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The Moderating Effect of Board Independence on the Relationship between Family Ownership and Corporate Sustainability Reporting In Malaysia

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ABSTRACT

Objective - The objective of this paper is to investigate the relationship between family ownership and corporate sustainability reporting to determine how the role of board independence affects the relationship between those variables within Malaysian listed companies.

Methodology/Technique – The annual reports of 771 listed companies from 2014 to 2016 were analyzed using content analysis methods. The study uses agency theory to develop the hypotheses.

Findings - The study found that family ownership is negatively related to corporate sustainability reporting. The finding shows that independent directors are unable to influence the relationship between family ownership and corporate sustainability reporting. The findings of this study are expected to provide insight to authorities in relation to the factors that could enhance corporate sustainability reporting primarily in family-owned companies.

Novelty - Previous studies have only focused on environmental and social dimensions of corporate sustainability, whilst this study addresses all the 3 dimensions of sustainability (economic, environmental, and social). This paper is one of the first attempts to investigate the roles of board independence on the relationship between family ownership and corporate sustainability reporting in Malaysia.

Type of Paper: Empirical.

JEL Classification: M14, M41.

Keywords: Sustainability Reporting; Family Ownership; Corporate Governance; Independent Director

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1. Introduction

For over 20 years, sustainability issues have attracted the attention of various stakeholder groups such as investors, customers, academics, governments and communities that require businesses to accept accountability for the social and environmental implications of their operations (Chen & Wang, 2011).

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This issue is increasingly important because the company is responsible for not only maximizing shareholder's profits, but to carry out sustainability responsibilities to stakeholders (Laidroo & Sokolova, 2015). Corporate sustainability reporting (CSR) is used to enhance transparency in information reporting in order to meet the needs of stakeholders and to bridge the information gap between the company and the stakeholders (Ahmad et. al., 2017). Corporate sustainability reporting (CSR) can be used to evaluate company performance (Chiang & Liu 2015), attract investor attention, build relationships with the public and give an impression of the company's good governance (Chiang & Liu 2015, Abd Mutalib et. al., 2014). It is good governance that drives companies to carry out their responsibilities and report their responsibilities and activities to stakeholders (Gamerschlag, Molter & Verbeeten 2011). One important aspect of corporate governance is ownership structure. In Malaysia, 70% of Malaysian companies are dominated by family-owners. Agency theories argues that in family owned and managed companies, the goals between owners and managers are usually aligned, meaning agency costs are typically very minimal. However, agency problems that occur when the board of directors is dominated by family members are typically those between principal and principal (Rashid, 2015).

There are family members who become board members and who are involved with management when the company is controlled by family members (Ching et. al., 2017). This creates a problem for minority shareholders who do not have a specific representative on the board and can cause conflict between family owners and minority shareholders. This agency conflict, known as “managerial entrenchment”, can result in third party transactions, excess salaries and perquisites for family members (Gomez-Mejia et. al., 2011; Li et. al., 2013; Shleifer & Vishny, 1997) and perhaps less disclosure of CSR. The existence of agency conflict can be seen from a series of fraud cases involving large corporations inside and outside the country involving family-owned companies (examples of fraud cases include the Adelphia Communications Corporation in 2002 and Parmalat in Italy in 2003). This situation occurs due to weak corporate governance and weak minority shareholders protection (Melis, 2005). However, family firms has been found to be more successful in dealing with corporate sustainability issues, and are more successful in disclosing sustainability issues (Berrone, Cruz, & Gomez-Mejia, 2012). This is due to the focus on inter-generational wealth inheritance that promotes value driven businesses which can generate social and economic benefits (Campopiano & De Massis, 2015).

This argument, which is consistent with socio-emotional wealth theory (Berrone, Cruz & Gomez-Mejia, 2012), is inconsistent with the principal-principal conflict as suggested by agency theory. A study by Campopiano and De Masis (2015) also suggests that family firms have more varieties of social responsibility disclosures compared to non-family firms. As such, the relationship between family ownership and CSR is still not clear. Therefore, the aim of this study is to investigate the relationship between family ownership and CSR. Secondly, this study investigates the monitoring role of board independence in moderating the relationship.

