Corporate Governance

Board composition and corporate social responsibility in an emerging market

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Abstract

Purpose – *The purpose of this paper is to examine the effect of board composition on corporate social responsibility (CSR) for selected Malaysian companies in Bursa Malaysia.*

Design/methodology/approach – *The paper analyses board composition and CSR of Malaysian (family and non-family) firms using linear regression analysis.*

Findings – *The empirical findings indicate that non-executive directors (NEDs) and independent non-executive directors (INEDs) designate a negative relationship, while women on board indicate a positive relationship. The only variable that positively affects the level of CSR initiatives is the presence of women directors. As for family and non-family business, the main findings are: a positive relationship between NEDs and CSR initiatives in non-family business and a negative relationship between INEDs and CSR for family-controlled business.*

Research limitations/implications – *This paper is limited only to selected companies on Bursa Malaysia over a period of two years. The paper suggests that board composition in an emerging market is relatively ineffective in improving CSR initiatives, with the exception of women on board. This is more prevalent in family business, as they do not seem to contribute toward humanizing or cultivating CSR in their companies.*

Practical implications – *This paper can be used as a reference by regulatory bodies to further investigate on the means as to how board composition can further contribute toward CSR initiatives, as these board members have inherent authorities and decision-making power. Composition and role of women directors in board needs to be further deliberated.*

Originality/value – *This paper contributes to the existing literature in terms of the roles of board composition on CSR initiatives. It further highlights the difference in the aforementioned relationship between family and non-family business.*

Keywords *Board composition, Corporate social responsibility, Emerging market, Family and non-family business*

Paper type *Research paper*

1. Background of the study

Corporate governance (CG)[1] and corporate social responsibility (CSR)[2] are concepts intended to help organizations achieve a balance between profitable operation and ethical practice. By achieving this, organizations not only meet the expectation of the investors and other stakeholders, but also demonstrate a commitment to social and environmental responsibility. Thus, CG and CSR cannot be standalone, but are a part of the business system that an organization follows and uses to deliver results. In the Malaysian context, CG and its association to CSR is more relevant, as 72 per cent of the listed companies in Bursa Malaysia are family controlled (Himmelberg *et al.*, 2004), whereby the head of the families control these companies, as they are the major shareholders of the company. Himmelberg *et al.* (2004) concur that the most crucial element with regard to governance and CSR is the fact that whether the presence of family controls in the board will, in turn, affect CSR initiatives and the disclosure of relevant information. CSR-centric companies will proactively promote the public interest or welfare by developing community progress and growth, and are likely to voluntarily eliminate practices that are harmful to the society,

Received 11 May 2015
Revised 16 October 2015
21 October 2015
Accepted 26 October 2015

regardless of legality. This is deemed to be a deliberate act when companies make decisions or create strategies that affect their business operations. As a result, public will view this as a core value or principle of the business and honor the triple bottom line, namely, people, planet and profit (Pimple, 2012).

Studies indicate that the number of Malaysian companies adopting the CSR reporting as still low (Said *et al.*, 2009; Mohamed Zain and Janggu, 2006; Manasseh, 2004; Nik Ahmad and Sulaiman, 2004; Shaw Warn, 2004; Ramasamy and Ting, 2004; Foo and Tan, 1988). The current trend of the uprising public awareness toward company's social responsibility (Thompson and Zakaria, 2004) has added another angle toward the responsibility of board members/composition on CSR initiatives. In view of that, the main motivation of this study is to first examine the association between CG characteristics in terms of board composition and CSR. Thereafter, the differences in the association between board composition and CSR between family and non-family business will be examined, as concentrated ownership structures are prevalent in East Asia, including Malaysia (World Bank, 2005; Claessens and Fan, 2002; Zhuang *et al.*, 2000). A large portion of share ownerships by few large shareholders (also known as blockholder) is prevalent in family business. Families (which are either single person or multiple family members) are reportedly (up to 67.2 per cent) the substantial shareholders in most public listed companies in Malaysia (Haslindar and Fazilah, 2009). At least 25 per cent of the shares in each listed company are held by the public (Bursa Malaysia, 2006), while family founder of the companies or other connected parties would be the major shareholders, and would control the decision-making process, as they could hold at least three quarter of shares (Pascoe and Rachagan, 2005). This indicates that families are often the controlling shareholders in Malaysia. A family-controlled company tends to have "top-down" approach in managing a business, where owners tend to make major decisions (Thillainathan, 1999). The head of the family is usually the founder, and he or she would have the final say during the decision-making process (Nam, 2001). Therefore, agency problem could happen in a concentrated ownership, where potential abuse of power by major shareholders may happen due to unfettered power in a company.

To achieve the objectives of examining the association between CG characteristics in terms of board composition and CSR and the differences in the association between family and non-family business, this study uses companies listed in Bursa Malaysia. A stratified sampling technique is used to determine the sample of 450 companies. Data are collected through analyzing the annual reports of the chosen companies for two years, that is, 2011 and 2012. A multivariate regression analysis is undertaken to test the hypotheses developed for this study. CSRLEV is used to determine the CSR disclosure, and has a total of 28 items. The independent variables are: role duality, non-executive directors (NEDs) and woman in the board variable, while the control variables are: return on equity (ROE), auditors' credibility and firm size.

