

# Corporate Governance and CSR Linkages in Malaysian SMEs: Empirical Insights

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**Abstract:** *The purpose of this paper is to explore the effect of Corporate Governance (CG) on Corporate Social Responsibility (CSR) in Malaysian SMEs. It also examines the moderating impact of institutional factors in the relationship between CG and CSR in Malaysian SMEs. A quantitative, cross-sectional research design was employed, using survey data collected from manufacturing SMEs across Malaysia. Unit analysis of the study is company level and random sampling was adopted to collect the sample for this study. A total of 125 responses were returned in completed form from self-administered structured questionnaires dispatched to 1500 manufacturing SMEs. The data were analysed using structural equation modelling, complemented by descriptive statistics. Results showed Board size, board independence and family ownership have effect on CSR meanwhile surprisingly institutional factors did not moderate the relationship between CG and CSR. This study provides relevant insights and beneficial information for entities like SME Corp, SME Owners/ management and government authorities to introduce new policies such as make it compulsory for all private limited SMEs to have independent director in their board. Further extends the knowledge of CSR among scholar mainly in the context of SMEs. Further, it enhances the literature by provided empirical evidence on the effect of CG factors and the moderating effects of institutional factors.*

**Keywords:** Corporate Governance, CSR, SME

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## 1. Introduction

Malaysia is an emerging economy that relies heavily on the small and medium-sized enterprise (SME) sector for growth and employment. For SMEs, integrating CSR into business operations is not only essential for sustaining competitiveness but also contributes to the nation's broader social and economic development. CSR enables businesses to demonstrate their commitment to sustainable economic progress and social welfare (Norbit, Nawawi, & Puteh Salin, 2017). It generates employment opportunities for many and deploys new concepts and ideas (Mamun, 2018). Further, CSR is no longer a passing trend but a vital component of modern business operations (Pradhan, 2018). CSR is expected to be responsible for providing the enterprise with intangible benefits, for example, better brand image, innovation, business productivity, increased firm value (Ding, Ferreira, & Wongchoti, 2016) enhanced employee enthusiasm as well as satisfaction of employee and also customer.

SMEs form the backbone of most economies and contribute more than half of national output (Chelliah, Chelliah, & Jaganathan, 2017). In Malaysia SMEs cover 98.5 % of business establishment across all sizes and sectors. Their importance extends beyond economic contribution such as play a critical role in rural development, job creation, and entrepreneurship enhancement (Tambunan, 2011). According to CSR Malaysia magazine, CSR awareness is relatively low in Asia (Rajendran, 2019). For example, baby milk contamination, rivers pollution, product safety issues, high worker suicides, unsafe work conditions, and workers revolt are manifesting themselves (Rajendran, 2019). Although CSR has recently attracted more attention (Ling, 2019), many SMEs still perceive CSR as non-essential or financially burdensome (Norbit et al., 2017). Common challenges include limited understanding of CSR concepts, misconceptions about its cost implications, and the belief that CSR is more relevant for large corporations. Nevertheless, Yusliza et al. (2019) emphasized that CSR is increasingly seen as a strategic necessity rather than a voluntary activity. Similarly, Lin, Ho, Ng, and Lee (2019) noted that CSR in Malaysia, though still evolving, is receiving growing recognition among SMEs. In practice, many SMEs associate corporate governance (CG) primarily with large public companies. According to Kaur (2017), SMEs in Malaysia often view governance mechanisms with scepticism, seeing them as costly and unnecessary. Economist David Risser highlighted that weak governance structures have contributed to two-thirds of SMEs' non-performing loan portfolios, emphasizing the need for stronger governance frameworks. Furthermore, family-owned firms in Malaysia have been encouraged to adopt family governance systems to enhance coordination and accountability.

