remarks are reported in the seventh section.

5.2 The environment of CSR reporting in Malaysia

Malaysia is a unique emerging market in South-East Asia with a diverse racial ethnic and religious environment. Malaysia has shown tremendous economic resilience from the economic and global financial turmoil commencing in 2007. In the previous 50 years, Malaysia has experienced a shift in its type of industries; from agriculture to manufacturing, automotive and information technology based industries. Vision 2020 was initiated to inspire Malaysia in becoming a developed country by the year 2020. The principles of CSR are embedded in three out of nine challenges of the Vision that are to become: (1) a moral and ethical community, (2) a fully caring culture, and (3) an economically just society. A study by Zain (1999) highlighted Vision 2020 as one of the significant drivers of CSR development in Malaysia. Concerned about the need to maintain well-balanced development, the government has further intensified the incorporation of environmental considerations subsequently. Current increasing concerns over the environment on the part of pressure groups have led to an increased importance for companies to disclose their CSR activities.

Prior to compulsion, there was a lack of incentive for companies to make CSR reporting standard practice in their annual reports. Reporting on CSR requires companies to be transparent which contradicts many Southeast Asian cultures (Thompson & Zakaria 2004). In developed countries, CSR is a set of robust command-and-control regulations. There exist comprehensive environmental regulations, strong labour laws and unions and a wealth of consumer advocate organizations. These generate pressure that drives companies to adopt voluntary CSR practices. Contrary to that, there is weak enforcement of legislation in relation to

CSR practices as well as a lack of monitoring and also consultation in most developing countries. This phenomenon may explain why only few companies take CSR reporting seriously (Thompson & Zakaria 2004). Another key point in relation to the low level of reporting in developing countries like Malaysia rests in ownership patterns. Companies with concentrated ownership generally find CSR practices unattractive. Therefore, disclosure is usually at the minimum level possible. Directors from dispersed ownership companies view this issue differently. While they adopt CSR practices with the aim of building and maintaining their companies' good reputations, it is also believed that their personal reputation will also be enhanced.

The earlier absence of CSR reporting guidelines in Malaysia exacerbated the low reporting scenario. The only source of environmental reporting guidelines during the 1990's was provided by the Malaysian Accounting Standards Board. Financial Reporting Standard (FRS) 101 explicitly referred to environmental reports. It encouraged companies to present additional information if management believes it will assist users in making economic decisions. FRS 137 set out the disclosure requirements for the recognition of contingent liabilities and assets. Although it does not provide specific details of the types of liability, it is foreseeable that environmental liabilities could potentially be included within a company's financial statement. Bursa Malaysia launched its CSR framework in September 2006. This was a set of voluntary guidelines for PLCs to address matters related to responsibility and ethics in the course of their normal economic activities. The framework looked at four main focal areas – the Environment, the Workplace, the Community and the Marketplace, in no order of priority. Its goal is to go beyond compliance, towards making CSR integral to normal business operations. Similarly, the Silver Book was introduced in March 2006 to assist government-owned companies in their CSR reporting. This was expected to increase managers' awareness to make detailed disclosure of CSR activities in their companies' annual reports. CSR reporting in Malaysia remained largely optional until 2007. However, this changed when all PLCs were directed to adopt CSR reporting for the 2007 financial year. This requirement has been incorporated into the Listing Requirements of Bursa Malaysia. PLCs are required to include a description of their CSR activities or practices undertaken by the listed issuer and its subsidiaries or, if there are none, a statement to that effect.

To encourage environmental reporting, various CSR awards were introduced. The Association of Certified Chartered Accountants (ACCA) Malaysia, with the endorsement of the Department of Environment, launched the Malaysia Environmental and Social Reporting Awards (MESRA) to give recognition to those corporations that have reported environmental and social information to raise awareness about the environment (Othman & Ameer 2010). Other awards were the “Prime Minister’s CSR Award” and “Most Outstanding Annual Report Award”, to name a few. Also, the Federal Government’s 2008 and 2009 budget incorporated incentives such as tax deductions for companies who provide public facilities or undertake environmental activities such as biomass energy or carbon credits. Consequently, there is a significant increase over time in CSR disclosure (Esa & Mohd Ghazali 2012) with a reporting level of 98% recorded in the survey conducted by KPMG in 2013. Given these points, government initiatives in promoting CSR appear to be bearing fruit.

On top of the government’s role in encouraging companies to embark on CSR practices, there are various other drivers which have increased the practices in Malaysia such as: increased demand for corporate governance and accountability as a result of privatization; business and marketing strategies; improved corporate image; NACRA Environmental Reporting award; strengthening of stakeholder relationships and improve access to capital investment (ACCA 2002). Also, CSR activities were carried out to fulfil legal obligations and to provide information to shareholders (Nik Ahmad & Sulaiman 2004). Ethnicity and religion are also influencing factors for CSR activities in Malaysian companies (Zulkifli & Amran 2006). The corporate culture of the Malaysian companies is influenced by the three largest ethnic groups, namely Malay, Chinese and Indian. Each group possesses unique characteristics, yet generally prioritizes on similar aspects such as mutual cooperation and adherence to their religious percepts (Said et al. 2011). As such, these characteristics provide managers of Malaysian companies with the moral support to engage in CSR and disclose information about their activities to important interest groups.

The announcement of the CSR framework by Bursa Malaysia in 2006 was accepted with mixed reactions by PLCs. Bursa Malaysia recognises that 'one size does not fit all'. Although the framework guides companies in determining the main areas that should be reported, the details content is left to management’s discretion; very much depending on (1) nature of business (2) resources (3) company

inclinations (4) stakeholders expectations. Accordingly, a wide variation of content across companies is observable. In 2008, Bursa Malaysia commissioned CSR Asia to survey CSR reporting in 2006-2007. The natural resources sectors as well as the so-called “sin” industries namely gambling, tobacco and alcohol were the highest reporters. Associated with negative social and environmental impact, these industries are in the global spotlight. Hence, producing impressive CSR reporting, in some ways provide them with the “license to operate” (Sharma 2013). In contrast, the construction industry is seen to be rather passive in CSR reporting. Despite being labelled as one of the sensitive industries that pose a threat to the environment, the construction industry exhibited little or no engagement on CSR issues. Of the four dimensions of the CSR framework, workplace ranked highest with environment at the bottom and marketplace and community taking the second and third position respectively. Of late, numerous efforts have been done by the Malaysian government to assure the growth of CSR awareness. It is expected that there could be further changes in the nature and level of CSR reporting by companies in Malaysia. Hence, it is the intention of this present study to examine the trend and level of company’s CSR reporting following the recent regulatory changes.

5.3 Literature review

A number of studies on CSR reporting have documented an increase in public awareness and concern about the detrimental effects of business on the natural environment. Despite its importance, CSR reporting studies in Asia remain comparatively scarce in comparison to North America and Europe. This is mainly because, conventionally, CSR has been viewed as a predominantly Western trend (Chapple & Moon 2005). There are few empirical studies on CSR reporting reported from an Asian perspective; suggesting that differences in institutional attributes influence the levels of development, resources and awareness of CSR issues (Welford 2004). However, attitude towards CSR changed with the emergence of NGO and consumer interest groups. This movement is also influenced by Western multinational companies increasing their operations in Asia and thereby encouraging Asian companies to also take a proactive approach to CSR issues (Chapple & Moon 2005). As a result, the number of studies on CSR reporting has grown substantially after the turn of the millennium, which could be attributed to an increasing public attention for CSR (Kolk, Hong & Van Dolen 2010; Saleh et al. 2010).

Substantial research on the determinants of voluntary disclosure has been done in developed countries (e.g. Siregar & Bachtiar 2010; Gamerschlag, Möller & Verbeeten 2011; Reverte 2009). A few studies have been done in developing countries (e.g. Khan, 2010; Rashid and Lodh, 2008). One of the primary studies on the development of CSR in Malaysia was carried out by Teoh and Thong (1984). That study examined various aspects of corporate social performance including social reporting. The authors surmised that companies were mainly involved in areas of human resources, product services, community work and the physical environment. Human resource related activities topped the list of social involvement by the companies surveyed. The authors concluded that Malaysian companies were conservative in their attitude towards CSR.

A study has been conducted by Jamil, Alwi and Mohamed (2002) into the CSR practices of Malaysian companies for the five year period from 1995 to 1999. It was discovered that less than 30% of companies, made social and environmental disclosures. Most of the disclosures pertained to human resources. At this point of time, levels of CSR practices of Malaysian companies were portrayed as very low. The phenomenon can be attributed to, among others, the absence of legislation on that matter (Teoh & Thong 1984; Nik Ahmad & Sulaiman 2004) and the low level of awareness of the business community of their companies' potential environmental impact (Perry & Tse Sheng 1999).

However, at the start of the millennium, the situation started to improve (Thompson & Zakaria 2004). A survey by the ACCA in 2002, intended to examine the extent of environmental related disclosures by public listed companies on the Main Board of Bursa Malaysia. Covering a three-year period from 1999 to 2001, the survey documented an increase in the number of companies disclosing environmental information. There was an upward trend of reporting with the highest engagement by the industrial sector, followed by the plantation sector, consumer products, trading/services, construction, infrastructure and properties and lastly finance. Despite the positive sign emerging from the above mentioned sectors, companies in the mining, technology and hotel sectors were not disclosing any environmental information.

Hasnah et al. (2006) compared social disclosures pre-recession (1996), during recession (1998) and post-recession (2000). The study outlined that the highest disclosures were made during the recession period. It seems that companies tried to

legitimize their actions to boost public confidence in their performance. Additionally, companies reacted positively to the calls by the government, in line with the development of corporate governance, to be more transparent.

Janggu et al. (2007) examined the level and trend of CSR disclosure pattern of 169 industrial companies in Malaysia from 1998 to 2003. The study revealed an improved CSR level by industrial companies, particularly in terms of the amount of disclosure and the number of participating companies. Human resources emerged as the most popular theme reported, followed by environment, product and community. The observations implied that companies highly appreciate their employees and at the same time are concerned about the environment.

While there are numerous studies that have examined the trend in CSR reporting, not many have looked at the reporting trend when new regulatory efforts are introduced. In China, Liu et al. (2010) documented an increase in environmental disclosure of companies in Jiangsu province following the introduction of a government-oriented disclosure programme. A comparable result was obtained in the study by Criado-Jiménez et al. (2008) on Spanish companies after the implementation of mandatory CSR reporting in 2002. These results suggest that progressive and improved regulation could increase the volume and quality of CSR reporting in annual reports. Recently, Hung, Shi and Wang (2013) demonstrated that mandatory CSR reporting companies in China experience a reduction in information asymmetry subsequent to the mandate. Their result casts away the criticism that mandatory CSR reporting lacks credibility and relevance in developing countries.

Haji (2013) investigated the CSR reporting of Malaysian PLCs in 2006 and 2009. The study documented a significant overall increase in both the extent and quality of CSR reporting; mainly attributable to regulatory changes and the introduction of various CSR awareness programs. Likewise, a study on environmental disclosure by Abdul Fatima et al. (2015) captured an improved quality of the disclosure in the period between 2005 and 2009. They contend the increase in the level of environmental disclosure is due to the impact of the stock exchange listing requirement. Additionally, the study by Said et al. (2013) revealed an increase in the level of CSR reporting by PLCs in Malaysia; although it was still a voluntary initiative during 2009. The study identified industry type as being the most influencing factor in disclosing CSR information.

Given the increase in awareness and legal enforcement (Othman & Ameer 2010), CSR issues have gained increased attention (Abdullah et al. 2011; Haji 2013). Other empirical studies on CSR practices in Malaysia include (Said et al. 2013; Saleh et al. 2010; Abdullah et al. 2011; Esa & Mohd Ghazali 2012). These studies have shown that increasing interest was given to CSR reporting over time. This upward increment moved from a mere 26% in the 1980s (Teoh & Thong 1984) to more than 90% recently (Said et al. 2009; KPMG 2013).

While there are increasing numbers of studies that delve into the importance of CSR, this chapter is different from those previously done, in several aspects. First, it relies on a large number of samples. Most prior studies have depended on small number of PLCs, for example, 85 (Haji 2013), 99 (Nik Ahmad & Sulaiman 2004) and 100 (Jamil et al. 2002). With the intention of increasing the rate of generalisability, 450 companies across a wide range of industries in Malaysia were sampled. Another distinguishing factor is the longer time frame used here. The six year time period should illustrate clearer CSR reporting trends. Finally, the CSR checklist to be used in this study is an adaptation of CSR checklists from a number of recent studies (e.g. Chan et al. 2014; Mohamed Adnan 2012; Abdullah et al. 2011). Apart from the study by Chan et al. (2014), both studies are locally based. Thus, adapting their checklists enable currently reported CSR items to be captured.

5.4 Theoretical framework

This study adopts an institutional theory perspective in explaining the CSR practices of the Malaysian companies. Neo-institutional sociology suggests that a major way of achieving legitimacy is to incorporate accepted institutional norms, rules, conventions, and practices into corporate operations (Di Maggio & Powell 1983). This theory provides the reasoning for the homogeneity of organisational forms and practices in one particular environment; achieved through three different mechanisms specifically coercive, mimetic and normative isomorphism. Coercive isomorphism is a result of pressures exerted by organisation that the company is dependent on; originating from political influence, regulation, law and the public at large (Amran & Siti-Nabiha 2009). Mimetic isomorphism results to organisation imitating or benchmarking those firms that are viewed to be more legitimate and successful than others. Normative pressure stems from professionalisation factored

by education and professional networks. In relation to CSR in developing countries, coercive isomorphism and mimetic isomorphism are evident.

“Institutionalise” in the context of this chapter means how the environmental factors influence Malaysian companies to feel that CSR is something important that needs to be carried out. However, keeping the practice as voluntary might inhibit its growth. Hence, government has an important role to play in motivating socially responsible behaviour in companies especially when CSR practices are just beginning to gain a foothold (Abdul Fatima et al. 2015). Neo-institutional sociology suggests that regulative institutional pressures can force companies to better fulfil their social obligations. A decision to disclose more extensive CSR information in annual reports by managers can, therefore, be understood as being determined by institutional forces due to the effect of coercive isomorphism.

As a further testament to its commitment towards CSR practices, the Malaysian government has included CSR issue in the recent MCCG revision. The revised MCCG 2012 guidelines emphasises the importance of the board in ensuring the company’s strategies promote sustainability especially in the area of environmental, social and governance. Balancing sustainability aspects with the interests of various stakeholders is professed to be essential in enhancing investor perception and public trust. Companies are also required to disclose these policies and their implementation in the annual report and the corporate website. In view of this, it is anticipated that companies will react positively to the restructuring of the corporate governance by increasing their CSR reporting. Given this major issue, adopting an institutional theory perspective in this study is assumed to be appropriate.

5.5 Method

5.5.1 Research design

5.5.1.1 Sample selection

This study utilised a sample of non-financial companies listed on the Main Market of Bursa Malaysia from 2008 until 2013. The study period enabled an examination of the trends in the CSR reporting practices of public listed companies in Malaysia, inclusive of the impacts of two major MCCG revisions in 2007 and 2012. In order for a company to be included in the sample, the following requirements had to be met for each year in the six-year period (2008-2013):

- i. Companies were continuously listed on Bursa Malaysia
- ii. Companies produced an annual report which was publically available

5.5.1.2 Data selection

Initially, there were 813 companies listed on the Main Market of Bursa Malaysia as at 31st December 2013. However, only 613 companies have completely lodged their annual reports over the six year period. Bursa Malaysia classified companies under nine sectors: plantation, mining, property, consumer products, industrial products, construction, trading/services, technology and finance. In general, finance companies are subject to different regulatory and disclosure requirements and also material differences in their types of operation. Consequently, prior studies have not considered them (e.g. Haniffa & Cooke 2005; Mohd Ghazali 2007; Said et al. 2009). Following this line of research, 136 finance companies were excluded from the sample, reducing the potential population to 477 companies. 27 companies with incomplete data were also omitted from the sample; leaving 450 companies. In order to get generalisation of the state of CSR reporting in Malaysia, all 450 companies were included in the study.

The study utilised the six annual reports for each company as the main source of information. Relying on this sole source of CSR information is based on several justifications. First, the selection of annual reports is consistent with other prior studies (e.g. Abdullah et al. 2011; Ibrahim & Samad 2011; Chan et al. 2014; Haji 2013). Second, with reference to Hasnah et al. (2006), annual reports are considered to be the major means through which company's information is communicated (Jenkins & Yakovleva 2006) including social and environmental reporting (Chan et al. 2014). Third, Gray, Javad, Power and Sinclair (2001) support the usage of the annual report because it is the central corporate document that outlines the organisation as a whole. Further, much of the interest in CSR reporting lies in the construction of accounts of the organisation's social and environmental activities. Finally, annual reports have been a preferred place for disclosure because of their perceived credibility and accessibility (Othman & Ameer 2010).

5.5.2 Content analysis

In measuring the extent of CSR reporting, content analysis was applied in this study. It is the prevailing technique used to investigate CSR disclosures in corporate

annual reports (Haniffa & Cooke 2005; Abdullah et al. 2011; Ibrahim & Samad 2011; Chan et al. 2014; Haji 2013). Content analysis is technique used by researchers to replicate and make valid inferences from data to their context (Krippendorff 1989). It includes qualitative and quantitative methods and converts information in annual reports into scores (Djajadikerta & Trireksani 2012).

To assess the content of CSR reporting, a checklist of items was constructed by examining previous CSR disclosure checklists (e.g. Hackston & Milne 1996; Barako & Brown 2008). Additionally, specifically Malaysian checklists were also referenced (e.g. Abdullah et al. 2011; Haji 2013). To ensure conformation of the checklist items to the listing requirement and their relevance to the current Malaysian context, the framework launched by Bursa Malaysia in 2006 was also used as a reference. It comprises guidelines for PLCs in defining their CSR priorities, implementation and reporting. The framework focuses on four dimensions namely: Environment, Community, Marketplace and Workplace. For the purpose of this study, a checklist of 22 items of CSR developed by Abdullah et al. (2011) has been made as the benchmark. The referred checklist was used to capture CSR reporting of companies in a similar institutional setting as the present study; hence confirming its suitability. Their checklist was an adoption of the work of Mohd Ghazali (2007) with some changes according to the checklists by Hackston and Milne (1996) and Ng (1985). In addition, the checklists by Mohamed Adnan (2012) and Chan et al. (2014) were also referred to. To ensure validity of the checklist, this study also followed the work of Kolk (2010). After going through several series of revisions and refinements, the final checklist containing 51 items was produced (see Table 4.4).

Measuring the items reported would address the presence or absence of CSR information (Haniffa & Cooke 2005; Mohd Ghazali 2007). CSR scores were derived based on an unweighted method, where information was equally valued regardless of their importance or relevance to any particular user group (Chau & Gray 2002). A value “1” was awarded to a particular item if it is disclosed and “0” if it is not disclosed. This method has been extensively employed previously. The scores were then transformed into a CSR reporting index by dividing the disclosure score of each company to the maximum possible score (i.e $1 \times 51 = 51$).

$$CSRI_i = \frac{\sum_{j=1}^{n_j} X_{ij}}{n_j}$$

CSRI = CSR reporting index, n_j = number of items expected for j th company

X_{ij} = 1 if i th item disclosed; 0 if i th item not disclosed

This measurement technique has been used previously by other researchers (e.g. Haji 2013; Haniffa & Cooke 2005; Rashid & Lodh 2008).

5.6 Results

5.6.1 Incidence of CSR reporting

Table 4.3 outlined the breakdown of the number and percentage of the companies in the sample, across various industries. Companies are classified under particular industry based on a two-digit SIC code. Companies classified under Education and Cultural and Recreational Services were omitted due to the small number in the sample; Education (6 observations) and Cultural and Recreational Services (12 observations). Cohen (2013) suggests that in order to detect differences statistically, there should be at least 30 participants per cell. Following this rule of thumb both industries were excluded.

Table 5.1 contains the average CSR reporting for all industries in this study. The result demonstrates that there has been a steady increase in CSR disclosure over time. The finding is similar and consistent with a previous study of Malaysian companies by Mustaffa and Tamoi (2006).

Table 5.1 CSR reporting by industry over time

	2008	2009	2010	2011	2012	2013
	%	%	%	%	%	%
Agriculture, Forestry and Fishing	22.45	22.96	22.71	24.54	24.98	25.75
Mining	15.69	16.53	16.25	16.53	17.93	20.45
Manufacturing	19.63	20.55	20.89	21.37	21.73	22.36
Electricity, Gas & Water Supply	37.65	40	41.57	42.35	42.74	48.63
Construction	21.4	20.67	21.74	21.01	22.8	24.03
Wholesale Trade	18.04	18.53	19.41	18.24	19.02	20.79
Retail Trade	16.86	20	20.2	20	22.16	22.55
Accommodation, Cafes and Restaurants	28.98	31.59	32.68	31.59	31.59	33.11
Transport and Storage	19.61	17.65	19.07	20.41	22.28	21.21
Communication Services	34.17	30.53	35.01	29.69	34.45	36.69
Property and Business Services	17.24	18.53	18.46	18.73	18.53	19.07
Health and Community Services	21.81	21.82	24.27	23.53	22.79	26.23
Overall	20.29	20.91	21.43	21.70	22.34	23.16

The increase in CSR reporting suggests that PLCs in Malaysia attach some importance to CSR activities. The increase can be attributed to recent changes occurring in the Malaysian business environment such as the Bursa Malaysia stock listing requirement and also the introduction of many CSR awards. The highest annual increase was reported from 2012 to 2013. In 2012, Malaysia had its second revision of MCCG focusing on sustainability aspects. Companies might have responded positively to this governance revision; resulting in increased reporting. This finding is consistent with the recent study by Haji (2013) of 85 listed companies in Malaysia that confirms an increase in CSR disclosures following the introduction of the new regulations. The second highest annual increase was between 2008 and 2009. This was a post- recession period where companies tend to increase their level of reporting; legitimizing their activities to gain stakeholders' confidence. At the end of 2007, Bursa Malaysia announced mandatory CSR reporting for all PLCs. In China, Liu et al. (2010) reported an increase in environmental disclosure following a government-oriented disclosure programme. The reporting of environmental information of companies in Spain followed the same pattern when mandatory environmental reporting was introduced in 2002 (Criado-Jiménez et al. 2008).

Figure 5.1 General reporting by industry and year

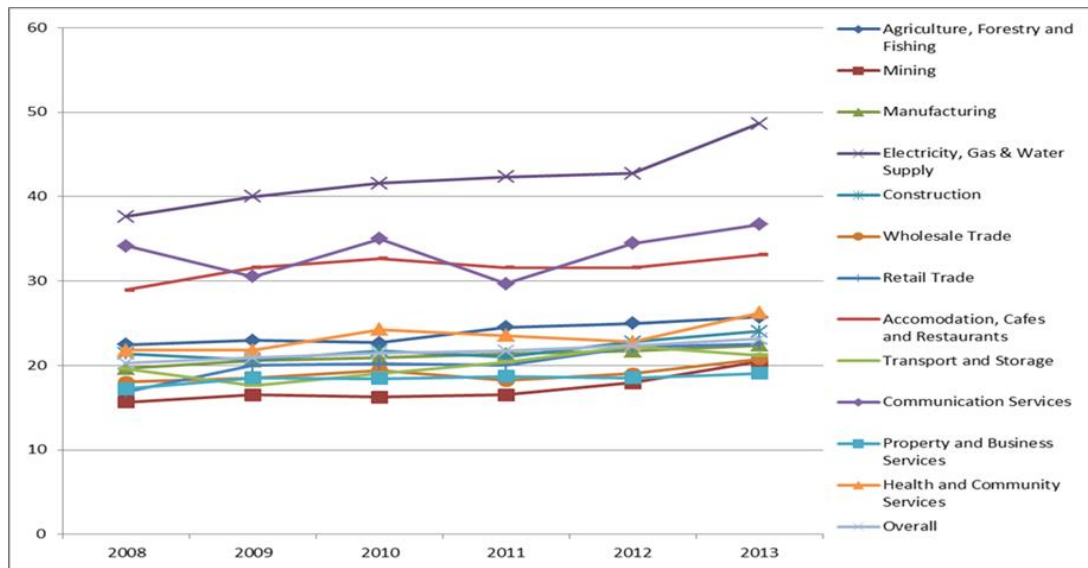


Figure 5.1 illustrates the reporting trend by various industries in Malaysia. It can be seen that by far the highest level of reporting was in the electricity, gas and

water supply industry. It indicates that this industry seemed to be practicing CSR well compared to other industries. Mohamed Adnan (2012) provides similar result when observing the reporting trend of companies operating in utilities industry particularly in Malaysia, UK, India and China. A study by Lu and Castka (2009) on CSR practices of Malaysian companies has identified one of the leading companies in this industry to have practiced CSR as early as 1974. The company asserts that its CSR efforts include rural education, health care and involving every employee in the organization in its CSR activities. Interestingly, this finding supports the study by Hilson (2012) that showed that mining and the oil and gas industry spearhead CSR reporting in developing countries. Other studies that share the same result are Kolk (2003) and Gray et al. (1995).

Surprisingly, manufacturing and construction were found to be reporting CSR moderately; showing a similar pattern to other industries in the study. Despite the sturdy increase in CSR reporting across various industries, the reporting level is still considered low compared to disclosures made in developed countries (Said et al. 2011). This echoes the findings of past studies in Malaysia (Elijido-Ten 2009; Saleh et al. 2010; Haji 2013; Nik Ahmad & Salat Ahmed Haraf 2013). High reporting of CSR information was also seen from industries like communication services and also accommodation, cafes and restaurants. These appear to be interesting results. Apparently, not much discussion has been made in relation to these industries since they have received less attention from researchers. One example is the study by Rizk, Dixon and Woodhead (2008) who found that Egyptian companies operating in the telecommunication and construction industries exhibit excellent CSR practices. A study by Hamid and Atan (2011) revealed that many telecommunication operators have won major CSR awards in Malaysia. For example, DiGi is the first company to win Prime Minister's CSR Awards and Telekom Malaysia won the ACCA Malaysia Environmental and Social Reporting Awards in 2004 and 2005 respectively.

5.6.2 Content-category themes of CSR reporting

In explaining the company's reporting on content-category themes, Tables 5.2 and Table 5.3 are to be read concurrently. Table 5.2 shows the CSR reporting in six content-category themes over time. Overall, it can be seen that most companies disclose CSR information in the General area where it involves their acknowledgement of CSR as well as sharing the company's CSR mission.

The workplace theme comes second in the theme ranking. This might be due to most companies regarding their employees as the most valuable assets and would secure their health and safety, provide training and development programs in order to stimulate the sense of being appreciated and to engender loyalty amongst employees. The Occupational Safety and Health Act (OSHA) (1994)'s aim, among others, is to make further provision for securing the health, safety and welfare of persons at work. These CSR practices not only acts to improve job satisfaction but also helps to reduce recruitment and training costs (Paek et al. 2013). By detailing these health and safety actions in the annual reports, it is contended that companies seek a form of influence legitimacy because the disclosures convey the message that companies are responding to their employee's broader interests. Evidence of companies attaching great importance to fulfilling the employees' needs have been observed in several studies such as Teoh and Thong (1984), Hasnah et al. (2006), Mohamed Adnan (2012), Jitaree (2015), Said et al. (2011) and Yaftian (2011).

Environmental disclosure ranks third in the reporting of the CSR themes. Despite the extent of CSR reporting may appears to be encouraging, factors such as lack of public pressure, fear of readers' reaction and perception on their organisation are said to contribute to low level of reporting (Rahman et al. 2011). In the same vein, Jaffar, Iskandar and Muhamad (2002) pointed out that the reluctance to disclose on the environmental theme occurs if companies feel that such disclosure will have negative implications on their social and financial performance. This hypothesis is proven by looking at the disclosure of environmental accidents, hazardous waste disclosure and also fines/sanction for non-compliance which was not reported by any company across all industries. Studies by Yusoff, Lehman and Mohd Nasir (2006), Elijido-Ten (2009) and Ahmad and Mohamad (2014) exhibited similar result of companies withholding so called "bad news" from the stakeholders. The finding emphasises that CSR reporting is probably perceived attempts at improving the companies' image rather than to fulfill stakeholders' information needs.

Table 5.2: Disclosure of CSR themes over time

Theme	Expected total disclosure	Actual total disclosure	%	2008		2009		2010		2011		2012		2013	
				Total disclosure	%	Total disclosure	%	Total disclosure	%	Total disclosure	%	Total disclosure	%	Total disclosure	%
General	18774	9965	33.50	1653	35.40	1659	34.53	1666	34.06	1660	33.41	1659	32.49	1668	31.47
Community	24138	5395	18.14	850	15.76	862	17.94	893	18.26	916	18.44	927	18.16	947	17.86
Environment	37548	6197	20.84	934	17.15	998	20.77	1010	20.65	1022	20.57	1098	21.50	1135	21.41
Workplace	37548	7553	25.40	1135	20.84	1188	24.73	1217	24.88	1265	25.46	1317	25.79	1431	26.99
Marketplace	13410	536	1.80	82	1.41	83	1.73	91	1.86	87	1.75	93	1.82	100	1.89
Other	5364	94	0.32	16	0.29	14	0.29	14	0.29	18	0.36	12	0.24	20	0.38
Total	257472	29740	11.55	4670	100	4804	100	4891	100	4968	100	5106	100	5301	100

The findings along with other average disclosure of CSR items are presented in Table 5.3. The disclosures are mostly vague statements of commitment and concerns about the external environment. This lack of engagement with environmental issues is not uncommon in emerging economies and has been reported in previous studies, for example, in Singapore (Tsang 1998), Malaysia (Haniffa & Cooke 2005), Thailand (Ratanajongkol, Davey & Low 2006) and Bangladesh (Islam & Deegan 2008).

Next highest disclosed theme was Community. Under this sub-theme, charitable donations and activities as well as granting scholarships to the needy, report a high result. Abdulrazak and Ahmad (2014) highlight the fact that philanthropic activities has been regarded as the most common CSR practice in Malaysia specifically, and in Asian countries generally (Sharma 2013). While it is argued that participating in good deeds are merely to boost company's image, it benefits the community especially those in the immediate vicinity of the operations (Sharma 2013). Though the view seems to support the notion that Malaysian society has common concern for morality which is driven by spiritual values (Lu & Castka 2009), Mustaffa and Tamoi (2006) point to the reporting on this community theme to the introduction of "Caring society policy" and "Vision 2020" by the government in the early 1990s. Disclosing companies might want their readers to know that they are noble corporate citizens, adhering to government policy and that they see themselves as accountable to the wider public (Zain 1999). In other words, the companies are conforming to the needs of the stakeholders (Rahman et al. 2011).

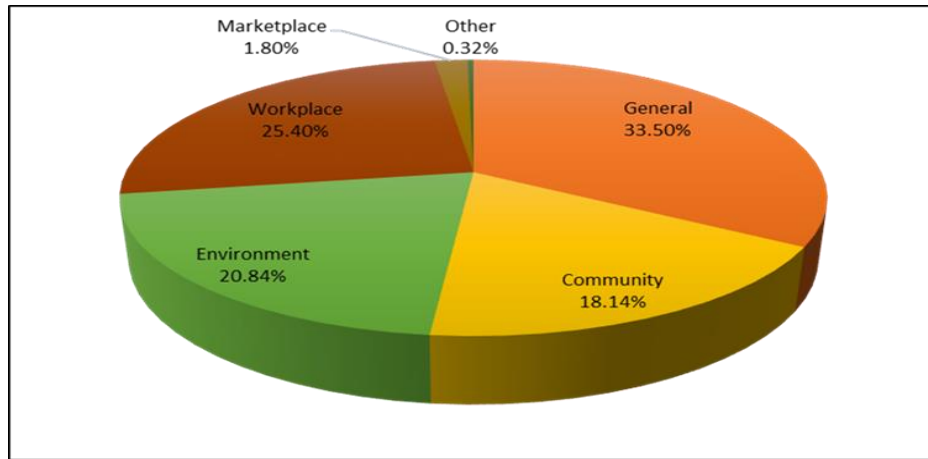
Low levels of information were reported under the Marketplace theme which consists of information on product research, safety, quality as well as customer awards. This finding is consistent with the study by Mustaffa and Tamoi (2006) who found that research culture is rather novel in Malaysia, therefore less emphasis is placed on this area. Similarly, under sub-theme Other, value added statement and value added ratio received the least attention from the companies; with a number of them not disclosing the items.

Table 5.3 Number of companies disclosing CSR items over time

CSR Theme/ Items	No. of companies	Number of companies disclosing CSR					
		2008	2009	2010	2011	2012	2013
General							
Acknowledgement/ management of CSR	450	450	450	450	450	450	450
Disclosure of CSR policies	450	320	323	322	324	324	326
Address sustainability	450	212	215	216	217	216	213
Mission/ values/code of conduct	450	209	207	205	203	201	202
Commitment to external initiatives	450	8	8	9	9	10	12
Awards related to social, environmental/best practices	450	15	17	25	19	19	25
Discussion on stakeholder engagement	450	442	442	442	441	442	443
Community							
Charitable donations and activities	450	345	345	351	358	356	371
Supporting government social campaign	450	49	49	45	48	47	51
Support for public health/ volunteerism	450	144	160	162	164	175	179
Aid medical research	450	2	1	1	3	1	1
Sponsoring educational programs/ scholarship	450	195	196	213	210	219	212
Discussion on public policy involvement	450	6	7	6	7	9	8
Graduate employment	450	25	24	29	28	29	33
Sponsoring sports project	450	71	66	71	80	71	71
Acquisition from local suppliers	450	13	14	15	18	20	21
Environment							
Statement to reduce pollution	450	257	274	277	272	286	284
Recycling/ using recycle materials	450	170	176	174	171	187	184
Preventing/ Managing waste	450	149	154	159	162	176	171
Disclosure on significant spills/ environmental accidents	450	0	0	0	0	0	0
Hazardous waste disclosure	450	3	3	2	2	2	2
Fines/sanction for non-compliance	450	0	0	1	1	2	2
Design facilities harmonious with the environment/ Landscaping	450	55	56	61	66	70	70
Impacts on biodiversity	450	34	34	30	32	33	39
Strategies/ plans for managing impacts on biodiversity	450	53	53	60	59	59	66
Environmental review and audit	450	9	12	12	13	17	20
Conservation of energy in the conduct of business operations	450	98	117	113	120	133	135
Utilizing waste material for energy production	450	30	35	33	33	39	44
Disclosure of carbon/ green gas emissions	450	10	10	11	12	13	22
Initiatives to reduce carbon/ green gas emissions	450	66	74	77	79	81	96
Workplace							
Employee profiles	450	49	43	45	47	43	56
Information on share purchase scheme/ pension program	450	14	10	15	16	16	16
Employee training through in-house programs	450	235	259	256	278	293	297
Support to employee education	450	21	19	21	25	28	35
Information on management-employee relationship/ efforts to improve job satisfaction	450	34	40	40	38	48	53
Employee diversity	450	37	33	36	37	49	56
Employee receiving regular reviews	450	15	12	15	17	19	19
Recreational activities/ facilities	450	164	172	176	175	176	198
Discussion of significant benefit program provided	450	113	123	126	130	136	161
Establishment of a safety department/committee/policy	450	97	103	111	113	109	119
Provision of health care for employee	450	73	83	84	94	93	92
Compliance to health & safety standards and regulations	450	248	253	260	261	269	281
Award for health and safety	450	19	15	13	17	17	23
Rates of work-related injury/ illness/deaths	450	16	23	19	17	21	25
Marketplace							
Information on research project to improve products	450	35	40	43	42	45	48
Verifiable information that product quality has increased	450	7	7	6	6	7	7
Disclosure of product meeting safety standards	450	25	22	25	25	27	26
Product sustainability/ use of child labour	450	6	5	6	6	5	8
Customer service awards/ ratings	450	9	9	11	8	9	11
Other							
Value added statement	450	8	7	7	9	6	10
Value added ratio	450	8	7	7	9	6	10

Figure 5.2 displays the CSR themes emphasised by companies when reporting CSR information.

