DIRECTORS EDUCATED IN WESTERN COUNTRIES AND CORPORATE SOCIAL DISCLOSURE: EVIDENCE FROM VIETNAM

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Abstract

This study investigates the effect of directors educated in Western countries on corporate social disclosure (CSD) of Vietnamese listed firms. CSD is measured based on the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. The 2014 annual reports of a sample of the firms listed on Ho Chi Minh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) in Vietnam were examined to assess the extent of CSD and the impact of directors educated in Western countries on CSD. This study reports a low extent of CSD in the annual reports of Vietnamese listed firms. The finding shows a significantly positive relationship between the proportion of directors educated in Western countries on the board of directors and CSD. Evidence from this study extends the existing CSD literature on emerging economies and providing valuable insights to Vietnamese policy makers in better understanding Vietnamese listed firms' CSD practices to develop and improve the reporting framework.

Key words: board of directors, directors educated in Western countries, corporate social disclosure, Vietnam

JEL Code: G39, I23, M14

Introduction

Recent empirical studies have shown an increasing trend of corporate social responsibility disclosure, of which CSD in this paper is an integral part, in the annual reports of firms in developing countries (Haji, 2013). However, the understanding of CSD practices in Vietnamese firms is still poor because it is perceived as philanthropic activities. Bui (2010) also shows that the main reasons why Vietnamese firms pay almost no attention to CSD is because they do not understand how a firm impacts on society, they lack financial resources and a legal framework. These factors have discouraged firms from adopting CSD in their corporate policies. Struggling with environmental damage, fair labor standards, food health safety and sustainable development, Vietnam has suffered from a lack of responsible business for a long time. When Vietnam joined the World Trade Organization (WTO) in 2007, firms are changing their approaches to make CSR work in favor of their competitive position in global trade.

In spite of an increasing trend of CSD in Vietnamese firms recently, there has not been the research examining the effect of directors educated in Western countries on CSD in Vietnamese listed firms. Therefore, this study intends to narrow the research gap to examine this effect.

1 Literature and Hypothesis

Previous studies mainly examine the impact of gender directors on corporate social responsibility or corporate social performance. Research already suggests that firms with a higher percentage of female board members have a higher level of charitable giving (Williams, 2003), enhanced work environments (Bernardi et al., 2006) and better corporate social performance (Hafsi & Turgut, 2013).

Vietnam is the focus of this study, but only one study (Vu et al., 2011) has examined the impact of corporate governance on voluntary disclosures, including the social disclosure of 45 Vietnamese listed firms in 2008. Controlling for the influence that ownership structure can have on voluntary disclosures, they find low voluntary disclosure levels among Vietnamese listed firms. There are higher levels of disclosure relating to director and senior management details but far lower in regards to social issues. State ownership is negatively related and managerial ownership is positively related to the disclosure level. Moreover, larger firms are positively associated with voluntary disclosure.

Organizational practices stem from political, educational, and labor systems and, therefore, are highly correlated with national cultures (Hofstede, 1983). Because legalities and other environmental directives vary by country and geographic locations, directors educated in Western countries with cultural backgrounds and experiences may shape their views on corporate social disclosure policies. It is noted that the development of the concept of corporate social responsibility has been carried out mainly in Western countries, from the 1950s when literature focused on responsibility of businessman (Bowen, 2013). The various corporate social responsibility initiatives have also materialized in recent years in Western countries. Hence, directors' behavioral dispositions toward CSD are guided not only by the legal context that they are most familiar with but also by characteristics of the culture which they were educated.

From the advisory perspective of governance, the idea that directors' knowledge and culture directly affects corporate social performance and CSD has roots in resource dependence theory (Pfeffer & Salancik, 1978). Resource dependence theorists argued that a firm's socially improved relationships with its constituencies may bring economic benefits and is probably the central tenet in managers' quest for socially responsible activities. Resource dependence theory offers the rationale for the board's function of providing critical resources to the firm including legitimacy, advice, and counsel (Hillman & Dalziel, 2003). Additionally, society nowadays is demanding that the economic development of firms be concomitant with their moral development (Labelle et al., 2010). The moral development of a firm can be classified according to the degree to which its social responsibility is recognized and blended with its economic mission. Given Western countries's rise in corporate social responsibility regulation and the expectations that attitudes toward CSD may vary by culture, this study anticipates higher CSD in firms with a higher proportion of board members educated in Western countries.