The findings of this study highlight the roles of board composition on CSR initiatives and the differences in this relationship between family and non-family business. In general, role duality, NEDs and independent non-executive directors (INEDs) designate a negative relationship, while women on board indicate a positive relationship. As for family and non-family business, the main findings are: a positive relationship between NEDs and CSR initiatives in non-family business and a negative relationship between INEDs and CSR for family-controlled business. The only variable that positively affects the level of CSR initiatives is the presence of women directors. This may signal that board composition in an emerging market is relatively ineffective in improving CSR initiatives, with the exception of women on board. This is more prevalent in a family business, as they do not seem to contribute to humanize or cultivate CSR in their companies.

Nevertheless, it is envisioned that the outcome from this study can be used as a reference by regulatory bodies to further investigate on the means as to how board composition can further contribute toward CSR initiatives, as these board members have inherent authorities and decision-making power in their companies. Composition and role of women directors in board need to be further deliberated. The outcome of this study may also be useful to top management, that is, board of directors, as the finding may serve as a guide to encourage the board of directors to understand their significance on CSR initiatives. Furthermore, a good understanding on board composition and CSR can serve to educate the existing investors and potential investors.

The remainder of the paper is structured as follows. Section 2 discusses the hypotheses development. Section 3 presents the framework and discusses the measures for all variables tested. Section 4 presents the empirical results and discussion. Section 5 concludes.

2. Hypotheses development

The objectives of the study are to investigate whether board composition (a component of CG) affects the level of CSR, and the differences in the relationship between board composition and CSR in family- and non-family-controlled companies. This study uses *corporate social reporting* as a proxy to examine CSR. Board composition will be represented by duality, NEDs, independent directors and women on board.

2.1 Role duality of Chief Executive Officer/Chairman

Role duality occurs if the Chairman of a company is also the Chief Executive Officer (CEO) (Weir and Liang, 2001; Daily and Dalton, 1993). This concentrated power of the single individual who has the power of the Chairman and the CEO will constraint the independence of the board and trigger the inability to monitor and execute governance roles, which include CSR initiatives (Tsui and Gul, 2000). Role duality may create the tendency for a CEO-cum-Chairman to maximize his own personal interest, thus contributing to conflict of interest. The view is that he will only make decisions, which will benefit him and no other stakeholders (Rhoades *et al*., 2000). Separation of role duality enhances monitoring quality and independent execution of auditors' function, thus reducing any withholding of information to the public. As a consequence, the quality of CSR initiatives and the transparency of the report are expected to improve. The independence of a board is an important monitoring system (Fama and Jensen, 1983), but the presence of a Chairman who is also the CEO may also overrule the benefits of independent directors (Jensen, 1993). In fact, agency theory requires a separation of the CEO and the Chairman to deliver better check and balance on the performance of the management (Blackburn, 1994; Stiles and Taylor, 1993; Argenti, 1976).

An independent Chairman has the autonomy to run a company without restraint as the Chairman possesses the control and ability which is essential in monitoring the board of directors and management (Chau and Gray, 2002). Chairman has an unbiased monitoring of the CEO, which contributes to greater governance, internal control and subsequently resulting in higher firm value. There is evidence that without role duality, companies have higher market valuation by investors (Yermack, 1996). Separation of the Chairman and the CEO ensures independence of the board, where the Chairman will review the CEO's performance and may exert pressure on the CEO and the management into revealing information about the company. This protects the shareholders' interest (Forker, 1992); Huafang and Jianguo (2007); Byard *et al.* (2006); Lakhal (2005); Gul and Leung (2004); Ho and Wong (2001a) and Chen and Jaggi (2000) have all indicated that a separation of leadership will lead to a higher level of CSR and disclosure of information. However, a few studies have not found any relationship between role duality and CSR (Haniffa and Cooke, 2002; Forker, 1992). In this study, we will examine the relationship between role duality and CSR in general and subsequently examine the differences in the relationship between family and non-family business. We hypothesize that a separation of the CEO and the Chairman, especially in the Malaysian companies where 70 per cent of the businesses are family businesses, will increase CSR initiatives:

H1. Role duality is negatively associated to a company's level of CSR.

2.2 Non-executive directors

NEDs (hereafter, NEDs) are people of caliber and integrity, and have the essential proficiencies and know-how to bring impartial judgment during issues raised in meetings of strategy, performance and resources. Presence of NEDs is pivotal because they have the capabilities and knowledge to run the daily activities of the company, but their ability to fulfill the governance role is uncertain (Myllys, 1999).

NEDs should be able to accomplish their role as a monitoring body to supervise the executive directors and serve as a hole-in-the-wall to the outside world (Pearce and Zahra, 1992; and Fama and Jensen, 1983). They are supposed to be effective in supervising the board of directors because managers or executive directors have the tendency to act against the interest of the shareholders due to opportunistic behavior by these managers (Jensen and Meckling, 1976; Forker, 1992). They are also able to protect shareholders' interest because they do not have the same concerns with their employment or advancement opportunities (Scherrer, 2003). Because they are not in the board for daily operation purposes, they are in a better position to question the actions of the executive directors. Hutchinson and Gul (2004) conjecture that NEDs would monitor the management's action to provide accurate information to shareholders and debt holders. NEDs have more opportunity for control, and are able to deter against incentives that are restricting from their duty as directors (Mangel and Singh, 1993). Prior research also indicates that diversity of the board would encourage greater emphasis toward corporate social reporting, and promote better social performance (Ibrahim and Angelidis, 1994; Sicilian, 1996).

