View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by UUM Repository

Article

Legitimising the Role of Corporate Boards and Corporate Social Responsibility on the Performance of Malaysian Listed Companies

Indian Journal of Corporate Governance
1–17
© 2019 Institute of Public Enterprise
Reprints and permissions:
in.sagepub.com/journals-permissions-india
DOI: 10.1177/0974686219881092
journals.sagepub.com/home/ijc

Sitara Karim[1]
Norlida Abdul Manab[2]
Rusmawati Binti Ismail[2]

Abstract

The prime objective of this study is to investigate the legitimate role of corporate boards and corporate social responsibility on the performance of Malaysian listed companies during 2006–2017. Elements of corporate boards include board size, board independence and board diversity, whereas corporate social responsibility (CSR) dimensions constitute marketplace, environment, community and workplace. Both accounting-based (return on assets [ROA], return on equity [ROE]) and market-based (earnings per share [EPS]) performance measures have been employed for measuring performance. Pooled ordinary least squares method (OLS) and multiple regressions are used to estimate the dataset. Findings reveal larger board size and higher board independence positively affect firm performance and significantly legitimise the board role in firms. However, the presence of women on Malaysian corporate boards does not legitimate the performance due to their lower percentage on board, hence insignificantly affecting firm value. Additionally, out of four CSR dimensions, only marketplace is positively and significantly related to EPS and negatively and significantly related to ROA. Conversely, environment, community and workplace are insignificantly

[1] School of Economics, Finance and Banking, Universiti Utara Malaysia, Changlun, Malaysia.
[2] Universiti Utara Malaysia, School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia, Changlun, Malaysia.

Corresponding author:
Sitara Karim, School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia, Changlun 06010, Sintok, Kedah, Malaysia.
E-mail: sitarakarim.malik@gmail.com

related to all performance measures, leaving firms in a questionable legitimate state. This study embraces support from agency theory, resource dependence theory, legitimacy theory and stakeholder theory. However, this research raises questionable insights for regulatory bodies and academicians in the form of corporate legitimacy.

Keywords

Corporate boards, corporate legitimacy, corporate social responsibility, firm performance, Securities Commission Malaysia

Introduction

Role of corporate boards is abundantly highlighted in the past, after the financial crisis, to emphasise their substantial impact on firm performance (Farhan, Obaid, & Azalan, 2017; Mishra & Kapil, 2017; Ofoeda, 2017; Sheikh & Karim, 2015; Yasser, Mamun, & Rodrigs, 2017). Correspondingly, Malaysia suffered the same fate when many organisations crumpled from lack of appropriate governance and social responsibility practices. Although multiple Malaysian codes on corporate governance (MCCG) have been provided over the years (MCCG, 2000, 2007, 2012, 2017), there are inconsistent compliance practices still existing in listed companies. Statistics provided by Securities Commission Malaysia (2018) revealed action had been taken against 20 criminal cases in 2018. Meanwhile, the chief issues submitted to the Commission were as follows: presenting unaudited financial statements, misleading information of company about its financials, fictitious purchase of assets, director of a company doing business illegally, executive of a company using organisational resources for paying his own debts, and reporting fabricated and deceptive information about a company. These facts expose malpractices of corporate boards in terms of weak internal control mechanisms, less efficient monitoring and fallacious disclosure practices by the firms in the annual reports, demonstrating shaky compliance of corporate governance codes in Malaysia.

Significant findings of Klynveld, Peat, Marwick and Goerdeler (KPMG, 2013) for fraud, bribery and corruption cases in Malaysia state that the quantum of fraud has increased over the last 3 years with more sophistication. Moreover, frauds are increasingly becoming industry aligned and critically targeted to certain business processes. Many believe that fraud, specifically bribery and corruption, is a major problem for businesses in Malaysia, while several others opine that fraud is an inevitable cost of doing business in their organisations. Notably, these enormous issues of fraud, bribery and corruption raise the questions of legitimate role of corporate boards and their influence on company performance in Malaysia.

Notwithstanding MCCG, organisations in Malaysia are also lacking in conforming Bursa Malaysia corporate social responsibility (CSR) disclosure framework (2006) where companies are directed to disclose their social responsibility practices in annual reports on account of marketplace, environment, community and workplace dimensions. Evidently, the legitimate compliance of socially responsible practices in Malaysian firms has created a riddle in the minds of stakeholders. Therefore, the question surfaces whether firms are performing their CSR activities for the society or for hiding their financial malfeasance?

