THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

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Abstract: *The main objective of this study is to empirically investigate the relationship between Corporate Social Responsibility (CSR) and Corporate Governance using the stakeholder theory. The study covers 39 Malaysian public listed companies from 2014 to 2023 using the panel data regression method. It was found that the relationship between CSR and Corporate Governance is positive and statistically significant, but with a weak relationship. Therefore, this finding supports the stakeholder theory in explaining the relationship between CSR and Corporate Governance.*

Keywords*: CSR, Corporate Governance, Stakeholders Theory*

Introduction

Corporate social responsibility (CSR) is one of the topics that catches the attention of academics and the industry, as the benefits of spending on CSR do not materialise in the short term. CSR refers to actions undertaken by companies that aim to benefit stakeholders, extending beyond the exclusive interests of shareholders (Alghizzawi et al., 2022). The stakeholders involved may come from within the company, like employees, as well as from external sources, including government entities and local communities (Borlea & Achim, 2013). CSR could be said to be a company's dedication to operating ethically and responsibly, considering the impact of its actions on the environment, society, and other stakeholders. (Lu et al., 2021).

Corporate Governance refers to the framework of regulations, procedures, practices, and processes that guide the direction and control of a company (Kolk & Pinkse, 2009). Corporate Governance encompasses the rules, practices, and processes by which a company is executed and managed (Bui & Krajcsák, 2023). The Malaysian Code on Corporate Governance (MCCG) defines Corporate Governance as the framework and processes to guide and manage a company's operations and affairs. This approach aims to foster business success and corporate accountability, ultimately focused on achieving long-term shareholder value while also considering the interests of other stakeholders (Malaysia, 2021, p. 1).

Corporate social responsibility (CSR) and Corporate Governance are critical components of business management. Corporate Social Responsibility (CSR) and Corporate Governance are becoming increasingly interconnected as organisations strive to meet their ethical obligations while maximising stakeholder value. Robust governance structures play a vital role in ensuring the transparency and accountability of CSR initiatives, which can notably enhance a company's value and reputation over time. However, CSR could increase the operational costs and may hinder some companies from adopting it; only a company with good corporate governance will adopt it, as they perceive that maximising stakeholder value is more important than the company's profit. While CSR and Corporate Governance links are studied globally, empirical evidence in the Malaysian context, especially using recent panel data, is limited.

Literature Review

The study revolves around the Stakeholder theory. Freeman mooted the Stakeholder theory in the 1980s, proposing that the company should operate with objectives beyond just maximising the shareholders' interest by extending into the diverse stakeholders' interests (Freeman et al., 2010). The stakeholders could be distinguished into internal and external.

Internal stakeholders are those involved directly with the company's operations, activities, and decision-making process, such as employees, management teams, shareholders, and customers. Recognising these entities is crucial, as they actively participate in operational and strategic facets, impacting the organisation's direction and success (Peng & Kang, 2013). The external stakeholders are individuals, groups, or organisations that can influence or be influenced by an organisation's objectives but are not directly involved. These include customers, suppliers, investors, government agencies, community members, non-governmental organisations (NGOs), and various interest groups. Engaging and managing external stakeholders is vital for a company's success, as they provide essential resources, regulatory benefits, and social legitimacy (Ninan et al., 2019).

Managers need to understand various stakeholders' underlying motives and interests, resulting in strategic and positive ethical considerations (Adıgüzel, 2020). Balancing between multiple stakeholders' interests is crucial, as meeting one stakeholder's objective may significantly impact others (Rosner et al., 2023). Managers need to identify the degree of influence among the stakeholders to ensure that they have effective strategies (Lähdesmäki et al., 2017).

Corporate governance consists of the systems, principles, and processes that direct and control corporations, especially in ensuring that all managerial decisions are in the interest of shareholders. However, the stakeholder theory emphasises that the positive impact of good Corporate Governance procedures is not limited to the shareholders only, but also recognises the other stakeholders' interests. Companies must redefine their traditional objective of maximising shareholder wealth and profit maximisation into a more inclusive and broader approach by incorporating stakeholders' perspectives and goals into their business strategies and targets (Laplume et al., 2008).

