THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY IN GOVERNMENT LINKED COMPANIES IN MALAYSIA

BY

NOR SHAFINAZ BINTI J NULAWADIN

RESEARCH REPORT IN PARTIAL FULLFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

2008

ACKNOWLEDGEMENT

BISMILLAHHIRRAHMANNIRAHIM,

Praise to ALLAH S W T, the most gracious and most merciful. The completion of this dissertation would not have been a success without the efforts, guidance, assistance, prayers from all the individual and group who had directly or indirectly been involved since the very beginning.

The memory of my late mother, Faridah bt Abu Bakar who left us on 20th October 2007. She is not around to see me completing my MBA program. May Allah bless her soul among the very righteous.

I also would like to dedicate my love and thanks to my beloved husband, Abdul Fareed and my precious twins Adlin Nabila and Adlan Nabil for their patience, sacrifices and support throughout my study especially working on this research.

I would like to extend my gratitude and appreciation to Professor Hasnah Haron for her time in receiving as well as invaluable opinions, comments and guidance throughout this research. I am honored to prepare this thesis under her supervision.

Thank you to Associate Professor Dr Yusserrie Zainuddin who gave me encouragement and support when I lost focus on my studies due to my work and family commitment.

Special thanks also go to all GLCs that have participated in this study for their valuable time and opinion rendered. Sincere appreciation to a relative, in Khazanah Nasional, who actually assisted me to reach to the respondents.

I am grateful to all my lecturers and course mates who gave me knowledge and guidance throughout my studies.

I would like to thank Bapak Saiful, PHD student who has assisted me on my analysis and interpretation of statistical data for this dissertation.

Lastly, special appreciation goes to my ex colleague, Rosli. You have assisted me a lot in my studies.

ALHAMDULILLAHé

TABLE OF CONTENTS

LIST OF APPENDIXES

LIST OF TABLES

LIST OF FIGURES

ABBREVIATION

CG	**:**	**CORPORATE GOVERNANCE**
CSR	**:**	**CORPORATE SOCIAL RESPONSIBILITY**
GLCs	**:**	**GOVERNMENT LINKED COMPANIES**
TBL	**:**	**TRIPLE BOTTOM LINE**
CBM	**:**	**BOARD MATTERS**
CNM	**:**	**NOMINATION MATTERS**
CRM	**:**	**REMUNERATION MATTERS**
CAM	**:**	**AUDIT MATTERS**
CCM	**:**	**COMMUNICATION MATTERS**
PLC	**:**	**PUBLIC LISTED COMPANY**

ABSTRACT

The purpose of this study is to examine whether Corporate Governance and Board of Directors will have influence on the level of Corporate Social Responsibility in Government-Linked Companies in Malaysia. This study used questionnaire to collect the data. Total of 65 Government-Linked Companies have been selected and the successful respondents are 43 in total. The preliminary analysis on Descriptive, Correlations and Regression Analysis have been identified as statistical tools to interpret the result.

The statistical results revealed that Corporate Governance, Board of Directors does not impact Corporate Social Responsibility activities in Government-Linked Companies in Malaysia. In a nutshell, this study really proves and shows that level of Corporate Social Responsibility amongst Government-Linked Companies in Malaysia is still far behind and is still at minimum level even through results of analysis have shown that there are relationships and significant impact on some of the variables used in this research.

ABSTRAK

Objektif utama kajian ini adalah untuk melihat samada Pentadbiran Korporat, Ahli Lembaga Pengarah boleh mempengaruhi atau memberi kesan ke atas tanggungjawab sosial kepada komuniti di kalangan Syarikat Berkaitan Kerajaan (Government- Linked Companies) di Malaysia. Kajian ini menggunakan kaedah soal selidik untuk mendapatkan data. Borang soal selidik ini telah dihantar ke 65 buah Syarikat Berkaitan Kerajaan dan 43 jawapan diterima dari responden . Beberapa kaedah statistik seperti analisis huraian, analisis korelasi dan analisis regresi digunakan ke mentafsir data yang diterima. Walaubagaimanapun secara keseluruhan Pentadbiran Korporat, Ahli Lembaga Pengarah tidak memberi kesan positif yang tinggi ke atas perkembangan tanggungjawap sosial di kalangan Syarikat Berkaitan Kerajaan di Malaysia. Secara keseluruhan kajian ini menunjukkan tahap tanggungjawab social di kalangan Syarikat Berkaitan Kerajaan di Malaysia masih lemah dan tidak memberangsangkan walaupun keputusan analisis menunjukkan adanya talian atau kaitan antara pembolehubah yang digunakan untuk kajian ini.

