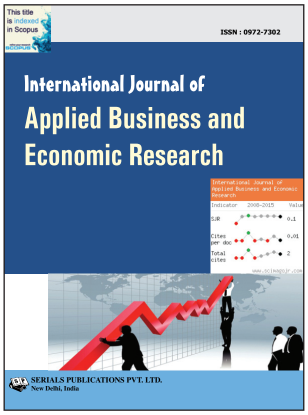

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The Relationships of Board Structure, Corporate Social Reporting, and Firm Performance on the Stock Exchange of Thailand

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ABSTRACT

The purpose of this research is to study the effect of board structure and corporate social reporting on firm financial performance. A sample of non-financial firms from the Stock Exchange of Thailand (2016 reporting year) was selected (n = 359). Data was extracted from the Form 56-1 mandatory filing, and analysis was conducted using structural equation modelling (SEM) in SPSS AMOS. The analysis showed that board size had a significant positive effect on corporate social reporting. CEO duality, corporate social reporting and firm age had a significant positive effect on the firm's financial performance as measured by return on assets. Corporate social reporting partially or fully mediated some effects of board structure on the firm's financial performance. The implication of this research is that corporate social reporting is potentially an information proxy for board actions and their effect on the firm's financial performance.

Keywords: Corporate social reporting, board structure, financial performance.

1. INTRODUCTION

The purpose of this research is to examine the relationships of board structure, corporate social reporting (CSR) and the firm's financial performance. A firm's board of governors has a critical role in the oversight and direction of the firm within its corporate governance policy and practices (Mallin 2016). The board structure, therefore, could potentially affect the firm's performance. Elements of board structure include whether the firm uses a unified or two-tier (dual) board structure, board independence, board expertise, whether the firm has a dual CEO/Chairman role, and the structure of sub-committees and their activities (Mallin 2016). However, the activities of the board of directors may not be readily visible to investors or the market, since this is typically private information (Harris & Raviv 2008). Thus, determining whether the board structure of the firm plays a role in the firm's financial performance could be difficult, to the extent that the board is often considered to be exogenous (Adams et. al., 2010).

One of the areas where the board influences the firm is in the disclosure and transparency of the firm's strategy in corporate social activities (Prado-Lorenzo & Garcia-Sanchez 2010). Corporate social responsibility or CSR refers to the firm's strategy for meeting the needs of its non-owner stakeholders, such as employees, customers, the community, and broader stakeholder groups such as the environment (Schwartz 2011). This research focuses on corporate social reporting (also shortened to CSR), which is the formal disclosure of the firm's corporate social responsibility activities (Schwartz 2011). CSR is associated with lower information asymmetry and higher corporate reputation (Cui et. al., 2016). CSR is also directly related to the firm's financial performance, a relationship that is partially mediated by corporate reputation (Saeidi et. al., 2015). Thus, this study examines whether CSR also serves as a mediating variable for board structure and firm performance.

2. LITERATURE REVIEW

2.1. Board Structure and Corporate Social Reporting

There are several characteristics of board structure that may influence corporate governance, including the board's size, CEO duality, and existence and activity of the board's subcommittees, such as the audit committee (Adams et. al., 2010). Although there are many other board structure characteristics that could be included, these three characteristics were chosen because they can be determined using publicly available information.

The effect of board structure on corporate social reporting is not entirely clear. Board size and control of the board (independent or dependent) has a complex effect on information disclosure (Harris & Raviv 2008). Previous studies have shown that the board's size and the activity of its subcommittees influences the firm's disclosure surrounding greenhouse gas emissions, which is a major component of environmental CSR (Prado-Lorenzo & Garcia-Sanchez 2010). A study in Malaysia also showed that some board structure characteristics had an effect on the firm's CSR disclosure performance (Said et. al., 2009). These authors found that the audit committee activity did influence CSR disclosure, along with government ownership, but other factors did not have an effect (Said et. al., 2009). Thus, there are some mixed effects observed of board structure on corporate social reporting. This research proposes the following hypotheses:

Hypothesis 1: Board size directly influences corporate social reporting.