In Malaysia, there are many problems related to CSR nowadays. From human right and labour practices perspective, in News Straits Times it is reported that mental health has turn out to be a primary factor affecting productivity in the workplace (Murugesan, 2018). Therefore it is clear that organisations must provide a safe workplace environment (Murugesan, 2018). In addition, Thye (2019) explained that the recent chemical related occurrences in the country have brought to the subject of “responsible care” for the chemical industry. Chemical industry is under manufacturing sector and more than 90 % of the companies in the chemical industry are SMEs. Malaysia is rapidly becoming a developed country but, the rise in manufacturing and agricultural activities has resulted in environmental problems particularly pollution due to dangerous chemicals and heavy metals. Those issues have resulted in the studies of private limited (Sdn Bhd) SMEs' CSR engagement in Malaysia, with regard Corporate Governance. Corporate governance manages and directs the enterprise, thus it is the deciding authority whether to engage in CSR practices.

These issues underscore the importance of examining CSR engagement among Malaysian SMEs, particularly private limited firms, through the lens of corporate governance. CG plays a pivotal role in steering organizational behaviour and determining the extent to which firms engage in socially responsible practices. Rashid (2018) argued that CG and CSR represent two sides of the same coin: governance focuses on accountability, while CSR emphasizes responsibility. Institutional forces, including regulatory and societal pressures, further influence how enterprises implement CSR initiatives.

Accordingly, this study pursues two main objectives. First, it investigates how corporate governance attributes influence CSR practices among Malaysian SMEs. Second, it examines whether institutional factors moderate the relationship between CG and CSR. This research contributes to both theory and practice in several ways. Academically, it extends CSR literature by focusing on SMEs in a developing economy which an area where prior research remains limited. Earlier studies have predominantly explored CSR and governance issues among large,

publicly listed firms in developed nations such as the United States, the United Kingdom, and European countries. This study therefore fills an empirical gap by analysing governance factors including board size, gender diversity, multiple directorships, family ownership, and board independence, alongside CSR. Practically, the findings are expected to assist government agencies, SME Corp, and business owners in designing policies to strengthen governance and CSR participation. For instance, introducing a policy requiring private SMEs to appoint at least one independent director could improve accountability and transparency. Overall, this research enhances understanding of the CG and CSR connection within Malaysian SMEs and offers insights for policymakers and practitioners seeking to promote sustainable business practices.

## 2. Theories

Understanding the link between corporate governance (CG) and corporate social responsibility (CSR) can be strengthened by examining the theoretical frameworks that explain how organizations make decisions, align interests, and respond to environmental pressures. Two major perspectives are Agency Theory and Institutional Theory which jointly provide the foundation for this study. These theories complement one another where Agency Theory explains the internal dynamics between ownership and management meanwhile Institutional Theory emphasizes the external pressures that shape organizational behaviour.

Agency theory describes the contractual relationship between principals (shareholders) and their agents, such as directors or managers, who are entrusted to act on behalf of the principals (Mitchell & Meacham, 2011). The theory assumes that agents may act opportunistically when their interests differ from those of the principals, leading to agency problems or conflicts of interest. This misalignment gives rise to agency costs, which arise when principals must monitor and incentivize agents to ensure goal congruence (Bendickson, Muldoon, Liguori, & Davis, 2016). Furthermore, Agency theory is frequently applied in corporate governance research because it provides a clear framework to understand how control mechanisms such as board composition, independence, and oversight can minimize opportunistic behaviour and safeguard shareholder interests (Waheed & Malik, 2019). The separation of ownership and control creates potential challenges: shareholders delegate decision-making authority to directors, expecting them to act in the best interest of the firm, yet managerial self-interest or misjudgement can lead to decisions that contradict shareholder welfare. Boards of directors thus function as agents whose primary role is to align managerial decisions with the objectives of the owners.

In the context of this study, agency theory underpins the analysis of how governance attributes such as board size, gender, independence, multiple directorships and family ownership influence CSR engagement among SMEs. Boards that act responsibly not only protect shareholder value but also demonstrate accountability to broader stakeholders. Therefore, agency theory provides an essential internal lens through which the relationship between governance structure and CSR practices can be understood.

