



Effect of Board Size and Duality on Corporate Social Responsibility: What has Improved in Corporate Governance in Asia?

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The aim of this study is to examine the relationship between board size and CEO duality, and corporate social responsibility (CSR). A total of 91 public listed companies from Bursa Malaysia representing the sample of the current study were selected. Secondary data were used and sourced from annual report on the companies. Using descriptive statistics, the existence and the extent of CSR disclosure on Malaysian companies were ascertained. An analysis of the quantitative data was then made using the Partial Least Squares (PLS). The findings from this research show that the role of board size suggest a significant and positive relationship with CSR disclosure. On the other hand, CEO duality on CSR disclosure indicates a negative relationship. This research contributes to the existing literature in terms of the roles of board Size and CEO duality on CSR initiatives. Furthermore, It highlights the necessity of following the new trends in corporate governance field by investigating its mechanisms with the new trends in financial Industry from Islamic perspective as this might be positively added to the field of corporate governance due to the high significant role for these two fields.

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Keywords: Corporate governance, CEO duality, Board size, CSR, Asia

Penelitian ini menguji hubungan antara ukuran dewan (komisaris) dan dualitas CEO, serta tanggung jawab sosial perusahaan (CSR). Sampel yang diambil untuk penelitian ini adalah 91 perusahaan publik dari Bursa Malaysia. Data sekunder yang digunakan bersumber dari laporan tahunan perusahaan. Untuk memastikan pengungkapan CSR pada perusahaan Malaysia, peneliti menggunakan metode statistik deskriptif. Analisis data kuantitatif dilakukan dengan menggunakan Partial Least Squares (PLS). Hasil dari penelitian ini menunjukkan bahwa ukuran dewan komisaris memiliki hubungan yang signifikan dan positif dengan pengungkapan CSR. Di sisi lain, dualitas CEO memiliki hubungan negatif dengan pengungkapan CSR. Penelitian ini berkontribusi pada literatur yang sudah ada terkait dengan peran ukuran dewan komisaris dan dualitas CEO pada pelaksanaan CSR. Selain itu, penelitian ini juga menyoroti perlunya mengikuti tren baru dalam bidang corporate governance (tata kelola perusahaan) dengan menyelidiki mekanismenya dengan tren baru dalam industri keuangan dari perspektif Islam karena hal ini dapat ditambahkan secara positif ke dalam bidang tata kelola perusahaan karena signifikan peran yang tinggi dari kedua bidang tersebut.

Keywords: Tata kelola perusahaan, dualitas CEO, Ukuran dewan, CSR, Asia

INTRODUCTION

Countries in both developed and developing economies put more attention on dealing with corporate governance in their corporations [Abushammala et al. \(2015\)](#). The reason behind that is that CG has played essential role in operating and controlling the framework of the organizations ([Alabdullah et al. \(2016\)](#); [Alabdullah \(2018a\)](#); [Alfadhl and Alabdullah \(2013\)](#)). This system increases the interest of the shareholders via relying on set of robust mechanisms and principles of corporate governance to control the actions of the companies based on principles of disclosure and transparency. Corporate governance has received attention because it positively affects the performance and value of the company ([Alabdullah et al. \(2016\)](#); [Alabdullah et al. \(2014b\)](#); [Alfadhl and Alabdullah \(2013\)](#)) because applying such a system has its positive impact on market growth and economic growth ([Abushammala et al. \(2015\)](#), [Alabdullah \(2016\)](#)). CG can be utilized as a building block for the firms to maximize their value by creating a competitive advantage, enabling their performance to be enhanced and thereby leading to an overall improvement in a country's economy ([Alabdullah \(2016a\)](#); [Alabdullah \(2016b\)](#)). Larger board size has a positive impact on firm performance with its two measurements: Return on Assets (ROA) and Return on Equity (ROE), ([Alabdullah et al. \(2018\)](#); [Alabdullah \(2016c\)](#)) CG is a source of much interest worldwide as it is a useful tool to reduce or mitigate any business crises on the one hand, and on the other CG can be utilized as a building block for the firms to maximize their value by creating a competitive advantage, enabling their performance to be enhanced and thereby leading to an overall improvement in a country's economy [Alabdullah \(2016d\)](#). It is recommended that corporate entities should promote corporate governance to send a positive signal to potential investors. The Central Bank of Kenya (CBK) should continue enforcing and encouraging firms to adhere to good corporate governance for financial institutions for efficiency and effectiveness and regulatory agencies including the government should promote and socialise corporate governance and its relationship to firm performance across industries ([Alabdullah et al. \(2018\)](#); [Mang'unyi \(2011\)](#)). Adopting one corporate governance proposal increases shareholder value by 2.8%. The market reaction is larger in firms with more antitakeover provisions, higher institutional ownership, and stronger investor activism for proposals sponsored by institutions ([Cuñat et al. \(2012\)](#)). There is no comprehensive, "one size fits all" global corporate governance or CSR system, based on western codes and regulations that can be implemented in emerging markets ([Lenssen et al. \(2011\)](#)). Stronger governance mechanisms would reduce opportunistic management behavior, thus improving the quality and reliability of earning management ([Gulzar \(2011\)](#)). It indicates that larger and improved boards are associated with a greater depth of intellectual knowledge, which in turn helps in improving decision-making and enhancing the performance ([Arora and C.Sharma \(2016\)](#)). Good corporate governance is imperative to all organizations and must be encouraged for the interest of all stakeholders ([Alabdullah \(2018a\)](#))

