CEO Duality and Corporate Social Responsibility Reporting: Evidence from Malaysia

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Abstract

This study aims to examine the impact of CEO duality on Corporate Social Responsibility (CSR) reporting by public listed companies in Malaysia. Content analysis was used to determine the extent of CSR reporting. A reporting level index consisting of 51 items was developed based on six themes: General, Community, Environment, Human Resource, Marketplace and Other. In order to determine the relationship between CEO duality and CSR reporting, an Ordinary Least Square regression was employed. The finding of the study is that, there is no significant association between CEO duality and CSR reporting. CEOs have little interest to promote CSR as it is not cost free and may lead to loss of individual wealth. The finding of this study implies that dual leadership structure reduces checks and balance and makes CEOs less accountable to all stakeholders. As for regulators, this study will provide valuable input to assist in their continuous efforts to improve corporate governance and social responsibility practices that may promote the interest of all stakeholders.

Keywords: Corporate Social Responsibility, CEO Duality, Agency Theory, Stewardship Theory, Malaysia
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1. INTRODUCTION

An issue receiving considerable recent attention in the field of corporate governance is whether the posts of Chief Executive Officer (CEO) and Chairman of the Board should be held by different individuals or whether it is appropriate for both positions to be held by the same person (referred to as CEO duality). This issue is important because the leadership structure has a significant impact on corporate governance given senior personnel have the greatest influence on the running of a company and its performance. Furthermore, earlier studies indicate that reporting policies predominantly emanate from the board (Ho and Wong, 2001; Gul and Leung, 2004). Therefore, it is expected that the type of leadership structure adopted will shape a company's reporting pattern.

This study aims to examine the relationship between structural independence of the board or the existence of CEO duality and firm CSR practices in Malaysia. Malaysia provides an interesting platform for investigating the issue on several grounds. First, ownership structures commonly display significant participation by major shareholders in management (Claessens et al., 2000). This creates incongruous interests between majority and minority shareholders, potentially leading to corporate misconduct. Second, the Malaysian Code of Corporate Governance (MCCG) (2007) strongly recommends as best practice to separate the powers between the CEO and chairman to ensure shareholders' interests are protected. Yet, evidence on the effectiveness of the implementation of this separation is lacking and inconclusive. Finally, since 2007 Bursa Malaysia has made CSR reporting mandatory for public listed companies. Companies are required to report on four areas: Community, Environment, Workplace and Product, however the details of the report depend very much on management discretion. Given CEO duality is common the level of CSR reporting can be questioned. Given this context, together with the paucity of evidence in developing countries, it would be interesting to know if this relationship holds in the Malaysian context.

CEO duality is likely to lead to a concentration of power and self-utility maximizing behaviour by managers (Dalton and Dalton, 2005). CEO duality gives the CEO excessive power over the decision-making process (Jensen, 1993) such as the ability to influence board composition and tenure, set agendas and control information flows and also resist change despite performance decline or instability (Baliga et al., 1996). Accordingly, the board as the representatives of shareholders fails to exercise its governance role effectively through a reduction in monitoring and accountability. When a company is led by a dominant personality, shareholders' interests are likely to be maltreated (Kholief, 2008). If the CEO and the chairman are the same person, there will not only be less room for discussion, but also a narrower range of skills, knowledge, and expertise to draw on, which could affect company performance (Shakir, 2009). In addition, Goyal and Park (2002) found that it was more difficult for the board to remove a poorly performing CEO when the CEO and Chairman duties were vested in the same individual (Zhang, 2012). ACEO who is also the Chairman is in a position of self-evaluating themselves. Hence, their ability to exercise independent self-evaluation is indeed questionable (Rechner and Dalton, 1991; Petra, 2005).

Companies that practice clear separation between CEO and chairman positions are viewed as more reputable by stakeholders (Lu et al., 2015). Separation of the two roles has not only been recommended as good corporate governance but is now widely adopted in many countries: China Securities Regulatory Commission in 1992 (Huafang and Jianguo, 2007), Bangladesh Securities and Exchange Commission in 2006 (Khan et al., 2013) and also the Australian Stock Exchange in 2007. In the U.S. the separation is recommended (Chen et al., 2008); resulting in the percentage of S&P 500 companies choosing to separate the roles doubling from 20% to 40% over 15 years (Krause et al., 2014). In Malaysia, the MCCG (2007) implicitly recommends separation of both roles and emphasizing on the importance of having a clearly accepted division of responsibilities whenever the roles of chairman and CEO are combined.

This study contributes to an emerging body of literature by showing the links between corporate governance and CSR practices, in a different institutional setting. Despite the legislative reforms on corporate governance structure, the relationship between corporate governance and CSR reporting remains relatively understudied. Therefore, this study provides interesting evidence on one aspect of corporate governance research as well as offering further evidence from an Asian perspective. This study also adds to the understanding about the impact of CEO duality on CSR reporting in an agency setting characterized in many instances by family majority shareholdings.

The remainder of this paper is organised as follows. The next section reviews the literature. The third section describes the corporate board practices in Malaysia. The fourth section outlines the theoretical framework and hypothesis. The fifth section details the research method. The sixth section discusses the results followed by conclusions in the final section.

