

Corporate Philanthropy Disclosure: Does Board's Education Matters?

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Abstract

The study on corporate philanthropy (CP) disclosure is limited and need to be given further attention. Thus, the objective of this paper is to examine the importance of board of directors' (BOD) education, in addition to firm-specific factors, as possible determinants of CP disclosure of Malaysian public listed companies. Three BODs' education characteristics were considered namely the level of education, field of education and place of education. Data for the study was collected using secondary data. A CP checklist was used to measure the level of CP disclosure in the annual reports of 296 companies listed on Bursa Malaysia for the year 2013. By employing multiple regressions, the results indicated that the board's level of education is statistically significant in explaining the disclosure of CP. The results also displayed no significant relationship between field of study, place of education and CP disclosure. It is expected that this study will have important policy implication that enhances the transparency and accountability pertaining the corporate givings.

Keywords: board of directors; corporate philanthropy disclosure; Malaysian public listed companies; corporate governance

1.0 INTRODUCTION

Resources dependency theory claims that the roles of the board of directors (BODs) is not limited to monitor and oversees the business's governance. They also provide resources for the formation of strategy through consultations, dissemination of information and advice to the chief executive officer (Zahra and Pearce, 1989). By providing resources and strategic direction (Pfeffer & Salancik, 2003) to the company, the board of directors plays an important role in determining the policies and decisions of corporate philanthropy (Buckholtz, Amason & Rutherford, 1999). This includes the decision on size, goals and direction as well as the management of company's charitable contribution activities (Velasco, 1996; Coffey & Wang, 1998; Strandberg, 2008; Lev, Petrovits & Radhakrishnan, 2011). Due to the facts that the corporate philanthropy (CP) is regarded as voluntary or discretionary to be undertaken by firms (Carroll, 1979), the characteristics and personality of the top

management may affect any decision related to the CP governance (Choi & Wang, 2007).

Self-interest motives by the executives (Wang & Coffey, 1992; Lev et al., 2011) and the lack of specific requirements on CP disclosure (Campbell & Slack, 2008; Shapira, 2012) have fortify the importance of BODs role to ensure an attainment of a greater accountability and transparency that eventually help stakeholders in making better decision. In Malaysia, the *Companies Act 1965* does not allocate any reporting requirement for philanthropic givings. Furthermore, political interests, the issues of materiality and cost benefits of CP disclosure are amongst the determinant factors that lead to the absence of legal requirements on corporate donations disclosure (Shapira, 2012). Thus, attention needs to be given on this matter since the board is the one who hold the responsible for the information disseminated in the annual report (Gibbins, Richarson & Waterhouse, 1990).

Arguments from the agency theory have shown that the BODs characteristics are important to achieve greater accountability and transparency including in the issue of CP (Coffey & Wang, 1992, Helland & Smith, 2004). Yet, some of the previous literatures have demonstrated that the influences of the BODs on the level of corporate social reporting are varied and inconclusive. Lack of experience and knowledge of the directors lead to the weaknesses in term of corporate's understanding on different customers' and public perspectives including in the issue of corporate social responsibility (Claessens, Djankov and Lang, 2000; Bursa Malaysia, 2007) which include the CP. As a consequence, directors' involvement in the

formation of corporate social reporting is limited (Strandberg, 2008).

It is believed that board members with relevant skills, education and experiences are able to bring different perspectives (Yusof, 2013) in understanding the needs of different stakeholders on the issue of CSR and corporate philanthropy, as well as its disclosure (Bursa Malaysia, 2007; Michelin & Parbonetti, 2012; Musa & Oba, 2012). Nonetheless, the profiles possessed by the board of directors also enable the transfer of knowledge that ultimately formed a better CSR (Strandberg, 2008; Barka & Mokkadem, 2012) and CP governance. Based on the above discussions, this study examines the BODs' characteristics particularly its education attributes that influences the disclosure of CP. This includes level of education, field of education and place of education. The attributes are expected to help in illuminating the relevant characteristics of BODs that might strengthen the accountability and transparency of CP report.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The current study suggests the application of resource dependency theory as a basis to explain the role of BODs which is not only limited to the internal control mechanisms of the organization. The theory also explains other roles and functions of directors such as providing valuable resource for the organization which include advising, expertise and legitimacy (Daily, Dalton & Cannella Jr, 2003; Pfeffer & Salancik, 2003). Indeed, the various compositions among board members contribute to the diversity of talents, values, experiences (Coffey & Wang, 1998; Hillman, Cannella

