

Does Corporate Governance Impact Corporate Social Responsibility Activities?

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Abstract. *Corporate social responsibility (CSR) can directly impact a corporation's reputation. This impact in reputation affects the recognition and group awareness of different types of stakeholders and can have a significant positive impact on corporate performance. Through this research we aim to identify the link between corporate governance and CSR. Regarding the methodology, the data was processed using the Stata 15 program. We plotted the results using the GMM system. The research sample is a group of 532 European public companies. We took into account a period of analysis between 2014 to 2023. The main results of research capture a strong correlation between high corporate governance and engagement in CSR activities. Companies that are currently exempt from reporting ESG activities may find this research interesting. This paper can be useful for stakeholders (banking companies, investors, clients, the state). The participation of companies in social responsibility activities can be greatly beneficial for establishing trust between the company and stakeholders and can also strengthen the sense of responsibility of employees towards companies. Companies required to report under the Corporate Sustainability Reporting Directive: large listed and unlisted European companies that meet at least two of the following three criteria (Annual net turnover > EUR 40 million; Total assets > EUR 20 million; Average number of employees > 250); companies listed on regulated markets in the EU, including listed SMEs, but with some exemptions; non-EU companies that have operations in the EU and that meet the following criterion (Net turnover generated in the EU > EUR 150 million in at least two consecutive years); financial institutions, including banks and insurance companies, whether listed or not; Listed SMEs, with some exceptions.*

Keywords: governance, CSR, ESG.

Introduction

The COVID-19 pandemic has exposed serious shortcomings in both past and current corporate governance practices, in addition to possible results that can negatively affect the performance of a firm. To improve the financial and long-term performance of a company, sustainable corporate governance is essential. The pandemic period provided a context for firms to initiate change through sustainable practices and use transformed models to add value to their operations. (Naeem et al., 2022; Bota-Avram, 2023)

In addition, corporate social responsibility is now a very important concept for companies. Customers are interested in company responsible activities carried out to the community, business partners, employees and the environment. These pillars of company responsible activities influence

their decision making. Customers prefer buying a product from a company that is socially responsible. The company has a duty to provide stakeholders with information about CSR activities. CSR report is a very effective tool through which the company is able to report on their CSR activities (Moravcikova et al., 2015). CSR reporting is confined to information deemed relevant or material for investors in their investment decisions. CSR information can be useful to investors in estimating future cash flows or assessing firms' risks, because CSR and sustainability topics are often closely related to firms' normal business activities (Dhaliwal et al. 2011; Dhaliwal et al. 2012; Grewal et al. 2020).

A company that is involved in CSR pays attention to ESG reporting. ESG reports capture how firms and investors integrate environmental, social, and governance issues into their business models to achieve specific goals such as environmental protection, health and safety concerns or customer satisfaction (Gillan et al., 2021). To confirm the previous findings Achim and Borlea (2020) support that strong governance structures ensure transparent reporting of CSR initiatives, creating trust between the company and stakeholders. Corporate governance is the framework used to manage and oversee companies in order to accomplish a company's goals.

Also, Perdelea et al. (2016) argue that corporate governance includes the following dimensions: Performance, Conformance, Corporate Social Responsibility and Corporate Social Responsibility. The corporate social responsibility dimension of corporate governance refers to practices and policies applied by companies to encourage ethical and responsible behavior in relation to civil society, to strengthen reputation. They have a major impact at image capital level, in terms of developing relations with the company, but also in terms of attracting capital from investors. Companies understood that in order to gain competitive advantage and create value at organizational level. It is necessary to adopt ethical behavior based on transparency and sustainable development.

Through this study we aim to identify the link between corporate governance and CSR. We highlighted this connection using a sample based on 532 European public companies. This analysis is focused on the period from 2014 to 2023. The data is processed through a Dynamic Panel. Our research contributes to literature by covering a gap in literature and provides significant evidence of the role of corporate governance on the involvement in efficient CSR activities. The results capture an involvement in CSR activities if the board size is increasing. At the same time, in the robust model, we note that the presence of women on board leads to implications for sustainable activities.

Based on the research objective and the contributions of this paper to the previous literature, the structure of the article is as follows: Section 1 provides a brief review of the previous studies to clarify the gaps in the literature, which the literature seeks to fill. Section 2 captures the research methodology used, section 3 includes the results, section 4 includes discussions and section 5 includes conclusions, limitations of the research and the premises for future research.

Literature review

Corporate social responsibility is a strategic tool to improve corporate performance (Mishra & Suar, 2010). It also includes policies, processes and practices (including disclosures) that firms implement to improve the social status and well-being of stakeholders and society (including the environment), and, whether undertaken voluntarily or mandated by rules, norms and/or customs (Jain & Jamali, 2016; Jamali & Mirshak, 2007; Jamali & Neville, 2011). A broader approach to corporate social responsibility is also about legal liability, representing the legal obligation to bear

the legal consequences of the illegal act of a legal subject by which it violates the subjective rights of another (Put, 2024).

Moreover, Gillan et al (2021) claims that CSR includes strategic elements of the company that are not necessarily represented in the ESG score. ESG assessments accurately measure CSR concerns. As ESG concerns are developed from CSR strategy, ESG score can be seen as an extension of CSR strategy. ESG score is the quantitative component of CSR strategy. On the other hand, CSR strategy is better represented by encapsulating mission statements, anticipated strategic orientation and corporate values. All of this is difficult to quantify.