Figure 5.2: Breakdown of themes in CSR reporting



Evidently, most companies indicate their involvement in CSR practices through the General theme, accounting for 33.50% of disclosures. The second highest reported theme is Workplace accounting for 25.40% of the total reporting. Environment theme comprises 20.84% of the total disclosures revealing the increased awareness of CSR among companies. Meanwhile, Community theme made up 18.14% of the total reporting where most companies focused on charity activities. Marketplace and Other theme made to the two last spots in terms of themes reported, disclosing 1.80% and 0.32% respectively. This finding shows that out of all the CSR themes, companies are less keen to share their information on product matters. It is also interesting to know the trend of CSR reporting based on the themes. Table 5.4 summarises the results.

Table 5.4: Trend of CSR reporting over time

CSR Theme/Items	Percentage number of companies disclosing CSR						
	2008	2009	2010	2011	2012	2013	Increment
	%	%	%	%	%	%	%
General	52.80	53.00	53.20	53.10	53.00	53.30	0.95
Community	27.20	27.50	28.50	29.30	29.60	30.30	11.40
Environment	29.80	31.90	32.30	32.70	35.10	36.30	21.81
Workplace	36.30	38.00	38.90	40.40	42.10	45.70	25.90
Marketplace	2.60	2.70	2.90	2.80	3.00	3.20	23.08
Other	0.50	0.40	0.40	0.60	0.40	0.60	20.00

Through general observation, there seems to be an increment in the CSR reporting over the six year period. Workplace has become the prioritised reported theme with the increment of 25.90%. As employees are among the crucial elements for a company's success, providing them with the basic necessities and also fringe benefits is as important as disclosing them in the annual report. Interestingly, more companies are starting to report on Other with the increment of 20%. As this theme reports on value added statement as well as value added ratio, it exhibits companies' inclination towards providing additional information to show their commitment to CSR activities. Marketplace also shows promising increment of 23.08% over time. While little has been reported under this theme and disclosed by approximately 3% of companies as compared to 61.2% Iranian companies (Yaftian 2011), the increment proves that companies are starting to consider producing better quality products and services. Meanwhile, Environment theme has also received considerable attention by companies with an increase of 21.81%. Generally, the percentage of companies disclosing this theme seems to be higher compared to the study by Haniffa and Cooke (2005) in Malaysia, Purushothaman et al. (2000) in Singapore, Yaftian (2011) in Iran and Hackston and Milne (1996) in New Zealand but lower than reported by Gray et al. (1995) in the UK. This result is likely to be driven by the difference in companies' size (Deegan & Rankin 1997) and also country researched (Yaftian 2011). Meanwhile, Community and General theme exhibit a fairly lower increment of 11.40% and 0.95% respectively.

In terms of CSR reporting by type of industry, Table 5.5 summarises the findings. Companies involved in producing tobacco products rank the highest, disclosing 66.34% of CSR information. A possible reason could be that it is seen as having more negative impact on the people, and therefore need to legitimise the companies' activities (Gray et al. 1995). Apparel and other textile products industry ranks bottom of the list.

Table 5.5 CSR reporting ranking by industry over time

SIC Code	Industry type	Mean CSR Disclosure Index	Rank
21	Tobacco Products	0.6634	1
49	Electricity, Gas and Sanitary Services	0.4216	2
45	Transportation By Air	0.4183	3
70	Hotels and Other Lodging Places	0.3394	4
48	Communications	0.3343	5
29	Petroleum and Coal Products	0.3056	6
20	Food and Kindered Products	0.2714	7
37	Transportation Equipment	0.2591	8
1	Agricultural Production - Crops	0.2552	9
31	Leather and Leather Products	0.2516	10
54	Food Stores	0.2484	11
80	Health Services	0.2341	12
53	General Merchandise Stores	0.2271	13
10	Metal Mining	0.2255	14
24	Lumber and Wood Products	0.2245	15
56	Apparel and Accessory Stores	0.2222	16
27	Printing and Publishing	0.2213	17
15	General Building Contractors	0.2194	18
16	Heavy Construction, Ex. Building	0.2194	19
44	Water Transportation	0.2163	20
33	Primary Metal Industries	0.2123	21
36	Electronic and Other Electric Equipment	0.2096	22
26	Paper and Allied Products	0.2055	23
50	Wholesale Trade- Durable Goods	0.2029	24
39	Misc. Manufacturing Industries	0.2023	25
35	Industrial, Machinery and Equipment	0.2011	26
73	Business Services	0.1973	27
9	Fishing, Hunting and Trapping	0.1961	28
22	Textile Mill Products	0.1945	29
28	Chemicals and Allied Products	0.1895	30
25	Furniture and Fixtures	0.1825	31
32	Stone, Clay and Glass Products	0.1776	32
51	Wholesale Trade- Non-Durable Goods	0.1743	33
34	Fabricated Metal Products	0.1705	34
2	Agricultural Production - Livestock	0.1667	35
47	Transportation Services	0.1639	36
65	Real Estate	0.1628	37
30	Rubber and Misc. Plastics Products	0.1581	38
42	Trucking and Warehousing	0.1569	39
55	Automotive Dealers and Service Stations	0.1427	40
13	Oil and Gas Extraction	0.1364	41
58	Eating and Drinking Places	0.1275	42
23	Apparel and Other Textile Products	0.1135	43

5.7 Conclusions, limitations and recommendations for future research

The main objective of this chapter was to examine the extent of CSR reporting practices of selected PLCs in Malaysia over the period 2008 to 2013.

Drawing on institutional theory, the results, based on a self-constructed disclosure checklist, indicate that the extent of CSR reporting of Malaysian PLCs increased substantially over the six-year period under examination. This supports the findings of Esa and Mohd Ghazali (2012) and also Haji (2013). Following the corporate governance restructuring in 2012, companies have been seen starting to increase the provision of CSR information in their annual reports. This finding lends support to the study by Ratanajongkol et al. (2006) that spelling out corporate governance pronouncements has an impact on a company's decision to provide more CSR information. The increase in CSR reporting might also be attributed to other specific events that took place during the study period namely the Bursa Malaysia mandatory CSR reporting, the introduction of CSR awards as well as the increasing cognizance of CSR issues in the Malaysian business environment.

Turning to the content-category theme reporting, there appears to be some concern among companies to portray a socially responsible image. The human resource disclosure increased sharply over time, embedding the perspective of the employee as one of the key stakeholders. Other type of content-category themes of CSR reporting, such as Environment and Community, have similarly shown some promising changes through steady increases over the six year period.

On the whole, there have been increases in the extent of CSR reporting of public listed companies in Malaysia. Although reporting companies here did not explicitly identify that the Bursa Malaysia's CSR reporting requirement directly drove the change in their reporting practices, the evidence and analysis show that the change is consistent with regulation compliance. Further to that, the revised corporate governance code has wielded some influence in raising awareness of the concerns of non-economic stakeholders, thereby resulting in changes in social reporting. Theoretically, the rise in CSR reporting over time provides support to institutional theory through coercive isomorphism in a developing country context.

The findings of this chapter lead to some potential policy recommendations. First, policy-makers could launch educational programs to increase CSR awareness of company management-stakeholders' and the general public. Second, policy makers should also consider that the most common form of CSR involvement in Malaysia currently appears to be donations and sponsorships. There is a plethora of other core issues on the CSR agenda, which could be highlighted, promoted and reported. While mandatory CSR reporting has been identified as one of the main

drivers of improved level of reporting among companies, Sulaiman, Abdullah and Fatima (2014) point to the deficiencies of the CSR framework. In light of this, the government should consider making CSR reporting mandatory, not only in terms of the current reporting format but also regarding the required content and type of information disclosed. This is essential to ensure uniformity and consistency of CSR reporting across companies, and also a way to discharge a company's accountability to all stakeholders. Unless this is put into practice, CSR reporting will remain fragmented in various forms and incorporate subjective elements, instead of disseminating important information with regard to a company's impacts. Although to some, uniformity in CSR reporting may not necessarily reflect company's accountability to stakeholders, but merely in order to conform to the reporting requirements, companies might indirectly find themselves performing CSR activities previously not undertaken. This might put some stakeholders at an advantage. In addition, to further foster companies to provide a more comprehensive report and satisfy the objective of the Bursa Malaysia, which is to go beyond compliance, the government could provide more attractive incentives such as granting greater tax benefits. It may also worthwhile to survey stakeholders in order to understand their CSR information needs. The outcome of this survey will help companies make more informed decisions about what would be considered meaningful and credible CSR information to be reported. This would be a fruitful area for further work. Collectively, although government's efforts have been efficacious and consistent with institutional theory, there is still considerable room for improvement.

The findings of this chapter should nevertheless be interpreted with a degree of caution. First, this study relies on published annual reports and on the assumption that CSR reporting contained within the annual report reflects the main corporate narrative. Companies have at their disposal a wider array of media to convey their message. For instance, most companies usually have separate supplemental information in communicating their CSR, which this study has not considered. Hence, it is worthwhile for a future study to include this type of information. Second, given the diversity of presentation in the annual reports, a certain level of subjectivity in coding the different CSR items is unavoidable. However, such subjectivity exists in all annual report content analytic studies and this drawback has been noted in prior studies (Nik Ahmad & Sulaiman 2004).

CHAPTER 6: OWNERSHIP STRUCTURE AND CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING

Abstract

This chapter studies the relationship between ownership structure and CSR reporting. This chapter tests the hypotheses that shareholdings by directors demotivate companies from reporting more CSR information. When directors are also large shareholders, they are able to lead the company towards satisfying their needs rather than those of other stakeholders. This effect is detrimental to a company's reporting behaviour. Interestingly, the presence of institutional investors fails to improve CSR reporting. They are most likely focusing on short term returns and view CSR practices unfavourably since they have the potential to reduce company earnings.

6.1 Introduction

Ownership structure is one of the important features that affect the governance system of a company. It shapes what owners seek from the company and what their responsibilities toward society (Aguilera & Crespi-Cladera 2016). Ownership as a construct can be easily compared across countries unlike other governance constructs such as board independence (Aguilera & Crespi-Cladera 2016). Two significant types of ownership structure have been recognised; one being dispersed ownership and the other is more concentrated in nature. The first type of ownership exists more frequently in the US and the UK while the latter is more prevalent in Continental Europe and Asia (La Porta et al. 2000). Ownership structure determines the nature of conflict between shareholders; between owner and managers in dispersed types of ownership and between dominant and minority shareholders in concentrated ownership structures. It is imperative to differentiate between different types of controlling shareholders when ownership structure is concerned. Different types of owners prefer different strategic objectives with divergent preferences regarding corporate decisions and investments (Ghazali & Weetman 2006). Consequently, their demands from boards will vary. Zahra (1996) demonstrated that executive ownership and long-term institutional ownership are positively associated with corporate entrepreneurship, whereas short-term institutional ownership has a negative effect on it. Based on the agency view of this principal-agent problem, when ownership is widely dispersed, there is the risk that

managers run companies to fulfil their own interests at the expense of the owners' interests. The design of corporate governance mechanisms is largely focused on mitigating or solving the managers-shareholders conflict in the context of widely held companies. Shareholdings in PLCs in Malaysia are found to be highly concentrated (Ghazali & Weetman 2006). This structure portrays the nature of the agency problem as principal–principal (Young et al. 2008). This means dominant shareholders possess both the incentive and the power to discipline management. While this ability can confirm that the management's act will not divert from the shareholders' wants, the dominant shareholders are more inclined to expropriate the wealth of the minority shareholders through promoting strategies they feel will be beneficial. This action is driven by the conflicting interest of controlling and minority shareholders. At this point of time, effective corporate governance mechanisms are needed to prevent actions of tunnelling at the expense of the overall company's interests, including its minority shareholders towards the majority shareholders' interests.

In the case of information disclosure, likewise, concentrated ownership structures allow controlling owners to utilize their effective control over companies to influence disclosure policy (Garcia-Sanchez, Cuadrado-Ballesteros, & Frias-Aceituno 2016). Basically, the disclosure pattern of the company must satisfy the demands of shareholders. As a result, companies' reporting will differ in terms of its level and quality. Companies operating with a concentrated ownership structure normally tend to report less information especially pertaining to CSR activities. Dominant shareholders prefer to invest in activities that can increase their wealth rather than matters that are less beneficial for them. Further, shareholders' activism are weak in concentrated ownership countries. This further discourage companies from reporting more CSR information (Ghazali & Weetman 2006). Fan and Wong (2002) mentioned two approaches to reporting practices in concentrated ownership companies. Initially, company reports information mainly reflecting the interests of the dominant shareholders. This is known as "entrenchment". However, upon reaching a certain level of ownership concentration, it starts to demonstrate an alignment effect between the interests of the main shareholder and those of minority shareholders. At this stage, though more information is disclosed, it is administered in order to limit the transfer of specific information to possible competitors. On the contrary, Anderson, Mansi and Reeb (2003) argued that ownership concentration

could have the opposite effect due to dominant shareholders' interest in the long-term survival of the company and in maintaining their own reputations. Hence, these shareholders are prone to take decisions that optimize the company's economic, social and environmental behaviour. In other words, corporate social activities are becoming part of normal company considerations (Fauzi, Mahoney & Abdul Rahman 2007). These explanations outline the importance of ownership structure in relation to company reporting.

Prior research in developed countries suggests that the structure of ownership is associated with the level of information disclosure due to different objectives and decision making horizons of different owners (Soliman, El Din & Sakr 2013). Examining the effect of ownership on company reporting behaviour in developing countries may provide a different perspective mainly because of the concentrated ownership as oppose to diverse type of ownership. It is widely acknowledged that companies operating in a concentrated ownership environment suffer greater conflict between majority and minority shareholders. The objective of this study is to investigate the relationship between ownership structure and CSR reporting in Malaysia; focusing on institutional ownership and directors' ownership. Institutional investors are traditionally large and may hold a substantial amount of a company's shares while managers are individuals who have in-depth knowledge about the company. Given their power, they have significant influence on corporate governance decisions. In addition, with the dominance of family run companies, ownership by directors is almost a common practise (Sundarasan et al. 2016). While most evidence on the effect of ownership structure on CSR reporting is available in developed countries, it is interesting to know whether the same result hold for developing countries. Hence, the prevalence of institutional investments, the existence of large ownership by directors and the paucity of earlier studies in the context of developing countries, collectively act as the foundation for undertaking this study. The results of this study will provide information to business communities to assess corporate governance practices in Malaysia and also to regulatory agencies to develop better corporate governance framework.

The rest of this chapter is as follows. This introduction section highlighted the research problem and motivation. Next, discussions pertaining to the ownership structure and CSR reporting are deliberated in the literature review section. Then the theoretical background is discussed followed by development of hypotheses. The

research methodology is explained next. Then the research findings and discussion are presented. Finally, the research findings are summarised followed by outlining of the limitations of the study and recommendations for future study.

6.2 Literature review

6.2.1 Directors' ownership

The separation between ownership and control has mostly leads to an array of agency problems which are premised on the belief that managers are economically self-interested (Samaha, Dahawy, Abdel-Meguid & Abdallah 2012b). Allegedly, holding a substantial portion of shares of a company by board members is a way to curtail agency problems. This basically means shifting of conflicts of interest from management-shareholders to management-minority shareholders (Akhtaruddin & Haron 2010). The widely held view that higher managerial ownership is valuable for shareholders because it aligns the interests of managers better with those of shareholders. Within the corporate governance field, directors' ownership is perceived as a major influential factor associated with management efficiency (Paek et al. 2013; Fauzi & Musallam 2015). Through holding a certain percentage of the company shares, it encourages manager-owners to start focus on maximizing company gain which also means increasing the value of the company (Amran & Ahmad 2010). Inspired by the agency literature, many researchers (e.g. Jensen & Meckling 1976; Morck et al. 1988) show support for greater director ownership because it increases directors' incentives to enhance company value, hence benefiting shareholders. The thought of converging directors' equity holdings and directors' actions to shareholder interests has been supported in many studies (Paek et al. 2013). Latif, Kamardin, Mohd and Adam (2013) demonstrate that director shareholdings help in aligning the directors' interests with the interests of other shareholders through better meeting attendance. Indeed, a number of studies have proposed that directors' ownership level is an indication of the company's value; high ownership reflects the high value of the company (Paek et al. 2013). Hence, it is not surprising when there are companies that often require directors to own a certain amount of company stock, and several others restricting the selling of shares held by top management in favour of other shareholders' interests (Paek et al. 2013). Mak and Li (2001) further provide evidence that managers who take company ownership resort to lower board monitoring over management activities. Also, Dhaliwal,

Salamon and Smith (1982) found that directors' ownership is associated with lower earnings manipulation. Yet, instead of agreeing with the idea, Mat Nor and Sulong (2007) argue that when directors own a smaller portion of the company's share, they still have greater incentive to pursue personal benefits and less motivated to maximise company value. Also, directors who have a small ownership percentage tend to use higher internal cash flow than the level that maximizes shareholders' wealth (Paek et al. 2013). Thus, to reduce the agency costs, Mat Nor and Sulong (2007) propose to increase the shares held by the directors. In this manner, directors will become more efficient in controlling the company assets.

Nevertheless, many believe that the effects of directors' ownership on corporate governance are non-linear (e.g. Samaha et al. 2012b; Akhtaruddin & Haron 2010; Fahlenbrach & Stulz 2009). When directors' ownership becomes too large, it enables directors to entrench themselves (Fahlenbrach & Stulz 2009). A high level of directors' ownership provides power which induces directors to indulge preferences for non-value-maximizing behaviour (Akhtaruddin & Haron 2010). Upon reaching this stage, directors' benefits may outweigh the loss they suffer from a reduced value of the company (Amran & Ahmad 2013). In accordance to that, operating performance will be reduced as directors' ownership increases beyond a certain point (Fama & Jensen 1983a); forcing company value to fall. Meanwhile, Stulz (1988) proves that higher directors' ownership act as a shield from external takeovers. Directors' ability to block takeover bids can lower company value. Likewise, Holderness, Kroszner and Sheehan (1999) also find company value to increase with low levels of directors' ownership and decreases as the ownership level gets higher. This vagueness seems to raise the issue about whether companies should encourage stock ownership by managers and board of director members (Pergola & Joseph 2011). Zhou (2001) describes the issue as evidence of a complex role of insider ownership: while it aligns the interests of directors and shareholders and thus enhances performance, it also facilitates entrenchment and affects performance adversely. Perhaps there is an optimal level of ownership that can actually align the directors' interest to that of shareholders, which is undoubtedly unique to each company.

6.2.2 Institutional ownership

Institutional investors have a notable presence and a growing influence in capital markets (Muniandy, Tanewski & Johl 2016). Given considerable amounts of investment, they are able to influence trading activities in the capital market (Muniandy et al. 2016). Of late, institutional investors emerge to provide corporate governance (Jones et al. 1997). This new role motivates them to support a means of monitoring management and protecting shareholder interests (Jones et al. 1997; Muniandy et al. 2016; Mizuno 2010). In other words, institutional investors have the opportunity, resources and ability to monitor, discipline and influence a manager's decision in the company (Monks & Minow 2004). In fact, institutional investors have a much stronger incentive to monitor companies that they own than do individual investors because of their larger stakes in those companies, especially if exit is costly (Chung & Zhang 2011). Thus, institutional investors have greater responsibility in ensuring company adopt their recommendations (Mizuno 2010). At the same time, they also have the power in constraining choices of strategies (Chaganti & Damanpour 1991). The more involved the owners, and the more concentrated their ownership, the greater the power they should have in influencing the companies (Mintzberg 1983). Chung and Wang (2014) mention that companies with large institutional shareholdings play an active role in monitoring managerial opportunism in managing the reported earnings. This is because institutional investors are more concerned about the underlying profitability of the companies especially when it involves long-term investment. Besides monitoring, institutional investors also have the ability to change existing power distributions within companies (Muniandy et al. 2016).

While many claimed that institutional investors act as enhancement of governance mechanism (e.g. Jones et al. 1997; Muniandy et al. 2016; Mizuno 2010), their roles are contingent to their investment strategy and their incentives and ability to involve themselves in the company's governance and the process of business decision making (Manzaneque, Merino & Priego 2016). With respect to that, scholars have commonly distinguished them into groups of pressure resistance (e.g. insurance companies, pension funds and investment trusts) and pressure sensitive (e.g. financial institutions). The former group is less subject to influence from management because they are investors without a commercial relationship with the company, while the latter is sensitive to management because they may obtain

benefits from the business activities of the company in which they are owners. Muniandy et al. (2016) highlight three types of monitoring situations provided by institutional investors. Their presence can be associated with active monitoring of management, conflict with management or aligned interest with other shareholders. In addition to investment strategy, these monitoring incentives are also subject to the investment size; institutional investors with large stakes in the company are more inclined to monitor management as a way of securing their ownership interests (Muniandy et al. 2016). Mallin (2007) points out that there has been a general increase in the level of engagement of institutional investors with their investee companies. Recently, institutional investors have been observed to show increasing concerns regarding social and environmental matters. Mahoney and Roberts (2007) prove that institutional investors pay attention to the way companies manage their social issues before making investment decision.

There are various ways that institutional investors can enhance company's engagement in CSR. One way is through better involvement in the decision-making processes. Their large stake in a company provide them with the force to request, and if necessary instruct, the top management to include social and environmental guidelines in their business objectives (Ullah & Jamali 2010). Another way is by being selective in making investment whereby they will only invest in companies that embrace social responsibility. In fact, institutional investors have publicly stated their preference for companies that appear strong on CSR activities (Harjoto et al. 2015). This is termed Socially Responsible Investment. Institutional investors who consider ethical investment criteria in their investment decisions have a choice of selling the shares if companies were found to neglect CSR (Ullah & Jamali 2010). Mahoney and Roberts (2007) provide evidence that companies' CSR is capable of attracting more institutional investors to own stocks in the companies. Dhaliwal, Li, Tsang & Yang (2011) further reinforce the finding by showing that dedicated institutions hold shares of companies that initiate CSR disclosure and exhibit better CSR performance. On the same note, Harjoto et al. (2015) confirm an increase in company's CSR engagement with the existence of institutional investors, which in return boosts the performance of the company. While institutional investors has been widely associated with better CSR practices, it is presumed that this act is common to institutional investors with long-term horizon only. Due to their interest in the company's long-term profitability, they have the incentive to get engaged in

company strategic management including its social behaviour (Ullah & Jamali 2010). Institutional investors with long-term horizon emphasize on economically optimal value rather than social value of CSR activities. This is consistent with the finding of Cox et al. (2004) that CSR is positively related to long-term institutional investment. Contrary to that, short-term institutional investors focus on short-term costs of CSR activities which obviously makes it look less appealing to them. That probably explains the negative association revealed by Chava (2014) between institutional ownership and a company's environmental concerns. Apparently the diverse perspective of institutional investors towards CSR is likely to affect company CSR practices.

Collectively, institutional investors are commonly assumed to be a key component of corporate governance, hence, they are more likely to prefer stocks of better-governed companies when investing. To them, better governed companies are likely to require less monitoring, have higher stock market liquidity, and more easily meet fiduciary responsibilities (Chung & Zhang 2011). In conjunction with that, institutional investors seek for more accountability and transparency in business operations. They regard companies demonstrating these qualities as well governed. Therefore, in terms of fundraising, companies have to seriously consider the value of transparent and accountable management (Mizuno 2010). This would mean, disclosing information that may affect investment decision of institutional investors is essential.

6.3 Ownership in Malaysia

In Malaysia, most listed companies are commonly concentrated by family ownership and these companies mostly are inherited by the founder's descendants. Malaysia has the third highest concentration of family founder control and their descendants after Thailand and Indonesia (Taufil-Mohd, Md-Rus & Musallam 2013). Amran and Ahmad (2013) further confirm this by revealing that 72.8% companies listed on the Main Market of Bursa Malaysia are family-owned. Clearly, family ownership is the most prevalent of ownership structure in Malaysia. At present, listed companies are obligated to meet the Bursa Malaysia Listing Requirement that calls for at least 25% of outstanding shares of a company to be issued to the public. While this rule is complied with by many companies, family founder companies or other connected parties could still hold at least three quarter of shares. If this is the case,

they would still be the major shareholders and would control the decision-making process (Sundarasan et al. 2016). A family-controlled company normally practices “top-down” approach in managing a business, with owners being the major decision-makers (Sundarasan et al. 2016). Given the highly concentrated ownership and control of companies in Malaysia, it is feared that it may impair the effectiveness of existing regulatory mechanisms in the corporate sector. It suggests that protection of minority shareholders may be problematic (Thillainathan 1999). It is common to find majority shareholders either individuals/families or institutions to involve directly in the management (Amran & Ahmad 2013). Hence through their dominant voting right, they are free to pursue their own interests that may not coincide with the interests of other shareholders in the company. Accordingly, minority interests are expropriated. As a measure to address the issue, Minority Shareholder Watchdog Group (MSWG) has been established. Nevertheless, to this day, MSWG seemingly fails to function effectively.

6.4 Theoretical background

Traditionally, insights into the relationship between management and company are normally provided by agency theory. Meanwhile stakeholder theory focuses on the importance of managing stakeholders’ interests in an attempt to maximise company’s return (Shleifer & Vishny 1997). Nevertheless, Hill and Jones (1992) believe that to better understand organisational phenomena, both theories should be combined. This means, fundamentally managers are accountable to maximise profits for the shareholders but such duties must also comply with law and ethical norms (Culpan & Trussel 2005). With that view, stakeholder-agency theory was introduced. This theory generally extent the responsibilities of managers to include all stakeholders instead of shareholders. Stakeholders are assumed to have the right to claim on company’s profit since they are the controllers of key resources (Hill & Jones 1992). Their satisfaction is central in ensuring the long-term survival and success of the company. Yet, shareholder wealth maximisation and stakeholders’ interest fulfilment are frequently distorted by hazards arising from the separation of risk bearing and decision-making. The concern is that with the absence of moral and values aspects, managers are most likely to enrich themselves at the expense of the company and also shareholders.

Stakeholder agency theory suggests that shareholdings owned by managers help by aligning their interests with those of the shareholders (Hill & Jones 1992). Considering they have equal share to the company's profit, managers have a stronger incentive to improve company's performance. However, given the family dominance in a company, shareholdings by managers are likely to cause an entrenchment effect. Often, top management in family owned companies has family ties. This gives them the power to act according to their needs. Through the granting of shareholding, it forms a solid ground to increase their power.

Scholars refer to management entrenchment as situations in which executives try to ensure self-preservation by neutralising internal control mechanisms. Generally, this highlights the ability of managers to extract private benefits from owners. In the word of Weisbach (1988), managerial entrenchment occurs when managers gain so much power that they are able to use the company to further their own interests rather than the shareholders interests. Through costly entrenchment strategies, managers are able to keep their positions even when they are not sufficiently competent or qualified to manage a company (Shleifer & Vishny 1989). Entrenched managers are not only costly to replace but they can further extract shareholders wealth through higher remuneration or greater discretionary behaviour. There are six entrenchment devices which according to Bebchuk, Cohen and Ferrell (2009) are among the most impactful: poison pills, staggered boards, executive golden parachutes, supermajority voting requirements for the approval of mergers and limitations on shareholders' ability to amend corporate bylaws and charters. Both of academics and market participants collectively view entrenchment as reducing accountability to shareholders and amplifies agency costs, thus decreasing shareholder wealth. Although there exist various corporate mechanisms such as takeover and board of directors, they are assumed less effective in holding management accountable to shareholder interests (Shleifer & Vishny 1989). In fact, it is the interest of the managers that they transform the mechanisms to be in their favour.

Share-option schemes have a similar effect to the entrenchment device. It has been observed to create an adverse opportunity that contributes to management expropriation (Ismail, Arshad & Othman 2014). When managers hold a substantial amount of company's shares, they are assumed to have less incentive in sharing more information to the public (Ismail et al. 2014). This includes reporting on CSR

information. Managers' reluctance will help to pave way for the attainment of their personal goals. Given their power, they are likely to face any obstacle in creating a conducive condition to management entrenchment (Ismail et al. 2014). Putting it differently, managers use their ownership stake to assert their interests thus compromising the interests of the remaining shareholders (Siebels & Zu Knyphausen-Aufseß 2012). With regard to CSR reporting, entrenchment effect of managerial ownership is associated with low CSR reporting. Seemingly, increased managerial ownership decreases the efficiency of corporate governance mechanisms (Siebels & zu Knyphausen-Aufseß 2012).

Institutional investors have strong incentive to monitor company management as they will benefit from enhanced company value (Chung & Wang 2014). Large ownership positions provide the opportunity for institutional investors to directly engage with and influence management on various issues including greater corporate disclosure. With CSR becoming more prominent, institutional investors have attempted to influence companies' CSR practices. Many of them have even incorporated environmental, social, and governance issues into their investment analysis (Chung & Wang 2014). As a result, a sizeable group of institutions require both social and financial measures of performance. In sum, the application of stakeholder agency theory in explaining the effect of ownership structure on CSR reporting seems justified.

6.5 Hypotheses development

6.5.1 Directors ownership

There has been continuous debate that company's ownership structure affects its reporting strategy (Akhtaruddin & Haron 2010; Janggu et al. 2007; Mohd Ghazali 2007). On the positive note, directors' ownership provides direct incentives for them to act in line with shareholders' interests as the wealth of the directors is tied to the performance of the company (Jensen & Meckling 1976). In line with that, directors tend to be more motivated to disclose more information to the shareholders. This notion is supported by Uwuigbe and Olusanmi (2012) after examining Nigerian listed companies. He discovered that a higher level of managerial ownership in a company induce their willingness to be more environmental friendly with the stakeholders; hence report more on CSR information. In China, Li and Qi (2008) use an entropy theory assessment method on 100 listed companies in Shanghai and

Shenzhen stock exchange. The result shows that companies with high managerial ownership have high levels of corporate voluntary disclosure. Another study that reports similar results are Samaha et al. (2012b) in Egypt.

On the negative side, when directors hold the majority shares of a company, there is a possibility that demand for disclosure and consequently, the incentive to disclose, will be affected (Akhtaruddin & Haron 2010). This potential problem is further aggravated when owner-managed companies prefer to limit their social activities due to the presumption that it may not be beneficial for the company. Indirectly, reporting on these activities will not be impressive. Fan and Wong (2002) further argue that entrenchment effect of ownership concentration to the board potentially affects corporate transparency. In Malaysia, Guan Yeik (2006) provides evidence that ownership by directors impacts negatively on CSR disclosure of PLCs. Abdullah et al. (2011) also find that owner-managed companies are negatively associated with the extent and quality of CSR disclosure. Mohd Ghazali (2007) reports that companies which have higher portion of executive directors shares disclose less CSR information. Likewise, Akhtaruddin and Haron (2010) demonstrate a negative relationship between directors ownership and disclosure level. The negative effect is, however, weaker for companies with higher proportion of independent directors on the audit committee suggesting that the presence of independent directors moderate board ownership and corporate voluntary disclosure relationship. A more recent study has been conducted by Razak and Mustapha (2013). Employing multiple regression analysis on data of 200 PLCs, they revealed a negative and significant relationship between directors ownership and CSR disclosure. Similar result was exhibited by Eng and Mak (2003) in Singapore where they found that lower managerial ownership is associated with increased voluntary disclosure. Rouf and Al Harun (2011) revealed that the opportunity of management owning company shares has an adverse impact on voluntary disclosure of listed companies in Bangladesh. Samaha and Dahawy (2010) examine the factors influencing corporate disclosure transparency as measured by the level of corporate voluntary disclosure in the annual report of the active share trading firms in Egyptian Stock Exchange. The study indicates that lower managerial ownership was associated with increased in corporate voluntary disclosure. Khan et al. (2013) argue that managers especially in family-dominated companies are less keen to spend on CSR activities which they assumed as not beneficial. Hence, managerial ownership is

negatively related to CSR reporting. Expressing similar view, Rouf (2011) proves that management ownership results to lower voluntary disclosure.

Juhmani (2013) believes that managers with greater shareholdings can derive greater share-market benefits from better disclosure. As their wealth is linked to the company's wealth, they are more inclined to increase disclosure. Nevertheless, the insignificant result emerged from his study suggests that managers' opportunistic behaviour is likely to be reduced due to the small amount of shareholdings. Other studies that revealed similar results are Darus, Isa, Yusoff and Arshad (2015) and Donnelly and Mulcahy (2008). Collectively, although the studies provide diverse results, the majority of them exhibit a negative impact of directors' ownership on company disclosure. This gives the initial impression that the attempt to align managers' interest with that of shareholders is apparently ineffective. Hence, the following hypothesis is formed:

H1: Directors' ownership negatively affects CSR reporting

6.5.2 Institutional ownership

Special interest has arisen from the literature about the role of institutional investors in management control. Institutional investors have been commonly associated with good corporate governance practices. For instance, institutional investors in Japan have become vocal and keen to exercise their voting rights to protect the interests of all stakeholders. Along with the increasing interest for social aspects, institutional investors now regard their investments as an expansion of their values and social beliefs in their business environment (Saleh et al. 2010). In light of the view, companies are suggested to consider declaring their CSR activities in annual reports as a way of attracting institutional investment. However, a question arises as to whether institutional investors, really deliver on reporting on non-financial information.

Empirically, the evidence on the institutional ownership-CSR reporting relationship is mixed and inconclusive. Taufil-Mohd, Md-Rus and Musallam (2013) believe that institutional investors could play an effective monitoring role as their wealth is tied up to the company's performance. Consequently, they can help to reduce the agency problems between majority and minority shareholders in Malaysia. Mahoney and Roberts (2007) also report a significant positive relationship between companies' CSR disclosure and the number of institutions investing in its

shares. Nik, Rahimi and Gholami (2015b) found positive relationship between institutional ownership in the cement, petrochemical and automotive industry and voluntary disclosure of PLCs in Tehran. They assert that due to high monitoring by institutional investors, the quality and quantity of voluntary disclosure can be enhanced. Chakroun and Matoussi (2012) analyse the interactions between the external and internal mechanisms of corporate governance and corporate voluntary disclosure in the annual reports in the Tunisian market. They find that there is an impact of the institutional ownership on the extent of the voluntary disclosure. Rouf and Al Harun (2011) demonstrate similar finding upon examining companies listed on Dhaka Stock Exchange.

On the contrary, institutional ownership concentration appears to negatively influence the level of disclosure (Htay, Rashid, Adnan & Meera, 2012). Premised on agency theory, legitimacy theory and stakeholder theory, Ntim and Soobaroyen (2013) contend that the presence of institutional investors motivates managers to report more CSR information. However, their analyses proved otherwise, where by institutional investors are inclined to make significantly less CSR disclosures. Habbash (2015) and Barnea and Rubin (2010) did not find significant empirical evidence to relate the power of institutional investors with CSR practices. Clearly, the evidence on the role of institutional investors in enhancing company's CSR reporting behaviour are varied. While some scholars view the investment horizon of institutional investors as the root cause (e.g. Cox, Brammer & Millington 2004; Ullah & Jamali 2010), others view the role of shareholder activism that is likely to vary in each country as the prime motivating factor. This study hypothesized that:

H2: Institutional ownership positively affects CSR reporting

6.6 Methods

6.6.1 Data

There are 813 companies listed on the Main Market of Bursa Malaysia at 31st December 2013. Only 613 companies have completely lodged their annual reports over the six year period. 136 finance companies were dropped from the sample due to different regulatory and disclosure constraints similar to Mohd Ghazali (2007), Said et al. (2009), Haniffa and Cooke (2005). Additionally, 27 companies were further excluded due to insufficient data. Finally, the sample comprises 450 companies as exhibited in Table 4.3.

