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Muslim Board of Directors and Corporate Social Responsibility Reporting: Evidence from Malaysia

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ABSTRACT

The Islamic principles of vicegerency (khalifah) and brotherhood (ukhuwwah) is seen as closely connected to Corporate Social Responsibility (CSR). Thus, the purpose of this study is to examine if the presence of Muslim directors is positively related to CSR reporting. A total of 296 firms listed on Bursa Malaysia in the year 2010 are selected for this study. CSR is measured by the number of sentences, while the presence of Muslim directors is proxied by three measurements: (1) the proportion of Muslim directors over total directors; (2) Muslim Chairman; and (3) Muslim CEO. The results reveal that all measures indicate positive and significant relationship with CSR reporting, thus, justifying the importance of Islam in shaping CSR engagement among corporate firms.

INTRODUCTION

Corporate Social Responsibility (CSR) reporting has become an important idiom discussed in the field of business and economics. The increasing awareness among firms to engage to CSR is catalyzed by the benefits that may occur, such as increased profit, reduced cost, enhanced brand image and good reputation [1]. Apart from that, global investors around the world are now highly sensitized to the concept of Socially Responsible Investing (SRI) behavior [2-3], thus putting the firms on alert situation to practice and disclose CSR in order to attract investments from the socially responsible investors. Furthermore, firms with good social and environmental performance represents a credible investment and a lower associated risk [4] and past studies justify that having good CSR commitment is linked to good financial performance [5-7].

The growing responsiveness on CSR triggers the researchers to examine factors that drive corporate firms to engage to such agenda. In corporate world, CSR is an idiom that blends together the economic, environment and social performance. Following the language of CSR, corporate bodies are required to not only preserving the needs of the shareholders, but also to take care of the stakeholders' needs as well. Among the factors that have been identified as having influence to CSR engagement and reporting by these corporate firms are firms characteristics such as firm size [8-9] and profitability [8, 10]. Furthermore, researchers also found the association of ownership structure such as government ownership [9, 11-12], foreign shareholders [11, 13], director ownership [12] and ownership concentration [9] to CSR engagement and reporting. Additionally, corporate governance characteristics, namely the audit committee [9] , board diversity [13], and non-executive directors [13] are also found to be significantly affecting CSR performance and disclosure.

The purpose of this study is to further examine if CSR reporting by Malaysian listed firms is significantly affected by the presence of Muslim directors in the corporate board. Past studies indicate that Islam, which stands on the tawhidic (faith) approach [14] and upholds the principles of vicegerency (khalifah) and brotherhood (ukhuwwah) [15], should possess a good projection to social and environmental responsibilities [16], which is similar to the CSR principles. The principle of vicegerency brings the notion that the existence of man on earth is to act as the representative of Allah (SWT) by being His guardian, and upholding the principle of stewardship towards His possession. By upholding this principle, man as the steward should act as custodian or protector to the environment, so that it can be sustained for future generations, which is consistent to the principles of CSR. On the other hand, the principle of ukhuwwah (brotherhood), stresses on the importance of social justice. This principle stresses that Muslims are brother, and are responsible towards each other and to take care on the basic needs of the poor [17].

The Islamic principles of vicegerency and brotherhood trigger the question if the Muslim leaders in the corporate board may enhance the awareness and engagement of CSR reporting. Past studies justify that Islamic values have positive influence in shaping CSR engagement by Islamic banks [18]. Furthermore, a research done to examine the consistency of Islamic concept of social responsibility and justice and top executives' opinion about CSR [19], found similarities between the two, thus justify that Muslim leaders identify the resemblance between their opinion on CSR and Islamic principles of CSR. Although the bond between Islam and CSR has been identified in the literature, limited evidence have been found on the impact of having Muslim leaders in the corporate board on CSR reporting, thus the current study may shed some light on the role played by Muslim leaders in enhancing the engagement and reporting of CSR.