In the literature, we have highlighted two types of CSR strategies in which companies can engage (Kim et al., 2011). A strategy is to engage in serious and rigorous measures regarding the implementation of CSR governance. Organizations can consume significant resources to implement CSR governance with a greater inclination of “speak” and generate significant CSR results (Clarkson et al., 2011). The other CSR strategy refers to engaging in symbolic and opportunistic (greenwashing) CSR governance to improve corporate image or address emerging issues, but it does not include the allocation of resources necessary for the deep implementation of CSR or strategic activities.

CSR directly promotes the improvement of the operational efficiency of the enterprise, but also has an indirect impact on the quality of development. In particular, it affects the efficiency of the enterprise's operation through green innovation, environmental investment and corporate governance. Viewed from another perspective, CSR has influence power on several branches. In terms of economic impact, most researchers believe that CSR can make companies gain a good social reputation, increase consumer loyalty (Islam et al., 2021), reduce business risks and then improve corporate financial performance (Preston and O'Bannon, 1997; Shabbir and Wisdom, 2020; Waddock and Graves, 1997).

In terms of environmental impact, as society pays more attention to green technology, processes and product management systems. Companies are realizing the importance of meeting environmental standards for sustainable management. (Mishra and Suar, 2010; Klassen and McLaughlin, 1996; Miles and Covin, 2000). Evidence shows that active environmental management of corporations improves their market value (Klassen and McLaughlin, 1996), financial reputation and performance (Miles and Covin, 2000).

In terms of social impact, corporate social responsibility not only brings extensive benefits to themselves, but also contributes to improving social well-being (He and Harris, 2020). Corporations that participate in the process of solving local social problems are conducive to creating a better atmosphere and increasing the sense of identity of residents. (Perry and Towers, 2013). Moreover, corporations are required to provide assistance for social humanitarian projects, including support for education, art and food safety. These charitable activities will improve the quality of life of society and help protect social ecology (Chen et al. 2017).

Corporations with a higher sense of CSR are more willing to disclose corporate information, reduce the degree of information asymmetry between internal and external corporations, and ultimately, promote the growth of economic benefits (Dhaliwal et al., 2011). On the other hand, CSR can be directly transformed into a corporate reputation (Fombrun and Shanley, 1990). The good social reputation of corporations affects the recognition and group awareness of different types of stakeholders and will have a significant positive impact on the performance of corporations (Rindova et al., 2005). From the perspective of social exchange theory, corporate participation in social responsibility activities is conducive to establishing trust between corporations and stakeholders, and may also, strengthen the sense of employee responsibility

towards corporations (Kim et al., 2010). The established relationship is an important asset of corporations and also helps corporations understand their shortcomings in strategic development goals (Slack et al., 2015).

Social reputation theory assumes that social reputation is the promoter of CSR engagement (Cai et al., 2020), reporting and reputation concerns encourage firms to initiate engagement and CSR reporting (Huang & Wang, 2021). Therefore, it is reasonable to expect that the CSR commitment of firms will achieve a better social reputation by awarding CSR. The findings show that social reputation through CSR awards requires full ESG engagement in all dimensions, namely, environment, social and governance, but the environmental and social pillars are more relevant than the governance pillar for social reputation. In addition, the inconsistency of ESG over time (i.e., over 3-year periods) and between the dimensions of the environmental, social and governance pillars damages the social reputation, and, because it negatively moderates ESG performance and CSR awards (Uyar et al., 2022).

Corporate social responsibility can be viewed as a new competitive mode or strategic tool in the era of new media. In market competition, corporations can meet the demands of stakeholders by increasing employee benefits (Zhu et al., 2014), attaching importance to safe production and actively protecting the environment (Fukuda & Ouchida, 2020). Moreover, the level of corporate governance directly affects the operational efficiency of the company to a certain extent. It is an undeniable fact that effective corporate governance can improve corporate performance (Jo & Harjoto, 2012).

The process of informing certain interest groups and the business as a whole on the social and environmental effects of a company's economic activity is known as a corporate social responsibility report. Currently, CSR is defined by the triple bottom line, and therefore range of themes may be extend to economic sphere. It is most often represented by corporate governance. CSR report can help bring companies a systematic approach to the management of socially responsible activities, to identify future risks and opportunities, and thereby contribute to increasing the competitiveness of the company and also keep the right long-term business venture. Information that is therein, do not serve only to company. On its basis it can be partially conducted the decision-making process of different types of stakeholders (Kasparova, 2013). Communication tool that can be applied to company communication between internal and external stakeholders, is called CSR report (Pavlik & Belcik, 2010).

Quality CSR report has to fulfill four main aspects:

- **Credibility** - the credibility of the report can be supported by the commitment of top management, description of corporate policy and introduction of personnel responsibilities, data collection methods and the objectives. Credibility is also influenced by the level of key stakeholders involvement and it is increased by an independent third party verification.
- **Completeness** - is based on the fact that CSR report includes all business operations and offices in the country and inform fully about the major areas that impact of the organization on society and the environment.
- **Significance** - the company should maximize the using of quantitative and qualitative indicators to assess its social responsibility.
- **Appropriate form** - the format of the report has the important role play and also whether the report is clear, moderately long and clear (Pavlik & Belcik, 2010).

CSR implementation is closely related to corporate governance (Jizi et al., 2014), as people pay more attention to the CSR attribute and expect corporations to take responsibility for shareholders, employees, and, customers, society and environment (Arvidsson, 2010). With profit

maximization in mind, rational corporations will actively respond to the preferences of stakeholders. They will improve the relationship with internal and external stakeholders to promote corporations to achieve a higher level of governance (Ramus & Vaccaro, 2017).