CSR data for this study are mainly collected manually from the annual reports. The reasons the annual report was used to serve the main objective of this study are first, many researchers have relied primarily on annual report to obtain CSR information (e.g. Chan et al. 2014; Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013). Second, annual report has been the preferred medium to disseminate corporate information including information pertaining to CSR (Hasnah et al. 2006; Chan et al. 2014). Third, annual report is perceived as the main company's document as it outlines the organization as a whole (Gray et al. 2001). Finally, annual reports are not only easy to access but they are also reliable which make them the favourable option to disclose corporate information (Othman & Ameer 2010). As for financial data, apart from the annual report, the information was also obtained from DataStream database, if it was not readily available from the annual report. Nevertheless, information on institutional ownership was acquired from Bursa Malaysia Historical Data Package.

6.6.2 Variables

6.6.2.1 Dependent variable

Content analysis as a research method is well established for CSR reporting (Lu, Abeysekara & Cortese 2015) as evident in Abdullah et al. (2011), Chan et al. (2014) and Haji (2013). Similarly, this study employs content analysis. In doing so, a checklist of items was constructed. This was done by referring to (1) previous CSR reporting checklists (e.g. Hackston & Milne 1996; Barako & Brown 2008), (2) Malaysian checklists (e.g. Abdullah et al. 2011; Haji 2013) and (3) Bursa Malaysia framework. Highlighting four CSR dimensions namely Environment, Community, Marketplace and Workplace, this framework guides companies in implementing and reporting CSR activities. Although the detailed content of CSR reporting is highly dependent on the management, reference to this framework is deemed essential to ensure adherence to the listing requirement and to be current to the Malaysian context. This study benchmarked a checklist by Abdullah et al. (2011) that encapsulates the work of Mohd Ghazali (2007), Hackston and Milne (1996) and Ng (1985). In an attempt to make the checklist more comprehensive, the checklists by Mohamed Adnan (2012) and Chan et al. (2014) were also referred to. Further, Kolk (2010) uses CSR expertise to review the checklist. Accordingly, this study employs

the same validity method. The checklist was revised and refined several times before a final checklist was formed with 51 items (see Table 4.4).

This study utilises dichotomous approach to obtained disclosure score; in accord with earlier studies (e.g. Haji 2013; Rashid & Lodh 2008). Each disclosure item is scored “1” if it is disclosed and “0” if otherwise. A CSR reporting index is calculated by dividing the disclosure score of each company to the maximum possible score (i.e. 1 x 51= 51) as indicated by the formula below:

$$CSRI = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$$

CSRI = CSR reporting index; n_j = number of items expected for j th company; $X_{ij} = 1$ if i th item disclosed; 0 if i th item not disclosed.

6.6.2.2 Independent and control variables

This study employs a number of independent variables and also control variables. These variables together with their definition and sources from previous studies are listed in Table 6.1.

Table 6.1 Independent and control variables

Independent variables	Acronyms	Description	Sources
Directors' ownership	DIROWN	Percentage of directors' shareholdings	Rashid (2015a), Khan et al. (2013), Fauzi and Musallam (2015), Sartawi et al. (2014), Chou et al. (2013)
Institutional ownership	INSTITUT	Percentage of institutional shareholding	Rao, Tilt and Lester (2012), Chung and Zhang (2011)
Control variables			
Board size	BSIZE	Natural logarithm of total numbers of directors on the board	Rashid (2013), Reddy and Bather (2013), Chou et al. (2013), Lam and Lee (2008)
Leverage	DR	Ratio of Total liabilities to Total assets	Akhtaruddin and Haron (2010), Reddy and Bather (2013), Chou et al. (2013), Rahman et al. (2011)
Liquidity	LIQ	Current ratio	Rashid (2013), Rashid (2014), Ho and Taylor (2007)

Company age	AGE	Natural logarithm of number of years listed on Bursa Malaysia	Rashid (2009), Taufil-Mohd et al. (2013), Fauzi and Musallam (2015), Das et al. (2015)
Company size	SIZE	Natural logarithm of Total assets	Das et al. (2015), Sartawi et al. (2014), Rashid (2014), Jitaree (2015), Reddy and Bather (2013), Fauzi and Musallam (2015)
Profitability	ROA	Ration of Earnings before interest and interest (EBIT) to Total assets	Bliss and Balachandran (2003), Nasir and Abdullah (2004), Rashid (2014), Sartawi et al. (2014), Barako et al. (2006), Haniffa and Cooke (2005)
Company growth	GROWTH	Percentage of annual change in sales	Rashid (2013), Braun and Sharma (2007), Bathala and Rao (1995), Chou et al.(2013)
Market capitalisation	CAP	Natural logarithm of market capitalisation	Lam and Lee (2008)

6.6.3 The Model

In order to examine the relationship between ownership structure and CSR reporting, a model has been formed as follows:

$$CSRI_{i,t} = \alpha + \beta_1 DIROWN_{i,t} + \beta_2 INSTITUT_{i,t} + \beta_3 BSIZE_{i,t} + \beta_4 DR_{i,t} + \beta_5 LIQ_{i,t} + \beta_6 AGE_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 ROA_{i,t} + \beta_9 GROWTH_{i,t} + \beta_{10} CAP_{i,t} + \epsilon_{i,t}$$

Where $CSRI_{i,t}$ is CSR index for i th company at time t . $DIROWN_{i,t}$ is percentage of director ownership for i th company at time t . $INSTITUT_{i,t}$ is percentage of institutional ownership for i th company at time t . $BSIZE_{i,t}$ is the total number of directors for i th company at time t . $DR_{i,t}$ is debt ratio for i th company at time t . $LIQ_{i,t}$ is liquidity ratio for i th company at time t . $AGE_{i,t}$ is number of listed years on Bursa Malaysia for i th company at time t . $SIZE_{i,t}$ is natural logarithm of total assets for i th company at time t . $ROA_{i,t}$ is profitability for i th company at time t . $GROWTH_{i,t}$ is the company growth in sales for i th company at time t . $CAP_{i,t}$ is the market capitalisation for i th company at time t . α is the intercept, β is the regression coefficient and ϵ is the error term.

Before regressing the variables, data was screened for multicollinearity, heteroscedasticity and endogeneity problems in addition to meeting the normality assumption. Based on Residual Test/Histogram-Normality Test, data was found to be

normally distributed. In testing for multicollinearity problem, a Pearson correlation matrix has been formed (see Table 6.2). If the correlations among the independent variables are beyond 0.8, it indicates problem of multicollinearity (Gujarati 2003). Based on this view, the correlation value of 0.839 between company size and market capitalisation poses a concern. To confirm the existence of multicollinearity problem, a Variance Inflation Factor (VIF) for each independent variable was measured. Gujarati (2003) confirms the presence of multicollinearity when the value of VIF is greater than 10. However, this was not the case when the VIF values were within acceptable levels.

In examining the fulfilment of homoscedasticity assumption where there is constant error term across all values of the independent variables, this study looks at the scatter plot of the residuals (ZRESID) against the predicted value (ZPRED) of the model. It demonstrates a pattern of a classic cone-shape; indicating heteroscedasticity. Further, the Breusch-Pagan test was conducted where the heteroscedasticity problem was ascertained based on the Chi square and corresponding p values. Nevertheless, the problem was rectified using heteroscedasticity-consistent standard errors of the White (1980)'s method. Finally, data should be free from endogeneity problem. In other words, the independent variables should not be correlated with the error terms; otherwise the regression coefficient in the Ordinary Least Square (OLS) regression would be biased. One way of correcting it is to use Instrumental Variable regression. Consistent with Rashid (2014), when the CSR index was used as a proxy for CSR reporting, $F = 0.32$ with $p = 0.5737$. In light of the insignificant F-test for the predicted value of ownership structure, the results implied that: (1) endogeneity is not a problem; (2) OLS and Instrumental Variable regression results are consistent.

Table 6.2 Pearson Product Moment Correlation Coefficient Matrix

		1	2	3	4	5	6	7	8	9	10	VIF
1	DIROWN	1.000										1.123
2	INSTITUT	-0.256**	1.000									1.080
3	BSIZE	-0.089**	0.071**	1.000								1.171
4	DR	-0.035	-0.013	0.007	1.000							1.117
5	LIQ	-0.008	0.002	-0.045*	-0.274**	1.000						1.105
6	AGE	-0.177**	0.017	-0.011	0.005	0.063**	1.000					1.184
7	SIZE	-0.181**	0.061**	0.339**	0.055**	-0.067**	0.337**	1.000				3.886
8	ROA	-0.073**	0.062**	0.084**	-0.129**	0.049*	0.051**	0.111**	1.000			1.052
9	GROWTH	-0.009	0.049*	0.025	0.018	-0.059**	0.000	0.073**	0.039	1.000		1.013
10	CAP	-0.156**	0.071**	0.321**	-0.069**	0.035	0.268**	0.839**	0.174**	0.071**	1.000	3.680

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

6.7 Results and discussion

Table 6.3 shows the results of the descriptive tests of all variables.

Table 6.3 Descriptive statistics

	Mean	Median	Minimum	Maximum	Std. Deviation
DIROWN	0.0438	0.0030	0.0000	0.5680	0.0879
INSTITUT	0.2627	0.2040	0.0000	0.9590	0.2208
BSIZE	7.2362	6.6859	3.004	18.1741	1.2960
DR	0.4024	0.3775	0.0030	10.3190	0.3623
LIQ	3.0531	1.7845	0.0070	96.1110	5.1989
AGE	13.9782	15.0293	6.0000	52.9845	1.6403
SIZE (log TA)	12.8784	12.6500	9.3690	18.4110	1.4467
ROA	0.0619	0.0580	-2.8980	5.5470	0.1782
GROWTH	0.0533	0.0265	-4.9410	8.5780	0.4777
CAP (log Cap)	18.7976	18.5030	12.3710	24.8100	1.8112
CSRI	0.2167	0.1961	0.0392	0.7255	0.1198

The level of CSR reporting was recorded at 21.67% as compared to 76% in Bahrain (Juhmani 2013) and 37.45% in Egypt (Soliman et al. 2013). Apparently, this is a reasonably low result in spite of the initiatives conducted by many parties in raising consciousness regarding the importance of CSR as well reporting the related activities (Lu & Castka 2009). Notwithstanding, Haniffa and Cooke (2005) affirm that culture has its role in instigating companies to be less prone to share corporate information with the public. Interestingly, directors who own company shares comprise only 4.38%. While businesses in Malaysia are mostly run by families, this is an unforeseen result. Companies in other developing countries which generally share the same environment, have a higher rate of directors ownership as demonstrated by Juhmani (2013) in Bahrain at 16.57%, Rashid (2015a) in Bangladesh at 40.2% and Soliman et al. (2013) in Egypt at 24.81%. Ownership by institution represents only 26.27% of the total shareholdings in a company despite the claims that this type of investor is becoming one of the major capital providers in the market. This rate is comparably lower than in Egypt at 52.43% (Soliman et al.2013) and in Pakistan at 71.41% (Majeed et al. 2015). Meanwhile, on average, companies have approximately 7 directors on board; suggesting that they are complacent with moderate sized board.

In an attempt to determine whether ownership structure influences company CSR reporting, directors' and institutional ownership along with other control variables were regressed against CSR index. The results are summarised in Table 6.4.

Table 6.4 Relationship between ownership structure and CSR reporting

	Dependent variable	
	Panel A (before controlling for industry)	Panel B (after controlling for industry)
	CSRI	CSRI
Intercept	-0.532 (-20.787)***	-0.581 (-17.955)***
DIROWN	-0.630 (-2.555)*	-0.042 (-1.774)*
INSTITUT	-0.035 (-3.713)***	-0.043 (-4.727)***
BSIZE	0.035 (4.237)***	0.028 (3.394)***
DR	0.002 (0.351)	0.006 (1.146)
LIQ	-0.001 (-1.432)	-0.000 (-0.905)
AGE	0.023 (4.867)***	0.027 (5.803)***
SIZE	0.028 (10.110)***	0.037 (13.636)***
ROA	0.061 (5.583)***	0.047 (4.499)***
GROWTH	-0.001 (-0.130)	-0.001 (-0.194)
CAP	0.014 (6.640)***	0.008 (3.835)***
F statistic	136.516	36.604
Adjusted R ²	0.376	0.465

The *t* tests are presented in the parentheses * $p < 0.10$; ** $p < 0.010$; *** $p < 0.001$

At 37.6% explanatory power denotes by adjusted R^2 , the independent variables can explain the variation in the dependent variable at almost a satisfactory level. In line with the expectation, this study found that directors' ownership influences company CSR reporting. The coefficient of DIROWN is negative ($\beta = -0.630$) and statistically significant for the dependent variable CSRI at $p < 0.10$. This supports $H1$ of this study. This result confirms the studies by Sartawi et al. (2014), Ghazali and Weetman (2006), Janggu et al. (2014), Khan et al. (2013), Razak and Mustapha (2013), Arora and Dharwadkar (2011) and Akhtaruddin and Haron (2010). It posits that provision of shares to directors may pose an obstacle to an effective governance structure, a source of agency costs and also reduce transparency.

The result for INSTITUT shows that it has a negative coefficient ($\beta = -0.035$) and significant at $p < 0.001$. Nevertheless, the result contrasts the expected relationship between institutional ownership and CSR reporting. Hence, $H2$ is not supported. This result gives the impression that institutional investors have failed to execute their expected monitoring role in trying to influence the management of the company to disseminate more CSR information to the public. The control variables are reported as follows: BSIZE, AGE, SIZE, ROA and CAP were significant in relation to CSR reporting while DR, LIQ and GROWTH showed insignificant results.

The result on directors' ownership indicates that directors' equity can form the basis of power establishment which in turn triggers the abuse of power (Akhtaruddin & Haron 2010). This viewpoint holds true for directors in Malaysia despite their low level of ownership. In fact this result confirm the point highlighted by Mat Nor and Sulong (2007) and Paek et al. (2013). They claim that a low rate of ownership does not prevent directors from prioritising their personal needs over increasing shareholders' wealth. Given this advantage, directors are more likely to expend company resources in ways that serve their own interest at the expense of other shareholders (Htay et al. 2012). To conceal their misdeeds, directors tend to reduce the level of disclosure. It appears that directors' ownership induces directors to undertake value-destroying behaviour as oppose to value-maximising actions. As a result, directors' ownership not only leads to greater agency problem but also creates information asymmetry.

Directors' ownership provides directors with direct access to the information in the company. Hence, this reduces the needs for additional disclosure. This

supports the contention that the presence of large shareholders encourages information retention, since they can rely on internal sources for obtaining information (Sartawi et al. 2014). Besides, CSR practices including reporting are often associated with high cost. This further influences directors to report lesser information. The dominance of family managed companies in Malaysia is also likely to drive directors to opt for lesser disclosure as they prefer to be more secretive regarding their activities (Ghazali & Weetman 2006). The result of this study lends support to stakeholder agency theory particularly relating to entrenchment effect. Inevitably, directors' ownership will increase managerial discretion in decision-making. Nevertheless, entrenchment generally initiates socially irresponsible behaviours (Jain & Jamali 2016) as proven by this study where there appear to be low level of CSR reporting when directors own company shares.

Often, the investments of institutional investors are massive. Inevitably, the company is obliged to satisfy the demands from these shareholders in ensuring a continued supply of resources. Due to their bigger stake, institutional investors also have the ability to influence management including on issues pertaining to CSR practices (Shleifer & Vishny 1997). Institutional ownership appears to be an important player to have higher disclosure since their voting power can be used as a tool to monitor the agents (Htay et al. 2012). Accordingly, companies with institutional investors are more likely to be surrounded by a much richer information environment (Donnelly & Mulcahy 2008). However, these investors can also influence the company in a contradictory way. Muniandy et al. (2016) assert that institutional investors differ in their monitoring incentives, which are determined by various factors such as their risk preferences, objectives, and ownership control. For instance, financial institutions which are regarded as pressure-sensitive investors (Muniandy et al. 2016) prefer not to press the investing company to change as an attempt to maintain their existing business relationship with the investee company. As such, the effectiveness of their monitoring ability is greatly reduced.

There is also a possibility that institutional investors may take advantage of their positions to pursue their own interests rather than encourage the firm to commit to better disclosure practice. This is especially so for those investors with short-term horizon. Institutional investors of this type normally aim to reap as much profit possible out of their investment. CSR requires an understanding of the social norms and practices; mastering the knowledge of laws and conformity (Nulla 2015).

Without a doubt, it is a costly act. While long term institutional investors perceive ethical practices as a strategy to reduce business transactions' costs as well as building investors' confidence, short-term institutional investors may view business ethics as a constraint on their wealth maximization (Nulla 2015). Further, CSR is also uncertain in nature. Thus, institutional investors whose focus are on gaining immediate profit are more sensitive to short-term changes in earnings (Harjoto, Jo & Kim 2015) and are likely to find CSR costs unjustified (Jain & Jamali 2016). Hence, ignorance towards CSR practices is expected from them. Furthermore, despite the various type of institutional investors in Malaysia, for instance nominee shareholdings as well as non-financial and finance companies, institutions channelling *Bumiputera* funds such as the Permodalan Nasional Berhad (PNB) and unit trust schemes such as Amanah Saham MARA, Lembaga Tabung Haji and Lembaga Tabung Angkatan Tentera, it is understood that the majority of nominee shareholdings and institutions (non-financial and finance companies) are owned by families (Ghazali & Weetman 2006). It is likely that they are more concern with short term profit. As such, through their voting power, they are able to exert their influence on management to minimise the reporting of CSR information. After all, these information can be internally accessed by them.

The reasoning above justifies why this result differs from some published studies (e.g. Nik et al. 2015a; Majeed et al. 2015; Barako et al. 2006; Nasir & Abdullah 2004). Nevertheless it is consistent with Ntim and Soobaroyen (2013), Arora and Dharwadkar (2011) and also Chava (2014) who found negative relationship between institutional ownership and CSR concerns and disclosure. Theoretically, this result fails to support stakeholder agency theory owing to the fact that the existence of more institutional investors in the company will only reduce the level of CSR information reported to the public. To them, comprehensive CSR reporting would only raise a lot pressures especially from competitors, political aspects and also customers (Htay et al. 2012). Avoiding them would ensure better returns specifically for those investors aiming for short-term profit. Explicitly, this view is not in conformity with the beliefs of stakeholder theorists that institutional investors are good monitors of the company through their power to influence management.

There has been a consensus that industry influences the CSR reporting behaviour of companies. Haniffa and Cooke (2005), Reverte (2009) and Bowrin

(2013) provide evidence on the influence of different types of industry on CSR reporting. Considering this effect, modification of the model was done through the inclusion of INDUSTRY dummies. Industries have been classified based on a two-digit industrial classification (SIC) code. The modified regression model is presented below:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{DIROWN}_{i,t} + \beta_2 \text{INSTITUT}_{i,t} + \beta_3 \text{BSIZE}_{i,t} + \beta_4 \text{DR}_{i,t} + \beta_5 \text{LIQ}_{i,t} \\ & + \beta_6 \text{AGE}_{i,t} + \beta_7 \text{SIZE}_{i,t} + \beta_8 \text{ROA}_{i,t} + \beta_9 \text{GROWTH}_{i,t} + \beta_{10} \text{CAP}_{i,t} \\ & + \gamma \text{INDUSTRY} + \epsilon_{i,t} \end{aligned}$$

The results exhibited in Table 6.4 (Panel B) proved indifferent despite the inclusion of industry. These results imply that the presence of institutional investors and provision of shares to directors have the same effects on CSR reporting regardless of industry type.

6.8 Conclusions

The unique ownership structure of Malaysian businesses environment provides the motivation for examining its possible effect on CSR reporting. This chapter found evidence that the provision of company shares to directors impacts negatively on company reporting behaviour. Apparently the result is in accord with the argument that directors' ownership motivates them to prioritise their wants instead of shareholders; contradicting the claim of many researchers who believe this practice has the ability to bring congruence of directors and shareholders' interests. They favour lower reporting to avoid reducing the wealth of both company and themselves. It is likely that the dominance of family owned companies may also influence the result. Due to an unfettered power in decision making, the owner of the company is able to affect the management's decisions despite the low rate of directors' ownership.

The result also reveals that while institutional ownership affects significantly CSR reporting, it has a negative impact. Owing to their power, institutional investors have more incentive to monitor managerial behaviours and ascertain that managerial actions are congruent with wealth maximisation. As a result, institutional investors are normally related to better CSR performance including CSR reporting. Nevertheless, this study fails to support the claim. The result posits the possibility

that institutional investors prefer short term over long term investment which is able to provide them with fast return at minimum risk. Investment in CSR on the contrary, takes a longer time to mature besides full of uncertainties. Consequently, institutional investors are less keen in this type of investment. On the whole, this study suggests that large ownership or ownership concentration may contribute to deficiencies in good corporate governance practices.

Practically, there is a need to prevent unethical conduct from further distorting the business environment. In doing so, regulatory bodies such as Securities Commission, Bursa Malaysia and Committee of Malaysian Code of Corporate Governance may want to introduce regulation pertaining to shareholding by directors as well as ethical guidelines for institutional investors. These initiatives are likely to give better protection to minority shareholders. It is also highly recommended that companies develop and enforce a code of ethics. The top management's commitment to business ethics is central in developing an organizational culture preventing unethical practices. Apart from that, directors should be encouraged to have more engagement in the stakeholder management. Heightened the awareness on CSR is the fundamental step to open the minds of directors and institutional investors on the importance of CSR reporting. Therefore, CSR-leading agencies such as public sectors, including global, governmental, or non-governmental organisations, should pay further attention in order to educate companies on CSR issues.

One potential limitation of this chapter is that the sample was drawn from the population of non-financial companies. Additionally, the result of this study is applicable to Malaysia only. This study focuses on annual reports only to obtain information. Future research may consider other CSR disclosure mediums such as stand-alone reporting. As identified in this chapter, there are generally two categories of institutional investors: short- and long-term ones. They have a different orientation towards companies' involvement in CSR activities (Saleh et al. 2010). These differences provide opportunity for future research to examine the impact of different type of institutional investors on company reporting behaviour.

CHAPTER 7: BOARD INDEPENDENCE AND CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING

Abstract

This chapter explores the influence of board independence on corporate social responsibility (CSR) reporting by listed companies of Bursa Malaysia. An independent board is imperative to ensure shareholders' interest takes precedence. Directors who are independent have the capability to execute their responsibilities through better monitoring and decision making, thus contribute to the enhancement of CSR reporting. However, this expectation only holds for companies in certain industries, as shown by the Ordinary Least Square regression results in this chapter. This outcome implies that the function of independent directors is less effective in family dominated companies. These family members dominate decision-making even in the presence of independent directors. This chapter illustrates that the principal-principal agency theory is partially justified thus provides important feedback to regulators on the effectiveness of existing corporate governance practices.

7.1 Introduction

Consistent with the increased importance of CSR, boards' roles and responsibilities have been extended from the traditional shareholder-centric view to encompass various stakeholders. Board of directors influences CSR in various ways from establishing stakeholder friendly corporate policies to create committees dealing with CSR-related matters. They are also expected to monitor company performance financially and socially (Janggu et al. 2014) and are accountable for any decisions made by the management to serve for the best interest of the shareholders. Apparently, board of directors played a pivotal role in a company's CSR activities. Nevertheless, decision to demonstrate social and environmental responsibility to relevant stakeholders through CSR reporting, often depends on management's personal wealth considerations (Watts & Zimmerman 1990). Jensen and Meckling (1976) postulate that separation of ownership and control of a company provides managers with the incentive to serve their personal interests at the expense of the shareholders' interests. In the context of the company, a major issue is the information asymmetry between managers and shareholders. This phenomenon can

cause the public to question the integrity and effectiveness of monitoring mechanisms in organizations. An alleged lack of independence is seen as the root cause of a board's failure to effectively monitor the actions of management. Therefore it is claimed that greater emphasis should be made on the internal context, which include boards, particularly to increase shareholder insight and influence corporate behaviour in organizations (Buniamin, Alrazi, Johari & Rahman 2011).

Proponents of corporate board reform have long supported increasing independent director representation as a means of increasing the objectivity and effectiveness of boards. Fama and Jensen (1983a) claim the effectiveness of board monitoring is enhanced by including independent directors because they have incentives to perform their monitoring function effectively and not collude with managers. This is partly driven by the fact that their reputation and their human capital value depend on their judgement as decision control specialists. Accordingly, their presence is commonly associated with lower information asymmetry and better reporting (Htay et al. 2012). Having independent directors is also significant when dealing with corporate social activities, such as charitable giving (Post et al. 2011), and the ethical aspects of the company's activities (Ibrahim, Howard & Angelidis 2003), as well as reducing agency cost (Kyereboah-Coleman & Biekpe 2006). These views have eventually led to the movement toward specific board guidelines, typically calling for greater independent directors representation.

This chapter aims to examine board independence on company CSR reporting in Malaysia. Malaysia is characterised by high ownership concentration where family block-ownerships and "dominant" shareholders are commonly present in listed companies (Mustapha & Che Ahmad 2011). Unlike companies with dispersed shareholdings, these companies seemingly to have reduced agency problems and costs due to a better match of control and cash flow rights of shareholders (Mustapha & Che Ahmad 2011). Nonetheless, due to the highly concentrated ownership and control, Malaysian listed companies face a unique "principal-principal" agency problem instead of the traditional "principal-agent" agency problem (Rashid 2015a). The conflict between family and non-family principal emerges when family owners engage in strategies that advances personal, family or political agendas at the expense of minority owners. This agency conflict which include the pursuit of non-economic goals that purportedly diverge from the interest of minority investors, if not monitored properly, may lead to a severe

minority shareholders expropriation. Coupled with ineffective minority shareholders protection, this type of conflict presents a major challenge to corporate governance practices.

Further, CSR practices are often in conflict between minority and controlling shareholders. Thus, board of directors, especially independent directors, play a major role in addressing this unique conflict. Besides, understanding board independence and its impact on CSR reporting provides evidence on the effectiveness of the Malaysian Code on Corporate Governance (MCCG) guidelines. This study also adds to the limited literature that addresses the principal-principal conflict besides extending prior work which mostly focused on the monitoring role of independent directors in a traditional agency problem setting.

The remainder of the chapter is organised as follows. Section two presents the literature review and research questions. Section three presents an overview of corporate governance and corporate board practices in Malaysia. Section four presents the theoretical framework. Section five outlines the methodology. Section six presents and discusses the results. The final section is the conclusion.

7.2 Literature review

Studies examining board independence and CSR reporting present varying outcomes. There are vast arrays of reasons that are likely to moderate the relationship; among others, differences in institutional context, corporate governance system, different time periods, the unique CSR challenges in each country, variation in methods applied as well as definitions used for the variables. Apart from this, independent directors at board room have been exercised as early as mid 1980s in US and Europe (Tinggi, Md Isa & Jakpar 2015). However, a similar idea was brought into light by companies in Asia especially, only after the financial crisis that started from the late 1990s until the late 2000s. Its evolution has since made the issue of independent directors prominent. The development that has taken place, apparently shows the differing views of the importance of board independence. The idea that the majority of directors of a listed public company should be independent is relatively new in many countries. This study is conducted when the issue of independent directors is central to effective corporate governance practice.

Leung and Horwitz (2004) showed a positive relationship can exist between board independence and voluntary disclosure for companies listed in Hong Kong.

Cheng and Courtenay (2006) documented a positive relationship between board independence and voluntary disclosure for 104 Singapore companies. A study of European biotech companies by Cerbioni and Parbonetti (2007) show that the proportion of independent directors has positive effects on the level of voluntary disclosure. Htay et al. (2012) and Rao et al. (2012) on examining corporate governance mechanisms on social and environmental disclosures of banking companies in Malaysia and Australian companies respectively, acknowledged the importance of independent directors in enhancing companies' reporting. Likewise, Jizi et al. (2014) exhibited positive relationship between board independence and CSR reporting. Other studies that report comparable results are Rashid and Lodh (2008), Barako and Brown (2008), Akhtaruddin et al. (2009) and Chau and Gray (2010). Conversely, Eng and Mak (2003), examining the impact of board composition and ownership structure on voluntary disclosure of 158 Singapore companies show that board composition significantly and negatively affects voluntary disclosure. Similar findings were reported by Haniffa and Cooke (2005). Independent directors are hindered in their ability to influence majority board decisions (Abdullah et al. 2011). In the same vein, Gul and Leung (2004), along with other studies (e.g. Allegrini & Greco 2013; Rouf 2011) document a negative relationship between board independence and voluntary disclosure. Meanwhile studies by Said et al. (2009), Haji (2013), Shamil et al. (2014) and Sartawi et al. (2014) found no evidence of significant association between board independence and CSR disclosures. Michelon and Parbonetti (2012) argued that independent directors may be elected to focus mainly on a monitoring role only as a way of protecting investors against managerial misbehaviour. Thus, reporting aspects have been neglected. Nonetheless, they strongly believe that disclosure should be considered as an indirect monitoring mechanism.

In general, the majority of the empirical evidence suggests that board independence has some impact on CSR reporting. However studies are scant in developing countries. Hence, the objective of this study is to examine the influence of board independence on CSR reporting of public listed companies in Malaysia.

7.3 Corporate governance and corporate board practices in Malaysia

The Companies Act 1965 provides the laws relating to directors' roles and responsibilities while Articles of Association outlines the regulations for the internal

management of a company's affairs. The law considers a company as a separate legal entity and adopts a "one-tier" Anglo-American model of corporate governance. This "market or shareholder" model regards the board of directors as the uppermost governing body in the company. "One-tier" boards are directly involved in company decisions, initiatives and outcomes. To ensure directors acts as an effective vehicle of corporate governance in Malaysia, they are obliged to undergo a Mandatory Accreditation Programme (MAP) reinforced by an annual Continuing Education Programme (CEP). In addition, Bursa Malaysia through its Listing Requirement has also provided guideline on determining independent directors. Practise Note 13 states that an independent director is a director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of an applicant or a listed issuer. In a one-tier board system, members of the board of directors are allowed to hold both executive and non-executive positions. Hence, the objectivity and independence of the directors in monitoring and assessing the performance of the management might be hampered, since they may also be a part of the management team. This weakens the independent directors' ability to oversee the implementation of decisions.

In addition, Malaysia's corporate ownership is highly concentrated, with most companies either family or government owned (Claessens et al. 2000). The controlling shareholders normally hold powerful positions on both the top management team and the board of directors; enabling them to make important decisions such as profit-sharing policy. Consequently, this causes an inequitable treatment to minority shareholders. There is seldom a separation of management and ownership; hence the agency problem in Malaysia is present. It is also common to find that the chairperson of the board is also the chief executive officer. Considering this the Malaysian Code on Corporate Governance recommends, as a best practice, that there needs to be a balance on the board of directors with at least one third of the members being independent. Their inclusion are based on: (i) their experience and knowledge, (ii) their contacts, and (iii) their independence from the CEO. Malaysian business practice is dominated by owner managed companies where the prime shareholder is also the primary founder. When a single body is entrusted with both managing and supervising the company's operations, it is more difficult to guarantee the independence of board members. Also it is common that 'independent' directors

are either family members or friends instead of genuinely independent. Accordingly, the degree of independence of many boards of directors is questionable.

7.4 Theoretical framework

Issues pertaining to corporate governance such as monitoring mechanisms are very much related to agency theory. This theory emerged in the 1970s as a powerful framework to address the conflicting relationship between owners and managers and to suggest possible resolutions. An agency relationship exists when there is a change of control previously held by owners (principals) to control by managers (agents). Jensen and Meckling (1976, p. 308) define the relationship as a "contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". Agency theory argues that the separation of ownership and control in companies has resulted in a potential conflict of interests between the owners and their managers. It induces managers to exhibit different attitudes toward risk and conflicting goals with owners, such as investment in unprofitable projects, and excessive use of free cash flow (Fama & Jensen 1983a). While the principal-agent conflict is prevalent in most developed countries, countries with concentrated ownership patterns are confronted with a principal-principal agency conflict (Dharwadkar et al. 2000). Following the incongruence of interests between shareholder groups, controlling shareholders can exploit minority shareholders through managerial facilitation.

Managers in developed countries are most likely to opt for CSR activities on the grounds of self-interest despite the corporate governance system focused on shareholder primacy. To them, CSR acts as a personal reputational building tool. This different perception of the purpose of CSR can result in conflict between managers and shareholders. In developing countries with potential principal-principal agency conflicts, managers in most cases are less independent from, and may even be strongly affiliated with, founding owners or major shareholders. They tend to expropriate value from other shareholders to increase the wealth of the controlling owners. As a result, managers in Malaysia, for instance might seek opportunities that immediately benefit themselves, as well as founding families, by disengaging from longer-term, outcome-uncertain and costly social investments (Chang, Oh, Park & Jang 2015). Accordingly, despite the increasing pressure on companies to engage in

CSR, many have resisted it.

How organisations control the agency problem has been of great interest. Fama and Jensen (1983a, p. 294) regard the board's "most important role is to scrutinize the highest decision makers in the firm". Given the power to authorise and monitor important decisions enables the board to accomplish its monitoring role (Fama & Jensen 1983a). Independent directors are professional referees whose task is to stimulate and oversee the competition among the firm's management. Agency theory advocates that boards comprising higher proportion of independent directors are more diligent in pursuing their monitoring role, due to their independence from management.

Divergence of interest between managers and shareholders may create information asymmetry; hence incurring agency costs to closely align those interests (Mustapha & Che Ahmad 2011). Jensen and Meckling (1976) define agency costs as the sum of the monitoring expenditures by the owners (e.g. the use of boards of directors), the bonding expenditures by the managers (e.g. the preparation of financial statements) and the residual loss. Two mechanisms that can possibly mitigate the agency and asymmetric information problems as well as alleviating agency costs are board monitoring and transparency through disclosure. Htay et al. (2012) suggests that disclosure of information, or transparency, is an integral part of corporate governance as higher disclosure could reduce information asymmetry which not only clarifies the conflicts of interests between shareholders and management but also makes management more accountable. Forker (1992) found that the presence of independent board members enhanced financial disclosure quality and reduced the benefits of withholding information.

Boards of directors have an important role in alleviating agency costs (Fama & Jensen 1983a). Researchers with agency-centred views believe that independent directors have the responsibility to enhance company transparency in order to protect shareholders' interests (Michelon & Parbonetti 2012). By disclosing more CSR information in annual reports this reduces asymmetric information as well as enhances or maintains the company's reputation/protection. Therefore, an effective board promotes CSR due to its ability to align managers' interests with the long-term goals of both shareholders and non-shareholding stakeholders.

Increased numbers of independent directors on a board creates a higher demand for voluntary disclosure to shareholders via better monitoring (Donnelly and

Mulcahy, 2008). Therefore, based on agency theory, it is hypothesized that board independence positively influences company CSR reporting.

7.5 Method

7.5.1 Data

This study utilised a sample of non-financial companies listed on the Main Market of Bursa Malaysia from 2008 until 2013. The study period enabled an examination of the trends in the CSR reporting practices of PLC in Malaysia. To be included in the sample, the company must have produced an annual report each year. Although there are quite a number of companies that issue stand-alone CSR reports and most companies made disclosure on their web, the information on those channels normally replicates what is reported in the annual report (Rashid 2015b). Initially, there were 813 companies listed on the Main Market of Bursa Malaysia as at 31st December 2013. Only 613 companies lodged their annual reports each and every year. Companies in the finance sector are subject to different regulatory and disclosure requirements and also material differences in their types of operation and were thus excluded following prior studies (e.g. Mohd Ghazali 2007; Said et al. 2009; Haniffa & Cooke 2005). The 136 finance companies have reduced the potential population to 477 companies. 27 companies were also omitted due to having partial data which left a sample of 450 companies (see Table 4.3).

Using the six annual reports for each company as the main source of information is based on several justifications. This is in line with other prior studies (e.g. Chan et al. 2014; Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013). Further, annual reports are normally used by companies to communicate information to the public (Hasnah et al. 2006; Othman & Ameer 2010; Gray et al. 2001) including social and environmental reporting (Chan et al. 2014).

7.5.2 Variables

7.5.2.1 Dependent variables

Content analysis was used to investigate environmental disclosures in the annual reports (e.g. Chan et al. 2014; Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013). This technique replicates and make valid inferences from data to their context (Krippendorff 1989) and involves both qualitative and quantitative methods that converts information in annual reports into scores (Djajadikerta & Trireksani

2012).