In contrary, there are few studies that found no relationship between NEDs and disclosure of CSR information (Cullen and Christopher, 2002; Haniffa and Cooke, 2002; Forker, 1992). It has been documented that NEDs are too busy with other commitment, and may view their involvement on a part-time basis (Bosch, 2002). An average director may spend less than two weeks in a year, hence making the involvement of NEDs fruitless (Carter and Lorsch, 2004). This may cause problems because effective monitoring needs a director to take time to understand reports given by other directors and make sound decisions.

Previous studies have also found that NEDs lack the adequate knowledge and information about the company (Keasey and Hudson, 2002), and they need to work closely with the executive directors, within a limited time frame. This indicates that they are dependent on the executive team (Stiles and Taylor, 2002). Hence, there are potential manipulations of information by the executive directors. It is also possible that the information available to these directors is limited, and they have insufficient time to make sound decisions. This suggests a potential grey area that can be manipulated by other directors or the management. In fact, Siladi (2006) concludes that the major problem that NEDs face is the limited time available and insufficient information shared with them. Though there are mixed results on the association between NEDs and CSR, we hypothesis that the presence of NEDs will have a positive impact on the level of CSR. The justification is mainly due to the presence of NEDs as watchdogs among Malaysian companies, which are predominantly family business oriented:

H2. NEDs are positively associated to a company's level of CSR.

2.3 Independent non-executive directors

KLSE listing requirement 2001 defined independent directors as an outside director who is ultimately independent of the management team; they do not have significant shareholding or relationships that interfere with their independent decisions or their aptitude to act in the best interest of shareholders, (Roberts *et al.*, 2005; Rhoades *et al.*, 2000). Malaysian Code of Corporate Governance requires at least one-third of independent directors in a board.

Independent directors serve as monitoring tools to reduce agency problem, as they do not have liaison with the company and, thus, are more capable in monitoring the management. Because INEDs supposedly are not in liaison to the company, they are more effective in monitoring the behavior of the management. As a consequence, the supervised boards are expected to be more efficient in the execution of their tasks and responsibilities to the various stakeholders' needs, and be able to influence the company's compliance to disclosure requirement (Chen and Jaggi, 2000; Forker, 1992). In this respect, they would avoid actions that tarnish their reputation in the market (Abbott and Parker, 2000; Abrahmson and Park, 1994). Several studies have indicated that INEDs effectively influence CSR and disclosure of information (Reeb and Zhao, 2013; Donnelly and Mulcany, 2008; Huafang and Jianguo, 2007; Cheng and Courtenay, 2006).

Nevertheless, there are also other studies that found a negative relationship (Lim, 2007; Barako *et al.*, 2006; Eng and Mak, 2003; Bhagat and Black, 2002; Kiel and Nicholson, 2003a, 2003b), indicating factors as to why independent directors are ineffective in monitoring the directors as well as increasing CSR disclosure rate. Independent directors must possess the right experience and industrial knowledge of corporate environment, only then they are able to collect, analyze, process reports and recognize any potential problems arising from the management's actions (Keasey and Hudson, 2002). Disclosure quality will be effective only if independent directors have the aforementioned characteristics (Reeb and Zhao, 2013). Siladi (2006) documents that both non-executive director and independent director have limited knowledge and time to provide a sound judgment.

Similar to NEDs, when independent directors do not have the knowledge as well as the industrial network, the managing of the company becomes inefficient (Bernhut, 2004). In fact, these directors are often dependent on other directors for knowledge and information (Stiles and Taylor, 2002). This would mean that independent directors are equally susceptible to manipulation of information by other directors or the management. Similar to the earlier justification, our hypothesis is: a positive relationship between independent directors and the level of CSR as most companies have concentrated ownership and the presence of INEDs is pivotal:

H3. INEDs are positively associated to a company's level of CSR.

2.4 Women on board

CG literature shows that diversity of the board has become a significant factor in CG structure in the recent years. Board diversity is believed to be associated to CSR reporting and social performance (Sicilian, 1996; Ibrahim and Angelidis, 1994). Carter *et al.* (2003) believe that board diversity will increase independence of the board because different genders, ethnicity and also cultural upbringing may have different perception and styles on management issues as compared to directors with traditional upbringing.

Gender diversity seems to enhance the supervising process (Molero, 2011), and should improve the performance of companies that are seeking growth (Krishnan and Parsons, 2008; Dwyera *et al.*, 2003). It is found that women are more concerned with ethical behavior (Ford and Richardson, 1994) and environmental concerns (Diamantopoulos *et al.*, 2003; Mainieri *et al.*, 1997).