ESG integration involves incorporating environmental, social and governance indicators into investment and business decision-making processes. Instead of considering ESG criteria as separate from financial analysis, integration recognizes their significance and incorporates them alongside traditional financial analysis (Barbosa et al., 2022). This integration can take place at different stages of the investment process, including portfolio building, risk assessment, due diligence and ongoing monitoring. The integration aims to identify and manage risks and opportunities related to ESG criteria, ultimately aiming to improve the performance and sustainability of long-term investments (Gebhardt et al., 2022; Harasheh & Provasi, 2023).

ESG criteria provide data and values to evaluate the sustainability and ethical performance of a company, while integration involves incorporating these criteria into investment and business decision-making processes to better understand and manage potential impacts on financial performance and corporate sustainability (Alda, 2021; Sahoo & Kumar, 2022). In this respect, the integration of ESG criteria has become a tool responsible for defining, planning, operationalizing and executing corporate actions aimed at preventing and preserving the environment, in addition to social responsibility and the qualitative performance of their activities (Barbosa et al., 2022).

Companies with higher ESG levels face lower risks such as regulatory risks, litigation risks, product and technology risks (Folque et al., 2021; Henisz & McGlinch, 2019) and receive more media promotion, government support, and investors, ultimately favoring lower cost of capital (Mure et al., 2021). In addition, based on the positive market reaction for firms with higher ESG scores, ESG activities could create higher company value by increasing cash flows (for example, customers want to buy from firms that have a good reputation in corporate responsibility, employees are more productive when working for such firms, etc.), lowering the discount rate (for example, lower cost of equity by tilting the investor base) and maximizing shareholder utility (Friede et al., 2015; Nekhili et al., 2021). Companies with higher value or performance have the ability to spend resources on sustainable activities such as green innovation (Benabou & Tirole, 2010).

ESG reporting can markedly mitigate information asymmetry between firms and capital markets (Hanson et al., 2017), improve long-term financial performance of firms and market value (Friede et al., 2015; Nekhili et al., 2021), reduce credit risk (Henisz & McGlinch, 2019), lower funding costs (Raimo et al., 2021), build reputation (Mure et al., 2021) and get stakeholder support (Cornell and Shapiro, 2021; Khalid et al., 2021), can significantly reduce the cost of capital and generate positive market reactions (Gillan et al., 2021).

Achim et al. (2015) argues that managers' adoption of best practices in governance could contribute to the financial success of the firm. The results also suggest that investors should consider the quality of corporate governance as a good predictor of the best rate of return on their investments. More than that, the results also have implications for policy makers and regulators in developing European countries and provide them with a barometer of the adoption of best practices in governance in the European area. Also, Jamali et al. (2008) discovered that corporate governance is what drives managers and executives to set goals and objectives in relation to CSR and the board of directors is the key to achieving and promoting these CSR objectives.

The quality of corporate governance directly affects sustainable development, which could help policymakers better manage this relationship. Thus, adopting best practices in corporate governance raises the sustainable development in a society. Managers and policymakers should be interested in the continuous supervision and boosting of this relationship. Corporate governance

practices may therefore be used as leverage to boost sustainable development, which is desirable (Achim et al., 2023).

The corporate governance of the organizations in the new economy is meant to create added value for its shareholders, by satisfying the clients' exigencies, respecting the employees' opinion and protecting the environment. To do this, we need a complex of components which form the corporation governance, determining a synergy effects where an important role have the following: the transparency of the information; the separation of functions between Chief Executive Officer (CEO) and Bord of directors; the increase of the role of audit committees, internal control, remuneration committees or nomination committees (Achim & Borlea, 2013).

The influences of corporate governance and corporate social responsibility are more sharply felt on the value of companies acting in developing countries compared with those from developed countries. Investors from developing countries pay greater attention to the extent of adopting best corporate practices in managed companies compared with those from developed ones. These investors, from developing countries, are more vulnerable to these kinds of information and consequently, their selling or buying decisions on the capital market are immediately reflected on market values of the shares (Achim et al., 2017).

Traditionally, corporate governance implied rules that provided a formal structure to the relationship between boards of directors, shareholders, and managers in order to resolve conflicts of agency between directors and agents (Berle & Means, 1932). We take a more recent and broader view of corporate governance, which includes the consequences of corporate decision making and non-financial stakeholders (Gill, 2008; Windsor, 2006). In this respect, we define corporate governance as comprising structures that specify "rights and responsibilities between parties with an action in the company" (Aoki, 2000), as well as organizational process configurations affecting both financial and non-financial results at company level (Aguilera et al., 2008; 2013; 2015; Jain & Jamali, 2016).

The agency's theory holds that effective corporate governance improves the firm's ability to face emerging challenges and reduce agency conflicts (Haniffa & Cooke, 2002). According to stakeholder theory, (Michelon & Parbonetti, 2012) argue that good corporate governance improves relationships between the firm and stakeholders by stimulating corporate sustainability. They see good governance and sustainability as complementary mechanisms for better stakeholder management. In addition, they note that stakeholder theory provides a link between governance mechanisms and sustainability initiatives to align the long-term goals of management and stakeholders.

Thus, we contribute to the CSR literature in the following ways. First, we draw attention to the non-financial benefit of CSR (i.e., social reputation) to help firms reap the greatest benefits of ESG investments. Secondly, we highlighted the importance of consistency of ESG engagement over time and in ESG dimensions which may be of interest to the corporate governance structure of firms to develop a consistent CSR implementation strategy.

