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CORPORATE SOCIAL RESPONSIBILITY AWARDS & PERFORMANCE: SOME MALAYSIAN EVIDENCE

Elinda Esa (a)* & Abdul Rahman Zahari (b)
*Corresponding author

(a) College of Business Management and Accounting, Universiti Tenaga Nasional, Malaysia.
Elinda@uniten.edu.my
(b) College of Business Management and Accounting, Universiti Tenaga Nasional, Malaysia.
Rahman@umiten.edu.my

Abstract

Corporate governance (CG) and corporate social responsibility (CSR) is a prominence issues in the business world as they shared the same responsibility and goal to enhance shareholder value. The current paper aims to investigate the impact of CSR awards and corporate governance characteristics towards corporate performance of Malaysian public listed companies (PLCs). CSR awards is a significant recognition of the impact that the business sector can have on the community. Furthermore, CSR awards, board size, executive boards, board gender and board educational background are used as independent variables while return on assets (ROA) is used as a dependent variable for corporate performance. Additionally, to examine the relationship, multiple regression analysis is used. The findings of this paper revealed that executive board and total assets variables have a significant relationship with the company performance. On the other hand, CSR awards, board gender and board education are found insignificant relationship with corporate performance.

Keywords: Corporate social responsibility award, Malaysia, disclosure, performance.

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1. Introduction

Following the Asian financial turmoil in 1997, many economies of East Asian countries were affected. Malaysia is one of the countries that has been negatively affected by the crisis. The crisis has resulted poor corporate governance as well as the board directors issues is being largely criticised and accused for the failure in shareholders' wealth and corporate collapse (Uadiale, 2010). Hence, in Malaysia, the need to improve, promote and sustain strong culture in corporate governance has been raised. Additionally, as claimed by Mohamad, Rashid and Shawtari (2012), weak corporate governance also will affect the performance of different organizations particularly for public listed and state-owned companies.

Corporate governance is a tool that aims to reduce gap between the management's goals and stakeholders in order to increase operational efficiency and effectiveness. Board is one of the important issue in corporate governance as they can leads and controls a company. The board is the link between managers and investors and is essential to good corporate governance and investor relations. Therefore, an effective board is fundamental to the success of the company. Boards also is claimed one of the important control in managing firms operations (Amran & Che Ahmad, 2011). In order to ensure board execute their roles and duties effectively, previous studies (eg. Esa & Zahari, 2016; Baysinger & Butler, 1985; Yameesari & Herath, 2010;) had suggest the boards should competent and able to react appropriately to any changes in the corporate governance culture.

Corporate governance and corporate social responsibility (CSR) come to prominence in the business world as they shared the same responsibility and goal to enhance shareholder value. As suggested by Bhimani and Soonawalla (2005) that corporate governance and CSR are two sides of the same coin. CSR is claimed can improve the corporate performance by creating new market opportunities, competitive advantage and customer satisfaction (Buhr & Grafström 2006). Additionally, disclosure of CSR information in company annual report is seen as a key driver for engaging the wider community in business activities (Zairi & Peters, 2002). Disclosure is a foundation of mutual understanding and trust between a company and its stakeholders.

In other word, CSR is referred as a medium for the companies to attain on the current and future impact of business operations, the environment, employees, local community and society as well as to satisfy their stakeholder demands and expectation (Carroll & Shabana, 2010). Consequently, some regulatory bodies take an initiative to encourage the companies to produce more and better reports by giving an award to the responsible companies as recognise them as an example of the best CSR practices. These awards can be an effective motivational approach that gaining considerable attention for the companies to voluntarily improve their reporting in order to boost stakeholder attraction as well as their profitability. Therefore, based on the above factors, the focus of the current paper is to examine the effects of CRS awards and board characteristics towards corporate performance, particularly on the profitability within Malaysian' public listed companies (PLCs). This both variables are mainly important for the companies to achieve their goal.

2. Problem Statement

In the budget speech 2007, the Prime Minister announced that private sector contributions to the community would be recognized and awarded through the Prime Minister's CSR awards Sponsorship. The

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awards are meaningful to implant CSR into corporate culture. Additionally the CSR awards is a significant recognition of the impact that the business sector can have on the community. Corredo and Goñi (2010) in their study revealed a significant higher profit among the awards winning firms during the year after the achievement of award. Award also is found as one of the variables that will motivate companies to disclose more CSR disclosure practices. In Malaysian, some agencies take an initiative to encourage and recognize CSR practices among companies by introducing several CSR awards such as the ACCA Malaysian Environmental and Social Reporting Award (MESRA). Anas, Abdul Rashid and Annuar (2015) stated that award appears to be an important component in the CSR reporting practices of Malaysian PLCs over the past 10 years. However, only limited research has looked into the importance of award in Malaysian specifically. Thus, in order to obtain evidence that might shed light on this issue in the Malaysian context, the current study is conducted to examine whether CSR awards can influence the corporate performance of the companies in term of profitability.