Studies have also found that women are more comfortable with community activities, while men are more comfortable with profitable activities (Betz *et al.*, 1989; Bernardi and Arnold, 1997). Thus, the presence of women on board increases the welfare activity, and is likely to report their activities to the public. Studies show that women on the board would be effective, and have greater CSR rating (Betz *et al.*, 1989; Bernardi and Arnold, 1997). In this regard, women participating in the board of directors are expected to encourage higher CSR initiatives and disclosures. Prior studies have also found that it is more likely that female members tend to promote environmental and CSR reporting if there is an excess of three or more women in the board (Frias-Aceituno *et al.*, 2013; Bear *et al.*, 2011; Webb, 2004). As a consequence, we hypothesize that presence of women on a board will further enhance CSR initiatives. We would like to further examine if the same relationship is present between family and non-family business:

H4. Women directors are positively associated to a company's level of CSR.

3. Theoretical framework

Based on the review of literature, the following framework is established Figure 1.

3.1 Research design

CSR data for this study are mainly collected manually from the annual reports and from data providers, such as Data Stream and Thomson's Reuters. This study will adapt the model utilized by Akhtaruddin *et al.* (2009); Lim (2007); Eng and Mak (2003); Haniffa and Cooke (2002) and Ho and Wong (2001a) together with some modification to fit in the objectives of the study. A simple ordinary least square, using multivariate regression analysis, will be undertaken to test the hypotheses developed for this study, and the only limitation is that it will not control for any potential endogeneity. The regression equation is shown below:

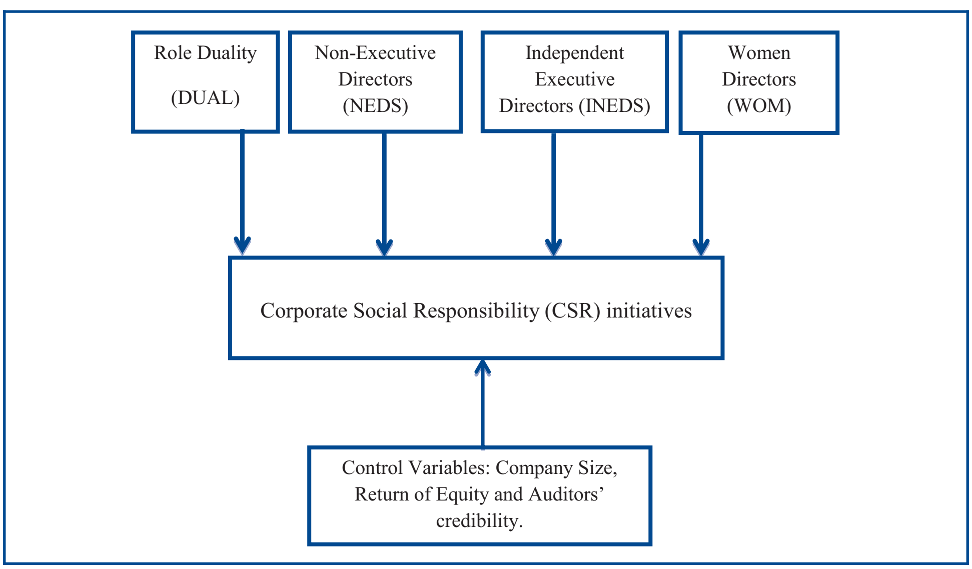
$$\mathrm{CSRLEV} = \beta_0 + \beta_1\mathrm{DUAL} + \beta_2\mathrm{NEDS} + \beta_3\mathrm{INEDS} + \beta_4\mathrm{WOM} + \beta_5\mathrm{CSIZE} + \beta_6\mathrm{ROE} + \beta_7\mathrm{AUDIT} \quad (1)$$

Where,

CSRLEV = Level of CSR;
Dual = Duality of the Chairman and the CEO;
NEDS = Proportion of NEDs;
INEDS = Proportion of INEDs;
WOM = Proportion of women on the board of directors;
CSIZE = Company size;
ROE = Return of equity; and
AUDIT = Auditors' credibility.

CSRLEV was developed by prior studies of Kuasirikun and Sherer (2004); Chan (2002); Haniffa and Cooke (2002); Tan (2001); Williams and Ho (1999); Gray *et al.* (1995a; 1995b); Roberts (1991) and Wiseman (1982). A total of 28 items are found in the CSR checklists,

Figure 1 Research framework



where the items are segregated into 4 central sections: employees' welfare, community activities, environment protections and products or services improvement and contributions. Appendix 1 shows the 28 items where a total of 11 items fall under employees' welfare, 4 items under community activities, 9 items under environmental protections and 4 items under product or services improvement and contributions. Information is collected through the analysis of the annual reports and scores are given; score of 1 is recorded if the item is available in the annual report; a score of 0 is recorded if it is not disclosed. The level of corporate social disclosure is calculated as the ratio of the total score with maximum disclosure score as specified in the following formula:

CSRLEV = Total disclosure of a company/Total Maximum disclosure score (28)

As for the independent variable duality, a company has a role duality structure if one holds two posts, as the Chairman and the CEO. For the purpose of this study, duality is a dummy variable, and is measured by assigning 1 if the same person holds the post and a 0 if two different people hold the post. To determine the NEDs, the total of NEDs in a company is divided by the total number of directors on board. The variable INED is found by dividing the total of independent directors with the total number of directors. The woman on the board variable is calculated by dividing the total women directors on the board with the total number of directors. This study will also examine the presence of any differences in the association between board composition and CSR in the family and non-family business. For that purposes, family-controlled businesses are identified as holding of 10 per cent or more of the common shares by a family, and at least, one family member is on the board (Chen and Jaggi, 2000). A binary variable of 1 is given for family-controlled company, while a 0 for non-family business. As for the control variables, return on equity is taken by dividing the net income of a company over its total equity, while auditors' credibility is based on the Big Four audit firms. Companies audited by the Big Four audit firms will be given a dummy of 1, while 0 for non-Big Four audit firms.

