

## **The Moderating Effect of Company Sensitivity (CS) on the Relationship between Ownership Structure and the Quality of Corporate Social and Environmental Responsibility Disclosure (CSERD).**

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### **ABSTRACT**

The moderating role of company sensitivity (CS) on the association between ownership structure and annual report quality of Corporate Social and Environmental Responsibility Disclosure (CSERD) is investigated in this study. The findings of this study indicate that among the three variables examined, namely government ownership and foreign ownership, only the latter two exhibit a positive link with the quality of CSERD. This study utilised content analysis and annual reports sourced from publicly listed companies in Bursa Malaysia. A negative correlation has been shown between managerial ownership and CSERD. Furthermore, this study has confirmed that the association between one of the factors, namely government ownership, is influenced by the moderating effect of the company sensitivity variable.

### **Keywords**

*Corporate Social Environmental; Responsibilities Disclosures, Ownership Structure, Annual reports, Bursa Malaysia.*

### **Introduction**

The significance of social activities has significantly increased in recent years, drawing both internal and external stakeholders' attention to Corporate Social Environmental Responsibility (CESR) programmes internationally (Ahmad et al., 2023). In the past, organisations concentrated primarily on reporting their operations and financial results to their important stakeholders, primarily shareholders and investors. Companies have begun to include economic, social, and environmental factors in their reporting mandates, however, as a result of growing public pressure and increased knowledge regarding issues of environmental and social responsibility. The idea of upholding social responsibility towards the larger community has gained substantial traction during the past 30 years (Shinde et al., 2011). Corporate Social and Environmental Responsibility Reporting (CSERR) or Corporate Social and Environmental Responsibility Disclosure (CSERD) are two terms used to describe this paradigm shift in reporting procedures (Cerin, 2002).

As a result, the goal of this study is to investigate how the ownership structure affects the quality of CSERD. According to scholars there has not been much research done on the relationship between ownership structure and CSER (Ahmad et al., 2023; Dakhli, 2021; Lin & Nguyen, 2022; Zaid et al., 2020). Furthermore, the present investigation sheds light on how company sensitivity influences the associations between ownership structure and CSERD quality. As a result, the study contributes fresh data to the body of knowledge regarding the

connection between CSERD, company sensitivity (CS), and ownership structures of businesses (Amosh & Khatib 2021).

This is how the remainder of the paper is structured. It starts with a review of the literature and the formulation of hypotheses. The discussion of research methods in the paper continues. The results and discussion are then given. The paper is concluded in the final section.

## **Theoretical Framework and Hypotheses Development**

### *CSER and CSERD*

CSERD encompasses the comprehensive scope of social and environmental reporting, as outlined by Deegan (2010). According to Neu et al., (1998), an organization's public image may be intentionally portrayed through CSER disclosure. According to Gelb and Strawser (2001), disclosing information is a sign of acting in a socially conscious manner. Based on their research, there is a direct link between CSER and the CSERD. To put it another way, companies that engage in CSER tend to disclose information more thoroughly and usefully than companies that don't. They are motivated to inform stakeholders in a transparent manner about the results of their socially conscious projects.

### *Ownership structure (Government, Managerial and Foreign) and CSERD*

The ownership structure in the Malaysian corporate environment is a key factor influencing CSERD. Government ownership has yielded contradictory findings, with some studies suggesting a positive correlation between government ownership and CSERD quality, while others claim an insignificant (Albawwat & Basah, 2015; Al Amosh & Khatib, 2021; Al-Janadi et al., 2016; Eng & Mak, 2003; Nasir & Abdullah, 2004; Lagasio & Cucari, 2019). Managerial ownership also shows mixed results, with some research indicating a positive relationship and others suggesting negligible or negative influences on CSERD (Al Amosh & Khatib, 2021; Huafang & Jianguo, 2007; Juhmani, 2013, Lagasio & Cucari, 2019; Li et al., 2018; Nasir & Abdullah, 2004). Foreign ownership's impact on CSERD remains inconclusive, as studies have reported varying results, including no association and negative relationships (Abu Qa'dan & Suwaidan, 2019; Amran & Devi, 2008; Alhazaimah et al., 2014; Guo & Zheng, 2021; Haniffa & Cooke, 2005; Said et al., 2009; Saini & Singhania, 2019). These complexities lead to the formulation these of hypotheses:

H1: Government ownership is positively linked with the quality of CSERD.

H2: Managerial ownership is positively linked with the quality of CSERD.

H3: Foreign ownership is positively linked with the quality of CSERD.

### *The Moderating Role of Company sensitivity (CS)*

The majority of research on ownership structure and CSERD, as previously indicated, has yielded conflicting or ambiguous results. Thus, the second focus of this study is on how well CS can initiate the connection between CSERD and ownership structure. The social and environmental landscape of the nation is impacted differently by businesses in different industries. The type of business they run and the things they do within those industries affect this impact. Businesses in sectors that have a greater social and environmental impact are more likely to reveal CSER information, according to Buniamin (2010). This implies that a company's approach to CSERD is significantly shaped by the level of company sensitivity in

that industry. (Jaffar & Buniamin, 2004; Buniamin 2010). The information has led to the development of the following hypotheses:

H4: Company sensitivity moderates the association between government ownership and the quality of CSERD.

H5: Company sensitivity moderates the association between managerial ownership and the quality of CSERD.

H6: Company sensitivity moderates the association between foreign ownership and the quality of CSERD.