Hypothesis: Firms whose boards have a higher proportion of directors educated in Western countries exhibit more CSD.

2 Methodology

2.1 Measuring CSD

Content analysis is used to measure CSD because it has been used extensively in the field of corporate social responsibility (Abeysekera & Guthrie, 2005). The relevant information in annual reports are used to examine the CSD practices of Vietnamese listed firms. Annual reports are the central source of corporate communications to investors and other stakeholders, and are widely used by firms for various social disclosures (Abeysekera, 2012). To ensure consistency, only one of the authors coded all the annual reports and a set of basic coding rules was constructed to ensure reliability and validity. This was repeated after two weeks (Haji, 2013) in order to avoid the possibility that the first and the second scoring might influence each other (Weetman & Ghazali, 2006).

This study uses the Global Reporting Initiative (GRI) 3.1 index, the social indicators in particular, to measure CSD practices in Vietnam. Currently, the GRI is the most widely used framework to assess and measure Sustainability Reporting, including CSD (Hopkins, 2012). The social indicators in the GRI 3.1 index identify key performance aspects surrounding labour practices, human rights, society, and product responsibility. They consist of four aspects, including 15 items of labour practices and decent work indicators (LA1 to LA15), 11 items of human rights indicators (HR1 to HR11), 10 society indicators (SO1 to SO10), and 9 product responsibility indicators (PR1 to PR9).

An un-weighted disclosure quantity index is used to examine the presence of the different items of the checklist using binary scores. This approach is consistent with CSR disclosure studies in emerging capital markets (Haji, 2013). The disclosure of an item within the check list in the annual reports is scored (1), while the non-disclosure of an item within the check list in the annual reports is scored (0). The scores for each item are then added to compute a total disclosure score for a particular firm. The CSD score (CSD_INDEX) for each firm is measured by the ratio of actual items disclosed, divided by the maximum possible items that could have been disclosed.

2.2 Measuring directors educated in Western countries

Using annual reports, this study compiled the list of directors about directors' education for the listed firms for the boards in the sample. Firm websites were perused for any information the reference materials could not supply. The directors educated in Western countries (WEST_EDU) in this study was measured by the proportion of directors educated in Western countries on the board of the firms in the sample.

2.3 Control variables

This study controls for firm characteristics such as return on assets (ROA), auditors (AUDIT), leverage (LEV) and stock exchange location (STOCK_EX) which have been shown to influence CSD in previous studies (e.g., Vu et al., 2011). Studies document that ROA, measured by net profit over the total assets of firm, is related to CSD (Lu & Abeysekera, 2014). Additionally, it is on the basis that highly reputable audit firms, such as the 'Big Four' auditing firms, are likely to improve their perceived audit quality by encouraging their clients to participate in disclosing more information (Ahmad et al., 2003). AUDIT is a dummy variable that is one if the audit firm is one of the Big Four audit firms and zero otherwise.

In order to reduce agency costs and improve information asymmetry, managers of firms with higher leverage may disclose more information to provide creditors, suppliers and investors with more assurance that the firm can meet its financial obligations. Some previous studies find a significant association between leverage and CSD (Amran & Devi, 2008) . LEV is calculated by ratio of total liabilities to total assets of firm. STOCK_EX is also used as a control variable in this study, taking one if the firms are listed on Ho Chi Minh stock exchange and zero for firms listed on the Hanoi stock exchange.

2.4 The relationship between directors educated in Western countries and CSD

This study tested the hypothesis regarding the effects of directors educated in Western countries on CSD, using an OLS estimator. The regression function is:

$$CSD\_INDEX_i = \alpha_0 + \alpha_1 WEST\_EDU_i + \alpha_2 STOCK\_EX + \alpha_3 AUDIT_i + \alpha_4 ROA_i + \alpha_5 LEV_i + \varepsilon_i \qquad (1)$$

Where: CSD_INDEXi = firm i's a CSD index; WEST_EDUi = firm i's the proportion of directors educated in Western countries on the board of the firms in the sample.