Moreover, one of the substantial issues in the corporate governance is the board characteristics. Undeniably, boards had a vital role in a firm by giving direction and guidance for daily operation of their business. Due to the recent interest in this corporate governance issues, academic research pertaining this issue has been encourage to explore the effect of board characteristics towards strategic decisions (Wijethilake, Ekanayake, & Pere, 2015).

3. Research Questions

The current paper aimed to answer the following research question: Do CSR awards, board and corporate characteristics influence the corporate performance in Malaysian PLCs.

4. Purpose of the Study

The current paper aims to investigate whether CSR awards and board characteristics can influence performance of companies in terms of ROA. Recently across the globe, there has been a significant positive movement in the awareness and practice of CSR. According to Teoh and Thong (1981) stated that the awareness and implementation of CSR in Malaysia started since 1980. This is consistent with the prior study conducted by Abdul Razak and Ahmad (2014) stated that the popularity on CSR was began in a few past decades. This popularity gained mostly from the policies and initiatives done by federal government as well as its agencies (Sharma, 2013). Additionally, Md Nordin, Abdullah and Abdul Aziz (2012) had found in their study that Malaysian companies are more bothered with CSR issues as compared to Singaporean companies.

In Malaysia, a growing number of CSR initiatives has continuously remodelling and revising in order to promote CSR as one of the corporate culture. Bursa Malaysia as a key position is committed to implant a balanced business environment that contribute to the society and the environment among its listed entities. Additionally all PLCs are mandatory to unveil their CSR activities in corporate annual reports. While, for the government-linked companies (GLCs), the Putrajaya Committee for GLC High Performance [PCG] has developed ten initiatives. One of the ten initiatives is the Silver Book, which outlined the guidelines for GLCs to develop a contribution to society. CSR practices also reflected the policy and regulation, tax incentives, reporting and voluntary standards, as well as their endorsement of CSR through

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awards. There are many CSR related awards in Malaysia (Lu & Castka, 2009). One of the awards, for example, is the National Annual Corporate Report Award (NACRA) is the collaborative effort of Bursa Malaysia Berhad (BMB), Malaysian Institute of Accountants (MIA) and The Malaysian Institute of Certified Public Accountants (MICPA). The criteria for NACRA awards has been reviewed and enhanced for every year to encourage the disclosure of all material and relevant information beyond the statutory requirements.

Compliance with approved accounting standards and statutory disclosure requirements has become the norm expected of all organisations. Greater emphasis has been given to voluntary disclosure such as information about the company's long-term objectives, its strategic plans for growth, initiatives to protect the environment through corporate social responsibility projects. The aim of this award is to promote more effective communication between company and their stakeholders. Moreover, Unicef Report (2012) revealed that DiGi was the first company to win Prime Minister's CSR Awards and TM Berhad won the ACCA Malaysia Environmental and Social Reporting Awards. All these awards have encouraged companies to behave responsibly, and subsequently help to create more awareness of CSR in Malaysia business environment. Notwithstanding all initiatives and incentives, Amran, Zain, Sulaiman, Sarker, and Ooi (2013) stated that CSR in Malaysia still at infancy level since Malaysia firms mostly are reported to have huge gap between international CSR best practice norms. It is consistent with prior studies (see for example, Haque, 2012; Momin and Parker, 2013) as they claimed in their studies that there are few researches has been done on the development of CSR initiatives specifically in Malaysia.

5. Research Methods

The current paper used simple random sampling method comprised 260 companies that were listed in Bursa Malaysia. The source of the data needed was available in the company annual reports for the year 2016 and were obtained from the Bursa Malaysia's website. To determine factors that influenced the company performance, a multiple regression model using six independent variables was employed. Table 01 provide details of the measures for dependent and independent variable for the following regression model:

ROA = $\beta_0 + \beta_1 CSRaw + \beta_2 BS + \beta_3 EB + \beta_{41} BG + \beta_5 BE + \beta_6 Cosize + \varepsilon$

Table 01. Measurement of variables

Variable	Definition
CSR award	(CSRaw) CSR related awards reported in the firm's annual report. (Boesso & Kumar, 2007)
Board size	(BS) Total directors on the board
Executive board	(EB) Executive board or inside directors are defined as board of directors who are engaged by the firm such as CEOs and managing directors who are involved in daily operations of a firm (Yammeesri & Herath, 2010). Executive board measured by proportion of executive board on the board.
Board gender	(BG) Total female directors on board.

