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Board Characteristics and Corporate Social PerformanceNexus-A Multi-Theoretical Analysis - Evidence from South Africa

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Abstract: *Despite the increasing attention gained by the Corporate Social Responsibility (CSR) activities and disclosure, the different mechanisms through which Corporate Governance influence CSR are not without controversy, especially that this research stream is scarce. The aim of this paper is to participate to this debate by investigating the extent to which the different board of directors' characteristics influence the Corporate Social Performance (CSP) in the South African setting, since South Africa is the most developed governance framework among the developing countries. To examine this nexus, authors focus on a sample of South African firms for the period spanning from 2012 to 2015.*
Our results suggest thatCorporate Social Performance is significantly influenced by Board Size, Board Independence, Directors' Average Age and Audit Committee Composition. However, Board meeting frequency and CEO duality seem to not have a significant impact on Corporate Social Performance, based on OLS regression. Our results are challenged by panel regression estimation with random-effect. The findings are largely consistent with the assumptions of Agency Theory, Resource Dependence Theory and Signaling Theory.
Keywords: *Corporate Social Performance, Corporate Governance, Board Characteristics, King report, South Africa, Vigeo Eiris.*

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I. Introduction

Organizations nowadays are operating in a disrupted and complex environment, where notions of environmental protection and engagement withdifferent stakeholders are increasinglygaining importance(Khan, 2010). Faced with this situation, and the interest that these stakeholders have in the social and environmental activities (Sidhoum andSerra, 2017), as well as the evolution of the legislative and institutional context in which companies operate (Hamann, 2004), companies are practicing what is called Corporate Social Responsibility (CSR), as a strategy of sharing with the community and the other various stakeholders a part of the created value, protecting the environment where that value was created, while keeping their economic and financial viability (Carroll, 2004;Wang et al., 2015), in other words,*"organizations have to lead a business that is profitable, obey the law, ethical and allow to be a good corporate citizen"*(Carroll, 1991). And to communicate their achievements in this regard, organizations disclose information on Environmental, Social, andGovernance aspects, using different communication channels (annual reports, CSR reports, sustainability reports, websites, ...) (Callan and Thomas, 2009).

In the African continent, CSR is still in its infancy(Klins et al., 2010), which implies that the literature on CSR in Africa is still emerging, and the areas of research are focusing on the strands from which the continent suffers, namely the mediocrity of public services, ethics and corruption (Klins et al., 2010), especially that CSR is often regarded as a way by which the private sector can support the governments' efforts to reduce poverty and achieve other social objectives (Lindgreen et al., 2009). This notice has been emphasized by a Nigerian study of almost 5000 people where education, health, poverty reduction and economic empowerment were highlighted as the most important social issues (Phillips, 2006).

Corporate governance might be the basis for good CSR activities and practices (Welford 2007; Jamali et al., 2008). Indeed, literature investigating Corporate Governance (CG)-CSR nexushas shown thatCG elements are significant regressors in explaining CSR changes (Haniffa and Cooke, 2005;Ntim and Soobaroyen, 2013a, 2013b) and enhance the social and the environmental performance of companies (Hussain et al., 2018).

Corporate board of directors has played an important role in CG mechanisms (Walls et al.,2012), by leading the strategic decisions of firms (Young Kyun Chang et al., 2015). Furthermore, CSR is a multidimensional and contested concept (Brammer et al., 2012). However, literature investigating the CG-CSR nexus is scarce (Ntim and Soobaroyen, 2013b) and largely inconclusive (Jo and Harjoto, 2012), hence, there is still room for new insights.

In light of the above, this study aims to contribute to this discussion by testing how board of directors' characteristics (BC) influence the Corporate Social Performance (CSP)in the South African context. Authors used a multidimensional theoretical framework (Agency Theory, Resource Dependence Theory, Signaling Theory) in order to develop their hypotheses, and test the applicability of these theories in the African setting.

