รายงานวิจัยฉบับสมบูรณ์

# โครงการ A longitudinal study of Triple Bottom Line reporting on annual reports by companies listed in the Stock Exchange of Thailand (SET)

โดย อ.ดร.มัทนชัย สุทธิพันธุ์

เดือน พฤษภาคม ปี พ.ศ.2558 ที่เสร็จโครงการ

สัญญาเลขที่ MRG5680115

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(ความเห็นในรายงานนี้เป็นของผู้วิจัย
สกว. ไม่จำเป็นต้องเห็นด้วยเสมอไป)

เอกสารแนบหมายเลข 2

## Abstract

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**Project Code:** MRG5680115
**(รหัสโครงการ)**

**Project Title:** A longitudinal study of Triple Bottom Line reporting on annual reports by companies listed in the Stock Exchange of Thailand (SET)
**(ชื่อโครงการ)**

**Investigator:** Muttanachai suttipun, Ph.D. from Prince of Songkla Universiy
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**Project Period:** Two years
**(ระยะเวลาโครงการ)**

**Abstract**:

This study aims to investigate the narrative TBL reporting in annual reports of listed companies in the Stock Exchange of Thailand (SET) during 2005-2012, to test whether the comply-or-explain approach in 2006, and CSR award in 2010 influenced the TBL reporting in annual reports, and to examine the relationship between corporate characteristics, the TBL reporting, and corporate financial performance.

Population of this study is drawn from all companies listed in the Stock Exchange of Thailand that there are around 500 firms. By simple random sampling, 100 firms are used as a sample in this study. Corporate annual reports during 2005 to 2012 from companies listed in SET are used to study the theme, extent, content, and level of TBL reporting of Thai listed companies. Content analysis by word counting will be used as the study method to investigate and quantify the level of TBL reporting. Descriptive analysis, independent sample t-test, paired sample t-test, repeated measure ANOVA, and correlation matrix are used to analyse in this study

The findings indicate that the level of TBL reporting in annual reports of listed companies from the Stock Exchange of Thailand had been an increase during 2005 to 2012.

The study also finds the significant different level of TBL reporting between the groups of company size, ownership status, and business type. Moreover, there is a significant different level of TBL reporting between pre and post events of comply-or-explain approach, and CSR award. The results find the relationship between size of company, type of industry, ownership status, CSR award, and the level of TBL reporting. Finally, the findings also indicate the correlation between the level of TBL reporting and earning per share (EPS).

The limitations of this study include the subjectivity of the data collection method, the dependence on annual reports as the only credible source of data, the period being studied, and type of research information. However, this study appears to be the first to investigate corporate characteristics influencing the TBL reporting in Thai corporate annual reports, and to assess whether the key events in a developing country increase the TBL disclosures.

**Keywords:** Longitudinal study, Triple Bottom Line reporting, annual report, the Stock Exchange of Thailand

# บทคัดย่อ

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**Project Code:** MRG5680115
**(รหัสโครงการ)**

**Project Title: การศึกษาการรายงานตามหลักไตรกัปปิยะในรายงานประจำปีของบริษัทที่จดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย**
**(ชื่อโครงการ)**

**Investigator:** อ.ดร.มัทนชัย สุทธิพันธุ์ จากมหาวิทยาลัยสงขลานครินทร์
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**E-mail Address:** muttanachai.s@psu.ac.th

**Project Period:** 2 ปี
**(ระยะเวลาโครงการ)**

**บทคัดย่อ**:

วัตถุประสงค์ในการศึกษาครั้งนี้คือการศึกษาขอบเขต ลักษณะ และปริมาณการรายงานตามหลักไตรกัปปิยะในรายงานประจำปีของบริษัทที่จดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยในช่วงปี พ.ศ. 2548 ถึงปี พ.ศ. 2555 และทดสอบเหตุการณ์ในปี พ.ศ. 2549 และปี พ.ศ. 2553 ว่ามีอิทธิพลกับการรายงานตามหลักไตรกัปปิยะ รวมทั้งทดสอบความสัมพันธ์ระหว่างลักษณะของธุรกิจ ปริมาณการรายงานตามหลักไตรกัปปิยะ และผลการดำเนินงานที่เป็นตัวเงิน

ประชากรที่ใช้ในการศึกษาครั้งนี้ คือ บริษัทที่จดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย กลุ่มตัวอย่างจำนวน 100 บริษัทถูกเลือกมาจากการสุ่มตัวอย่างแบบง่าย การศึกษาครั้งนี้เก็บข้อมูลจากรายงานประจำปีในช่วงปี พ.ศ. 2548 ถึงปี พ.ศ. 2555 การวิเคราะห์ข้อมูลประกอบด้วย การวิเคราะห์เชิงพรรณนา การทดสอบความแตกต่าง และการทดสอบความสัมพันธ์แบบหลายตัวแปร

ผลการศึกษาพบว่าระดับการรายงานตามหลักไตรกัปปิยะในรายงานประจำปีมีเพิ่มขึ้นตั้งแต่ ปี พ.ศ. 2548 ถึงปี พ.ศ. 2555 การศึกษาพบความแตกต่างในปริมาณการรายงานตามหลักไตรกัปปิยะระหว่างกลุ่มของ ขนาดกิจการ ลักษณะของเจ้าของ และลักษณะธุรกิจ การศึกษายังพบว่าเหตุการณ์ในปี พ.ศ. 2549 และปี พ.ศ. 2553 มีอิทธิพลในการเพิ่มขึ้นของปริมาณการรายงานตามหลักไตรกัปปิยะ นอกจากนี้การศึกษายังพบความสัมพันธ์ระหว่าง ขนาดของกิจการ ลักษณะอุตสาหกรรม ลักษณะของ

เจ้าของ รางวัลความรับผิดชอบต่อสังคม และปริมาณการรายงานตามหลักไตยกัปปิยะ และพบความสัมพันธ์ระหว่างปริมาณการรายงานตามหลักไตยกัปปิยะและผลการดำเนินงานทางการเงิน

ข้อจำกัดของการศึกษาครั้งนี้มาจากเครื่องมือในการเก็บข้อมูล สื่อที่ใช้ในการศึกษา ช่วงระยะเวลาการศึกษา และลักษณะของข้อมูลวิจัย อย่างไรก็ตามการศึกษาครั้งนี้ถือเป็นการศึกษาอิทธิพลของลักษณะธุรกิจกับการรายงานตามหลักไตรกัปปิยะครั้งแรกในประเทศไทย

**คำสำคัญ:** การศึกษาระยะยาว, การรายงานตามหลักไตรกัปปิยะ, รายงานประจำปี, และตลาดหลักทรัพย์แห่งประเทศไทย

# Executive Summary

Triple Bottom Line (TBL) reporting is still an un-setting concept in Thailand because it is implied that corporate responsibilities are much wider than simply those related to the economic perspective. Even though corporate social and environmental disclosures in Thailand already have a comply-or-explain approach from the Stock Exchange of Thailand (SET) that pressures companies listed have to disclose social and environmental information in their annual reports, social and environmental reporting are still narrative and they are measured only qualitative information rather than quantitative information. Moreover, although many empirical TBL reporting studies were found in developed countries such as the United States of America, Canada, Japan, Australia, New Zealand, and other European countries, there are fewer studies in developing countries, especially Thailand, where stakeholders still do not have the power to pressure companies providing social and environmental information. There is no evidence studying trend of TBL reporting by companies listed in the SET, therefore, extent, type, trend, and level of TBL reporting in Thai corporate annual reports are unknown. In addition, an impact of TBL reporting on corporate financial performance is still questionable. Finally, stakeholder theory was indicated that even though they can explain about TBL reporting well in developed countries, the result in developing countries was still unknown. Although the concept of TBL reporting is certainly not new, the ranges of definitions are often rather general in nature hamper operationalization and measurement of TBL and its various perspectives.

Therefore, the objectives of this study aim to investigate the narrative TBL reporting in annual reports of listed companies in the Stock Exchange of Thailand (SET) during 2005-2012. Because previous studies studied only a point of time (Ho and Taylor, 2007, Suttipun, 2012), this study aims to use a longitudinal study by using larger samples, longer period, and more detail in terms of the extent and content of TBL reporting. The study will include key TBL events, the 2006 comply-or-explain approach, and 2010 CSR award, in the period of study to see if TBL reporting increases or decreases in response to the events. Finally, this study will identify factors influencing TBL reporting such as size of company, type of industry, ownership

status, country of origin, ISO24000 requirement, CSR awards, and type of business, type of auditor, and test for a relationship between TBL reporting and corporate operating performance that contains return on equity (ROE), return of asset (ROA), and earning per share (EPS).

All listed companies in the SET were drawn as the population. By the simple random sampling, 100 firms out of 489 Thai listed companies were sampled for testing. However, the researcher will pick up a sample company that registered as listed companies in SET since 2004. Moreover, the researcher will take the company that provides an accounting period at 31th December as the end of period because it is easy to be compared each other.

In this study, the instrument was constructed within two sections. The first section, corporate information background was provided, such as the name of company, type of industry, size of company, country of origin, ownership status, auditing type, business type, age, ISO26000, ISO14001, sustainability award, and corporate performance issues. For this information, researcher will collect from the sample corporate online information in the websites of SET. The second section, in measuring the TBL reporting in annual reports, the Global Reporting Initiative 3.1 (GRI) Reporting Guidelines were utilised in this study. These reporting guidelines include 60 items to determine the extent of TBL disclosure relating to economic, social, and environmental perspectives (20 items for each perspective). These items were drawn from an extensive review of the literature and business surveys. The data about the TBL reporting in the corporate annual reports was collected twice by the researcher at different times.

Data will be hand-coded by the researcher and research assistance twice followed by its importation into Microsoft Word that will count the amount of TBL reporting in annual reports by the number of word. Two set of data coding will be compared, and adjusted, if there are some differences in error between first and second coding times. Finished data will be taken to analyse by a Statistic Software Program (SPSS). Descriptive analysis, multiple regression model, and repeated measure analysis will be used as data analysis method to analyse in this study. For example, descriptive analysis will be used to analyse the extent and quantity of TBL reporting in annual reports of Thai listed companies by using frequency, percentage, mean, and standard deviation. Repeated measure analysis will be used to test whether there are relationships between factors influencing TBL reporting, and the amount of TBL reporting in

Thai listed corporate annual reports. Finally, correlation matrix will be used to examine the relationship between the amount of TBL reporting in annual reports, and corporate performance issues.

As the results, during the period being studied, the extent of TBL reporting in annual reporting of listed companies from SET had been an increase from 7267.56 words to 10215.20 words. The growth rate of TBL reporting in Thailand was around 40 percent during 2005-2012. In the composition of TBL reporting, the economic reporting was the most common disclosures during the study period following by social and environmental reporting. On the other hand, the highest growth rate of TBL reporting had been environmental perspective (91 percent) during 2005 to 2012 following by social perspective (77 percent) and economic perspective (35 percent).

The study uses repeated measure ANOVA to test the pattern of TBL reporting during 2005 to 2012 finding that there is a significant increase of TBL reporting in annual reports of listed companies in the Stock Exchange of Thailand. Moreover, this study also tests for economic, social, and environmental disclosures either. The results indicate that there is a significant increase of economic, social, and environmental disclosures in Thai corporate annual reports.

To test whether the comply-or-explain approach in 2006, and CSR award in 2010 can influence the TBL reporting in annual reports, paired sample t-test is used. For the first event as the comply-or-explain approach in 2006, the finding shows that there is a significantly different level of TBL reporting between pre and post event. On another event as CSR award in 2010, the finding also indicates that there is a significantly different level of TBL reporting between 2009 and 2011.

To test the relationship between corporate characteristics and the level of TBL reporting in annual reports of listed companies in SET, repeated measure ANOVA is used. The results show that there is a significant positive relationship between size of company, type of industry, ownership status, CSR award, and the level of TBL reporting. On the other hand, the level of TBL reporting is not significant influenced by country of origin, audit type, corporate age, ISO26000, ISO14001, and type of business.

To the researcher knowledge, this study is one of the few that investigate the TBL reporting in Thailand especially in the annual reports of companies listed from SET including the factors influencing the level of TBL reporting. Therefore, this study already extends the knowledge and adds additional information regarding the TBL reporting in Thailand. This study is also suggested to give additional insight for investor in their decision to invest in the company especially the information regarding the influence of various factors to TBL reporting, as this information is hope to give profit and return for the investor. The results of this study show that the extent of TBL reporting is more for economic dimension rather than the social and environmental dimension which can show that the law and regulation introduced by the government is still effective in making company to disclose more economic information than social and environmental information, even though there is an increase in each perspective every year. This study wishes to convince company producing the TBL reporting for its stakeholders who need to use both financial and non-financial information.

The limitations of this study include the subjectivity of the data collection method, the dependence on annual reports as the only credible source of data, the period being studied, and type of research information. While some limitations have the potential to affect the general validity of results, they are not found to hinder interpretation of the results. Therefore, the future research will aim to use another medium reporting the TBL information including testing the other factors influencing the level of TBL reporting.

# Content

## Output จากโครงการวิจัยที่ได้รับทุนจาก สกว.

1. **Publications:**

   1.1 Suttipun, M. (2014), Corporate characteristics, CSR reporting, and firm financial performance: an evidence of Thailand, ***Corporate Ownership and Control***, Vol. 12, pp. 844–855.

   1.2 Suttipun, M. (2015), Sustainable development reporting: evidence from Thailand, ***Asian Social Science***, Vol. 11, No. 3, pp. 1-11 (Already accept and will be launched by June 2015).

2. **Conferences:**

   2.1 **Relationship between corporate characteristics, sufficiency economy philosophy reporting, and performance: The Thai perspectives**, Presented at the 4th International Business Management Research Conference, Chiangmai University, Chiang Mai, Thailand.

   2.2 **Investigation of Corporate Social Responsibility Reporting in Annual Reports of Listed Companies in the Stock Exchange of Thailand**, Presented at Asia-Pacific Management Accounting Association (APMAA) 2014 Annual Conference in Bangkok, Chulalongkong University, Bangkok, Thailand.

   2.3 **An investigation of Triple Bottom Line reporting: Thai perspective**, Presented at the 3rd International Conference on Tourism, Transport, and Logistics, Sydney, Australia.

# Chapter 1:

# Introduction

## 1.1 Introduction

In the traditional concept, corporation focused on only profit that is financial information disclosures, therefore, maximizes profit was the main goal of business. Moreover, demand of shareholders and invertors was also the first priority that is served by the corporation. However, the old-fashion concept is not accepted in today’s world because corporate economic development faced social and environmental impacts that result into social problems, natural disasters, and pollutions. In addition, it is because company cannot serve only shareholders and investors anymore, but also all its stakeholders. Stakeholders mean persons who directly and/or indirectly influence corporation such as labors, customers, suppliers, creditors, competitors, communities, governments, society, and environmental. The new concept such as corporate social responsibility reporting, and environmental disclosures, which focused on non-financial information, was happened to several corporate stakeholder demands. However, this concept still cannot make company successful because it also focuses on only one perspective so why they do not combine together. The combination of corporate financial and non-financial information disclosures was created by John Elkington (1997) during the mid-1990s as Triple Bottom Line (TBL) Reporting that measures in both financial and non-financial information. TBL reporting is an accounting framework incorporation three dimensions of corporate performance: economic, social, and environmental (Slaper and Hall, 2011). Moreover, the Global Reporting Initiative (GRI) is set by the United Nations Environmental Program (UNEP) to provide the guidelines of TBL reporting (GRI 2008). TBL reporting is based on Stakeholder Theory because companies will be forced to measure their performances relating to their stakeholders. TBL reporting differs from the traditional reporting framework (Financial information reporting) as it includes ecological or social and environmental measures that can be difficult to assign appropriate means of measurement. Many corporations have recently adopted TBL reporting to provide their operational performance for their stakeholders. TBL reporting mainly aims to hit the notion of corporate sustainable development.

However, TBL reporting is still an un-setting concept in Thailand because it is implied that corporate responsibilities are much wider than simply those related to the economic perspective. Even though corporate social and environmental disclosures (in TBL reporting) in Thailand already have a comply-or-explain approach (see Lin 2009) from the Stock Exchange of Thailand (SET) that pressures companies listed have to disclose social and environmental information in their annual reports (Suttipun 2012), social and environmental reporting are still narrative and they are measured only qualitative information rather than quantitative information (Retanajongkol et al. 2006). Moreover, although many empirical TBL reporting studies were found in developed countries such as the United States of America, Canada, Japan, Australia, New Zealand, and other European countries (Ho and Taylor 2007, Kolk et al. 2001), there are fewer studies in developing countries, especially Thailand, where stakeholders still do not have the power to pressure companies providing social and environmental information (Suttipun 2012). There is no evidence studying trend of TBL reporting by companies listed in the Stock Exchange of Thailand (SET), therefore, extent, type, trend, and level of TBL reporting in Thai corporate annual reports are unknown. In addition, an impact of TBL reporting on corporate financial performance is still questionable. Finally, stakeholder theory was indicated that even though they can explain about TBL reporting well in developed countries, the result in developing countries was still unknown. Although the concept of TBL reporting is certainly not new (see Elkington 1997, Carroll 1999), the range of definitions are often rather general in nature hamper operationalization and measurement of TBL and its various perspectives.

**1.2 Objectives of this study**

The objectives of this study aim to investigate the narrative TBL reporting in annual reports of listed companies in the Stock Exchange of Thailand (SET) during 2005-2012. Because previous studies studied only a point of time (Ho and Taylor, 2007, Suttipun, 2012), this study aims to use a longitudinal study by using larger samples, longer period, and more detail in terms of the extent and content of TBL reporting. The study will include key TBL events, the 2006 comply-or-explain approach, and 2010 CSR award, in the period of study to see if TBL reporting increases or decreases in response to the events. Finally, this study will identify factors influencing TBL reporting such as size of company, type of industry, ownership status, country of origin, ISO24000 requirement, CSR awards, and type of business, type of auditor, and test for a relationship between TBL reporting and corporate operating performance that contains return on equity (ROE), return of asset (ROA), and earning per share (EPS).

**1.3 Research questions**

From the previous studies about TBL reporting, lots of research problems on this study were still not answered yet. Therefore, this study will have four main research questions

1) What if the extent, type, content, and level of TBL reporting in Thai corporate annual reports;

2) What is the trend of TBL reporting in annual reports by Thai listed companies during 2005-2012;

3) Is the comply-or-explain approach in 2006, and CSR award in 2010 influenced TBL reporting in annual reports; and

4) Are there any possible relationships between the level of TBL reporting, a variety of factors, and corporate operating performance.

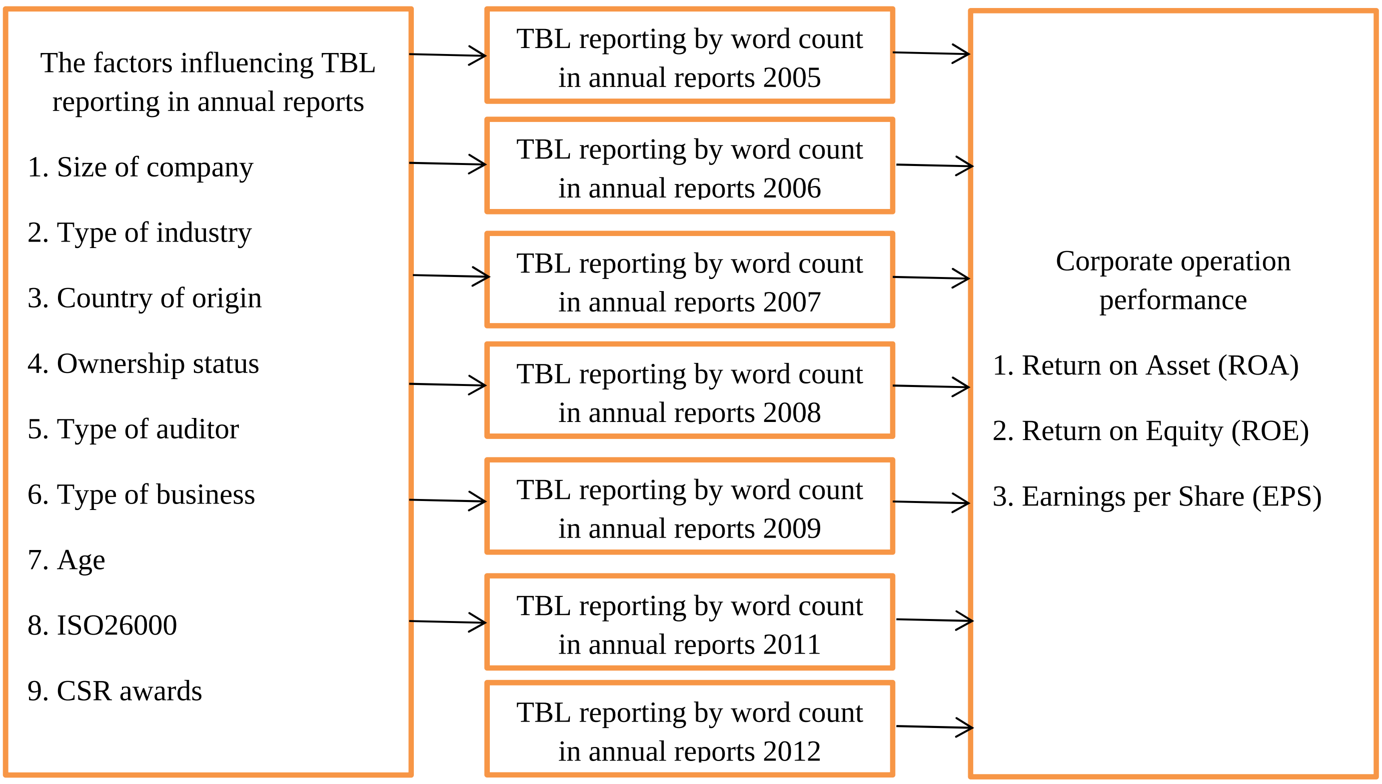
**1.4 Expected Contributions**

Some contributions will be provided by this study. The study will have implications in enhancing the understanding the relationship between TBL reporting, a variety of factors, and financial performance particularly in developing countries. Moreover, this study will expand information about TBL reporting in developing countries to students, teachers, and researchers. It also contributes to financial stakeholders consisting of investors, shareholders, and creditors who use TBL reporting as non-financial information for making the investment decision as well as developed countries. The study may be able to improve the Thai TBL disclosure regulation to work well and get more benefit for people, planet, and profits. This study also contributes legal and management scholarship by determining the impact that TBL reporting has on whether or not a company utilizes their performances. The study can motivate Thai companies listed to intent to provide TBL reporting in their annual reports including greater understanding of Thai corporate TBL strategies. This study will examine whether stakeholder theory and agency theory can explain about TBL reporting in developing countries represented by Thailand as well as developed countries. The study may suggest that business regulation scholars will turn their attention to exploring what kind of regulatory framework best encourages meaningful, universal, and uniform disclosures by Thai listed companies. With more understanding for user and reader, the study of TBL reporting may function as a misleading signal to the marketplace that a company is comparatively benign in its society and environmental impacts. The study results will increase the information and insight in the field of corporate responsibility accounting especially TBL reporting in developing countries including a reference for the future studies.

**1.5 Framework of this study**

This study aims to investigate TBL reporting in the annual reports of companies listed on the SET during 2005-2012, and tests that there is a possible relationship between the level of TBL reporting, a variety of factors, and corporate performance including finding whether the key events may affect the change of level of TBL reporting. All is shown in Figure 1.1 below.

Figure 1.1: Framework of this study



## 1.6 Outline of this study

This study will be separated within five chapters. In chapter 2, literature review will be indicated following by TBL concept, TBL reporting, theoretical perspectives, and prior studies related to this study. Chapter 3 will show the research methodology that consists of research hypotheses, population and sample, data collection, research instrument, and data analysis. The study findings will be shown in chapter 4. Finally, conclusions and discussions of this study will be presented in chapter 5 following by contributions of this study, limitation, and future study.

## 1.7 Definitions of keywords

Triple Bottom Line: The concept that corporations should measure into three aspects; economy, society, and environment (Elkington, 1997)

Triple Bottom Line reporting: The reporting that has involved incorporating the three perspectives such as economic, social, and environmental into the corporation for measuring and processing (Barut, 2007)

Annual report: A media where contains the corporate report including performance, operation, activity, and achievement of the preceding year (SEC, 2014)

The Stock Exchange of Thailand: A self-regulatory organization facilitating capital markets trading and exchanging in Thailand (SET, 2012)

# Chapter 2:

# Literature review

## 2.1 Introduction

In this chapter, the concept of Triple Bottom Line will be started to identify. The second, the meaning of Triple Bottom Line reporting will be explained including objectives and benefits of TBL reporting. Next, the history of TBL reporting by listed companies in Thailand will be provided. In theoretical perspectives, stakeholder, and agency theories are used to explain how TBL reporting work in Thailand. Finally, the prior studies related to this study will be indicated in the part of literature review.

## 2.2 Triple Bottom Line (TBL) concept

The concept of Triple Bottom Line (TBL) has happened under the topic of environmental management during RIO Summit Meeting in Brazil, 1996. TBL concept will bring corporate operation to sustainable development focusing on both financial and non-financial perspectives (Elkington 1994). The concept pays attention not only shareholder, or investor, but also all stakeholders such as customer, labor, supplier, competitor, society, and community. TBL concept will balance both financial and non-financial perspectives within three scopes: economic, social, and environmental. John Elkington (1994) pointed that economic perspective will be the same concept with the traditional financial measurement for a business unit. However, social perspective will focus on the human capital such as labor right, safety and health at work, woman and youth labor, and office hour. Therefore, corporation, that it is a sub-unit of the broad society, with TBL concept has to understand, and serve its stakeholders. In environmental perspective, natural capital is the main goal that corporation has to reduce, or stop environmental impact by its actions, and activities. Therefore, all three perspectives have worked together for profit, people, and planet.

In general view, triple bottom line reporting contains reporting and measuring economic, social and environmental performance and dimension that are pursued simultaneously. A wider view however sees that triple bottom line reporting involves looking at the businesses, nonprofits or organization utilizing, operating, and managing it’s values, strategies and practices and how all these can be done to achieve its economic, social and environmental objectives (Dutta,2012)

Elkington (1997) developed the concept of the Triple Bottom Line in terms of economic prosperity, social justice and environmental quality. Elkington (1997) gave the view that companies that want a sustainable must pay attention to "3P". In addition to the pursuit of profit, the company also must pay attention and be involved in the fulfillment of public welfare (people) and participate actively contribute to protecting the environment (planet).

People stressed the importance of a company's business practices that support the interests of labor. More specifically the concept of protecting the interests of labor against an exploration employing minors , payment of fair wages , a safe work environment and tolerable working hours . Not only that, this concept also requires companies pay attention to health and education for the workforce.

Planet means properly manage energy use, especially over natural resources that cannot be reused .Such as reduce waste production and processing it back which results into the cleaner and safer waste for the environment, reducing $CO_2$ emissions or energy consumption.

Profit here is more than just profits. Profit here means creating fair trade and ethical trade in business while earning sufficient income to support the development of the company and its stakeholder. In more detail, Elkington (1997) describe triple bottom line as follows. *“The three lines of the triple bottom line represent society, the economy and the environment. Society depends on the global ecosystem, whose heath represents ultimate bottom line. The three lines are not stable; they are in constant flux, due to social, political, economic and environmental pressures, cycle and conflicts.”*

From the description above it can be concluded that all the activity of the company that are related to economy, social and environment is closely connected to the society and community. The concept of TBL implies that companies should prioritize the interests of its stakeholders (all those involved and affected by the activities of the company) rather than the interests of shareholders as the company's activity can affect its stakeholder, stakeholder can also affect the companies.

**2.3 Triple Bottom Line (TBL) reporting**

In 1997, Elkington (1997) created a new tool to measure corporate performance, and disclosures into three perspectives namely Triple Bottom Line (TBL) reporting that presents economic, social, and environmental issues. Moreover, the Global Reporting Initiative (GRI) is set by the United Nations Environmental Programs (UNEP) to provide the guidelines of TBL reporting (Skouludis et al. 2009). TBL reporting is based on Stakeholder Theory because companies will be forced to measure their performances relating to their stakeholders including government, local communities, and environmental lobbies, but not only those stakeholders who are direct and transactional relationship such as customers, supplies, and employees. In addition, TBL reporting can measure both financial (economic) and non-financial (social and environmental) information performances. However, Hubband (2009) mentioned that TBL reporting may not be successful in measuring corporate performances because it is too complex and too confronting for managers mired in economically dominated ways of thinking.

TBL reporting is the famous reporting in western region. For example, in the North America continent, Ceres and the Association of Chartered Certified Accountants (ACCA) has awarded for corporation that provide sustainable development reporting in every year since 2002. In Netherlands, the Triple Bottom Line Investment Group TM (TBLI Group TM) is an organization that develops and supports TBL concept, and disclosures to corporation. TBL reporting by corporation in Thailand, on the other hand, is still not common yet because of non-pressure from its stakeholders such as government, community, and so on. Moreover, corporate TBL reporting including corporate social and environmental disclosures is still voluntary reporting so there is not regulation, and the extent and type of reporting are still unknown. However, some corporations already provide TBL reporting in their own media such as annual reports, stand-alone reports, and websites. This is because they believe that TBL reporting can balance between their economic, social, and environmental from their actions and activities. It also brings them to have sustainable development in the future. But, all companies providing the TBL reporting were large companies, such as SCG, CPF, PTT, DTAC, and AIS. This is because they can use TBL reporting for the benefit of their financial performance, and competitive advantage.

### 2.4 History of TBL reporting in Thailand

Developing countries and social and environmental degradation are intertwined. The long term economic development of developing countries is threatened by social and environmental catastrophes. In line with the competitive advantage argument, the Asian Development Bank argues that protecting the society and environment is not at odds with pursuing economic growth and development (Kazmin and James 2001). The vast Asian market could determine the future of the planet. While substantial economic growth in Asia has resulted in an overall reduction of poverty, growth has placed considerable strains on the society and environment (Kerr, 2008). Large economic projects in developing countries bring employment, services and infrastructure that their governments cannot afford to provide, whereas in developed countries such as Australia there are alternative sources of public investment and income as well as a safety net of social services. Projects are thus welcomed for the benefits they may deliver so that campaigns about social and environmental destruction are most vociferous when projects causing degradation are closing (Macintyre 2007).

Although Thailand has changed from an agricultural, self-sufficient economy into an industrialising nation, it is still considered a developing country. Its government has promoted Thailand as one of the rapidly industrialising nations of Asia (Kuasirikun, 2005) despite having faced a financial crisis in mid-1997. During that time, many domestic companies had to close their businesses, many workers became unemployed and the Thai government did not have enough money to manage the country. Since then and until the current global financial crisis (GFC), the Thai economy's growth was about seven percent per year (NESDB, 2003) making it one of fastest growing economies in South and South East Asia. Post GFC, its growth rate has fallen to about three percent annually.

Thailand's economic growth, led by the growth in the manufacturing sector (Mukhopadbhyay, 2006), created environmental problems, particularly air, noise, traffic and water pollution, deforestation and land erosion (Warr, 2007). Thailand's protest movements have won some victories. Authorities have been forced to crack down on illegal logging and large scale infrastructure projects have been resisted by local communities determined to protect their way of life (Kazmin and Kynge 2001).

Thai listed companies were asked by the Stock Exchange of Thailand to promote and build certain corporate governance practices into their annual reports in 1999 (Ratanajongkol, et al., 2006). These practices involved including both financial and non-financial information (economic, social and environmental disclosures) in corporate annual reports, but disclosure was still voluntary reporting in terms of social and environmental issues so few listed companies revealed social and environmental information in their annual reports. A revised version of the principle of good corporate governance was published in 2006 (Lin 2009) which suggested that boards of directors should set clear policy on social and environmental issues and that companies should disclose social and environmental policies as well as implementing the conditions of such policies. In addition, voluntary reporting was changed to a "comply-or-explain" approach. Finally, in 2008, the Stock Exchange of Thailand launched a regulation about social and environmental disclosures for companies listed in annual reports. Moreover, Corporate Social Responsibility Institute (CSRI) where is an organization run by the Stock Exchange of Thailand and Thai Pat Institute (the CSR institute in Thailand) has launched a guideline for social and environmental responsibility reporting (The Nation 2012). However, the extent, content, and theme of TBL reporting by companies listed in Thailand are still unknown.

**2.5 Theoretical perspective**

Despite the different theoretical approaches that can be and have been used to explain TBL reporting, the most widely advanced theoretical perspectives in the social and environmental accounting literature are legitimacy and stakeholder theories (Branco, Eugenio, & Ribeiro, 2008; M. Islam & C. Deegan, 2010; Joshi & Gao, 2009). These theories reflect the view that corporations with proactive social and environmental programmes gain a competitive advantage over less socially and environmentally active companies by sharing their social and environmental activities with stakeholder groups. However, this study uses only stakeholder theory to investigate TBL reporting by Thai listed companies in annual reports because this theory is premised on the notion that stakeholders expect companies to be socially and environmentally responsible so that there is a market premium in improved social and environmental performance. Moreover, TBL reporting is based on stakeholder theory because companies will measure their performances relating to not only stakeholders who are direct and transactional relationship such as customers, supplies, and employees, but also other stakeholders including government, local communities, and environmental lobbies. The theory is also concerned with the ways companies manage their stakeholder relationships (Gray, Collison, & Bebbington, 1998; Llena, Monera, & Hernandez, 2007; Roberts, 1992).

### 2.5.1 Stakeholder theory

Stakeholder theory explains specific corporate actions and activities using a stakeholder-agency approach, and is concerned with how relationships with stakeholders are managed by companies in terms of the acknowledgement of stakeholder accountability (Cheng & Fan, 2010; Freeman, Harrison, & Wick, 2007). As stakeholder influences become crucial for corporate image and comparative advantage, companies manage their stakeholder relationships by providing information, often in the form of voluntary disclosures in their annual reports. The justification is that stakeholders which (Collier, 2008) defines as those who have a stake in an organisation, have something at risk as well as the power to influence the organisation, including its actions, decisions, policies or goals. Potential stakeholders include shareholders, creditors, suppliers, government, customers, competitors, employees, employees' families, media, the local community, local charities, and future generations (Carrol & Bucholtz, 2006; C. Deegan, 2001). According to Gray et al. (1996), stakeholders are identified by companies to ascertain which groups need to be managed in order to further the interest of the corporation. Stakeholder theory suggests that companies will manage these relationships based on different factors such as the nature of the task environment, the salience of stakeholder groups and the values of decision makers who determine the shareholder ranking process (Donaldson & Preston, 1995). As such, management will tend to satisfy the information demands of those stakeholders important to the corporations' ongoing survival so that corporations would not respond to all stakeholders equally (Nasi, Nasi, Philip, & Zylidopoulos, 1997). The power of stakeholders and their expectations can change over time, so that companies have to continually adapt their operating and reporting behaviours (C. Deegan, 2001). In summary, stakeholder theory views corporations as part of a social system while focusing on the various stakeholder groups within society (Ratanajongkol, Davey, & Low, 2006).

### 2.5.2 Agency theory

Agency theory is used to explain decision of top management about the relationship between voluntary reporting (TBL reporting) and corporate operation performance in this study. This is because agency theory in terms of TBL notion focuses on agency or top management who has to take responsibility to the owners (shareholders) having maximize profit, and market share (Mele, 2008). Moreover, agency theory can predict corporate behavior when the principle (owner or shareholder) delegates work to the agent (top management). It is because the owners expect that top management will make the best decisions for them (Jensen and Meckling 1976). However, there is a conflict of interest between them when an incentive structure imposes personal costs on the agent who has taken actions. The agency problems have been used to explain why top management sometime appears to make decisions that may not be the best interest of the owners, and organizations (Booth and Schulz 2004, Rutledge and Karim 1999).

## 2.6 Literature review

Although there has been more than 30 years of research and more than 100 empirical literatures on the issues of corporate social and environmental reporting, the number of literature about TBL reporting was scant. For example, Ho and Taylor (2007) used largest 50 US and Japanese firms to investigate TBL reporting in annual reports, stand-alone reports, and on their websites. They found that the extent of disclosures was higher for the companies of larger size, lower profitability, lower liquidity, and higher profile. In addition, Japanese companies undertook more TBL reporting than US companies. By using 121 Japanese firms listed on the Tokyo Stock Exchange, Osaka Securities Exchange, and Nagoya Stock Exchange during 2002-2003. Nakao et al. (2007) examined whether environmental performance has a significantly positive influence on financial performance finding that there were a positive relationship between both performances. Aras et al. (2009) investigated the relationship between corporate social responsibility and corporate financial performance of the Istanbul Stock Exchange 100 index companies during 2005-2007. However, they could not find any possible relationship between them. Haslinda et al. (2002) examined 40 Malaysian listed companies about the relationship between environmental disclosures and firms' performances finding that the relationship of companies listed in Malaysia was still inconclusive. Cheung et al. (2009) examined the impact of changes in CSR on market valuation and compared the CSR practices of major listed companies from 2001 to 2004 by surveying 495 companies in 25 emerging markets (Asian, East European, South African, and Latin American Markets). Their findings indicated that there was a positive and significant relationship between CSR and market valuation among Asian companies, and CSR was positively related to the market valuation of subsequent years. Mahadeo et al. (2011) looked at 165 companies listed on the Stock Exchange of Mauritius between 2004 and 2007 to investigate corporate social responsibility reporting (CSRR) in annual reports and test whether there was any relationship between the amount of CSRR in annual reports and a variety of factors. They found an increase in terms of volume and variety of CSRR. Additionally, there was a relationship between the size of company and the amount of CSRR. Uwalomwa and Uadiale (2011) also studied CSRR in annual reports by listed companies in Nigeria. They found that there was a difference in the amount of CSRR between industries sampled. However, CSRR by Nigerian listed companies was still very low and still in an embryonic stage. Monteiro and Guzman (2010) used content analysis to examine the influence of a new social and environmental accounting standard on the social and environmental disclosures in the annual reports of 109 large companies in Portugal during the period 2002-2004. The results indicated that the extent of disclosures had increased, but the amount of disclosure was still low. However, the new accounting standard was starting to have an impact on listed companies in Portugal.

In Thailand, Suttipun (2012) also used largest 50 Thai listed companies in SET to study TBL reporting and the relationship between their TBL reporting and a variety of factors. He found that there were differences of TBL reporting between groups of industry. However, He could not find any possible relationship between factors influencing TBL reporting and the score of reporting. William (1999) analysing 28 corporate annual reports, found that culture and the political and civil system were determinants of the quantity of disclosures. Kunsirikun et al. (2004) investigated corporate environmental disclosures in annual reports of 63 Thai firms in 1993 and 84 firms in 1999, finding a slight increase in narrative disclosures from 44% to 45%. Ratanajongkol et al. (2006) examined trends in corporate environmental disclosures by utilising content analysis of the disclosures of the 40 largest Thai firms in 1997, 1999, and 2001. However, environmental disclosures in her study decreased over the study period. Rahman et al. (2009) examined the relationship between environmental reporting and financial performance among 108 companies listed in Thailand, Malaysia, and Singapore by using content analysis (sentence count) finding that there was no relationship between them. By using 200 companies listed in the Stock Exchange of Thailand (SET), Connelly and Limpaphayom (2004) studied the relationship between environmental reporting and firm performances. They found that although there was a correlation between environmental reporting and market valuation, the study could not find any possible relationship between the reporting and financial performance.

Therefore, from the previous studies about TBL reporting, lots of research problems on this study were still not answered yet. Therefore, this study will have four main research questions 1) what if the extent, type, content, and level of TBL reporting in Thai corporate annual reports; 2) what is the trend of TBL reporting in annual reports by Thai listed companies during 2005-2011; 3) is the comply-or-explain approach in 2006, and CSR award in 2010 influenced TBL reporting in annual reports; and 4) are there any possible relationships between the level of TBL reporting, a variety of factors, and corporate operating performance.

# Chapter 3:

# Methods

## 3.1 Introduction

This study is a longitudinal study by nature that investigates TBL reporting in the annual reports of companies listed on the SET during 2005-2012, and tests whether there is a possible relationship between the level of TBL reporting, a variety of factors, and corporate performance. Population of this study is drawn from all companies listed in the Stock Exchange of Thailand (SET) that there are around 500 firms. By simple random sampling, 100 firms (Significant at 0.05) are used as a sample in this study. It is because all population has an equally opportunity to be a sample of this study. Corporate annual reports during 2005 to 2012 from companies listed in SET are used to study the theme, extent, content, and level of TBL reporting of Thai listed companies. This is because the comply-or-explain approach for social and environmental disclosures was launched in 2006 by SET, and CSR award has been used to reward Thai listed companies that take responsibility to social and environmental issues since 2010. Therefore, eight different years of corporate annual reports are appropriate to be used for this study. Data of the variety of factors influencing TBL reporting will be collected from the websites of the SET (www.set.or.th/set/commomlookup.do).

As mentioned earlier, content analysis will be used as the study method to investigate and quantify TBL reporting in annual reports of the sampled listed companies in the SET over the period of 2005-2012. Measurement will be word counts. The SET library will be used as a place to collect the corporate annual reports because it contains annual reports from all companies listed in SET. All data will be hand-collected.

In measuring the TBL reporting in annual reports, the Global Reporting Initiative (GRI) Reporting Guidelines (2008) were applied in this study. The GRI guidelines are the most commonly adopted standard by those companies issuing TBL reports. Independent variables are whether a company issued the GRI guidelines in terms of TBL, economic, social, and environmental perspectives. These reporting guidelines include 60 items to determine the extent of TBL disclosure relating to economic, social, and environmental perspectives (20 items for each perspective). These items were drawn from an extensive review of the literature and business surveys (Ho and Taylor, 2007, Slaper and Hall, 2011). Moreover, the guidelines will be sent to experts (academic and auditors) to verify all the selected items whether the checklist is match for Thai listed companies (Said et al. 2012). The checklist of these items is shown (in Appendix A). The data about TBL reporting in the corporate annual reports was collected twice by the researcher at different times.

For data entry and analysis, researcher and research assistance will code the information related to GRI guidelines on Word Processor (Microsoft Office) that can measure by word count. Moreover, Word Processor can ensure the consistency and stability of the data coding as well. After that, data will be assessed twice to find any error and adjust, if there is a difference of data entry between first and second times. Finished data will be brought to analysis by a statistic software program, namely SPSS. Descriptive analysis is used to analyse the extent, theme, content, and level of TBL reporting. T-test will be used to find whether the 2006 comply-or-explain approach and 2010 CSR award affect TBL reporting in annual reports. Repeated measure model will be used to investigate trend of TBL reporting during 2005-2012, and test for any possible relationship between a variety of factors such as size of company, type of industry, ownership status, country of origin, ISO24000 requirement, CSR awards, and type of business, type of auditor, and the level of TBL reporting. Finally, correlation matrix will be used to find a relationship between the level of TBL reporting in annual reports and corporate operating performance.

### 3.2 Hypotheses of this study

The research questions that consist of 1) what if the extent, type, content, and level of TBL reporting in Thai corporate annual reports, 2) What is the trend of TBL reporting in annual reports by Thai listed companies during 2005-2012, 3) Is the comply-or-explain approach in 2006, and CSR award in 2010 influenced TBL reporting in annual reports, and 4) Are there any possible relationships between the level of TBL reporting, a variety of factors, and corporate operating performance are derived from characteristics previously cited in the literature, thus allowing for comparisons to be made with previous studies. Not all of these studies recognise the need for reporting companies to be perceived as socially legitimate, even though to be seen as a “good corporate citizens” by their stakeholders appears to be important to the disclosing companies (Deegan and Gordon, 1996). The resulting hypotheses use the following commonly cited characteristics: over the period being studied, company size, industry type, ownership status, country of origin, audit type, age, business type, risk (debt ratio), liquidity, and profitability. Each is examined in turn.

#### 3.2.1 Over the period being studied

Most prior studies in Western region (See Cormier & Gordon 2001, Jimenez et al. 2008, Campbell 2003, Stanwick & Stanwick 2006) found that there had been increasing in the amount of Triple Bottom Line reporting in corporate annual reports. On the other hand, however, the results were mixed in Asian studies. For instant, Ratanajongkol et al. (2006) found that the amount of environmental reporting in Thai corporate annual reports had decreased over the period of 1997-2001. Islam and Deegan (2007) also found the same results by listed companies in Bangladesh. Therefore, this study will find out under the hypothesis that the level of TBL reporting in annual reports will increase during the period of 2005-2012.

H1: The level of TBL reporting in annual reports will increase over the period being studies (2005-2011).

#### 3.2.2 Size of company

Stakeholder theory suggests that larger companies need to respond with more disclosures because they have more stakeholders than small companies (Cowen, Ferreri et al. 1987). Previous studies (Deegan and Gordon 1996; Choi 1999; Cormier and Gordon 2001; Raar 2002; Stanwick and Stanwick 2006; Ho and Taylor 2007) found a positive association between the amounts of non-financial information disclosures (social and environmental disclosures) and size of companies, although others (Davey 1982; Ng 1985; Roberts 1992) did not find such a relationship. This study hypothesises a positive relationship between the level of TBL reporting in annual reports and company size.

H2: There is a relationship between the level of TBL reporting in annual reports and size of company.

### 3.2.3 Type of industry

In many previous studies, companies are classified according to various criteria. Commonly they are separated into high or low profile companies (Patten 1992; Hackston and Milne 1996; Choi 1999). High profile companies are those operating in highly environmentally sensitive industries (Perry and Sheng 1999; Stray and Ballantain 2000; Ho and Taylor 2007). High profile companies are postulated to be more exposed politically than companies in industries expected to have little impact on the economy, society, and environment (low profile companies) (Newson and Deegan 2002). Using the relationship between levels of corporate social and environmental disclosures and type of industry, many studies such as those by (Choi 1999; Stray and Ballantine 2000; Newson and Deegan 2002; Ahmad and Sulaiman 2004; Ho and Taylor 2007) found that high profile companies disclosed more social and environmental information than low profile companies. This study hypothesises that there is a positive relationship between the level of TBL reporting in annual reports and environmental sensitivity of the industry in which sampled companies operate.

H3: There is a relationship between the level of TBL reporting in annual reports and type of industry.

### 3.2.4 Ownership status

This study categorises companies into two types of ownership status by using the percentage of corporate common stock held by either government or private companies. For example, if government organizations own more than 51 percent of the common stock, then these firms are designated government companies. On another hand, if private organizations or individuals hold more than 51 percent of the common stock, these are classified as private companies. Ownership status is not often considered in research into social and environmental reporting, probably because such research is mostly conducted in an Anglo-American context where government companies are not common (Tagesson, Blank et al. 2009). In relation to TBL information, government and private companies may differ in both quantity and quality of their disclosures. In Canada, Cormier and Gordon (2001) found that government companies provide more social and environmental information than private companies. In Sweden, Tagesson et al. (2009) found that government companies disclosed more social and environmental information than private companies because state-owned companies are more scrutinized, so that there is pressure from the state as owner, and from the mass media to comply with society's expectations. Contrary results have been obtained. Balal (2000) argued that Bangladeshi private companies disclose more environmental information than government companies. In Italy, Secci (2005) found that companies controlled by Italian government disclosed less social and environmental information than other corporations. Despite these differences findings, the hypothesis is that government companies will provide more the level of TBL disclosures in corporate annual reports than private companies.

H4: There is a relationship between the level of TBL reporting in annual reports and ownership status.

#### 3.2.5 Country origin of company

Country of origin of the company making disclosures has been found to influence the quantity of social and environmental disclosures (Adams, Hill et al. 1998; Kolk, Walhain et al. 2001). Positive associations between country of origin of the company making the disclosures and amounts of corporate social and environmental disclosures have been found (Niskala and Pretes 1995; Hackston and Milne 1996; Jahamani 2003; Stanwick and Stanwick 2006). Accordingly, sampled Thai listed companies are separated into two kinds: international and domestic companies, leading to a hypothesis that there is a positive relationship between the level of TBL reporting in annual reports and country origin of company.

H5: There is a relationship between the level of TBL reporting in annual reports and country origin of company.

#### 3.2.6 Audit type

Larger audit firms are generally held to provide a more independent auditing service and to abide by audit standards than smaller audit firms (Joshi and Gao 2009) because larger audit firms are likely to suffer more serious damage to their reputations from a poor audit. Companies with greater potential gains from external monitoring would employ larger audit firms such as Big4 audit firms. Evidence about audits and audit firms and social and environmental disclosures is mixed (Inchausti 1997; Joshi and Gao 2009). Consequently, the hypothesis is that companies audited by a Big4 firm will provide more the level of TBL reporting in annual reports than companies that are not audited by Big4 firm.

H6: There is a relationship between the level of TBL reporting in annual reports and audit type.

### 3.2.7 Business type

Companies can be separated into two business types: family businesses and non-family businesses. It is quite normal for Asian companies to run a business from generation to generation with managers coming from the same family. Family business companies do not have a tradition of disclosures since insiders (family members) often control the operating and reporting systems (Iu and Batten 2001). Choi (1999) speculated that the percentage of ownership held by a family may affect the provision of social and environmental information. It is likely that family business companies will provide less social and environmental disclosures in their annual reports than non-family business companies. No study has yet explored whether there is a relationship between amounts of disclosures and business type. Consequently, the hypothesis is that non-family owned companies will provide more the level of TBL reporting in annual reports than family owned companies.

H7: There is a relationship between the level of TBL reporting in annual reports and business type.

### 3.2.8 Age

Stakeholder theory implies that older companies may have to provide more financial and non-financial information because they have amassed more stakeholders than younger companies (Cowen, Ferreri et al. 1987). Choi (1999) argued that maturity of a corporation can result in reputation risk so that the company engages in social and environmental responsibility activities. Whether age (maturity) of companies can influence the levels of TBL reporting in annual reports is untested leading to speculation that there is a positive statistical relationship between the level of TBL reporting in annual reports and age of company.

H8: There is a relationship between the level of TBL reporting in annual reports and business age.

### 3.2.9 ISO26000 guidelines

The ISO26000 guidelines set out the international corporate social and environmental responsibility standard that aims to improve and increase corporations' perception and awareness of their social responsibility. Even though the ISO26000 guidelines only represent a code of voluntary reporting, the pressure and force from corporate stakeholders may influence corporations to provide more TBL reporting because of the ISO26000 guidelines. Therefore, the hypothesis in this study was that there is a positive relationship between the levels of TBL reporting and compliance with the ISO26000 guidelines.

H9: There is a relationship between the level of TBL reporting in annual reports and ISO26000 guidelines.

### 3.2.10 Corporate social responsibility (CSR) Award

Since 2006, the SET has encouraged Thai listed companies to provide more TBL reporting in their own media by the giving of the CSR award. However, the findings relating to the relationship between the CSR award and the level of TBL reporting have been mixed. On the one hand, Deegan and Gordon (1996) found that companies that have received social and environmental awards tend to provide more social and environmental information than other companies that have not been given such an award. On the other hand, Raar (2002) could not find any relationship between either variable. However, this study hypothesised that there is a positive relationship between the level of TBL reporting and the CSR award.

H10: There is a relationship between the level of TBL reporting in annual reports and CSR award.

### 3.2.11 ISO14001 compliance

ISO14001 is the international standard governing environmental management systems and such systems influence corporate social and environmental reporting. It is worthy of note that ISO14001 compliance has been found in many countries to be associated with a decrease in problems arising in trading agreements and trade negotiations between countries. Ahmad and Sulaiman (2004) found that there was a relationship between ISO14001 compliance and the level of CSRR in 140 Malaysian companies. Therefore, the present study's hypothesis was that there is a positive relationship between the level of CSRR and ISO14001 compliance.

H11: There is a relationship between the level of TBL reporting in annual reports and ISO14001 compliance.

