The Relationship between Corporate Social Responsibility Disclosure and Executive Compensation in Listed Firms in Malaysia

Nooraisah Katmon[1], Mohamed Hisham Hanifa[2♣], Norimah Rambeli[1], Zam Zuriyati Mohamad[3], Nor Hanani Ahamad Rapani[1], Omar Al Farooque[4] and Rosmini Ismail[1]

[1]Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, Perak, Malaysia.
[2]Faculty of Business and Economics, University of Malaya, Kuala Lumpur, Malaysia.
[3]Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Perak, Malaysia.
[4]Une Business School, University of New England, Australia.

ABSTRACT

We examined the relationship between Corporate Social Responsibility (CSR) Disclosure and Executive Compensation in listed companies in Malaysia. This topic is particularly important since both CSR and Executive Compensation disclosure decisions are subject to managerial discretion, thus the motive of the such disclosure by the firms might potentially be influenced by personal agenda. CSR was measured using the CSR Disclosure Index, while Executive Compensation was measured following the MCCG (2021). We used a panel data of 200 non-financial listed firms during the year 2009-2015. We found that CSR was insignificant in influencing the level of executive compensation in Malaysia. This finding suggests that any changes in CSR will not have an effect on compensation. The unconstructive environment in the emerging economy leads to the manipulation of CSR disclosure, hence weakening its function and effectiveness. We found that firm's profitability positively influenced the level of executive compensation, hence suggesting that a firm's governance system in Malaysia has been strengthened and improved. This study provides useful insights to policy makers in Malaysia in increasing the reliability of CSR and executive compensation, that will benefit the firms as well as the decision makers.

Keywords: Emerging economy, compensation, corporate social responsibility

---

ARTICLE INFO

Article History:
Received: 19 May 2023
Accepted: 24 October 2023
Available online: 01 December 2023

♣ Corresponding Author: Mohamed Hisham Bin Hanifa, Department of Finance, Faculty of Business and Economics, University of Malaya, Kuala Lumpur; Email: mhisham@um,edu.my; Tel: +60122203515

INTRODUCTION

The excessive compensation issue among the board of directors has been seen as one of the biggest problems in the area of corporate governance. Excessive compensation is a problem in a company since it involves stealing the shareholder's asset as well as demotivating other workers in the company (Elson, 2007). In the Malaysian context, remuneration received by the board of directors is viewed as not being aligned with the performance of the firms (Subramaniam et al., 2022). Recently, firms are expected not only to perform in generating profits, but also to excel in other aspects such as employee relations, community involvement, products as well as environmental preservation, which is also known as Corporate Social Responsibility (CSR) (Kresnawati & Shihab, 2019). While some studies claim that board remuneration should be aligned with the firm's CSR, it is important to note that the motive of CSR disclosure decision by the board is so far not clear, especially from the developing countries such as Malaysia, especially when CSR can also be used as one of the manipulation tools among the board of directors in an emerging economy to serve the personal interest or certain favourable groups of people (Jamali et al., 2017). The role of the board of directors is central to the decision making on both CSR as well as executive remuneration in a firm, hence their judgement and deliberation on CSR might have a personal agenda towards the executive remuneration policy used in the firms.

The objective of our study was to examine the relationship CSR and executive compensation. CSR is defined as "a discretionary allocation of corporate resources towards improving social welfare that serves as a means of enhancing relationships with key stakeholders" (Barnett, 2007, p. 801). In Malaysia, CSR information is one form of voluntary disclosure since it is still subject to the discretion and judgement of the managers to disclose (Katmon et al., 2019).

Several previous studies have been carried out in CSR and executive compensation in the context of the western regime (Cai, Jo & Pan, 2011; Miles & Miles, 2011; Hassen & Ghardadou, 2020) nonetheless, studies in developing countries such as Malaysia are quite limited. The motives of CSR activities in developing countries differ from the motives of CSR initiatives in developed countries (Jamali et al., 2017), hence, the CSR effort is seen as less effective in a developing country since it is operating in a weak capital market (DeFond et al., 2011). In this instance, the investor tends to undervalue CSR information in the emerging economy (Lock & Seele, 2015; Hung et al., 2015), due to political connection and concentrated ownership (Subramaniam et al., 2022), corruption, weak investor protection and weak external mechanisms (Transparency International, 2015; Ntim et al., 2017; Claessens & Yurtoglu, 2013). Unlike developed economies which are able to enjoy the outcome of CSR (Hong, Li & Minor, 2016), the motives for CSR in developing countries might be due to hidden reasons such as helping family and relatives, opportunity to do corruption through CSR activities, religious and cultural factors (Jamali et al., 2017). While the disclosure on CSR remains voluntary in nature, it is subject to the judgement and discretion of the board members on their disclosure decision (Katmon et al., 2019). Due to a lack of studies in this area, the impact of CSR on executive compensation is unclear, especially in a unique and emerging country such as Malaysia.