CSR is one of the main tools commonly adopted to ensure the company's management preserves the stakeholders' interests. The interrelationship between CSR initiatives and Corporate Governance could lead to better company performance and boost a positive image for the company. Meeting stakeholders' expectations can ultimately lead to improved sustainability, enhance a supportive business environment, and improve corporate reputation and long-term success for the organisation (Laplume et al., 2008; Loi, 2016; Mathis, 2007). CSR implementation is one of the results due to stakeholder pressure in the corporate governance practices (Kowalczyk, 2019), which observes the company's objective beyond shareholders' interest. Strong corporate governance structures promote more responsible and accountable corporate social responsibility (CSR) initiatives. (Vashchenko, 2017).

Several research studies have investigated the relationship between Corporate Governance and CSR. Bukair and Rahman (2015) found no significant relationship between board characteristics (such as board size, composition, and CEO duality) and CSR disclosure.

However, many studies have demonstrated a significant relationship between Corporate Governance and CSR. For example, Chan et al. (2020) found a significant positive relationship between CSR and Corporate Governance. Nonetheless, Kang et al. (2019) studied South Korean business environments and discovered a significant relationship between the nationalities of foreign directors and corporate philanthropy activity. They suggest that the relationship between board characteristics and CSR may vary depending on the cultural context. Thus, integrating corporate social responsibility into governance systems is essential for companies to operate responsibly (Tanimoto, 2013), especially towards various stakeholders' interests.

Danish et al. (2024) found that CSR positively impacts sustainable business performance when companies engage various stakeholders in the corporate governance process.

Therefore, this research hypothesis is that:

H1: There is a significant relationship between Corporate Social Responsibility and Corporate Governance.

Figure 1 illustrates the theoretical framework for the study, where Corporate Governance is the dependent variable and Corporate Social Responsibility is the independent variable. This study also used Size and Leverage as the control variables.
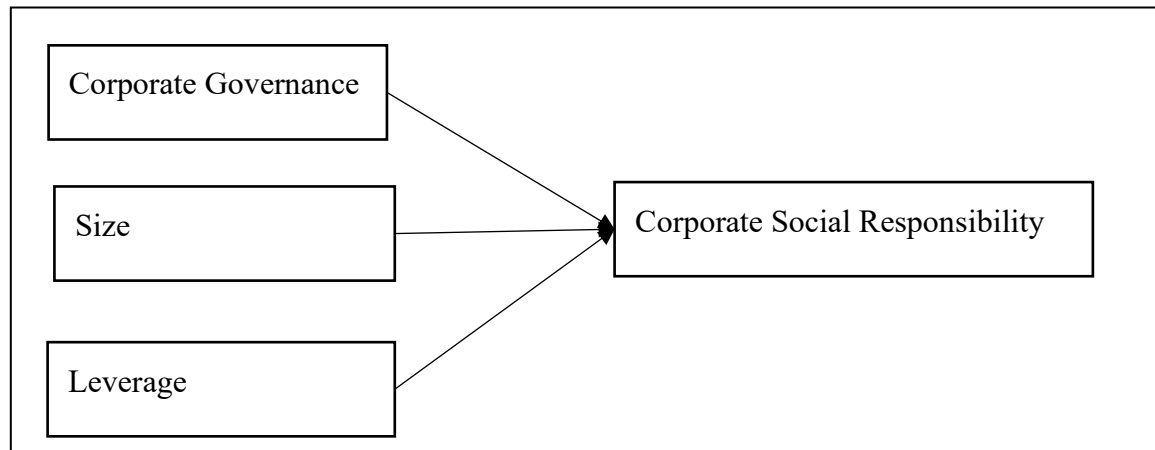

Figure 1: Theoretical Framework

Research Methodology
The study used secondary data extracts from the Refinitiv Eikon database. The total data available is 1013 companies as of 1 November 2023. However, three conditions have been imposed in the data selection process: the availability of the Corporate Social Responsibility Score (CSRS) and the Corporate Governance Pillar Score (GOVPS). The CSRS and the GOVPS have been chosen as the proxy as they are the most accurate variables to represent CSR and Corporate Governance, as provided by the Refinitiv Eikon database. Second, the data must be available from 2014 to 2023. The third condition is that the banking and financial institutions must be excluded. The main reason banking and financial institutions have been excluded is that the financial aspects differ from those of other companies. Based on these three conditions, the final number of companies eligible is 39.