This paper is organized as follows: literature review and the development of hypotheses which deals with the independent and dependent variables under study, the methodology used for the research, the data analysis and finally, the conclusion, discussions, limitations and avenues for future research.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

2.1 Corporate Social Responsibility (CSR)

CSR refers to refers to the voluntary actions taken by a company to address economic, social and environmental impacts of its business operations, and the concerns of its principal stakeholders [20]. CSR also refers to sustainability, social responsiveness, social performance, public policy, CSP, business ethics or stakeholder management [21-22]. The various terms also lead to various concepts, where sustainability is also seen as a concern to respond to the demands of the stakeholders, as a tool to preserve and improve the firm's reputation and to address the pressure from investors; and also as the internal driver to do the right thing, to retain customers and to motivate employees [23]. The emphasis on CSR starts to grow when people begin to realize the negative impact resulting from economic activities which may jeopardize the future generations. For instance, massive disasters may occur, such as landslides, global warming and breakdown of climate and ecosystem; and social issues involving humans, such as child labor, bribery, product related issues such as low quality product, and employment issues such as discriminations in workplace, and these are among the scenarios which result from poor engagement with sustainability. These cases, such as the accidental chemical release in Bhopal, India in 1984, which killed and injured thousands of people, Exxon Valdez oil spill in Alaska in 1989, followed by the BP oil spill in 2010, which affected the marine and wildlife habitats, and Malaysian cases, such as the Highland Tower tragedy in 1989, are evidences of the impact brought on by human activities. Due to the negative impacts on the environment and the people, there is a need for everyone on the planet, particularly the corporate bodies, to play their part in achieving sustainability for the next generation. Thus, the CSR concept emerged as firms and corporations are best seen to act as the catalyst to promote sustainability, as they are equipped with resources, the technology and the global reach[24].

From the perspective of accounting, CSR reporting generally refers to a reporting framework that highlights three important areas, i.e., the economic, environmental and social performance of an organization, in addition to its financial performance [25]. In Malaysian context, Bursa Malaysia [26] defines CSR as the firms' *"commitment to operate in an economically, socially and environmentally sustainable manner whilst balancing the interest of diverse stakeholders"*. CSR reporting must be disclosed in annual reports of Malaysian listed firms starting from the year 2007 [27], where the reporting or disclosure should be made on four focal areas, namely the environment, the workplace, the marketplace and the community [28]. These focal areas are consistent to the sustainability performances defined by Global Reporting Initiatives (GRI) [29] and Association of Chartered Certified Accountants (ACCA) [30], who defines CSR reporting as the reporting of the economic, environmental and social impact of organizational performance.

CSR may also be connected to the concept of sustainability, as the commitments undertaken by the corporate bodies in serving the rights of the stakeholders, which covers the non-financial aspects, such as the environmental and social commitments, with the intention to preserve a sustainable future [31].

2.2 Islam and CSR

The bond between Islam, social responsibility and justice has been recognized since the religion's earliest phase. In the Holy Qur'an and Hadith, a number of important verses justify the connection of Islam with social responsibility; for instance, in the Holy Qur'an, Allah commands *"... give full measure when you measure, and weigh with a balance that is true.."* [32], thus signaling the connection between Islam and morality when engaged in business. Furthermore, in Surah Al-Baqarah [33], Allah mentions *"If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if you remit it by way of charity, that is best for you if you only knew".* From these quoted verses, the connection between Islam's focus on ethical, morality and the economic orientation of business is clearly evident. Additionally, in Surah Al-Ma'un [34], Allah (SWT) categorized the people who repulses the orphans, refuse to feed the poor, who delay their prayers (solat), who do good deeds only to be seen by others and those who preventing themselves from doing small kindness, are belong to the group who denies the religion, thus signalling that a Muslim has the obligations to fulfil the needs of other Muslims which can be explained as in the bond of brotherhood. The connection between Islam and social responsibility and justice can also be observed in a Hadith, where Prophet Muhammad (PBUH) once said, *"I have been sent only for the purpose of perfecting good morals"* [35], giving good reasons for the requirement for Muslims to practice good morals, compassion and kind consideration in everyday life, as modeled by Prophet Muhammad (PBUH).