The research population is based on the companies listed under Bursa Malaysia. Currently, the total number of public limited companies is 818. However, only 225 of 818 public limited companies are taken as the sample size. The data are collected through analyzing the annual reports of the chosen companies for two years, that is, 2011 and 2012. The total sampling size consists of 450 companies. Stratified sampling technique is used, where the list of companies is collected and subsequently differentiated based on the market capitalization, ranging from small, medium to high. To ensure that the sample size is generalized and without bias, further segmentation is taken by categorizing the companies into 14 different industries, where the categories of industries are based on Bloomberg's definition of industries. Financial industry is omitted from the study, as it is a highly regulated sector (Lim, 2007).

4. Findings and discussion

4.1 Descriptive analysis

The sample size of this study is 450 companies, comprising different market capitalization and various industries. The breakdown is as below (Table I).

High market capitalization represents 36.89 per cent of the total sample size; medium market capitalization represents 28.44 per cent and low market capitalization represents 34.67 per cent. As for industry representation, a total of 14 industries are chosen for this study; industrial products have the highest percentage, followed by construction, transportation, food, manufacturing, plantation and oil and gas.

The following section discusses the descriptive statistics for the individual components of CSR (Table II).

The total disclosure of the companies (which is used as a proxy to CSR initiatives in this study) is based from the CSR checklist, whereby this calculation shows the level of CSR in Malaysia. Based on the samples size of 450, an average of 14.767 of CSR points are

Table I Breakdown of companies by market capitalization

Market capitalization	*No. of companies*	*(%)*
High	166	36.89
Medium	128	28.44
Low	156	34.67
Total	450	100

Table II Descriptive statistics on the individual components of CSR

Type	*Mean*	*Minimum*	*Maximum*	*SD*
Employees' welfare	6.760	3	11	1.734
Community	2.582	0	4	1.304
Environmental protection	3.631	0	9	2.469
Product/services	1.793	0	4	1.136
CSR points	14.767	3	27	5.092

recorded (out of 28 points). This suggests that the level of CSR in Malaysia is only at a medium level. Overall, the highest score is 27 points, and the lowest is 3 points. Employees' welfare has an average score of 6.76, where the full point for this item is 11. A minimum of 3 points and maximum of 11 is identified. The standard deviation is considerably low. This suggests that companies are relatively more involved in activities related to employee welfare for their CSR initiatives. As for the community activities, an average of 2.58 is noted. Community activities section has a total of four items in the checklist. The minimum is 0, while the maximum is 4 points. It also suggests that some companies do not get involved in community activities. In terms of environmental issues, heavy industries disclose more environmental information as compared to other industries. Nonetheless, environmental protection scores an average of 3.6311, which is less than half of the environmental checkpoints. Finally, the average mean for product and service is 1.7933, with a minimum of 0 and a maximum of 4.

The following section discusses the descriptive statistics of components to CG (Table III).

Based on the sample size of 450 companies, only 56 companies have a role duality structure, with an average mean of 0.12444 and standard deviation of 0.33046. This indicates a rather low role duality rate in Malaysia. This also supports the fact that majority of the Malaysian companies comply with the recommendation of Malaysian Code of Corporate Governance (2012), whereby companies ought to have a clear and separate role of the CEO and the Chairman.

Table III Corporate governance structure characteristics

Type		*Total no.*		*(%)*
Panel A: Breakdown of corporate governance characteristics by total and percentage				
Role duality		56		12.44
Women directors		229		50.89
Non-executive directors		346		76.89
Independent non-executive directors		450		100
Family control		231		42.78
Companies		450		
Type	*Mean*	*Minimum*	*Maximum*	*SD*
Panel B: Descriptive analysis of the corporate governance characteristics				
Role duality	0.124	0	1	0.330
Non-executive directors	1.711	0	9	1.533
Independent non-executive directors	3.387	2	7	0.891
Women	0.687	0	4	0.819

As for NEDs, a total of 346 companies employ NEDs, which constitute 76.89 per cent. This indicates a high number of companies with NEDs on the board. On average, most companies are likely to employ two NEDs (mean of 1.71) to represent the board. Although the Malaysian Code of Corporate Governance (2012) did not recommend the exact number of NEDs, the Code did mentioned that the board should be diversified and balanced.

