Effects of Corporate Social Responsibility and Corporate Governance on Firm Value: Empirical Evidences of the Listed Companies on the Stock Exchange of Thailand in the SET100

Watcharapong Tunpornchai
Faculty of Business Administration, Kasetsart University, Thailand
E-mail: pol_taro@hotmail.com

Surang Hensawang
Faculty of Business Administration, Kasetsart University, Thailand
E-mail: fbussum@ku.ac.th

Abstract

This study demonstrates the empirical impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) on Firm Value (FV). The CSR was measured using the CSR index developed by KLD Research & Analytics, Inc (KLD rating model). The CSR was categorized into the following six areas including (1) environment, (2) community, (3) diversity, (4) employee relations, (5) product, and (6) corporate governance, CG was measured by the proportion of ownership structure, institutional ownership structure, and board structure. Additionally, firm value was calculated by market value using Tobin's Q. The results revealed that the average overall CSR Score of 0.7997. Employee relation exhibited the highest score of 0.9625. On the other hand, community had the lowest score of 0.5625. Multiple regression analysis result revealed a positive overall effects of CSR and CG on FV. All six areas of CSR demonstrated consistent results with positive significant effects.
Keywords: Corporate Social Responsibility, Corporate Governance, Firm Value, KLD Rating

Introduction

Corporate Social Responsibility (CSR) is voluntary thing and improves environments, socials, economies, as well as the image of company's stakeholders. CSR leads to development sustainability (Dahlsrud, 2006), and it is a trend for new business era due to intangible advantages to improve their image, customer loyalty, differentiate, sustainability, and connection between their business and society (Prariyamekin, 2009). In Thailand, all companies listed on Thai Stock Market are required to present their CSR activities in Sustainability Reports. These report seem to show that CSR is primarily used as marketing and management tool. On the other hand, in regard to the financial dimension, CSR has never proved effective because it only contains nonfinancial information or nonfinancial factors, (Kim & Kim, 2014), especially manifested influence on firm value presented by empirical evidence.

Corporate Governance (CG) became of interest around the world after the Asian economic crisis of 1997 which wildly impacted to South East Asia, as well as the economic crises in the United States of America which all derived from lacking of corporate governance for instance financial statement manipulation. CG has been studied because businesses and relevant people believed that CG is a solution (Antony, 2012). A number of studies revealed that CSR is relevant to and is associated with CG. Jamali, Safieddine and Rabbath (2008) summarized that CG is an important pillar of CSR contributing to sustainability. In a financial study, it is

very challenge to indicate and measure the impacts of the CSR and the CG activities for financial performance of the Listed Companies on the Stock Exchange of Thailand in the SET100.

The CG is a key for reducing agency problems and agency cost. The theoretical background is mentioned by Jensen and Meckling (1976). The objective for businesses is to create maximum wealth and value for a corporation and its shareholders. It is impossible that only owners are able to manage their organizations when becoming companies. Hiring agents is a solution to help in management. In fact, agents are not owners, so resources might be exceedingly applied due to managerial behavior or conflict of interest which are called "*Agency Cost*". Additionally, CG is a mechanism for reducing agency costs to achieve the objective of maximum wealth and value for corporation.

Recently there have been a greater interest in CSR in Thailand. However, no evidences of CSR in financial dimension has been yet discovered. Bhimani and Soonawalla (2005) pointed out that CG and CSR were a part of each other, building from consistency of corporate conformance, lead to corporate performance. Therefore, CSR measurement should include CG as an indicator. According to research reviews, evaluation of CSR in several financial aspects mainly employ the KLD Research & Analytics, Inc. or KLD Rating model. This model is based on environment, social, and governance aspects, composed of six CSR variables mentioned above. Each variable has a combined strength part and concern part. (Goss, 2007; Ilacqua, 2008; Phelan Ribera, 2010). Similarly, The KLD Rating model enclosed with CG activity evaluation illustrates the association of CSR and CG. More importantly, KLD rating is a widely accepted method to measure CSR in financial research in United States of America, United Kingdom and many other countries throughout the world. This criterion emphasizes on strength but is also concerned with environment, social and governance aspects. (Verbenko, 2011; Formukong, 2014) Therefore, this research applies KLD rating model to measure CSR.

