An Evaluation Of Stakeholder Added Value In Today's Malaysian Corporate Governance Scene

Saidah Hamizah Ahmad*

The study attempts to investigate the relationship between corporate governance and Triple-Bottom Line (TBL) scenario from the stakeholder perspective. Malaysia is selected as a representative of developing countries due to its specific economic traits, its position as a pioneer of corporate governance code in developing countries and its common features of code with the UK Combined Code. Firms are classified into top 50 and bottom 50 of the corporate governance ratings list taken from Malaysian Corporate Governance Rating Index (MCGRI) to examine whether there are any differences in the stakeholders value-added of firms in both classified samples. Each of the stakeholder added values consists of the three bottom lines: economic, social and environment taken from the Global Reporting Initiatives (GRI), 2002 guidelines. The result shows that supplier and employee added value have a significant influence on corporate governance ratings, but not so for customer, investor and public added value.This study analyses only information that can be captured from the Annual Report (AR) and ignore any TBL activities carried out beyond the AR. It is hoped that the values found from the analysis will be able to provide additional information concerning corporate governance and TBL to interested parties. The criteria of TBL revealed may be found to be essential elements in the development of effective and efficient sustainability ratings in Malaysia and other developing countries. Finally, the result could also serve as a benchmark to help poor governance companies improve their sustainability practice.This study bridges the gap of previous studies by using a combination of stakeholders and TBL on the analysis, directly identifies firms with certain scores of corporate governance and addresses issues related to these exceptional companies.

Keywords: Triple-Bottom Line, Stakeholder added value, Malaysia and Corporate Governance.

Introduction

The sphere of corporate governance has become prominent in all firms worldwide due to the eye-opening occurrences of corporate collapse and business scandals over the past few years. Since then, investors have become more prudent in choosing which firms they lodge their funds with. Corporate governance is defined in the Cadbury Code (1992) as "...*the system by which an organisation is directed and controlled*". The company's governance lies under the responsibility of the board of directors. Thus, they should lead the company with the interests of shareholders and stakeholders in mind. This definition is confirmed by the first page of the Combined Code (2003) and (2006) – known in Malaysia known as The Malaysian Code of Corporate Governance (2007) which sets out that "*The board should set the company's value and standards and ensure that its obligations to its shareholders and others are understood and met".*

*Saidah Hamizah Ahmad Faculty of Administrative Science and Policy Studies, Universiti Teknologi MARA, Shah Alam, Malaysia, **E-mail:** saidahhamizah@gmail.com. *With appreciation to my supervisor 'Prof. Jeffrey Ridley' from London South Bank University, UK.

However, the case in reality is somewhat different. The separation of ownership and control has paves the way for manager to expropriate shareholder's interest to advance their own interest. This is often the case for 'corporate pschopath'. 'Corporate Psychopathic' has been identified as a major source of interest in understanding destructive behaviour of a corporation. This notion has become popularised recently by Joel Bakan in his book and documentary "*The Corporation*". The problem with 'corporate psychopathic' is their selfishness and greed to advance the economic bottom-line for their own interest, without regard for the agony they might inflict on others that will in turn jeopardize the welfare of society and environment (Hooper, 2004). The world has witnessed many instances of corporations behaving as psychopaths, the results of which have destructed the values of others while reaping riches for the directors themselves. Some well-publicised scandals involving corporate psychopaths have been ended-up with them being fined millions of dollars by various governments. Enron and WorldCom are among the paragon of corporate psychopaths that have been fined $60.5million and $500 million respectively for accounting fraud. However, the hefty fine was claimed to be unfair to the innocent shareholders and stakeholders who borne the consequences of corporate wrongdoing (DSLreports.com, 2003). Scholars have long been debating this issue as 'agency cost' to shareholders who borne the cost of corporate wrongdoing and stakeholders who may have direct or indirect interest in a corporation. The corporation seems to leave behind the risk of losing its legitimate license to operate in the society. This phenomenon triggers the demand for more transparent disclosure of a company to enable shareholders and stakeholders monitor the way the company operates. Proponent of legitimacy theory has also regards voluntary disclosure as a method by which corporation can interact with a broader society to influence their perceptions about the organisation. This effort may prevail the 'social contract' implicitly entered into by the organisations with the society (Williams, 1999; Deegan, 2002). Nevertheless, to date, the measurement systems used and the various concepts of CSR have no systematic basis. Indicators seem to be chosen on the whim of the moment. Yet, this has been one of the central focus on this study which employs GRI 2002 frameworks to measure sustainability. The indicators chosen are then linked with the corporate governance to measure the link between both. Hence, the main motivation of the current study is to evaluate the extent to which companies with different levels of governance value their five key stakeholders, which are customers, suppliers, investors, the public sector and employees, from the economic, social and environment perspectives. The analysis involves an examination of top 50 and bottom 50 companies listed in the Malaysian Corporate Governance Rating Initiative (MCGRI), 2004. Logistic regression analysis results indicate significant associations between corporate governance ratings with supplier and employee added value. The difference between results of this study and results found in other studies is that this study is one of the first to investigate corporate governance and sustainability from stakeholder perspective. The result of this study may also serve as a guideline to improvise the existing metrics of corporate rating agencies in Malaysia and other developing countries which current insight has some degree of economic performance and corporate governance assessment. Besides, it can also benefit Malaysia or any developing countries in the development of sustainability

rating that are prevalent in developed countries, for instance FTSE4GOOD in United Kingdom.

The remainder of this paper is organised as follows. The next section briefly discusses the corporate governance and corporate social responsibility scenario in Malaysia. Section 3 reviews the relevant literatures on the hypotheses development. Section 4 addresses the empirical method of study that is followed by a presentation of the results in Section 5. The ending offers a conclusion, including avenue for further study in Section 6.

Background

Corporate Governance in Malaysia

Interest in corporate governance accentuated aftermath a tumultuous backdrop in the U.S Corporation such as Enron and WorldCom. In Malaysia, the impetus came from the East Asian financial turmoil in the second half of 1997. The International Monetary Fund (IMF) and the World Bank were both of the same opinion that poor corporate governance, characterised by poor risk management, resulted in the vulnerability of the financial system. An excessive ownership concentration of banks in real estate development and financing share purchases, excessive lending, and limited investment in risk management were the main reasons for the financial crisis in Malaysia (Zulkafli et al., 2007)

Besides the financial crisis, the issue of corporate psychopaths also prompted the development of a series of governance codes. The pioneer Cadbury Code (1992) has contributed to a number of recommendations on the arrangement of company boards and accounting systems to mitigate corporate governance risks and failures (Wikipedia, 2008a). Following the Cadbury Report, a number of different reports and codes concerning good corporate governance were accelerated such as the Greenbury Report (1995), the Hampel Report (1998), the Smith Report (2003) and the Higgs Report (2003). The elements of this mosaic of reports are consolidated in the Combined Code 2003 and the most recent Combined Code 2006 (Danker, 2008; FRC, 2003; FRC, 2006). Most Asian or developing countries now have codes of corporate governance; namely China, Sri Lanka, Pakistan, Hong Kong and Thailand (Roche, 2005). Malaysia was the first East Asian country to respond with its own code. The Cadbury report has provided a yardstick against which standards of corporate governance are being measured. Inspired by part of this code, Malaysia, through the collaboration of the working group on Best Practices in corporate governance (JPK 1) and The High Level Finance Committee on Corporate Governance, formulated 'The Malaysian Code of Corporate Governance' in March 2000 and revised it in 2007 (Securities Commission, 2007).