In terms of INEDs, all the 450 companies in the sample size employ independent directors. This is in accordance to the recommendation by the Malaysian Code of Corporate Governance, whereby at least one-third of the board is made up of the INEDs. Finally, empirical evidence indicates that 229 companies employ a minimum of one woman director. It is also noted that only 50.89 per cent of Malaysian companies employ a woman director. Therefore, more efforts are required to ensure that women participation in the board increases, as companies do not seem to actively comply with the recommendation of Malaysian Code of Corporate Governance (2012) in this context. To increase board diversity, the participation of women directors is encouraged, as previous chapters mentioned that women directors have a positive association to CSR initiatives and disclosure.

4.2 Correlation analysis

Based on the empirical evidence on Table IV, the correlation between the variables are less than 40.84 per cent. This indicates that multicollinearity does not exist in this study (Sekaran, 2003). The positive correlations are for the independent variables, which are 0.2546 and 0.0649 for the NEDs and women directors, respectively. The result conforms to the predicted signs, except for the variable INEDs, which is predicted to have a positive sign. Role duality and independent directors have a negative correlation with CSR. Independent directors, which are predicted to have a positive sign, turn out to have a negative correlation. Women directors and NEDs have a positive correlation with CSR initiatives, as predicted. The control variables, that are, company size, return on equity and auditors' credibility, indicate positive correlations.

4.3 Regression results on the relationship between independent variables and CSR

Table V shows the relationship between board composition and CSR initiatives. Model 1 (M1) is the main model, which refers to all three market capitalization. Models 2 (M2), 3 (M3) and 4 (M4) refer to the market capitalization of the companies, where M2 refers to high market capitalization, M3 refers to medium market capitalization and M4 refers to small market capitalization.

The results under M1, M2 and M4 indicate that role duality has a significantly negative relationship with CSR initiatives. Thus, *H1* is accepted. The result concurs with previous

Table IV Results of correlation analysis

Variables	*CSRLEV*	*DUAL*	*NEDS*	*INEDS*	*WOM*	*FC*	*CSIZE*	*ROE*	*AUDIT*
CSRLEV	1								
DUAL	−0.197	1							
NEDS	0.255	−0.114	1						
INEDS	−0.054	−0.036	−0.303	1					
WOM	0.065	−0.070	0.072	−0.042	1				
FC	−0.335	0.165	−0.333	−0.153	0.098	1			
CSIZE	0.484	−0.047	0.208	0.074	−0.055	−0.246	1		
ROE	0.038	−0.024	−0.059	−0.014	0.024	0.045	−0.047	1	
AUDIT	0.298	−0.092	0.175	0.004	0.009	−0.203	0.349	−0.060	1

Notes: CSRLEV = level of corporate social responsibility; DUAL = role duality of the Chairman and CEO; NEDS = Non-executive Directors; INEDS = Independent Non-executive Directors; WOM = Women Directors; FC = family controlled; CSIZE = company size; ROE = return on equity; AUDIT = auditors' credibility

Table V Regression results on the relationship between board composition and CSR initiatives				
Variables	*M1*	*M2*	*M3*	*M4*
Dual	−0.069*** (−3.178)	−0.117** (−2.462)	−0.005 (−0.129)	−0.065** (*−2.295)*
NEDS	0.037 (0.765)	0.175** (2.085)	−0.068 (−0.751)	0.048 (*0.718*)
INEDS	−0.160** (−2.484)	−0.011 (−0.092)	0.039 (0.2852)	−0.210** (*−2.528)*
WOM	0.155** (2.271)	0.002 (0.017)	0.292** (2.12)	0.136 *(1.525)*
CSIZE	0.059*** (9.382)	0.050*** (4.840)	0.035* (1.819)	0.017 *(1.346)*
ROE	0.002* (1.763)	0.123*** (3.186)	0.001 (1.326)	0.016 *(0.648)*
AUDIT	0.039** (2.438)	0.077** (2.368)	0.051 (1.612)	−0.003 (*−0.131)*
R^2	0.342	0.334	0.128	0.241
Number of observations	450	166	128	156

Notes: *Significant at the 10% level; **significant at the 5% level; ***significant at the 1% level; *t*-statistics are shown in parentheses; DUAL = role duality of the Chairman and CEO; NEDS = Non-executive Directors; INEDS = Independent Non-executive Directors; WOM = Women Directors; FC = family controlled; CSIZE = company size; ROE = return on equity; AUDIT = auditors' credibility

studies, which indicate a negative relationship between role duality and CSR (Huafang and Jianguo, 2007; Byard *et al.*, 2006; Lakhal, 2005; Gul and Leung, 2004; Ho and Wong, 2001a, 2001b; Forker, 1992).

An individual who is both the Chairman and the CEO may compromise with board independence, and this results in the inability of the Chairman/CEO to monitor and, thus, reduce corporate initiatives (Tsui and Gul, 2000). Role duality is an agency problem that a company may face, and there is a tendency for the individual to make decision that benefits him but not the shareholders or any other stakeholders (Rhoades *et al.*, 2000). A plausible reason for this is because a Chairman is to oversee the board of directors and the management. Therefore, if the CEO is also the Chairman, he is examining his own performance (Zubaidah *et al.*, 2009). It is perceived that the monitoring role of the Chairman is compromised and becomes less effective. Consequences of role duality further supports the recommendation of Malaysian Code of Corporate Governance (2012) that role duality be reduced. In conclusion, role duality compromises the independence of the board, which causes the function of directors, in terms of monitoring, to be less effective (Tsui and Gul, 2000).