Suruhanjaya Sekuriti (2011) indicated that corporate governance is a process or structure, used to direct and manage company to maximize its wealth or achieve goals by focusing on the important of stakeholders and long-term shareholders. Nowadays, various aspects of for instance testing the effect on firm performance or market value in financial research all around the world, for example Black (2001), Render, Gaeremynck and Sercu (2010), as well as Bubbico, Giorgino and Monda (2012) studied Corporate Governance Index (CGI) with market value. Such studies revealed a positive correlation between CGI and market value. Normally, CG studies the measured of firm value through financial ratios as proxy, as well, numerous studies that applied Tobin's Q to estimate firm value, market value, and firm performance due to reflecting the quality of a firm or project (Morck, Shleifer and Vishny, 1988; Lang, Stulz and Walking, 1989).

Research Objective

This research aimed to measure and examine the CSR scores and to investigate the effects of CSR and CG on firm value of the Listed Companies on the Stock Exchange of Thailand listed in the SET100.

Research Methodology

Samples

The samples in this study were the listed companies on the Stock Exchange of Thailand in the SET100. These companies were selected because they are highly traded, vary more than the SET50, and more stable than the MAI group. The sample comprised of companies listed on the SET100 as of 1 January 2015.

In additions, sample size was determined by the Rule of Thumb where as if the population is less than 100, 80 percent of population can be acceptable as a sample size (Baker, 2012). As a result, the sample size consisted of 80 companies listed on the SET100.

Since, the sample must be consistent with the KLD rating model, purposive sampling was employed due to data availability. Firstly, 12 companies with Sustainability Reports were selected. Next, 68 companies having CSR information in their annual reports and 56-1 Forms were subsequently chosen. Finally, 80 companies were used as the sample for this research.

Data Collection

This research used secondary data. CSR data was gathered through 2014 corporate annual reports, 56-1 Forms and Sustainability Reports of these companies in the SET100. Additionally, CG data wes collected from 2014 financial statements and 2014 corporate annual reports. Firm value was used to calculate Tobin'Q that was collected from 56-1 Forms of 2015.

Data Analysis

CSR measurement and Scoring: CSR was calculated based on the KLD rating index (KLD Research & Analytics, Inc, 2012). The data was adjusted according to the operational definitions of CSR variables and sub-variables of the KLD rating process to fit Thailand's data availability.

Table 1 Criteria of CSR Scoring adjusted from KLD Research & Analytics, Inc.

Area	Criteria	Score
1. Environment (CSREN$_i$), Strengths	Businesses receive revenues from innovative remediation products, environmental services, or products that encourage using energy saving, or developing innovations regarding environmental beneficial products.	Yes: 1 Point No: 0 point (Considered from business categories)
	Businesses have pollution reduction programs including emissions reductions programs.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports or official website information)
	Businesses have materials recycling system or are businesses in the recycling industry.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports or official website information)
	Businesses have revenues from alternative energy including natural gas, wind power, solar power, and the promotion of energy efficiency.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports or official website information)
Concern	Businesses use ozone depleting chemicals such as methyl chloroform, methylene chloride, HCFCs, or bromines.	Concern: 0 Point Not concern: 1 point (Considered from the business category)
	Businesses gain revenues from agrochemicals and pesticide sale.	Concern: 0 Point Not concern: 1 point (Considered from the business category)
	Businesses having liabilities resulting from toxic waste or businesses having been fined from toxic or hazardous waste.	Concern: 0 Point Not concern: 1 point (Considered from corporate annual reports)
	Businesses having been fined in environmental case disputes.	Concern: 0 Point Not concern: 1 point (Considered from financial statements)
	Businesses that cause water and air pollutions.	Concern: 0 Point Not concern: 1 point (Considered from the business category)

Table 1 (Con.)