& Paetzold, 2000) and expertise through education (Hillman, Cannella & Harris, 2002). Thus, it is believed that it may impact the decision of CP disclosure.

2.1 Boards' Education

The level of education is one of the individual's human capital elements that can help to improve organization (Judge, Cable, Boudreau & Bretz Jr., 1994). It portrays the level of credibility, expertise, experience and knowledge of an individual. This statement is in line with the understanding brought by the resource dependency theory that board members' level of education would provide sources in form of expertise (Hillman et al., 2002). With higher capabilities in managing the organization and coupled with the ability to understand the financial matters, the management with higher education is said to be able to deal with money related conflict, management control and strategic vision processing capability (Amran & Ahmad, 2011).

Referring to the issue of corporate reporting, there is a positive relationship between the top management's education level and the company's strategic decision-making processes involving the financial reporting (Papadakis, Lioukas & Chambers 1998; Balta, Woods & Dickson, 2010). As depicted by Akhtaruddin and Rouf (2011), any strategic decision of disclosing relevant accounting information lies in the hand of the BOD. Hence, the BODs with higher level of education s are essential in providing broader perspective (Akhtaruddin & Raof, 2011) that will assist companies to understand the needs of different stakeholders, particularly on the issue of corporate philanthropy, CSR and its

disclosure (Bursa Malaysia, 2007; Michelin & Parbonetti, 2012; Moses and Oba, 2012).

In fact, directors with Masters and doctorate qualifications are seen to have the capability of applying research techniques which leads to more extensive and in- depth analysis. This ability contributes to the uniqueness of ideas in shaping policy and addressing issues as well as making strategic decisions (Milliken & Martins, 1996; Westphal and Milton, 2000; Bathula, 2008). Knowledge and skills attained from the higher education will also ensure good supervisions and reduce information asymmetry. This eventually leads to better corporate disclosures (Chemmanur & Paeglis, 2005; Alexandrina, 2013). They also have the capability to assess and address the risks (Berger, Kick & Schaeck, 2012) of any disclosure made by the company. These arguments are empirically documented by Akhtaruddin and Rouf (2011) and in Alexandrina (2013). Based on the above arguments, the following hypothesis is proposed:

H1: There is a positive relationship between the proportion of board members graduated with an advanced degree and the level of CP disclosure.

2.2 Field of Education

Specific educational backgrounds of directors contribute to the resources, knowledge and skills that are valuable to the firm. This is in line with the notion brought by resource dependency theory (Hillman et al. 2002). The relevance of the knowledge possessed by directors also significant in strengthening the effectiveness of monitoring and oversight function which is vital for the formation of corporate reporting (Nahar, 2010) including the CP disclosure.

As argued in Haniffa and Cooke (2002), the board of directors should be composed of individuals with an academic backgrounds in accounting or business. This is important because the role of the board is not limited in providing input for the corporate disclosure but is also involved in the process of producing the report (Strandberg, 2008).

With better understanding and awareness on the importance of corporate disclosure, board members with accounting qualification might induce transparency which leads to a better corporate information disclosure. Their presence is increasingly important in the absence of any legislation or requirement of corporate disclosure (Haniffa & Cooke, 2002), as encountered in the issue of corporate philanthropy reporting. Nonetheless, their knowledge is perceived to improve the accountability of companies and at the same time catalyzing the image and credibility of the management from the eye of stakeholders (Haniffa and Cooke, 2002). However empirically, Haniffa and Cooke (2002) found that there is no relationship between the qualifications of directors in management and accounting with the level of corporate disclosure.