While agency theory focuses on the internal governance mechanisms within the firm, institutional theory provides an external lens by explaining how organizations adapt to environmental expectations and pressures. According to DiMaggio and Powell (1983), firms operate within institutional environments that promote conformity to established norms, regulations, and practices in order to gain legitimacy. This tendency toward uniformity is known as *isomorphism* and occurs through three main types of institutional pressures: coercive, mimetic, and normative.

Institutional theorists argue that organizations adopt socially responsible practices not merely for economic gain but also to align with prevailing societal norms and to maintain legitimacy (Joo, Larkin, & Walker, 2017). In this research, institutional theory is applied to explain how external pressures influence the relationship between corporate governance and CSR. Malaysian SMEs, for example, may experience coercive pressure through government initiatives encouraging CSR, mimetic pressure by emulating the CSR practices of larger corporations, and normative pressure through societal expectations for ethical conduct and sustainability (Dash & Mishra, 2016). Collectively, these institutional forces shape managerial behaviour and organizational decision-making by either internalizing societal values or responding to external requirements. Thus, institutional theory serves as a moderating framework that clarifies how environmental conditions influence the strength and direction of the CG and CSR relationship.

In the SME context, where governance structures are often less formalized and external legitimacy is vital for competitiveness, both theories jointly capture the interplay between internal control *and* external conformity. This integrated perspective enables a deeper understanding of why and how Malaysian SMEs engage in CSR, considering both managerial motivations and institutional constraints.

### 3. Hypothesis Development

#### 3.1 Board size and CSR

According to agency theory, larger organizations often require bigger boards to effectively monitor management and reduce agency problems (Ghabayen, Mohamad, & Ahmad, 2016). Larger boards are believed to enhance decision quality and transparency by incorporating a broader range of expertise and viewpoints. They may also increase attention to CSR matters, as members are more likely to include directors who advocate for social and environmental concerns (Cullinan, Mahoney, & Roush, 2019). Conversely, smaller boards, though potentially more efficient, may be overly influenced by management and lack sufficient diversity of thought (Chin, Ganesan, Pitchay, Haron, & Hendayani, 2019). Therefore, in the context of Malaysian SME larger boards are expected to facilitate greater CSR engagement, it is hypothesized that:

*H1: There is a positive relationship between board size and CSR practices by Malaysian SMEs.*

#### 3.2 Board Gender Diversity and CSR

Board diversity, particularly gender diversity, has been linked to improved governance and stronger stakeholder orientation. Female directors are often associated with higher ethical awareness, participatory management styles, and a greater emphasis on stakeholder welfare (Chin et al., 2019). Prior studies have shown that boards with female members are more likely to integrate CSR considerations into corporate decisions and disclosures (Deschênes, Rojas, Boubacar, Prud'homme, & Ouedraogo, 2015; Ghabayen et al., 2016). Given that female ownership in Malaysian SMEs stands at 20.6% (Isa, Jaganathan, Ahmdon, & Ibrahim, 2019), gender diversity can reinforce internal control and enhance accountability mainly over executives and managers.

*H2: There is a positive relationship between presence of female on board and CSR practices by Malaysian SMEs*

### 3.3 Board independence and CSR

Independent directors play a crucial role in monitoring management and safeguarding the interests of shareholders and stakeholders. Boards with a higher proportion of non-executive or independent directors are more likely to demand transparency and accountability (Zaid, Wang, & Abuhijleh, 2019). Independent members, conscious of their professional reputation, tend to emphasize ethical conduct and CSR-related activities (Chin et al., 2019; Muttakin & Subramaniam, 2015). Thus, there is a greater chance they will engage in CSR activities. Meanwhile, MCCG necessitates at least one-third of board members be independent (Sheela, Je-Yen, & Rajangam, 2016). A SME's independent director able to share precious general, objective business experience and knowledge besides helping to ensure the board focuses on board duties. Therefore, it can be concluded that, independent directors are able to carry out their duties without any manipulation in satisfying the firm's social responsibilities.

