The relationship between corporate social responsibility disclosure and corporate governance characteristics in Malaysian public listed companies

Roshima Said, Yuserrie Hj Zainuddin and Hasnah Haron

Roshima Said is based at the Universiti Teknologi Mara, Sugai Petani, Malaysia. Yuserrie Hj Zainuddin and Hasnah Haron are both based at the School of Management, Universiti Sains Malaysia, Penang, Malaysia.

Abstract

Purpose – *The purpose of this paper is to examine the relationship between corporate governance characteristics, namely the board size, board independence, duality, audit committee, ten largest shareholders, managerial ownership, foreign ownership and government ownership and the extent of corporate social responsibility disclosure.*

Design/methodology/approach – *The content analysis was used to extract the CSR disclosure items from annual report and companies' web sites. Then, a CSR disclosure index was constructed after combining CSR disclosure items disclosed both in annual reports and in companies' web sites. Hierarchical regression analysis was used to examine the relationship between the corporate social disclosures index and the independent variables, namely the board size, board independence, duality, audit committee, ten largest shareholders, managerial ownership, foreign ownership and government ownership after statistically controlling the effects of a firm's size and the profitability of the companies.*

Findings – *Results based on the full regression models indicated that only two variables were associated with the extent of disclosures, namely government ownership and audit committee. Government ownership and audit committee are positively and significantly correlated with the level of corporate social responsibility disclosure. The most significant variable that influences the level of CSR disclosure is government ownership.*

Research limitations/implications – *The findings are limited to the context of the study and it was limited to Malaysian public listed companies, January to December 2006. The sources of data in this study were companies' annual reports and web sites only.*

Practical implications – *The study is useful to organizations and statutory bodies to take into consideration in identifying the corporate governance characteristics that will enhance CSR disclosure, since it had been shown in previous studies that corporate social responsibility reporting in Malaysia is generally low. The government can determine how important it is that a company should be willing to allocate their costs towards corporate social responsibility activities. Thus, this study will emphasize the level of activities through corporate social responsibility reporting in Malaysian public listed companies and help the government to ascertain the level of corporate social responsibility activities through corporate social responsibility reporting among Malaysian public listed companies.*

Originality/value – *The study reveals the extent of the disclosure of corporate social responsibility to companies web sites and constructed the CSR index based on two sources of data, namely companies' web sites and annual reports.*

Keywords *Corporate social responsibility, Information disclosure, Corporate governance*

Paper type *Research paper*

1. Introduction

The Malaysian government's incentive to further promote corporate social responsibility (CSR) among public listed companies (PLC) is very encouraging in Malaysia. The honorable Dato' Seri Najib Tun Razak, Deputy Prime Minister of Malaysia, in his keynote speech at the Corporate Social Responsibility Conference on 21 June 2004 had made it clear that CSR helps improve financial performance, enhance brand image and increases the ability to attract and retain the best workplace, contributing to the market value of the company. This statement is consistent with the study done by csrnetwork.org (2006) which is one of UK's leading CSR consultancies showed that engaging in corporate social responsibility will lead to better financial performance, access capital, reduced operating costs, enhanced brand image and reputation, increased sales and customer loyalty and increased productivity and quality.

More recently, in the 2007 budget speech, the Malaysian Prime Minister, Datuk Seri Abdullah Ahmad Badawi has stressed the importance of corporate social responsibility reporting by requiring companies to disclose their CSR activities in the annual report. Corporate social reporting is one approach how companies published or disclosed their corporate social responsibility activities. One way to reduce the gaps between company and its stakeholders is by reporting the activities to the stakeholders or through additional disclosure. Many studies had used corporate social disclosure as a proxy to corporate social responsibility or corporate social performance (Hackston and Milne, 1996; Adebayo, 2000; Gray *et al.*, 2001; Manasseh, 2004; Shaw Warn, 2004; Haniffa and Cooke, 2005; Guan Yeik, 2006; Mohamed Zain and Janggu, 2006). In comparison to other Asian countries such as Singapore, Thailand and South Korea, CSR in Malaysia is lagging far behind. This was highlighted by Dato' Hj Sulaiman Hj Mohd Yusof, Deputy Director 1, Commercial Crime Investigation Department, Royal Malaysian Police Force (*Accountants Today*, 2006). He reiterated that there is a need to introduce the system of corporate social reporting for companies. In his opinion companies should introduce a self-disclosure report on CSR activities.

In Malaysia, the private sector has come under tremendous pressure to accept social responsibility since the 1980s. However, previous studies have found that the level of CSR of Malaysian public listed companies remain low. This could be due to less concerted effort or motivation on the part of top management to ensure that the companies are disclosing this corporate social responsibility activity. Previous studies revealed that Corporate Social Responsibility Reporting in Malaysia is still generally low (Foo and Tan, 1988; Manasseh, 2004; Nik Ahmad and Sulaiman, 2004; Shaw Warn, 2004; Ramasamy and Ting, 2004; Mohamed Zain and Janggu, 2006).

CG that is effective would ensure that the shareholders interest is looked after. Companies should therefore report their economic, social and environmental performance to their stakeholders. Top management should be responsible for ensuring that appropriate systems of control are in place, in particular those that monitor risk, including potential environmental and social liabilities.

ACCA (2002) accentuated that among the motivation for the companies to disclosed environmental reporting in Malaysia are the introduction of the Malaysia Code on Corporate Governance listing requirements, the National Annual Corporate Award (NACRA) and ACCA Award named as Malaysian Environmental Reporting Award (MERA), Malaysian Environmental and Social Reporting Award (MESRA). This statement supported by the Malaysian government encouragement and motivations for Malaysian companies to report environmental information as stated in the budget speech 2007. It can be seen that the introduction of Malaysia Code on Corporate Governance was one of the drivers for environmental reporting in Malaysia. Thus, this study will look at the specific characteristics of the corporate governors of the company in relation to the disclosure of activities pertaining to corporate social responsibility that the company has undertaken.