The development of the MCCG was significant as it marked the first time that a serious attempt was made by regulators and industry players to meet the challenges posed by a globalised market economy that would be subject to the forces of further deregulation and liberalisation (Hee, 2003).

Corporate Social Responsibility Outlook in Malaysia

As Joel Bakan argues in *The Corporation*, 'Enron's story... suggests, at a minimum, that

scepticism about corporate social responsibility is well warranted'. Enron's collapse, and the mistrust of corporations that the whole saga galvanized in the public consciousness, led to some soul-searching within the CSR movement' (Corporate Watch, 2006).

A survey by the Asian Development Bank found that Malaysia's level of corporate governance since the Asian Financial Crisis from 1997 to 1998 has been improving from 3.2 in year 2000 to 6.0 in 2004, and achieved a score of 7.1 out of 10 for rules pertaining to the corporate scorecard (News Brief, 2007). This is perhaps as a result of the MCCG implementation in 2000. However, it does not go in hand with corporate social responsibility. Study conducted by Amran (2006) found zero knowledge on CSR among local managers in Malaysia. Based on a CSR survey carried out in 2007 by Bursa Malaysia, only 4.5 per cent of the sample size of 200 companies assessed was close to the international best practice benchmark and embedding CSR across their businesses (Ng, 2008). The compelling reason behind this phenomenon is that Malaysian corporations are still trying to improve their economic bottom-line to satisfy the appetites of shareholders and investors. For them, CSR is merely a ploy to promote a corporation's image (Amran and Zakaria, 2007). Nonetheless, an attempt was made in 2007 to raise awareness among Malaysian Companies to CSR through a joint effort by the Malaysian Institute of Integrity, Bursa Malaysia, the Securities Commission and a few other authorities (Amran A., 2006). A guidebook for CSR, called *The Silver Book*, was launched in 2006 for the Government-Linked Corporations Transformation Program to measure CSR ideas and to gauge how effective their CSR Policies are (Putrajaya Committee, 2006). Nevertheless, CSR practices and awareness are still lacking among Malaysian companies, despite these active efforts. The members of the panel of judges for the StarBiz-ICR Malaysia Corporate Responsibility Awards concluded that this lack of awareness is due to a lack of understanding on CSR and its objectives (Ng, 2008).

Prior Studies and Hypotheses Development
Development of Stakeholder Added Value from the Triple Bottom Line Metaphor
There are various ways to report triple-bottom line benefit (or "sustainability"). The GRI 2002 Sustainability Reporting Guidelines suggest two useful approaches —economic (indicators framing the economic impact such as profit, investments and labour productivity) and stakeholder (by major stakeholder groups that are impacted by an organisation's processes, products and services) (GRI, 2002). Brown and Fraser (2004) highlighted stakeholder accountability as one of the alternative approaches to social environmental accounting other than the business (shareholder wealth maximisation focus) and critical-theory approaches. With respect to this study, the stakeholder approach is chosen to best reflect the objective. Thus, indicators from the GRI 2002 sustainability guidelines will be used to examine this issue further.

Economic bottom-line and stakeholder added value: The economic indicator used in this study has been popularised by a number of bodies and research including Slater (2004) and the OECD (2004). The GRI (2002) suggested five indicators of economic value to five main stakeholders, denoted by EC 1, EC 3, EC 5, EC 6 and EC 8 and represented in Figure 1.

Figure 1: GRI Economic Bottom-Line Indicators

GRI Indicators	
EC 1	Sales
EC 3	Cost of Sales
EC 5	Total Remuneration
EC 6	Interest and dividend
EC 8	Tax

Source: GRI (2002)

There are two contradicting views regarding the economic value to stakeholders of these indicators. Proponents like Slater (2004), the OECD (2004) and Galbreath et al. (2008), employ these indicators as an economic value to stakeholders. Their view of stakeholder added value and economic benefit is reciprocal. As stressed by the stakeholder theory, firms create value through the products and services they produce, the purchase of material and services from suppliers, services from employees, infrastructure, services, control from government, and capital from investors (Freeman et al., 2004). When firms create value, stakeholders benefit economically through five main ways: better products and services to consumers, investors benefit through increased dividends and interest payments, employees benefit through salaries, society benefits through the distribution of wealth from tax payment and suppliers benefit through payment and supply chain value (Holliday et al., 2002).

In contrast, other research such as Lander and Reinstein (2005) believe that economic value can be measured by EVA (Economic-Value Added) by assessing economic profit after taking away the cost of production from revenue. However, the assumption of EVA is akin to the classical economic theory that perceives payment to stakeholders as a cost rather than a 'utility benefit' (Dobb, 1973). Furthermore, economic indicators such as those benefiting employees are subject to a certain level of derision. For example, Bovenberg and Teulings (2008) argue that serving the needs of existing employees may harm the position of job seekers, thus reducing the opportunities of employment for new entrants to the labour market.

Social bottom-line and stakeholder added value: Wood (1991) defines the social bottom-line as:*"A business organisation's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm's societal relationships (p. 693)."* This definition is also stressed by

stakeholder and legitimacy theories that suggest that social responsiveness is a pre-condition to operate in a society (Guthrie and Parker, 1989; Freeman, 1990). The use of GRI social indicators has been applied in a plethora of study such as Lai (1995), Graf and Maas (2007), Ruf et al. (2001), Amaeshi et al. (2008), Goerke (2006) and Henriques & Richardson (2007). The social indicators used frequently in these studies are denoted by PR 1, HR 2, LA 9, SO 2 and EC 10 in Figure 2.