Board educational	(BE) Board educational measured by proportion of directors who have qualification of degree in business and accounting in university or business school (Esa & Zahari, 2016)
Company size	(Cosize) Total assets
ROA	ROA is calculated by net income after tax over total assets

6. Findings

Table 02 shows the results of correlation between independent variables and company performance, ROA. From this table, out of six independent variables, it can be seen that company size (Cosize) was significantly correlate with the ROA at 0.01% level. However, CSR award (CSRaw), board size (BS), executive board (EB), board gender (BG), board educational (Beth) and company size (Cosize) are found to be insignificant with company performance.

Table 02. Correlation analysis

	CSRAw	**BS**	**EB**	**BG**	**BE**	**Cosize**	**ROA**
CSRaw	1						
BS	.165**	1					
EB	-.052	-.004	1				
BG	.073	.088	-.108	1			
BE	-.056	-.134*	-.171**	.081	1		
Cosize	.225**	.234**	-.176**	.207**	.121	1	
ROA	.020	.043	.072	-.022	-.013	.312**	1

*Correlation is significant at 0.05 level (2-tailed)

**Correlation is significant at 0.01 level (2-tailed)

As shown in the Table 03, the results of an adjusted R^2 of 0.104. This indicates that six variables tested were able to explain only 10.4% of the variation in the company performance of Malaysian PLCs. Company size and executive board was found significant and positively associated with the company performance. However other variables (eg. CSRaw, BS, BG, BE) were not statistically significant in explaining the company performance.

The Cosize with a p value of 0.000 is significant at 1% level. The result reveals that performance of the company's is influenced by this variable. This result confirms with prior literatures (see for example Adenaeur & Heckelei, 2011; Chaddad & Mondelli, 2013). The larger size of company may tend to higher levels of returns on assets. Additionally, the positive association indicate that larger companies are more contribute to company performance compared to others. Additionally, larger companies have better negotiating ability with stakeholders as well as accessibility to global markets.

The EB is statistically significant at 5% level to ROA. The results indicate that a higher proportion of executive boards can improve company performance. This result is consistent with prior study by Bhagat and Black (1999) and Yammeesri and Herath (2010) that found positive relationship between executive boards and corporate performance. The findings indicate that executive boards can improve performance by providing valuable information to the CEO and other boards.

However, none of other variables such as board size, board gender, board educational and CSR award are significant. This indicates that performance of the companies are not influenced by these factors.

The insignificant results of the board size, board gender and board educational confirm with prior literatures (see for example Haniffa and Hudaib 2006; Adams and Ferreira 2009; Christy, Matolcsy, Wright, & Wyatt, 2010). Additionally, the result of awards also might be inconsistent with prior studies (Anas et al., 2015; Boesso & Kumar, 2007) which revealed a significant relationship between awards and the extent of the CSR disclosure as these studies used different indices.

Table 03. Multiple regression analysis

	Beta	Sig	VIF
(Constant)		.000	
BS	-.035	.575	1.104
EB	.121	.048**	1.062
BG	-.076	.207	1.057
BE	-.039	.524	1.077
Cosize	.373	.000***	1.188
CSRaw	-.048	.430	1.075

Adjusted R^2 = 0.104
F statistic = 6.017
Significance = 0.000
N = 260
*Note: ***, **, * are significant at 1%, 5% and 10% level respectively*

7. Conclusion

The current paper examines the disclosure of CSR awards in the annual report and some of the board attributes that may give an impact towards corporate performance. These factors include board size, executive board, board gender, board's education level and company size. For the dependent variable, ROA is used as measurement tool of firm performance. This study focus on PLCs in Malaysia where 260 companies were randomly selected using simple random technique. This study mainly used secondary data in which all information needed are gather from the annual reports. The finding of the current paper revealed two independent variables (i.e. company size and executive board) shows a significant relationship with the corporate performance. While other independent variables such as CSR award, board gender, board size and board education level are found to not statistically significant with the corporate performance.

Throughout this paper, few limitations that arise slightly give effect towards these findings. Firstly, this study obtained the whole data based on the company annual reports. However, there are some limitations of information disclosed in the company annual reports, which cannot be doubt or rejected. Lastly, the current paper is focusing only on several board characteristics, which cannot simply represent the complete characteristics of board directors. There are recommendations that may be perform in order to overcome or reduce the limitation highlighted above. Thus, it will be helpful for future researcher to conduct their study on these matters. First, it is suggested that to use multi-channel of corporate communication to have more information. Secondly, future research may use other variables as well as to employ the longitudinal study that may provide more evidence. Other financial ratio analysis as dependent variable also may be used (e.g. asset management and equity ratio) that represent wider condition of the company.

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