2. LITERATURE REVIEW

There is a clear distinction of what drives companies to undertake CSR practices between developed and developing countries. Developed countries like the US, UK and Australia generally operate in a shareholder-focused corporate governance system where directors' and managers' run the company only for the benefit of its shareholders (Devinney, Schwalbach and Williams, 2013). Therefore, they have a vested responsibility to increase the share price as part of shareholders' wealth maximization strategy. Managers are motivated to be involved in CSR practices as it may promote a company's reputation and thereby increase its share price. In recent years managers have become more concerned with other stakeholders' interests. As a result, such obligations have increasingly become part of a company's responsibilities (Devinney, Schwalbach and Williams, 2013). More importantly, failure to consider broader interests such as human rights obligations may cause companies to face legal risks (Devinney, Schwalbach and Williams, 2013). Hence, operating in an "enlightened shareholder" corporate governance regime makes directors accountable to a broader range of stakeholders while still acting in the best interests of the company's shareholders (Devinney, Schwalbach and Williams, 2013).

While CSR is highly recognized in developed countries, it is viewed from a different perspective in developing countries. The domination of closely-held companies sees the principal owners of companies also acting as senior managers (Abdul Rahman and Haniffa, 2005). Profit maximization plays a central role in the companies' continued existence. This explains why managers have less incentive to pursue CSR activities which are generally not cost free. Further to that, stakeholders in developing countries are still hesitant to accept the concept of CSR since it reduces company earnings. Given these issues, developing countries are commonly associated with low levels of CSR practices. Nevertheless, CSR has assumed a greater level of prominence in developing countries in recent times. Government and regulators play important roles as catalysts to the adoption of CSR practices. In Malaysia for instance, publically listed companies are now mandated to report on CSR activities (Haji, 2013). Companies also tend to imitate the CSR practices of other similar companies (Amran and Siti Nabihah, 2009, Visser, 2008).

Companies with sound corporate governance are normally more socially responsible (Ntim and Soobaroyen, 2013). It is not surprising, as a result, that governments have begun to promote best corporate governance practices with the aim of assisting companies' management to better execute their responsibilities to all stakeholders (Devinney, Schwalbach and Williams, 2013). This argument provides a strong foundation to relate the practice of CEO duality with CSR. CEO duality is common in developing countries due to the prevalence of family ownership. As such, there is a probability that this duality role may adversely affect CSR practices.

The duality of roles has long been a subject of much debate and research. The literature has three main strands: company performance and relatedly company value, and corporate reporting patterns.

The U.K. "Cadbury Report 1992", the first corporate governance code of best practice recommended the structural independence of the board "there should be clearly accepted division of responsibilities at the head of the company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decisions." Many countries also publish mandatory or voluntary corporate governance codes, for example, Bouton Report 2002 in France and the Cromme Commission Code 2002 in Germany (see Chahine and Tohmé, 2009), Toronto Stock Exchange, Canada (see Kang and Zardkoohi, 2005). The Sarbanes-Oxley Act (2002) was enacted following the corporate scandals in the United States (such as Enron, WorldCom) which led to a number of additional checks and balance in place to monitor the actions of CEOs (Dey et al., 2009).

Generally, most research on CEO duality seems to focus on how it affects company performance. Abor (2007) found significant and positive associations between capital structure and CEO duality among Ghanaian companies. Similarly, in the U.S., Harjoto and Jo (2008) found a positive relationship between CEO duality and company values and performance. Schmid and Zimmermann (2005) studied 152 Swiss companies. Regardless of

whether the roles are combined or separated, company value remained unchanged. Likewise, in Egypt, Elsayed (2007) demonstrated that CEO duality was insignificant to company performance and further suggested that the impact of dual roles on board and company performance is different from one country to another. This view seems to support the finding by Yusoff and Alhaji (2012). Insignificant results were also reported by Kao and Chen (2004), Xie et al. (2003) and Haniffa et al. (2006) on the association between CEO duality and earnings management activity.

The board may also be indifferent towards the duality issue. As long as the CEO is capable of undertaking both responsibilities effectively, the board is content to let duality prevail (Baliga et al., 1996). It is also argued that duality role will improve company performance because management's compensation is tied to it (Rechner and Dalton, 1991). Dehaene et al. (2001) confirmed a significantly higher return on assets when CEO duality is practised. The tenacity of combining the CEO and chairman role was justified when several studies reported a rather comparable company performance between companies with CEO duality and those that separate the two roles (e.g Rechner and Dalton, 1991; Dalton et al., 1998). This not only suggests that opting for combined role is far from being unprofitable but might recognize duality as a superior company structure (Baliga et al., 1996).

Meanwhile, in Australia, Sharma (2004) revealed that when the chairman of the board is also the CEO, the board's monitoring role is weakened and the likelihood of fraud increases. In China, Lu et al. (2015) confirmed that CEO duality adversely influences the effectiveness of the board in performing the governance function. Cerbioni and Parbonetti (2007) found evidence in a sample of European biotechnology companies that concentration of power is negatively associated with voluntary disclosure of intellectual capital information. Similar results were reported by Huafang and Jianguo (2007) on listed Chinese companies.

Empirical analysis yields diverse results on the impact of role duality on reporting. Companies dominated by a single person led to financial reports being issued much later than those with separation of roles (Abdullah, 2006). This implies that duality role could be detrimental to board effectiveness. Gul and Leung (2004), studying a sample of 385 Hong Kong-listed companies, show empirical evidence that the CEO duality is associated with lower levels of voluntary disclosure.

Allegrini and Greco (2013) reported a negative impact of CEO duality on voluntary disclosure in Italy. To them diligent monitoring through separation of the two important roles contributes to greater transparency. In Egypt, duality role was found to have a negative bearing on corporate governance disclosure as reported by Samaha et al. (2012). Likewise, Muttakin and Subramaniam (2015) reported a negative relationship between CEO duality and CSR disclosure of Indian companies. They suggest that CEOs in dual positions may not be motivated to be visibly accountable to the interests of the broader stakeholders and are likely to avoid the costs of CSR disclosure.