**3.2.12 Corporate financial performance**

Increasing of non-financial information disclosures may cost corporations to reduce their profit and competitiveness in previous perspective. However (see Cohen et al., 1997, Russo and Fouts, 1997), companies that can decrease social and environmental problems can earn more profit and opportunity of competition in today's world. Therefore, this study hypothesizes that there is a significant relationship between TBL reporting and corporate financial performance in annual reports of Thai listed companies in SET. The findings were separated into three directions. For example, Nakao et al. (2007) found that there was a positive relationship between environmental disclosures and financial performance. They used ROE, ROA, Tobin's Q, and earnings per share as explanatory variables in terms of financial performance. Moreover, Russo and Fouts (1997) and Konar and Cohen (2001) also found that corporate environmental performance had a positive impact on its financial performance. This is because the positive reputations of corporate social and environmental actions or activities tend to be realized by stakeholders (Pfund 2004). For example, in previous studies endeavored to test the correlation between greater reporting and profitability, companies that reveal more non-financial information disclosures have been found to be more profitable (Robertson and Nicholson 1996). Therefore, there may be a positive relationship between TBL reporting and corporate financial performance. However, Connelly and Limpaphayom (2004) found that the increase of social and environmental disclosures affected the increase of corporate cost; therefore, there could be a negative relationship between social and environmental reporting and financial performance. On another hand, Wei et al. (2007) could not find a possible relationship between social and environmental disclosures and financial performance in China. Therefore, the hypothesis in this study was that there is a positive relationship between the levels of TBL reporting and corporate operation performance following be sub-hypotheses below.

H12.1: there is a positive relationship between the amount of TBL reporting in annual reports and return on asset (ROA).

H12.2: there is a positive relationship between the amount of TBL reporting in annual reports and return on equity (ROE).

H12.3: there is a positive relationship between the amount of TBL reporting in annual reports and earning per share (EPS).

H12.4: there is a positive relationship between the amount of TBL reporting in annual reports and liquidity.

H12.5: there is a positive relationship between the amount of TBL reporting in annual reports and financial risk.

H12.6: there is a positive relationship between the amount of TBL reporting in annual reports and profitability.

### 3.3 Population, sampling, and samples

In this study, all listed companies in the Stock Exchange of Thailand (SET) were drawn as the population. By the simple random sampling, 100 firms (See Appendix A) out of 489 Thai listed companies were sampled for testing (SET 2012). However, the researcher will pick up a sample company that registered as listed companies in SET since 2004. Moreover, the researcher will take the company that provides an accounting period at 31th December as the end of period because it is easy to be compared each other. Therefore, the proposed sampling is shown within each industry (there are eight industries in SET) in Table 3.1.

Table 3.1: Population and samples

| No. | Classification Industry | Population | Samples |
|---|---|---|---|
| 1. | Agriculture and food | 41 | 11 (26.83%) |
| 2. | Consumer product | 39 | 8 (20.51%) |
| 3. | Financials | 58 | 12 (20.69%) |
| 4. | Industrials | 81 | 8 (9.88%) |
| 5. | Property and construction | 120 | 12 (10%) |
| 6. | Resources | 27 | 16 (59.26%) |
| 7. | Services | 85 | 20 (23.53%) |
| 8. | Technology | 38 | 13 (34.21%) |
| Total | | 489 | 100 (20.45%) |

The TBL reporting in this study will be collected from Thai listed corporate annual reports for each sampled companies during 2005-2012. This is because annual reports are statutory report incorporating both statutory and voluntary reporting. Annual reports are also able to be accessed more easily than other media, such as websites, and stand-along reports. Finally, annual reports are recognized as a principle means for corporate communications of actions and activities (Wiseman 1982). Thai version annual reports will be used to collect the amount of TBL reporting instant of English version annual reports. It is because there are not many Thai listed companies in SET have provided their annual reports in English version. It is also not regulated by SET to provide the English version annual reports. Therefore, this study will used annual reports of listed companies in SET to qualify the amount of TBL reporting over the decade of 2005-2012, with particular emphasis on the year 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

### 3.4 Data collection

To quantify the amount of TBL reporting in Thai listed corporate annual reports during 2005-2012, content analysis will be used as the study method. There are several ways that content analysis are able to be used, such as sentence count, page count, line count, and word count, however, measurement in this study will be by word count because Krippendorf (1980) mentioned that word is the smallest unit of measurement to analyze, and can be provided the maximum robustness in assessing the quantity of information disclosures. Word is also a preferred measure when it is intended to measure the level of space devoted to a topic, and to ascertain the important of that issues. Moreover, some data collecting method cannot be used for Thai language, such as sentence count. It is because Thai language does not have a full stop when sentence is finished as does in English language. Page count also cannot be used in this study because Thai listed companies provide their own annual reports in different size, front, and space.

The SET online library will be used as the first place to collect TBL reporting in annual reports of Thai listed companies. This is because it contains annual reports from all Thai listed companies. However, in case, if researcher cannot get some annual reports from the SET online library, researcher will contact the sample companies to ask for their annual reports during the period being studied. Data collection will be hand-collected.

**3.5 Instrument of study**

In this study, the instrument will be constructed within two sections. The first section, corporate information background will be provided, such as the name of company, type of industry, size of company, country of origin, ownership status, auditing type, business type, age, ISO26000, ISO14001, sustainability award, and corporate performance issues. For this information, researcher will collect from the sample corporate online information in the websites of SET.

The second section, in measuring the TBL reporting in annual reports, the Global Reporting Initiative 3.1 (GRI) Reporting Guidelines (2002) were utilised in this study. These reporting guidelines include 60 items to determine the extent of TBL disclosure relating to economic, social, and environmental perspectives (20 items for each perspective). These items were drawn from an extensive review of the literature and business surveys (Ho and Taylor, 2007, Slaper, 2011). A list of these items is shown in Appendix B. The data about TBL reporting in the corporate annual reports was collected twice by the researcher at different times. The data collecting form is shown in Appendix C.

### 3.6 Data analysis

Data will be hand-coded by the researcher and research assistance twice followed by its importation into Microsoft Word that will count the amount of TBL reporting in annual reports by the number of word. Two set of data coding will be compared, and adjusted, if there are some differences in error between first and second coding times. Finished data will be taken to analyse by a Statistic Software Program (SPSS). Descriptive analysis, multiple regression model, and repeated measure analysis will be used as data analysis method to analyse in this study. For example, descriptive analysis will be used to analyse the extent and quantity of TBL reporting in annual reports of Thai listed companies by using frequency, percentage, mean, and standard deviation. Repeated measure analysis will be used to test whether there are relationships between factors influencing TBL reporting, and the amount of TBL reporting in Thai listed corporate annual reports. Finally, correlation matrix will be used to examine the relationship between the amount of TBL reporting in annual reports, and corporate performance issues.

### 3.7 Summary

In conclusion, there are 12 hypotheses in this study. The extent and amount of TBL reporting in annual reports of Thai listed companies in SET during 2005-2012 will be analyze by descriptive analysis by using frequency, percentage, mean, and standard deviation. For the factors influencing TBL reporting in annual reports, over the period being studied, company size, industry type, ownership status, country of origin, audit type, age, business type, ISO26000, IS14000, and sustainability award are used to test for a relationship with the amount of TBL reporting. Repeated measure analysis will be used to test whether there are relationships between factors influencing TBL reporting, and the amount of TBL reporting in Thai listed corporate annual reports. On the other hand, return on asset, return on equity, earning per share, financial risk (debt ratio), liquidity, and profitability are the issues of corporate performance to examine with the amount of TBL reporting in annual reports. The correlation matrix will be used to examine the relationship between the amount of TBL reporting in annual reports, and corporate performance issues. All is showed in Table 3.2 below.

Table 3.2: Summary of data analysis

| No. | Section | H | Analysis method | Reason |
|---|---|---|---|---|
| 1. | The comparison of factors influencing TBL reporting and the amount of TBL reporting in annual reports | 1-11 | Repeated measure analysis | There is a relationship between dependent, and independent variables |
| 2. | The comparison of the amount of TBL reporting, and corporate performance | 12.1-12.6 | Correlation matrix | There is a relationship between dependent, and independent variables |
| 3. | Content analysis of TBL reporting in annual reports | - | Descriptive analysis | The extent and amount of TBL reporting in annual reports during 2005-2011 of Thai listed companies in the SET |

In the next chapter (chapter 4), the findings of this study will be indicated. The finding of this study will be shown within three perspectives: the extent and amount of TBL reporting in annual reports of Thai listed companies in SET during the period of 2005-2012, the relationship between the factors influencing TBL reporting in annual reports, and the amount of TBL reporting during 2005-2012, and the relationship between the amount of TBL reporting in annual reports during 2005-2012, and the corporate performance.

# Chapter 4:

# Findings

To answer the research questions: what if the extent, type, content, and level of TBL reporting in Thai corporate annual reports; what is the trend of TBL reporting in annual reports by Thai listed companies during 2005-2012, is the comply-or-explain approach in 2006, and CSR award in 2010 influenced TBL reporting in annual reports, and are there any possible relationships between the level of TBL reporting, a variety of factors, and corporate operating performance, this chapter will consist of five main sections that are the extent of TBL reporting in Thai corporate annual reports, the pattern of TBL reporting from 2005 to 2012, the differences of TBL reporting's level in 2006 and 2010 events, the relationship between corporate characteristics, the level of TBL reporting in annual reports, and firm performance, and summary of hypothesis test. Moreover, there are several data analysis tools following by the sections in this chapter. For example, descriptive analysis will be used to analyse the extent and quantity of TBL reporting in annual reports of Thai listed companies by using frequency, percentage, mean, and standard deviation. Pair-sampled t-test is used to test the differences of the level of TBL reporting during the comply-or-explain approach in 2006, and CSR award in 2010. Repeated measure analysis will be used to test whether there has been an increase of TBL reporting by Thai listed companies during 2005 to 2012, and there are relationships between factors influencing TBL reporting, and the amount of TBL reporting in Thai listed corporate annual reports. Finally, multiple regression model will be used to examine the relationship between the amount of TBL reporting in annual reports, and corporate performance issues.

### 4.1 The extent of TBL reporting in Thai corporate annual reports

To investigate the extent of TBL reporting in Thai corporate annual reports, descriptive analysis by mean is used. During 2005 to 2012, the extent of TBL reporting in annual reporting of listed companies from SET had been an increase from 7267.56 words to 10215.20 words

(See table 4.1). The growth rate of TBL reporting in Thailand was around 40 percent during 2005-2012. In the composition of TBL reporting, the economic reporting was the most common disclosures during the study period following by social and environmental reporting. It may be because corporations are still pressured by shareholders and investors rather than the other stakeholders. Therefore, they need to take more responsibility including reporting to their shareholders' and investors' demands. For example, in 2005, the proportion between economic, social, and environmental reporting in the TBL reporting was 66.70 percent, 22.10 percent, and 11.20 percent. However, the proportion of economic reporting was drop to 60 percent, but both social, and environmental reporting were slightly increase to 25.60 and 14.40 percent. This is because Thai listed companies need to serve not only shareholder and investors anymore, but also the other stakeholder demands either. Therefore, non-financial information reporting as social and environmental reporting was increasing from year by year.

Table 4.1: The extent of TBL reporting during 2005 to 2012

| Perspective | Year (Number of word) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Economic | 4582.86 | 4748.61 | 4889.21 | 5282.54 | 5280.98 | 5797.56 | 6145.05 | 6189.58 |
| Social | 1516.74 | 1689.24 | 1938.19 | 1916.46 | 2336.97 | 2466.41 | 2593.57 | 2673.41 |
| Environment | 770.49 | 887.26 | 947.70 | 961.11 | 1259.85 | 1329.93 | 1398.78 | 1472.99 |
| TBL | 7267.56 | 7732.87 | 8368.52 | 8498.39 | 9155.60 | 9624.68 | 10033.4 | 10215.2 |

The extent of TBL reporting separating into three main perspectives: economic, social, and environmental (See in Appendix D1.1-1.3). The findings indicate that, in terms of economic perspective, the most common reporting are product and service breakdown, information about size and profitability, and size and type of major tangible investment. In social disclosures, corporate statement of a commitment to its shareholder and society, corporate involvement in community philanthropic activity, and employee training and education are the most common reporting of TBL information. Finally, the environmental disclosures in annual reports indicate that corporate statement of a commitment to its environmental protection, water usage information, and energy usage information are the most reporting.

Table 4.2: The extent of TBL reporting by groups of interests

| Group | N | Year (Number of word) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Firm size | | | | | | | | | |
| Top50 | 40 | 10207 | 11083 | 11738 | 12082 | 12405 | 13167 | 13916 | 14162 |
| Non-top50 | 60 | 5307 | 5499 | 6122 | 6108 | 6988 | 7262 | 7444 | 7583 |
| Industry type | | | | | | | | | |
| High profile | 36 | 8329 | 8670 | 9147 | 9302 | 10111 | 10535 | 11025 | 10918 |
| Low profile | 64 | 6670 | 7205 | 7930 | 8045 | 8618 | 9112 | 9475 | 9819 |
| Country | | | | | | | | | |
| Domestic | 85 | 7564 | 8050 | 8744 | 8916 | 9504 | 9911 | 10357 | 10388 |
| International | 15 | 5582 | 5930 | 6235 | 6127 | 7179 | 8000 | 8199 | 9231 |
| Ownership | | | | | | | | | |
| Government | 7 | 14342 | 17092 | 18071 | 20015 | 18711 | 20699 | 22026 | 21609 |
| Private | 93 | 6735 | 7028 | 7638 | 7625 | 8436 | 8791 | 9130 | 9357 |
| Audit type | | | | | | | | | |
| Big4 | 64 | 7680 | 8189 | 8783 | 8769 | 9564 | 9967 | 10523 | 10626 |
| Non-big-4 | 36 | 6533 | 6920 | 7630 | 8017 | 8427 | 9014 | 9161 | 9484 |
| Business | | | | | | | | | |
| type | 27 | 5639 | 5942 | 6426 | 6460 | 7494 | 7801 | 8080 | 7809 |
| Family | 73 | 7869 | 8395 | 9086 | 9252 | 9769 | 10299 | 10755 | 11105 |
| Non-family | | | | | | | | | |
| Age | | | | | | | | | |
| Less 10 | 1 | 3096 | 3368 | 3857 | 4974 | 4869 | 5155 | 6362 | 6526 |
| years | 99 | 7309 | 7776 | 8414 | 8533 | 9198 | 9669 | 10070 | 10252 |
| Otherwise | | | | | | | | | |
| ISO26000 | | | | | | | | | |
| Have | 5 | 8276 | 8563 | 9219 | 9510 | 9617 | 10572 | 12293 | 11625 |
| Have no | 25 | 7214 | 7689 | 8323 | 8445 | 9131 | 9574 | 9914 | 10141 |
| CSR award | | | | | | | | | |
| Have | 19 | 9059 | 9696 | 9889 | 10035 | 10566 | 11018 | 11539 | 11847 |
| Have no | 81 | 6847 | 7272 | 8011 | 8137 | 8824 | 9297 | 9680 | 9832 |

This study groups the sample within nine groups: size of company, type of industry, country of origin, ownership status, type of auditor, business type, corporate age, ISO26000, and CSR award (See table 4.2). The results, in company size group, indicate that Top50 firms provide more TBL reporting than Non-top50 firms in the proportion of 2:1 during the study period. The proportion is provided similar situation with the group of ownership status, and corporate age. On the other hand, there is not different TBL reporting between the groups of industry type, ISO26000, and CSR award.

Table 4.3: Independent sample t-test

| Group | | Mean | S.D. | t | p-value |
|---|---|---|---|---|---|
| Firm size | Top50 | 12345.45 | 9157.05 | 4.507 | 0.000** |
| | Non-top50 | 6539.76 | 3274.28 | | |
| Industry type | High profile | 9755.17 | 9142.27 | 0.971 | 0.334 |
| | Low profile | 8359.65 | 5257.62 | | |
| Country | Domestic | 9179.89 | 7335.80 | 1.098 | 0.275 |
| | International | 7060.85 | 3094.56 | | |
| Ownership | Government | 19081.25 | 17716.20 | 4.430 | 0.000** |
| | Private | 8092.85 | 4711.75 | | |
| Audit type | Big-4 | 9263.15 | 4949.99 | 0.774 | 0.441 |
| | Non-big-4 | 8148.93 | 9470.91 | | |
| Business type | Family | 6956.96 | 4132.18 | -2.191 | 0.031* |
| | Non-family | 9566.65 | 7576.92 | | |
| Age | Less 10 year | 4775.88 | - | -0.593 | 0.554 |
| | Otherwise | 8903.31 | 6921.44 | | |
| ISO26000 | Have | 9959.93 | 3136.71 | 0.363 | 0.717 |
| | Have no | 8804.25 | 7045.44 | | |
| CSR award | Have | 10456.54 | 4008.76 | 1.121 | 0.265 |
| | Have no | 8488.01 | 7384.77 | | |

** significant at 0.01, * significant at 0.05

To test the different level of TBL reporting between the groups of interest that consist of size of company, type of industry, country of origin, ownership status, type of auditor, business type, corporate age, ISO26000, and CSR award, independent sample t-test is used (See table 4.3).

As the results, this study finds the significantly different level of TBL reporting between the groups of firm size, ownership status at 0.01 level, and business type at 0.05 level. However, the study does not find any different level of TBL reporting in the groups of industry type, country origin, audit type, corporate age, ISO2600, and CSR award.

**4.2 The pattern of TBL reporting during 2005 to 2012**

The study uses repeated measure ANOVA to test whether there is an increase of TBL reporting during 2005 to 2012 in annual reports of listed companies in the Stock Exchange of Thailand (See table 4.4). Moreover, this study also tests for economic, social, and environmental disclosures either. The results indicate that there is a significant increase of TBL reporting in Thai corporate annual reports at 0.01 level including economic, social, and environmental disclosures.

Table 4.4: the pattern of TBL reporting

| Sources | Type III sum of squares | df | Mean | F | Sig. |
|---|---|---|---|---|---|
| Economic | 99108305.72 | 7 | 14158329.39 | 8.555 | 0.000** |
| Social | 131791255.70 | 7 | 18827322.25 | 33.709 | 0.000** |
| Environmental | 49662745.42 | 7 | 7094677.92 | 26.569 | 0.000** |
| TBL | 806426438.20 | 7 | 115203776.90 | 38.532 | 0.000** |

** significant at 0.01, * significant at 0.05

**4.3 The differences of TBL reporting's level in 2006 and 2010**

To test whether the comply-or-explain approach in 2006, and CSR award in 2010 can influence the TBL reporting in annual reports, paired sample t-test is used (See table 4.5 and 4.6). For the first event as the comply-or-explain approach in 2006, the finding shows that there is a significantly different level of TBL reporting between pre and post event at 0.01 level. The level of TBL reporting was 7,267.56 and 8,368.52 words between 2005 and 2007.

Table 4.5: paired sample t-test between 2005 and 2007

| Year | Mean | S.D. | t | p-value |
|---|---|---|---|---|
| 2005 | 7267.56 | 6194.84 | -6.721 | 0.000** |
| 2007 | 8368.52 | 6687.32 | | |

** significant at 0.01, * significant at 0.05

On another event as CSR award in 2010, the finding also indicates that there is a significantly different level of TBL reporting between pre and post event at 0.01 level. The level of TBL reporting was 9,155.60 and 7,840.80 words between 2009 and 2011.

Table 4.6: paired sample t-test between 2009 and 2011

| Year | Mean | S.D. | t | p-value |
|---|---|---|---|---|
| 2009 | 9155.60 | 7018.80 | -5.299 | 0.000** |
| 2011 | 10033.37 | 7840.80 | | |

** significant at 0.01, * significant at 0.05

**4.4 The relationship between corporate characteristics, the level of TBL reporting in annual reports, and firm performance**

Table 4.7: repeated measure model with interaction between time and firm characteristics

| Sources | F | Sig. |
|---|---|---|
| Time - size of company | 1.559 | 0.145 |
| Time – type of industry | 8.052 | 0.000** |
| Time – ownership status | 1.675 | 0.112 |
| Time - award | 11.567 | 0.000** |
| Time – country of origin | 0.993 | 0.435 |
| Time – type of business | 0.755 | 0.626 |
| Time – audit type | 0.269 | 0.966 |
| Time – age | 0.053 | 1.000 |
| Time – ISO26000 | 0.506 | 0.830 |
| Time – ISO14001 | 0.125 | 0.390 |

** significant at 0.01, * significant at 0.05

Repeated measure ANOVA is used to test the interaction between corporate characteristics and the period being studied using the tests within-subject effects (See table 4.7). The study finds that type of industry and CSR award have significant interactions with the time period being studied at 0.01 level. However, there are no interactions between size of company, country of origin, ownership status, type of auditor, business type, corporate age, ISO26000, and the time period being studied.

To test the relationship between corporate characteristics and the level of TBL reporting in annual reports of listed companies in SET, repeated measure ANOVA is used. The results in Table 4.8 show that there is a significant positive relationship between size of company, type of industry, ownership status, CSR award, and the level of TBL reporting at 0.01 level. On the other hand, the level of TBL reporting is not significant influenced by country of origin, audit type, corporate age, ISO26000, ISO14001, and type of business.

Table 4.8: the relationship between corporate characteristics and TBL reporting

| Sources | Type III sum of squares | df | Mean | F | Sig. |
|---|---|---|---|---|---|
| Intercept | 24699780158 | 1 | 24699780158 | 199.876 | 0.000 |
| Size of company | 852980754.2 | 1 | 852980754.2 | 6.903 | 0.010** |
| Type of industry | 7660191647 | 1 | 7660191647 | 61.988 | 0.000** |
| Ownership status | 1684667536 | 1 | 1684667536 | 13.633 | 0.000** |
| Award | 4891165251 | 1 | 4891165251 | 39.580 | 0.000** |
| Country of origin | 458013586.1 | 1 | 458013586.1 | 1.205 | 0.275 |
| Audit type | 228830046.2 | 1 | 228830046.2 | 0.599 | 0.441 |
| Age | 134922774.4 | 1 | 134922774.4 | 0.352 | 0.554 |
| ISO26000 | 50752218.81 | 1 | 50752218.81 | 0.132 | 0.717 |
| Type of business | 36619622110 | 1 | 1073878721 | 2.874 | 0.093 |
| ISO14001 | 1699097576 | 1 | 1699097576 | 1.626 | 0.340 |
| error | 10133198401 | 82 | 123575590.3 | | |

** significant at 0.01, * significant at 0.05

To examine the relationship between the level of TBL reporting and corporate financial performance, a correlation matrix is used. The results tabulated in Table 4.9 indicate that there is a significant positive correlation between the level of TBL reporting and Earning Per Share (EPS) at 0.01 level. However, the study cannot find a significant correlation between the level of TBL reporting and the other financial performances such as return on asset (ROA), return on equity (ROE), liquidity, leverage, and net profit.

Table 4.9: the relationship between TBL reporting and financial performance

| Variables | TBL | ROA | ROE | EPS | Liquidity | Risk | Profit |
|---|---|---|---|---|---|---|---|
| TBL | 1 | | | | | | |
| ROA | .057 | 1 | | | | | |
| ROE | .114 | .805** | 1 | | | | |
| EPS | .299** | .199* | .248* | 1 | | | |
| Liquidity | -.109 | .087 | -.010 | .164 | 1 | | |
| Risk | .119 | -.323** | -.257** | -.053 | -.282** | 1 | |
| Profitability | .005 | .199* | .259 | -.001 | -.036 | -.218* | 1 |

** significant at 0.01, * significant at 0.05

**4.5 Summary of hypothesis test**

To examine the relationship between corporate characteristics, the level of TBL reporting, and corporate financial performance, this study summarizes into 12 hypotheses (See table 4.10). The results indicate that there are five accepted hypotheses consisting of H1, H2, H3, H4, and H12.3. However, the other hypotheses are rejected.

Table 4.10: summary of hypothesis test

| Hypothesis | Independent variables | Result (accept/reject) |
|---|---|---|
| H1 | Period being study | Accept |
| H2 | Size of company | Accept |
| H3 | Type of industry | Accept |
| H4 | Ownership status | Accept |
| H5 | Country of origin | Reject |
| H6 | Audit type | Reject |
| H7 | Type of business | Reject |
| H8 | Age | Reject |
| H1 | ISO26000 | Reject |
| H10 | CSR Award | Accept |
| H11 | ISO14001 | Reject |
| H12 | Financial performance | |
| | ROA (H12.1) | Reject |
| | ROE (H12.2) | Reject |
| | EPS (H12.3) | Accept |
| | Liquidity (H12.4) | Reject |
| | Risk (H12.5) | Reject |
| | Profitability (H12.6) | Reject |

# Chapter 5:

# Conclusions and Discussions

This study aims to investigate the extent of TBL reporting in annual reports of listed companies in the Stock Exchange of Thailand (SET) during 2005 to 2012, to test for the differences of TBL reporting before and after two key events in the 2006 comply-or-explain approach, and 2010 CSR award, and to examine the relationship between corporate characteristics, the level of TBL reporting and corporate financial performance. Population of this study is drawn from all companies listed in the Stock Exchange of Thailand (SET) that there are around 500 firms. By simple random sampling, 100 firms (Significant at 0.05) are used as a sample in this study. Corporate annual reports during 2005 to 2012 from companies listed in SET are used to study the theme, extent, content, and level of TBL reporting of Thai listed companies. Content analysis will be used as the study method to investigate and quantify TBL reporting in annual reports of the sampled listed companies in the SET over the period of 2005-2012. Measurement will be word counts. The SET library will be used as a place to collect the corporate annual reports because it contains annual reports from all companies listed in SET. All data will be hand-collected.

This chapter will introduce with conclusions and discussions following by the objectives of this study. Contributions and implications will be explained in terms of theoretical and practical perspectives. Finally, limitations of the study and future study will be provided.

**5.1 Conclusions and discussions**

Conclusions and discussions are separated into four parts following by the main objectives of this study: the extent and level of TBL reporting by listed companies in SET, the pattern of TBL reporting during 2005 to 2012, the events affecting TBL reporting, and the relationship between corporate characteristics, TBL reporting, and financial performance.

### 5.1.1 The extent and level of TBL reporting by listed companies in SET

During the period being studied, the extent of TBL reporting in annual reporting of listed companies from SET had been an increase from 7267.56 words to 10215.20 words. The growth rate of TBL reporting in Thailand was around 40 percent during 2005-2012. In the composition of TBL reporting, the economic reporting was the most common disclosures during the study period following by social and environmental reporting. On the other hand, the highest growth rate of TBL reporting had been environmental perspective (91 percent) during 2005 to 2012 following by social perspective (77 percent) and economic perspective (35 percent). The results were consistent with the prior study of Brown et al. (2009) finding an increase of TBL reporting of building institutions. It may be because corporations are still pressured by shareholders and investors rather than the other stakeholders such as customers, suppliers, society and community, and environmental lobby. This is because voluntary reporting enables stakeholders to make informed decision and/or provides management with an opportunity to impair the stakeholders' ability to make rational decision. Therefore, corporation uses a voluntary reporting to provide specific information serving stakeholders' demand and that the voluntary reporting has become more detailed and more sophisticated (Markl-Davies and Brennan, 2007).

### 5.1.2 The pattern of TBL reporting during 2005 to 2012

The study uses repeated measure ANOVA to test the pattern of TBL reporting during 2005 to 2012 finding that there is a significant increase of TBL reporting in annual reports of listed companies in the Stock Exchange of Thailand. Moreover, this study also tests for economic, social, and environmental disclosures either. The results indicate that there is a significant increase of economic, social, and environmental disclosures in Thai corporate annual reports. The results are consistent with the study of Kunsirikun and Sherer (2004) who found a significant increase of environmental disclosures in annual reports of listed companies in Thailand during 1993 to 1999.

### 5.1.3 The events affecting TBL reporting

To test whether the comply-or-explain approach in 2006, and CSR award in 2010 can influence the TBL reporting in annual reports, paired sample t-test is used. For the first event as the comply-or-explain approach in 2006, the finding shows that there is a significantly different level of TBL reporting between pre and post event. On another event as CSR award in 2010, the finding also indicates that there is a significantly different level of TBL reporting between 2009 and 2011.

### 5.1.4 The relationship between corporate characteristics, TBL reporting, and financial performance

To test the relationship between corporate characteristics and the level of TBL reporting in annual reports of listed companies in SET, repeated measure ANOVA is used. The results show that there is a significant positive relationship between size of company, type of industry, ownership status, CSR award, and the level of TBL reporting. On the other hand, the level of TBL reporting is not significant influenced by country of origin, audit type, corporate age, ISO26000, ISO14001, and type of business. The results are consistent with Ho and Taylor (2007), Suttipun (2012), Deegan and Gordon (1996), Newson and Deegan (2002), Choi (1999), Raar (2002), and Cormier and Gordon (2001) who found the significant relationship between size of company, type of industry, ownership status, and CSR award with the level of non-financial reporting such as CSR reporting, environmental reporting, and TBL reporting. On the other hand, the level of TBL reporting was not significant influenced by country of origin, and audit type at 0.05 level.

For example, with regard to company size, the prior studies (See Raar, 2002; Ho and Taylor, 2007; Suttipun, 2012) found that large firms typically provide a greater amount of financial and non-financial information as well as the present study since they serve and relate to larger numbers of different stakeholders vis-à-vis small firms.

Because companies in high profile industries are postulated to be more expected from their stakeholders than the other companies which have little impact on the economy, society, and environment, the results of relationship between industry type and the level of TBL reporting in this study are consistent with the previous studies (see Newson and Deegan, 2002; Choi, 1999; Ho and Taylor, 2007).

In terms of ownership status, this study result is consistent with the studies in Canada by Cormier and Gordon (2001) and in Sweden by Tagesson et al. (2009) finding that government firms disclose more social and environmental information than private companies. This is because state-owned companies are more scrutinized; therefore, there is pressure from the state as owners, and from the mass media to comply with stakeholder expectations.

The finding that a previous CSR award was predictive of the level of TBL reporting was not surprising. Since 2006, CSR awards have been given by the ThaiPat Institute, which is a non-profit organization, to Thai companies listed on the SET whose actions and activities were conducive to the TBL. Therefore, if a company desired a CSR award it will increase its TBL activities including reporting. By stakeholder theory, the corporations with CSR awards in both developed countries (See Deegan and Gordon, 1996), and developing countries (See the present study) would serve and get attention from their stakeholder demands by providing TBL reporting. The result was similar to the findings of Deegan and Gordon (1996) that companies with a CSR awards tended to report more social and environmental information than companies without a CSR award.

Finally, to examine the relationship between the level of TBL reporting and corporate financial performance, a correlation matrix is used. The results indicate that there is a significant positive correlation between the level of TBL reporting and Earning Per Share (EPS). However, the study cannot find a significant correlation between the level of TBL reporting and the other financial performances such as return on asset (ROA), return on equity (ROE), liquidity, leverage, and net profit.

## 5.2 Contributions

### 5.2.1 Theoretical contributions

The findings fit in with explanations of stakeholder theory because Thai firms had had active stakeholder demands. Their protest movements had won some economic, social, and environmental victories. The need to be acceptable the stakeholder is reflected in the finding that companies providing more level of sustainable development information were in the high profile companies than the low profile companies. Therefore, this study can prove that stakeholder theory used can be explained in Thai context as well as in developed countries. The theory postulates that large companies are more visible than smaller companies and that visibility may result in attention from stakeholders and/ or the media. Stakeholder theory suggests that stakeholders should be managed one way to do so is to make disclosures that improve the apparent transparency of the disclosing company. This study found that lager Thai companies provided more and longer disclosures than smaller companies. This is in accordance with the predictions of above mentioned theory.

### 5.2.2 Practical contributions

This study appears to be the first to investigate corporate characteristics influencing the TBL reporting in Thai corporate annual reports, and to assess whether the key events in a developing country increase the TBL disclosures. As such, this research extends the knowledge about the TBL reporting by Thai companies. The study also provides practical benefit. It shows that the development of regulations, even a comply-or-explain approach increases the reporting. It is hoped that, eventually, the SET system of comply-or-explain the TBL reporting will develop greater transparency about the Thai government in order to bridge the gap between corporate actions or activities and stakeholder concerns This study also contributes to the sustainability accounting literature, because it provides insights into the TBL disclosure practices of listed companies with respect to their operations within developing countries where there is limited published studies (Islam & Deegan 2007).

To the researcher knowledge, this study is one of the few that investigate the TBL reporting in Thailand especially in the annual reports of companies listed from SET including the factors influencing the level of TBL reporting. Therefore, this study already extends the knowledge and adds additional information regarding the TBL reporting in Thailand. This study is also suggested to give additional insight for investor in their decision to invest in the company especially the information regarding the influence of various factors to TBL reporting, as this information is hope to give profit and return for the investor. The results of this study show that the extent of TBL reporting is more for economic dimension rather than the social and environmental dimension which can show that the law and regulation introduced by the government is still effective in making company to disclose more economic information than social and environmental information, even though there is an increase in each perspective every year. This study wishes to convince company producing the TBL reporting for its stakeholders who need to use both financial and non-financial information.

**5.3 Limitations**

The limitations of this study include the subjectivity of the data collection method, the dependence on annual reports as the only credible source of data, the period being studied, and type of research information. While some limitations have the potential to affect the general validity of results, they are not found to hinder interpretation of the results.

The subjectivity of the data collection method is considered to be a limitation. This study used content analysis to measure and categorise the TBL reporting in Thai corporate annual reports. Content analysis is a method that describes what is there, but does not reveal the underlying motives for the observed pattern as only annual reports were used.

Dependence on corporate annual reports as the sole source of data about the TBL reporting is debated, because there are other communication media through which companies are able to reveal their TBL information. This study had concerns over the use of any media that lacks editorial control. There are many reasons to consider annual reports as preferable. Firstly, an annual report is a statutory report incorporating both statutory and voluntary disclosures. Secondly, it can be assessed more easily than other kinds of media, such as websites. Finally, they are widely recognised as the principle means for corporate communication of activities and intentions (Wiseman 1982).

This study used eleven variables of corporate characteristic to investigate the factors influencing the TBL reporting: size of company, type of industry, country of origin, ownership status, type of auditor, business type, corporate age, ISO26000, and CSR award. There may be scope for explaining the extent of the TBL reporting in Thai corporate annual reports by using other variables, such as corporate management attitudes and corporate governance.

Additionally, this study did not look at the quality of TBL reporting, but focused only on quantitative information (the number of words) so that the quality of TBL information in this research cannot be considered. Thus, the increasing number of companies making disclosures and the amount of disclosure is not indicative of the quality of such disclosures.

### 5.4 Future study

The research will aim to use another medium reporting the TBL information including testing the other factors influencing the level of TBL reporting.

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**Appendix A:** The lists of samples used in this study

| Number | Name of listed companies (samples) in SET |
|---|---|
| 1 | บริษัท เจริญโภคภัณฑ์อาหาร จำกัด (มหาชน) |
| 2 | บริษัท ไมเนอร์ อินเตอร์เนชั่นแนล จำกัด (มหาชน) |
| 3 | บริษัท ไทยยูเนี่ยน โฟรเซ่น โปรดักส์ จำกัด (มหาชน) |
| 4 | บริษัท อกริเพียว โฮลดิ้งส์ จำกัด (มหาชน) |
| 5 | บริษัท ซีเฟรชอินดัสตรี จำกัด (มหาชน) |
| 6 | บริษัท ห้องเย็นโชติวัฒน์หาดใหญ่ จำกัด (มหาชน) |
| 7 | บริษัท หาดทิพย์ จำกัด (มหาชน) |
| 8 | บริษัท มาลีสามพราน จำกัด (มหาชน) |
| 9 | บริษัท โออิชิ กรุ๊ป จำกัด (มหาชน) |
| 10 | บริษัท เพรซิเดนท์ เบเกอรี่ จำกัด (มหาชน) |
| 11 | บริษัท ทิปโก้ฟูดส์ จำกัด (มหาชน) |
| 12 | ธนาคารกรุงศรีอยุธยา จำกัด (มหาชน) |
| 13 | ธนาคารกรุงเทพ จำกัด (มหาชน) |
| 14 | ธนาคารกสิกรไทย จำกัด (มหาชน) |
| 15 | ธนาคารเกียรตินาคิน จำกัด (มหาชน) |
| 16 | ธนาคารกรุงไทย จำกัด (มหาชน) |
| 17 | ธนาคารไทยพาณิชย์ จำกัด (มหาชน) |
| 18 | บริษัท ทุนธนชาต จำกัด (มหาชน) |
| 19 | ธนาคารทหารไทย จำกัด (มหาชน) |
| 20 | บริษัทหลักทรัพย์ เออีซี จำกัด (มหาชน) |
| 21 | ธนาคาร ซีไอเอ็มบี ไทย จำกัด (มหาชน) |
| 22 | บริษัทหลักทรัพย์ โนมูระ พัฒนสิน จำกัด (มหาชน) |
| 23 | บริษัท ไมด้า ลิสซิ่ง จำกัด (มหาชน) |
| 24 | บริษัท ชัยวัฒนา แทนเนอรี่ กรุ๊ป จำกัด (มหาชน) |
| 25 | บริษัท จี เจ สตีล จำกัด (มหาชน) |
| 26 | บริษัท ฮั้วฟง รับเบอร์ (ไทยแลนด์) จำกัด (มหาชน) |
| 27 | บริษัท กุลธรเคอร์บี้ จำกัด (มหาชน) |
| 28 | บริษัท เอ็นอีพี อสังหาริมทรัพย์ และอุตสาหกรรม จำกัด (มหาชน) |
| 29 | บริษัท นิปปอน แพ็ค(ประเทศไทย) จำกัด (มหาชน) |
| 30 | บริษัท แปซิฟิกไพพ์ จำกัด (มหาชน) |
| 31 | บริษัท โพสโค-ไทยน๊อคซ์ จำกัด (มหาชน) |
| 32 | บริษัท เซ็นทรัลพัฒนา จำกัด (มหาชน) |
| 33 | บริษัท แลนด์แอนด์เฮ้าส์ จำกัด (มหาชน) |
| 34 | บริษัท ปูนซิเมนต์ไทย จำกัด(มหาชน) |
| 35 | บริษัท ปูนซีเมนต์นครหลวง จำกัด (มหาชน) |
| 36 | บริษัท อารียา พรอพเพอร์ตี้ จำกัด (มหาชน) |
| 37 | บริษัท อมตะ คอร์ปอเรชัน จำกัด (มหาชน) |
| 38 | บริษัท ไดนาสตี้เซรามิค จำกัด (มหาชน) |

**Appendix A:** The lists of samples used in this study (Continue)

| Number | Name of listed companies (samples) in SET |
|---|---|
| 39 | บริษัท บางจากปิโตรเลียม จำกัด (มหาชน) |
| 40 | บริษัท ผลิตไฟฟ้า จำกัด (มหาชน) |
| 41 | บริษัท ไออาร์พีซี จำกัด (มหาชน) |
| 42 | บริษัท ปตท. จำกัด (มหาชน) |
| 43 | บริษัท ปตท. สำรวจและผลิตปิโตรเลียม จำกัด (มหาชน) |
| 44 | บริษัท ผลิตไฟฟ้าราชบุรีโฮลดิ้ง จำกัด (มหาชน) |
| 45 | บริษัท ไทยออยล์ จำกัด (มหาชน) |
| 46 | บริษัท บริการเชื้อเพลิงการบินกรุงเทพ จำกัด (มหาชน) |
| 47 | บริษัท ลานนารีซอร์สเซส จำกัด (มหาชน) |
| 48 | บริษัท จัดการและพัฒนาทรัพยากรน้ำภาคตะวันออก จำกัด (มหาชน) |
| 49 | บริษัท เอ็ม ดี เอ็กซ์ จำกัด (มหาชน) |
| 50 | บริษัท สหโคเจน (ชลบุรี) จำกัด (มหาชน) |
| 51 | บริษัท ไทย แคปปิตอล คอร์ปอเรชั่น จำกัด (มหาชน) |
| 52 | บริษัท ผาแดงอินดัสทรี จำกัด (มหาชน) |
| 53 | บริษัท ระยองเพียวริฟายเออร์ จำกัด (มหาชน) |
| 54 | บริษัท กรุงเทพดุสิตเวชการ จำกัด(มหาชน) |
| 55 | บริษัท โรงพยาบาลบำรุงราษฎร์ จำกัด (มหาชน) |
| 56 | บริษัท ท่าอากาศยานไทย จำกัด (มหาชน) |
| 57 | บริษัท บีทีเอส กรุ๊ป โฮลดิ้งส์ จำกัด (มหาชน) |
| 58 | บริษัท การบินไทย จำกัด (มหาชน) |
| 59 | บริษัท บิ๊กซี ซูเปอร์เซ็นเตอร์ จำกัด (มหาชน) |
| 60 | บริษัท เบอร์ลี่ ยุคเกอร์ จำกัด (มหาชน) |
| 61 | บริษัท ซีพี ออลล์ จำกัด (มหาชน) |
| 62 | บริษัท โฮม โปรดักส์ เซ็นเตอร์ จำกัด (มหาชน) |
| 63 | บริษัท สยามแม็คโคร จำกัด (มหาชน) |
| 64 | บริษัท ห้างสรรพสินค้าโรบินสัน จำกัด (มหาชน) |
| 65 | บริษัท บีอีซี เวิลด์ จำกัด (มหาชน) |
| 66 | บริษัท อมรินทร์พริ้นติ้ง แอนด์ พับลิชชิ่ง จำกัด (มหาชน) |
| 67 | บริษัท อควา คอร์เปอเรชั่น จำกัด (มหาชน) |
| 68 | บริษัท เทพธานีกรีฑา จำกัด (มหาชน) |
| 69 | บริษัท ดุสิตธานี จำกัด (มหาชน) |
| 70 | บริษัท โรงพิมพ์ตะวันออก จำกัด (มหาชน) |
| 71 | บริษัท ดิ เอราวัณ กรุ๊ป จำกัด (มหาชน) |
| 72 | บริษัท อสมท จำกัด (มหาชน) |
| 73 | บริษัท ซีเอ็ดยูเคชั่น จำกัด (มหาชน) |
| 74 | บริษัทเดลต้า อีเลคโทรนิคส์ (ประเทศไทย) จำกัด (มหาชน) |
| 75 | บริษัท แอดวานซ์ อินโฟร์ เซอร์วิส จำกัด (มหาชน) |
| 76 | บริษัท ชิน คอร์ปอเรชั่น จำกัด (มหาชน) |

**Appendix A:** The lists of samples used in this study (Continue)

| Number | Name of listed companies (samples) in SET |
|---|---|
| 77 | บริษัท อินเตอร์แนชั่นเนิลเอนจีเนียริง จำกัด (มหาชน) |
| 78 | บริษัท พรีเมียร์ เทคโนโลยี จำกัด (มหาชน) |
| 79 | บริษัท สามารถคอร์ปอเรชั่น จำกัด (มหาชน) |
| 80 | บริษัท สามารถ ไอ-โมบาย จำกัด (มหาชน) |
| 81 | บริษัท บูติคนิวซิตี้ จำกัด (มหาชน) |
| 82 | บริษัท คอมพาสส์ อีสต์ อินดัสตรี้ (ประเทศไทย) จำกัด (มหาชน) |
| 83 | บริษัท ดี.ที.ซี.อินดัสตรี่ส์ จำกัด (มหาชน) |
| 84 | บริษัท โอเชียนกลาส จำกัด (มหาชน) |
| 85 | บริษัท แพนเอเชียฟุตแวร์ จำกัด (มหาชน) |
| 86 | บริษัท สหยูเนี่ยน จำกัด (มหาชน) |
| 87 | บริษัท ธนูลักษณ์ จำกัด (มหาชน) |
| 88 | บริษัท ไทยวาโก้ จำกัด (มหาชน) |
| 89 | บริษัท ดีคอนโปรดักส์ จำกัด (มหาชน) |
| 90 | บริษัท เหมราชพัฒนาที่ดิน จำกัด (มหาชน) |
| 91 | บริษัท เค.ซี. พร็อพเพอร์ตี้ จำกัด (มหาชน) |
| 92 | บริษัท กฤษดามหานคร จำกัด (มหาชน) |
| 93 | บริษัท เพาเวอร์ไลน์ เอ็นจิเนียริ่ง จำกัด (มหาชน) |
| 94 | บริษัท บ้านปู จำกัด (มหาชน) |
| 95 | บริษัทจัสมิน อินเตอร์เนชั่นแนล จำกัด (มหาชน) |
| 96 | บริษัท ทรู คอร์ปอเรชั่น จำกัด (มหาชน) |
| 97 | บริษัท แคล-คอมพ์ อีเล็คโทรนิคส์ (ประเทศไทย) จำกัด (มหาชน) |
| 98 | บริษัท ซีเอส ล็อกซอินโฟ จำกัด (มหาชน) |
| 99 | บริษัท ดราโก้ พีซีบี จำกัด (มหาชน) |
| 100 | บริษัท ฮานา ไมโครอิเล็คโทรนิคส จำกัด (มหาชน) |

**Appendix B:** List of items used to evaluate the extent of TBL reporting

| No. | Economic perspective | Social perspective | Environmental perspective |
|---|---|---|---|
| 1 | Information about size and profitability | Company's statement of a corporate commitment to its shareholders and society | Company's statement of a corporate commitment to environmental protection |
| 2 | Identification of a contact person for providing additional information | Awards received relevant to social performance | Any mention of environmental regulation |
| 3 | Products or services breakdown | Identification of a contact person for providing additional information | Involvement of environmental experts in business operations |
| 4 | Market shares by region | No. of employees and their geographic distribution | Environmental audit |
| 5 | Information on backlog orders | Turnover of workforce | Environmental awards |
| 6 | Information on major suppliers | Levels of employee education | Incorporation of environmental concerns into business decisions e.g. green purchasing |
| 7 | Payroll information by countries or regions | Employee benefits concerning health care, disability, retirement | Identification of a contact person providing information |
| 8 | Fringe benefits information by countries or regions | Employee job satisfaction | Energy usage information |
| 9 | Employee stock options or bonus programs | Employee health and safety information e.g. number of lost workdays, accidents, or deaths | Encouragement of renewable energy consumption |
| 10 | Information on major creditors | Employee training and education | Water usage information |
| 11 | Dividend distributions | Any mention of policy addressing workplace harassment and discrimination | Information concerning the materials that are recycled or reused |
| 12 | Taxes | Number of women & minorities | Any mention of strategy for the use of recycled products |
| 13 | Discussion of social capital formation e.g. donations | Policy or procedure dealing with human rights issues | Information about the source, type and remedy procedures of emissions |
| 14 | Size and types of major tangible investments | Any mention of policy for preserving customer health and safety | Pollution impacts of transportation equipment used for logistical purposes |
| 15 | Economic performance of major tangible investments | Company's involvement in community philanthropic activity | Environmental impacts of principle products and services |
| 16 | R&D investments | Policy for prioritizing local employment | Discussion of the amount and type of wastes and mention of waste management |
| 17 | Investment in information technology | Policy for compliance mechanism for bribery and corruption | Any mention of environmental accounting policies |
| 18 | Other intangible investments e.g. brand value, reputation | Policy for preventing anti-competitive behavior | Environmental expenditures |
| 19 | Earnings or sales forecasts | Policy for consumer privacy | Fines, Lawsuits, or non-compliance incidents |
| 20 | Any mention of other forward-looking information | Provision of business code | Environmental contingent liabilities |

**Appendix C:** Data collecting form

แบบเก็บรายการการเปิดเผยข้อมูล Triple Bottom Line ในรายงานประจำปี

**ตอนที่ 1:** ข้อมูลพื้นฐานของกลุ่มตัวอย่าง

ชื่อกิจการ........................................................ ประเภทอุตสาหกรรม...................................... รหัส..........................