The link between Islam and social responsibility can also be observed in modern research. Mukhazir, et al. [14] explained that Islamic social responsibility emerged from the tawhidic (faith) approach, which consists of three relationships, which are to Allah (SWT), to the human and to the environment. This is strengthened by Dusuki [15] who explained that the Islamic concept of CSR has been rooted in the principle of vicegerency (khalifah) and brotherhood (ukhuwwah). The former relates to the condition where besides acting on the benefit of shareholders' resources, firms are also required to embrace the environmental and social issues, as man is considered to be the vicegerent (khalifah) of Allah (SWT) on the earth and thus trustee of Allah (SWT)'s resources [36]. Therefore, the principle of vicegerency explains that Allah (SWT) appoints man to act as His representative on earth by being His guardian and upholding the principle of stewardship towards His possession. The principle of ukhuwwah (brotherhood), on the other hand, stresses on the importance of social justice. This principle stresses that Muslims are responsible towards each other and to take care on the basic needs of the poor [17].

As the tawhidic approach and the principles of vicegerency and brotherhood being advocated in Islamic values [15], Baydoun and Willett [16] suggested that Islamic firms should possess the performance of social accountability and full disclosure. Therefore, firms with Islamic influence are predicted to be more involved in activities which encourage the preservation of rights of the environment and community and at the same time, provide sufficient information to its diverse stakeholders. The findings by Baydoun and Willett [16] on the performance of social accountability of Islamic firms is supported by Sobhani, Zainuddin and Amran [18], where Islamic values becomes the important force in shaping CSR activities and disclosure in Islamic banks. Furthermore, similarities were found between the Islamic concept of social responsibility and justice and top executives' opinion about CSR [19], which strengthen the connection between Islam and CSR. The deep understanding of this connection will enable Islamic firms to play an important role in molding the behavior towards greater attention to CSR and ethical decisions [37].

The influence of Islam on CSR is further examined by comparing the extent of CSR reporting by Shariah compliant and non-Shariah compliant firms [38]. The results from this study reveal that Shariah compliant firms perform better CSR compared to its counterpart in the area of environment and community-related activities. A more recent research reveal that Islamic institutions put forward the importance of CSR by potential portfolio while making investment decision, thus proving that the presence of Muslim leaders in the corporate board may enhance the awareness and engagement to CSR [39].

Based on the literature review, it is predicted that the presence of Muslims on the board of directors will influence the performance of CSR reporting. Having Muslims on the board of directors, who carries the responsibility of Allah's (SWT) representative on earth to protect the environment by upholding the principle of vicegerency is seen to be the catalyst of the commitment to CSR. Moreover, by having a Muslim act as the Chairman or CEO of the company, the highest positions in the corporate board, highlights that Islamic concept of social responsibility and justice will be taken care of.

Therefore, it is being hypothesized that:
H1 – There is a positive significant relationship between Muslim directors and CSR reporting

METHODOLOGY

3.1 Sample selection

The population for this study is the active firms listed on Bursa Malaysia for the year 2010, which consists of firms from 11 industry types according to Bursa Malaysia categorization. An initial sample of 330 firms has been selected using the stratified sampling technique, where the firms are stratified by their industry types. Roscoe [40], suggests that appropriate sample size should be between 30 and 500 samples. However, when samples are to be broken into different categories, the minimum of 30 per category is recommended. Thus, by applying the rule of thumb of 30 samples per category, a total of 330 samples from 11 industry types are selected for this study. Past studies reveal that CSR is influenced by industry types, where firms in finance industry may be more positive towards CSR as they tend to be more prudent and conscious [41]; while firms that belong to manufacturing, plantation and industrial sectors tend to focus more information on the environmental dimension of sustainability reporting, as these industries are more involved in environmental impact [11, 26]. As such, by stratifying the listed firms in accordance to their industry before the sampling, a more reliable set of samples may be obtained.

3.2 Measurement of variables

The dependant variable, CSR, is captured from the year 2010 annual reports or stand-alone sustainability report of the sampled firms, which covers the four focal areas or themes recommended by Bursa Malaysia, namely the environment (EV), workplace (WP), marketplace (MP) and community (CM) [28]. Content analysis, a technique where researchers make replicable and valid references from data to their context [42], which is commonly done on written documents [43], is used to capture the CSR data. This technique has largely used in previous research in the area of CSR [5, 7-9, 11, 44-49]. The four focal areas are then being segregated into different dimensions used in a previous studies [50]. The EV and WP themes contain 8 dimensions each, while the MP and CM themes, both have 7 dimensions. Overall, 30 different dimensions are utilized in this study.