Alternatively separation contributes to a positive impact on company disclosure (Nandi and Ghosh, 2013). Nevertheless, contrary to their assumption, a study by Al-Janadi et al. (2013) revealed a positive impact of CEO duality on voluntary disclosure of companies in Saudi Arabia. They believe that duality roles provide a centralised focus to achieve company's goals.

Meanwhile, several studies failed to find any relationship between CEO duality and the extent of CSR reporting such as Said et al. (2009), Khan et al. (2013), Michelon and Parbonetti (2012), Ghazali and Weetman (2006) and Arcay and Vazquez (2005).

Proponents of CEO duality argue that the duality role can reduce communication barriers (Carver and Oliver, 2002). This helps to reduce costs for the company especially when transferring critical information between the CEO and the chairman (Dahya and Travlos, 2000). Accordingly, Samaha et al. (2015) believes that CEO duality may result in more voluntary reporting. Sundarasen et al. (2016) showed that CEO duality affects company CSR initiatives negatively; which warrants a further examination on the practice of CEO duality in Malaysia.

Evidently, the practice of CEO duality exhibits conflicting impacts on a company's overall performance including reporting. On the one hand, CEO duality provides significant benefit to the company through efficient leadership when expectations of the board and management intersect. On the other hand, it might threaten directors' independence and impair good governance practice. There is extensive yet inconsistent evidence on CEO duality and its impacts.

3. CORPORATE BOARD PRACTICES IN MALAYSIA

Malaysian companies most commonly have a one-tier board structure where the company is governed by a unified board performing both management and supervisory functions. The CEO is responsible for the running of the board and the company's operation. There is also an overwhelming presence of family ownership dominance in the Malaysian corporate sector. The practice of CEO duality in Malaysia is very common and increasing. The increasing trend of CEO-duality in Malaysia is evident in the study by Abdul Rahman and Haniffa (2005). Despite the absence of mandatory separation of the roles the MCCG strongly recommends it as best practice. This is to make certain that power and authority is balanced to avoid the existence of individual directors having unrestrained power in the decision-making process (Ponnu, 2008). The segregation of these positions is seen as a key characteristic of an effective independent board. Nevertheless, should duality exist then the MCCG recommends sufficient strong independent board members. However, compliance with the MCCG (2007) recommendation remains an issue as family owned companies are prevalent in Malaysia. 72% of companies listed on Bursa Malaysia are family controlled (Himmelberg et al. 2002). It is common for companies with this type of ownership structure to practice CEO duality (Ho and Wong, 2001).

4. THEORETICAL FRAMEWORK AND HYPOTHESIS

Two contrasting theories: agency theory and stewardship theory, are used primarily to explain CEO duality.

Agency theory is based on the belief that there exists an inevitable conflict between parties that delegate (principals) and those who execute (agents) (Jensen and Meckling, 1976). As managerial actions depart from maximising shareholders returns, this gives rise to agency problems such as moral hazard and information asymmetry. Moral hazard is present when there are self-interested utility-maximising individuals running the company while information asymmetry occurs when management is reluctant to share information regarding the accurate state of the company with stakeholders (Hashim and Devi, 2008). Fama and Jensen (1983) assert an agency problem to more likely occur when a key decision maker has little or no financial interest in the outcome of their decisions. Agency theorists believe that the board is the primary internal control mechanism for aligning the different interests of shareholders and management (Boyd, 1995). Hence, shareholders' interests are safeguarded when different people occupy the two positions of the CEO and the chairman of the board of directors (Kholief, 2008). This non duality permits the board of directors the means to effectively monitor and control the potential shareholder-value-destroying actions of managers. On the contrary, by serving as Chairman, the CEO will acquire a wider power base and locus of control, thereby weakening control by the board. This facilitates the pursuit of the CEO's agenda, which may differ substantially from shareholder goals. In the absence of a non-dual structure, not only do shareholders suffer from lack of separation of decision management and control, it also elevates agency costs (Braun and Sharma, 2007) and negatively affect company performance. In light of those problems, agency theory recommends the separation of CEO and Chairman's positions to ensure maximization of company performance as well as enhancing reporting levels.

Stewardship theory embraces a more positive perspective. Directors are perceived as caretakers of the company's assets and want to maximise them (Donaldson and Davis, 1991). Proponents of stewardship theory believe that the combination of the two roles enhance the decision making process and allow a CEO with strategic vision to guide the board to implement a company's objectives with the minimum of interference from the board. Stewardship theory claims that separating the roles of CEO and Chair deters directors' autonomy to shape and execute the company's strategy. This lack of authoritative decision making is likely to negatively impact the performance of the organization (Braun and Sharma, 2007). Donaldson and Davis (1991) view that combining the two roles would facilitate company's effectiveness through promotion of leadership unity and consequently lead to higher performance and disclosure.

It is argued here that CEO duality reduces overall accountability, thus making companies less transparent not only for shareholders but for all relevant stakeholders. With consolidation of powers this dual leadership structure will make CEOs less concerned about discharging their societal and environmental responsibilities. This discussion leads to the following hypothesis: H1: CEO duality is negatively associated with company CSR reporting

5. METHODS

5.1. Data

This study considers a sample of non-financial companies listed on the Main Market of Bursa Malaysia from 2008 until 2013. A company which was not listed during the whole six-year period were excluded. There were 813 companies listed as at 31st December 2013. However, only 613 companies met the criteria. In general, companies in the finance sector are subject to different regulatory and disclosure requirements and also material differences in their types of operation. Consequently, prior studies have not considered them (e.g Mohd Ghazali, 2007; Said et al., 2009; Haniffa and Cooke, 2005). So 136 finance companies were excluded from the sample, reducing the potential population to 477 companies. There were 27 companies omitted from the sample due to incomplete data. Finally, 450 companies were included as illustrated in Table 1.