This study differs from other studies because this study examines the moderating role of independent directors on family ownership and corporate sustainability reporting (CSR). The moderating role of independent directors is important from a theoretical stance. Investigation into the relationship could detect the strength of socio-emotional versus opportunistic agency effects in light of independent monitors. This interaction effect could determine whether independent directors are aligned with family interests (as found by Cuadrado-Ballesteros, Rodríguez-Ariza & García-Sánchez, 2015) or whether they can become effective monitors that can reduce the negative effect of family ownership on CSR.

Malaysia was selected in this study because Malaysia is identified as a country where the shareholding is highly concentrated and public listed companies are dominated by family ownership. This scenario may result in principal-principal agency problems between minority and controlling shareholders that provides an opportunity to empirically examine the relationship between family ownership and corporate sustainability reporting. Secondly, Malaysia is a country with a unique concentrated shareholding. Families in Malaysia (and Asia in general) can be characterised as concentrated and focused on short term profitability goals

(Carney & Gedajlovic, 2003) rather than long term growth for business inheritance to their descendants. The Chinese diaspora in this region that has dominated businesses since the 19th century has, to some extent, placed barriers for coordination of growth (Redding, 1990). The context questions previously identified the advantages of family businesses in Western countries. The results of this study are expected to provide a positive impact for better quality CSR disclosure in the Malaysian context.

The paper is comprised of 6 sections. The second section is the literature review. Section 3 discusses the related theoretical framework and hypotheses development, whilst section 4 explains the research design and methodology. Section 5 discusses the findings and section 6 provide the conclusions and recommendations.

2. Literature Review, Theory and Hypotheses

Corporate sustainability reporting (CSR) represents companies' commitment to safeguard the economy, society and the environment (Bursa Malaysia, 2008) that is presented in any medium of reporting. In 2006, the Main and ACE Market-listed issuers disclosed their CSR activities in their annual report in order to fulfil the requirements of Bursa Malaysia. The Main Market consists of established companies with a minimum of RM60 million authorized ordinary shares at a minimum par value of RM0.10. The ACE Market was derived together with the unification of the Main and Second Board into the Main Market of Bursa Malaysia in 2009 and is seen as the ideal market for start-ups and new companies which are run by entrepreneurs who are looking to push for more capital by publicly listing their companies.

This requirement was perceived to focus more on the social aspects of the business such as social and community activities without consideration of creating value for the company. For example, companies are more focused on philanthropic activities compared to disclosing the impact of their business activities (Bursa Malaysia Sustainability Reporting Guidelines, 2015). In October 2015, Bursa Malaysia launched a new Sustainability Framework, comprising amendments to the Listing Requirements and the issuance of a Sustainable Reporting Guide for Malaysian-based public listed companies (PLCs). PLCs are required under the Listing Requirements to disclose a narrative statement of their material economic, environmental and social risks and opportunities in their annual reports. The amendments took effect from 31 December 2016 to 31 December 2018. A new Sustainability Framework was introduced based on the Global Reporting Initiative (GRI).

Therefore, corporate sustainability reporting (CSR) in this study is defined as a report made by the company in its annual report on social sustainability information, environmental sustainability and economic sustainability caused by its everyday activities to stakeholders (GRI 2013). Sustainability Reporting contains 3 key terms as explained in Table 1.

Table 1. Sustainability key terms

Economic	Environment	Social
An organization's impact on the economic conditions of its stakeholders and economic systems at local, national and global levels (e.g. procurement practices)	An organization's impact on living and non-living natural systems, including land, air, water, and ecosystems. (e.g.: the organization's usage of energy and water, discharge of emissions, or loss of biodiversity, etc.	The impacts an organisation has on the social systems within which it operates (e.g.: the organisation's relationships with communities, employees, consumers, etc.