Figure 2: GRI Social Indicators

GRI Indicators	
PR 1	Quality control implementation
HR 2	Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/ contractors
LA 9	Presence of training
SO 2	Presence of anti-bribery effort
EC 10	Donation to society

Source: GRI (2002)

There are at least five ways to explain the linkage between these indicators with stakeholder added value. First, some authors (like Lai, 1995; Cronin et al.,2000; Sweeney and Soutar, 2002; Agarwal and Teas, 2001; Huber et al., 2001; Chen and Dubinsky, 2003; Kleijnen et al., 2004 and Graf & Maas, 2007) include the aspect of risk to quality control implementation. Risks arise due to, for example, an uncertainty of the potential negative consequences that may result in a high social cost. Thus, companies should take into account their social needs by maintaining periodic quality checking to ensure products are not harmful. Second, Amaeshi et al. (2008) use indicator HR2 of the GRI guidelines to measure suppliers' social performance. This is done by mapping out a company's expectation of suppliers at the point of engagement. Although purchasing firms should not bear indefinite responsibility for the actions of the suppliers, they will be the most affected by the suppliers' products and services. Thus, a socially responsible company will not opt for a low-cost producer at the expense of others, but will take ethical considerations into account in the procurement process. Third, training may improve the social conditions of a country, particularly in Malaysia where the objective is to shift from low-cost mass production to a 'knowledge-based' economy under the Ninth Malaysian Plan (World Report, 2008). Skilled labour is also in high demand in OECD Countries (OECD, 2004). Fourth, a substantial anti-bribery effort has the function of ensuring money flows through to the society. The literature cites corruption as the main hindrance to the channelling of money to the public. Goerke (2006) found a positive link between tax evasion and corruption, which in turn reduces the supply of public goods. Malaysia, in particular, has a very high corruption index (Abdul Munid et al., 2007). Thus, in order to ensure an equitable distribution of wealth, a company has to combat its corruption activities

by having a proper procedure to address bribery, so that people in needs will receive what is owed to them, as widely discussed in OECD guidelines (OECD, 2001). Lastly, Lydenberg (2007) posits that recent trends show that investors are theoretically inclined to seek returns that benefit society as a whole. They are best known as Universal and Social Investors who are now pioneering investment practices that promote Return to the Economic and Society (RES), which focus on investments that benefit underdeveloped communities. Proponents of legitimacy theory support that this is especially important in ensuring that the company they are investing in earns a legitimate right to operate in the long-term. With GRI 2002 sustainability guidelines, a company could demonstrate their responsibility to society by disclosing the amounts of donations that they make, specifically denoted by EC10 (GRI, 2002, Slater, 2004).

Environmental bottom-line and stakeholder added value: GRI guidelines highlight at least five main indicators that link environmental quality with stakeholders; represented by EC13, EN33, EN14, EN16 and EC10 (see Figure 3).

Figure 3: GRI Environmental Bottom-Line Indicators

GRI Indicators	
EN 13	Evidence of reduced energy effort
EN 33	Evidence of supplier environmental consideration
EN 14	Significant environmental impact
EN 16	Fines for non-compliance of environmental regulation
EC 10	Donation to environment

Source: GRI (2002)

These indicators have been widely used by many scholars to demonstrate linkage with stakeholders. First, firms can engage in product stewardship by using fewer materials in the production process and disassembling a product at the end of its lifecycle for recycling or reuse (Hart, 1995). Most OECD countries are now implementing policies to reduce direct energy consumption by using renewable energy sources. Apart from safeguarding the environment, it is also recognised as bringing a benefit to the economy and society in the long run (Gonzalez, 2007). Theoretically, both social and environmental breaches may cause social disapproval that will eventually erode a company's legitimacy to operate in society (Lai, 1995). According to Slater (2004) and GRI (2004), a customer may receive more value from products that have a minimal impact on the environment by reducing the consumption of direct energy sources. Second, Amaeshi et al. (2008) use EN33 as an indicator for suppliers' performance to ensure that the subsequent product produced by the company will have no impact on the environment. Third, Slater (2004) suggests that in developing employees, a company should ensure it causes no harm to the environment. The importance of reducing the environmental impact while striving to improve the firm's productivity through a better workforce is also confirmed by the OECD guidelines (OECD, 2001). Deakin and Hobbs (2007) concur that the environmental impact could be reduced in the long-term through more skillful employees, because excessive overtime hours that undermine the productivity of the

workers and have a detrimental effect on the environment may also be reduced. In fact, employees nowadays show a preference for environmentally friendly and socially responsible companies, rather than being attracted merely by high wages (IOD, 2004). Fourth, a company should ensure that it does not breach environmental regulations as this may harm the public (GRI, 2002). Finally, Lydenberg (2007) concurs that making donations to environmental causes as an environmental indicator to formerly capitalist investors that now seek to maximise returns in a company that contributes significantly to the environment.

Hypotheses Development
The relationship between corporate governance and stakeholders is demonstrated by the literature that makes up the hypotheses and model as follows:

Customer: A company with good governance is said to have demonstrated a more responsible behavior to customers due to its dependency in the product market. Customers' preferences nowadays are changing from merely low price to a demand for products from good governance companies. Their decision to 'buy or not' from a company is largely influenced by non-governmental bodies, grassroots activists and political shoppers (Hertz, 2004). In an exacerbated situation, they will boycott an irresponsible company's products and harm the company's reputation.

The study found two contrary views of the relationship between corporate governance and customer added value from the product market competition perspective in the same year (1997). On the one hand, Nickell et al. (1997) found that intense market competition drives management to be more responsible to customers in order to win their loyalty. This trait is usually found in good governance companies characterised by less management ownership. On the other hand, Shleifer and Vishny (1997) suggest that even when there is product market competition, there is no guarantee that agency costs will be reduced as they can still expropriate the competitive return after the capital is sunk. However, Shliefer and Vishny (1997) explain this on the basis of cost, while Nickell et al. (1997) look from the firms' productivity perspective.

However, poor governance companies, characterised by highly concentrated ownership, increases managerial slack and reduces their efforts in responding to market competition; thus, reducing the company's effort to value its customers. This incentive problem is known as 'managerial entrenchment' (Fama and Jensen, 1983). With this in mind, the following hypothesis and model could be developed.

Hypothesis 1: There is an association between corporate governance and customer added value

Supplier: Hypothesis 2 is developed in parallel with the result found by Humphrey and Schmitz (2001) that there is a positive relationship between good governance companies and social responsibility through suppliers. They explained that a good governance company ensures its supply chain management does not harm the environment and society through the enforcement of proper risk management and internal control. The control of risk is achieved through the setting of product and process parameters to be met by suppliers in the chain so that the product and services delivered conform to the necessary environmental and social standards. In the event that shortcomings are found with their suppliers, the company will lose its reputation and face sanctions from society — as suggested by legitimacy theory.

Watson and Head (2007) found a negative relationship between costs of sales to corporate governance. As the cost of sales is inevitably caused by an increase in sales, it is also associated with an increase in agency cost. The study of the link between sales and corporate governance is intriguing in many areas of the literature such as Watson and Head (2007), Shleifer and Vishny (1997), and Jensen and Meckling (1976). The corporate governance feature of executive remuneration is the main issue associated with sales-linked remuneration, often discussed as 'fat cats remuneration'.

Other than sales, profit-linked remuneration may also be used to explain a negative relationship between the cost of sales and corporate governance.

Kaen (2003) found that in a competitive market, price becomes more of a primary concern than the environmental and social quality of a product's supplier. Thus, the desire to increase profit tempts management to seek the lowest possible cost of supplies, while reaping riches for themselves. This is especially true in poor governance companies, characterised by a high management ownership concentration and profit-linked remuneration (Shleifer and Vishny, 1997).