In general, there is no 'standalone' sustainability report by companies in Malaysia. Although a handful of companies make such disclosures in their web pages, these are duplications of information disclosed in their annual reports. Furthermore, disclosures made on the web page are not helpful for content analysis because it is difficult to know when web pages are published or updated (see Michelon and Parbonetti, 2012). Therefore, annual report was the only source of financial and non-financial information of a company.

Table 1. Sample company characteristics

No	Sector	Number of firms in the sample	Observed firm years	Observation in %
1	Agricultural Production - Crops	25	150	5.56
2	Agricultural Production - Livestock	5	30	1.11
3	Fishing, Hunting and Trapping	1	6	0.22
4	Metal Mining	3	18	0.67
5	Oil and Gas Extraction	4	24	0.89
6	Food and Kindered Products	32	192	7.11
7	Tobacco Products	1	6	0.22
8	Textile Mill Products	2	12	0.44
9	Apparel and Other Textile Products	8	48	1.78
10	Lumber and Wood Products	25	150	5.56
11	Furniture and Fixtures	13	78	2.89
12	Paper and Allied Products	19	114	4.22

Table 1. Sample company characteristics (Continued)

No	Sector	Number of firms in the sample	Observed firm years	Observation in %
13	Printing and Publishing	7	42	1.56
14	Chemicals and Allied Products	11	66	2.44
15	Petroleum and Coal Products	4	24	0.89
16	Rubber and Misc. Plastics Products	18	108	4.00
17	Leather and Leather Products	1	6	0.22
18	Stone, Clay and Glass Products	21	126	4.67
19	Primary Metal Industries	23	138	5.11
20	Fabricated Metal Products	6	36	1.33
21	Industrial, Machinery and Equipment	15	90	3.33
22	Electronic and Other Electric Equipment	24	144	5.33
23	Transportation Equipment	11	66	2.44
24	Misc. Manufacturing Industries	23	138	5.11
25	Electricity, Gas and Sanitary Services	5	30	1.11
26	General Building Contractors	21	126	4.67
27	Heavy Construction, Ex. Building	14	84	3.11
28	Wholesale Trade- Durable Goods	11	66	2.44
29	Wholesale Trade- Non-Durable Goods	9	54	2.00
30	General Merchandise Stores	4	24	0.89
31	Food Stores	1	6	0.22
32	Automotive Dealers and Service Stations	3	18	0.67
33	Apparel and Accessory Stores	2	12	0.44
34	Eating and Drinking Places	1	6	0.22
35	Hotels and Other Lodging Places	8	48	1.78
36	Trucking and Warehousing	4	24	0.89
37	Water Transportation	11	66	2.44
38	Transportation By Air	1	6	0.22
39	Transportation Services	6	36	1.33
40	Communications	7	42	1.56
41	Real Estate	11	66	2.44
42	Business Services	18	108	4.00
43	Educational Services	1	6	0.22
44	Health Services	8	48	1.78
45	Amusement and Recreational Services	2	12	0.44
	Total	**450**	**2700**	**100.00**

5.2. Variable definitions

5.2.1. Dependent variables

Content analysis was used as it is the dominant technique used by accounting scholars to investigate CSR disclosures in annual reports (e.g Chan et al., 2014; Abdullah et al., 2011; Ibrahim and Samad, 2011; Haji, 2013). Content analysis is a technique which replicates and makes valid inferences from data to their context (Krippendorff, 1989). It involves both qualitative and quantitative methods and converts information in annual reports into scores (Djajadikerta and Trireksani, 2012).

A checklist of items was constructed by examining previous CSR reporting checklists (e.g Hackston and Milne, 1996; Barako and Brown, 2008). Additionally, specific Malaysian checklists by Haji (2013) and Abdullah et al. (2011) as well as the framework introduced by Bursa Malaysia in 2006 were also referenced. The focus of the framework was fourfold: Environment, Community, Marketplace and Workplace. To form a comprehensive checklist, checklists by Abdullah et al. (2011), Mohamed Adnan (2012), Kolk (2010) and Chan et al.(2014) were specifically referenced. The final checklist containing 51 items is outlined in Table 2.

A dichotomous procedure is used to compute a disclosure score for each company. Each disclosure item is assigned a score of "1" if it is disclosed and "0" if it is not disclosed. This measurement would address the presence or absence of CSR information (Mohd Ghazali, 2007) and has been extensively employed previously (e.g Haji, 2013; Haniffa and Cooke, 2005; Rashid and Lodh, 2008). The scores were then transformed into a CSR reporting index by dividing the disclosure score of each company to the maximum possible score (i.e 1 x 51= 51).

$$\text{CSRI} = \frac{\sum_{t=1}^{nj} X_{ij}}{n_j} \quad (1)$$

where: CSRI = CSR reporting index; nj = number of items expected for jth company; Xij = 1 if ith item disclosed; 0 if ith item not disclosed.

