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Corporate Social Responsibility: Ownership Structures, Board Characteristics & the Mediating Role of Board Compensation

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Abstract

This study investigates whether ownership structures and board characteristics have significant influence on corporate social responsibility (CSR) disclosureas well as the effect of boardcompensation disclosure as a mediating roleon CSR disclosure in Malaysian listed companies. A sample of 100 largest companies which is ranked by revenues and a content analysis of company annual reports has been used to measure the CSR disclosure and board compensation disclosure. The hierarchical multiple regression analysis revealed the mediating role of board compensation disclosure is found statistically linear relationship at 1% level with the extent of corporate social responsibility disclosure.

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Keywords: Director's compensation; Corporate social responsibility; Disclosure; Malaysia

1. Introduction

Corporate social responsibility (CSR) has been triggered work and debate from variety of researchers, organizations and practitioners. There is no common interpretation of corporate social responsibility (CSR) and several definitions were developed over the past 40 years (Bowen, 1953; Carroll, 1979; Clarkson, 1995; Wood, 1991). Whatever the term used to view CSR (e.g. corporate citizenship, corporate responsibility, corporate philanthropy, corporate sustainability and some relate CSR to the triple bottom line where the economy, environment, and social performance are linked together) the responsibility of business has become focal agendas of corporations, government, standard setters and global general public's. CSR is a business practices that are based on

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ethical values, compliance with legal requirements, and respect for people, communities and the environment. CSR also means conducting business in a way that is economically, law abiding, ethical and socially supportive (Carroll, 1979).It has been suggested by Bhimani and Soonawalla (2005) that CSR and corporate governance are two sides of the same coin. It is because CSR and corporate governance emphasizes on companies to discharge their duties and responsibilities to the stakeholder (Jamali and Rabbath, 2007). Also, CSR and corporate governance stress on the importance of achieving long term value which in turn will assist in promoting a business continued acceptance and existence (Esa and Mohd Ghazali, 2012).

The interests of CSR have been partly contributed by the increased awareness on corporate accountability. The issues of accountability, transparency, disclosure and corporate governance have been the focus of researchers particularly after the economic tumult in 1997. One of the factors that contributes to the Asian economic tumult is weakens of corporate accountability and corporate governance in many firms. Thus, an important elements of good accountability and good corporate governance such as disclosure and transparency is needed as these provides the basis for informed decision making by directors, shareholders, stakeholders and potential stakeholders. Additionally, disclosure and transparency are important for shareholders to exercise their ownership accountabilities. It also helps public's meeting of minds on company's activities, policies and performance with regard to environmental and ethical standards besides the relationship of the company with the stakeholders and communities which are affected by its operations (Esa and Zahari, 2014). Moreover, such elements provides clarity on the extent to which companies meet legal and ethical requirements. Disclosure and governance environment also are found predominance factors in enhancing firm value. Therefore, firms should disclosed moreto avoid any pressure from regulatory authorities and reduces the gap between management and investors.

Prior literatures have investigated corporate disclosure and corporate governance transparency in Malaysia (see for example Esa and Mohd Ghazali, 2012;Akhtaruddin, Hossain, Hossain, and Yao, 2009; Mohd Ghazali and Weetman, 2006 and Haniffa and Cooke, 2005). As well as most of the prior studies also have investigated the association of ownership structure with the firm performance and corporate disclosure (see for example Esa and Zahari, 2014; Mohd Ghazali, 2007; Tam and Tan, 2007; Mohd Ghazali and Weetman 2006; and Jaafar, James and Abdul Wahab, 2012). Whereas none of these studies has been done between the associations of the board compensation disclosure as a mediating factors towards CSR disclosure in Malaysia. Hence, the focus of this study is first to measure the transparency of the information provides by the annual report of Malaysian public listed companies on corporate social responsibility and board compensation.Second, is to examine the association of ownership structure, board characteristics and board compensation disclosure as mediating factor towards CSR disclosure.

The remainder of the paper is organized as follows. Section 2 reviews the past literatures with regards to the CSR disclosure, director's compensation, ownership structures and board characteristics, while Section 3 outlines the research design and instrument, sample and scoring method. Section 4 presents the analysis of findings and the discussion of results. Ultimately, Section 5 concludes and sets out the limitations and provides directions for future research.

2. Background and Hypotheses Development

2.1 Corporate social responsibility and director's compensation disclosure

The growing issues on CSR disclosure have drawn many researches being undertaken to explore to which extent the CSR has been disclosed to the relevant stakeholders and this regime disclosure is viewed as well-developed. The Bursa Malaysia CSR framework stated that the CSR activities are not about telling the people how the companies spent the money on it, but how to thrive the business from such practices (Bursa Malaysia, 2006). The Bursa Malaysia CSR framework defined CSR as open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders. The CSR was designed to allow the acceptance and recognition of community for firm long-term sustainability by supporting the economic, social and environmental bottom-line wellness (Triple bottom-line reporting). Hence, as far as the CSR disclosure is concerned, this study can be related with the concept of legitimacy theory (Patten, 1992; Hackston and