**หัวข้อที่ 1.1:** ปัจจัยที่คาดว่ามีอิทธิพลต่อการเปิดเผยข้อมูล Triple Bottom Line

| ลำดับ | ปัจจัยที่มีอิทธิพลกับการรายงาน TBL | ทางเลือก | |
|---|---|---|---|
| 1. | ขนาดของกิจการ | ขนาดใหญ่ (Top50) | ขนาดเล็ก (Non-top50) |
| 2. | ลักษณะของอุตสาหกรรม | กิจการที่ส่งผลกระทบสูง | กิจการที่ส่งผลกระทบต่ำ |
| 3. | ประเทศผู้ก่อตั้งกิจการ | ในประเทศ | ต่างประเทศ |
| 4. | ลักษณะของเจ้าของกิจการ | กิจการภาครัฐ | กิจการภาคเอกชน |
| 5. | ลักษณะของผู้ตรวจสอบบัญชี | ผู้ตรวจสอบบัญชีจาก Big4 | ผู้ตรวจสอบบัญชีจาก Non-big4 |
| 6. | ลักษณะธุรกิจ | ธุรกิจครอบครัว | ธุรกิจไม่ครอบครัว |
| 7. | อายุของกิจการ | ต่ำกว่า 10 ปี | มากกว่า 10 ปี |
| 8. | การนำ ISO26000 มาใช้ในกิจการ | มี | ไม่มี |
| 9. | การนำ ISO14001 มาใช้ในกิจการ | มี | ไม่มี |
| 10. | รางวัลเกี่ยวกับการพัฒนาที่ยั่งยืน | มี | ไม่มี |

**หัวข้อที่ 1.2:** ข้อมูลผลการดำเนินงานของกิจการ

| ลำดับ | หัวข้อผลการดำเนินงานของกิจการ | รายละเอียด |
|---|---|---|
| 1. | ผลตอบแทนต่อสินทรัพย์ (ROA) | |
| 2. | ผลตอบแทนต่อผู้เป็นเจ้าของ (ROE) | |
| 3. | กำไรต่อหุ้น (EPS) | |
| 4. | สภาพคล่องของกิจการ (Current Asset/ Current Debt) | |
| 5. | ความเสี่ยงทางการเงิน (Total Debt/ Total Equity) | |
| 6. | ขนาดของกิจการ (Sales) | |
| 7. | อัตราการเจริญเติบโต (Rate of increase in revenue) | เปรียบเทียบระหว่างปีก่อนและปีปัจจุบัน |
| 8. | Consumer relevancy (advertising expense/ sales) | |
| 9. | การวิจัยและพัฒนา (R&D expense/ sales) | |
| 10. | Sale/ Asset ratio (Sales/ Total asset) | |

**หัวข้อที่ 1.3:** หัวข้อการกำกับดูแลของกิจการ

| ลำดับ | หัวข้อการกำกับดูแล | รายละเอียด |
|---|---|---|
| 1. | ขนาดของคณะกรรมการ | |
| 2. | สัดส่วนของคณะกรรมการอิสระ | |
| 3. | ความเป็นอิสระของคณะกรรมการ | |
| 4. | สัดส่วนความเป็นอิสระของคณะกรรมการตรวจสอบ | |
| 5. | โครงสร้างความเป็นเจ้าของ | |
| 6. | สัดส่วนของผู้ถือหุ้นโดยผู้บริหาร | |
| 7. | สัดส่วนของผู้ถือหุ้นโดยชาวต่างชาติ | |
| 8. | สัดส่วนของผู้ถือหุ้นโดยรัฐบาล | |

| ลำดับ | หัวข้อการกำกับดูแล | รายละเอียด |
|---|---|---|
| 1. | ขนาดของคณะกรรมการ | No. of directors sitting on the board |
| 2. | สัดส่วนของคณะกรรมการอิสระ | Percent of non-executive directors/ total directors |
| 3. | ความเป็นอิสระของคณะกรรมการ | A dichotomous variable will be used for the presence of dual leadership, 1 = CEO also works as the chairman of the board, and 0 = otherwise |
| 4. | สัดส่วนความเป็นอิสระของคณะกรรมการตรวจสอบ | Percent of non-executive directors/ total directors sitting on audit committee |
| 5. | โครงสร้างความเป็นเจ้าของ | Percent of shares owned by 10 largest shareholders/ total number of shares issued |
| 6. | สัดส่วนของผู้ถือหุ้นโดยผู้บริหาร | Percent of shares owned by executive directors/ total number of shares issued |
| 7. | สัดส่วนของผู้ถือหุ้นโดยชาวต่างชาติ | Percent of shares owned by foreign shareholders/ total number of shares issued |
| 8. | สัดส่วนของผู้ถือหุ้นโดยรัฐบาล | Percent of shares owned by government/ total number of shares issued |

**ตอนที่ 2:** การเปิดเผยข้อมูล TBL ในรายงานประจำปีของกิจการ

**หัวข้อที่ 2.1:** หัวข้อเกี่ยวกับการเปิดเผยข้อมูลด้านเศรษฐกิจ

| No. | หัวข้อในการเปิดเผยข้อมูลด้านเศรษฐกิจ | ปีที่ใช้ในการศึกษา (จำนวนคำ) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2548 | 2549 | 2550 | 2551 | 2552 | 2553 | 2554 |
| 1 | ข้อมูลเกี่ยวกับขนาดและกำไรของบริษัท | | | | | | | |
| 2 | ข้อมูลการระบุ (กำหนด) เกี่ยวกับบุคคล/หน่วยที่ให้ข้อมูล/ความรับผิดชอบด้านการเงินกับกิจการ | | | | | | | |
| 3 | ข้อมูลรายละเอียดของสินค้า/บริการ | | | | | | | |
| 4 | ข้อมูลส่วนแบ่งตลาดของกิจการ | | | | | | | |
| 5 | ข้อมูลเกี่ยวกับจำนวนสินค้าคงค้างจากการสั่งซื้อของลูกค้า เช่น การกักตุนสินค้า | | | | | | | |
| 6 | ข้อมูลของผู้ส่งวัตถุดิบหลัก | | | | | | | |
| 7 | ข้อมูลเกี่ยวกับการจ่ายเงินเดือนพนักงาน | | | | | | | |
| 8 | ข้อมูลผลประโยชน์และสวัสดิการที่เป็นตัวเงินอื่น ๆที่ลูกจ้างควรจะได้รับจากกิจการ | | | | | | | |
| 9 | ข้อมูลเกี่ยวกับโบนัสหรือหุ้นปันผลที่พนักงานจะได้รับจากกิจการ | | | | | | | |
| 10 | ข้อมูลเกี่ยวกับเจ้าหนี้หลัก | | | | | | | |
| 11 | ข้อมูลการกระจายเงินปันผลให้แก่ผู้ลงทุน | | | | | | | |
| 12 | ข้อมูลด้านภาษีอากร | | | | | | | |
| 13 | ข้อมูลการพัฒนาด้านสังคมที่เป็นตัวเงิน เช่น การบริจาค เป็นต้น | | | | | | | |
| 14 | ข้อมูลขนาดและลักษณะของการลงทุนหลักของกิจการ | | | | | | | |
| 15 | ข้อมูลผลประกอบการด้านการเงินของการลงทุนหลักของกิจการเกี่ยวกับสินทรัพย์ที่มีตัวตน | | | | | | | |
| 16 | ข้อมูลการลงทุนด้านการวิจัยและพัฒนา | | | | | | | |
| 17 | ข้อมูลการลงทุนในข้อมูลด้านเทคโนโลยี | | | | | | | |
| 18 | ข้อมูลการลงทุนในสินทรัพย์ไม่มีตัวตน เช่น ภาพลักษณ์ของกิจการ | | | | | | | |
| 19 | ข้อมูลการพยากรณ์รายได้หรือยอดขาย | | | | | | | |
| 20 | ข้อมูลเกี่ยวกับการพยากรณ์ด้านเศรษฐกิจอื่น ๆ ของกิจการ ที่สามารถวัดได้เป็นตัวเงิน | | | | | | | |
| | ผลรวม (จำนวนคำ) การเปิดเผยข้อมูล | | | | | | | |

**หัวข้อที่ 2.2**: การเปิดเผยข้อมูลด้านสังคม

| No. | หัวข้อในการเปิดเผยข้อมูลด้านสังคม | ปีที่ใช้ในการศึกษา (จำนวนคำ) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2548 | 2549 | 2550 | 2551 | 2552 | 2553 | 2554 |
| 1 | การรายงานข้อมูลของกิจการเกี่ยวกับความรับผิดชอบของกิจการต่อผู้ถือหุ้นและสังคม | | | | | | | |
| 2 | ข้อมูลรางวัลด้านสังคมของกิจการ | | | | | | | |
| 3 | ข้อมูลการระบุ (กำหนด) เกี่ยวกับบุคคล/หน่วยงานที่ให้ข้อมูล/ความรับผิดชอบด้านสังคม | | | | | | | |
| 4 | ข้อมูลจำนวนพนักงานของกิจการ | | | | | | | |
| 5 | ข้อมูลการลาออกของพนักงาน | | | | | | | |
| 6 | ข้อมูลระดับการศึกษาของพนักงานในบริษัท | | | | | | | |
| 7 | ผลประโยชน์ที่พนักงานได้รับในสวัสดิการ ด้านสุขภาพ ความพิการที่เกิดจากการทำงาน และการเกษียณอายุ | | | | | | | |
| 8 | ข้อมูลความพึงพอใจงานของพนักงาน | | | | | | | |
| 9 | ข้อมูลด้านสุขภาพและความปลอดภัยของพนักงาน เช่น อุบัติเหตุจากการทำงาน | | | | | | | |
| 10 | ข้อมูลด้านการศึกษาและอบรมพัฒนาพนักงาน | | | | | | | |
| 11 | หัวข้อนโยบายหรือโปรแกรมที่เกี่ยวกับเลือกปฏิบัติ และการล่วงละเมิดสิทธิภายในกิจการ | | | | | | | |
| 12 | ข้อมูลเกี่ยวกับจำนวนพนักงานหญิงและเยาวชน | | | | | | | |
| 13 | ข้อมูลนโยบายที่เกี่ยวข้องกับสิทธิมนุษยชน | | | | | | | |
| 14 | ข้อมูลนโยบายที่เกี่ยวข้องกับความปลอดภัยและสุขภาพของชุมชนที่ตั้งอยู่ใกล้ที่ตั้งของกิจการ | | | | | | | |
| 15 | ข้อมูลกิจกรรมเพื่อสังคมของกิจการ | | | | | | | |
| 16 | ข้อมูลนโยบายการจ้างแรงงานท้องถิ่นของกิจการ | | | | | | | |
| 17 | ข้อมูลนโยบายเกี่ยวกับการป้องกันการทุจริตและการติดสินบนของกิจการ | | | | | | | |
| 18 | ข้อมูลนโยบายการต่อต้าน/กีดกันทางการค้า | | | | | | | |
| 19 | ข้อมูลนโยบายการรักษาความลับของลูกค้า | | | | | | | |
| 20 | ข้อมูลการเตรียมการความพร้อม สำหรับการเปลี่ยนแปลงกฎหมายด้านสังคม ชุมชนและแรงงานของกิจการ | | | | | | | |
| | ผลรวม (จำนวนคำ) การเปิดเผยข้อมูล | | | | | | | |

**หัวข้อที่ 2.3**: การเปิดเผยข้อมูลด้านสิ่งแวดล้อม

| No. | หัวข้อในการเปิดเผยข้อมูลด้านสิ่งแวดล้อม | ปีที่ใช้ในการศึกษา (จำนวนคำ) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2548 | 2549 | 2550 | 2551 | 2552 | 2553 | 2554 |
| 1 | ข้อมูลรายงานของบริษัทที่เกี่ยวข้องกับความรับผิดชอบต่อสิ่งแวดล้อม | | | | | | | |
| 2 | ข้อมูลเกี่ยวกับกฎหมายสิ่งแวดล้อม | | | | | | | |
| 3 | ข้อมูลเกี่ยวกับผู้เชี่ยวชาญด้านสิ่งแวดล้อมในการดำเนินงานของกิจการ | | | | | | | |
| 4 | ข้อมูลการตรวจสอบสิ่งแวดล้อม | | | | | | | |
| 5 | ข้อมูลรางวัลด้านสิ่งแวดล้อมของกิจการ | | | | | | | |
| 6 | ข้อมูลการตัดสินใจของธุรกิจที่เกี่ยวข้องกับการอนุรักษ์สิ่งแวดล้อม (เช่น การซื้อวัตถุดิบที่เป็นมิตรกับสิ่งแวดล้อม) | | | | | | | |
| 7 | ข้อมูลการระบุเกี่ยวกับบุคคล/หน่วยงานที่ให้ข้อมูลและรับผิดชอบด้านสิ่งแวดล้อม | | | | | | | |
| 8 | ข้อมูลการใช้พลังงานของกิจการ | | | | | | | |
| 9 | ข้อมูลการสนับสนุนการใช้พลังงานทางเลือก | | | | | | | |
| 10 | ข้อมูลการจัดการน้ำของกิจการ | | | | | | | |
| 11 | ข้อมูลที่เกี่ยวข้องกับการ Re-cycle และ Re-use | | | | | | | |
| 12 | ข้อมูลกลยุทธ์สำหรับการใช้สินค้าประเภท Re-cycle ในกิจการ | | | | | | | |
| 13 | ข้อมูลเกี่ยวกับชนิดและขั้นตอนการจัดการมลภาวะทางอากาศ | | | | | | | |
| 14 | ข้อมูลผลกระทบด้านมลภาวะจากการขนส่ง | | | | | | | |
| 15 | ข้อมูลผลกระทบด้านสิ่งแวดล้อมของสินค้าและบริการ เช่น มลภาวะที่เกิดจากกิจการ | | | | | | | |
| 16 | ข้อมูลการจัดการของเสียของกิจการ | | | | | | | |
| 17 | ข้อมูลนโยบายการบัญชีด้านสิ่งแวดล้อม | | | | | | | |
| 18 | ข้อมูลการใช้จ่ายทางด้านสิ่งแวดล้อม | | | | | | | |
| 19 | ข้อมูลการฟ้องร้อง การโดนลงโทษและค่าปรับด้านสิ่งแวดล้อม | | | | | | | |
| 20 | ข้อมูลหนี้สินที่คาดว่าจะเกิดขึ้นเกี่ยวกับด้านสิ่งแวดล้อม | | | | | | | |
| | ผลรวม (จำนวนคำ) การเปิดเผยข้อมูล | | | | | | | |

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# CORPORATE OWNERSHIP & CONTROL

**Volume 12, Issue 1, 2014, Continued - 9**


CONTENTS

# THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FIRM PERFORMANCE: EVIDENCE FORM A MENA COUNTRY

***Mohamed A. K. Basuony*, Reham I. Elseidi**, Ehab K. A. Mohamed******

**Abstract**

This paper investigates the effect of corporate social responsibility (CSR) on organization performance. It uses cross sectional data from non-financial companies in Egypt that derived from the Kompass Egypt data base. Regression analysis was used to explain the relationship and the effect of CSR on organization financial performance. The findings of this study found that there is a positive and significant effect of CSR on firm performance. Also, all CSR dimensions have significant relationship with firm financial performance. Furthermore, one of the conclusions of this study is that larger and older firms have a positive effect on financial performance (profitability) which will lead to enhance use of better CSR practice.

**Keywords:** Corporate Social Responsibility, Organization Performance, Egypt, SMEs

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## 1. Introduction

Corporate social responsibility (CSR) has emerged and developed rapidly as a field of study. It has emerged as an important approach and framework for addressing the role of business in society, setting standards of behaviour to which a company must fallow to impact society in a positive and an effective way at the same time as abiding by values that exclude profit seeking at any cost. Empirical evidence suggests that CSR actions lead to superior market performance (Orlitzky and Benjamin, 2001; Dabas, 2011). CSR practices can impact customer satisfaction, employee satisfaction, stronger brand equity and favourable attitudes towards firms (Brown and Dacin, 1997; Maignan et al., 1999; Valentine and Fleischman, 2008). These relational benefits, in turn, increase firm reputation and financial performance (Luo and Bhattacharya, 2006; Maignan et al., 1999).

Corporate social responsibility generally refers to the strategies implemented by corporations to conduct their business in a way that is ethical, society friendly and beneficial to community in terms of development (Ismail, 2009). CSR describes a firm's obligation to protect and improve social welfare now as well as in the future, by generating sustainable benefits for stakeholders (Lin et al., 2009). CSRbecame an integral part of business strategy for many organizations for addressing the social and environmental impact of company activities (Luo and Bhattacharya, 2006; Lin et al., 2009; Dabas, 2011; Beret, 2011). Although many firms use CSR, many others still consider the society and environment to be the smaller domain within the economy circle (Berete, 2011). Studies show that the more the companies are socially responsible the larger the companies are (Moore, 2001).

Furthermore, because stakeholders and investors demand that companies become more socially and environmentally responsible. Top management find that they under great pressure to adopt CSR in order to attract such stakeholders and investors (Berete, 2011). Examining the relationship between social welfare and company profitability is repeatedly being the focus of study and research in the area of social responsibility. A firm could have a great competitive advantage in obtaining economic or social benefits or both when it uses CSR process capabilities that support the firm's strategic initiatives (Sirsly and Lamertz, 2007).

The relationship between CSR practices and firm performance has been the focus of several studies in various settings (see for example, Aupperle et al., 1985; Pava and Krausz, 1996; Griffin and Mahon, 1997; Kempf and Osthoff, 2007; Jackson and Parsa, 2009). However, there is a lack of research examining the practices of CSR and its effect on firm performance in the Middle East and North Africa (MENA) region.

This paper sheds light on CSR practices in a MENA country, namely Egypt. The paper provides empirical evidence on the impact of corporate social responsibility on performance in firms operating in Egypt. The rest of the paper is organised as follows: the following section provides a literature review. The theoretical background and hypotheses development are provided in section 3. The research methodology is provided in section 4, followed by the findings and analysis in section 5; and finally summary & conclusion are provided in section 6.

## 2. Literature Review

The debate over corporate social responsibility goes back to the 1950s. Carroll (1999) states that in the early writings on CSR. It is referred to more often as social responsibility (SR) than as CSR. There are countless definitions of CSR but the most widely cited definition is provided by Carroll (1979) stating that ‘The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at any given point in time’. He argues that these social responsibilities carried by the firm are for the sake of both the society at large and the firm itself. So, firms are obligated to take the society's interest into consideration when taking its decision because at last the society is greatly affected by those decisions.

Corporate social responsibility is viewed as an organization’s commitment to make the most of its positive impact on stakeholders while minimizing its negative impact on the society (Ferrell et al., 1989; Brinkmann and Peattie, 2008). The World Bank (2004) defines CSR as “the commitment of business to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development”. The corporate responsibility Index (2007) states that corporate Social responsibility is achieved when “a business adapts all of its practices to ensure that it operates in way that meet, or exceeds, the ethical, legal, commercial and public expectations that society has of business”. There are several initiatives by policy makers and various stakeholder representatives to spread the idea of socially responsible behaviour. The Commission of the European Communities defined (2001) CSR as “a concept whereby companies integrate social and environmental concerns in their business operations on a voluntary basis”.

The literature is rich with several studies examining the association between the social involvement of businesses and financial performance and profitability (e.g. Griffin and Mahon, 1997; Waddock and Graves, 1997; Jackson and Parsa, 2009; Kempf and Osthoff, 2007). However, empirical findings reveal inconclusive evidence of the relationship between CSR and profitability.Pava and Krausz (1996) examine21 studies of corporate social performance and financial performance between 1972 and 1992.The findings of 12 studies demonstrate a positive association, eight showed no association, and only one study indicates a negative correlation. Early research such as Aupperle et al. (1985) finds slightly negative relationship between social responsibility and profitability. This research supports the view that the costs of being socially responsible forces the firm into an unfavourable financial position versus firms that are not socially responsive. Moore (2001) examines the relationship between corporate social and financial performance in the UK. Supermarket industry, the outcomes find a negative relation between contemporaneous social and financial performance are while prior-period financial performance is positively related with subsequent social performance. Moreover, Mc Williams and Siegel (2001) reveal no significant direction between CSR and corporate performance.

On the other side, Stanwick and Stanwick (1998) examine the relationship between the corporate social performance and the financial performance of an organization between 1987 and 1992. The results of the study show a significant positive correlation between CSP and profitability for all six years of the study. This study supports the view that profitability of the firm allows and/or encourages managers to implement programs that increase the level of corporate social responsibility.

Berman et al. (1999) reports positive and significant effects from some CSR dimensions and the short-term profitability. Berman et al. (1999) indicate that corporate activity enhancing employees’ relations has a positive impact on firm efficiency. They point out that the carrying out of advanced human resources practices including in the legal and ethical dimensions allows firms to achieve low turnover, high productivity, and increased firm’s commitment among employees. Moreover, the results show that the failure to maintain high product quality through irresponsible corporate activities leads to decreased patronage or increased lawsuits so could decrease firm profitability.

Waddock and Graves (1997) measure the profitability of corporate financial performance by using three measures which are ROA, ROE, and ROS, providing a variety of measures used to assess corporate financial performance by the investment community. Firms that are doing financially well have the resources to spend on long-term investments with high strategic impact such as investment in enhance local schools and improve community conditions, While those firms with financial troubles may have fewer financial resources to invest in traditional CSR activities.

Additionally, the results indicate that there are positive link between corporate social performance and financial performance. Luo and Battacharya (2006) report that corporate social responsibility contributes positively to market value and financial performance and that CSR has been influenced a firm's performance through customer satisfaction. They suggest that managers can obtain competitive advantages and reap more financial benefits by investing in corporate social responsibility. Many researchers examined the relationship between each dimension of CSR and firm performance (Inoue and Seoki, 2011; Robert, 1992). Bird, Momente and Reggiani (2007) also find a positive relationship to exist between an aggregate score for CSR activities and corporate performance but conclude that this finding did not extend to the relationship between each individual CSR activity and corporate performance.

Peloza and Papania (2008) point out that the financial effects of various CSR dimensions may be different for firms in different industries based on the level of importance assigned to each primary stakeholder for the industry. Inoue and Lee (2011) examine how different dimensions of CSR could affect financial performance among firms within four tourism-related industries. The results show that each one of CSR dimensions in a different way affects the two financial performance measures and that such financial impact vary across the four tourism-related industries.

In addition, the association between CSR and corporate performance, where numerous studies controlled for three variables (firm size, industry sector and firm age) which have a significant impact on the effects of market orientation and CSR on firm performance (Brik et al., 2011; Barone et al., 2007; Bhattacharya and Sen, 2004; Maignan et al., 1999).Moreover, many researchers provide evidence that the stakeholders expect more social initiatives from large companies than from small ones. For example, large corporations and publicly traded businesses are pressured to display anobligation to CSR (Windsor, 2001; Park, 2010; Brik et al., 2011). In their early study, Trotman and Bradlely (1981), find significant relation between social responsibility disclosure and the firm size measured by both total assets and sales volume. Additionally, Stanwick and Stanwick (1998) point out those larger firms recognise the need to be leaders in their commitment to corporate social performance. The leadership role may be due not only to the firm's access to further assets used to implement corporate social performance plans, but also to the increased impact of other stakeholders (i.e. government regulations, environmental groups) rather than a primary focus on stockholders. They found a significant positive association between the firm size and corporate social performance. Furthermore, small companies are less able than their large counterparts to adopt CSR philosophies and to connect their CSR activities to outside stakeholders (Margolis et al., 2009; Brik et al., 2010; Stanwick and Stanwick, 1998; Spicer, 1978).

In the same line, Park (2010) indicates that the large firms have more resources available, and are able to involve more CSR activities leading to generate highly financial performance. Consequently, Firm size is an important control variable and positively influences the relationship between CSR and business performance (Stanwick and Stanwick, 1998; Mc Williams and Siegel, 2001; Park, 2010; Brik et al., 2011).

## 3. The Theoretical Framework and Hypotheses Development

### *3.1 The Theoretical Framework*

The stakeholder theory is the most common theory, with the most important argument that there are wider groups of stakeholders in a corporation than merely shareholders and investors. The basic premise is that an organization needs to manage its relationship with many stakeholder groups that affect or are affected by its business decisions (Freeman, 1984 cited in Clarkson, 1995). In this way, the term stakeholder includes "... persons or groups of persons that have, or claim ownership, rights, or interests in a corporation and its activities, past present or future" (Clarkson, 1995). The importance here is on 'who can affect or be affected by' as this includes a number of groups within a society and how their actions affect corporations, or how they may be affected by the actions taken by the organization.

The theory explores and explains the firms' responsibilities, structures and operations. It also investigates the stakeholders' responsibilities in having better firm performance and better society (Clarkson, 1995; Russo and Perrini, 2010; Arenas, Lozano and Albareda, 2009). The theory paid attention to "secondary stakeholders" who are the people or groups who do not directly participate in the production or consumption processes such as "community activists, advocacy groups, civil society organizations and social movements "(Russo and Perrini, 2010). There are arguments about this type of stakeholders as they do not have any legal authority over the firms so they should not be considered as stakeholders (Arenas et al., 2009; Russo and Perrini, 2010; Clarkson, 1995). Actually, there are three approaches in the stakeholder theory which are the instrumental, descriptive and normative approaches (Donaldson and Preston, 1995; Arenas et al., 2009) .The normative approach is discuss the firm's moral obligations to constituents and, indeed, the very purpose of firms themselves. While the instrumental and descriptive suggest that businesses strategically manage powerful stakeholders by identifying them with the self-interest of the business (Donaldson and Preston, 1995; Arenas et al., 2009). Also stakeholders have a mix of the normative and instrumental approaches when they are defined or evaluated according to their legitimacy, power and urgency (Donaldson and Preston, 1995; Arenas et al., 2009).

In this study, the conceptual framework combined among corporate social responsibility

(CSR), control variable and firm performance. CSR consists of four dimensions which are economic, ethical, legal and discretionary dimensions. Firm size, firm age and type of industry are the control variables used in this framework. Finally, ROA, ROS, ROE, competitive position and sales growth represent the firm performance used as dependent variables in this conceptual framework.

### 3.2 Hypotheses Development

Widespread research has been led to assess the empirical association and relation between CSR and firm financial performance. Some of the researchers have provided that a positive relationship between CSR and corporate financial performance (Russo and Fouts, 1997; Waddock and Graves, 1997; Maignan et al., 1999; Luo and Bhattacharya, 2006; Akpinar et al., 2008; Zairi and Peters, 2002). On the other hand, other researchers have statedthat a negative relationship between the two constructs (Vance, 1975; Aupperle et al., 1985). The researchers argue that this negative relationship due to that organizations are trying to satisfy the inconsistent objectives of different stakeholders that might result in inefficient use of resources and subsequent decline of financial performance (Aupperle et al., 1985; Ullman, 1985; Choi et al., 2010; Sternberg, 1997). On the basis of the above arguments, these studies prompt the following hypotheses:

$H_1$: There is a positive significant relationship between CSR and firm performance.

$H_{1a}$: There is a positive significant relationship between the economic dimension of CSR and firm performance.

$H_{1b}$: There is a positive significant relationship between the legal dimension of CSR and firm performance.

$H_{1c}$: There is a positive significant relationship between the ethical dimension of CSR and firm performance.

$H_{1d}$: There is a positive significant relationship between the discretionary dimension of CSR and firm performance.

$H_2$: There is a significant relationship between firm size, firm age, industry Type and firm performance.

Studies of CSR signify the important role of the industry type (Sebastian and Malte, 2010; Francesco et al., 2007; Trotman and Bradley, 1981). Researchers show that the service companies tend to show more positive effects from CSR activities (Calabrese and Lancioni, 2008), than manufacturing companies do (Jackson and Parsa, 2009). Wider survey methods using appropriate measures to investigate the influence of firm size and age on the CSR (Sebastian and Malte, 2010; Francesco et al., 2007; Francesco, 2006). On the basis of the above discussion, these studies prompt the following hypotheses:

*H3:* There is a significant relationship between firm size, firm age, type of industry AndCSR.

*H4:* Firm performance is affected by CSR, firm size, type of industry and firm age.

## 4. Research Design and Data Collection

### 4.1 The method

A survey is used as a methodology to design this study since the objective of the paper is to examine the impact of corporate social responsibility of large firms and SMEs on firm performance. Questionnaire is considered the appropriate method even it has both advantages and disadvantages (Dillman, 2000; Churchill, 1995). To do the questionnaire in a proper way, the responses should be gathered in a standardized way to achieve objectivity. In this survey the previous disadvantage is reduced by conducting a pilot study test. Furthermore, to avoid the low response rate as a disadvantage of the questionnaire, actions have been taken to avoid this problem and enhance and improve the response rate.

After reviewing the literature and research studies related to field of this study, a construction of the first draft of the questionnaire is ready. A pilot test has been made by sending the questionnaire to some academics in this field to give their opinions. The questionnaire has been also sent to five companies listed in the sample selected. Some minor clarificationsand changes were made to the questionnaire according to the results of the pilot tests. There is no concern about any reliability or validity.

### 4.2 The instrument

The final version of the questionnaire consists of three sections. While the first section requests information about firm size, firm age and the type of industry. The second section consists of questions associated to the four dimensions of corporate social responsibility that the organization adopted. The final section is conducted based on financial performance which is measured by using five measures which are the return on assets (ROA), return on sales (ROS), return on equity (ROE), competitive position and sales growth. Table 1 summarizes the constructs of the conceptual model, variables, and indicators of each construct.

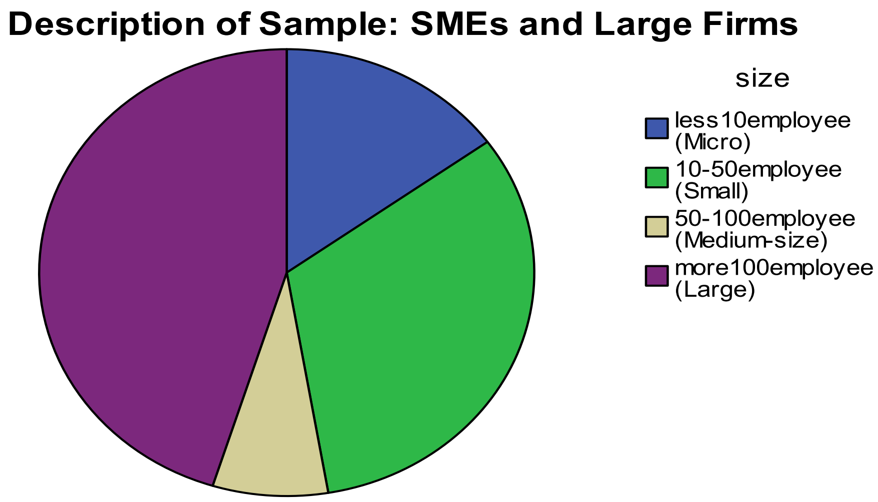
**Table 1.** The Constructs, Variables, and Measures of Conceptual Model

<table>
<tr><th>Constructs</th><th>Source of Construct</th><th>Variables</th><th>Indicators</th></tr>
<tr><td rowspan="4">Corporate Social Responsibility (CSR)</td><td rowspan="4">Maignan. I., Ferrell. O.C. and Hult. G (1999), Journal of the Academy of Marketing Science</td><td>Economic</td><td>• responses for customer complaints<br>• Quality of products<br>• Customer satisfaction<br>• Maximizing profits<br>• Minimizing the operating costs.<br>• Monitor employees' productivity.<br>• Engaging in Long-term business strategy.</td></tr>
<tr><td>Legal</td><td>• Environmental laws.<br>• legal standards<br>• contractual obligations<br>• compliance with law<br>• Hiring laws regulation<br>• Diversity of workforce<br>• Avoiding the discrimination<br>• follow internal policies of remuneration among employees</td></tr>
<tr><td>Ethical</td><td>• Code of conducts.<br>• professional standards<br>• monitor of activity<br>• trustful company<br>• fairness employees evolution<br>• providing full &accurate information to customers</td></tr>
<tr><td>Discretionary</td><td>• competitive salary<br>• support for education and job training programs<br>• encourage employees to join philanthropic organizations<br>• energy and materials program of reduction support for the local community<br>• Direct involvement in community projects and affairs.<br>• An employee – led approach to philanthropy.<br>• Offers generous product warranties.<br>• Campaigning for environmental and social change.</td></tr>
<tr><td>Organization Performance</td><td>Waddock and Graves (1997), Strategic Mgt. Journal</td><td>Financial performance</td><td>• Return on Assets (ROA)<br>• Return on Sales (ROS)<br>• Return on Equity (ROE)<br>• Competitive position<br>• Sales growth</td></tr>
<tr><td>Control Variables</td><td>Brik, A., Rettab, B., and Mellahi, K. (2011) Journal of Business Ethics</td><td>Firm Size<br>Firm Age<br>Type of Industry</td><td>• Number of Employees<br>• New/ Old<br>• Manufacturing / Non-manufacturing</td></tr>
</table>

### *4.3 Sampling frame and data collection*

The study's hypotheses were tested using data collected from a survey of 400 companies in Egypt where these companies were derived from the Kompass Egypt database according to the number of employees. Figure 1 shows the description of the sample based on number of employees.

**Figure 1.** Description of sample




For the purpose of carrying out the research and collecting the data, the researcher used mixed-mode surveys. The researcher combined between two methods for the collection of data. These methods are Mail questionnaires, E-Mail questionnaires. By adopting the Council of American Survey Research Organizations (CASRO) in 1982, the response rate standard reveals that the survey yielded a response rate of 23%.Table 2 shows the detailed composition of the sample which includes the descriptions of the firm size; firm age; industry type; and position of respondents.

**Table 2.** Composition of the Sample

| Description | % |
|---|---|
| **Firm size (number of employees):** | |
| Micro (less than 10 employees) | 15.1 |
| Small (from 10-50 employees) | 32.3 |
| Medium-size (from 50-100 employees) | 7.5 |
| Large (more than 100 employees) | 45.2 |
| **Industry Type:** | |
| Production | 14 |
| Service | 86 |
| **Position of respondents:** | |
| Board of directors | 6.5 |
| Top management | 38.7 |
| Middle management | 54.8 |
| **Firm age:** | |
| Less than 3 years | 10.8 |
| From 3- less than10 years | 37.6 |
| From 10- less than30 years | 24.7 |
| More than 30 years | 26.9 |

## 5. Analysis and Findings

### *5.1 Descriptive statistics*

Table 3 illustrates the minimum and maximum values for the variables. The descriptive findings show the central tendency and dispersion of the indicators. The calculated mean of the corporate social responsibility (CSR) is 4.141 and the standard deviations as a measure of dispersion is (0.53). The calculated means of the four dimensions of the CSR are 4.230 for economic dimension, 4.216 for legal dimension, 4.353 for ethical dimension, and 3.762 for discretionary. The standard deviations are 0.72 for economic dimension, 0.62 for legal dimension, 0.61 for ethical dimension, and 0.55 for discretionary. The calculated means and standard deviations for all five measures of financial performance which are ROA, ROS, ROE, competitive position, and sales growth are presented in table (2). For example, the calculated mean of the firm performance (ROA) as a measure of profitability is 3.41 and the standard deviations as a measure of dispersion is (0.80). The calculated means of the control variables are 1.86 for industry type, 1.52 for firm age and 1.45 for firm size. The standard deviations for control variables are 0.35, 0.50, and 0.50 respectively.

### 5.2 Reliability Test

The Cronbach alpha coefficient was used to assess reliability (Cronbach, 1951). Alpha has been proposed as the most appropriate means of assessing reliability in management accounting research (Abdel-Kader and Dugdale, 1998; Hoque and James, 2000; Abdel-Maksoud et al., 2005; Ittner et al., 2003;Auzair and Langfield-Smith, 2005). In this instance, Nunnally's (1978) threshold level of acceptable reliability, an alpha coefficient of around the 0.70, was adopted. All scales were found to satisfy this reliability criterion with Cronbach alpha coefficients for economic dimension = 0.93, for legal dimension= 0.93, for ethical dimension = 0.93 and for discretionary dimension = 0.92.

**Table 3.** Descriptive Statistics

| Variables | Mean | SD | Min. | Max | Observations |
|---|---|---|---|---|---|
| perf1(ROA) | 3.41 | .80 | 1 | 5 | 93 |
| perf2 (ROS) | 3.59 | .74 | 2 | 5 | 93 |
| perf3 (ROE) | 3.87 | .78 | 2 | 5 | 93 |
| perf4(Comppsit) | 4.30 | .79 | 2 | 5 | 93 |
| perf5(Salesgrow) | 4.31 | .83 | 2 | 5 | 93 |
| CSR | 4.1410 | .5269 | 2.27 | 4.95 | 92 |
| ECONOMIC | 4.2304 | .7239 | 1.00 | 5.00 | 93 |
| LEGAL | 4.2164 | .6204 | 2.00 | 5.00 | 93 |
| ETHICAL | 4.3530 | .6078 | 2.17 | 5.00 | 93 |
| DISCRT | 3.7620 | .5499 | 2.20 | 4.90 | 92 |
| INDTYP | 1.86 | .35 | 1 | 2 | 93 |
| FIRMAGE | 1.52 | .50 | 1 | 2 | 93 |
| FIRMSIZE | 1.45 | .50 | 1 | 2 | 93 |

### 5.3 Hypotheses Testing

As stated earlier, this study tests four hypotheses. Correlation analysis was used to test the first two hypotheses. For testing the third hypothesis, two-independent samples t-test was adopted. Finally, multiple regressions were used to test the fourth hypothesis.

#### *5.3.1 Testing the relationship between CSR and firm performance*

This hypothesis is concerned with the relationship between CSR and firm performance.

*$H_1$:* There is a positive significant relationship between CSR and firm performance.

*$H_2$:* There is a positive significant relationship between the four dimensions of CSR and firm performance.

Pearson correlation coefficients for all variables are presented in table 4. Table 4 indicates that a positive correlation was evident between all the five measures of financial performance ROA, ROS, ROE, competitive position and sales growth and CSR at 1% level. Moreover, table 4 indicates that there is a positive relationship between each one of the five measures of financial performance and all four dimensions of CSR at the level of 5% and 1% as shown in Table 4.

The finding of this study found that there is a significant and direct relationship between CSR and firm performance which is consistent with many researches in the area of CSR (Waddock and Graves, 1997; Lin et al., 1999; Bird et al., 2007). Furthermore, Bearman et al., (1999) found that there are positive and significant effects from CSR dimensions and the farm performance. Inoue and Lee (2011) found that each one of CSR dimensions differently affects the financial performance indicators. Furthermore, Peloza and Papania (2008) pointed out that the financial effects of numerous CSR dimensions may be dissimilar for companies in different sectors based on the level of importance allocated to each principal stakeholder for the sector.

The only difference between this study and other studies is that Luo and Battacharya (2006) found that corporate social responsibility contributes positively to market value and financial performance and that CSR has been influenced a firm's performance through customer satisfaction. This means that in other studies the CSR plays as a mediator and moderator to affect the firm performance.

**Table 4.** Correlation Matrix

| | X1 | X2 | X3 | X4 | X5 | X6 | X7 | X8 | X9 | X10 | X11 | X12 | X13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CSR (X1)** | 1 | | | | | | | | | | | | |
| **Perf-ROA (X2)** | .300** | 1 | | | | | | | | | | | |
| **Perf-ROS (X3)** | .362** | .856** | 1 | | | | | | | | | | |
| **Perf-ROE** | .408** | .399** | .470** | 1 | | | | | | | | | |
| **(X4)** | .538** | .544** | .565** | .555** | 1 | | | | | | | | |
| **Perf-cmop (X5)** | .575** | .411** | .525** | .611** | .614** | 1 | | | | | | | |
| **Perf-salesg (X6** | | | | | | | | | | | | | |
| **firmsize (X7)** | -.143 | .159 | .269** | .039 | .147 | -.029 | 1 | | | | | | |
| **firmage( X8)** | -.091 | .065 | .222* | .226* | .097 | .079 | .490** | 1 | | | | | |
| **Inds. type (X9)** | -.133 | -.301** | -.308** | -.266* | -.240* | -.222* | -.133 | -.204* | 1 | | | | |
| **economic(X10)** | .833** | .236* | .299** | .398** | .428** | .587** | -.050 | -.100 | -.099 | 1 | | | |
| **legal(X11)** | .901** | .229* | .301** | .340** | .392** | .499** | -.156 | -.053 | -.148 | .709** | 1 | | |
| **ethical (X2)** | .818** | .275** | .284** | .237* | .462** | .381** | -.256* | -.075 | -.115 | .501** | .664** | 1 | |
| **Discret. (X13)** | .801** | .273** | .334** | .383** | .526** | .422** | -.022 | -.076 | -.085 | .505** | .642** | .608** | 1 |

* Statistically significant at the 0.05 level
** Statistically significant at the 0.01 level

***5.3.2 Testing the relationship among the firm size, type of industry, firm age and CSR***

This hypothesis is concerned with the relationship among the firm size, type of industry, firm age and CSR.

*$H_3$:* There is a significant relationship between firm size, firm age, type of industry and CSR.

*$H_{3a}$:* There is a significant relationship between firm size and CSR.

Two groups were used in this sub-hypothesis. These two groups were: SMEs and large companies which use the CSR. The independent-samples T-test is used for this hypothesis.

Table 5 illustrates that for the 51 SMEs, the mean was 4.208 (SD = 0.314), while for the 41 large companies, the mean was 4.057 (SD = 0.703). The difference between the means for the two groups is 0.151. There appears to be very little difference between the two, but this can be confirmed by using the independent t-test.

**Table 5.** Descriptive statistics for the firm size with CSR

| | SIZE | N | Mean | Std. Deviation |
|---|---|---|---|---|
| CSR | SMEs | 51 | **4.208** | 0.314 |
| | Large | 41 | **4.057** | 0.703 |

The explanation of the independent t-test result is a two-stage process. The first stage is to examine the homogeneity of the variance between the two groups using *Levene's Test for Equality of Variances*, where (F = 31.041, P = 0.000). This is considerably less than 0.05 (thus significant), indicating that equal variances cannot be assumed. The second stage is to use the t-test row of results labelled equal variance not assumed. This provides the t-value (t = 1.276), (df = 52.807), and the sig. (2-tailed) is 0.208, where (P > 0.05). Thus, the result is not significant which means that SMEs are not significantly different from large companies in using the CSR as in table 6.

**Table 6.** Independent-Samples T-test for the CSR and firm size

| | Levene's Test for Equality of Variance | | t-test for Equality of Means | | |
|---|---|---|---|---|---|
| | F | Sig. | t | df | Sig. (2-tailed) |
| CSR Equal variances assumed | 31.041 | .000 | 1.373 | 90 | .173 |
| Equal variances not assumed | | | 1.276 | 52.807 | .208 |

The second sub-hypothesis is concerned with the relationship between type of industry and CSR.

$H_{3b}$: There is a significant relationship between type of industry and CSR.

Two groups were used in this sub-hypothesis. These two groups were: manufacturing and non-manufacturing companies which use the CSR.

Table 7 illustrates that for the 13 manufacturing companies, the mean was 4.312 (SD = 0.426), while for the 79 non-manufacturing companies, the mean was 4.112 (SD = 0.538). The difference between the means for the two groups is 0.20. There appears to be very little difference between the two, but this can be confirmed by using the independent t-test.

**Table 7.** Descriptive statistics for the industry type with CSR

| | Industry Type | N | Mean | Std. Deviation |
|---|---|---|---|---|
| CSR | Manufacturing | 13 | **4.**312 | 0.426 |
| | Non-manufacturing | 79 | **4.**112 | 0.538 |

The explanation of the independent t-test result is a two-stage process. The first stage is to examine the homogeneity of the variance between the two groups using *Levene's Test for Equality of Variances*, where (F = 0.231, P = 0.632). This is considerably larger than 0.05 (thus not significant), indicating that equal variances can be assumed. The second stage is to use the t-test row of results labelled equal variance assumed. This provides the t-value (t = 1.273), (df = 90), and the sig. (2-tailed) is 0.206, where (P > 0.05). Thus, the result is not significant which means that manufacturing companies are not significantly different from large companies in using the CSR as in table (8).

**Table 8.** Independent-Samples T-test for the CSR and firm size

| | Levene's Test for Equality of Variance | | t-test for Equality of Means | | |
|---|---|---|---|---|---|
| | F | Sig. | t | df | Sig. (2-tailed) |
| CSR Equal variances assumed<br>Equal variances not assumed | 0.231 | .632 | 1.273<br>1.505 | 90<br>18.916 | 0.206<br>0.149 |

The third sub-hypothesis is concerned with the relationship between firm age and CSR.

$H_{3c}$: There is a significant relationship between firm age and CSR.

Two groups were used in this sub-hypothesis. These two groups were: new and old companies which use the CSR. Table (9) explains that for the 45 new companies, the mean was 4.189 (SD = 0.372), while for the 47 old companies, the mean was 4.094 (SD = 0.642). The difference between the means for the two groups is 0.095. There appears to be very little difference between the two, but this can be confirmed by using the independent t-test.

**Table 9.** Descriptive statistics for the firm age with CSR

| | Firm age | N | Mean | Std. Deviation |
|---|---|---|---|---|
| CSR | New | 45 | **4.**189 | 0.372 |
| | Old | 47 | **4.**094 | 0.642 |

The explanation of the independent t-test result is a two-stage process. The first stage is to examine the homogeneity of the variance between the two groups using *Levene's Test for Equality of Variances*, where (F = 13.300, P = 0.000). This is considerably less than 0.05 (thus significant), indicating that equal variances cannot be assumed. The second stage is to use the t-test row of results labelled equal variance not assumed. This provides the t-value (t = 0.877), (df = 74.352), and the sig. (2-tailed) is 0.383, where (P > 0.05). Thus, the result is not significant which means that new companies are not significantly different from old companies in using the CSR as in table (10).

**Table 10.** Independent-Samples T-test for the CSR and firm age

| | Levene's Test for Equality of Variance | | t-test for Equality of Means | | |
|---|---|---|---|---|---|
| | F | Sig. | T | df | Sig. (2-tailed) |
| CSR Equal variances assumed<br>Equal variances not assumed | 13.300 | .000 | 0.868<br>0.877 | 90<br>74.352 | 0.388<br>0.383 |

Finally, the findings of this study found that there is no significant relationship between firm size, industry type, firm age and CSR. The findings of this study are not consistent with other studies where many studies controlled for three variables (firm size, industry sector and firm age) which have a significant impact on the CSR (Brik et al., 2011; Barone et al., 2007; Bhattacharya and Sen, 2004; Maignan et al., 1999). Small firms are less able than their large counterparts to adopt CSR principles and to communicate their CSR activities to external stakeholders (Margolis et al., 2007; Brik et al., 2010; Stanwick and Stanwick, 1998). Also, Brik et al., (2010) provides evidence that the stakeholders expect more social initiatives from large corporations than from small ones. Moreover, Park (2010) indicated that the large firms have more resources available, and are able to involve more CSR activities. One can say that the differences between the findings of this study and other studies are due to many variables such as corporate strategy, management philosophy and culture which are totally different in developing countries than developed countries.

### *5.3.3 Testing the effect of firm size, type of industry, firm age, CSR on firm performance*

The fourth hypothesis concerns with investigating the effect of firm size, industry type, firm age, CSR on firm performance by using OLS analysis. Table (11) provides the results for the multivariate regression models.

Model 1 investigates the relationships between firm performance (ROA) and the variables of interest. The $R^2$ is 0.190 and the model appears highly significant (F = 5.094, p = 0.001). As regards our variables of interest, CSR and firm size appear to have an effect on ROA, where the estimated coefficients are positive and statistically significant at 1% and 10% level respectively. The industry type has an effect on ROA, where the estimated coefficient is negative and statistically significant at 5% level. This means that only the manufacturing firms have an effect of firm performance (ROA) rather than non-manufacturing firms. The variance inflation factor (VIF) score was calculated for each independent variable and the highest VIF obtained is 5.31. Regarding model 2, it examines the relationships between firm performance (ROS) and CSR and control variables. The $R^2$ is 0.295 and the model appears highly significant (F = 9.102, p = 0.000). As regards our variables of interest, CSR and firm size appear to have an effect on ROS, where the estimated coefficients are positive and statistically significant at 1% and 5% level respectively. The industry type has an effect on ROS, where the estimated coefficient is negative and statistically significant at 5% level. The variance inflation factor (VIF) score was calculated for each independent variable and the highest VIF obtained is 5.319.

Regarding model 3, it examines the relationships between firm performance (ROE) and CSR and control variables. The $R^2$ is 0.268 and the model looks highly significant (F = 7.977, p = 0.000). CSR and firm age have significant effect on ROE at 1% and 5% respectively, where industry type has a negative effect on ROE at 10%.For model 4, it examines the relationships between firm performance (competitive position) and CSR and control variables. The $R^2$ is 0.357 and the model appears highly significant (F = 12.052, p = 0.000). CSR and firm size have significant effect on competitive position at 1% and 10% respectively. Model 5 examines the relationships between firm performance (sales growth) and CSR and control variables. The $R^2$ is 0.366 and this model seems highly significant (F = 12.574, p = 0.000). Only CSR has a significant effect on sales growth at 1%.Finally, it can be said that CSR has a high significant effect on all the five measures of firm performance at 1%.The findings of this study are consistent with many studies which found that there is a positive and significant effect of CSR on firm performance (Luo and Battacharya, 2006; Stanwick and Stanwick, 1998; Lin et al., 1999; Peloza and Papania, 2008) and contradictory with the different studies which they found negative effect of CSR on financial performance (Mc Williams and Siegel, 2001; Aupperle et al., 1985).

## 6. Summary and Conclusions

CSR represents the new era challenge and an actually paradigmatic change for corporations. The current work has tried to present deepen understanding about the concept of CSR from the employees' perspective. The aim of this study is to empirically examine the extent to which CSR contributes to financial performance of non-financial companies in Egypt. To achieve this aim, this paper has been reviewed the extant literature on the relative between social responsibility and financial performance. With this in mind the study obtained data on variables which were believed to have relationship with CSR and financial performance. Actually, former research linking CSR and financial performance has often used too little financial performance measures. This study is significant due to the using of multiple financial performance measures which will provide a better degree of assurance in the effect and relationships thus providing a more precise valuation of CSR on the whole of the firm's financial makeup. These variables included ROA, ROS, ROE, competitive position, Sales Growth. This study pays attention on developing economies and on Egypt specifically.

In fact, empirical results for understanding the relationship between CSR and financial performance have been largely inconclusive. Some scholars argued that the relationship between CSR and financial performance is very complex relationship and it might be non existence(Mc Williams and Siegel, 2000).Consistent with the others researchers' results such as Margolis, et al (2009) Waddock and Graves (1997); Inoue and Lee (2011) where the findings of this study found that there is a positive and significant effect of CSR on firm performance based on the five measurements. Also, all CSR dimensions have significant relationship with firm financial performance. Most of recent studies found that corporate social responsibility contributes positively to financial performance and that CSR has been influenced a firm's performance through customer satisfaction or market orientation. This means that CSR is used as a mediator or moderator in the relation to the firm performance while this is not found in this study where it is affect the firm performance directly. The reasons for considering CSR as a mediator in developed countries rather than developing countries is due to the level of awareness of the management, corporate strategy, and management philosophy.

Based on the findings of this study on the relationship between CSR and financial performance, one can argue that a better CSR practice translates to a better financial performance. However, this relationship may be affected by several other factors. Therefore, the model of this study determined that these factors are firm size, type of industry and firm age. In contrast to others findings (Brik et al., 2011; Barone et al., 2007; Bhattacharya and Sen, 2004; Maignan et al., 1999) which indicated that the larger firms are more able than their small counterparts to adopt CSR principles and practice their CSR activities to external stakeholders. Our findings found no significant relationship between firm size, industry type, firm age and CSR. The explanation and conclusion of this study is that larger and older firms have a positive effect on financial performance (profitability) which will lead to enhance use of better CSR practice. In other words, it can be said that control variables (firm size, type of industry and firm age) could affect the CSR indirectly through the financial performance.

**Table 10.** OLS regression results

| | Model 1 (Dependent Variable ROA) | | Model 2 (Dependent Variable ROS) | | Model 3 (Dependent Variable ROE) | | Model 4 (Dependent Variable Comppposit) | | Model 5 (Dependent Variable Salesgrowth) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Coeff. | t-statistics | Coeff. | t-statistics | Coeff. | t-statistics | Coeff. | t-statistics | Coeff. | t-statistics |
| Const. | 2.273 | 2.474** | 1.368 | 1.721* | 1.517 | 1.779* | 1.014 | 1.252 | .828 | 0986 |
| CSR | .443 | 2.949*** | .538 | 4.141*** | .602 | 4.314*** | .822 | 6.211*** | .895 | 6.528*** |
| INDTYP | -.556 | -2.430** | -.419 | -2.117** | -.355 | -1.673* | -.322 | -1.597 | -.276 | -1.319 |
| FIRMAGE | -7.952E-02 | -.446 | .148 | .962 | .409 | 2.469** | 2.764E-02 | .176 | .210 | 1.288 |
| FIRMSIZE | .318 | 1.788* | .386 | 2.506** | -5.88E-02 | -.355 | .298 | 1.898* | -9.83E-03 | -.060 |
| F-statistics | 5.094 | | 9.102 | | 7.977 | | 12.052 | | 12.574 | |
| p-value for F- test | 0.001 | | 0.000 | | 0.000 | | 0.000 | | 0.000 | |
| R-squared | 0.190 | | 0.295 | | 0.268 | | 0.357 | | 0.366 | |
| adjusted $R^2$ | 0.153 | | 0.263 | | 0.235 | | 0.327 | | 0.337 | |
| Max VIF | 5.31 | | 5.319 | | 1.345 | | 1.345 | | 1.345 | |

Several areas of future research can be suggested. One of the main differences between the results of this study and others studies is management philosophy which might be different in developing countries than developed countries. Galbreath (2009) pointed out that management may have significant discretion in establishing the firm's social orientation, especially in the establishment of more proactive social issues. Therefore, future research can examine the role management characteristic and leadership in shaping corporate social policy and monitoring managerial actions. The research should cover how social responsibility can help companies with low financial performance or bad reputation to improve its performance, image and reputation in the market and at the consumers' minds. Moreover, they should test the disadvantages and side effects of the social responsibility as it is a debatable issue.

In fact, the majority of CSR studies do not recognize cultural factors such as religion in viewing and understanding the concept of CSR and its practice. Religion could be an essential part of CSR; for example, the Islamic philosophy is rich in values relating to CSR. Thus, investigate the influence of religion as an environmental / cultural factor in viewing CSR may provide further insights.

Moreover, Aras and Crowther (2009), discussed that corporate governance relations to a corporate performance, market value and credibility, and therefore that firm has to implement corporate governance principles to reach its strategies. They stated the link between corporate governance and firm performance is still open for discussion and the relationship between the CSR and corporate governance is still not clearly defined and understood. Therefore, the further research should investigate such this relationship and its effect on the financial performance especial in Egypt.

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# ESTIMATION OF BANKING SYSTEM REGULATION EFFICIENCY

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**Abstract**

There was discovered the essence of the banking system regulation efficiency, the quantitative and the qualitative criteria of its estimation by the systemic approach being formed due to integral, theoretical-essential, standard, target and stakeholder approaches concerning the interpretation of "the efficiency" category in this article. There was explained the necessity to distinguish full, partial, economic, social, external and internal estimation of the banking system regulation efficiency. The main factors influencing on the banking system regulation efficiency and their classification were also defined.

**Keywords:** Banking System, Regulation, Efficiency, Efficiency of the Banking System Regulation

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## Introduction

The banking system regulation takes one of the leading place in our scientists' researches in the period of increased international economic integration and globalization because the banking sphere is a strong economic sector the leading role of which is bound with the financial resources accumulation of the country to meet the economy needs and the formation of favorable macroeconomic climate. The activity of the banks is constantly under the influence of internal and external environment factors that causes the need of the country to apply the different influence means to ensure their stable functioning. The formation of the current regulation mechanism is not only the guarantee of the effective banking system functioning but the important background of the social-economic country growth taking into account the actual banks significance.

The formation of the criteria and the factors influencing on the criteria results is important to ensure the effective banking system regulation. The banking system regulation efficiency is achieved by the growth of the whole system regulation efficiency, the adequacy of the principles, ways, methods, and a means of achieving the regulation aims, the available resources and the terms of the banking system functioning.

It is necessary to note that the banking system regulation efficiency is a complicated process and determined by the requirements of the society to the banking system functioning which stipulate making appropriate decisions in regard to its regulation; by the society trust level to the banking system regulation and decisions being made; by the resources belonging to the entity of the banking system regulation for decisions realization regarding the regulation to achieve the aims.