Area	Criteria	Score
2. Community (CSRCM$_i$) Strengths	Businesses have donation policies.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports, Sustainability Reports, and other documents)
	Businesses originate or have innovative programs that support nonprofit organization. Businesses that do not destroy economic system.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports, Sustainability Reports, and other documents)
	Businesses cooperating with alliances or partners to support people's accommodations without damaging economic system.	Have: 1 Point Do not have: 0 point (Considered from the business category)
Concern	Businesses having disputed cases related to the quality of life, tax, or asset of community.	Concern: 0 Point Not concern: 1 point (Considered from 56-1 Forms and accountant reports)
3. Diversity (CSRDV$_i$) Strengths	Businesses have female executives or female shareholders on their boards of directors.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports)
	Businesses have female senior executives or female CEOs.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports)
	Businesses have beneficial programs concerning work and employees' life.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports)
	Businesses have long term investment of other companies which are not be nominees.	Have: 1 Point Do not have: 0 point (Considered from financial statements)
Concern	Businesses having been fined or disputes in diversity issues such as, sexist, disability discrimination.	Concern: 0 Point Not concern: 1 point (Considered from corporate annual reports)
4. Employment Relations (CSRER$_i$) Strengths	Businesses have beneficial retirement programs.	Have: 1 Point Do not have: 0 point (Considered from corporate annual reports)
5. Product (CSRP$_i$) Strengths	Businesses having developed their products which are generally accepted in terms of quality for a long life.	Have: 1 Point Do not have: 0 point (Considered from the business's goodwill)
Concern	Businesses having disputes or ever paid fines regarding the safety and standard of products and services.	Concern: 0 Point Not concern: 1 point (Considered from corporate annual reports)
6. Corporate Governance (CSRGV$_i$) Concern	Businesses have opinion notes of auditors in financial statements.	Have conditions from auditors: 0 Point Do not have conditions from auditors: 1 Point

Note: Adjusted from KLD Research & Analytics, Inc. (2012)

CSR score of each (CSR LEVEL: CSRL)

$$CSR_i = \frac{Actual\ CSR\ Score\ of\ Area}{Full\ CSR\ Score\ of\ Area}$$

CSRT$_i$ = total CSR score of company i = Summation of all CSR area scores of company i

$$CSRT_i\ \frac{\sum Actual\ Total\ CSR_i\ Score}{\sum Full\ ScoreCSR}a$$

Effects of CSR and CG on Firm Value

The effects were examined through Multiple Linear Regression.

Dependent Variable

FV = Firm value of company i was measured by Tobin's Q (Luo and Bhattacharya, 2006; Bai, *et al.*, 2002; Black, Jang and Kim, 2006)

$$Tobin's\ Q_i = \frac{MV_i}{BV_i}$$

Whereas MV_i was the Market Value of company i calculated by its market capitalization. BV_i was the book value of company i measured by total equity.

Independent Variables

CSR Score increased $CSREN_i$, $CSRCM_i$, $CSRDV_i$, $CSRER_i$, $CSRP_i$ and $CSRGV_i$ which were measured and calculated as indicated above**.**

CG measurement

$OSI1_i$ = Ownership structure 1 measured by percentages of major shareholder (Ashbaugh-Skaife, Collins, and LaFond, 2004) (more than 5%). The major shareholder was determined by the percentage of more than or equal to 5%.

$OSI2_i$ = Ownership structure 2 measured by percentages of institutional shareholder (Fan, 2014).

BSP_i = Board structure and processes measured by percentages of CEO or board of directors who are not shareholders (Bradley, Chen, Dallas and Snyderwine, 2008).

Control Variables

FSIZE = Firm size of company i measured by Total Asset (Craig and Diga, 1998; Windener, 2006).

SALEG = Sales growth rate of company i compared to the year before. (McGuire, Sundgren and Schneeweis, 1988).