Chapter 1

INTRODUCTION

1.1 Introduction

Corporate social responsibility (CSR) is the latest buzzword concerning companies and over the last couple of years, more and more companies have started to include this initiative into their business operations. This move demonstrates that these companies are not just established for profit, but have evolved to consider the impact that they would have on the community and their employees should they contribute back in whatever capacity. This is the reason why today, a growing number of companies, especially multinational companies and Government-linked companies (GLCs), are making CSR a part of their ongoing business activities.

In addition to bolstering shareholder value through improved financial and operational results, Government-Linked Companies (GLCs) have broadened the GLC Transformation (GLCT) Program to deliver significant benefits to stakeholders at large, improve procurement processes and embrace corporate social responsibility (CSR) (PCGHP, 2006).

According to Y.BHG. Datoô Dr Wan Abdul Aziz Wan Abdullah, Director, Malaysian Directors Academy (MINDA), at the Chairmanôs Forum on 22 October 2007 stated that GLCs constitute a significant part of the economic structure of the nation and account for approximately 39% and 50% respectively of the market capitalization of Bursa Malaysia and the benchmark KLCI , reinforcing the critical role that all the directors collectively can play in contributing to the nation's wellbeing. Indeed, this is a very special group of highly distinguished personalities with invaluable years of leadership experience ons, and who are entrusted with a pivotal role in harnessing the respective Boards to drive GLCs towards greater performance.

The main duty of the Board of Directors (BODs) is to oversee the functioning of the Chief Executive Officer and other senior management and to ensure competency in their operating of the corporations especially in CSR. To effectively discharge this duty BODs need to take a proactive and focused approached through effective Corporate Governance (CG) guidelines, practices and approach in setting standards to ensure that the corporation is committed to its businessô success.

This chapter will introduce the outline of the study. It will illustrate the background, problem statement, research objectives, research questions and significance of the study.

1.2 Background

It is becoming increasingly difficult for corporations to function effectively without weaving in elements of social responsibility in the day-to-day running of their businesses. Whereas, in the past, investorsô decisions were guided primarily by the health of a companyós balance sheet, in present times an assessment of how a company reacts and responds to the society in which it exists is now fast becoming a major criteria in guiding investorsô decisions the world over.

If undertaken correctly and effectively, a companyós social responsibility initiatives could lead to an enhanced brand image and the increased ability to attract and retain the best workforce. This will translate into better client satisfaction and improved customer loyalty. In short, Corporate Social Responsibility (CSR) can be a catalyst for improving a companyós performance and profitability.

[illegible] of the big local corporations in Malaysia pay serious attention to their corporate responsibility. But for Government Linked Companies which account for and provide high contributions in Malaysia and are also incidentally a major source of employment in the country, CSR efforts more often than not take a backseat in comparison to concerns about company profits and cash flow and are understandably so. For them, awareness about their responsibility to society would come more from the need to comply with certain standards, rather than any inherent value or belief system. (The Star, 17th November, 2007).

Observers say the emphasis in Malaysia on CSR concept is ripe and timely particularly now that the country is going all out to entice foreigners to invest their monies and future in Malaysia. Indeed, foreign investors, particularly those from developed countries, tend to place a high importance on CSR.

In fact, in some of those countries, the CSR movements has advanced to a level where businesses think about how to be responsible in the ways in which they make their money, rather than emphasizing how they can and should give back to society with the profits they have made, As a result, corporate responsibility has become fundamentally a significant element to those businesses.

In Malaysia, industry watchers say that although it has not quite reached that level, major inroad have been made to correct the misconception that CSR and profits cannot go hand-in-hand. Seven years ago, the Government introduced the code of corporate governance. Since then, CSR has been steadily gathering momentum in the country. (The New Straits Times, 15th November, 2007).

ntroduced the Silver Book, a mechanism to guide the GLCs in their efforts to create sustainable benefits to society. The book provides a structure for GLCs to organize their CSR activities and monitor the programs more systematically.

The Green Book outlines 3 ways to improve board effectiveness. First is to focus on structuring a high-performing board. Second is to ensure board operations and interactions are effective, and the third component stipulates that boards are expected to intensify corporate performance management so that it can ensure target key performance indicators are achieved.