CSR is measured by the number of sentences, a measurement which provides more meaning compared to counting of words and pages [49]. However, in the case of information from graphs, chart and tables, this study takes 15 words of the captions on the graphs, charts, tables and pictures as equal to one sentence [51]. A total of 30 items representing the four focal areas of environment, workplace, marketplace and community is listed based on previous research on Malaysian CSR [8, 11, 28, 45-47, 50].

The independent variable, Muslim directors, is proxied by three measurements: (1) the percentage of Muslim directors over total directors; (2) having a Muslim as Chairman; and (3) having a Muslim as CEO. The data for Muslim directors is obtained from the 2010 annual reports of the sampled firms. Besides the main independent and dependent variables, several other variables are controlled in this study, which are the firm size, firm performance, type of auditor and board size. Past study conclude that firm size matters with regards to CSR reporting [11, 13, 52-53], as firms with larger size tend to disclose more sustainability commitments. Furthermore, CSR reporting is also found to be positively influenced by firm performance, where past studies justify the significant relationship between profitability and CSR reporting [8-9, 13, 54]. Therefore, this study hypothesizes that firm size and firm performance will exert positive impact on CSR reporting. Board size and auditor type is also controlled in this study as previous findings suggest that large boards and firms that are audited by major auditor deliver more disclosure [55]. Thus, this study hypothesizes that board size and auditor type will be positively associated to CSR reporting. The data for board size and auditor types are obtained from the 2010 annual reports while the firm size and performance data are extracted from the Datastream. The summary of the variables and their measurements are listed in Table 1.

The hypothesis posed previously is tested using the regression line stated below, where *Y* represents the dependent variable tested in this study. Three models representing the three measurements for the hypothesized variable are outlined in next section.

$Y = \alpha + \beta_1 MUSLIM\_DIR + \beta_2 FSIZE + \beta_3 FPERF + \beta_4 BSIZE + \beta_5 AUDITOR + \varepsilon$

Table 1: Variables and measurements

Independent Variable	
CSR Reporting (CSR)	For narrations: Sentences Count For graphs, charts, tables and pictures: 15 words in captions as equal to 1 sentence
Dependent Variable	
Muslim Board of Directors (MUSLIM_DIR)	1. Percentage of Muslim directors over total directors (MUSLIM_PERC) 2. Muslim Chairman, 1 for firms with Muslim as Chairman, 0 for vice versa (MUSLIM_CH) 3. Muslim CEO, 1 for firms with Muslim as CEO, 0 for vice versa (MUSLIM_CEO)
Control Variables	
Firm Size (FSIZE)	Total assets
Financial Performance (FPERF)	Return on assets
Board Size (BSIZE)	Number of board members
Auditor Type (AUDITOR)	Dummy: 1 for firms with Big 4 auditors, 0 for firms with non Big 4 auditors

ANALYSIS AND FINDINGS

The main objective of this study is to determine whether the presence of Muslim directors in the corporate board may enhance CSR reporting. Before the hypothesis is tested, the data is firstly screened for missing values and several procedures are conducted to ascertain whether the multivariate assumptions of normality, multicollinearity and heteroscedasticity are met. From the 330 samples, 34 firms indicate missing values, thus those 34 firms are eliminated from the list. Next, the variables are then checked for their skewness and kurtosis, and all variables, except CSR and FSIZE indicate a normal distribution based on the score of kurtosis and skewness of ±3.00 and ±10.00 respectively [56]. The two non-normal variables are then transformed using the natural log (ln) transformation, thus improving the normality of the variables based on the kurtosis and skewness threshold. Multicollinearity is examined by looking at the correlations between the independent and control variables. The results in Table 2 indicate that none of the correlations statistics between independent variables indicate a score of more than 0.9 [57-59], thus we may conclude that multicollinearity does not exist in all models. In mitigating the threats of heteroscedasticity, regression models are analyzed using the Gretl software, thus by selecting the “robust” command, heteroscedasticity problems are corrected by the software using the White’s Heteroscedasticity Consistent Variance and Standard errors technique [59].