To assess the content of CSR reporting, a checklist of items was constructed by examining previous CSR reporting checklists (e.g. Hackston & Milne 1996; Barako & Brown 2008). In addition, specifically Malaysian checklists were also referenced (e.g. Abdullah et al. 2011; Haji 2013). To ensure conformation of the checklist items to the listing requirements and their relevance to the current Malaysian context, the framework launched by Bursa Malaysia in 2006 was also used as a reference. It comprises guidelines for PLCs in defining their CSR priorities, implementation and reporting. The framework focuses on four dimensions namely: Environment, Community, Marketplace and Workplace. A checklist of 22 items of CSR developed by Abdullah et al. (2011) was used as the benchmark. This checklist adapted the work of Mohd Ghazali (2007) as well as incorporating aspects of Hackston and Milne (1996) and Ng (1985). The referred checklist was used to capture CSR reporting of companies in a similar institutional setting as the present study; hence confirming its suitability. Checklists by Mohamed Adnan (2012) and Chan et al. (2014) were also referenced apart from the inclusion of several items from the Global Reporting Initiative Guidelines in an attempt to get a more comprehensive checklist. After going through several revisions and refinements, the final checklist with 51 items was produced (see Table 4.4).

Each disclosure item was assigned a score of “1” if it is disclosed and “0” if it is not disclosed; similarly used by many researchers (e.g. Haji 2013; Haniffa & Cooke 2005; Rashid & Lodh 2008; Mohd Ghazali 2007). Transforming the scores into a CSR reporting index were made by dividing the disclosure score of each company to the maximum possible score (i.e. $1 \times 51 = 51$).

$$CSRI_i = \frac{\sum_{t=1}^{n_j} X_{ij}}{n_j},$$

CSRI = CSR reporting index;

n_j = number of items expected for j th company;

X_{ij} = 1 if i th item disclosed; 0 if i th item not disclosed

7.5.2.2 Independent and control variables

The independent variable of interest is board independence. Board

independence refers to independent directors who have no affiliation with the company except for their directorship (Bursa Malaysia 2006). Board independence (BIND) is the number of independent directors on the board relative to the total number of directors Arora and Dharwadkar (2011), Harjoto and Jo (2011) and Das et al. (2015).

Following previous studies, a number of governance attributes and company's characteristics that might affect CSR reporting are investigated as control variables in this study: board size, directors' ownership, institutional ownership, debt ratio, liquidity, company age, company size, profitability, company growth and market capitalisation. Board size is one of the governance attributes that has a major influence on company's operation. Although there is no universal "best" size, García Sánchez et al. (2011) claimed that a board should be composed of a considerable number of experienced directors. They should ensure full deliberation and diversity of thinking on governance and other organisational matters. Smaller boards are expected to benefit from more efficient communication, coordination and accountability of individual board members (Jizi et al. 2014). However, they suffer from limited monitoring ability due to higher workloads and less diversified range of expertise. Similarly, larger boards are inefficient because they result in weaker control of management and increases the agency cost but can offer more knowledge and expertise, as well as more capacity for monitoring and sharing workload (Larmou & Vafeas 2010). Board size refers to the number of directors who make up the board (Ntim & Soobaroyen 2013; Jizi et al. 2014). An ideal board size would be different across companies. Board size (BSIZE) is defined as the natural logarithm of the total number of directors, following Rashid (2013).

Directors' level of ownership is presumed to have an important effect on their willingness to monitor managers and enhance shareholders' value (Shleifer & Vishny 1997). With the prevalence of family owned companies, directors' ownership is often associated with low monitoring and ineffective alignment of interests between shareholders and managers. Director ownership (DIROWN) is expressed as the ratio of total director shareholdings to total number of shares. Institutional investors are a special group of shareholders with a relatively concentrated bigger stake of shares. By holding substantial shares in a company, they can exert considerable influence upon management including disclosure of CSR information. Institutional ownership (INSTITUT) is the ratio of total institutional shareholdings to

total number of shares as defined by Nasir and Abdullah (2004) and Barako et al. (2006). Leverage (DR) was measured by the ratio of total liabilities to total assets. Barnea and Rubin (2010) believed that the need for managers of highly leveraged companies to generate and retain cash to service debts might reduce their ability to fund CSR activities. Conversely, companies with high debt levels are expected to incur high monitoring costs. An opposing view is that they disclose more information to reduce costs (Esa & Mohd Ghazali 2012) and to meet the needs of their lenders (Abdullah et al. 2011).

Profitability has been proven to have an effect on CSR practices. Since CSR activities are not cost-free, companies that are highly profitable are able to absorb the associated costs, hence disclosing more information to stakeholders. Haniffa and Cooke (2005) and Khan (2010) showed that profitability was a vital factor in relation to disseminating social information by companies. Profitability was proxied by Return on Assets (ROA) following Rashid (2014) and Sartawi et al. (2014). Rashid (2013) defined company growth (GROWTH) as a percentage of annual change in sales. Growth is a result of an interaction between a company's productive resources and its market opportunities. Allegedly, when companies experience rapid growth, they tend to source outside financing from the market, thus forcing more disclosure (Naser et al. 2006). Consequently, the cost of external financing is reduced and improves a company's ability to potentially pursue profitable projects. Further, growth companies also show greater information asymmetry and higher agency costs (Eng & Mak 2003). Hence, they are expected to disclose more information. Market capitalisation can be used to represent company size (Wallace & Naser 1996). High market capitalisation companies often face with demands by the society for the exercise of social responsibility or for greater regulation such as price controls and higher corporate tax (Watts & Zimmerman 1990). To minimise the outcomes, companies should produce comprehensive reports. Meanwhile, companies with low market capitalisation view higher disclosure as detrimental to its competitiveness. Market capitalisation (CAP) is expressed in its natural logarithm.

Ho and Taylor (2007) suggest that companies with high liquidity have stronger incentives to disseminate more information in their annual report as compared to companies with lower liquidity. Company liquidity (LIQ) is measured as the current ratio (Rashid 2013, 2014; Ho & Taylor 2007). Company age (AGE) was represented by the number of years it has been listed on Bursa Malaysia,

expressed in natural logarithm (Rashid 2009). Many believe that there exist a relationship between company size and the extent of disclosures made. Studies by Cormier et al. (2011) and Lu and Abeysekera (2014) confirmed the result that size is one of the major factors determining CSR reporting. Large companies engage in more activities due to resource availability, produce more information on these activities and are better able to bear the cost of such processes (Andrew et al. 1989). The natural logarithm of total assets as the proxy for company size (SIZE) was used, consistent with Das et al. (2015), Sartawi et al. (2014) and Rashid (2014).

7.5.3 The Model

The following model is estimated to examine the relationship between corporate governance attributes and the extent of CSR reporting of Malaysian PLCs:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{BIND}_{i,t} + \beta_2 \text{BSIZE}_{i,t} + \beta_3 \text{DIROWN}_{i,t} + \beta_4 \text{INSTITUT}_{i,t} + \beta_5 \text{DR}_{i,t} \\ & + \beta_6 \text{LIQ}_{i,t} + \beta_7 \text{AGE}_{i,t} + \beta_8 \text{SIZE}_{i,t} + \beta_9 \text{ROA}_{i,t} + \beta_{10} \text{GROWTH}_{i,t} + \\ & \beta_{11} \text{CAP}_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Where $\text{CSRI}_{i,t}$ is CSR index for i th company at time t . $\text{BIND}_{i,t}$ is number of independence director to total number of directors for i th company at time t . $\text{BSIZE}_{i,t}$ is the total number of directors for i th company at time t . $\text{DIROWN}_{i,t}$ is percentage of director ownership for i th company at time t . $\text{INSTITUT}_{i,t}$ is percentage of institutional ownership for i th company at time t . $\text{DR}_{i,t}$ is debt ratio for i th company at time t . $\text{LIQ}_{i,t}$ is liquidity ratio for i th company at time t . $\text{AGE}_{i,t}$ is number of listed years on Bursa Malaysia for i th company at time t . $\text{SIZE}_{i,t}$ is natural logarithm of total assets for i th company at time t . $\text{ROA}_{i,t}$ is profitability for i th company at time t . $\text{GROWTH}_{i,t}$ is the company growth in sales for i th company at time t . $\text{CAP}_{i,t}$ is the market capitalisation for i th company at time t . α is the intercept, β is the regression coefficient and ε is the error term.

First step is to ensure the data not only meets the normality assumption but also free from problems of multicollinearity, heteroscedasticity and endogeneity. Assumption of normality asserts that the distribution of the means across samples is normal; exhibiting a bell-curve shape if plotted. However, this assumption of normality turns out to be relatively uncontroversial when large samples are used, for

instance more than 30 (Pallant 2007). The model was tested using Residual Test/Histogram-Normality Test and the result conformed to the assumption. The correlation matrix results presented in Table 7.1, show the correlation coefficients between the independent variables range from -0.009 to 0.839. Gujarati (2003) suggests that a multicollinearity problem may exist when the correlation exceeds 0.80, which was evident from the correlation between company size and market capitalisation. To confirm whether the assumption is violated or not, the Variance Inflation Factor (VIF) for each independent has also been considered. A value of VIF greater than 10 indicates multicollinearity is present (Gujarati 2003). However, none of the VIF values in the model exceed 10, indicating multicollinearity is not a serious problem when interpreting the regression results.

The assumption of homoscedasticity is central to any regression model. Homoscedasticity describes a situation in which the error term is constant across all values of the independent variables. Standard estimation methods are inefficient when the size of the error term differs across values of an independent variable; also known as heteroscedasticity. The scatter plot of the residuals (ZRESID) against the predicted value (ZPRED) of the model indicated heteroscedasticity. The Breusch-Pagan test was thus employed. Likewise, both the Chi square and corresponding p values indicated heteroscedasticity. Correction was achieved by applying the standard errors of the White (1980) method. Another major assumption of regression is that independent variables are not correlated with the error terms. Based on the Hausman Test, when this assumption is violated, endogeneity occurs. This causes the regression coefficient in the Ordinary Least Square (OLS) regression to be biased. This can be addressed by using Instrumental Variable regression. The F-test for the predicted value of board independence in this model was considered not significant. Following Rashid (2014), when the CSR index was used as a proxy for CSR reporting, $F = 2.28$ with $p = 0.1314$. The results indicated that endogeneity is not a problem. Hence OLS and Instrumental Variable regression are consistent.

Table 7.1 Correlation matrix of the explanatory variables

		1	2	3	4	5	6	7	8	9	10	11	VIF
1	BIND	1.00											1.284
2	BFSIZE	-0.414**	1.00										1.402
3	DIROWN	0.057**	-0.089**	1.00									1.126
4	INSTITUT	-0.077**	0.071**	-0.256**	1.00								1.084
5	DR	0.085**	0.007	-0.035	-0.013	1.00							1.136
6	LIQ	0.094**	-0.045*	-0.008	0.002	-0.274**	1.00						1.119
7	AGE	0.151**	-0.011	-0.177**	0.017	0.005	0.063**	1.00					1.204
8	SIZE	-0.053**	0.339**	-0.181**	0.061**	0.055**	-0.067**	0.337**	1.00				3.891
9	ROA	-0.009	0.084**	-0.073**	0.062**	-0.129**	0.049*	0.051**	0.111**	1.00			1.054
10	GROWTH	-0.029	0.025	-0.009	0.049*	0.018	-0.059**	0.000	0.073**	0.039	1.00		1.013
11	CAP	-0.063**	0.321**	-0.156**	0.071**	-0.069**	0.035	0.268**	0.839**	0.174**	0.071**	1.00	3.680

** . Correlation is significant at the 0.01 level (2-tailed) * . Correlation is significant at the 0.05 level (2-tailed)

7.6 Results

7.6.1 Descriptive statistics

The descriptive statistics of CSR reporting and the independent variables are shown in Table 7.2.

Table 7.2 Descriptive statistics of the variables

	Mean	Median	Minimum	Maximum	SD
CSRI	0.217	0.196	0.039	0.726	0.120
BIND	0.452	0.430	0.170	1.000	0.128
BSIZE	7.236	6.686	3.004	18.174	1.296
DIROWN	0.044	0.003	0.000	0.568	0.088
INSTITUT	0.263	0.204	0.000	0.959	0.221
DR	0.402	0.378	0.003	10.319	0.362
LIQ	3.053	1.785	0.007	96.111	5.199
AGE	13.985	15.029	6.000	52.985	1.640
SIZE (log TA)	12.878	12.650	9.369	18.411	1.447
ROA	0.062	0.058	-2.898	5.547	0.178
GROWTH	0.053	0.027	-4.941	8.578	0.478
CAP (log Cap)	18.798	18.503	12.371	24.810	1.811

The average CSR reporting level among PLC is 21.7%. This shows that despite the existence of regulation and awareness campaigns, the level of CSR reporting in Malaysia remains moderately low (Lu & Castka 2009; Ramasamy & Ting 2004). A huge variation between the highest and the lowest level of reporting is observed. The finding also implies that transparency and reporting are not a strong tradition in Malaysian PLCs (Aaijaz & Ibrahim 2012). On average, boards comprised 45.2% of independent directors. With almost half of the board consists of independent directors, it is likely for the board to provide more independent judgement which are important in making better decisions for the shareholders. There is also a greater chance of enhancing board monitoring effectiveness. The result also reveals that PLCs in Malaysia are conforming to the MCCG recommendation of having at least one third independent directors. In general, companies have an average board size of 7.2, postulating that a moderately large size of board is preferable. Director ownership illustrates that on average they only own 4.4% of company shares; with the highest recording 56.8%. Notwithstanding its ability in aligning directors' interests with shareholders, companies prefer to keep directors ownership levels low. On the contrary, there is an extreme difference

between the minimum (0%) and maximum (95.9%) shareholdings by institutions. Average institutional ownership accounts for 26.3% of total company shareholding.

7.6.2 Regression analysis

Panel A of Table 7.3 shows the adjusted R^2 value which shows that the variation in the extent of CSR reporting that can be explained by the independent variables is 37.7%. It is argued that independent directors are more objective when making decisions, thereby rise the chance of protecting interests of stakeholders against the possible emergence of opportunist behaviour by management (Fama & Jensen 1983a). In return, levels of disclosure are increased. It was expected that a positive relationship between independent directors and the extent of CSR reporting exists. Consistent with that found by Barako and Brown (2008) and Rashid and Lodh (2008), the result is significant which supports this hypothesis. Further it was predicted that board size is positively related to the extent of CSR reporting. The result reveals a significant positive relationship between the two variables indicating that larger boards can benefit from diversity, resulting in better involvement in CSR activities and increased reporting (Esa & Mohd Ghazali 2012). This outcome matches those observed in studies by Ntim and Soobaroyen (2013) and Akhtaruddin et al. (2009).

Ownership by directors and institution, company age, size, ROA and market capitalisation are found to be significantly related to CSR reporting. Contradicting to the findings of Leung and Horwitz (2004) and Nasir and Abdullah (2004), directors' ownership was found to reduce CSR reporting. Despite the claim by Jensen and Meckling (1976) that directors ownership helps to match the interests between the directors and the shareholders, this study proves otherwise. The finding also illustrates that institutional ownership significantly influence the extent of CSR reporting but in an opposite way; contrary to Leung and Horwitz (2004) and Nasir and Abdullah (2004). Without doubt, through their power, institutional owners are able to influence management on CSR practices (Shleifer & Vishny 1997). However, it is inclined towards a lower reporting. As predicted, mature companies tend to disclose more CSR information to demonstrate and reinforce their high reputations. Likewise, larger companies report more CSR activities since the costs of disclosures are funded by profits (Brammer & Pavelin 2008). Furthermore, they are more visible to the public and tend to be subject to greater political and regulatory pressures from

external interest groups (Watts and Zimmerman, 1990). To reduce these (potential) political costs, large companies disclose more information to demonstrate that their actions are legitimate and consistent with good corporate citizenship (Brammer and Pavelin, 2008). Similarly, companies that are highly profitable are able to absorb the associated costs, hence disclosing more information to stakeholders. With regard to market capitalisation, consistent with expectation, companies with high market capitalisation are likely to produce high levels of CSR reporting.

Table 7.3 Relationship between board independence and CSR reporting

	Dependent variable	
	Panel A (before controlling for industry)	Panel B (after controlling for industry)
	CSRI	CSRI
Intercept	-0.546 (-19.575)***	-0.594 (-17.016)***
BIND	0.033 (1.878)*	0.017 -1.021
BSIZE	0.042 (4.637)***	0.031 (3.519)**
DIROWN	-0.065 (-2.657)**	-0.044 (-1.828)*
INSTITUT	-0.034 (-3.597)***	-0.044 (-4.648)***
DR	0.001 -0.104	0.005 -0.994
LIQ	-0.001 (-1.637)	0 (-0.995)
AGE	0.022 (4.591)***	0.027 (5.591)***
SIZE	0.027 (10.041)***	0.037 (13.619)***
ROA	0.06 (5.504)***	0.046 (4.427)***
GROWTH	0 (-0.093)	-0.001 (-0.181)
CAP	0.014 (6.640)***	0.008 (3.844)***
F statistic	124.567	35.97
Adjusted R ²	0.377	0.465

The *t* tests are presented in the parentheses * $p < 0.10$; ** $p < 0.010$; *** $p < 0.001$

It is argued that companies in certain type of industries may face different degrees of pressure to disclose information because of competitive reasons (Mohd Ghazali 2007). Previous studies have provided evidence of a significant systematic variation across industries pertaining to their propensity to make CSR reporting (Brammer & Pavelin 2008; Giannarakis 2014). Companies with high consumer visibility, a high level of political risk or concentrated intense competition disclosed significantly more CSR information in their annual reports (Hackston & Milne 1996; Mohd Ghazali 2007). The sample in this study constitutes companies from multiple industries. To control for the effects of industry on reporting activities, modification to the model was made by adding INDUSTRY dummies. Companies were classified based on a two-digit standard industrial classification (SIC) codes. The new regression model was as follows:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{BIND}_{i,t} + \beta_2 \text{BSIZE}_{i,t} + \beta_3 \text{DIROWN}_{i,t} + \beta_4 \text{INSTITUT}_{i,t} + \beta_5 \text{DR}_{i,t} \\ & + \beta_6 \text{LIQ}_{i,t} + \beta_7 \text{AGE}_{i,t} + \beta_8 \text{SIZE}_{i,t} + \beta_9 \text{ROA}_{i,t} + \beta_{10} \text{GROWTH}_{i,t} + \\ & \beta_{11} \text{CAP}_{i,t} + \gamma \text{INDUSTRY} + \epsilon_{i,t} \end{aligned}$$

The regression coefficients are shown in Panel B of Table 7.3. As observed, industry has no effect on the majority of independent variables, except for board independence. Its coefficient has changed from significant to non-significant. The result seems to infer that the effectiveness of independent directors in promoting CSR reporting is only relevant to certain industries. This suggests that while some independent directors are able to execute well their responsibilities in one industry, others may not have the capability to do so in other industries. As pointed out by Haji (2013) and Shamil et al. (2014), the effectiveness of independent directors in increasing the level of CSR reporting might be hampered, plausibly due to lack of knowledge and experience in relation to the type of industry.

7.7 Conclusion

This chapter has examined whether independent directors have any association with the extent of CSR reporting of PLCs in Malaysia. Although independent directors are perceived to represent stakeholders' interests, their ability to enhance company's CSR reporting is found to be industry specific. This finding is

likely to be related to the structure of the Malaysian board system. The practice of one-tier board system portrays governance by one body that undertakes both the management and monitoring functions. When all members of the board are entrusted with the same tasks and are obliged to perform the same duties, independent directors are most likely to fail to carry out their supervisory functions objectively. It thus remains a problem of the one-tier system to find ways to guarantee that a certain number of board members are independent. In addition, independent directors are elected based on the notion that they are not materially related to the company. Due to their commitments elsewhere, they usually invest too little time to really understand the business. This dependence on management means it is difficult to execute the supervisory function when independent directors have limited information on the company's affairs. Perhaps regular board meetings might better familiarise them with the company and in turn assist them in making better and more informed decisions. Independent directors may also have strong family or friendship ties with management, which influences their independence and weakens their monitoring role (Sartawi et al. 2014). Family-owned businesses are a significant element in the Malaysian economy, may also impede directors' independence. In these companies, controlling shareholders are significantly influential which might help explain independent directors' failure to execute the monitoring tasks entrusted to them.

These clarifications demonstrate the unique principal-principal agency conflict that exists in companies with concentrated ownership. Cross directorship can also undermine board independence. According to the Higgs Report (2003, p. 37), a director's judgement can be affected if he/she "holds cross-directorship or has significant links with other directors through involvement in other companies or bodies". Cross directorship is legally practised in Malaysia. Bursa Malaysia Listing (2002) permits a maximum of 10 directorships in public companies and 15 directorships in private companies. Cross directorship can result to conflict of interests especially when performance evaluation is concerned. Clearly, board independence is central in trying to overcome the conflict. Nevertheless, the efficacy of independent directors is justifiable only in certain industries only as evident in this chapter. Thus, theoretically, the findings partially support agency theory in explaining the impact of governance on CSR practices in Malaysia.

The chapter concludes that having more independent directors does not

necessarily enhance board effectiveness, especially if they are unable to contribute effectively to the board. It is highly recommended that policy makers look for alternative methods of electing independent directors, for instance, appointment by a special committee. Importantly, PLCs need to continuously recognise the significance of corporate governance best practices especially when its effect on CSR practices is apparent. For instance, the regression analysis results provide evidence that size of board contributes to the enhancement of CSR reporting. Fundamentally, this conclusion asserts that better reporting can result from diverse and knowledgeable directors on large boards (Esa & Mohd Ghazali 2012). Board size is also associated with the capacity to foster effective monitoring to mitigate agency problems. High number of directors permits the board to execute duties effectively, thus leading to more reporting on CSR (Donnelly & Mulcahy 2008).

The findings of this chapter need to be carefully interpreted. Fundamentally, different countries are subject to different regulatory and corporate governance mechanisms. For that reason, the results cannot be generalised across countries. Further, this study focused on CSR reporting in annual reports only, despite knowing that company utilises other mass communication mechanisms. In view of this, future work should consider other forms of reporting. It would also be interesting to assess the effect of other control variables that may play an important role in influencing CSR reporting. Ethnicity, competitiveness, politically connected companies and listing status are several control variables appropriate to the Malaysian context that could be incorporated into the model. Finally, due to the ability of independent directors to provide impartial perspective in decision making is industry specific, as suggested by this study, it provides an opportunity for future researchers to conduct an industry-based study on the effectiveness of independent directors in enhancing CSR reporting.

CHAPTER 8: BOARD MEETING FREQUENCY AND CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING

Abstract

This chapter shows the influence of board meeting frequency on Corporate Social Responsibility (CSR) reporting by publically listed companies. Although there is no consensus on the appropriate number of meetings, higher frequency of board meetings often demonstrate the commitment of directors of their responsibilities. Despite its costliness, it is one of the prime mediums for directors to obtain information on the company as well as able to monitor the management's actions. Utilising Ordinary Least Square regression, the analysis indicates an absence of a relationship between board meeting frequency and CSR reporting. It may be the result of pre-set agendas by the CEOs which seems to be the norm of family-owned companies. Nevertheless, these results suggest chapter that frequent board meetings, if properly conducted, can help to safeguard all stakeholders' interests.

8.1. Introduction

The relevance and reliability of CSR information reported by companies are very much influenced by the company's various internal governance mechanisms (Karamanou & Vafeas 2005); suggesting the convergence of disclosure and governance practices. Fundamentally, corporate governance encompasses the controls and procedures that exist to ensure that management acts in the interest of shareholders. Effective corporate governance is the main mechanism that bridges the trust between the stakeholders and the company (Amran et al. 2010). In addition to reducing the likelihood that management takes actions that deviate from maximising the value of the company, corporate governance mechanisms also affect the information disclosed by the company to its shareholders. These mechanisms make it less likely that management does not fully disclose relevant information to shareholders or discloses information that is less than credible. This brings the focus to boards as primary vehicles for improving the quality of information provided by companies. A sizable body of prior research indicates that boards by monitoring management enhance the quality and the frequency of information released by management (Karamanou & Vafeas 2005). These information releases include not

only actual reported earnings but also voluntary disclosures such as CSR information.

The board of directors is an important entity in a company, creating a link between shareholders and managers; therefore playing an important role in the governance of a company (Amran et al. 2010). According to the Malaysian Code on Corporate Governance (MCCG) a company should be led by an effective board that also bears the responsibility of steering the company into success. As a watchdog group in a company, the board of directors is presumed as an effective managerial oversight (Fama & Jensen 1983a), including in the provision of voluntary information (Chen & Jaggi 2001; Ho & Wong 2001). This important role is to make company's reporting disclosures accurate and precise to inform shareholders. The board of directors has the legal authority to ratify and monitor managerial initiatives, evaluate, reward or penalise the performance of managers (Fama & Jensen 1983a). An essential way that a board exerts its influence on its company is through decisions and plans made in board meetings (Chou et al. 2013). It is argued that board meetings and attendance of the meetings are considered to be important channels through which directors obtain company specific information and are able to fulfil their monitoring and supervisory roles of the company or to make strategic decisions for it (Adams & Ferreira 2008). Concomitant to that, frequent board meetings are claimed to be an indicator of effective board performance (Yatim 2010).

Despite board meeting being an essential monitoring mechanism in ensuring managers pursues the interests of shareholders, much of the empirical literature is concentrated in a few developed countries (Vafeas 1999; Kent & Stewart 2008; Carcello, Hermanson, Neal & Riley 2002). Arguably, there are differences in institutional contexts, legal and corporate governance practices in developing countries. Not only the effectiveness of board meeting may differ but also its impact on company reporting is expected to vary from those reported in developed countries. Directors in developed countries normally opt for better CSR practices as a way of promoting their undiversified human capital and also to increase share price, thus maximizing shareholders' returns. Nevertheless, since considering stakeholders' welfare and interests has become part of directors' fiduciary responsibility, directors who fail to practise CSR is likely to face legal actions (Devinney, Schwalbach & Williams 2013). In contrast to developed countries, CSR practices are less common in developing countries since they can reduce shareholders' returns. Nonetheless,

with various benefits of CSR, the practise is currently on the rise. Besides, better governed companies are often associated with better CSR practices (Ntim & Soobaroyen 2013). Hence, conducting this study will provide better understanding of the effectiveness of board meeting on enhancing company CSR reporting.

Investigating the impact of board meeting frequency on CSR reporting in developing countries generally and Malaysia specifically is important. Malaysia provides a good setting to investigate the relationship between reporting and corporate governance attributes because its legal system is reasonably well developed but surrounded by limited information environment (Ball et al. 2003). Further, Malaysia is a semi-developed country that has a CSR Framework promulgated by Bursa Malaysia in 2007. It is a voluntary self-regulated model for existing PLCs. Past studies relating to CSR practices in Malaysia showed that CSR reporting especially among PLCs is currently on the rise (Esa & Mohd Ghazali 2012; Haji 2013). Nonetheless, they vary considerably in terms of its detail. Most prior research done internationally have revealed that corporate governance has an influence on the level of reporting. Thus, based on a different governance landscape, it is expected that the variation in CSR reporting in Malaysia is likely to be attributed to corporate governance especially with its current revision of MCCG in 2012. The revised MCCG emphasises the importance of the board in ensuring the company's strategies promote sustainability especially in the area of environmental, social and governance. It is also required of companies to disclose policies pertaining to sustainability and its implementation in the annual report and corporate website. Meanwhile, an earlier revision of MCCG in 2007 recommends frequent board meetings as one of the best practices. It keeps the board engaged in the company's operations besides connecting with other directors. Based on the emphasis given by the regulator on board meeting, it clearly demonstrates the importance of board meeting in assisting companies achieve their objectives. This would include meeting their social responsibilities towards stakeholders. In light of these recommendations, this study aims to investigate the effect of board of directors meeting frequency on the extent of CSR reporting of PLCs in Malaysia.

Against the backdrop of current efforts to regulate the structure and functions of corporate boards, results of this study are likely to be of interest to policy makers because they believe that certain board attributes are systematically associated with the quality of reporting. Secondly, these results extend academic research by

enhancing the understanding of the connection between CSR reporting and board of directors, and, more generally, by providing additional evidence on the role of corporate governance mechanism in aligning the interest of management and shareholders. Finally, the results can be potentially valuable to directors because their credibility in making good decisions during board meeting is indirectly being assessed. Generally, this study proposes a potential path for directors wishing to enhance the quality and credibility of their CSR reporting.

The remainder of this chapter is structured as follows. The next section discusses the literature and development of hypothesis. The third section briefly explores corporate governance and CSR reporting in Malaysia. This is followed by a discussion of the theoretical framework. The fifth section describes the methods. The results of this study are reported in the sixth section while in the final section conclusions are drawn and implications of the results are discussed.

8.2 Literature review and development of hypothesis

Arguably, the directors of the company should meet regularly as all decisions can be made after thorough discussion, fruitful debates and detailed analysis. When boards hold regular meetings, they are more likely to remain informed and knowledgeable about relevant performance of the company leading them to take or influence and direct the appropriate action to address the issue (Ponnu & Karthigeyan 2010). Vafeas (1999) suggested that the number of board meetings attended is actually a very good proxy for directors' monitoring effort. Frequency of board meetings is also expected to be a remedy to the problem of limited director interaction. This applies especially to independent directors who have limited interaction time to perform their monitoring role. This opinion is reinforced by criticisms of directors who spread their time too thin by taking on too many outside directorships, confounding their ability to attend meetings regularly and, therefore, to monitor management well (Vafeas 1999). A clear implication of this is that directors in boards who meet more frequently are more likely to perform their duties in accordance with shareholders' interests. Boards of directors need to be active to meet their corporate governance commitments, particularly in ensuring high quality and transparent reporting in annual reports (Kent & Stewart 2008). The notion is that an active board should be a better monitor than an inactive board. Equally important is the need for a boardroom environment that encourages constructive debate. Hence, a

board meeting that involves disagreement among directors is presumably more effective as it encourages critical thinking. Additionally, frequent meetings as well as informal side line communications can create and strengthen cohesive bonds among directors (Lipton & Lorsch 1992). This contributes to effective collaboration among directors and better company performance. Taken together, boards that meet frequently are more likely to perform their duties diligently and effectively (Lipton & Lorsch 1992; Yatim 2010; Vafeas 1999).

While many agree that diligent boards are likely to enhance the oversight level of company's reporting, there seems to be no consensus on the effectiveness of frequency of meeting. Hahn and Lasfer (2015) suggest that the frequency of board meetings to be a function of company specific factors, namely, remuneration, company performance, complexity, financial distress, and corporate governance. Companies with greater scale, more diversified activities, and/or larger staff are likely to have more monitoring and advisory needs and require more board meetings. Similarly, during crisis times, board of directors tend to increase meeting frequency (Hahn & Lasfer 2015). Market performance and investor issues, are also expected to influence boards of directors to act, and such action may increase, or decrease, their meeting frequency (Vafeas 1999). For instance, weakening company dynamics may require immediate board consent or approval on key strategic issues, hence demanding increased board meetings. Vafeas (1999) and Adams (2005) argue that company's performance is an important determinant of board meeting frequency, as poor prior performance increases the need for monitoring to turn around the company. Vafeas (1999) and Raheja (2005) propose that, as boards become more independent, their meeting frequency increases to reflect the need to access information via other channels and the increased efforts needed for information coordination. However, to date, the appropriate number of board meetings still remains a question. Codes of corporate governance such as the Cadbury Report (1993) and MCCG (2007) propose that companies self-determine their board meeting frequencies according to their monitoring and advising needs. As a result, the number of board meetings selected by a company appears to be quite random.

Despite the collective agreement that active monitoring through board meeting enhances company's performance including reporting, research on this issue contains contradicting arguments. Jensen (1993) considers board meetings not necessarily useful due to the limited time independent directors spend with the

company and consider such time could be better utilised for a more meaningful exchange of ideas with the management. Besides, routine tasks absorb much of the meetings, limiting opportunities for independent directors to exercise meaningful control over management. Companies are also likely to limit the board meeting frequency because it is a costly monitoring alternative (Vafeas 1999) involving managerial time and travel expenses, administrative support requirements and directors' meeting fees. Johl (2006) in the U.K among the FTSE 100 companies found there was a negative relationship between frequency of board meetings and entrepreneurial activities. In support of less meetings, Jensen (1993) contends that establishing a system that can respond to specific challenges is likely to be more useful for boards in well-functioning companies. Since these types of companies normally exhibit little conflict, directors can increase the frequency of meetings during crisis or when shareholders' interests are visibly in danger (Ntim & Osei 2013).

Prior studies reveal the association of board meeting frequency with various elements such as company's earnings management (Xie, Davidson & DaDalt 2003); financial reporting (Kent & Stewart 2008); company fraud (Uzun, Szewczyk & Varma 2004) and also company performance (Chou et al.2013; Vafeas 1999). However, the literature is inconsistent. Vafeas (1999) found empirical evidence that boards meet more frequently after crises and that performance increases as a result. He suggests that board meeting frequency is a proxy for the time directors have to monitor management. However, it is not clear if the frequency of board meetings represents increased monitoring efforts or more a case of upskilling independent directors. Brick and Chidambaran (2010) confirmed that companies holding more board and committee meetings tend to have greater value. Francis, Hasan and Wu (2015) indicated that companies during crises with poor board attendance at meetings perform significantly worse than boards with high attendance. Ntim and Osei (2013) in South Africa also suggested similar findings between the frequency of board meetings and higher financial performance. Boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management, and thereby improving corporate financial performance. Carcello et al. (2002) claimed that boards meeting more frequently pay higher audit fees and complements auditor oversight. Mangena and Taurigana (2008) report a positive relationship between the frequency of board meetings and company performance for a sample of 157

Zimbabwean listed firms. Kanagaretnam, Lobo and Whalen (2007) relate frequent board meetings with fewer asymmetric information problems. Uzun et al. (2004) did not find a significant relationship between financial reporting fraud and the meeting frequency of board and audit committee.

Board meeting frequency was found to mediate the negative relationship between earnings management and both board and audit committee independence (Ebrahim 2007). Allegrini and Greco (2013) found that both the boards and the audit committees' diligence are positively associated with voluntary disclosure. Examining Australian companies' attitudes on financial disclosure Kent and Stewart (2008) found that companies with more frequent board and audit committee meetings tend to have more disclosures. On the contrary, Haji (2013) failed to find any significant relationship between board meeting frequency and sustainability reporting of Malaysian PLCs. Karamanou and Vafeas (2005) concluded that there is no relation between the activity of the board and the quality of financial information disclosed.

In short, board meeting frequency is one of the mechanisms that directors utilise to collectively decide and determine the direction of the company. With CSR issues becoming increasingly important the frequency of board meetings is likely to be associated with more CSR duties, such as CSR reporting. Therefore, based on the reviewed literature, it is hypothesized that:

H1: Frequency of board meeting is positively associated with company CSR reporting

8.3 Corporate governance and CSR reporting in Malaysia

The Malaysian Code on Corporate Governance (MCCG) came about in 2000 with the aim to achieve excellence in corporate governance. In 2007, the code was revised; specifically recommending that board should meet frequently, with due notice of issues to be discussed and should record its conclusions. However, the frequency of board meeting depends entirely on a company's interpretation. Companies are also required to disclose the number of board meetings held in each year together with the attendance of each individual director. Following mandatory CSR reporting for PLCs in 2007, there has been consistent growth in CSR practices. However, there are still sharp differences in reporting outcomes across companies since they are allowed to report information they think is appropriate based on the themes outlined by the CSR framework. Effectiveness of directors may also

contribute to the variation of CSR reporting. This suggests the link between good practise of corporate governance and the level of CSR reporting.