Prior to that, Bursa Malaysia had made it a requirement for public listed companies to submit annual updates on their CSR activities. The exchange has also come up with a framework to guide them in their CSR programs.

Embarking on these initiatives a and taking a step further in order to encourage the involvement of more companies in the private sector, Prime Minister Datuk Seri Abdullah Ahmad Badawi launched the Prime Ministerôs CSR Awards 2007 in November 2007. The awards attracted 316 entries from 161 companies, both large and small. Recognition was given for companiesô corporate responsibility initiatives in eight areas namely: community and social welfare, education, environment, culture and heritage, small company CSR, best workplace practices and special award for media reporting.

Thus, CSR activities are no longer acts of charity but rather become part of decisions that managers have to take and which will lead to the future sustainability of the organization. It is therefore an investment for the future rather than a mere cost.

e end of the day, what determines the impact of a companyøs CSR program is a well-defined and comprehensive policy, preferably one whose success rate or impact can be measured.

Within a competitive business environment where resources are limited, it is increasingly important for the Board of Directors to make every investment count. The measuring of óreturn on investmentô occurs at every level of operations, so why not also in the arena of Corporate Social activity?

Datoô Zarinah Anwar, Chairman Securities Commission maintain that CSR is not about building schools or giving out scholarships but is a part of doing business. Companies should not regard CSR as an obligation, but an extension of its efforts in fostering a strong corporate governance culture and ensuring the sustainability of its business in the interest of wider stakeholders (ACCA, 2007).

In reality, there are many business and government leaders who have limited peripheral understanding of CSR and hence their attitudes towards CSR are often confined towards writing cheques for donations to charity and participating in community work. This is somewhat understandable, given that the traditional focus of business is achieving bottom line results, in other words maximizing profits.

1.3 Problem Statement

There have been numerous studies about CSR in Small Medium Enterprises (SMEs) and Public Listed Companies (PLCs), however there have not been any studies

This study is to investigate how corporate governance and the board enhance their CSR activities in complying with the government requirement.

The awareness of social responsibility that stated in the early 1980ôs has led to growing pressure from various sources on the Government Linked Companies to accept responsibility of this nature which has an impact on society from business activities. Companies will set the best practices image expected by the public if they place great importance on CSR because by disclosing CSR, it will gain better perception from the public. The question is why corporate social activities and disclosure are important considerations to stakeholders. The main reasons are due to the accountability and transparency of the corporate social disclosure.

The Board of Directors in GLC companies will hold several board meetings in a financial year to discuss financial results, business plan, direction and strategic decisions including CSR.

Malaysian GLC companies show evidence of awareness of CSR, however, only a few companies so far having reflected its social responsibility within its corporate mission and for many GLCs in Malaysia, commitment to CSR is expressed and confined to in terms of charitable giving (Business Respect, 2004).

CG that is effective would ensure that the shareholders interest is looked after. Companies should therefore report their economic, social and environmental performance to their stakeholders. Top management should be responsible in ensuring that appropriate place, in particular those that monitor risk, including potential environmental and social abilities. (Haron. et. all, 2006)

The issue of the relationship between Corporate Governance, Board of Directors and their ñinvolvementò and ñawarenessò with organizational mission and their link to ñemployee commitmentò and ñorganizational performanceò in CSR activities is the main reason why this study is being conducted.

1.4 Research Objective

The context for change and transformation for GLC in Vision 2020 is, ññBy the year 2020, Malaysia must be a comprehensively developed country ï developed economically, developed politically, developed socially and culturally, progressive and caring.ò

CSR of a company is about building a society in which a proper balance is created between economic, social and ecological aims. Many companies have initiated a variety of CSR development initiatives to address the demands and expectations of society. Although most analysts argue that these initiatives contribute to making businesses more profitable, there are many leaders who are yet to be convinced of the validity of this argument. The reason is that most CSR initiatives have been developed in isolation of business activity and are not yet directly linked to business strategy. One way to strengthen the link between the two is to measure the extent to which a companyôs performance increases as a result of implementing CSR initiatives.

Companies have begun to incorporate CSR into their business strategies. GLCs are companies that used to be part of government departments, which were later made private under the privatization policy. Many of these companies deal with strategic interests such as energy and telecommunications and have government appointed directors represented on the boards.