## The analysis of the last researches and publications

Fundamental researches of the banks efficiency and the banking system functioning are reported in the scientific works of many foreign and native scientists: F. Aleskerov, P. Bauer, S. Berg, A. Berger, A. Buriak, F. Forsund, S. Golovan, N. Halajko, D. Humphrey, E. Jansen, D. Kruglov, N. Maslak, A. Mertens, L. Mester, S. Moiseyev, V. Sarkisyan, V. Volokhov, etc. Conditions and factors making economy and its structural elements stable are studied significantly in the economic literature, in particular these aspects are considered in the works of such researchers as O. Chub, I. D'yakonova, O. Kolodizyev, Yu. Korneyev, A. Kostyuk, M. Kotlyarov, H. Lubinda, A. Miroshnichenko, O. Primerova, I. Salo, A. Zakharov, V. Zinchenko, etc.

Summing up the researches on this subject it was determined that the majority of the scientific works are dedicated to the analysis of the essence of such categories as "the efficiency", "the efficiency of the banking activity" and "the efficiency of the banking system functioning"; to the different methods of the banking activity and the banking system efficiency estimation; to the factors and conditions under which the banks or the whole banking system is getting financially stable. Nevertheless, the matter of the banking system efficiency estimation, the criteria and the factors of its efficient regulation are not substantially analyzed and need to be completely studied that has stipulated the urgency of the topic choice.

**The topic of the research** is to define the banking system regulation efficiency and to set the criteria of its estimation on the basis of the systematization of scientific approaches to "the efficiency" understanding, also to form and systematize the factors influencing on the banking system regulation efficiency.

## Fundamental researches results

Activity efficiency is very complicated and multiplex and one of the basic elements in the economic theory, their fundamental features are directly connected with the banking system regulation. It's necessary to notice that the banking system regulation is implemented by means of the special bodies of the public administration (central bank and bank supervision bodies) which are to ensure achieving the fundamental aims of the society in the banking system functioning. Accordingly a conceptual meaning of "the banking system efficiency" and its estimation criteria change.

According to the results of our research it was defined that the notion "efficiency" is interpreted by theoretical-essential, standard, target stakeholder and systematic approaches.

According to the first approach determined by the scientists as theoretical-essential the efficiency is considered as the results rating of activity (ratio of the activity results to the expenses or the utilized resources or "entries" and "exits" in the systems theory) [1].

According to this approach the efficiency is defined as: "…results rating i.e. activity result (effect) which a society, an enterprise or an individual gets per unit of utilized resources" [8]; "…the ratio of the result or the effect of any activity and expenses connected with its implementation. Herewith it can be as the ratio of the result and expenses as the correlation of expenses and activity results" [9]; "…shows the correlation between the received results and the utilized resources for them, moreover while determining the efficiency the resources can be represented as in a definite volume of expenses at their primary (overestimated) cost (utilized resources) or at their cost part as production expenses" [10].

We agree upon N. Maslak's statement that: "…the efficiency and the rating results are interrelated notions which indicate the quality of a certain activity or some object functioning but they aren't identical because they anticipate different levels of result "[7].

Within this approach the pragmatic criteria should be reasonably applied to the banking system regulation efficiency. They are determined by a real change of the banking system parameters on micro- and/ or macro levels as the result of the regulation tools application with the minimal expenses of the resources per sample "expense-profit". In this case the banking system regulation efficiency is measured by means of the pecuniary advantage that is comparable with the certain program expenses or regulating influence applied. For this it is necessary to convert the effects received after the measures of the banking system regulation were taken, into their pecuniary equivalent that complicates a wide spread of this method.

The second approach – standard – interprets the efficiency as a degree of the standard correspondence [1, 5]. This approach anticipates the comparison of own indices with standard ones in the similar sphere including benchmarking that enables to determine susceptible and rational sides of the banks activity [7].

One supposes it is reasonable to use this approach for the estimation of the banking system regulation efficiency first of all in the context of qualitative estimation and formation of the qualitative estimation criteria.

It is necessary to determine the standards for the comparative estimation of the banking system regulation efficiency and to form the criteria which allow determining the degree of the standard correspondence. Standard approach is in the ground of the banking supervision efficiency wherefore in 2006 the Basel Committee on Banking Supervision (Switzerland) prepared the document "Kea Principles for Effective Banking Supervision" [2]. In 2009 in partnership with The International Association of Deposit Insurers it was prepared the document "Kea Principles for Effective Insurance Systems of Deposits" [3].

The standards of the banking system regulation are the standards which must determine the desired attributes of all its elements (methodological, institutional, functional and instrumental blocks) which they should correspond to. Finally it will determine whether the aims, tasks, functions will be achieved and specific tasks of separate conceptions, strategies, and programs of banking system development will be solved.

The criteria, unlike the standard, are the instruments for the banking system regulation efficiency in the context of standards correspondence, also according to the temporal and other criteria.

In our opinion the principles of the banking system regulation must be founded while forming the standard of the banking system regulation efficiency because these principles are the regulation means of connection between the aims and results of regulation, and express the requirements of the objective regulation laws; their action is connected with the realization of regulation system functions and stimulates the activity of banking system regulators. One supposes that each principle of the banking system regulation can be a standard characteristic of its efficiency estimation.

The third approach to the efficiency estimation is target and considers it as the degree of achieving the aim [1]: "…the indicator of the system functioning successfulness to achieve the desired aims" [4, 11]; "…the degree of achieving strategic aims and tasks" [13]; "… generally the efficiency of any process, any type of activity characterizes the degree of achieving the desired aim" [12].

While taking the target approach to the banking system efficiency it is important to note that the regulation aims have social significant character, the results are the objects and the processes connected with fundamental aims of the society (ensuring the efficiency of the resource assignment in the economy); the regulation resources are economic, social, political, ideological and informational capital restricted by the state in terms of both social expediency, possibility and legal sufficiency.

The efficiency criteria of the banking system regulation by target approach are formed on the basis of the strategic aims set by the government authorities and regulators of the banking system to achieve fundamental aims of the society.

It is explained by the fact that the target subsystem including conceptions, strategies of the banking system regulation are variable, stipulated by external and internal conditions wherein the banking system functions, is a reaction basis of the regulation entities of the banking system on the environmental and internal state of the banking system changes, and external and internal changes control system.

By the target approach the efficiency estimation of the banking system regulation is a comparison procedure of the various decisions as to the banking system regulation with criteria features which determine target parameters of the banking system functioning.

According to the research results it was defined 3 types of the efficiency while taking this approach for estimation of the banking system regulation:

- target efficiency – the result of the banking system regulation corresponds to the environmental conditions, internal state of the banking system and requirements of the persons interested in the banking system functioning;
- efficiency of the aim determination – the aim and the set tasks for achieving it correspond to the environmental conditions, internal state of the banking system and requirements of the persons interested in the banking system functioning;
- executive efficiency – the banking system regulation result corresponds to the regulation aim. One suggests that estimation criteria of the executive efficiency of the banking system regulation should be classified into value-rational and target-rational.

The value-rational criterion of the banking system regulation efficiency allows to estimate the efficiency of global, systemic decisions of the banking system regulation entities resulting in big changes of the banking system on the basis of its fundamental reforming. As a rule the aims which must be achieved are defined by the strategy of the banking system reforming being worked out for a long period (not less than 10 years).

It is not reasonable to define estimation of the banking system regulation on such a level according to the partial, both positive and negative results in the time interval. It is possible to define positive or negative efficiency of available vast regulating influences of the regulation entities only through achieving the fundamental aims of the society from the actions of the banking system reforming.

Target-rational criterion of the banking system regulation efficiency is a general, complex criterion oriented on the estimation of the banking system regulation efficiency by definite indices which characterizes the immediate results of aims, tasks, strategies and programs realization taking into account the utilized resources.

In this case the aims which are defined by the strategy of banking system development on the medium-term basis (up to 5 years), by both quantitative and qualitative methods, have formalized character. Accordingly effectiveness of the banking system regulation is defined by the level of achieving target indices in a definite time interval.

V. Zinchenko defined that "…the most utilized criteria are the ratio of the total assets of the banking system to the GDP; the ratio of the regulatory (balance) capital to the GDP; the ratio of the credits to the GDP ; the ratio of the natural persons' deposits to the GDP; dynamics of the assets portion of the banking sector in the GDP in relation to the economy monetization; concentration level of the banking system; the ratio of foreign aggregate banking position to the aggregate capital of the banking system; the portion of the credit portfolio in assets; indices of economic freedom and competitiveness concerning banking system development" [14].

The scientists emphasize that the target approach to the efficiency estimation has some disadvantages which must be taken into account while taking it to estimate the efficiency of banking system regulation. They are the results of such reasons:

a) the aims are not always formulated explicitly, for example as strategic aims, that makes impossible to estimate the degree of their achieving;

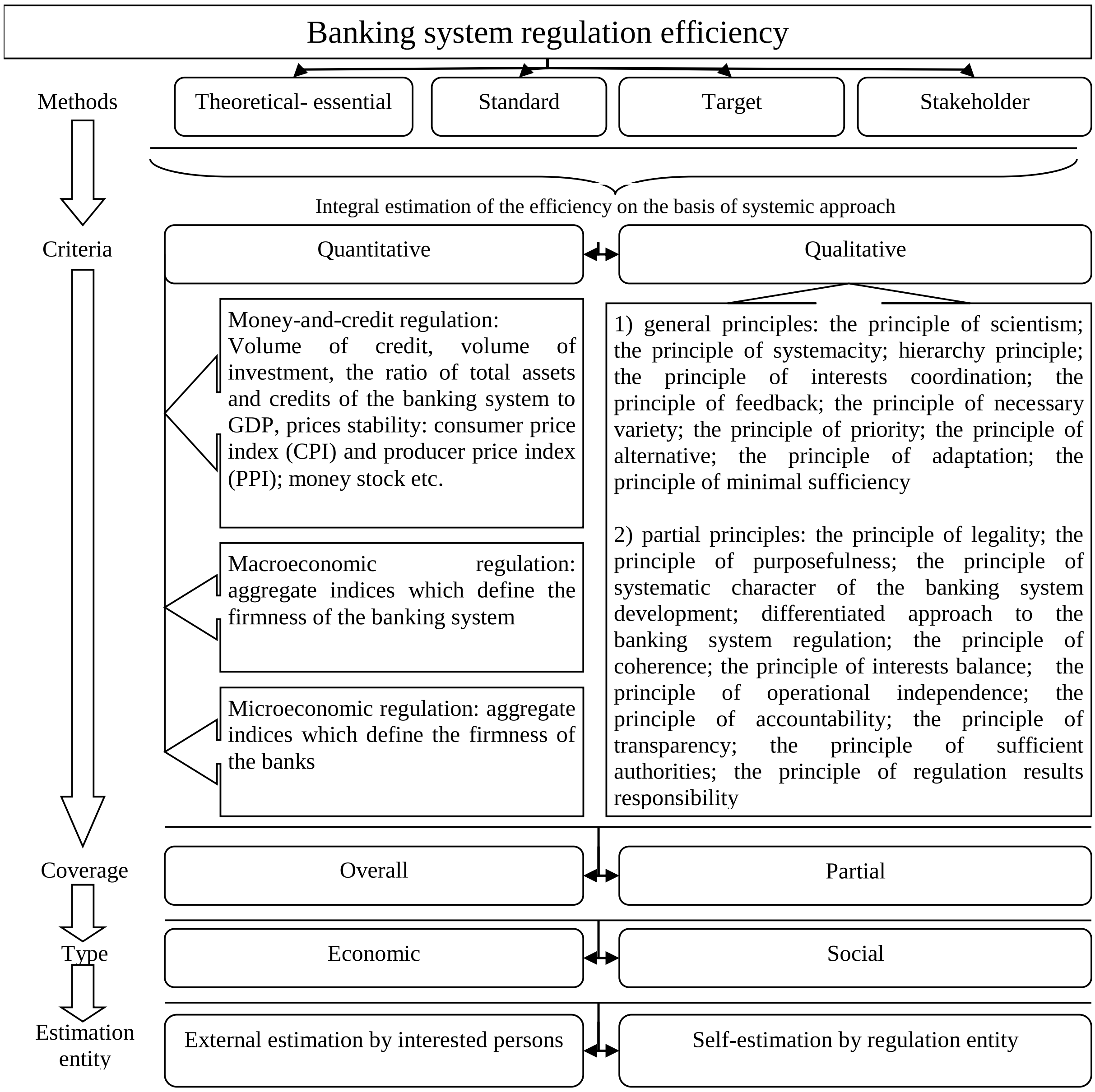
в) aims formation has a subjectivity because it depends on accommodating the interests of the interested groups that leads as a rule to their multidirectionality, environmental conditions, internal state of the banking system. Finally besides the quality and "the rightness" of the aim setting, the objective factors influence on a desired result [1].

Taking into account all reasons mentioned above to avoid their negative results the target approach ensures getting the qualitative information about the regulation results.

The fourth approach – stakeholder – determines the efficiency as a degree of the satisfaction in the results of institution activity of the interested parties that depends on their interests realization.

While taking this approach to the estimation of the banking system regulation efficiency one should select the groups of the interested parties each of which has own interests in the results of banking system regulation on the ground of which the regulation aims and the efficiency criteria can be formulated in the context of a definite group. As far as the interests of the interested groups are different the criterion of the regulation efficiency by this approach is the efficiency as the ability of the banking system regulator to ensure the optimal choice of the regulation variant in the context of the profits and the expenses of social groups including banks, banking services consumers, state and society totally.

**Figure 1.** The estimation of the banking system regulation efficiency




In this context at least it is necessary to form the criteria system of the banking system regulation efficiency as a sign or the signs in total on the ground of which it is estimated both by the regulation entities of the banking system (it allows to control the efficiency of regulation tools) and society in general (allows to control the activity of the regulation entities of the banking system).

In the scientific researches it is anticipated a systemic approach on the basis of approaches integration to the estimation of the banking system regulation efficiency which were characterized above. Nothing but the systemic approach must be taken to estimate the banking system regulation efficiency taking into account the complication of the banking system as a regulation object.

Summing up the author suggests to mean by the banking system regulation efficiency the results rating of the banking system activity which is ensured by means of the aims achieving, expressed by the ability to adapt itself to the environmental conditions of functioning keeping itself as an integral formation.

In the context of the banking system regulation efficiency it is reasonable to distinguish such notions as "a partial efficiency" (characterized by the indices which define achieving intermediate or partial aims and tasks of the banking system regulation) and "an overall efficiency" (characterized by the indices which define achieving the ultimate aim of the banking system regulation). Commitment to ensure the overall efficiency of the banking system regulation is predominant.

In addition to the above the scientists distinguish economic, social or social-economic efficiency of the banking system regulation [4, 5, 6]. Economic efficiency is meant by achieving as high as possible aims of the banking system regulation at the minimal recourses spending in the regulation process; social efficiency is meant by the highest social tasks solution in the banking system regulation process at the minimal resources spending in the regulation process.

General conclusion of the above mentioned approaches is shown on the figure 1.

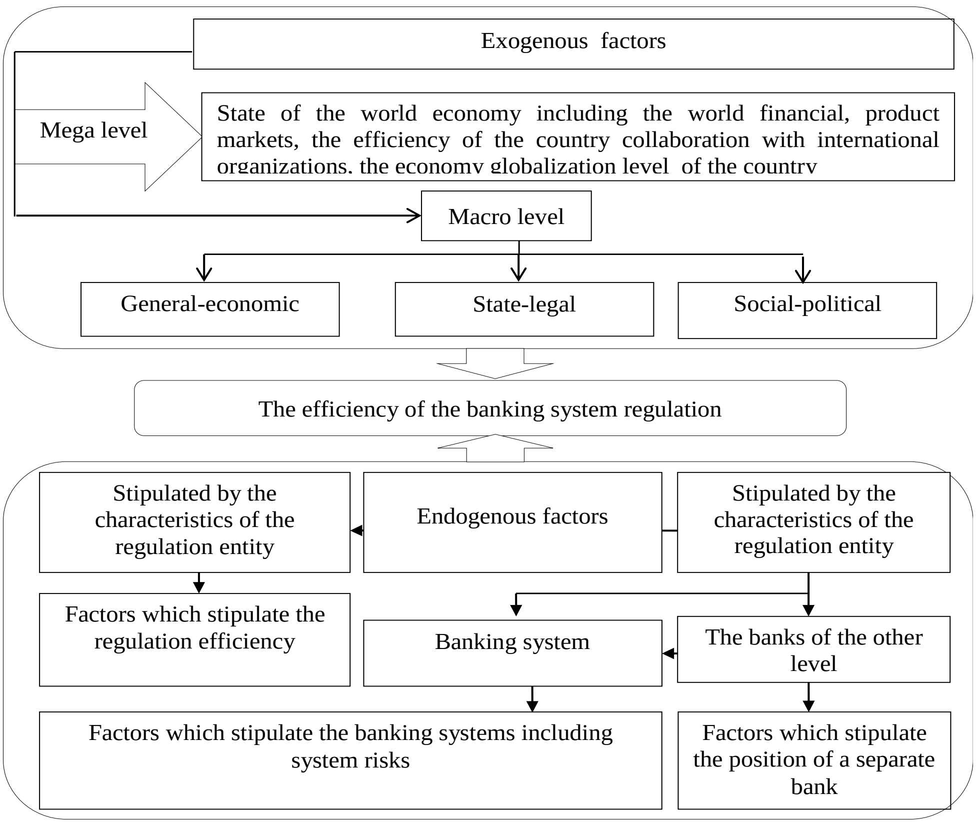
The efficiency of the banking system regulation is significantly influenced by the range of factors which must be taken into consideration while forming regulation system and regulating influences.

According to the research results it was defined that there is not the only one approach to determine the structure and the factors systematization which influence on the banking system regulation efficiency.

According to all researches the environmental conditions influence on the efficiency of the banking system regulation which is realized in them.

Summing up the main approaches to the classification of factors influencing on the banking system and its regulation efficiency let's show its complex classification (figure 2):

**Figure 2.** Structurization of the factors influencing on the efficiency of the banking system regulation




The exogenous factors of the influence on the banking system regulation efficiency are those factors which are out of the bounds of the banking system. The factors of this group have a complex, multi-aspect influence on the efficiency of the banking system regulation: through the influence on the banks and other regulation subjects functioning and the possibilities of the entities to set the aims of the banking system regulation and apply the tools which ensure their achieving. These factors structure is very significant and heterogeneous, and the influence is big and not enough forecasted. It is reasonable to consider exogenous factors on the mega and macro levels.

The endogenous factors of the influence on the banking system regulation efficiency are those factors which are formed within the banking system, determine the peculiarities of its functioning and can be corrected according to the set aims. The endogenous factors are worth to be considered separately on the level of entity and object of regulation**.**

## Conclusions

The author interprets the banking system regulation efficiency as the results rating of the banking system activity which is ensured by means of achieving the set aims, expressed by the ability to adjust to the environmental conditions of functioning keeping itself as an integral formation.

The criteria of the banking system regulation efficiency are suggested to be defined by the systemic approach on the ground of integration of theoretical-essential, standard, target and stakeholder approaches distinguishing the quantitative criteria within money-credit, micro-, macroprudential regulation and qualitative criteria being based on the necessity to comply with the general and partial principles.

According to the estimation of achieving the set aims the banking system regulation efficiency should be classified into overall and partial, according to the type – into economic and social, and according to the entity that estimates - into the external estimation by the interested persons and the self-estimation by the regulation entity.

The factors which influence on the banking system regulation efficiency are classified into exogenous and endogenous. In its turn exogenous factors are classified into the factors of mega and macro level, and endogenous – into the factors which are formed on the level of the object and the regulation entity.

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# CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF PUBLIC LISTED COMPANIES IN MALAYSIA

*Kwee Pheng Lim*, Hishammudin Ismail**, Uchena Cyril Eze****

**Abstract**

This study investigates a link between corporate governance and ownership structures on firm performance of 293 companies listed on the Main and Second Board of Bursa Malaysia from 2000-2006. A dynamic panel system generalized method of moment technique is applied to control the endogeneity effect. After controlling for size, gearing, industry and time, this study finds significant positive relationships between institutional and foreign shareholdings using both market and accounting performance measures. These results imply their positive roles in constraining any opportunistic behavior of management. Interestingly, role duality (positions of Chairman and CEO were the same person) was observed to be negatively related to both performance measures, thus supporting the recommendation by Malaysian Code of Corporate Governance (MCCG). However, contrary to agency theory and MCCG, firm performance decreases with the increase in proportion of independent directors in the board.

**Keywords:** Corporate Governance, Agency Theory, Stewardship Theory, Resource Dependency Theory

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## 1. Introduction

Corporate governance (CG) has received much attention lately because of a series of corporate scandals around the world such as Enron, WorldCom. This has resulted in capital flight from affected countries as investors lose confidence and trust in the firms that they invested in. It is believed that good CG enhances investor confidence (Claessens, Djankov & Xu, 2000b). In fact, a survey by McKinsey (2000) found that Asian investors are willing to pay premium averaging 20-25% for well governed companies. Therefore, to restore public confidence, not only current corporate legislature needs to be reviewed but also the way in which these businesses have been conducted in the affected countries. There must be greater transparency and accountability in both public and private sectors to ensure stability of market oriented economics Around this time, governments of many countries around the world have undertaken various measures to improve the efficacy of the governance structures for this will not only attract more foreign investments into the countries but also investors are willing to pay a premium for the price of shares (Coombes & Watson, 2000). Furthermore, effective CG also promotes efficient use of resources which will ultimately bring about benefits to the long term viability of the firms and the country at large (Gregory & Simms, 1999). In addition, there have been many academic studies (Vafeas & Theodorou, 1998; Weir, Laing & McKnight, 2002; amongst others) to determine the most effective governance structures.

This study makes a number of contributions to the literature. First, it adds to the empirical evidence on the relationship between board characteristics which include board sub committees and ownership structures (shareholdings by independent, executive and foreign shareholdings) and firm financial performance in a comprehensive model. Most existing studies have not examined these governance structure characteristics in a single study (Haniffa and Hudaib, 2006). Furthermore, the results would be more generalisable as the sample in this study includes smaller firms unlike previous studies. Third, this study is undertaken using generalized method of moment (GMM) dynamic panel technique to control for endogeneity and therefore results are more robust. Fourth, in addition to agency and stewardship theories, resource dependency theory (RDT) is employed to explain the results obtained. Many empirical researches (Che Haat, Abdul Rahman and Mahenthiran, 2008; Abdul Wahab, How & Verhoeven, 2007 among others) predominantly discussed their findings based on both agency and stewardship theories. Recently, RDT has been applied broadly across the research domain to explain how companies reduce uncertainty and environmental interdependence (Hillman, Withers & Collins, 2009) by having resource rich directors on board. Instead of just focusing merely on agency theory, RDT can explain how directors who provide advice and counsel to the CEO and their close ties with the external environment can improve firm performance (Daily, Dalton & Cannella, 2003). Likewise Mangena, Tauringana and Chamisa (2012) in their study of severe political and economic crisis in Zimbabwe draws from RDT and political theory (Roe, 2003) to explain how CG mechanisms are structured in companies to ward off any threats that undermine their survival.

The objective of this paper is to examine the effect of the corporate governance structure on financial performance. Our analysis involves an examination of 293 companies listed on the main and second board of the KLSE (Previously Kuala Lumpur Stock Exchange. Now known as Bursa Malaysia.) from 2001 to 2006. Regression results indicate significant associations between accounting and market performance measures and board size, board composition, role duality, and institutional ownership, gearing and company size. Furthermore, the results showed a significant relationship between accounting performance measures and executive and independent directors' shareholdings. Contrasting results are observed for foreign ownership, negative for accounting return but positive for market return.

We begin our discussion with a brief review of CG development and ownership structures in Malaysia. In Section 3 we shall review the three theories that shall be employed in interpreting the results of this study and review the relevant literature on the impact of governance mechanisms on firm performance. It also sets out the hypotheses to be tested. Then we describe our methodology in Section 4, followed by analyses and the results in Section 5. The paper ends with a summary and concluding remarks as well as possible avenues for future research in Section 6.

## 2. Corporate Governance in Malaysia

### *2.1 Malaysia: A Government Led Model and institutional framework*

The Malaysian government plays a prominent role in the development of the Malaysian corporate sector to promote industrialization and at the same time restructure society in terms of participation and ownership. The New Economic Policy (NEP) enacted in 1971 has entrenched government intervention in the corporate sector and since its implementation, business and politics became intertwined in Malaysia (Malaysia, 1971). According to Gomez and Jomo (1997), NEP has affected the way businesses were conducted which resulted in unequal access to opportunities. Therefore firm performance could be linked to the owner and how close their relationship or ties were with the political agents.

Table 1 provides the legislative framework for the Malaysian capital market before the financial crisis.

Following the 1997 economic crisis, one of the key weaknesses that surfaced was the overlapping authority of regulatory institutions governing the securities market and its ambiguous accountability. Therefore to address this issue, the Securities Commission Act of 1993 was amended to make the Securities Commission (SC) as the sole regulator for fundraising activities and for the corporate bond market. The Malaysian Capital Market Master Plan was established to further regulate the capital market a year later. The legal framework for corporate governance is based on common law. The legal framework governing companies is defined by the Companies Act of 1965 (CA); the Securities Industry Act of 1983, as amended; the Banking and Financial Act of 1989; the Securities Industry (Central Depositories) Act of 1991; the Securities Commission Act of 1993; the Futures Industry Act of 1993; and the Financial Reporting Act of 1997. Therefore, even before the implementation of MCCG in 2001, there was a certain degree of CG reforms in place such as the requirements to have independent directors presence in the board in 1987 and the setting up of audit committee with effect from 1994 (Khoo, 2003).

Even though, Malaysia has comprehensive laws relating to CG in terms of shareholder and creditor protection, shareholders were not active participants in the annual general meeting (Zhuang et al. 2000). In 2001, the Minority Shareholder Watchdog Group (MSWG) was established to promote shareholder activism. Subsequently, institutional investors are encouraged by the regulators to take the lead role as empirical evidences showed that they could bring about socially responsible changes in the firms that they invested

The Malaysian CG reforms cover the transparency and disclosure of timely information to shareholders and protection of minority interests.

Examples of specific reforms introduced by SC are that beneficial owners must be revealed in nominee accounts, the number of directorships a director can hold and disclosure on matters relating to interested party transactions which directors have personal interests in, mergers and acquisitions that are provided in the amendments to CA 1965.

**Table 1.** Legislative Framework for the Malaysian Capital Market

| | | |
|---|---|---|
| *1965* | *The Companies Act (CA)* | *Governs all aspects of company law. Contains provisions on minimum levels of disclosure to the public, rights and obligations of the directors and shareholders.* |
| 1973 | The Securities Industries Act (SIA) | This Act was subsequently repealed and replaced by a similar Act in 1983. The Act provides more specific regulations on the securities industry and to protect investor interests. Amongst its provisions are the licensing of dealers, powers to curb excessive speculation, insider trading and market manipulation, and enhancement of supervision and control of the industry. |
| 1987 | Malaysian Code on Take-overs and Mergers | The code was enacted under the Companies Act to regulate corporate takeovers and mergers. |
| 1989 | Banking and Financial Institution Act (BAFIA) | The Act provides for the licensing and regulating of the activities of all types financial institutions including money broking services. The Bank Negara Malaysia (BNM) is the custodian of this Act. |
| 1991 | The Securities Industry (Central Depositories) Act (SICDA) | The Act governs the maintenance and operation of a central depository system. |
| 1993 | Securities Commission Act (SCA) | The Securities Commission (SC) was established as a regulatory body for the capital market. |
| 1993 | The Futures Industry Act (FIA) | Provides for the establishment of futures exchanges and regulation of the trading in futures contract. |
| 1995 | SCA | Amendments were made which marked the first move of the regulatory regime towards a disclosure based regime |
| 1997 | The Financial Reporting Act (FRA) | The Act was to bring the financial reporting in step with international standards and for effective enforcements. The Financial Reporting Foundation (FRF) and the Malaysian Accounting Standards Board (MASB) were established to set reporting and accounting standards. |

Source :Khoo, B.Y (2003). *Corporate Governance in Malaysia.* Asian Development Bank which was adapted from Securities Commission website.

### *2.2 Ownership structures*

Concentration of ownership and control in most Malaysian companies tends to be invested by blockholders, which include the government, families and other institutions (Claessens et. al., 1999, Khatri et al., 2003, Lee, 2001, La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). Further, the high degree of concentration was due to interlocking or pyramiding structure in which a holding company owned a minor but significant proportion of shares in a large number of companies (Lim, 1981).

Zhuang et al. (2000) found that in closely held firms, the major shareholders are either individual/family. Many of these firms were started by the founders of the family and even when the companies were publicly listed, they are still actively involved in their businesses (Redding, 1996). They may even hand over the businesses to the future generations as they have long term plans for the business such as the Genting and YTL (Yeoh Tiong Lay Group currently headed by Tan Sri Francis Yeoh.) Group. Such firms performed better because of high ownership concentration and close business networks (Redding & Wong, 1986). They also found that majority of the Malaysian firms are family (42.6 percent) and state owned (34.8 percent) which confirmed with Claessens et al. (1999). But, in a later study on ownership structure in Malaysia by Tam and Tan (2007), it was shown that government has the highest ownership concentration, followed by trust fund firms, foreign firms and family controlled business

The ownership structure in Malaysian companies differs from that of the Anglo-American CG system where the owners are separated from control and control is delegated to managers. Therefore, the agency problem experienced in Malaysia is different from dispersed ownership structure and the problem is between controlling shareholders and minority shareholders (Tam & Tan, 2007).

### 2.3 CG Milestones

In 1998, the Ministry of Finance commissioned the set up of a body known as the High Level Finance Committee (HLFC) (CG Guide: Bursa Malaysia.) on Corporate Governance to address any CG shortcomings after the Asian financial crisis in 1997. Subsequent CG reforms that took place after the 1997 crisis is provided in Table 2.

**Table 2.** CG Milestones

| *1998* | *Formation of High Level Finance Committee to conduct a detailed study on CG* |
|---|---|
| 1998 | The MCCG practices in Malaysia. |
| 1999 | Directors and CEO were required to disclose their interests in PLCs |
| 1999 | PLCs were required to submit quarterly reports to public |
| 2000 | SCA was amended to make SC the sole regulator for fund raising activities. |
| 2001 | KLSE issued its revamped LR to include new sections on CG and disclosure requirements |
| 2001 | Minority Shareholders Watchdog Group (MSWG) was established to promote shareholder activism |
| 2001 | Directors are required to attend mandatory training |
| 2001 | The Audit Committee must have a member who has a finance background. |
| 2001 | The Financial Sector Master Plan was launched to chart the future direction of the financial system over the next 10 years |
| 2002 | The internal audit guidelines for PLCs was issued |
| 2004 | Best practices for corporate disclosures and whistle blowing provisions in securities laws |
| 2005 | Amendments to LR: new policy of enforcement for delays in issuance of financial statements |
| 2007 | New updates to MCCG with strengthening of audit committee |
| 2010 | Setting up of the Audit Oversight Board (AOB) |
| 2011 | Capital Market Master Plan 2 (CMP2) |
| 2012 | CG Blueprint issued by SC, followed by MCCG 2012 |

Taken from CG Blueprint 2011: http://www.sc.com.my/main.asp?pageid=1087&menuid=&newsid=&linkid=&type=

As can be seen from the table, there are two updates to MCCG 2001, one in 2007 and the other in 2012 These updates take into account changing market dynamics, international developments in the CG framework on how to enhance its effectiveness.

## 3. Prior Empirical Studies and Hypotheses Development

### 3.1 Theories

Agency theory has been used to explain the problem arising from the separation of ownership and control in much of the literature on corporate governance following the numerous corporate scandals, which happened globally (Berle & Means, 1932; Eisenhardt, 1989). In order to minimize these problems, various CG mechanisms have been suggested such as having outside directors in the board structure and subcommittees consisting of majority independent directors (Vafeas, 2003). Many of the CG codes around the world (US, UK and Malaysia, among others) have advocated for the positions of Chairman and CEO to be held by different individuals (non-role duality) and the former should be independent so that there is a check and balance on the actions of the CEO. The Chairman is responsible for ensuring the board carries out its oversight duty well whilst the CEO helms the management of the company. Another researcher, Matsumura and Shin (2005) suggested top management be rewarded for good performance. The incentive solution was to tie the wealth of the executive to the wealth of the shareholders so that their interests are aligned. In many of the US companies, executives are given stock options as a significant component of their compensation (Kim & Nofsinger, 2007).

Stewardship theory comes from the branch of sociology and psychology. Stewardship asserts a model of the human being in which individuals act to serve the collective interests of the firms. This is in contrast to economics based agency concepts of people as individualistic and self-serving (Davis, et al., 1997; Fox & Hamilton, 1994). Furthermore, it suggests that management will always put the interests of the principals above their personal interests because they strongly believe in cooperation than self-serving behaviour (Davis et al). The steward's interests are aligned with those of the investor and so the steward is less apt to engage in self-serving behaviours and actions that transfer wealth from the investor to the steward. Therefore, there is a lower need for monitoring and control mechanisms to check the opportunistic behaviour of managers. Boards should not be dominated by non-executive director as they lack the knowledge, time and resources to monitor management effectively (Donaldson & Davis, 1994). Another structure proposed by stewardship theorists include that CEO should chair's the board of directors because outside chairman may impede strategic decision making process due to lack of knowledge and expertise. In a stewardship environment, there is more emphasis placed on empowerment and structures that facilitate cooperative activities in a non-adversarial fashion (Brooks & Dunn, 2007).

Although the agency and stewardship theories have been widely used in research on board of directors (Dalton, Hitt, Certo, & Dalton, 2007; Johnson, Ellstrand, & Daily, 1996; Zahra & Pearce, 1989), earlier studies have used RDT in explaining how board gain resources through varying its board size as well as board composition. Pfeffer (1987) in his seminal paper found that firm's environmental needs impacted the board size as well as its composition. According to them, these directors brought about four benefits to organizations, namely, they provide advice and counsel; they have access to information about firms and its environment; they have preferential access to resources and they possess legitimacy. Earlier studies (Provan, 1980; Luoma & Goodstein, 1999, Johnson & Greening, 1999) supported their claims. In his study, Provan (1980) found that firms attracted powerful members of the community who have connections with the environment to their boards. Luoma and Goodstein (1999) found that firms in highly regulated industries have a higher proportion of stakeholder directors and these stakeholder directors are found to improve firms' corporate social performance (Johnson & Greening, 1999).More recent works (Mangena, Tauringana & Chamisa (2011); Claessens, Feijen & Laeven, 2008; Adams & Ferreira, 2007) supported the above arguments as well. In their study of board size and ownership concentration in an environment of severe political and economic crisis, Mangena et al. (2011) concluded that firms tend to have larger boards (engaged directors with political connections) to ward off external threats of political environment as well as having lesser non executive directors. During such crisis, executive directors could better manage the firm

### 3.2 Corporate governance mechanisms

A review of prior empirical literature on the relationship between CG and ownership structures on firm performance showed mixed results.

Huther (1996) and Yermack (1996) found that the market perceived smaller boards more effective than larger boards. Yermack found a positive stock price reaction for firms announcing a reduction in board size and a negative stock price reaction to announcements on increase in board size. The logic for why this might be so deals with the free-rider problem. For a small board, each member may need to monitor the firm, as there are a few of them. However, members of larger boards may assume that there are others who are monitoring. Another reason is that it may be more difficult to reach a decision with larger boards (Lipton & Lorsch, 1992).

On the other hand, bigger boards not only bring in more skills, diversity and experience into the firms but also create added value in management of resources (Goodstein et al., 1994; Pearce & Zahra, 1992). Empirical evidences supporting the resource dependency theory found that "resource rich" directors have access to important and critical resources. Provan (1980) found that boards who have powerful members of community are able to acquire critical resources from the environment, thus impacting positively on firm performance. However, Holthausen and Larker (1993) failed to find a link between board size and financial performance. Since MCCG does not recommend any board size and prior studies produced mixed results, the following hypotheses are stated as follows:

*$H_1$:* There is a significant relationship between board size and firm performance.

Proponents of agency theory believed that a board comprising a larger representation of independent directors will be more effective in monitoring management by checking on the opportunistic behaviour of the executive directors (Fama & Jensen, 1983). According to Farrell and Whidbee (2000), a board comprising members who are related to the CEO is probably less likely to fire the CEO for poor performance. Furthermore, the presence of truly independent directors in the board, audit, compensation, and nominating committees has been found to be more likely to monitor management's activities effectively by several academic studies (Byrd & Hickman, 1992; Daily & Dalton, 1992; Fama, 1980; Jensen, 1993), accounting professional (AICPA[1], 1992), government regulators such as US Securities and Exchange Commission, 1988, US Committee Of Sponsoring Organization of the Treadway Commission. Similarly, proponents of resource dependency theory provide evidence to support their claims that "resource rich" outside directors may by virtue of their contacts have access to critical resources (Pfeffer & Salancik, 1978; Johnson & Greening, 1999 among others).

However, empirical evidences on the role of independent directors were mixed. Some studies had not found such an association (Che Haat et al., 2008; Fosberg, 1989; Haniffa & Hudaib, 2006; Hermalin & Weisbach, 1991) whilst others had found a significant positive link (Daily & Dalton, 1994; Prevost et al., 2002). However, Koerniadi & Tourani-Rad (2012) conducted a similar study of NZ firms from 2004-2006 and found that board independence was negatively related to firm performance which was contrary to the findings of Prevost et al. Koerniadi concluded that this could possibly be due to the difference in time period of the studies; theirs was done a decade later when the number of independent directors was more. Their findings suggested that board independence may not generally be suitable for countries where managers were considered as active partners along with other stakeholders in companies. This was more consistent with stewardship theory than agency theory as the boards were seen to be collaborating with managers than being monitors. Recent findings (Chhaochharia & Grinstein 2007; Duchin et al., 2010) also concurred with theirs. A Korean study conducted during the governance reform movement in 1999 showed a weak link between outside directors and performance (Cho & Kim, 2007) which may be attributed to resistance of large shareholders to reform. Since MCCG recommends that companies should adopt a balanced board comprising at least one third independent directors to monitor management, the next hypothesis is as follows:

*$H_2$:* There is a significant positive relationship between board composition and firm performance.

There are two views regarding the issue of separating the role of chairperson and that of the CEO. Proponents of agency theory argue that the chairperson has to be independent in order to check on the possibility of the over ambitious plans of the CEO (Argenti, 1976; Blackburn, 1994; Stiles & Taylor, 1993). The separation of the two roles is necessary to provide the essential checks and balances over management performance. This was because a person who held both positions of CEO and Chairman would most likely engage in choosing strategies that promote his own interest instead of the company's interests (Jensen & Meckling, 1976). Furthermore, the monitoring ability of the board of directors on management may be reduced. Yermack (1996) found that firms were valued lower when the same person held both these positions. Agency theory therefore suggests that role duality reduce the monitoring effectiveness of the board over management and supports the separation of the role of chair and CEO.

On the other hand, those who favoured role duality use stewardship theory to support their case. They argued that managers will act in the best interests of the shareholders, as there was no inherent conflict between them as suggested in agency theory. Managers identified with the goals of the firm and strived to make sure those goals are achieved. Besides that, the benefits of role duality include faster implementation of decisions, which was due to lesser board interference and ability to focus on company objectives. Ultimately, this would lead to improvement in firm performance (Dahya, Lonie & Power, 1996).

Since MCCG recommends the separation of the two roles to ensure proper checks and balances on the top leadership of the companies, we hypothesize the following:

*$H_3$:* There is a significant negative relationship between role duality and firm performance.

Empirical evidences on the relationship between the presence of audit committee and the financial performance have yielded conflicting results. Some found no significant association between this board committee and financial performance (Klein, 1998; Petra, 2002; Vafeas & Theodorou, 1998; Weir et al., 2002). Similarly, in the analysis of a sample of 412 publicly listed Hong Kong firms during 1995–1998, Chen et al. (2005) found little impact of audit committee on firm value. In contrast, Wild (1994) showed evidence that the market reacted favourably to earnings reports after an audit committee had been formed. Similarly in a study of UK companies using 1992 and 1996 data, Laing and Weir (1999) concluded that audit committee contributed to significant improvement in performance of firms than non-executive director representation or non duality.

The MCCG recommends the establishment of an independent audit committee with majority of independent directors to ensure proper checks and balances on top management. It is mandated by the LR to have such a committee in all public listed companies in 1994. The next hypothesis is as follows:

*$H_4$:* There is a significant positive relationship between independent audit committee and firm performance.

Although not required by regulation, many corporations in US have instituted remuneration committees composed entirely of outside independent directors to give the appearance that a reasonable and objective process determines the compensation for top management, including the CEO. Cyert et al. (1997) found that the level of CEO compensation was inversely related to the level of stock ownership held by members of the remuneration committee. The result suggested that a remuneration committee might be an important element in the board of directors'

[1] American Institute of Certified Public Accountants

ability to monitor and control the actions and decisions of top management. Remuneration committees were more effective monitors as compared to non-duality or independent boards (Laing & Weir, 1999). Petra (2005) reviewed the case study on Enron Corp., Global Crossing Ltd and WorldCom and concluded that the presence of outside independent directors on the remuneration committees did not affect firm performance. In his earlier study, he too found no association between informativeness of earnings and remuneration committee (Petra, 2002). A study conducted by Yatim (2012) showed evidence that director remuneration was positively and significantly related to a firm's accounting performance (ROA). This indicated that such committee can strengthen boards by controlling the level of directors' remuneration.

The MCCG recommends the establishment of an independent remuneration committee to ensure that top management do not remunerate themselves excessively. The next hypothesis is as follows

*$H_5$:* There is a significant positive relationship between independent remuneration committee and firm performance.

Here again, although not required by regulation, many corporations in US had instituted nominating committees, which were composed entirely of outside independent directors. Such nominating committees gave the appearance that the board of directors had little or no prior relationship with the CEO. Shivdasani and Yermack (1998) found evidence suggesting that directors selected by CEO were not likely to monitor the behaviour of management. Their findings also suggested that the market preferred the CEO not be involved in the appointment of new directors. This highlighted the need for boards of directors to maintain independent nominating committee. However, Klein (1998) and Petra (2002) found little evidence that such independent committee affected firm performance.

The MCCG recommends the establishment of an independent nominating committee to ensure that board members are selected based on personal merits. The next hypothesis is as follows

*$H_6$:* There is a significant positive relationship between independent nominating committee and firm performance.

Many empirical studies in Malaysia revealed that the ownership structure of PLCs were highly concentrated and were held by a small number of individuals, families and state enterprises (Claessens et al., 2000a; Tam & Tan, 2007). These studies also noted the same observations as studies done elsewhere that is, relationship between performance and executive directors' shareholdings was not linear (Khatri et al. 2002; Tam & Tan, 2007). A study done in Malaysia showed consistent positive significant impact using three performance measures (Ngui et al., 2008). However, Haniffa and Hudaib (2006) found a negative impact using ROA while no relationship using Tobin's Q. Because of the contrasting evidences on the relationship between directors' shareholdings and performance, the following hypothesis is as follows:

*$H_7$:* There is a significant relationship between executive directors' shareholdings and firm performance.

Jensen (1993) espoused that outside independent directors should be encouraged to maintain ownership in their firms and this ownership should be significant in relation to the individual director's personal wealth so as to ensure that the director recognized that his/her decisions affected their own wealth as well as the wealth of the other shareholders. Similarly, Cotter, Shivdasani & Zenner (1997) concluded that independent outside directors enhance target shareholder gains from tender offers, and that boards with a majority of independent directors are more likely to use resistance strategies to enhance shareholder wealth. Proponents of agency theory argued that independent directors who owned shares might mitigate agency problems caused by dispersed ownership. Bhagat and Black (2000) found positive relationship between firm performance and independent directors' shareholdings.

On the other hand, Mc Connell and Serveas (1990) failed to find such an association between market based measure and independent directors' shareholdings. Several empirical evidences (Morck, 2004; Berle & Means, 1932) pointed out that such shareholdings had negative impact on firm performance as independent directors could have a misplaced sense of loyalty to dominant CEO instead of challenging their decisions. They might corroborate with management because of their non-independence. These arguments lead us to the next hypothesis

*$H_8$:* There is a significant relationship between independent directors' shareholdings and firm performance.

Many empirical evidences demonstrated that institutional shareholders have the potential to exert positive influence on firm performance that also benefitted minority shareholders (Gillian & Starks, 2000; Li & Simerly, 1998). But in a dispersed ownership situation where there were no major blockholders, free rider problems may arise (Gugler, 2001). However, dominance of a large blockholder may also create problem by over exposing the firm to risks (Demsetz & Lehn, 1985). Yet other studies observed different investment strategies behaviour exhibited by institutional investors (Black 1992; Goyer, 2010; Maug, 1998) which contributed to contrasting results in firm performance.

Prior studies that recorded the effectiveness of the monitoring by institutional investors are many (Becht et al., 2009; Denis & Sarin, 1999; Gorton & Schmid, 2000; Del Guercio & Hawkins, 1999; Holderness & Sheehan, 1988; Joh, 2003; Leech & Leahy (1991); McConnell & Servaes, 1990; Morck et al., 2000; Park & Chung, 2007; Sarkar & Sarkar, 2000; Thomsen & Pedersen, 2000; Xu & Wang, 1999). In contrast, Woidtke 2002 noted that institutional investors may not be effective monitors as there was no single controlling shareholder to ensure that managers were doing their job. Other studies found no empirical relationship between institutional ownership and firm performance (Demsetz & Lehn, 1985; Demsetz & Villalonga, 2001; Duggal & Millar, 1999; Faccio & Lasfer, 2000; Karpoff et al., 1996; Lee, 2009; Murali & Welch, 1989; Smith, 1996; Weir et al 2002). Some observed that pressure insensitive institutional investors are more likely to discipline and vote against management rather than pressure sensitive ones (Abdul Wahab et al., 2008; Brickley et al., 1988; Cornett et al., 2007; Pound, 1988). They observed that large institutional shareholders corroborated with management when it benefitted them to do so which may result in high risk exposure and subsequently a decline in firm performance.

In Malaysia, many empirical evidences pointed to a high concentration of ownership among public listed companies (Abdul Samad, 2002; OECD, 1999). Similar mixed findings were found as other countries (Haniffa & Hudaib, 2006; Tam & Tan, 2007). Against this backdrop, the hypothesis is formulated as follows:

$H_9$: There is a significant relationship between institutional shareholdings and firm performance.

Prior research found that foreign owners can mitigate agency problems as they can exert much influence on management to align their interests with investors (Hingorani et al., 1997; Jensen & Meckling, 1976). The results of Che Haat et al. (2008) supported that of D'Souza et al. (2001) in that foreign ownership brought about benefits such as higher managerial talent, access to advanced technology and entry into capital markets. Similarly, Weiss and Nikitin (2004) found that when foreigners became the major shareholders of publicly traded firms in the Czech Republic, these firms experienced improvements in performance. Other empirical studies which found that firms with higher share of foreign ownership performed better than their domestic counterparts were many (Ali Yrkko & Nyberg, 2005; Baek et al. 2004; Douma et al., 2006; Park & Chung, 2007; Reese & Weisbach, 2002; Sarkar & Sarkar, 2000; Suto, 2003; Tam & Tan, 2007). Yet there are studies that found no association between the relationship between foreign ownership and firm performance, which could be due to their short-term investment view (Lee, 2009). On the other hand, foreign shareholders might not be effective monitors because of their close involvement with management in running of businesses (Redding, 1996). Therefore, this leads us to the next hypothesis:

$H_{10}$: There is a significant relationship between foreign shareholdings and firm performance.

## 3.3 Control variables (firm-specific characteristics)

### 3.3.1 Firm Size

Conflicting results were obtained in prior studies; some observed that firm size was positively related to firm performance. Larger firms performed better due to risk aversion (Ghosh, 1998), more analysts following their performance and banks prefer to finance larger companies (Black, Jang & Kim, 2006; Lee, 2009), better assets utilization because of economies of scale and managerial knowledge (Himmelberg et al., 1999; Tam & Tan, 2007). On the other hand, smaller firms reported positive results because they had more growth opportunities (Anderson & Reeb, 2003; Kouwenberg, 2006), more adaptable to change which enhanced competitiveness (Hannan & Freeman, 1989). On the contrary, Cornett et al. (2007) failed to find such a link. However, Haniffa and Hudaib (2006) found mixed results using Tobin's Q and ROA. Kole (1995) examined the differences in data source used in several studies by Morck et al.(1998), Mc Connell and Servaes (1990) and Hermalin and Weisbach (1991) and concluded that differences in firm size accounted for the reported differences in those studies. Therefore, these evidences lead to the next hypothesis:

$H_{11}$: There is a significant relationship between firm size and firm performance.

### 3.3.2 Gearing

According to agency theory, external creditors may help to reduce agency costs by disciplining management if they engaged in non-optimal activities (Jensen, 1986; Stulz, 1990). Several prior empirical findings were consistent with the implications of agency theory; debt financing were used as a CG tool to constrain opportunistic behaviour of management (Chen & Lee, 2008; Hurdle, 1974; Johnson & Mitton, 2003; Suto, 2003). Managers whose firms were financed mainly by external debts would engage in wealth generating activities to service the debts faster (Grossman & Hart, 1982) and thereby reduced cost of debts (John & Senbet, 1998; Kouwenberg, 2006).

On the other hand, results of some empirical studies yielded negative results (Chang & Abu Mansor, 2005; Claessens et al., 2000b; Dowen, 1995; McConnell & Servaes, 1995, Short & Keasey, 1999; Suto, 2003; Tam & Tan, 2007; Weir et al., 2002). Some of the reasons uncovered were managers cum shareholders may be involved in risky projects to the detriment of other stakeholders (Stiglitz & Weiss, 1981). They found that not only debt financing is an ineffective CG mechanism to control management but resulted in poorer performance.

It was found that many Malaysian firms relied on external debt to finance its operations and had established close relationships with their bankers due to political patronage (Gomez & Jomo, 1997; Suto, 2003). As such, debt was not an efficient governance tool in Malaysia. Furthermore, Tam and Tan (2007) supported the argument regarding the inability of the financial market to discipline poor performance firms due to excessive political and business relationship building. Chang and Abu Mansor (2005) also concurred with Tam and Tan. However, contrasting results were discovered by Haniffa and Hudaib (2006) using two types of performance proxies; negative significant association for the accounting measure but positively related for market measure. As previous studies have uncovered contrasting results, the hypothesis is as follows:

*$H_{12}$:* There is a significant relationship between gearing and firm performance.

## 4. Research Methods

### *4.1 Sample selection*

The sample in this study consists of non-financial, non-unit trusts companies listed on the main board, and second board of Bursa Malaysia (Bursa) from financial year ended 2001 to 2006. The reason for excluding financial and unit trusts companies from the sample is due to differences in the regulatory requirement in their reporting as in the studies done by Nazrul, Rubi and Hudson (2008) and Haniffa and Hudaib (2006). Only those companies which are in operation throughout this period are selected for this study.

The screening process finally yielded a sample of 293 companies with a panel sample of 1,758 observations across a six years period after excluding delisted companies over the sample period. This panel is balanced as all data are available for all the 293 companies throughout this period.

### *4.2 Measures of firm performance and other independent variables*

As for firm performance measures, there is no agreement among researchers as to which proxy is the best (Cochran & Wood, 1984). Each proxy has its own pros and cons. In this study, two measures are used market (Tobin Q) and accounting based returns (return on asset, ROA). Cochran and Wood went on to say that it is prudent to use a few measures to capture the various aspects of financial performance. Industry sector may affect firm performance due to differences in ownership structures and their objectives as shown in prior studies (Black, Jang & Kim, 2006; Lee, 2009; Tam & Tan, 2007).

There are ten independent variables, two dependent variables and two control variables. The ten independent variables are broken down into two types of structure namely corporate governance structures (board characteristics) and ownership structures (shareholdings by executive directors, independent directors, institutions and foreigners). Similar breakdown were found in prior empirical research (Anderson & Reeb, 2003; Haniffa & Hudaib, 2006; Petra, 2002).

Data on CG variables, ownership shareholdings and accounting performance measure (ROA) were retrieved from the Bursa Malaysia's website (year 2001 onwards). Tobin's Q data was extracted from Bloomberg and DataStream databases. Table 3 provides a summary of the operationalisation of the variables.