*H3: There is a positive relationship between board independence and CSR practices by Malaysian SMEs*

### 3.4 Multiple directorships and CSR

Directors who serve on multiple boards often bring diverse experience, networks, and knowledge that may positively influence CSR engagement (Hamdan, 2018). From this perspective, early agency theory proposed that directors on multiple boards indicate their character as monitoring specialists (Fama & Jensen, 1983). Multiple directorships widen the director's experience, knowledge, network and commercial contacts. This provides access to important resources and hence the "busy directors" will engage in CSR to increase the enterprise's reputation. Multiple directorships with respect to CSR, research associating with it are in scarce. In different context of multiple directorship, earlier studies have revealed that directors of larger firms contain more multiple directorships (Kamardin, 2014). Although empirical evidence remains limited, existing studies suggest that directors with interlocking positions can facilitate knowledge transfer and foster responsible corporate behaviour (Al-Dah, 2019). Therefore, in the context of Malaysian SME, it is hypothesized as:

*H4: There is a positive relationship between multiple directorships and CSR practices among Malaysian SMEs.*

### 3.5 Family ownership and CSR

Malaysian SMEs are the models of family ownership and when ownership become concentrated, likelihoods for the minority shareholders protection rights will be low. In such firms, the family has the authority of decision-making, their close friends and relatives are being hired as the members of the BODs (Umrani & Johl, 2016). Most Malaysian SMEs are family-owned, where ownership and management often overlap. Concentrated ownership can reduce agency costs, as owners closely monitor operations (Halili, Zeitun, & Rami, 2015). However, family-controlled firms may prioritize financial stability and long-term survival over external stakeholder expectations. Some studies indicate that family owners engage less in CSR, perceiving it as costly and offering limited short-term benefits (Badrul Muttakin, Khan, & Subramaniam, 2014; Salehi, Tarighi, & Rezanezhad, 2017). Given this context, family ownership may lead to lower CSR participation among Malaysian SMEs. Thus, can be hypothesized as:

*H5: Family ownership has negative association with CSR practices by Malaysian SMEs.*

### 3.6 Moderating effect of institutional factors

Institutional theory posits that organizations are influenced by external pressures are coercive, mimetic, and normative that drive conformity to societal norms and expectations (Dash & Mishra, 2016). Coercive pressures arise from government policies and stakeholder demands; mimetic pressures stem from imitation of successful peers; and normative pressures develop through shared cultural and professional standards. SMEs may face government pressure to follow the regulations, tend to follow other companies CSR practices to be competitive advantage and might adopt particular patterns which is legitimate in the environment they been operating (Joo et al., 2017). Previous studies have used institutional factors as independent variable in the context of CSR such as Jha and Aggrawal (2019) and Sánchez-Fernández, Vargas-Sánchez, and Remoaldo (2014). Several studies have used institutional factors as moderator before but in different context. For example Huang and Yang (2014) has used it in the context of reverse logistics innovation and environmental and economic performance.

In the context of Malaysian SMEs, where institutional frameworks are evolving, these pressures are particularly relevant. SMEs may face coercive pressure from governmental CSR policies, mimetic pressure to follow the CSR practices of larger or more established firms, and normative pressure arising from cultural expectations and social norms. Consequently, institutional factors are posited to moderate the relationship between various corporate governance dimensions and CSR engagement. Therefore, it hypothesized as:

*H6a: Institutional factors moderate the relationships between board size and CSR practices by Malaysian SMEs.*

*H6b: Institutional factors moderate the relationships between board gender diversity and CSR practices by Malaysian SMEs.*

*H6c: Institutional factors moderate the relationships between board independence and CSR practices by Malaysian SMEs.*

*H6d: Institutional factors moderate the relationships between multiple directorships and CSR practices by Malaysian SMEs.*

*H6e: Institutional factors moderate the relationships between family ownership and CSR practices by Malaysian SMEs*