8.4 Theoretical framework

Various theories have been used to explain the association between board meeting frequency and company disclosure practices. Resource dependence theory rests on the notion that board of directors is a key resource to a company (Pfeffer & Salancik 1978). Hillman and Dalziel (2003) outlined the concept of board capital as the sum of individual directors' human and social capital and use board capital as a proxy for a board's ability to monitor and provide resources to the company. de Villiers et al. (2011) assert that directors who are resource rich, for instance through multiple directorship, being experts in their fields, or having long-term director experience, have more human and social capital. Hillman and Dalziel (2003) note that board capital is needed for effective resource monitoring and provision because it provides four benefits as outlined by Pfeffer and Salancik (1978): (1) advice and counsel, (2) legitimacy and reputation, (3) channels of communication and information between the company and external organizations, and (4) resources from important elements outside the company. Inevitably, board of directors plays an important advisory role in corporate strategic decisions. Through the provision of advice and social support to the CEO as well as counsel to the company, board of directors can enhance the strategic decision making process. Boards are anticipated to review and evaluate analyses and proposed changes in company strategies. By active involvement in the formulation and implementation steps, they contribute directly to better strategic decision making (Chen 2014).

Through their experiences, competences and different viewpoints, board members are able to contribute to the boardroom debate. With a critical attitude and a willingness to ask the management penetrating questions allows board members to exert effective behavioural and strategic control (Huse 2005). Critical debate facilitates the exchange of diverse information which enhances decision quality. Consequently, this may lead the CEO to provide more detailed information and explanations on their conduct and decision-making as it may be perceived by the CEO as a signal of board power to better take into account shareholders' interests (Chen 2014). Clearly, this contributes to better board monitoring performance. With frequent board meetings, competent directors are able to use their expertise in assist

management to make better decisions that are beneficial to both the company as well as shareholders.

8.5 Method

8.5.1 Data

The sample of this study is taken from non-financial companies listed on the Main Market of Bursa Malaysia. This study spans from 2008 to 2013 which permits an investigation of CSR reporting trends in Malaysia. The company must have been continuously listed on Bursa Malaysia in each year of the six-year period as well as producing an annual report. There were 813 companies listed as at 31st December 2013. However, only 613 companies met the criteria. Generally, companies in the finance sector are bound by different regulatory, disclosure requirements and material differences in their types of operation. Hence, they are not included (Mohd Ghazali 2007; Said et al. 2009; Haniffa & Cooke 2005). In this study, 136 finance companies were excluded from the sample along with 27 companies with incomplete data. 450 companies were finally included as demonstrated in Table 4.3.

The study utilised the six annual reports for each company as the main source of information and is based on several justifications. First, the selection of annual reports follows prior studies (e.g. Chan et al. 2014; Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013). Second, annual reports are alleged to be the main channel to communicate information to the public (Hasnah et al. 2006) including social and environmental reporting (Chan et al. 2014). Third, Gray et al. (2001) support the usage of the annual report because it is the central corporate document that outlines the organisation as a whole. Lastly, Othman and Ameer (2010) mention that disclosure is mainly made in annual reports due to its easy access apart from being credible.

This study relies on panel data which provides multiple observations on each company in the sample. Panel data usually give the researcher a large number of data points, increasing the degrees of freedom and reducing the collinearity among explanatory variables (Hsiao, 2007). These advantages help to improve the efficiency of econometric estimates. Panel data according to Hsiao (2007), also allows to control for omitted (unobserved or mismeasured) variables. More importantly, panel data allows a researcher to analyse a number of important economic questions that cannot be addressed using cross-sectional or time-series data sets. Given these

advantages, this study uses panel data based on its ability to portray more reliable company CSR reporting trends (Sartawi et. al. 2014).

8.5.2 Variable definitions

8.5.2.1 Dependent variables

In measuring the extent of CSR reporting, content analysis was applied in this study. Many earlier studies (e.g. Chan et al.2014; Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013) opted this technique to investigate CSR reporting. Content analysis is a technique to measure objectively and systematically the content of communication (Naser et al. 2006). This technique changes information disclosed in annual report into scores using qualitative and quantitative methods (Djajadikerta & Trireksani 2012).

A checklist of items was constructed by examining previous CSR reporting checklists (e.g. Hackston & Milne 1996; Barako & Brown 2008). Additionally, specific Malaysian checklists were also referenced (Abdullah et al. 2011; Haji 2013) and the framework introduced by Bursa Malaysia in 2006 was also referenced. The focus of the framework was fourfold: Environment, Community, Marketplace and Workplace. The content under each heading is left to management discretion. For the purpose of this study, a checklist of 22 items of CSR developed by Abdullah et al. (2011) has been made as the benchmark. This checklist was used to measure CSR reporting index of companies in Malaysia during 2007. Their checklist was an adoption of the work of Mohd Ghazali (2007) with some changes according to the checklists by Hackston and Milne (1996), Ng (1985). Additionally, the work of Mohamed Adnan (2012) and Chan et al. (2014) have also been considered. To ensure validity of the checklist, this study also followed the work of Kolk (2010). The final checklist containing 51 items is in Table 4.4.

A dichotomous procedure is used to compute a disclosure score for each company. Each disclosure item is assigned a score of “1” if it is disclosed and “0” if it is not disclosed. This measurement would address the presence or absence of CSR information (Mohd Ghazali 2007) and has been widely used previously (e.g. Haji 2013; Haniffa & Cooke 2005; Rashid & Lodh 2008). The disclosure scores of each company were divided by the maximum possible score (i.e. $1 \times 51 = 51$) to arrive at CSR index. This approach has been commonly applied by many scholars of this area.

$$\text{CSRI} = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$$

CSRI = CSR reporting index; n_j = number of items expected for j th company; $X_{ij} = 1$ if i th item disclosed; 0 if i th item not disclosed.

8.5.2.2 Independent and control variables

The independent variable in this study is the frequency of board meetings. Board meetings are often held at definite intervals to consider policy issues and major problems. Claimed to be a proxy for board diligence, it is a decisive dimension to improve the effectiveness of a board and the level of monitoring activity delivered (Lakshmana 2008; Giannarakis 2014). Frequency of board meetings (BFREQUENCY) is measured as the natural logarithm of the number of board meetings held in a financial year. This follows Ntim and Osei (2013).

Numerous studies have shown that CSR reporting is influenced by various governance attributes and company's characteristics. Hence, to eliminate their impact on the level of reporting, this study considered board independence, board size, directors' ownership, debt ratio, liquidity, company age, company size, profitability, company growth and market capitalisation as control variables. Board independence refers to independent directors who have no affiliation with the company except for their directorship (Bursa Malaysia 2006). As such, they have important impact on monitoring activities (Fama & Jensen 1983a). Board independence (BIND) is defined as the number of independent directors on the board relative to the total number of directors which is consistent with Arora and Dharwadkar (2011), Harjoto and Jo (2008) and Das et al. (2015). Board size refers to the number of directors to make up the board (Ntim & Soobaroyen 2013; Jizi et al. 2014). Board size (BSIZE) is defined as the natural logarithm of total number of directors as used by Rashid (2013). Allegedly, directors' ownership determines their willingness to monitor managers and enhance shareholders' value (Shleifer & Vishny 1997). It motivates directors to do their monitoring job effectively. Directors' ownership (DIROWN) is expressed as the ratio of total director shareholdings to total number of shares. This is consistent with Bathala and Rao (1995) and Rashid (2013). There are mixed results pertaining to leverage in relation to CSR reporting. On the one hand, Barnea and Rubin (2010) believed that companies with high debt levels are expected to incur

high monitoring costs and suggests a negative relationship between leverage and CSR disclosure. Alternatively, they disclose more information to reduce the costs (Esa & Mohd Ghazali 2012) and to meet the needs of their lenders (Abdullah et al. 2011). Following Rahman et al. (2011), leverage (DR) was measured by the ratio of total liabilities to total assets.

Liquidity has been proven to be positively related to both financial and non-financial disclosure (Ho & Taylor 2007). They suggest companies that are highly liquid have stronger incentives to communicate more information to the public as compared to companies with lower liquidity. Company liquidity (LIQ) is measured as current ratio (Ho & Taylor 2007; Rashid 2013, 2014). Company age (AGE) was represented by the number of years it has been listed on Bursa Malaysia, expressed in natural logarithm (Rashid, 2009). The level of CSR reporting escalates as company age increases. Khan et al. (2013) point out that a more mature company is likely to report more on CSR activities due to its reputational apprehension. Meanwhile, many researchers are in agreement that both company size and the extent of disclosures made for information users are closely linked. Among others, studies by Cormier et al.(2011) and Lu and Abeysekera (2014) confirmed that size is one of the major factors determining CSR reporting. Availability of money and expertise in large companies enables them to engage in more activities (including CSR activities), produce more information on these activities and their implications, and bear the cost of such processes (Andrew et al. 1989). This study employed the natural logarithm of total assets as the proxy for company size (SIZE) consistent with Das et al. (2015), Sartawi et al. (2014) and Rashid (2014).

CSR practices are also associated with profitability. Highly profitable companies have the ability to bear the CSR costs, hence disseminate more information to the stakeholders. Haniffa and Cooke (2005) and Khan (2010) confirm the importance of profitability when reporting social information is concerned. Profitability is proxied by Return on Assets (ROA) following Rashid (2014) and Sartawi et al. (2014). When companies grow rapidly they tend to seek outside financing. This creates an obligation to the companies to provide better disclosure to fulfil the financial provider's demand (Naser et al. 2006). Alongside, growth companies are also believed to have greater information asymmetry and agency costs (Eng & Mak 2003). To reduce those problems, companies are expected to disclose more information. Following Rashid (2013), company growth (GROWTH) is

expressed as percentage of annual change in sales. Market capitalisation (CAP) is expressed in its natural logarithm. It generally represents companies' importance (Wallace & Naser 1996). Given that view, companies that are highly capitalised usually opt for higher CSR disclosure in an attempt to minimise public pressure expecting them to be socially responsible and the possibility of facing greater regulation (Watts & Zimmerman 1990).

8.5.3 The Model

The model is estimated based on an Ordinary Least Square regression technique to examine the relationship between corporate governance attributes and the extent of CSR reporting of Malaysian PLCs:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{BFREQUENCY}_{i,t} + \beta_2 \text{BIND}_{i,t} + \beta_3 \text{BSIZE}_{i,t} + \beta_4 \text{DIROWN}_{i,t} + \\ & \beta_5 \text{DR}_{i,t} + \beta_6 \text{LIQ}_{i,t} + \beta_7 \text{AGE}_{i,t} + \beta_8 \text{SIZE}_{i,t} + \beta_9 \text{ROA}_{i,t} + \beta_{10} \text{GROWTH}_{i,t} \\ & + \beta_{11} \text{CAP}_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Where $\text{CSRI}_{i,t}$ is CSR index for i th company at time t . $\text{BFREQUENCY}_{i,t}$ is the natural logarithm of number of board meetings throughout the financial year for i th company at time t . $\text{BIND}_{i,t}$ is number of independence director to total number of directors for i th company at time t . $\text{BSIZE}_{i,t}$ is the total number of directors for i th company at time t . $\text{DIROWN}_{i,t}$ is percentage of director ownership for i th company at time t . $\text{DR}_{i,t}$ is debt ratio for i th company at time t . $\text{LIQ}_{i,t}$ is liquidity ratio for i th company at time t . $\text{AGE}_{i,t}$ is number of listed years on Bursa Malaysia for i th company at time t . $\text{SIZE}_{i,t}$ is natural logarithm of total assets for i th company at time t . $\text{ROA}_{i,t}$ is profitability for i th company at time t . $\text{GROWTH}_{i,t}$ is the company growth in sales for i th company at time t . $\text{CAP}_{i,t}$ is the market capitalisation for i th company at time t . α is the intercept, β is the regression coefficient and ε is the error term.

Prior to analyses, various data testing were conducted such as tests of the normality, multicollinearity, heteroscedasticity and endogeneity. To perform regression analyses, the means across samples must be normally distributed. Nevertheless, when sample is more than 30 (Pallant 2007), fulfilling this assumption is unnecessary. Nevertheless, based on Residual Test/Histogram-Normality Test,

data conformed to the assumption. On the word of Gujarati (2003), when the correlation is greater than 0.80, multicollinearity exists. The correlation matrix presented in Table 8.1 demonstrates the highest correlation is 0.839 between company size and market capitalisation; suggestive of multicollinearity problem. To reconfirm the problem, the Variance Inflation Factor (VIF) for each independent variable was measured. A VIF value exceeding 10 indicates multicollinearity (Gujarati 2003). Nevertheless, the VIF values fall below 10, proving the absence of multicollinearity problem.

Examination of homoscedasticity assumption in any regression model is imperative. A constant error across all values of the independent variables points to homoscedasticity. Alternatively, variation in size of the error term causes heteroscedasticity, resulting to the standard estimation methods to be inefficient. To check whether or not homoscedasticity assumption is violated, the scatter plot of the residuals (ZRESID) against the predicted value (ZPRED) of the model is examined. A classic cone-shape pattern indicates heteroscedasticity. Further, the Breusch-Pagan test was conducted and the chi-square and corresponding p values also demonstrated heteroscedasticity. To correct it, heteroscedasticity-consistent standard errors of the White (1980)'s method were applied. When there is correlation between independent variables and the error terms, endogeneity occurs. This causes biasness in the Ordinary Least Square (OLS) regression coefficients. To overcome this problem, Instrumental Variable regression can be employed. The F-test for the predicted value of board meeting in this model turns out to be insignificant. Following Rashid (2014), when the CSR index was used as a proxy for CSR reporting, $F = 10.75$ with $p = 0.0011$. The results showed that: (1) endogeneity is not an issue; and (2) OLS and Instrumental Variable regression are consistent.

8.6 Results

The descriptive statistics of CSR reporting and the independent variables are displayed in Table 8.2. The average CSR reporting level among PLC is 21.7%. This indicates that the CSR reporting level in Malaysia remains moderately low (Lu & Castka 2009; Ramasamy & Ting 2004) even though there are continuous efforts by regulators to promote CSR. There is a huge difference between the highest and the lowest level of reporting; suggesting that CSR practices in Malaysia are generally lacking. Culture is also an issue when explaining CSR reporting. By and large,

transparency and reporting are uncommon practices in Asia (Aajjaz & Ibrahim 2012).

Table 8.2 Descriptive statistics of the variables

	Mean	Median	Minimum	Maximum	SD
CSRI	0.2167	0.1961	0.0392	0.7255	0.1198
BFREQUENCY	5.1018	4.9530	2.0138	27.1126	1.3442
BIND	0.4519	0.4300	0.1700	1.0000	0.1281
BSIZE	7.2360	6.6859	3.0042	18.1741	1.2960
DIROWN	0.0438	0.0030	0.0000	0.5680	0.0879
DR	0.3956	0.3775	0.0030	5.1030	0.2458
LIQ	2.2001	1.7845	0.0070	10.3760	1.6831
AGE	13.9782	15.0293	6.0000	52.9845	1.6403
SIZE (log TA)	12.8784	12.6500	9.3690	18.4110	1.4467
ROA	0.06192	0.0580	-2.8980	5.5470	0.1782
GROWTH	0.0533	0.0265	-4.9410	8.5780	0.4777
CAP (log CAP)	18.7976	18.5030	12.3710	24.8100	1.8112

The mean of board meeting frequency reveals that companies conduct approximately 5 meetings per year and a maximum of 27 meetings. The mean result is much lower compared to studies by Jallow and Al-Najjar (2012) (7 meetings), Brick and Chidambaran (2010) and Saiful et al. (2007) (8 meetings) and Boyle and Ji (2013) (11 times). It is hypothesised that more board meetings reflect better monitoring by directors. As for board independence, on average, the board comprises 45.2% of independent directors. Although Amran et al. (2010)'s study of Malaysian PLCs recorded an average of 63% independent directors, the result of this study still indicate that PLCs in Malaysia are consistent with the MCCG recommendation of having a board with at least one third independent directors. Companies have an average board size of 7 directors, assuming that a moderately large size of board is preferable. Again, this finding is comparable to the study of Amran et al. (2010). Ownership by directors is surprisingly low with an average of 4.4% of shares owned by directors and large ownership by directors is evident only in certain companies.

Table 8.1 Correlation matrix of the explanatory variables

		1	2	3	4	5	6	7	8	9	10	11	VIF
1	BFREQUENCY	1.000											1.105
2	BIND	0.098**	1.000										1.280
3	BSIZE	0.098**	-0.414**	1.000									1.405
4	DIROWN	-0.018	0.057**	-0.089**	1.000								1.056
5	DR	0.170**	0.044*	0.029	-0.038*	1.000							1.511
6	LIQ	-0.063**	0.009	-0.025	-0.007	-0.508**	1.000						1.369
7	AGE	0.047*	0.151**	-0.011	-0.177**	0.014	-0.018	1.000					1.202
8	SIZE	0.236**	-0.053**	0.339**	-0.181**	0.148**	-0.101**	0.337**	1.000				4.414
9	ROA	-0.047*	-0.009	0.084**	-0.073**	-0.207**	0.107**	0.051**	0.111**	1.000			1.084
10	GROWTH	-0.037	-0.029	0.025	-0.009	0.048*	-0.029	0.000	0.073**	0.039	1.000		1.013
11	CAP	0.174**	-0.063**	0.321**	-0.156**	-0.067**	0.066**	0.268**	0.839**	0.174**	0.071**	1.000	4.013

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The adjusted R^2 value as presented in Panel A of Table 8.3 indicates that the disparity in the extent of CSR reporting explainable by the independent variables is 37.6%. It was expected that a positive relationship between frequency of board meeting and the extent of CSR reporting exists. Although the result in Panel A shows that frequency is positively related to the level of CSR, it is not significant. This result is consistent with Haji (2013) also in Malaysia. Opportunities for independent directors to exercise meaningful control over management are impaired when meeting agendas have been pre-set by CEOs (Jensen 1993).

Table 8.3 Relationship between board meeting frequency and CSR reporting

	Dependent variables	
	Panel A (Before controlling for industry)	Panel B (After controlling for industry)
	CSRI	CSRI
Intercept	-0.547 (-19.234)***	-0.559 (-17.277)***
BFREQUENCY	-0.002 (-0.296)	-0.007 (-1.073)
BIND	0.033 (1.873)*	0.021 -1.247
BSIZE	0.042 (4.570)***	0.029 (3.269)***
DIROWN	-0.044 (-1.866)*	-0.019 (-0.820)
DR	0.013 -1.311	0.02 (1.989)*
LIQ	-0.000 (-0.548)	-0.000 (-0.292)
AGE	0.022 (4.636)***	0.026 (5.371)***
SIZE	0.026 (9.026)***	0.035 (12.113)***
ROA	0.061 (5.571)***	0.048 (4.574)***
GROWTH	-0.001 (-0.281)	-0.001 (-0.289)
CAP	0.015 (6.620)***	0.001 (4.014)***
F statistic	122.667	34.752
Adjusted R^2	0.376	0.461

The t tests are presented in the parentheses * $p < 0.10$; ** $p < 0.010$; *** $p < 0.001$

The control variables: board independence, board size, ownership by directors, company liquidity, age, size, ROA and market capitalisation are found to be significantly related to CSR reporting. Independent directors have the ability to effectively monitor management due to its independence from the board. This reduces the opportunist behaviour of top management, thus increases the level of disclosure. The finding reinforces Barako and Brown (2008) and Rashid and Lodh (2008). Generally, companies with moderately large boards benefit from board diversity. This in turn results in better involvement in CSR activities and increased reporting supporting Esa and Mohd Ghazali (2012), Ntim and Soobaroyen (2013) and Akhtaruddin et al. (2009). While directors' ownership significantly affect CSR reporting, it actually reduces the reporting level thus matches the argument of this study. This result however contradicts Leung and Horwitz (2004) and Nasir and Abdullah (2004) besides inconsistent with Jensen and Meckling (1976)'s claim that director ownership helps to harmonise the interests of directors and shareholders. As predicted, mature companies tend to disclose more CSR information to demonstrate their already high reputations. Larger companies have the ability to report more CSR activities since the costs of disclosures are funded by profits Brammer and Pavelin (2008). Profitable companies are able to absorb the associated costs of disclosing more information to stakeholders. Companies with high market capitalisation are likely to produce high levels of CSR reporting; conceivably as part of their image building exercise.

Wallace, Naser and Mora (1994) mentioned that different industries may provide a different disclosure levels because of the unique characteristics of each industry. Earlier studies have confirmed a significant systematic disparity across industries concerning their inclination to make CSR reporting (Gamerschlag et al. 2011; Brammer & Pavelin 2008; Giannarakis 2014). Companies with high consumer visibility, a high level of political risk or concentrated intense competition disclose significantly more CSR information in their annual reports (Hackston & Milne 1996; Mohd Ghazali 2007). Following this, it is imperative to control for the effect of industry on reporting activities as the sample in this study constitutes of companies from multiple industries. Hence, the model was altered by adding INDUSTRY dummies. This study uses a two-digit industrial classification (SIC) codes to classify the companies. To further test the robustness of the results, the model has also been controlled for year effect through the addition of YEAR dummies.

The augmented regression model is:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{FREQUENCY}_{i,t} + \beta_2 \text{BIND}_{i,t} + \beta_3 \text{BSIZE}_{i,t} + \beta_4 \text{DIROWN}_{i,t} \\ & + \beta_5 \text{DR}_{i,t} + \beta_6 \text{LIQ}_{i,t} + \beta_7 \text{AGE}_{i,t} + \beta_8 \text{SIZE}_{i,t} + \beta_9 \text{ROA}_{i,t} + \beta_{10} \text{GROWTH}_{i,t} \\ & + \beta_{11} \text{CAP}_{i,t} + \Omega \text{YEAR} + \gamma \text{INDUSTRY} + \varepsilon_{i,t} \end{aligned}$$

There are some slight changes to the results when industry and year are controlled as shown in Panel B of Table 8.3. Independent directors have become insignificant; supporting Haji (2013) and Shamil et al. (2014). This result implies that the effectiveness of independent directors in increasing the level of CSR reporting might be hampered, plausibly due to lack of knowledge and experience in relation to the type of industry. Correspondingly directors' ownership has become insignificant. Leverage has become significant with the inclusion of industry and year. This indicates that in certain industries, companies with high leverage tend to disclose more CSR information. Companies may gain their creditors' confidence by attempting to provide more information (Abdullah et al. 2011). At the same time, Esa and Mohd Ghazali (2012) postulate that extensive information may help in reducing cost of capital. Nevertheless, board meeting remains to be negatively correlated to CSR reporting and insignificant. While board meeting remains insignificant, its coefficient has changed from positive to negative. This implies that too many board meetings can impair a company's level of reporting. Companies might opt for more board meeting at the sacrifice of better levels of reporting. This finding is consistent to Johl, Kaur and Cooper (2013) and Vafeas (1999).

8.7 Conclusions

This chapter examined whether the frequency of board meetings is a primary determinant of company CSR reporting. 450 listed Malaysian companies were sampled. Inconsistent with expectations, the OLS model reveals that board meeting frequency does not influence firm CSR reporting. These results suggest that company's level of CSR reporting remains indifferent to the number of board meetings held. The results seem to repudiate the common belief that resource-rich board of directors contributes to higher levels of reporting.

Although board meeting frequency is assumed to be the platform to protect shareholders' interests, it has not been well demonstrated in the Malaysian context. Vafeas (1999) suggested that board meetings should be reactive, rather than proactive measures. Companies need to consider how board meetings are to be used. Higher frequency may indicate that the company requires many board meetings to resolve its problems. Frequency of board meetings is seen as only a rough estimation of board activity as it does not indicate the work accomplished during the meeting (Menon & Williams 1994). Board meeting frequency may also be associated insignificantly with the size of the board. Larger board size are correlated with longer meeting times (Vafeas 1999). Hence, more board meetings does not necessarily mean more decisions being taken. Further, Malaysia is known for its family-owned companies. It is very common to see the same individuals serving as managers and board of directors. This results in conflicts and inefficiencies in making strategic decision during board meeting.

This chapter attempted to relate frequency of board meetings with resource dependence theory. In general, companies may not have all the skills and expertise needed to operate effectively and continuously in an ever-changing environment. To accommodate the shortfall, the focus shifted to the board of directors. Apart from bringing expertise from various fields, directors bring along business contacts and networks which may be relevant especially for start-ups and high-growth companies. Theoretically, board of directors should be a set of experienced, engaged and helpful advisors who can assist the management to focus strategically on the business. Ideally, board meetings should be a place and time for the directors to provide the most help and assistance they can. Yet, based on the grounds stated above, directors have failed to channel their expertise and network effectively through board meetings. Evidently, the finding of this study does not lend support to resource dependence theory. In closing, the result in this study suggest that frequent board meeting fails to provide stakeholders with better CSR information.

Inevitably, embracing good corporate governance and upholding it is vital for a company's survival. Broadly, higher board meeting frequency is synonymous with increasing board monitoring function. Yet, the results here suggest otherwise. Companies might want to revise their corporate conduct especially pertaining to board meeting frequency. If the impetus behind increased frequency were simply the need to comply with regulation and the fear of shareholders litigation, it is likely that

increases in frequency will impact negatively on a company's value. Perhaps it is better for the company to keep the meeting frequency moderately low but not compromising board effectiveness. The result also signal the need for the authorities to be more stringent in monitoring company's compliance with the corporate governance code. It is vital in strengthening the reliability and confidence of the shareholders towards the role of board of directors.

The generalisability of the findings is subject to several limitations. Analysis of annual reports is not free from subjective influences. This might reduce the reliability of the results. Alternatively, future studies may attempt to adopt approaches such as surveys or interviews in order to reduce subjectivity of the annual report disclosure analysis. Besides, interviewing board members will provide further insights on the effects of board characteristics on CSR reporting. Relying on annual reports only might be insufficient although it is regarded as the primary source of information for stakeholders (Tilt 2001). Therefore, examining other corporate information channels is highly recommended. Future research may also consider investigating other board attributes such as foreign directors, influential community members, CEO duality and ownership structure in relation to CSR reporting. While these governance attributes may have significant impact on company reporting behaviour, they were not included in this study due to word restraint. It is also worth investigating the board meeting process in determining its quality. Board meeting that is run efficiently helps to enhance board effectiveness (Saiful et al. 2007). In return, companies are able to demonstrate better performance. In addition, with the increasing importance of CSR reporting, it is essential to ensure that CSR reports are sufficient enough to meet stakeholders' information needs and subsequently help them hold companies to account. One way of doing it is by obtaining their perspectives on the issue. While this information may inform the future development of CSR reporting practices, O'Dwyer, Unerman and Hession (2005) mentioned that views of non-managerial stakeholders are largely absent. Hence, future studies may want to carry out surveys on various stakeholders to examine the adequacy of CSR reporting.

CHAPTER 9: CORPORATE BOARD DIVERSITY AND CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING

Abstract

This chapter investigates the impact of board diversity on Corporate Social Responsibility (CSR) reporting by companies listed on Bursa Malaysia. Inevitably, the issue of board diversity has been under the spotlight in most countries. Many scholars agree that diversity contributes to board effectiveness. Besides widening external networks, a diverse board may reach better decisions with the help of directors having various backgrounds, skills and experience. Despite its increasing importance, gender diversity has not been proven to drive companies towards better CSR reporting. While the presence of small number of female directors attests to the inability to influence a male dominated board, the effectiveness of directors who are financial experts is found to be industry specific. These results are associated with the prevalence of family-owned companies in Malaysia. Collectively, this chapter requires regulators and policymakers to be more stringent in monitoring company's conforming towards more diversified boards.

9.1 Introduction

Board diversity or corporate boards with increased female director representation is gaining attention around the world. There is a growing understanding that a demographically diverse board is capable of addressing the concerns of diverse stakeholders (Buchholtz & Carroll 2012). Board diversity is generally defined as the various attributes that may be represented among directors in relation to board decision-making (Ingley & Van der Walt 2003). These attributes include those that are directly observable (age, gender, ethnicity, and nationality) and those that are less visible (religion, education and occupation) (Mahadeo, Soobaroyen & Hanuman 2012). The aim of making the board less homogenous is to cultivate a broad spectrum of demographic attributes and characteristics, consequently breaking down a tendency towards "group think". Diversity in board composition inevitably creates breadth of perspective among directors, subsequently drives towards board's effectiveness through the likelihood of reaching a holistic solution, and hopefully assisting in better company performance. Board members with various experience, expertise and reputation are a source of competitive

advantage to the company. Alternatively, companies that have a homogenous board of directors may display low performance because they lack a broad portfolio of skills and expertise. For instance, in the absence of female directors, a male-dominated board may have few connections with female stakeholders (Ali, Ng & Kulik 2014). Various laws have been enforced to promote boardroom diversity. Attempts to increase women representation in boardrooms are evident in Norway, France, and Spain and mandated to be at least 40%, Belgium 33%, and Malaysia 30% (Ali et al. 2014). These initiatives are driven by the desire to achieve gender equality.

Proponents of board diversity argue that it produces a greater range of perspectives and potential solutions to problems; although it may initially present more conflicts in the decision-making process. Healthy debate can lead to better decisions. This would mean “group think” is avoidable (Ferreira 2010). Diversity can also foster creativity by acquiring information through a more diverse set of sources. Directors with financial industry experience, for instance, can help companies gain access to specific investors. Greater board diversity leads to closer monitoring of management decision making pertaining to social performance. Through enhanced supervising process, it helps to ensure that multiple stakeholder interests are represented in corporate governance (Kang, Cheng & Gray 2007). Board demographic diversity may also improve strategic decision making involving social issues (Zhang 2012). Further to that, board with diverse backgrounds tend to ask questions that might not be asked by directors with homogeneous backgrounds. This differentiation increases board independence (Carter, Simkins & Simpson 2003). As a multiplying effect, company levels of disclosure can be improved (Rao et al. 2012). Finally, diversity may promote more effective global relationships. Cultural sensitivity is critical in an international environment and ethno-cultural diversity makes corporate leaders more sensitive to other cultures (Wang & Clift 2009). On the contrary, demographic dissimilarity may limit communication among subgroups, create conflict, and reduce interpersonal attraction and group cohesiveness. When executives perceive demographically dissimilar directors as sharing different values and adopting dissimilar views, they are reluctant to share information with them (Adams & Ferreira 2007). This could compromise board effectiveness. In addition, the various opinions and many critical evaluations resulted from diverse boards might consume much time. This flaw might lead to ineffectiveness, especially if the

company is operating in a highly competitive environment where the ability to react quickly to market shocks is very important (Ujunwa et al. 2012).

While the importance of board diversity has been recognised, there is limited evidence on the influence of diversely-comprised boards on management decision making. Within the CSR disclosure framework, boards play a very important role. They decide the entrepreneurial strategy, including CSR policies and reporting (Kakabadse 2007). There is a considerable literature that shows the potential influence a diverse board has on a company's financial performance though less is known if this influences non-financial aspects like CSR. The empirical research on board diversity has been mostly done in the context of developed countries, such as the U.S. (Hillman, Cannella & Harris 2002; Gul, Srinidhi & Ng 2011), the U.K. (Canyon & Mallin 1997; Brammer, Millington & Pavelin 2007) and Australia (Kang et al. 2007). It is also worth noting that the findings differ contextually. Evidently, developed and developing countries differ in their regulatory, cultural, economic environments, size of capital markets and effectiveness of governance mechanism (Kang et al. 2007; Zainal, Zulkifli & Saleh 2013a). While it is essential to conduct a debate on gender diversity, other aspects of diversity such as skills, experience and ideas should also be considered as they are equally important (Adams 2015). Furthermore, the revised Malaysian Code of Corporate Governance (MCCG) (2007) proposes that the nominating committee must consider skills, knowledge, expertise and experience of a board candidature for appointment. The Corporate Governance Blueprint 2011 emphasises the need for the board to ensure it has the right mix of members with appropriate skills and experience to cope with business complexities, competition and changes. In response to the aforementioned reasons, this study aims to examine the association between board diversity, specifically gender and educational background, and CSR reporting, of Malaysian public listed companies (PLCs).

This chapter will contribute to the limited literature on board diversity in developing countries generally and in Malaysia, particularly. In addition, this study also includes board education specifically financial and law expertise following Adams (2015). With sparse evidence on these specific variables, the findings may assist government and regulators in refining existing rules.

The remainder of the chapter is structured as follows. Section 9.2 reviews earlier studies. Section 9.3 explains board diversity in Malaysia. Section 9.4 outlines

the theoretical framework and hypotheses to be studied. Section 9.5 describes the research methods. Section 9.6 presents the results and discussions. Section 9.7 concludes the paper.

9.2 Literature Review

9.2.1 Gender diversity

Boardroom diversity debate generally exhibits gender as the central issue (Adams 2015). The advantages of having female directors have been regularly demonstrated. Adams and Ferreira (2009) using a sample of U.S. companies, associated companies with female directors to be bigger in size, have larger boards, have more business segment and lower stock return volatility. Nielsen and Huse (2010) identify that women board members can reduce the level of conflict and ensure high quality board development activities. Both studies report better company performance in terms of return on assets (ROA).

Gender is the main demographic variable used to explain CSR attitudes. The literature has shown that women usually have a higher perception of risks and have been socialized to care for the needs of others, representing these qualities that encompass CSR (Ciocirlan & Pettersson 2012). Women are more risk averse and more ethical than men (Liu, Wei & Xie 2014). Studies have also found that women are more comfortable with community activities, while men are more comfortable with profitable activities (Betz et al. 2013). Thus, the presence of women on board increases welfare activity, and more likely to report their activities to the public. Theoretically, women have different knowledge and values when it comes to contextual issues. Ciocirlan and Pettersson (2012) discovered the presence of women impact positively on company's climate change commitment. Similarly, utilising a sample of Fortune 500 companies, Bernardi and Threadgill (2011) found evidence that companies with a higher proportion of women board members are more socially responsible. Dienes and Velte (2016) indicate a positive relationship between female directors and CSR reporting in German companies. Also, Liao, Luo and Tang (2015), Frias-Aceituno et al. (2013), Fernandez-Feijoo, Romero and Ruiz-Blanco (2014) and Rao et al. (2012) found increased female board representation has a positive influence on the quality of CSR reporting. Furthermore, Zhang, Zhu and Ding (2013) estimated that female directors are linked to better CSR performance. Harjoto, Laksmana and Lee (2015) report gender diversity is positively associated

with CSR activities, increasing CSR strengths and reducing CSR concerns. Gupta et al. (2014) believe that boards with higher gender and racial diversity adopt stakeholder views instead of purely shareholders opinions. For this reason, they perform better on social, environmental and governance dimensions but not on financial dimensions. Positive association between female directors and CSR has also been reported recently by Sundarasan et al. (2016). Gender diversity has also been associated with critical mass of three concept. When women are outnumbered by men, they are not likely to bring any benefits to the company due to their limited power (Konrad, Kramer & Erkut 2008). Bear et al. (2010) associate higher CSR strength ratings with more women on board. Likewise, Fernandez-Feijoo et al. (2014) on their 22 cross country study demonstrate that more and better CSR reports are produced by companies with high numbers of women on the board.

9.2.2 Financial expertise

Education, to a certain degree, may shape a person's values, cognitive preferences, knowledge and skill base. Yusoff (2010) showed that relevant knowledge and educational qualifications are integral components of the effectiveness of Malaysian PLC boards. There is a significant relationship between level of education and expressed environmental attitudes and concern. Education aids in increasing environmental concern and awareness because it can increase an individual's ability to appreciate complex and integrative large scale problems. Cooke and Wallace (1990, p. 84) posit that "an increase in the level of education in a country may increase political awareness and demand for corporate accountability". Therefore, if a board of directors consists of individuals having an academic background in accounting and business, they may choose to disclose more information to demonstrate accountability, improve the company's image as well as add credibility to the management team (Haniffa & Cooke 2002). Dienes and Velte (2016) further argue that it is impossible for board members without sufficient financial expertise to give advice to other board members. Both studies demonstrated that board members with financial expertise were indifferent to CSR reporting; confirmed by Jizi et al. (2014). These findings imply that having financial expertise alone is insufficient to have an effect on CSR reporting. Meanwhile, Yusoff and Armstrong (2012) examined Malaysian board competencies and company performance and revealed that financial expertise was the most highly valued

competency for Malaysian companies. Further, they found that accounting expertise impacts positively on company performance.