Recent studies by Akhtaruddin and Rouf (2011) and Aburaya (2012) have found a positive significant relationship between the number of directors who have qualifications in accounting and business with voluntary disclosure and some of the environmental disclosure. Nahar (2010) also had indicated a significant association between the presence of the director with financial expertise and the quality of corporate reporting. Thus, the following hypothesis is suggested:

H2: There is a positive relationship between the proportion of board members educated

in business or/and accounting or/and finance and the level of CP disclosure.

2.3 Place of Education

Post et al. (2011) view that directors have different perceptions, values and behavior towards CSR as it is influenced by cultural diversity, different experience and location (Waldman, DeLuque, Washburn & House, 2006; Li, Pornering & Noble, 2011; Post, Rahman & Rubow, 2011). Based on the World Giving Index (Charities Aid Foundation, 2014), the United States (US) is ranked at the highest spot (based on 5 year average from 2009-2013) for its giving behavior. These reports seem to be relevance to the studies conducted by Bennett (1998) and Welford (2005), which reveals that philanthropy as important social initiatives undertaken by the North American companies. Corporate citizen in the United States is also seen to be more emphasis on issues related to community-based programs such as philanthropy as compared to the Europeans counterpart. In fact, they are much more likely to disclose CSR related issues to the society rather than French and Dutch firms (Maignan & Ralston, 2002).

If viewed from the perspective of higher education institutions, business schools in the US have placed some attention on the CSR by integrating it into the curriculum and research structure (Tickle, 2009). On top of that, the learning models and techniques practiced in the US is also an important factor that influences the behavior and approach to CSR by individuals from other countries (Matten & Moon, 2008).

Taking into account the arguments put forward by Waldman et al. (2006) and Post et al. (2011), it is believed that directors

educated in the US are exposed to the culture, including the understanding of philanthropy and social awareness of CSR which has been shown by the public and the business environment of the country. Thus, these exposures might affect the behavior of individual philanthropy (Charities Aid Foundation, 2006; Madden & Scaife, 2008) and it is expected to influence the culture and behavior towards corporate philanthropy (Brammer & Pavelin, 2005).

The social values brought from foreign countries including the United States into the sub-culture of accounting and transparency leads to optimism in measurement and disclosure (Gray, 1988). In a related matter, Merchant, Chow & Wu (1995) also sees education and experience gained from the western world has changed the culture and mindset of the management. As reviewed by Haniffa and Cooke (2002), Akhtaruddin and Rouf (2011) and Aburaya (2012) on the study by Merchant et al. (1995), they opined that the Western-educated management may adapt the newly acquired values and this will affect the behavior and practices of corporate disclosure. Empirically, different education system abroad seems to have a significant impact on the level of corporate voluntary disclosure (Akhtaruddin & Rouf, 2011). Post et al. (2011) found that the presence of BOD members educated in Western Europe is significantly related to the environmental disclosure. In addition, Ahmed and Nicholls (1994) in Haniffa and Cooke (2002) offers a perception that professional qualified accountants from abroad received a rigorous professional training and exposure that will induces more disclosure of information. Therefore, the following hypothesis is proposed:

H3: There is a positive relationship between the proportion of board members who have attained tertiary education in the United States and the level of CP disclosure.

2.4 Control Variables

Four control variables are applied in this study namely the size, profitability, reputation and the leverage. Few study discovered that company's size influences the CSR and voluntary disclosure (Barako, Hancock & Izan, 2006; Hossain & Reaz, 2007; Akhtaruddin & Hasnah, 2010; Sayd Kabir & Lanis, 2011; Sayd et al., 2011; Abdullah et al., 2011). Belkaoui and Karpik (1989), Gamerchalag, Moller and Verbeeten (2011) and Michelon and Parbonetti (2012) empirically found that reputation and attention given by the stakeholders positively affect the CSR information disclosed. In term of profitability, Haniffa and Cooke (2002), Haniffa and Cooke (2005), Khan (2010) and Akhtaruddin and Hasnah (2010) found that the variable has significant effect on voluntary disclosure and corporate social responsibility. Finally, leverage is significantly associates to corporate disclosure including the CSR as portrayed in the literature (Hossain, Perera & Rahman, 1995; Haniffa & Cooke, 2002; Barako et al., 2006; Cheung et al., 2006; Abdullah et al., 2011; Aburaya, 2012).