South Africa (SA) offers an interesting context to examine the impact of BC on CSP for two main reasons. First, the African stock markets are quite different from other regions (Sugimoto et al., 2014), where the SA stock exchange is the most advanced financial market (by market cap) (Sugimoto et al., 2014), and the most active market in terms of volume of transactions (Senbet and Otchere, 2010). Second, SA is the first developing country to create a code of good governance (Aguilera and Cuervo- Cazurra, 2009), which became among the best governance frameworks in the world's emerging economies (Institute of Directors (IoD), 2009).

II. Literature review

From a holistic and integrative point of view,Welford (2007) hasargued that the firm's governance mechanisms and their potential to govern a wider range of stakeholders is a [sine qua non condition] for CSR performance. Hence, CSR issues will be taken into account in the decision-making process, leading to a greater CSR performance (Ferrero-Ferrero et al., 2015a).

The definition of corporate governance differs among organizations and practitioners. There is no universally accepted definition, but governance can be defined through two main points: the governance practices within the board (organizational perspective), and the context in which the organization operates (institutional perspective). Referring to the organizational perspective, CG can be defined as *"the manner in which companies are controlled and in which those responsible for the direction of companies are accountable to the stakeholders of these companies"*(Dahya et al., 1996, p.71).According to theinstitutional perspective, the corporate governance systems are different internationally, depending on the cultural contexts of the development of business enterprise (Spira, 2007, p.4). Moreover, the philosophy and practicesof governance are strongly influenced by the political and economic context.

Indeed, the considerable number of firms' scandals (Enron, WorldCom, …), financial crisis and the rapidly changing multi-national corporate environment, have strengthen the necessity for social responsibility, accounting transparency and disclosure practices (Institute of Directors (IoD), 1994), and especially for good CG, which became a topical issue in the contemporary management discussion (Galander et al., 2015). In the South African setting, due to the historical inequalities and discrimination against the black citizens (Iheduru, 2004), CG reforms have gone beyond the financial aspects, in contrast to other CG reforms in some Anglo-Saxon countries (Ntim et al.,2012b).

Therefore, and as every country must have its own unique CG system (Galander et al., 2015), with the King code of good governance issued in 1994, and the revised versions King II and King III, published respectively in 2002 and 2009, and based on SA's institutional specifications (Arya and Bassi, 2011), the King Committee has established a tailoredCG framework, oriented towards a broader range of stakeholders (Mangena and Chamisa, 2008) and encouraging firms to engage more regarding CRS issues (Ntim and Soobaroyen, 2013a, 2013b), especially issues that the country has suffered from historically, in a time where the majority of codes of good CG focus the most on the benefits of shareholders (Mangena and Chamisa, 2008).

Moreover, in their meta-analysis about the determinants of CSR disclosure in developed and developing countries, Ali et al. (2017) found that corporate governance is an important element in driving CSR reporting agenda, since it is considered as the basis for the social and economic goals balance, as well as aligning the interests of corporations and the community (Dong-Shang Chang et al., 2015).The same finding was highlighted by Jamali et al. (2008) in their study on managers working in Lebanese organizations, emphasizing that CG is a key ingredient in promoting CSR practices and implementation.This implies that setting up appropriate corporate governance mechanisms lead to better and effective CSR practices (Welford 2007).

However, researchers have tried to study CSR in Africa from different perspectives (See Ite, 2004; de Villiers and Van Staden, 2006; Dawkins and Ngunjiri, 2008; Muthuri and Gilbert, 2011; Coffie et al., 2018). Still, these studies focused on either the determinants of CSR disclosure and activities or the trends of this kind of reporting in some specific industries, without taking into account the different CSR implications and mechanisms. Furthermore, giving the fact that one-third of empirical studies on CSR focused on the USA (Egri and Ralston, 2008), this study will add to the discussion of CSR implications in developing countries, and particularly in Africa, where this field has not got enough attention (Mahadeo et al., 2011), using new set of data and variables. Besides, to the best of our knowledge, this study is the first to use the Vigeo Eiris ESG rating checklist to construct a CSR and corporate governance implications, giving new insights about CSR specifications and trends in emerging economies, since the companies under this study are the best performing companies from Emerging Markets (see details hereinafter).

