

BOARD INDEPENDENCE, OWNERSHIP AND CSR OF MALAYSIAN LARGE FIRMS

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Abstract

The purpose of this study is to determine whether board independence and ownership have any influence on the decision on CSR disclosure. This study uses the proportion of pages in an annual report and a CSR disclosure checklist to measure the extent and quality of a firm's CSR disclosure. Multiple regression and logistic regression analysis are employed to test the hypotheses. The paper finds that boards of family owned firms are negatively associated with the level and the quality of CSR disclosure. The fact that board independence is not significant on CSR disclosure could be due to the fact that CSR initiatives are strategic in nature. Finally, firm's size, performance and leverage are found to have significant effects on CSR. This study was conducted among Malaysian top 100. The generalizability of the findings of this study is, thus, limited to Malaysian large firms. One of the major findings of this study is the ineffectiveness of the board of directors in ensuring firms discharge its social responsibility. Relevant authorities may need to come up with measures to ensure independent directors are effective. The study adds to the understanding of how ownership structure plays an influential role as oppose to independent board of directors on CSR disclosure in Malaysia.

Keywords: Malaysia, corporate social responsibility, board independence, ownership, family ownership, outside blockholdings

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Introduction

Corporate social reporting (CSR) is about providing information to the public relating to a firm's activities, aspirations and public image with respect to environmental, community, employees and consumer issues (Gray et al., 1995a). The growing interest on corporate social reporting and recently on the environmental issue, also known as corporate social and environmental reporting (CSER or sometimes being referred as corporate social reporting, CSR or corporate social disclosure, CSD) stems from the fact that a firm is not only accountable to the shareholders, but also to its other stakeholders and it has extended beyond providing a financial account to capital providers (Owen, Gray and Bebbington, 1997).

The importance of CSR is owing to the fact that people have begun to be concerned about the issue of environment and society. Matthews (1997, p. 481) notes that "one of the major growth areas within accounting in the past five years has been 'accounting for the environment' which has generated interest well beyond the confines of accounting academics and professional accountants". In fact, Nik-Ahmad (1999) reports though investors consider financial

information to be important, they also take into consideration corporate social information in their decision-making process. Recognizing the importance of CSD, Ooi (1990) has even suggested that any activities undertaken by companies that involve the society be reported, disclosed and audited.

This study examines whether a higher proportion of independent non-executive directors on corporate board is associated with more CSR. Our study also examines whether the domination of family members on corporate board has an impact on CSR because substantial number of Malaysian firms are family owned (Claessens et al., 2000). Because firms in Malaysia are known for concentrated shareholdings, pyramidal ownership pattern which is typical in most East Asia countries. Thus, family control makes the agency problems in these firms unique from the agency problems faced by the US or the UK firms. The agency conflicts in Malaysian firms and in other East Asia countries are between controlling owners (who are also managers) and other shareholders (i.e. minority shareholders). These controlling owners have the incentives to hold up minority shareholders (Fan and Wong, 2002). Thus, it is important to see whether the level and quality of CSR are associated

with the type of owners in a firm. We also seek to determine the effect of government-linked companies (GLCs) on the disclosure of CSR. It is predicted that being government-owned companies, GLCs are more likely than non-GLCs to disclose CSR because GLCs are expected to be more ready to comply with the government's initiatives than non-GLCs. Further, non-GLCs, which are more likely family-owned, do not have the incentives to disclose voluntary information more readily (Ho and Wong, 2001). Further, firms that fail to follow good CSR practices "... will not do well to attract foreign capital, achieve export potential and to re-brand" (Luan, 2005 p. 41).

Our results suggest a negative association between the proportion of family members on corporate boards of Malaysian firms and CSR. This in turn suggests that domination of family members on corporate boards has a negative influence on the management's decisions to provide CSR. The result also shows the ineffectiveness of independent non-executive directors' role in Malaysian firms to pursue the interest of other stakeholders. Our findings contribute to the literature on CSR by showing the significant negative influence of family controlled board as opposed to the insignificant influence of independent non-executive directors on CSR.

The remainder of the paper is structured as follows. The theoretical framework will be presented next and the methodology section will follow. Results and discussion will be presented in the subsequent section. Finally, the conclusions will be provided.

Theoretical Development

The issue of CSR has gained prominence in recent years due to public awareness on the importance of preserving the environment for the future generation. This is because in addition to being accountable to the capital providers, firms are also answerable to the public for the use of natural resources. Reporting of CSR in annual report is seen an effort by firms to show their accountability to the public. In fact, in the developed countries, the trend of CSR shows a steady rise both in the volume and richness among large firms over the last two decades (Gray, et al., 1995a).

Greater social expectations demand firms to react and attend to human, environmental and other social consequences (Heard and Bolce, 1981). The high social expectations on firms are noted by Tinker and Niemark (1987, p. 84) who claim society expect business to "...make outlays to repair or prevent damage to the physical environment, to ensure health and safety consumers, employees and those who reside in the communities where products are manufactured and wastes are dumped...". Further, failures of companies could significantly affect other stakeholders, namely employees, customers, suppliers and the communities where the company is located and operated. With globalization and disintegration of trade barriers in recent years, the need for CSR is not

only present in the developed countries, but also it has extended to the developing countries. The traditional perspective of CSR is that usage of a firm's resources for the purpose of reporting to stakeholders other than the firm's shareholders is viewed from the neo-classical perspective as a violation of management's responsibility to the firm's shareholders (Friedman, 1962). However, in today's business environment, management's accountability extends beyond the shareholders as it does not operate in isolation of its surrounding, namely the society and the environment.