In the Malaysian context, the top executives of listed firms have been accused of receiving excessive compensation, although the firms that they manage are making a loss (Subramaniam et al., 2022). Therefore, it is important to examine the impact of CSR on executive compensation from the emerging economy perspective such as Malaysia, in order to understand whether firms tend to reward their executive officers less after investing in CSR, or vice-versa. Since an emerging economy tends to replicate the policies on governance from the western regime, the findings from this study will be useful for policymakers in setting the regulation based on Malaysia's unique environment rather than a "one-size fits all" approach.

Our study found that CSR quality was insignificant in influencing executive compensation in Malaysia using the analysis of panel data from 200 firms during the year 2009-2015. Our result was robust across different regression estimations. We also found that return on asset ratio (ROA) consistently reported a positive association with executive compensation, hence suggesting that the remuneration received by the board of directors tallies with firm performance. This indicated that the governance structure of the Malaysian firms had improved in the recent years.

Our study differs from previous studies in several ways. *Firstly,* while prior studies are mainly concentrated on the developed economies, such as the US and European countries, we provide evidence from the perspective of an emerging economy such as Malaysia, something that has been predominantly overlooked by previous researchers. The emerging market suffers from several negativities such as lack of transparency, unbalanced distribution of income and political connection (Subramaniam et al., 2022; Jamali & Neville, 2011), thus CSR disclosure might behave differently in different settings. *Secondly,* while previous research such as Cai et al. (2011) relied on the database for data source, we relied on the panel data of 200 firms from 2009-2015 using hand-collected information available in the firm's annual report. We argue, that, our data is from "first-hand sources" rather than relying on a database. *Third,* previous studies (e.g., Karim, 2021a; Karim 2021b) failed to control for the effect of corporate governance when examining the link between CSR and compensation. We therefore, extend the literature by including the governance effects to our model since Nawaz (2022) claimed that board characteristics are important determinants of board compensation.

We organize our paper as follows. In the next section, we will discuss the theoretical and empirical literature related to CSR and executive compensation. After that, we discuss hypotheses development. In the research methodology section, we provide an explanation about sample selection and the data collection process. Then, we present the findings as well as the conclusion in the final part of the paper.

LITERATURE REVIEW

Agency Theory Perspective

According to Jensen and Meckling (1976, p. 308), agency relationship is "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". The essence of this theory is where, all of the decision made by the agent must be solely for the purpose of fulfilling shareholders' interest. Nonetheless, the Agency Theory suffers from two main problems which are conflict of interest and information asymmetry. With regard to conflict of interest, the agent tends to make a decision that is beneficial to him/her rather than the principal, while for information asymmetry, the agent works in the company daily thus is more informed about the firms' affairs, hence the principal is left behind.

From the Agency Theory perspective, CSR is viewed as opposite to the maximization of shareholders' interest. According to Friedman (1970), the welfare of the society is not an aim of the firm, hence firms should focus on maximizing the wealth of the shareholders only. Therefore, the shareholder views managers as selfish and wasting the firm's financial resources when the latter decides to contribute to CSR (Tops, 2017). In explaining the overinvestment hypothesis in the CSR, Cai et al. (2011) argued that managers invest in CSR to improve his/her reputation in the capital market, hence, he/she can bargain for better opportunities or a higher compensation in other firms. This suggests that, from the Agency Theory perspective, the overinvestment hypothesis predicts a positive association between CSR and executive compensation.

Stakeholder Theory Perspective

According to the Stakeholder's Theory, firms are responsible for fulfilling the interest of the stakeholders of the firms which include suppliers, customers, employees, shareholders, government, society, etc. According to Jo and Harjoto (2011), in line with the Stakeholder Theory, the conflict-resolution hypothesis proposes that the purpose of CSR is to align the interest between firms and stakeholders and to resolve conflicts among them. In this instance, Cai et al. (2011) argued that the negative link between CSR and compensation is due to the tendency of officers in the firms with high CSR activities to reward themselves lower than those firms with low CSR in order to avoid a conflict of interest between firms and stakeholders. Hence, using the Stakeholder Theory as a backdrop, negative association is expected between CSR and executive compensation.

CSR and Executive Compensation

Several studies on CSR and board remuneration have been carried out in various countries such as Malaysia (e.g., Wahab et al., 2018; Karim

2021a; 2021b), United States, (e.g., Cai et al., 2011; Miles & Miles, 2011), Europe (e.g., Hassen & Ghardadou, 2020) and emerging markets such as Jordan (e.g., Kharabsheh et al., 2022) and Indonesia (e.g., Kresnawati & Shihab, 2019).

Using Malaysian firms as the sample, Karim (2021a) reported an insignificant relationship between directors' remuneration and CSR practices among Malaysian firms from 2006 to 2017, while neglecting the governance variables as the potential control variables. We extend Karim's study (2021a) by controlling for governance effect in our regression model, such as board size, board meeting and board independence, since Nawaz (2022) reported that board characteristics are important determinants of board remuneration.