Corporate governance is manifested through various dimensions. These include code of corporate governance, board independence, skills, size, committees experience and board diversity ([Dewji and Miller \(2013\)](#); [Narwal and Jindal \(2015\)](#)). Banks with strong corporate governance practices had substantially higher stock returns in the aftermath of the market meltdown, indicating that good governance may have mitigated the adverse influence of the crisis on bank credibility ([Peni and Vähämaa \(2012\)](#)). The motivation factor of corporate governance is evidenced especially in non-financial companies. Whilst financial companies cited that their Enterprise-Wide Risk Management (EWRM) practices were not only being driven by corporate governance compliance, but also for good business practice and improved decision making. In addition the motives of its implementation ensured the survival of the company and value creation ([Alabdullah et al. \(2016\)](#); [Manab et al. \(2010\)](#); [Alabdullah and Ahmed \(2018\)](#)). Another study they found that more socially responsible firms enjoy more favorable credit ratings. In particular, an increase in Corporate Social Responsibility (CSR) by one standard deviation improves the firm's credit rating by as much as 4.5% ([Jiraporn et al. \(2014\)](#)). Enterprises must focus on productive

stakes in the global economy, and include social responsibility “which creates long-term sustainability for corporate success by meeting the needs of all suppliers, investors and employees” into their ownership advantage. The perspective and implementation of CSR has important consequences for Multinational Enterprises through FDI in fostering development (Tai and Chuang (2014)). Firms should continue to adopt corporate governance for ethical reasons to meet stakeholder’s social and environmental needs for sustainable development (I.Dzingai and Fakoya (2017)). It has mentioned that the board independence and meeting frequency moderate the relationship between return on equity and return on assets by enhancing board characteristics and the firms’ performance indicators measures among corporate governance mechanisms (Palaniappan (2017)). Turkey Corporate Governance Index (TCGI) predicts higher market value (with firm fixed effects) and higher firm-level profitability with firm random effects. The principal subindex which predicts higher market value and profitability, and drives the results for TCGI as a whole, is disclosure subindex and also found that the determinants of firms’ governance and its most firm-specific factors have little effect on firms’ governance choices (Ararat et al. (2017)). With rising stakeholder concerns over sustainable development, corporate social responsibility (CSR) has become key for the business community, moving the business model beyond financial performance to a new voluntary paradigm based on natural resource conservation, social welfare, stakeholder engagement and economic performance (Aitsidhoum and Serra (2018); Alabdullah et al. (2014c)). Improved corporate governance has leads investors more optimistic and have more trust in Seasoned Equity Offering (SEO) issuers when they believe they are better protected (Chen (2017)). Social expectations had the greatest impact on both stakeholder pressure and green practice adoption. Moreover, they found that the higher the job titles were, the more willing they were to adopt green practices and it indicated that the current top management of Korean logistics companies is well aware of being mandated to make a commitment to corporate environmental responsibility and green practices (Lee et al. (2018)).

Recently, regulatory in several countries have demonstrated their needs for new corporate governance (CG) to enhance the transparency in corporations. In Asia, the financial crisis led to shed light to the need for more evidence and events on the issues of CG and transparency. Especially the increasing of corruption situations (Ahmed et al. (2019); Alabdullah (2018b); Alabdullah (2016); Alabdullah et al. (2014a); Alfadhil and Alabdullah (2013); Abushammala et al. (2015)).

