

Directors' Remuneration and Corporate Social Responsibility: A Study on Malaysian Listed Firms

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Abstract

The main objective of this paper is to examine the relationship between directors' remuneration and Corporate Social Responsibility (CSR) for listed firms in Malaysia. All financial data such as firm size, performance and leverage can be collected from Thomson Reuters DataStream while directors' remuneration and CSR disclosures were collected from annual reports. 377 samples of listed firms on Bursa Malaysia were collected from year 2014 to 2016. The results of this study show that increase director' remuneration motivates the directors to perform higher CSR. The CSR practices should benefit people and firms. Therefore, more benefits gained by public and firms from CSR should not be compensated with low directors' remuneration. The results also show that firm size and leverage have positive relationship with CSR. This study can be extended using other measurements of CSR such as Global Reporting Initiative (GRI), human rights and environmental reporting which could give new insights on the relationship between CSR and directors' remuneration.

Keywords: directors, remuneration, corporate social responsibility, listed firm

1. Introduction

CSR does not only benefit society, but also shareholders. Previous researches showed CSR practices enhance shareholders' value (Borghesi, Hauston & Naronjo, 2014). Greater CSR increases shareholders' value as it increases the quality of employees (Greening & Turban, 2000), increases the sales of firm's product or service (Navarro, 1988), and improves loyalty of customers to company (Sen & Bhattacharya, 2001). Besides that, CSR activities done for stakeholders strengthen relationship with them, and help to increase firms' value. CSR also helps to gain reputation for a firm, therefore, increases the value of the firm (Schwaiger, 2004). Increase in firm value will lead to increase in shareholders' wealth.

In Malaysian context, the disclosure of directors' remuneration and CSR are less compared to the developed country such as United States. In year 2008, Malaysia was ranked 4th among 142 countries for its commitment towards investors' protection by the World Economic Forum (UNICEF, 2009). These facts raise a question whether directors' remuneration affects firm performance in CSR. Some research argued that performance based remuneration has not much impact to CSR performance (Peng & Chen, 2015).

According to agency theory, directors who found they gain benefits from CSR will invest in CSR. On the other hand, directors who found they do not benefit from CSR investment will less likely to perform CSR. Moreover, over investment in CSR can cause an extra transfer of wealth from shareholder to stakeholder such as community and employees. It happens because directors may want to increase their good image among the stakeholder without caring about the shareholders' benefits (Barnea & Rubin, 2010). Besides that, the directors may delay the information to be released when the CSR investment is inefficient (Jian & Lee, 2014). The asymmetric information between shareholders and directors causes the shareholders to realize on the loss of value late. Therefore, by right, the directors who over invest in CSR should be given less remuneration.