Wahab et al. (2018) found that the placement of female directors in the board, increases board remuneration, while the appointment of *Bumiputra* status board members reduces board remuneration. Another study in Malaysia, Karim (2021b) exhibited that the placement of executive female board members significantly moderates the relationship between socially responsible activities and board remuneration. Our study is different when compared to Wahab et al. (2018) and Karim (2021b) in the sense that they focused on the impact of board gender diversity while our study focused on the impact of CSR on board remuneration by controlling for governance effect in our model.

From the US capital market, Cai et al. (2011) investigated the impact of CSR and executive compensation from 1996 to 2010 using 11,000 sample firms. Their findings exhibited a negative relationship between CSR and executive compensation, hence suggesting that the conflict-resolution hypothesis derived from the Stakeholder Theory is accepted in this context. Miles and Miles (2011) examined whether executive compensation is influenced by CSR performance in the US. They found a negative association between executive compensation and CSR, hence suggesting that firms with a high CSR performance have lower executive compensation.

From the European perspective, Hassen and Ghardadou (2020) found that the overinvestment hypothesis was supported in France, hence suggesting that there was a positive link between CSR and executive compensation during the period from 2007 to 2016 of the study.

In Jordan, Kharabsheh et al. (2022) utilised 44 industrial firms during the year 2010-2018. Their finding exhibited that there was a positive relationship between CSR and CEO compensation in a weak governance environment. In Indonesia, Kresnawati and Shihab (2019) studied the relationship between CSR and executive compensation in banking institutions, by using corporate governance as a moderating effect. Their result exhibited a significant positive relationship between CSR and executive compensation, hence suggesting that the market value of the CSR activities.

In general, previous studies offer conflicting findings in respect to the relationship between CSR and executive compensation. We argue that such differences might be contributed by the structure of the firm's governance system, country-specific characteristics and background. We therefore, examined the link between CSR and executive compensation in the Malaysian context by considering the unique characteristics of this country.

HYPOTHESES DEVELOPMENT

Based on the discussion in the theoretical literature, the relationship between CSR and executive compensation can possibly have both a positive and negative relationship.1 Using the Agency Theory as a backdrop, the Overinvestment Hypothesis claims that the manager's decision to invest in CSR is a waste of financial resources in the firms and not beneficial in improving a firm's value (Barnea & Rubin, 2010). Hence, the manager's decision in investing in CSR is derived by the personal interest to gain a higher reputation in the capital market and subsequently to enjoy greater external opportunities where a higher level of compensation can be achieved (Cai et al., 2011). In this regard, a high CSR disclosure will possibly relate to a high executive compensation, thus indicating a positive relationship.

On the other hand, we predicted that firms with a high CSR disclosure offer a lower board compensation. According to Cai et al. (2011), in line with the Stakeholder Theory, when CSR engagement is high, the gap of

1 We acknowledge that there is a limited number of studies on CSR disclosure and executive compensation, hence we have to rely on researches related to CSR performance in developing our hypothesis. In line with the finding by Font et al. (2012) that exhibit a significant positive link between CSR disclosure and CSR performance, we follow Katmon et al., (2019) by assuming that CSR disclosure and CSR performance are connected at certain degree.

compensation between board members and other employees will be reduced, since the CEO tends to share the value of company with all stakeholders. Moreover, Potts (2006) argued that a CEO with high ethical standards tends to ask for a lower compensation. In this regard, Miles and Miles (2011) reported a negative relationship between CSR engagement and executive compensation. Since CSR has the potential to have both positive or negative relationship with executive compensation, our hypothesis was:

Hypothesis 1 (H1): Ceteris paribus, there is a relationship between CSR disclosure and executive compensation.

RESEARCH METHODOLOGY

The population for this study was non-financial firms available in Bursa Malaysia. Financial institutions were excluded as the preparation of their financial statements not only has to comply with the Malaysian Financial Reporting Standard (MFRS) but also subject to the standard specified by the Bank to better facilitate the evaluation of the financial institution's financial position and performance (Bank Negara Malaysia, 2022). Based on the Bursa Malaysia website, https://www.bursamalaysia.com/ there were 695 non-financial firms listed in 2015 and thus, the sample size was 200. Subsequently, we selected the 200 samples using stratified random sampling to ensure that all sectors were represented. First, we classified the entire target population (Nn) into sectors and got the fraction by dividing the sample size (nh) of 200 with a target population of 695 = (200/695) = 29%. Thereafter, the fraction was applied to each sector to obtain the number of companies to be selected from each sector. For instance, if the total company from the Consumer sector was 100, the number of companies selected from the Consumer sector was29% from 100 = 29 companies. A similar step was performed to other sectors as well. This is in line with Katmon et al. (2019) and Darus et al. (2014).