Table 2. CSR Reporting checklist

CSR Reporting Items	
A	**General (maximum 7 scores)**
1	Acknowledgement or management of corporate social responsibility
2	Disclosure of corporate objectives or policies with regard to corporate social responsibility
3	Company's strategy for addressing sustainability
4	Mission/ values/ codes of conduct relevant to CSR topics
5	Commitments to external initiatives (e.g. membership)

Table 2. CSR Reporting checklist (Continued)

	CSR Reporting Items
6	Awards received relating to social, environmental and best practices
7	Discussion on stakeholder engagement
B	**Community (maximum 9 scores)**
8	Charitable donations and activities (such as donations of cash, products or employee services to support established community activities, events, organizations, education and the arts)
9	Supporting government/ non-governmental organization campaign (such as supporting national pride/government-sponsored campaigns)
10	Support for public health/ volunteerism (such as blood donation, sponsoring public health or recreational projects)
11	Aid medical research
12	Sponsoring educational programs/ scholarship (such as sponsoring educational conferences, seminars or art exhibits, funding scholarship programs or activities)
13	Discussion on public policy involvement
14	Graduate employment
15	Sponsoring sports project
16	Acquisition from local suppliers
C	**Environment (maximum 14 scores)**
17	Statements indicating that pollution from operations have been or will be reduced
18	Discussion on recycling efforts (such as recycled inputs/ recycled waste)
19	Preventing waste
20	Disclosure on significant spills/ environmental accidents
21	Hazardous waste disclosure
22	Fines/ sanction for non-compliance
23	Design facilities that are harmonious with the environment/ landscaping (such as contributions in terms of cash or art/sculptures to beautify the environment, restoring historical buildings and structures)
24	Impacts on biodiversity
25	Strategies/ plans for managing impacts on biodiversity (such as wildlife conservation, protection of the environment, e.g., pest controls)
26	Environmental review and audit (such as reference to environmental review, scoping, audit, and assessment including independent attestation)
27	Conservation of energy in the conduct of business operations (using energy more efficiently during the manufacturing process)
28	Utilizing waste materials for energy production
29	Disclosure of carbon/ green gas emissions
30	Initiatives to reduce carbon/ green gas emissions
D	**Workplace (maximum 14 scores)**
31	Employee profiles (such as number of employees in the company and/or at each branch/ subsidiary, information on the qualifications and experience of employees recruited)
32	Employee appreciation (such as information on purchase scheme/ pension program)
33	Discussion of significant benefit program provided (such as remuneration, providing staff accommodation or ownership schemes)
34	Employee training (such as through in-house training, establishing training centers)
35	Support to employee education (such as giving financial assistance to employees in educational institutions; continuing education courses)
36	Information on management-employee relationship/ efforts to improve job satisfaction (such as providing information about communication with employees on management styles and management programs which may directly affect the employees)
37	Employee diversity (such as disclosing the percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels)
38	Employee receiving regular reviews
39	Recreational activities/ facilities
40	Establishment of a safety department/ committee/ policy
41	Provision of health care for employee
42	Compliance to health and safety standards and regulations
43	Award for health and safety
44	Rates of work-related injury/ illness/ deaths (such as disclosing accident statistics)
E	**Marketplace (maximum 5 scores)**
45	Information on any research project set up by the company to improve its products in any way (such as the amount/percentage figures of research and development expenditure and/or its benefits)
46	Verifiable information that the quality of the firm's products has increased (such as ISO9000)
47	Disclosure of products meeting applicable safety standards (such as information on the safety of the firm's product)
48	Product sustainability/ use of child labour
49	Customer service improvements/ awards/ ratings
F	**Other (maximum 2 scores)**
50	Value added statements
51	Value added ratios

5.2.2. Independent and control variables

The independent variable is CEO duality. The presence of CEO duality is measured by a dummy variable coded 1 if the CEO is also the Chairman of the board and 0 otherwise. This is consistent with Allegrini and Greco (2013) and Rashid (2013).

Numerous studies have shown that CSR reporting is influenced by various governance attributes and company's characteristics. Hence, to eliminate their impact on the level of reporting, this study considered board independence, board size, directors' ownership, CEO founder, CEO tenure, debt ratio, liquidity, company age, company size, profitability, company growth and market capitalization were conceptualized as control variables.

Board independence refers to independent directors who have no affiliation with the company except for their directorship (Bursa Malaysia, 2006). They have important impact on monitoring activities (Fama and Jensen, 1983). Board independence (BIND) is defined as the number of independent directors on the board relative to the total number of directors, which is consistent with Arora and Dharwadkar (2011), Harjoto and Jo (2011) and Das et al. (2015). Board size refers to the number of directors to make up the board (Ntim and Soobaroyen, 2013; Jizi et al., 2014). Board size (BSIZE) is defined as the natural logarithm of total number of directors as used by Rashid (2013). Allegedly, directors' ownership determines their willingness to monitor managers and enhance shareholders' value (Shleifer and Vishny, 1997). It motivates directors to do their monitoring job effectively. However, in owner-managed companies, directors are less concern with public accountability due to a relatively small number of outside shareholders. Hence, they tend to disclose less CSR information. Directors' ownership (DIROWN) is expressed as the ratio of total director shareholdings to total number of shares. This is consistent with the approach adopted by Bathala and Rao (1995) and Rashid (2013).

