THE INFLUENCE OF THE BOARD OF DIRECTORS' CHARACTERISTICS ON CORPORATE SUSTAINABILITY REPORTING BY MALAYSIAN PUBLIC LISTED COMPANIES

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Abstract: *The objective of this study is to examine the influence of board characteristics on sustainability reporting of public listed companies in Malaysia. Sample consists of 260 companies listed on the Main Board of Bursa Malaysia. This study analyses board characteristics and corporate sustainability of public listed companies in Malaysia using linear Regression analysis. Results show a positive significant association between board size, women on board, board independence, family on board and CSR disclosure. Company size also has a significant positive association with CSR. However, the results indicate that there is no significant influence between Duality CEO, profitability and leverage and CSR disclosure among public listed firms in Malaysia. Findings should provide input to the regulatory bodies in Malaysia in evaluating how board characteristics can further contribute toward CSR initiatives, especially when there is a family member on board of directors as these board members have inherent authorities and decision-making power.*

Keywords: *Corporate governance, Board of directors' characteristics, family ownership, Corporate sustainability reporting*

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INTRODUCTION

Corporate sustainability reporting (CSR) is attracting the attention of governments, business communities, academia, stakeholders and society as a whole. Corporate sustainability reporting (CSR) policies need to be considered as a crucial part of the corporate strategy.The growing complexity of the corporate operations policy, the social and environmental concern becomes a critical issue for the stakeholders and large society. Large companies usually disclose their corporate sustainability reporting as a corporate strategy (Lopez & Romero, 2012), so that the board of directors plays an important role to decide CSR's strategy of the companies (Fernandez-Feijoo et al. 2012).

In one- tier board system, board of directors are the highest governing bodies that sets company's policies and makes important strategic decisions. The board represent the stakeholder to influence and monitor decisions made by top management which have to be in line with shareholders' expectations (Dunn & Sainty 2009). Corporate governance (CG) in particular board of directors can play a significant role in enhancing corporate sustainability reporting (CSR) performance (Zahra 1989). CSR reporting, is the external aspect of corporate governance which may come from the decision made by the board of directors that demonstrates companies' responsibility to the stakeholders. The stakeholders are unable to engage in management when there is a separation of ownership between the owners-shareholders (principals) and the managers (agents). Thus, it is the task of the board to represent the shareholder's interest, monitor the effectiveness of management and to ensure that managers of corporations use the assets to maximize shareholders'value. Good corporate governance is required to safeguard the interest of various stakeholders (N.Al-Malkawi et al. 2014) as it can improve public faith and confidence in the business environment (Güler & Crowther 2008). Good governance usually requires improving board characteristics to ensure corporate effectiveness for a better performance over time, which then contributes to corporate reputation (Radbourne 2003). The companies need to contribute to the well-being of the communities by considering the financial and non-financial needs on setting the company's objective. Thus, this study aims to examine the influence of good corporate governance (CG) specifically board characteristics on sustainability reporting. This study extend prior studies by investigating the influence of board's characteristics on the level of CSR in public listed firms in Malaysia. To compliment these prior researches, the current study provides relevant input in these two contributions: (1) using a more recent data, which is the CSR in the 2016 annual reports; (2) examine the influence of board's characteristics on the level of CSR by using more comprehensive CSR dimensions (economic, environment and social).

This paper proceeds with literature on corporate sustainability reporting in the next section. Section two will discuss literature review and Section three will discuss hypotheses development. The methodology will be presented in section four. Section five will present results and discuss research findings and finally section six will conclude overall paper.

LITERATURE REVIEW

Many of the corporate sustainability (CSR) studies have been carried out in other countries such as (Clarkson et al 2008, Isaksson 2009; Sutantoputra 2009; Zeng et a.l 2010; Suttipun & Stanton 2012, Hahn & Kuhnan 2013). These studies provide insight on the types of sustainability information reported and understanding the development of CSR in those countries. Similar study need to be carried out in Malaysia, since the social, economic, and political environment in Malaysia are different from other countries. In recent years the interests in CSR have been partly contributed by the increased awareness on corporate accountability. Corporations have become more sensitive to social issues and stakeholder concerns.and are striving to become better corporate citizens. Whether the motivation is concern for society and the environment, government regulation, stakeholder pressures, or economic profit, the result is that managers must make significant changes to more effectively manage their social, economic, and environmental impacts.