As for the relationship between NED and CSR, only M2 displays a positive and significant relationship, thus establishing that higher number of NEDs in the board will create higher CSR initiatives (Adam and Hossain, 1998). As the presence of NEDs will increase monitoring of management, this in effect reduces agency problem by preventing managers to behave opportunistically, thus preventing conflict of interest between principal and agent (Zubaidah *et al.*, 2009).

As indicated in M2, NEDs in high market capitalization are positive and significant; thus, *H2* is accepted. Larger companies would prefer to disclose more information (Siregar and Utama, 2008; Archambault and Archambault, 2003; Watson *et al.*, 2002). Hence, knowledge sharing between directors should be higher, and NEDs who gain more information and knowledge are able to be more efficient in monitoring the board. Furthermore, larger companies may employ more knowledgeable and experienced NEDs, as they have the resources to do so (Hassan *et al.*, 2006).

The next independent variable is the INED. Results on Table IV indicate a significantly negative relationship between INED and CSR for M1 and M4. Thus, *H3* is rejected. Literature suggests that agency problems are reduced when the independent directors are effectively monitoring the executive directors and the management teams (Jensen and Meckling, 1976; Rhoades *et al.*, 2000; Roberts *et al.*, 2005). These directors are supposed to use their directorship as an indication to the market that they are capable directors (Fama and Jensen, 1983). They would minimize any activities that would tarnish their reputation (Abbott and Parker, 2000; Abrahmson and Park, 1994). Nevertheless, Reeb and Zhao (2013) have documented that CSR can be improved if the independent directors have the necessary characteristics, such as possessing the right experience and knowledge to collect and analyze the situations. Empirical evidence from this study concurs that independent directors may not have the right knowledge and information when they join the company (Siladi, 2006; Reiter and Rosenberg; Bernhut, 2004); thus, their contribution toward CSR initiatives are limited.

Jensen (1993) also suggests that a Chairman who is also the CEO may override the advantage of having an independent director; thus, role duality also affects the independence of the board. Because Malaysian Code of Corporate Governance (2012) recommended that one-third of the board of directors consist of independent directors, Lim (2007) conjectured that companies merely adopted this recommendation to comply with the requirements of the Code. These directors may not have sufficient knowledge and, thus, are dependent on other directors for knowledge sharing (Stiles and Taylor, 2002). Hence, they may be subject to manipulation of information by the management.

As for women directors, there is a significantly positive relationship with CSR; thus, *H4* is accepted. This is consistent with the findings of Liao *et al.* (2014) and Khan (2010). Women directors are supposed to increase board diversity, and Malaysian Code of Corporate Governance (2012) also recommended companies to increase women directors in the board. With gender diversity, this enhances the monitoring process (Molero, 2011), as women are more risk-averse than men (Vandergrift and Brown, 2005; Wei, 2007), and they are willing to take action against environmental risk (Bord and O'Connor, 1997; Fukukawa *et al*., 2007).

The differences between genders are well documented in the previous studies, where women are more comfortable with activities associated to assisting the community, while men are contented with money-making activities (Betz *et al*., 1989; Bernardi and Arnold, 1997). More specifically, if there is more than three women in the board of directors, then the female directors tend to promote environmental and CSR reporting (Bear *et al.* 2011; Frias-Aceituno *et al*., 2013; Webb, 2004). The results confirm that an increase in women directors tend to further enhance CSR initiatives.

4.4 Comparison on the relationship between board composition and CSR initiatives among family and non-family business

To further enhance the contribution of this study, the following section analyses the relationship between board composition and CSR initiatives from the perspectives of family- and non-family-controlled business.

The results in Table VI indicate that role duality and CSR are insignificant in family business, but a significantly negative relationship is documented in a non-family business environment. This confirms that role duality would affect the level of CSR in non-family-controlled companies. As for NEDs, the result on non-family-controlled business shows a positive and significant relationship, thus suggesting that NEDs contribute positively toward CSR in a non-family-controlled company. NEDs represent other stakeholders and constituencies than just the owners of the firm. As a result, they have reasons to direct the non-family business to spend more on CSR, first, to connect the non-family business with the larger community at large and to enable the firm to earn the long-term legitimacy in the eyes of other stakeholders who do not have a direct transactional relationship with the firm. This is a legitimate duty of a non-executive director, and is functional to secure the firm's long-term existence and well-being. Second, NEDs may also try to extract some CSR resources from the non-family business so as to enhance their own reputation in the wider community. They could present themselves to the community as instrumental in getting the non-family business to invest in CSR, which in turn enhances their own reputation. They can earn some investment on this enhanced reputation capital in the future. Family business directors, even if they are non-executive, are chosen primarily because of their trustful relations with the family leadership, and to that extent, they may have less of a personal motivation to extract CSR investment from the firm.