CEO founder is associated with greater power by virtue of his/her role in the company's history and his/her influence on the board. As such, the decisions will have impact on company's performance including reporting. Following Daily and Dalton (1993), CEO founder (CEOFOUNDER) takes the binary code of 1 if CEO is also the founder and 0 if otherwise. CEO tenure (CEO TENURE) is represented by the natural logarithm of the number of years the CEO has held the post. Mohd–Saleh et al. (2012) revealed that long-tenured CEOs are associated with low levels of reporting. They feel secure with their positions hence demotivated to continue acting in line of shareholders' interests. There are mixed results pertaining to leverage in relation to CSR reporting. Barnea and Rubin (2010) believed that companies with high debt levels will incur high monitoring costs which suggest a negative relationship between leverage and CSR disclosure. Alternatively, these high debt companies disclose more information to reduce the costs (Esa and Mohd Ghazali, 2012) and to meet the needs of their lenders (Abdullah et al., 2011). Following Wan Abd Rahman et al. (2011), leverage (DR) was measured by the ratio of total liabilities to total assets.

Liquidity is also found to be positively related to both financial and non-financial disclosure (Ho and Taylor, 2007). They suggest high liquidity companies have stronger incentives to disseminate more information in their annual reports. Company liquidity (LIQ) was measured as current ratio (Rashid, 2013, 2014; Ho and Taylor, 2007). Company age (AGE) was represented by the number of years it has been listed on Bursa Malaysia, expressed in natural logarithm (Rashid, 2009). The level of CSR reporting increases with company age. A more mature company tends to report more on CSR activities due to reputational concern (Khan et al., 2013). Cormier et al. (2011) and Lu and Abeysekera (2014) indicate that size is one of the major factors determining CSR reporting. Availability of money and expertise in large companies enables them to engage in more activities (including CSR activities), produce more information on these activities and bear the cost of such processes (Andrew et al., 1989). The natural logarithm of total assets as the proxy for company size (SIZE) was used and is consistent with Das et al. (2015), Sartawi et al. (2014) and Rashid (2014).

Profitability has the ability to influence CSR practices. Highly profitable companies are able to absorb the costs associated with CSR activities, thus disclosing more information to stakeholders. Haniffa and Cooke (2005) and Khan (2010) confirm the importance of profitability when reporting social information. Profitability is proxied by Return on Assets (ROA) following Rashid (2014) and Sartawi et al. (2014). When companies grow rapidly they tend to pay less dividends and seek outside financing, thus inducing more disclosure (Naser et al., 2006). Accordingly, financing costs are reduced and improve a company's ability to pursue potentially profitable projects. Companies are also believed to have greater information asymmetry and agency costs (Eng and Mak, 2003). To reduce those problems, companies are expected to disclose more information. Following Rashid (2013), company growth (GROWTH) is expressed as percentage of annual change in sales. Market capitalization (CAP) is expressed in its natural logarithm. While some view market capitalization as representing company size, the investing public considers it as an external measure of a company's importance (Wallace and Naser, 1996). Watts and Zimmerman (1990) argue that companies with high market capitalization are generally exposed to political attacks, such as demands by the society for the exercise of social responsibility or for greater regulation such as price controls and higher corporate tax. Such potential action can be minimized by disclosing more comprehensively.

5.3. The Model

The following model is developed in this study:

$$CSRI_{i,t} = \alpha + \beta_1 CEOD_{i,t} + \beta_2 BIND_{i,t} + \beta_3 BSIZE_{i,t} + \beta_4 DIROWN_{i,t} + \beta_5 CEOFOUNDER_{i,t} + \beta_6 CEOTENURE_{i,t} + \beta_7 DR_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 AGE_{i,t} + \beta_{10} SIZE_{i,t} + \beta_{11} ROA_{i,t} + \beta_{12} GROWTH_{i,t} + \beta_{13} CAP_{i,t} + € _{i,t} \quad (2)$$

where: for it h firm at time t;

- $CSRI_{i,t}$ is CSR index;
- $CEOD_{i,t}$ is CEO duality;
- $BIND_{i,t}$ is board independence;
- $BSIZE_{i,t}$ is board size;
- $DIROWN_{i,t}$ is percentage of director ownership;
- $CEOFOUNDER_{i,t}$ is CEO as the founder of the firm;
- $CEO\ TENURE_{i,t}$ is natural logarithm of CEO service length;
- $DR_{i,t}$ is debt ratio;
- $LIQ_{i,t}$ is liquidity ratio;
- $AGE_{i,t}$ firm age;
- $SIZE_{i,t}$ is firm size;
- $ROA_{i,t}$ is profitability;
- $GROWTH_{i,t}$ is company growth in sales;
- $CAP_{i,t}$ is the market capitalization;
- α is the intercept, βis the regression coefficient and € is the error term.

To perform the statistical analysis, it is necessary to meet the assumptions of normality, multicollinearity, heteroscedasticity and endogeneity. The normality assumption requires that observations be normally distributed in the population. However, the normality assumption will be relatively insignificant when involving large samples (Pallant, 2007). The Residual Test/Histogram-Normality Test of the regression equation produced a 'Bell Shape', confirming the normality of the data. Multicollinearity refers to high correlations among the independent (or explanatory) variables or when the explanatory variables are significantly correlated with one another. When a high degree of correlation is found among explanatory variables, these variables must be removed. The correlation matrix of the explanatory variables (in table 3) shows that the correlation between company size and market capitalization is 0.839 indicating a multicollinearity. However, the Variance Inflation Factor (VIF) of each explanatory variable does not exceed 4.0. A VIF value exceeding 10 shows multicollinearity is present (Gujarati, 2003).