Gray *et al.* (1996) contend that, with the presence of large multinational companies from developed countries in developing countries, the need for CSR is pressing. Nevertheless, the level of CSR in the developed countries is still low, but the level is much less in the developing countries, such as Malaysia. Johl and Ishak (1998) show that CSR among Malaysian listed firms is at about four percent. In fact, the CSD in Singapore, considered as a developed country, is also low (Tsang, 1998). Most commonly items of CSR that are disclosed in the annual reports are human resource, community involvement and environment (Ho, 1990; Johl and Ishak, 1998; Muhammad-Jamil, Alwi and Mohamed, 2003). Foo and Tan (1988), studying CSD in Singapore, find that large firms have higher incidence of CSR than smaller firms, confirming earlier evidence by Guthrie and Matthews (1985), using Australian companies. Foo and Tan (1988) also reveal that firms from finance sector have the highest incidence of CSD and the hotel sector, on the contrary, have the lowest CSD. Andrew et al (1989), using Malaysian and Singaporean companies, also documents similar evidence with regard to the association between CSD and firm size and industry type. Nik-Ahmad and Sulaiman (2002) also confirm the influence of industry type on environmental disclosure with the highest disclosure coming from companies in the property sector. Several researchers have included firm's profitability in the CSR studies (e.g. Hackston and Milne, 1996; Singh and Ahuja, 1983). However, the association between CSD and profitability is mixed.

With regard to corporate governance, resource dependence theory suggests that the selection of outside board members would provide more resources, information, and legitimacy to the board (Ayuso and Argandoña, 2007). Likewise, MCCG (2000) prescribes the non-executive directors as a person who can bring a broader view to the company's activities. Hence, outside board members will be more likely than inside directors to oppose a narrow definition of organizational performance which focuses primarily on financial measures and will tend to be more sensitive to society's needs (Ibrahim et al., 2003). Some empirical support has been found for a better corporate social responsibility performance of firms with independent boards (Webb, 2004; Ibrahim et al. 2003).

Monitoring of corporate boards by independent non-executive directors suggest that corporate boards will become more responsive to investors and other stakeholders. Chen and Jaggi (2000) support the evidence of positive association between the proportion of independent non-executive directors on corporate boards and comprehensiveness of financial disclosures. However, research findings on voluntary disclosure in East Asian countries such as Hong Kong, Singapore and Malaysia suggest that an increase in outside directors reduces corporate voluntary disclosure (Eng and Mak, 2003; Gul and Leung, 2004). Besides, the proportion of independent non-executive directors and an independent non-executive director as a chairperson also has a significant negative influence on corporate voluntary disclosure (Haniffa and Cooke, 2002). This evidence is in contrast to agency and resource dependence theory, in which it may due to a substitute relationship between outside directors and disclosure in monitoring managers (Eng and Mak, 2003; Gul and Leung, 2004). With regard to corporate social responsibility, evidence suggests that the composition of non-executive directors is negatively associated with CSR in Malaysia (Haniffa and Cooke, 2005). In addition, Said et al. (2009) find no relationship between the proportion of independent non-executive directors and CSR. An inquiry into the role and effectiveness of independent non-executive directors of quoted companies in the UK found that independent non-executive directors are drawn from a small pool of city players (Ismail, 2005).

The effectiveness of the independent non-executive directors in Malaysia is lessened due to the concentrated family ownership. Research evidence shows that family ownership and control may reduce the independent non-executive directors' effectiveness in convincing management to disclose more comprehensive financial information (Chen and Jaggi, 2000). Ali *et al.* (2007) find that family-owned firms make less voluntary disclosure about corporate governance consistent with the notion that family firms have the incentive to reduce the transparency of corporate governance practices. Research evidence on the association between family controlled firms and CSR is limited; however, the owner-managed companies tend to disclose significantly less corporate social responsibility information (Mohd Ghazali, 2007). Government control is also significant in the East Asian countries and in Malaysia, research evidence show that government ownership has significant positive influence on CSR in Malaysia (Mohd Ghazali, 2007; Amran and Devi, 2008; Said *et al.*, 2009).

Board of Directors

The OECD defines corporate governance as "... a set of relationships between a company's management, its board, its shareholders and other stakeholders."

(OECD, 2004, p. 11). The Finance Committee defines corporate governance as "... the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long term shareholder value, whilst taking into account the interest of other stakeholders." (Finance Committee, 1999, p. 10). These two definitions mention both shareholders and stakeholders. Thus, while pursuing the interest of the shareholders, a firm should not ignore the interest of other stakeholders because it operates within a wider social system where all actions by the firm would eventually affect the society at large, including employees and government.

The most important corporate governance element is the board of directors because the board is responsible for setting the directions and policies of the firm and evaluating the performance of management. Jensen (1993, p. 862) argues that the board is "... at the apex of the internal control system, has the final responsibility for the functioning of the firm." The importance of the board of directors is recognized by the Finance Committee (1999, p. 61) when it states "... good corporate governance rests firmly with the board of directors." Fama and Jensen (1983) also contend that the board plays an important governance role in large corporations and the role of the board of directors has been the focus in corporate governance guidelines. In fact, corporate governance codes, such as the Combined Code (Financial Reporting Council, 2008) and the Malaysian Code (Securities Commission, 2000, revised in 2007), discuss in detail board composition and establishment of various committees to assist the board.

