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CORPORATE GOVERNANCE DETERMINANTS AND CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIAN FOOD INDUSTRY

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Abstract

This study examines the relationship between corporate governance determinants and corporate social responsibility (CSR) using a sample from Malaysian food manufacturing companies listed in Bursa Malaysia for the period of 2013-2016. There is a limited number of research on CSR practices in the food industry even though there are many past issues arising in the food industry. The four corporate governance elements that are of interest in this study are family ownership, board gender diversity, board size and board independence. Descriptive, normality, correlation and regression analyses were used to test the hypotheses in this study. The content analysis was used to extract the corporate governance elements and CSR items disclosed in the annual report of the companies. This study can help to improve knowledge of business stakeholders such as shareholders, management and readers about the current condition of corporate governance structure and CSR performance among food manufacturing companies in Malaysia

Keywords: Corporate social responsibility (CSR), corporate governance, family ownership, board gender diversity, board size, board independence.

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1. Introduction

Corporate Social Responsibility (CSR) refers to the business practices involving initiatives that benefit a society. A business' CSR can encompass a wide variety of tactics, from giving away a portion of a company's proceeds to charity to implementing "greener" business operations (Business News Daily, 2016); greener business operation involves changing a company's operation into environmental-friendly operations. In the meantime, every year, companies will make large investments in CSR related activities, generating substantial academics debates on the costs and benefits of CSR and whether CSR improves a company's firm value (Lin, Li, & Bu, 2014). Surprisingly, despite the enormous volume of research in this area, the conclusion on the costs and benefits of CSR remains largely exclusive. There are particular reasons to choose food industry as our sample of the study; the first is that the food sector has a high impact and strongly depends on natural, human and also physical resources. Second, people have strong views on what they eat. The issues that normally occur include animal welfare (humane slaughtering practices), environmental impacts (the use of energy and water used and waste generated from the activities), as well as the safety and health benefits of the products. Issues like the environmental impact of food production, processing and distribution as well as food safety and quality aspect or animal welfare has long attracted considerable attention in the agriculture and economic research areas (Chintrakarn, Jiraporn, Kim, & Kim, 2016).

The appropriate system of top management control is important to make sure that they can monitor the risks, including potential environmental and social liabilities. This is evident with the introduction of the Malaysian Code of Corporate Governance as a driver for environmental reporting in Malaysia (Taha, 2013). The effectiveness of corporate governance would ensure that the interest of stakeholder will be protected. Manufacturing companies should therefore, report their economic, social and environmental performance to their stakeholders. In this light, research on corporate governance in food manufacturing companies is relatively limited, although issues involving corporate governance of food manufacturing companies have been discussed in the past. For example, a few years ago, the High Five Consolidated Berhad suddenly terminated 60 of its workers by only giving 24 hours notices and half month salary as compensation. To make things worse, the management did not make any Employee Provident Fund (EPF) contributions for some of the workers for eight to 12 months prior to their termination (Malaysia Today News Sdn Bhd, 2016). This occurred due to weak corporate governance in the company which affected the employees' welfare. Thus, this study was conducted to examine the relationship between corporate governance determinants and CSR performance in the Malaysian food industry. The determinants for corporate governance consist of family ownership, board gender diversity, board size and board independence.

1.1. Family ownership.

Past studies have defined family owned firms based on the amount of shares owned by the family. If a family or a founder owns at least 5 percent of the firm's shares, the firm can be categorized as a family ownership firm. On the other hand, Perez-Gonzalez (2006) defined a firm as a family ownership firm if the second generation of the family has successfully taken over the firm's management from the first generation. However, in most studies, a family ownership firm is a firm that is controlled and usually

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managed by multiple family members, sometimes from multiple generations. Therefore, there are three characteristics of a family ownership firm. First, the firm is owned by a family. Second, the firm is managed by a family and the third is that the firm is controlled by a family. Thus, this firm needs to possess at least one of those characteristics before being defined as a family ownership firm (Kraiczy, 2013).