3.0 RESEARCH METHODOLOGY

Secondary data is used for the purposes of this study. Data on the directors' education attributes and CP disclosure are extracted from the annual report (year ended 2013). 385 of non-financial companies from the main market of Bursa Malaysia were selected by using the simple random sampling method. This method has been adopted by previous studies related to voluntary and disclosure (Craig & Diga,

1998; Hughes, Djajadikerta & Smith, 2009; Rouf, 2011; Alikhani & Maranjory, 2013). However, only 296 companies were selected for the analysis because it provides relevant data on both board members and CP information. For data analysis, the Statistical Package for the Social Sciences (SPSS) and Gnu Regression, Econometrics and Time-series Library (Gretl) were used.

3.1 Measurement of variable

Dependent variable

CP disclosure refers to the information (both qualitative and quantitative) that is applicable to the items of CP as disclosed in the annual report (Ahmad, 2010). To identify the CP disclosure, content analysis was chosen. The method is deemed to have a solid foundation in the study of social accounting (Ingram, 1978; Ingram and Frazier, 1980; Guthrie & Parker, 1989) and has been widely applied in the studies of CSR disclosure (Guthrie & Parker, 1990; Zeghal & Ahmed, 1990; Hackston & Milne, 1996; Kuasirikun & Sherer, 2004; Rahman et al, 2010; Bayoud, 2012; Aburaya, 2012; Haji, 2013).

In order to identify any CP related activities disclosed by a company, a checklist adapted from Ahmad (2010¹) which comprises of 13 corporate philanthropy items was used. The items include among others; direct-cash donation, scholarship, volunteer, disaster relief, in-kind etc. As highlighted by Campbell and Slack (2008), the checklist method is more appropriate to be used in line with the objective of the study to seek on what was reported rather than how often it has been reported. Modification of the checklist was done by taking into account of

items that are relevant to CP based on the CP and CSR literature such as Janggu et al. (2007), Saiia et al. (2003), Campbell and Slack (2008), Slack (2008); LBG (2008), Bayoud (2012), Brown (2014), Mutalib (2014) and Morris and Bartkus (2015).

The checklist was assessed by two academics who are also the editor and chief editor of social reporting related journals to ensure its content validity (Rouf, 2011; Aburaya, 2012). The content of the annual reports used in the pilot study were analysed² twice for the purpose of ensuring the reliability and stability of the measurement process, (Milne & Adler, 1999; Krippendorff, 2004). Accordingly, items that are irrelevant or undisclosed by any of the companies were removed from the checklist. Lastly, the inter coder process was carried out to confirm that the reproducibility of the coding process is achieved (Milne & Adler, 1999; Aburaya, 2012).

For the purpose of deriving the index score, an item in the checklist was given a score "1" if disclosed and "0" if it is not. CP disclosure index (CPDI) value was attained by adding up all the scores and divided to the maximum score of the checklist established (Ghazali, 2007; Aburaya, 2012) which is 13. The value of the index score is in a percentage form (Rouf, 2011; Aburaya, 2012).

Independent variables

The measurements of the independent and control variables are as follow:

LEDU	Proportion of board members who hold an advanced degree to the total board members.
FEDU	Proportion of board members educated in business or/and accounting or/and finance to the total board members
PEDU	Proportion of board members educated in the United States to the total board members.