The extent of board independence is argued to be reflective of good governance because it leads to the board acting more closely in the interest of shareholders and other stakeholders than in the interest of management. Outside directors are seen as expert in decision controls (Fama and Jensen, 1983). Further, outside directors derive their reputation by being good monitors of management. Compared to inside directors, outside directors are also argued to be more transparent when reporting a firm's activities. Disclosing information to the public is not only important to shareholders but also it helps to create positive image of the firm. The extent of outside directors on the board is predicted to encourage the firm disclose more information, including social information, because they are not aligned to management. Evidence by Forker (1992) shows that the extent of outside independent directors is associated with higher financial disclosure quality and lower incentives to withhold information. In Malaysia, board independence is also found to be positively associated with voluntary disclosure (Mohd-Nasir and Abdullah, 2004). Outside directors are also viewed as "additional window on the world" (Tricker, 1984, p. 171). Inside directors who might

focus more on shareholders; outside directors, on the other hand, might put more emphasis on other stakeholders. Given the fact that outside directors are external to the firm, they are expected to be more willing to meet the information demands of other stakeholders. Both stakeholder and legitimacy theory also predict the extent of outside directors to be associated positively with the decision to disclose CSR and the extent of CSR disclosure.

Haniffa and Cooke (2005) however document that the extent of non-executive directors on the board is negatively associated with CSR. Their negative association could be attributed to the lack of knowledge of non-executive directors and their lack of on the knowledge on the role of non-executive directors. Perhaps, after several years of MCCG implementation in Malaysia and the Enron's case, independent directors are expected to be more knowledgeable about their roles. Thus, the related hypothesis is as follows:

H₁: The proportion of independent directors is positively associated with CSR.

Family Dominated Boards

In Malaysia, the majority of listed companies started off as family businesses. These firms subsequently grew in size were subsequently listed on Bursa Malaysia to enable the original owners to cash out while at the same time seeking additional capital from the public. Subsequent to the listing, the families who were the founder of the firms remained as the controlling shareholders. These controlling shareholders continue to control the board and the operation of the firm. Thus, the board of the firm is usually dominated by the family members and the CEO is also from the family itself. Since the families controls the firm and the top management and the board members are related, management entrenchment hypothesis explains the behavior of the family, who are the controlling shareholders. The conflict is between the large (family) shareholders and the minority shareholders (Shleifer and Vishny, 1997). Ho and Wong (2001) argue that family shareholders would expropriate the minority shareholders' interest and enrich themselves via related party transactions. Hence, Ho and Wong predict and find that the level of voluntary disclosure is low for family owned firms. Haniffa and Cooke (2005) reveal that, based on telephone interviews, one of the reasons given by their interviewees for engaging CSR is to receive government support. Since it is less likely that family owned firms seek government support, it is therefore predicted that family owned firms engage in less CSR activities. Thus, it is predicted that firms with higher proportion of family members control on board and CSR disclosure is negatively associated.

H₂: There is a negative association between proportion of family members on the board and CSR.

Ownership

Firm's ownership pattern indicates the agency costs and information asymmetry. Agency theory argues that low (high) managerial ownership is associated with high (low) agency costs (Jensen and Meckling, 1976). Jensen (1993, p. 864) contends that "many problems arise from the fact that neither managers nor non-manager board members typically own substantial fractions of their firm's equity". In East Asia countries, including Malaysia, family owned is common (La Porta *et al.*, 1999). Firms are managed by the family members who also own substantial shares. Thus, in Malaysia, the agency problems are not associated with low managerial ownership, but with high managerial ownership. High managerial ownership could pose problem to minority shareholders who are not represented on the board. Management entrenchment hypothesis may be dominant compared to agency theory in Malaysia. Thus, in Malaysia, the conflicts are not between owners and managers, rather they are between controlling shareholders and minority shareholders (Shleifer and Vishny, 1997, Ho and Wong, 2001). Controlling shareholders tend to hold up information from being given to minority shareholders (Fan and Wong, 2002).

Government ownership

In Malaysia, the government holds shares in certain companies. These companies whose shares are owned by the government are companies which were previously government agencies but became private through share offerings or companies operating in the field which the government has strategic importance. In addition, companies which are controlled by investment institutions which have link with the government, such as Permodalan Nasional Berhad (PNB), Employees Provident Fund (EPF) and Pilgrimage Fund (Tabung Haji) are also indirectly controlled by the government. Consequently, firms which are controlled either by the government through Khazanah Holdings or these government-linked investment institutions are referred to as government linked companies (or GLCs), whose primary objective of existence goes beyond making profits. GLCs should consider also the nation's goals which may in conflict with the pure commercial considerations. Government shareholding plays an important role in corporate social reporting in Malaysia. Studies by Amran and Devi (2008) and Mohd-Ghazali (2007) find a significant influence of government shareholding and the company that depends on the government with corporate social reporting practices. The government through GLCs plays two roles: investor and as a stakeholder. Thus,

the government needs to set the direction of the GLCs, including promoting government's policies that will benefit the society at large. Thus, stakeholder theory would predict that GLCs would disclose more social information than non-GLCs. Further, it could also be argued that because the conflicting objectives of the government and the other shareholders of the GLCs, they are predicted to be more willing to disclose social information to resolve the conflict (Eng and Mak, 2003). Findings are supportive of higher voluntary disclosure levels among GLCs (Eng and Mak, 2003; Mohd-Nasir and Abdullah, 2004). Thus the hypotheses are as follows:

H₃: There is a positive association between government ownership and the extent of CSR.