Hypothesis 2: There is an association between corporate governance and supplier added value

Employee: The basis of Hypothesis 3 is related to Williams (2000), who advocates a positive relationship between corporate governance features and employee-value. He views employees as 'intellectual capital', whose stakes are better protected with good governance practices characterised by duality of the board, board balance and independence, good remuneration linkage and the presence of outside directors on standing committees (remuneration and audit). Compliance with these attributes may avoid boards of directors acting exclusively in their own interests. The presence of outside directors and incentives may drive management's decision making processes in a better direction; meeting the needs of an ever-changing environment by equipping its firm with sufficient and efficient intellectual capital. Thus, employees' welfare may well be taken care of in a good governance company.

Shlefier and Vishny (1997) suggest that total remuneration may influence corporate governance in terms of reputation. They further state that if the level of remuneration is undesirable, employees will threaten to quit, and thus will threaten the company's reputation. This is because employees are in a much better position to hold up the firm as they get paid almost immediately for their effort, thus increasing the agency cost between the manager (principal) and employee (agent) — as explained in agency and stakeholder theories. Other than that, good governance companies will remunerate their employees more than the poor governance ones because poor governance companies are driven by the self-opportunistic behaviour of its directors, which undermines the welfare of its employees (Leung and Cooper, 2003). Such an example would be in the case of Enron, where low performing employees' contracts were terminated indiscriminately, while the directors and colluders were enjoying higher remuneration ("Rank and Yank" concept[1]) (Deakin and Konzelmann, 2004).

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1 Under this concept, a fifth of Enron's employees was regularly dismissed and demoted on the basis of performance rankings drawn up by peers and superiors.

Hypothesis 3: There is an association between corporate governance and employee added value

Public Sector: Any company has a general responsibility to the public sector in the form of compliance with tax regulations and avoiding corruption. Corruption hinders funds from being allocated to the public. Susan (2004) suggests three principles of corporate governance that can control corruption activities — a suitable remuneration package, disclosure and transparency including related party transactions, and accountability and audit. Compliance with these principles may reduce, to some extent, agency costs.

A number of research advocate a positive relationship between responsibility to the public sector and corporate governance. Theoretically, it is a means of realising the stakeholder and legitimacy theory, as it is said that investments have a spillover effect and create a return to the economy and society. Other scholars concur with this view by establishing its linkage to ethics and corporate behaviour. Good governance companies seem to have good ethics and would never evade compliance with tax and regulatory charges (Potts and Matuszewski, 2004). In fact, it may imply corporate behaviour's alignment with the interests of society (Dawson, 2004; Bonn and Fisher, 2005; Deakin and Whittaker, 2007; Lydenberg, 2007).

The rationale is that more tax payment may indicate high-retained earnings, which is one of the subjects in agency theory debate. High-retained earnings increase risk because management compensation, power and status are frequently related to the size of the firm (Kaen, 2003). On the other hand, low tax payment is associated with a good corporate governance company, characterised by the use of debt. Shleifer and Vishny (1997) and Smith and Warner (1979) suggest that debt can act as a governance mechanism to align managements' interests through the debt covenant. Desai et. al.(2007) bolster this view through their theory that stronger corporate governance is characterised by higher tax payment because it deter insiders from exploiting their position to pursue such selfish transactions as setting transfer prices at below market value to shift profits to companies that they personally own. In fact, active monitoring by tax authorities protects the interests of outside investors by disciplining company insiders against depriving them of their fair share of earnings (Pittman, 2009).From a social perspective, good corporate governance characterised by appropriate remuneration levels may reduce the risk of bribery in a company, supported by a proper anti-bribery policy (GRI, 2002).

In contrast, poor governance may also be associated with higher tax payment. Erickson et al. (2004) find that many public companies deliberately overpaid their taxes to avoid arousing suspicion from tax authorities, regulators, and investors. This may be done by concealing income from the tax authorities through complex transactions. Complex transaction reduces the ability of shareholders to monitor manager behaviour, thereby making diversion less costly for managers (Desai, 2007). In fact, Desai and Dharmapala (2006) document that investors only fully value tax avoidance when corporate governance is sound. This theory is a complete opposite of the view proposed by Potts and Matuszewski (2004) that tax payment ensures good corporate behaviour.

This leads to the fourth hypothesis, as follows:

Hypothesis 4: There is an association between corporate governance and public sector added value

Investor: Generally, investors can be classified into two groups — debt providers and fund

providers. Takeover threats from creditors drive management to combat moral hazard. The obligation to service the debt is equivalent to setting a minimum performance standard. If management fails to achieve this standard, the firm goes bankrupt and the managers lose their jobs (Bovenberg and Teulings, 2008). The same concept applies to shareholders. They have either a 'voice' or an 'exit' option. Their decision to invest is largely dependent on the company's level of governance and sustainability. Apart from that, the triple-bottom line criteria is also taken into consideration in investors' portfolios such as the California Public Employees' Retirement System (CalPERS) (Monks, 2001).

Apart from that, payments of dividends and interest are also said to have an effect on reducing agency costs. Kaen (2003) supports this view by explaining it from the financial economic perspective. He states that creditors and investors play an active role in limiting managerial discretion over the use of free cash flow and reducing agency costs. With debt financing, more cash is needed for interest and principal payments, therefore, there is less cash available for firm growth — at the expense of the shareholders. In addition, some would argue that the increased fixed charges for interest and principal payments motivate managers to run the company more efficiently so that they can be certain of being able to make the payments. Another way to remove cash is to pay a cash dividend. Georgia-Pacific, for example, states, "There may be periods when the Georgia-Pacific Group generates cash in excess of opportunities for investment. If debt is below the target level set by the Board of Directors, cash will be returned to our shareholders through cash dividends, so they can make their own investment choices".

Investors use the 'capital market' as a powerful governance mechanism to diverge management and their interests (Wikipedia, 2008d). Since capital is 'flux', companies should take any possible action to maintain capital provider's confidence, not only through the practice of good governance, but also by meeting their interests by acting in a socially responsible way. These investors are better known as 'socially responsible investors'. They seek to maximise the 'Return on Economic Society' through their funds in the company. In this situation, a company will receive legitimate license to operate by both society and the investors (Lydenberg, 2007).

Study by McKinsey (2002) found that compliance with corporate governance criteria may reduce the cost of capital, due to the effect it has in reducing agency costs. That said, a company that is responsible to the triple-bottom line will be able to maintain its license to operate (legitimacy) and meet stakeholders' needs. Thus, the need to maintain investors encourages management to value them through good governance practices and ensure 'Return on Economic Society'.

Nevertheless, some scholars do not agree that a relationship exists between dividends and interest payments within corporate governance. They argue that the best indicators for an investor's value are share price, return on assets, return on equity and earnings before income tax, depreciation and the amortisation margin (Gill, 2002; Deutsche Bank; IOD, 2004; Bradley, 2004; Pitelis, 2004; Abdullah, 2006).