EBIT = Earnings of company i before Interest and taxes scaled by Total Assets (Goss, 2007; Phelan Ribera, 2010).

Model

The effects of CSR and CG were verified through Multiple Linear Regression in 2 equations of each CSR area. Since CSR and CG were indicators which consequently affected firm value. Therefore, time lag should be used to examine the effect. This research predicted the effects of CSR and CG to firm value by using the prior year's CSR and CG (2014) for affecting firm value of 2015. In other words, did CSR and CG activities of 2014 have an impact to firm value in 2015.

Equation 1

$FV_i = \alpha + \beta_1 CSRT_i + \beta_2 OSI1_i + \beta_3 OSI2_i + \beta_4 BSP_i + \beta_6 FSIZE_i + \beta_7 SALEG_i + \beta_8 EBITi + \varepsilon_i$

Equation 2

$FV_i = \alpha + \beta_1 CSREN_i + \beta_2 CSRCM_i + \beta_3 CSRDV_i + \beta_4 CSRER_i + \beta_5 CSRP_i + \beta_6 CSRGV_i + \beta_7 OSI1_i + \beta_8 OSI2_i + \beta_9 BSP_i + \beta_{10} FSIZE_i + \beta_{11} SALEG_i + \beta_{12} EBITi + \varepsilon_i$

Hypotheses:

Expected effects of CSR and CG on firm value were presented as follows:

H1: CSR score positively affects firm value. A positive affect was expected because CSR leads to development of sustainability (Dahlsrud, 2006).

H2: The proportion of major shareholders negatively affects firm value. A negative affect was expected because the large number of major shareholders are consistent with the small number of free float, resulting in influence to verification power, lack of transparency and empowerment. Free float was a mechanism to decrease agency problems (Vural-Yavas, 2016; Bhabra, 2007).

H3: The percentages of institutional shareholders positively affect firm value. A positive effect was expected because institutional shareholder was a transparency tool which is a strong monitoring mechanism (McConell, 1990).

H4: The percentages of CEO or board of directors who are not shareholders negatively affect firm value. A negative effect was expected because non corporate ownership of board of director could not decrease consume non-pecuniary benefits or perquisite. As a result, agency cost would be higher from managerial behavior (Ashbaugh-Skaife, W.Collins and LaFond,

2004).

H5: Firm size of company positively affects firm value. A positive effect was expected because large firm size usually had high market value and book value (Kang, Lee and Huh, 2010).

H6: Sales growth rate of company positively affects firm value. A positive effect was expected because an increase in sales would positively impact to company performance (Brush, Bromiley and Hendrickx, 2000).

H7: Earnings of company i before interest and taxes positively affects firm value. A positive effect was expected because the growing of EBIT can directly change firm value the same as SALEG (Autukatite and Molay, 2011).

Before accomplishing an analysis of Multiple Linear Regression, six assumptions underlying of multiple linear regression were tested using on Multivariate outlier by using the Mahalanobis Distance test which detected under 0.001, implying insignificant outlier. In addition, normality was examined by using Kolmogorov-Smirnov Test, resulting in over 0.05. Therefore a normal distribution was found. Homoscedasticity was also tested by using Scatter Plot. All graphs were not distributed systematically, implying homoscedasticity. Furthermore, Linearity was investigated by using Pearson Correlation Test which all variables were found under 0.05, implying linearity. Auto-correlation was tested by employing Durbin-Watson Test, which was found at 1.842, meaning no auto-correlation. Multicollinearity was tested by using VIF test which was found under 4.873, indicating no multicollinearity problem. As a Result, the all regression assumptions passed verification so that the data can be further analyzed with multiple linear regression as presented in the equation 1 and 2 above.

This research used Analysis of Variance (ANOVA) for robustness check. In financial research, ANOVA is a method to approve a model where a change of the method should not change the result (White and Lu, 2010; Salibian-Barrera, Aelst and Yohai, 2016).