2. Corporate social responsibility disclosure (CSR disclosure)

The Bursa Malaysia CSR framework (Bursa Malaysia, 2006) defined corporate social responsibility as open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders. This CSR framework was designed to deliver sustainable value to society at large. CSR supports triple bottom line reporting which emphasizes the economic, social and environmental bottom-line wellness.

Corporate social responsibility disclosure provides information to the public regarding companies' activities with community, environmental, its employees, its consumer and energy usage in the companies. Corporate social disclosure are categorized as voluntary disclosures since it is not required by any financial disclosure regime, accounting standards, the stock exchange rules and regulations, and the Companies Act in Malaysia.

Corporate social disclosure can be defined as the provision of financial and non-financial information relating to an organization's interaction with its physical and social environment, as stated in annual report or separate social reports (Hackston and Milne, 1996). Corporate social disclosure includes details of the physical environment, energy, human resource, products and community involvement matters.

According to Gray *et al.* (2001), social and environmental disclosure can be typically thought of as comprising information relating to a corporation's activities, aspirations and public image with regard to environmental, employee, consumer issues, energy usage, equal opportunities, fair trade, corporate governance and the like. Social and environmental disclosure may also take place through different media such as annual report, advertising, focus group, employee councils, booklets, school education and so forth.

This study will follow the definition used by Hackston and Milne (1996), because it covers the five themes that can be found in company's annual report and websites in Malaysia which were environment, human resource, energy, community involvement and products, and also used Gray *et al.* (2001) as the definition for the extent of disclosures through different media such as annual report, advertising, focus group, employee councils, booklets, school education and so forth. Since this study will use the annual report and companies websites as a medium for CSR disclosure.

3. Development of CG in Malaysia

The beginning of the discussion and eventually the emphasis on CG in Malaysia can be attributed to the Cadbury Report of 1992. This had led to the establishment of Audit Committee as a watchdog. It also functions as the internal control mechanism for every company listed on the London Stock Exchange. Consequent to this, accountants in Malaysia began discussing this issue at conferences and seminars while at the same expecting such a requirement would be imposed by Bursa Malaysia (then Kuala Lumpur Stock Exchange). At that time the Audit Committee was perceived as to improve internal control that is also a feature of good management practice.

Further, the emphasis on corporate governance and corporate responsibility became a much-debated topic during the Asian financial crisis in the year 1997. Scandals, mismanagement, earnings management, widespread retrenchment, and other factors have further eroded capital investors' confidence. The severe decline in the capital market has jolted the authorities to do the necessary to revive the confidence of investors. One of the ways to do so was to deal directly with corporate governance.

The development of corporate governance in Malaysia during the last decade can be summarized as follows:

- Section 334 of the KLSE listing requirement requires all listed companies to establish audit committee with effect from August 1st 1994.
- The establishment of Malaysian Institute of Corporate Governance (MICG) on March 10th 1998 as public company limited by guarantee under the Company Act 1965.
- On 24 March 1998, the government announced in the Parliament that a committee, known as High Level Finance Committee, will determine corporate governance framework and establish good practices for industry.
- The Security Commission was empowered to further enforce the laws and regulations to ensure compliance.

- The Finance Committee on Corporate Governance has published the Malaysian Code on Corporate Governance in January 2001. The code outlines the principles and the good practice for structures and processes to be used by firms.
- The KLSE Listing Requirement published/dedicate a chapter discussing corporate governance practices in January 2001.
- The establishment of Minority Shareholder Watchdog Group on July 2nd 2001 as non-profit making public company limited by guarantee under the Company Act 1965, with the objective to increase activities among minority shareholders (Nasir, 2003).

4. Hypotheses development

4.1 Board size and corporate social disclosure (CSD)

Board of directors is one of the most important elements of corporate governance mechanism in overseeing the conduct of the companies business is being properly managed by their agents. Past studies proposed that board size effects will increased communication and coordination problems, decreased ability of the board to control management and the spread among a larger group of the cost of poor decision making (Lipton and Lorsh, 1992; Eisenberg *et al.*, 1998; Raheja, 2003) states that small boards will mitigate agency conflict between managers and shareholders. Jensen (1993) found that large boards results in less effective coordination, communication and decision making and are more likely to be controlled by the CEO. It is predicted that ineffective coordination in communication and decision making will lead to low quality of financial disclosure since the board of directors are unable carry out their roles efficiently. Thus, it is hypothesized that:

H1. There is a negative relationship between board size and the level of CSR disclosure.

4.2 Independent non-executive directors and corporate social disclosure (CSD)

The empirical governance literature suggests that the degree of board independence is related to composition, and the independence will fosters board effectiveness. Webb (2004) had examined the differences between socially responsible firms' and non-socially responsible firms' board structure and she found that socially responsible firms have more outsiders/independent directors as compared to non-socially responsible firms. Independent directors have incentives to guard shareholders interest well. From this study, it showed that independent director play an important role in enhancing corporate image and act as a monitoring role in ensuring that the companies is properly managed by its management. Any consequences in not involving in corporate social responsibility will reflect a bad image to the company.

Independent directors are perceived as a tool for monitoring management behavior (Rosenstein and Wyatt, 1990), resulting in more voluntary disclosure of corporate information. Forker (1992) found that a higher percentage of independent directors on board enhanced the monitoring of the financial disclosure quality and reduced the benefits of withholding information. With these literatures, it is hypothesized that:

H2. There is a positive relationship between proportion of independent directors and the level of CSR disclosure.