In order to achieve the objectives of this study, we collected data from the firm's annual reports from 2009 to 2015 which were available on the Bursa Malaysia website. Specifically, the information extracted from the annual report was the proxy for the independent variable namely the quality of CSR disclosure and the dependent variable namely executive compensation. The data collected from the annual report on the quality of

CSR disclosure was qualitative in nature and had to be converted into a quantitative nature for measurement of the variables. Hence, we followed the scoring process by Katmon et al. (2019) who assigned a score from zero (0) to three (3). '0' indicated that the firm did not disclose any CSR information, '1' showed that the firm provided general qualitative CSR information, '2' referred to the non-quantitative but specific CSR information, and '3' signalled quantitative and specific CSR information. On the other hand, we measured total executive compensation using the natural log of the salary, bonus, fees, allowance, benefit-in-kind, and other emoluments received by the executive and non-executive directors in the firm (MCCG, 2021).

Control Variables

We controlled for firm size, profitability, industry dummies and year dummies in our regression analysis. Moreover, we included several governance variables related to board characteristics such as board size, board meeting and board independence since all of these variables are important in influencing remuneration of the top-level officer in the firms (Nawaz, 2022). A credible board is an important component in developing a sound corporate governance system in the firms, hence it will be more responsible in setting the compensation for the board.

Regression Equation

TOTCOM = CSR + SIZE + ROA + DTA + BODIND + BODSIZE + BODMEET + Year Effect + Industry Effect + e

Where;

Variables		Measurement
TOTCOM	=	Natural log of total board compensation
CSR	=	Quality of CSR Disclosure Score using disclosure index following Katmon et al., (2019).
SIZE	=	Natural log of total asset of the firms in a year (Katmon et al., 2019)
ROA	=	Return on the asset. Profitability received by the firms in the year divided with the total asset. (Kusuma, 2021)
DTA	=	Total debt divided with total assets of the firms (Harjanti, Farhan & Radiany, 2019)
BODIND	=	Percentage of independent directors in the board in a year (Almaqtari et al., 2022)

BODSIZE	=	Number of board of directors in a year (Katmon et al., 2019)
BODMEET	=	Number of board meeting in a year (Katmon et al., 2019)
Year dummy	=	Industrial product, Consumer products, Properties/Infrastructure/ Construction as well as Plantation/technology/hotels. Trading and services were excluded due to multicollinearity.
Industry dummy	=	2009, 2010, 2011, 2012, 2013, 2014 are included in the model. 2015 is excluded due to multicollinearity.
E	=	Error terms

Data Analysis

We analysed our data using descriptive statistics, pairwise correlation and regression. We conducted our normality test using Shapiro-Wilk test, Shapiro-Francia test as well as skewness and kurtosis and we found that our results for all the tests were consistently significant at $p< 0.001$ hence, our data was normally distributed. Since our data was a panel data for the years 2009 to 2015, we ran the Hausman Test to check whether we should use Random-effect or Fixed-effect panel data analysis. Our Hausman Test reported a $Chi^2 = 27.68$ and $p>chi^2=0.0237$, hence suggesting that the Fixed-effect regression model was suitable for our dataset. We winsorized our data using the top and bottom 1% in order to control for the effect of outliers in line with Katmon et al., (2019). We performed the Variance Inflation Factor (VIF) test and we found that the VIF score for all the variables were below 10, with the mean VIF of 1.56, hence outlining that there was no multicollinearity issue in our dataset. We ran our statistical analysis using STATA 13.

FINDINGS AND DISCUSSION

Descriptive Statistics

Table 1: Descriptive Statistics

Variables	Mean	Min	Max	Std Dev	25% Perc	50% perc	75% perc
TOTCOM	14.35	10.43	19.13	0.959	13.83	14.35	14.94
CSR	0.228	0	1	0.184	0.116	0.183	0.266
SIZE (log)	19.78	14.05	24.75	1.408	18.82	19.62	20.56
TOTCOM (RM)	2772323	34000	203000000	6159982	1016712	1707423	3080829
ROA	0.0818	-11.029	47.27	1.312	0.008	0.0432	0.0835

DTA	0.3591	0.001	1.449	0.2329	0.186	0.333	0.4781
BODSIZE	7.464	4	15	1.865	6	7	9
BODIND	0.458	0.142	0.833	0.128	0.375	0.428	0.555
BODMEET	5.48	3	17	1.914	4	5	6

Table 1 above shows the descriptive statistics for our dataset. It comprises the mean, minimum value, maximum value, standard deviation, 25%, 50% and 75% percentile. The average total compensation of the board was RM27,772,323.00 with the minimum value of RM34,000.00 and maximum value of RM203,000,000.00. The mean for TOTCOM was 14.35, slightly higher than value in the study by Abed, Suwaidan and Slimani (2014) in Jordan with a mean of 9.6. The mean for CSR quality was 0.22 with the minimum value of 0 and the maximum value of 1. The mean for the ROA was 0.0818. The minimum and maximum values for ROA were -11.029 and 47.27 respectively. With regard to the corporate governance variables, the mean values for BODSIZE and BODIND were 7.464 and 0.458 respectively. The board meet (BODMEET) had an average number of 5.48 times in a year with the minimum number of meetings of 3 and the maximum number of meetings of 17. With regards to ACSIZE, the average number of audit committee members were 3.25, with 88.8% of them being independent directors and they met 4.98 times in a year.