As the purpose of this study is to examine the effect of directors educated in Western countries on CSD, the main focus here is the coefficient on WEST_EDU. If directors educated in Western countries results in more CSD as contended in our hypothesis, then the coefficient on WEST_EDU should be positive and significant in the regression. study controls for firm characteristics such as return on assets (ROA), auditors (AUDIT),

2.5 The sample

This study examines the annual reports during the year ended 31 December 2014 to capture the extent of CSD of Vietnamese listed firms. The annual reports are retrieved from HOSE and HNX's websites and company websites. Firms in the finance sector operate under tighter regulatory environment and are possibly subject to other disclosure requirements forcing several previous CSR studies to not consider them along with non-finance firms (Haji, 2013; Haniffa & Cooke, 2005). Hence, banks and financial institutions are excluded in this study. A sample of 164 firms listed on HOSE and HNX was selected. Data required for the directors educated in Western countries is hand-collected from the 2014 annual reports and on firm websites.

3 Results

Table 1 summarises the score of CSD (CSD_INDEX) and its four subcategories information (i.e labour practices, human rights, society, and product responsibility). The score of CSD

(CSD_INDEX) ranges from 6.67 per cent to 53.33 per cent with a mean of 22.02 per cent, which reveals that the score of CSD of listed firms in the sample are low. This is because CSD practices are relatively new in Vietnam (Vu et al., 2011). Our result is consistent with Vu et al. (2011)'s examination of the quantity of voluntary disclosure, including social disclosure in Vietnam. Related to CSD's four subcategories information, the highest disclosure level is for Labour practices and decent work indicators (mean of 36.50 per cent) and the lowest is Human rights indicators (2.99 per cent). The number of firms disclosing items regarding the human rights aspects is the lowest, which is consistent with Lu and Abeysekera's (2014) study on listed firms in China, because these aspects are socially sensitive in Vietnam and there are less social support mechanisms and poorly implemented frameworks to protect workers' human rights (Azizul Islam & Jain, 2013).

Tab. 1: The score of CSD (CSD_INDEX) and its four subcategories.

	Max	**Min**	**Mean**	**SD**
CSD_INDEX	0.5333	0.0667	0.2202	0.1006
Labour practices and decent work indicators (15 items)	0.8667	0.0667	0.3650	0.1677
Product responsibility indicators (9 items)	0.6667	0.2222	0.3482	0.1197
Human rights indicators (11 items)	0.6364	0.0000	0.0299	0.0977
Society indicators (10 items)	0.5000	0.0000	0.0970	0.1137

Source: own analysis from annual reports of Vietnamese listed firms.

Table 2 describes the mean, standard deviation, minimum and maximum of the independent variable and the control variables used to analyse the impact of directors educated in Western countries on CSD in the sample of 164 Vietnamese listed firms. The proportion of directors educated in Western countries on the board of the firms in the sample ranged from 0 to 80%, with an average of 7.49%. Related to the control variables, the Ho Chi Minh Stock Exchange includes 108 (65.85 per cent) of the 164 listed firms in the sample. Only 23 (14.02 per cent) of the 164 firms in the sample use the Big Four auditing firm. The mean of ROA is 0.0791, which is similar to the 0.07 reported by Vu et al. (2011) for a sample of 45 Vietnamese listed firms in 2008. The average of leverage (LEV) is 46.19 per cent (with a range of 6.48 to 85.27 per cent).

Tab. 2: Descriptive Statistics for independent and control variables. Source: own

Variables	**Max**	**Min**	**Mean**	**SD**
Independent variable				
WEST_EDU	0.8000	0.0000	0.0749	0.1501

Control variables				
STOCK_EX	1.0000	0.0000	0.6585	0.4757
AUDIT	1.0000	0.0000	0.1402	0.3483
ROA	0.3886	-0.1689	0.0791	0.0772
LEV	0.8527	0.0648	0.4619	0.2085

This table shows the summary statistics for the independent and control variables used in this paper. The sample consists of 164 firms listed on the Hochiminh and Hanoi stock exchanges for the 2014 sample. WEST_EDU = the directors educated in Western countries measured by the proportion of directors educated in Western countries on the board of the firms in the sample; AUDIT = 1 if firm's auditor is a Big 4 and 0 if otherwise; ROA = net profit over the total assets; STOCK_EX = 1 if the firms listed on HOSE and 0 for firms listed on HNX; LEV = the ratio of total liabilities to total assets of firm.