With respect to the environment and society, some scholars have found no significant relationship between investor value and donations to the environment and society. This is because only two types of investors are particularly interested in maximising return on the economic and societal factors — universal and social investors — while the rational investor is still inclined to seek return based primarily on market price (Lydenberg, 2007). Moreover,

Vyvyan et al. (2007)'s empirical finding bolsters this view by stating that financial performance is still the most influential factor when it comes to investment decision making (Vyvyan et al., 2007)

This study predicts that in the fifth hypothesis:

Hypothesis 5: There is an association between corporate governance and

        investor added value

Throughout the literature review, there has been a mix of views regarding the association, or not, of stakeholders' added value to corporate governance. Thus, for the purpose of this study, an association between all groups of stakeholders' added value and corporate governance are expected to be found.

Research Methodology

A sample of 100 out of 350 companies ranked by their corporate governance quality in the CG Survey Report 2007 are taken. The companies are divided into two strata: Top 175 and Bottom 175. Subsequently, the Top 50 and Bottom 50 companies will be taken from each stratum. The rationale is that the medium 249 must portray only small differences in governance practices, even though they fall under the Top or Bottom 175 groups (See Figure 6). The sample reflects a more accurate picture of governance implementation in Malaysia. In an effort to ensure independence of data, companies chosen are all of commercial in nature and non-profit companies are left out. The main rationale is to avoid from bias result, as they may tend to do more socially responsible activities even without good governance.

Secondary data was obtained from a vast amount of sources. These include published reports from various organisation such as the Bursa Malaysia Berhad (BMSB)(formerly known as Kuala Lumpur Stock Exchange), Malaysia Code of corporate governance, Malaysia Corporate Governance Ratings, Securities Commission, Annual reports, newspapers, journals, books, academic surveys, e-resources, companies, government websites and publication from related government agencies. The validity and reliability of data collected was held to be of good stance.

In terms of ethical consideration, it has been judged that none of the expected data are confidential in nature as they are all widely available to be used. Additionally, all opinions of other research have been fully appreciated.

The dependent variable is corporate governance level (CGL). Companies were specified into good and poor governance level. Its use as a measure of firms' corporate governance has become widely used in Malaysia, as it is able to solve the problem of complexity in corporate governance evaluation approaches due to the complexity of its standards (Mohamad Ariff et al., 2007). The data is accessible from the Corporate Governance Survey report, 2007. The independent variables consist of fifteen-stakeholder added value extracted from the triple-bottom line elements. All of these variables are referred from the GRI guidelines 2004. The operationalisation of these variables are tabled in Figure 4.

From the economic bottom line view, the independent variables identified to the five key stakeholders are: Sales (CUSECO), Cost of sales (SUPECO), Total remuneration (EMPECO), Tax (PUBECO) and Interest and dividend payment (INVECO). The economic variables used for this study resemble economic indicators used by Slater (2004), Galbreath et al. (2008), OECD (2004), Freeman et al.(2004) and Holliday et al.(2002) which is based on GRI 2002 guidelines. Following the precedent literatures, these variables are used on the basis of these reasons. First, they signify benefits received by stakeholders after value creation by the company, as suggested in the literature (Freeman et al. 2004), Second, they best reflect the objective of this study to enhance the GRI model. Third, unlike EVA, the GRI variables attempt to measure economic variables by individual groups, rather than as a whole. Finally, the use of these variables has several other rationales in terms of its linkage with corporate governance as discussed in the literature.

The second bottom line measures the social performance to the five key stakeholders. This value is represented by the variables Quality control implementation (CUSSOC), Evidence of social consideration during the procurement process (SUPSOC), Training and development of staff (EMPSOC), Presence of whistle-blowing procedure (PUBSOC) and Donation to society (INVSOC). These GRI social indicators measures are considered appropriate for several reasons. Firstly, they coincide with the previous literatures such as Lai (1995); Cronin et al. (1997); Sweeney et al. (1999); Agarwal and Teas (2001); Huber et al. (2001); Chen and Dubinsky (2003); Kleijnen et al. (2004) and Graf and Maas (2008). Secondly, they are in line with the NEP's social objective in Malaysia — the country that this study focuses on – which is to eradicate poverty and ensure an equitable society. Other than that, these variables are also known for their inter-relationship with the corporate governance practices discussed in the literature. With respect to environmental bottom line, the five variables used consist of Reduced energy effort (CUSENV), Evidence of suppliers' environmental considerations (SUPENV), The existence of a significant environmental impact on the environment (EMPENV), Fines for non-compliance (PUBENV) and Donations to the environment (INVENV). The use of the following variables are in line with Malaysia's effort to prevent natural resource depletion through the 'Green Book' and 'Silver Book' guidelines.The study employed logistic regression to investigate relationship between the five stakeholder added values with corporate governance. This methodology follows the precedent literature of Muhammad Arif et al. (2007), who approached almost the same objective of this study. There are two rationales behind this. First, the dependent variables used are dichotomous as dummy variables, whereby (1) is used for companies that fall under a good corporate governance ranking, and (0) for otherwise. The presence of dichotomous variables will violate the use of linear regression, as one of the assumptions for linear regression is the existence of a linear relationship between variables. The second reason is that the independent variables used for the study are a mixture of continuous and categorical variables. According to Sharma (1996), when independent variables are a mixture of categorical and continuous variables, the multivariate normality will not hold. Thus, using dichotomous variables would violate the normality assumption that is commonly applied in linear regression. Before attempted to use logistic regression, preliminary analysis was performed to avoid misinterpretation of the regression result later on. The preliminary analysis took in the form of missing data analysis, singularity or multicollinearity and the analysis of residuals or outliers.

Figure 4: Operationalisation of the Research Independent Variables

Stakeholder Added value	Variables	Acronym	Operationalisation
Customer	Sales	CUSECO	Total number of sales
	Quality control implementation	CUSSOC	The existence of the ISO 9001:2000 certification
	Effort to reduce energy sources	CUSENV	Corporate social responsibility statement
Supplier	Ratio of cost of capital to sales	SUPECO	Total costs of materials and taking a product through the production process
	Evidence of social consideration during procurement process	SUPSOC	Compliance with the 'Red Book Guidelines'
	Evidence of environmental consideration in suppliers	SUPENV	Corporate social responsibility statement
Employee	Ratio of total remuneration to sales	EMPECO	Total remuneration of employees
	Training and development of staff	EMPSOC	Existence of training and development program
	Significant impact to the environment	EMPENV	Corporate social responsibility statement and contingency statement
Public sector	Ratio of tax payment to sales	PUBECO	Tax and regulatory charges
	Presence of whistle-blowing procedure	PUBSOC	Presence of whistle-blowing procedure
	Fines for non-compliance to environmental regulation	PUBENV	Existence of fines for non-compliance to environmental regulation
Investor	Ratio of interest and dividend payment to sales	INVECO	Total interest and dividend payment
	Donation to society and environment	INVSOCENV	Amount of donation to society and environment

	N	Missing		No. of Extremes(a)	
		Count	Percent	Low	High
CUSECO	101	0	.0	0	11
SUPECO	101	0	.0	8	1
EMPECO	101	0	.0	0	6
PUBECO	101	0	.0	0	6
INVECO	101	0	.0	0	13
INSOCEN	101	0	.0	0	23
CUSSOC	101	0	.0		
CUSENV	101	0	.0		
SUPSOC	101	0	.0		
SUPENV	101	0	.0		
EMPSOC	101	0	.0		
EMPENV	101	0	.0		
PUBSOC	101	0	.0		
PUBENV	101	0	.0		

a Number of cases outside the range (Q1 - 1.5*IQR, Q3 + 1.5*IQR).