In this way, several studies unveiled the interrelationship between corporate governance and CSR (Gill, 2008; Jamali, Safieddine, & Rabbath, 2008; Jones & Thompson, 2012) but their combined legitimate effect on firm performance is still undiscovered. Nonetheless, there are studies that independently examine the impact of corporate governance (Bhatt & Bhatt, 2017; Ofoeda, 2017; Sheikh & Karim, 2015; Yasser et al., 2017) and CSR on firm performance (Feng, Wang, & Kreuze, 2017; Lin & Amin, 2016; Makanyeza, Chitambara, & Kakava, 2017; Yusoff & Adamu, 2016), but, the empirical support for their integrated and legitimate influence on performance is yet unresolved. Moreover, this study attempts to settle agency conflicts between shareholders and board of directors in terms of their legitimate effect on firm value. Additionally, this study incorporates the presumptions of legitimacy theory and agency cost theory for explaining the relationships between CSR practices and firm performance where managers overinvest in the CSR activities to camouflage their financial delinquencies.

Thus, main findings of the study reveal a significant positive impact of board size on return on equity (ROE) and a positive effect of board independence on return on assets (ROA) congruent with resource dependence theory; however board independence is negatively related to ROE based on the presumptions of agency theory, whereas board diversity is found to be insignificantly related to all measures of performance. Furthermore, only one CSR dimension, that is, marketplace, is negatively related to ROA and positively related to EPS, whereas the remaining dimensions indicate insignificant results with all performance measures. These results indicate that Malaysian listed companies need to know their legitimate compliance of corporate governance code, and firms must be cautious of their CSR strategies and policies to monitor where firms' resources are being vested in the name of performing CSR activities. Therefore, this study leaves a significant impression for regulatory bodies of Malaysia, policymakers, investors, managers and other stakeholders for gauging the compliance of MCCG and CSR framework and their impacts on firm performance.

The second section in this study presents literature review of earlier empirical studies followed by data, variables and methodology in the third section. The fourth section provides empirical results along with discussion in the fifth section. Finally, the sixth section presents concluding remarks.

Literature Review and Hypotheses Development

This section provides review of earlier empirical studies where elements of corporate boards and CSR are presented along with their respective hypotheses.

Board Size

Resource dependence theory (Pfeffer & Salancik, 1978) claims larger the board, more human assets it contains for efficient organisational performance. Importantly, there are empirical evidences centralised on resource-based view, asserting larger boards bring higher returns, specifically when firms are facing environmental turbulence (Zahra & Pearce, 1989). Similarly, Williams, Fadil, and Armstrong (2005) claimed larger boards have more human assets to monitor the board in a behavioural manner. However, there is a trade-off between the costs associated with larger or smaller boards within a specified board size. Even so, there are extensive empirical findings related to board size and firm performance. For instance, Yasser et al. (2017) explored the relationship between board demographics and firm financial performance for KSE-100 indexed public listed companies of Pakistan and reported a positive relationship between board size and firm performance. Similarly, Ofoeda (2017) documented a linear relationship between board size and firm performance of Ghanaian non-bank financial institutions. Finally, Sheikh and Karim (2015) also found a direct relationship between board size and performance of commercial banks in Pakistan. Thus, for maintaining the corporate legitimacy of firm processes, it is expected that larger board size must positively influence the firm performance. Therefore it is hypothesised as follows:

H1: A larger board size positively affects firm performance.

Board Independence

Generally, outside directors are appointed on board to bring critical success to the organisational processes and increase firm performance due to their independent monitoring role towards firms. Despite their legitimate role, Fama (1980) argued that more independent directors on the board act as professional referees and work for value maximisation of shareholders. Thus, independent directors are invited onto the board for supervision on behalf of shareholders. In the same way, Rosenstein and Wyatt (1990) stressed that a higher proportion of independent directors is directly associated with higher returns. Correspondingly, Mak and Kusnadi (2005) revealed higher fraction of independent directors on the board is linked to greater firm value. Chen (2011) suggested that a firm should include more independent directors on the board to improve the quality and effectiveness of corporate governance. Alternatively, Wu and Wu (2014) maintained that excessive involvement of independent directors in daily affairs of organisations may restrict the managers to perform their functions deliberately, which negatively affects firm performance. On account of legitimate role of independent directors towards firm performance, it is hypothesised as follows:

H2: Higher board independence positively affects firm performance.

Board Diversity

Various studies in the field of corporate governance have uplifted a significant interest on women's representation on board of directors as a result of the policies and guidelines for good governance introduced in many countries. The basic assumption behind women's representation on board is women, due to their diverse skill base, experience and knowledge, bring higher returns for firms (Kiel & Nicholson, 2003). Nevertheless, it is claimed that board diversity is an indicator of CSR as it generates greater creativity in decision-making (Erhardt, Werbel, & Shrader, 2003). Furthermore, board diversity contributes to several diverse perspectives to debates, that is, raising new concerns and providing new sensitivities to the board discussions (Burke, 1997).