Table 3 shows the pair-wise correlation coefficients between all combinations variables. As expected, the directors educated in Western countries (WEST_EDU) is significantly and positively correlated with CSD_INDEX with coefficient of 0.2470.

Tab. 3: Correlation matrix. Source: own

		1	2	3	4	5	6
1	CSD_INDEX	1					
2	WEST_EDU	0.2470*	1				
3	STOCK_EX	0.3245*	0.2230*	1			
4	AUDIT	0.2961*	0.1629*	0.1797*	1		
5	ROA	0.1824*	0.0456	0.1397	0.0424	1	
6	LEV	0.0213	0.1162	-0.1168	0.133	-0.3738*	1

* p value ≤ 0.05. Please see below Table 2 for description of each variable.

This study checks the variance inflation factor (VIF) for the regression analysis and finds that the maximum VIF is 1.23, which is less than 10 for the regression model, so multicollinearity does not seem to be a problem in the empirical models tested in this study (Gujarati & Porter, 2009).

To confirm whether or not heteroscedasticity exists, this study uses the Breush-Pagan test. If the p-value is not significant, then the null hypothesis not rejected, and that is the variance of the residuals is constant. If the p-value is significant, then the null hypothesis would be rejected, suggesting the presence of heteroscedasticity. The test shows that that p-value is significant (p = 0.0118) and the null hypothesis is rejected, indicating the presence of heteroscedasticity (untabulated results). To correct the possible influence of heteroscedasticity, this study uses ordinary least squares (OLS) regression with heteroscedasticity robust standard errors (White, 1980) to test the impact of the directors educated in Western countries (WEST_EDU) on CSD (CSD_INDEX).

Table 4 provides the result of the test of the hypothesis where CSD_INDEX is the dependent variable, and WEST_EDU is the independent variable. The table shows that the coefficient estimate of WEST_EDU are positive and significant (p-value of 0.029), which suggests that firms whose boards have a higher proportion of directors educated in Western countries exhibit more CSD, confirming the hypothesis.

Tab. 4: The impact of the directors educated in Western countries on CSD. Source: own

	WEST_EDU	STOCK_EX	AUDIT	ROA	LEV	Constant
Coeff.	0.0967	0.0506	0.0620	0.2042	0.0301	0.1409
p-value	0.0290	0.0000	0.0130	0.0220	0.3720	0.0000
Significance	**	***	**	**		***

R^2 = 0.2067, F statistic = 9.32, p-value = 0.000, N = 164 firms.

*, ** and *** denote significance levels at 10%, 5% and 1%, respectively.

The results for the control variables shown in Table 4 indicate there is a significant positive association (p value = 0.013) between AUDIT and CSD_INDEX which suggests that CSD is higher for firms audited by the Big Four audit firms, which is consistent with prior studies (e.g., Uwuigbe & Egbide, 2012). ROA shows the positive and significant coefficient (p value = 0.022), which suggests that firms that perform better financially are associated with more CSD, which is consistent with the literature (Lu & Abeysekera, 2014). Interestingly, STOCK_EX is positively and significantly (p value = 0.000) associated with CSD_INDEX, which indicates that firms listed on HOSE are reported to engage in significantly higher CSD than firms listed on HNX. LEV is not significantly related to CSD, as in prior studies (e.g., Haji, 2013; Lu and Abeysekera, 2014).

4 Conclusions

This paper investigates the effect of the directors educated in Western countries on CSD of 164 Vietnamese listed firms in 2014. The result provides evidence supporting the hypothesis (i.e. firms whose boards have a higher proportion of directors educated in Western countries exhibit more CSD). Based on resource dependence theory (Pfeffer & Salancik, 1978), members of the board of directors is considered as an important strategic resource for organization and contribute to CSD. Directors educated in Western countries rise in corporate social responsibility regulation and attitudes toward CSD. Therefore, they have a positive impact on CSD.

The results of this paper, which demonstrate the current CSD practices of Vietnamese listed firms as well as the positive impact of directors educated in Western countries on CSD of these firms, will benefit regulators in better understanding firms' CSD practices to improve the current guidelines on the CSD of Vietnamese listed firms.

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