Based on the agency theory, family ownership firms should have lesser agency problems between the principals and agents compared to non- family ownership firms (El Ghoul, Guedhami, Wang, & Kwok, 2016). As family's wealth is linked to firm value, managers in family controlled firms would have a stronger motivation to monitor the management of their firm (Anderson & Reeb, 2003). However, this could lead to the agency conflict between the majority and minority shareholders because the majority shareholders would have strong incentives to further their own interest by expropriating minority shareholders. This is because the controlling family would hold a large ownership stake in the firm for several generations and a family member often serves as CEO or chairman of the board (Claessen, Djankov, & Lang, 2000; Faccio & Lang, 2002)

1.2. Board gender diversity.

Marimuthu (2008) defined board diversity as the variation of gender, age, ethnicity, race and cultural identities among board members of an organization. Gender diversity is when a company is represented by an equal proportion of men and women. The presence of women on the board of directors could be considered as good indicators of social responsibility. Moreover, a company can understand better and attract with a diverse population which has the potential to become its clients when there is a more even gender mix on the board of directors (Arfken, Bellar, & Helms, 2004). Orsagh (2016) stated that among 1621 companies in Morgan Stanley Capital International (MSCI) World Index, female directors made up 18.1% of the board in 2015, an increase from 15.9% in 2014. Among the 4218 companies covered in Morgan Stanley Capital International for Environmental, Social and Governance (MSCI ESG) Research global director universe, it was found that 15% of all directorships were held by women in 2015 compared to 12.4% in 2014. MCCG 2012 also recommended boardroom diversity in the Malaysian context. Furthermore starting in 2017, for large companies their board must comprise at least 30% of women directors. This requirements was introduced in order to bring different perspectives, freshness of ideas and contribute to a better company performance (MCCG, 2017).

1.3. Board size.

Board size is defined as the total number of directors on a board (Panasian, Prevost, & Bhabra, 2003; Levrau & Van den Berghe, 2007). It should include both executive and non-executive directors to achieve an optimal board size. The number of directors on the board vary in different countries because of the respective cultures, hence, there are no standardized board size for companies around the world (Zabri, Ahmad, & Wah, 2016). In Malaysia, Mak and Kusnadi (2005) reported that companies with 5 board members have the highest performance. In this regard, there are many reforms implemented to improve corporate governance to ensure to that the boards of directors can carry out their role effectively (Germain, Galy, & Lee, 2014). In the meantime, past studies suggested that a larger board size is needed to have a wider exchange of ideas and experiences. According to Romano and Guerrini (2014), it is better for a

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company to have a larger board size since it might be more effective in monitoring financial reporting. This is in contrary with most studies in the US studies showed that in small board size is more effective and have better performance.

1.4. Board independence.

The board of directors has been recognized as an important mechanism in corporate governance as it aligns the interest of managers and stakeholders (Sanda, Garba, & Mikailu, 2008). The board of directors comprise of a group of individuals selected as the representative of shareholders to maintain the value of an organization. There are two types of board of directors, inside (internal) directors and outside (external) directors. Outside (external) directors are comprise of independent directors that are not directly involved with the organization's daily activities. These independent directors usually monitor the interest of stockholders (Majeed, Aziz, & Saleem, 2015). Past studies has recommended having an independent party in the board of directors in order to gain an independent judgement in managing the organization. It was suggested that at least 80% of the board committee should comprise of independent individuals to facilitate a critical review of the management (Eberhardt-Toth, 2016). According to MCCG 2017, at least half of the board members should comprise of independent directors and for large companies, the board should mainly comprise of independent director (Securities Commission Malaysia, 2017).

2. Problem Statement

A research on Australian mining companies (Lin et al., 2014) reported arguments on the relationship between the corporate governance and corporate social responsibility. There is a separation between the ownership and the management which is problematic as managers (agent) not always work at the best of the shareholders' interest (principal). Management have the possibility to over-investing in corporate social responsibility for the sake of their personal interest on the shareholders' expenses. Malmendier and Tate (2005) and Jo and Harjoto (2012) found that over investing in CSR can cause potential damage to shareholders, thus effective corporate governance mechanisms can prevent affiliated management from over-investing.

Therefore, they hypothesized a negative association between corporate governance and CSR choice since a more effective internal and external governance monitoring should lower management's motivation and chances for CSR on investment. From these CSR activities, companies can build trust among the customers, investor and employees and this will indirectly enhance the company's image and value. Assiouras, Ozgen and Skourtis (2013) found that there is a high CSR expectation in the industry, especially in the food sector. Maloni and Brown (2006) explained the environment impact from the food industry such as water pollution, packaging, food miles and so on. The management tends to fulfil the interest of the shareholder to maximize the profit and ignore the negative impact brought from these activities toward the stakeholders, especially the public, as they are the primary concern of the business.