The current Malaysian Code on Corporate Governance (MCCG, 2017) has implicated 30 per cent women's representation on board by large companies. Several studies examined the impact of board diversity on firm performance. For example, Solakoglu and Demir (2016) studied the effect of gender diversity on performance of Turkish firms during 2002–2006 and found a significant relationship between gender diversity and firms targeting local markets, financial sector firms and family or block-owned firms. However, overall findings suggest a weak linkage between gender diversity and performance of firms in Turkey. Moreover, Abdullah and Ismail (2016) investigated whether women's representation on board and on audit committees is associated with the earnings management practice of non-finance firms listed on Bursa Malaysia during 2008–2011. They reported women's representation neither on board nor on audit committee is linked to the practice of earnings management. Finally, Cabrera-Fernández, Martínez-Jiménez, and Hernández-Ortiz (2016) also documented an insignificant relationship between board diversity and firm performance. Since MCCG (2017) incriminates 30 per cent women on board, expecting the legitimate role of board diversity, it is assumed that 30 per cent women's representation on corporate boards will positively affect firm performance in Malaysian listed firms. Accordingly, it is hypothesised as follows:

H3: Board diversity (30% women on board) positively affects firm performance.

Corporate Social Responsibility

In the present economic and social conditions, when the organisations operate in an increasingly turbulent environment, legitimacy becomes increasingly unstable. To survive this unpredictable environment, organisations should adhere to norms and overcome the superficial barriers raised by conformity (Suchman, 1995). Along these lines, organisations must surpass a symbolic and inaccurate disclosure to a formal compliance disclosure in its effort to gain and maintain legitimacy. Similarly, Porter and Kramer (2006) argued that companies should identify, prioritise and address those social issues that matter the most, or upon which they can make the largest impact. Hence, authors recommended firms to start with common social impacts simply by being good citizens, improving relationships with local authorities and bringing pride to employees. Second, they should identify and mitigate the various forms of social harm arising out of their value chains.

While answering the question about measurement of CSR, Scott, Cocchi, and Gemmell (2014) claimed that aggregate measures of Kinder, Lydenberg, Domini (KLD) are arithmetic tools with weaker statistical bases. More to the point, Paredes-Gazquez, Rodriguez-Fernandez, and Cuesta-Gonzalez (2016) and Paruolo, Saisana, and Saltelli (2013) mentioned that weighing of indicators is the main concern, so CSR must be measured in disaggregated terms. However, Ahamed, Almsafir, and Al-Smadi (2014) asserted that corporations of Malaysia need to disclose their CSR activities based on four dimensions, namely environment, workplace, community and marketplace. Similarly, Yusoff and Adamu (2016) employed these four CSR dimensions in their study and found a direct association between CSR dimensions and performance variables.

Furthermore, Makanyeza et al. (2017) investigated seven CSR dimensions and their impact on firm performance using both accounting and market-based performance measures. The seven CSR dimensions comprise employee relations, customer relations, environmental relations, diversity relations, community relations, supplier relations and investor relations. Yet, authors found only four dimensions that affect firm performance explicitly—employee relations, customer relations, community relations and investor relations.

Consequently, it is hypothesised as follows:

> *H4:* Corporate social responsibility positively affects firm performance (stakeholder theory) and negatively affects firm performance (legitimacy theory).

Data, Variables and Methodology

Data

The purpose of this study is to examine the legitimate role of corporate boards and CSR practices on the performance of Malaysian listed companies during 2006–2017. For estimation purpose, unbalanced panel data were mainly collected from the annual reports of listed companies of Malaysia using content analysis; however, performance data of listed companies were sourced from Datastream. A total 845 companies were listed on Bursa Malaysia, but the data of 631 firms have been estimated with about 5904 firm-year observations for the period 2006–2017.

Variables

This study contains elements of corporate boards, namely board size, board independence and board diversity, whereas CSR dimensions include marketplace, environment, community and workplace to investigate their legitimate impact on firm performance. However, the study employs both accounting-based (ROA, ROE) and market-based (EPS) performance measures. Moreover, two control variables, that is, firm size and leverage, are employed to control firm-specific characteristics. Table 1 presents operational definition and measurement of variables.

Table 1. Operational Definition and Measurement of Variables

Variables	PROXY	Definition
Dependent variables		
Return on assets	ROA_{it}	Profit before taxes to total assets.
Return on equity	ROE_{it}	Profit before taxes to stockholders equity.
Earnings per share	EPS_{it}	Profit before taxes to total outstanding common stocks.
Independent variables		
Board structure variables:		
Board size	$BSIZE_{it}$	Log of firm's board size. Board size is the total number of board of directors of a company.
Board independence	$BIND_{it}$	Proportion of independent directors to total number of board directors.
Board diversity	$BDIV_{it}$	Proportion of women on board to total number of board directors.
Corporate social responsibility practices:		
Marketplace	MKT_{it}	A dummy variable 1 if requirements for marketplace are fulfilled and 0 otherwise.
Environment	ENV_{it}	A dummy variable 1 if requirements for environment are fulfilled and 0 otherwise.
Community	$COMM_{it}$	A dummy variable 1 if requirements for community are fulfilled and 0 otherwise.
Workplace	WRK_{it}	A dummy variable 1 if requirements for workplace are fulfilled and 0 otherwise.
Control variables		
Firm size	$SIZE_{it}$	Natural logarithm of total assets.
Leverage	LEV_{it}	Total liabilities to total assets.