Research Results Discussions and Recommendation

Descriptive statistics results are presented in table 2

Table 2 Descriptive statistics

Variables	80 companies			
	Minimum	Maximum	Mean	Std. Deviation
CSR Score $CSRT_i$	0.6200	0.9300	0.7997	0.0597
$CSREN_i$	0.4400	1.0000	0.6691	0.1406
$CSRCM_i$	0.0000	1.0000	0.5625	0.1844
$CSRDV_i$	0.4000	1.0000	0.8400	0.1506
$CSRER_i$	0.0000	1.0000	0.9625	0.1911
$CSRP_i$	0.5000	1.0000	0.7062	0.2476
$CSRGV_i$	0.0000	1.0000	0.9125	0.2843
CG (%) $OSI1_i$	11.5300	53.8400	30.3887	9.6296
$OSI2_i$	0.0000	88.2000	31.5291	24.5449
BSP_i	0.0000	100.0000	50.5215	26.6452
Control Varibles $FSIZE_i$ (Billion Baht)	1.8827	153.7888	40.8693	36.0254
$SALEG_i$ (%)	-35.5900	30.4300	5.1623	10.0693
$EBIT_i$ (Billion Baht)	-7.6111	11.3931	2.0920	2.6031
Tobin'Q (Times)	0.4600	0.9400	0.6980	0.1150

Table 2 illustrates the descriptive statistics consisting of the lowest value, the highest value,

mean, and standard deviation of variables. Considering the CSR of all the SET100 companies had totalCSR mean score ($CSRT_i$) of 0.7997, which is considered to be high. The highest CSR score was employee relationship (CSRER) representing the mean score of 0.9625. On the other hand, the lowest CSR score was in community (CSRCM) representing the mean score of 0.5625. As for CG of the the SET100 companies the proportion of major shareholders, institutional investors, and board structure exhibited the mean of 30.3887%, 31.5291%, and 50.5215%, respectively. Additionally, firm value measured by Tobin'Q showed that the mean of market to book value was equal to 0.6980 times.

Table 3 demonstrates the effects of CSR and CG on firm value tested by Multiple regression analysis

Table 3 Effects of CSR and CG on Firm Value

	B	t-Value	Sig.	R^2
Equation 1: $FV_i = \alpha + \beta_1 CSRT_i + \beta_2 OSI1_i + \beta_3 OSI2_i + \beta_4 BSP_i + \beta_6 FSIZE_i + \beta_7 SALEG_i + \beta_8 EBITi + \varepsilon_i$				
Intercept	.024	4.208	.000	.414
$CSRT_i$	.682	11.324	.000***	
$OSI1_i$	-.001	-1.382	.004***	
$OSI2_i$	.001	2.648	.009***	
BSP_i	-.001	-2.942	.004***	
FSIZE	-2.833E-14	-2.006	.046**	
SALEG	.000	-1.077	.282	
EBIT	4.444E-13	1.025	.306	
Equation 2: $FV_i = \alpha + \beta_1 CSREN_i + \beta_2 CSRCM_i + \beta_3 CSRDV_i + \beta_4 CSRER_i + \beta_5 CSRP_i + \beta_6 CSRGV_i + \beta_7 OSI1_i + \beta_8 OSI2_i + \beta_9 BSP_i + \beta_{10} FSIZE_i + \beta_{11} SALEG_i + \beta_{12} EBITi + \varepsilon_i$				
Intercept	.163	3.039	.003	.428
$CSREN_i$	.152	3.176	.002***	
$CSRCM_i$	.157	4.382	.000***	
$CSRDV_i$	.166	3.948	.000***	
Equation 2: $FV_i = \alpha + \beta_1 CSREN_i + \beta_2 CSRCM_i + \beta_3 CSRDV_i + \beta_4 CSRER_i + \beta_5 CSRP_i + \beta_6 CSRGV_i + \beta_7 OSI1_i + \beta_8 OSI2_i + \beta_9 BSP_i + \beta_{10} FSIZE_i + \beta_{11} SALEG_i + \beta_{12} EBITi + \varepsilon_i$				
$CSRER_i$	.092	2.680	.008***	
$CSRP_i$	.100	3.888	.000***	
$CSRGV_i$	.078	3.291	.001***	
$OSI1_i$	.000	-.828	.409	
$OSI2_i$	.001	2.955	.003***	
BSP_i	-.001	-2.916	.004	
$FSIZE_i$	-3.025E-14	-2.010	.046**	
$SALEG_i$	.000	-.878	.381	
$EBIT_i$	3.998E-13	.868	.386	