Sustainability reporting is also used synonymously with other terms such as, citizenship reporting, social reporting, and triple bottom line (TBL) reporting that encompass the economic, environmental, and social aspects of an organization's performance (Corina Joseph 2014). It is commonly recognised that there is no single universally accepted definition of sustainability. The most widely used definition around the world is that developed by the Brundtland Report of the World Commission on Environment and Development3

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland report 1987).

The term of CSR can be explained as follows:

1. Economy

    The impact on the economic conditions of stakeholders (e.g. procurement practices, community investment) and the interaction or relationship with the economic systems at local, national and global levels. It does not merely focus on the financial condition of the organisation.

2. Environment

    The interaction with living and non-living natural systems, including land, air, water and ecosystems.

3. Social

    The interaction or relationship with social systems within which you operate. These may include your relationships with communities, employees, consumers, etc.

(GRI G4 Guidelines)

The interest of CSR have been partly contributed by the increased awareness on corporate transparency and disclosure particularly after the Asian economic tumult in 1997. Good corporate governance such as disclosure and transparency is needed by the stakeholders which are affected by companies' operations (Esa & Zahari 2014). The Malaysian Institute of Corporate Governance was established in 1998 and subsequently the Malaysian Code on Corporate Governance was released in 2000. One of the best practices in corporate governance included in the Code is that the board should receive information that is not only financial-oriented but other performance indicators such as customer satisfaction, product and service quality and environmental performance (Esa & Ghazali 2012). Finance Committee on Corporate Governance in Malaysia has defined 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.

A few studies have investigated several corporate governance and sustainability reporting issues in Malaysia. Rahman et al. (2011) assessed the impact of size, age, profitability and leverage on the level of CSR disclosure. The sample consists of 44 government-linked companies listed on Bursa Malaysia for 2005 and 2006. Their studies used a multiple regression model and found that only corporate size was significant to the extent of CSR disclosure for both years.

Esa & Ghazali (2012) investigate whether there has been a change in the level of corporate social responsibility (CSR) disclosure and to determine whether corporate governance attributes influence CSR disclosure in corporate annual reports of Malaysian government-linked companies (GLCs). They used content analysis to analyse the annual reports of 27 GLCs for two years (2005 and 2007). Multiple regression analysis was performed to identify factors influencing CSR disclosure in annual reports. Their findings showed that the extent of CSR disclosure was increase and the multiple regression analysis revealed that board size was positively associated and statistically significant with the extent of CSR disclosure.

3. Theoretical framework and hypothesis development

According to resource dependence theory, the companies will choose the resources needed to keep survive because the selection of resources has important implications in the role and structure of the board because boards can be used as a mechanism to establish the corporate relationship with external environment (Duztas 2008), strengthening company relationship with its stakeholders in order to maintain corporate sustainability. The larger the number of independence non-executive directors on the board is better so that they can fulfill their role in monitoring and controlling the opportunistic behavior of the executive directors (Fama & Jensen 1983). . Therefore, the corporate governance structure of board of directors (board independence, board size, CEO duality, women director and family on board) is expected to play an important function to provide more resources information and legitimacy for companies

Hypotheses Development

This section discusses the development of hypotheses in this study. This study postulates that board of director’s characteristics influence the level of sustainability reporting (SR) among firms in Malaysia. The overall theoretical framework of this study is based on the resource dependency theory (Freeman 1984). Eight hypotheses are developed in this study.to determine the influence of board of director’s characteristics on corporate sustainability reporting in Malaysia. Therefore, the corporate governance structure of board of directors (board size, board independence, CEO duality, women director and family on board) is expected to play an important function in influencing the disclosures of CSR. The control variables are profitability, company size and leverage.