Hypothesis: The corporate governance has a significant impact on CSR activities.

Methodology

Variables and data

The objective of this research is to examine the impact of corporate governance on engagement in CSR activities, the analysis being carried out on 532 public companies in the European Union. The European Union's member countries were divided into two regions: Southern and Western Europe

and Northern and Eastern Europe. This group resulted in 155 public companies from Northeast Europe and 377 public companies from South-West Europe.

The study presents a basic model consisting of the following variables. The dependent variable is represented by the corporate social responsibility, expressed through CSR (Sustainability Committee Score). The independent variable is represented by the corporate governance, measured by board size. We found in literature the following control variables: Audit Committee Independence, Compensation Committee Independence and ROA. Table 1 shows the study variables in a detailed way. The data was obtained using the Refinitiv Eikon database.

Descriptive statistics of all the variables, namely, independent, dependent and control have been shown in Table 2, the number of observations differs from one variable to another for the 10 years analyzed. For each variable, the mean, minimum, maximum and standard deviation values have been presented. The minimum number of people in the CSR committee/team is 4, while the maximum number increases to 5, with an average of 4 people. The ESG score captures a minimum value of 1 and a maximum value of 5, with an average value of 4. Board size ranges from a minimum value of 1 to a maximum value of 4 directors, with an average value of 2 directors. Board gender diversity records a minimum value of 1 woman, up to a maximum value of 4 women, having an average of 3 women. Both ACI (Audit Committee Independence) and CCI (Compensation Committee Independence) have an average value of 4 and a maximum value of 5, with a difference that Audit Committee Independence has a minimum value of 2 respectively, and the Compensation Committee Independence records a minimum value of 3. On the other hand, both ROA and ROE highlight a negative minimum value, reaching a maximum value of 13 and 3 respectively.

Table 1: Description of variables

Variables	Way of Expressing	Acronym	Explanation	Source	References from literature
Corporate social responsibility	CSR Sustainability Committee Score	SCS	Does the company have a CSR committee or team?	Thomson Reuters	-
	ESG Score	ESG	Refinitiv's ESG Score is an overall company score based on the self-reported information in the environmental, social and corporate governance pillars.	Thomson Reuters	(Qian, 2024)
Corporate governance	Board size	BS	The total number of board members at the end of the fiscal year.	Thomson Reuters	According to Kaymak and Bekias (2017), the larger councils are diverse and comprise directors representing different stakeholder groups. This helps the board to understand and satisfy the requirements of different stakeholders. Also, Pareek et al. (2019) found a positive association between BS performance and CSR.
	Board gender diversity	BGD	Percentage of female on the board.	Thomson Reuters	In the context of emerging countries, there are relatively few studies that have been conducted to examine the relationship between female directors and CSR practices. Yasser et al. (2017), Ibrahim and Hanefah (2016) and Alazzani et al. (2017) find a positive association between board gender diversity and CSR practices.
Control variables	Audit Committee Independence	ACI	Percentage of independent board members on the audit committee as stipulated by the company.	Thomson Reuters	The audit committees play an important role in ensuring that companies report high-quality CSR information (Mohammadi et al., 2021). (Khan et al., 2013; Yu et al., 2016) found that the existence of the audit committee has a significant and positive effect on the degree of credible disclosure of CSR.
	Compensation committee independence	CCI	Percentage of independent board members on the compensation committee as stipulated by the company.	Thomson Reuters	Heba, A. & Magdy, A. K (2015). The use of sustainability incentives in executive remuneration contracts, Firm characteristics and impact on the shareholders' returns, Journal of applied accounting research, 17
	Return on assets-actual	ROA	$ROA = \frac{Net\ income}{Total\ Assets} \times 100$	Thomson Reuters	(Qian, 2024; Liao, Lin and Zhang, 2018; Beji et al., 2021)
	Return on equity-actual	ROE	$ROE = \frac{Net\ income}{Shareholders' Equity} \times 100$	Thomson Reuters	(Imran et al., 2023)

Source: Authors' processing

Table 2. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DEPENDENT VARIABLE					
log_scs	3.299	4,183909	0,1183236	3,93834	4,512619
log_esg	2.731	4,020874	0,3828867	1,333281	4,563959
INDEPENDENT VARIABLES					
log_bs	3.797	2,312657	0,4040233	0,6931472	3,526361
log_bgd	2.046	3,396197	0,4402531	1,469676	4,317488
CONTROL VARIABLES					
log_aci	1.919	4,286888	0,3921048	2,407945	4,60517
log_cci	1.690	4,238867	0,3912594	2,525729	4,60517
log_roa	2.675	-3,259049	1,186154	-9,21034	13,22552
log_roe	3.393	-2,139414	0,9207879	-8,111728	3,018472

Source: Authors' analysis.

Methods

Econometric analysis expressed the estimation of a regression on Panel Data in Stata. A panel data regression differs from a simple cross-sectional regression or one that uses time series in that it has a double index on its variables. It is called a Dynamic Panel because it includes variables that reflect dependence over time, such as lags or delayed effects.