Table 2: Correlation Analysis

	CSR	MUSLIM_PERC	MUSLIM_CH	MUSLIM_CEO	TA	ROA	BSIZE	AUDITOR
CSR	1							
MUSLIM_PERC	.326**	1						
MUSLIM_CH	.201**	.588**	1					
MUSLIM_CEO	.250**	.739**	.456**	1				
TA	.596**	.360**	.185**	.252**	1			
ROA	.230**	-.097	-.077	-.140*	.232**	1		
BSIZE	.359**	.203**	.122*	.134*	.448**	.131*	1	
AUDITOR	.365**	.118*	.079	.078	.427**	.206**	.274**	1

Variables definition: CSR = Number of sentences, with ln transformation; FSIZE = firm size, total assets with ln transformation; MUSLIM_PERC = Percentage of Muslim directors over total directors; MUSLIM_CH = Muslim Chairman, 1 for firms with a Muslim Chairman, 0 for vice versa; MUSLIM_CEO = Muslim CEO, 1 for firms with a Muslim CEO, 0 for vice versa; FPERF = firm performance, return on assets; BSIZE = board size, number of board members; AUDITOR = type of auditor, 1 for firm with Big 4 auditors, 0 for firms with non Big 4 auditors; N = 296. ** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

4.1 Descriptive Statistics

Table 2 presents the descriptive statistics of this study. For CSR, the minimum score of 0 indicate that despite the mandatory requirement for the Bursa Malaysia listed firms to disclose their CSR engagement, there are firms that still do not comply to such regulation. The maximum score of 946.30 indicate that some of the firms have large amount of disclosure, which is far from the mean of only 51.20 words. For the hypothesized variable, the results reveal that 52% of the directors of the sampled firms are Muslim. Furthermore, 58% of the sampled firms have a Muslim Chairman, while only 24% with Muslim CEO.

For the control variables, variations may be seen among the firms under study. The financial performance of the sampled firms indicates an ROA minimum of -38.27, the maximum of 50.52 and a mean of 4.32. The results also projects that the sampled firms include those with small sizes to large sizes in total assets. With regards to the corporate governance mechanism, mean of the board size is 7.88, and 53% of the firms have Big 4 auditors as their auditor.

Table 2: Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation
CSR	0.00	946.30	52.04	128.24
MUSLIM_PERC	0.00	100.00	37.65	28.19
MUSLIM_CH	0.00	1.00	0.58	0.49
MUSLIM_CEO	0.00	1.00	0.24	0.43
FSIZE	7,015.00	269,349,975.00	3,062,726.38	20691343.50
FPERF	-38.27	50.52	4.32	9.25
BSIZE	4.00	16.00	7.88	2.16
AUDITOR	.00	1.00	.53	.50

Variables Definition:
CSR = Number of sentences; MUSLIM_PERC = Percentage of Muslim directors over total directors; MUSLIM_CH = Muslim Chairman, 1 for firms with a Muslim Chairman, 0 for vice versa; MUSLIM_CEO = Muslim CEO, 1 for firms with a Muslim CEO, 0 for vice versa; FSIZE = firm size, total assets; FPERF = firm performance, return on assets; BSIZE = board size, number of board members; AUDITOR = type of auditor, 1 for firm with Big 4 auditors, 0 for firms with non Big 4 auditors; N = 296.

4.2 Regression results

The regression results are outlined in Table 4. Three models, namely Model 1, Model 2 and Model 3 indicate the results of the impact of MUSLIM_DIR on CSR using three different measurements for MUSLIM_DIR, coded as MUSLIM_PERC, MUSLIM_CH and MUSLIM_CEO.

In Model 1 (adj R^2 = 39.3%, $p<0.01$), when MUSLIM_DIR is measured by MUSLIM_PERC, the results reveal that the percentage of Muslim directors do have positive and significant impact to CSR reporting. The same situation is observed in other models (Model 2, adj R^2 = 38.4%, Model 3, adj R^2 = 38.9%, all with $p<0.01$), where having a Muslim as Chairman ($p<0.05$) and having a Muslim as CEO ($p<0.01$), do have positive impact of CSR reporting. With all these findings, hypothesis H_1 is thus supported.