1. Board size

Larger board size may result in disagreements while proponents of board size suggest that more board members would lead to wider exchange of ideas and experiences. (Jensen 1999), offer more expertise and increased monitoring capacity, different backgrounds, knowledge and may bring different ideas into the table for discussion (Bekhir 2009). Thus, it can motivate companies to undertake CSR activities, especially in times of crisis and regulatory changes. Several studies have examined the relationship between board size and CSR disclosures (Said et al., 2009; Esa and Mohd Ghazali, 2012; Rao et al., 2012). While Said et al. (2009) did not observe any correlation between CSR disclosures and board size, Rao et al. (2012) and Esa and Mohd Ghazali (2012) both documented a significant positive relationship between the extent of CSR disclosures and board size in Australia and Malaysia. In the Malaysian context, the Code (revised 2007) does not specify the number of board members rather let the board decides taking into consideration the impact of size on board effectiveness. Therefore, the hypothesis is as follows:

Hypothesis 1: There is a significant positive relationship between board size influence on CSR disclosure

2. Board Independence

The presence of independent directors on board is considered to be a major corporate governance mechanism. It is generally believed that independent outside directors will strengthen the board by monitoring the activities of the management, and ensure that interests of the investors are protected (Petra 2005). In a corporate governance context, independent directors are expected to perform a monitoring role to ensure that shareholders' interests are taken into consideration when arriving at board decisions. However, the relationship between independent directors and the extent of CSR disclosure is unclear. While prior studies have documented significant positive association between independent directors and voluntary disclosure in general (Cheng & Courtenay 2006; Huafang & Jianguo 2007; and Donnelly &d Mulcany, 2008), others (Eng and Mak, 2003; and Barako et al., 2006) found the opposite. The argument for a negative association between independent directors and the extent of disclosure is that independent directors are a cost-efficient substitute for information disclosure. In Malaysia, the Code requires that independent directors to be at least one-third of the board membership. This requirement can be interpreted as expecting more independent boards to be more effective in its monitoring role. Therefore, the hypothesis is as follows:

H2. There is a significant positive association between independent directors and the extent of CSR disclosure in Malaysia.

3. CEO Duality

The role-duality refers to the same person undertakes both the roles of chief executive officer and chairman. Segregation of the two roles gives the necessary checks and balances of power and authority on management behavior. (Bukhair & Abdul Rahman

2015). Empirical evidence on the relationship between role duality and corporate performance is mixed. Chau and Gray (2010) reported a positive association between dual leadership and voluntary disclosure, whereas Forker (1992) and Gul and Leung (2004) had reported a negative association between CEO duality and voluntary disclosures previously. Haniffa and Cooke (2002) and Barako et al. (2006) found no evidence of an association between dual leadership and voluntary disclosures. Studies examining the link between dual leadership and CSR disclosures have either reported a negative association or no association (Said et al., 2009; Ntim and Soobaroyen, 2013). Based on the above arguments and empirical evidence, the following hypothesis is proposed:

Hypothesis 3: The separation roles of the CEO and chairman has no significant influence on CSR

4. Women Directors

The board diversity is associated with high intensity of social performance and CSR disclosure (Ibrahim and Angelidis, 1994; Siciliano, 1996). Board diversity enhances board independence as individuals from different ethnicity, gender and cultural backgrounds ask questions which might not have been asked by a less diverse board of directors (Carter *et al.*, 2003). Women directors are less economically oriented and more philanthropically driven than male directors (Ibrahim and Angelidis, 1994). Presence of women directors in board increases corporate reputation and CSR ratings (Bear *et al.*, 2010). The organizations with higher proportion of women on boards tend to engage in more charities as compared to the firms having smaller proportion of women on boards (Williams, 2003). However, a study conducted in Bangladeshi banks could not prove a relationship of women directors with CSR disclosure (Khan, 2010). Appointment of female directors and appointment of directors from different ethnic groups has been argued to be an act of legitimation (Farrell and Hersch, 2005).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 and Post et al. (2011) found having three or more women on board did not relate to social and environmental disclosures. Based on the above arguments and empirical findings, it is hypothesized that:

H4. There is a positive association between boards with female directors and sustainability reporting.