Source: The authors.

Methodology

This study utilises pooled ordinary least squares (OLS) and multiple regressions methods to examine the legitimate impact of corporate boards and CSR on firm performance. Regression equations are as follows:

$$ROA_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 BDIV_{it} + \beta_4 MKT_{it} + \beta_5 ENV_{it} + \beta_6 COMM_{it} + \beta_7 WRK_{it} + \beta_8 \sum_{J=1}^{n} Control_{ijt} + \varepsilon_{it} \quad (1)$$

$$ROE_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 BDIV_{it} + \beta_4 MKT_{it} + \beta_5 ENV_{it} + \beta_6 COMM_{it} + \beta_7 WRK_{it} + \beta_8 \sum_{J=1}^{n} Control_{ijt} + \varepsilon_{it} \quad (2)$$

$$EPS_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 BDIV_{it} + \beta_4 MKT_{it} + \beta_5 ENV_{it} + \beta_6 COMM_{it} + \beta_7 WRK_{it} + \beta_8 \sum_{J=1}^{n} Control_{ijt} + \varepsilon_{it} \quad (3)$$

where ROA_{it} is return on assets for *i*th company at time *t*, ROE_{it} is return on equity for *i*th company at time *t*, EPS_{it} is earnings per share for *i*th company at time *t*, $BSIZE_{it}$ is board size for *i*th company at time *t*, $BIND_{it}$ is board independence for *i*th company at time *t*, $BDIV_{it}$ is board diversity for *i*th company at time *t*, MKT_{it} is marketplace dimension for *i*th company at time *t*, ENV_{it} is environment dimension for *i*th company at time *t*, $COMM_{it}$ is community dimension for *i*th company at time *t*, WRK_{it} is workplace dimension for *i*th company at time *t*, $Control_{ijt}$ is the *j*th control variables for *i*th company at time *t*, β_0 is the intercept, ε_{it} is the random error term for *i*th company at time *t*. $\beta_1 - \beta_8$ are the coefficients of concerned explanatory and control variables.

Empirical Results

Descriptive Statistics and Correlation Matrix

Table 2 presents mean values of variables included in the study where –0.002 value of ROA reveals Malaysian firms are losing the profit of 0.002 cents for RM1 of total assets. Moreover, the median value of return on equity, that is, 3.98 illustrates firms are gaining profit of RM3.98 for RM1 of total equity and figure of 0.12 for EPS denotes profit available for common shareholders. The average board size yields the value of 7.64, whereas board independence is 3.22, advocating 50 per cent outsider directors' representation of Malaysian company boards.

However, the average value of board diversity is 0.67, demonstrating an insignificant percentage of women presented on Malaysian boards. For CSR measures, marketplace dimension depicts the average value of 42.25 per cent, whereas for environment, community and workplace dimensions, the midpoint values are 64.83 per cent, 68.29 per cent, and 64.07 per cent, respectively. Finally, the mean firm size is 13.10 and leverage is at an average value of 42.68 per cent.

Additionally, figures of correlation matrix in Table 3 illustrate that the values of independent variables are reasonably small and leave no problem of multicollinearity among variables.

Table 2. Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Minimum	Maximum
ROA_{it}	5904	–0.0024	1.5016	–48.226	10.756
ROE_{it}	5904	3.9849	33.284	–535.4	334.16
EPS_{it}	5904	0.1214	0.4225	–3.25	9.328
$BSIZE_{it}$	5904	7.6465	1.8645	3	15
$BIND_{it}$	5904	3.2261	0.9803	1	11
$BDIV_{it}$	5904	0.6783	0.8384	0	5
MKT_{it}	5904	0.4225	0.4940	0	1
ENV_{it}	5904	0.6483	0.4775	0	1
$COMM_{it}$	5904	0.6829	0.4653	0	1
WRK_{it}	5904	0.6407	0.4798	0	1
$SIZE_{it}$	5904	13.107	1.6863	7.6797	20.276
LEV_{it}	5904	0.4268	0.4014	0.0010	10.319

Source: Data analysis by the authors.

Regression Results

Three models were developed during the estimation process as presented in the regression equations. Empirical results exhibited in Table 4 denote that board size and board diversity are negatively linked to ROA but the relationships are insignificant, whereas board independence is significantly and positively related to ROA confirming hypothesis 2. Moreover, marketplace is negatively and significantly related to ROA, whereas environment, community and workplace are also negatively related to ROA but the relationships are insignificant. Additionally, firm size is positively linked to ROA, whereas leverage is negatively linked to ROA.