*, **, *** significance at 0.1, 0.05, 0.01 level, respectively

For equation 1, as shown in Table 3, equation 1 clearly illustrates $CSRT_i$ from the KLD rating which indicates a positively impact to firm value at 0.01 significance level with coefficient of 0.682. In addition, CG variables had significant impact on firm value. Moreover, clarified $OSI1_i$ had a negative impact on a firm's value at 0.01 significance level with a coefficient of -0.001 which is similar to BSP_i with coefficient of -0.001. $OSI2_i$ had positive impact on FV_i at 0.01 significance level with coefficient of 0.001. Clearly, the coefficient exposed more impact of CSR on firm value rather than CG. In addition, equation 1

had explanation power of impact of independent variable set to dependent variables at 41.4% ($R^2 = 0.414$).

For equation 2, the multiple regression analysis of the six CSR areas ($CSREN_i$, $CSRCM_i$, $CSRDV_i$, $CSRER_i$, $CSRP_i$, and $CSRGV_i$) revealed that all CSR variables significantly positively affected firm value at a 0.01 level of significance. The highest impact was $CSRDV_i$ with the coefficient of 0.166. Whereas, the lowest impact was $CSRGV_i$ with the coefficient of 0.078. The study revealed that all CSR variables impacted a firm's value with consistent direction. As for CG, only institutional ownership had significant impact on firm value. However, major shareholder ($OSI1_i$) and board structure (BSP_i) demonstrated insignificant impact.

The robustness check through ANOVA exposed that the F-test result was 0.023 at with 0.05 significance level. This evidence confirmed the reliability of the model even when the method was changed, but the result still remained the same as in from multiple regression.

This study confirmed the importance of CSR for increasing a firm's value providing empirical evidence consistent with previous studies. It is an accomplishment of the Stock Exchange of Thailand's policies that focus on CSR because CSR demonstrated high impact on firm's value, even though CSR still is voluntary. In addition, the impacts of CSR and CG on firm value were discovered which is consistent with previous studies for example Fadul (2004)**.** The multiple regression result in equation 1 exhibited the effect as hypothesized. Focusing on equation 2, institutional shareholders had a significant and positive impact on firm's value. This result may be caused by an effective monitoring mechanism of institutional shareholders. On the other hand, a board's structure did not significantly affect firm's value in relation to the percentages of CEOs or board of directors who were not shareholders. Therefore, the concern of a firm's value may not be strong. In addition, monitoring power may be low due to no benefit for CEO or board of directors as shareholders. Major shareholder did not significantly affect firm value because of the result from lack of active major shareholders.

Normally, CSR has been measured by marketing indicators in Thailand. This study contributed a new method of measuring CSR in Thailand by using the KLD rating.

Recommendation

According to the research result, companies should focus on CSR because significantly affects a firm value. In addition, companies should focus on improving the community area because this area score the lowest at 0.5625. In addition, companies should emphasize on diversity area because the regression illustrated the highest effect of firm value. Furthermore, major shareholders all in turn (free float) should be concerned due to significant effect in both equations to firm value. Since, Thai stock market determines policy that companies in listed on stock market need to manipulate a Sustainability Reports by using the GRI framework (Global Reporting Initiative), A further study on comparison between GRI and KLD criterion should be taken into account in order to discover an appropriate measurement.

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