5. Family On Board

Majority of listed companies in Malaysia started off as family business. The board of the firm is usually dominated by the family members and the CEO also from the family itself. (Abdullah et al.2011). Therefore, the family shareholders would expropriate the minority shareholders interest and enrich themselves via related party transactions (Ho & Wong 2001). This condition potentially leads to the entrenchment of family control (Faccio et al. 2001). Thus, it is predicted that family-controlled firms tend to have lower incentives to disclose information in their annual reports because both shareholders and management tend to be dominated by the members of the controlling family. (Darmadi & Sodikin 2013). Hence, the controlling family may have greater access to information, leading to a lower extent of information disclosed to the outsiders (Ho & Wong 2001). Based on the above description, the first hypothesis is formulated as follows:

H5. Family control is negatively associated with the extent of voluntary disclosures in the annual report.

Director ownership

Director ownership refers to the percentage of ordinary as well as deemed shares held by the executive directors (Eng andMak, 2003). A manager who owns a large portion of the company shares has more efforts to increase reputation that can help alleviate agency conflicts between owners and managers (Jensen & Meckling 1976) and reducing the pressures necessary for the insiders to provide additional corporate disclosures (Haji 2013). However, managers of closely held companies may not invest heavily in socially responsible activities because the costs of investing in these activities may far outweigh its potential benefits (Mohd Ghazali 2007).Prior studies found support for such claims as they documented negative relationship between director ownership and the extent of corporate disclosures (Eng and Mak, 2003; Mohd et al., 2006, Haji 2013) and particularly CSR disclosures (Mohd Ghazali, 2007). Building on prior studies, the current study expects a negative relationship between the extent and quality of CSR disclosures and director ownership. The following is the hypothesis developed in the alternative form:

H6. The level of director ownership in firms is negatively associated with the level of firms' CSR.

6. Company size

Larger companies can be expected to disclose more CSR information to portray their corporate citizenship and legitimizing their existence (Mohd Ghazali 2007). Therefore, larger companies usually undertake more activities, make a greater impact on society, have more shareholders who might be concerned with social programs undertaken by the company. Evidence from previous studies supports the existence of a positive relationship between company size and disclosure level (Wallace et al. 1994; Ahmed 1995; Zarzeski, 1996). Belkaoui and Karpik (1989) found that there was a positive relationship between size and the content of corporate social disclosure. A similar finding was also reported by Patten (1991), Hackston and Milne (1996), Abdul Hamid (2004) and Mohd Ghazali (2007) and Said et al.(2009). Based on the results of prior studies, a positive relationship is expected between company size and CSR disclosure. The hypothesis is as follows:

H7. There is a significant positive association between company size and the extent of CSR

7. Profitability

Socially responsible companies can be expected to be more profitable as these companies would have the necessary ingredients of a successful company (Belkaoui & Harpik 1989). However, investment in CSR activities may require additional costs and hence reduce the profits of a company (Balabanis et al., 1998). In the Malaysian context, empirical results on the association between profitability and the extent of CSR disclosure are mixed. Company size and profitability did not have significant relationship (Abdul Hamid 2004; Esa & Ghazali 2012).CSR has a significant positive relationship with profitability (Haniffa & Cooke 2005; Said et al.2009). The hypothesis is expressed as follows:

H8. There is a significant association between profitability and the extent of CSR disclosure in Malaysian GLCs

8. Leverage

Firms with high debt levels are expected to incur high monitoring costs. Therefore, managers of high debt companies may seek to reduce these costs by disclosing more information in annual reports (Ahmed and Courtis, 1999). In other words, highly leveraged companies are expected to disclose more information to assure creditors that shareholders and management are less likely to bypass their covenant claims. Leverage has been found to be significant and positively associated with the extent of disclosure by Naser et al. (2002) and Ferguson et al. (2002). In contrast, Ho and Wong (2001), Chau and Gray (2002) and Huafang and Jianguo (2007) did not find leverage to be significantly associated with voluntary disclosure. Haniffa and Cooke (2005) did not find leverage to be a significant factor influencing corporate social disclosure. As the empirical evidence is inconclusive, no expectation is formed regarding the direction of association between leverage and the extent of CSR disclosure. The hypothesis is as follows:

H8. There is a significant association between leverage and the extent of CSR disclosure in Malaysian

RESEARCH METHOD

The aim of this study is to examine the influence of board's characteristics on corporate sustainability reporting. The dependent variable is the CSR which is measured based on a disclosure index. Stratified random sampling was used to select sample of this study comprise of 260 companies listed on main board of Bursa Malaysia and data was collected from the company annual report for the year 2016. This approach is consistent with previous studies by Clarkson (2008) and Aras et al.(2010).

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Measurement of Variables

The dependent variable in this study, corporate sustainability reporting (CSR), is measured based on Global Reporting Initiatives (GRI4) performance indicator. The indicator is considered to be a valid and suitable measure of CSR because it contains comprehensive measure of social and environmental performance (Sutantoputra, 2009). This study adopts CSR disclosure rating by Sutantoputra (2009) and Clarkson (2008), which has 83 total score of disclosure items for social performance, 95 total score for environemntal performance and 19 total score for economic performance.. This rating system is developed based on GRI 2013 guidelines which categorized the score based on two categories: hard disclosures and soft disclosures. The CSR score in this study was obtained by content analysed annual reports of selected sample companies.

Regression Model

The aim of the regression model is to provide empirical evidence on the influence of board of directors' characteristics on corporate sustainability reporting. Therefore, the dependent variable is the corporate sustainability reporting or CSR. The independent variables of interest include board size (BSIZE), board independence (BIND), CEO duality (DUAL), women Director (WD) and family on board (FOB). We include three control variables commonly found significant in prior studies examining disclosure level issue, that is, firm size (SIZE), profitability(PRFT) and leverage (LEV) Below is the full regression model utilised in this study:

$$SR_{it} = \beta_0 + \beta_{1SIZAw}n_{it} + \beta_{2INDit} + \beta_{3CEODUALit} + \beta 4WD + \beta 5FOB_i + \beta 6BOD_{it+} \beta 7CSIZE_{it} + \beta 8PRT_{it} + + \beta 9LEV_{it} + \varepsilon_{it}$$

Where:

SR_{it}	=	Is Level of CSR for firm i at time t
$BSIZE_{it}$	=	Board size and is measured by number of directors on the board (Nazli et al 2010)for firm i shareholders at time t
$BIND_{it}$	=	Board independence is measured by Proportion of INDs to total directors
$CEODUAL_{it}$	=	Duality of CEO is measured by percentage of shares owned by shareholders at 5 % or more (Mustarudin et al 2010)
WDIR		Women director is measured by Proportion of women on the board of directors
FOB		Family on Board is measured by proportion of family members on board of directors

BOD Board ownership is measured by percentage of shares owned by highest management level such as Executive Chairman, CEO, Executive Director, Managing Director (Nazli et al 2010)

CSIZE = Firm size is measured by Total assets

PRT_{it} = Profitability is measured by Return on asset (ROA) Nazli et al.201

LEV_{it} = Leverage is measured by Debt Ratio

ε_{it} = is error term for this regression model

Multicollinearity Issue

To check for multicollinearity issue, Pearson correlation was undertaken among independent variables. Table 1 shows that the correlation found was between 0.021 to 0.417. Multicollinearity issue is considered under control because it is still below 0.80 (Cooper & Schindler, 1998; Griffiths, Hill & Judge, 1993).