With the change in status, these companies have increasingly focused on profits as their primary objective and bottom line at the expense of social and community concerns. With the advent of social and environmental awareness and the ensuing pressure brought to bear by many groups globally, including foreign investors, the government of Malaysia, which depends heavily on FDIs for the development of many of its economic programs, has reiterated its willingness to comply to certain social and environmental expectations. These expectations are then relayed down to the government owned companies as well for implementation.

The appointed directors of these companies, being custodians for the government, are expected to align the decisions of the companies with the aspirations of the government. Being in sync with the government is important for their survival. The dynamics of field coercion come into play through their actions. These same companies, by virtue of government connection, are also politically visible. This means that they are exposed to scrutiny not only by the government but also by other interested parties.

The research objective of this study is to investigate how far the of Malaysian GLCs complying policy guidelines in adopting more corporate social responsibility activity than others and to what extent does the Malaysian Code of Corporate Governance influence board of directors in corporate social responsibility activities.

of this study are:

1. To investigate the level of CSR of Malaysian GLCs.
2. To investigate the level of corporate governance and practices of the Board of Directors of Malaysian GLCs.
3. To investigate the relationship between the level of corporate governance and level of corporate social responsibility of Malaysian GLCs.
4. To determine whether there are significant differences of BOD characteristics in Board Matters:- Chairman/CEO Duality, Non-Executive Directors and Concentrated Ownership with CSR activities.
5. To investigate whether there are significant relationships between Nomination, Remuneration, Audit and Communication Matters with CSR activities?

1.5 Research Questions

1. What is the level of CSR of Malaysian GLCs?
2. What is the level of corporate governance and practices of the Board of Directors of Malaysian GLCs?
3. What is the relationship between the level of corporate governance and level of corporate social responsibility of Malaysian GLCs?
4. What are the significant differences of BOD characteristics in Board Matters:- Chairman/CEO Duality, Non-Executive Directors and Concentrated Ownership with CSR activities?
5. What are the relationships between Nomination, Remuneration, Audit and Communication Matters with CSR activities?

1.6 Significance of the study

The Board of Directors which focuses attention on issues surrounding CSR governance structure will help assure that corporate social activity furthers the interests of stakeholders through increased competitive advantage and benefits the community for whom CSR activities are intended.

Although in itself not sufficient, a fundamental upgrade of GLCsô Board effectiveness and the corporate governance of GLCs will be necessary to catalyse the transformation of GLCs. Globally, a strong correlation exists between companies with good corporate governance and performance especially in CSR. Further, institutional investors do value good board governance as much as strong financial indicators when evaluating investments.

While Board effectiveness and corporate governance has improved significantly in recent years especially after the introduction of the Malaysian Code of Corporate Governance (the Code) in March 2000, more progress is required, especially with regard to the impact and role of GLC Boards.

In Malaysia, most sectors especially GLCs have been pressured to adopt the Malaysian Code of Corporate Governance and the Board of Directors to be involved in Corporate Social Responsibility.

However, there have not been any previous studies to measure the relationships between the Governance of Board of Directors and Corporate Social Responsibility in Government Linked Companies in Malaysia.

For the purpose of this study, the following definitions were referred to specifically.

1.7.1 Corporate Governance

Corporate governance is the system by which business corporations are directed and controlled (OECD, 1999). Shleifer and Vishny (1997) define corporate governance as the ways in which corporations assure themselves of getting a return on their investment. Furthermore, taking a broad perspective on the issues, Gillan and Starks (1998) define corporate governance as the system of laws, rules, and factors that control operations at a company.

1.7.2 Malaysian Code of Corporate Governance (MCCG)

Part 1 and 2 of Malaysian Code of Corporate Governance comprises of :-

1. Board matters index disclosure- measures independence of board, disclosure of director's detail such as previous employments, and educational qualification, CEO-Chairman separation, frequency board meeting and attendance of board meeting.
2. Nomination Matters Index Disclosure- measures existence, independence and activities of nomination committee.
3. Remuneration Matters Index Disclosure- measures independence of audit committee, frequency and attendance of remuneration committee meeting and disclosure of director remuneration.

losure- measures independence of audit committee, frequency of audit committee meetings, attendance of audit committee meetings, and task of audit committee.

5. Communication matters index disclosure- measures effectiveness of a company communication with shareholders, such as board committee and external auditor present in annual general meeting of shareholders and availability of companyøs annual report in web site.