4.3 CEO duality and corporate social disclosure (CSD)

CEO Duality occurs when the same person holds both the CEO and board chairman positions in corporation (Rechner and Dalton, 1989). The combination of CEO and chairman positions reflects leadership and governance issues. However, vesting the power of the CEO and chairman of the board in one person creates a strong power base, which could erode the board's ability to exercise effective control (Tsui and Gul, 2000). Therefore, companies with the CEO duality offer greater power to a person, which enable him to make decisions that do not maximize the shareholders wealth and will help improved monitoring quality and reduce benefits from withholding information that may consequently result in enhancing quality of reporting. Therefore, it is hypothesized that:

H3. Companies which having CEO Duality are more likely to have a lower extent of CSR disclosure.

4.4 Audit committee and corporate social disclosure (CSD)

Prior researches have proven that audit committee plays an effective role in enhancing the corporate governance standards. Wright (1996) found that audit committee composition is strongly related to financial reporting. McMullen and Raghunandan (1996) provides support for the association between the presence of an audit and more reliable financial reporting. The existence of an audit committee was significantly and positively related to the extent of voluntary disclosure (Ho and Wong, 2001; Bliss and Balachandran, 2003).

Audit committee roles is providing a mean for review of the company's processes for producing financial data and its internal control, thus its existence is in producing high quality financial reporting. According to Malaysian Code of Corporate Governance (2000), the board should establish an audit committee with at least three independent directors or more. The existence of audit committee with a higher proportion of independent directors should reduce the agency cost and improve the internal control that will lead to greater quality of disclosures (Forker, 1992).

Hence, it is hypothesized that:

H4. There is a positive relationship between proportion of independent non-executive directors sit in audit committee and the level of CSR disclosure ownership concentration and corporate social disclosure.

Abdul Samad (2002) found that the five largest shareholders held in Malaysia were about 58.8 percent of total equity in the corporate sector. From her findings, it clearly showed that the Malaysian corporate sector has been highly concentrated in terms of ownership. She commented that, highly concentrated ownership implied that minority shareholders were practically powerless to prevent large shareholders from implementing their plans for the company. Haniffa and Hudaib (2006) found that the mean percentage of shareholding held by top five largest shareholders is about 61 percent indicating that concentrated ownership in most Malaysian companies.

The findings in the study done by Halme and Huse (1997) indicated that there was no significant relationship between ownership concentration and corporate environmental reporting in annual report. Mohd Ghazali and Wheetman (2006) found that ownership concentration was not significant in explaining the extent of voluntary disclosure where it is consistent with Halme and Huse (1997). Mohd Ghazali and Wheetman (2006) found that ownership concentration was not significant in explaining the extent of voluntary disclosure. Alsaeed (2006) discovered that ownership dispersion was found to be insignificant in explaining the variation of voluntary disclosure.

Chau and Gray (2002) found that there is a positive association between wider ownership and the extent of voluntary disclosure. Wang and Coffey (1992) found that there was negative relationship between ownership concentration and corporate philanthropy. Shareholdings in public listed companies in Malaysia are highly concentrated (Claessens *et al*., 1999). Haniffa and Cooke (2002) found that there was a positive relationship between diffusion ownership and voluntary disclosure in Malaysian companies. Thus, it is hypothesize that:

H5. There is a negative relationship between ownership concentrations and the level of CSR disclosure ownership concentration and corporate social disclosure (CSD)

4.5 Managerial ownership

The agency theory predicts that the principal-agent problem between managers and shareholders arises when managers hold little equity in the corporation. This will lead to managers to engage in an opportunistic behavior (Jensen and Meckling, 1976). Past studies had showed that an increase in management ownership will reduce the agency problems and improved managers' incentive to provide more disclosure. Mohd Nasir and Abdullah (2004) investigated the influence of ownership structure in explaining the level of voluntary disclosures among the Malaysian financially distressed firms and found that management shareholding levels have a significant and positive association with the level of voluntary disclosures. Coffey and Wang (1998) found that managerial control (percentage of stock owned by insiders) is positively related to charitable giving.

The above findings were in contrast to Guan Yeik (2006) and Eng and Mak (2003). In his study, he examined the relationship between managerial ownership and corporate social responsibility and he found that managerial ownership was significantly negatively related to corporate social disclosure in Malaysian public listed companies. In his study, he found that managerial ownership level of 45 percent above will influence the corporate to have lower social disclosure. Eng and Mak (2003) found that lower managerial ownership is associated with increased voluntary disclosures.

Hence, it is hypothesized that:

H6. There is a negative relationship between the proportions of shares held by executives' directors with the extent of corporate social disclosure.

4.6 Foreign ownership

Previous studies revealed that corporate social disclosures in Malaysia is still generally low (Foo and Tan, 1988; Nik Ahmad and Sulaiman, 2004; Shaw Warn, 2004; Ramasamy and Ting, 2004). Ramasamy and Ting (2004) examined a comparative analysis of corporate social responsibility awareness among Malaysian and Singaporean firms by using levels of corporate social disclosure as a measurement of corporate social responsibility (CSR) awareness. In their study, they used employee perception towards CSR awareness in Malaysian and Singaporean firms. The respondents were questioned on their management of CSR within the company, such as awareness of corporate social responsibility, attitudes to CSR in the company, the types of CSR activity and the respondent involvement in CSR. The results show a low level of awareness in both countries, although Singaporean companies tend to exhibit a relatively higher level of awareness.

Chambers *et al.* (2003) investigated CSR reporting in seven countries through analysis of websites of the top 50 companies in Asia. This study investigated the penetration of CSR reporting within countries; the extent of CSR reporting within companies and the waves of CSR engaged in. The findings in Chambers *et al.* (2003) showed that, there are fewer CSR companies in the seven selected Asian countries compared with UK and Japan companies. The mean for the seven countries studied, show a score of 41 percent which is under half the score for the UK (98 percent) and Japan companies (96 percent). Thus by involvement of foreign shareholders in Malaysian Public Listed companies will enhance the extent of corporate social disclosure in Malaysia.