9.2.3 Legal expertise

Primarily, lawyers are trained to protect their clients' interests and socialised to behave conservatively and minimise risk. Therefore, it is not surprising to find individuals with a legal education exhibit decision making patterns that are distinct to those without legal educations (Lewis et al. 2014). Investors prioritise excellent corporate governance. Despite their obsessiveness towards risk, directors possessing legal education are presumed to be more accountable to protect shareholders' interests (Yusoff & Armstrong 2012). Lawyers are believed to be capable of assessing environmental opportunities through their reasoning skills besides being well-informed of stakeholder impacts of environmental actions (de Villiers et al. 2011). As such, their advice is a source for promoting sound environmental policy (Kassinis & Vafeas 2002). de Villiers et al. (2011) demonstrate a higher environmental performance when there are legal experts among the board members. In their quest to determine whether human capital affects environmental reporting, Said et al. (2013) studied a sample of 120 Malaysian listed companies in 2009. They revealed that CEOs with law backgrounds are more prone to disclose environmental information. Conversely, a study of CEOs of U.S. companies during 2002 to 2005 by Lewis et al. (2014) showed that CEO with a legal degree prefer not to disclose the company's environmental performance. Informing others about company's performance on the environment might pose a threat to the company.

To summarise, studies on board diversity have shown inconclusive results. On the one hand, having a diverse board can improve board effectiveness through increased decision-making capacity; hence better reported CSR information. On the other hand, diversity can create conflicting ideas which in turn might affect board performance negatively. Thus, its overall effect on CSR reporting remains a debatable issue. It is also notable that the impact of board diversity varies across countries. Unfortunately, board diversity studies in developing countries especially in relation to CSR reporting have received comparatively less attention. As such, a research gap clearly exists.

9.3 Board diversity in Malaysia

Malaysia has a population of 30 million (MWFCF 2014). Women constitute 48% of the Malaysian population and 52% of the total workforce (MWFCF 2014). However, they are severely under-represented on corporate boards. Achieving gender equality is crucial as it is one of the agendas in Vision 2020. As noted by the Prime Minister's Department:

“At the crux of the matter, Malaysia will not be able to achieve its ambitions to emerge as a developed nation by 2020 if we are not able to fully unlock the potential of half our population – that is, our talent pool of women. Whether we succeed in optimising on our women talent will, in large, depend on Corporate Malaysia.”

In view of the problem, in 2004, the Government of Malaysia announced its policy to have at least 30% participation of women at decision making positions in the public sector. There has been a sharp increase of the number of women as decision makers in public sectors from 18.8% initially to 32.5% in 2014 (MWFCF 2014). The government has decided to extend the policy to the private sector, specifically public listed companies and government linked companies. Malaysia has lagged behind its Asian counterparts in terms of female board directors. In The Korn Ferry International 2010 Asian Diversity Study, Malaysia was in fourth place (7.8%) after Australia (11.2%), Hong Kong (8.6%) and China (8.1%). In June 2011, the Malaysian government established a goal of 30% female board membership by 2016. The determination to see more women as decision makers has in some way driven MCCG to include in its 2012 revision a requirement that a board needs to have a formal policy on boardroom diversity. This is to confirm that women candidates are sought as part of its recruitment exercise. Further, public listed companies are also obliged to disclose in their annual report its policies on gender diversity and means to realize those goals. Despite these initiatives by 2014 there was a slight increase to 10.2%. In 2015, Talent Corp and PwC estimated it at 13%. Although the progress seems promising, it is still far from reaching the 30% target by 2016. Amran (2011) attributes the slow pace to women's commitment to their families and their preference not to work long hours. Meanwhile, being a multiracial country, divergence in cultural values (Haniffa & Cooke 2005) might hinder the effort. Religions such as Islam and Confucius have shaped the Malaysian attitude towards gender diversity (Abdullah 2014). Nevertheless, despite those challenges, various initiatives have been undertaken to increase the number of women. One of them

called “Women Directors’ Programme” which was launched in 2012. Up to May 2014, 128 women have been successfully placed on various PLCs boards (MWFC D 2014).

9.4 Theoretical framework and hypotheses

9.4.1 Resource dependence theory

Earlier studies have utilised resource dependence theory when discussing board diversity (Ntim & Soobaroyen 2013; Ali et al. 2014; Gupta et al. 2014). Introduced by Pfeffer and Salancik (1978) the theory states that a company’s performance is linked to the opportunities that are available to it to access resources. External pressures, such as competition, regulation and social forces, cause companies to seek out environmental linkages to acquire access to or control over resources (Boyd 1990). Pfeffer and Salancik (1978) claim that a board of directors serves as an environmental linkage that helps link the company with its external resources. The board develops connections with external stakeholders (e.g. suppliers, consumers), helps engage talent from the labour market and makes strategic decisions. In view of the important functions the board serves, it is essential for the company to have a diverse board. Board diversity may benefit the board’s decision making process. A board needs to draw upon a range of experiences in understanding opportunities, anticipating challenges and assessing risks. When facing with constituencies that are globalizing, the accelerating effects of technology and risk presents itself in new ways, it is essential to have multiple views on the possible outcomes of an action (Hillman, Cannella & Paetzold 2000). Conceivably, male and female directors vary in aspects like skills, knowledge and perspectives. Hence, integration of these aspects results to broader range of information thus higher quality decisions (Ali et al. 2014) including the intensity of company’s reporting.

Board diversity assists in establishing connections with important external stakeholders, such as suppliers and consumers. Companies may reduce uncertainties and dependencies if they capitalize on the full range of connections delivered by a diverse board (Pfeffer & Salancik 1978). Companies with diverse boards have the advantage of accessing critical resources from various suppliers and in turn, develop products valued by diverse consumer groups (Ali et al. 2014). A diverse board also helps to attract and retain diverse talents (Stephenson 2004). These talents may contribute to better organizational performance and help the organization to achieve

a sustained competitive advantage. Clearly, diversity may be a source of competitive advantage due to its ability to enrich the board's knowledge base, creativity and innovation (Sartawi et al. 2014), which in turn contributes to a company's success.

Generally, women and men appear to differ in values when it comes to social responsibility. Many studies provide support for the claim that women are more likely than men to identify situations requiring ethical judgment and to behave ethically (Albaum & Peterson 2006) as well as to support the enforcement of environmental accountability standards (Shafer, Fukukawa & Lee 2007). Barako and Brown (2008), Bear et al. (2010) and Zhang (2012) found a positive link between boards with female directors and CSR disclosures. Ntim and Soobaroyen (2013) found no relationship between gender diversity and CSR disclosures. Similarly, Post et al. (2011) showed that having three or more women board members is insignificant to social and environmental disclosures. Based on the above arguments and empirical findings, the first hypothesis is that:

H1: Gender diversity affects company CSR reporting

Education levels of board members can be an effective mechanism in establishing a link with external companies and individuals. Pfeffer (1972) asserts that directors with a financial background as well as law background have the ability to create connections with the external environment. The presence of directors who have financial expertise assures potential investors and creditors (Jeanjean & Stolowy 2009). Although Lewis et al. (2014) showed that the conservatism of directors with law backgrounds resulted in them disclosing less environmental information. However, Said et al. (2013) and Shukeri, Shin and Shaari (2012) showed otherwise. Dienes and Velte (2016) failed to relate directors' expertise with CSR reporting. While empirical studies relating directors' educational background and CSR reporting are relatively scarce, it is justifiable that educational background has some effect on the level of CSR reporting. The second hypotheses are that:

H2a: Directors who have financial expertise affect company CSR reporting

H2b: Directors who have law expertise affect company CSR reporting

9.5 Method

9.5.1 Data

The study sample comprised non-financial companies listed on the Main Market of Bursa Malaysia from 2008 until 2013. Out of 813 companies listed at 31st December 2013, only 613 companies have completely lodged their annual reports over the six year period. Also, finance companies were omitted given that they are subject to different regulatory and disclosure requirements. This is established practice, see Mohd Ghazali (2007), Said et al. (2009), Haniffa and Cooke (2005). As a result, 136 finance companies were excluded from the sample, reducing the potential population to 477 companies. 27 companies with imperfect data were not considered as sample. A final 450 companies have been included as shown in Table 4.3.

The main source of information was extracted from the six annual reports for each company. This is based on several justifications. First, annual report has been the most chosen medium to explore CSR information by earlier studies (e.g. Chan et al. 2014; Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013). Second, most companies mainly use annual reports to inform the public regarding CSR information (Hasnah et al. 2006; Chan et al. 2014). Third, annual report is perceived as the main company's document as it outlines the organisation as a whole (Gray et al. 2001). Finally, companies prefer to disclose corporate information in annual report on the ground of accessibility and reliability (Othman & Ameer 2010).

9.5.2 Variables

9.5.2.1 Dependent variable

This study employs content analysis; a technique used by many accounting scholars to investigate CSR disclosures in corporate annual reports (e.g. Abdullah et al. 2011; Chan et al. 2014; Haji 2013). Content analysis is a technique used to make valid inferences from data to their context (Krippendorff, 1989). It converts qualitative information in the annual report to quantitative form (Djajadikerta & Trireksani 2012).

To assess the content of CSR reporting, a checklist of items was constructed by examining previous CSR reporting checklists (e.g. Hackston & Milne 1996; Barako & Brown 2008). In addition, specifically Malaysian checklists were also referenced (e.g. Abdullah et al. 2011; Haji 2013). To ensure conformation of the

checklist items to the listing requirement and their relevance to the current Malaysian context, the framework launched by Bursa Malaysia in 2006 was also used as a reference. It comprises guidelines for PLCs in defining their CSR priorities, implementation and reporting. The framework focuses on four dimensions namely: Environment, Community, Marketplace and Workplace. However the details on what to report under each heading is left to management discretion. In this study, a checklist of 22 items developed by Abdullah et al. (2011) was made the benchmark. Their checklist was an adoption of the work of Mohd Ghazali (2007) with some changes according to the checklists by Hackston and Milne (1996) and Ng (1985). In addition, the checklists by Mohamed Adnan (2012) and Chan et al. (2014) were also referred to. To ensure validity of the checklist, this study also followed the work of Kolk (2010) where CSR expertise was used to review the checklist. After thorough revisions and refinements, a checklist of 51 items was finally produced (see Table 4.4).

Consistent with earlier studies (e.g. Haji 2013; Rashid & Lodh 2008), each company's disclosure score is derived using dichotomous procedure. Each disclosure item is given a score of "1" if it is disclosed and "0" if otherwise. A CSR reporting index is calculated by dividing the disclosure score of each company to the maximum possible score (i.e $1 \times 51 = 51$) as indicated by the formula below:

$$CSRI = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$$

CSRI = CSR reporting index; n_j = number of items expected for j th company; $X_{ij} = 1$ if i th item disclosed; 0 if i th item not disclosed.

9.5.2.2 Independent and control variables

Independent variables in this study are board diversity attributes specifically gender diversity and directors' education background. Gender diversity (BFEMALE) explicitly looks at the number (proportion) of female board directors. There have been claims that the presence of female directors could enhance company's corporate governance (e.g. Adams & Ferreira 2009; Abbott et al. 2012). This follows Sundarasan et al. (2016), Ujunwa et al. (2012) and Hafsi and Turgut (2013). Bantel (1993) asserts that diverse educational background leads to better decision making.

This study referred educational background as the proportion of directors with financial background (BMGT) and the proportion of directors with law background (BLAW). This is consistent with the work of Said et al. (2013).

This study identified a few control variables namely board size, directors' ownership, debt ratio, liquidity, company age, company size, profitability, company growth and market capitalisation. Board size refers to the number of directors to make up the board (Ntim & Soobaroyen 2013; Jizi et al. 2014). An ideal board size would be different across companies. Board size (BSIZE) is defined as the natural logarithm of the total number of directors as used by Rashid (2013). Despite the claim that directors' ownership helps to congruent the interests of shareholders and directors thus motivating them to do their monitoring job effectively (Jensen & Meckling 1976), this is not necessarily the case in an environment where ownership is concentrated. The opportunity for the directors to own shares has caused them to put their interests above all. Directors' ownership (DIROWN) is expressed as the ratio of total director shareholdings to total number of shares. This is consistent with Bathala and Rao (1995) and Rashid (2013).

Barnea and Rubin (2010) believe that the needs for managers of highly leveraged companies to generate and retain cash to service the debt might reduce their ability to fund CSR activities. Their study suggests a negative relationship between leverage and CSR disclosure. On the other hand, companies with high debt levels are expected to incur high monitoring costs. Alternatively, they disclose more information to reduce the costs (Esa & Mohd Ghazali 2012) and to meet the needs of their lenders (Abdullah et al. 2011). Following Rahman et al. (2011), leverage (DR) was measured by the ratio of total liabilities to total assets.

Liquidity is also found to be positively related to both financial and non-financial disclosure as indicated by Ho and Taylor (2007). They suggest high liquidity companies have stronger incentives to disseminate more information as compared to companies with lower liquidity. Company liquidity (LIQ) is measured as the current ratio (Rashid 2013, 2014). The level of CSR reporting intensifies as company age increases. Khan et al. (2013) state that a mature company inclines to have high disclosure to maintain their reputation. Company age (AGE) was represented by the number of years it has been listed on Bursa Malaysia, expressed in natural logarithm. There is almost a consensus on the existence of a relationship between company size and the extent of disclosures made. Cormier et al. (2011) and

Lu and Abeysekera (2014) confirmed that this result. Availability of money and expertise in large companies enable them to engage in more activities (including CSR activities), produce more information on these activities and their implications, and bear the cost of such processes (Andrew et al. 1989). This study employed natural logarithm of total assets as the proxy for company size (SIZE) consistent with Das et al. (2015) and Sartawi et al. (2014).

Haniffa and Cooke (2005) and Khan (2010) demonstrate that profitability can affect company CSR reporting behaviour. Companies with high profit can report more CSR information based on their ability to meet the reporting costs. Profitability is proxied by Return on Assets (ROA) following the studies by Rashid (2014) and Sartawi et al. (2014). Fast growing companies have the tendency to acquire external financing to invest in various activities. To qualify for such financing, they are normally required to disclose information comprehensively (Naser et al. 2006). Growth companies are also associated with greater information asymmetry and agency costs (Eng & Mak 2003). Hence, it is expected of them to disclose more information. Following Rashid (2013), company growth (GROWTH) is expressed as percentage of annual change in sales. Referring to Watts and Zimmerman (1990), pressure from the public has driven high market capitalisation companies to report more CSR information. On the contrary, companies with low market capitalisation prefer to have lower disclosure to stay competitive. Market capitalisation (CAP) is expressed in its natural logarithm.

9.5.3 The Model

The model to examine the relationship between corporate governance attributes and the extent of CSR reporting of Malaysian PLCs is as follows:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{BFEMALE}_{i,t} + \beta_2 \text{BMGT}_{i,t} + \beta_3 \text{BLAW}_{i,t} + \beta_4 \text{BSIZE}_{i,t} + \\ & \beta_5 \text{DIROWN}_{i,t} + \beta_6 \text{DR}_{i,t} + \beta_7 \text{LIQ}_{i,t} + \beta_8 \text{AGE}_{i,t} + \beta_9 \text{SIZE}_{i,t} + \beta_{10} \text{ROA}_{i,t} \\ & + \beta_{11} \text{GROWTH}_{i,t} + \beta_{12} \text{CAP}_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Where $\text{CSRI}_{i,t}$ is CSR index for i th company at time t . $\text{BFEMALE}_{i,t}$ is the proportion of female directors to total number of directors for i th company at time t . $\text{BMGT}_{i,t}$ is the proportion of directors with a financial background to total number of

directors for i th company at time t . $BLAW_{i,t}$ is the proportion of directors with a law background to the total number of directors for i th company at time t . $B_{SIZE}_{i,t}$ is the total number of directors for i th company at time t . $DIROWN_{i,t}$ is percentage of director ownership for i th company at time t . $DR_{i,t}$ is debt ratio for i th company at time t . $LIQ_{i,t}$ is liquidity ratio for i th company at time t . $AGE_{i,t}$ is number of listed years on Bursa Malaysia for i th company at time t . $SIZE_{i,t}$ is natural logarithm of total assets for i th company at time t . $ROA_{i,t}$ is profitability for i th company at time t . $GROWTH_{i,t}$ is the company growth in sales for i th company at time t . $CAP_{i,t}$ is the market capitalisation for i th company at time t . α is the intercept, β is the regression coefficient and ε is the error term.

Data was tested for multicollinearity, heteroscedasticity and endogeneity problems alongside fulfilment of the normality assumption that there is normal distribution of the means across samples. Testing of data was based on Residual Test/Histogram-Normality Test and the result conformed to the assumption. Multicollinearity exists when there are high correlations among the independent variables. From the correlation matrix presented in Table 9.1, the correlation coefficients between independent variables vary from -0.009 to 0.839. Gujarati (2003) views a correlation exceeding 0.80 as having multicollinearity problem. This is evident in the correlation value of 0.839 between company size and market capitalisation. Further, a Variance Inflation Factor (VIF) for each independent variable was measured to check whether the assumption is violated or not. A VIF value exceeding 10 shows multicollinearity is present (Gujarati 2003). Nevertheless, the VIF values fall within acceptable levels, indicating multicollinearity was not a cause for concern.

Homoscedasticity is where the error term is constant across all values of the independent variables. Accordingly, standard estimation method becomes inefficient. Examining the scatterplot of the residuals ($ZRESID$) against the predicted value ($ZPRED$) of the model in this study showed a classic cone-shape pattern of heteroscedasticity. Thus, the Breusch-Pagan test was further conducted. Both the Chi square and corresponding p values proved the problem of heteroscedasticity. To correct it, heteroscedasticity-consistent standard errors of the White (1980)'s method have been applied. Endogeneity, being another main assumption, emerges when the independent variables are correlated with the error terms. Consequently, it causes the regression coefficient in the Ordinary Least Square (OLS) regression to be biased.

Table 9.1 Correlation matrix of the explanatory variables

		1	2	3	4	5	6	7	8	9	10	11	12	VIF
1	BFEMALE	1.000												1.022
2	BMGT	0.028	1.000											1.105
3	BLAW	-0.031	-0.132**	1.000										1.079
4	BSIZE	0.046*	-0.176**	-0.079**	1.000									1.239
5	DIROWN	-0.061**	-0.018	-0.069**	-0.089**	1.000								1.062
6	DR	-0.072**	-0.038*	-0.013	0.007	-0.035	1.000							1.124
7	LIQ	-0.041*	0.090**	0.067**	-0.045*	-0.008	-0.274**	1.000						1.118
8	AGE	-0.048*	0.123**	0.108**	-0.011	-0.177**	0.005	0.063**	1.000					1.206
9	SIZE	0.022	0.031	0.068**	0.339**	-0.181**	0.055**	-0.067**	0.337**	1.000				3.895
10	ROA	0.032	-0.021	0.018	0.084**	-0.073**	-0.129**	0.049*	0.051**	0.111**	1.000			1.053
11	GROWTH	0.031	-0.030	0.042*	0.025	-0.009	0.018	-0.059**	0.000	0.073**	0.039	1.000		1.014
12	CAP	0.024	0.062**	0.101**	0.321**	-0.156**	-0.069**	0.035	0.268**	0.839**	0.174**	0.071**	1.000	3.738

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

To resolve the issue, Instrumental Variable regression is used. The F-test for the predicted value of board diversity in this model was considered insignificant. Following Rashid (2014), when the CSR index was used as a proxy for CSR reporting, $F = 1.29$ with $p = 0.2557$. The results showed that: (1) endogeneity is not a problem; (2) OLS and Instrumental Variable regression results are consistent.

9.6 Results and discussion

Table 9.2 Descriptive statistics of the variables

	Mean	Median	Minimum	Maximum	SD
BFEMALE	0.0820	0.0000	0.0000	0.5000	0.1069
BMGT	0.5200	0.5000	0.0000	1.0000	0.2061
BLAW	0.0743	0.0000	0.0000	0.6700	0.0970
BSIZE	7.2362	6.6859	3.0042	18.1741	1.2960
DIROWN	0.0438	0.0030	0.0000	0.5680	0.0879
DR	0.4024	0.3775	0.0030	10.3190	0.3623
LIQ	3.0531	1.7845	0.0070	96.1110	5.1989
AGE	13.9782	15.029	6.0000	52.9845	1.6403
SIZE (log TA)	12.8784	12.6500	9.3690	18.4110	1.4467
ROA	0.0619	0.0580	-2.8980	5.5470	0.1782
GROWTH	0.0533	0.0265	-4.9410	8.5780	0.4777
CAP (log CAP)	18.7976	18.5030	12.3710	24.8100	1.8112
CSRI	0.2167	0.1961	0.0392	0.7255	0.1198

Table 9.2 shows that on average the level of CSR reporting of PLCs is 21.67%. While there has been enormous efforts by the regulators and government to foster CSR practices, the rate remains relatively low (Lu & Castka 2009). However, this is not surprising as transparency and reporting is still rare in Asia (Aaijaz & Ibrahim 2012). There are only 8.2% female board directors in Malaysia; an increase from 6.3% (Abdullah 2014). Comparatively the result is better than in Nigeria (4.6%) (Ujunwa et al. 2012) but is lower than in Germany (13.52%) (Dienes & Velte 2016), New Zealand (17%) (Fauzi & Locke 2012), South Africa (10%) (Ntim & Soobaroyen 2013) and the USA (10.4%) (Gupta et al. 2014). Abdullah (2014) identifies the problem as religion which in turn forms the attitude of Malaysians towards gender. Islam and Confucianism, the religion of Malays and Chinese respectively, discourage women from being leaders. Meanwhile, directors with financial backgrounds represent 52% of total directors and with 7.4% possessing a

law background. This is rather foreseeable as accountancy is the top chosen field of study in both public and private universities in Malaysia (MWFC 2014). On average, Malaysian PLCs have seven board directors. This result is similar to the MCG Index finding from 2009 to 2011 (MCG Index 2011); signifying that moderately small boards are preferable and it is also within Jensen (1993)'s recommended board size of seven to eight directors. Directors' ownership is 4.38% of total shareholdings.

Table 9.3 reports the ordinary least square (OLS) regression results. The adjusted R^2 value in Panel A denotes that the changes in CSR reporting are 37.4% explainable by the independent variables. The presence of female directors was found to be insignificant to company CSR reporting. This result was rather surprising as many previous studies have associated female directors with having attitudes that are prone to social responsibility. This result contradicts the studies by Post et al. (2011), Kiliç, Kuzey and Uyar (2015), Dienes and Velte (2016), Liao et al. (2015) and Frias-Aceituno et al. (2013). The insignificant result can potentially be associated with critical mass theory. Konrad et al. (2008) showed that a critical mass of three or more women can cause a fundamental change in boardroom dynamics. As the percentage of women in a group increases, they can form coalitions, support one another and affect the culture of the group. Given female directors on Malaysian PLCs boards are in the minority their presence might not enable this cultural change to occur stymieing government's effort to achieve 30% women participation on boards by 2016. In the circumstances the benefits of board diversity in enhancing CSR reporting are unlikely to be realised.

As expected, directors with financial background affects positively and significantly company CSR reporting; contradicting the study by Haniffa and Cooke (2002) in Malaysia and Dienes and Velte (2016) in Germany. Fundamentally, financially educated directors have been exposed to the importance of social and environmental matters during their study through modules such as social accounting. This not only makes them appreciative of the environment but helps enhance their level of responsibility thus serving better shareholders' interest (Shukeri et al. 2012). In general, a board's responsibilities include administering compliance with various laws. Possessing law education appears to be relevant as it assists directors to better comprehend their legal duties (Yusoff & Armstrong 2012). Contrary to the claim, this study found that having directors with law backgrounds does not have any effect

on CSR reporting. Collectively, the results above partially support resource dependence theory.

Table 9.3 Relationship between board diversity and CSR reporting

	Dependent variable	
	Panel A (omitting industry)	Panel B (including industry)
	CSRI	CSRI
Intercept	-0.544 (-21.154)***	-0.596 (-17.895)***
BFEMALE	0.013 (0.734)	-0.022 (-1.183)
BMGT	0.025 (2.391)*	0.015 (1.442)
BLAW	0.023 (1.092)	0.027 (1.313)
BSIZE	0.039 (4.517)***	0.029 (3.460)***
DIROWN	-0.037 (-1.545)	-0.014 (-0.613)
DR	0.003 (0.448)	0.005 (0.999)
LIQ	-0.001 (-1.602)	-0.000 (-0.973)
AGE	0.022 (4.687)***	0.027 (5.594)***
SIZE	0.028 (10.177)***	0.037 (13.658)***
ROA	0.060 (5.521)***	0.045 (4.322)***
GROWTH	-0.001 (-0.293)	-0.001 (-0.362)
CAP	0.013 (6.231)***	0.007 (3.535)***
F statistic	112.734	35.694
Adjusted R ²	0.374	0.461

The *t* tests are presented in the parentheses * $p < 0.10$; ** $p < 0.010$; *** $p < 0.001$

Other control variables namely board size, company age, company size, profitability and market capitalisation affect CSR reporting significantly. A larger board size utilizes diversity, better monitoring and workload sharing (Larmou & Vafeas 2010). These benefits are transformed into better CSR reporting as exhibited in Esa and Mohd Ghazali (2012), Ntim and Soobaroyen (2013) and Akhtaruddin et al. (2009). Larger companies have the ability to report more CSR activities since costs of disclosures are funded by profits (Brammer & Pavelin 2008). Besides, higher CSR reporting is one way of demonstrating the legitimacy of their actions and being consistent with good corporate citizenship (Brammer & Pavelin 2008). Highly profitable companies are associated with high CSR disclosure due to their capacity to absorb the related costs. Consistent with expectation, companies with high market capitalisation are likely to produce high levels of CSR reporting; conceivably as part of their image building exercise. Finally, mature companies are able to disclose more CSR information as information gathering has been continuous since their establishment. Hence, CSR reporting might not be as costly as for younger companies (Owusu-Ansah 1998).

Industry has been found to significantly affect company CSR reporting (e.g. Gamerschlag et al. 2011; Giannarakis 2014). In light of this, it is necessary to control the effect of industry on reporting activities as the sample in this study comprises companies from multiple industries. Hence, the model was altered by adding INDUSTRY dummies. This study uses a two-digit industrial classification (SIC) codes to classify the companies. The new regression model reads as follows:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{FEMALE}_{i,t} + \beta_2 \text{MGT}_{i,t} + \beta_3 \text{LAW}_{i,t} + \beta_4 \text{BSIZE}_{i,t} + \beta_5 \text{DIROWN}_{i,t} \\ & + \beta_6 \text{DR}_{i,t} + \beta_7 \text{LIQ}_{i,t} + \beta_8 \text{AGE}_{i,t} + \beta_9 \text{SIZE}_{i,t} + \beta_{10} \text{ROA}_{i,t} + \beta_{11} \text{GROWTH}_{i,t} \\ & + \beta_{12} \text{CAP}_{i,t} + \gamma \text{INDUSTRY} + \varepsilon_{i,t} \end{aligned}$$

Panel B of Table 9.3 depicts very similar results to Panel A. Female directors' coefficient has changed to a negative sign though it remains insignificant. Nevertheless, directors with financial expertise has become irrelevant in explaining companies' inclination to report on CSR information; supporting Haniffa and Cooke (2002) and Jizi et al. (2014). This denotes that the presence of financial expertise is beneficial to certain industries only. Equally, it supports the point made by Dienes

and Velte (2016) that it is inadequate to rely on financial expertise only to enhance CSR reporting.

9.7 Conclusion

Globalisation, the rapid deployment of technology and the shifting demographics of workforces have made businesses much more complex. Board homogeneity can be a hindrance in an increasingly dynamic environment. A diverse board enables directors to share their expertise, experience and reputation in enhancing the quality of decision making. This study examined the effect of board diversity on company CSR reporting. Based on a sample of 450 listed companies from 2008 to 2013, the results reveal that board diversity in terms of gender and education background are not significant in explaining the variation in company CSR reporting.

The ability of female directors to enhance more CSR reporting has not been demonstrated in this study. With only 8.2% women on Malaysian PLCs board of directors, they formed an insignificant minority group among board members. Although Dienes and Velte (2016) argue that women are likely to influence decisions among the supervisory board concerning CSR reporting issues owing to their different knowledge and values when it comes to contextual issues, their voices maybe unheard due to them being a minority (Ntim & Soobaroyen 2013). Fernandez-Feijoo et al. (2014) showed that companies with boards that comprises more than three women report more CSR information. Perhaps, when the 30% gender quota has been achieved, only then there will be improvement in CSR reporting. Culture is possibly one of the factors contributing to the study results. Generally in Asian countries, women have constrained leadership roles. As such, their views and opinions may be taken for granted. Further, female directors are mainly elected based on family ties with the expectation that they will be supportive of management's decisions (Abdullah 2014). Consequently, they are unlikely to bring the appropriate skills and might not be fully engaged with company affairs (Brennan, Solomon, Uddin & Choudhury 2008).

Directors with specialised expertise such as law, finance and marketing become a valued resource providing guidance and advice in critical parts of the business including CSR reporting. However, this study proves otherwise. Prior educational background does not completely reflect a board member's attitudes,

expertise and experience. Hence, directors' educational background is less effective in improving CSR reporting.

While the idea that diversity improves a board's ability to address the concerns of diverse shareholders (Buchholtz & Carroll 2012) has been recognized by many; its actual effect seems to vary contextually. It is also worth noting that the benefits of having a diverse board may not be immediate apparent since it involves changes in human perceptions. To ensure board diversity perhaps a much stringent rule should be introduced by the Securities Commission.

CHAPTER 10: CEO DUALITY AND CSR REPORTING

Abstract

This chapter examines the impact of CEO duality (both CEO and Chair of Board) on corporate social responsibility (CSR) reporting by Malaysian publically listed companies. When these roles are combined, it is believed that it will assist companies to produce better CSR reporting as a result of better communication. However, it is also argued that when CEO is also the Chairperson, it leads to a concentration of power. There is a possibility that a company's objectives may be more focused on satisfying the CEOs needs instead of stakeholders. While the practice of CEO duality is normally associated with developing countries due to ownership concentration, this chapter found that separating the roles does not impede CSR reporting. The result may be influenced by the small percentage of CEO duality practiced among the PLCs studied which is suggestive of companies moving towards exercising more independence.

10.1 Introduction

An issue receiving considerable recent attention in the field of corporate governance is whether the posts of Chief Executive Officer (CEO) and Chairperson of the Board should be held by different individuals or whether it is appropriate for both positions to be held by the same person (referred to as CEO duality). This issue is important because the leadership structure has a significant impact on corporate governance given senior personnel have the greatest influence on the running of a company and its performance. Furthermore, earlier studies indicate that reporting policies predominantly emanate from the board (Ho & Wong 2001; Gul & Leung 2004). Therefore, it is expected that the type of leadership structure adopted will shape a company's reporting pattern.

This chapter aims to examine the relationship between structural independence of the board or the existence of CEO duality and company CSR practices in Malaysia. Malaysia provides an interesting platform for investigating the issue on several grounds. First, ownership structures commonly display significant participation by major shareholders in management (Claessens et al. 2000). This creates incongruous interests between majority and minority shareholders, potentially

leading to corporate misconduct. Second, the Malaysian Code of Corporate Governance (MCCG) (2007) strongly recommends as best practise to separate the powers between the CEO and chairperson to ensure shareholders' interests are protected. Yet, evidence on the effectiveness of the implementation of this separation is lacking and inconclusive. Finally, since 2007 Bursa Malaysia has made CSR reporting mandatory for public listed companies. Companies are required to report on four areas: Community, Environment, Workplace and Product, however the details of the report depend very much on management discretion. Given CEO duality is common the level of CSR reporting can be questioned. Given this context, together with the paucity of evidence in developing countries, it would be interesting to know if this relationship holds in the Malaysian context.

CEO duality is likely to lead to a concentration of power and self-utility maximising behaviour by managers (Dalton & Dalton 2005). Duality gives the CEO excessive power over the decision-making process (Jensen 1993) such as the ability to influence board composition and tenure, set agendas and control information flows and also resist change despite performance decline or instability (Baliga, Moyer & Rao 1996). Accordingly, the board as the representatives of shareholders fails to exercise its governance role effectively through a reduction in monitoring and accountability. When a company is led by a dominant personality, shareholders' interests are likely to be maltreated (Kholief 2008). If the CEO and the chairperson are the same person, there will not only be less room for discussion, but also a narrower range of skills, knowledge, and expertise to draw on, which could affect company performance (Shakir 2009). In addition, Goyal and Park (2002) found that it was more difficult for the board to remove a poorly performing CEO when the CEO and Chairperson duties were vested in the same individual (Zhang 2012). A CEO who is also the Chairperson is in a position of self-evaluating themselves. Hence, their ability to exercise independent self-evaluation is indeed questionable (Rechner & Dalton 1991; Petra 2005).

Companies that practice clear separation between CEO and chairperson positions are viewed as more reputable by stakeholders (Lu et al. 2015). Separation of the two roles has not only been recommended as good corporate governance but is now widely adopted in many countries: China Securities Regulatory Commission in 1992 (Huafang & Jianguo 2007), Bangladesh Securities and Exchange Commission in 2006 (Khan et al. 2013) and also the Australian Stock Exchange in 2007. In the

U.S. the separation is recommended (Chen, Lin & Yi 2008); resulting in the percentage of S&P 500 companies choosing to separate the roles doubling from 20% to 40% over 15 years (Krause et al. 2014). In Malaysia, the MCCG (2007) implicitly recommends separation of both roles and emphasizing on the importance of having a clearly accepted division of responsibilities whenever the roles of chairperson and CEO are combined.

This chapter contributes to an emerging body of literature by showing the links between corporate governance and CSR practices, in a different institutional setting. Despite the legislative reforms on corporate governance structure, the relationship between corporate governance and CSR reporting remains relatively understudied. Therefore, this chapter provides interesting evidence on one aspect of corporate governance research as well as offering further evidence from an Asian perspective. This chapter also adds to the understanding about the impact of CEO duality on CSR reporting in an agency setting characterised in many instances by family majority shareholdings.

The remainder of this chapter is organised as follows. The next section reviews the literature. The third section describes board practices in Malaysia. The fourth section outlines the theoretical framework and hypothesis to be tested. The fifth section details the methods and model employed. The sixth section discusses the results followed by some conclusions in the final section.

10.2 Literature review

There is a clear distinction of what drives companies to undertake CSR practices between developed and developing countries. Developed countries like the US, UK and Australia generally operate in a shareholder-focused corporate governance system where directors and managers run the company only for the benefit of its shareholders (Devinney et al. 2013). Therefore, they have a vested responsibility to increase the share price as part of shareholders' wealth maximisation strategy. Managers are motivated to be involved in CSR practices as it may promote a company's reputation and thereby increase its share price. In recent years, managers are more concerned with other stakeholders' interests. As a result, such obligations have increasingly become part of a company's responsibilities (Devinney et al. 2013). More importantly, failure to consider broader interests such as human rights obligations may cause companies to face legal risks (Devinney et al.

2013). Hence, operating in an “enlightened shareholder” corporate governance regime makes directors accountable to a broad range of stakeholders while acting in the interests of a company’s shareholders (Devinney et al. 2013). Consequently, this further enhances the practice of CSR.

While CSR is highly recognized in developed countries, it is viewed from a different perspective in developing countries. The domination of closely-held companies sees the principal owners of companies also acting as senior managers (Abdul Rahman & Haniffa 2005). Profit maximisation plays a central role in the companies’ continued existence. This explains why managers have less incentive to pursue CSR activities which are generally not cost free. Further to that, stakeholders in developing countries are still hesitant to accept the concept of CSR since it reduces company’s earnings. Given these issues, developing countries are commonly associated with low CSR practices. Nevertheless, CSR has assumed a greater prominence in developing countries in recent times. Government and regulators play important roles as catalysts to the adoption of CSR practices. In Malaysia for instance, publically listed companies are mandated to report on CSR activities (Haji 2013). Companies also tend to imitate the practice of other superior companies in relation to CSR (Amran & Siti-Nabiha 2009) besides the need to expand business globally (Visser 2008).