The Malaysian Code on Corporate Governance (MCCG) and the Revamped Listing Requirements issued the best practices and principles with this code to guide the companies to be more transparent and disclose the control and governance process that are in place.

1.7.3 Corporate Social Responsibility (CSR)

There is no single authoritative definition of CSR (ISO COPOLCO, 2002). One of the most referred definitions is by World Business Council for Sustainable Development (WBCSD) (1999) that defines CSR as ñthe continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at largeò.

Corporate Social Responsibility (CSR) covers three key areas and they are environmental performance, economic performance and social performance. Environmental issues include the impact of production processes, products and services on air, land, biodiversity and human health.

porting covers wages and benefits, productivity, job creation, outsourcing expenditures, R&D investments, and investments in training and other forms of human capital.

Social performance include traditional topics such as health and safety, employee satisfaction and corporate philanthropy, as well as more external topics such as labour and human rights, diversity of the workforce and supplier relations.

CSR therefore focuses not only on economic performance that is the bottom line figure but also on how the company has performed in terms of its environmental and social performance.

1.7.4 Government-Linked Companies

What are Government-Linked Companies (GLCs)?

GLCs are defined as companies that have a primary commercial objective and in which the Malaysian Government has a direct controlling stake. Controlling stake refers to the Governmentôs ability (not just percentage ownership) to appoint BOD members, senior management, make major decisions (e.g contract awards, strategy, restructuring and financing, acquisitions and divestments etc.) for GLCs either directly or through GLICs. (Khazanah Nasional, 2006).

What are Government-Linked Investment Companies (GLICs)?

GLICs are defined as Federal Government linked investment companies that allocate some or all of their funds to GLC investments. Defined by the influence of the Federal Government in: appointing/approving Board members and senior management, and having these individuals report directly to the Government, as well as, in providing funds capital (and some income) placed by unit holders. The definition currently includes seven GLICs: Employee Provident Fund, Khazanah Nasional, Kumpulan Wang Amanah Pencen, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji, MKD and Permodalan Nasional Berhad.

What are "G-15"?

The ñG-15ò is a selection of fifteen GLCs held by the GLIC constituents of the PCG and includes Maybank, Telekom Malaysia, Tenaga Nasional, Sime Darby, Commerce-Asset Holding, Golden Hope, MAS, Proton Holdings, Kumpulan Guthrie, Affin Holdings, UEM World, Boustead Holdings, BIMB Holdings, Malaysian Resources Corporation Berhad, and Malaysian Building Society Berhad. The ñG-15ò accounts for about 65% of the market capitalisation of listed GLCs.

Which companies are categorized as GLCs?

The category of GLCs comprises companies that are controlled by the respective State Governments and State-level agencies. This includes companies that the Government of Malaysia controls directly as its agencies such as Khazanah Nasional, MOF Inc., KWSP and Bank Negara Malaysia. Includes companies where GLCs themselves have a controlling stake, i.e. subsidiaries and affiliates of GLCs.

1.7.5 Firm Size

Firm size had been used as control variable in study by Balabanis et.al. (1998) in order to examine the relationship between CSR and performance of the economy. The relationship was further revealed with the depth of disclosure is associated with corporate idity, gearing and profitability (Naser, Al-Khatab and Karbhari, 2002).

1.7.6 Types of business

The nature of a firm will eventually affect the firm activities. (Cole & Jones, 2005). Companies tend to provide information that is in line with the peculiarities of their industries (Dye and Sridhar, 1995).

1.7.7 Public/Non Public Listed Company

Stakeholders in foreign countries have diverse interests and power and may, therefore, exert different pressures on companies. For example, in developing countries, there are few consumer and interest groups that are powerful and articulate enough to put pressure on companies to be socially responsible (Andrew et al., 1989).

1.8 Organization of Remaining Chapters

Chapter 1 will give an overview of the research and its significance. This chapter also presents objective of the research and scope of the study. The definition of the key term is also outlined in this chapter.

Chapter 2 presents the past studies which are relative to the study currently undertaken. The theoretical framework and the relationship between the dependent variable and the independent variables are also presented in this chapter.

Chapter 3 is concerned with research methodology and discuss on research design, sample, data collections and data analysis.

alyses done for the study and also the findings of the study.