### *4.3 Econometric estimation*

In most prior studies, the standard approach employed in examining the relationship between performance and corporate governance variables is the ordinary least squares (OLS) model. However, OLS models ignore the panel structure of the data by treating data as cross-sectional (Gujarati and Porter, 2009; Kohler and Kreuter, 2009; Roodman, 2009). Therefore, they violate the underlying OLS assumption that all observations are independent of each other. We carefully address potential endogeneity concerns by using a system generalized method of moments (GMM) approach developed by Arellano and Bond (1991), Arellano and Bover (1995) and Blundell and Bond (1998). The system GMM estimation is appropriate for analysis of data involving few time periods and a large number of companies. This method is commonly used in empirical analyses involving panel data because it is robust to panel specific autocorrelation and heteroscedasticity (Capezio, Shields and O'Donnell, 2010; Roodman, 2009). The degrees of freedom are increased and collinearity among the explanatory variables is reduced and the efficiency of economic estimate is improved. It achieves this using lagged differences and lagged levels of instruments. In order to obtain a consistent estimator, the validity of the instruments must be tested. The Sargan test and Arellano-Bond second order autocorrelation test (AR2) are conducted to assess the reliability of the estimates as well as to ensure no methodological problems exist. The Sargan test of over-identifying restrictions test the null hypothesis that instruments are not correlated with error term and thus tests the validity of the instruments. The AR2 tests the null hypothesis that there is no second order serial correlation in the disturbance term (Roodman, 2009). If the two hypotheses are not rejected ($p$>0.05), it implies that the system GMM approach is an appropriate method of analysis.

**Table 3.** Operationalisation of Variables

| *Variables* | *Acronym* | *Operationalisation* |
|---|---|---|
| **Dependent variables** | | |
| Tobin's Q | Tobin Q | Ratio of the market value of a firm to the replacement cost of firm's assets |
| Return on asset | (ROA) | Earnings after tax divided by total assets |
| **Independent variables** | | |
| CG variables | | |
| Board size | BSIZE | Total number directors in the board |
| Board composition | BRDC | % of independent directors in the board |
| Role duality of Chairman/ CEO Positions | DUAL | Dichotomous, 1 if role duality and 0 if no role duality |
| Audit Committee | AUDC | Dichotomous, 1 with audit committee and 0 if no audit committee |
| Nominating Committee | NOMC | Dichotomous, 1 with nominating committee and 0 if no nominating committee |
| Remuneration Committee | REMC | Dichotomous, 1 with remuneration committee and 0 if no remuneration committee |
| Ownership variables | | |
| % of executive directors' shareholdings | MOWN | % of shareholdings held by executive directors' |
| % of institutional shareholdings | IOWN | % of shareholdings held by institutions |
| % of foreign shareholdings | FOWN | % of shareholdings held by foreigners |
| Control variables | | |
| Firm size | LNTA | Natural logarithm of total assets |
| Gearing | GEAR | Total debt to total assets |
| Moderating variables | | |
| Industry based on Bursa Malaysia Classification | CP<br>IP<br>CM<br>PH<br>PT<br>TS | Consumer Product<br>Industrial Product<br>Construction & Mining<br>Property & Hotel<br>Plantation & Technology Trading & Services |
| Year | | 2001-2006 |

The following two models based on agency, stewardship and resource dependency theories as well as prior research discussed in section 3. The models are estimated with inclusion of all dependent and independent variables and control variables. These comprehensive models will therefore provide better insight into the effect of these structures on the firm performance. They are namely:

**Model 1:**

ROA $_{it}$ = $\alpha_0$ + $\beta_1$(BSIZE)$_{it}$+ $\beta_2$(BRDC)$_{it}$ + $\beta_3$(DUAL)$_{it}$ + $\beta_4$(AUDC)$_{it}$ + $\beta_5$(REMC)$_{it}$ + $\beta_6$(NOMC)$_{it}$ + $\beta_7$(MOWM)$_{it}$ + $\beta_8$(OOWM)$_{it}$ + $\beta_9$(IOWM)$_{it}$ + $\beta_{10}$(FOWN)$_{it}$ + $\beta_{11}$(LNTA) $_{it}$ + $\beta_{12}$(GEAR) $_{it}$ + INDUSTRY DUMMIES + YEAR DUMMIES + $\varepsilon$

**Model 2:**

*Tobin Q* $_{it}$ = $\alpha_0$ + $\beta_1$(BSIZE) $_{it}$ + $\beta_2$(BRDC) $_{it}$ + $\beta_3$(DUAL) $_{it}$ + $\beta_4$(AUDC) $_{it}$ + $\beta_5$(REMC) $_{it}$ + $\beta_6$(NOMC)$_{it}$ + $\beta_7$(MOWN) $_{it}$ + $\beta_8$(OOWN) $_{it}$ + $\beta_9$(IOWN) $_{it\ it}$ + $\beta_{10}$(FOWN) $_{it}$ + $\beta_{11}$(LNTA) $_{it}$ + $\beta_{12}$(GEAR) $_{it}$ + INDUSTRY DUMMIES + YEAR DUMMIES + $\varepsilon$

Where

| | |
|---|---|
| $\alpha_0$ | Intercept |
| Tobin Q | Tobin's Q ; proxy for market return |
| ROA | Return on assets; proxy for accounting return |
| BSIZE | Board size. |
| BRDC | Board composition; Percentage of independent directors in the board. |
| DUAL | Duality; Role duality of 1 if chairperson of the board is also the chief executive officer. Otherwise 0 |
| AUDC | Audit committee; Dichotomous 1 with audit committee and 0 if no audit committee |
| REMC | Remuneration committee |
| NOMC | Nominating committee |
| MOWN | Percentage of shares held by executive directors |
| OOWN | Percentage of shares held by outside independent directors |
| IOWN | Percentage of shares held by local institutions |
| FOWN | Percentage of shares held by foreign institutions |
| LNTA | Natural logarithm of total assets |
| GEAR | Debt ratio defined as total debt to total asset |
| $\beta_{1\ \text{TO}}\ \beta_{12}$ | Coefficient measuring relationship strength |
| $\varepsilon$ | Error term |

INDUSTRY base on Bursa classifications
Consumer products, equals 1 if true, otherwise 0
Industrial products, equals 1 if true, otherwise 0
Property & hotel, equals 1 if true, otherwise 0
Plantation & Technology, equals 1 if true, otherwise 0
Trading/services, equals 1 if true, otherwise 0
Control group is Construction & mining

YEAR DUMMIES
If 2001, equals one if true, otherwise 0
If 2002, equals one if true, otherwise 0
If 2003, equals one if true, otherwise 0
If 2004, equals one if true, otherwise 0
If 2005, equals one if true, otherwise 0
If 2006, equals one if true, otherwise 0

## 5. Results

### *5.1 Descriptive Statistics*

Table 4 presents a breakdown of the sample data by industry sector and by board. The sample consists of 293 companies, that is made up of 239 companies (81.6%) in Main Board and 54 (18.4%) companies in the Second Board. It comprises six industrial sectors; the highest representation is 25.9% from the Industrial Product followed by 23.5% from Trading & Services, 15.4 % from Consumer Product sector, 15% from Properties & Hotels sector, 12.3% from Plantation & Technology sector and 7.9 % from Construction & Mining sector.

Table 5 presents the descriptive statistics of the means for the performance, board and ownership structures and control variables from 2001-2006 and for each year.

**Table 4.** Sample Data by Industry Sector and by Board

| Industry sector | Main Board | | Second Board | | Total | |
|---|---|---|---|---|---|---|
| | No | % | No | % | No | % |
| Consumer product (CP) | 35 | 14.6 | 10 | 18.5 | 45 | 15.4 |
| Industrial Product (IP) | 52 | 21.8 | 24 | 44.4 | 76 | 25.9 |
| Construction & Mining (CM) | 22 | 9.2 | 1 | 1.9 | 23 | 7.9 |
| Properties & Hotels (PH) | 40 | 16.7 | 4 | 7.4 | 44 | 15.0 |
| Plantation & Technology (PT) | 31 | 13.0 | 5 | 9.3 | 36 | 12.3 |
| Trading & Services (TS) | 59 | 24.7 | 10 | 18.5 | 69 | 23.5 |
| Total | 239 | 100 | 54 | 100 | 293 | 100 |

Source: Analysis of the Secondary Data

**Table 5.** Descriptive statistics (means) for dependent and independent variables for combined sector

| ***Variables*** | *2001-2006* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* |
|---|---|---|---|---|---|---|---|
| *Performance measures* | | | | | | | |
| ROA | -0.01 | -0.031 | -0.046 | 0.002 | 0.004 | 0.009 | -0.002 |
| TOBINQ | 1.084 | 1.102 | 1.091 | 1.091 | 1.111 | 1.022 | 1.090 |
| *Board and ownership structures* | | | | | | | |
| BSIZE | 7.633 | 7.669 | 7.703 | 7.720 | 7.560 | 7.608 | 7.539 |
| BRDC | 40.712 | 37.641 | 39.768 | 39.557 | 42.145 | 42.154 | 43.015 |
| DUAL | 0.15 | 0.174 | 0.143 | 0.143 | 0.143 | 0.147 | 0.147 |
| AUDC | 1 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| REMC | 0.807 | 0.454 | 0.795 | 0.881 | 0.891 | 0.908 | 0.911 |
| NOMC | 0.805 | 0.457 | 0.795 | 0.877 | 0.891 | 0.904 | 0.908 |
| MOWN | 5.509 | 5.321 | 5.256 | 5.636 | 5.745 | 5.705 | 5.390 |
| OOWN | 0.182 | 0.192 | 0.175 | 0.161 | 0.208 | 0.178 | 0.180 |
| IOWN | 53.066 | 52.583 | 53.148 | 53.320 | 53.505 | 53.491 | 52.351 |
| FOWN | 9.8 | 9.327 | 8.946 | 9.205 | 9.682 | 10.138 | 11.505 |
| *Control variables* | | | | | | | |
| LNTA | 8.699 | 8.651 | 8.664 | 8.703 | 8.718 | 8.727 | 8.733 |
| GEAR | 0.549 | 0.586 | 0.757 | 0.510 | 0.469 | 0.484 | 0.491 |

ROA and Tobin's Q are -1% and 1.084 respectively. The yearly data also show that the means of ROA rebound slowly and slightly from 0.2% in 2003 to 0.9% in 2005 before it dipped again to -0.2% in 2006. Similar trends were observed for the yearly means of Tobin's Q throughout this period of study.

It also illustrates that, on average, board size (BSIZE) in both periods is approximately eight members, which is consistent with previous studies (Lipton & Lorsch, 1992; Haniffa & Hudaib, 2006). The yearly data also show that board size is, on average, eight.

The proportion of independent directors in the board is 41%. It seems that most firms comply with the recommendation of having at least one-third board members comprising non executive directors. The proportion of independent directors had increased steadily to 43 % in 2006.

The mean % of firms having role duality (DUAL) is 15%, indicating that 85% of firms have separated the role of chairman and CEO. The yearly data also indicated a downward trend in line with the recommendation of MCCG that the role of chairperson and CEO should be separated for better governance.

All the firms have audit committees (AUDC) starting from 2001 in compliance with the Code.

On average, the number of firms that formed remuneration committee (REMC) is 81%. The yearly data also show that the number of companies setting up this committee increased from 45.4 % in 2001 to 91.1 % in 2006. This complies with the Code.

Similarly, the table indicates that the mean number of companies that formed nominating committees (NOMC) is 81%. This complies with the Code.

The executive directors hold, on average, about 5.5% of the outstanding shares (MOWN) in their firms. The yearly data shows that the means hover around 5.3 to 5.7 %.

The mean value of percentage ownership by independent directors (OOWN) is only marginal as compared with other shareholder that is 0.2%. According to LR, independent shareholders cannot be a major shareholder and therefore, their ownership cannot exceed 5% of the aggregate of the nominal amounts of all the voting shares in the company.

In contrast, the mean of institutional ownership (IOWN) averaging across all firms is 53 %. This shows that Malaysian firms have concentrated ownerships as concurred by results shown in Claessens and Fan (2002), Haniffa and Hudaib (2006) and Tam and Tan (2007).

On the other hand, the average percentage foreign ownership (FOWN) is 10%. The mean of 9.9% in 2000 climbed up steadily to 11.5% in 2006.

On average, the natural logarithm of total assets size of the firms (LNTA) is 8.7. The yearly mean also indicate similar size.

The mean for the gearing ratio (GEAR) is 54.9%. The yearly data shows a decline in gearing from 75% in 2002 to 49% in 2006.

## 5.2 Multiple regression results

Table 6 presents the correlation matrix for the dependent and continuous independent variables. Although these univariate results show the relation between corporate board and ownership structures and performance, the analysis does not control for other factors of performance. We therefore extend our analysis to a multiple regression setting using the GMM system estimator. Before that, we first examine multicollinearity problems among the independent variables in our model. It indicates multicollinearity problem between remuneration and nominating committees. These two variables are dummy variables with value of 0 or 1. Based on the high degree of correlation, remuneration committee is removed from the model (Gujerati, 1999).

In Table 7, we report the GMM system estimates for both performance measures based on robust standard errors.

### *a) Board Size*

The results show that the board size is significantly associated with ROA and both performance show negative coefficients. The negative result supports the findings of Yermack (1996) and Lipton and Lorsch (1992) that smaller boards are perceived to be more effective as compared to bigger boards as over sized boards may give rise to coordination problems. Lipton and Lorsch recommended a board size of eight to nine, which is similar to the mean board size of this study. Thus hypothesis 1 is supported. MCCG does not prescribe any optimum board size but leave it to individual firm to decide on its appropriate board size.

### *b) Board Composition*

Contrary to expectation of MCCG and agency theory, the effect of board composition (BRDC) on firm performance yields a significant and negative relationship with ROA at the 1% level. Even though the market result does not yield a significant relationship but the coefficient is negative. These negative results are consistent with the findings of Goodstein et al. (1994) that having a high percentage of independent directors may stifle strategic actions, lack business knowledge to be truly effective and lack real independence (Demb & Neubauer, 1992) or they may be coerced by management to be passive in return for an attractive reward in the company (Abdullah, 2006; Cho & Kim, 2007; Ngui et al., 2008). Thus hypothesis 2 is not supported.

### *c) Role Duality*

Role duality is significantly related to ROA but in the negative direction at the 1% level. Even though, the market result is not significant, the regression coefficient is negative. The negative result is similar to the findings of Haniffa and Hudaib (2006) and Jensen (1993) who observed that role duality gives too much unfettered power of decision to only one individual. Such power may most likely cause him to pursue his own interests instead of shareholders. Agency theory advocates the separation of role as role duality reduce the monitoring effectiveness of the board over management. In a similar vein, MCCG also exhorts PLCs to separate the role of chairperson and CEO. Thus hypothesis 3 is supported for accounting performance measure.

### *d) Nominating Committee*

The results show that the nominating committee is significantly related with ROA for at 1% level but in the negative direction. Even though the market result is not statistically significant but it is in the same negative director. This is contrary to MCCG. Thus hypothesis 6 is not supported.

**Table 6.** Correlation Matrix of Combined Sector

| Correlation | ROA | TOBINQ | BSIZE | BRDC | DUAL | REMC | NOMC | MOWN | OOWN | IOWN | FOWN | LNTA | GEAR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001-2006 | | | | | | | | | | | | | |
| ROA | 1 | | | | | | | | | | | | |
| TOBINQ | -0.122*** | 1 | | | | | | | | | | | |
| BSIZE | 0.185*** | -0.095*** | 1 | | | | | | | | | | |
| BRDC | -0.081*** | 0.11*** | -0.279*** | 1 | | | | | | | | | |
| DUAL | -0.029 | 0.03 | -0.102*** | 0.023 | 1 | | | | | | | | |
| REMC | 0.072*** | -0.152*** | 0.081*** | 0.065*** | 0.016 | 1 | | | | | | | |
| NOMC | 0.078*** | -0.154*** | 0.081*** | 0.056** | -0.003 | 0.916*** | 1 | | | | | | |
| MOWN | 0.01 | -0.017 | -0.071*** | -0.032 | 0.112*** | 0.043* | 0.045* | 1 | | | | | |
| OOWN | 0.026 | -0.043* | 0.134*** | 0.017 | 0.018 | 0.047** | 0.043* | 0.073** | 1 | | | | |
| IOWN | 0.083*** | -0.062*** | 0.128*** | -0.058** | -0.098*** | -0.029 | 0.001 | -0.319*** | -0.014 | 1 | | | |
| FOWN | 0.075** | 0.126*** | 0.122*** | -0.021 | -0.033 | -0.058** | -0.1*** | -0.153*** | -0.042* | -0.462*** | 1 | | |
| LNTA | 0.193*** | -0.244*** | 0.356*** | -0.016 | -0.025 | 0.038* | 0.061*** | -0.196*** | -0.056** | 0.224*** | 0.155*** | 1 | |
| GEAR | -0.654*** | 0.154*** | -0.155*** | 0.063*** | -0.008 | -0.129*** | -0.136*** | -0.011 | -0.017 | -0.064*** | -0.073*** | -0.093*** | 1 |

**Table 7.** GMM Results of Combined Sectors

| Variables | 2001-2006 | | |
|---|---|---|---|
| | | ROA | Tobin Q |
| BSIZE | | -0.0052*** | -0.0131** |
| | | (0.0018) | (0.0055) |
| BRDC | | -0.0013*** | -0.0008 |
| | | (0.0003) | (0.0006) |
| DUAL | | -0.0657*** | -0.0198 |
| | | (0.0121) | (0.0337) |
| AUDC | | | |
| NOMC | | -0.0251*** | -0.0024 |
| | | (0.0094) | (0.0213) |
| MOWN | | 0.0007** | -0.0036*** |
| | | (0.0003) | (0.0010) |
| OOWN | | 0.0048** | -0.0304*** |
| | | (0.0021) | (0.0068) |
| IOWN | | 0.0005* | 0.0048*** |
| | | (0.0003) | (0.0008) |
| FOWN | | -0.0020*** | 0.0067*** |
| | | (0.0005) | (0.0013) |
| LNTA | | 0.0647*** | -0.2693*** |
| | | (0.0172) | (0.0534) |
| GEAR | | -0.1555*** | 0.0242*** |
| | | (0.0068) | (0.0079) |
| Year Dummies | | Included | Included |
| Industry Dummies | | Included | Included |
| Constant | | -0.6094*** | 1.3927** |
| | | (0.1709) | (0.5579) |
| Observations | | 1465 | 1465 |
| Sargen test of over-identifyng | | 0.6648 | 0.0569 |
| Arellano –Bond test for AR(1) | | -2.5783*** | -3.0578*** |
| Arellano-Bond test for AR(2) | | 0.1677 | 1.1626 |

* Significant at the 10% level; **Significant at the 5% level; *** Significant at the 1% level. Robust standard errors are in parentheses.

BSIZE = board size defined as the number of directors in the board. BRDC = board composition defined as the percentage of independent directors in the board. DUAL = role duality define as t the separation of role between chairman and CEO NOMC = defined as the presence of nominating committee. MOWN = the shareholding by executive directors (ED) defined as the % of shares held by ED. OOWN = shareholding by independent directors (IND) defined as the % of shares held by IND. IOWN = shareholding by institutional investors (II) defined as the % of shares held by II. FOWN = shareholding by foreign investors (FI) defined as the % of shares held by FI. LNTA = logarithm of total assets. GEAR = gearing defined as the total debt over total asset.

***e) Executive directors' shareholding***

Executive directors' shareholding (MOWN) is found to be significantly related to ROA at the 5% level. The positive regression coefficient implied that executive directors' shareholding provide incentive for alignment of management and shareholders' interests resulting in better firm performance as confirmed by Jensen and Meckling (1976). This finding supports agency theory, which advocates the adoption of good CG practices to discipline any expropriation behavior of management. On the other hand, the relationship is significant but negatively based on market performance. The market perceives that the executive directors will misappropriate firm's wealth to the detriment of minority shareholders as discovered by Khatri et al. (2002). In their study of the relationship between Malaysian corporate sector performance and corporate governance before the Asian financial crisis, they found that Malaysian companies had high concentrated ownership structure with complex cross holdings and poor debt management. Their results indicated that these features increased the vulnerability of the firms and therefore more likely to be susceptible to crisis. Thus, hypothesis 7 is supported.

***f) Independent directors' shareholding***

Shareholding by independent directors (OOWN) is found to be positively significantly related with accounting performance at 5% level. Proponents of agency theory argued that independent directors who owned shares might mitigate agency problems caused by dispersed ownership. Bhagat and Black (2000) found positive relationship between firm performance and independent directors' shareholdings. In contrast, the market result is negatively significant. Several empirical evidences (Morck, 2004; Berle & Means, 1932) pointed out that such shareholdings had negative impact on firm performance as independent directors could have a misplaced sense of loyalty to dominant CEO instead of challenging their decisions. They might corroborate with management because of their non-independence. Thus, hypothesis 8 is supported.

***g) Institutional shareholding***

With respect to institutional shareholding, the results are significant and positive for both performance measures. These results concurred with many prior studies such as in the U.S. (Guercio & Hawkins, 1999; McConnell & Servaes, 1990; Nesbitt, 1994), European countries (Becht, Franks & Rossi, 2009; Gorton & Schmid, 2000, Thomsen & Pedersen, 2000) and Asia (Morck, Nakamura & Shivdasani, 2000; Park & Chung, 2007; Sarkar & Sarkar, 2000). the market perceives institutional investors to be good monitors on management as they focused more on firm performance and less on self serving behavior (Guercio & Hawkins, 1999). Therefore it can be concluded that the institutional investors align the interests of management with that of shareholders as they hold substantial stakes in the companies. Thus, hypothesis 9 is supported.

***h) Foreign Shareholding***

The impact of foreign shareholding on accounting return is significant but negative. Such foreign shareholders might not be effective monitors because of their close involvement with management in running of businesses (Redding 1996). They corroborate with management to expropriate minority interests. However, the market result revealed that the market performance improve significantly at 1% level ($p$<0.01) as the level of foreign shareholding increases implying that they are able to minimize self-serving behavior of management. In addition, foreign ownership brought about benefits such as higher managerial talent, access to advance technology and entry into capital as found in prior empirical evidences (Tam & Tan, 2007; Che Haat et al. (2008)) also found such relationship in their study. Thus, hypothesis 10 is supported

***i) Firm Size***

Both measures are significant but in the opposite direction. Firm size (LNTA) is found to be positively associated with accounting return which implies that bigger firms seem to produce favorable results However, the market return supports the findings of Anderson and Reeb (2003) and Haniffa and Hudaib (2006) suggesting that the market perceives smaller firms to be better performers as they are more creative, innovative and ready to change in order to increase firm performance. Thus, hypothesis 11 is supported in both periods.

***j) Gearing***

The negative result for accounting measure suggests that higher leverage leads to poorer performance which supports the argument that banks and creditors may not be effective monitors because of their close working relationship with management. Furthermore, they may also have multiple directorships in other firms which may compromise their commitment to the firm (Claessens et al., 2000b; Suto, 2003). Past research also found that in cases of excessive debt financing, equity owners may encourage firms to engage in risky projects to the detriment of other investors (Dowen, 1995; McConnell & Servaes, 1995; Short & Keasey, 1999; Tam & Tan, 2007; Weir et al., 2002). On the other hand, the significant and positive relation between gearing and market return at 1% ($p<0.01$) indicates that the market is more confident with the monitoring by firms' creditor which confirms prior studies (Che Haat et al., 2008; Haniffa & Hudaib, 2006; Jensen, 1986. Thus, hypothesis 12 is supported.

Following Roodman (2009), Sargen test and Arellano-Bond second order autocorrelation test (AR2) are conducted to assess the reliability of our estimates as well as to ensure that our results do not encounter methodological problems. The Sargen test allows the testing of the null hypothesis that instruments are not correlated with the error terms and thus tests the validity of the instruments. The AR2 tests the null hypothesis there is no second-order serial correlation in the disturbance term (Roodman, 2009). If the two hypotheses are not rejected, it implies that the system GMM approach is an appropriate model for our analysis. In the analysis found in the bottom of Table 5.13, the Sargen tests result are not significant indicating that the instruments are valid and are not correlated with the error term. The Arellano-Bond (AR1) tests are all statistically significant, suggesting that the levels used to instrument the first differenced equation provide weak instruments. However, AR2 test result fail to reject the null hypothesis thus providing evidence that the error terms in the system of equations are not serially correlated and orthogonality has been achieved (Roodman, 2009). These tests indicate that the GMM system approach is valid.

## 6. Conclusions

### *6.1. Overview of findings*

In this study, we use the system GMM approach to examine the relationship between board and ownership structures and firm performance. We draw from the agency (Jensen & Meckling, 1976; Shleifer & Vishny, 1986), stewardship (Donaldson & Davis, 1994) and resource dependency (Pfeffer and Salancik, 19783) theories to examine the issue. Using data drawn from Bursa Malaysia for the period 2001–2006 inclusive, we find that, the mean of board size reduced while proportion of independent and foreign ownership increased even though marginally. On the other hand, the means of the executive and independent directors' share ownership and institutional shareholding remain the same. Firm performance (Tobin's Q and return on assets) is negatively related to board size, proportion of independent directors and role duality. On the other hand, the relationship between performance and executive directors' share ownership is positive for ROA but negative for market return. Overall, the results suggest that small boards, smaller proportion of independent directors in the board and non role duality increase firm performance. These findings are interesting and support the literature suggesting that smaller boards are seen as more effective in monitoring performance as the free rider problem does not exist. As for independent directors, they must be constantly reminded to discharge their duties in the best interests of the shareholders during their training. Role duality may cause the person holding the two roles to pursue his own interests to the detriment of the firm. Therefore, the recommendation by MCCG to separate the two roles should be considered. However, the accounting results suggest that firm performance improves with executive and independent directors' and institutional shareholding (as well as market return). These are effective mechanism to resolve the agency problems especially the institutional investors. However, foreign ownership give contrasting results; negatively related to accounting return but positively to market return. These two groups of investors should be enlisted to engage actively in its monitoring role on management because of their sizable ownership stake in the organization. They can further strengthen corporate governance practices in the firms.

In interpreting the results, however, some limitations need to be noted. First, we examined only a limited number of corporate governance variables. Other board structures such as the composition of the audit, remuneration and nomination committees and board meetings may also be associated with firm performance. Secondly, the ownership identities of large shareholders have not been identified as they may have different investment objectives and strategies, and culture, which will affect firm performance and possibly the type of CG mechanisms employed. However, given the limited data, these variables could not be included in the analyses.

In spite of the limitations, these results have implications for both local and international investors. They are also relevant to policy-makers and firms in emerging countries, as they attempt to improve corporate governance. The results suggest that corporate governance regulations need to consider the nature of the environment rather than adopting a one-size-fits-all approach to corporate governance (Coles, Daniel and Naveen, 2008). Further analysis can also be done to distinguish between those investors that may have business relationships with the firms and those that have no such relationships. It will also be interesting to look at the effect of employee ownership on firm performance.

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# PERCEPTIONS ON A STUDENT LEADERSHIP DEVELOPMENT INITIATIVE

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**Abstract**

Leadership development involves the empowerment and preparation of individuals to be social change agents by developing their understanding of others and self awareness of their roles and responsibilities as leaders in different contexts. In the South African context, student representative councils (SRCs) at universities is an important mechanism to ensure that all South African students receive quality higher education in a safe, disciplined and healthy environment, that is underpinned by access, success and equity which are critical areas of focus in the transformation process. SRCs, as a well organized body, with the necessary skills can channel their capability and commitment toward improving university life for students. As Fullan (1993:182) argues that we hardly know anything about what students think about educational change because no one ever asks them. A student leadership initiative can be a potential for change in universities, since students as the "guardians of the existing culture can be the final arbiters of any change" (Wideen, 1992: 182). Further, by harnessing SRCs as potential reinforcers for improvement, there is more concern with the process through which successful change can be introduced in universities. Since SRCs are vested with the authority to contribute to good governance within universities, students place their trust in it. Therefore, SRCs need the requisite skills to make decisions that do not compromise the interests of students whom they represent. The study aimed to examine student perceptions and expectations of leadership through democratic deliberation at the Durban University of Technology (DUT), in partnership with the International Centre on Non Violence (ICON) and The African Centre for the Constructive Resolution of Conflicts (ACCORD). The student leadership course was a pioneer initiative for student leaders, comprising of local and international students studying at DUT. The rationale for this was the identified need for focused research into what student leaders perceive leadership to be and the value they derive from attending leadership initiatives. The partners felt it important to document student voices through a leadership initiative. The narrative, through a qualitative analysis, captured the contradictions and conflicting challenges student leaders face today, which are always problematic and dynamic, especially when public interests are not at the forefront of the agenda. Students stated that the course was beneficial, because it helped to: focus on purpose and goals of being SRC members; understand cultural diversity; show more interest in developing leadership skills as a collective; gain a sense of clarity of personal and university values; gain improved negotiation, conflict resolution and decision making skills; deal better with complex issues; and willing are able to use leadership practices for the benefit of all stakeholders. It is ultimately envisaged that the leadership initiative will be extended beyond the frontiers of DUT to other local, national and possibly international higher education institutions. As part of an on-going series of courses relating to student leadership, it is expected that such initiatives with the university partners will strengthen the effectiveness of student leaders, thereby contributing to the process of higher education transformation.

**Keywords:** Leadership, Higher Education, Personnel Training

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## Introduction

During the period from the 1960s to the 1990s, university students in South Africa played a pivotal role in the struggle against the apartheid system. Despite considerable transformative changes in the higher education system after the institution of a non-racial democratic government, significant challenges remain. In so far as students are concerned, poor preparation at the school level for university admission, the lack of student financial aid and accommodation remain their principal concerns. They often see government and management of universities as being insensitive to their plight and needs.

The failure in the resolution of such problems has periodically led to outbreak of violence on many campuses of South African universities. Destruction and burning of buildings and classrooms, the intimidation of students who are continuing with academic classes and examinations and boycotting of classes have been the common manifestations of what protesting students see as their continuing struggle against the legacy of apartheid. The financial cost of these outbreaks of violence, as well as the morally corrosive effect of resorting to violent means to resolve differences are considerable.

The situation demands leadership that is visionary, compassionate and thoughtful, that leads to resolutions positive to the diverse stakeholders in higher education transformation. In addition, the nurturing and development of student leadership at the university student level would provide a cadre of emerging leaders to fill critical positions in the new South African democratic dispensation.

Accordingly, participative governance, which is influenced by policy, students, parents, the Department of Higher Education and members of the community, should contribute toward the establishment of a society based on democratic values, social justice and quality of life (South Africa, 1996). SRCs were established with the aim of promoting the well being of universities; encouraging responsibility among students; liaising between students, lecturers and the university management team; promoting discipline; protecting students against discrimination; listening to students problems; ensuring that universities have a good reputation in the community; and encouraging leadership among students (South Africa, 2002:103).

## Need for student leadership development

Literature pertaining to student leadership shows that there is an identifiable gap in our knowledge of students' understanding of leadership and how they see, experience and interpret it in different situations. What is lacking is the production of credible accounts of leadership development benefits from the student's point of view (Dempster and Lizzio, 2007: 280). This view is reinforced by Posner ( 2004:444) in his statement, "*Studies investigating just how leadership development occurs would be invaluable not just for those involved and responsible for student leadership development, but also for people who provide leadership education for corporate, civic and community organizations*".

While many believe that leaders are born, the authors believe that student leaders can be nurtured by focusing on improving their leadership skills through leadership development initiatives. Such initiatives can grow the ability to think, act and share leadership skills. The contribution of SRCs to transformation is largely dependent on them being effective and efficient leaders within the university governance system.

In this regard, Motala (1995: 10) argues that showing responsibility for governance within universities requires the development of appropriate practices, procedures, language, skills and capacities. This is important in view of the impact of the socio-economic, political and cultural realities that continually impact universities. Dohahue (1997: 45) states that there is abundant evidence of conflict, lack of respect, abuse, incompetence, violence, poor discipline and highly authoritarian structures in universities.

Further, the university culture in determining and reflecting how the elements of university life develop, and is powerfully influenced by people's attitudes and behaviour (Davidoff and Lazarus, 2002:21). This is supported by Thurlow (1996) who states that capacity must be strengthened, since governance is an important aspect of comprehensive reform. By promoting a culture of service; devotion to duty; loyalty to the university; mutual respect; and morality amongst students, the basic principles for effective leadership are developed. In this regard, SRCs play a significant role in assisting students to survive the system and in capturing the hearts, minds and souls of students. . According to Jones (2005:39), "*if you engage with people you learn from them. It does not matter where people exercise leadership, they are still leaders".* This is supported by Goffee (2005), who views leadership as something that leaders do with other people, thereby establishing a relationship between the leader (SRC), the led (students) and the university context. This is supported by Kouzes and Posner ( 2002: 118) who purport that leadership effectiveness is related to self-awareness and relationships between those who aspire to lead and those who choose to follow. By articulating a vision and purpose which serves the interests of students, the SRC can serve as a conduit to higher levels of performance which is meaningful to students.

SRCs cannot ignore the situational (contextual conditions) and relational (students) variables. The three forces –SRCs, students and university management must interact to generate leadership. Therefore, SRCs need to engage in skills development programmes that will assist them in the following ways (Alexander, 2005: 15):

- Adapt to the context.
- Understand the needs and expectations of all stakeholders.
- Strategic thinking: ability to formulate a vision and clearly articulate it.
- Right action: ability to do what is most effective, while obeying an ethical code.
- Motivational influence: ability to influence students with enthusiasm and dedication through persuasion.

- Commitment to purpose: ability to make a vision a reality through persistence.

An advocacy for leadership development programmes for students is supported by Lambert (2006:239) who considers student leadership as vital for student performance. A study by Lambert (2006:241) on high student leadership capacity schools revealed a high focus on teaching leadership understandings and skills; creating extensive opportunities for participation in governance structures, involvement in action research; conflict resolution; monitoring learner attendance and suspension, responsibility for translating the vision of the school to the community; and planning school and community events.

Therefore, any conceptual framework for student leadership has to be underpinned by activities that enhance relationships, participation and skilfulness. A multi-faceted approach is needed to address the barriers to enhanced quality of learning experiences, academic excellence, educating students to the best of their ability and preparing students for life after school. The development of leadership competencies among SRCs can be one such approach. Some of the objectives in developing strong and effective leadership of student councils can include:

- Understanding the nature and context of leadership theory.
- Reflecting critically on SRCs' and student leaders' role and function in the institutional context, in the light of underlying values and ethics
- Ability to handle conflicts in ways that affirm the rights of different parties in the conflict and develop resolutions that are positive for the institution
- Ability to develop a base for continuous and lifelong learning for leadership skills, including from interaction with others, on the course and beyond
- Ability to identify the steps of their development as leaders and set goals for their future learning.

## Research design

The study explored student perceptions of leadership and their challenges as student leaders after attending a three day leadership course. The course content focused on an interactive conceptual understanding of leadership (small group discussions, guest speakers and presentations) and skills building (role playing activities, self reflection exercises) approach. This method was chosen to allow student leaders to freely present information on their perspectives of student leadership, improve students' knowledge through exposure to the topic of leadership and provide opportunities for students to practice leadership in a developmental context where there is less pressure and a lower cost of failure (Jenkins, 2013:50).

The focus on integrity, values, conflict and negotiation drew attention to the importance of not just solving problems, but doing so with ethics in mind, while realising that it is important to accept responsibility and accountability. The sharing of personal experiences by the presenters enhanced the theoretical basis of their presentations, thereby making it more relevant and drawing attention to the fact that not only students are facing challenges. The simplicity of the presentation methodology, which included presentations and discussions, on very complex issues made assimilation of knowledge easier.

The following outcomes were expected after the three day interactive course:

- A basic understanding of the knowledge, skills and values underpinning leadership
- An appreciation of the constraints and complexities of leading and managing a university
- The ability to manage and resolve conflicts non-violently through dialogue, negotiation, mediation and arbitration
- The importance of providing visionary, compassionate and ethical leadership to student representative councils
- To be committed to developing personal leadership on a lifelong basis
- To network with students from other universities including from the SADC region in order to nurture and foster leadership that promotes non-violence and development of societies in a sustainable manner.

Given that this was the first Leadership course offered and one that was very much on a learning trajectory it was confined to students of DUT. The 32 participants comprised four groups from DUT – SRC members, faculty representatives, international students and a women's group were also included. The following criteria guided the selection of 32 students: diversity to include gender mainstreaming, evidence of being involved in leadership activities, involvement in extra-curricular activities, an adequate academic record, and fluency in English.

## Data collection

A qualitative approach was used. Data was collected from student surveys and discussions held throughout the three day programme. Content analysis guided the themes that emerged from the surveys and student discussions. Student feedback allowed the facilitators to assess the effectiveness of the activities and discussions, as well as the students' understanding of the topics.

## Discussion

### *Challenges facing student leaders*

The experiences of student leaders are not always positive. Identification of negative elements is necessary to address challenges that students may perceive. Students were given an opportunity to discuss their experiences, which were typically relevant to the leadership experience by discussing the challenges they face as leaders and sharing their problems, a supportive environment was facilitated. Students felt a need for collaborative initiatives with staff, students and external partners to address the following challenges:

- The university was cited as being like a river, whereby students and staff enter and leave at various times, but the river still continues flowing. The term of leadership for SRC members is one year, which impacts on continuity. Further, there are no formal handover processes and procedures between incoming and outgoing SRC members.
- The university has a long term existence and the challenge is how to position the university in 50 years from now. In the national context, DUT falls into the disadvantaged category of universities, therefore needing to galvanize support to build on its limited resources. Some of the challenges include: the need to build DUT and see it growing; identify how students have access to the best opportunities; know who the students are, who their parents are, what skills they possess, what access do they have to technology, attitudes of parents to technology; and how are students affected by universities that are still part of the colonial system.
- Students need to separate the political manifesto from the SRC manifesto if they are sincere about their purpose. Students need to accept that they will be unpopular if the political agenda is not at the forefront of their student leadership, but a leader has to be a survivalist amidst such challenges. One can ensure confidence by being principled, while valuing diversity. There is a need to find ways of separating the personal and political agendas in leadership roles, where the focus is not about being seen as a winner, but rather as an honest person who has accomplished goals with integrity.

Student leaders recognised the need to develop the following competencies to execute their responsibilities effectively:

- Ability to listen and read– Need to listen to the constituency and others, be genuine toward the feelings of others and be courageous to “hold their ground”. Getting all students interested and to participate hinges on being good listeners. One cannot be a leader and not engage with the world of ideas through reading. The idea of having a framework of what students want to achieve, like working toward eradicating poverty or building our democracy helps to make sound judgements.
- Planning- Students need to know their goals, how they want to achieve transformation and how they aim to measure success. Student leaders only plan for one term of office. Challenges occur because management must plan for longer periods. Planning for continuity means keeping records so that other leaders can pick up after their term. The need to focus on adequate record keeping, monitoring and evaluating; and using terms of reference when the need arises.
- Policies - SRC members need to be aware of institutional and national policies before they attend meetings and participate in discussions.
- Conflict – This can be minimised or avoided if students take ownership during policy making and understand the purpose of being a SRC member. Leading peacefully requires knowing and understanding the following: What is your purpose of existence? What is the purpose of SRCs? Why are you a student leader? Were you meant to be a student leader? What is your role in the proper management and governance of the university? How can you respond to challenges that management may have different perspectives on? How can you achieve the middle ground, without compromising student needs? How can you educate students that what they always want they do not necessarily get? How do you relate to power and what does this mean for you? How can the pressure of managing diversity be handled? How do you manage power problems with management? How do you manage power problems within the SRC?
- Complex cultural identities-Recognising the cultural identity of SRCs and recognising whether one wants to continue this cultural identity or disrupt it. This requires an acknowledgement that purpose and cause are more important than self-interest. This can become complex in view of different social identities of SRC members.
- Power- Power contestations obstruct progress in addressing student needs and can result in the wastage of resources. There is a need to avoid becoming power drunk, to the extent that student interests are compromised. This can be addressed through more rigorous communication between student leaders, students and management.

The competencies highlighted that students recognised the following important precepts in leadership (Logue, Hutchens and Hector, 2005: 399):

- Being part of something larger required collaboration, teamwork and building relationships.
- The team is more important than the leader.
- Cohesion in a team determines success.
- Focussing on service to others and for the greater good
- Leadership is not about winning or being the best.
- Focus on getting things done in the current to achieve long term goals.
- Getting things done involves planning to meet responsibilities.
- Awareness of the personal identity that the organization provides to leaders in terms of tasks, rules and activities.
- Motivating different personalities.

Much of the aforementioned precepts are interwoven in terms of people, actions and institutional purpose which are integral for successful student leadership. While current literature support the assertion that there are benefits associated with student leadership, few studies focused on personal costs and the lack of skills to respond appropriately ( Logue *et al*., 2005: 405).

### *Benefits of a leadership course*

Students reported the following benefits accruing from the various presentations pertaining to leadership theory:

- Awareness of the life-long nature of learning on leadership and need to acknowledge, apply and attain learning.
- Identification of what qualities they had as leaders and areas they needed to develop as student leaders.
- Importance of being a successful leader with authority.
- Being able to see things from different perspectives and reflecting on their own value systems and that of multi- stakeholder interests
- Being able to identify their strengths and weaknesses as student leaders and in their personal lives.
- Without the knowledge and understanding of leadership in general and student leadership specifically, they were not able to differentiate between good and bad leadership, citing Nelson Mandela, Martin Luther King, and Julius Malema as successful leaders; and Buthelezi and NATO as unsuccessful leaders.
- Choice of clear and concise words in negotiation is important- This requires recognition of the following: maybe difficult to change people, but not impossible; good to have instructions, but may not be necessarily good for everyone; clear interpretation of instructions that is shared by all; open mindedness and be able to adapt; be prepared to compromise; do not get tired of engaging; do not take rash decisions; cannot just trust anyone; must test other's first, before buying into their ideas; need to deal with those who are not willing to listen, possible to change and move forward; when decisions are taken, be firm and resilient to pressure to change; take responsibility for decisions, without blaming others; persevere when engaging with others; speak with one voice that is not influenced by self- interest; use clear and concise language.
- Collaboration and compromise- Realising that collaboration involves the retention of personal interest in negotiation, while compromise moves from conflict prone to conflict averse, by engaging in fair and workable decisions. The use of the process map of collaborative conflict management helps to unpack the problem and systematically move toward the solution. Apart from applying it in their respective constituencies, they felt that it can be applied in their personal lives as well
- The need for proactive behaviour before issues become unmanageable, therefore necessitating the need to engage in strategic planning.

By initiating discussions and recognizing the challenges associated with student leadership, it is expected that the students would be able to respond to these challenges with a new vision of how to prevent these challenges from festering. However, this requires subsequently a structured approach to initially prepare student leaders as a first step before they become embroiled in SRC issues. Apart from focusing on leadership competence, there is a need for knowledge in: foundations of SRCs, information resources, organization of recorded knowledge and information, research, continuing education and lifelong learning, and administration and management.

### *Understanding of leadership*

Students acknowledged that, s student leaders, they need to recognise the following:

- Setting goals and being honest to oneself and one's followers is vital. Students often lose sight of their purpose as student leaders and become embroiled in conflicts that can be avoided.
- The SRC in not the platform to advance their political agendas, but rather recognise the vision of the institution and the SRC when making decisions.
- Managing change and being able to adapt to change is important for transformation. This requires focusing not only on the present, but also reflecting on the past, so that improvements can be made with the future in mind.
- By having the knowledge, the task can be simplified to a certain extent.
- While it is important to be principled and be firm in one's stance, compromise may be necessary if the benefit is for the common good of all stakeholders.
- The issue of materiality or personal gain should not feature in leadership priorities.
- The achievement of goals can be difficult to accomplish if there is a lack of commitment. Commitment requires leading by example and being transparent about decisions.
- The role of civil society should not be underplayed, when developing leaders.
- Bearing in mind that students have different cultural backgrounds, levels of ability, intellectual capacity and many are from rural backgrounds, the use of different presentation styles and an interactive approach succeeds in reaching out to student diversity.
- Need for education for leadership in other contexts and opportunities for continuity.

Students identified important aspects relating to change, cultural diversity and context, which Dempster and Lizzio (2007:281) see as "*young people's emerging notions of leadership which can be* *seen as an appropriate response to a social context that is characterised by high levels of cultural change and social pluralism*". This makes inclusion and collective cooperation more challenging and complex. Dempster and Lizzio ( 2007:281) suggest the capacity to self regulate as a leadership skill to manage challenge and change; and to successfully negotiate diversity and difference. A further response by Thompson (2006:344), is that students need to engage in systemic thinking, which requires an adaptive environment that can lead to higher levels of success. In this regard, the leadership process theory of Allen, Stelzner and Wiekiewicz (1998:75) assert that individuals with higher levels of systemic thinking are more adaptive, cooperative and open to new ideas. It can therefore be posited that moving from a "leading by a few" perspective to "leading by all" perspective can generate higher levels of leadership empowerment and cohesiveness among student leaders.

Students citied the following characteristics of good student leaders:

- Never tire in the quest for knowledge and gaining valuable insight into the experiences of others.
- Importance of reading as it sharpens mental agility.
- Valued. respected, trusted and noticed .
- Important to determine the extent to which a leader is willing to define how he/she becomes successful.
- Use of power with discretion.
- Do not fight to finish as it destroys legacies.
- Leaders understand that different contexts demand different leadership styles.
- Use of sound and ethical tactics to persuade the community.
- A leader is an entrepreneur with a sense of single mindedness and clear goals.
- Power of persuasion, either verbally or through a simple actions.
- Self-awareness, ensuring that personal weaknesses are not the focus of attention.
- Leaders are patient, give attention to detail and are committed.
- Leaders always listen to their critical voice and conscience.
- Understand the context and balance of forces and compare to different eras..
- A good implementer who can sustain a course of action.

Collectively, the student perceptions is aligned to Burns (1978 citied in Hicks and Given, 2013: 9) understanding of leadership that placed the leader in a position of communal influence, by acting as an agent of the followers. Students recognized that leadership is transformational, where they have to work collectively on end- values based on liberty, justice, and equality. In the absence of all student leaders in SRCs not transcending their personal goals in favor of collective goals, purpose and goals can be compromised.

Student perspectives on leadership can be aligned to Kouzer and Posner's (2002: 18-25) leadership challenge model which encompass the following:

- Inspire a shared vision- others are attracted to share the vision to change the way things are and to create something new.
- Challenge the process- gain support for new ideas that foster progress, innovation and improvement.
- Enable others to act – provide the platform for collective efforts to take risks and create change.
- Encourage the heart- show care and appreciation through one's actions.
- Model the way- demonstrate self-awareness, clarity about one's values honesty, forward-thinking, competence and inspiration.

Unlike the social change model and the relational leadership models, the leadership challenge model identifies an observable set of skills and abilities that are practiced by effective leaders and can be learned by anyone.

## Conclusion

Since the 1990's, the higher education landscape has changed in South Africa. Universities were then seen as sites of political struggles. The focus now is on addressing social struggles. In the university context these include: student access, student loans, student accommodation, teaching and learning, broadening student experience and diversity.

Student leaders, with management, need to focus on real issues that can be collaboratively responded to through strategic plans, with an end in mind. This requires determining where the university wishes to go and what will it take to get the job done. Thus, universities must expend efforts to expose student leaders to the concepts of leadership so that they can receive the tools necessary to deal with leadership challenges that may arise during their careers as SRC members. Further, such initiatives have the potential to broaden student leadership behaviors which can also promote opportunities to increase their personal growth, and enhance their academic career success (Patterson, 2012:8).

In view of the discourse on change, especially in the post apartheid era, the element of leadership in training and educating for SRCs is critical for transformational leadership which requires problem solvers, team players, leaders, and articulate spokespeople who are driven by vision, trust, empowerment and values (Burger, 2006: 3). It is only if the SRC is effective, will other stakeholders have trust in them and share the vision.

Strategically, student leaders need to develop ongoing sustainable initiatives that address challenges beyond the social issues like: separating the political agenda of SRC members from their purpose within the SRC, maintaining a link between outgoing and incoming members, encouraging students to articulate their grievances, inspiring confidence from others, balancing academic and leadership responsibility, managing relationships when decisions do not go down well with the rest of the SRC, managing student responses when the SRC takes decisions with management that negatively impacts on the students, convincing students that decisions taken are for their benefit.

While feedback from sstudents showed that the initiative helped them develop and improve their personal leadership skills through various means of interaction, the researchers acknowledged that this has to be a continuous endeavor by the university partners as the tools needed to execute their roles and responsibilities has to be expended on a continuous basis. This is consistent with Posner"s (2012:233) study findings that the more opportunities that student leaders reported having to develop their skills, the more they reported engaging in the leadership practices of inspiring a shared vision, challenging the process, enabling others to act, encouraging the heart and modeling the way.

There is a need for further research that describes leadership from the students perspective, which would give a more in depth understanding through the voice of the student. Such research is important when developing relevant student leadership development programmes based on student perceptions and provides a potential foci for future research. However, the researchers recognize that there is no best approach to leadership. Since students are individuals, with unique traits, their leadership journeys start from different points and end at different points. Leadership development for student leaders should be modeled on providing them with the critical attitudes, behaviors, and knowledge sets that they can use to build their own unique personal leadership model.

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# EMPLOYEE PERCEPTIONS OF THE INFLUENCE OF DIVERSITY DIMENSIONS ON CO-WORKER INTERACTIONS AND DAILY ORGANIZATIONAL OPERATIONS

***Atasha Reddy*, Sanjana Brijball Parumasur*****

**Abstract**

This study assesses employee perceptions of the influence of diversity dimensions (race, gender, religion, language, sexual orientation, attitudes, values, work experience, physical ability, economic status, personality) on their interactiions with co-workers as well as on their organization in its daily operations. These perceptions were also compared and gender related correlates were assessed. The study was undertaken in a public sector Electricity Department in KwaZulu-Natal, South Africa. The population includes 100 employees in the organization, from which a sample of 81 was drawn using simple random sampling. Data was collected using a self-developed, pre-coded, self-administered questionnaire whose reliability was assessed using Cronbach's Coefficient Alpha. Data was analyzed using descriptive and inferential statistics. The findings reflect that employees perceive that their interactions with co-workers are most likely to be influenced by attitudes, work experience and personality and that daily organizational operations are most likely to be influenced by race, work experience and attitudes. Furthermore, religion and sexual orientation are perceived as having the least influence on co-worker interaction and day-to-day organizational operations. In the study it was also found that employees perceive that race followed by gender influences day-to-day organizational operations to a larger extent than it influences co-worker interactions. Recommendations made have the potential to enhance the management of workforce diversity.

**Keywords:** Interactions with Co-Workers, Diversity Dimensions, Attitudes, Race, Personality, Work Experience, Principle of Inclusiveness

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## Introduction

In recent times the concept of workforce diversity has become an important variable of interest to researchers (Cox, 1994; Allison, 1999; Kirton & Greene, 2000) especially because workplaces can be rather diverse in terms of race, gender, sexual orientations, personalities, attitudes and values, amongst others. According to Allison (1999), issues of diversity should not be separated from basic management principles. The application of management principles assists in maintaining the integrity of diversity and fairness on a long term basis. Considerable attention has been paid to discussions on the importance of workplace diversity together with efforts to propose models, guidelines and training modules to facilitate diversity training (Allison, 1999).

Diversity has to be recognized as an imperative strategic route that businesses have to take in order to survive (Bryan, 2000/2001; Carrell, Elbert, Hatfield, Grobler, Marx and Van der Schyf, 1998). Researchers such as Cox (1994) and Kirton and Greene (2000) contend that this forward thinking has much to do with future trends which predict that the composition of the workforce will be of people who are essentially different on various levels.

World population statistics reveal that the existing labour force of traditional industrial powers cannot be replaced if one examines the fertility rate of those countries. To replace lost labour or even to add to the existing numbers, has to come from immigration or from increasing the participation of minority groups (Cox, 1994). Increased mobility and the interaction of people from diverse backgrounds, as a result of improved economic and political structures as well as the equal opportunity framework, have forced organizations to embrace workplace diversity (Henry, and Evans, 2007). These trends dictate the impracticality of organizations who hang on to the notion of acquiring and retaining a homogenous workforce (Gudmundson & Hartenian, 2000). What is inevitable is a workplace that is more diverse and the need to utilize this trend positively is vital if organizations are to cultivate success and remain globally competitive. A homogenous workforce can be detrimental to an organization in various ways. These include implications for "long term growth, renewal, and the ability to respond to important environmental changes such as dynamic market conditions, new technologies and ideas, societal shifts, or the changing expectations of the work force" (Kossek & Lobel, 1996, p. 3). An organization that embraces diversity can aid the culture to adapt to the environmental demands. The aim is to attract, select, motivate, develop and retain a diverse workforce that is skilled enough to successfully work through changes.