Ehikioya (2009) mentioned that recent financial disturbance in Asia in the late 1990s with several scandals in Enron, World Com and other related firms has again encouraged investors, policy makers, and other stakeholders to take interest towards good CG. In Asian countries such as Jordan. For instance, Alabdullah et al. (2018) discussed the relation of non-executive directors; and the board of directors’ size, and growth/capital structure in a sample of 100 firms that was made available by nonfinancial sector in Jordan. The results showed that increasing the number of non-executive directors in the board, in another meaning increasing size of the board has a negative and significant effect on capital structure.

Researchers classify three key roles; resource dependence and control. In Asia, the role of resource dependence such as board of directors members offers information to top management and resources is clearer than other two roles. It is important because it shows that top management might choose board members in order to develop the companies rather than focusing on controlling and monitoring the management (Fan (2004)). Unlike many recent studies that focused on financial companies, the current study discusses corporate governance’ studies that applies in companies belong to non-financial listed companies in some countries in the developing markets. With regard to studies done in Asia, Fan and Wong (2001) recommended that Big 5 auditors in Asia have a role of corporate governance and they are likely to focus on transparency in companies’ financial statements and reports as they have a better reputation to uphold; might be more independent than local companies; concentrate larger legal liability for making errors, and they probably perceived disclosure quality because of their recognizable and prominent names.

Based on the literature that have been done in Asia, it is clearly appeared that there is still no improvement in the field of corporate governance. Alternatively, new trends in the business

world have been given an concentrated consideration to the financial Industry from Islamic perspective due to the financial crises and drawbacks as an substitute option through using instruments based on the real economic (Ahmed et al. (2014a) ; Ahmed et al. (2016) ; Ahmed et al. (2018a) ; Ahmed et al. (2014b) ; Ahmed et al. (2014c) ; Ahmed et al. (2019) ; Ahmed (2010)), and this provides more concentration to the risk management in the instruments of Islamic financial (Ahmed et al. (2019) ; Ahmed et al. (2018b) ; Ahmed et al. (2015) ; Ahmed et al. (2014c) Ahmed et al. (2015) , Ahmed et al. (2013a) ; Ahmed et al. (2012) ; Ahmed and Zuqibeh (2013) Ahmed and Zuqibeh (2013) ; Ahmed et al. (2013b) . Other studies in the same line also take in their account the moderating role shariah supervisory board from the perspective of Sukuk documentation and legitimacy as the study done by Ahmed et al. (2018b) and also previous studies like Ahmed et al. (2018c) dealt with the moderating role of Shariah supervisory board in its effect on sukuk pricing benchmark. This new and important trend should be tested and considered by the future studies.

Board of directors is one of the important essentials of corporate governance tool in management to ensure the company's business is being properly managed by their agents. Past studies suggested that board size effects will increased communication and coordination problems, decreased ability of the board to control management and the spread among a larger group of the cost of poor decision making (Lipton and lorsch (1992) . Besides that Jizi et al. (2014) explained firms with larger boards are likely to disclose more CSR related information. The results indicate that, possibly because banks are complex organizations, having a larger number of directors share the work has a positive impact on the firm's attitude towards its stakeholders.

The relationship of CEO duality and level of CSR disclosure were studied by prior researchers. Some of the studies concluded there is no relationship between CEO duality and CSR disclosure (Cheng and Courtenay (2006); Fan and Wong (2001) . However, Gul and Leung (2004) reported negative and significant relationship between CEO duality and the level of CSR disclosure. According to them when the CEO was holding chairman position the CSR disclosure was lower compared with company which had no CEO duality issue.

Prior studies presented positive relationship with board size and various type of CSR disclosure. M.Halme and .Huse (1997) and Rao et al. (2012) Rao et al. (2012) analyzed and concluded positive relationship of board size and environmental disclosure . Cheng and Courtenay (2006), Akhtaruddin et al. (2009) indicated board size has positive relation with voluntary corporate disclosure. Said et al. (2009) shows that positive relationship between board size and CSR disclosure index. Hence, it is hypothesized that:

H1: Board size positively associates with CSR.

Separating the positions of CEO and Chairman of the board possibly encouraged to enhance the observation of the board director's activities (Jensen (1993)). Companies with CEO and also holding chairman spot have greater chances to be related to the minor levels of quality of CSR disclosure. This is because the board is less motivated to monitor the companies transparency might be used to conceal fraud and incompetence.