Pairwise Correlation

We ran our pairwise correlation for all of the variables in our regression model. In general, we found that the coefficient correlations were all below 80%, hence indicating that there were no multicollinearity issues in our dataset. Our result indicated that the association between TOTCOM and CSR was positive and significant at the $p<0.01$ (coef=0.2564), hence suggesting that the higher the CSR, the higher the total compensation received by the board of directors. Other variables that showed a positive and significant association with TOTCOM were SIZE ($p<0.01$; coef =0.4336); BODSIZE ($p<0.01$; coef=0.3781), and BODMEET ($p<0.01$; coef=0.0737) while BODIND reported a negative association with TOTCOM at $p<0.01$ (coef= -0.227). This suggested that the higher the SIZE, BODSIZE, BODMEET and ACSIZE in the firm, the higher the TOTCOM. On the other hand, the presence of high BODIND in the board would reduce the TOTCOM.

Table 2: Pairwise Correlation

	1	2	3	4	5	6	7	8
TOTCOM (1)	1.00							
CSR (2)	**0.2564**	1.00						
SIZE (3)	**0.4336**	**0.4903**	1.00					
ROA (4)	*0.0663*	**0.08**	**0.0971**	1.00				
BODSIZE (5)	**0.3781**	**0.308**	**0.3122**	0.024	1.00			
BODIND (6)	**-0.225**	-0.011	**-0.128**	0.001	**-0.395**	1.00		
BODMEET (7)	**0.0737**	**0.312**	**0.2295**	0.0761	**0.1886**	*0.063*	1.00	
DTA (8)	0.029	0.014	0.038	0.005	-0.003	-0.024	0.033	1.00

Figures in **bold**, *italic* and underline indicate that the p<0.01, p<0.05 and p<0.10 respectively. For the sake of brevity, the results for year and industry dummy are not reported but available upon request from the first author.

Table 3: Panel Data Regression Analysis

	Fixed-Effect Coef (t-stat) Model 1	Random-effect Coef (z-stat) Model 2	Pooled Data Coef (t-stat) Model 3
Variables			
CSR	-0.041	0.0827	0.173
	(-0.24)	(0.51)	(1.05)
SIZE	0.143***	0.194***	0.226***
	(4.53)	(3.87)	(9.59)
ROA	0.025***	0.025***	0.0253***
	(2.66)	(8.27)	(2.80)
BODSIZE	0.034**	***0.0548****	***0.1238****
	(2.45)	***(2.86)***	***(7.95)***
BODIND	-0.047	-0.207	***-0.846****
	(-0.26)	(-0.85)	***(-3.49)***
BODMEET	-0.005	-0.0068	***-0.026****
	(-0.45)	(-0.64)	***(-1.75)***
DTA	-0.236	-0.089	0.085
	(-0.40)	(-0.06)	(0.86)
Cons_	11.45***	10.303***	9.347***
	(17.04)	(10.33)	(18.52)
Year Effect	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes
N	1400	1400	1400
R^2	0.23	0.26	0.28
F-Stat / Wald Chi^2	9.08	214.89	29.04
p<F / p<Chi^2	0.000	0.000	0.000

We ran our panel data regression analysis using the Fixed-effect (Model 1), Random-effect (Model 2) and Pooled data analysis using Ordinary Least Square (Model 3) and we tabulated our result in Table 3. Our baseline model was Model 1, while Model 2 and 3 functioned as robustness test. In Model 1, we found that CSR was insignificant in influencing total compensation, thus our hypothesis (H1) was rejected. This suggested that the quality of CSR disclosure did not affect executives' pay including salary, bonus, fees, allowance, benefit-in-kind and other emoluments. The closest study consistent with our findings was by Malik and Shim (2022) who found that separate CSR report disclosures were not associated with CEO compensation. The result contradicted the findings from past studies of Hassen and Ghardadou (2020) and Kharabsheh et al. (2022) who found a positive relationship between CSR and CEO compensation.

Our result in Model 1 also showed that there was a significant and positive relationship between SIZE ($p<0.01$; coef=0.143), ROA ($p<0.01$; coef=0.025), BODSIZE ($p<0.50$; coef=0.034), and TOTCOM. This suggested that an increase in firm size, profitability, board size, audit committee size and audit committee independence were able to increase the total compensation of the board of directors in the firms. The outcomes of a positive significant relationship between firm size and executives' compensation were in line with the result of a study conducted by Lau and Vos (2004) and Yang et al. (2020). On top of that, the positive relationship between profitability and board size toward executive compensation was consistent with the research findings by Farooq, Khan and Noor (2023).