Chapter Five discusses the interpretation and recapitulation of the study, implications of the findings, limitations of the study and suggestion for future research. It then concludes the research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

Pryce (2002), suggests that the current focus of CSR in CG is driven by five forces: customers pressure, changes in business procurement, government legislation and pressure, the rise of socially responsible investment and the changing expectations of employees.

2.2 Agency Theory

Good corporate governance enable owners to exercise control over management (e.g. Jensen & Meckling, 1976; Fama & Jensen, 1883; Eisenhardt, 1989, as cited in Randoy & Goel, 2003). It is clearly stated by Jensen and Meckling (1976) in their agency theory which highlighted that the inherent conflict in interest between the owners , that is the principal of a company and the management that is the agent. The conflict will occur when the agents respond to incentives, and do not act in the best interest of the principal.

This theory stresses leaders to conduct their businesses following ethical conduct which involve social responsibility and accountability that are in the best interest of their shareholders or owners (Othman, 2003).

Weir (1997) suggested that an effective and quality board is able to resolve conflict and protect shareholdersô interest, and these are important form of check and balance. An efficient and effective board ensures top management and this will stimulate shareholders wealth and earnings that are comparable to the earnings of shareholders. Proper internal control and monitoring mechanism are essential to foster shareholder wealth.

2.3.1 CORPORATE GOVERNANCE (CG)

The definition of CG differs depending on oneøs view and perception. Two decades ago, Shleifer and Vishny (1997) define CG as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Taking a broad perspective on the issues, Gillan and Starks (1998) define CG as the system of laws, rules, and factors that control operations at a company. However, over the years, CG has evolved from the traditional ñprofit centered modelò to the ñsocial responsibility modelò.

An organizationøs system of corporate governance is operationalised through the development of a structure that specifies the distribution of rights and responsibilities among different participants (or ñstakeholdersò) in the corporation and spells out the rules and procedures for making decisions on corporate affairs.

According to Wilson (2000), new rules of corporate conduct could be considered as:

- Legitimacy- To earn and retain social legitimacy, the corporation must define its basic mission in terms of the social purpose it is designed to serve rather than as the maximization of profit.
- Governance- The corporation must be thought of, managed, and governed more as a community of stakeholders and less as the property of investors.
- Equity- The corporation must strive to achieve greater perceived fairness in the distribution of economic wealth and in its treatment of all stakeholder interests.
- Environment- The corporation must integrate the practices of restorative economics and sustainable development into the mainstream of its business strategy.

ion must rewrite the social contract of work to reflect the values of the new workforce and increase both the effectiveness and loyalty of employees and the corporation.

- Public/private-sector relationships- To ensure the success of the power shift, corporations must work closely with governments to achieve a viable and publicly accepted redefinition of the roles and responsibilities of the public and private sectors.
- Ethics- The corporation must elevate and monitor the level of ethical performance in all its operations in order to build the trust that is the foundation of sound relationships with all stakeholder groups.

2.3.2 MALAYSIAN CODE ON CORPORATE GOVERNANCE

The Malaysian Code on Corporate Governance was developed by the Working Group on Best Practices in Corporate Governance, and subsequently approved by the high level Finance Committee on Corporate Governance. The working group was chaired by the Chairman of the Federation of Public Listed Companies. The members of the group comprise a mix of private and public sector participation.

The need for a Code was inspired in part by a desire for the private sector to initiate and lead a review and to establish reforms of standards of corporate governance at a micro level. These structures and processes exist at a micro-level which include issues such as the composition of the board, procedures for recruiting new directors, remuneration of directors, the use of board committees, their mandates and their activities. The impact the Code will have in raising standards of corporate governance other jurisdictions.

To quote the Hampel Committee[1], in MCCG report, page 1:

ñ... it is generally accepted that implementation of the Codeôs (Cadbury Code of Best Practices) provisions has led to higher standards of governance and greater awareness of their importance. ...it is clear that Greenburyôs primary aim ï full disclosure - is being achieved.ò

The Cadbury Committee published a report on compliance with the Code in May 1995. The report showed that significant changes had taken place in the structure of UK boards, in line with the committeeôs recommendations. Greater awareness of corporate governance issues is a first step towards good corporate governance. The level of awareness and attention generated by the Cadbury report has been phenomenal. The report has struck a chord internationally, and it has provided a yardstick against which standards of corporate governance are being measured.

PRINCIPLES OF CORPORATE GOVERNANCE

A Directors

I The Board- Every listed company should be headed by an effective board which should lead and control the company.

II Board Balance - The board should include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the boardôs decision making.