With regards to multicollinearity, correlation matrix was conducted of which result is depicted in figure 6 Ng and Tai (1994) and Pallant (2001) suggest a correlation over 0.9 and 0.8 respectively as problematic. The analysis performed in figure 6 returns no problem of multicollinearity as the highest correlation among the variables is far below the limit that is 0.279.

Figure 6: Correlation matrix

	Constant	CUSECO	CUSSOC(1)	CUSENV(1)	SUPECO	SUPSOC(1)	EMPECO	EMPSOC(1)	EMPENV(1)	PUBECO	PUBSOC(1)	INVECO	INSOCEN
Constant	1.000	.000	.000	.000	.000	-.164	.000	.000	-.966	.000	-.198	.000	.000
CUSECO	.000	1.000	-.034	-.035	-.014	.000	.228	.054	.000	.009	.000	.084	.113
CUSSOC(1)	.000	-.034	1.000	.317	-.410	.000	.157	-.029	.000	-.002	.000	-.316	-.531
CUSENV(1)	.000	-.035	.317	1.000	-.475	.000	.181	.042	.000	-.232	.000	-.267	-.310
SUPECO	.000	-.014	-.410	-.475	1.000	.000	-.296	-.153	.000	.150	.000	.237	.270
SUPSOC(1)	-.164	.000	.000	.000	.000	1.000	.000	.000	.000	.000	.000	.000	.000
EMPECO	.000	.228	.157	.181	-.296	.000	1.000	.039	.000	-.516	.000	-.149	.111
EMPSOC(1)	.000	.054	-.029	.042	-.153	.000	.039	1.000	.000	.238	.000	.279	-.129
EMPENV(1)	-.966	.000	.000	.000	.000	.000	.000	.000	1.000	.000	.000	.000	.000
PUBECO	.000	.009	-.002	-.232	.150	.000	-.516	.238	.000	1.000	.000	-.095	-.146
PUBSOC(1)	-.198	.000	.000	.000	.000	.000	.000	.000	.000	.000	1.000	.000	.000
INVECO	.000	.084	-.316	-.267	.237	.000	-.149	.279	.000	-.095	.000	1.000	.156
INSOCEN	.000	.113	-.531	-.310	.270	.000	.111	-.129	.000	-.146	.000	.156	1.000

Case	Selecte	Observed	Predicted	Predicted	Temporary Variable

	d Status(a)	Corporate governance level		Group	Resid	ZResid
15	S	G**	.641	P	-.641	-1.335
50	S	G**	.872	P	-.872	-2.612
59	S	P**	.139	G	.861	2.488
63	S	P**	.039	G	.961	4.970

a S= Selected, U= Unselected, and **= Misclassified cases.

b Cases with studentised residuals greater than 2.00 are listed.

Figure 8: After outliers removal

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	CUSECO by CUSENV(1) by CUSSOC(1)	.000	.000	.077	1	.781	1.000
	SUPECO by SUPENV(1) by SUPSOC(1)	2.286	.755	9.174	1	.002	9.831
	EMPECO by EMPENV(1) by EMPSOC(1)	-7.997	2.687	8.858	1	.003	.000
	PUBECO by PUBENV(1) by PUBSOC(1)	7.556	4.325	3.051	1	.081	1911.672
	INSOCEN by INVECO	-1.073	.737	2.119	1	.145	.342
	Constant	-.711	.517	1.896	1	.169	.491

a Variable(s) entered on step 1: CUSECO * CUSENV * CUSSOC , SUPECO * SUPENV * SUPSOC , EMPECO * EMPENV * EMPSOC , PUBECO * PUBENV * PUBSOC , INSOCEN * INVECO .

Figure 9: Before outliers removal

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	CUSECO by CUSENV(1) by CUSSOC(1)	.000	.000	.074	1	.785	1.000
	SUPECO by SUPENV(1) by SUPSOC(1)	2.400	.754	10.132	1	.001	11.019
	EMPECO by EMPENV(1) by EMPSOC(1)	-7.117	2.631	7.316	1	.007	.001
	PUBECO by PUBENV(1) by PUBSOC(1)	6.122	4.136	2.191	1	.139	455.848
	INSOCEN by INVECO	-.994	.721	1.901	1	.168	.370
	Constant	-.855	.527	2.628	1	.105	.425

a Variable(s) entered on step 1: CUSECO * CUSENV * CUSSOC , SUPECO * SUPENV * SUPSOC , EMPECO * EMPENV * EMPSOC , PUBECO * PUBENV * PUBSOC , INSOCEN * INVECO .

Results

This result is divided into two: descriptive to describe profile of the data and inferential to answer the objective.

Descriptive statistics

Descriptive statistic can be found in figure 10. Unlike the other parametric tests, skewness

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and kurtosis are meaningless in this study as logistic regression does not require normally distributed variables. Hence, the study screens out the other data function to identify any abnormal result. The data for

Figure 10: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Devi	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
sales	101	$.54	$95,580.00	$3,633.064	$12330.868	6.409	.240	43.132	.476
Ratio of cost of sales over sales	101	.01	1.85	.6509	.28656	-.034	.240	2.531	.476
Ratio of total remuneration over sales	101	.00	.86	.1192	.14700	3.357	.240	13.137	.476
Ratio of tax payment over sales	101	.00	.52	.0518	.07994	3.954	.240	18.400	.476
Ratio of sum (interest and dividend payment) over sales	101	.00	1.23	.1343	.20890	2.681	.240	8.242	.476
donation to community and environmnet	101	$.00	$23.00	$1.0972	$3.12251	4.654	.240	26.356	.476
Valid N (listwise)	101								

Analysing the stakeholder value in the way described above allows the study to compare quantitatively the triple-bottom line performance achieved by their stakeholder groups. Furthermore, this algorithm is also useful when there is multi-objective case. In application to this study, the multi-objective case is referred to the different objective value of stakeholder group (Zanakis et. al. , 1997).