Haniffa and Cooke (2005) found a significant relationship between corporate social disclosure and foreign shareholders indicated that Malaysian companies use corporate social disclosure as a proactive legitimating strategy to obtain continued inflows of capital and to please ethical investors. Abdul Samad (2002) found that foreign shareholdings comprise of 5.01 percent in Malaysian public listed companies. Thus, it is hypothesized that:

H7. There is a positive relationship between the proportions of shares held by foreign ownership with the extent of corporate social disclosure.

4.7 Government shareholding

Mohd Ghazali and Wheetman (2006) stated that government ownership of shares is a particular feature of Malaysian companies, largely where the government retains shares in privatized companies. As at December 2000, government ownership in privatized entities was 49.5 percent. In the study, they examined the relationship between government ownership with voluntary disclosure in Malaysia and found that government ownership was not significant in explaining the extent of voluntary disclosure.

Government interventions may generate pressures for companies to disclose additional information because the government is a body that trusted by the public. Eng and Mak (2003) found that government ownership was associated with increased voluntary disclosure. Mohd Nasir and Abdullah (2004) further found that the extent of government-linked shareholdings influences the amount of voluntary disclosures. It is predicted that government shareholdings will lead to greater corporate social responsibility disclosures, as government should promote transparency among public listed companies in Malaysia. Thus, it is hypothesized that:

H8. There is a positive relationship between the proportions of shares held by government with the extent of corporate social disclosure.

5. Research design

5.1 The sampling

The initial sample of 250 was drawn from the main board of Malaysian listed companies for the year ended 2006. The proportional stratified sampling method was used in this study to determine the sample size of each sector of public listed companies in main board companies in Malaysia. Out of 250 companies selected, only 150 companies represent the final sample after take into consideration the companies that have both sources of data that is annual report and companies web sites.

The study was based on secondary data collected from the annual report and company's websites of main board companies. The sample will be selected from non-financial companies listed on the main board of Bursa Malaysia in the year 2006. This study will select the companies that consist in the main board of Bursa Malaysia from ten sectors that is consumer product, industrial product, trading and services, plantations, properties, construction and other sectors in the year 2006. Companies with both sources of data were selected in order to come out with the final index that is known as combined index. The index was constructed after combining both corporate social responsibility items disclosed in annual report and companies websites).

5.2 Dependent variables

The study used the content analysis that is a method of codifying the text (or content) of a piece of writing or categories depending on selected criteria (Weber, 1988). Content analysis has been widely used in corporate social reporting research (Abbot and Monsen, 1979; Ernst & Ernst, 1976; Guthrie and Matthews, 1985; Haniffa and Cooke, 2005). The definition that has been widely used by past researchers was usefully defined by Abbot and Monsen (1979) as:

> A technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity.

The disclosure items based on past study, particularly from Ernst & Whinney (1978), Hackston and Milne (1996), Haniffa and Cooke (2005), Manasseh (2004), and Shaw Warn (2004) which covered the five themes which were environmental, community involvement, human resource/employee information, energy.

The CSR disclosure items were extracted from annual report and companies' websites. The CSR disclosure index was constructed after combining both CSR disclosure items disclosed in annual report and companies websites. The CSR disclosure index were developed by adding all the items covering the five themes, which were environment, community, human resource, energy and product. This CSDI was developed by using the dichotomous, which the scores of ‘‘1’’, if the company disclose the items and ‘‘0’’, if it is not. The process will add all the scores and equally weighted.

5.3 Independent variables

See Table I.

5.4 Control variables

The study used two control variables, i.e. firm’s size (total assets) and profitability (ROE and ROA) which had been widely used by past researchers. By controlling these two variables, it will enhance the relationship between corporate governance characteristics and corporate social disclosure.

The study used total assets as a proxy to firm’s size which was widely used by other researchers in the area of corporate social responsibility reporting (Hackston and Milne, 1996; Ho and Wong, 2001; Eng and Mak, 2003; Barnea and Rubins, 2004; Gul and Leung, 2004; Mohd Nasir and Abdullah, 2004; Haniffa and Cooke, 2005; Wilekens *et al.*, 2005; Barako *et al.*, 2006; Cheng and Courtenay, 2006; Mohd Ghazali and Wheetman, 2006).

The study used ROE as a measurement for profitability. This measurement had been widely used by other researchers (Ho and Wong, 2001; Bliss and Balachandran, 2003; Eng and Mak, 2003; Mohd Nasir and Abdullah, 2004; Shaw Warn, 2004; Haniffa and Cooke, 2005; Willekens *et al.*, 2005; Barako *et al.*, 2006).

6. Analysis of data

Hierarchical Regression analysis was used to examine the relationship between the corporate social disclosures index and the independent variables namely the board size, board independence, duality, Audit committee, ten largest shareholders, managerial ownership, foreign ownership and government ownership.

To determine the appropriateness of the model, several tests underlying the regression model were made which were normality, linearity, homoscedasticity and multicollinearity. In testing the model, it is involved two fold that are testing the individual independent variables and testing the overall relationship after model estimation (Hair *et al.*, 1998).

The regression model is as follows:

$$\begin{aligned} \mathrm{CSD} = {} & \beta 0 + \beta 1\mathrm{BD\,SIZE} + \beta 2\mathrm{NED} + \beta 3\mathrm{DUAL} + \beta 4\mathrm{AC\,CHAIR} + \beta 5\mathrm{AC\,NED} \\ & + \beta 6\mathrm{CONCERN} + \beta 7\mathrm{SH} + \beta 8\mathrm{MGR\,OS} + \beta 9\mathrm{FRGN\,OS} + \beta 10\mathrm{GOVT.\,OS} + \beta 11\mathrm{ROE} \\ & + \beta 12\mathrm{ROA} + \beta 13\mathrm{TA} + \bar{e} \end{aligned}$$

where CSD = CSR disclosure index:

- β1BD SIZE: board size.
- β2NED = Percentage of non-executive directors to total directors.