Table 3. Correlation of Variables

Variables	ROA_{it}	ROE_{it}	EPS_{it}	$BSIZE_{it}$	$BIND_{it}$	$BDIV_{it}$	MKT_{it}	ENV_{it}	$COMM_{it}$	WRK_{it}	$SIZE_{it}$	LEV_{it}
ROA_{it}	1											
ROE_{it}	0.10***	1										
EPS_{it}	0.03***	0.29***	1									
$BSIZE_{it}$	0.03**	0.11***	0.10***	1								
$BIND_{it}$	0.03*	0.05***	0.09***	0.57***	1							
$BDIV_{it}$	0.02*	0.02*	0.03**	0.21***	0.14***	1						
MKT_{it}	–0.01	0.06***	0.09***	0.13***	0.16***	0.08***	1					
ENV_{it}	–0.02	0.05***	0.08***	0.12***	0.12***	0.08***	0.60***	1				
$COMM_{it}$	–0.01	0.05***	0.07***	0.12***	0.12***	0.11***	0.56***	0.88***	1			
WRK_{it}	–0.04	0.06***	0.06***	0.14***	0.12***	0.11***	0.63***	0.77***	0.86***	1		
$SIZE_{it}$	0.08***	0.15***	0.24***	0.37***	0.37***	0.16***	0.28***	0.25***	0.26***	0.24***	1	
LEV_{it}	–0.43***	–0.19***	–0.09***	0.01	0.04***	–0.02**	0.01	–0.01	–0.01	–0.02*	0.06***	1

Source: Data analysis by the authors.

Note: *, ** and *** denote significance at 10%, 5% and 1% levels, respectively.

Table 4. Effect of Explanatory Variables on Return on Assets (ROA_{it})

Variable	Coefficients	Std. Err.	*t*-Statistic	Probability
C	–0.6480	0.1419	–4.57	0.000
$BSIZE_{it}$	–0.0166	0.0118	–1.40	0.161
$BIND_{it}$	0.0419	0.0222	1.89	0.059
$BDIV_{it}$	–0.0063	0.0214	–0.29	0.768
MKT_{it}	–0.0923	0.0484	–1.91	0.057
ENV_{it}	–0.0460	0.0829	–0.56	0.578
$COMM_{it}$	–0.0059	0.1033	–0.06	0.954
WRK_{it}	–0.0396	0.0767	–0.52	0.606
$SIZE_{it}$	0.1106	0.0119	9.28	0.000
LEV_{it}	–1.6600	0.0436	–38	0.000
R^2	0.2038			
Adjusted R^2	0.2026	*F*-statistic		5.09
Root MSE	1.3409	Prob. (*F*-statistic)		0.0000

Source: Data analysis by the authors.

Table 5 gives the impact of explanatory variables on return on equity (ROE_{it}) where regression results imply board size to be positively significant, with ROE confirming hypothesis 1. Meanwhile, board independence and board diversity are negatively associated with ROE but the significant outcome is observed by board independence only. In addition, marketplace, community and workplace are positively but insignificantly related to ROE, whereas environment is negatively and insignificantly related to ROE. Finally, firm size is positively and significantly linked to ROE, whereasleverage is negatively and significantly linked to ROE.

Table 5. Effect of Explanatory Variables on Return on Equity (ROE_{it})

Variable	Coefficients	Std. Err.	*t*-Statistic	Probability
C	–40.652	3.4101	–11.92	0.000
$BSIZE_{it}$	1.3594	0.2832	4.80	0.000
$BIND_{it}$	–1.2922	0.5319	–2.43	0.015
$BDIV_{it}$	–0.6883	0.5111	–1.35	0.178
MKT_{it}	0.9918	1.1522	0.86	0.389
ENV_{it}	–1.2748	1.9708	–0.65	0.518
$COMM_{it}$	0.3098	2.4549	0.13	0.900
WRK_{it}	0.8153	1.8225	0.45	0.655
$SIZE_{it}$	4.0637	0.2960	13.73	0.000
LEV_{it}	–36.187	1.8645	–19.41	0.000
R^2	0.1770			
Adjusted R^2	0.1466	*F*-statistic		5.83
Root MSE	0.1243	Prob. (*F*-statistic)		0.0000

Source: Data analysis by the author.

Table 6. Effect of Explanatory Variables on Earnings Per Share (EPS_{it})

Variable	Coefficients	Std. Err.	*t*-Statistic	Probability
C	–0.6541	0.0430	–15.20	0.000
$BSIZE_{it}$	0.0032	0.0036	0.91	0.365
$BIND_{it}$	0.0018	0.0067	0.28	0.781
$BDIV_{it}$	–0.0054	0.0065	–0.84	0.403
MKT_{it}	0.0257	0.0146	1.75	0.080
ENV_{it}	0.0320	0.0251	1.28	0.202
$COMM_{it}$	–0.0238	0.0313	–0.76	0.446
WRK_{it}	–0.0173	0.0232	–0.75	0.455
$SIZE_{it}$	0.0606	0.0036	16.77	0.000
LEV_{it}	–0.1201	0.0132	–9.06	0.000
R^2	0.3862			
Adjusted R^2	0.3705	*F*-statistic		2.75
Root MSE	0.4067	Prob. (*F*-statistic)		0.0000

Source: Data analysis by the authors.