If there is auto-correlation and non-stationarity, we are talking about auto-regressive, when y_t depends on y_{t-1}, y_{t-2} (in this case the past impacts the future, so we are talking about Dynamic Panel). We tracked the stationarity using the commands in Stata: Statistics- Longitudinal/ Panel Data- Unit-root tests-Variable (we follow the stationarity for each variable separately). Several tests have been proposed for autocorrelation in data panel models, but the one brought up by Wooldridge (2002) is particularly attractive, because it is based on relatively few assumptions and is easy to implement. The xtserial command in Stata performs a Wald test in which the null hypothesis states that there is no first-order autocorrelation (that is, the errors in a period are correlated with those in the previous period). The xtserial command is used to test autocorrelation (serial correlation) in residual errors of a regression model on panel data. It is an important test to check whether the classical assumptions of regression are respected, namely that the errors are independent in time.

The research sample relies on a number of 532 European public companies. The period of analysis taken into account is between 2014 and 2023.

Further, we point out that, subject to warnings, the dynamic nature of the relationship between corporate governance and performance creates a strong methodology for identifying the causal effect of governance on performance. This GMM estimator for dynamic panels, developed in a series of works by (Holtz-Eakin et al., 1988), (Arellano & Bond, 1991), (Arellano & Bover, 1995) and (Blundell & Bond, 1998), improve regular estimates by the method of the smallest squares (OLS) or traditional fixed-effect estimates in at least one of three important ways. Firstly, unlike the OLS estimate, we may include fixed company effects to take account of unobservable (fixed) heterogeneity.

Secondly, unlike traditional fixed-effect estimates, it allows current governance to be influenced by past achievements or shocks of past performance. Third, unlike OLS estimates or traditional fixed-effect estimates. A key idea of the GMM dynamic panel estimator is that, if the underlying economic process is dynamic in itself. In our case, if current governance is linked to past performance, then it may be possible to use a combination of enterprise history variables as

valid tools to take into account simultaneity. Thus, an important aspect of the methodology is that it is based on a set of “interne” tools contained within the panel itself: previous governance and performance values can be used as tools for current governance achievements. This eliminates the need for external tools (Wintoki et al., 2012).

Equations

$$SCS_{it} = \alpha_1 SCS_{it-1} + \alpha_2 SCS_{it-2} + \beta_1 BS_{it} + \delta_X X_{it} + \varepsilon_{it}$$

$$ESG_{it} = \alpha_1 ESG_{it-1} + \beta_1 BGD_{it} + \delta_X X_{it} + \varepsilon_{it}, \text{ where:}$$

ε_{it} - estimation error;

x- control variables;

index i- shows the cross- sectional dimension;

index t- shows the temporal dimension.

Results

Basic results

Multicollinearity has been checked using the variance inflation factor (VIF). Table 3 shows the VIF statistics. VIF values are found very less with the mean VIF of 1,13. This signifies that there is no multicollinearity among the variables since as a rule of thumb the VIF value less than 5 ignores the presence of multicollinearity.

Tabel 3. Variance Inflation Factor

Co-linearity Statistics (VIF)		
Variable	VIF	Tolerance = 1/VIF
log_cci	1,31	0,764655
log_aci	1,29	0,774996
log_roa	1,03	0,968701
log_bs	1,01	0,990899
log_bgd	1,01	0,994842
Mean VIF		1,13

Source: Authors' analysis.

Auto-correlation testing was done using Wooldridge Test. The null hypothesis is: no first-order auto-correlation.

$$F(1, 72) = 235,981$$

$$\text{Prob} > F = 0,0000$$

After performing the auto-correlation test, we notice that we are rejected the null hypothesis ($p < 5\%$), the alternative hypothesis is accepted, indicating that we have auto-correlation, and implicitly, auto-regressive, fact for which we will perform Dynamic Panel, highlighted by GMM system.

Table 4. Dynamic Panel Regression

log_scs	Coef.	Std. Err.	z	P> z	[95% Conf.	Interval]
L1.	1,093639	0,0197748	55,30	0,0000	1,054881	1,132397
L2.	-0,1903451	0,0117503	-16,20	0,0000	-0,2133753	-0,1673149
log_bs	0,0429611	0,0083968	5,12	0,0000	0,0265038	0,0594185
log_bgd	-0,0625639	0,0052548	-11,91	0,0000	-0,0728632	-0,0522647
log_aci	-0,027174	0,0126968	-2,14	0,032	-0,0520593	-0,0022887

log_scs	Coef.	Std. Err.	z	P> z	[95% Conf.	Interval]
log_cci	-0,0844434	0,0099117	-8,52	0,0000	-0,1038699	-0,0650168
log_roa	-0,0046575	0,0023519	-1,98	0,048	-0,0092671	-0,0000478
_cons	0,9844679	0,0983667	10,01	0,0000	0,7916728	1,177263
Wald chi2(7)						16582,27
Prob > chi2						0,0000

Source: Authors' analysis.

According to table 4, instrument L1 is statistically significant, at the increase of L1 by 1%, SCS will increase by 1.09%. The L2 instrument is statistically significant, at the 1% increase in L2, the SCS will decrease by 0.19%.

The increase by 1% of the independent variable will lead to an increase in the dependent variable by 0.04%. The increase by 1% of the percentage of women on the board will decrease the dependent variable by 0.06%. On the other hand, the increase by 1% of Audit Committee Independence leads to a decrease in the dependent variable by 0.03%, and the increase by 1% of Compensation Committee Independence reduces the dependent variable by 0.08%. Finally, the increase by 1% of ROA will lead to a decrease in the dependent variable by 0.001%.

The Sargan test (or the Hansen test, in robust variants) is used to check the validity of instruments in an estimated model with the GMM method (Generalized Method of Moments) and provides information about the over-identification of instruments. This assess whether the restrictions imposed by over-identification (over-identification restrictions) are valid, that is, whether the tools used are valid as well, check that the tools are correlated with the error terms, which would indicate their invalidity.