## 4. Methodology

This study adopted a quantitative, cross-sectional survey design, as data were collected at a single point in time to examine the relationships among the study variables. The questionnaire survey was selected as the primary data collection method because it is considered one of the main data collection methods (Sekaran & Bougie, 2013). The questionnaire survey administered to the top management representatives of Malaysian manufacturing private limited (Sdn. Bhd.) SMEs. A total of 1,500 questionnaires were distributed through email using Google Forms, accompanied by a cover letter addressed to the intended respondents. Out of the total distributed, 125 valid responses were received and used for analysis. The completed questionnaires were subsequently coded and analysed using SmartPLS software (version 3.0). CG measurement is depicted in table 1. CSR items were derived primarily from Zhu, Zou, and Zhang (2019) and Ikram et al. (2019), and operationalized using a CSR performance index. A total of 44 items were included, corresponding to the seven dimensions of CSR as outlined in ISO 26000:2010. Items to measure institutional factors were adapted from Dubey, Gunasekaran, and Samar Ali (2015), and Famiola and Adiwoso (2016). Seven questions included to measure the moderate factor. All the items were adapted making minor changes in terms of wording to suit the target context and used a 5-point Likert scale. Meanwhile, two

control variables that were incorporated in this study are firm profitability (ROA) and firm size (total number of employees), as both are known to influence CSR engagement.

**Table 1: Corporate Governance Characteristics Measurement**

No	Dimension of CG Characteristics	Measurement	Sources
1	Board Size	Total number of board members	(Chin et al., 2019)
2	Board Gender Diversity	% of women on board = (No. of female directors ÷ total directors)	(Chin et al., 2019)
3	Board Independence	% of independent directors = (No. of independent directors ÷ total directors)	(Chin et al., 2019)
4	Multiple Directorships	Ratio of directors holding >1 directorship to total directors on board	(Kamardin, 2014)
5	Family Ownership	Family owned=1, otherwise= 0	(Canavati, 2018)

## 5. Results

### 5.1 Descriptive Analysis

Total respondent had been collected through survey data 125 respondent. In table 2, institutional factors carried out the highest mean compared with other variables. It has a mean of 3.95 whereas contributes the second highest on standard deviation which is 0.707. The board size contributes highest standard deviation compared with other variables. The family ownerships do not have mean and standard deviation because measured in binary measurement.

**Table 2: Descriptive Statistics**

Descriptive Statistics (n=125)	Mean	Std. Deviation
Board Size	3.60	1.426
Board Gender Diversity	0.26	0.334
Board Independence	0.37	0.392
Multiple Directorships	0.42	0.425
Family Ownership*	-	-
CSR practices	0.80	0.133
Institutional factors	3.95	0.707

Notes: \*The variables used binary measurement

### 5.2 Measurement model

As shown in Table 3, all reflective indicators for institutional factors met the recommended thresholds: factor loadings above 0.50, CR exceeding 0.70, and AVE above 0.50, indicating satisfactory convergent validity. Only institutional factors evaluate for the convergent validity as other variables of study single item measurement.

**Table 3: Measurement Model**

Construct	Items	Factor Loadings	Composite Reliability (CR)	Average Variance Extracted (AVE)
Institutional factors	IT2	0.815	0.920	0.662
	IT3	0.866		
	IT4	0.924		
	IT5	0.902		
	IT6	0.718		
	IT7	0.612		

\*Single item measurement. Delete IT1 due to the loadings less than 0.5.

As presented in Table 4, all HTMT values were below the 0.85 threshold, confirming adequate discriminant validity and indicating that the constructs were empirically distinct.

**Table 4: Discriminant Validity using Heterotrait-Monotrait Ratio (HTMT).**

	BI	BS	CSR	FO	Firm Size	BG	IT	MD	Profitability
BI									
BS	0.634								
CSR	0.121	0.322							
FO	0.223	0.307	0.267						
Firm Size	0.381	0.585	0.342	0.246					
BG	0.051	0.005	0.071	0.183	0.024				
IT	0.090	0.121	0.546	0.116	0.186	0.088			
MD	0.271	0.228	0.159	0.214	0.143	0.668	0.154		
Profitability	0.245	0.243	0.189	0.121	0.141	0.088	0.176	0.033	