Control variables:

SIZE (Log10)	Datastream
ROA	Datastream
REP	'1' if listed in the top 100 index Bursa Malaysia (market capitalization) and '0' otherwise, as at 31 December 2013.
LEV	Total liabilities / Total Assets (Datastream)

4.0 RESULTS

4.1 Multiple regression assumptions

Based on the Central Limit Theorem, if the sample size is sufficiently large ($n > 200$), the distribution of standardized residual is basically normal (Solution Statistics, 2013). Thus, with 296 of samples analysed, it can

be concluded that the distribution of standardized residual is normal. There is no multicollinearity problem since all of the independent variables show the tolerance value of more than 0.1 while the Variance inflation factor value (VIF) is less than 10. The issue of Heteroscedasticity is overcome based on the corrected White's standard error.

Table 1: Descriptive analysis results

	Mean	Min	Max	S.D
CPDI	0.242	0.08	0.77	0.151
LEDU	0.235	0.00	0.77	0.178
FEDU	0.448	0.00	1.00	0.187
PEDU	0.124	0.00	0.71	0.128
ROA	0.055	-0.385	0.602	0.089
REP	0.158	0.00	1.00	0.366
LEV	0.386	.0003	0.97	0.200
SIZE	8.786	7.43	11.00	0.695

Table 1 presents the descriptive statistics results. The mean for the CP disclosure is 24.2 per cent. As a comparison, the earlier

CSR related studies in Malaysia, have documented disclosure means of 28 per cent

(Abdullah et al., 2011) and 31.71 per cent (Haji, 2013) respectively. The result

shows that the level of CP disclosure in Malaysia is relatively lower as compared to the broader CSR perspective. It is also indicated that the mean of directors who hold an advanced degree is 23.5 percent. The results also reveal that 44.8 percent of the directors are educated in the field of business, accounting or/and finance. Nonetheless, 12.4 percent of the directors obtained their tertiary education in the United States. There seems to be a wide variation between the maximum and

minimum values among most of the company's characteristics especially for companies' size. 16 per cent of the samples are top 100 companies.

4.2 Pearson Correlation

The coefficient of correlations between dependent, independent and control variables are reported in Table 2. The analysis reveals that CP disclosure is positively and significantly (at $p = 0.01$) related to LEDU, ROA, LEV, SIZE and REP. FEDU and PEDU are not significantly associated to CP disclosure.

Table 2: Pearson Correlation Matrix results

	LEDU	FEDU	PEDU	ROA	REP	SIZE	LEV	CP
LEDU	1							
FEDU	.245**	1						
PEDU	.420**	0.082	1					
ROA	.156**	0.078	0.025	1				
REP	.227**	0.094	.118*	.316**	1			
SIZE	.279**	0.03	0.081	.133*	.669**	1		
LEV	.157**	0.052	0.076	-0.003	.173**	.310**	1	
CPDI	.244**	0.015	0.089	.160**	.613**	.652**	.217**	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

4.3 Regression Analysis

The adjusted R^2 for the model of this study is 47.4 per cent . It is also significant at the level of $F = 28.12$ and $p < 0.01$ (0.000).

Previous studies pertaining the corporate philanthropy disclosure studies namely Ahmad (2010) and Morris and Bartkus (2015) obtained an R^2 of 42.8% and 22.3% respectively.

Table 3: Regression analysis

	B	Std. Error	t	sig (2-tailed)
Cons	-0.565	0.107	-5.287	0.000 ***
LEDU	0.056	0.043	1.317	0.188 *
FEDU	-0.035	0.031	-1.143	0.254
PEDU	-0.011	0.051	-0.209	0.834
ROA	-0.007	0.093	-0.077	0.938
REP	0.134	0.029	4.604	0.000 ***
LEV	0.019	0.035	0.552	0.581
SIZE	0.08	0.013	6.981	0.000 ***

*.Significant at the 0.10 level (1-tailed); ***, significant at the 0.01 level (1-tailed).