Following the Sargan test, we cannot reject the null hypothesis, which suggests that the tools used are valid. This is the desired situation, as it indicates that the tools are not correlated with errors and are correctly specified. Chi2(41): The test has 41 degrees of freedom (number of instruments minus number of endogenous explanatory variables).

Arellano-Bond test is used in econometrics to verify the presence of first and second order of autocorrelation (AR1 and AR2) in residual error in models with panel type data.

AR1 tests whether there is first-order autocorrelation in the differentiated residues. P-value associated with the AR1 test is lower than the threshold of 0,05, this indicates the presence of autocorrelation of order 1.

AR2 tests whether there is second-order autocorrelation in differentiated residues. The value associated with the AR2 test is higher than the threshold of 0,05, then there is no second-order autocorrelation, which is an essential condition for the validity of the instruments used in the GMM estimation.

Table 5. Effect of corporate governance on engagement in CSR activities

VARIABLES	(1) log_scs	(2) log_scs	(3) log_scs	(4) log_scs	(5) log_scs
L.log_scs	1.109*** (0.0142)	1.132*** (0.0185)	1.121*** (0.0152)	1.125*** (0.0165)	1.094*** (0.0198)
L2.log_scs	-0.0232 (0.0154)	-0.123*** (0.0124)	-0.203*** (0.0108)	-0.193*** (0.0114)	-0.190*** (0.0118)
log_bs	0.0559*** (0.00776)	0.0419*** (0.00924)	0.0417*** (0.00776)	0.0476*** (0.00753)	0.0430*** (0.00840)

VARIABLES	(1) log_scs	(2) log_scs	(3) log_scs	(4) log_scs	(5) log_scs
log_bgd		-0.0367*** (0.00582)	-0.0440*** (0.00560)	-0.0466*** (0.00614)	-0.0626*** (0.00525)
log_aci			-0.0226** (0.0113)	-0.0398*** (0.0127)	-0.0272** (0.0127)
log_cci				-0.0197* (0.0111)	-0.0844*** (0.00991)
log_roa					-0.00466** (0.00235)
Constant	-0.510*** (0.0760)	-0.0255 (0.0848)	0.489*** (0.0857)	0.586*** (0.100)	0.984*** (0.0984)
Observations	2,019	931	615	551	363
Number of c_id	404	205	142	133	90
Sargan test	chi2(41)= 51,12594	Prob > chi2 =	0,1335		
Arellano-Bond	AR	z	Prob > z		
test	1	-4,3649	0,0000		
	2	1,586	0,1127		

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Authors' analysis.

Table 5 reports the regression results for the whole sample. In model (5), the hypothesis claims that there is a positive association between corporate governance and engagement in CSR reporting. The results indicate a positive and very significant effect ($p = 0.00840$) and therefore the hypothesis is supported.

Board gender diversity also shows that the 1% increase in the number of women on board reduces the autonomy of the committee by 0.0626%.

Both the audit committee independence and the compensation committee independence show us a negative statistical impact on SCS.

ROA captures a significant impact on the dependent variable, the 1% increase in the performance of a company, the autonomy of the CSR committee decreases by 0.00466%.

The LRC test verifies that estimates of long-term effects are robust and consistent.

1. lrc log_bs = 0,4479

chi2(1) = 12,90

Prob > chi2 = 0,0003

The coefficient of BS indicates that a 1% increase in BS is associated, in the long run, with a 0.4479% increase in the dependent variable when taking into account all other variables in the model.

2. lrc log_bgd = - 0,6521

chi2(1) = 20,15

Prob > chi2 = 0,0000

The coefficient of BGD indicates that a 1% increase in BGD is associated in the long run with a 0.6521% decrease in the dependent variable when taking into account all other variables in the model.

3. lrc log_aci = - 0,2833

chi2(1) = 5,23

Prob > chi2 = 0,0222

The coefficient for ACI indicates that a 1% increase in ACI is associated in the long run with a 0.2833% decrease in the dependent variable when taking into account all other variables in the model.

4. $\text{lrc log_cci} = -0,8792$

$\text{chi2}(1) = 21,64$

$\text{Prob} > \text{chi2} = 0,0000$

The coefficient for CCI indicates that a 1% increase in CCI is associated in the long run with a 0.8792% decrease in the dependent variable when taking into account all other variables in the model.

5. $\text{lrc log_roa} = -0,0485$

$\text{chi2}(1) = 3,88$

$\text{Prob} > \text{chi2} = 0,0489$

The coefficient for ROA indicates that a 1% increase in ROA is associated, in the long run, with a 0.0485% decrease in the dependent variable when taking into account all other variables in the model.

Table 6. Long-term effect of variables

Variables	LRC	Prob > chi2 attached to LRC	Significance of the effect
BS	0,4479	0,0003	***
BGD	-0,6521	0,0000	***
ACI	-0,2833	0,0222	**
CCI	-0,8792	0,0000	***
ROA	-0,0485	0,0489	**

Source: Authors' analysis

Tests of robustness

The robustness test starts from measuring CSR using ESG score, changing the independent variable, instead of BS we chose BGD, modifying one of the control variables, instead of ROA I chose ROE.