According to Forker (1992) and Gul and Leung (2004) , CEO duality reduces overall accountability, making the companies less transparent for all relevant stakeholders. Yuen et al. (2008) whom researched on the influence of ownership features, corporate governance mechanism and firm specific features on the CSR disclosure of randomly selected 200 public listed companies in China and found a negative relationship between CEO duality and the extent of disclosures. This is supported by empirical studies such as Uwalomwa and Ajibolade (2013) ; Michelon and Parbonetti (2012)

Hence, it is hypothesized that:

H2: CEO duality is negatively impacts CSR

METHOD

This study used quantitative approach, the sample size consists of 125 companies from trading and service, construction and properties industry that listed on Main Market of Bursa Malaysia. Content analysis was used to gather data from annual report 2018. Statistical tools such as

SmartPLS version 3.0 and SPSS were used to analyze the collected data.

CSR : When a firm disclosed items related to CSR in annual report the firm will be given scored '1' while firm failed to disclose will be given '0' score. This scoring approach is chooses due to the simplicity and less controversial as it lessen the possible scoring bias and scaling issues in measuring the score (Haniffa and Cooke (2005) . The total scores that a company can be achieved are 26 based on the listed checklist items.

The measurement for board size and CEO duality used in this study show Table 1 This information was collected from the annual report of the firm.

[Table 1 about here.]

RESULT AND DISCUSSION

The total sample used in this study is 125 firms from three main industries namely trading and services, properties and construction. Table 2 showed the composition of sample. The 125 firms choose randomly from overall population 352 inclusive trading and service, construction and property industry. Samples 45 taken from trading and services, 34 from construction and 46 from property. Frequency analysis of 125 samples is conducted by using the latest version of SPSS software. Frequency analysis measures the validity of sample and to check whether any missing sample for each variable.

[Table 2 about here.]

Table 3 explains the frequency analysis of board size in the companies. The least board size is 4 and 3 companies out of 125 had this size. The highest frequency is 20% which carries 8 directors in the board and most firms have this size. This was followed by 7 directors in the board which carried about 18.4%. Only 1 firm had the 12 director size which carried 0.8%.

[Table 3 about here.]

Besides board size, this study also analyzes the CEO duality. Table 4 explains only 9 companies out of 125 had CEO duality in the board of directors. It was equaled to 7.2% in total sample.

[Table 4 about here.]

Structural Model Path Coefficient

The path coefficient is significant when the t-value is more than critical value. Computed PLS structural model can be seen in Table 5 showed the path coefficient and R2 after run the PLS algorithm.

[Table 5 about here.]

** p < 0.01, *p < 0.05

Table 5 abridged the path coefficient, standard deviation and t-value for each independent variable to dependent variable relationship. H1 analyze board size have positive relationship with CSR Disclosure. This explains the larger board size will disclose high CSR activities. The result for H1 indicates, it is statistically significant (path coefficient = 0.148, t-value = 1.667), thus H1 accepted.

Hypothesis H2 proposed that CEO duality have negative relationship with CSR disclosure. The result not supported H2 which statically significant at p<0.05 and negatively related (path coefficient = -0.110, t-value = 1.351), thus H2 was rejected.

IMPACT THE BOARD SIZE ON CSR

Board size was obtained by measuring the total number of directors in the board. [Zahra and Pearce \(1989\)](#) explained when the board size is large it will reduce CEO ability to dominate the board of directors. Besides that large board size also will increase the transparency in monitoring top management choices and engagements ([Mak and Roush \(2000\)](#)). Prior researchers have found positive and significant relationship between board size and CSR disclosure in Malaysia ([Akhtaruddin et al. \(2009\)](#); [Said et al. \(2009\)](#))

The findings of this study in align with previous researches. H1 projected large board size will endorse high level of CSR disclosure. The outcome from this study discover that board size do effect the relationship with CSR disclosure as the results is significant. This result similar with previous studies by [Sadou et al. \(2017\)](#) which the author studied on CSR disclosure on larger companies. The purpose of the study was to test on the enhancement in the range and quality of CSR disclosure in Malaysia. [Sadou et al. \(2017\)](#) concludes that companies with larger board size disclosed expressively more CSR facts. On the other Akbas (2016) studied on the relationship between board characteristics and environmental disclosure by examining 62 non-financial Turkish firms. The author also found statistically significant and positive relationship between board size and environmental disclosure. This can be further justify by analysis the sample, for example the highest board size 15 in the sample was obtained by Malaysia Airports Holdings Berhad and they scored total 16 scores out of total 25 scores in CSR disclosure. Most of the companies that score in between 15- 23 out of total 25 scores have bigger board size in range of 8-15 directors. As overall, the findings showed there is significantly positive relationship between board size and CSR disclosure. The bigger the board size of the company, the more CSR disclosure the company will disclosure.