Table VI Regression results on the relationship between board composition and CSR among family and non-family business

Variables	*Family controlled*	*Non-family controlled*
Independent variables		
Dual	−0.023 (−0.910)	−0.187*** (−4.825)
NEDS	−0.056 (−0.831)	0.164 (2.499)
INEDS	−0.254*** (−2.859)	0.046 (0.510)
WOM	0.131 (1.543)	0.104 (0.985)
Control variables		
CSIZE	0.062*** (7.044)	0.053*** (6.355)
ROE	0.001 (1.597)	0.129*** (4.209)
AUDIT	0.021 (1.02)	0.046 (1.811)
R^2	0.232	0.399
Number of observations	231	219

Notes: ***Significant at the 1% level; *t*-statistics are shown in parentheses; DUAL = role duality of the Chairman and CEO; NEDS = proportion of Non-executive Directors; INEDS = proportion of Independent Non-executive Directors; WOM = proportion of women in the Board of Directors; FAM = presence of family controlled; CSIZE = company size; ROE = return of equity; AUDIT = auditors' credibility

Furthermore, family businesses, because of their ownership, are already reputed to consider community interests, so the addition of NEDs may not lead to additional CSR. The result also conforms to previous findings of Adam and Hossain (1998), where the findings establish the fact that better supervision on managers contribute to better CSR activities.

In terms of INEDs, there is a negatively significant relationship in family-controlled companies, while no significance is noted for non-family-controlled companies. This concludes that independent directors do not improve the level of CSR in family business. In general, family firms already think a lot about community and CSR. They view it as strategic investment for the business, and also they feel obligated to invest in the communities because it enhances their family name and leaves a more protective and benevolent environment to their next generation. Knowing this inclination of the family firm, the independent directors would try to make sure that the family does not go overboard, and neglect current business performance. Independent directors may also be more financial minded, and hence, they may care more about financial performance and, therefore, may try to curb the CSR tendencies of the family business. Finally, as independent directors are usually appointed because they have the trust of the family leader and the family, if the independent directors want to cut back on CSR, then they may be able to get their voice heard and actually make it happen, which reflects in the negative relationship between independent directors and CSR for FB.

Furthermore, similar to the earlier explanation, this could also be due to independent directors not having the necessary knowledge and skills to perform the monitoring function (Reeb and Zhao, 2013). They are also dependent on other directors for knowledge and information (Stiles and Taylor, 2002), and may not have the sufficient networking within the industries to accomplish the role of a watchdog. As suggested by Lee (2007), companies might employ independent directors just to fulfill the recommendation of 2012 Code of Corporate Governance. Finally, the results for proportion of women directors indicate no significance in the relationship against CSR for both family and non-family business.

5. Conclusion

The findings provide a substantial discovery in the Malaysian context for the relationship between board composition and CSR initiatives. Generally, role duality, NEDs and INEDs suggest a negative relationship, while women on board indicate a positive relationship. As for family and non-family business, the main findings are: a positive relationship between NEDs and CSR initiatives in non-family business and a negative relationship between

INEDs and CSR for family-controlled business. The only variable that positively affects the level of CSR initiatives is the presence of women directors. Thus, authorities should consider further analysis on this relationship and its contributions and possible improvements to CSR initiatives among Malaysian listed companies in both family and non-family business. It is conjectured that INEDs are not effective watchdogs in family-controlled firms. Finally, the results confirm that role duality negatively affects the CSR initiatives. However, due to compliance with Corporate Governance Act, role duality is no longer present in majority of the companies in Malaysia. In conclusion, the study shows that NEDs and independent directors are ineffective to improve the CSR initiatives, and improvement should be made to this regard. Furthermore, the presence of family control does not positively affect CSR initiatives, which is an important element in a business environment. Regulatory authorities should consider studying the effects of family-controlled business and their role in further improving the current situation in Malaysia, with regard to CSR. Overall, the result on women directors is positively associated with the level of CSR initiatives. This implies that board diversity should be considered as an important element in future selection of board members. It is envisioned that board composition remains as an essential key point toward the improvement of CSR as well as sustainability of both family and non-family business in Malaysia.

Notes

1. CG is concerned with the manner in which senior management or board of directors direct, manage and control the organization and relate to shareholders.
2. CSR is concerned with the impacts that the activities of an organization have on the social, environmental and economic environment in which it operates.

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Appendix

Table AI Corporate social reporting checklist

Employees' welfare		*Communities activities*		*Environmental protection*		*Product/services improvements and contributions*	
Items	*Scores*	*Items*	*Scores*	*Items*	*Scores*	*Items*	*Scores*
Employees' profile		Donation:		Environmental products and processes		Product quality	1
Total number of staffs	1	Money	1	Waste	1	Product safety	1
Total number of managers	1	Goods	1	Packaging	1	R&D	1
Staff training and development		Sponsorship:		Pollution	1	Computerization and automation to service	1
T&D activities	1	Sports	1	Recycling	1		
Days of training	1	Events	1	R&D activities	1		
Cost incurred	1			Goals and targets			
Type of T&D activities	1			Award	1		
Employees' welfare	1			Environmental awareness	1		
Staff pension data	1			Subscription to ISO14001	1		
Reward system:				Energy	1		
Money	1						
Promotion	1						
Others	1						
Sub-total	11		4		9		4
Total disclosure points	28						