Table 3. Correlation matrix of the explanatory variables

		1	2	3	4	5	6	7	8	9	10	11	12	13	VIF
1	CEOD	1.000													1.038
2	BIND	-0.010	1.000												1.293
3	BSIZE	-0.084**	-0.414**	1.000											1.418
4	DIROWN	-0.041*	0.057**	-0.089**	1.000										1.066
5	CEO FOUNDER	0.125**	-0.076**	0.034	0.053**	1.000									1.116
6	CEO TENURE	0.081**	-0.090**	0.027	0.016	0.236**	1.000								1.094
7	DR	-0.037	0.085**	0.007	-0.035	0.009	-0.046*	1.000							1.137
8	LIQ	0.037	0.094**	-0.045*	-0.008	-0.055**	0.083**	-0.274**	1.000						1.135
9	AGE	-0.062**	0.151**	-0.011	-0.177**	-0.162**	0.024	0.005	0.063**	1.000					1.239
10	SIZE	-0.016	-0.053**	0.339**	-0.181**	-0.032	-0.024	0.055**	-0.067**	0.337**	1.000				3.908
11	ROA	-0.008	-0.009	0.084**	-0.073**	0.043*	0.042*	-0.129**	0.049*	0.051**	0.111**	1.000			1.057
12	GROWTH	0.005	-0.029	0.025	-0.009	-0.009	-0.006	0.018	-0.059**	0.000	0.073**	0.039	1.000		1.011
13	CAP	-0.010	-0.063**	0.321**	-0.156**	-0.055**	-0.047*	-0.069**	0.035	0.268**	0.839**	0.174**	0.071**	1.000	3.705

*Note: ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed)*

Homoscedasticity occurs when the error term is constant across all values of the independent variables. Standard estimation methods become inefficient when the error term varies. Examining the scatter plot of the residuals (ZRESID) against the predicted value (ZPRED) of the model showed a classic cone-shape pattern of heteroscedasticity. The Breusch-Pagan test was then conducted with both the chi-square and corresponding p values also indicating heteroscedasticity. To correct it, heteroscedasticity-consistent standard errors of the White (1980)'s method was applied.

Endogeneity occurs when the independent variables are correlated with the error terms. This causes the regression coefficients in the Ordinary Least Square (OLS) regression to be biased. One way of addressing this problem is to use the Instrumental Variable approach. The F-test for the predicted value of CEO duality in this model was considered insignificant. Following Rashid (2014), when the CSR index was used as a proxy for CSR reporting, F = 1.67 with p = 0.1965. The results showed that: (1) endogeneity is not an issue; and (2) OLS and Instrumental Variable regression are consistent.

6. RESULTS AND DISCUSSION

Table 4 indicates that on average the level of CSR reporting is 21.67%. This result is lower than CSR disclosure reported by companies in a developing country, such as Bangladesh. Khan et al. (2013) in their study reveal that average CSR by firms in Bangladesh is 22%.

Table 4. Descriptive statistics of the variables

	Mean	Median	Minimum	Maximum	SD
CSRI	0.2167	0.1961	0.0392	0.7255	0.1198
CEOD	0.1400	0.0000	0.0000	1.0000	0.3500
BIND	0.4519	0.43000	0.1700	1.0000	0.1281
BSIZE	7.0000	6.6869	3.0004	18.1741	1.2960
DIROWN	0.0438	0.0030	0.0000	0.5680	0.0879
CEOFOUNDER	0.1400	0.0000	0.0000	1.0000	0.3450
CEO TENURE	6.7255	8.0045	0.4966	46.0625	2.5659
DR	0.4024	0.3775	0.0030	10.3190	0.3623
LIQ	3.0531	1.7845	0.0070	96.1110	5.1989
AGE	13.9782	15.0293	1.0000	52.9845	1.6403
SIZE (LogTA)	12.8784	12.6500	9.3690	18.4110	1.4467
ROA	0.0619	0.0580	-2.8980	5.5470	0.1782
GROWTH	0.0533	0.0265	-4.9410	8.5780	0.4777
CAP (LogCAP)	18.7976	18.5030	12.3710	24.8100	1.8112

This number is fairly low in the context of a developed country, Michelon and Parbonetti (2012) reveal that such diclosure is 49% in the US and Europe.

The CEO duality result portrays that on an average there are only 14% of companies that have the same individual acting as CEO and Chairperson. This rate is much lower than that of some other countries. For example, 61% in the context of Egypt

(Samaha et al., 2012), 41% in the context of Italy (Allegrini and Greco, 2013) and 46% in the context of Bangladesh (Rashid, 2013). The regression coefficient of the relationship between CEO duality and CSR reporting is shown in Table 5.

Table 5. Relationship between CEO duality and CSR reporting

	Dependent variable	
	Panel A (before controlling for industry)	Panel B (after controlling for industry)
	CSRI	CSRI
Intercept	-0.525	-0.587
	(-18.460)***	(-16.789)***
CEOD	-0.004	-0.003
	(-0.684)	(-0.482)
BIND	0.028	0.016
	(1.607)	(0.959)
BSIZE	0.042	0.030
	(4.585)***	(3.358)***
DIROWN	-0.041	-0.014
	(-1.738)*	(-0.619)
CEOFOUNDER	0.003	-0.001
	(0.441)	(-0.151)
CEO TENURE	-0.011	-0.010
	(-4.893)***	(-4.456)***
DR	-0.001	0.004
	(-0.032)	(0.803)
LIQ	-0.000	-0.000
	(-1.124)	(-0.583)
AGE	0.023	0.027
	(4.765)***	(5.513)***
SIZE	0.028	0.037
	(10.239)***	(13.776)***
ROA	0.060	0.045
	(5.569)***	(4.341)***
GROWTH	-0.001	-0.002
	(-0.243)	(-0.394)
CAP	0.013	0.008
	(6.228)***	(3.610)***
F statistic	106.861	34.707
Adjusted R^2	0.380	0.465

*Note: The t tests are presented in the parentheses *p< 0.10; ** p< 0.010;*** p< 0.001*

The adjusted R^2 value in Panel A denotes that 38% of changes in CSR reporting are explainable by the independent variables. The regression coefficient shows that, there is a negative, but non-significant relationship between CEO duality and CSR reporting. This result is in accord with Said et al. (2009), Michelon and Parbonetti (2012) and Khan et al. (2013). Given the backdrop of family owned companies dominating the Malaysian business setting, this result is unanticipated as CEO duality is synonymous with family owned companies. The low value also suggests that companies are moving towards a more independent board in order to elevate shareholders' confidence.