Impactthe CEO Duality on CSR

CEO duality happens when the CEO of the company holds chairman position as well in the board of directors. [Jensen and Meckling \(1976\)](#) proposed when there is CEO duality in the board it has weaker observation from the board. Some previous revisions identified negative association of CEO duality and CSR disclosure ([Gul and Leung \(2004\)](#)). H2 suggested that CEO duality has significant relationship with disclosure of CSR. The findings has negative and insignificant relationship with CSR disclosure. This is in align with research by [Majumder et al. \(2017\)](#). The research study about the relationship between corporate governance and corporate social disclosure and find insignificant negative association with CSR disclosure. In addition the findings also supporting the study of [Ahmad et al. \(2017\)](#) which discuss about the impact of CEO duality in corporate social reporting. The findings support there is negative nonsignificant relationship between CEO duality and CSR reporting. Based on the sample size 125, only 9 companies have the duality which indicates a very low duality rate in Malaysia under trading and services, construction and properties industry. This also supports the fact that majority of Malaysian firms complied with the suggestion of Malaysian Code of Corporate Governance (2012) where company should have a clear and separate role of chairman and CEO.

When the CEO in the board composition they tend to be more cautious to disclose CSR information. They might only report positive activities and out guard negative news to protect management reputation and capability. Besides that they avoid to disclose any negative news referring CSR to protect shareholders engagement. In this case the CSR disclosure will be lower because CEO dominance can impact the board decision. However as overall, the finding resulted CEO duality have negative impact and statistically non-significant to CSR.

CONCLUSIOAN

The findings of the present study provide a substantial discovery in the trading and service, construction and properties industry that listed on Main Market of Bursa Malaysia for the relationship between board size and CEO duality on corporate social responsibility (CSR) in Malaysian listed companies. Generally, the role of board size suggest a significant and positive relation-

ship with CSR disclosure. While CEO duality on CSR disclosure indicate a negative relationship. Thus, authorities should consider more analysis on this link and its contributions and possible improvements to CSR among Malaysian listed companies in the trading and service, construction and properties industry. CSR reporting have become a mandatory disclosure from voluntary disclosure. For as Malaysia, the government make it compulsory to publicly listed companies to disclose the CSR information in their annual reports. When companies focus on CSR they are not only driven their companies to be profitable leaders but also has positive effect from socially responsibility perspective. In that, that The new improvement done by the current study is that it focuses on the link of corporate governance characteristics, earning management to CSR disclosure by moderating internal audit function. The sample size was 125 companies under trading and services, construction and properties industry. These companies selected as control variable for some a few reasons. First, both industries showed have a positive growth in the Malaysian GDP 2016 which probably earnings management takes place in the companies. In addition, construction and properties tend to be environmental intensive since they might give bigger impact on the nature. So corporations be likely to disclose more on environmentally friendly. Further, these industries tended to create more waste compared finance and banking. The possible waste emanation to air, water and land can lead to crucial environmental problem. The current study also revealed the importance of getting new trends in corporate governance field via taking into account testing the link between corporate governance mechanisms and financial Industry from Islamic perspective in Asia. The current study strongly recommended the future researchers to focus on both corporate governance and financial Industry from Islamic perspective as a new trend might be positively added to the field of corporate governance or to be linked with it due to the significance for these two fields.

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TABLE 1 | Measurement of Independent Variables

Independent Variables	Measurement
Board Size	"BSIZ": Total Number of Directors in the board. (Said et al. (2009)
CEO Duality	"CEO DUALITY": CEO of company holds the chairman position as well in the board. "1" score given if the CEO holds the chairman position, and "0" score given if otherwise Said et al. (2009)

TABLE 2 | Sample's by Sector

Sector	Number of Company	Number of Sample	Percentage (%)
Trading and Services	212	45	36
Construction	46	34	27
Property	94	46	37
Total	352	125	100

TABLE 3 | Frequency Table for Board Size

Number of Director	Frequency	Percent
4	3	2.4
5	8	6.4
6	17	13.6
7	23	18.4
8	25	20.0
9	22	17.6
10	9	7.2
11	6	4.8
12	6	4.8
13	2	1.6
14	3	2.4
15	1	0.8
Total	125	100

TABLE 4 | Frequency for CEO Duality

CEO Duality	Frequency	Percent
No	116	92.8
Yes	9	7.2
Total	125	100

TABLE 5 | Path Coefficient

Hypothesis	Path	Path Coefficient	Standard Error	T-Value(1 tailed)	Decision
H1	BSIZE [®] CSR	0.148	0.089	1.667	Accept
H2	CEO [®] CSR	-0.110	0.081	1.351	Reject