Companies with sound corporate governance are normally more socially responsible (Ntim & Soobaroyen 2013). It is not surprising, as a result, that governments have begun to promote best corporate governance practices with the aim of assisting the companies’ management to better execute their responsibilities to all stakeholders (Devinney et al. 2013). This argument provides a strong foundation to relate the practise of CEO duality with CSR. CEO duality is common in developing countries due to the prevalence of family ownership. As such, there is a probability that duality role may affect CSR practices.

The duality of roles has long been a subject of much debate and research. The literature has three main strands: company performance, company value and corporate reporting patterns.

The U.K. Cadbury Report 1993, the first corporate governance code of best practice recommended the structural independence of the board "there should be clearly accepted division of responsibilities at the head of the company, which will ensure a balance of power and authority, such that no one individual has unfettered

powers of decisions." Many countries also publish mandatory or voluntary corporate governance codes, for example, Bouton Report 2002 in France, the Cromme Commission Code 2002 in Germany (see Chahine & Tohmé 2009) and Toronto Stock Exchange, Canada (see Kang & Zardkoohi 2005). The Sarbanes-Oxley Act (2002) was enacted following the corporate scandals in the United States (such as Enron, WorldCom) which led to a number of additional checks and balance in place to monitor the actions of CEOs (Dey, Engel & Liu 2009).

Generally, most research on CEO duality seems to focus on how it affects company performance. Abor (2007) found significant and positive associations between capital structure and CEO duality among Ghanaian companies. Similarly, in the U.S., Harjoto and Jo (2008) found a positive relationship between CEO duality and company values and performance. Schmid and Zimmermann (2005) studied 152 Swiss companies. Regardless of whether the roles are combined or separated, company value remained unchanged. Likewise, in Egypt, Elsayed (2007) demonstrated that CEO duality was insignificant to company performance and further suggested that the impact of dual roles on board and company performance is different from one country to another. This view seems to support the finding by Yusoff and Alhaji (2012). Insignificant results were also reported by Kao and Chen (2004), Xie et al. (2003) and Haniffa, Abdul Rahman and Mohamed Ali (2006) on the association between CEO duality and earnings management activity.

The board may also be indifferent towards the duality issue. As long as the CEO is capable of undertaking both responsibilities effectively, the board is content to let duality prevail (Baliga et al. 1996). It is also argued that duality role will improve company performance because management's compensation is tied to it (Rechner & Dalton 1991). Dehaene, De Vuyst and Ooghe (2001) confirmed a significantly higher return on assets when CEO duality is practised. The tenacity of combining the CEO and chairperson role was justified when several studies reported a rather comparable company performance between companies with CEO duality and those that separate the two roles (e.g. Rechner & Dalton 1991; Dalton, Daily, Ellstrand & Johnson 1998). This not only suggests that opting for combined role is far from being unprofitable but might recognise duality as a superior company structure (Baliga et al. 1996).

Meanwhile, in Australia, Sharma (2004) revealed that when the chairperson of the board is also the CEO, the board's monitoring role is weakened and the

likelihood of fraud increases. In China, Lu et al. (2015) confirmed that CEO duality adversely influences the effectiveness of the board in performing the governance function. Cerbioni and Parbonetti (2007) found evidence in a sample of European biotechnology companies that concentration of power is negatively associated with voluntary disclosure of intellectual capital information. Similar results were reported by Huafang and Jianguo (2007) on listed Chinese companies.

Empirical analysis yields diverse results on the impact of role duality on reporting. Companies dominated by a single person led to financial reports being issued much later than those with separation of roles (Abdullah 2006). This implies that duality role could be detrimental to board effectiveness. Gul and Leung (2004), studying a sample of 385 Hong Kong-listed companies, show empirical evidence that CEO duality is associated with lower levels of voluntary disclosure.

Allegrini and Greco (2013) reported a negative impact of CEO duality on voluntary disclosure in Italy. To them diligent monitoring through separation of the two important roles contributes to greater transparency. In Egypt, duality role was found to have a negative bearing on corporate governance disclosure (Samaha et al. 2012a). Likewise, Muttakin and Subramaniam (2015) reported a negative relationship between CEO duality and CSR disclosure of Indian companies. They suggest that CEOs in dual positions may not be motivated to be visibly accountable to the interests of the broader stakeholders and are likely to avoid the costs of CSR disclosure.

Alternatively separation contributes to a positive impact on company disclosure (Nandi & Ghosh 2013). Nevertheless, contrary to their assumption, a study by Al-Janadi, Rahman and Omar (2013) revealed a positive impact of CEO duality on voluntary disclosure of companies in Saudi Arabia. They believe that duality roles provide a centralised focus to achieve company's goals. Meanwhile, several studies failed to find any relationship between CEO duality and the extent of CSR reporting such as Said et al. (2009), Khan et al. (2013), Michelin and Parbonetti (2012), Ghazali and Weetman (2006) and Arcay and Vazquez (2005).

Proponents of CEO duality argue that the duality role can reduce communication barriers. This helps to reduce costs for the company especially when transferring critical information between the CEO and the chairperson (Dahya & Travlos 2000). Accordingly, Samaha, Khelif and Hussainey (2015) believe that CEO duality may result in more voluntary reporting. Sundarasan et al. (2016) showed that

CEO duality affects company CSR initiatives negatively; which warrants a further examination on the practice of CEO duality in Malaysia.

Evidently, the practice of CEO duality exhibits conflicting impacts on a company's overall performance, including reporting. On the one hand, CEO duality provides significant benefit to the company through efficient leadership when expectations of the board and management intersect. On the other hand, it might threaten directors' independence and impair good governance practices. There is extensive yet inconsistent evidence on CEO duality and its impacts.

10.3 Corporate board practices in Malaysia

Malaysian companies most commonly have a one-tier board structure where the company is governed by a unified board performing both management and supervisory functions. The CEO is responsible for the running of the board and the company's operation. There is also an overwhelming presence of family ownership dominance in the Malaysian corporate sector. The practise of CEO duality in Malaysia is very common and increasing. The increasing trend of CEO-duality in Malaysia is evident in the study by Abdul Rahman and Haniffa (2005). Despite the absence of mandatory separation of the roles the MCCG strongly recommends it as best practice. This is to make certain that power and authority is balanced to avoid the existence of individual directors having unrestrained power in the decision-making process (Ponnu 2008). The segregation of these positions is seen as a key characteristic of an effective independent board. Nevertheless, should duality exist then the MCCG recommends sufficient strong independent board members. However, compliance with the MCCG (2007) recommendation remains an issue as family owned companies are prevalent in Malaysia. 72% of companies listed on Bursa Malaysia are family controlled (Himmelberg et al. 2004). It is common for companies with this type of ownership structure to practise CEO duality (Ho & Wong 2001).

10.4 Theoretical framework and hypothesis development

Two contrasting theories: agency theory and stewardship theory, are used primarily to explain CEO duality.

Agency theory is based on the belief that there exists an inevitable conflict between parties that delegate (principals) and those who execute (agents) (Jensen &

Meckling 1976). As managerial actions depart from maximising shareholders returns, this gives rise to agency problems such as moral hazard and information asymmetry. Moral hazard is present when there are self-interested utility-maximising individuals running the company while information asymmetry occurs when management is reluctant to share information regarding the accurate state of the company with stakeholders (Hashim & Devi 2008). Fama and Jensen (1983b) assert an agency problem to more likely occur when a key decision maker has little or no financial interest in the outcome of their decisions. Agency theorists believe that the board is the primary internal control mechanism for aligning the different interests of shareholders and management (Boyd 1995). Hence, shareholders' interests are safeguarded when different people occupy the two positions of the CEO and the chairperson of the board of directors (Kholief 2008). This non duality permits the board of directors the means to effectively monitor and control the potential shareholder-value-destroying actions of managers. On the contrary, by serving as Chairperson, the CEO will acquire a wider power base and locus of control, thereby weakening control by the board. This facilitates the pursuit of the CEO's agenda, which may differ substantially from shareholder goals. In the absence of a non-dual structure, not only do shareholders suffer from lack of separation of decision management and control, it also elevates agency costs (Braun & Sharma 2007) and negatively affect company performance. In light of those problems, agency theory recommends the separation of CEO and Chairperson's positions to ensure maximization of company performance as well as enhancing reporting levels.

Stewardship theory embraces a more positive perspective. Directors are perceived as caretakers of the company's assets and want to maximise them (Donaldson & Davis 1991). Proponents of stewardship theory believe that the combination of the two roles enhance the decision making process and allow a CEO with strategic vision to guide the board to implement a company's objectives with the minimum of interference from the board. Stewardship theory claims that separating the roles of CEO and Chair deters directors' autonomy to shape and execute the company's strategy. This lack of authoritative decision making is likely to negatively impact the performance of the organisation (Braun & Sharma 2007). Donaldson and Davis (1991) view that combining the two roles would facilitate company's effectiveness through promotion of leadership unity and consequently lead to higher performance and disclosure.

It is argued here that CEO duality reduces overall accountability, thus making companies less transparent not only for shareholders but for all relevant stakeholders. Based on agency theory, the hypothesis to be tested is:

H1: CEO duality is negatively associated with company CSR reporting

10.5 Methods

This study utilised a sample of non-financial companies listed on the Main Market of Bursa Malaysia from 2008 until 2013. The company must have been continuously listed on Bursa Malaysia in each year of the six-year period as well as producing an annual report. There were 813 companies listed as at 31st December 2013. However, only 613 companies met the criteria. In general, companies in the finance sector are subject to different regulatory and disclosure requirements and also material differences in their types of operation. Consequently, prior studies have not considered them (e.g. Mohd Ghazali 2007; Said et al. 2009; Haniffa & Cooke 2005). So 136 finance companies were excluded from the sample, reducing the potential population to 477 companies. There were 27 companies omitted from the sample due to missing data. Finally, 450 companies were included as illustrated in Table 4.3.

The study utilised the six annual reports for each company as the main source of information and is based on several justifications. First, the selection of annual reports is consistent with other prior studies (e.g. Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013; Abdul Fatima et al. 2015). Second, annual reports including social and environmental reporting are presumed to be the main vehicle used by companies to communicate information to the public (Hasnah et al. 2006; Chan et al. 2014). Third, Gray et al. (2001) support their usage because it is the central corporate document of the organisation. Given its credibility and accessibility annual reports have been the preferred place for company disclosures (Othman & Ameer 2010).

10.5.1 Variable definitions

10.5.1.1 Dependent variables

Content analysis was used as it is the dominant technique used by accounting scholars to investigate CSR disclosures in annual reports (e.g. Chan et al. 2014; Abdullah et al. 2011; Ibrahim & Samad 2011; Haji 2013). Content analysis is a technique which replicates and makes valid inferences from data to their context

(Krippendorff 1989). It involves both qualitative and quantitative methods and converts information in annual reports into scores (Djajadikerta & Trireksani 2012).

A checklist of items was constructed by examining previous CSR reporting checklists (Hackston & Milne 1996; Barako & Brown 2008). Additionally, specific Malaysian checklists by Haji (2013) and Abdullah et al. (2011) as well as the framework introduced by Bursa Malaysia in 2006 were also referenced. The focus of the framework was fourfold: Environment, Community, Marketplace and Workplace. To form a comprehensive checklist, checklists by Abdullah et al. (2011), Mohamed Adnan (2012) and Chan et al. (2014) were specifically referenced. The final checklist containing 51 items is outlined in Table 4.4.

To compute a disclosure score, this study relies on an unweighted approach; assigning a score of “1” if the specific information is disclosed and “0” if it is not disclosed. This approach that has been previously employed (e.g. Haji 2013; Haniffa & Cooke 2005; Rashid & Lodh 2008) indicates the presence or absence of CSR information (Mohd Ghazali 2007). Next, the scores were converted into a CSR reporting index by dividing the disclosure score of each company to the maximum possible score (i.e. $1 \times 51 = 51$).

$$CSRI = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$$

CSRI = CSR reporting index; n_j = number of items expected for j th company; $X_{ij} = 1$ if i th item disclosed; 0 if i th item not disclosed.

10.5.1.2 Independent and control variables

The independent variable is CEO duality. The presence of CEO duality is measured by a dummy variable coded 1 if the CEO is also the Chairperson of the board and 0 otherwise. This is consistent with Allegrini and Greco (2013) and Rashid (2013).

Numerous studies have shown that CSR reporting is influenced by various governance attributes and company's characteristics. Hence, to eliminate their impact on the level of reporting, board independence, board size, directors' ownership, CEO founder, CEO tenure, debt ratio, liquidity, company age, company size, profitability, company growth and market capitalisation were conceptualised as control variables.

Board independence refers to independent directors who have no affiliation with the company except for their directorship (Bursa Malaysia, 2006). They have important impact on monitoring activities (Fama & Jensen 1983a). Board independence (BIND) is defined as the number of independent directors on the board relative to the total number of directors, which is consistent with Arora and Dharwadkar (2011), Harjoto and Jo (2011) and Das et al. (2015). Board size refers to the number of directors to make up the board (Ntim & Soobaroyen 2013; Jizi et al. 2014). Board size (BSIZE) is defined as the natural logarithm of total number of directors as used by Rashid (2013). Allegedly, directors' ownership determines their willingness to monitor managers and enhance shareholders' value (Shleifer & Vishny 1997). It motivates directors to do their monitoring job effectively. However, in owner-managed companies, directors are less concern with public accountability due to a relatively small number of outside shareholders. Hence, they tend to disclose less CSR information. Directors' ownership (DIROWN) is expressed as the ratio of total director shareholdings to total number of shares. This is consistent with the approach adopted by Bathala and Rao (1995) and Rashid (2013).

CEO founder is associated with greater power by virtue of his/her role in the company's history and his/her influence on the board. As such, the decisions will have impact on company's performance including reporting. Following Daily and Dalton (1993), CEOFOUNDER takes the binary code of 1 if CEO is also the founder and 0 if otherwise. CEO tenure (CEO TENURE) is represented by the natural logarithm of the number of years the CEO has held the post. Mohd-Saleh et al. (2012) revealed that long-tenured CEOs are associated with low levels of reporting. They feel secure with their positions hence demotivated to continue acting in line of shareholders' interests. There are mixed results pertaining to leverage in relation to CSR reporting. Barnea and Rubin (2010) believed that companies with high debt levels will incur high monitoring costs which suggest a negative relationship between leverage and CSR disclosure. Alternatively, these high debt companies disclose more information to reduce the costs (Esa & Mohd Ghazali 2012) and to fulfil the needs of their creditors (Abdullah et al. 2011). Following Rahman et al. (2011), leverage (DR) was measured by the ratio of total liabilities to total assets.

Ho and Taylor (2007) confirmed a positive impact of liquidity on financial and non-financial disclosure. These companies are inclined to report more CSR information in their annual report. Company liquidity (LIQ) was measured as current

ratio (Rashid 2013, 2014; Ho & Taylor 2007). Company age (AGE) was represented by the number of years it has been listed on Bursa Malaysia, expressed in natural logarithm (Rashid 2009). The level of CSR reporting increases with company age, normally driven by reputational concern (Khan et al. 2013). Cormier et al. (2011) and Lu and Abeysekera (2014) indicate that size is one of the major factors determining CSR reporting. Large companies are normally capable of carrying out more CSR activities as they have sufficient funds and expertise. Their ability to bear the costs lead to better reporting (Andrew et al. 1989). The natural logarithm of total assets as the proxy for company size (SIZE) was used and is consistent with Das et al. (2015), Sartawi et al. (2014) and Rashid (2014).

CSR practices can also be influenced by profit. Highly profitable companies are able to absorb the costs associated with CSR activities, thus disclosing more information to stakeholders. Haniffa and Cooke (2005) and Khan (2010) confirm the importance of profitability when reporting social information. Profitability is proxied by Return on Assets (ROA) following Rashid (2014) and Sartawi et al. (2014). To expand the business, companies normally choose to seek external funding. However, this requires them to produce a detailed report to convince the creditors regarding their eligibility. Indirectly, this induces more disclosures (Naser et al. 2006). In addition, due to expansion in size, fast growing companies are faced with greater information asymmetry and higher agency costs (Eng & Mak 2003). Through higher disclosure, these problems are likely to be minimised. Following Rashid (2013), company growth (GROWTH) is expressed as percentage of annual change in sales. Market capitalisation (CAP) is expressed in its natural logarithm. While some view market capitalisation as representing company size, the investing public considers it as an external measure of a company's importance (Wallace & Naser 1996). Watts and Zimmerman (1990) argue that companies with high market capitalisation are generally exposed to political attacks, such as demands by the society for the exercise of social responsibility or for greater regulation such as price controls and higher corporate tax. Such potential action can be minimised by disclosing more comprehensively.

10.5.2 The Model

The model is estimated to examine the relationship between CEO duality and CSR reporting of Malaysian PLCs:

$$\begin{aligned} \text{CSRI}_{i,t} = & \alpha + \beta_1 \text{CEOD}_{i,t} + \beta_2 \text{BIND}_{i,t} + \beta_3 \text{BSIZE}_{i,t} + \beta_4 \text{DIROWN}_{i,t} + \\ & \beta_5 \text{CEOFOUNDER}_{i,t} + \beta_6 \text{CEOTENURE}_{i,t} + \beta_7 \text{DR}_{i,t} + \beta_8 \text{LIQ}_{i,t} + \\ & \beta_9 \text{AGE}_{i,t} + \beta_{10} \text{SIZE}_{i,t} + \beta_{11} \text{ROA}_{i,t} + \beta_{12} \text{GROWTH}_{i,t} + \beta_{13} \text{CAP}_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Where $\text{CSRI}_{i,t}$ is CSR index for i th company at time t . $\text{CEOD}_{i,t}$ takes the value of 1 if the role of CEO and Chairperson is combined; otherwise it takes 0 for i th company at time t . $\text{BIND}_{i,t}$ is number of independence director to total number of directors for i th company at time t . $\text{BSIZE}_{i,t}$ is the total number of directors for i th company at time t . $\text{DIROWN}_{i,t}$ is percentage of director ownership for i th company at time t . $\text{CEOFOUNDER}_{i,t}$ is coded as 1 if CEO is also the founder of the company; 0 if otherwise for i th company at time t . $\text{CEO TENURE}_{i,t}$ is natural logarithm of CEO service length for i th company at time t . $\text{DR}_{i,t}$ is debt ratio for i th company at time t . $\text{LIQ}_{i,t}$ is liquidity ratio for i th company at time t . $\text{AGE}_{i,t}$ is number of listed years on Bursa Malaysia for i th company at time t . $\text{SIZE}_{i,t}$ is natural logarithm of total assets for i th company at time t . $\text{ROA}_{i,t}$ is profitability for i th company at time t . $\text{GROWTH}_{i,t}$ is the company growth in sales for i th company at time t . $\text{CAP}_{i,t}$ is the market capitalisation for i th company at time t . α is the intercept, β is the regression coefficient and ε is the error term.

Testing of the data for the normality assumption and also the problems of multicollinearity, heteroscedasticity and endogeneity was undertaken. The assumption of normality asserts that there is normal distribution of the means across samples. However, the normality assumption will be relatively insignificant when involving large samples (Pallant 2007). The model was tested using Residual Test/Histogram-Normality Test and the result conformed to the assumption. From the correlation matrix presented in Table 10.1, the correlation coefficients between independent variables vary widely. Gujarati (2003) recommends that multicollinearity is a problem when the coefficient exceeds 0.80 and the correlation between company size and market capitalisation at 0.839 suggests the possibility of multicollinearity. Further, the Variance Inflation Factor (VIF) for each independent variable was measured to check whether the assumption is violated or not. A VIF value exceeding 10 shows multicollinearity is present (Gujarati 2003). However, the VIF values fall within acceptable levels, indicating multicollinearity is not a problem.

Table 10.1 Correlation matrix of the explanatory variables

		1	2	3	4	5	6	7	8	9	10	11	12	13	VIF
1	CEOD	1.000													1.038
2	BIND	-0.010	1.000												1.293
3	BSIZE	-0.084**	-0.414**	1.000											1.418
4	DIROWN	-0.041*	0.057**	-0.089**	1.000										1.066
5	CEO FOUNDER	0.125**	-0.076**	0.034	0.053**	1.000									1.116
6	CEO TENURE	0.081**	-0.090**	0.027	0.016	0.236**	1.000								1.094
7	DR	-0.037	0.085**	0.007	-0.035	0.009	-0.046°	1.000							1.137
8	LIQ	0.037	0.094**	-0.045°	-0.008	-0.055**	0.083**	-0.274**	1.000						1.135
9	AGE	-0.062**	0.151**	-0.011	-0.177**	-0.162**	0.024	0.005	0.063**	1.000					1.239
10	SIZE	-0.016	-0.053**	0.339**	-0.181**	-0.032	-0.024	0.055**	-0.067**	0.337**	1.000				3.908
11	ROA	-0.008	-0.009	0.084**	-0.073**	0.043*	0.042*	-0.129**	0.049*	0.051**	0.111**	1.000			1.057
12	GROWTH	0.005	-0.029	0.025	-0.009	-0.009	-0.006	0.018	-0.059**	0.000	0.073**	0.039	1.000		1.011
13	CAP	-0.010	-0.063**	0.321**	-0.156**	-0.055**	-0.047*	-0.069**	0.035	0.268**	0.839**	0.174**	0.071**	1.000	3.705

** . Correlation is significant at the 0.01 level (2-tailed) * . Correlation is significant at the 0.05 level (2-tailed)

Homoscedasticity occurs when the error term is constant across all values of the independent variables. Standard estimation methods become inefficient when the error term varies. Examining the scatter plot of the residuals (ZRESID) against the predicted value (ZPRED) of the model showed a classic cone-shape pattern of heteroscedasticity. The Breusch-Pagan test was then conducted with both the chi-square and corresponding p values also indicating heteroscedasticity. To correct it, heteroscedasticity-consistent standard errors of the White (1980)'s method was applied.

Endogeneity exists when the independent variables are correlated with the error terms. This causes the regression coefficients in the Ordinary Least Square (OLS) regression to be biased. One way of addressing this problem is to use the Instrumental Variable approach. The F-test for the predicted value of CEO duality in this model was considered insignificant. Following Rashid (2014), when the CSR index was used as a proxy for CSR reporting, $F = 1.67$ with $p = 0.1965$. The results showed that: (1) endogeneity is not an issue; and (2) OLS and Instrumental Variable regression are consistent.

10.6 Results and discussion

Table 10.2 indicates that on average the level of CSR reporting is 21.67%.

Table 10.2 Descriptive statistics of the variables

	Mean	Median	Minimum	Maximum	SD
CSRI	0.2167	0.1961	0.0392	0.7255	0.1198
CEOD	0.1400	0.0000	0.0000	1.0000	0.3500
BIND	0.4519	0.43000	0.1700	1.0000	0.1281
BSIZE	7.0000	6.6869	3.0004	18.1741	1.2960
DIROWN	0.0438	0.0030	0.0000	0.5680	0.0879
CEOFOUNDER	0.1400	0.0000	0.0000	1.0000	0.3450
CEO TENURE	6.7255	8.0045	0.4966	46.0625	2.5659
DR	0.4024	0.3775	0.0030	10.3190	0.3623
LIQ	3.0531	1.7845	0.0070	96.1110	5.1989
AGE	13.9782	15.0293	6.0000	52.9845	1.6403
SIZE (LogTA)	12.8784	12.6500	9.3690	18.4110	1.4467
ROA	0.0619	0.0580	-2.8980	5.5470	0.1782
GROWTH	0.0533	0.0265	-4.9410	8.5780	0.4777
CAP (LogCAP)	18.7976	18.5030	12.3710	24.8100	1.8112

This result is lower than CSR disclosure reported by companies in a developing country, such as Bangladesh. Khan et al. (2013) in their study reveals that average CSR by companies in Bangladesh is 22%. This number is fairly low in the context of a developed country, Michelon and Parbonetti (2012) reveal that such disclosure is 49% in the US and Europe. The CEO duality result portrays that on an average there are only 14% of companies that have the same individual acting as CEO and Chairperson. This rate is much lower than that of some other countries. For example, 61% in the context of Egypt (Samaha et al. 2012), 41% in the context of Italy (Allegrini and Greco 2013) and 46% in the context of Bangladesh (Rashid 2013).

Table 10.3 reports the ordinary least square (OLS) regression results. The adjusted R^2 value in Panel A denotes that 38% of changes in CSR reporting are explainable by the independent variables. CEO duality showed a negative relationship with CSR reporting. However, it is not significant enough to affect company reporting which contradicts the prediction. This result is in accord with Said et al. (2009), Michelon and Parbonetti (2012) and Khan et al. (2013). One credible explanation for this result is the relatively uncommon practise of CEO duality among companies in Malaysia as compared to developed countries. Given the backdrop of family owned companies dominating the Malaysian business setting, this result is unanticipated as CEO duality is synonymous with family owned companies. The low value seems to suggest that most PLCs, including family owned companies, are moving towards a more independent board in order to elevate shareholders' confidence. CEO duality is argued to be the weakest type of internal control governance structure (Rechner & Dalton 1989) since it demonstrates that leadership and control responsibilities lie in the hands of one dominant person. Nevertheless the evidence in this study did not support the relationship between CEO duality and CSR reporting.

The control variables: board size, ownership by directors, CEO tenure, company age, size, profitability and market capitalisation were found to be significantly related to CSR reporting. Companies with moderately large boards perform more CSR activities most likely due to board diversity. Therefore, they are able to produce better CSR reporting in accord with Esa and Mohd Ghazali (2012), Ntim and Soobaroyen (2013) and Akhtaruddin et al. (2009). Contrarily, directors' ownership has been found to negatively affect CSR reporting, supporting Chau and

Gray (2010), Oh et al. (2011) and Khan et al. (2013). Given investment in CSR practices are costly, the result is as anticipated.

Table 10.3 Relationship between CEO duality and CSR reporting

	Dependent variables	
	Panel A (Before controlling for Industry)	Panel B (After controlling for Industry)
	CSRI	CSRI
Intercept	-0.525 (-18.460)***	-0.587 (-16.789)***
CEOD	-0.004 (-0.684)	-0.003 (-0.482)
BIND	0.028	0.016
BFSIZE	-1.607 (4.585)***	-0.959 (3.358)***
DIROWN	-0.041 (-1.738)*	-0.014 (-0.619)
CEOFOUNDER	0.003	-0.001
CEO TENURE	-0.441 (-4.893)***	(-0.151) (-4.456)***
DR	-0.001 (-0.032)	0.004 (-0.803)
LIQ	-0.000 (-1.124)	-0.000 (-0.583)
AGE	0.023 (4.765)***	0.027 (5.513)***
SIZE	0.028 (10.239)***	0.037 (13.776)***
ROA	0.060 (5.569)***	0.045 (4.341)***
GROWTH	-0.001 (-0.243)	-0.002 (-0.394)
CAP	0.013 (6.228)***	0.008 (3.610)***
F statistic	106.861	34.707
Adjusted R ²	0.38	0.465

The *t* tests are presented in the parentheses **p* < 0.10; ***p* < 0.010; ****p* < 0.001

Meanwhile, long tenured CEO may become complacent and confident they will not be removed, and therefore loosen their grip on company's management (Shakir 2009). They are likely to refuse to adopt to the changing environment such as disclosing more CSR information. Hence, extremely long tenures may be detrimental

to shareholders' interests (Vafeas 2003). As predicted, mature companies tend to disclose more CSR information to demonstrate their already high reputations. Larger companies have the ability to report more CSR activities since the costs of disclosures are funded by profits (Brammer & Pavelin 2008). Companies with high market capitalisation are also more likely to produce high levels of CSR reporting; conceivably as part of their image building exercise.

Kolk (2003) asserts that CSR reporting is industry specific due to different interests, priorities, rules and regulations. Earlier studies have confirmed a significant systematic disparity across industries concerning their inclination to make CSR reporting (Gamerschlag et al. 2011; Brammer & Pavelin 2008). Companies with high consumer visibility, a high level of political risk or concentrated and intense competition disclose significantly more CSR information in their annual reports (Hackston & Milne 1996; Mohd Ghazali 2007). It is important to control for the effect of industry on reporting activities as the sample in this study constitutes companies from multiple industries. Hence, the model was modified by adding INDUSTRY dummies. This study used two-digit Standard Industrial Classification (SIC) codes. The augmented regression model was:

$$\begin{aligned}
 CSRI_{i,t} = & \alpha + \beta_1 CEOD_{i,t} + \beta_2 BIND_{i,t} + \beta_3 BSIZE_{i,t} + \beta_4 DIROWN_{i,t} + \\
 & \beta_5 CEOFOUNDER_{i,t} + \beta_6 CEOTENURE_{i,t} + \beta_7 DR_{i,t} + \beta_8 LIQ_{i,t} + \\
 & \beta_9 AGE_{i,t} + \beta_{10} SIZE_{i,t} + \beta_{11} ROA_{i,t} + \beta_{12} GROWTH_{i,t} + \beta_{13} CAP_{i,t} + \\
 & \gamma INDUSTRY + \epsilon_{i,t}
 \end{aligned}$$

In general, the results shown in Panel B of Table 10.3 are indifferent when industry is controlled. With the exception of directors' ownership that has become insignificant, the remaining variables appear to be not industry specific.

10.7 Conclusions

This chapter investigated the impact of CEO duality on firm CSR reporting. The findings are as expected in that there is a negative but non-significant relationship between CEO duality and CSR reporting. It is to be noted that despite various attempts by Malaysian regulators to promote CSR practices, the rate remains at a disappointingly low level (Lu and Castka, 2009). The dual leadership structure could be one of the contribution factors to this outcome. The findings of this chapter support agency theory constructs about CEO duality.

CEO duality is depicted as a double-edged sword (Finkelstein and D'aveni, 1994). Despite its ability to enhance unity of command, having a dominant personality can have detrimental effects on a company. Most importantly, it can impair the monitoring function of the board due to power concentration. There are also potential conflicts of interest. A CEO/Chairperson tends to keep control in their hands potentially jeopardising accountability. These effects can restrain good corporate governance practice. As a result, shareholders will have less confidence in the management of the company. It was the potential costs of CEO duality overriding the benefits which lead to the recommendation by the MCCG that the two top management roles be separated. Gray (1988) suggests that managers in Asia are more inclined to be secretive. Consequently, they have less incentive for transparent reporting (Aaijaz and Ibrahim, 2012). Given this and their consolidation of power, CEOs may be less accountable to all stakeholders.

It is desirable for all companies to opt for more board independence to reinforce corporate governance system. Nevertheless, regulators need to ensure a robust monitoring measure is put in place to ensure the effectiveness of the practise. This chapter provides information to assist regulators in their continuous attempt to improve corporate governance. While there are many corporate governance attributes that can be linked with company's inclination towards CSR reporting, this chapter only focused on CEO duality. Future research could provide additional insights by examining the role of independent directors in reporting activities. Inevitably, independent directors have a pivotal role in enhancing board independence. Another source of weakness concerns the selection of the items in the disclosure score, the construction of the score and the content analysis, which are mainly based on subjective assessments.

CHAPTER 11: CONCLUSIONS

The only conclusion that social sciences can draw is: some do, some don't

Ernest Rutherford

11.1 Introduction

This thesis examines the nature and extent of corporate social responsibility (CSR) disclosure by public listed companies in Malaysia during the period from 2008 to 2013. It investigates the relationship between corporate governance mechanisms and CSR reporting. The purpose of this chapter is to reaffirm key results as have been corroborated by evidence presented in the previous chapters. The implications of this study, research limitations and suggestions for further research directions are shown in the last section of this chapter.

Chapter 1 introduced the topic for this study. It outlines the background, justification and the organisation of this thesis. This study has been done with the following research objectives:

1. To examine the nature and extent of CSR reporting of Malaysian PLCs
2. To examine the relationship between corporate governance attributes and CSR reporting of Malaysian PLCs

Chapter 2 provides the practice of corporate governance as well as CSR reporting in Malaysian context. This chapter offers the basis for understanding of both practices and also fundamental to the arguments presented in the subsequent chapters. Theories underpinning the motivation of companies to report on CSR information are discussed in Chapter 3. This study adopted four theories: agency, neo-institutional sociology, resource dependence and stakeholder-agency theory. It is highlighted that the trend of CSR reporting in Malaysia is growing and is strongly connected to the effect of isomorphism effects emerging from institutional theory. Meanwhile, the effect of corporate governance mechanisms on company' reporting behaviour are based on agency, resource dependence and stakeholder-agency theory. Chapter 4 discusses the research methodology. This study uses secondary data from non-financial companies' annual reports from 2008 to 2013. The sample covers the period after CSR reporting is mandated to all PLCs as well as inclusive of a few revisions of corporate governance. A total of 450 companies remained in the final

sample after considering a few factors such as incomplete annual reports. This represents approximately 55.35% of all companies listed on the Main Market of Bursa Malaysia. The empirical model employed in this study focuses on the relationship between corporate governance mechanisms and CSR reporting by analysing panel data models. In this study, the CSR disclosure dimensions include (1) General (2) Community (3) Environment (4) Workplace (5) Product (6) Other. The corporate governance mechanisms employed in this study specifically focus on board of directors and ownership structure. To determine the relationship between the corporate governance mechanisms and CSR reporting, this study employed multiple regression analyses.

The following sections summarise the findings of this study as explained and discussed in Chapters 5, 6, 7, 8, 9 and 10.

11.2 Summary of the results

11.2.1 Research objective 1

11.2.1.1 The nature and extent of CSR reporting

The first research question focused on the nature and extent of CSR reporting of companies in Malaysia. The current practices of CSR reporting by PLCs were examined and the results are presented in Chapter 5. The main results of this investigations showed that the amount of CSR reporting by Malaysian companies increased steadily over the period from 2008 to 2013. Reporting was observed to be at the highest after the financial crisis period and also subsequent to the MCCG emphasis on sustainability aspects in the 2012 revision. Companies may want to gain shareholders' confidence by demonstrating their accountability acts in various areas apart from adhering to the regulator's call. Besides, rule-based environment forces companies to abide the regulations to ensure continuous listing on the Stock Exchange. However, in saying that, the content of the report is far from satisfactory. This study provides evidence of the low reporting of CSR information. This situation is quite distressing as much information which may be pertinent to stakeholders has not been reported by companies. Yusoff et al. (2014) and Ghazali and Weetman (2006) attribute the problem to the unwillingness of companies to change their mindset regarding CSR reporting especially those which are family-owned besides shrouded by the secrecy culture as oppose to open reporting. Nevertheless, Li et al. (2010) argue that governance environment, in general, evolves slowly. Although the

regulators can use their legislative power and enforcement capability to actively effect change and promote CSR, culture and social institutions change more slowly. Therefore, drastic changes in CSR communications intensity of Malaysian PLCs in the very near future are not likely to happen. Despite these arguments, Salleh (2009) asserts that there is likeliness that these initiatives to increase quality CSR reporting have missed the mark due to lack of appropriate enforcement efforts.