Board independence and CSR reporting was positive but not significant. Board size, director ownership, CEO tenure, firm age, firm size, profitability and market capitalization were found to be significantly related to CSR reporting. Generally, companies with moderately large boards benefit from board diversity. This in turn results in better involvement in CSR activities and increased reporting, supporting the findings of Esa and Mohd Ghazali (2012), Ntim and Soobaroyen (2013) and Akhtaruddin et al. (2009). Contrarily, directors' ownership has been found to negatively affect CSR reporting, supporting Chau and Gray (2010), Oh et al. (2011) and Khan et al. (2013). Given investment in CSR practices are costly, the result is as anticipated. Meanwhile, long tenured CEO may become complacent and confident they will not be removed, and therefore loosen their grip on company's management (Shakir, 2009). They are likely to refuse to adopt to the changing environment such as disclosing more CSR information. Hence, extremely long tenures may be detrimental to shareholders' interests (Vafeas, 2003). As predicted, mature companies tend to disclose more CSR information to demonstrate their already high reputations. Larger companies have the ability to report more CSR activities since the costs of disclosures are funded by profits (Brammer and Pavelin, 2008). Companies with high market capitalization are also more likely to produce high levels of CSR reporting; conceivably as part of their image building exercise.

Kolk (2003) asserts that CSR reporting is industry specific due to different interests, priorities, rules and regulations. Earlier studies have confirmed a significant systematic disparity across industries concerning their inclination to make CSR reporting (Gamerschlag et al., 2011; Brammer and Pavelin, 2008).

Companies with high consumer visibility, a high level of political risk or concentrated and intense competition disclose significantly more CSR information in their annual reports (Hackston and Milne, 1996; Mohd Ghazali, 2007).

It is important to control for the effect of industry on reporting activities as the sample in this study constitutes companies from multiple industries. Hence, the model was modified by adding INDUSTRY dummies. This study used two-digit Standard Industrial Classification (SIC) codes. The augmented regression model was:

$$CSRI_{i,t} = \alpha + \beta_1 CEOD_{i,t} + \beta_2 BIND_{i,t} + \beta_3 BSIZE_{i,t} + \beta_4 DIROWN_{i,t} + \beta_5 CEOFOUNDER_{i,t} + \beta_6 CEOTENURE_{i,t} + \beta_7 DR_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 AGE_{i,t} + \beta_{10} SIZE_{i,t} + \beta_{11} ROA_{i,t} + \beta_{12} GROWTH_{i,t} + \beta_{13} CAP_{i,t} + \gamma INDUSTRY + €_{i,t} \quad (3)$$

In general, the results shown in Panel B of Table 5 are indifferent when the regression equation is controlled with industry dummies. With the exception of directors' ownership that has become insignificant, the remaining variables remain unchanged.

7. CONCLUSION

This study investigated the impact of CEO duality on firm CSR reporting. The findings of the study are as expected in that there is a negative but non-significant relationship between CEO duality and CSR reporting. It is to be noted that despite various attempts by Malaysian regulators to promote CSR practices, the rate remains at a disappointingly low level (Lu and Castka, 2009). The dual leadership structure could be one of the contribution factors to this outcome. The findings of this study supports agency theory constructs about CEO duality.

CEO duality is depicted as a double-edged sword (Finkelstein and D'aveni, 1994). Despite its ability to enhance unity of command, having a dominant personality can have detrimental effects

on the company. Most importantly, it can impair the monitoring function of the board due to power concentration. There are also potential conflicts of interest. A CEO/Chairman tends to keep control in their hands potentially jeopardising accountability. These effects can restrain good corporate governance practice. As a result, shareholders will have less confidence in the management of the company. It was the potential costs of CEO duality overriding the benefits which lead to the recommendation by the MCCG that the two top management roles be separated. Gray (1988) suggests that managers in Asia are more inclined to be secretive. Consequently, they have less incentive for transparent reporting (Aaijaz and Ibrahim, 2012). Given this and consolidation of power CEOs may be less accountable to all the stakeholders.

Perhaps it will be beneficial for regulators evaluating present corporate governance practices. In effect, it is desirable for all companies to opt for more independent boards to ensure a robust corporate governance system. Nevertheless, regulators need to ensure a robust monitoring measure is put in place to ensure the effectiveness of CSR practices. This study provides information to assist regulators in their continuous attempt to improve corporate governance. While there are many corporate governance attributes that can be linked with a company's inclination towards CSR reporting, this study only focused on CEO duality. Future research could provide additional insights by examining the role of independent directors in reporting activities. Inevitably, independent directors have a pivotal role to play in enhancing board independence and reporting practices. Another source of weakness in this study concerns the selection of the items in the disclosure score, the construction of the score and the content analysis, which are mainly based on subjective assessments.

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