With regards of the control variables, in all models, FSIZE, FPERF, BSIZE and AUDITOR consistently exert positive impact on CSR reporting. The findings from this study thus support part research which justify the positive influence of firm size [11, 13, 52-53], positive influence of firm performance [8-9, 13, 54], positive influence of board size [55] and positive influence of the Big4 auditors [55] on CSR reporting.

DISCUSSION, CONCLUSION, LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The objective of this paper is to examine the impact of having Muslim directors in the corporate board on CSR engagement and reporting. The motivation of this study lies in the fact engagement to CSR is associated to increased profit, reduced cost, enhanced brand image and good reputation [1] and good financial performance [5-7]. Furthermore, with the awareness on the concept of SRI, investors are screening for socially responsible investments. Therefore, in order to attract such investments, corporate firms should identify factors that may enhance CSR engagement and reporting, thus may be able to attract investments from the ethical investors.

Table 4: Regression Analysis

	Model 1 DV = CSR			Model 2 DV = CSR			Model 3 DV = CSR		
	coeff/ t-value	p-value	sig	coeff/ t-value	p-value	sig	coeff/ t-value	p-value	sig
MUSLIM_PERC	0.0078/ 2.8943	0.0041	***	-	-		-	-	
MUSLIM_CH	-	-		0.3016/ 2.2266	0.0267	**	-	-	
MUSLIM_CEO	-	-		-	-		0.4499/ 2.6520	0.0084	***
FSIZE	0.0172/ 2.0285	0.0434	**	0.4042/ 8.8970	0.0741	*	0.3877/ 8.3074	0.0417	**
FPERF	0.0617/ 1.8299	0.0683	*	0.0148/ 1.7926	0.0000	***	0.0170/ 2.0455	0.0000	***
BSIZE	0.3428/ 2.3486	0.0195	**	0.0644/ 1.8788	0.0613	*	0.0649/ 1.9217	0.0556	*
AUDITOR	0.3700/ 7.5770	0.0000	***	0.3282/ 2.2020	0.0285	**	0.3366/ 2.2870	0.0229	**
INTERCEPT	-3.0151/ -5.6506	0.0000	***	-3.3377/ -6.4609	0.0000	***	-3.0752/ -5.9374	0.0000	***
R-squared	0.4037			0.3846			0.4001		
Adj. R squared	0.3934			0.3842			0.3898		
F-statistic	38.6758			38.1175			40.7485		
p-value	0.000			0.000			0.000		

Variables definition:
CSR = Number of sentences, with ln transformation; MUSLIM_PERC = Percentage of Muslim directors over total directors; MUSLIM_CH = Muslim Chairman, 1 for firms with a Muslim Chairman, 0 for vice versa; MUSLIM_CEO = Muslim CEO, 1 for firms with a Muslim CEO, 0 for vice versa; FSIZE = firm size, total assets with ln transformation; FPERF = firm performance, return on assets; BSIZE = board size, number of board members; AUDITOR = type of auditor, 1 for firm with Big 4 auditors, 0 for firms with non Big 4 auditors; N = 296.
*** significant at 1% level
** significant at 5% level
* significant at 10% level

Underpinned by the Islamic principles of vicegerency (khalifah) and brotherhood (ukhuwwah), this paper predicts that the presence of Muslim directors in the corporate board may enhance CSR engagement and reporting. The results from this study confirm the prediction. In all three models, where Muslim directors are measured by different proxies: (1) percentage of Muslim directors to total directors; (2) Muslim Chairman; and (3) Muslim CEO, indicate positive and significant influence to CSR reporting. The results thus substantiate the strong influence of having Muslim directors to the strong engagement and disclosure of CSR.

The study is not without limitation. Firstly, the data utilized in this study is based on the data from the 2010 annual reports and sustainability reports, which is significant to four years of mandatory period of disclosing CSR. Future studies may consider to using more current data, and involving other mediums of CSR reporting such as web reporting.

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