Blockholder ownership

The extent of outside blockholder ownership is found to be important in a firm's decision on the amount of voluntary disclosure (McKinnon and Dalimunthe, 1993; Mitchell, Chia and Loh, 1995; Schadewitz and Blevins, 1998). Blockholders, by virtue of the shareholdings, could obtain the information themselves without waiting for the financial statements. In fact, these blockholders are always represented on the board and might even have the power to appoint the firm's CEO. However, Eng and Mak (2003) do not find a significant association between the proportion of ordinary shares owned by substantial shareholders and voluntary disclosure among firms in Singapore.

In Malaysia, Mohd-Nasir and Abdullah (2004) reveal that the extent of substantial shareholders is associated with higher voluntary disclosure. Thus, in Malaysia, it seems that outside blockholders place demand on the firm to disclose more information in financial statements though the substantial shareholders could obtain information directly from the management. Holding substantial shares in a firm means they have the power to place demands on the firm's management. Stakeholder theory argues that a firm is more willing to fulfill the requirements for information of the powerful stakeholder. Further, with increased public awareness on social reporting, blockholders are also expected to be concerned on the public requirement of more information on the firm's CSR. Since the value of their investments in the firm are solely determined by the community acceptance of the firm. The value of the firms depends upon the firm's profitability, which is influenced by the firm's employees, suppliers, customers and more importantly the government. Unsatisfactory environmental performance could result in costly sanctions (Cormier and Magnan, 1997). These sanctions could lead to negative publicity and thus the firm's bottomline. This would affect the value of the shares of the firm. Thus, outside blockholders would ensure that firm's implement proper policies to

protect the environment and other issues that concern the stakeholders. These policies should help to boost the firm's image. Thus:

H₄: The proportion of shares held by outside substantial shareholders is positively associated with the extent of CSR.

Methodology

Measurement of CSR

CSR is measured by both the quantity or extent of disclosure and the quality or depth of disclosure. Firstly, the method used to capture the extent of CSR is based on the proportion of pages in an annual report devoted to CSR. This method justifies the assumption of content analysis in that the extent of disclosure signifies the importance of the item being disclosed (Krippendorff, 1980; Unerman, 2000). Further, Haron *et al.* (2006) suggest that this method overcomes the problems faced by other studies that measured in terms of the number of characters, words or sentences which ignore potentially highly informative non-narrative corporate social reporting such as photographs and charts because these methods could potentially omit powerful and highly effective methods of communication (Beattie and Jones, 1992, 1994).

Various measurements to determine the extent of CSR are discussed by Unerman (2000) such as number of words, documents, characters, sentences, pages or proportion of pages, proportion of volume of CSR disclosure to total disclosure. Various authors (Milne and Adler, 1999; Hackston and Milne, 1996; Tsang, 1998) argue that the extent of CSR disclosure in terms of sentences is more reliable for the coding basis than other units of analysis. In addition, sentences convey meanings whereas discerning the meaning of individual words in isolation is problematic. However, Hackstone and Milne (1996) indicate that the measures of the social and environmental disclosures make no significant difference to the regression results. They show that the model best fits are first measured pages, followed by derived pages and finally the number of sentences.

Following Haron *et al.* (2006), the proportion of pages devoted to CSR is determined by apportioning an annual report page to the nearest hundredth of a page. Page measurement is undertaken using a transparent plastic sheet of A4 size, which is divided into a grid of 100 rectangles. The grid is laid over each highlighted sentence in the annual report and the number of hundredths were then determined. These hundredths were subsequently totaled up to produce the CSR for each sample firm (Haron *et al.*, 2006).

To assess the quality of corporate social responsibility, a checklist containing 24 items of CSR was constructed. In developing the checklist, reference is first made to the checklists employed by

previous researches on CSR disclosure (Hackston and Milne, 1996) and those conducted on Malaysian companies (e.g. Haniffa and Cooke, 2005; Mohd-Ghazali, 2007) and Kenyan banks (Barako and Brown, 2008). A checklist developed by Mohd-Ghazali (2007) is adopted with some changes according to the checklist of categories by Hackston and Milne (1996) and Ng (1985) to suit for any latest development in the social disclosure in Malaysia. Mohd-Ghazali (2007) develops the checklist to capture CSR in Malaysia for 2001 financial year. The original version of the checklist developed by Mohd-Ghazali (2007) was used on thirty companies as a pilot. It was found that the checklist failed to capture some of the information provided in the CSR, particularly on the variation in the environmental information. The difference on the amount and type of environmental activities is visible between companies. Therefore, some changes were made to the original checklist developed by Mohd-Ghazali (2007) by including to the checklist some of the items suggested by Hackstone and Milne (1996). The modified checklist is shown in Panel B of Table 3. CSR scores are based on an unweighted method which means that all information is given an equal value regardless of their importance or relevance to any particular user group (Cooke, 1989; Chau and Gray, 2002). The unweighted method was previously used in CSR research in Malaysia by Haniffa and Cooke (2005) and Mohd Ghazali (2007). A value "1" is given to a particular item if it is disclosed and "0" if it is not disclosed. Accordingly, the CSR disclosure index was derived by computing the ratio of the actual scores obtained to the maximum possible score (i.e. 24) by a particular company. In sum, the extent of CSR disclosure and the CSR index (QUALCSR) are measured as follows:

EXTCSR = the proportions of annual report page to the nearest hundredth of a page.