III. Hypotheses development

Based on the discussion above, to study the CG influence on CSP, we focus on the following board characteristics: Board size, Board age, Board activism, CEO duality, Board independence and Audit Committee composition. These factors, among others, are relevant because they condition the different ways by which boards can orient and exercise their corporate governance responsibilities (Godos-Díez et al., 2018).

a. Board Size

Drawing upon Agency Theory, the more board of directors is large, the more it is effective in its governance duties, and then demonstrate greater managerial monitoring which can have a positive impact on CSR activities (Lau et al., 2009). Since managers by definition are self-interest oriented and they should be closely monitored (Jensen and Meckling, 1976), it will be more difficult for the Agent to deal with a big number of directors and act opportunistically favorizing his personal interests (Samaha et al., 2012). In contrast, other researches, and based on the same Agency Theory framework, suggest that large board will increase the agency problems due to the poor communication and monitoring (Jensen, 1993), which can lead to greater space for maneuver and opportunistic behavior from the CEOand managers. In the South African context, the CG framework is built from a stakeholder perspective (Visser, 2004), then a large board of directors will enable a wider range of stakeholders' representation, in order to compromise the potentially conflicting demands of these stakeholders and translate them into CSR policies, and hence greater CSR activities.

Based on the Resource Dependence Theory, a larger board of directors is associated with a better access to resources through its members' networking. Also, a larger board will benefit the firm from a panoply of profiles with different cultural and political backgrounds, as well as richer experiences combination, which will lead to an improvement in CSR activities.

Nevertheless, in developing countries, empirical studies have shown different results. El-Bassiouny and El-Bassiouny (2018) found that Egyptian board size has a negative but not significant influence on CSR reporting. The same finding was noticed by Htay et al. (2012) in the Malaysian context. In the same country, Said et al. (2009) reported no relationship between board size and CSR reporting, while Akhtaruddin et al. (2009)found that there a positive association between the two variables. In Africa, in a study conducted with managers from Malawi and Botswana, Lindgreen et al. (2009) highlighted that board of directors in one of the elements restricting CSR activities in organizations from these countries. In contrast, in SA Ntim et al. (2012b) have reported a positive relationship between board size and voluntary CG disclosure. In the same context, Ntim and Soobaroyen (2013a, 2013b) found that CSR practices and disclosureare higher in South African firms with larger board of directors, in line with this, Coffie et al. (2018) found that the board size is positively correlated with CSR disclosure in the listed firms in Ghana.Based on the discussion above, we hypothesis the following:
H1: There is a positive and significant relationship between the board size and theCSP score.

b. Board Independence

According to the Signaling Theory, having non-executive directors on board is considered as sign of good governance, since it is usually perceived that they act in the interest of minority shareholders, present other stakeholders and put managers under pressure to reduce information asymmetry by pushing them to disclose additional information, like CSR issues (Haniffa and Cooke, 2005).The existence of non-executive directors means that the firm is trying to make the optimum combination between its objectives and the community ones, which could result in a legitimacy improvement (Deegan 2002).

Dias et al. (2017), based on a stakeholders' perspective, argued that the board structure is an important setting for transparency and higher level of CSR commitment and disclosure, particularly, the existence of non-executive directors, leading to a reduction in conflict of interests between the stakeholders and the company's management (Ienciu, 2012).