Table I The operationalization of independent variables

Independent variables	*Operationalization*
Board size	Numbers of directors sit on the board
Board independence	Percentage of non-executive directors to total directors
Duality	A dichotomous variable will be used for the presence of dual leadership, where it will take the value of ‘‘1’’ if the CEO is also the Chairman of the board, and ‘‘0’’ otherwise
Audit committee	Percentages of non-executive directors to total of directors sitting on audit committee
	Percentages of non-executive directors sitting on audit committee to total of directors
Ownership concentration	Percentage of shares owned by the ten largest shareholders to total number of shares issued
Managerial ownership	Percentage of shares owned by executive directors to total number of shares issued
Foreign ownership	Percentage of shares owned by foreign shareholders to total number of shares issued
Government ownership	Percentage of shares owned by government to total number of shares issued

- β3DUAL = CEO duality.
- B4AC = Proportion of non-executive directors to total of directors sit in audit committee.
- B5TenSH = Ownership concentration (ten largest shareholders).
- B6MGR = Managerial ownership.
- B7FRGN = Foreign ownership.
- B8GOVT = Government ownership.
- B9ROE = Return on equity (proxy for profitability).
- B10 = ROA (proxy for profitability).
- β11 = TA (proxy for size).
- ē: Error term.

7. Findings

7.1 Descriptive statistics

Table II represents the 150 companies being the final sample from 602 public listed companies of total population listed at Bursa Malaysia for the year ended 2006. A total of 26 percent ($n = 39$) of the sample firms are in industrial product industry. The remaining is in trading and services ($n = 30$, 20 percent), properties ($n = 29$, 19.3 percent), consumer product ($n = 25$, 16.7 percent), plantation ($n = 11$, 7.3 percent), construction and technology ($n = 3$, 2 percent).

The final sample of 150 companies is a valid representative of population of 602 main board companies of public listed companies in Bursa Malaysia for the year ended 2006. From the Table III, the sample represents 25 percent of the target population with a representation of above 20 percent in every sector. The Table III shows the sector analysis of the final sample and target population with sector representation of 19 percent to 30 percent in each sector.

Table IV showed the descriptive statistics for the dependent variables of corporate social responsibility (CSR disclosure index) and continuous variables. The descriptive statistics

Table II Sample distribution by industry

	Frequency	*%*	*Valid (%)*	*Cumulative (%)*
CN	13	8.7	8.7	8.7
TS	30	20.0	20.0	28.7
CP	25	16.7	16.7	45.3
PL	11	7.3	7.3	52.7
TECH	3	2.0	2.0	54.7
PROP	29	19.3	19.3	74.0
IP	39	26.0	26.0	100.0
Total	150	100.0	100.0	

Table III Sample size determination or sector analysis of final sample and target population of companies

Industry	*Number of selected companies Sample (a)*	*Total listed company Population (b)*	*Percent a/b*
Consumer products	25	87	29
Industrial products	39	156	25
Trading and services	30	143	21
Plantations	11	44	25
Properties	29	97	30
Construction	13	44	30
Other sector	3	16	19
Total	150	602	25

Table IV Summary of statistics of continuous variables					
	n	*Minimum*	*Maximum*	*Mean*	*Std dev.*
CSR disclosure index	150	0.00	63.95	13.90	14.57
Board size	150	4.00	15.00	8.00	2.06
Board independence	150	0.25	1.00	.63	0.18
Audit committee	150	0.50	1.00	.81	0.15
Ownership concentration (ten largest shareholders)	150	20.04	98.98	63.52	15.44
Managerial ownership	150	0.00	94.60	9.95	17.55
Foreign ownership	150	0.00	45.99	6.31	8.66
Government ownership	150	0.00	70.60	8.45	11.60

includes statistics such as minimum, maximum, mean and standard deviation for the corporate social responsibility index. The mean for the CSR disclosure index level is 13.90 that are generally low.

Table V presents the level of CSR disclosure index for the 150 companies. The non-disclosure companies is 10 percent ($n = 15$) and 44.7 percent ($n = 67$) of the companies had the CSR disclosure index less than 10 percent. This indicates that the levels of corporate social responsibility disclosure in Malaysians companies are generally low with a mean of 13.90 percent.

As shown in the Table VI, Product theme has the highest number of disclosure in both combined sources of data namely annual report and companies' websites. The human resource theme is ranked second for the number of disclosure for 150 companies, followed by environment theme.

7.2 Multiple regression findings

Table VII shows the correlation analysis between the dependent variable, independent variables and control variables. The Pearson correlations coefficient reported in the above table suggest that the multicollinearity is not serious for the independent variables. As suggested by Gujarati (1988) in Jan (1998), simple correlations between independent variables are considered ''harmful'' when its exceed 0.80 or 0.90. The Pearson correlations

Table V Level of disclosure of corporate social responsibility index for $n = 150$		
	CSR disclosure index	
Level of CSR disclosure index (%)	*Frequency*	*%*
Not disclosed	15	10.0
Not more than 10	67	44.7
10 to 20	34	22.7
20 to 30	12	8.0
30 to 40	8	5.3
More than 40	14	9.3
Total	150	100

Table VI Descriptive statistics for five themes of CSR disclosure					
	n	*Minimum*	*Maximum*	*Mean*	*Std deviation*
Environment	150	0.00	16.00	2.8133	4.28574
Community	150	0.00	10.00	2.4667	3.12313
Human resource	150	0.00	24.00	3.5733	4.58235
Energy	150	0.00	6.00	0.1200	0.76781
Product	150	0.00	22.00	4.1600	4.49322
Valid *n*	150				

Table VII Correlation analysis

	CSR Disc	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
CSR Disc	1										
BSIZE	0.232**	1									
IND	−0.011	−0.102	1								
Duality	−0.055	−0.104	−0.071	1							
AC	0.153	0.004	0.507**	−0.005	1						
10SH	0.206*	0.075	0.080	−0.103	0.147	1					
MGRIAL	−0.086	−0.151	−0.367**	0.068	−0.380**	−0.110	1				
FREIGN	0.178*	0.126	0.189*	0.001	−0.009	−0.058	−0.138	1			
GOVT	0.317**	0.221**	0.064	−0.108	−0.017	0.107	−0.151	0.194*	1		
TA	0.329**	0.214**	0.172*	−0.135	0.171*	−0.104	−0.369**	0.418**	0.345**	1	
ROE	0.157	0.098	−0.052	0.012	−0.058	0.185*	−0.028	0.096	0.008	0.080	1

Notes: *Correlation is significant at the 0.05 level (two-tailed); **Correlation is significant at the 0.01 level (two-tailed)

between independent variables in this study were range ''between'' 0.001 to 0.507 which is not exceeding 0.80 or 0.90.