III Supply of Information - The board should be supplied in a timely fashion with information in a form and of a quality appropriate to enable it to discharge its duties.

There should be a formal and transparent procedure for the appointment of new directors to the board.

V Re-election - All directors should be required to submit themselves for re-election at regular intervals and at least every three years.

B Directors' Remuneration

I The Level and Make-up of Remuneration - Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance, in the case of executive directors. In the case of non-executive directors, the level of remuneration should reflect the experience and level of responsibilities undertaken by the particular non-executive concerned.

II Procedure - Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.

III Disclosure - The companyôs annual report should contain details of the remuneration of each director.

C Shareholders

I Dialogue between Companies and Investors - Companies and institutional shareholders should each be ready, where practicable, to enter into a dialogue based on the mutual understanding of objectives.

se the AGM to communicate with private investors and encourage their participation.

D Accountability and Audit

I Financial Reporting - The board should present a balanced and understandable assessment of the companyøs position and prospects.

II Internal Control - The board should maintain a sound system of internal control to safeguard shareholdersô investment and the companyøs assets.

III Relationship with the Auditors The board should establish formal and transparent arrangements for maintaining an appropriate relationship with the companyøs auditors.

BEST PRACTISES IN CORPORATE GOVERNANCE

Part 2 of the code sets out the best practices for the companies. It identifies a set of guidelines or practices intended to assist companies in designing their approach to corporate governance. While compliance with best practices is voluntary, companies will be required as a provision of the listing requirements of the KLSE to state in their annual reports, the extent to which they have complied with the best practices set out in Part 2 and explain any circumstances justifying departure from such best practices.

2.3.3 CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR is defined as corporate actions that aim to lead to economic survival, social responsiveness and sustainability of the environment and stakeholder in the long term. The leaders in the pursuit for profit will try not to put any stakeholder, the society and the leaders must balance all the above with careful analysis and consultation with stakeholders of the organizations.

The Business for Social Responsibility defines CSR as ñoperating a business as a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of businessò (ACCA, 2006).

CSR has been defined as the duty of the organization to respect individualsô rights and promote human welfare in its operations (Manakkalathil and Rudolf, 1995; Oppewal et al., 2006). Businesses not only have the economic responsibility of being profitable and the legal responsibility to follow the laws or ground rules that guide their ability to achieve their economic requirements, but they also have ethical responsibilities that include a range of societal norms, or standards (Carroll, 2000a).

CSR means being a good steward of societyôs economic and human resources (Journal of Consumer Marketing, 2001). In summary, CSR entails the obligation stemming out from the implicit ñsocial contractò between business and society for firms to be responsive to societyôs long-run needs and wants, optimizing the positive effects and minimizing the negative effects of its actions on society.

Carroll (1979) proposed a popular four-part definition of CSR, suggesting that corporations have four responsibilities or ñfour facesò (Carroll, 2000b, p. 187) to fulfill in order to be good corporate citizens: economic, legal, ethical and philanthropic:

(1) Economic responsibility. Economic responsibility is to be profitable for principals, By delivering a good quality product, at a fair price, is due to customers. (2) Legal responsibilities. Legal duties entail complying with the law and playing by

(3) Ethical responsibilities. Ethical duties overcome the limitations of legal duties. They entail being moral, doing what is right, just, and fair; respecting peoplesô moral rights; and avoiding harm or social injury as well as preventing harm caused by others (Smith and Quelch, 1993).

(4) Philanthropic responsibility. Interest in doing good for society, regardless of its impact on the bottom line is what is called altruistic, humanitarian or philanthropic CSR. ñgiving backò time and money in the forms of voluntary service, voluntary association and voluntary giving ï is where most of the controversy over the legitimacy of CSR lies.

According to Smith (2004), Wartick and Cochran (1985) built on Carrollôs viewpoint of CSR processes by stating that in addition to being reactive or defensive, companies could be responsive and interactive. The authors also defined CSR as ñthe integration of the principles of social responsibility, the processes of social responsiveness, and the policies developed to address social issues.ò

Business in the Community (2003) as quoted by Cooper and Owen (2007) on business case for CSR, page 2, stated that it offers: ñé a means by which companies can manage and influence the attitudes and perceptions of their shareholders, building their trust and enabling the benefits of positive relationships to deliver business advantageò.

The definition in EU-Communication July 2002, page 3: ñCSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basisò.