$CGL = ß0 + ß1[CUSECO*CUSOC*CUSENV] + ß2[SUPECO*SUPSOC*SUPENV] + ß3 [EMPECO*EMPSOC*EMPENV] + ß4 [PUBECO*PUBSOC*PUBENV] + ß5 [INVECO*INSOCEN] + ε$

Where:

CGL =A dummy variable taking the value of one (1) if listed as bottom 50 firms in the Corporate Governance Rankings; otherwise coded zero (0)

CUSECO =consist of total revenue

CUSSOC = A dummy variable taking the value of zero (0) if the company has quality control in place; otherwise coded one (1)

CUSENV =A dummy variable taking the value of zero (0) if the company demonstrates effort to reduce energy usage; otherwise coded one (1)

SUPECO = consist of percentage of cost sales to sales

SUPSOC =A dummy variable taking the value of zero (0) if there is evidence of social consideration in suppliers during procurement process; otherwise

coded one (1)

SUPENV =A dummy variable taking the value of zero (0) if there is evidence of environmental performance consideration in suppliers; otherwise coded one (1)

EMPECO = consist of percentage of total remuneration over sales

EMPSOC =A dummy variable taking the value of one (1) if there is evidence of staff training in place; otherwise coded zero (0)

EMPENV =A dummy variable taking the value of one (1) if there is no significant of environmental impact as a result of employees activity in production of products
and services; otherwise coded zero (0)

PUBECO = consist of percentage of tax payment to sales

PUBSOC =A dummy variable taking the value of zero (0) if there is   evidence   of anti-bribery procedure (whistle-blowing) in place; otherwise coded one (1)

PUBENV =A dummy variable taking the value of one (1) if no fines for environmental

breach imposed during the year; otherwise coded zero (0)

INVECO = consist of percentage interest and dividend payment to sales

INSOCENV = consist of percentage of donation to society and environment to sales

ß =Coefficient correlation

ε =Error term

Figure 11 reports on results from the logistic regression equation linking corporate governance and stakeholder added value, based on the parameters and coding shown in figure 12 and 13. Corporate governance is found to have a significant (p value less than 0.05) association with supplier and employee added value allowing the respective alternative hypotheses to be taken. The other three values — customer, public sector and investor values — were found to insignificantly overlap the corporate governance level, which failed to reject their respective null hypotheses. The insignificant value for customer is very high, indicating that either the model is tenuous or an inappropriate variable was used. In fact, the correlation value reported a substantially no relationship between the variables. Public sector and investors also reported insignificant values respectively. Nevertheless, further study may be able to refine this model.

The coefficient for supplier value is positive, with the correlation of 2.4 at a p-value of 0.001, thus allowing the study to accept hypothesis 2. This result is in line with previous literature such as Humphrey and Schmitz (2001) that supplier value has a significant association with the level of corporate governance. The related literatures suggest reasons for a positive

relationship between supplier value and poor corporate governance, as found in Watson and Head (2007) and Shleifer and Vishny (1997). Their mutual agreement with the fact that an increase in the cost of capital leads to a reduction in corporate governance levels, is convincing in this study. The reason suggested is in line with the issue of 'fat cats remuneration'. The former study refers to the issue by looking into sales-linked remuneration while the latter is discussed from the profit-linked remuneration perspective. Both believe that when sales or profits are linked with remuneration, managers are tempted to take all possible ways to achieve it, including creative accounting. This immediate effect will be a problem of 'overtrading' caused by the high cost of capital without sufficient finance. The recent crisis with the Northern Rock Building Society may provide the best example.

From the social and environmental perspectives, it was found that poor governance is best associated with no enforcement of suppliers' social and environmental performance. This concurs with the view that poor corporate governance has no enforcement of risk management and internal control (Humphrey and Schmitz, 2001). In Malaysia, the government has introduced the 'Red Book' for Government-Linked Companies (GLCs) as a guideline in their procurement process. However, the result in the descriptive statistics (see Figure 10) found that few companies are complying with the guidelines due to their recent introduction in 2006. Companies may need some time to adapt the guidelines into their respective environments. Further study may also need to highlight this issue to assess whether the adaptation has been made or not.

Another significant relationship (p= 0.007) is found in employee value, where it is suggested that a poor governance company may have less total remuneration for employees, no training effort and no environmental impact. The negative correlation is significant at -7.117. Thus, the null hypothesis is rejected and the alternative hypothesis 3 is accepted. This result is also similar to the result found by Williams (2000) and Shleifer and Vishny (1997). The possible reason identified in these literatures are that more remuneration and training implies that more intellectual capital is parked in the company and more remuneration will win employees' loyalty as they are in a better position to hold up the firm's reputation. The link with corporate governance is explained by the characteristics of board independence and remuneration policy. An Independent board and good remuneration linkage (which is not narrowly focused on sales or profit-alike per se) may avoid fettering and, thus, drive decision making to meet ever-changing environment needs by equipping the firm with sufficient and efficient intellectual capital.

For hypothesis 1, the null hypothesis that there is no association between customer value with corporate governance level will not be rejected, as the significance level yields a p=value of 0.785. The statistically insignificant relationship found in customer value indicates that the use of sales as a variable may not be a good proxy for customers' economic benefit. This is because sales are also a proxy of size. Hence, this indicates that the GRI indicator for customer economic benefit may need some modification in future studies. Other research such as Deakin and Konzelmann (2004) suggest cash received as a more suitable indicator than sales, as sales figures are open to manipulation. Moreover, there is no literature to support the view that there is a significant relationship between quality implementation and reduced energy effort to corporate governance level. This is supported by the data presented in Figures 8 and 10 that indicate the differences between the implementation of quality control of 'yes' and reduced energy effort of 'yes' to otherwise ('no') are very small, hence signifying

that the difference is not significant. The only explanation for the difference may be explained by the difference in sizes, and not the corporate governance level.

The insignificant result of the association between public sector value with corporate governance level (p value= 0.139) render the null Hypothesis 4 to be accepted. The justification for the absence of relationship may be rooted from the fact that previous scholars have no consensus that higher tax payment may implies good corporate governance. From the behaviour standpoint, Potts and Matuszewski (2004), Desai et. al.(2007) and other scholars believe that tax payment can deter manager behaviour from exploiting the firm's earnings for self-benefit transaction. However, other scholars like Erickson et al. (2004) and Desai and Dharmapala (2006) argue that tax payment cannot guarantee alignment of management behaviour because some companies deliberately overpaid their taxes to avoid arousing suspicion from tax authorities, regulators, and investors through complex transactions. If this is true, then tax payment cannot serve as an appropriate variable to measure economic benefit to the public.