$$QUALCSR = \frac{\sum_{i=1}^{nj} X_{ij}}{nj}$$

Where QUALCSR = corporate social and environmental disclosure index

n_j = number of items expected for j th firm,

X_{ij} = 1 if i th item disclosed

0 if i th item not disclosed

So that $0 \leq ij \leq 1$

Regression model and definition of variables

Our study focuses on two areas: the extent of disclosure and the quality of CSR disclosure. Thus, to test the hypotheses, multiple regression and logistic regression models are employed. The models are as follow:

$$EXTCSR = \alpha + \beta_1.FAM + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \beta_5.TA + \beta_6.TOBQ + \beta^7.GRG + \beta_8.SCI + \beta_9.SC2 + \beta_{10}.SC3 + \epsilon \quad \text{Model 1}$$

$$QUALCSR = \alpha + \beta_1.FAM + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \beta_5.TA + \beta_6.TOBQ + \beta^7.GRG + \beta_8.SCI + \beta_9.SC2 + \beta_{10}.SC3 + \epsilon \quad \text{Model 2}$$

Where: EXTCSR: the extent of CSR,

QUALCSR: quality of CSR,

FAM : proportion of family members on the board of directors,

GLC: 1 if the government is a substantial shareholder; 0 otherwise^a,

OUTBLK: cumulative percentages of shares owned by outside shareholders with ownership 5 percent or more,

BIND: ratio of independent directors on the board over the total board size,

TA: log natural of total assets,

TOBQ: Tobin's Q, a sum of MV of shares and BV of debts divided by BV of total assets,

GRG: debt to equity ratio,

SCI: a binary variable, "1" for Consumer firm or "0" otherwise,

SC2: a binary variable, "1" for Trading/services firm or "0" otherwise,

SC3: a binary variable, "1" for Industrial firm or "0" otherwise,

ϵ : error term.

Notes: ^a The definition provided in Section 69D of the Companies Act 1965 as an interest in not less than five percent of the nominal amount of the voting shares in a company.

Four control variables are included in the multivariate analyses. First, firm's size, as measured by the firm's total assets, is expected to be positively associated with CSR. Large firms tend to engage in more activities and thus have greater impact on society than small firms (Trotman and Bradley, 1981; Teoh and Thong, 1984; Andrew et al., 1989). Further, given the size, large firms are subjected to greater scrutiny by the public and thus are more likely disclose social activities to legitimize their business (Cowen, Ferreri and Parker, 1987). In fact, Haniffa and Cooke (2005) show that firm's size and CSR are positively associated. Second, firm's performance, as measured by Tobin's Q, is predicted to be positively associated with CSR. However, empirical evidence on the relation is not conclusive (Mangos and Lewis, 1991; Patten, 1991; Roberts, 1992). Haniffa and Cooke (2005) argue that profitable firms are more readily to disclose information on social activities as a testimony of their contribution to the society's well being as part of their legitimacy initiatives. Their evidence supports the contention. Third, gearing, as measured by the debt-to-equity ratio, indicates a firm's closeness to breaching its debt covenants. Gearing has been shown to have significant impact on the level of disclosure (e.g. Malone, Fries and Jones,

1993; Wallace, Naser and Mora, 1994). Further, highly geared firms disclose more information to meet the needs of their lenders (Cooke, 1996). However, Haniffa and Cooke (2005) show that the effect of gearing and CSR is not significant. Finally, industry type is also included as a control variable. Certain types of business would have greater social impact from its economic activities other business types. For instance, companies operating in consumer-oriented sectors are likely to have higher social disclosure in order to strengthen their corporate image among the consumers (Cowen, Ferreri and Parker, 1987).

Top 100 non-financial companies listed on the Bursa Malaysia for 2007 financial year were selected. The 2007 financial year has been chosen because of the publication of the Silver Book by the Prime Minister of Malaysia in 2005, which is applicable to the GLCs. Even though the Silver Book is targeted at GLCs, it is expected that other listed firms would also adopt the principles in the Silver Book as a matter of good practice. The annual report of top 100 Malaysian listed companies as at 31 October 2008 as measured by market capitalization indicated by the Osiris database, is the primary source of data for this

research, after excluding banks and financial institutions. Top 100 firms were chosen because they represent the largest listed firms and thus they are more likely to report corporate social disclosure activities than the smaller firms.

Findings and Discussion

Out of 100 companies, five firms did not report any corporate social activities. For the remaining ninety-five firms, the CSR-related data was manually collected, both on the extent and quality of disclosure. One company, namely Bursa Malaysia, has been classified by Osiris in the "Industrial category" while Bursa Malaysia classified it under "Finance category". We decided to include Bursa Malaysia in our sample because its business is not like a typical finance or banking firm and further it is not under the purview of the Central Bank of Malaysia like banks and finance firms. Rather, Bursa Malaysia is regulated under the Securities Commission, like any other non-financial listed firms. Table 1 presents the descriptive statistics of the sample firms.

Table 1. Descriptive statistics (n=100)

Variable	Min	Max	Mean	Standard deviation	Skewness
EXTCSR	0	1117	182.1	213.16	2.07
QUALCSR	0	0.79	0.28	0.21	0.63
FAM (%)	0	63	11	18	1.43
OUTBLK (%)	0	99.16	52.95	19.55	-0.67
BIND (%)	0	67	38.95	10.27	-0.07
TA (in RM '000)	216,922	67,724,600	5,750,935	9,988,794	3.79
TOBQ (ratio)	0.04	2.36	0.47	0.28	2.90
GRG (ratio)	0.04	5.58	1.22	1.12	1.69

Results in Table 1 suggest that three variables, namely extent of CSR disclosure, total assets) and Tobin's Q are extremely skewed and thus are not normally distributed. Thus, these three variables and the quality of CSR disclosure variable are transformed when performing multivariate analyses. A total of 15 GLCs were found in the sample. Out of 100 companies, thirty two companies were classified in Trading/Service sector, 16 companies fell in the Industrial sector and fourteen firms were grouped in

the Consumer category. As for the extent of CSR disclosure, the average score is 182.34 grids which is equivalent to 1.82 pages. This average pages of CSR is slightly higher than was reported in 2000 (1.4 pages) by Thompson and Zakaria (2004). The average score for disclosure index is 0.28 (or 6.7 items) indicating an average of 6 to 7 CSR items are normally reported by companies. Table 2 presents the disclosure of CSR.