3. Research Questions

In order to fulfil the objective, this study seeks to provide the answers to the following research questions

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- Does family ownership influence towards CSR performance?
- Does the board gender diversity influence towards CSR performance?
- Does the board size influence towards CSR performance?
- Does board independence influence CSR performance

4. Purpose of the Study

The aim of the study is to examine the relationship between corporate governance determinants and CSR performance of Malaysian food manufacturing companies. Thus, the specific objectives of the study are as follows

- To examine the relationship between family ownership and CSR performance.
- To investigate the relationship between board gender diversity and CSR performance.
- To identify the relationship between board size and CSR performance.
- To determine the relationship between board independence and CSR performance.

5. Research Methods

The samples were chosen from a population of 29 food industry companies listed in Bursa Malaysia. All of the 29 companies were chosen as the study sample from the period of 2013 until 2016. The samples observed were limited to 4 recent financial years after the introduction of MCCG 2012 except for 2017 as most companies have not published their financial reports yet. This study used secondary data as the main resources for study. Content analysis was also used as a data collection method. Content analysis is used primarily as a quantitative research method by coding the text data into explicit category and finally the data were transcribed or interpreted through a statistics computer software (Hsieh & Shannon, 2005). This research used content analysis to analyse the companies' annual reports to examine company's corporate governance determinants and CSR performance through company's annual report for the year 2013 until 2016.

5.1. Measurement of variables.

In this study, the dependent variable, CSR performance can be measured based on the average of the firms' environmental performances and social performance scores. The firms' environmental performance scores were measured based on the companies' impact on living and non-living nature systems on air, land and water, and based on the firm's energy use, CO2 emissions, waste recycling and water recycling. Meanwhile, the firms' social performance scores measure the companies' ability to generate trust and loyalty with its workforce, customer, and society and is based on factor, such as employees' turnover, injury rate, training hours, percentage of female employees, and amount charitable organization (El Ghoul et al., 2016). The system's score will be functioned based on the disclosure of CSR activities in the companies' annual report. If the companies disclosed at least three CSR items, they will coded as "one", while if the companies disclosed less than three CSR items, they will be coded as "zero".

The element of corporate governance for family ownership (CGFO) can be measured using a dummy variable based on three criteria. First, a family or the founder owns more than five percent of the shares. Second, the first succession to the second generation has taken place and the last criteria, the firm is

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controlled and usually managed by multiples family members, sometimes from multiple generations. In order to categorize these companies as family ownership firms, they need to fulfil either one of these criteria to be scored as "one" (Kraiczy, 2013). The next element of corporate governance is board gender diversity (CGBG), which is used a dummy variable as "one" if there is at least one female member in the board of directors and "zero" for otherwise (Carter, Simkins & Simpson, 2003). The board size, as part of the corporate governance elements (CGBS) is determined by the number of directors in the company that consist of all types of directors (Panasian et al.,2003; Levrau & Berghe, 2007). Lastly, board independence (CGBI) can be measured based on the percentage of independent director to total directors sitting on the board (Taha, 2013).

5.2 Hypothesis development.

Barnae & Rubin (2006) found a negative relationship between insider ownership with a firm's CSR rating. Their interpretation is that manager's over-investment in CSR for the sake of their private interest. However, when their ownership increases, they have to bear a larger cost associated to CSR which is larger than the related benefits. Another prior study found that concentrated ownership has a negative relationship with CSR performance in the sample of 700 European firms (El Ghoul et al., 2016). On the other hand, Whetten & Mackey (2002) suggested that family firms invest more CSR activities on the concern of reputation in the eyes of the stakeholders. Reputation is significantly important for family firms as it will not only affect the firm performance but also the families' reputation (Dyer & Whetten, 2006). Therefore,
H1: There is a significant relationship between family ownership and CSR performance.

This study found that board gender diversity has a significant relationship with CSR. Among the various board diversity characteristics, gender is one of the most significant issues faced by modern corporations (Carter et al., 2003). Female CEOs are more receptive to social and community needs (Sila, Gonzalez & Hagendorff, 2016), and companies will be more successful in fulfilling their corporate responsibility if they fully utilise female talents (Ijas, 2012). Compared to male directors, female directors provide exceptional perspectives, experiences, as well as work and communication styles. Therefore:

H2: There is a significant relationship between board gender diversity and CSR performance.