In the same line, and from the Agency Theory point of view, an independent board is considered an essential tool to reduce agency conflicts and exert a control to the actions of managers, ensuring the safeguard of shareholders' interests (Fama and Jensen, 1983).Moreover, Zahra and Stanton (1988) found that independent directors give more attention to CSR issues. In the same stream, Brammer and Pavelin (2008) highlighted that the proportion of non-executive directors in board is linked with higher CSR disclosure.In developing countries, from one handSaid et al. (2009)found a non-significant relationship between the two variables in the Malaysian context,similar result was noticed by Hossain and Reaz (2007) in India, Saha and Akter (2013) in Bangladesh and more recently Fallah and Mojarrad (2018) in Iran. From another hand, Akhtaruddin et al. (2009) and Htay et al. (2012) noticed a positive relationship in Malaysia. Within the African continent, empirical studies have reported miscellaneous results. In South Africa, Ntim and Soobaroyen (2013a, 2013b) concluded a positive and significative impact of Board Independence on CSR disclosure, while Coffie et al. (2018) found a non-significative relationship in Ghana, and Barako et al. (2006), in their study of Kenyan Companies, reported a negative and significant relationship. Accordingly, and given these contradictory results, we formulated the

following nondirectional hypothesis:
H2: There is relationship between the proportion of non-executive directors in the Board and CSP score.

c. Audit Committee Composition

"An audit committee is a committee of directors who are charged not with the running of the business but with overseeing how the business is controlled, reported on and conducted." (Arthur Andersen, 1992 - quoted in Spira, 2007, p.5). From this definition we can conclude that Audit Committee (AC) plays an important role in corporate reporting (Carcello and Neal, 2003), including CSR disclosure practices (Jamali et al., 2008).Moreover, it has been argued that it plays a decisive role in promoting CG practices and social activities (Fallah and Mojarrad, 2018), as well as the voluntary disclosure and its quality (Ho and Wong, 2001; Said et al.,2009). Nevertheless, the effectiveness of the AC is conditioned by its structure (Madawaki and Amran, 2013). Thereby, to be effective, the AC must be comprised in part of non-executive directors (Collier and Zaman, 2005), in line with the Agency Theory perspective, *"as a means of attenuating agency costs"* (Forker, 1992). InSA, the King III stipulates that the AC should comprise a majority of non-executive directors, and it should be chaired by an executive director. This governance choice to appoint non-executive directors to the AC is motivated by the fact that they are characterized by a certain independence that will allow them to act subjectively in their control of managers (Carcello and Neal, 2003). In addition, they have a reputation management concern related to the effectiveness of their role within the AC (Abbott et al., 2004). Furthermore, the existence of a majority of non-executive members could lead to an improvement in internal control and a decrease in agency costs, which will result in a higher quality of disclosure (Forker, 1992).

Despite this agreement between theory and practice, empirical evidence about the role of the AC as the [Supreme Court] in protecting shareholders and other stakeholders is inconclusive (Spira, 2007, p.4), this inconclusiveness is true even for the AC influence on voluntary disclosure and CSR activities and reporting. In Malaysia, Akhtaruddin and Haron (2010) and Said et al. (2009) documented a positive relationship between the AC and CSR disclosure, while Akhtaruddin et al. (2009) found a non-significative one. In Bangladesh, Saha and Akter (2013) reported a negative relationship between voluntary disclosure and the AC, in contrast, Khan et al. (2013) have noticed a positive one for CSR disclosure. In the African settings, from one hand, Mangena and Tauringana (2007) highlighted a positive correlation between CSR disclosure and the AC in Zimbabwe, in the same stream as the finding of Barako et al. (2006) within the Kenyan firms. From another hand, Samaha et al. (2012) reported a non-significant relationship between the AC and internet-based disclosure in Egypt, while Abeysekera (2010) have reported a non-significant impact of the AC on the human capital disclosure in Kenya. Based on the discussion above, and given these contradictory results, we formulated the following nondirectional hypothesis:
H3: There is relationship between the proportion of non-executive directors in the Audit Committee and CSP score.

d. CEO Duality

CEO duality is another crucial characteristic of the board of directors that has been widely discussed in the literature. It is considered as one of the main sources for CEOs power (Muttakin et al., 2018). CEO duality can be defined as the situation where the same director holds both CEO and board's chairperson in a firm (Rechner and Dalton,1991). According to Agency Theory, these two positions should be held by different persons to ensure the independence and effectiveness of the board (Firth et al., 2007), and to allow the later fulfill its governance' duties and avoid any conflict of interest (Rechner and Dalton, 1991).Moreover, combining positions of CEO and chairman by the same director would result in weakening the board's control (Boyd, 1995). Hence, to overpass any agency problem that could occur because of this duality, firms often opt for separating the management function (CEO) and the control function (chairperson) (Boyd, 1995). In this governance option, the CEO will be accountable for elaborating and executing the strategy, in a time where the board will be responsible for the follow-up and control (Boyd, 1995).