Notes: BI, board independence; BS, board size; CSR, corporate social responsibility; FO, family ownership; BG, board gender diversity; IT, institutional factors; MD, multiple directorships

### 5.3 Structural Model

The structural model was examined to test the hypothesized relationships among variables. The results indicated no multicollinearity issue, as all Variance Inflation Factor (VIF) values (in the range 1.084 – 2.312) were below the threshold of 5.0 (Hair et al., 2017). The coefficient of determination ( $R^2$ ) for CSR was 0.42, signifying that the corporate governance variables explained 42% of the variance in CSR practices. The model's predictive relevance ( $Q^2 = 0.311$ ) exceeded zero, confirming acceptable predictive quality.

Bootstrapping with 5000 subsamples was used to evaluate the path coefficients, t-values, and p-values. The results are presented in Table 5. The findings revealed that board size (H1), board independence (H3), and family ownership (H5) had significant positive effects on CSR practices, consistent with prior literature. However, only H1 and H2 supported but H5 not supported because different direction with hypothesis. Meanwhile, board gender diversity (H2) and multiple directorships (H4) were not significant and not supported. Further, the  $f^2$  effect sizes showed that board size (0.052), board independence (0.036), and family ownership (0.028) had small-to-moderate impacts on CSR, while gender diversity and multiple directorships exhibited negligible effects.

**Table 5: Hypotheses Testing**

Hypo Theses	Relationship	Std. Beta ( $\beta$ )	Std. Error	t-value	P-value	Decision	$R^2$	$f^2$	$Q^2$
H1	BS -> CSR	0.264	0.097	2.739***	0.003	Supported	0.420	0.052	0.311
H2	BG -> CSR	-0.003	0.109	0.029	0.489	Not Supported		0.000	
H3	BI -> CSR	0.191	0.093	2.051**	0.020	Supported		0.036	
H4	MD -> CSR	0.033	0.111	0.299	0.383	Not Supported		0.001	
H5	FO -> CSR	0.139	0.081	1.703**	0.045	Not Supported		0.028	

Notes: \*\*\* $p < 0.01$ ; \*\* $p < 0.05$  (one-tailed)

Unexpectedly, H6a till H6e are rejected as the result shown that insignificant moderating effect of institutional factors. The findings are presented in Table 6.

**Table 6: Moderator analysis**

Hypotheses	Relationship	Std. Beta ( $\beta$ )	Std. Deviation	t-value	P-value	Decision
H6a	IF*BS -> CSR	0.043	0.108	0.398	0.691	Not Supported
H6b	IF*BG -> CSR	-0.244	0.140	1.753	0.080	Not Supported
H6c	IF*BI -> CSR	-0.041	0.112	0.369	0.712	Not Supported
H6d	IF*MD -> CSR	0.044	0.133	0.329	0.742	Not Supported
H6e	IF*FO -> CSR	0.123	0.097	1.264	0.207	Not Supported

Notes: \*\*\*p<0.01, \*\*p<0.05 (two-tailed)

## 6. Discussion

This section discusses the findings in relation to the research objectives. The analysis focused on two main aspects: the relationship between CG attributes and CSR, and the moderating influence of institutional factors on this relationship. Overall, the study provides empirical evidence that corporate governance mechanisms play an essential role in shaping CSR practices within Malaysian SMEs, highlighting how internal governance structures influence socially responsible behaviour even in smaller and resource-constrained organizations.

The results demonstrate that board size has a significant and positive effect on CSR, supporting the first hypothesis. This finding aligns with prior studies such as Ghabayen et al. (2016) and Harjoto and Jo (2011) which found that larger boards are more capable of addressing diverse stakeholder interests and integrating CSR considerations into strategic decisions. Larger boards tend to include directors with varied expertise and experiences, thereby broadening perspectives in decision-making. Cullinan et al. (2019) also emphasized that having more directors increases the likelihood of CSR issues being raised and discussed during board meetings. Even if a single director introduces CSR considerations, such discussions can influence the collective mindset of the board. Thus, in the context of Malaysian SMEs, the presence of larger boards contributes positively to CSR engagement, as they are more equipped to handle the complexities of governance and social responsibility.