Table 2. Descriptive statistics for corporate social measures

Panel A: CSR disclosure index and page proportion (n=100)

Industry	<10 0 (<100)	10-20 (101- 200)	20-30 (201- 300)	30-40 (301- 400)	40-50 (401- 500)	50-60 (501- 600)	60-70 (601- 700)	>70 (>700)	Total
Hotels						1 (1)			1
Finance	1 (1)								1
IPC		2 (2)				1 (1)	1 (1)	1 (1)	5
Construction	1 (1)	2 (4)	1 (1)				1 (1)	1 (1)	8
Properties		3 (5)	2 (2)	2 (3)	3 (1)		1		11
Plantation	1 (1)	1 (5)	3 (2)	2 (2)	2 (2)	1 (2)		1	12
Consumer Products		3 (5)	5 (3)	2 (2)	2 (2)	3 (3)	1	1 (1)	14
Industrial Products		4 (8)	2 (6)	7 (2)	1		1 (1)	1 (1)	16
Trading and Services	3 (3)	5 (13)	5 (7)	6 (4)	5 (1)	5 (1)	5 (2)	1 (1)	32
	5	16	19	23	9	8	11	5	100
TOTAL	(5)	(43)	(21)	(15)	(1)	(7)	(3)	(1)	(4)

* Figures in brackets are the page proportion.

Panel B: Disclosure based on four CSR dimensions (n=95)

Disclosure items	No. of disclosing company (percent)	Rank
A. Workplace		
1 Employee profiles	13	19
2 Employees' appreciation	35	7
3 Employee training	56	3
4 Employee morale (i.e. management relationship)	16	15
5 Employment of minorities/woman/disabled	4	23
6 Employees' welfare/assistance/benefits	23	13
7 Employee Health and Safety	47	5
B. Marketplace		
8 Product development	11	22
9 Product quality	12	21
10 Product safety	14	18
11 Customer service improvement/awards/ratings	21	14
12 Product link social contribution activities	15	16
13 Ethical principle/stakeholder engagement	13	20
C. Environment		
14 Commitment to minimize/avoid environmental pollution	52	4
15 Commitment to Aesthetics	1	24
16 Environmental impact studies/monitoring program	15	17
17 Conservation of natural environment & biodiversity	27	12
18 Environmental management programme/system	28	10
19 Energy related commitment	32	8
D. Community		
20 Donations cash/products/employee services	82	1
21 Participation in government or non-governmental organization's social campaign	36	6
22 Commitment/sponsoring public health project	31	9
23 Sponsoring educational related project	72	2
24 Sponsoring sports project	28	11

Panel A of Table 2 shows the distribution of CSR indices in bands of ten per cent and the proportion of pages devoted to corporate social responsibility. As for the disclosure index, the highest score is seventy-nine percent representing nineteen out of twenty-four CSR items while the lowest score

is four percent representing only one item. The variation in this study is consistent with that of Mohd Ghazali (2007) suggesting considerable variability in the amount of CSR information disclosed in the corporate annual reports of larger companies on the Bursa Malaysia. The number of larger companies on

Bursa Malaysia making CSR in their annual reports has increased to ninety-five percent in 2007 as compared to eighty-one percent in 2000 (Thompson and Zakaria, 2004). In addition, forty-three percent of companies reported between one to two pages of CSR in their annual reports, only four percent provide reports between seven to twelve pages.

Panel B of Table 2 presents detailed disclosure for each of the dimensions of CSR, namely workplace, marketplace, environment and community. The community dimension has the highest frequency and one of its items is ranked top (86.3 percent). Other frequently disclosed items are sponsoring educational related projects (75.8 percent), employee training (58.9 percent) and commitment to

minimize and/or avoid environmental pollution (54.7 percent). The rankings of CSR disclosure in this study are thus slightly different from the previous study by Mohd Ghazali, (2007). Interestingly, the commitment to minimize and/or to avoid environment pollution has gained prominence among the CSR items in Malaysia. It is ranked number four after donations, sponsoring educational projects and employee training items as compared to number eight in year 2001 (Mohd Ghazali, 2007). In comparison, previous research also reported the lower level of environmental disclosure in Malaysia (Sulaiman and Nik Ahmad, 2002; Mohamed Zain and Janggu, 2006). Table 3 shows the results from correlation analysis.