(Source: Adapted from the GRI 2013)

There are studies that support the fact that family owned businesses could enhance business sustainability and the alignment of interests between family owners and other stakeholders (Craig & Dibrell, 2006; Berrone, Cruz & Gomez-Mejia, 2012; Campopiano & De-Masis, 2015). Concerns about long term sustainability for wealth inheritance to younger generations may promote value driven business which can generate socio-economic benefits (Vandekerhof et. al., 2015). This view is taken from socio-emotional

wealth theory by Fiffka Matthias (2012). However, there are studies that follow another school of thought, which suggests that family owners that form the majority of company ownership may engage in value reducing in order to siphon profits at the expense of the minority shareholders (Shleifer & Vishny, 1997; Bhaumik & Gregoriou, 2010; Gomez-Mejia et. al., 2011; Li et. al., 2013; Rashid, 2015). Some also argue that families focus more on short investment returns as compared to non-family owned companies. This argument is derived from an analysis of the administrative heritage perspective. The culture of Chinese dominant owners during the pre-independence days in most Asian countries (including Malaysia) have been passed down through generations and form the basis of contemporary business practices in current family–owned companies. This business culture of most Asian companies focuses on informal family or friendship relationship, which may be a hindrance to sustainable business success (Carney & Gedajlovic, 2003).

A view from agency theory (type II) suggests that "principal-principal" agency problems arise when family members control a company. Family owners may have the incentive to extract wealth at the expense of the minority shareholders. All these arguments lead one to believe that there is a lower level of corporate sustainability practices in family owned companies as compared to non-family owned companies. As much as the relationship between family ownership and corporate sustainability practices can be questioned, the relationship between family ownership and CSR is still vague.

Governance-related issues such as surveillance mechanisms are strongly related to agency theory. Jensen and Meckling (1976) define the relationship as a contract that exists between one or more (principals) with another (agent) where the agent will perform the duties on behalf of the principal involving the distribution of power and manufacturing decision to the agent. However, in concentrated ownership structures such as those in Malaysia, the existing relationship is between the principal and the principal. When there is a difference in the interests of family ownership and minority shareholders, family ownership will exploit the interests of minority shareholders for their own benefit (Cheng, Ioannou, & Serafeim, 2014). Thus, agency theory states that the enhancement of CSR reporting is expected to overcome the "principal-principal" agency problems that exist in family-owned firms.

According to agency theory, a conflict of interest in family firms can be overcome through the monitoring roles occupied by the independent directors of the board (Jensen & Meckling, 1976). Furthermore, the independent directors can put pressure on the company to disclose its CSR and reduce the cost of existing agencies (Fama & Jensen, 1983). In a family owned company, the owner can also act as a manager of the company. Hence, the behaviour that emphasizes its own interests can be monitored through the existence of independent directors in family-owned companies. Independent directors may oversee family owners that may engage in activities that are not of particular interest to society. Alternatively, independent directors may also endorse activities that are aligned to the stakeholders' interest. Thus, the presence of independent directors in family owned companies may influence the decisions of the company's owners to make sustainability reporting to meet the needs of stakeholders within the company (Shamil et. al., 2014). However, there is a limited number of studies examining this issue.

2.1 Family ownership and corporate sustainability reporting

Consistent with the socio-emotional wealth theory, Deephouse and Jaskiewicz (2013) note that family members on the board can reduce agency problems as family members know more about the activities of the company which enables them to implement good supervision over the managers. Evidence shows that families who have equity interests in a company have longer term investment horizons compared to other investors (Gavana et. al., 2017). On the other hand, the existence of a dominant group of shareholders with significant shareholdings gives rise to principal-principal agency problems (agency theory type II).