According to the Stewardship Theory, the CEO duality haveits benefits regarding management and monitoring. Indeed, many empirical studies have reported that duality might not be an important factor for CSR disclosure (Ho and Wong, 2001; Khan et al., 2013; Giannarakis,2014a). While other studies founda positive relationship between duality and the extent of CSR disclosure (Dias et al., 2017). In the African continent, Barako et al. (2006) reported a luck of significance of duality's influence on voluntary disclosure in Kenya, and Ntim and Soobaroyen (2013a) have found the same result in SA while studying CSR disclosure.

In contrast, the Agency Theory stipulates that CEO duality is a key governance issue (Van der Walt and Ingley, 2003), and the investigation of its implications on CSR disclosure did not get enough attention (Giannarakis, 2014b). In a duality situation, the CEO will hold more power which will lead to a greater influence on the decision-making process (Dalton and Kesner, 1987), which may increase the likelihood for decisions against the interests of stakeholders, and accordingly a decrease in CSR activities and disclosure (Fallah and

Mojarrad, 2018). Some empirical studies have confirmed this logic by finding a positive relationship between the separation of the CEO and chairperson positions and the extent of CSR disclosure (Haniffa and Cooke, 2005; Said et al., 2009). Based on the Agency Theory perspective, and as King III stipulates that the CEO of the company should not also fulfil the role of chairman of the board (Institute of Directors (IoD), 2009), we hypothesis the following:
H4: There is a negative relationship between CEO duality and CSP score.

e. Board's Average Age

Another board characteristic dimension that has been broadly studied in the CG literature is diversity. By diversity we mean the different directors' attributes that may impact the board process and decision-making (Van der Walt and Ingley, 2003). Among these attributes, we distinguish the age of the directors in the boardroom (Milliken and Martins, 1996). The age is one of the most important diversity issues of board of directors (Kang et al., 2007). It is becoming increasingly an important characteristic, especially with the fact that the thoughts and [management style] of young directors are gaining more relevance (Van der Walt and Ingley, 2003). However, the literature on age diversity in the boardroom and how that could affect the firm's performance is still less developed (Shore et al., 2009), and its impact on CSR disclosure didn't get enough attention in the literature (Giannarakis, 2014b; Fallah and Mojarrad, 2018).

The age can be considered as an indicator for the directors' professional experience (Anderson et al., 2004). While older directors are more experienced, conservative and risk-averse (Vroom and Pahl, 1971), the younger directors are characterized by their risk-seeking behavior, the use of new management and administration tools (Giannarakis, 2014a), and by their reactiveness in business management (Handajani et al., 2014), and then they are more willing to adhere to new management strategies such as CSR (Giannarakis, 2014a). We used the average age of board members as a proxy for age diversity. Therefore:
H5: There is a negative relationship between the average age of board members and the CSP score.