In the end, Table 6 presents the effect of independent variables on EPS_{it} where results illustrate measures of corporate boards do not impact market-based performance measure. However, board size and board independence are positively related to EPS, whereas board diversity is negatively related to EPS. Marketplace and environment are positively related to EPS, but the relationship is only significant with marketplace. Alternatively, community and workplace are negatively and insignificantly associated with EPS. Ultimately, firm size is positively related to EPS, whereas leverage is negatively related to EPS.

Overall, board size is positively and significantly related to ROE (*H1* accepted). Board independence is positively linked to ROA (*H2* accepted) and negatively linked to ROE. Board diversity does not influence firm performance (*H3* rejected). Marketplace dimension of CSR is significantly and negatively related to ROA, whereas it is positively related to EPS (*H4* accepted). In addition, the remaining three dimensions of CSR, namely environment, community and workplace, are insignificantly related to all performance measures. For control variables, firm size is positively related to firm performance, whereas leverage is negatively related to firm performance.

Discussion on Empirical Results

This study examines the legitimising role of corporate boards and CSR on performance of Malaysian listed companies. Empirical results reveal a positive relationship between board size and ROE consistent with resource dependence theory (Pfeffer & Salancik, 1978), which suggests a larger board fetches new resources and expertise when an organisation faces uncertain and turbulent environment (Zahra & Pearce, 1989). Moreover, *Hypothesis 1* of the study assumes a larger board size fully legitimises the role of board of directors in organisations. Accordingly, the study embraces the predictions of resource-based view where bigger board size brings pool of skills to the firm for its survival in a competitive world. However, the positive relationship between board size and firm performance is akin to Bhatt and Bhatt (2017), Ofoeda (2017) and Sheikh and Karim (2015).

Similarly, positive relationship between board independence and ROA reinforces the predictions of resource dependence theory, asserting independent boards have more efficient human resources to monitor and control the organisational processes. Moreover, higher board independence legitimises the board role to closely examine and observe the managerial actions that seem impossible in the absence of independent board. Yet, the positive relationship between board independence and firm performance is consistent with Sheikh and Karim (2015) and Nyamongo and Temesgen (2013).

Alternatively, board independence negatively affects ROE following presumptions of agency theory contending higher board independence raises conflicts of interest between management and shareholders, elevating the critical nature of legitimised role of independent boards. Nevertheless, this wavering nature of legitimised board role is nurtured by the fluctuation in organisational power and authority over its stakeholders. Suitably, the direct relationship between legitimacy and power forces the organisation to take into consideration the approval or disapproval of the stakeholders in the decision-making process. Moreover, higher board independence hinders the daily operations of managers due to unnecessary interference in the workflow of organisations. However, this inverse relationship is also observed by Wu and Wu (2014).

Correspondingly, board diversity does not affect firm performance due to the minute proportion of women directors on Malaysian boards. This meagre fraction of women on corporate boards fetches the attention of firms and regulatory authorities to increase the number of female directors for observing their substantial impact on firm performance. Still, this result is parallel to the study of Cabrera-Fernández et al. (2016).

In addition, out of four CSR dimensions, only marketplace is found to be significantly and negatively related to ROA and positively related to EPS, whereas the remaining three aspects of CSR, namely environment, community and workplace, do not influence firm performance. The probable explanation for the negative relationship between marketplace dimension and firm performance is that an organisation discloses information about CSR practices because it has to maintain its legitimacy for survival (Meyer & Rowan, 1977), therefore negatively affecting firm performance. Moreover, over-investment hypothesis (Barnea & Rubin, 2010) asserts managers may overinvest in CSR activities to hide their financial misconducts and leave firms in agency costs. Alternatively, the positive relationship between marketplace and EPS indicates that activities performed for marketplace in Malaysia are creating a positive market value and fetching the interests of investors in the firms. Moreover, this positive relationship is in accordance with stakeholder theory (Freeman, 1984), presuming primary objective of firms is to meet various stakeholders' interests. However, these findings are consistent with the findings of Yusoff and Adamu (2016) and Simionescu and Gherghina (2014).

Concerning control variables, firm size is positively related to performance, implying larger firm size brings attention of investors and depositors to maintain their trust. Moreover, economies of scale cause firms to get resources at cheaper cost and at larger diversification, positively influencing firm performance (Ahmed & Mubaraq, 2015; Muttakin & Subramaniam, 2015; Ofoeda, 2017). In the end, leverage is negatively associated with ROE, confirming the predictions of Jensen (1993) that debt is the potential cause of conflicts of interest where managers use higher debts to camouflage their financial wrongdoings, dropping a firm in potential cost position, hence negatively affecting performance (Muttakin & Subramaniam, 2015).