On one hand, our findings showed that the enhancement of the total compensation tallied with the profitability of the firms, hence indicating a sound governance system in the firm's compensation policy. Abdullah's (2016) Malaysian study failed to report an association between profitability and compensation of the board, therefore, we argue that the corporate governance has been strengthened in the firms in Malaysia, hence the increase in the total compensation was in line with the increase in the profitability of the firms.

In Model 2 of Table 3, we present our robustness test using the Random-effect panel data analysis. Similar to Model 1, we also found that CSR quality was insignificant in influencing the level of total compensation in the listed firms in Malaysia. Similar to our finding in Model 1, our result also reported that SIZE, ROA and BODSIZE were all positively related to TOTCOM at $p<0.01$ (coef=0.194), $p<0.01$ (coef=0.0253) and $p<0.01$ (coef=0.123) respectively.

In Model 3, we re-ran our OLS regression analysis using pooled sample as an additional test. We found that our result in Model 3 was similar to the results in Model 1 and Model 2, hence suggesting that our result was robust across different regression estimation. Furthermore, our OLS result also reported that there was a negative relationship between BODIND (coef = -0.846) and BODMEET (coef= -0.026) at $p<0.01$ and $p<0.10$ respectively. This suggest that, the presence of high independent directors and a high number of board meetings were able to reduce executive compensation.

We failed to find any relationship between CSR and executive compensation, hence our finding might provide a new insight from the lens of developing countries such as Malaysia. In this instance, Jamali et al. (2017) reported that CSR activities in developing countries and under-developed countries were plagued with corruption issues where the purpose of charity was to help family and relatives, hence the effectiveness of CSR itself might be lacking. Besides, the firms might also perform CSR in a specific location only with the motive to support the politician that rules the area. While it is expected that the improvement in CSR quality might improve firms' reputation and competitive advantage, hence increasing executive compensation, this might not happen when the firms are not able to enjoy the benefit of CSR in the presence of political or opportunistic motives.

Our finding however reported that there was a positive relationship between profitability and executive compensation. In line with the basic principle in executive compensation, where the remuneration must be aligned with firm performance, we found that this finding was encouraging in the sense that firms reward the managers based on the firm's performance – hence in line with sound governance practices, as suggested by the Malaysian Code on Corporate Governance (2021, p. 40). While Abdullah (2016) reported insignificant link between profitability and executive compensation using data from 2001, our finding suggested that the level of governance system and structure has been improved in the context of Malaysia after the implementation of the Malaysian Code on Corporate Governance.

Additional Analyses

We controlled for political influence in our model since it is argued that political connection might contribute to the level of executive compensation in emerging economies. We followed Fung et al. (2015) in identifying firms with political connections and we assigned (1) if the firm had a political connection to a politician in Malaysia and (0) otherwise. Our result revealed that political connection was insignificant in influencing executive compensation in Malaysia. Besides, we also found that other results such as CSR, ROA and board characteristics were qualitatively unchanged.

CONCLUSION

Our study empirically examined the relationship between CSR quality and executive compensation in the context of an emerging economy such as Malaysia. Our finding however reported that CSR was not significant in influencing the level of executive compensation in the firms, hence outlining that CSR was significant in influencing executive remuneration in either positive or negative way. To the best of our knowledge, our study is the first that examined the link between CSR and executive compensation in the Malaysian context. Our finding, therefore suggest that policy makers should not use a “one size fits all” approach in replicating western policies on CSR and remuneration to the Malaysian environment, but rather use a more pragmatic approach in understanding the characteristics of the country.

We discovered several limitations in our study. First of all, we focused only on the data for the year 2009-2015. Future studies could possibly extend the duration of the study till the year 2022, by reflecting the new government under Prime Minister Anwar Ibrahim. Second, while we only utilised 200 firms per year, future studies could also increase the number of sample firms. Third, future studies should also consider the impact of the board diversity policy on executive compensation, especially from the context of Malaysia, since board diversity has been widely promoted recently in the MCCG (2021).

ACKNOWLEDGEMENT

We are grateful to Sultan Idris Education University for providing Nooraisah Katmon with the UPSI Rising Star Grant No. 2019-0126-106-01 and The Faculty of Business and Economics at Universiti Malaya Special Publication Fund for funding a portion of this publication.

REFERENCES

Abdullah, S. N. (2016). Directors' remuneration, firm's performance and corporate governance in Malaysia among distressed companies. *Corporate Governance*, 6(2), 162-174.

Abed, S., Suwaidan, M., and Slimani, S. (2014). The determinants of chief executive officer compensation in Jordanian industrial corporations. International Journal of Economics and Finance, 6(12), 110-116.