## Understanding Diversity and Diversity Dimensions

Research identifies two perspectives on workplace diversity: functionalist perspectives and critical perspectives (Cox, 1994; Allison, 1999). This study is based on the former which focusses on workplace diversity in terms of controlling the negative and positive aspects of diversity. This alludes to an organizational effectiveness model where the aim is to enhance organizational productivity, responsiveness and effectiveness (Cox, 1994; Allison, 1999).

A traditional definition of diversity merely focusses on increasing the number of women and minorities in an organization. In fact, many organizations are guilty of simply complying with legal requirements or are just responding to a shift in the labour market resources (Pitts & Wise, 2010; Pless & Maak, 2004) whilst failing to engage in valuing, developing and effectively utilizing diversity (Shen, Chanda, D'Netto & Monga, 2009). Diversity introduces various challenges to organizations. One such challenge is that people are recognizing that enhancing diversity requires organizations to change to the extent of amending current regulations and advocating the sharing of power and decision-making (Ansari & Jackson, 1995). Ansari and Jackson (1995) further advocate that diversity extends beyond treating everyone the same, to recognizing differences and the fact that groups of people have been largely ignored in the workplace. For organizations to adopt a diverse approach means valuing differences and treating people in ways which bring out the best in them (Wise & Tschirhart, 2000).

Diversity refers to differences in "age, ethnic heritage, gender, physical ability and qualities, religious belief and sexual/affectional orientation" (Arai, Wance-Thibault & Shockley-Zalabak, 2001, p. 445). This is a broad definition of the term and is similar to one proposed by Thomas (1996), which adds that diversity in its fullest sense involves a broad range of factors. Similarly, Wise and Tschirhart (2000) advocate a definition by Cox which conceptualizes diversity as the collective (all-inclusive) mixture of human differences and similarities along a given dimension. These dimensions include "race, culture, religion, gender, sexual preference, age, profession, organization team tenure, personality type, functional background, education level, political party, and other demographic, socioeconomic and psychographic characteristics" (Wise & Tshirhart, 2000, p. 2). Workplace diversity includes identifying those individuals who share these common traits which can either unite or divide people. Human (1996), cited in Carrell et al. (1998, p. 50), differentiates workplace diversity on three levels:

- The politically correct term for equal employment opportunity/affirmative action (a narrow view of diversity)
- The recruitment and selection of ethnic groups and women (most organizations tend to focus on this aspect of regulating their workforce numbers)
- The management of individuals sharing a broad range of common traits (a broad perspective on workplace diversity programs).

Lippman (2000, p. 25) defines a diverse workplace as a place where:

- Minorities, women and the disabled have positions at every level.
- People are allowed, even encouraged, to be who they are rather than having to dress, behave and express themselves in a lockstep.
- Barriers to advancement have been torn down to continue to be searched and attacked.
- All employees have the opportunity for personal growth and the room to reach their full potential.

Research studies focus on redefining diversity and paying close attention to the difference(s) between psychological and covert factors or deep-level diversity (personality, attitudes, beliefs and values) and visible, surface-level diversity (demographic and physical characteristics such as age, gender and race) (Barsade, Ward, Turner, Sonnenfeld, 2000; Harrison, Price & Bell, 1998; Knouse & Dansby, 1999; Pitts & Wise, 2010; Saji, 2004; Wentling & Palma-Rivas, 2000).

It is apparent that there are several dimensions to understanding exactly what diversity it. Clearly though, what is needed is a radical change in one's traditional idea of what diversity is and a move towards an amalgamation of different approaches.

## Implications of a Diverse Workforce And Perceived Benefits

Having a diverse workforce demands effective diversity management. In other words, there is a need to systematically manage a heterogeneous workforce in a fair and equitable environment where no individual has an advantage or disadvantage and all employees are able to perform optimally. This means that for organizational success to be attained, effective diversity management practices relating to recruitment and selection, training and development, performance management and pay must be formulated and implemented as a norm rather than an exception (Lawrence, 2001). A heterogeneous workforce has innovative and creative potential that can be utilized to eliminate cultural boundaries, formulate perspectives and solutions to organizational problems, and generate innovative product ideas and market opportunity initiatives (Pitts & Wise, 2009; Pless & Maak, 2004). Hence, diversity in the workplace can be a competitive advantage because enhanced creativity and innovation can lead to better organizational performance (Allen, Dawson, Wheatley & White, 2004) and a diverse workforce can provide superior services due to enhanced understanding of customers' needs (Wentling & PalmaRivas, 2000), thereby reflecting that diversity can result in economic benefit and organizational effectiveness (Ferley, Hartley & Martin, 2003). Therefore, organizations that demonstrate experience in managing diversity are more likely to attract the best personnel (Carrell, et al., 1998), thereby aligning with Von Bergen, Soper and Parnell's (2005) view that diversity can influence performance and performance can influence diversity. However, a study undertaken by D'Netto and Sohal (1999) in Australia found that the management of workforce diversity was only 'mediocre' especially in the areas of recruitment and selection and training and development. In addition, Allen et al. (2004) maintain that only a small percentage of companies tie manager's rewards or compensation to the achievement of diversity goals. Pless and Maak (2004) advocate the need for an integrative approach to diversity and emphasize the importance of creating more inclusive work environments where people from diverse backgrounds feel respected and recognized, have mutual understanding, trust and integrity, whilst taking cognisance of norms and values. The principle of inclusiveness fosters greater employee integration, human diversity and the cohesion of multiple voices into the organizational dialogue (Pless & Maak, 2004). At the realm, of employee integration lie the issue of effective co-worker interaction and organizational practices that promote inclusivity.

## Aims of the Study

This study assesses employee perceptions of the influence of diversity dimensions (race, gender, religion, language, sexual orientation, attitudes, values, work experience, physical ability, economic status, personality) on their interactions with co-workers as well as on their organization in its daily operations. These perceptions were also compared and gender related correlates were assessed.

## Research Design

### *Respondents*

The study was undertaken in a public sector Electricity Department in KwaZulu-Natal, South Africa. The population includes 100 employees in the organization, from which a sample of 81 was drawn using simple random sampling. According to Sekaran's (2003) population-to-sample size table, a corresponding minimum sample of 80 was needed, thereby confirming the adequacy of the sample of 81 employees.

In terms of the composition of the sample, there were more males (59.3%) than females (40.7%). The majority of the sample were from 26-40 years (64.3%) with 27.2% being from 26-30 years, 17.3% being from 31-35 years and 19.8% being from 36-40 years. The majority of the sample is English speaking (69.1%), followed by those who are Zulu (29.6%) and North Sotho (1.3%) speaking. In terms of tenure, the majority of the employees have between 1-15 years of service (81.5%) with 29.6% of the employees having 1-5 years of service, 28.4% having 6-10 years and 23.5% having 11-15 years of tenure. Furthermore, 51.9% of the participants are Indian, followed by Black (30.9%), White (11.1%) and then Coloured (6.1%). Whilst, 69.1% are general staff, 28.4% comprise of technical specialists and 2.5% are from middle management.

## Measuring Instrument

Data was collected using a self-developed, pre-coded, self-administered questionnaire consisting of two sections. Section A relate to biographical (gender, age, language, tenure, race, occupational level) and was assessed using the nominal scale with precoded option categories. Section B tapped into perceptions of the diversity dimensions that influence them when interacting with co-workers as well as the diversity dimensions that influence their organization in its operations. The diversity dimensions assessed included race, gender, religion, language, sexual orientation, attitudes, values, work experiences, physical ability, economic status and personality. Section B was measured using the Likert Scale ranging from strongly disagree (1), disagree (2), neither agree nor disagree (3), agree (4) to strongly agree (5). The questionnaire was formulated on the basis of identifying recurring themes that surfaced while conducting the literature review. These ensured face and content validity. Furthermore, in-house pretesting was adopted to assess the suitability of the instruments. Pilot testing was also carried out on 8 employees using the same protocols that were utilized for the larger study to test the process, the appropriateness of questions and employees' understanding thereof. No inadequacies were reported and the final questionnaire was considered appropriate in terms of relevance and construction.

### Research procedure

The research was only conducted after ethical clearance was obtained for the study and upon completion of the pilot study.

### Reliability of the questionnaire

The reliability of the questionnaire was assessed using Cronbach's Coefficient Alpha. The items were reflected as having a high level of internal consistency and reliability, with the Cronbach's Coefficient Alpha for the items measuring the perceptions of employees of the diversity areas influencing their interaction with co-workers and that of the organization as being 0.8196.

### Statistical analysis of the data

Descriptive statistics (mean, mode, standard deviation, minimum, maximum) and inferential statistics (chi-square correlation: Likelihood ratio) were used to evaluate the objectives and hypotheses of the study.

## Results

### Descriptive Statistics

Employees' perceptions of the diversity dimensions influencing them when interacting with co-workers were assessed using a 1-5 point Likert scale. The higher the mean score value, the more employees perceive the diversity area to influence their interactions with others (Table 1).

**Table 1.** Descriptive statistics – Employees' perceptions of the diversity dimensions influencing them when interacting with co-workers

| Diversity Dimensions | Mean | Mode | Std. Deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| Race | 2.6 | 1 | 1.5 | 1 | 5 |
| Gender | 1.8 | 1 | 1.1 | 1 | 5 |
| Religion | 1.7 | 1 | 1.2 | 1 | 5 |
| Language | 2.6 | 2 | 1.5 | 1 | 5 |
| Sexual orientation | 1.7 | 1 | 1.0 | 1 | 5 |
| Attitudes | 3.1 | 2 | 1.3 | 1 | 5 |
| Values | 2.7 | 2 | 1.2 | 1 | 5 |
| Work experience | 3.0 | 2 | 1.3 | 1 | 5 |
| Physical ability | 2.0 | 1 | 1.2 | 1 | 5 |
| Economic status | 1.8 | 1 | 1.1 | 1 | 5 |
| Personality | 2.9 | 3 | 1.3 | 1 | 5 |

Table 1 indicates that when employees interact with each other they are influenced, in descending level based on mean score values, by:

- Attitudes (Mean = 3.1)
- Work experience (Mean = 3.0)
- Personality (Mean = 2.9)
- Values (Mean = 2.7)
- Race and Language (Mean = 2.6)
- Physical ability (Mean = 2.0)
- Gender and Economic status (Mean = 1.8)
- Religion and Sexual orientation (Mean = 1.7)

Evidently, employees perceive that their interactions with co-workers are predominantly influenced by attitudes, work experience and personality. The mode of 3 for Personality shows that a significant segment of employees perceive that their interactions with co-workers are largely influenced by this diversity dimension. Furthermore, Interactions with co-workers is least likely to be influenced by religion and sexual orientation.

Employees' perceptions of the diversity dimensions influencing their organization on a daily basis were evaluated using a 1-5 point Likert scale. The higher the mean score value, the more employees perceive the diversity area to influence their organization in its daily operations (Table 2).

**Table 2.** Descriptive statistics – Employees' perceptions of the diversity dimensions influencing their organization in its daily operations

| Diversity Dimension | Mean | Mode | Std. Deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| Race | 3.8 | 5 | 1.4 | 1 | 5 |
| Gender | 2.5 | 2 | 1.3 | 1 | 5 |
| Religion | 1.7 | 1 | 1.0 | 1 | 5 |
| Language | 2.9 | 2 | 1.5 | 1 | 5 |
| Sexual orientation | 1.8 | 1 | 1.2 | 1 | 5 |
| Attitudes | 3.1 | 4 | 1.3 | 1 | 5 |
| Values | 2.7 | 2 | 1.3 | 1 | 5 |
| Work experience | 3.2 | 4 | 1.3 | 1 | 5 |
| Physical ability | 2.2 | 2 | 1.2 | 1 | 5 |
| Economic status | 2.0 | 1 | 1.2 | 1 | 5 |
| Personality | 2.7 | 2 | 1.2 | 1 | 5 |

Table 2 indicates that employees perceive their organizations in their daily operations to be influenced, in descending level based on mean score values, by:

- Race (Mean = 3.8)
- Work experience (Mean = 3.2)
- Attitudes (Mean = 3.1)
- Language (Mean = 2.9)
- Values and Personality (Mean = 2.7)
- Gender (Mean = 2.5)
- Physical ability (Mean = 2.2)
- Economic status (Mean = 2.0)
- Sexual orientation (Mean = 1.8)
- Religion (Mean = 1.7)

Evidently, employees perceive that their organization in its daily operations is predominantly influenced by race, work experience and attitudes. The mode of 5 for Gender and 4 for Attitudes and Work Experience shows that a significant segment of employees perceive that their organization in its daily operations are largely influenced by these three diversity areas. Furthermore, employees perceive that their organization in its daily operations is least likely to be influenced by religion, followed by sexual orientation.

Employees' perceptions of the influence of the diversity dimensions on their interactions with co-workers and on their organization in its daily operations were compared (Figure 1).

**Figure 1.** Comparison of employees' perceptions of the influence of diversity dimensions on their interactions with co-workers and on the organization in its daily operations

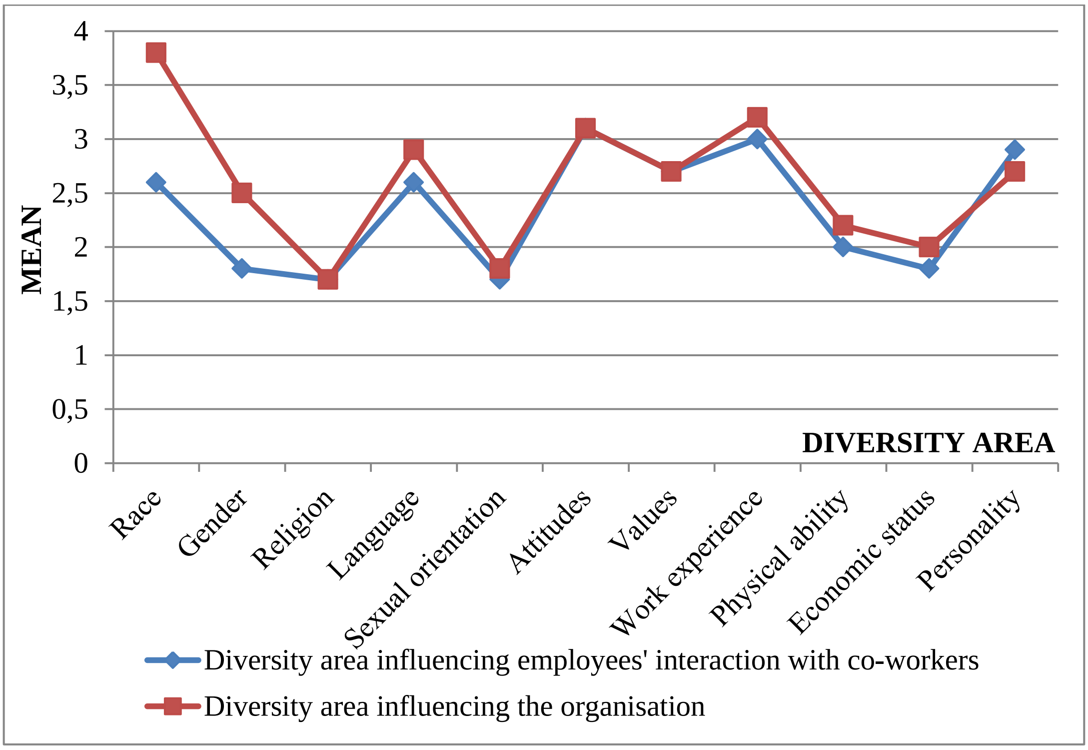

Figure 1 reflects that:

a) Significant differences were noted in employee perceptions of the influence of race and gender on their own interaction with co-workers and their organization's daily operations.

b) Negligible differences were noted in employee perceptions of the influence of language, work experience, physical ability, economic status, personality and sexual orientation on their own interaction and on their organization's daily operations.

c) No differences were noted in employee perceptions of the influence of religion, attitudes and values on their own interaction and on their organization's daily operations.

Evidently, the gap between the perceived differences on the influence of the dimensions on co-worker interactions and day-to-day organizational operations is the greatest for race followed by gender. Employees perceive that race followed by gender influences day-to-day organizational operations to a larger extent than it influences co-worker interactions.

## Inferential statistics

### Influence of Biographical data

The influence of gender (male, female) on employees' perceptions of the influence of the diversity dimensions on their interactions with co-workers and, on the organization in its daily operations were assessed using chi-square correction (Likelihood ration).

*H1:* There is a significant relationship between gender (male, female) and employees' perceptions of the influence of the diversity dimensions (race, gender, religion, language, sexual orientation, attitudes, values, work experience, physical ability, economic status, personality) on their interactions with co-workers respectively (Table 3).

**Table 3.** Correlation (Likelihood ratio) between gender and employees' perceptions of diversity dimensions influencing their interactions with co-workers

| Diversity Dimension | Likelihood ratio Value | Df | p |
|---|---|---|---|
| Race | 3.806 | 4 | 0.433 |
| Gender | 12.103 | 4 | 0.017* |
| Religion | 6.205 | 4 | 0.184 |
| Language | 4.570 | 4 | 0.334 |
| Sexual orientation | 6.092 | 4 | 0.192 |
| Attitudes | 1.955 | 4 | 0.744 |
| Values | 7.669 | 4 | 0.104 |
| Work experience | 2.835 | 4 | 0.586 |
| Physical ability | 2.051 | 4 | 0.726 |
| Economic status | 5.404 | 4 | 0.248 |
| Personality | 2.681 | 4 | 0.613 |

*$p < 0.05$

Table 3 indicates that there is no significant relationship between gender (male, females) and employees' perceptions of the influence of the respective diversity areas (race, religion, language, sexual orientation, attitudes, values, work experience, physical ability, economic status, personality) on their interactions with co-workers. However, Table 3 reflects that there is a significant relationship between gender (male, female) and the perceptions of employees that gender does influence their interactions with co-workers at the 5% level of significance. In this regard, frequency analyses reflect that more females (87.5%) than males (77.1%) agree that gender influences their interactions with co-workers. Evidently, a significant percentage of both male and female employees are influenced by gender when interacting with co-workers.

*H2:* There is a significant relationship between gender (male, female) and employees' perceptions of the influence of the diversity dimensions (race, gender, religion, language, sexual orientation, attitudes, values, work experience, physical ability, economic status, personality) on their organization in its daily operations respectively (Table 4).

**Table 4.** Correlation (Likelihood ratio) between gender and employees' perceptions of the diversity dimensions influencing their organizations in its daily operations

| Diversity Dimension | Likelihood ratio Value | Df | p |
|---|---|---|---|
| Race | 3.317 | 4 | 0.506 |
| Gender | 7.036 | 4 | 0.134 |
| Religion | 2.198 | 4 | 0.699 |
| Language | 7.116 | 4 | 0.130 |
| Sexual orientation | 7.012 | 4 | 0.135 |
| Attitudes | 1.339 | 4 | 0.855 |
| Values | 9.686 | 4 | 0.046* |
| Work experience | 5.155 | 4 | 0.272 |
| Physical ability | 8.438 | 4 | 0.077 |
| Economic status | 4.077 | 4 | 0.396 |
| Personality | 1.709 | 4 | 0.789 |

*$p < 0.05$

Table 4 indicates that there is no significant relationship between gender (male, females) and employees' perceptions of the influence of the respective diversity areas (race, gender, religion, language, sexual orientation, attitudes, work experience, physical ability, economic status, personality) on their organization in its daily operations. However, Table 4 reflects that there is a significant relationship between gender (male, female) and the perceptions of employees that values do influence their organization and its daily operations at the 5 % level of significance. In this regard, frequency analyses reflect that significantly more males (62.5%) than females (35.5%) agree that gender influences their organization in its daily operations.

## Discussion of Results

Employees reflect that their interactions with co-workers are most likely to be influenced by attitudes, work experience and personality and are least likely to be influenced by religion and sexual orientation respectively. The perceived influence of personality on interactions with co-workers is particularly significant since Dougherty, Cheung and Florea (2008) noted that personality influences one's social network and developmental network structures, Yang, Gong and Huo (2011) found that individuals high on proactivity are more likely to engage in helping behaviour and Niehoff (2006) found that participation as a mentor is likely to be influenced by personality. Likewise, it was found in this study that employees perceive their organizations in their daily operations to be influenced the most by race, work experience and attitudes and least by sexual orientation and religion respectively. Regarding the influence of race, Weeks, Weeks and Frost (2007) found a significant interaction between race and social class when predicting the percentage of pay increase given to employees and Gardner and Deadrick (2012) noted that race moderated the validity of cognitive ability in predicting performance. Perhaps, work experience is perceived as having an influence on co-worker interactions and daily organizational operations because work experience influences self-improvement and professionalism (Chinomona & Surujlal, 2012; Hewlett, 2006). Regarding the influence on attitudes on daily organizational operations, Edgar and Geare (2005) found that a significant relationship exists between human resource management practice and employee work-related attitudes. It was also noted that whilst personality was perceived as influencing co-worker interaction it was not viewed as having the potential to strongly influence day-to-day organizational operations. This finding is contrary to that of researchers who found that (1) personality and in particular conscientiousness influences organizational effectiveness (Barbuto, Phipps & Xu, 2010), (2) personality and in particular agreeableness influences job performance (Yang and Hwang, 2014), (3) altruistic employees (those who enjoy helping others) received higher advancement potential ratings and greater reward recommendations and (4) personality influences work involvement, though not strongly or extensively (Bozionelos, 2004).

In this study, it was also noted that religion and sexual orientation had the least influence on co-worker interaction and daily organizational operations. The limited influence of sexual orientation may be due to the fact that since 1980, 12 states have passed legislation banning employment discrimination on the basis of sexual orientation and this philosophy might be permeating throughout many organizations (Human Rights Campaign, 2007) or perhaps, because there is greater willingness by employees to publicly make their gay or lesbian orientation known (Griffith & Hebl, 2002). However, a study undertaken by Fernando and Jackson (2006) found that religion plays a significant role in influencing the judgment, emotion and motivational qualities of Sri Lankan leaders' decision-making.

Furthermore, in this study it was found that the gap between the perceived differences on the influence of the dimensions on co-worker interactions and day-to-day organizational operations is the greatest for race followed by gender. In other words, employees perceive that race followed by gender influences day-to-day organizational operations to a larger extent than it influences co-worker interactions. In line with the influence of race and gender on organizational operations, Fortune magazine reported that people of colour constituted only 19% of corporate board rooms and 26% of management in the Fortune 1000 and the largest privately owned companies (Hickman, Tkaczyk, Florian & Stemple, 2003) and that in 2006 only 2% of Chief Executive Officers in the Fortune 1000 were women (CNN, 2007), thereby keeping the glass ceiling that prevents women rising in the workplace firmly in place (Human Resource Management International Digest, 2006). Instead of simply assessing the number of women in management, Mensi-Klarbach (2014) proposes assessing gender diversity in top management based on four layers of gender relevant moderators, namely, societal, organizational, top management team and the individual layer. In terms of the influence of gender on co-worker interactions, Leo, Reid, Geldenhys & Govind (2014) emphasize the prevalence of bullying amongst South African employees, and particularly women, in the workplace. However, Richard, McMillan, Chadwick and Dwyer (2003) found that racial diversity resulted in better bank performance when innovation was a core part of the organization’s strategy, but jeopardized performance when innovation was not emphasized. Furthermore, Pitts (2009) found that diversity management programs can enhance job satisfaction and perceptions of performance among people of colour.

The influence of gender on employee perceptions of the influence of the diversity dimensions on co-worker interaction and daily organizational operations were also assessed. With regard to the former, it was found that there is a significant relationship between gender (male, female) and the perceptions of employees that gender does influence their interactions with co-workers at the 5% level of significance, with more females (87.5%) feeling in this way than males (77.1%). Evidently, a significant percentage of both male and female employees are influenced by gender when interacting with co-workers.

With regard to the influence of gender on employee perceptions of the influence of the diversity dimensions (race, gender, religion, language, sexual orientation, attitudes, values, work experience, physical ability, economic status, personality) on daily organizational operations, it was found that there is a significant relationship between gender (male, female) and the perceptions of employees that values do influence their organization and its daily operations at the 5 % level of significance, with more males (62.5%) feeling so than females (35.5%). Dean (2008) emphasizes that values are the essence of who we are and influence every facet of our being especially in terms of our motivations, the relationships we build, the organizations we lead as well as our actions and decisions.

The results also indicate that language, physical ability and economic status respectively are perceived by employees as having less influence on co-worker interactions and daily organizational operations. Perhaps, the influence of language on co-worker interactions is clouded since more people are becoming linguistically diverse, for example, 18% of all households in the United States use a language other than English (Rubaii-Barrett & Wise, 2007), multilingualism is encouraged in the South African Police Services (SAPS) in the Western Cape in South Africa (Dyers & George, 2007) and multilingual models of education and language policies are proposed across African populations (Banda, 2009).

## Recommendations and Conclusion

The findings reflect that employees perceive that their interactions with co-workers are most likely to be influenced by attitudes, work experience and personality and that daily organizational operations are most likely to be influenced by race, work experience and attitudes. The perceived influence of attitudes, work experience and personality has obvious implications for the human resource practices of recruitment and selection. It is, therefore, recommended to recruit and select individuals whose attitudes and personality are congruent with the culture of the organization and whose work experience fits the job. This will enable the new incumbent to fit into the culture of the organization quicker and better and reach optimal performance within a shorter pace of time. The perceived influence of race on daily organizational operations may be due to race sensitivity particularly that the study is undertaken in South Africa, a country that endured the ills of apartheid. Perhaps, the influence of race on organizational operations is perceived as organizations, whilst complying with legal requirements, may be lagging behind in effectively managing workplace diversity. In the study it was also found that employees perceive that race followed by gender influences day-to-day organizational operations to a larger extent than it influences co-worker interactions. It is, therefore, recommended that organizations create more inclusive work environments where people from diverse backgrounds feel respected and recognized, have mutual understanding and, trust and integrity. The principle of inclusiveness fosters greater employee integration and the cohesion of numerous voices into the organizational dialogue that contributes to attaining organizational effectiveness.

## Recommendations for Future Research

This study assesses employee perceptions of the influence of diversity dimensions on co-worker interactions and daily organizational operations. It does not assess the extent to which organizations are engaging in human resource practices that foster more inclusive work environments in managing workforce diversity. Organizations will benefit if future studies focus on the principle of inclusiveness as it has the potential to impact positively on organizational effectiveness.

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# IS IT REALLY A BONDING, AN AVOIDANCE, OR A CHARACTERISTICS CHOICE? AN ANALYSIS OF FOREIGN LISTING ON LOW VERSUS HIGH INVESTOR PROTECTION MARKETS

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**Abstract**

We investigate the different in the characteristics of firms that cross-list on high versus low investor protection markets. We find that civil law firms that cross-list on common law markets have higher growth rate, larger size and lower turnover pre cross-listing than their counterparts that cross-list on civil law markets. Also, we find that common law firms that cross-list on common law markets are larger and have a lower volume turnover than those that cross-list on civil law markets. Both groups experience a significant increase in their growth after cross-listing on common law markets. We also report that firms with poor accounting standards, poor performance, small in size, and from civil law countries are likely to cross-list on the US unregulated exchanges.

**JEL:** G30, G32, G34

**Keywords:** Foreign Listing, Legal System, Investor Protection, Civil-Law, Common-Low, Regulated Exchanges, Unregulated Exchanges

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## 1. Introduction

Abdallah and Goergen (2011) examine the evolution of control for foreign firms that cross-listed on 19 stock markets. They find that these firms experience a decrease in their control concentration. This is the case for civil law firms that cross-list on common law markets and for both groups of common law firms. However, the finding is not upheld for civil law firms that cross-list on civil law markets. Abdallah and Goergen (2011) conclude that the control structure influences the choice of the cross-listing location since cross-listing in different legal systems may have different implications for control.

The foreign listing decision is also influenced by the financial needs of the firms For instance, firms are more likely to cross-list if they are planning a strategic expansion that requires a large amount of external funds. Eiteman *et al.*, 2010, argue that cross-listing enables firms to move from an illiquid market to a liquid market, since the degree of liquidity is different from one market to another. In this regards, firms in an illiquid and small markets may benefits from issuing shares internationally, and hence, enlarging their investor bases. The benefits and reasons of international listing of shares have been explored extensively in previous studies. Those benefits and reasons range from increasing share trading volume (e.g. Barclay *et al.* 1990; Chowdhry and Nanda, 1991; Mittoo, 1992; Fatemi and Tourani-Rad, 1996; Noronha *et al.*, 1996; Mitto, 1997; Domowitz *et al.* 1998; Foerster and Karolyi, 1998), to increasing visibility (Baker et al., 2002), reducing cost of capital (Foerster and Karolyi, 1993; Foerster and Karolyi, 1999, Miller, 1999; Ramchand and Sethapakdi, 2000), increasing the level of disclosure (Tesar and Werner; 1995; Noronha *et al.*, 1996; Frost and Pownall, 2000; Leuz and Verrecchia, 2000; Lang *et al.*, 2003a, Lang *et al.*, 2003b; Leuz, 2003, Abdallah et al., 2012), overvaluation (Abdallah and Ioannidis, 2010), to increasing investor protection through bonding (Fuerst, 1998; Coffee, 1999; Kelley and Woidtke, 2001; Coffee, 2002; Reese and Weisbach, 2002; Barton and Waymire, 2003; Doidge, Karolyi and Stulz, 2003; Benos and Weisbach, 2004; Piotroski and Srinivasan, 2008).

Although the literature has answered many questions related to cross-listing, little attempt has been given to investigate the characteristics and the choice of firms that cross-list on high versus low investor protection markets. We mainly investigate how a company's characteristics determine the cross-listing location. Therefore, in a univariate study, we examine the financial characteristics of the cross-listed firms before the cross-listing and the implications of cross-listing for them. In particular, we investigate whether firms that cross-list on markets with good investor protection differ from firms that cross-list on markets with low investor protection. We compare the characteristics of our sample firms before and after the cross-listing.

Subsequently, we run a logistic model to test the choice of foreign listing between regulated and unregulated international exchanges. More specifically, we focus on the factors that determine the choice of listing between regulated and unregulated exchanges with respect to investor protection. We find that firms from civil law regimes cross-list on common law stock exchanges markets have a higher growth rate, a larger size and a lower turnover pre cross-listing than their counterparts that cross-list on civil law markets. Moreover, we document that firms from common law countries that cross-list on common law markets are larger and have a lower volume turnover than those that cross-list on civil law markets. We report results, which suggests that civil and common law firms that cross-list on common law markets experience a significant increase in their growth during the cross-listing year. Furthermore, we also provide evidence, which indicates that firms from poor investor protection countries, low-level of accounting standards, and small in size choose to cross-list on the US unregulated exchanges (mainly OTC and PORTAL) that have low investor protection regulations, listing and disclosure requirements.

The rest of the paper is organised as follows. Section 2 presents the hypotheses to be tested. Section 3 defines the sources of data and our variables and explains our methodology. Section 4 discusses the characteristics of cross-listed firms, section 5 examine the choice of cross-listing between regulated and unregulated stock exchanges. Finally, section 6 concludes.

## 2. Hypotheses to be tested

We derive our hypotheses from the determinants of the cross-listing decision. Firms cross-list in order to raise capital, to improve the liquidity of their shares and to improve their product identification in the host country.

### *2.1. Cross-listing and raising capital*

Firms cross-list in order to raise capital, especially when the financial constraints in their home country are binding. On the home market, the firm is restricted to a certain amount of capital determined by the demand and supply of the market. By listing abroad, the firms' capacity to raise funds would be expanded beyond what the firms might have been able to raise in their domestic markets. Mittoo (1992) reports that managers view the access to foreign capital markets and the increased ability to raise equity as the main benefits of cross-listing.

Recent research documents that stock markets in countries with good investor protection (La Porta et al., 1997) and higher compliance with legal norms, as measured by the law and order index (Demirgüc-Kunt and Maksimovic, 1998), enable firms to raise more external funds and grow faster. An effective legal system discourages the misbehaviour of corporate insiders and should "in principle" impose proper compensation for violations of investor rights. Furthermore, La Porta et al. (1997) find that the percentage of the market capitalisation of equity held by outsiders is higher in common law markets than in civil law markets, and the common law markets have a higher number of listed firms and IPOs than civil law markets.

Firms that cross-list in order to raise capital may have a high level of leverage, high growth opportunities, or their capital needs may be larger than the capacity of their home markets. Due to the existing differences between common law markets and civil law markets regarding the ability of firms to obtain external funds, we hypothesis the following:

*H1.* Given that common law markets enable firms to raise more external finance than civil law markets, firms that cross-list on common law markets have a higher level of leverage before the cross-listing than firms that cross-list on civil law markets.

*H2.* Given that common law markets enable firms to raise more external finance than civil law markets, firms that cross-list on common law markets have higher growth opportunities before and after the cross-listing than firms that cross-list on civil law markets.

*H3.* Given that common law markets are larger and more liquid than civil law markets, firms that cross-list on common law markets have a higher market capitalisation relative to their home market before the cross-listing than firms that cross-list on civil law markets.

### *2.1. Cross-listing and liquidity of the company's shares*

Cross-listing the firm's shares abroad makes it easier for the foreign investors to acquire and trade the shares. Holding shares in the foreign firm in its domicile market is more risky than holding shares in a firm listed on the local market. This is because of the investment barriers resulting from differences in language, currency, financial reporting and auditing practices, and lack of coverage by financial analysts and the media in the foreign firm. Cross-listing reduces these barriers as the firm prepares periodical information complying with local requirements of the host country. The firm also benefits from local media and financial analysts' coverage. Accordingly, it will be easier for the local investors to obtain timely and relevant information about the foreign firm. This will reduce the risk borne by foreign investors such as exchange risk fluctuations, hence encouraging investors to trade in the share. A survey conducted by Mittoo (1992) reveals that 28% of the managers cite increased liquidity of the firm's share as a major benefit of cross-listing. Mittoo (1992) also reports that firms which voluntarily delisted from foreign exchanges cited the lack of trading activity as the main reason for delisting.

Firms that cross-list in order to improve the liquidity of their shares will seek to cross-list on markets with improved market information. The legal and regulatory environment determines the quantity and the quality of publicly available information. A good shareholder protection environment minimises the asymmetry information in the market (Brockman and Chung, 2003), which in turn reduces the cost of trading for liquidity providers. This encourages them to trade more often since they are less likely to trade against informed traders. Therefore, we hypothesis the following:

*H4.* Given that good shareholder protection in common law markets improves share liquidity, firms that cross-list on common law markets have a lower share turnover before the cross-listing than firms that cross-list on civil law markets.

Furthermore, Coffee, 1999, 2002 argues that firms domiciled in low investor protections countries will bond themselves by listing on the US regulated exchanges (AMEX, NASDAQ, and NYSE). Doidge et al., 2004, and Abdallah and Goergen, 2008, find supportive evidence. Nonetheless, it is worth noting that those exchanges are associated with a higher level of regulations and listing requirements, and hence, the compliance with their listing requirements requires significant costs to be incurred by the listing firms, compared to those of the US unregulated exchanges (OTC and PORTAL). In this respect, Doidge et al., 2004 argue that the decision of firms from poor disclosure environment to list in the US is per se support the bonding hypothesis. However, the decision of those firms to list on the US unregulated exchanges is to avoid extra costs associated with the listing requirements that are born by listing on the US regulated exchanges. Hence, it is expected that firms from poor accounting standards environments such as those domiciled in poor investor protection countries, those from civil-law countries, firms that have poor performance and are small in size are more likely to cross-list on the US unregulated exchanges, in order to signal the investors the importance of listing in the US while at the same time incurring less listing costs. Hence we form the following hypothesis:

*H5.* Firms from low accounting standards environment, poor investor protection environments, civil-law countries, with poor performance and small in size are likely to cross-list on the US unregulated exchanges to avoid the significant costs associated with listing on regulated exchanges.

## 3. Sources of Data and methodology

### 3.1 Sources of data

To test Hypotheses H1 to H4, we collected a sample of 175 firms that cross-listed amongst 19 stock exchanges during the period of 1990 and 2000. This sample represents around 21% of the total population of cross-listed firms during that period, due to the fact that the sample was collected manually from the website and sometimes via email after calling the stock exchange when the list of firms is not available on the exchange website. 116 of these firms are from common law countries and 59 are from civil law countries.[2] Table 1 provides the distribution of our sample firms by country of origin[3] and the number of firms from each legal system and their cross-listing location (civil vs. common law system).

To test hypothesis H5, we collected our second sample of firms that have cross-listed on the US and UK regulated, and US unregulated stock exchanges. Our choice of these countries are two folds: First, the US is the only country that has regulated and unregulated exchanges, with differences in listing requirements, disclosure, and regulations. Second, the US and UK have been characterized as having the highest investor protection level worldwide (La Porta et al., 1997, 1998).

Accounting data are obtained from Datastream and Thomson Analytics. Trading volume, number of shares outstanding and market capitalisation of the shares outstanding are all obtained from Datastream. Market capitalisation of all domestic firms on the stock exchange is obtained from the Federation of the Stock Exchanges (FIBV) for the years 1990 to 2000 and from Datastream for years 1989, 1988 and 1987.

### 3.3 Methodology

#### 3.3.1 Univariate analysis

We divide our sample firms into four groups: (i) civil law firms that cross-list on civil law markets, (ii) civil law firms that cross-list on common law markets, (iii) common law firms that cross-list on civil law markets, and (iv) common law firms that cross-list on common law markets. This classification of firms allows us to test our hypothesiss after controlling for the legal system of the country of origin, i.e. we can compare the characteristics of civil firms that cross-list on common law markets with those of civil law firms that cross-list on civil law markets. To test the statistical significance of the differences between the groups, we perform t-tests and Wilcoxon-Mann-Whitney tests for the years –3 to +3 relative to the year of cross-listing.

[2] A similar sample was used by Abdallah and Goergen, 2008.
[3] Country of origin is where the headquarters office of the company is based.

### *3.3.2 Definition of variables used in the univariate analysis*

Leverage is measured by dividing the long-term debt by the total share capital and reserves. Long-term debt represents the total capital repayable after 1 year; it includes debentures, bonds, convertibles and debt-like hybrid financial instruments. Total share capital and reserves is the equity share capital and reserves, including preference shares. Growth rate (Growth) is the annual assets growth. Relative size (RSize) measures the relative market value of the firms on their domestic market. The relative size of the company is the ratio of the annual average market value of the company, divided by the market value of all the domestic firms listed on the home stock exchange at the end of the year, multiplied by 100. The annual average market value is the average value of the company market value for each day, defined by the closing price for that day multiplied by the shares outstanding. Share turnover (Turnover) is the ratio of the annual average volume of trading shares in thousands, divided by the number of shares outstanding at the end of the year. The trading volume is the volume on the home market, and we believe that this should be a good proxy for the total trading activity for each share (The trading volume on the foreign market is not available for most of the companies and including it in the analysis reduces our observations to almost half. In addition, other researchers such as Pagano et al. (2002) use the volume in the home market as a proxy for trading activity for cross-listed companies. However, they use the monthly figure of the volume at the end of December and we use the average daily figure per year).

### *3.3.2 Logistic Analysis*

We predict the choice of cross-listing between regulated and unregulated foreign exchanges. We estimate a logistic model, which allows us to examine if firms from poor investor protection countries are more likely to cross-list on regulated exchanges to signal a commitment to increase the level of investor protection. The model is given as:

$$\begin{aligned} DFEXCH_i = \alpha + \beta_1 (INVESTOR\ PROTECTION) + \beta_2 LNMV_{i,PRE} \\ + \beta_3 ROA_{i,PRE} + \beta_4 DEVEMD_i \end{aligned} \quad (1)$$

where $DFEXCH_i$ is a dummy variable that takes the value one if the firm cross-listed on regulated exchanges (AMEX, NASDAQ, NYSE and LSE) and zero if the firm has cross-listed on unregulated exchanges (OTC and PORTAL). We focus on the US and UK, since they are characterized as having the highest level of protection countries (La Porta et al. 1997, 1998). For investor protection, we use three measures (accounting standards rating index, anti-director rights index, and whether the firm is from a civil or common law country). $LNMV_{i,PRE}$ is the natural log of the pre-cross-listing market value. $LNVO_i$ denotes the log of the trading volume during the post-cross-listing period (+2, +250). The average post-listing three years return on assets is given by $ROA_{i,PRE}$. Finally $DEVMD_i$ is a dummy variable that equals one if the firm is from a developed country and zero otherwise.[4] As the measures of investor protection are highly collinear, it is difficult to include them in one equation as this may bias the estimated coefficients, and makes the results difficult to interpret.

Under the hypotheses of investor protection one would expect that firms from countries where investor protection is weak will prefer to list on regulated exchanges to signal their resolve to provide security for the rights of minority shareholders.

## 4. Characteristics of cross-listed firms

In this section we discuss the characteristics of cross-listed firms, and the differences between firms that cross-list on low investor protection markets i.e. civil law markets and firms that cross-list on high investor protection markets i.e. common law markets. The characteristics we discuss here are leverage, total assets growth, relative size and share turnover.

### *4.1 Leverage*

Table 2 displays the descriptive statistics for leverage, as measured by long-term debt, divided by total share capital and reserves. Most of the leverage figures are between 0 and +2 and few observations are greater than +2. We considered any observation greater than +2 as an outlier and we exclude it from the analysis. There are 93 outliers out of 1,109 observations. Inconsistent with hypothesis 1, there is no evidence that civil law firms that cross-list on civil law markets have higher leverage before the cross-listing than civil law firms that cross-list on common law markets. This is also true three years after the cross-listing. On the contrary, we find that throughout most of the period, common law firms that cross-list in common law countries have higher leverage than those that cross-list on civil law markets. However, the difference is only significant in the third year before the cross-listing according to the parametric test only, and in the second year following the cross-listing according to both parametric and non-parametric tests.

[4] This dummy variable is used in Reese and Weisbch (2002).

Except for common law firms that cross-list on common law markets, we find that all groups of firms reduce their leverage during the cross-listing year. Civil law firms that cross-list on civil law markets reduce their leverage by 39% compared only to 13% for civil law firms that cross-list on common law markets. Also, there is a 3% decline in leverage for common law firms that cross-list on civil law markets. However, the decline in leverage is not statistically significant for any group. We do not find significant increase in the leverage during the cross-listing year for common law firms that cross-list on common law markets.[5]

### 4.2 Total assets growth (Growth)

Table 3 shows the descriptive statistics for total assets growth. There are 1,096 observations out of 1,017 ranging from –87% to 879%, and only 11 observations out of 1,017 observations are greater than 1000%. Therefore, we consider observations that are greater than 1000% as outliers and exclude them from the analysis. We find that, in general, civil law firms that cross-list on common law markets have higher growth opportunities than civil law firms that cross-list on civil law markets. Although this is true for all years around the cross-listing, it is only significant in the cross-listing year at the 1% level for t-test but it is not significant according to the non-parametric test. The finding weakly supports hypothesis 2.

On the contrary, we find that during most of the period common law firms that cross-list on civil law markets have higher growth opportunities than their counterparts that cross-list on common law markets. The difference is only statistically significant in the second year following the cross-listing for the Wilcoxon-Mann-Whitney test but it is not significant according to the t-test. However, for the year following the cross-listing, we find that common law firms that cross-list on common law markets have a higher assets growth than those that cross-list on civil law markets, but the difference is not statistically significant.

Furthermore, Table 3 reveals that the cross-listing is associated with an increase in total assets during the year of cross-listing for all groups of firms. The increase is only significant for civil law and common law firms that cross-list on common law markets. This points out that these firms cross-list in order to raise external funds.[6]

### 4.3 Relative Size (RSize)

Table 4 displays the descriptive statistics for the company's relative size (RSize) to the home market. Relative size is calculated by dividing the annual average market value for the company over the total market value of all domestic firms which are listed on its home market. We do not report the RSize for the years after the cross-listing because it is not informative in the context of hypothesis 3, since the company is currently listed on the home and host markets. In addition, our aim is to examine whether the inability of the company to raise funds in its home market before the cross-listing motivates it to cross-list. Consistent with hypothesis 3, Table 4 reveals that RSize of civil law firms that cross-list on common law markets is higher than RSize of civil law firms that cross-list on civil law markets. This is true for the cross-listing year and for the three years before the cross-listing. However, the difference is significant for the third year before the cross-listing according to the parametric and non-parametric tests. The finding suggests that civil law firms whose capital needs are large relative to their home market tap large capital markets, i.e. common law markets, in order to raise external funds to finance growth opportunities.

There is some evidence that common law firms that cross-list on common law markets have a higher relative market value than their counterparts that cross-list on civil law markets. The difference is statistically significant for the cross-listing year and one year before the cross-listing, according to the Wilcoxon-Mann-Whitney test, but it is not significant according to the t-test.

### 4.4 Share Turnover (Turnover)

Table 5 displays the descriptive statistics for the trading activity on the home market measured by share turnover. Turnover equals the annual average number of company shares traded on the home stock exchange divided by the number of shares outstanding of the company at the end of the year. There are 26 observations out of 1,063 observations greater than or equal to one. Therefore, we consider these observations as outliers and exclude them from the analysis. Inconsistent with hypothesis 4, there is no significant difference in the turnover between the civil law firms that cross-list on common law markets and those that cross-list on the civil law markets. However, the figures for common law firms support hypothesis 4. We find that there is a statistically significant difference between the two groups of common law firms. Throughout the whole period, common law firms that cross-list on common law markets have a lower turnover ratio than common law firms that cross-list on civil law markets. There is a no statistically significant increase in the turnover of our

[5] In addition, we run the analysis with outliers. In general, we do not find a statistically significant difference between companies that cross-list on civil law markets and those that cross-list on common law markets.

[6] We also perform the analysis for total assets growth with the outliers. In general, the results do not change drastically.

sample firms during the year of cross-listing. This is also true for the year after the cross-listing.[7]

## 5. Examining the relation between investor protection and the place of cross-listing (The choice between regulated or unregulated stock exchanges)

To provide further evidence the relationship between cross-listing and investor protection, we examine the choice of listing between regulated and unregulated international exchanges in relation to the bonding hypothesis (Coffee, 2002). We mainly focus on two countries, the US and UK, which are characterized as having the highest level of investor protection (La Porta et al. 1997, 1998). We obtained data on firms that cross-listed on the US/UK regulated exchanges (AMEX, NASDAQ, and NYSE), where the level of regulations and investors protection is high, and those that cross-listed on the US unregulated exchanges (OTC and PORTAL), where the level of regulations and investor protection is low. Table 6 provides a distribution of the sample after dividing firms according to their legal system (Civil-Law versus Common-Law).

To test H5, we run a logistic model (equation 1) in order to shed light on factors that may influence the decision to cross-list on regulated or unregulated exchanges. The results of the logistic regression are presented in Table 7. The Table indicates that firms with better investor protection (better accounting standards, better anti-director rights regulations, and from common law countries) are more likely to cross-list on regulated exchanges. The Table implies that firms with poor accounting standards cross-list on unregulated exchanges in the US (OTC and PORTAL), in order to prevent additional costs of reconciliation to US GAAP/IAS/UK GAAP,[8] and high level of enforcement and legal liabilities they face when cross-listing on regulated exchanges. Likewise, large firms are more likely to cross-list on regulated exchanges, with high level of investor protection, than small firms. It is worth noting however that the mean (median) size of firms cross-listed on the NYSE and LSE is \$6289.02 Mln (\$1972.79 Mln) and \$6720.12 Mln (\$2410.34 Mln), respectively, which is much larger than \$1708.47 Mln (\$550.4 Mln) and \$1611.4 Mln (\$713.4 Mln) for foreign firms listed on OTC and PORTAL, respectively. Hence, large and more sophisticated firms are most likely to be able to meet the costs associated with listing on foreign regulated exchanges. By contrast, many firms seeking low listing costs are expected to go to the US unregulated exchanges.[9] This can be supported by the fact that unregulated exchanges account for about 63% (OTC alone represents about 37%) of foreign listing in the US. This is consistent with Doidge et al. (2004) that the lower tendency of firms from a low level of disclosure environment to list on regulated stock exchanges is associated with the lower net benefits they receive from such a listing.

## 6. Conclusion

In this paper we investigate whether company characteristics, other than the control structure, influence the choice of cross-listing on civil law markets versus common law markets. We do this by comparing the characteristics of firms that cross-list on common law markets with those of firms that cross-list on civil law markets. We also compare the characteristics of firms within the same group before and after the cross-listing. Furthermore, we predict the choice of cross-listing on regulated exchanges with a high level of investor protection versus unregulated exchanges with a low level of investor protection.

This paper reveals that firms that cross-list on common law markets differ in some financial characteristics from firms that cross-list on civil law markets. We find that civil law firms that cross-list on common law markets have higher growth rate, larger size and lower turnover pre cross-listing than their counterparts that cross-list on civil law markets. Also, we find that common law firms that cross-list on common law markets are larger and have lower volume turnover than those that cross-list on civil law markets. We find that civil and common law firms that cross-list on common law markets experience a significant increase in their growth during the cross-listing year. We find no evidence that there is an increase in the share turnover during the cross-listing year or the year after for all groups of firms.

We also test the choice of cross-listing and provide evidence that is not in line with the bonding hypothesis as suggested by Coffee (2002), and which states that firms signal their commitment to protect minority investors by cross-listing on exchange with better investor protection regulations. We find evidence that indicates that firms with better investor protection (better accounting standards, better anti-director rights regulations, and from common law

[7] We run the analysis with the outliers and we obtain similar results. We also conduct the analysis after adding the trading volume on the foreign market. Although the observations are cut to almost half, the analysis (not reported) shows similar results in terms of the differences between the groups and in terms of the pattern of the trading after the cross-listing.

[8] Foreign firms listed in the US have to partially reconcile to US GAAP if listed ADR level 2, and fully reconcile to US GAAP if listed as ADR level 3. Foreign firms seeking UK listing have to report under IAS/US or UK GAAP, except firms where the accounting standards of their countries of origin are accepted by the UKLA under the mutual recognition regulations. By contrast, OTC and PORTAL firms do not have to register with the SEC, and do not have to report using US GAAP; they can report using their home GAAP, or any other GAAP.

[9] PORTAL's listing and annual fees are the lowest across-all exchanges. In addition, OTC and PORTAL firms although they must register with the SEC do not have to comply with all the reporting requirements set by SEC. In addition, as level 1 represents the first step into the US market, many foreign firms list as level 1 and go later to levels 2 or 3.

countries) are more likely to cross-list on regulated exchanges. On the other hand, firms with poor accounting standards are more likely to cross-list on unregulated exchanges in the US (OTC and PORTAL), in order to avoid additional costs of reconciliation to US GAAP/IAS/UK GAAP, and high level of enforcement and legal liabilities, which they face when cross-listing on regulated exchanges. Likewise, large firms are more likely to cross-list on regulated exchanges, with high level of investor protection, than small firms. These results are consistent with those of Doige et al. (2004) that find that firms from a lower (higher) disclosure environment are less (more) likely to cross-list regulated exchanges.