Conclusion

In conclusion, this study attempts to investigate the legitimate role of corporate boards and CSR on the performance of Malaysian listed companies. The main findings of the study reveal larger board size and higher board independence positively affect firm performance and significantly legitimise the board role in firms. However, women's representation on Malaysian corporate boards does not legitimate the firm performance due to their meagre proportion on boards, therefore insignificantly affecting firm performance. Additionally, out of four CSR dimensions, only marketplace is found to be positively and significantly related to EPS and negatively and significantly related to ROA. Conversely, environment, community and workplace dimensions are found to be insignificantly related to all performance measures, setting down firms in a questionable legitimate state. More importantly, the results of the study are consistent with earlier theories, namely resource dependence theory, agency theory, stakeholder theory and legitimacy theory. These findings have implications for practitioners as well as academicians. Practically, this study is important for Bursa Malaysia, Securities Commission Malaysia, investors, depositors and managers for examining the compliance of Corporate Governance Code and CSR disclosure framework. Conspicuously, this study emphasises the legitimate role of corporate boards and CSR on the performance of Malaysian listed companies to bring new facets in the literature of corporate legitimacy.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding

The authors received no financial support for the research, authorship and/or publication of this article.

References

Abdullah, S. N., & Ismail, K. N. (2016). Women directors, family ownership and earnings management in Malaysia. *Asian Review of Accounting, 24*(4), 525–550.

Ahamed, W. S. W., Almsafir, M. K., & Al-Smadi, A. W. (2014). Does corporate social responsibility lead to improve in firm financial performance? Evidence from Malaysia. *International Journal of Economics and Finance, 6*(3), 126–138.

Ahmed, A., & Mubaraq, S. (2015). The implications of the revised code of corporate governance on firm performance. *Journal of Accounting in Emerging Economies, 5*(3), 350–380.

Barnea, A., & Rubin, A. (2010). Corporate social responsibility as a conflict between shareholders. *Journal of Business Ethics, 97*(1), 71–86.

Bhatt, P. R., & Bhatt, R. R. (2017). Corporate governance and firm performance in Malaysia. *Corporate Governance: The International Journal of Business in Society, 17*(5), 896–912.

Burke, R. J. (1997). Women directors: Selection, acceptance and benefits of board membership. *Corporate Governance, 5*(3), 118–125.

Cabrera-Fernández, A. I., Martínez-Jiménez, R., & Hernández-Ortiz, M. J. (2016). Women's participation on boards of directors: A review of the literature. *International Journal of Gender and Entrepreneurship, 8*(1), 69–89.

Chen, H. L. (2011). Does board independence influence the top management team? Evidence from strategic decisions toward internationalization. *Corporate Governance: An International Review, 19*(4), 334–350.

Erhardt, N., Werbel, J., & Shrader, C. (2003). Board of director diversity and firm financial performance. *Corporate Governance, 11*(2), 102–111.

Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of Political Economy, 88*(2), 288–307.

Farhan, A., Obaid, A. N., & Azalan, H. (2017). Corporate governance effect on firm's performance: Evidence from the UAE. *Journal of Economic and Administrative Sciences, 33*(1), 66–80.

Feng, M., Wang, X., & Kreuze, J. G. (2017). Corporate social responsibility and firm financial performance: Comparison analyses across industries and CSR categories. *American Journal of Business, 32*(3–4), 106–133.

Freeman, R. (1984). *Strategic management: A stakeholder perspective*. Englewood Cliffs, NJ: Prentice Hall.

Gill, A. (2008). Corporate governance as social responsibility: A research agenda. *Berkeley Journal of International Law, 26*(2), 452–478.

Jamali, D., Safieddine, A. M., & Rabbath, M. (2008). Corporate governance and corporate social responsibility synergies and interrelationships. *Corporate Governance, 16*(5), 443–459.

Jensen, M. C. (1993). The modern industrial revolution, exit, and failure of internal control systems. *The Journal of Finance, 48*(3), 831–880.

Jones, A. L., & Thompson, C. H. (2012). The sustainability of corporate governance: Considerations for a model. *Corporate Governance: The International Journal of Business in Society, 12*(3), 306–318.

Kiel, G. C., & Nicholson, G. J. (2003). Board composition and corporate performance: How the Australian experience informs contrasting theories of corporate governance. *Corporate Governance, 11*(3), 189–205.

KPMG. (2013). *KPMG Malaysia fraud, bribery and corruption survey 2013*. Malaysian Anti Corruption Commission (MACC).

Lin, H.-Y., & Amin, N. (2016). The relationship between corporate social performance and financial performance: Evidence from Indonesia and Taiwan. *European Journal of Business and Social Sciences, 5*(3), 50–62.