The framework for this study is shown in Figure 1 below:

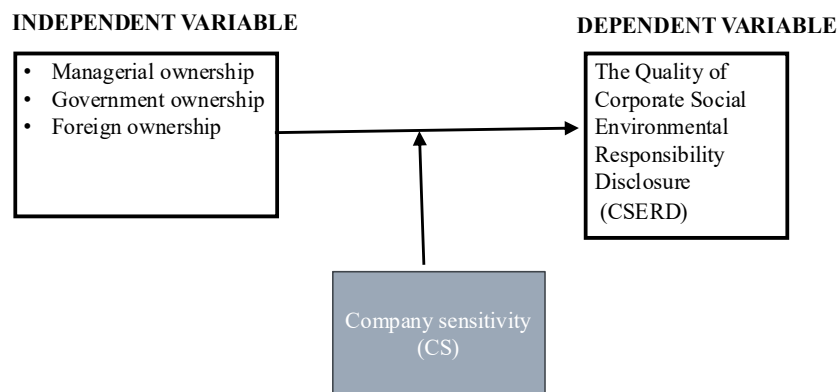


Figure 1 The Conceptual Framework

## Research Methodology and Sample Selection

Malaysian PLCs that are listed on Bursa Malaysia make up the population and sample in this study. A total of 347 PLCs were selected as our samples. A content analysis method is used, which is consistent with previous research on CSERD disclosures (e.g., Amran & Devi, 2008; Buniamin et. al., 2011, Darus et. al., 2014). In studies of voluntary disclosure and CSER research, content analysis of annual reports is a recognised methodology that is widely regarded as empirically valid (Ghazali, 2007; Gray et al., 1995a & 1995b; Haniffa & Cooke, 2002; Haniffa & Cooke, 2005; Rashid & Lodh, 2008).

### *The Variables*

The independent variables and their measurement are shown in Table 1.

**Table 1 The Summary of Variables and Measurement**

No	Variable	Measurement
1.	Government ownership (Govown)	Ratio of government ownership to total shareholders
2.	Managerial ownership (Mgmown)	Ratio of executive directors' shareholders to total shareholders
3.	Foreign ownership (Forown)	Ratio of foreign shareholders to total shareholders
4.	Company sensitivity (CS)	If a company is a Social and environmental sensitive or not - Dichotomous
5.	CSERD	22 points checklist (Ghazali, 2007)

## Results And Discussion

The multivariate results for our sample companies using multiple regression are displayed in Table 2. According to the F-test (F-test = 45.053,  $p < 0.001$ ), the model demonstrates adequate robustness. With a R-squared of 34.6%, the model appears to have some validity as an explanatory tool. Given that none of the VIF values are greater than 10.000, multicollinearity does not appear to be a problem when interpreting the regression results.

**Table 2. The Regression Results.**

Variables	Predicted Sign	Coefficient	t-statistics	VIF
Constant)		0.342	22.088	
<i>Independent Variable</i>				
Govown	+	0.376	9.941	1.322
Mgmown	+	-0.096	-2.736	1.228
Forown	+	0.118	3.209	1.026
<i>Moderating variable</i>				
CS	+	-0.030	-1.891	1.067
CSxGovown	±	-0.382	-3.562	2.435
CSxMgmown	±	0.074	1.087	3.751
CSxForown	±	0.034	0.464	2.018
R2	0.346			
F-value	45.053***			
N	347			

The findings from the empirical models, as presented in Table 2, indicate that, except for managerial ownership, the other two ownership structure variables exhibit associations with the quality of CSERD in the expected directions. This suggests a significant relationship between government and foreign ownership with the quality CSERD. However, H2, which posits a positive relationship between managerial ownership and CSERD quality, is not supported. The results demonstrate support for H1 and H3, indicating that higher government ownership and foreign ownership positively affect CSERD quality in Malaysian PLCs. Notably, the analysis regarding the moderating role of CS reveals that the interaction

coefficient between CS and government ownership (CSxGovown) is significant at a 1% level, confirming that company sensitivity moderates the relationship between government ownership and CSERD quality (H4), while H5 and H6 are not supported.

Table 3 shows the result of hypotheses testing. From the analysis it was found five out of eight hypotheses are supported. Three hypotheses are, however, not supported.

**Table 3: Summary of Hypotheses Result**

No.	Hypotheses	Findings
H1	Government ownership is positively linked with the quality of CSERD.	Supported
H2	Managerial ownership is positively linked with the quality of CSERD.	Not Supported
H3	Foreign ownership is positively linked with the quality of CSERD.	Supported
H4	Company sensitivity moderates the association between government ownership and the quality of CSERD.	Supported
H5	Company sensitivity moderates the association between managerial ownership and the quality of CSERD.	Not Supported
H6	Company sensitivity moderates the association between foreign ownership and the quality of CSERD.	Not Supported

## Conclusion

The study aimed to assess the relationship between government, managerial, and foreign ownership and the quality of CSERD in Malaysian public firms' annual reports, with a consideration of company sensitivity as a moderating factor. Results from a comprehensive regression model involving these three ownership variables revealed that only government ownership and foreign ownership were positively and statistically associated with CSERD quality, while managerial ownership did not show the expected impact. Additionally, only one out of three moderation hypotheses were significant, indicating that CS moderates the connection between government ownership and CSERD quality. The study has limitations, such as its one-year data coverage, suggesting the need for longitudinal analyses to capture CSERD trends, and the focus on specific ownership types, suggesting potential future research exploring different ownership categories, including family, institutional, block-holders, and ownership concentration.

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