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**Table 1.** Distribution of sample companies

**Panel A:** Number of cross-listings (CLS) by companies in the final sample and their cross-listing locations for the period 1990-2000

***Stock exchanges***

| | *Country of origin* | Neuer. mkt | Euro.NM Amsterdam | Le-nouvea marche | Brussels | Frankfurt | Paris | Amsterdam | Stockholm | OSLO | Swiss | Austra lian | New Zealand | Irish | Tokyo | To-ron-to | LSE | NYSE | NASDAQ | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Belgium** | | | | | 1 | 1 | | | 1 | | | | | | | | | | **3** |
| 2 | **Germany** | | | | | | 2 | 1 | | | 3 | | | | 1 | | | 2 | 6 | **10** |
| 3 | **France** | | | | | | | | | | | | | | | | | | 5 | **5** |
| 4 | **Italy** | | | | | | | 1 | | | | | | | | | | 2 | 1 | **3** |
| 5 | **Netherlands** | | | | 2 | 2 | | | | | 1 | | | | | | 3 | 2 | 4 | **7** |
| 6 | **Sweden** | | | | | | | | | | | | | | | | | 1 | 4 | **5** |
| 7 | **Norway** | | | | | | | | | | | | | | | | 1 | 1 | 2 | **4** |
| 8 | **Switzerland** | 1 | | | | 1 | | | 2 | | | | | | | | 2 | 1 | 2 | **5** |
| 9 | **Austria** | | | | | 1 | | | | | | 1 | | | | | | 1 | | **2** |
| 10 | **Australia** | | | | | | | | | | | | 10 | | | 1 | | | 5 | **15** |
| 11 | **New Zealand** | | | | | | | | | | | 5 | | | | | | | 1 | **6** |
| 12 | **Denmark** | 1 | | | | | | | | | | | | | | | | | | **1** |
| 13 | **Ireland** | | | | | | | | | | | | | | | 1 | 5 | 1 | 3 | **7** |
| 14 | **South Africa** | | | | 1 | | | | | | | | | | | | 1 | | 1 | **3** |
| 15 | **Japan** | | | | | 7 | 1 | | | | | | | | | | 6 | 3 | 1 | **14** |
| 16 | **Canada** | | | | | | | | 1 | 1 | 1 | 2 | | 1 | | | | 4 | 25 | **34** |
| 17 | **U.K.** | 1 | 2 | | 1 | 1 | | 4 | | 2 | | | | 2 | | | | 2 | 15 | **24** |
| 18 | **U.S.** | 3 | | 1 | 3 | 3 | 2 | 2 | 2 | 1 | 3 | 3 | | | 1 | 3 | 4 | | | **27** |
| | **Total** | **6** | **2** | **1** | **7** | **16** | **6** | **8** | **5** | **5** | **8** | **11** | **10** | **3** | **2** | **5** | **22** | **20** | **75** | **175** |

**Panel B:** Distribution of sample companies by their country of origin

| Common law countries | | Civil law countries | |
|---|---|---|---|
| Common law countries | N | Civil law countries | |
| Australia | 15 | Austria | 2 |
| Canada | 34 | Belgium | 3 |
| Ireland | 7 | Denmark | 1 |
| New Zealand | 6 | France | 5 |
| South Africa | 3 | Germany | 10 |
| United Kingdom | 24 | Italy | 3 |
| United States | 27 | Japan | 14 |
| | | Netherlands | 7 |
| | | Norway | 4 |
| | | Sweden | 5 |
| | | Switzerland | 5 |
| Sub-total | 116 | | 59 |
| Total | Common + Civil | | 175 |

**Panel C:** Number of sample companies in each legal system and their cross-listing location

| | | Host country | | |
|---|---|---|---|---|
| | | **Civil law** | **Common law** | **Total** |
| **Home country** | **Civil law** | 17 | 1- 42 | 59 |
| | **Common law** | 30 | 86 | 116 |
| | **No. of companies** | 47 | 128 | 175 |

**Panel D:** Civil versus common law firms that have cross-listed on US and LSE between 1980 and 2000

| | AMEX | NASDAQ | NYSE | OTC | PORTAL | LSE | Total | % |
|---|---|---|---|---|---|---|---|---|
| English Law Origin | 13 | 65 | 116 | 200 | 49 | 52 | 495 | 0.544 |
| French Law Origin | | 8 | 36 | 62 | 23 | 10 | 139 | 0.153 |
| German Law Origin | | 14 | 23 | 124 | 39 | 24 | 224 | 0.246 |
| Scandinavian Law Origin | | 4 | 11 | 9 | 2 | 4 | 30 | 0.033 |
| Others | | | 1 | 9 | 7 | 5 | 22 | 0.024 |
| Total | 13 | 91 | 187 | 404 | 120 | 95 | 910 | 1 |

**Table 2.** Descriptive statistics and univariate tests for leverage

| **Mean, median, minimum, maximum and sample size** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **$CLS_{-3}$** | **$CLS_{-2}$** | **$CLS_{-1}$** | **CLS** | **$CLS_{+1}$** | **$CLS_{+2}$** | **$CLS_{+3}$** | **$CLS_{>3}$** |
| **Civil law companies cross listed in civil law countries (22)** | | | | | | | | |
| Mean | 0.444 | 0.468 | 0.437 | 0.266 | 0.573 | 0.505 | 0.377 | 0.321 |
| Median | 0.375 | 0.289 | 0.351 | 0.198 | 0.500 | 0.391 | 0.338 | 0.157 |
| Minimum | 0.121 | 0.086 | 0.006 | 0.002 | 0.002 | 0.000 | 0.001 | 0.001 |
| Maximum | 1.038 | 1.533 | 1.262 | 0.664 | 1.734 | 1.690 | 0.970 | 1.849 |
| Sample size | 10 | 11 | 13 | 16 | 11 | 10 | 7 | 26 |
| **Civil law companies cross listed in common law countries (21)** | | | | | | | | |
| Mean | 0.601 | 0.420 | 0.447 | 0.388 | 0.438 | 0.489 | 0.497 | 0.630 |
| Median | 0.508 | 0.323 | 0.382 | 0.088 | 0.423 | 0.331 | 0.328 | 0.594 |
| Minimum | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Maximum | 1.772 | 1.536 | 1.765 | 1.948 | 1.948 | 1.330 | 1.659 | 1.393 |
| Sample size | 11 | 18 | 22 | 41 | 27 | 20 | 15 | 20 |
| **Common law companies cross listed in civil law countries (12)** | | | | | | | | |
| Mean | 0.211 | 0.175 | 0.270 | 0.261 | 0.205 | 0.233 | 0.280 | 0.422 |
| Median | 0.090 | 0.015 | 0.068 | 0.031 | 0.055 | 0.017 | 0.001 | 0.367 |
| Minimum | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Maximum | 0.727 | 1.053 | 1.095 | 1.215 | 0.935 | 1.143 | 1.236 | 1.338 |
| Sample size | 12 | 17 | 22 | 27 | 18 | 14 | 13 | 28 |
| **Common law companies cross listed in common law countries (11)** | | | | | | | | |
| Mean | 0.432 | 0.302 | 0.262 | 0.324 | 0.350 | 0.509 | 0.424 | 0.470 |
| Median | 0.195 | 0.069 | 0.072 | 0.084 | 0.164 | 0.332 | 0.315 | 0.322 |
| Minimum | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Maximum | 2.000 | 1.451 | 1.812 | 1.949 | 1.546 | 1.752 | 1.745 | 1.887 |
| Sample size | 32 | 41 | 56 | 70 | 56 | 45 | 31 | 76 |
| **t-statistics for the difference in means between the groups** | | | | | | | | |
| (22) vs. (21) | -0.883 | 0.280 | -0.068 | -1.213 | 0.738 | 0.087 | -0.658 | -2.112 |
| p-value | 0.388 | 0.782 | 0.947 | 0.230 | 0.465 | 0.931 | 0.519 | 0.040 |
| (12) vs. (11) | -1.754 | -1.141 | 0.078 | -0.672 | -1.473 | -1.807 | -0.932 | -0.561 |
| p-value | 0.087 | 0.259 | 0.938 | 0.503 | 0.145 | 0.076 | 0.357 | 0.576 |
| **Wilcoxon-Mann-Whitney p-value for the difference in means between the groups** | | | | | | | | |
| (22) vs.(21) | 0.398 | 0.529 | 0.946 | 0.516 | 0.664 | 0.775 | 0.972 | 0.035 |
| (12) vs.(11) | 0.760 | 0.483 | 0.809 | 0.371 | 0.135 | 0.062 | 0.141 | 0.837 |

**p-value of t-statistics for the difference in means within the same group**

| **Group 22** | | **Group 21** | | **Group 12** | | **Group 11** | |
|---|---|---|---|---|---|---|---|
| $CLS_{+1}$ - $CLS_{-1}$ | 0.51 | $CLS_{+1}$ - $CLS_{-1}$ | 0.945 | $CLS_{+1}$ - $CLS_{-1}$ | 0.545 | $CLS_{+1}$ - $CLS_{-1}$ | 0.24 |
| CLS-$CLS_{-1}$ | 0.16 | CLS-$CLS_{-1}$ | 0.664 | CLS-$CLS_{-1}$ | 0.936 | CLS-$CLS_{-1}$ | 0.406 |
| $CLS_{+1}$-CLS | 0.065 | $CLS_{+1}$-CLS | 0.701 | $CLS_{+1}$-CLS | 0.59 | $CLS_{+1}$-CLS | 0.73 |

*Notes:*

1- *Leverage is the ratio of long term-debt divided by the total share capital and reserves.*
2- *p-values for the two-tailed test.*

**Table 3.** Descriptive statistics and univariate tests for growth

| **Mean, median, minimum, maximum and sample size** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **$CLS_{-3}$** | **$CLS_{-2}$** | **$CLS_{-1}$** | **CLS** | **$CLS_{+1}$** | **$CLS_{+2}$** | **$CLS_{+3}$** | **$CLS_{>3}$** |
| **Civil law companies cross listed in civil law countries (22)** | | | | | | | | |
| Mean | 12.636 | 39.130 | 9.739 | 24.811 | 16.767 | 17.677 | 4.453 | 13.362 |
| Median | 6.824 | 5.696 | 10.557 | 13.475 | 7.624 | 4.828 | -1.565 | 3.823 |
| Minimum | -15.310 | -1.569 | -27.337 | -8.878 | -8.781 | -27.903 | -17.408 | -28.060 |
| Maximum | 74.212 | 297.584 | 37.432 | 112.757 | 111.411 | 74.880 | 40.886 | 98.397 |
| Sample size | 11 | 14 | 15 | 16 | 13 | 11 | 8 | 34 |
| **Civil law companies cross listed in common law countries (21)** | | | | | | | | |
| Mean | 112.194 | 53.395 | 32.893 | 159.775 | 24.825 | 19.075 | 11.730 | 11.138 |
| Median | 13.069 | 12.115 | 15.522 | 32.616 | 11.353 | 18.789 | 9.321 | 6.235 |
| Minimum | -2.687 | -25.064 | -26.425 | -7.163 | -16.925 | -25.819 | -33.106 | -13.381 |
| Maximum | 825.392 | 340.016 | 272.039 | 782.270 | 284.335 | 90.917 | 58.807 | 59.610 |
| Sample size | 15 | 22 | 26 | 33 | 27 | 19 | 14 | 22 |
| **Common law companies cross listed in civil law countries (12)** | | | | | | | | |
| Mean | 19.357 | 38.679 | 88.271 | 95.569 | 49.558 | 67.847 | 21.411 | 24.389 |
| Median | 10.243 | 7.722 | 16.233 | 55.350 | 15.827 | -0.040 | 8.507 | 9.956 |
| Minimum | -4.107 | -19.181 | -26.944 | -33.543 | -56.202 | -53.582 | -27.361 | -22.493 |
| Maximum | 50.631 | 335.928 | 582.666 | 310.508 | 297.524 | 850.401 | 169.685 | 490.687 |
| Sample size | 9 | 11 | 20 | 26 | 20 | 13 | 13 | 31 |
| **Common law companies cross listed in common law countries (11)** | | | | | | | | |
| Mean | 23.964 | 32.285 | 46.392 | 90.452 | 55.218 | 40.016 | 36.473 | 14.695 |
| Median | 9.190 | 9.508 | 21.875 | 30.651 | 13.965 | 29.304 | 13.110 | 5.536 |
| Minimum | -63.871 | -49.271 | -39.075 | -43.824 | -49.898 | -15.909 | -87.012 | -56.561 |
| Maximum | 157.370 | 636.420 | 305.838 | 777.307 | 879.131 | 165.474 | 403.440 | 167.089 |
| Sample size | 27 | 35 | 44 | 57 | 59 | 48 | 36 | 85 |
| **t-statistics for the difference in means between the groups** | | | | | | | | |
| (22) vs. (21) | -1.600 | -0.457 | -1.263 | -3.404 | -0.483 | -0.133 | -0.785 | 0.335 |
| p-value | 0.131 | 0.651 | 0.214 | 0.002 | 0.632 | 0.895 | 0.442 | 0.739 |
| (12) vs. (11) | -0.251 | 0.172 | -1.138 | -0.151 | 0.172 | -0.423 | -0.544 | 0.836 |
| p-value | 0.804 | 0.864 | 0.267 | 0.880 | 0.864 | 0.680 | 0.589 | 0.405 |
| **Wilcoxon-Mann-Whitney p-value for the difference in means between the groups** | | | | | | | | |
| (22) vs. (21) | 0.186 | 0.436 | 0.317 | 0.208 | 0.697 | 0.401 | 0.195 | 0.933 |
| (12) vs. (11) | 0.784 | 0.528 | 0.873 | 0.372 | 0.565 | 0.060 | 0.556 | 0.998 |
| **p-value of t-statistics for the difference in means within the same group** | | | | | | | | |
| **Group 22** | | **Group 21** | | | **Group 12** | | **Group 11** | |
| $CLS_{+1}$ -$CLS_{-1}$ | 0.451 | $CLS_{+1}$ -$CLS_{-1}$ | 0.643 | | $CLS_{+1}$ -$CLS_{-1}$ | 0.36 | $CLS_{+1}$ -$CLS_{-1}$ | 0.70 |
| CLS-$CLS_{-1}$ | 0.11 | CLS-$CLS_{-1}$ | 0.007 | | CLS-$CLS_{-1}$ | 0.85 | CLS-$CLS_{-1}$ | 0.092 |
| $CLS_{+1}$-CLS | 0.50 | $CLS_{+1}$-CLS | 0.003 | | $CLS_{+1}$-CLS | 0.139 | $CLS_{+1}$-CLS | 0.197 |

*Notes:*

1- *Growth is the annual assets growth.*
2- *p-values for the two-tailed test.*

**Table 4.** Descriptive statistics and univariate tests for relative size (RSize) in %

| **Mean, median, minimum, maximum and sample size** | | | | |
|---|---|---|---|---|
| | **$CLS_{-3}$** | **$CLS_{-2}$** | **$CLS_{-1}$** | **CLS** |
| **Civil law companies cross listed in civil law countries (22)** | | | | |
| Mean | 0.220 | 0.285 | 0.305 | 0.434 |
| Median | 0.043 | 0.068 | 0.090 | 0.306 |
| Minimum | 0.022 | 0.018 | 0.022 | 0.022 |
| Maximum | 1.482 | 1.389 | 1.701 | 2.408 |
| Sample size | 11 | 13 | 13 | 17 |
| **Civil law companies cross listed in common law countries (21)** | | | | |
| Mean | 1.150 | 0.943 | 0.866 | 1.560 |
| Median | 0.702 | 0.104 | 0.118 | 0.257 |
| Minimum | 0.028 | 0.035 | 0.036 | 0.017 |
| Maximum | 3.306 | 4.933 | 4.034 | 13.036 |
| Sample size | 9 | 13 | 14 | 42 |
| **Common law companies cross listed in civil law countries (12)** | | | | |
| Mean | 0.118 | 0.110 | 0.085 | 0.093 |
| Median | 0.012 | 0.011 | 0.018 | 0.022 |
| Minimum | 0.000 | 0.000 | 0.000 | 0.000 |
| Maximum | 0.868 | 0.883 | 0.984 | 1.427 |
| Sample size | 15 | 17 | 23 | 30 |
| **Common law companies cross listed in common law countries (11)** | | | | |
| Mean | 0.162 | 0.171 | 0.184 | 0.440 |
| Median | 0.037 | 0.028 | 0.020 | 0.046 |
| Minimum | 0.000 | 0.001 | 0.001 | 0.000 |
| Maximum | 2.368 | 2.211 | 1.801 | 14.095 |
| Sample size | 38 | 47 | 55 | 84 |
| **t-statistics for the difference in means between the groups** | | | | |
| (22) vs. (21) | -1.973 | -1.493 | -1.418 | -2.286 |
| p-value | 0.079 | 0.158 | 0.175 | 0.027 |
| (12) vs. (11) | -0.372 | -0.566 | -1.120 | -1.163 |
| p-value | 0.711 | 0.573 | 0.266 | 0.247 |
| **Wilcoxon-Mann-Whitney p-value for the difference in means between the groups** | | | | |
| (22) vs. (21) | 0.087 | 0.137 | 0.159 | 0.269 |
| (12) vs.(11) | 0.418 | 0.330 | 0.065 | 0.007 |

*Notes:*

1- *Relative size is the ratio of the annual average market value of the company divided by the market value of all domestic firms listed on the home stock exchange at the end of the year multiplied by 100.*
2- *p-values for the two-tailed test*

**Table 5.** Descriptive statistics and univariate tests for share turnover

| **Mean, median, minimum, maximum and sample size** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **$CLS_{-3}$** | **$CLS_{-2}$** | **$CLS_{-1}$** | **CLS** | **$CLS_{+1}$** | **$CLS_{+2}$** | **$CLS_{+3}$** | **$CLS_{>3}$** |
| | **Civil law companies cross listed in civil law countries (22)** | | | | | | | |
| Mean | 0.054 | 0.041 | 0.044 | 0.100 | 0.092 | 0.057 | 0.088 | 0.046 |
| Median | 0.018 | 0.019 | 0.020 | 0.027 | 0.025 | 0.018 | 0.023 | 0.035 |
| Minimum | 0.006 | 0.006 | 0.002 | 0.000 | 0.000 | 0.000 | 0.000 | 0.001 |
| Maximum | 0.281 | 0.192 | 0.282 | 0.382 | 0.441 | 0.344 | 0.342 | 0.141 |
| Sample size | 9 | 10 | 12 | 17 | 13 | 10 | 9 | 34 |
| **Civil law companies cross listed in common law countries (21)** | | | | | | | | |
| Mean | 0.037 | 0.071 | 0.019 | 0.067 | 0.039 | 0.041 | 0.023 | 0.019 |
| Median | 0.024 | 0.019 | 0.008 | 0.028 | 0.015 | 0.026 | 0.016 | 0.012 |
| Minimum | 0.003 | 0.002 | 0.000 | 0.000 | 0.001 | 0.002 | 0.000 | 0.001 |
| Maximum | 0.083 | 0.386 | 0.056 | 0.651 | 0.217 | 0.283 | 0.063 | 0.096 |
| Sample size | 6 | 8 | 8 | 37 | 30 | 20 | 15 | 30 |
| **Common law companies cross listed in civil law countries (12)** | | | | | | | | |
| Mean | 0.086 | 0.122 | 0.089 | 0.124 | 0.072 | 0.056 | 0.069 | 0.132 |
| Median | 0.030 | 0.053 | 0.049 | 0.037 | 0.030 | 0.035 | 0.052 | 0.060 |
| Minimum | 0.002 | 0.000 | 0.000 | 0.000 | 0.005 | 0.006 | 0.000 | 0.002 |
| Maximum | 0.374 | 0.568 | 0.494 | 0.885 | 0.417 | 0.243 | 0.342 | 0.603 |
| Sample size | 13 | 16 | 20 | 30 | 23 | 14 | 14 | 31 |
| **Common law companies cross listed in common law countries (11)** | | | | | | | | |
| Mean | 0.025 | 0.027 | 0.041 | 0.054 | 0.029 | 0.029 | 0.038 | 0.026 |
| Median | 0.011 | 0.014 | 0.016 | 0.018 | 0.016 | 0.019 | 0.019 | 0.023 |
| Minimum | 0.000 | 0.000 | 0.001 | 0.000 | 0.000 | 0.001 | 0.000 | 0.000 |
| Maximum | 0.145 | 0.116 | 0.348 | 0.813 | 0.316 | 0.319 | 0.348 | 0.105 |
| Sample size | 31 | 39 | 49 | 75 | 63 | 50 | 39 | 84 |
| **t-statistics for the difference in means between the groups** | | | | | | | | |
| (22) vs. (21) | 0.463 | -0.674 | 0.873 | 0.905 | 1.336 | 0.539 | 1.634 | 3.182 |
| p-value | 0.651 | 0.51 | 0.394 | 0.370 | 0.204 | 0.594 | 0.140 | 0.003 |
| (12) vs. (11) | 1.695 | 2.305 | 1.757 | 1.825 | 1.884 | 1.771 | 1.540 | 3.467 |
| p-value | 0.114 | 0.035 | 0.092 | 0.076 | 0.071 | 0.081 | 0.130 | 0.002 |
| **Wilcoxon-Mann-Whitney p-value for the difference in means between the groups** | | | | | | | | |
| (22) vs. (21) | 0.768 | 0.859 | 0.354 | 0.955 | 0.597 | 0.495 | 0.270 | 0.022 |
| (12) vs. (11) | 0.026 | 0.093 | 0.024 | 0.010 | 0.020 | 0.037 | 0.039 | 0.000 |
| **p-value of t-statistics for the difference in means within the same group** | | | | | | | | |
| **Group 22** | | **Group 21** | | | **Group 12** | | **Group 11** | |
| $CLS_{+1}$ -$CLS_{-1}$ | 0.30 | $CLS_{+1}$ -$CLS_{-1}$ | 0.282 | | $CLS_{+1}$ -$CLS_{-1}$ | 0.611 | $CLS_{+1}$ -$CLS_{-1}$ | 0.244 |
| CLS-$CLS_{-1}$ | 0.215 | CLS-$CLS_{-1}$ | 0.265 | | CLS-$CLS_{-1}$ | 0.483 | CLS-$CLS_{-1}$ | 0.492 |
| $CLS_{+1}$-CLS | 0.887 | $CLS_{+1}$-CLS | 0.23 | | $CLS_{+1}$-CLS | 0.26 | $CLS_{+1}$-CLS | 0.119 |

*Notes:*

1- *Share turnover is the ratio of the annual average volume of trading shares in thousands divided by the number of shares outstanding at the end of the year.*
2- *p-values for the two-tailed test.*

**Table 6.** Logit model: Regulated versus unregulated foreign listing

| Investor protection measures | Accounting standards | Anti-director rights | CIVIL/COMMON |
|---|---|---|---|
| Intercept | -6.9556 | -4.2572 | -2.7427 |
| | (0.000) | (0.000) | (0.000) |
| Accounting standards | 0.0634 | | |
| | (0.000) | | |
| Anti-director rights | | 0.3585 | |
| | | (0.000) | |
| French Law Dummy | | | -0.4847 |
| | | | (0.082) |
| German Law Dummy | | | -1.5107 |
| | | | (0.000) |
| Scandinavian Dummy | | | -0.4301 |
| | | | (0.388) |
| DEVMD | 0.1221 | 0.4471 | 0.6030 |
| | (0.673) | (0.088) | (0.021) |
| LNMV | 0.3236 | 0.3294 | 0.3663 |
| | (0.000) | (0.000) | (0.000) |
| ROA | -0.0116 | -0.0140 | -0.0151 |
| | (0.097) | (0.045) | (0.037) |
| N | 509 | 520 | 525 |
| Max-rescaled $R^2$ | 0.1599 | 0.1598 | 0.2084 |
| Max-rescaled $R^2$ without IPM | 0.1188 | 0.1108 | 0.1134 |
| Pseudo-$R^2$ | 0.1128 | 0.1128 | 0.1448 |
| Pseudo-$R^2$ without IPM | 0.0850 | 0.0795 | 0.0814 |

Notes:

1- The Accounting standards variable is the rating of accounting standards in the home country of the CL firm taken from La Porta (1998)
2- The Anti-director rights variable is an index developed by La Porta *et al.* (1997, 1998).
3- French origin dummy, German origin dummy, and Scandinavian origin dummy are dummy variables that each takes the value of one of the firm is from French law origin, German law origin, and Scandinavian law origin, respectively, and zero otherwise.
4- LNMV is the Log natural of the firm's market value at day -60 (two months before cross-listing.
5- DEVMD is a dummy variable that equals one if the firm is from a developed country and zero otherwise.
6- ROA is the average of the three years return on assets in the pre cross-listing period.
7- N is the number of observations (firms) in the regression.
8- IPM stands for the investor protection measures.

# CORPORATE CHARACTERISTICS, SOCIAL RESPONSIBILITY REPORTING, AND FINANCIAL PERFORMANCE: EVIDENCE IN THAILAND

*Muttanachai Suttipun**

**Abstract**

This study aims to test the relationship between corporate characteristics, social responsibility reporting, and financial performance. The 2011-2012 annual reports of 220 Thai listed companies are used to measure the extent of corporate social responsibility reporting by word counting. The results indicate that there are significant differences in the level of corporate social responsibility reporting between groups of auditor type and corporate social responsibility award. The type of auditor and a previous corporate social responsibility award have a significant effect on the level of corporate social responsibility reporting. The level of corporate social responsibility reporting, and the type of industry are found to significantly influence corporate financial performance.

**Keywords:** Corporate Social Responsibility Reporting, Financial Performance, Thailand

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## 1. Introduction

Corporations are being pressured not only by shareholders and investors but also by other stakeholders such as customers, creditors, suppliers, society and community, and the environmental lobby. This reflects increased demands from many stakeholder groups, and the increasing impact of social and environmental issues related to globalization (Soderstrom, 2013). Therefore, corporations in today's world have to serve their stakeholders by balancing economic, social, and environmental performance and work towards the goal of sustainable reporting (GRI, 2011). It is notable that in a 2008 survey, KPMG found that the number of corporations providing corporate social responsibility (CSR) reporting is tending to increase, with the proportion of the 250 world class corporations surveyed providing CSR information increasing from 64 to 80 percent between 2005 and 2008 (KPMG, 2008).

CSR reporting provides mostly non-financial information to all stakeholders, and may play a role for investors' and shareholders' decisions to invest in a corporation (De Klerk and De Villiers, 2012). However, even though there have been many literatures related to CSR reporting in developed countries explained (e.g. Ho and Taylor, 2007; Lozano, 2013), few studies (See Sobhani et al., 2012) have been conducted in developing countries where CSR reporting is still developing concepts especially in Thailand where does not have CSR reporting standards and regulations (Suttipun, 2012). Therefore, the quality of the reporting still varies despite the trend towards extending the concept of corporate responsibility beyond simply that related to the economic performance of the company. Moreover, no study has so far examined the relationship between corporate characteristics, social responsibility reporting, and financial performance of listed companies in developing countries compared with developed countries (See Nakao et al., 2007). Therefore, the factor influencing CSR reporting, and the impact of CSR reporting on financial performance are still questionable and inconclusive (Chen, 2011). In Thailand, some top management still lacks understanding of the main concept of CSR reporting because they still focus to report bases on financial information rather than non-financial information (Smith et al., 2011). Moreover, traditional corporate reporting mainly aims to disclose only financial information because of the framework of Thai Financial Reporting standards (Embong et al., 2012). Even though the traditional financial reporting can serve investors, shareholders, and creditors, but it does not cover all corporate stakeholders' demands that need both financial and non-financial information reporting. In the relationship between CSR reporting and financial performance, the results of prior related studies had been muddled (Margolis and Walsh, 2003; Garcia-Castro et al., 2010). Previous studies in which different countries, different methods, and different periods were conducted in different results. For example, some literatures suggested that CSR reporting is positively related to corporate financial performance (Nakao et al., 2007; Konar and Cohen, 2001), as well that CSR reporting is negatively related to financial performance (Wright and Ferris, 1997).

The study reported herein sought to address that gap in the literature and had two main objectives: to test the different levels of CSR reporting of companies listed in developing countries by using Thailand as a proxy between groups based on industry type, auditor type, and CSR award, and to test the relationship between corporate characteristics, social responsibility reporting, and financial performance by Thai listed companies in the Stock Exchange of Thailand (SET). Therefore, there were two main research questions: are there different levels of CSR reporting of companies listed on the Stock Exchange of Thailand (SET) between groups based on industry type, auditor type, and CSR award, and are there relationships between corporate characteristics, social responsibility reporting, and financial performance.

The study provided contributes expected to the literature relating to CSR reporting in the following ways. Firstly, the study enhances understanding of the relationship between corporate characteristics, CSR reporting and financial performance particularly in developing country. Secondly, this study expands information about CSR reporting in developing countries to scholars, and researchers. It also contributes useful knowledge to investors, shareholders, and creditors who consider CSR reporting when making investment decisions. The study may lead to improvements in the working of Thai CSR reporting regulations with benefits for people, the planet, and profits. This study will also contribute legal and management scholarship by determining the impact that CSR reporting has on company performance and finally the study may motivate Thai listed companies to provide CSR reporting in their annual reports.

## 2. Theories

Many theories have been cited to explain the relationship between corporate characteristics, CSR reporting, and financial performance, notably agency theory (Mele, 2008), legitimacy theory (Ahmad and Sulaiman, 2004; Islam and Deegan, 2010), stakeholder theory (Gray et al., 1998; Llena et al., 2007), media setting agenda theory (Brown and Deegan, 1998), institution theory (Amran and Devi, 2008), and social political theory (Cheng and Fan, 2010). However, agency and stakeholder theories were the theories used in this study to explain these relationships.

The reason why agency theory was used in this study was to explain how CSR reporting used in developing countries represented by Thailand can close the gap and conflict between owners (principles) and managers (agents) as well as developed countries (See Nakao et al., 2007; Konar and Cohen, 2001). Therefore, the relationship between CSR reporting and financial performance was examined. On the other hand, this study used stakeholder theory to explain whether the power of stakeholder in developing countries represented by Thailand can pressure corporations providing CSR reporting in annual reports as well as developed countries (See Newson and Deegan, 2002; Stray and Ballantine, 2000). From the explanation above, different level of CSR reporting between groups of interests, the relationship between corporate characteristics, and CSR reporting, and the relationship between corporate characteristics, and financial performance were tested in this study.

### *2.1 Agency theory*

In some corporations, there is a conflict of interest between owners (as principals) and managers (as agents). This is because, on the one hand, the owners try to maximize the return on their investment over the long term, whilst, on the other hand, the managers want to maximize their own benefits from the corporation. Moreover, the managers are interested in short term influences on their performance. However, the application of agency theory can help corporations to reduce conflicts between owners and managers (Idowu and Louche, 2011). There are four main potential areas of conflicts; insufficient effort, extravagant investment, entrenchment strategies, and self-dealing. Agency theory suggests that if the utility functions of self-serving owners and managers are aligned, both owners and managers will gain benefits. But, if they are not, agency costs will arise (Mele, 2008). Agency theory focuses on the motivation to pursue self-interest as the main cause of agency costs. However, agency theory suffers from the limitation that it is focused on only two interest groups.

Agency theory in this study was used to explain the relationship between CSR reporting and financial performance. This is because although a company incurs costs providing CSR information in its media, it may gain benefits such as higher sales, higher profits, and higher market valuation, as well as enhancing its reputation. These benefits will of course, improve the company's financial performance.

### *2.2 Stakeholder theory*

Stakeholder theory explains specific corporate actions and activities based on a stakeholder-agency approach, and is concerned with how relationships with stakeholders are managed by companies in terms of the acknowledgement of stakeholder accountability (Cheng and Fan, 2010). As stakeholder influences become crucial for corporate image and comparative advantage, companies manage their stakeholder relationships by providing information, often in the form of voluntary disclosures in their annual reports. The justification is that stakeholders, which Collier (2008) defines as those who have a stake in an organisation, have something at risk, as well as the power to influence the organisation, including its actions, decisions, policies or goals. Potential stakeholders include shareholders, creditors, suppliers, the government, customers, competitors, employees, employees' families, the media, the local community, local charities, and future generations (Carrol and Bucholtz, 2006).

According to Gray et al. (1996), stakeholders are identified by companies in order to ascertain which groups need to be managed to further the interests of the corporation. Stakeholder theory suggests that companies will manage these relationships based on different factors such as the nature of the task environment, the salience of stakeholder groups and the values of decision makers who determine the shareholder ranking process (Donaldson and Preston, 1995). Management will tend to satisfy the information demands of those stakeholders who are of greatest importance to the corporations' ongoing survival, so that corporations will not respond to all stakeholders equally (Nasi et al., 1997). The power of stakeholders and their expectations can change over time, so that companies have to continually adapt their operating and reporting behaviours (Deegan, 2001). In summary, stakeholder theory views corporations as part of a social system while focusing on the various stakeholder groups within society (Ratanajongkol et al., 2006).

Stakeholder theory regards the notion of CSR as a means of maximizing the wealth of corporations. For example, a corporation has to serve the demands of its shareholders and investors for economic benefit from their investments, and to maximize the market valuation of the company. On the other hand, the needs of customers and labor can also affect corporate activity and action. However, stakeholder theory posits that the level of different corporate activities and actions will be related to the stakeholder groups which demand such activities and actions, based on the power of each stakeholder.

## 3. Hypothesis Development

CSR reporting is the most common voluntary reporting tool of companies (De Villiers and Alexander, 2014; KPMG, 2011), although there are several reporting tools such as environmental reporting, Triple Bottom-line reporting, sustainable development reporting, and integrated reporting. Some CSR reporting literature had focused on the reasons why companies provide CSR information (See Cowen et al., 1987; Hackston and Milne, 1996). Some prior studies recognized that CSR reporting is different across countries (Jose and Lee, 2007; Kolk et al., 2001). Type of CSR reporting, and kind of news about CSR reporting were also provided (Ho and Taylor, 2007; Deegan and Rankin, 1996). Specific pressure groups (Deegan and Gordon, 1996) and media attention (Brown and Deegan, 1998) were studied on the content of CSR reporting. In this study, there are three main parts of prior researches and hypotheses; relationships between corporate characteristics and social responsibility reporting, CSR reporting and financial performance, and corporate characteristics and financial performance.

### *3.1 Relationship between corporate characteristics and social responsibility reporting*

Using stakeholder theory, previous studies have indicated that the level of CSR reporting can be influenced by corporate characteristics such as size of company (Ho and Taylor, 2007; Deegan and Gordon, 1996), ownership status (Tagesson et al., 2009), type of industry (Newson and Deegan, 2002), age (Suttipun, 2012), type of business (Choi, 1999), type of auditor (Joshi and Gao, 2009), country of origin (Jahamani, 2003; Wanderley et al., 2008), adherence to the ISO26000 guidelines (Admad and Sulaiman, 2004), and CSR awards (Deegan and Gordon, 1996). However, this study will investigate the influence of three variables on the level of CSR reporting: type of industry, type of auditor, and CSR award.

Choi (1999) investigated CSR reporting based on classifying industries as either high or low environmentally sensitive industries. High environmentally sensitive industries are those that have high levels of social and environmental impact (Ho and Taylor, 2007). On the other hand, industries having little social or environmental impact can be classified as low environmentally sensitive industries (Newson and Deegan, 2002). Many previous studies into the relationship between the type of industry and the level of CSR reporting have found a positive relationship (e.g. Choi, 1999; Stray and Ballantine, 2000). By stakeholder theory, this was because stakeholders of corporations in high environmentally sensitive industries had more expectations about corporate financial and non-financial information reporting than other stakeholders of low environmentally sensitive companies (Gray et al., 1996). However, Suttipun (2012) did not find any significant relationship between the type of industry and the level of triple bottom line reporting in Thailand. However, in this study the following hypothesis was adopted:

*H1:* There is a positive relationship between type of industry, and level of CSR reporting.

Larger auditing companies are generally perceived to provide a more independent auditing service and to abide more closely by auditing standards than smaller auditing firms (Joshi and Gao, 2009) because larger auditing firms are more likely to suffer serious damage to their reputations than smaller auditors. Companies with greater potential gains from external monitoring would generally employ larger auditing firms such as the big-4 audit firms, KPMG, Price Waterhouse Cooper, Deloitte, and Ernst

&Young. Moreover, by stakeholder theory, Big-4 auditors tended to have more corporate stakeholder power to pressure corporations providing CSR reporting than Non-big-4 audit firms. However, previous findings about the relationship between type of auditor and CSR reporting are mixed. For example, Joshi and Gao (2009) and Suttipun (2012) found a relationship between the type of auditor and CSR reporting, but Inchausti (1997), could not find any correlation between them. However, the hypothesis in this study was that:

*H2:* There is a positive relationship between type of auditor, and the level of CSR reporting.

Since 2006, the SET has encouraged its listed companies to provide more CSR reporting by giving CSR award. By stakeholder theory, companies would like to have more attention from their stakeholder so the companies provide their actions and activities related by stakeholder demands including having CSR award. However, the results of studies into whether there is any relationship between CSR award and the level of CSR reporting have been mixed. On the one hand, Deegan and Gordon (1996) found that companies that have received social and environmental awards tend to provide more social and environmental information than other companies that have not been given such an award. On the other hand, Raar (2002) could not find any relationship between the two variables. However, this study hypothesised that:

*H3:* There is a positive relationship between previous CSR award, and the level of CSR reporting.

### 3.2 Relationship between CSR reporting and financial performance

Although there has been more than 30 years of research and more than 100 empirical studies on the issue of the relationship between CSR reporting and financial performance, the findings have been mixed (Garcia-Castro et al., 2010). In a review of 127 previous studies, Margolis and Walsh (2003) found that 109 studies treated CSR reporting as an independent variable in order to investigate if it was predictive of company's financial performance. They found that 54 studies indicated a significant positive relationship, 27 studies showed a significant negative relationship, and 28 studies revealed a non-significant relationship either way. Therefore, there have been three quite different results in studies seeking a relationship between CSR reporting and corporate performance; a positive relationship, a negative relationship, and no relationship at all.

In support of the first position, Porter and Kramer (2006) argued that companies which can reduce social and environmental problems such as natural pollution may be able to increase their productivity, and improve their reputation, and competitive advantage. Moreover, agency theory can explain that CSR reporting can close the conflict between corporate owners and managers by increasing their financial performance. Therefore, companies may earn profits which more than offset the cost of CSR disclosures. For example, in a study of 121 Japanese companies listed on the Tokyo Stock Exchange, Osaka Securities Exchange, and Nagoya Stock Exchange between 2002 and 2003, Nakao et al. (2007) found that environmental performance can positively influence financial performance. Konar and Cohen (2001) also found that corporate environmental performance had a positive impact on financial performance.

Conversely however, Connelly and Limpaphayom (2004) noted that corporations are likely to view CSR reporting as a cost acting to reduce corporate profits and that companies will provide as little CSR reporting as possible to meet the minimum legal requirement. Therefore, there would tend to be a negative relationship between CSR reporting and corporate financial performance. For example, Wright and Ferris (1997) found a negative relationship between CSR reporting and the financial performance of South African corporations between 1987 and 1990.

On the other hand, some studies have found that there is no significant relationship between CSR reporting and corporate financial performance in developing countries. For example, Rahman et al. (2010) could not find any relationship between environmental reporting and company's financial performance among 108 companies listed in Thailand, Malaysia, and Singapore. Aras et al. (2009) also tested for a relationship between CSR reporting and corporate financial performance among 100 companies listed on the Istanbul Stock Exchange between 2005 and 2007. However, they could not find any significant relationship. However, the present study hypothesized that:

*H4:* There is a positive relationship between the level of CSR reporting, and financial performance.

### 3.3 Relationship between corporate characteristics and financial performance

Some previous studies focused on companies in developing countries were unable to find any relationship between CSR reporting and company's financial performance (e.g. Rahman et al., 2010; Aras et al., 2009) as opposed to studies in developed countries which were. This may be because there are certain variables which have an effect on the relationship between CSR reporting and financial performance in developing companies such as the type of industry (Fauzi et al., 2007). Therefore, it is possible to believe that industry type can also be related to company performance. For example, Dragomir (2010) found that high environmentally sensitive companies performed better than low environmentally sensitive companies. Shergill and

Sarkaria (1999) also found a relationship between industry type and the company's financial performance of Indian companies. On the other hand, Fauzi et al. (2007) found that there was no significant relationship between the type of industry and the company performance of Indonesian companies. Therefore, this study set out to test whether:

*H5:* There is a positive relationship between type of industry, and financial performance.

As mentioned earlier, it is commonly believe that big-4 auditors can provide a higher quality audit than non-big 4 auditors. However, the results of studies of the relationship between auditor type and financial performance have been mixed. For example, Teoh and Wong (1993) found that corporations which changed from big-4 auditors to non-big 4 auditors had a lower number of investors responding to their announced earnings (i.e. company performance) after the change. On the other hand, Hackenbrack and Hogan (2002) found that companies which had higher-earning management never changed from non-big-4 auditors to big-4 auditors, and from big-4 auditors to non-big 4 auditors. Chan et al. (2011) found that there was no significant difference in company's financial performance based on whether companies employed big-4 or non-big-4 auditors. However, this study will test the hypothesis that:

*H6:* There is a positive relationship between type of auditor, and financial performance.

CSR award can function as a means by which corporations enhance their financial performance with respect to their stakeholders, for instance by increasing market valuation, sales, profits and reputation or image. This is because when a corporation receives a CSR award it will send a positive signal to their stakeholders (Brammer et al., 2009). Neely (1999) noted that national and international quality awards can affect the measurement of corporate financial performance. As mentioned earlier, CSR award in Thailand were launched in 2006 to encourage voluntary CSR reporting by Thai companies. However, the results of studies about the relationship between CSR award and company's financial performance have been mixed. Leemakdej (2013) found that a CSR award could influence the company performance (market valuation) of Thai listed companies in the case of companies with a potential agenda problem. On the other hand, Claessens et al. (2000) found that a CSR award did not affect company performance. Hendricks and Singhal (2001) were unable to find any significant differences between the company's financial performance of companies receiving a CSR award earlier or later. However, the hypothesis tested in this study is that:

*H7:* There is a positive relationship between previous CSR award, and financial performance.

## 4. Methods

Methods of this study were separated into three parts that consist of data and sample selection, dependent and independent variables used in the study, and data analysis including the equations used for study.

### *4.1 Data and sample selection*

The population in this study was all the companies listed on the SET. Using a 95 percent confidence interval (Yamane, 1973), 220 companies out of the 489 companies listed on the SET were chosen by simple random sampling as the sample in this study. The sources of the CSR reporting information were the 2011, and 2012 annual reports of the companies selected. This source was adopted because the annual report is a conveniently available source of information and is provided regularly every year (Amram and Devi, 2008). It also represents the main form of corporate communication to stakeholders. Moreover, many previous studies relating to CSR reporting have used annual reports as their main source of information. The data were collected between July and December 2013.

### *4.2 Dependent and independent variables*

Fiori et al. (2009) suggested that corporate financial performance can be measured by profitability, solvency, liquidity, and efficiency. The most common measures of performance are return on assets (ROA), return on equity (ROE) and Tobin's Q (Margolis and Walsh, 2001). However, ROA was used in this study because it has been commonly and widely used as an indicator of a company's financial performance in previous studies (e.g. Aras et al., 2009; Bhagat and Bolton, 2008). ROA represents the profitability of the firm with respect to the total set of assets. ROA data was collected from the website of the SET (www.set.or.th/set/commomlookup.do).

The dependent variable in this study, the amount of CSR reporting can be measured in five different ways: content analysis, questionnaire survey, reputational measures, unidimensional indicators, and ethical rating (Wood, 2010). However, content analysis was selected to be used in this study because it has been the most common method used for assessing CSR reporting (Gray et al., 1999) and has been used in many previous studies (Raar, 2002; Hackston and Milne, 1996). Moreover, Krippendorff (1980) asserted that content analysis is a technique allowing a replicable and valid inference from data according to the context. Advantages of content analysis are to provide an objective analysis of written materials, to identify meaning from text data, and to quantify qualitative data (Krippendorff, 1980). Word count from annual reports was used as the analysis unit because it can be more easily categorized (Damak-Ayadi, 2010), and needs less subjective judgment by the researcher (Gamerschlag et al., 2011). Krippendorff (1980) stated that words are the smallest unit of measurement for analysis and can be expected to provide the maximum robustness in assessing the quantity of reporting. Moreover, words are a preferred measure when it is intended to measure the level of total space devoted to a topic and to ascertain the importance of the topic. Deegan and Gordon (1996) supported that word counting is more detailed than measuring sentence, and part-page counting, while Gray et al. (1998) words lend themselves to more exclusive analysis.

The independent variables employed in the study were: type of industry, type of auditor, and CSR award. Data in respect of these variables were all collected from the companies' annual reports which are available as published documents or on the SET website (www.set.or.th/set/commomlookup.do). The variables were classified as dummy variables. For example, companies were classified as belonging to high or low environmentally sensitive industries to determine industry type and similarly companies were classified as big-4 or non-big-4 auditors under auditor type, and CSR award or non-CSR award companies under CSR award.

### *4.3 Data analysis*

Data was analyzed by independent sample *t*-tests, correlation analysis, and path analysis. Independent sample *t*-tests were used to test the different levels of CSR reporting in annual reports between groups based on industry type, auditor type, and CSR award. Correlation and path analysis were used to test the relationship between corporate characteristics, CSR reporting, and company's financial performance. Accordance between empirical data and confirmatory factor analysis model was tested by using fit statistics such as chi-square, root mean square of approximation (RMSEA), comparative fit index (CFI), goodness-of-fit index (GFI), and adjusted goodness-of-fit index (AGRI). The equations used for path analysis are shown below:

CSR Reporting = a + b1Industry + b2Audit + b3Award + error

Firm Performance = a + b1Industry + b2Audit + b3Award + b4CSR + error

Where:

CSR Reporting = the level of CSR reporting in annual reports measured by the number of words determined by content analysis

Firm Performance = Corporate financial performance measured by ROA

Industry = Industry type (Dummy variable 1 = high environmentally

Sensitive industry, and 2 = low environmentally sensitive industry)

Audit = Type of Auditor (Dummy variable 1 = big-4 auditors, and 2 = non-big-4 auditors)

Award = CSR award (Dummy variable 1 = company having received a CSR award, and 2 = Company not having received a CSR award).

## 5. Results and Discussions

There were three parts to answer the research questions. Descriptive analysis and the results of *t*-tests were used to test the different levels of corporate social responsibility reporting by the groups of interest. Correlation matrix and path analysis were used to test the relationship between corporate characteristics, social responsibility reporting, and financial performance.

### *5.1 Descriptive analysis and the results of t-tests*

Descriptive analysis was used to show the frequency, percentage distribution, means, and standard deviations of the dependent and independent variables used in this study (see table 1). The findings show that all the companies surveyed provided CSR reporting in their annual reports in 2011 and 2012. The average words dedicated to CSR reporting during the period 2011-2012 by the Thai listed companies was 1,735 words. Of the 220 companies sampled, 67 companies were classified as being in high environmentally sensitive industries with 153 companies in low environmentally sensitive industries. 135 firms used big-4 audit firms as their external auditors, and 85 companies used non-big-4 auditors. Only 27 of the companies had received a CSR award against 193 companies which had not. Independent sample *t*-tests were used to test the different levels of CSR reporting in annual reports between groups based on industry type, auditor type, and CSR award. The results indicate that there were significant differences in the levels of CSR reporting between groups based on auditor type and CSR award at the 0.01 level. However, there was no significant difference in the level of CSR reporting between groups based on the type of industry ($P > 0.05$).

**Table 1.** Descriptive analysis of variables and the results of Independent sampled *t*-tests

| Panel A: Dependent variables | | | | | |
|---|---|---|---|---|---|
| Variable | Mean | S.D. | Min. | Max. | N |
| CSR Reporting | 1,734.45 | 3,400.74 | 356.00 | 42,836.00 | 220 |
| Firm Performance | 6.25 | 10.38 | -62.91 | 44.82 | 220 |
| Panel B: Dummy independent variables | | | | | |
| Variable | Frequency | Percent | Mean | *t* | P-value |
| Industry | | | | | |
| - High sensitive industry | 67 | 30.5 | 1302.70 | -1.782 | .076 |
| - Low sensitive industry | 153 | 69.5 | 1927.83 | | |
| Audit | | | | | |
| - Big-4 auditors | 135 | 61.4 | 2212.98 | 3.158 | .002** |
| - Non-big-4 auditors | 85 | 38.6 | 982.20 | | |
| Award | | | | | |
| - CSR award company | 27 | 12.3 | 3247.85 | 2.805 | .008** |
| - Non-award company | 193 | 87.7 | 1526.15 | | |

** Significant at the 0.01 level, * significant at the 0.05 level

### 5.2 Correlations matrix

A correlation matrix was used to test the relationship between the corporate characteristics, CSR reporting, and financial performance (see Table 2). The results indicate that auditor type and CSR award were significantly correlated with CSR reporting at respectively the 0.01 and 0.05 levels. Moreover, there were significant correlations variously between industry type, audit type, and company's financial performance, but CSR reporting was not found to be correlated significantly with company performance at the 0.05 level.

**Table 2**. Correlations matrix

| | Industry | Audit | Award | Firm Performance | CSR Reporting |
|---|---|---|---|---|---|
| Industry | 1 | .079 | .204** | -.194** | .085 |
| Audit | | 1 | .183** | -.156* | -.177** |
| Award | | | 1 | -.017 | -.166* |
| Firm Performance | | | | 1 | .128 |
| CSR Reporting | | | | | 1 |

** Significant at the 0.01 level, * significant at the 0.05 level

### 5.3 Path analysis

By using fit statistics such as chi-square, root mean square of approximation (RMSEA), comparative fit index (CFI), goodness-of-fit index (GFI), and adjusted goodness-of-fit index (AGRI), the study found a significant accordance between empirical data and confirmatory factor analysis model. Path analysis was used to test whether there were relationships between the company characteristics, CSR reporting, and company's financial performance among the SET listed companies surveyed. The first layer analysis investigated the relationship between corporate characteristics, and CSR reporting, The results show that the type of auditor, and CSR award have significant effects upon CSR reporting at the 0.05 level (See Model A, Table 3), but the type of industry does not influence CSR reporting. The discussion of the findings and how they relate to previous published studies would be separated into three parts. Firstly, the relationship between corporate characteristics and CSR reporting investigated in this study revealed that the type of auditor and an existing CSR award significantly influenced the level of CSR reporting in Thai corporate annual reports. With regard to auditor type, this reflects the fact that big-4 audit firms paid more attention to CSR and CSR reporting than non-big-4 auditors as well as providing financial auditing services. Moreover, they had even created CSR surveys of their clients, e.g. the KPMG International Survey of Corporate Social Responsibility, the Price Waterhouse Cooper Corporate Responsibility Practices Survey, the Deloitte CSR Report and the EY Survey Cooperation with GreenBiz Group conducted by Ernst &Young. By stakeholder theory explanation, Big-4 audit firms as corporate stakeholders had more stakeholder power than Non-big-4 auditors. Therefore, the power of Big-4 auditors made corporations provided more CSR reporting in their annual reports than other companies audited by Non-big-4 audit firms. In this area, the results from developing countries represented by Thailand were consistent with some previous studies in developed countries (e.g. Joshi and Gao, 2009) which found that companies using big-4 auditors provided more CSR reporting than firms using non-big-4 audit firms. The finding that a previous CSR award was predictive of the level of CSR reporting was not surprising. Since 2006, CSR awards have been given by the ThaiPat Institute, which is a non-profit organization, to Thai companies listed on the SET whose actions and activities were conducive to CSR. Therefore, if a company desired a CSR award it will increase its CSR activities including CSR reporting and disclosures. By stakeholder theory, the corporations with CSR awards in both developed countries (See Deegan and Gordon, 1996), and developing countries (See the present study) would serve and get attention from their stakeholder demands by providing CSR reporting. The result was similar to the findings of Deegan and Gordon (1996) that companies with a CSR awards tended to report more social and environmental information than companies without a CSR award.

From Model B, Table 3, it can be seen that the findings indicate that CSR reporting does significantly influence corporate financial performance. Moreover, the type of industry has a direct effect on company performance at the 0.01 level. However, the study was not able to find any significant relationship between the type of auditor, CSR award, and firm performance (P > 0.05). The study also found a significant positive relationship between CSR reporting and financial performance after controlling for industry type in Thailand. This was because CSR reporting reduced social and environmental conflicts between corporations and their stakeholders, therefore, corporations could increase sales, profits, reputation, and competitive advantage by conducting CSR reporting which might lead to better financial performance. By agency theory, the result could explain how CSR reporting used in developing countries represented by Thailand closed the gap and conflict between owners (principles) and managers (agents) as well as developed countries (See Nakao et al., 2007; Konar and Cohen, 2001).This result is consistent with Nakao et al. (2007), and Konar and Cohen (2001) who found that CSR reporting has a positive impact on company's financial performance.