Model 1 in Table VIII showed regression analysis of control variables for total assets (firm's size) and return on equity (profitability). The model is significant with R square = 0.13, Adjusted R square = 0.11, R square change = 0.13 and F Value = 10.56. The result showed that the total assets ($\beta = +0.32$, $p < 0.01$) and return on equity ($\beta = +0.13$, $p < 0.10$) have a positive influence on CSR disclosure.

This implies that in the model 1, the coefficient of determination (R square) was found to be 13 percent of the level of CSR disclosure is explained by firm's size and profitability of the companies. It can be observed that the firms size (total asset) did have significant and positive relationship with CSR disclosure at the 0.01 level of significant and profitability (ROE) at 0.10 level of significant.

In the model 2, by adding all the model variables, the R square is increased to 25 percent (this represent the model as a whole) and the R square change is 12 percent and is significant. This implies that the additional 12 percent of the variation in CSR disclosure is

Table VIII Detail results of the regression analysis

Variables	*Std Beta model 1*	*Std Beta model 2*
Control variables		
Total assets	0.32***	0.26
Return on equity (ROE)	0.13*	0.10
Model variables		
Board size		0.13*
Board independence		0.02
Duality		0.02
Audit committee		0.15*
Ownership concentration		0.18**
Managerial ownership		0.14
Foreign ownership		0.04
Government ownership		0.20**
R square	0.13	0.25
Adjusted *R* square	0.11	0.19
R square change	0.13	0.12
F value	10.56***	4.55***
F change	10.56	1.01
Sig. *F* change	0.00	0.00
Durbin Watson		2.05

Notes: *$p < 0.10$; **$p < 0.05$; ***$p < 0.01$

explained by CG characteristics. R square change of 12 percent means that the CG characteristics explain additional 12 percent of the variance in CSR disclosure even when the effects of firm's size and profitability of the companies are statistically controlled for.

The independent variables that is most significant is government ownership and positively correlated with $\beta = +0.20$ at $p < 0.05$. The result is consistent with the study done by Eng and Mak (2003) and Mohd Nasir and Abdullah (2004). Audit committee is positively correlated and weak significant with $\beta = +0.15$ at $p < 0.10$. The existence of an audit committee was significantly and positively related to the extent of voluntary disclosure (Ho and Wong, 2001; Bliss and Balachandran, 2003).

7.3 Summary of hypotheses

See Table IX.

8. Discussions and conclusions

This study examines the specific characteristics of the corporate governors of the company in relation to the disclosure of activities pertaining to corporate social responsibility that the company has undertaken. We extend the previous studies on the development of CSR index by extending the disclosure to companies' web sites. Results based on the full regression models indicated that only three variables were associated with the extent of disclosures namely government ownership, ownership concentration and audit committee. Government ownership, ownership concentration and audit committee are positively and significantly correlated with the level of corporate social responsibility disclosure. The most significant variables that influence the level of CSR disclosure is government ownership. It implies that the higher the government shareholding in a company the higher the level of CSR disclosure will be. As we know, government interventions may generate pressures for companies to disclose additional information because the government is a body that trusted by the public.

Responsibilities of an audit committee include review of the internal audit department, review of the annual audit plan, and review the quarterly and year-end financial statements of the board focusing particularly on any changes in accounting policies and practices, significant adjustment arising from the audits, the going concern assumptions and compliance with accounting standards and other legal requirements. From the result it is found that the higher proportion of non-executive directors that sit on the audit committee board, the higher will be the extent of CSR disclosure. One of the effectiveness functions of audit committee are determined by the independence of their members that sit in audit committee board. This is reflected in the Bursa Malaysia requirements and Cadbury Report (Cadbury, 1992) that emphasize on the importance of having ideal number of non-executive directors in the audit committee. Wright (1996) found that audit committee composition is strongly related to financial reporting quality. According to Malaysian Code of Corporate Governance (2000), the board should establish an audit committee with at least three independent directors or higher. The existence of audit committee with a higher proportion of independent directors should reduce the agency cost and improve the internal control that will lead to greater quality of disclosures (Forker, 1992).

Table IX Summary of hypotheses

H1. There is a negative relationship between board size and the level of CSR disclosure	Rejected
H2. There is a positive relationship between proportion of independent directors and the level of CSR disclosure	Rejected
H3. Companies which having CEO duality are more likely to have a lower extent of corporate social disclosure	Rejected
H4. There is a positive relationship between proportion of independent non-executive directors sitting on audit committee and the level of CSR disclosure	Accepted
H5. There is a negative relationship between ownership concentrations and the extent of corporate social disclosure	Rejected
H6. There is a negative relationship between the proportions of shares held by executives' directors and the extent of corporate social disclosure	Rejected
H7. There is a relationship association between the proportions of shares held by foreign ownership and the extent of corporate social disclosure	Rejected
H8. There is a positive relationship between the proportions of shares held by government and the extent of corporate social disclosure	Accepted

Thus, it can be seen that the role of government interventions and audit committee in enhancing the extent of the level of corporate social responsibility disclosure in Malaysian companies are vital. The government ownership and audit committee are two important corporate governance mechanisms that ensure the companies will comply with accounting standards and other legal requirements. In order to mitigate agency problems between firms and shareholders, society and stakeholders, the pressure from government and audit committee functions can help to reduce the expected costs and the negative impact on firm value and indicate to society and stakeholders that individual firms are doing their part to help in solving society's social problems through additional disclosures.