Almaqtari, F. A., Farhan, N. H., Al-Hattami, H. M., & Elsheikh, T. (2022). The moderation role of board independence change in the relationship between board characteristics, related party transactions, and financial performance. *PloS one*, *17*(12), e0279159.

Bank Negara Malaysia (2022). Financial Reporting, Issued on 29 April 2022, https://www.bnm.gov.my/documents/20124/938039/PD_Financial_Reporting.pdf

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

Barnett, M. L. (2007). Stakeholder influence capacity and the variability of financial returns to corporate social responsibility. *The Academy of Management Review*, 32(3), 974-816.

Cai, Y., Jo. H. and Pan. C. (2011). Vice or virtue? The impact of corporate social responsibility on executive compensation. *Journal of Business Ethics.* 104, pp. 159-173.

Claessens, S., and Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1–33.

Darus, F., Othman, S., & Arshad, R. (2014). Accountability and transparency of corporate social responsibility reporting and corporate reputation: Evidence from an emerging economy. *World Business and Economics Research Conference* (1–16).

DeFond, M. L., Hu, X., Hung, M., and Li, S. (2011). The impact of mandatory IFRS adoption on foreign mutual fund ownership: The role of comparability. *Journal of Accounting and Economics,* 51, 240–258.

Elson, C. M. (2007). The answer to excessive executive compensation is risk, not the market. *Journal of Business & Technology Law*, 2(2), pp. 403-407.

Farooq, M., Khan, M. I., & Noor, A. (2023). Do financial constraints moderate the relationship between CEO compensation and firm performance: an emerging market evidence. *Managerial Finance*, 49(8), 1355-1376.

Font, X., Walmsley, A., Cogotti, S., Mccombes, L., & Ha¨usler, N.(2012). Corporate social responsibility: The disclosure-performance gap. *Tourism Management*, 33(6), 1544–1553.

Friedman, M. (1970) The Social Responsibility of Business Is to Increase Its Profits. New York Times Magazine, 13 September 1970, 122-126.

Fung, S. Y. K., Gul, F. A. and Radhakrishnan, S. (2015). Corporate political connections and the 2008 Malaysian election. *Accounting, Organizations and Society*, 43, 67-86.

Harjanti, W., Farhan, A., & Radiany, M. A. (2019). The influence between debt to asset ratio and debt to equity ratio towards the profit quality based on Du Pont analysis (case study of the companies listed in the index of lq45 in the year of 2017). *Archives of Business Research*, *7*(6), 164-170.

Hassen, R. and Ghardadou, S. (2020). The impact of corporate social responsibility on executive compensation. *Open Access Library Journal*, 7, 1-18. doi: 10.4236/oalib.1106591.

Hong, B., Li, Z., and Minor, D. (2016). Corporate governance and executive compensation for corporate social responsibility. *Journal of Business Ethics*, *136*(1), 199-213. https://doi.org/10.1007/s10551-015-2962-0

Hung, M., Shi, J., and Wang, Y. (2015). The effect of mandatory corporate social responsibility reporting on information asymmetry: Evidence from a quasi-natural experiment in China. Working paper.

Jamali, D., and Neville, B. (2011). Convergence versus divergence of CSR in developing countries: An embedded multi-layered institutional lens. *Journal of Business Ethics,* 102, 599–621.

Jamali, D., Karam, C., Yin, J., & Soundararajan, V. (2017). CSR logics in developing countries: Translation, adaptation and stalled development. *Journal of World Business*, 52(3), 1–17.

Jensen, M.C. and Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure, *Journal of Financial Economics*, 3(4), 305-360.

Jo, H. and Harjoto, M. A. (2011). Corporate governance and firm value: The impact of corporate social responsibility. *Journal of Business Ethics*, 103, 351-383.

Karim., S. 2021(a). An investigation into the remuneration-CSR nexus and if it can be affected by board gender diversity. *Corporate Governance*, 21(4), 608-625.

Karim, S. 2021(b). Do women on corporate boardrooms influence remuneration patterns and socially responsible practices? Malaysian evidence. *Equality, Diversity and Inclusion: An International Journal*, 40(5), 559-576.

Katmon, N. Mohamad, Z. Z., Norwani, N. M. and Farooque, O. A. (2019). Comprehensive board diversity and quality of corporate social responsibility disclosure: Evidence from an Emerging market. *Journal of Business Ethics*, 157, 444-481.

Kharabsheh, B., Al-Shammri, H. A. and Al-Numerat, N. (2022). Corporate social responsibility and CEO compensation: The moderating effect of corporate governance. *Cogent Economics & Finance,* 10(1), 2125523.

Kresnawati, E. and Shihab, A. A. (2019). The effect of corporate social responsibility on management compensation: Do corporate governance and performance matter? Conference: Proceedings of the 5th International Conference on Accounting and Finance (ICAF 2019).