Based on the multiple regression analysis in Table 3, it is indicated that only three variables are significant in explaining the level of corporate philanthropy disclosure by Malaysian public listed companies (MPLC). Two of the variables are positively significant at 1 percent level ($p < 0.01$) (SPSS report significant results in 2-tailed) namely the SIZE ($p = 0.000$, one - tailed) and REP ($p = 0.000$, one -tailed). Both SIZE and REP are the control variables. As expected in the hypotheses, firms with higher proportion of advanced degree (higher education) are more likely to disclose CP information in the annual report with a weak significant level of $p = 0.09$ (one-tailed). Thus, hypotheses 1 is supported. The other hypotheses variables, the FEDU and PEDU are not statistically significant with CP at $p = 0.125$ (1-tailed) and $p = 0.415$ (1-tailed) respectively. Thus, hypotheses 2 and 3 are not supported. Lastly, neither ROA or LEV (leverage) is significantly associated with the disclosure of CP.

5.0 DISCUSSION AND CONCLUSION

Most of the empirical research on CSR and CP have not investigated the issue of CP disclosure. Thus, studies on this issue seem to be very limited (Campbell & Slack, 2008; Ahmad, Tower & Zahn, 2009a; Ahmad, 2010; Fioravante, 2011; Morris & Bartkus, 2015) and need to be given further attention. Thus, the objective of this study is to examine the influence of BOD's education attributes on the disclosure of corporate philanthropy. The education characteristics include level of education, field of study and place of education. By applying the resource dependency theory (RDT), the present study developed three hypotheses. With the hypotheses and controlled variables explained significantly 47.4 per cent of the variance of CP disclosure, this study has shown that the RDT is applicable in predicting the disclosure of CP made by the MPLC.

The results obtained indicate that the level of education has a weak significant

association with higher CP disclosure. This is consistent with the findings by Akhtaruddin and Raof (2011) and Alexandrina (2013) where they argue that directors with higher education are positively associated with increased disclosures. However, the association of field of education and CP disclosure seems to be insignificant. The finding is similar to Haniffa and Cooke (2002) for voluntary disclosure and Aburaya (2012) from the perspective of total environmental disclosure. The absence of a significant relationship is also an indication that the directors' knowledge in business, accounting and even in finance, fails to give any positive impact on the disclosure of corporate philanthropy. Perhaps, further education or training in social and community matters are needed in addition to business or accounting education. There is also no significant link between directors' educated in the US and CP disclosure. The result seems to be misaligned with the findings obtained by Akhtaruddin and Rouf (2011) and Post et al. (2011). Possibly, the learning and living experience abroad particularly in the US may affect the philanthropic behavior of the directors. However, the influence is unable to be realized on the aspect of the corporate's disclosure culture. Corporate's size and reputation continue to be strong determinant factors of corporate disclosure. The other two control variables namely the leverage and ROA are found to be insignificant with the level of CP reporting.

This study makes a number of potential implications to the CP literature and management policy. First of all, due to the scarcity of CP disclosure study, this study has opened an insight on this issue opposed to the other general CSR related studies. As postulated by Carroll (1991) and Carroll

(2004), CP differs from other form of CSR activities as charitable donation and contribution to community are voluntary and discretionary in nature. On top of that, as most of the CP literatures are mainly focus on developed countries, the current study provides an insight into CP disclosure regime of companies from developing country. Third, this study highlights the importance of directors' education attributes as a resource provider to improve the dissemination of CP information in the key companies' report.

Among the potential limitations of this study is the sample drawn from one period (year 2013). The analysis of several years, instead of focusing on one year period could provide better results and offer some understanding on the changes of CP disclosure across time on annual reports. Secondly, the CP data for this study is limited to the annual reports. Other medium such as press news, sustainability report and companies' website might have been used by the sample companies to disseminate the CP information. The study also limited to the use of non-financial companies as a sample. Thus, the results may not be extended across all companies in Malaysia. Future research examining the level of CP disclosure may consider extending this study by investigating the impact of other BOD's characteristics including ethnicity, age or working experience. In fact, other researchers may consider to examine the effect of other CG elements and BOD's committees on the quality and extent of CP disclosure. It is also suggested that any other researcher might take into consideration the same research issue but focuses should be given on a specific industry sector such as the financial industry. It may provide intriguing results in the sense of variations within different sectors.

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