However, notwithstanding this, dominant shareholders are reluctant to disclose CSR activities to the stakeholders because they can access the company's information directly (Darus et. al., 2009). Previous studies report a negative association between family ownership with CSR (Chau & Gray, 2002; Ghazali &

Weetman, 2006; Ali et. al., 2007; Abdullah et. al., 2011; Darmadi & Sodikin, 2013; Sundarasen et. al., 2016). Therefore, the following hypothesis is proposed:

H1: Family ownership is negatively related to sustainable reporting in Malaysia.

2.2 Independent directors' role

It is well known that "principal-principal" agency problems arise in family owned companies (Abdullah et. al., 2011). In managing these conflicts, agency theory argues that external directors are appointed to oversee companies' management. Independent directors also have the responsibility to enhance the transparency of the company as well as to represent other stakeholders to assure that the needs of all stakeholders are met (Michelon & Parbonetti, 2012). Their primary function is to oversee and monitor management and influence a company's decision-making through their monitoring roles. The changes of guidelines for board independence have been enacted in the code of corporate governance 2000, 2007, 2012, and 2017 to ensure that the board of directors can fulfil their roles effectively and to improve the quality of oversight of company management (Ahmad & Gow, 2017). This situation can reduce the risk of hidden information as well as encourage companies to improve corporate sustainability reporting (Sundarasen et. al., 2016).

Agency theory perceives board independence as an internal mechanism to safeguard shareholder's interest from managerial opportunism and to control top management behaviors in order to ensure that they act in the interests of shareholders (Fama & Jensen, 1983). The presence of independent directors on the board has a positive effect on the operations of a company as they are able to provide a check and balance mechanism to enhance the board's effectiveness and can influence the company's decision making on the company's corporate sustainability reporting program (Kim & Cheong, 2015). Hence, independent directors are able to exert pressure on family-owned companies to carry out corporate sustainability reporting programs to ensure the welfare of stakeholders is preserved (Masud, Nurunnabi & Bae, 2018). Consistent with this, previous studies have found that there is a positive relationship between independent directors and sustainability reporting (Belal, Cooper & Khan, 2015; Htay et. al., (2012); Rao & Tilt, 2015; Shaukat, Qiu & Trojanowski, 2016). Hence following hypothesis is proposed:

H2: The board independence is expected to influence the relationship between family ownership and corporate sustainability reporting

3. Research Methodology

This study aims to test the role of independent directors in influencing the relationship between family ownership and corporate sustainability reporting. The dependent variable in this study is corporate sustainability reporting (CSR) measured using a disclosure index. Simple random sampling is used on the population of 801 PLCs in 2014. The size of the sample was determined based on Sekaran's (2003) study suggesting a sufficient sample size for a population of 801 is 260 which is 32.5% of the population. The total sample for this study is 771 company-year for 3 years i.e. from 2014 to 2016 (a balanced panel of 257 companies per year). This method is consistent with previous studies such as Clarkson et. al. (2008) and Aras et. al. (2010).

This study uses the disclosure index developed by Sutantoputra (2009) and Clarkson et. al. (2008) where the total number of items is 82 for social and 51 for environmental sustainability reporting, and 14 for economic sustainability. The index is based on the Global Reporting Initiative (GRI) 2. The present study uses the disclosure index for several reasons. First, the index is deemed suitable to examine disclosures in any country and is deemed to be more comprehensive. Second, the index includes 2 categories. This category classifies disclosures into ''hard'' disclosures if the information is ''objectively observable'', i.e. verifiable

and reliable. Meanwhile ‘‘soft’’ disclosures pertain to information which represents general environmental information which are merely ‘‘claims’’ and cannot be substantiated.

The study uses content analysis methods. Each indicator that reports sustainability information will be coded 1 and the code 0 is given if the information is not reported (Nazli & Haraf, 2013) The use of GRI has been widely recognized in which most companies have adopted the framework in making voluntary corporate reporting (Raiborn et. al., 2011).