Previous research suggested that board size would affect the control management and lead to poor decision making in the company (Taha, 2013). The result showed a positive association between board size and CSR (Galbreath, Nicholson & Quaddus, 2015). This is because as board's size grows, the company has more access to resources to provide a greater achievement of CSR outcomes. Highly effective board is the key to internal governance mechanism (Boubaker & Nguyen, 2015) and this will ultimately lead to a high CSR performance since they function well in the company. Meanwhile, according to Boubaker and Nguyen (2015), a smaller board size is indeed more effective of monitoring but it could hinder the board's access to external resources due to the lack of external network connections. Therefore:

H3: There is a significant relationship between board size and CSR performance.

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The presence of an independent board of director can increase CSR performance (Parente & Machado, 2016). The relations between an independent director and the CSR performances are still unclear. However, studies mentioned that there is a positive relationship between independent directors and deliberate corporate social responsibility (Majeed et al., 2015). The selection of external members will provide more resources, information and legitimacy to the board and they tend to be more sensitive toward the society needs, which is aligned with the concept of CSR (Ayuso & Argandona, 2007). This is in contrast with Cuadrado-Ballesteros, Rodriguez-Ariza, and Garcia-Sandchez (2015) which found the negative effect of the role of independent directors and CSR performance, however it is for the family firms. The independent members in the family firm tend to make decision that can fulfil the families' interests rather than the society interests or needs. Therefore,

H4: There is a significant relationship between board independence and CSR performance.

6. Findings

Descriptive statistics are numbers that are used to summarize and describe data that have been collected from an experiment, a survey, a historical record like annual report and so on. Their main objective is to describe the characteristic of the variables in a research (Trochim, 2008). They provide simple summarize about the sample and the measures. Descriptive statistic could help researchers to understand the features of a group in a given situation.

Table 01. Descriptive study for board size and board independence

	N	Minimum	Maximum	Mean
CGBS	116	4	12	8.2586
CGB**I**	116	0.25	0.75	0.4254

Note: CGBS is Board Size and CGBI is Board Independence

According to Table 01, the minimum of board size from the data is 4 members, while the maximum number of members is 12. The mean number of directors on the board is 8 members. The MCCG 2012 stated that the board sizes vary and depend on the company's size (Securities Commission Malaysia, 2017). In terms of board independence, the minimum number of independent members on the board is 25% of the total number of directors while the maximum number of independent directors on board is 75%. Meanwhile, the mean of independent directors on the board is 42.54%. According to MCCG 2012, the board must mainly comprise of independent directors but the chairman of the board should not be an independent director. This shows that food manufacturing companies do not have a majority of independent directors in their board since the average percentage of independent board directors is only 42.54%.

Table 02. Table of frequency for family ownership and board independence

		Frequency	Percent	Valid Percent	Cumulative Percent
Family Ownership	No	71	61.2	61.2	61.2
	Yes	45	38.8	38.8	100.0

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	Total	116	100.0	100.0	
Board Gender Diversity	No	64	55.2	55.2	55.2
	Yes	52	44.8	44.8	100.0
	Total	116	100.0	100.0	

Table 02 shows the frequency for family ownership and board independence. The minimum number for family ownership is 0, which indicates 71 samples have non-family ownership. Meanwhile, the maximum number is 1 which means there are 45 samples that are family ownership firm. The mean is 38.8% which shows that the number of family ownership firms among food manufacturers in Malaysia is low. The minimum number for board gender diversity is 0 which means there are 64 samples that do not have women on the board and the maximum number is 1 which means that there are 52 samples that have women on the board. There are 44.8% of the samples that have gender diversity on their board. This shows that food manufacturing companies in Malaysia still have low gender diversity on their board even though almost half the samples have female representatives on the board.

Table 03. Table of frequency for corporate social responsibility (CSR)

	Frequency	Percent	Valid Percent	Cumulative Percent
Not Disclose	25	.2155	.2155	.2155
Disclose	91	.7845	.7845	100.0
Total	116	100.0	100.0	

From Table 03 above, the minimum number for CSR is zero. This indicates that there are samples that disclosed less than three items on CSR.21.55% of the samples only disclosed two and below CSR items. The maximum number of CSR is 1 which shows that there are samples that disclosed 3 and more CSR item. In total, 78.45% of samples disclosed the CSR performance in their annual report. This supports the concept of CSR where Malaysian companies no longer act as an isolated economic entities.

6.1. Correlation analysis.

Correlation is a term that refers to the strength of a relationship between two variables. A high correlation shows that the two variables have a strong relationship with each other while low correlation means the variables are hardly related. Correlation analysis is the process of testing the strength of the relationship of the variables with available statistical data (Sekaran & Bougie, 2013).