Hypothesis 2: CEO duality directly influences corporate social reporting.

Hypothesis 3: Audit committee activity directly influences corporate social reporting.

2.2. Board Structure and Firm Performance

The role of boards in the corporate governance of the firm also suggests that board structure would have a direct or indirect effect on the firm's financial performance, through channels such as selection of top-level managers and strategy direction (Adams et. al., 2010). There has been some research into this question, but the findings are mixed for most of these variables. One study examined the board size of UK firms and its effect on the firm's performance (Guest 2009). The authors found that board size had a negative effect on firm performance as measured by both market measures (Tobin's q and share returns) and accounting measures (profit margins) (Guest 2009). Determining the effect of CEO duality is even more complex, because findings on CEO duality and its effect on the firm's performance are so mixed (Krause et. al., 2014). This complexity means that although there may be an effect of CEO duality on the firm's financial performance, it cannot be assured. In contrast, audit committee meeting frequency is routinely associated with improved financial performance of the firm, due to increased oversight and monitoring of the firm's financial activities (Aldamen et. al., 2011; Grove et. al., 2011).These studies typically show that the firm's financial performance is positively related to increased audit committee activity, for example an increase in the number of board meetings.

Thus, the effects of board structure are mixed. Based on this evidence, the following three hypotheses are proposed:

Hypothesis 4: Board size negatively influences financial performance.

Hypothesis 5: CEO duality influences financial performance.

Hypothesis 6: Audit committee activity directly influences financial performance.

2.3. Corporate Social Reporting and Firm Performance

There are a number of ways that the firm's financial performance can be affected by corporate social responsibility activities (Carroll & Shabana 2010). For example, environmental activities typically include waste reduction, which improves the firm's financial management. CSR activities can also increase the firm's reputation and customer satisfaction, which can increase revenues (Carroll & Shabana 2010). However, the effect of reporting of CSR activities on the firm's financial performance is less clear. Thus, this study considers both a direct effect and a potential mediating effect.

There is direct evidence on the effect of corporate social reporting and its effects on the firm's financial performance. One study found that CSR activities reduce information asymmetry and improve corporate reputation (Cui et. al., 2016). A study in Iran showed that factors including reputation, competitive advantage, and customer satisfaction fully mediated the relationship of CSR and financial performance (Saeidi et. al., 2015). This raises the question of whether this can be considered a direct relationship. This research proposes that corporate social reporting plays a mediating role in the relationship of the board of directors and the firm's performance, in addition to the direct effect on financial performance. Previous studies have not examined this question, making it difficult to answer from the academic literature. Thus, the final two hypotheses to be studied in this research are:

Hypothesis 7: Corporate social reporting directly influences financial performance.

Hypothesis 8: Corporate social reporting mediates the relationship of board structure and firm performance.

2.4. Conceptual Framework

The conceptual framework tested in the research is shown in Figure 1. This figure also shows the hypotheses that will be tested in the research.

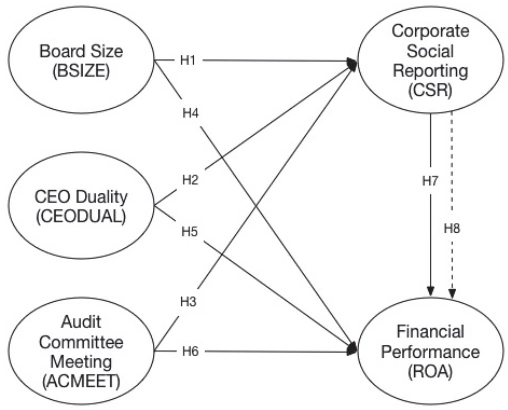

Figure 1: Conceptual framework of the study

3. DATA AND METHODS

Data was collected from a sample of firms listed on the Stock Exchange of Thailand (SET) during the full 2016 reporting year (January to December). Firms that were excluded were: financial and insurance firms; real estate and property development firms; and firms that were under rehabilitation, in the process of delisting, or had not filed their Form 56-1.