**Table 3.** Path analysis model

| | | Unstandardized Coefficients | | Standardized Coefficients | *t* | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| Model A: The first layer of full path analysis model | | | | | | |
| A | (Constant) | 4811.364 | 1468.165 | | 3.277 | .001 |
| | Industry | 963.641 | 495.641 | .131 | 1.944 | .053 |
| | Audit | -1092.867 | 466.486 | -.157 | -2.343 | .020* |
| | Award | -1700.666 | 704.906 | -.164 | -2.413 | .017* |
| Model B: The second layer of full path analysis model | | | | | | |
| B | (Constant) | 13.091 | 4.574 | | 2.862 | .005 |
| | Industry | -4.720 | 1.520 | -.210 | -3.105 | .002** |
| | Audit | -2.744 | 1.436 | -.129 | -1.911 | .057 |
| | Award | 2.265 | 2.172 | .072 | 1.043 | .298 |
| | CSR Reporting | .000 | .000 | .135 | 1.987 | .048* |

Dependent Variable of Model A = CSR Reporting
Dependent Variable of Model B = Firm Performance
** Significant at the 0.01 level, * significant at the 0.05 level

Finally, in regard to the relationship between corporate characteristics and financial performance in developing countries represented by Thailand, the study found that whilst the type of industry (high or low environmentally sensitive) influenced company performance significantly, auditor type, and CSR award had no significant effect. By stakeholder theory, this was because stakeholders of corporations in high environmentally sensitive industries had more expectations about corporate financial and non-financial information reporting than other stakeholders of low environmentally sensitive companies. Therefore, if the companies can satisfy their stakeholders' demands, they can also improve their financial performance in respect of, for instance, income, net profit, and image. This result in developing countries was consistent with developed countries' evidence. For example, Dragomir (2010) found that high environmentally sensitive companies produced better performance than low environmentally sensitive companies.

**Figure 1.** The full framework of path analysis model

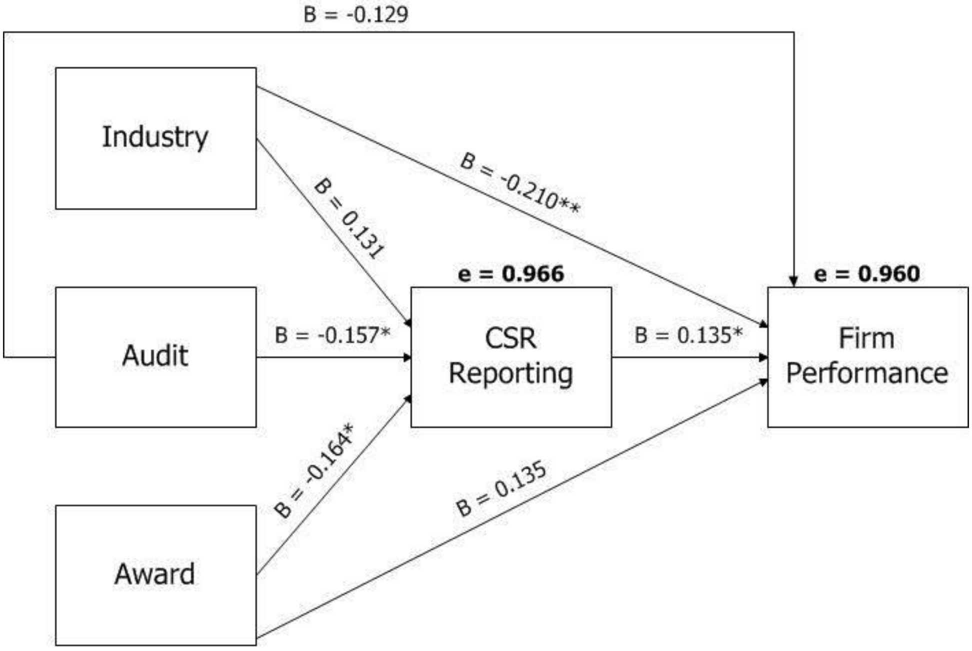


Figure 1 shows the full model of path analysis studied, with CSR reporting as the dependent variable, and the corporate characteristics, industry type, auditor type, and CSR award as independent variables. Alternatively, with firm performance as the dependent variable, the corporate characteristics, and CSR reporting can be viewed as independent variables. The results show that the e value of CSR reporting is 0.966, and that of company performance is 0.960. CSR reporting therefore has a significant influence on company performance at the 0.05 level. However, neither auditor type nor CSR award have any direct influence on company performance at the 0.05 significance level, but they do have an indirect significant effect through CSR reporting ($P < 0.05$). In addition, the type of industry has a direct influence on company performance at the 0.01 significance level.

## 6. Conclusions

The study's objectives were to test the different levels of CSR reporting by companies listed on the SET between groups based on industry type, auditor type, and CSR award, and to test the relationships between corporate characteristics, CSR reporting, and financial performance. The results indicated that there were significant differences in the level of CSR reporting between groups based on auditor type and CSR award. The type of auditor and a CSR award had a significant effect on the level of CSR reporting. Moreover, CSR reporting and the type of industry significantly influenced company performance. Therefore, there was a significant relationship between auditor type, corporate social responsibility award, and the level of corporate social responsibility reporting. Moreover, there was a significant relationship between industry type, the level of corporate social responsibility reporting, and financial performance.

For practical contributions, the findings provide an important reminder to the Thai government and the SET that it would be desirable to require mandatory rather than voluntary CSR reporting by Thai listed companies. The results showing a relationship between CSR reporting and company performance should motivate companies to integrate social and environmental issues into their strategic business plans and not to concentrate solely on economic issues because CSR reporting can influence their business performance. Finally, the results can benefit for financial stakeholders such as investors, shareholders, and creditors who can use non-financial information from CSR reporting when making investment decisions.

In terms of theoretical contributions, the results suggest that agency, and stakeholder theories relating to the relationship between owners and managers, and between corporations and stakeholders operate in developing countries, especially Thailand, as well as in developed countries. In more details, agency theory in this study can explain how corporations in developing countries represented by Thailand use CSR reporting as utility function to close the gap and conflict between owners and managers as well as developed countries. Moreover, the study also proved that corporate stakeholder powers in developing countries by using Thailand as a proxy can pressure companies providing CSR reporting in annual reports as well as developed countries.

Some factors must be mentioned as limitations of this study. Firstly, the study did not consider the quality of CSR reporting by Thai listed companies because CSR reporting in Thailand is still voluntary so there is no standard relating to it nor indexes to measure the quality of CSR reporting. Next, there are other corporate characteristics which may influence CSR reporting, and financial performance in Thailand such as the size of the company, whether or not it is a family business, its age, country of origin, and the risks undertaken. Therefore, in a future study, the effect of other corporate characteristics should be tested for their effect on CSR reporting, and financial performance. Moreover, future studies should consider international CSR standards or indexes such as the Global Reporting Initiative guidelines and the ISO26000 guidelines in examining the quality of Thai CSR reporting (See Lozano and Huisingh, 2011).

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# DIRECTORS, AUDITORS AND SECRETARIES ROLES AND CORPORATE GOVERNANCE SYSTEM: IDENTITY THEORY PERSPECTIVES

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**Abstract**

The interest in researching corporate governance in the broader context continues unabated. The research in this area continues to be dominated by test of agency theory in advanced capitalist economies. Few researches are seen in developing countries like Nigeria. Though there has been call for new theories to be tested in the field of corporate governance few have been tested, predominantly stakeholder and resource dependence theories (Barkema and Gomez-Mejia, 1998). This paper departs from previous literature in two ways. First, it tests the identity theory. Second, it uses the case study drawing empirical data from Nigeria, an emerging economy from a developing capital market to provide insights into the corporate governance mechanisms. This paper discusses the role of directors, auditors and secretaries in the context of the development of corporate governance in Nigeria and determines whether the Code of Corporate Governance is adequate and comprehensive in ensuring good corporate governance practices. Particularly in Nigeria where the recent scandals in financial sector in 2009 (five banks were bailout with tax payers' money) and other parts of the world raised further concern for urgent reform in the corporate governance regulation, framework and practices. The study explores appropriate framework and principles governing the duties and obligations of directors, auditors and secretaries. This is crucial because there is increased reliance by the stakeholders on the three actors (directors, auditors and secretaries) as it concern corporate governance both regionally and internationally. Therefore, an exploratory study is carried out to explore the level of development of corporate governance mechanism in developing economies like Nigeria. Finally, the study shows that the Nigerian Code of Corporate Governance, governing the duties and obligations of directors, auditors and secretaries have not produced the desired result pertaining to accountability and corporate reporting. Though, the study finds growth in the number of directorships, auditors and secretaries of listed companies. The study adopts the case study approach using information from the annual reports of 128 companies, Nigeria Stock Exchange (NSE) fact book and interview data. Analytical and descriptive data are presented explaining the growth of directorships, auditors and secretaries of listed companies. Despite the huge challenges, issues and bottlenecks hampering good corporate governance, the study finds growth in the number of directorships, auditors and secretaries of listed companies. Also, the study reveals the code governing the responsibilities of directors; auditors and secretaries have not produced the desired result pertaining to accountability, transparency and good corporate financial reporting. Thus contributing to the corporate governance system in a developing country and subsequently adds to the body of knowledge. Finally, this paper is limited to listed companies in the Nigerian Stock Exchange (NSE).

**Keywords:** Corporate Governance, The Security And Exchange Commission (SEC) Code Of Corporate Governance, Directorships, Auditors, Secretaries, Nigeria

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## Introduction

Corporate collapses and bankruptcies are attributed to the poor corporate governance practices of companies mostly as a result of ineffective board (Monks and Minows, 2004; Okike, 2007). Ineffective board encourages insider trading, weak internal control mechanisms, opportunisms and corporate collapse whilst a strong board enhances board independence and good corporate performance (Webb, 2004). The board are directly accountable to the shareholders and each year the company holds an annual general meeting (AGM) at which the directors must provide a report (audited by auditors) to shareholders on the performance of the company. The report also contains the future plans and strategies of the firm including how the directors submit themselves for re-election to the board (Monks and Minows, 2008). Furthermore, company failures are linked to ineffective board. These issues can be traced to directors' poor performance caused by lack of training, induction or irrelevant skills necessary for the smooth running of the board. This ineffectiveness of the board and directors and their poor performances are associated with the poor performance of the secretaries too (Hamer, 1992). Also, not only are the secretaries involved in the smooth running of the board but are charged with the administration of the board and company's governance procedures. On the whole, it can be said that the function of the directors, auditors and secretaries are inter-related and inter-connected. This paper therefore discusses these important corporate governance actors that are actively associated with an active board, namely the directors, auditors and secretaries (Mallin, 2004).

The board's role includes creating policies that governed an organisation with the aim of satisfying stakeholders' interest (Baysinger and Hoskisson, 1990) and also ensuring that these stakeholders are independent and effective. The board is made up of both the executive and non-executive directors. In Nigeria, the directors ensures board's independence through compliance to the regulatory framework, the Company and Allied Matters Act (CAMA) of 1990 (Okike, 2007) and the Security and Exchange Commission code, known as the SEC code of 2011. Whilst, the CAMA provides the legal framework for corporate governance in Nigeria, the SEC code of 2011 provides recommendations for best practices (Adekoya, 2011), particularly as it concerns the directors, auditors and secretaries. These are three important actors in the corporate governance mechanism necessary for strong corporate governance system in the developing countries (Monks and Minows, 2008).

Essentially, the SEC code (2011) made recommendations aimed at ensuring best practices among listed companies. Part of its recommendations includes the board having minimum of two independent directors and equal numbers of Non-executive directors (NEDs) and executive directors in the board. Apart from the number of directors on the board, also mentioned by the code are the roles and responsibilities of the three actors. The directors formulate the policies that govern the company, while the company secretaries offer advice and information to board of directors and the auditors ensure that credible financial reports are produced for the board and other stakeholders. These recommendations concerning their roles are contained in the SEC code of 2003 amended in 2011 which is structured and tailored along the UK Combined Code of Corporate Governance (2006).

Therefore, this paper explores the extent of good corporate practices in listed companies by focusing on the role of directors, auditors and secretaries in the development of corporate governance framework in Nigeria. The remainder of the paper is organized as follows: Section II describes the concepts and theories that support the directors, auditors and secretaries' voluntary compliance of the corporate governance codes. Section III presents the methodology. Section IV describes the empirical design and presents the data. Finally, section V offers the discussions and findings while section VI concludes.

## Theoretical Framework

Most studies have been focused on corporate governance variables and agency theory. This study offers insight from an identity-based dynamics of group think behavior within the organizations such as loyalty, commitment and satisfaction, particularly in relation to the roles of directors, auditors and secretaries as determined through board dynamics and organizational performance (Korte, 2007). Consequently, the study explores and provides insight into the development of corporate governance mechanism in Nigeria particularly how identity theory explains role of the 3 actors.

The identity theory was originally derived from the social identity theory most commonly used in the field of psychology, sociology, social sciences and humanities. However, the identity theory is rarely used in the field of management and corporate governance except in explaining the importance of board diversity and increasing the number of feminist directors and women as top managers (Post *et al*, 2011). The self identity theory states that women identity and by extension their behavioral characteristics are different as individuals compared to when they belong to a group such as the board.

By extension, Terjesen, Sealy and Singh (2009) noted that women directors' impact on the board can be explained using the identity theory. The rise of women to the top management cadre is hindered by them being perceive as the weaker sex group (Terjesen, Sealy and Singh, 2009). The identity theory explains that the self identity of women as weaker vessel compared to the male directors is salience hence the glass ceiling preventing rise of women as top managers. However, women are noted to posses some certain qualities that adapt them to function better than men as top managers. Several authors argue that women top managers are more assertive, persuasive, have a stronger motivation to get things done, more emphatic and flexible, more willing to take risk, having more interpersonal skills than men (Coffey and Wang, 1998; Williams, 2003; Bear *et al*, 2010). These qualities enable them to make robust decision that enhances board effectiveness and independence.

As a result, there have been recent calls for enhanced board diversity through the inclusion of more women in the board. This is as a result of empirical studies establishing that diversity improves board effectiveness and organizational performance. **C**offey and Wang (1998) advocated for board diversity by including women directors by arguing that board diversity reduces managerial control and improves board effectiveness (Baysinger and Hoskisson, 1990), in decision making by checking management excessiveness (Jensen and Meckling, 1976). In a similar vein, Bear *et al* (2010) reiterate that board diversity enhances robust decision making, board effectiveness and independence. According to Williams (2003) board diversity encourages the board to be responsive to a wider group by satisfying the various stakeholders of the corporation. Post *et al* (2011) argue that female directors favour companies to adopt social responsibility activities, only if they are more in numbers in the board.

The identity theory has been used to explain the rise of feminist directorships and board diversity. Though little is known concerning identity theory in auditors and sectaries, this study fills that gap. By attempting to add the role of auditors and secretaries, two important corporate governance actors, make this study unique in management studies. This study attempts to extend the identity theory by focusing on the roles of these actors as it affects the board dynamics and corporate governance mechanism in general. The identity theory can be used to explain the rationale behind the roles of auditors and secretaries in corporate governance activities in Nigeria. Their behaviors are shaped by their experiences, skills and knowledge. These resource capabilities are derived through learning skills acquired both within and outside the organizations (Korte, 2007). According to the author social identities within a business organization determines board performance. These identities include individual thinking ability both individually and as a group within the organization that influences that behaviours and identities. These behaviours influence their decision making and affects board performance. Therefore, selecting the right individuals as directors, auditors and secretaries are essential to group cohesiveness and organisational performance. On the whole, the identity theory confers desirability and acceptability to a group because of their attitudes of cohesiveness and togetherness. By doing this, it shows that the directors, auditors and secretaries as individual and group entities are capable of affecting organizational performance through how they think, act and perform.

## *Identity Theory*

The identity theory is the portion of an individual's self-concept associated with individual behaviour and it is derived from perceived membership in a relevant social group (Cuhadar and Dayton, 2011). Social identity theory was introduced by the concept of identity as a way in which to explain intergroup behaviour. Social identity theory states that social behaviour will vary along a continuum between interpersonal behaviour and intergroup behaviour (Cuhadar and Dayton, 2011). Therefore, whilst interpersonal behaviour is determined solely by the individual characteristics, interpersonal relationships exist between two or more people.

Social identity theory therefore predicts certain intergroup behaviours on the basis of perceived group status differences, legitimacy and stability of those status differences, and the perceived ability to move from one group to another. In contrasts identity theory refers to theorizing about human selves. A key assumption in identity theory is that individuals are intrinsically motivated to achieve positive distinctiveness through self identity. That is, individuals strive for a positive self-concept. As individuals they are defined and informed by their respective social identities (as per the interpersonal-intergroup continuum) it is further derived in social identity theory that individuals strive to achieve or to maintain positive social identity. Both the interpersonal-intergroup continuum and the assumption of positive distinctiveness motivation arose as outcomes of the findings of minimal group studies. In particular, it was found that under certain conditions individuals would endorse resource distributions that would maximize the positive distinctiveness of an in-group in contrast to an out-group at the expense of personal self-interest. What this means to the board as a group is that the identity theory explains the directors' role in the board from a behavioural perspectives viewing members of the board as inter-personal and inter-group continuum.

The self has been categorized into 4 four groups namely, the social, material, spiritual and ego (Garratt, 2005). The self are an individual collection of personality traits. It is these identities of self that are common features of various interacting groups within organization such as the boards and its committees. However, it was observed that individual exhibit different self-identities or personality when operating independently or within a group. This signifies the self as having multiple identities. Groups exist at multiple levels (societal, cultural, industrial, organizational, functional, and professional) and are an important subject in the study of social and work behaviour (Ashforth and Mael, 1989). For most identity theorists, groups exhibit isomorphic characteristics of identity across different levels, although the strength of a specific identity is relative to the individual, the group, and the context (Turner, et al., 1987).

This paper argues that identity is a moderating factor influencing individual (directors, auditors and secretaries) behaviour in their roles and how they perform their duties (i.e. in the board and committees) and therefore is a critical factor influencing learning in organizations and their performances. These multiple identities of directors can send different signals concerning their roles and duties. According to Garratt (2005: 30) 'most board of directors never function properly in their directorial, as distinct from executive role. They seem especially ineffective at thinking strategically. Whilst accepting the title -

board (statutory) director, they have rarely any induction or development process to explain that directing is very different from managing and takes them into a wider world of which many are uncomfortable. This means that their self identity influences director in policy making. This can change their perception, judgement and performance'.

It can be observed according to the Garratt (2005) that not only are directors confused and ineffective about their duties, the secretaries also are liable too because according to Mitchell (1992) their function includes inducting and providing advice to the directors to enable them to perform their duties smoothly or else they will be found wanting. By extension this makes them culpable. Likewise auditors who by share of connivance with the board becomes ineffective in exercising good judgement and control when performing their duties, a case in point is Enron in US. Their auditors were Arthur Anderson that connives with the directors of Enron to falsify accounting data. This eventually contributed to the demise of the energy company. The paper argues therefore that identity theory can be used to explain the behaviours of the actors and by implication their roles in ensuring good governance practices. One way of solving these governance problems is through the diversity of the board, auditors and secretaries. This paper argues that since employees and managers associate and identifies with high status group such as the board and committees (audit). It is therefore important to note that these motives to belong to a group over-shadowed the actors' interest in ensuring independence and good corporate performance due to peer pressures from their colleagues not to comply.

## Literature Review

The criticisms of the board have increased in early 1990s and 2000s following the collapse of big corporations such as Enron, WorldCom and Baring Brothers (Malin, 2004). The mismanagement of company's resources by the corporate actors led to questionable decisions by the boards. These decisions have been attributed as causes of serious redundancies, bankruptcies, environmental degradation and accounting scandals. The reasons for the corporate collapse ranged from accounting scandals in Enron in the US to questionable practices by board, ethical failings in corporations like Chevron Nigeria, insider information, harmful products produced by corporations, bad waste management practices like dumping of toxic substances in waters and land, environmental hazards and degradations caused by corporation's operations. By doing this, fines and litigation are on the rise thereby adding to their cost and expenses. Such litigations have collapsed financially sound corporation into bankruptcy like Texaco in 1987 (Ibrahim, Howard and Angelidis, 2003).

Researchers have shown that an ineffective board hamper performances. Kesner, Victor and Lamont (1988) argue that the composition of the board can restrict board independence and affect its monitoring role. This is as a result of the male dominated board by friends and former colleagues popularly referred to as old boys' network. Corporations employ NEDs to strengthen the board and improve the corporate governance structure of the corporation by serving in committees (Baysinger and Hoskisson, 1990). Pass (2003) emphasised that NEDs serve in ethical, environmental and health and safety committees. As for the auditors, they are there to certify the work of management by ensuring accountability and transparency while the secretaries assist members of the board in their duties aimed at making them to be more efficient and effective.

The importance of effective corporate governance to corporate and economic performances of the firm cannot be over-emphasised in today's global market place. In Nigeria, companies that adopt international standards of corporate governance and disclosures are more likely to attract international investors than those whose practices are seen to be below international standards (SEC code, 2011). This is because the SEC code is tailored along the international code of corporate governance as practised in Europe and UK (Gregory, 2000; Okike, 2004; 2007).

Corporate governance practice is still poor in Nigeria due to bad governance (Gregory, 2000). Bad governance are due to corporate governance failures is one of the major problem facing business organisations and government institutions in developing countries, especially in Nigeria where corruption are very common and bad ethical practices are ubiquitous (Okike, 2004; 2007). Still, the board, auditors and secretaries have been linked to the bad governance practices in Nigeria (Okpara, 2010). However, the authors stated that awareness of corporate governance in Nigeria is on the rise and this is partly due to increased determination of government to attract foreign investors and foreign direct investment (FDI) to the country.

Okike (2007) argues that despite the fact that the code of best practice in Nigeria is structured to adhere to international standards. It is important for the Nigeria code of best practise to reflect the diversity of the board, social, political, cultural and economic environment of the country so as to boast shareholder's confidence. Also, in other to boost foreign direct investment, the code should ensure accountability and transparency among listed companies. Therefore this study intends to investigate the extent of the corporate governance practices in Nigeria with particular reference to the three corporate governance actors.

### *Historical Development of the Corporate Sector and Corporate Governance in Nigeria*

The poor corporate governance in Nigeria started from the lessons learned from malpractices and collapsed of banks in the 1990s (SEC code, 2003; Okike, 2007). In the late 1980 and early 1990s as a result of the absence of corporate governance mechanisms, the Nigeria economy witnessed a near collapse of the financial sector through failed banks and other financial institutions. This bank collapses was caused by insider abuses, asset stripping, poor risk management and bad ethical practices. In certain cases this abuses was perpetuated in active supports from the board (SEC code, 2011). Furthermore, the reason for the collapse of companies in Nigeria can be traced to poor auditing through the falsification of financial reports, non-disclosure of some material contents in annual reports by PLCs as witnessed by the Nigerian capital market (Ahunwan, 2002; Okike, 2007; Amao and Amaeshi, 2008; SEC code, 2011). This led to the government promulgation of Failed Banks (Recovery of Debt) and Financial Malpractice in Banks Act decree of No. 18 to punish failed banks and to help recover the debt owed to them (Gregory, 2000). The auditors have been accused of conniving with directors and board members to falsify reports (Monks and Minows, 2008). Poor auditing has also resulted in poor governance and corporate failures. An example is the case of Enron and Arthur Anderson in the US in 2001 year. Notably, in Nigeria there were poor internal control measures (Sec code, 2011). Most companies lack good reporting ethics, while the directors lack good knowledge of company's' operations, for instance, the appointment of CEO sons and relatives into the board were very prevalent in the defunct Oceanic Bank Plc (Sahara Reporter, 2010).

Ehikioya (2009) explained that the importance of corporate governance mechanisms in Nigeria is anchored on transparency, accountability, fairness, trust and responsibility in the management of the company. The author went further to highlight the advantages of corporate governance in Nigeria to include the ability of the company to attract foreign investment, local investors and partners. Other advantages include ability to raise fund from the capital market, increase investor's confidence, enhanced company's performance and growth. Ehikioya (2009) pointed out companies that practice good corporate governance in Nigeria has lower bankruptcy risk, high firm performance and market valuation. Empirically, Ehikioya found that companies with high ownership concentration in Nigeria have better financial performance. However, the author concluded that companies with low financial performance were found among companies that have high CEO duality and a family relative as member of the board which are indicators of poor governance practices and some of the symptoms of corporate failures. To counter this, the SEC code 2003 recommends firms to increase the number of independent directors in their board to prevent managerial opportunism. The role of secretaries as emphasized in the code was to provide advice to NEDs while they maintain independent.

Gregory (2000) argues that despite the significance of corporate governance to capital formation and firm performance, companies in Nigeria has continue to witness low compliance to code of corporate governance in Nigeria. There is also the recognition that competitions, efficient resource allocation and distribution can be hindered by weak or absence of corporate governance systems, presence of corruption, pro-ethnicity, undue favouritism and nepotism (Gregory, 2000). In order to counter these poor corporate governance practices, the Nigeria government in the late nineties adopted measures to attract foreign investor to Nigeria (Okike, 2007). Great emphasis was placed on strict adherence to international standards of corporate governance, the use of external auditors to improve financial reporting, confidence and credibility of corporate disclosures. This builds confidence in the market and help to attract foreign direct investment.

The main focus of these studies has been the relation between the three actors, directors, auditors and secretaries in providing strong corporate governance practices. Supporting evidence of strong financial performance, board independence, strong corporate governance system abounds in developed capital markets and economy while few research studies are conducted in less developed economies with evolving capital markets. This study enables investigation into the effectiveness of corporate governance mechanisms as a regulatory framework for PLCs. This study focuses on directors, auditors and secretaries roles which reflect as a measure of the effectiveness of corporate governance in Nigeria.

The training and development of directors, internal auditors and secretaries are key components of a strong corporate governance system (Korte, 2007). According to the author the individual through their behaviour influence organisational outcome. This article first reviews the theoretical underpinnings of social identity and its explication as found in social identity theory. Included in this explanation is the complementary theory of social categorization, which developed to elaborate the process of forming a social identity. Following this is a discussion of the implications of social identity for training and development. The simple question of why people do the things they do is quite complex. One way to examine this question may be in the assumption that individuals do what they do because of whom they believe they are – their identity. Furthermore, individuals are comprised of multiple selves or identities (Ashforth and Mael, 1989; Fiske and Taylor, 1991; Hogg et al., 1995; James, 1891;

Goodwin and Seow, 2002; Jenkins, 2004; Miner, 2002; Korte, 2007).

The significance of the 3 actors in corporate governance can viewed from the following:

1) Financial reporting: Goodwin and Seow (2002) noted that the auditors and directors help to strengthen the quality of auditing and financial reporting through the formation of audit committee, internal audit department and code of conduct. These variables they argue help to enhance monitoring and control of the company operations with the aim of reducing risk. The overall impact of good financial reporting is to increase investors' confidence and integrity of security markets (Goodwin and Seow, 2002). Good governance can identify misstatements, fraud and doctored financial figures and report it to constituted authority.

2) The directors, auditors and secretaries experiences' should influence the level of accountability and transparency of corporate reporting. They should also use their experience to monitor managers and held them to account for their conducts or misconducts. Directors should be able to direct the company through policy formulation. Auditors should be able to improve the internal control mechanisms through appropriate checks and balances. Secretaries should be able to facilitate the smooth running of the board and also provide valuable information and resources to the directors and audit committees enabling them to function properly.

3) However, in Nigeria the failure of many banks and their poor financial health has raised the question of poor corporate governance practices such as insider trading, cronyism and corruption. This has lead to criticism of the audit profession, role of directors and secretaries and their capacity to enhance monitoring and control checks and balances towards policy implementation. Other areas that the three actors have failed are in earnings management and bonuses. In order to curb the problems of corporate failures a strong system of corporate governance concerning the board structure, internal controls, audit committees and strengthening the role of secretary are very essential and should be put in place by the board. Therefore, understanding and identifying these three actors should enhance our thoughtful insights into the level of corporate governance activities in Nigeria. Interestingly, the study will lead to a further understanding of the significance of corporate governance mechanisms in developing countries as a whole.

## *The Role of Directors and Corporate Governance*

The boards are made of both the executive directors and NEDs (Malin, 2004). The executive directors are responsible for the day to day operation of the company whilst the NEDs are responsible for the oversight function of the board aimed at ensuring board independence and effectiveness (Monks and Minow, 2008). The NEDs monitor the executive directors particularly the chief executive officer (CEO) and ensures that they carry out the policies that protects the shareholder's interest (Baysinger and Hoskisson, 1990; Monks and Minow, 2004). One of the ways of protecting the shareholder's interest is to ensure constant communication between management and shareholders through Annual General Meeting (AGM)[10] and also ensures that the policies and strategies are put in place for good employee welfare scheme (Goodijk, 2000), protects shareholders' interest and enhance corporate performance (Ehikohia, 2009); and social responsibility and reputation of the firm (Coffey and Wang, 1998; Brammer et al, 2008).

## *The Role of Auditors and Corporate Governance*

In the case of auditors, their role in corporate governance is also very significant. Auditors examine company's account and produce a report that reflects the true performance of the company. In other words, auditors are given power to examine accounts and detect misconducts, discrepancies and anomalies in financial statements of companies. However, the case of Enron reinforces the urge to tighten the role of auditors, financial reporting and corporate disclosures with the aim of restoring credibility and confidence in the corporate sector. As a result, the role of auditors in financial reporting cannot be overemphasized because the audit report produced by them confers credibility for stakeholders such as the investors who provide the capital resources to firm (Holm and Laursen, 2007). For good corporate reporting to be achieved, the risk and control measures within the organisation must be put in place and also remain strong. These internal control measures put in place by the board for check and balances are preform through the audit committee, who appoints the auditors. The auditors ensure that the financial statements are a true reflection of the financial health and operations of the company (Baysinger and Hoskisson, 1990). Essentially, the monitoring role of the board is supported by agency theory (Berle and Means, 1932; Jensen and Meckling, 1976) with board main responsibility linked to the reduction of agency cost by monitoring management (Fama and Jensen, 1983), evaluating performance and assessing management initiatives (Dulewicz and Herbert, 2004).

The code of corporate governance 2011 highlighted the need for companies to develop internal control measures. This is done by enhancing

[10] The Annual General Meeting (AGM) is a forum where the BOD presents the annual reports to the shareholders detailing the performance of the corporations, its strategies, future forecast and how it intends to accomplish the objectives (Dulewicz and Herbert, 1999; 2004).

the effectiveness of the audit department in the interest of stakeholders. One of the expectations of the code is for auditors to be independent. According to Krishnan (2008) auditors are able to report the true financial position of company. This is done by removing biasness and ensuring that good governance principles and standards are followed and adopted. This ensures that the legal position is in line with international regulations and also within the framework of acceptable standards and best practices of corporate governance (Fan and Wong, 2005). Therefore it is important to evaluate if the corporate governance is adequate enough to guarantee that auditors play an effective role in auditing company's account and ensuring good financial reporting (Asare, Davidson and Gramling, 2008).

### *The Role of Secretaries and Corporate Governance*

As for the secretaries, the SEC code 2011 reveals the significance of secretaries in the governance of PLCs in Nigeria. The secretary assists the boards in developing good corporate governance practices through the induction of new directors, compilation of board papers and ensuring that board decisions are clearly communicated to stakeholders (SEC code, 2011). The company secretary is charged with the responsibility of administration of board through the chairman. In fact, the secretarial function is available to all board members such as the NEDs who receive advice and information from the secretaries. Also, the secretary ensures that the board of directors complies with its legal obligation (SEC code, 2011).

The question therefore is to what extent is the corporate sector in Nigeria developed in ensuring good corporate practices? Also, how has the listed companies complied with the SEC code 2003 and 2011, particularly in terms of growth of good corporate governance practices. This paper discusses the role of directors, auditors and secretaries in the development of corporate governance framework in Nigeria and fills the research gap concerning the extent of corporate governance practices in Nigeria.

## Methodology

The case study approach was adopted for this study because it provides an in-depth understanding of the unit of analyses concerning the extent of development of corporate governance practices by listed firms. Information from the annual reports of 128 companies and Nigeria Stock Exchange (NSE) fact book were employed for this study. Also, interview data were used because it provides depth and meaning. Analytical and descriptive data are presented explaining the growth of directorships, auditors and secretaries of listed companies.

The documentary data includes the annual reports and company websites of PLCs. In addition, the company interviews results were used in this case study when necessary to support and explain the role of directors, auditors and secretaries in the development of corporate governance in Nigeria. The interview data are derived from the top management team, board such as the Chief Executive Officer (CEO) and managers. The case study approach is adopted to understand the perception and behavioural perspectives concerning what influences the directors, auditors and secretaries to engage in making policies that satisfy stakeholders. In other words, the reasons behind their strategic decisions arise from their behaviours through self-identification and group formation. These provide an in-depth understanding between the various actors' directors, auditors and secretaries' role in enhancing corporate performance (Petersen and Vredenburg, 2009a). The case study method combines information from the in-depth interviews and documentary evidences. These multiple data (Eisenhardt, 1989; Ritchie and Lewis, 2003; Yin, 2005) are to ensure triangulation, reliability, construct replicability, research questions validation and diversity of opinions (Yin, 2005). In order to answer the research questions concerning the extent of the level of corporate practices in Nigeria, the three actors' directors, auditors and secretaries' role in ensuring good corporate governance ethics were considered.

The interview took place in 2010 whilst the annual reports of 128 listed companies were analyzed because the period witnessed the introduction and development of the SEC code of corporate governance (2003) and CBN code of Bank Consolidation (2006). These codes provide information and recommendations to comply by the listed companies and their directors, auditors and secretaries' in policy formulation that enhances the ethical and corporate governance practices of PLCs.

Data analysis in this research included comparing the field notes and interview to match the theories and concepts relevant to this study. The questions in the interview provided a broad parameter for assessment and comparison (Yin, 2005). The coded and transcribed interviews are categorised under themes (as derived from the literatures on directors, auditors and secretaries) to see if the questions are addressed in line with the research aims and objectives. The transcribed and coded interviews are analysed and categorised.

## Findings and Analyses

The findings are discussed under the following risk reduction, growth of directorships, auditors and secretaries, and finally board independence. This study finds presence of risk reduction, board independence, growth of directorships, growth in the number of auditors and secretaries. The NEDs are interested in the long term commitments that encourage companies to undertake strategies and practices that reduce risks (Kesner and Johnson, 1990). These long term commitments of NEDs are supported by the stakeholder theory which encourages the board to implement policies that benefit all stakeholders (Freeman, 1984; Jensen, 2001).

### *Risk Reduction*

The documentary analyses of Zenith Bank Annual Reports (2010) reveal that the directors support the company corporate strategy towards risk reduction. The risk reduction is noted in the areas of minimising fraud, insider trading and managerial opportunism

….the board is responsible for reviewing and providing guidance for the Bank's corporate strategy, major plans of action and risk policy....monitoring the effectiveness of the corporate governance practices under which the Bank operates and making appropriate changes as necessary **(Zenith Bank Annual Reports, 2010).**

This is in direct response to the question of whether the directors particularly the NEDs support the implementation and evaluation of policies and programs that reduces risk and costs. The CEO of Zenith Bank (Z4) responds:

Our NEDs are members of several committees including the risk management committees that are charged with monitoring risky and failed projects and inside trading. Also, the NEDs, who are part of the board request for reports concerning certain activities, for instance, Corporate Social Responsibility (CSR) activities and projects are reviewed and monitored **(The CEO of Zenith Bank)**.

Furthermore, IGI4, the deputy managing director said:

Perception, profit and risk reduction are the driving and motivating factors that influence the NEDs in supporting the company's policies and programs. The company strategies and policies are recommended to the board for implementation. For example, if NEDs perceive that certain programs reduce risk as they do in our company, then they support the board to invest in such programs. Examples are environmental and waste reduction schemes (Deputy Manager Director).

In sum the three actors, directors, auditors and secretaries all strive to implement activities and policies that reduces risk, lower cost and enhance company performance. Most specifically the auditors are involved in formulating internal control measures aim at minimising risk and at the same time making sure that they are adhered to by the company. Another indicator for the growth of the corporate sector is the growth of directorship.

### *Growth of Directorships*

Undoubtedly, the study through the data from 128 PLCs reveal an increase in the number of directorships in Nigeria's corporate sector. The addition of directors increases the board size which is attributed to the compliance of companies to the SEC code 2003. The annual report of companies and documentary analyses reveal increase in directorships as illustrated in Table 1. Table 1 illustrates the directorships holdings of PLCs from 2008 to 2010. The total number of directors increased from 2008 to 2009 by 7.7%; while in 2009 and 2010 they increased by 16.1%. Also, the reasons for the rise in the number of directors are due to the effects of CBN bank consolidation policy aimed at strengthening the financial institutions' and raising investors' confidence (Kiki, 2007). The other reason is the compliance to the recommendations of the SEC code 2003 which recommends that the number of NEDs in the BODs should be increased that is, the board size of PLCs should be between five (5) - fifteen (15) directors. Also, independent NEDs should be part of the board as a way of improving board independence, by stipulating a minimum of two independent directors in the board (SEC code 2011). In most cases the NED should be the chairman of the board committees, for instance, the audit that appoints the auditors (Ofo, 2010). However, Oyejide and Soyibo (2001) found that independent NEDs in their practices are not really independence because of political interference in developing country such as Nigeria. This is evident in their weak monitoring and enforcement of management operations and abuse of shareholder rights (Okpara, 2011).

Nevertheless, Okike (2007) points out that lack of compliance and weaknesses in the SEC code 2003 motivated the CBN to develop the CBN code of corporate governance for the banking sector in 2006.

**Table 1.** Directorships of PLC from 2008 to 2010

| Directorships | 2010 | 2009 | 2008 |
|---|---|---|---|
| Number of quoted company | 176 | 136 | 120 |
| Total Number of directorship | 765 | 659 | 612 |
| Average number of directorship per company | 4.34 | 4.55 | 5.1 |
| % of directors holding only 1 directorship | 91.5 | 88 | 73 |
| Number of directors holding 2 or more directorships | 30 | 32 | 122 |
| % of directorships holding 2 or more directorships | 3.9 | 4.9 | 20 |

*Source*: Data compiled using Nigeria Stock Exchange Fact book (2008-2010).

The SEC 2011 further recommends that the position of chairman and Chief executive officer (CEO) to be separated (SEC code, 2011). According to Okike (2007) the board of directors (BODs) in Nigeria should form audit, nomination and remuneration committees. The remuneration committee members should be wholly NEDs while the nomination committees should have both executive directors and NEDs. However, one of the recommendations from the code is that the NEDs members should be more in numbers.

The responses from the interview data were mixed. In responding to the question concerning the role of directors and the factors behind their rise in the corporate sector? The Non executive director (E2) said:

In compliance to the code, firms increase the presence of directors in the board, most especially the NEDs. The NEDs are more honest during policy formulation compared to executive directors because they run the operations of the company. I think the main objective of NEDs is to provide sustainable development to relevant stakeholders and supports implementation of projects that are cost effective and at the same time satisfy the shareholders (**Non-executive director).**

In addition, the respondent W4, the finance director said:

The rise of directorships is due to the significant role that the NEDs perform. They are members of various committees such as the risk, nomination and audit committees. The NEDs' are very powerful directors in the board and they support the implementation of projects in our company that enhances corporate values, performances and reputation of the company. The NEDs ensures that the vision and values of our company matches our corporate actions **(Finance director).**

In responding to the question concerning the role of directors and the reasons for their rise, an executive Director (Z3) responds:

It is the role played by directors in the board that is responsible for the rapid rise and acceptability. Our NEDs ensure that the company sets the corporate governance standards. The NEDs are always developing good policies that make the company to be profitable including formation of committees. This is part of the NEDs responsibility because of their experience to guarantee that the board complies in setting the corporate governance standards of the company **(Director of Operations).**

The majority of respondents agree that an increase in board size supports formation of governance structure to enhance company's strategy. This is because of the introduction of NEDs into the board, formation of committees to provide oversight function in risk reduction and good reporting and control. In responding to the role of directors in Company's strategy; B4 said:

I think the increase directors are essential and vital to that the members of the committees implement the company's strategy at all times such as the compliance to the code of corporate governance **(The executive director, production).**

The documentary analyses of the data of 128 Plcs highlights the function of the NEDs as being part of the board was to enhance board independence and it effectiveness as stated as follows:

The board discharges its oversight functions through various committees. Membership of the committees of the board is intended to make the best use of the skills and experience of Non-executive directors **(Wema Bank Annual Report, 2010).**

## *Growth of Internal and External Auditors*

There has been growth of auditors serving the corporate sector in Nigeria. One noticeable trend in the corporate governance in Nigeria was the concentration of foreign auditors serving corporate organisations and this trend has been on the rise since the introduction of the SEC code in 2003 (Okike, 2007) as illustrated in Table 2. The result show that PriceWaterhouse Coopers served 24 companies, followed by KPMG serving 17 PLCs, Ernst and Young - 8 PLCs and PKF - 6 companies in 2010.

Moreover, one noticeable trend reveal during the documentary analyses of data was that some companies have two auditors. As a result some PLCs had two combined auditors at the same time from 2008 to 2010. Also revealed in this study was that among the PLCs the indigenous auditors were higher in numbers than international auditors by 142 companies. 12 companies out of the lot had combined auditors in 2008, while it reduced to 3 companies in 2010. This shows a gradual rise of indigenous auditors in the Nigerian corporate sector. This is attributed to the adoption and implementation of the recommendations in the code of corporate governance.

Nevertheless, Akintola Williams Deloitte an indigenous accounting firm was very popular serving 55 companies in 2010 as against 51 in 2008 as shown in Table 2. This represents a growth of 7.3%. According to Okike (2007) presence of international auditors reduced as compared to indigenous auditor. However, Okike (2004) argues that international auditors are more transparent in their reporting of financial statement and annual reports than indigenous auditors. Critics have argued that auditors worked in concert with companies to skew financial reports in favour of their clients (Monks and Minow, 2008). To avert these trends in the banking sector, the CBN recently, reduced the tenure of auditors to ten (10) years (www.cenbank.com). As a result, there was a cap or limit to the tenure of auditors. Therefore, all banks were given directives until 31/12/2010 to change their auditors that have served them for more than ten years. In the same way as external auditors, companies were encouraged by the SEC code to introduce audit committees that ensure proper internal control measures such as checks and balances are put in place. This led to the rise of internal auditors and audit committees in corporate companies.

**Table 2.** Concentration of auditing of corporate sector for 2008 to 2010

| Name of the audit firm | No of firms 2010 | No of firms 2009 | No of firms 2008 |
|---|---|---|---|
| **International auditor firms** | | | |
| KPMG | 17 | 14 | 9 |
| PriceWaterhouse Coopers | 24 | 23 | 21 |
| Ernst &Young | 6 | 5 | 4 |
| PKF - Pannell Kerr Forster | 8 | 8 | 7 |
| **Nigerian auditor firms** | | | |
| Akintola Williams Deloitte | 55 | 53 | 51 |
| Horwath Dafinone | 4 | 4 | 4 |
| Oyelami Soetan Adeleke & Co. | 4 | 4 | 4 |
| BDO Oyediran Faleye Oke & Co. | 6 | 6 | 7 |
| Nnamdi Onyeka &Co. | 3 | 3 | 3 |
| Abayomi-Dosumu & Co. | 2 | 2 | 1 |
| Balogun Badejo & Co. | 4 | 2 | 4 |
| **Other Nigerian auditor having one firm** | 1 | 1 | 1 |
| Spiropoulos, adiele, Okpara & Co. | 4 | 3 | 3 |
| Morison, Odede &Co. | 11 | | 1 |
| **Other Nigerian auditor firm having one firm** | 42 | 43 | 36 |
| **Combined Auditors (Two Nigerian auditors)** | 2 | 3 | 9 |
| **Combined Auditors (One Nigerian and One foreign auditors)** | 1 | 2 | 3 |
| **Total number of firms** | 197 | 176 | 173 |

*Source:* Data compiled using Nigeria Stock Exchange Fact book

The interview responses support the fact that the code encouraged the rise of auditors both internally and externally, including the audit committees which members are the NEDs appointed because of their independence and skills (Okike, 2007). However, Okike further noted the problem of information asymmetry resulting in conflict between shareholders and BODs as common in Nigeria companies.

The findings reveal that the deputy sales manager of a paint industry in response to the question of auditor independence; B3 said:

The external auditors are independent and help to ensure that independence reporting free from biases is provided at all time. They do this by making sure that they remain transparent when complying with international accounting standards **(Deputy Sales Manager).**

In responding to the question on the role of auditors, the deputy director (IGI3) responds:

Some auditors are good and they do want the company to succeed. The auditors provide excellent services in line with international accounting standards and criteria to ensure good financial reporting (**Deputy Director).**

In responding to the role of auditors; IGI2 the financial controller said:

Definitely, the auditors are necessary for maintaining checks and balances in the company. They provide internal control mechanisms and ensure that budgetary allocation is spent judiciously. Recommendations are made to companies that do not have internal control mechanisms to make sure they establish it **(financial controller).**

IGI2 respond:

The NEDs ensure the audit committee perform their oversight function in line with good corporate practices and international standards.

The NEDs look at the sectors, some sectors like the financial sector and other sectors they have worked and have experience and offer profitable advice based on such policies thereby raising the stake **(Public Relations Manager).**

The evidences from both the interview comments and documentary data analyses reveal that the influences of the auditors on the corporate governance practices are paramount. In responding to the question on the role of the auditors in performing their duties, the CEO of ExxonMobil (E5) said:

As head of the executive management team I make sure that we have the best auditing team that delivers top class services for company aimed at maintaining accountability and transparency at all time **(The CEO).**

### Growth in the Number of Company Secretaries

The study reveals the significance and growth of company secretaries in the PLCs. Table 3 illustrates three different groups performing secretarial function for PLCs. These groups are the big companies performing secretarial functions. Part of the findings reveals slight increase in the number of companies performing secretarial functions from 35 to 36 companies in 2008 to 2009. The 2009 to 2010 period showed an increase of two (2) companies only. The second group of companies are those companies performing both legal and accounting services. These are all indigenous companies serving as secretaries. Some companies served between 2 to 11companies. Among these groups of companies is the DTT Services Limited that served eleven (11) companies from 2008 to 2010 as shown in Table 3. Other indigenous companies involved in the same services are Equity Services Limited, COSEC Services Limited, Genasec Nominees Limited and Cautious Services Limited that served two (2) companies each.

Also, the third group are those companies involved only in legal services (legal firms only). These are the G.M.E. Osadebe and Co. serving two (2) companies while the other seventeen (17) companies served only one (1) each in the year 2009. Likewise eleven (11) legal firms served only one (1) each in 2007, an increase of 54.5% in 2 years. Similarly, individual company performing secretarial function rose by 15.5% from 103 persons to 119 persons in 2 years (*i.e.* 2008 to 2010).

**Table 3.** Number of Secretarial function

| Number of Secretarial firms | No. of secretarial firms 2010 | No. of secretarial firms 2009 | No. of secretarial firms 2008 |
|---|---|---|---|
| **DTT Table Services Limited** | 11 | 11 | 11 |
| **Marina nominees Limited** | 4 | 4 | 4 |
| **Lennap Services Limited** | 3 | 3 | 3 |
| **Equity Services Limited** | 2 | 2 | 2 |
| **COSEC Services Limited** | 2 | 2 | 2 |
| **Genasec nominees Limited** | 2 | 2 | 2 |
| **Cautious Services Limited** | 2 | 2 | 2 |
| **Others (serving only 1 firm)** | 12 | 10 | 9 |
| **Law firms performing secretarial duties** | | | |
| **G.M.E. Osadebe** | 2 | 2 | 2 |
| **Serving only 1 firm** | 17 | 18 | 11 |
| **Individuals as secretaries** | | | |
| **Temidayo Olaofe** | | | 3 |
| **I.A. Onaleye** | | | 2 |
| **Sade Adebayo** | 2 | 2 | |
| **Others (serving 1 firm)** | 117 | 115 | 103 |
| **Total** | 176 | 173 | 156 |

*Source:* Data compiled using Nigeria Stock Exchange Factbook

Finally, some companies do employ individual persons as secretaries. Some of these individuals act as secretaries to more than one firm at the same time. These are Temidayo Olaofe serving 3 companies in 2008, Sade Adebayo serving 2 companies in 2009 and 2010. However, majority of individual secretaries that serve one (1) firm each increased from 2008 to 2010 by 11.4%.

The increase in the number of firms performing secretarial functions has illustrated the significance of the SEC code 2003 that emphasized the importance of secretaries in the overall functions of the board and the company as a whole.

The interview response for secretaries' role, according to W3, a NED of Wema bank, responding to the question on the role of the secretaries and the reasons for their continued rise said:

The secretaries are the eye of the board as they provide guidance and assistance to the members of the board in discharging their services efficiently. It is their general acceptability that has caused their rise in the business sector **(The Non Executive Director).**

Z2, executive director of marketing further responded:

Personally, the secretaries are like personal assistant to the directors and offer advice to the directors. They can be very influential at times since some of the directors do sought their advice concerning the activities within the company **(the executive director, marketing).**

The evidence available from the interviews and documentary data reveals that the directors, auditors and secretariess work to support and enhance board independence, transparency and accountability. The directors enhances board independence and its effectiveness while the auditors ensures good reporting of financial statements and reports and finally the secretaries guide and support the directors and board members in the discharge of their duties.

## Discussion and conclusion

This research study show how the directors, auditors and secretaries have performed in ensuring good corporate governance practices using qualitative approach. This serves as an indicator for the development and growth of corporate governance mechanism in Nigeria. In expounding on the ascription of identity for encouraging responsibility and poor performance, an insight into the extent to which companies are prepared to hire these actors in satisfying stakeholder expectations.

A key assumption in identity theory is that individuals are intrinsically motivated to achieve positive distinctiveness through self identity. That is, individuals strive for a positive self-concept. As individuals they are defined and informed by their respective social identities (as per the interpersonal-intergroup continuum) it is further derived in social identity theory that individuals strive to achieve or to maintain positive social identity. Therefore, this study offers an explanation from identity based dynamics of group think behaviour within the organisations such as loyalty, commitment and satisfaction.

Our analysis unveiled a presence of mixed and heterogeneity in the corporate governance developments. Growth of development of the three actors, directorships, auditors and secretaries were revealed. Also revealed were strategies aimed at risk reduction and enhanced board effectiveness. The discussion on identity theory featured self identification and group formation as key to expressing behaviours. Some of the strategies that were used by the directors particularly the NED are what inform them to be thorough in their approach thereby enhancing board effectiveness.

As a reminder, the role of the board is making policies that governed an organisation with the aim of enhancing organisation performance and satisfaction of stakeholders. This is because company needs capital for its operational needs which should be raised and utilised lawfully to the best interest of the stakeholders especially the shareholders. However, directors are under obligation to develop policies that protect shareholders’ interest, while at the same time, auditors have a duty to be fair and transparent providing the audited company’s accounts.

The analysis revealed that indigenous auditors and use of two auditors were on the rise in the corporate sectors. This shows that indigenous auditors are beginning to have the skills, confidence and acceptability that ensure their gradual rise among Plcs. Finally, the company secretaries work with the board through the chairman by offering advice to the directors. Nevertheless, if the duties and obligations of directors, auditors and secretaries are minimal, the use of company resources will be misused resulting in bankruptcies in most cases.

Finally, the satisfaction of stakeholders can be achieved through compliance to the code of best practices. The code of best practice ensures that the board becomes more responsible and accountable. Companies are required to strengthen their board to be more effective and independent by enhancing their monitoring and accountability to stakeholders. This is done by employing independent directors and raising the number of NEDs to equal executive directors. Similarly both internal and external auditors of companies has increased with some companies employing more than one auditors at the same time to provide transparent and reliable financial information that reflects the true nature and position of companies’ performance. However, companies are encouraged by the CBN to change their auditors that have served them for more ten years. As for the secretarial services, professional secretaries are being employed more in companies to provide quality services to the board. If these actors, the directors, auditors and secretaries perform their functions effectively and efficiently, not only will good corporate governance practices be maintained but the stakeholders will be satisfied as well.

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