Kusuma, M. (2021). Measurement of return on asset (ROA) based on comprehensive income and its ability to predict investment returns: An empirical evidence on go public companies in Indonesia before and during the Covid-19 pandemic. *Ekuilibrium: Jurnal Ilmiah Bidang Ilmu Ekonomi*, *16*(1), 94-106.

Lau, A., & Vos, E. (2004). Relation between CEO compensation, firm size and firm performance. *New Zealand Journal of Applied Business Research*, *3*(1), 51-64.

Lock, I., and Seele, P. (2015). The credibility of CSR (corporate social responsibility) reports in Europe. Evidence from a quantitative content analysis in 11 countries. *Journal of Cleaner Production,* 122, 186–200.

Malaysian Code on Corporate Governance (MCCG). (2021). Retrieved from Chrome extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.sc.com.my/api/documentms/do wnload.ashx?id=239e5ea1-a258-4db8-a9e2-41c215bdb776.

Malik, M., & Shim, E. D. (2022). Empirical examination of the direct and moderating role of corporate social responsibility in top executive compensation. *Pacific Accounting Review*, *34*(5), 708-727.

Miles, P. C. and Miles, G. (2011). Corporate social responsibility and executive compensation: Exploring the link. *Social Responsibility Journal,* 9(1), 76-90.

Nawaz, T. (2022). How much does the board composition matter? The impact of board gender diversity on CEO Compensation. *Sustainability,* 14, 11719.

Ntim, C. G., Lindop, S., Thomas, D. A., and Abdou, H. (2017). Executive pay and performance: The moderating effect of CEO power and governance structure. The International Journal of Human Resource Management. doi:10.1080/09585192.2017. 1282532.

Potts, M. (2006). CEO compensation and virtue ethics. In R. W. Kolb (Ed.), The ethics of executive compensation. Oxford: Blackwell Publishing Ltd.

Subramaniam, R. K., Najaf, K. and Thangarajah, M. (2022). Board governance, dividend payout and executive compensation in Malaysia. *Capital Markets Review*, 30(1), 17-35.

Tops, D. (2017). Corporate Social Responsibility, agency problems and social pressure. Tilburg University, School of Economics and Management. Master Thesis.

Transparency International. (2015). Corruption perception index 2015. Retrieved from http://www.transparency.org/cpi2015.

Wahab, E. A. A., Marzuki, M. M., Jaafar, S. B., Masron, T. A. (2018). Board diversity and total directors' remuneration: evidence from an emerging market. *Pacific Accounting Review*, 30(2), 243-272.

Yang, C., Singh, P., & Wang, J. (2020). The effects of firm size and firm performance on CEO pay in Canada: A Re-Examination and Extension. *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l'Administration*, 37(3), 225-242.

Appendix: Literature Matrix

Studies	Objective	Sample	Finding
Wahab et al., (2018)	To examine the relationship between board diversity and total board remuneration.	1094 firm sample year from 2007 to 2009. A study from Malaysia.	Positive relationship between female appointment and remuneration. Negative effect between Bumiputera status and remuneration.
Karim, 2021(a)	To examine the relationship between remuneration packages and corporate social responsibility (CSR) practices of the firms. To examine the moderating effect of board gender diversity on the remuneration package and CSR relationship.	588 listed firms in Malaysia during the year 2006 to 2017.	Insignificant relationship between directors' remuneration and CSR practices. Negative effect of gender diversity on the relationship between remuneration package and CSR.
Karim, 2021(b)	To examine the moderating effect of executive and independent female directors on the relationship between remuneration packages of CEO and executive directors and socially responsible practices.	483 Malaysian firms during the year 2006 – 2017.	Significant relationship between remuneration packages and socially responsible activities. Negative interaction relationship between gender diversity and remuneration package.
Cai et al., (2011)	To study the relationship between CSR and executive compensation	11,000 US firms from 1996 to 2010.	Negative link between CSR and executive compensation
Miles and Miles (2011)	Study the relationship between executive compensation and Corporate Social Performance	114 firms listed in Fortune 1000.	Negative link between executive compensation and CSR. High CSR, lower executive compensation.
Hassen and Ghardadou (2020)	To examine the relationship between CSR and executive compensation.	French firms during the year 2007 to 2016.	Positive relationship between CSR and executive compensation. This finding supports overinvestment hypothesis.
Kharabsheh, Al-Shammari and Al-Numerat (2022)	To examine the relationship between CSR and remuneration using corporate governance as moderating variables.	44 industrial Jordanian firms during the year 2010 to 2018.	Positive link between CSR and CEO compensation in a weak governance environment
Kresnawati and Shihab (2019)	To examine the link between CSR and executive compensation using corporate governance as moderating effect.	Banking firms in Indonesia during 2016	Positive relationship between CSR and executive compensation.