To examine the hypothesis, this study uses a panel data regression methodology based on equation (1.0)

$$GOVPS_{it} = \alpha_i + \beta_{17}CSRS_{it} + \beta_{18}SIZE_{it} + \beta_{19}LEV_{it} + \varepsilon_{it} \ (1.0)$$

Where $GOVPS$ is the Corporate Governance Pillar Score and CSRS is the Corporate Social Responsibility Score. This study uses two control variables, namely; $SIZE$ which was proxied by total assets and leverage proxy by the ratio of total debts to total capital. The study uses Stata 18 to examine the statistical analysis of the regression.

Findings
Only CSRS use the original data. GOVPS has been transformed into GOVSPSLn using natural log due to non-normally distributed data, SIZE transformed into DSIZELn using natural log and first difference due to non-normally distributed data and unit root problem, and LEV has been transformed into DLEV using the first difference method due to the unit root problem.

The main reason for transforming non-normally distributed data is to meet the panel data regression assumptions. The unit root problem arises in time series analysis, and it refers to the situation where a time series is non-stationary due to the presence of a unit root. This has significant implications for modelling and forecasting because many standard statistical models assume the data are stationary. The full result of the panel data regression is presented in Table 1.

Variable	Random Effect	Fixed Effect	Robust Random Effect
Table 1: Panel Data Regression Results			
CSRS			
Coefficient	.0061789	.005631	.0061789
t-value		4.52	
z-value	5.48		2.83
P-value	0.000	0.000	0.005
DSIZELn			
Coefficient	.0420939	.036685	.0420939
t-value		0.22	
z-value	0.26		0.38
P-value	0.796	0.825	0.707
DLEV			
Coefficient	.2351949	.2495325	.2351949
t-value		0.93	
z-value	0.89		1.14
P-value	0.375	0.352	0.256
Constant			
Coefficient	3.466716	3.497193	3.466716
t-value		47.53	
z-value	39.24		21.76
P-value	0.000	0.000	0.000
R-squared	0.1378	0.1375	0.1378
F-Test			
Fvalue		7.12	
Pvalue		0.0001	
Wald test			
Chi-square	30.69		10.21
Pvalue	0.0000		0.0168
BPLM test			
Chi-square		192.33	
Pvalue		0.0000	
Hausman test			
Chi-square		1.11	
Pvalue		0.7752	
Vif		1.01	
BP/CW			
Chi-square		4.92	
Pvalue		0.0265	

Wooldridge test		
F-value	0.041	
Pvalue	0.8413	
Number of observations		351

The p-value (0.0000) obtained from the Breusch-Pagan Lagrangian multiplier test for random effects indicates a strong statistical result, suggesting that the null hypothesis should be rejected. This implies that it is appropriate to continue testing to determine whether a random or fixed effects model is more suitable for data analysis. The p-value (0.7752) from the Hausman test suggests that the Random Effects model is more appropriate than the Fixed Effects model. The diagnostic test conducted on the model indicated no multicollinearity issue, as all VIF values are below 5. Furthermore, the p-value (0.8413) from the Wooldridge test exceeds 0.05, suggesting no autocorrelation problem exists.

However, the p-value (0.0265) from the Breusch-Pagan/Cook-Weisberg test is less than 0.05, indicating a heteroskedasticity problem. Therefore, to rectify the heteroskedasticity problem, the final model used in this study is the Robust Random Effect model.

The Robust Random Effect model statistically shows a significant positive relationship between CSRS and GOVPSLn at the five per cent level. However, the relationship could be considered weak as the beta coefficient of the relationship is very low (.0061789).

This finding supports the stakeholder theory, where CSR and Corporate Governance are interconnected in boosting stakeholders' interest.

Conclusion

The study aims to test the relationship between CSR and Corporate Governance using a panel data regression model. The study used data from 39 companies listed in Bursa Malaysia from 2014 to 2023. The study found a significant relationship between CSR and Corporate Governance, but the relationship is weak. This has confirmed the stakeholders' theory.

For future research, it is suggested that other developing countries be included to see the consistency of the results. A comparison should also be made with developed countries, as developed countries could be said to be at the forefront of championing environmental, social, and governance (ESG) in company management. It is also interesting to investigate the success of government policies, especially the capital market masterplan 1,2, and 3, in encouraging and boosting the adoption of CSR and good Corporate Governance spirit in the Malaysian capital Market.

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