However, the study found no significant relationship between board gender diversity and CSR, contradicting the second hypothesis and prior studies such as Zhang, Zhu, and Ding (2013). This finding suggests that the presence of women on SME boards in Malaysia does not necessarily translate into stronger CSR engagement. However, the result is consistent with the argument by Dani, Picolo, and Klann (2019), who found that female directors in some settings are not directly associated with enhanced CSR performance. This may be due to contextual and cultural differences where women directors have limited influence in boardroom decision-making or where their participation is more symbolic than functional. Furthermore, Deschênes et al. (2015) noted that women often bring a different management style to the board, emphasizing cooperation and ethics, yet such qualities may not always be reflected in formal CSR policies, especially within SMEs where strategic decisions remain highly centralized.

The analysis further revealed that board independence has a significant positive relationship with CSR practices, confirming the third hypothesis. This result supports earlier findings by Zaid et al. (2019), who argued that independent directors contribute to greater transparency and accountability. Independent board members serve as a balancing mechanism that protects the interests of both shareholders and other stakeholders (El-Bassiouny & El-Bassiouny, 2019). They also help ensure that management decisions are consistent with social and environmental responsibilities (Kathy Rao, Tilt, & Lester, 2012). In SMEs, the inclusion of independent

directors enhances oversight and ensures that firms remain mindful of stakeholder expectations, which in turn strengthens their CSR commitment.

Contrary to expectations, multiple directorships were found to have no significant relationship with CSR practices, rejecting the fourth hypothesis. While previous research, such as Walls and Hoffman (2013) and Al-Dah (2019) suggested that interlocking directors can promote CSR through the exchange of knowledge and experience, the current findings align with the “busyness hypothesis” by Latif, Kamardin, Mohd, and Adam (2013), which posits that directors holding multiple board positions may be too occupied to effectively monitor management or engage deeply with CSR issues. Similarly, (Barka & Dardour, 2015) found no significant association between multiple directorships and CSR, arguing that overcommitted directors tend to allocate limited time and attention to each firm. Therefore, within Malaysian SMEs, directors who serve on multiple boards might struggle to prioritize CSR due to workload constraints, leading to weaker CSR engagement.

Interestingly, the results show that family ownership has a positive and significant impact on CSR practices, which not supporting the fifth hypothesis but contradicting earlier studies by Salehi et al. (2017) who reported a negative relationship. The finding corresponds with Esparza Aguilar (2019), who observed that CSR is often stronger in family-controlled firms because family members are highly concerned about their firms’ public reputation. This aligns with (Canavati, 2018) who suggested that the family’s identity is closely tied to the firm’s image; hence, maintaining a good corporate reputation through CSR enhances both business legitimacy and family pride. This effect is particularly evident when the firm’s name includes the family name or when family involvement in management is prominent. For Malaysian SMEs, which are predominantly family-owned, such personal and reputational considerations may explain the positive link between family ownership and CSR.

Surprisingly, none of the moderating hypothesis H6a- H6e found significant. Although H1, H3 and H5 have positive relationship with CSR, table 5 shows there is no moderation effect of institutional factors between Corporate Governance characteristics that have been used in this study with CSR practices among Malaysian SMEs. Although Jha and Aggrawal (2019) emphasized that institutional pressures help explain CSR adoption, the results of this study indicate that SMEs may operate with greater autonomy in their CSR decision-making. The absence of moderation implies that internal governance structures remain the primary drivers of CSR activities, rather than external pressures. One possible explanation is that Malaysian SMEs may not experience strong coercive pressures from governmental authorities or external stakeholders to adopt CSR policies. As noted by Famiola and Adiwoso (2016) institutional influences which comprising norms, public opinion, regulations, and political factors that shape organizational behaviour. However, in this study, such influences appear minimal, possibly because CSR among SMEs in Malaysia is still largely voluntary and not mandated by regulation. Moreover, the resource limitations of SMEs may prevent them from actively responding to institutional expectations, thereby reducing the moderating role of these external factors.