Tabel 7. Robustness checks: alternative measure for corporate social responsibility through ESG Score

log_esg	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
L1.	0,5184	0,0168	30,9400	0,0000	0,4856	0,5513
L2.	0,0216	0,0129	1,6800	0,0940	-0,0037	0,0468
log_bgd	0,0287	0,0138	2,0800	0,0370	0,0017	0,0558
log_bs	0,0911	0,0321	2,8400	0,0040	0,0283	0,1540
log_cci	0,0448	0,0228	1,9600	0,0500	0,0000	0,0896
log_roe	-0,0115	0,0036	-3,1600	0,0020	-0,0186	-0,0044
cons	1,3729	0,1492	9,2000	0,0000	1,0805	1,6653
Wald chi2(6)	1355,72					
Prob > chi2	0,0000					

Source: Authors' analysis.

According to Table 7, Instrument L1 is statistically significant, at 1% increase in L1, ESG will increase by 0.52%. The L2 instrument is statistically insignificant since the related p-value exceeds 5%. Basically, in this case we will consider a single last year of the ESG score (L1).

The 1% increase in BGD will lead to an increase in ESG by 0.03%, ceteris paribus. The 1% increase in BS will lead to the increase of ESG by 0.09%, ceteris paribus. On the other hand, it can be seen that the increase of CCI by 1% leads to the increase of ESG by 0.04% and the increase of ROE by 1, leads to reduction of ESG by 0.01%, ceteris paribus.

Table 8. Effect of corporate governance on engagement in CSR activities through robustness test

1. VARIABLES	(1) log_esg	(2) log_esg	(3) log_esg	(4) log_esg
L.log_esg	0.469*** (0.0169)	0.462*** (0.0167)	0.442*** (0.0151)	0.518*** (0.0168)
L2.log_esg	0.0478*** (0.0108)	0.0345*** (0.00986)	0.0279*** (0.0102)	0.0216* (0.0129)
log_bgd	0.00879 (0.0107)	0.0135 (0.0115)	0.0217 (0.0132)	0.0287** (0.0138)
log_bs		0.0955*** (0.0248)	0.0891*** (0.0303)	0.0911*** (0.0321)
log_cci			0.0744*** (0.0236)	0.0448** (0.0228)
log_roe				-0.0115*** (0.00364)
Constant	1.958*** (0.0662)	1.801*** (0.0963)	1.578*** (0.154)	1.373*** (0.149)
Observations	958	898	739	701
Number of c_id	183	168	144	140
Sargan test	chi2(41)= 44,02366		Prob > chi2 =	0,3448
Arellano-Bond	AR		z	Prob > z
Test	1	-5,4537	0,0000	
	2	-0,4848	0,6278	

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Authors' analysis.

Table 8 captures the following situations: L1-Coefficients are significant at 1% in all specifications, indicating a strong dependence of the ESG score on its previous values. In other words, the ESG score has inertia, and the past strongly influences the present.

BGD: Not significant in models (1) – (3), but becomes significant at 5% in model (4). This indicates a possible positive relationship with ESG, but sensitive to model specification.

BS: It is positive and very significant at 1% in all models. This result suggests that companies that have a larger board tend to have higher ESG scores.

CCI: It is positive and significant at 1% in model (3) and 5% in model (4), suggesting that increased competitiveness can improve ESG scores.

ROE (return on equity): It has a negative and significant effect at 1% in the model (4). This result suggests that firms with higher profitability may have lower ESG scores, which could reflect a trade-off between profitability and sustainability.

Tabel 9. Variance Inflation Factor

Co-linearity Statistics (VIF)		
Variable	VIF	Tolerance = 1/VIF
log_roe	1,01	0,987793
log_cci	1,01	0,988846
log_bgd	1,01	0,991878
log_bs	1,01	0,99331
Mean VIF	1,01	

Source: Authors' analysis.

Multicollinearity has been checked using the Variance Inflation Factor (VIF). Table 9 shows the VIF statistics. VIF values are found very less with the mean VIF of 1,01. This signifies that there is no multicollinearity among the variables since as a rule of thumb the VIF value less than 5 ignores the presence of multicollinearity. The value of 1.01 being lower than the value obtained in the first model, namely, 1.13.

We also did the LRC test for the robust model to check if the estimates of long-term effects are robust and consistent.

1. lrc log_bgd = 0,0595
chi2(1) = 4,51
Prob > chi2 = 0,0337

The coefficient of BGD indicates that a 1% increase in BGD is associated in the long run with a 0.0595% increase in the dependent variable when taking into account all other variables in the model.

2. lrc log_bs = 0,1890
chi2(1) = 7,93
Prob > chi2 = 0,0049

The coefficient of BS indicates that a 1% increase in BS is associated, in the long run, with a 0.1890% increase in the dependent variable when taking into account all other variables in the model.

3. lrc log_cci = 0,0929
chi2(1) = 3,78
Prob > chi2 = 0,0519

The coefficient of CCI indicates that a 1% increase in CCI is associated in the long run with a 0.0929% increase in the dependent variable when taking into account all other variables in the model.

4. lrc log_roe = - 0,0239
chi2(1) = 9,15
Prob > chi2 = 0,0025

The coefficient for ROE indicates that a 1% increase in ROE is associated, in the long run, with a 0.0239% decrease in the dependent variable when taking into account all other variables in the model.