Table 1. Pairwise Correlation among All Variables (N=100)

	CSR	**Bsize**	**Dual**	**Csize**	**Prft**	**Lev**	**Wob**	**Fob**	**Bod**	**Bind**
CSR	1									
Bsize	0.178**	1								
Dual	0.043	0.021	1							
Csize	0.236**	0.337**	0.158*	1						
Prft	0.202**	0.116	0.178**	0.131*	1					
Lev	0.021	0.040	0.019	0.039	0.008	1				
Wob	0.512**	0.022	0.034	0.074	0.292**	0.036	1			
Fob	0.222**	0.417**	0.035	0.303**	0.092	0.079	0.059	1		
Bod	0.263	0.352**	0.04	0.403	0.087	0.067	0.055	0.432	1	
Bind	0.106	0.280**	0.093	0.188**	0.061	0.086	0.104	0.220**		1

****, *Statistically significant at the 0.05 and 0.10 levels, respectively.**

Table 2 Result of Regression Analysis on Independent Variables

Variables	Pred Sig	Beta	t	Sig	Collinearity Statistics Tolerance	VIF
CSR						
BIND	+	0.154	2.220	0.028	0.875	1.143
BSIZE	+	0.125	1.663	0.098	0.742	1.340
CEODUAL	NO	0.052	0.774	0.440	0.928	1.078
CSIZE	+	0.135	1.868	0.064	0.813	1.230
PRFT	?	0.039	0.558	0.578	0.856	1.168
LEV	?	0.008	0.124	0.902	0.877	1.024
WOB	+	0.471	6.847	0.000	0.890	1.294
FOB	_	1.30	1.760	0.080	0.860	1.170
BOD	-	1.20	1.647	0.170		
R Square	0.351					
Adjusted R Square	0.317					
F-value	10.392(0.000***)					

*, **, *** Denote significance at the 10%, 5%, and 1% (two-tailed) levels, respectively

EMPIRICAL RESULT AND DISCUSSION OF FINDINGS

Table 2 presents the empirical findings of regressing the independent variables on the CSR. The coefficient of R2 is 35 percent, and the adjusted R2 is 32 percent, indicating a reasonable variance proportion. The table 2 also shows that the p-value of the model is significant at 0.0 per cent. The values of Tolerance are higher than 0.10, and the variance inflation factor (VIF) for all independent variables did not exceed 10, indicating that there is no multicollinearity problems between the variables (Kennedy, 1998). Table 3 also shows that board independence and women director have significant positive influence on CSR disclosure at the 0.01, 0.05. Board size, company size and family on board also have significant positive influence on CSR at 0.10 levels, respectively. This means that both variables are considered important factors by public listed companies in deciding whether to disclose CSR information. Thus, the findings support H1, H2,H4,H5,and H7.

This finding is consistent with previous studies (Haji 2013; Said et al., 2009). The same applies for board independence which shows a positive relationship with CSR disclosure. This result is also supported by previous studies (Esa & Ghazali 2012). Women director also shows a significant positive effect on CSR disclosure. This is also supported by previous literature (Devi et al.2016) Further, the result shows no significant relationship between CEO duality and CSR disclosure. It implies that the separation of function between the CEO and the chairman does not affect CSR disclosure, thus supporting hypothesis 3. This finding is consistent with the studies by Li et al. 2008; Said et al. 2009.The results show a positive relationship with CSR. The findings contradict with previous literature (Abdullah et al.2011). Director's ownership, Profitability and leverage also are not significant, which means that decision to disclose CSR information in the annual reports is not influenced by these three factors. The non-significance of profitability is consistent with Esa & Ghazali 2012; Abdul Hamid (2004).

6.0 CONCLUSION

The objective of this study was to examine the effect of board of director's characteristics (board size, board independence, CEO duality, women director, family on board and director's ownership) on CSR disclosure by public listed companies in Malaysia. The study found that Board size, board independence, company size, women directors, family on board and director's ownership have an impact on CSR disclosure. As predicted, CEO duality has no effect on CSR disclosure. It is suggested that future research should update data from this study and investigate more board characteristics that might give a different result. The findings also show that this study provide input to the regulatory bodies in Malaysia in evaluating how board characteristics can further contribute toward CSR initiatives, especially when there is a family member on board of directors as these board members have inherent authorities and decision-making power.

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