A detailed examination of the reporting exhibits that the number of companies reporting on these themes increases at a promising rate. It was evident from the findings that companies' trend of CSR reporting were mostly focused on General theme, followed by Workplace, Environment, Community, Marketplace and Other. The prevalence of employees to the companies has in one or another shift the trend of reporting from emphasising on Community needs which is common in developing countries (Welford 2004; Sharma 2013; Abdulrazak & Ahmad 2014) to Workplace theme. Attracting new employees and also maintaining the existing ones are imperative to ensure companies success. Hence, providing them with a conducive workplace, attractive fringe benefits as well as continuous up-skilling have become mainstream. Meanwhile, reporting on product information like R&D under the theme "Other" is the lowest among all themes. This indicates that carrying out costly R&D to improve products and services may not be a priority to most companies especially during post financial crisis. Besides, companies may be reluctant to expose their R&D activities to their competitors. A rather surprising result emerge from this study is where the culture of reporting on CSR information is dominant in industries like utilities and telecommunications. Despite the little attention given on these industries, Hamid and Atan (2011) has reported that telecommunication companies are among the winners of major CSR awards in Malaysia. This means that the culture of CSR reporting has been well embraced by companies in those industries. This result slips the expectation that environmental-sensitive industries led the reporting practice. Nevertheless, it supports earlier studies (e.g. Naser & Hassan 2013; Ahmad & Mohamad 2014) who argue that companies try to elude pressure and extra regulations.

In a nutshell, though the level of CSR reporting falls short of the desired level, the progress to some extent indicates that companies have realised the importance and benefits of reporting CSR information. The introduction of CSR guidelines as well as a growing number of dedicated magazines, newsletters, social

media and websites helps contribute to providing an identity to CSR as a management concept. Accordingly, companies today are addressing their role in society far more coherently, comprehensively and professionally. The result of this study is generally in line with prior studies done in Malaysia such as Haji (2013), Abdul Fatima et al. (2015), Said et al. (2013) and Esa and Mohd Ghazali (2012) and also other developing countries like Thailand (Jitaree 2015) and Bangladesh (Das et al. 2015). Hence, CSR is no longer exclusively a developed country phenomenon. Perhaps a more rigorous enforcement by the regulators may assist in better reporting in the future.

11.2.2 Research objective 2

Research objective 1 builds the platform to investigate further the factors that influence company reporting behaviour. Earlier studies have pointed to the relationship between corporate governance mechanisms and CSR reporting (Haji 2013; Said et al. 2013; Ntim & Soobaroyen 2013). Hence to provide evidence on these claims, the second research objective is restated: What is the relationship between corporate governance mechanisms and CSR reporting? Specifically, this study looks at ownership structures comprising directors' ownership and institutional ownership as well as board of directors' attributes: board independence, board meeting frequency, board diversity and CEO duality which have been analysed separately in Chapters 6, 7, 8, 9 and 10 respectively.

11.2.2.1 Ownership structure and CSR reporting

Chapter 6 sought to explore the effect of ownership structure on company behaviour towards CSR reporting. Jensen and Meckling (1976) argue that when directors are given the opportunity to own company shares, it indirectly gives power to the directors to instruct and monitor the management of the company. This will create lesser agency conflicts hence enabling better transparency with higher information disclosure. On the one hand, this argument highlights the fact that directors' ownership helps to keep the interest of the management and shareholders aligned. On the other hand, several earlier studies (e.g. Akhtaruddin & Haron 2010; Ghazali & Weetman 2006) associate higher shareholdings by directors with greater information asymmetry to enable them to achieve their own interests. Besides, substantial shareholdings by directors mean less interruption to their power (Ismail et

al. 2014). This study finds support for lower CSR reporting when directors own company shares even when the shareholdings rate is low. This result is likely to be linked to the strong influence of family ties that exist in the companies. The small shareholdings do not jeopardise their capacity to exert influence on the management, triggering more conflict between majority and minority shareholders, hence leading to disclosure of less CSR information. The result suggests that directors' ownership is a source of agency problems that further intensifies the information asymmetry problem. This result implies that eradicating directors' opportunistic behaviour is almost impossible even with the presence of low directors' ownership.

Another ownership structure highlighted in this study is institutional ownership, which is currently the major investor in global capital market (Mizuno 2010). Normally, institutional owners' investments are large that their movements would affect share prices. This problem makes them less mobile. As a result, these institutional investors develop a strong interest not only in the financial performance of the company in which they invest in, but also in the strategies and activities of the company (Fauzi et al. 2007). Institutional investors occupy a unique position in a company's corporate governance given their monitoring and control ability. Despite the earlier evidence relating institutional ownership with higher CSR reporting, this study found otherwise. The presence of institutional investors results in a lower dissemination of CSR information. It is assumed that these investors are most likely short-term investors who are more concern with reaping short term profit. They may not be proactive in governance of companies (Manzaneque et al. 2016). Hence, this result seems to suggest that institutional investors are generally not supportive of CSR activities. Furthermore, their large shareholdings permit them to access the company information internally. Hence, provision of more CSR information to the public is not actually their main concern when deciding to invest in a particular company. Manzaneque et al. (2016) provide evidence of lack of institutional investors influence on management decisions in concentrated ownership contexts. These constraints exist when dominant shareholders limit the voting influence of institutional investors (Manzaneque et al. 2016). Apart from that, when family forms the controlling shareholders, institutional investors normally act as minority shareholders. As a result, their ability to monitor the management is restricted; leading to a lower reporting of CSR information. Collectively, results from this study varied. On the one hand, it contradicts the argument that institutional ownership

enhances CSR reporting. On the other hand, it recognises the negative impact of directors' ownership has on dissemination of CSR information.

11.2.2.2 Board independence and CSR reporting

The abundance of studies on this issue have generally agreed that board independence is central in reducing agency conflict between shareholders and managers. Independent directors are more inclined towards acting in shareholders' interests since they have no connection with the company; making them more objective when making decisions. Besides, their independence are compelled by the need maintain good reputation as it determines their human capital value (Fama & Jensen 1983a). By performing their watchdog responsibility, it has the ability to restrict any deceitful acts by the managers including withholding information (Ho & Wong 2003). Based on this notion, the presence of more independent directors helps to enhance CSR reporting.

The statistical analysis done in Chapter 7, however, fails to fully support the argument. Independent directors are found to be effectively enhance CSR reporting only in certain industry. Intrinsically, this result is in agreement with García Sánchez et al. (2011), Said et al. (2009), Haji (2013) and Shamil et al. (2014) but contradictory to some written literature (e.g. Akhtaruddin & Haron 2010; Chau & Gray 2010; Cerbioni & Parbonetti 2007; Donnelly & Mulcahy 2008). It exhibits the failure of independent directors to provide sufficient level of vigilance to drive companies towards reporting more CSR information. The result is relatively discouraging owing to the fact that the requirement of having independent directors in the board of directors of PLCs has been introduced since the inception of MCCG in 2000. In fact, these directors are appointed based on the recommendation by the nominating committee to ensure individuals elected are qualified for the position. Despite the continuous regulators efforts towards ensuring shareholders' interests are well protected, independent directors are still incapable of being independent.

Inevitably, there are a number of factors that justify the result. It is a common practise in Malaysia for a director to hold multiple directorship. In fact, Bursa Malaysia allows up to a maximum of 15 directorship at one time. This commitment unquestionably demands great responsibility from the directors. As a result, bonding time with each company is limited. Their unfamiliarity with the companies' operations cause them to be incompetent technically (Abdullah et al. 2011). Not only

are they not in the position to assist companies in making good decisions, they are also prone to rely on management information which may be misleading. In addition, independent directors prioritising on financial aspects of the company may also divert their attention from CSR issues. However, the most notable issue of independent directors in developing countries revolves around the power of controlling shareholders which could undermine the independence of directors. It is likely that the voice of inside owners may over-shadow that of outside-director owners in relation to CSR decisions (Jain & Jamali 2016). It is presumed that their appointment is primarily based on personal ties and contractual relationship with the controlling family (Chu & Song 2016). Hence their monitoring abilities are risked. Likewise, independent directors with close relationship with CEO also exhibit similar effect as they are obligated to fulfil the demand of the individual who elected them. Although almost half of the sample companies have at least 33% independent directors on their board as recommended by MCCG, they have failed to execute the proper monitoring level. Taken together, this result which is at odd with most of earlier studies, posits that the role of independent directors in family owned companies are less effective in enhancing CSR reporting.

11.2.2.3 Board meeting frequency and CSR reporting

Without doubt, directors must monitor company activities in order to know when to exert control. By this assumption, board of directors meetings remain the apex of control at companies and seemingly are the only venue where independent directors can monitor and exert control for the benefit of shareholders. With regard to that, the intensity of board activities is likely to contribute to the effectiveness of its oversight functions particularly in matters concerning reporting process. Given that view, the fifth research question of this study asks: What is the relationship between board meeting frequency and CSR reporting?

Frequent board meeting, as acknowledged by earlier studies is one of the best medium to get enormous amount of companies' information (Ponnu & Karthigeyan 2010; Adams & Ferreira 2008). Therefore, directors who attend more board meeting are presumed to be well informed and more knowledgeable regarding company's performance. These directors are able to make better decisions for the company including pertaining to reporting on CSR information (Ponnu & Karthigeyan 2010). Allegedly, directors who attend more board meetings are not only more diligent but

provide effective monitoring (Vafeas 1999). These positive attributes are central in the effort to protect the interest of shareholders and also aid in the production of better CSR reporting.

Despite the consensus mentioned above, the analysis in Chapter 8 reveals that board meeting frequency is unrelated to CSR reporting. This result suggest that company's level of CSR reporting remains indifferent despite the number of board meetings held. The results fail to support the notion that better monitoring can be promoted through calling more board meeting. Seemingly, the impression that board meeting acts as a platform in safeguarding shareholders' interests has not been well demonstrated in the Malaysian context. Vafeas (1999) asserts that board meeting should be a tool to deter crises rather than a means to end crises. Hence it should be a reactive instead of a proactive measure. However, when directors (especially independent directors) are required to attend too many board meetings, it may perhaps create stress due to frequent travels needed. This in turn may cause conflicts among them and probably ends up becoming counterproductive. In addition, frequency of board meeting is not an indication of better decisions being made (Menon & Williams 1994) or more decisions being taken especially when larger board size is involved (Vafeas 1999). More meeting can prove to be less beneficial especially when the meeting is filled with work discussion instead of crucial agendas that have the potential to increase company performance. Besides, opportunities for independent directors to exercise meaningful control over management are impaired when the meeting agendas have been pre-set by the CEO. However, an interesting finding from a survey done by PwC in 2012 on ASEAN countries may explain the insignificance of frequent board meeting in enhancing CSR reporting. Surprisingly, only one out of five companies had CSR issues regularly on its meeting agenda. In closing, the results in this study are not in line with the need to have frequent board meeting to enhance CSR reporting as proven by prior scholars.

11.2.2.4 Board diversity and CSR reporting

Chapter 9 addresses an emerging issue which is board diversity. Having the right people on the board is evidently vital to ensure the board is able to perform at an acceptable level. Hence, boards should take a closer look at the expertise, experience and other qualities of each member to ensure the board can provide the right expertise (Yusoff 2010). Heterogeneity of experiences, ideas and innovations

provide the perspectives needed to effectively address critical topics, which can contribute to greater productivity and ultimately a stronger board (Yusoff 2010). In view of this importance, Chapter 8 attempts to discover the effect of having a diverse board on company's CSR reporting behaviour.

The recent spotlight on board diversity has been associated with various benefits that it is able to offer. It provides better and diverse access to connections and resources. Problems are analysed from numerous aspects; allowing effective solutions (Ferreira 2010). Heterogeneous board has the tendency to create more debatable discussions which lead to quality group decisions. A diverse board helps to increase supervision; ensuring that the interests of stakeholders are well-protected (Kang et al.2007). In addition, a board with relevant education is also important in order to assist the directors in performing their variety roles (Yusoff 2010). Given these positive views on diverse board, it is reputed to improve CSR reporting.

While many scholars have confirmed the advantage of board diversity on CSR reporting (Post et al. 2011; Kiliç et al. 2015; Liao et al. 2015), this study discovered otherwise. Having a diverse board is insignificant in motivating a company to disseminate more CSR information. One obvious reason that can be related to the result is the under-representation of women on the board; currently approximately 8.2% (see Table 9.2). This implies that their roles are too small to make a noticeable contribution to company's performance. In fact, their appointments tend to be merely tokenist. Jain and Jamali (2016) opined the possibility of imposing a minimum quota for women on boards to lessen the problem. Malaysia joins several countries like France and Spain to introduce a minimum quota of 30% women on board of PLCs to be achieved by 2016. However, this alternative proves to be ineffective as the percentage of women on board remains low. Perhaps Malaysian culture, which had always challenged the ability of women to be leaders has caused such result. Nevertheless, the result may change if the assertion by Konrad et al. (2008) that having more women on board can bring various fundamental changes proves to be correct. Similar results have emerged in relation to directors' educational background. While possessing and applying skills, ability and knowledge that are functional, industry, board-specific and organisation-specific, can help directors carry out their roles more effectively (Yusoff 2010), this ability is not reflected in this study. Having a law background does not necessarily encourage directors to increase CSR reporting. Meanwhile, financial experts are

found to assist in better CSR reporting only in certain groups/industries. Yusoff (2010) reveals that most directors in Malaysia possess accounting or finance qualifications. This means they have early exposure to CSR issues through the Social Accounting subject which is normally taught during higher learning education. This subject features the measurement and communication of information concerning the effect of business and its activity towards society and environment (Hamid & Atan 2011). Given this background, financial experts are more motivated to report on CSR information. Nevertheless, companies that are pivoted on profit and less keen to share their CSR activities are contented with low reporting despite the existence of directors who are financial experts. On top of that, prior education does not describe one's attitude. Clearly, having female directors failed to lead companies towards better CSR reporting; contrasting major studies done earlier on this issue. Meanwhile, results for financial and law experts in relation to CSR reporting are also not in line with prior research although having financial experts on board of directors proves to be beneficial in certain industry. However, due to very limited studies that looked into these issues, the results from this study help to extend the existing literature.

11.2.2.5 CEO duality and CSR reporting

Chapter 10 of this study looks at the effect of combining the role of CEO and the Chairperson on CSR reporting. Although some scholars believe that CEO duality provides unity of command and speed of decision making (e.g. Boyd 1995; Finkelstein & D'aveni 1994), many seem to agree that duality of roles reflects lower board oversight and stronger CEO power (Krause et al. 2014). Its practice poses a very real threat to the exercise of independent judgement by the board of directors. As a result, it may lead to a managerial abuse of their fiduciary relationship with shareholders. Based on this view, this study takes a stance that CEO duality impacts negatively company CSR reporting.

Contrary to many researchers' believes concerning CEO duality, the result from this study found no evidence that CEO duality reduces the reporting level of CSR information. It supports the findings of Said et al. (2009), Khan et al. (2013) and Razak and Mustapha (2013) which most likely due to the small occurrence of CEO duality among sampled companies. In spite of this, although separating the two roles had been a major practice in Malaysian companies, it does not have a

demonstrably favourable effect on CSR reporting. In the Malaysian context, a separate leadership structure does not guarantee board independence because the board is still influenced by the controlling shareholders who are sitting on the board. They are very dominant due to their substantial ownership in the companies. This gives them the power to appoint the Chairperson, who is normally selected from within their circle of trust (Mohamed Yunus 2011). Clearly, their controlling powers have superseded the merit of separating the board leadership structure. As a consequence the separation of CEO and Chairperson roles has no influence on enhancing CSR reporting. In brief, the outcome of this study is not consistent with many prior studies that exhibit duality of roles has a damaging effect on companies CSR reporting.

In sum, MCCG provided the mechanisms and recommendations to restore investor's confidence and trust in management, and that the recommended governance structures in enhancing corporate performance and transparency sets a stage for a continuous process to good corporate governance. The initiatives to revise the MCCG are meant to strengthen and raise the bar on governance practices and provide the necessary platform for the domestic companies to handle developments taking place at the international level. Besides, improvement in the corporate governance will ensure that it remains robust, current, and able to encourage high standards of corporate behaviour to protect the integrity of the capital market. Further to that, the revised code basically aimed at rejuvenating the functions of the board of directors. This is done with the hope that they would in turn encourage sound practices in the form of social responsibility and corporate transparency, thus enhancing CSR reporting practices. Notwithstanding these efforts, embracing corporate governance in substance, and not just in form, remains a challenge (Claessens & Fan 2002). Since these initiatives were adopted, the evidence of the implementation effectiveness and the resultant impact has been mixed. Liew (2007) points to the possibility that the initiatives were merely rhetorical and superficial reforms. Nevertheless, one of the core points that contribute to the contradicting results is the prevalent family ownership.

While many have associated the changes in CSR reporting with corporate governance mechanisms, on the whole, this study has failed to prove the influence of corporate governance attributes on CSR reporting except related to ownership structure. The insignificant findings suggest that the power of the controlling

shareholders on CSR reporting process superseded the capability of the board in terms of monitoring as well as attempts in obtaining various resources. Hence, this study provides a clear indication that in a highly concentrated ownership, corporate governance mechanisms are not necessarily effective tools to control management opportunistic behaviour. Taken together, this study suggests that a well-governed company is important as it offers some protection for investors including better reporting of CSR activities.

11.3 Implications of the study

11.3.1 Theoretical implications

11.3.1.1 Agency theory

This study relied on agency theory in explaining the impact of board independence and CEO duality on CSR reporting. Based on agency theory, the presence of independent directors may provide better monitoring of management delinquency, thus protecting the interest of shareholders (Fama & Jensen 1983a). Similarly, by separating the roles of CEO and chairperson, it has the ability to avoid any overlapping of roles that could jeopardise the independence of directors and also opportunistic behaviour of CEO. These practices, in return will help to enhance company CSR reporting. However, given the unique principal-principal agency conflict in Malaysia, independent directors are found to have bearing on the level of CSR reporting of companies in certain industries only. Meanwhile, despite separating the roles of CEO and Chairperson, the practise fails to increase CSR reporting. The contradicting results are likely to be influenced by the unique principal-principal agency conflict in Malaysia. Controlling shareholders prove to be very influential in determining company direction. Independent directors feel obliged to appease the controlling shareholders since their appointment is essentially based on controlling shareholders' commendations. CEO, while functioning on a different role from the Chairperson, is still considered the most powerful individual in a company. On account of that, CEO has the capability to influence the Chairperson. Hence, this study confirms a limited application of agency theory in aligning the interest of controlling and minority shareholders.

11.3.1.2 Neo institutional sociology

Isomorphic forces of neo institutional theory has become the basis for understanding the reasons prompted Malaysian PLCs to report on CSR information. Companies are inclined to benchmark their activities and disclosures to others within their industry. This is one way of staying competitive. A detailed look on the CSR items disclosed by companies demonstrates an increasing trend of reporting on various items. This generally implies that companies wish to appear similar especially with those within the same industry; indicating mimetic isomorphism. The government's determination to encourage more CSR practices is reflected in the existence of various incentives and awards on top of mandatory CSR reporting to all PLCs. These continuous efforts are highly associated with the increasing trend of CSR reporting with adhering to the mandatory reporting being the most notable reason. This demonstrates the existence of coercive isomorphism. Meanwhile normative isomorphism emerges from the introduction of CSR framework introduced by Bursa Malaysia. This framework has been recognised by consultants and professionals in Malaysia and is the main reporting guideline used by most companies. Nevertheless, there are also companies that use the CSR framework together with the GRI guideline in preparing their CSR report. Whichever guideline that companies opt for, their acts are to institutionalise the reporting activity to conform to the current requirement. Evidently, companies CSR reporting behaviour seem to be consistent with neo-institutional theory.

11.3.1.3 Resource dependence theory

Resource dependence theory emphasises on the role of board of directors as a liaison to external resources (Pfeffer & Salancik 1978). A board is considered to have the capability to reach out for resources that are vital and critical for the company's success. As a matter of fact, this capacity is enhanced when the board is made up of directors with diverse background. Resource dependence theory is employed in this study to rationalise board diversity and board meeting frequency. A diverse board provides more opportunity to reach out for a variety of resources due to extensive networking. Meanwhile, a frequent board meeting reflects better decision-making and enhanced monitoring since directors are presumed to be great human and social capital. Despite these claims, this study demonstrates contradictory results. Having on the board female directors and directors who are law experts and

organising frequent board meetings do not make a difference to CSR reporting. Too few female directors seem impotent in a male dominated board while law expert directors fail to apply their knowledge to assist better performance. On the same note, companies will not be at an advantage when board meeting only discusses routine matters instead of strategic issues. Nevertheless, directors who are financial experts are relevant in promoting better CSR reporting though confined to a certain industries. Briefly, there is restricted utilisation of resource dependence theory in clarifying changes in CSR reporting in this study.

11.3.1.4 Stakeholder-agency theory

This study attempts to place ownership structure within the stakeholder-agency theory framework. The goal was to examine the possible effect of ownership by directors and institutions on company tendency to report CSR information. According to agency theory, agents are tempted to perform opportunistic behaviour (Jensen & Meckling 1976). Hence, this theory accentuates the alignment of interest between the agent and the principal through various incentives and controls. Meanwhile, stakeholder theory features manager as the centre of the contractual relationship between the company and its stakeholders and always seeks to balance the interests of the stakeholders to ensure their satisfaction (Heinfeldt & Curcio 1997). Taking the two theories together, stakeholder-agency theory rests on the notion that managers are accountable not only to shareholders but also to stakeholders; financially and morally. Given these arguments, the effects of directors and institutional ownership on CSR reporting provided by this study appear to be varied. Shareholdings by directors prove to be detrimental to CSR reporting; supporting stakeholder-agency theory under the entrenchment effect. Theoretically, this result indicates that shareholdings are an effective way of establishing power to steer managers into satisfying their interest; hence further enhancing agency costs. Contrarily, the presence of institutional investors whom are expected to oversee the conduct of the managers has not been proven in this study. When these investors are more interested in getting investments return in a short period of time, they tend to avoid their fiduciary responsibility towards shareholders. Consequently, they view reporting on CSR activities as costly practices that should be evaded. Apparently, the failure of institutional investors to uphold their accountability to the company owners does not lend support to stakeholder-agency theory.

11.3.2 Policy implications

The results of this study have a number of important implications for future practice. They are explained in the following sub sections:

11.3.2.1 Chapter 5 - The extent and nature of CSR reporting

The government's efforts to foster company's accountability towards stakeholders through mandatory CSR reporting are seen as a noble move. With the aid of the CSR Framework introduced by Bursa Malaysia, companies are aware of what elements should be reported. Nevertheless, these attempts seemingly able to influence companies to report so far only at the minimum level. There is also an inclination towards reporting information which can make CSR report more impressive but in effect is less beneficial to stakeholders. As a result, stakeholders had to be contented with what is presented and this is likely to affect the decisions they need to make. The recent introduction of the CSR Framework in 2015 also incorporates slight modifications. Given this deficiency, it is deemed necessary for regulators to also mandate the content of the CSR report. The outcome of this study may shed some lights to the regulators of the current pattern of CSR reporting, hence can be treated as a basis for formulating the appropriate content of the report. While this may lead to a rigid pattern of reporting across companies, it is one way to habituate companies to a meaningful and comprehensive reporting. Furthermore, greater accountability can be demonstrated. A standard reporting format also assist investors who rely on companies' CSR activities as one of their investment criteria, to make better comparison. Meanwhile, the existing incentives such as tax rebate and CSR awards will motivate companies to report beyond the stipulated content. Above all, without enforcement, such efforts may be meaningless. Accordingly, the regulators should be more stringent with the rules to ensure the hard work delivers the expected results. At the same time, CSR awareness programs should be carried out continuously in spite of the increased level of CSR reporting among PLCs. In fact, the government should consider expanding the same initiatives, perhaps, to small and medium companies, given they are the backbones of the national economy. This not only provides them with early exposure to CSR but also enables them to embrace the concept gradually.

11.3.2.2 Chapter 6 - Ownership structure and CSR reporting

The negative impact of both directors and institutional ownership on CSR reporting generally implies that Malaysian companies are continuously resisting acceptance of recurring changes for the betterment of the companies as well as their stakeholders. It reflects that companies are operating in a business environment that is less than perfect where stakeholders' interest is clearly set aside to make way for the fulfilment of individual goals. These deficiencies signal to the regulators and policymakers that immediate actions ought to be taken in order to curb the situation from worsening. As a measure to uphold the interests of the stakeholders as well as the minority shareholders, the shareholders activism should be made stronger. It is highly proposed that the Minority Shareholders Watchdog Group (MSWG) should play its role actively and efficiently. Since its establishment, many seem to have reservations pertaining to the role of MSWG in mitigating conflict of interests between majority and minority shareholders.

At present, MSWG is fully funded by institutional investors (Ameer & Rahman 2009). Hence, its claim of independence is highly dubious since the institution is actually the representation of the institutional investors themselves. It is likely that their interests will take precedence. Considering these problems, the regulators should perhaps introduce stringent rules in order to strengthen shareholders activism in Malaysia. This initiative may reassure the public that MSWG actually represents the interests of minority shareholders. Above all, promoting CSR should be an ongoing effort by various parties. To change one's mind towards adopting something that appears to be costly requires some time besides determination. After all, CSR is a practise that is just starting to be accepted especially in developing countries.

11.3.2.3 Chapter 7- Board independence and CSR reporting

Without doubt, board of directors are the cornerstone and a focal point of good corporate governance. As such their presence should aid in better transparency in the company. However, their ability to execute their duty well is constrained due to lack of company's information. To enable them to act as a watchdog or a monitor of managers, it is essential for them to have good information. Information, monitors and decision makers are relatively interconnected. It is meaningless to have more independent directors sitting on the board but at the same time they are hindered

from getting information due to difficulty of company to communicate information to outside directors. It may end up with independent directors making blind decisions which could be devastating to the company. Thus, companies should be well aware of the informational issues before expecting independent directors to be effective. As for independent directors, they need a richer set of information to make a strategic decision for a company. This means independent directors need to dig in deeper rather than rely on publicly available information. One of the important channels to get information is through company meetings where all sorts of information are presented by the managers. Additionally, independent directors can get information from management's forecasts, analysts' forecasts, stock market trades and also audited financial reports. These pieces of information form the informational mix that independent directors draw on when making decisions. Doubtlessly, independent directors also need to work hard to get extensive information because their reputation is dependent on their ability to make decisions that could move the company in the right direction. As for regulators who have been anxiously making changes to corporate governance by introducing more independent directors in the company structure, they too should be cognizant of the information issues to ensure effectiveness of the guidelines introduced.

Shortage of independent directors is also a challenge for regulators. Perhaps this problem can be overcome by gathering outstanding individuals who have extensive experience and possess leadership qualities proposed by various agencies, companies and government bodies. In addition, it is also crucial for the regulators such as Bursa Malaysia to emphasise a balance of the skills of the board members. The Mandatory Accreditation Programme and continuing education program organised by the Bursa Malaysia are among good channels for directors to enhance their competencies. Nevertheless, there is a need to regularly revise the components of the program to reflect existing condition in Malaysia. The current practise of nominating independent directors is done through the nominating committee. This committee's work determines who board leaders will be for many years into the future. Hence, the work of the nominating committee has a lasting impact on companies. The nominating committee should be well organised, have a clear sense of recruiting priorities as well as expectations for individual board members. Poorly executed responsibility of the nominating committee may affect the ability of the directors to perform their roles effectively. Given this issue, the regulator in charge

of ensuring the nominating committee performs efficiently; possibility by providing them with appropriate training.

11.3.2.4 Chapter 8- Board meeting frequency and CSR reporting

Board meeting is the amount of time board of directors spent on corporate matters. Seemingly, the frequency of board meeting reflects the allotted time discussing management issues. Hence, board of directors are said to be conscientious in meeting their responsibilities. Nevertheless, board meetings are not inexpensive and board members are typically very busy people. Fewer meetings will help save the companies money and is likely to increase the chance of having all board members present. Apparently, this should be a valid concern in any company dedicated to making the best possible use of its resources. This study reveals that on average each company conducts 8 board meetings a year. Perhaps company should opt for a lesser board meeting to overcome the issues highlighted above.

During board meeting, directors should not be making routine decisions that can just as well be made by others within board policies. Instead, they should be concentrating on situations where there is a great deal of uncertainty and novelty. Along this line, it is appropriate for a board to spend the greater part of its meeting time focusing on the future, addressing strategic issues, key decisions and matters of policy direction. This would include accountability issues such as CSR. However, to realise this situation, it requires careful preparation of a meeting agendas; prioritising on key issues. In addition, a board should also review its meeting frequency from time to time. It should neither be anchored to the companies' tradition nor the suitability of the management team. Importantly, board meeting should serve as a source for board of directors to fulfil their responsibilities. These are few suggestions that can guide PLCs in Malaysia to a more meaningful board meeting and hopefully will lead to enhanced CSR reporting and better company performance. Accordingly, revising corporate conduct of board meeting is plausible.

11.3.2.5 Chapter 9 - Board diversity and CSR reporting

It is quite disappointing to see that the percentage of female directors on the board remains low despite the various attempts by government and other agencies. Inevitably, culture seems to be the main barrier in the efforts to improve the number of female directors in Malaysia. Although the government has set a quota of having

30% female directors by the year 2016, companies do not seem to be serious in achieving this mission. In view of the problem, the government should resort to a much stringent rule. One option is to spell out the percentage of female directors that should be appointed to the board. However, before this rule can be implemented, it is essential to increase the pool of talented female directors. Women especially in developing countries are normally less keen to work due to family commitment. Thus, to attract them to join the workforce, the government should among others provide more child-care facilities at work. Appropriate training should also be given to assist them in fulfilling their responsibilities. The government should be commended for initiating the special course to train women to be directors. Through formal training, it can ensure that women appointed as directors have the characteristics of a respectable leader. Hence, this training ought to be continued with the involvement of more women and regularly updated modules. Rigorous campaign to eliminate the negative perceptions of the ability of women as leaders ought to be carried out. With increased awareness, men will be more willing to work together with women. In relation to board educational background, there is no denying that culture and upbringing have a big role in shaping the attitudes of individuals. Despite the exposure of CSR fundamentals during higher education level, it is relatively hard to change one's perceptions especially concerning CSR which is rather new in developing countries. Nevertheless, with this issue becoming mainstream now, perhaps with more awareness activities carried out, the new generation can relate more closely their early knowledge on CSR and the importance of embracing the concept.

11.3.2.6 Chapter 10 - CEO duality and CSR reporting

Argument on separating the role of CEO and Chairperson is often grounded on the ability to provide better monitoring and oversight due to them being independent. However, despite the separation of roles, this action may end up disastrous especially when there is no clear and defined job description for the separate chair position. Without doubt there are distinct benefits to the chair's separated role, including greater attention to the board's functioning but often lines of responsibility are not clear between the two roles. Consequently, CEOs and chairmen can often be distracted by struggles over power and territory. In return, independence is compromised. Evidently, simply by separating the roles does not

necessarily improvise company performance which includes reporting of non-financial information. This is what is indicated by the irrelevance of non CEO duality in driving towards better CSR reporting in this study. Aside from that, the competence of the chairpersonship is vital to the contribution which boards make to their companies. As the chairperson leads the board, good leadership traits is required of him. In an environment where ownership is concentrated and family companies prevail, CEO, as the owner of the company is able to intervene in all matters. With good leadership traits, a Chairperson can easily dismiss any attempt to influence him or her. Perhaps the government and other related agencies should take proactive measures by providing continuous courses to help Chairperson's leadership skills stay current. At the meantime, regulators may require Chairperson to attend a number of pre-determined courses in a year. Although the number of Chairperson is not going to increase, the training and courses will aid existing Chairmen to be better leaders.

11.3.2.7 Corporate governance

The results of this study apparently demonstrate the companies' compliance with most good practices of corporate governance suggested by MCCG. However, their ineffectiveness in enhancing CSR reporting raise some concerns. Generally, these outcomes can be associated with controlling shareholders exerting their powers on the management. The occurrence of this situation has much to do with poor enforcement of legal protection on shareholders and ineffective market discipline in Malaysia. As a result, the controlling shareholders are free to act in their own best interest rather than for the company as a whole. The abuse of power leads to many issues since it deters corporate governance mechanisms from being effective tools in controlling management opportunistic behaviour. To address the problem, it can be initiated by strengthening the existing regulations. For instance, regulators such as Bursa Malaysia should be given more authority in monitoring companies' compliance towards applicable laws and perhaps review the current listing requirements. Given the abundance power of controlling shareholders, it is also likely that the court and legal systems will act as effective governance tools. The authorities may want to consider refining the law to increase the punishment of controlling shareholders who violate their fair share of wealth relative to minority shareholders. Apart from that, there is an urgent need for the regulators to strengthen

the enforcement of legal protection of shareholders as poor enforcement is one of the reasons for highly concentrated ownerships in Asian countries (La Porta et al. 2000; Shleifer & Vishny 1997). Clearly, results of this study provide an overview to the authorities about the effectiveness of existing corporate governance. It provides an opportunity for the authorities to have a better understanding of the agency conflict in Malaysia and subsequently considering measures to control the conflict accordingly. By doing this, any loophole within the corporate governance system can be improved.

11.4 Limitations of the study

While the study makes several contributions to the corporate governance and CSR reporting debate, there are a number of limitations that should be addressed. *First*, this study focuses on a single country. As is commonly known, every country is bound by its own regulatory and corporate governance system. Due to this uniqueness, the results of this study might not hold true for other countries. Similarly, the sample in this study excludes all financial related companies as they are regulated by a different act. Hence, the outcomes from this study cannot be generalised to these institutions. *Second*, the annual reports were analysed manually. Thus, subjective influences are obvious which may affect the reliability of the results. *Third*, this study focused on CSR reporting in annual reports only. With the existence of multiple sources of information dissemination such as environmental report, interim report, company newsletters, websites and newspapers, the information shown of annual report may exhibit an incomplete picture of CSR practices and may not be treated as an absolute and accurate measure of engagement in citizenship. In view of this constraint, future study may consider other forms of reporting.

11.5 Areas of future research

Conducting this study has evoked several issues which open up to several future research avenues. *Firstly*, this study has mostly relied on information from companies' annual reports. While the credibility of this source has been acknowledged by many researchers, it is highly recommended for future researchers to employ other source of information such as interviews and surveys. These research methods, if used jointly may complement the archival data method and are

likely to provide better insights on the relationship between corporate governance and CSR reporting. Besides, interviews and surveys may provide useful information that enables comparison between the information required by stakeholders and what has been reported by companies. This will in turn assist the companies in producing CSR reports that are meaningful and satisfy the needs of various stakeholders. Furthermore, studies which triangulate various research methods will enhance the validity of the findings.

Secondly, instead of using unweighted index approach in deriving CSR index, future researchers may use weighted index approach. The first approach only seeks for the existence of an item without considering the accompanying information which may not only be relevant but important. Since the weighted approach represent qualitative indicator with the information gathered is more profound, engaging this approach may offer better insights of CSR reporting trend.

Thirdly, an important extension of this study would be an examination of cultural variables as predictors of CSR reporting. Studies have demonstrated that culture describes how CSR information is disseminated. Malaysia is a country of multi-cultural and races which provides the platform to investigate the effects of these elements on company reporting behaviour.

Fourthly, this study exhibits that independent directors and directors who are financial experts are significant in enhancing CSR reporting in certain industry. It would be interesting to discover the specific industry (ies) and reveals the factors that contribute to the effectiveness of these board attributes in increasing CSR reporting. As such, investigation on this issue by future researchers is recommended.

Fifthly, without doubt board diversity is currently a buzzword among researchers. Investigating other types of board diversity such as ethnicity, age and work experience could meaningfully extend this study. Besides, the results may also assist the regulators in improving corporate governance. Therefore, it is suggested that the association of these factors is investigated in future studies.

Sixthly, since the issue of CSR starting to gain attention of many parties, there are many attempts to look into factors that drive companies to report on CSR information. However, studies that investigate issues that cause companies not to report are rare. Further examination into these factors is strongly recommended in order to identify possible reasons for not reporting. Information from these studies

may offer input to the regulators who in return, can focus on improving any deficiencies and encourage more companies to report on CSR activities.

Another possible area of future research would be to make comparison of a cross-sectional study between Malaysia and other Asian countries like Singapore, Thailand, Indonesia and Vietnam. Beneficial information may be obtained from the comparison which can aid in improving CSR practices in Malaysia.

Finally, this study explores important governance mechanisms which are the board of directors and ownership structure. While this study only examined internal governance mechanism, it is possible that external governance factors not explored here could influence company CSR practices.

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