Table 04. Correlation result for independent and dependent variables

		CGFO	CGBG	CGBS	CGBI	CSR
CSR	Correlation coefficient	-.119	.064	.371**	.302**	1.000
	Sig.(2tailed)	.204	.493	.000	.001	.
	N	116	116	116	116	116

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

Note: CGFO is Family Ownership, CGBGD is Board Gender Diversity, CGBS is Board Size, CGBI is Board Independence and CSR is Corporate Social Responsibility.

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As shown in Table 04, the significant level for family ownership, is more than 0.05 (P=0.204) while the correlation is at -0.119. This indicates that the family ownership has negative insignificant effect to the CSR. For board gender diversity, the significant level is more than 0.05 (P= 0.493) and correlation at 0.064. This indicates that the board gender diversity has positive insignificant effect to the CSR.

Meanwhile, board size has a significant level which is less than 0.01 (P=0.000). The value of correlation coefficient shows in the table is 0.371 which means that there is a significant positive relationship between board size and CSR. Board independence has significant relationship level less than 0.01 (P=0.001). While the value of correlation coefficient level is 0.302 which means that there is a significant positive relationship between board independence and CSR.

6.2. Multiple regression analysis.

Regression analysis helps in estimating the relationship between the dependent variable and independent variables of the study (Pallant, 2001).

$$CSR\ it = \beta 0 + \beta 1\ CGFC + \beta 2CGBG + \beta 3CGBS + \beta 4CGBI + \varepsilon$$

Table 05. [Multiple linear regression analysis result for independent and dependent variables]

Model	B	Std. Error	t	Sig.
Constant	.219	.170	1.288	.200
CGFC	-.065	.054	-1.210	.229
CGBG	.075	.053	1.418	.159
CGBS	.054	.013	4.129	.000**
CGBI	.107	.224	.479	.633
R^2 0.163				
Adjusted R^2 0.133				
N 116				

As from the Table 05, result shown that familt ownership has negative insignificant to the CSR performance where the t-value is -1.210 and p-value is 0.229. Therefore, H1 hypothesis is not supported. This finding is consistent with El Ghoul et al., (2016) which reported a lower CSR performance amily firms. This is because they have greater agency costs, less monitoring from outside shareholders and less efficient board.

For board gender diversity, the t-value = 1.418 while p-value is 0.159. This indicates that the board gender diversity has positive insignificant effect to the CSR performance. Therefore, the hypothesis of H_2 is not supported. This finding is supported by previous research by Khan (2010), stated that women representation on board is not significant to CSR performance. The author said that women representation in the executive level is the new phenomenon and might have the limited role play in the executive positions.

In regard to board size, it has a positive significant relationship to the CSR performance when t-value is 4.129 and p-value is 0.000. A larger board size indicates a higher CSR performances. Therefore H_3 is supported. This result is supported by the previous research that stated that there is indeed the existence of the relationship between the board size and CSR (Galbreath et al., 2015). They found that in affecting

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firm outcomes, specifically CSR, board size plays a very positive role. This further proved that board size is one of the major and important factors in determining the performance of CSR.

Board independence has positive insignificant relationship to CSR performance when t-value is 0.479 and p-value is 0.633. Therefore, H_4 is not supported. This result contradict with prior research by Eberhardt-Toth (2016), the board is more effective for social corporate performances with a larger number of independent. This shows that the independent directors in food industry in Malaysia are less concerned of the CSR performances and inconsistently monitor these aspects, but only focusing on corporate financial performances

7. Conclusion

This study investigated whether corporate governance attributes have an impact on the CSR performance in Malaysian food manufacturing companies. The result of this study shows that only board size affect companies' CSR performance as it the only variables that supported. This study can help to improve knowledge of business stakeholders such as shareholders, management and readers about the current condition of corporate governance structure and CSR performance among food manufacturing companies in Malaysia. As for management, they could use the findings on how to improve the current CSR performance of the company as CSR nowadays plays an important role to maintain sustainability and maintain the good image of the company. Meanwhile, customers and investors could use this research to know which companies have better CSR performance and the reason behind the improvement in the CSR performance of the company. There are some limitations of this study. This study examined the CSR performance in the food manufacturing companies' annual report, and the findings of this study still do not provide the overall picture that all Malaysian food manufacturing companies disclosed their CSR performance in the annual report. This is because they could report their CSR performance through other channels like companies' website and brochures. Therefore, future research can be done by focusing on more resources.

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