## **7. Implications**

This study offers meaningful contributions to both theory and practice. Theoretically, it enriches the existing body of literature on corporate social responsibility (CSR) in the context of small and medium-sized enterprises (SMEs) within developing countries, particularly Malaysia. Most prior studies have focused on large corporations or public-listed companies in

advanced economies such as the United States, the United Kingdom, and Europe. By specifically examining Malaysian manufacturing private limited (Sdn. Bhd.) SMEs, this study addresses an important research gap and extends the understanding of CSR implementation in smaller, resource-constrained firms. Additionally, by introducing institutional factors as a moderating variable, the study provides a novel perspective on how external pressures—such as coercive, mimetic, and normative influences—interact with internal corporate governance mechanisms. This approach contributes to refining theoretical models and offers a foundation for future scholars to explore similar governance–CSR dynamics in other emerging markets.

From a practical standpoint, the findings offer valuable guidance for policymakers, regulators, and SME practitioners. The results highlight the importance of strengthening corporate governance structures to promote CSR practices among SMEs. Government agencies such as SME Corp Malaysia could consider introducing policies that mandate the appointment of independent directors or encourage larger and more diverse boards, as these attributes have shown a positive influence on CSR. Such reforms would help SMEs enhance transparency, accountability, and stakeholder engagement. Moreover, the study demonstrates that family-owned businesses are more likely to participate in CSR due to reputational considerations; therefore, incentive-based programs such as recognition schemes or CSR certification could further motivate them to engage in socially responsible behaviour. For SME owners and managers, the results reinforce that CSR is not merely an ethical obligation but a strategic tool for achieving long-term competitiveness and sustainability. Strengthening governance practices and embedding CSR into business strategy can help SMEs build stronger reputations, attract customer trust, and sustain growth in a rapidly evolving economic landscape

## 8. Conclusion

This study examined the influence of CG mechanisms on CSR practices among Malaysian manufacturing small and medium-sized enterprises (SMEs), with institutional factors introduced as a moderating variable. The results demonstrate that specific CG attributes namely board size, board independence, and family ownership have played a significant role in shaping CSR behavior. These findings confirm that strong internal governance structures can enhance SMEs' commitment to social and environmental responsibility. Conversely, board gender diversity and multiple directorships did not exhibit significant effects, suggesting that their influence on CSR may depend on contextual or cultural factors within the Malaysian business environment. Interestingly, institutional factors were found not to moderate the relationship between CG and CSR, indicating that SMEs are largely guided by internal governance mechanisms rather than external institutional pressures when implementing CSR.

Despite its contributions, this research is not without limitations. The study focused solely on manufacturing SMEs, which restricts the generalizability of the results to other sectors such as services, agriculture, or construction. Furthermore, data availability and access posed challenges due to the confidential nature of SME information in Malaysia. Official data sources, such as SME Corp Malaysia, impose fees for detailed firm-level information, limiting access to broader samples. On the other hand, future research could address these limitations in several ways. First, expanding the sample to include multiple SME sectors and different geographical regions would allow for broader generalization and comparative analysis across industries. Second, incorporating longitudinal or mixed-method approaches such as interviews or case studies that could yield deeper insights into how governance and institutional forces evolve over time in shaping CSR decisions. Moreover, researchers may consider integrating

environmental, social, and governance (ESG) performance indicators alongside CSR measures to capture a more holistic view of responsible business conduct.

In conclusion, the findings of this study underscore that CSR engagement among Malaysian SMEs is primarily driven by internal governance mechanisms, particularly larger and more independent boards and family-owned structures. To further strengthen CSR adoption, policymakers should establish clearer guidelines and incentives that promote responsible governance among SMEs. While this study's scope was limited, it provides a valuable foundation for future research and policy development aimed at fostering a more sustainable and ethically governed SME sector in Malaysia.

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### **Conflict of Interest Statement**

The authors declare that there is no conflict of interest regarding the publication of this study.

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