The following is a list of items dropped from the social reporting index (Sutantoputra, 2009) due to inappropriate information reported by listed companies in Malaysia and a list of items upgraded from the social reporting index (Sutantoputra, 2009) and environmental reporting index (Clarkson et. al., 2008). The study also adds items in the economic reporting index based on Bursa Malaysia's 2015 reporting framework that also follow the Global Reporting Initiatives for their reporting guidelines, which uses similar measurement methods.

Social Reporting Index (Sutantoputra 2009)

No	Items dropped
1	Social performance index in terms of political contribution
2	Policy and lobbying
3	Policy, lobbying and donation

Social Reporting Index (Sutantoputra 2009)

No	Items added
Reporting indicators to Health and safety	
1.	Percentage of workers underwent safety and health training a year
2.	Number and rate of injured worker
3.	The number of jobs that can cause death/injury
4.	Frequency rates occur in accidents
5.	Accident/accident rate at workplace
6.	The number and percentage of workers underwent health supervision
7.	Social index of health and safety
	Social indices on diversity and opportunity/ employee’s moral
1.	Percentage of workers by category: a) gender
2.	b) age group
3.	The proportion of foreign workers compared to locals in low scale
4.	The arrangement of jobs is based on local and foreign workers
5.	Employee benefits / benefits / remuneration
6.	The social index on employee diversity and opportunities / morals

Environmental Reporting Index- Clarkson et al., (2008)

No	Items Added
Environmental Spending	
1.	Providing harmonious environment-friendly facilities
2.	Protecting the environment such as insect control
	Information on Energy
1.	Total energy consumption
2.	Total reduction in energy utilization achieved as a result of conservation initiatives
3.	Power-kilo watts or megawatts per worker
4.	Alternative energy-related research (wind, biomass, solar) (total investment and planning)

Economic Reporting Index

	Hard Disclosure Items ((max score 9)
	Economic performance (Max Score is 9)
1	Results obtained
2	Salaries and benefits earned by employees
3	Payment to capital contributors
4	Payment to the government
5	Tax relief and tax credit
6	Subsidies
7	Investment grants, development and research and other grants are obtained
8	Awards
9	Financial Incentives
A2	Market presence (Max score 1)
	Reports related to minimum wages of workers
A3	Procurement Practice (Max Score 1)
	Percentage of procurement budgets used for critical locations for operating expenses on local suppliers for such operations
A4	Community investment (Max score 1)
	Amount invested in society
A5	**Soft disclosure items (Max Score 2)**
	Indirect effect of the economy
1	Economic impact in terms of product or service usage
2	Economic impact in terms of change of operation or activity location

Table 2. Measurement of Variables

Variables	**Measurements**
Corporate sustainability reporting(CSR)	Bursa Malaysia 2017 sustainability guidelines 1 if there is information pertaining to sustainability reporting 0 if there is no information on sustainability reporting
Family ownership (FF)	1 if family owned company, 0 if not a family owned company
Size of Board of Director	Number of directors on the board of directors
CEO duality (CEO)	1 if CEO and chairman are the same person, 0 otherwise)
Women Director	ratio of women directors on board of directors
Independent Director	Independent director ratio
Company Size (SIZE)	Logarithm of total assets
Director Ownership (BODSH)	Number of shares owned by the directors
Profitability (PRFT)	Return on asset: $\frac{\text{Profit after Tax}}{\text{Total Assets}}$ x 100
Leverage (LEV)	Ratio of total liabilities to total assets .

