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DIVERSITY OF BOARD OF DIRECTORS AND ENVIRONMENTAL SOCIAL GOVERNANCE: EVIDENCE FROM MALAYSIAN LISTED COMPANIES

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INTRODUCTION

In globally, there is increasing demand for non-financial accounting information need to be disclosed to the stakeholders. The corporate social responsibility disclosure is a one initiative in encouraging voluntary disclosure non-financial information. Meanwhile, recently environmental, social and governance (ESG) was introduced in improving the voluntary disclosure the non-monetary information to the stakeholders. The ESG has cover a broad area which can broke down into five categories: environment, workplace, community, marketplace and governance. The Environmental, Social and Governance (ESG) have become more significant in decision making of businesses in a few years ago. Bursa Malaysia has issued second edition of sustainability report guide 2018 in order to provide guidance on how to embed sustainability in business organizations (Bursa Malaysia, 2018). The businesses should identify, evaluate and manage their risks and opportunities wisely and how they can use sustainability to add value in their businesses (Bursa Malaysia, 2018).

Besides that, nowadays, regulators always find a way to improve financial reporting to satisfy the needs and protect stakeholders' interest especially investors and society. Thus, the Securities Commission of Malaysia (SC) have issued the new Malaysian Code on Corporate Governance (MCCG 2017) on 26 April 2017. This sets out best practices to strengthen corporate culture pillared on accountability and transparency (MCGG, 2017). The new MCGG 2017 is hoped that can help build an environment of trust, transparency and accountability for fostering long-term investment, financial stability and business integrity (MCGG 2017). This new code of MCCG 2017 should enhance the financial accounting reporting as well as sustainability statement. Hence, this paper will examine the relationship between diversity of board of directors and environment, social and governance disclosure in Malaysian Listed Companies.

PURPOSE/AIM & BACKGROUND

On 7 March 2019, Malaysia was shocked by Kim Kim River toxic pollution incident. It was caused by illegal chemical waste dumping at the Kim Kim River in Pasir Gudang, Johor. The incident was affected 6,000 people and 2,775 people have been hospitalizing (Remar, 2019). This proved that the businesses still did not act responsibly towards society and environment protection. Due to the incident, this paper will examine the relationship between diversity of board of directors and environment, social and governance in Malaysian Listed Companies. In Malaysia, listed companies are required to include the details of ESG activities in their annual report. In this paper, we explore whether diversity board of directors influence the levels of environment, social and governance (ESG) disclosure in the annual reports of Malaysian Public Listed companies. The diversity board of directors in term of board size, women on board, CEO duality and independent director. The diversity of board of directors should become as a player that can challenge top management to act

of stakeholder interest. Previous study have examined relationship ESG with firm performance (Taliendo, Favino, and Netti, 2019). Purbawangsa, Solimun, Fernandes, and Mangesti Rahayu (2019) examined the relationship of corporate governance and corporate profitability on corporate value with corporate social responsibility (CSR) disclosure in Indonesia, China and India Stock. They found that corporate governance and corporate profitability have positive effect on CSR disclosure in Indonesia, China and India (Purbawangsa et al., 2019).

Some studies have examined the association between corporate governance and social responsibility (Stuebs and Sun , 2015; Said, Joseph, and Sidek, 2017; Husted and Sousa-Filho, 2019; Cucari, Esposito De Falco, and Orlando, 2018). Whereas, Birindelli, Dell'Atti, Iannuzzi, and Savioli (2018) suggested that the composition of a firm's board of directors can influence its environmental, social and governance (ESG) performance in banking industry. Hence, the purpose of this paper is to investigate the association between diversity of the board of directors and environmental, social, and governance (ESG) disclosure in Malaysia listed companies.

This paper will develop hypotheses related to four of the most widely studied aspects of corporate governance, which are board size, women on the board, CEO duality, and independent directors and their impact on ESG disclosure. This paper will test hypotheses about the influence of board size, women on the board, CEO duality, and independent directors, on ESG disclosure using a three-year panel collected data from Bursa Malaysia. Thus, this paper hypotheses are:

- H1 Board size is positively associated with environmental, social, and governance (ESG)
- H2 Women on board is positively associated with environmental, social, and governance (ESG)
- H3 CEO duality is negatively associated with environmental, social, and governance (ESG)
- H4 Independent director is positively associated with environmental, social, and governance (ESG)

METHODOLOGY

The sample of this study will include 63 observations, comprising 21 listed chemical companies in Malaysia. This study will apply content analysis by going through the annual and sustainability reports of listed chemical companies in the Main Market of Bursa Malaysia over a three year period from 2016 to 2018. Neuendorf (2002) defined content analysis as a research technique for making a valid inference from content of the document. The study will use secondary data. Content analysis will perform on the annual and sustainability reports to measure the diversity of board of directors and environment, social and governance disclosure among the 21 listed chemical companies.

This study focuses on listed chemical company because the companies will contribute to air and water pollution if they cannot manage their chemical waste properly. They have commitment to protect the environment for future generation. They should invest their money on waste management.

FINDINGS/RESULTS

This paper will increase the understanding of the relationship between diversity of board of directors and ESG disclosure. Diversity of BOD in terms of board size, women on board, CEO duality and independent directors are examined as to their influence on voluntary ESG disclosure. Result of this study will provide insight to stakeholder especially potential investor in considering ESG issues

in their decision making. The stakeholders require more non-financial information in order to evaluate social performance of a company. Cucari et al. (2018) found that board size and independent directors give impact to ESG disclosure positively, but women on the board and CEO duality impact ESG disclosure negatively.

CONCLUSIONS

This paper will posit that diversity of board of directors is positively associated with ESG. The diversity of board of directors can influence the implementation of ESG disclosure. The board of directors as a top management of the companies can give full support in term of monetary and non-monetary in implementing ESG disclosure. The good corporate governance can lead to better ESG disclosure in public listed companies in Malaysia.

Keywords: ESG Disclosure, Board of director, Listed companies, Malaysia.

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