f. Board Activism

The board meetings are regarded as an indicator for the level of directors' activism and diligence (Vafeas, 1999;Laksmana, 2008). The more these directors are active, the more they are efficient with a greater willingness to disclose information (Lipton and Lorsch, 1992). Furthermore, board meetings play an important role in the CG since they are a key mechanism for monitoring and communication (Liao et al., 2018) leading to a fluent and efficient decision-making process. From an Agency Theory perspective, frequent board meetings will decrease the predisposition of managers to act in their self-interest, by the continuous follow-up of the firm's operations (including CSR activities), leading to a better resource management and allocation and a decrease in information asymmetry by a greater disclosure. The number of meetings held by the board allows to estimate the involvement of the directors and the time allocated to discussions and decision making. A higher frequency of meetings is likely to be associated with in-depth study of remuneration and compensation practices and the desirability of disclosure (Laksmana, 2008). In contrast, Conger et al. (1998) stated that well-organized meetings with a moderate frequency could result in board diligence and vigilance. In the same stream, Vafeas (1999) suggests that frequent board meetings are a sign of ineffectiveness, which consequently may hinder the firm's performance. Empirically, studies discussing board activism and CSR disclosure have reported mixed results. Garcia-Sanchez et al. (2014), based on the Agency Theory, found an insignificant relationship between the two variables in the Spanish context. The same result was noticed by Giannarakis (2014a, 2014b) within the US firms, drawing from the Stakeholder Theory. Meanwhile, Jizi et al. (2014) have reported a positive relationship in the same setting, but based on the Agency Theory. Moreover, Enric Ricart et al. (2005) reveal a positive impact of board meetings on sustainability performance. In SA, and due to the relatively large board size of the companies under this study (12 directors on overage – See descriptive results), we assume that a higher frequency of board meetings will enhance the communication efficacy by giving a chance to all the members to express their point of view and address CSR issues according to the stakeholders they represent, and hence an improvement of CSR activities. This logic is supported by the findings of Hussain et al. (2018). With an average board size of 12 members and an average of 9 board meetings per year, they reported a positive and significant relationship between board meetings and social performance, while it is positive and not significant for environmental performance. Therefore, and based on the Agency Theory, as adopted by Hussain et al. (2018):
H6: The board meetings have a positive relationship with the CSP score.

IV. Methodology

In line with earlier studies (Haniffa and Cooke, 2005; Barako et al., 2006), content analysis method was applied to measure the level of CSR performance (CSP) (Orlitzky et al., 2003), since CSR activities engaged by firms are projected in their reporting(Van Beurden and Gössling, 2008), which implies that CSR activities and CSR disclosure are highly positively correlated (Clarkson et al., 2008). Content analysis is a method of codifying different qualitative data into different categories (based on previously selected items) in order to obtain quantitative scales (Abbott and Monsen, 1979).Basically, we analyzed the existence or absence of items in different corporate reports, namely annual reports and stand-alone CSR reports. These latter were taken because annual reports are certainly an appropriate disclosure medium, but not complete, to assess the firm's CSR involvement and performance (Mahadeo et al., 2011), especially that CSR reports are voluntary and then they may contain valuable information on the firm's relationships with its different stakeholders(Michelon andParbonetti, 2012). Following these latter (Michelon andParbonetti, 2012), disclosures on websites were not taken into account, since their content analysis cannot be done with consistence and reliability given that web-pages cannot be tracked properly to determine when they were published and updated.

Information on corporate governance practices was hand-collected from companies' annual reports and governance reportsfollowing earlier studies in the literature (Wang and Coffey, 1992;Haniffa and Cooke, 2005; Barako et al., 2006).

a. Sample selection

This study focuses on the South African companies listed in the "Vigeo Eiris' Best EM Perfomers" (EM for Emerging)for the period running from 2012 to 2015. It is worth to notice that Vigeo Eiris' Best EM Performers ranking is comprised of the best performing companies from a universe of 800 companies. The indexed companies are listed in 15 countries, belong to 29 different sectors and employ more than 2 million people[1]. Their global scores are the highest of their universe in the fields of human and labor rights, environmental protection, corporate governance, business ethics and contribution to social and economic development in areas where they operate. Therefore, we expect that these firms are representing a reliable sample for investigating CSR activities and disclosure implications, following the same logic adopted by Liu and Zhang (2017), who argued that listed companies in environment-sensitive industries provide a representative sample for searching CSR. The time span 2012 to 2015 was chosen because the South African code of good governance (King III), which came into effect on 1 March 2010, was amended in February 2012, following the amendments made to the Companies Act and the final Companies Act (2008) and related Companies Regulations, which were issued and became effective on 1 April 2011 (Institute of Directors (IoD), 2012). Within the main amendments, the public listed companies must establish a social and ethics committee, and more latitude was given to the audit committee(Institute of Directors (IoD), 2012).Furthermore, the update from the King II to the King III was because of the changes in international governance trends (Institute of Directors (IoD), 2009).