Finally, hypothesis 5 is rejected and replaced with a null hypothesis that there is no association between investor value and corporate governance level, as the significance level is 0.168, which is considerably way far from the estimated level of significance (0.05). This indicates that although the test of association found a negative correlation between the corporate governance level and investor value, it is insignificant to study the relationship. The reason for the lack of a relationship between interest and dividend payments with corporate governance is that some scholars reject the view that a relationship exists between these variables. This is because, in their opinion, the best indicators for investor value are share price, return on equity, return on assets and earning before income tax, deprecation and amortisation (Gill, 2002; Deutsche Bank; IOD, 2004; Bradley, 2004; Pitelis, 2004; Abdullah, 2006). Additionally, although it was explained in the literature review that investors support companies that create returns on the economy and society, this does not necessarily apply to all investors. Lydenberg (2007) argues that Universal and Social investors are theoretically inclined to seek returns that benefit society and the environment as a whole, while the tenets of modern portfolio theory lead the Rational Investor to seek returns based primarily on market price. Furthermore, Vyvyan et al. (2007) also found no significant relationship between donations to the environment and society with investor value because financial performance is still the most influential factor when it comes to investment decision making. This is especially true in Malaysia where companies have less emphasis on the social and environmental aspects, as they are still trying to improve their economic bottom-line to satisfy the appetites of investors (Amran and Zakaria, 2007).

Figure 11: Dependent Variable Encoding

Original Value	Internal Value
Good governance companies	0
Poor governance companies	1

Figure 12: Categorical Variables Coding

	Frequency	Parameter coding

			(1)
Presence of whistle-blowing procedure / anti-bribery effort	no	87	1.000
	yes	14	.000
Evidence of quality of products	no	42	1.000
	yes	59	.000
Evidence of environmental performance consideration of suppliers	no	80	1.000
	yes	21	.000
Evidence of social consideration in procurement process	no	80	1.000
	yes	21	.000
Significant environmental impact as a result of production of product and services (represent employee activity)	No	100	1.000
	Yes	1	.000
Presence of fines for non-compliance	No	100	1.000
	Yes	1	.000
Presence of training	yes	73	1.000
	no	28	.000
Use of renewable energy / reduced energy usage	no	46	1.000
	yes	55	.000

Conclusion

Corporate governance objective evolves from a mere shareholder interest (agency theory) to stakeholders (stakeholder theory) and the Triple-Bottom Line (legitimacy theory). However, there still issue of 'corporate psychopath' which obstructs the effort to deliver benefit accrued to these parties. Following this issue and aftermath East financial crisis in 1997, various corporate governance and sustainability mechanism have been implemented to improve corporate governance level among Malaysian companies such as Malaysian Code of Corporate Governance (MCCG), the 'Silver Book' guidelines, the 'Red Book guidelines', the 'Green Book' guidelines, National Economic Policy and other efforts by the Government of Malaysia. This shows that issue of corporate governance and Triple Bottom-Line (TBL) are inextricably linked with one another.

There has been little empirical work done to study the link between corporate governance and sustainability (from stakeholder perspective) in Malaysia. This study has to some extent dwell further on this issue, by investigating the relationship between stakeholder added value and corporate governance level.

The data is assessed by taking into account differences in sizes as intriguing in previous literatures, which suggest that size has an important effect to corporate governance. The

linkage between stakeholder and TBL is in agreement with the theory of stakeholder and legitimacy. Logistic regression is used to investigate relationship between the five stakeholder added values with corporate governance. The outcome of the study is that there is a significant relationship between supplier, and employee added values with corporate governance and not so for customer, public and investor added values. The compelling reason suggested by the literatures are that customer added value is still depends on product market competition and company's view in Malaysia is narrow to the economic bottom-line as they are still struggling to improve the economic bottom-line to satisfy the appetites of investors. Whereas for the public added value, tax payment may not serve as a good variable as it implies both good and poor behavior of manager. In terms of investor value, the only investor group that value society and environment of the company are the universal and social investors, whereas rational investors are still seeking returns based primarily on market price. Even from agency theory perspective, capital market cannot act as a good governance mechanism. In relation to stakeholder theory, it is not implausible to say that stakeholder theory is not fully reflect the Malaysian corporate governance scene as the theory demand a balance maximization interest of all stakeholders, and not only a few. Thus, the following recommendation may provide some information for poor corporate governance to boost their TBL performance. As corporate governance is only associated with the supplier and employee, the following recommendation may be helpful to reduce agency cost and increase value added spilled to stakeholder and the TBL:-

- Increase total remuneration to staff, provide training and maintain no environmental impact during production process
- Adjust their policy and comply with 'the red book' guidelines of procurement and reduce the excess outflow of cost of sales so as to improve their corporate governance level
- Where necessary, the level of remuneration should not be way too low from the mean suggested in figure 10 (11.92% of total revenue) and the total cost of sales should not bee too high from the benchmark 65.09% (of total revenue).
- Increase awareness about corporate governance to staff, not to directors per se.
- Increase independent of board through presence of outside directors and management incentives, which serve to align management interest to employees welfare
- Reduce their tax payment, establish whistle-blowing procedure and maintain no fines on environmental breach.

Other than that, this study is a piece of contribution to the growing body of research in corporate governance and sustainability sphere. Indeed, it differs from prior research such as Galbreath et. al. (2008) and Muhammad Arif et. al. (2007) in many ways. First, this study is one of the first to investigate corporate governance and sustainability from stakeholder perspective. The combination of stakeholders' added value and triple-bottom line performance is tricky, but prove to be possible in this study. This is a combination of agency, legitimacy and stakeholder theories. Often, companies find it confounded to demonstrate their responsibility to the stakeholders, shareholders and triple-bottom line at a time. Thus, the enhanced model in this study may offer an idea for paradigm shift to companies, especially those at the bottom of corporate governance rank.

Secondly, the study also adds value to the previous research done by Muhammad Arif et. al. (2007) by adjoin sustainability aspect into the investigation of corporate governance level. More importantly, the result found in Muhammad Arif et.al. (2007) has been incorporated in

this study, which is size as a factor. Thus, for those wish to investigate between corporate governance level and its effect to company's characteristic (size) and triple-bottom line, may find this paper helpful. Furthermore, the criteria of TBL disclosed might significantly contribute to the corporate rating agencies which current insight has some degree of economic performance and corporate governance. Thus, this study may serve as a guideline to improvise their existing metrics, hence increase sustainability awareness among companies. As the study centered on developing countries, using Malaysia as a representative, the model may be applied to other developing countries as well. Other non-developed or developed countries may also want to consider the theory found in this study. Besides, it can also benefit Malaysia or any developing countries in the development of sustainability rating such as those have been practiced extensively in developed countries, for instance FTSE4GOOD in United Kingdom.

The present study offers several important findings to the literatures. Yet, there are some limitations to the study as well. First, due to the limited time given, the study only investigates information that can be captured from the financial statements, and ignores any TBL activities carried out beyond the financial statements. Another limitation of this study is the nature of the sample itself. Although the degree of homogeneity in terms of corporate governance criteria is high within the respective groups, it is highly likely that companies that have set up separate foundations may have been contributing more to TBL, regardless of their level of governance.

Finally, this model needs a progressive development and testing to other domain to be more robust and acceptable. Where possible, ample of time should be allocated to refine the limitation of this study

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