Table 3. Correlation matrix (n=100)

Var.	EXTCSR	QUALCSR	FAM	GLC	OUTBLK	BDIND	TA	TOBQ	GRG
EXTCSR	1.000								
QUALCSR	0.606*	1.000							
FAM	-0.299*	-0.300*	1.000						
GLC	0.185***	0.42	-0.249**	1.000					
OUTBLK	-0.135	-0.14	0.046	0.219**	1.000				
BDIND	-0.017	-0.13	-0.209**	0.013	0.084	1.000			
TA	0.291*	0.204**	0.004	0.279*	-0.005	0.009	1.000		
TOBQ	0.234**	0.045	-0.050	0.185	0.064	0.057	0.172	1.000	
GRG	0.241**	-0.052	0.005	0.217	0.101	0.033**	0.282*	0.649*	1.000

*/**/*** significant at 0.01/0.05/0.10 levels

The correlation coefficients do suggest multicollinearity between independent variables as the highest correlation is 0.649 (i.e. between gearing and Tobin's Q). However, in a multivariate analysis, severe multicollinearity exists only when a correlation coefficient is greater than 0.80 (Gujarati, 1995). Results in Table 4 indicate that family ownership, Tobin's Q, total assets gearing are correlated significantly with corporate social disclosure. Results from multivariate analyses are presented in Table 4.

$$\text{Model 1: } EXTCSR = \alpha + \beta_1.FOWN + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \beta_5.TA + \beta_6.TOBOQ + \beta_7.GRG + \beta_8.SC1 + \beta_9.SC2 + \beta_{10}.SC3 + \varepsilon.$$

$$\text{Model 2: } QUALCSR = \alpha + \beta_1.FOWN + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \beta_5.TA + \beta_6.TOBOQ + \beta_7.GRG + \beta_8.SC1 + \beta_9.SC2 + \beta_{10}.SC3 + \varepsilon.$$

$$\text{Model 3: } EXTCSR = \alpha + \beta_1.FOWN + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \varepsilon.$$

$$\text{Model 4: } QUALCSR = \alpha + \beta_1.FOWN + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \varepsilon.$$

Results in Table 4 show that only family ownership which has a significant influence on CSR and the influence is in the predicted direction. Thus, as hypothesized, the higher the proportion of family directors, a proxy for family ownership, the lower the level of CSR disclosure. This finding remains consistent even when the dependent variable is defined as the quality of CSR disclosure. Hence, the extent of family ownership is associated with lower level and lower quality of CSR disclosure. This evidence supports the finding on the negative association between family shareholding and voluntary disclosure in Hong Kong (Ho and Wong, 2001). Therefore, family owned firms tend to disclose less voluntary information, both voluntary non-financial and CSR information. Further, this evidence supports the contention and evidence in Singapore (Fan and Wong, 2002) whereby controlling shareholders tend to hold up information from being given to minority shareholders.

Table 4. Regressio Results (n=100)

Variable	Model 1 [#]		Model 2 [#]		Model 3 [#]		Model 4 [#]	
	coeff.	t-value	coeff.	t-value	coeff.	t-value	coeff.	t-value
Intercept	-3.56	-3.29*	-2.44	-4.15*	-0.11	-0.28	-1.15	-5.84*
FAM	-1.86	-3.88*	-0.84	-3.25*	-1.41	-2.86*	-0.72	-2.85*
GLC	0.13	0.58	0.05	0.41	0.25	1.03	0.06	0.46
OUTBLK	0.00	0.10	-0.00	-0.30	-0.00	-0.61	-0.00	-0.87
BIND	0.02	0.02	-0.25	-0.61	-0.43	-0.52	-0.38	-0.92
TA	0.25	3.71*	0.09	2.64**	-	-	-	-
TOBQ	0.39	2.49**	0.12	1.41	-	-	-	-
GRG	-0.32	-2.31**	-0.16	-2.11**	-	-	-	-
SECT1	0.29	1.24	0.11	0.84	-	-	-	-
SECT2	-0.43	-2.22**	-0.14	-1.35	-	-	-	-
SECT3	-0.01	-0.06	-0.06	-0.53	-	-	-	-
Adj. R ²	0.25		0.14		0.08		0.065	
F value	4.29*		2.52**		3.02**		2.72**	
Sample size	100		100		100		100	

* / ** / *** significant at 0.01/0.05/0.10 levels

- Three variables, namely EXTCSR, QUALCSR and TOBQ are normalized using Van der Waerden's formula available in SPSS.

The other three test variables are found to have insignificant association with the extent of CSR and the quality of CSR disclosures. The fact that board independence plays insignificant role in the decision of CSR disclosure is not surprising. In an earlier study by Haniffa and Cook (2005), they document a negative and significant association between the extent of non-executive directors on a board and the level of CSR disclosure. They argued, based on interview with the respondents, non-executive directors lack knowledge and experience. Abdullah (2004) also finds that board independence is not related to firm's performance. Similarly Mohd-Saleh *et al.* (2005), Abdullah and Mohd-Nasir (2004) and Abdul-Rahman and Ali (2006) who examine the Malaysian environment also show that board independence is not associated with earnings management. Thus, the extent of independent directors on a board appears to be not helping in promoting CSR disclosure and in fact, their presence might be detrimental to CSR efforts. Perhaps, independent directors are only effective if they serve on the boards of healthy firms but detrimental in distressed firms (Mohd-Nasir and Abdullah, 2004). Thus, it does appear that independent directors in Malaysia, under normal circumstances, are not effective in discharging their duties, let alone to go against the other members of the board. Independent directors are not seen to be effective in protecting or promoting shareholders and stakeholders interests. One explanation is that independent directors are chosen from those who are in the same circle as the firm's CEOs or the phenomenon called "cut from the same cloth" (Grady, 1999).

It does appear that independent directors are there on the board to support the board's CEO,

executive directors and the firm's majority shareholders rather than to pursue the interests of the firm's minority shareholders or the firm's stakeholders. Another explanation is owing to the nature of the independent directors who may not well conversant about the firm's operations. Thus, given this nature, they are not able to influence the decisions taken by the majority of the board members who are either executive or nominees of the firm's majority shareholders.