References

Abbot, W.F. and Monsen, R.J. (1979), ''On the measurement of corporate social responsibility: self-reported disclosures as a method of measuring corporate social involvement'', *Academy of Management Journal*, Vol. 22 No. 3, pp. 501-15.

Abdul Samad, F. (2002), ''Ownership structure in the Malaysian corporation sector: its impact on corporate governance, performance, financing and investment patterns'', working paper series, Centre on Regulation and Competition, Institute for Development Policy and Management, University of Manchester, Manchester.

ACCA (2002), *The State of Corporate Reporting in Malaysia*, The Association of Chartered Certified Accountants, Kuala Lumpur.

Accountant Today (2006), *Accountant Today*, March.

Adebayo, E. (2000), ''Corporate social responsibility disclosure, corporate financial and social performance: an empirical analysis'', DBA, Wayne Huizenga Graduate School of Business and Entrepreneurship, Nova Southeastern University, Fort Lauderdale, FL.

Alsaeed, K. (2006), ''The association between firm-specific characteristics and disclosure: the case of Saudi Arabia'', *Managerial Auditing Journal*, Vol. 21 No. 5, pp. 476-96.

Barako, D.G., Hancock, P. and Izan, H.Y. (2006), ''Relationship between corporate governance attributes and voluntary disclosures in annual reports: the Kenyan experience'', *Financial Reporting, Regulation and Governance*, Vol. 5 No. 1.

Barnea, A. and Rubin, A. (2004), ''Ownership structure and corporate social responsibility'', job market paper, University of British Columbia, Vancouver.

Bliss, M. and Balachandran, J. (2003), ''CEO duality, audit committee independence and voluntary disclosures in Malaysia'', paper presented at International Conference on ''Quality Financial Reporting and Corporate Governance – Building Public Trust, Integrity and Accountability'', Kuala Lumpur.

Bursa Malaysia (2006), ''CSR framework for Malaysian PLCs'', available at: www.bursamalaysia.com

Cadbury, A. (1992), ''Codes of best practice'', report from the Committee on Financial Aspects of Corporate Governance, Gee Publishing, London.

Chambers, E., Moon, W.C.J. and Sullivan, M. (2003), ''CSR in Asia: a seven country study of CSR web site reporting'', research paper series, International Centre for Corporate Social Responsibility, available at: www.nottingham.ac.uk/business/ICCSR/pdf/ResearchPdfs/092003.PDF (accessed July 18, 2006).

Chau, G.K. and Gray, S.J. (2002), ''Ownership structure and corporate voluntary disclosure in Hong Kong and Singapore'', *The International Journal of Accounting*, Vol. 37, pp. 247-65.

Cheng, E.C.M. and Courtenay, S.M. (2006), ''Board composition, regulatory regime and voluntary disclosure'', *The International Journal of Accounting*, Vol. 41, pp. 262-89.

Claessens, S., Djankov, S. and Lang, L.H.P. (1999), ''Who controls Asian corporation?'', Policy Research Working Paper Series No. 2054, The World Bank, Washington, DC.

Coffey, B.S. and Wang, J. (1998), ''Board diversity and managerial control as predictors of corporate social performance'', *Journal of Business Ethics*, Vol. 17 No. 14, pp. 1595-603.

csrnetworks.org (2006), ''The top ten benefits of engaging corporate social responsibility'', Cedar Rapids, IA, available at: www.csrnetwork.com/downloads/OpinionWhyBother.pdf (accessed March 19, 2006).

Eisenberg, T., Sundgren, S. and Wells, M. (1998), ''Larger board size and decreasing firm value in small firms'', *Journal of Financial Economics*, Vol. 48, pp. 35-54.

Eng, L.L. and Mak, Y.T. (2003), ''Corporate governance and voluntary disclosure'', *Journal of Accounting and Public Policy*, Vol. 22 No. 4, pp. 325-45.

Ernst & Ernst (1976), *Social Responsibility Disclosure*, Ernst & Ernst, Cleveland, OH.

Ernst & Whinney (1978), *Social Responsibility Disclosure, 1977 Survey of* Fortune 500 *Annual Reports*, Ernst & Whinney, Cleveland, OH.

Foo, S.L. and Tan, M.S. (1988), ''A comparative study of corporate social reporting in Malaysia and Singapore'', *Singapore Accountant*, August, pp. 12-15.

Forker, J.J. (1992), ''Corporate governance and disclosure quality'', *Accounting and Business Research*, Vol. 22, pp. 111-24.

Gray, R., Javad, M., Power, D. and Sinclair, D. (2001), ''Social and environmental disclosure and corporate characteristics: a research note and extension'', *Journal of Business and Accounting*, Vol. 28 Nos 3/4, pp. 327-56.

Guan Yeik, T. (2006), ''The relationship between board of directors and corporate social responsibility: study on Malaysian public listed companies'', Master's in Accounting, Universiti Sains Malaysia, Penang, unpublished thesis.

Gujarati, D.N. (1988), *Basic Econometrics*, International edition, McGraw-Hill, Singapore.

Gul, F.A. and Leung, S. (2004), ''Board leadership, outside directors' expertise and voluntary disclosures'', *Journal of Accounting and Public Policy*, Vol. 23, pp. 351-79.

Guthrie, J. and Matthews, M.R. (1985), ''Corporate social accounting in Australia'', *Research in Corporate Social Performance and Policy*, Vol. 1, pp. 251-77.

Hackston, D. and Milne, M. (1996), ''Some determinants of social and environmental disclosures in New Zealand companies'', *Accounting, Auditing & Accountability Journal*, Vol. 9, pp. 77-108.