Regression analysis models are conducted to provide empirical evidence of how the independent directors influence the relationship between family ownership and corporate sustainability reporting. The dependent variable in this study is corporate sustainability reporting (CSR). The independent variables are family ownership, board size (BSIZE), CEO duality (DUAL), women directors (WOB), company size (CSIZE), profitability (PRFT) and leverage (LEV). The model used in this study is as follows (Darmadi & Sodikin, 2013):

Model 1

$$CSR_{it} = \beta o + \boldsymbol{\beta_1 FF_{it}} + \beta_2 BIND_{it} + \beta_3 BODSIZE_{it} + \beta_4 CSIZE_{it} + \beta_5 WOB_{it} + \beta_6 DUAL_{it} + \beta_7 BODSH_{it} + \beta_8 PRFT_{it} + \beta_9 LEV_{it} + \epsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Model 2

$$CSR_{it} = \beta o + \beta_1 FF_{it} + \beta_2 BIND_{it} + \boldsymbol{\beta_3 FF_{it} * BIND_{it}} + \beta_4 BODSIZE_{it} + \beta_5 CSIZE_{it} + \beta_6 WOB_{it} + \beta_7 DUAL_{it} + \beta_8 BODSH_{it} + \beta_9 PRFT_{it} + \beta_{10} LEV_{it} + \epsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where:
CSR = Corporate Sustainability Reporting
FF = Family Ownership
BIND = Independent Director
BODSIZE = Board of Director Size
DUAL = CEO Duality
CSIZE = Company Size
BODSH = Director Ownership
WOB = Women Director
PRFT = Profitability
LEV = leverage
β_1-β_{10}= Regression Coefficient
Є = Model Error

4. Findings

The Pearson correlation is used to detect if there is any multicollinearity issues. Table 3 shows the correlation coefficients are between 0.030 to 0.325. It appears from the results that multicollinearity issues are still under control as the correlations are below 0.80 (Cooper & Schindler, 1998). The results show that CSR is negatively correlated with FF and interaction between FF and BIND. It also appears that CSR is positively correlated with BIND, BODSIZE, CSIZE, WOB and PFRT. As expected, BSIZE is positively correlated with CSIZE. Interestingly, WOB is positively correlated with PRFT (0.035).

Table 3. Correlation Test (N=771)

	CSR	FF	BIND	BODSIZE	CSIZE	WOB	DUAL	BODSH	PRFT	LEV
CSR	1									
FF	-0.147**	1								
BIND	0.206*	0.265**	1							
FFXBIND	-0.091**	0.270	1							
BODSIZE	0.215**	0.067	0.296**	1						
CSIZE	0.256**	0.014	0.137**	0.325**	1					
WOB	0.020**	0.061	0.091*	0.049	0.026	1				

DUAL	0.017	0.138**	0.082	0.057**	0.127	0.023	1			
BODSH	0.123**	0.129**	0.060	0.047	0.117	0.052	0.029	1		
PRFT	0.044**	0.035**	0.058	0.030	0.126	0.035*	0.076	0.132	1	
LEV	0.107	0.118	0.042	0.123**	0.250	0.029*	0.065	0.118	0.320	1

**Correlation is significant at 0.01 level, * Correlation is significant at 0.05 level

Table 4. Result Regression Analysis Model

	Model 1	**Model 2**
Constant	-1.763	-2.795
FF	-0.144(-3.677)***	-0.148(-2.565)**
BIND	0.126(3.407)	0.272 (3.170)
BODSIZE	0.199 (5.315)***	0.201(5.396)***
CSIZE	0.194(4.945)***	0.196(2.008)***
WOB	1.330(1.241)	3.076(2.597)
DUAL	0.636(1.013)	0.197(0.251)
BODSH	-0.087(-2.479)	-0.017(-0.065)
PRFT	0.053(1.486)	0.456(1.458)
BOARD SH	-0.087(-2.479)	-0.017(-0.065)
FF X BIND		0.008(0.183)
R2	0.193	0.219
R2 Adjusted	0.171	0.207
F Value	8.609	8.505
P Value	0.000	0.000

Note *** significant at 0.01, ** significant at 0.05, significant at 0.10

5. Discussion and Findings

Table 4 shows that the model explains only 17% of the relationships. Table 4 indicates that there is a negative association between family ownership and CSR. Hence hypothesis 1 is accepted. This study is consistent with agency theory type II which states that there is conflict between principals (family owners) and principals (minority shareholders). This result is also consistent with previous studies conducted in Malaysia such as the study by Ghazali et. al. (2007) and Darmadi and Sodikin (2013). Having access to internal information by having representatives in board reduces the incentives to make disclosure about more long term value thereby enhancing sustainability activities. This result is however not aligned to socio-emotional wealth theory which states that family ownership could enhance sustainable practices and disclosure. This result also implies that long term focus to hand over a sustainable family business to the next generation is not the main focus in an Asian context, at least, in Malaysia.