Three control variables, namely firm's size, firm's performance and leverage are associated significantly with the level and quality of CSR disclosures as found in earlier studies (e.g. Andrew *et al.*, 1989; Malone, Fries and Jones, 1993; Haniffa and Cook, 2005). In fact, with regard to firm's size, Abdullah and Mohd-Nasir (2004) also document that it is positively associated with voluntary disclosure. Large and profitable firms are therefore more likely to engage in social activities compared to small and less profitable firms because they have the resources to do so. Further, social activities, such as donations, are tax deductible. Thus, while on the one hand, social activities are meant to improve a firm's public image; on the other hand, tax liability will also be reduced. With regard to firm's classification, only firms which are categorized under the Trading/Services sector disclose significantly less amount of CSR. This contradicts the findings by Haniffa and Cooke (2005) who find that firms in Trading/Services sector tend to disclose greater CSR information. The contradictory finding could be owing to the fact that the present data are for 2007 financial year 2007 while the data for Haniffa and Cooke (2005) are for 1996 financial year. In today's environment, reporting CSR activities is not limited to the annual report; there are many

other ways to disclose CSR activities. Hence, in today's information age, Trading/Services firms may use other stand-alone media to disclose their CSR activities which is more readily available compared to in 1996. However, taken together, it does suggest that core economic activities do not have any significant effect on the decision on the amount and quality of

CSR disclosure, which is consistent with the findings by Haniffa and Cooke (2005).

Further analysis is carried out with the exclusion of Bursa Malaysia (which is categorized by Bursa Malaysia as a "Finance" company) and the five firms which do not disclose any CSR information, the results of which are shown in Table 5.

Table 5. Regression Results (n=94)

Variable	Model 1 [#]		Model 2 [#]	
	coeff.	t-value	coeff.	t-value
Intercept	-2.67	-2.66*	-2.00	-3.59*
FAM	-1.82	-4.07*	-0.93	-3.72*
GLC	0.16	0.79	0.05	0.42
OUTBLK	0.00	0.86	-0.00	-0.30
BIND	0.24	0.34	-0.05	-0.13
TA	0.21	3.26*	0.07	2.04**
TOBQ	0.36	2.46**	0.09	1.19
GRG	-0.31	-2.45**	-0.15	-2.09**
SECT1	0.14	0.67	0.04	0.73
SECT2	-0.52	-2.91*	-0.18	-1.81
SECT3	-0.17	-0.81	-0.09	-0.84
Adj. R ²		0.27		0.17
F value		4.55*		2.94**
Sample size		94		94

* / ** / *** significant at 0.01/0.05/0.10 levels, respectively

[#] - Three variables, namely EXTCSR, QUALCSR and TOBQ are normalized using Van der Waerden's formula available in SPSS.

$$\text{Model 1: } EXTCSR = \alpha + \beta_1.FOWN + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \beta_5.TA + \beta_6.TO BQ + \beta_7.GRG + \beta_8.SC1 + \beta_9.SC2 + \beta_{10}.SC3 + \varepsilon.$$

$$\text{Model 2: } QUALCSR = \alpha + \beta_1.FOWN + \beta_2.GLC + \beta_3.OUTBLK + \beta_4.BIND + \beta_5.TA + \beta_6.TO BQ + \beta_7.GRG + \beta_8.SC1 + \beta_9.SC2 + \beta_{10}.SC3 + \varepsilon.$$

Results in Table 5 are qualitatively similar to the findings shown in Table 4 where family shareholdings, firm's size, firm's performance and firm's leverage are found to significantly affect the level and quality of CSR disclosure as predicted.

Conclusion

This study examined the effects of ownership and board independence on the CSR. CSR was measured on two dimensions: the extent and the quality. CSR among larger firms in Malaysia has wide variability ranging from score of four percent to seventy nine percent. Among the CSR items, environmental commitment is notably more frequently disclosed in the annual reports of the sample firms. Malaysian listed companies seem to be more environmentally conscious, perhaps in line with the global environmental awareness. Our multivariate analyses

show that only family shareholdings, proxied by the percentage of family directors on a board, are associated negatively with CSR, both the extent and the quality. There is, therefore, a tendency for family owned firms to engage in less CSR activities. Family owned firms do not appear to use CSR as a tool to boost their public image or legitimization. This present findings seem to be consistent with other research which found that family firms are more interested in protecting their own interests (Morck and Yeung, 2004). This scenario is more prevalent in less developed countries because family firms could easily undermine the public good (Dyer and Whetten, 2006).

GLC firms and outside blockholdings do not have any significant influence on CSR disclosure. Similarly, board independence also plays insignificant role in CSR disclosure. Hence, GLCs, outside blockholders and board independence pay less attention on CSR. However, GLCs do appear to engage in CSR, as evidenced by its positive and significant correlation with the extent of CSR. Only that with the presence of other variables in the multivariate analysis, GLC's influence becomes insignificant. It is because firm's size plays a very significant role in CSR, both the amount and the quality. The fact that firm's size, performance and leverage play significant roles in CSR disclosure

confirms that CSR is used as a tool to boost public image, getting awards and a bandwagon effect, as argued by Haniffa and Cooke (2005).

This research opens up many potential future investigations. For instance, research is needed to ascertain the differences in CSR practices in family versus non-family firms in Malaysia. Family firms may have their own traditions or "informal corporate governance" to instill good practice in their company. Further, the current study has only examined the sample of larger and actively traded stocks on the Bursa Malaysia. Therefore, the results may not be generalizable to smaller and less actively traded stocks.

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