The Form 56-1, which is the SET's required annual filing, was the source of all data. Variables of board structure (BSIZE, CEODUAL, and ACMEET) and control variables (BIG4 and AGE) were measured using univariate measures from disclosures within the data. ROA was measured using a standard ROA measure (Net profits/Total asset). CSR was measured using an index constructed through content analysis (Cochran & Wood 1984; Kamal & Deegan 2013). The content analysis measured the number of words and sentences that referred to corporate social activities. The CSR variable was transformed using a log transformation to improve normal distribution of the variables.

Analysis was conducted using a structural equation modelling (SEM) approach. SEM was selected because of its ability to test multiple relationships (Schumacker & Lomax 2016). SPSS AMOS was used as the analytical tool. Direct relationships were evaluated using the regression coefficients, with a significance of $p < .05$ used to accept a significant regression relationship. The mediating effect of CSR was measured using the ratio of indirect effects to total effects (IE/TE ratio) (Hayes 2017). Mediation effects sizes were evaluated using standard levels of 0.1 (small), 0.3 (medium) and 0.5 (large) (Cohen 1988).

4. FINDINGS AND ANALYSIS

The final structural model (Figure 2) demonstrated adequate goodness of fit characteristics ($\chi^2 = 10.162$, $p = .071$; GFI = .992; CFI = .996; RMSEA = .054; Hoelter = 391). Correlations and covariance indicated adequate variable independence. Squared multiple correlations for LnCSR ($R^2 = .068$) and ROA ($R^2 = .102$) indicate an adequate but not exceptional fit. Thus, the analysis continued.

Direct regression effects: The regression analysis (Table 1) showed that ACMEET, BIG4 and BSIZE had significant effects on LnCSR, with all effects positive. Factors including CEODUAL, AGE, and LnCSR had significant positive effects on ROA. This allowed for acceptance of Hypotheses 1, 2, 5, and 7. Hypotheses 3, 4, and 6 were rejected.

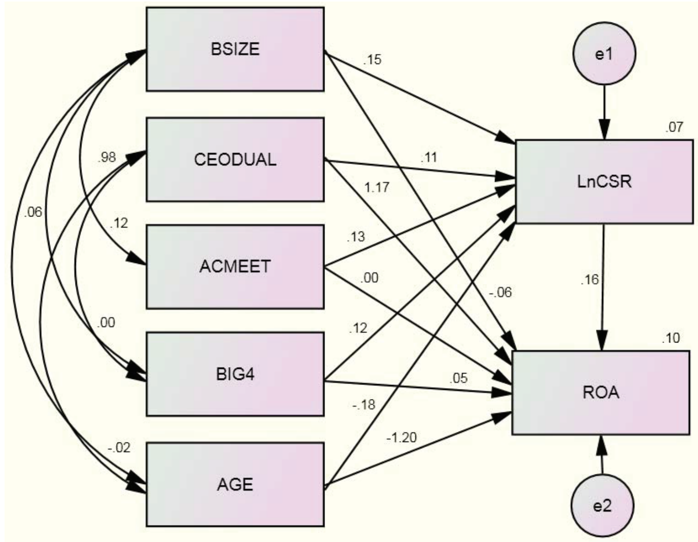

Figure 2: Final structural model

Table 1
Regression analysis

	Unstandardized Regression		*Standardized Regression*	*C.R.*	*P*
	Estimate	*S.E.*			
LnCSR← ACMEET	.016	.006	.131	2.539	.011*
LnCSR← CEODUAL	.116	.246	.110	.472	.637
LnCSR← AGE	–.188	.243	–.180	–.772	.440
LnCSR← BIG4	.111	.046	.122	2.396	.017*
LnCSR← BSIZE	.026	.009	.150	2.910	.004**
ROA ← BSIZE	–.229	.212	–.055	–1.076	.282
ROA ← CEODUAL	29.081	5.727	1.165	5.077	***
ROA ← ACMEET	–.014	.149	–.005	–.093	.926
ROA ← BIG4	1.036	1.086	.048	.954	.340
ROA ← AGE	–29.693	5.667	–1.203	–5.240	***
ROA←LnCSR	3.846	1.229	.162	3.129	.002**