However independent directors do not influence the relationship between family ownership and sustainability reporting. Perhaps because there are so many other factors that can affect the continuity of the family in the business entity and the transition between generations may not guarantee that the business will remain in the same family. As the character of Asian families is different that the Western families i.e. strong bonds of affection and family loyalty in extended families (Block & Wagner, 2014), this can pose threat to inter-generational transitions. This situation is similar to what Betrand et. al., (2008) claims; the “decay of family-run groups over time is due to the dilution of ownership and control across a set of equally powerful descendants of the founder” (p.466). Table 4 (model 2) shows that with interaction variables, the adjusted R2 is increased to 0.207 (an increase in explanatory power of about only 2.6%).

This result indicates that independent directors are incapable of affecting the relationship between family-ownership and the level of CSR. Therefore H2 is rejected. The finding is, to some extent, consistent with research by Reeb and Zhao (2013) and Sundarasen et. al. (2016) who found that independent directors are not capable of carrying out their duties with regard to corporate sustainability reporting effectively due to their

lack of independence. Perhaps informal relationships that become the character of family owned companies also exist in the appointment of independent directors. For this reason, the factors within directors' nomination and remuneration committees should be investigated. Friendships may develop over the years between independent and family member directors.

There are 6 control variables tested in model 1 and only board size and size of the company have significant relationships with sustainability reporting. Board size has significant value at $p < 0.05$ with coefficient 0.199 (5.396). Board size and company size are important factors in determining sustainability reporting levels. Similar to prior studies (such as Mallin et. al., 2013), an effective independent board of directors in a company will advise the top management in the decision-making process that will lead to an increase in CSR reporting in the company. This finding also supports Ahmed et. al. (2017) which found that company size is a factor affecting corporate sustainability reporting.

6. Conclusion

The objective of this study is to examine the associations between family ownership and CSR and whether board independence could moderate that relationship. The analysis shows there is a negative relationship between family ownership and sustainability reporting. The findings support the agency theory in explaining that the interests of family owners may be in conflict with the interest of other stakeholders. The character of Asian extended families with multiple descendants may pose a threat to existing family owners and strengthen the incentive for short term (at the expense of long term) sustainability focus. The Asian business culture that depends on informal kinship, personalised relationships, non-bank sources of finance and cost leadership focus may also cause companies to put most of their energy to short term survival and have less emphasis on long term sustainability business practices. This emphasis may lead to lower CSR disclosure.

The findings show that independent directors do not necessarily contribute to the effectiveness of the board of directors to protect the interest of minority shareholders. Independent directors are also seen as unfamiliar with the company's operations and are unable to influence the majority of directors in making decisions regarding sustainability reporting (Sundarasen et. al., 2016).

The study concludes that the governance of family-owned companies should be strengthened for sustainability. As sustainability issue are becoming more important, family owned companies need to be aware of their role, not only to the family owners, but also to the community and environment to create long term value to the company. There is a need to re-examine the relatedness, knowledge and competency of independent boards. We suggest future research should undertake research on relatedness, knowledge and competency issues as the current theory, framework and data limits us from doing so. It is recommended for future studies to conduct interviews with boards of directors in family firms to obtain their views on the decision making practices in promoting corporate sustainability reporting activities.

Additionally, the scope of current research also limits us from testing the effect of nomination and remuneration committees' characteristics within family owned companies. We believe the connectedness, kinship and friendship may impact the effectiveness of the appointees as independent directors. This may be a further focus for future research.

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