Mak, Y., & Kusnadi, Y. (2005). Size really matters: Further evidence on the negative relationship between board size and firm value. *Pacific-Basin Finance Journal, 13*(3), 301–318.

Makanyeza, C., Chitambara T. L., & Kakava, N. Z. (2017). Does corporate social responsibility influence firm performance? Empirical evidence from Harare, Zimbabwe. *Journal of African Business, 19*(2), 155–173

MCCG (2000). Malaysian code on corporate governance securities commission Malaysia. Finance Committee on Corporate Governance. Retrieved from http://www.sc.com.my

_____ (2007). Malaysian code on corporate governance securities commission Malaysia. Securities Commission Malaysia. Retrieved from http://www.sc.com.my

_____ (2012). Malaysian code on corporate governance securities commission Malaysia. Securities Commission Malaysia. Retrieved from http://www.sc.com.my

_____ (2017). Malaysian code on corporate governance securities commission Malaysia. Securities Commission Malaysia. Retrieved from http://www.sc.com.my

Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology, 83*(2), 340–363.

Mishra, R., & Kapil, S. (2017). Effect of ownership structure and board structure on firm value: Evidence from India. *Corporate Governance: The International Journal of Business in Society, 17*(4), 700–726.

Muttakin, M. B., & Subramaniam, N. (2015). Firm ownership and board characteristics: Do they matter for corporate social responsibility disclosure of Indian companies? *Sustainability, Accounting, Management and Policy Journal, 6*(2), 138–165.

Nyamongo, E. M., & Temesgen, K. (2013). The effect of governance on performance of commercial banks in Kenya: A penal study. *Corporate Governance, 13*(3), 236–248.

Ofoeda, I. (2017). Corporate governance and non-bank financial institutions profitability. *International Journal of Law and Management, 59*(6), 854–875.

Paredes-Gazquez, J. D., Rodriguez-Fernandez, J. M., & Cuesta-Gonzalez, M. (2016). Measuring corporate social responsibility using composite indices: Mission impossible? The case of the electricity utility industry. *Spanish Accounting Review, 19*(1), 142–153.

Paruolo, P., Saisana, M., & Saltelli, A. (2013). Ratings and rankings: Voodoo or science? *Journal of the Royal Statistical Society: Series A, 176*(3), 609–634.

Pfeffer, J., & Salancik, G. R. (1978). The external control of organizations: A resource dependence perspective. In R. E. Beach (Ed.), *The external control of organizations* (pp. 39–61). New York, NY: Harper & Row.

Porter, M., & Kramer, M. (2006). Strategy and society: The link between competitive advantage and corporate social responsibility. *Harvard Business Review, 84*(12), 78–92.

Rosenstein, S., & Wyatt, J. G. (1990). Outside directors, board independence, and shareholder wealth. *Journal of Financial Economics, 26*(2), 175–191.

Scott, E. M., Cocchi, S., & Gemmell, J. C. (2014). Defining a fit for purpose statistically reliable sustainability indicator. *Sustainability Accounting Management and Policy Journal, 5*(3), 262–267.

Securities Commission Malaysia. (2018). Updates on criminal prosecution during 2018. Retrieved from https://www.sc.com.my/post_archive/updates-on-criminal-prosecution-in-2018/

Sheikh, N. A., & Karim, S. (2015). Effects of internal governance indicators on performance of commercial banks in Pakistan. *Pakistan Journal of Social Sciences, 35*(1), 77–90.

Simionescu, L. N., & Gherghina, S. C. (2014). Corporate social responsibility and corporate performance: Empirical evidence from panel of the bucharest stock exchange listed companies. *Management and Marketing, Challenges for the Knowledge Society, 9*(4), 439–458.

Solakoglu, M. N., & Demir, N. (2016). The role of firm characteristics on the relationship between gender diversity and firm performance. *Management Decision, 54*(6), 1407–1419.

Suchman, M. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review, 20*(3), 57l–610.

Williams, R. J., Fadil, P. A., & Armstrong, R. W. (2005). Top management team tenure and corporate illegal activity: The moderating influence of board size. *Journal of Managerial Issues*, *17*(4), 479–493.

Wu, J., & Wu, Z. (2014). Integrated risk management and product innovation in China: The moderating role of board of directors. *Technovation, 34*(8), 466–476.

Yasser, Q. R., Mamun, A. A., & Rodrigs, M. (2017). Impact of board structure on firm performance: Evidence from an emerging economy. *Journal of Asia Business Studies, 11*(2), 210–228.

Yusoff, W. F. W., & Adamu, M. S. (2016). The relationship between corporate social responsibility and financial performance: Evidence from Malaysia. *International Business Management, 10*(4), 345–351.

Zahra, S. A., & Pearce, J. A. (1989). Board of directors and corporate financial performance: A review and integrative model. *Journal of Management, 15*(2), 291–334.