Note: $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$

Mediating effects: The mediating effects analysis (Table 2) did identify some significant mediation effects within the data. Two mediated variables, including BSIZE and ACMEET, showed large effects sizes based on the rules of thumb offered by Cohen (1988). In contrast, CEODUAL showed effects sizes smaller than what would be considered small effects. Thus, H8 was partly accepted.

Analysis: The combination of the regression analysis and the mediating effects demonstrate that corporate social reporting does fully mediate the effects of two variables (BSIZE and ACMEET) on the firm's financial performance, which is why these factors did not have a significant direct effect. In contrast, CEODUAL continued to have a significant positive effect on the firm's financial performance which was not mediated by corporate social reporting. This finding may be related to the role of the board in corporate governance

Table 2
Mediation effects

	Indirect Effect (IE)	*Total Effect (TE)*	*IE/TE Ratio*	*Effects Size*
ROA ← BSIZE	.024	–.031	–.774	Large
ROA ← CEODUAL	.018	1.183	.015	<Small
ROA ← ACMEET	.021	.016	1.313	Large
ROA ← BIG4	.020	.068	.294	Small to medium
ROA ← AGE	–.029	–1.232	.024	<Small

Note: Effects size from Cohen (1988).

and information distribution. For example, although board structure in general may influence the firm's disclosure activities and reduce information asymmetry (Cui et. al., 2016), it is possible that a dual CEO and Chairman may not affect the disclosure policy of the firm (Adams et. al., 2010). This demonstrates that the effects of board structure may not be consistent from the perspective of financial performance. However, it is difficult to evaluate this effect given the inconsistency of research into CEO duality (Krause et. al., 2014). It is interesting that the effect of audit committee meeting frequency on financial performance was fully mediated by CSR reporting, since other studies have demonstrated a direct effect (Aldamen et. al., 2011; Grove et. al., 2011). It is possible that one of the reasons for this relationship is that CSR disclosures as measured in this study serve as a proxy for the general transparency and disclosure practices of the firm, which would be affected by the firm's audit committee meeting. This is an area for further research.

5. CONCLUSION

This study examined whether corporate social reporting served as a mediating variable in the relationship between board structure and the firm's financial performance. The study showed that in some cases, there was a mediating effect – the effects of both audit committee meeting frequency and board size on ROA were fully mediated by corporate social reporting. However, that was not the case with CEO duality, which retained a positive effect on the financial performance. There has been little study of corporate social reporting as a mediating variable, even though it serves as a potential proxy for board activity because it is one of the primary ways in which the board can influence information asymmetry without disclosing private information. Thus, this research provides a novel contribution to understanding of corporate social reporting and its role in the information landscape of the firm and its effects on the firm's financial performance.

There are some limits to the findings of this study. These limitations include that the study was conducted using a cross-sectional dataset in the regulatory and institutional environment of Thailand. Given that some factors, especially CEO duality, are so contextual (Krause et. al., 2014), the observed effect may not apply to other regulatory regimes and markets. This calls for other research into the role of corporate social reporting as a proxy information channel for the activity of the board and its influence on financial performance of the firm. For example, the board structure characteristics could be extended to include additional factors of corporate governance, such as ownership structure or family ownership and control. This type of extended analysis could also include a more complex index of corporate social reporting, for example by examining different types of disclosure (social, environmental, employees, and so on) to improve the explanatory power of such a model.

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