b. Variables

i. Dependent variable: Corporate Social Performance (CSP)

CSR is a multifaceted and contested concept (Brammer et al., 2012), which considers both internal and external stakeholders (Blasi et al., 2018). As our sample is companies listed in the "Vigeo Eiris Best EM Perfomers", we follow the ranking approach used by Vigeo Eiris, which is based on 38 criteria (following international texts, standards and guidelines from UN, Global Compact and OECD), divided into six domains of analysis of corporate environmental, social and governance responsibility, namely[2]:

- <u>Environment:</u> Protection, safeguard, prevention of attacks on the environment, implementation of an adequate managerial strategy, eco-design, protection of biodiversity and reasonable control of environmental impacts on the overall life cycle of products and services.
- <u>Human Rights:</u> Respect of trade unions' freedom and promotion of collective negotiation, nondiscrimination and promotion of equality, eradication of banned working practices, and prevention of inhumane or humiliating treatments.
- <u>Human Resources:</u> Constant improvement of industrial relations, career development, as well as quality of working conditions.
- <u>Community Involvement:</u> Contribution to economic and social development of the territories of establishment and their human communities, concrete commitment in favor of the control of societal impacts of products and services, transparent and participative contribution to causes of general interest.
- <u>Business Behavior:</u> Taking into account clients' rights and interests, integration of social and environmental standards both in the process of selection of suppliers and in the overall supplying chain, efficient prevention of corruption, and respect of competition laws.

[1]http://vigeo-eiris.com/solutions-for-investors/esg-indices-ranking/ranking-vigeo-eiris-emerging-70/

[2] http://www.vigeo-eiris.com/about-us/methodology-quality-assurance/

- CorporateGovernance: Efficiency and integrity, insurance of both independence and effectiveness of the Board of Directors, effectiveness and efficiency of audit and control systems, and in particular inclusion of social responsibility risks, respect of shareholders' rights and most of all of the minorities, transparency and moderation in executive remuneration.

It is worth to notice that the key areas and criteriaused in this study to measure the CSPwere used by earlier researches either to define CSR or to measure it (Cochran, 2007; Dahlsrud, 2008). Furthermore, the list ofcriteria fits with context under the study, since it was created to evaluate the CSR practices in the emerging markets, and it also falls into the CSR framework advanced by Carroll (1991) composed from economic, legal, ethical and philanthropic responsibilities. Therefore, this checklistconstitutes a multidimensional base with all the necessary ingredients to capture a firm's CSR engagements and assess its CSP.

Following (Haniffa and Cooke, 2005), we used a dichotomous approach to scoring, where the score of each key area will be the aggregated mean of its components, which will take 1 or 0 according their presence or absence in the reports. For each firm, the maximum CSR index score will be 100 points. However, this approach may present a potential problem. Some companies could be penalized for not reporting information about a criterion, and then take 0, while in reality the firm has no information to disclosure in this regard. Therefore,following Akhtaruddin et al. (2009), and taking into account the industry where the concerned company operates, if there is no information about a criterion in the analyzed reports, the item was coded as "not applicable". Ergo, a relative CSP score was computed for firms with not applicable criteria (Owusu-Ansah, 1998).

ii. Independent variables: Board Characteristics

As discussed above, board characteristics will be the regressors in our model. For measuresand details, refer to details below.

iii. Control variables

1. Size

Size is an important control variable while examining CSR (Cormier and Gordon, 2001), since larger firms tend to engage in CSR activities and disclosure more often (Tsoutsoura, 2004). Moreover, the more firms are growing, the more they attract more attention from a wider set of different stakeholders (Burke et al., 1986). Following previous empirical studies in the field (King and Lenox, 2001;Ioannou and Serafeim, 2012), we choose the Log of total assets as a basis to measure the size of firms under this study.