Hair, J.E., Anderson, R.E., Tatham, R.L. and Black, W.C. (1998), *Multivariate Data Analysis*, 5th ed., Prentice-Hall, Upper Saddle River, NJ.

Halme, M. and Huse, M. (1997), ''The influence of corporate governance, industry, and country factors on environmental reporting'', *Scandinavian Journal of Management*, Vol. 13, pp. 137-57.

Haniffa, R.M. and Cooke, T.E. (2002), ''Culture, corporate governance and disclosure in Malaysian corporations'', *Abacus*, Vol. 38 No. 3, pp. 317-48.

Haniffa, R.M. and Cooke, T.E. (2005), ''The impact of culture and corporate governance on corporate social reporting'', *Journal of Accounting and Public Policy*, Vol. 24, pp. 391-430.

Haniffa, R. and Hudaib, M. (2006), ''Corporate governance structure and performance of Malaysian listed companies'', *Journal of Business Finance and Accounting*, Vol. 33 Nos 6/7, pp. 1034-62.

Ho, S.M. and Wong, K.S. (2001), ''A study of the relationship between corporate governance structures and the extent of voluntary disclosure'', *Journal of International Accounting, Auditing and Taxation*, Vol. 10, pp. 139-56.

Jan, C. (1998), ''An empirical investigation of the factors affecting the extent and causes of voluntary information disclosure in the annual report of high technology companies'', unpublished thesis, Doctor of Business Administration, Nova Southeastern University, Fort Lauderdale, FL.

Jensen, M. (1993), ''The modern industrial revolution, exit, and the failure of internal control systems'', *Journal of Finance*, Vol. 48, pp. 831-80.

Jensen, M. and Meckling, W. (1976), ''Theory of the firm: managerial behavior, agency costs and ownership structure'', *Journal of Financial Economics*, Vol. 3, pp. 305-60.

Lipton, M. and Lorsh, J. (1992), ''A modest proposal for improved corporate governance'', *The Business Lawyer*, Vol. 48, pp. 59-77.

McMullen, D. and Raghunandan, K. (1996), ''Enhancing audit committee effectiveness'', *Journal of Accountancy*, August, pp. 79-81.

Malaysian Code of Corporate Governance (2000), Malaysian Code of Corporate Governance, Finance Committee on Corporate Governance, Kuala Lumpur.

Manasseh, S. (2004), ''Study on the level of corporate social disclosure practices in Malaysia'', Master's in Accounting thesis, Universiti Sains Malaysia, Penang.

Mohamed Zain, M. and Janggu, T. (2006), ''Corporate social disclosure (CSD) of construction companies in Malaysia'', *Malaysian Accounting Review*, Vol. 5 No. 1, pp. 85-114.

Mohd Ghazali, N.A. and Wheetman, P. (2006), ''Perpetuating traditional influences: voluntary disclosure in Malaysia following the economic crisis'', *Journal of International Accounting, Auditing and Taxation*, Vol. 15, pp. 226-48.

Mohd Nasir, N.A. and Abdullah, S.N. (2004), ''Voluntary disclosure and corporate governance among financially distressed firms in Malaysia'', *Financial Reporting, Regulation and Governance*, Vol. 3 No. 1.

Nasir, D. (2003), ''Corporate governance in Malaysia'', professorial talk, Universiti Sains Malaysia, Penang.

Nik Ahmad, N.N. and Sulaiman, M. (2004), ''Environmental disclosures in Malaysian annual reports: a legitimacy perspective'', *International Journal of Commerce and Management*, Vol. 14 No. 1, pp. 44-58.

Raheja, C. (2003), ''The interaction of insiders and outsiders in monitoring: a theory of corporate boards'', working paper, Vanderbilt University, available at: http://tkyd.org/../board_structure_and_agency_costs_ameziane_lesfer_2002.pdf (accessed May 2005).

Ramasamy, B. and Ting, H.W. (2004), ''A comparative analysis of corporate social responsibility awareness: Malaysia and Singapore firms'', *The Journal of Corporate Citizenship*, Vol. 13, pp. 109-23.

Rechner, P.L. and Dalton, D.R. (1989), ''The impact of CEO as board chairperson on corporate performance: evidence versus rhetoric'', *Academy of Management Executive*, Vol. 3, pp. 141-3.

Rosenstein, S. and Wyatt, J.G. (1990), ''Outside directors, board independence, and shareholder wealth'', *Journal of Financial Economics*, Vol. 26, pp. 175-92.

Shaw Warn, T. (2004), ''Determinants of corporate social reporting in Malaysia'', Master of Science in Accounting, Universiti Putra Malaysia, unpublished thesis.

Tsui, J. and Gul, F.A. (2000), ''Corporate governance and financial transparencies in the Hong Kong special administrative region of the People's Republic of China'', paper presented at the 2nd Asian Roundtable on Corporate Governance, Hong Kong, May 2000.

Wang, J. and Coffey, S. (1992), ''Board composition and corporate philanthropy'', *Journal of Business Ethics*, Vol. 11, pp. 771-8.

Webb, E. (2004), ''An examination of socially responsible firms' board structure'', *Journal of Management and Governance*, Vol. 8, pp. 255-77.

Weber, R.P. (1988), ''Basic content analysis'', Sage University Paper Series on Qualitative Applications in the Social Sciences, Series No. 07-049, Sage, Beverly Hills, CA.

Willekens, M., Bauwhede, H.V., Gaeremynck, A. and Van De Gucht, L. (2005), ''Internal and external governance and the voluntary disclosure of financial and non-financial performance'', paper presented at BAA Auditing SIG Conference 2005, 15th National Auditing Conference, Aston Business School, March 11-12.

Wright, D.W. (1996), ''Evidence on the relation between corporate governance characteristics and the quality of financial reporting'', working paper, University of Michigan, Ann Arbor, MI.

Corresponding author

Yuserrie Hj Zainuddin can be contacted at: yuserrie@usm.my