Table 10. The Long-term effect of the variables in robustness check

Variables	LRC	Prob > chi2 attached to LRC	Significance of the effect
BGD	0,0595	0,0337	**
BS	0,1890	0,0049	**
CCI	0,0929	0,0519	**
ROE	-0,0239	0,0025	**

Source: Authors' analysis

4. Discussions

Our results expose a favorable association between corporate governance (BS) and the involvement in CSR activities. The results indicate a positive and highly significant effect ($p = 0.00840$) and therefore the hypothesis is supported. Also, Jo and Harjoto (2012) examined the effects of corporate governance on CSR engagement from both stakeholder's approach and agency perspective based on US data. They found that there is a positive association between CSR engagement and corporate governance mechanisms, namely board characteristics and ownership. It is also noted that the size of the board though as a control variable was also found to have significant effects on CSR ratings. A larger board is linked to higher CSR performance. Some board composition factors especially in larger boards are at work here in eliciting CSR performance (Lau et al., 2016).

Board gender diversity indicates that as the number of women on the board increases, board size decreases by 0,0626 units. There are two main reasons in literature explaining why board gender diversity could not influence CSR issues in some countries. Facing discrimination or a stereotyping challenge is one of major barrier which has been widely identified in the literature (Galbreath, 2011; Arfken et al., 2004), and this restricts women's ability to fully contribute to corporate strategy and oversight in leadership positions. Such discrimination in Middle Eastern countries is more obvious than anywhere; women appear to experience more stereotyping and discrimination on a social and economic level in organizations (Jamal & Tessler, 2008). Several previous studies (Wiley & Monllor-Tormos, 2018; Bennouri et al., 2018; Ben-Amar et al., 2017; Joecks et al., 2013; Torchia et al., 2011; Konrad et al., 2008) suggest that unless boards have a critical mass of three female directors, the effect of women on the firm performance and decision-making process is limited. When this critical mass is reached, the presence of female directors has a significant impact on corporate performance and decision-making process.

Both audit committee independence and compensation committee independence show a statistically negative impact on SCS. Independent directors on audit committees discourage the disclosure of CSR information; the greater the proportion of non-executive directors on audit committees, the lower the extent of CSR disclosure. This could be explained by non-executive directors on audit committees playing an ineffective monitoring role concerning manager behavior and their decisions being limited by executive directors on audit committees, or their independence not being as real as expected (Pucheta-Martínez et al., 2021).

ROA captures a significant impact on the dependent variable. As a firm's performance increases, CSR committee autonomy decreases by 0,00466 units. Siminica et al. (2019) affirming that ROA is influenced and affects in a negative way the environmental and social dimensions of CSR. In the case of ROA, the significant correlations are negative and are established with the

social and environmental dimensions of CSR. Yoon et al. (2024) finding that the components of social and governance performance drive a negative relationship between CSR performance and the ROA variable. In fact, all of the three pillars of CSR performance variables turn out to have significantly negative relationships with the ROA measure.

5. Conclusions

The article aims to follow the link between corporate governance and involvement in CSR activities. For this we used data for 532 public companies in the European Union, using the Refinitiv Eikon database. Within the article we applied the GMM system, with which we outlined the Dynamic Panel of the study.

Board size shows a statistically positive impact, but the impact intensity is reduced. A recommendation is to ensure that the experience and skills of board members are actively used to develop sustainability strategies.

Board gender diversity shows a negative impact on SCS, this may indicate difficulties in integrating gender diversity into sustainability decision-making processes for a number of reasons: lack of an inclusive organizational culture, barriers to the active participation of women in the board, or insufficient alignment between gender diversity and CSR objectives. Among the recommendations we mention: ensuring that women are actively involved in strategic decisions on CSR, not just as a symbolic measure of diversity, develop clear policies that correlate gender diversity with the company's sustainability goals and encourage the recruitment of board members who have expertise in CSR and sustainability, regardless of gender.

Given that the audit committee has a statistical negative impact on SCS, this may indicate a rigid audit approach, where strict financial control and compliance concern can limit sustainability initiatives. Among the recommendations are: integrating sustainability considerations into its assessments so that CSR initiatives are seen as a strategic investment, not only as a cost and audit committee members should benefit from ESG training to understand the positive impact of CSR on reputation and long-term performance.

The remuneration committee has a negative impact on CSR when the compensation of executives does not encourage involvement in sustainability. This may occur when remuneration is related exclusively to short-term financial objectives, such as not including CSR performance criteria. Among the recommendations we list: the inclusion of non-financial performance indicators (carbon footprint reduction, workforce diversity, community involvement) in the compensation structure of bonuses and benefits of executives as well as the publication of reports showing to what extent sustainability factors influence the remuneration of executives.

ROA shows a statistical negative effect on CSR, companies with higher profitability allocate less resources or pay less attention to sustainability. One explanation might be that the lack of financial pressure can reduce motivation for involvement in CSR, unlike companies with weaker financial performance, which can use CSR as a differentiation strategy. The recommendations are: ensuring that financial decisions do not undermine CSR initiatives, but support them, creating long-term financing mechanisms for sustainability projects, benchmarking with industry benchmarks to assess the optimal level of CSR investment for profitable firms.

In addition to contributing to the academic literature on corporate social responsibility activities. This paper offers important insights for regulators and other stakeholders. In other words, banks use the data to analyze financial statements for granting a credit, while investors use the information from reporting to decide whether they will invest in those companies. At the same time, the state uses the data related to the reporting of the CSR in order to draw up new legislative

regulations. For academia, it expands on existing theoretical frameworks and suggests several avenues for future research, particularly in the areas of CSR reporting.

One of the limitations of the article is related to the availability of data. The article analyses public companies in the European Union, but does not include data for all of them, so results and conclusions may be incomplete. This can be caused by several factors, such as lack of transparency, difficulties in data collection, or variations in financial and legal reporting between member countries.

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