2. Industry

The literature shows that it is important to take into account the industry categories when studying the CSR since different industries may have different stakeholders (Sweeney and Coughlan, 2008). Furthermore, because of the nature of their business, companies operating in some particular sectors may be more active in the social activities than others, and thus, the industry may influence CSR disclosure (Campbell et al. 2006), and activities.Furthermore, we did not control for R&Dintensity, instead, we used the industry as a control variable following the logic adopted by Waddock and Graves (1997) and Tsoutsoura (2004), thatthe industry variable takes into account R&D differences.

3. CSR commitment: UNGC

Giannarakis (2014a)argued that CSR commitment through well-known standards (such as UN Global Compact (UNGC)) and guidelinespush firms to engage and disclose more in social activities (Rasche and Waddock, 2014). In the same vein, Godos-Diez et al. (2018)considered that participation in the UNGC as a relevant sign for a firm's CSR engagement, which implies that these firms tend to model their organizational behavior in order to foster stakeholder engouement, resulting in improvements in their social and environmental performance (Ortas et al., 2015). Following this stream, we suppose that companies which are engaged in the UN Global Compact (UNGC) and adhere to its principals are more active in CSR activities than their peers. This kind of CSR standards is very often a way to help firms in improving their CSR commitment (Hohnen, 2008).

UNGC members are obliged to integrate activities and disclosures related to four main areas, namely human rights, labour, environment and anti-corruption, in order to achieve CSR engagement and commitment (Arevalo and Aravind, 2010). Empirically, many studies have advocated the importance of this standard on CSR activities and disclosure. Runhaar and Lafferty (2009), in their study on the contributions of the UNGC to CSR strategies, highlighted that the UNGC is only one of the many initiatives that shape the companies CSR strategies, help in their implementation and disclose achievements in this regard.Following Giannarakis (2014a) and Godos-Diez et al. (2018), this variable will take 1 if a firm is adhering to the UNGC and 0 otherwise.

c. Model specifications

Following Branco and Rodrigues (2008), before we perform our regressions, several preliminary tests were performed, such as normality test and heteroscedasticity test, to ensure that our data are appropriate for the statistical analysis. To test for unequal variances, we ran a Breusch-Pagan test for heteroskedasticity and the results suggest that our model suffer from heteroskedasticity, therefore, we used an OLS with robust standard errors to overcome this issue (DeBoskey et al., 2018). To test for normality, the Skewness/Kurtosis test was performed on the residuals of our model, and the results show that we cannot reject the null hypothesis of normality, with chi-squared test statistic not significant at 10% level (Table 3). Furthermore, to make sure that our model does not present endogeneity problems, Ramsey RESET test (Ramsey, 1969) was performed and the outcome shows an F test statistic not significant at 10% level (Table 3), concluding that the model is likely to have no omitted variables bias and is unlikely to present any mis-specification. This conclusion implies that our model is unlikely to present endogeneity problems, since omitted variables are one of the most common causes of endogeneity in corporate finance (Roberts and Whited, 2013).

Model

$$CSP = \alpha + \beta_1 Bdsize + \beta_2 CEOduality + \beta_3 ACC + \beta_4 Bdindp + +\beta_5 Age + \beta_6 Bdmeet + \beta_7 Size + \beta_8 Industry + \beta_9 UNGC + \varepsilon$$

Where:

- *CSP is the CSR Performance score;*
- *Bdsize is the Board Size referring to the number of directors sitting in the board(Jizi et al., 2014);*
- *CEOduality is a dummy variable that takes 1 if the CEO is also the Chairman of the board and 0 otherwise (Allegrini and Greco, 2013);*
- *ACC is Audit Committee Composition measured by the number of non-executive directors among the AC members to the total of all AC directors (Akhtaruddin and Haron, 2010);*
- *Bdindp is Board Independence defined as the proportion of non-executive directors on the board (Haniffa and Cooke, 2005; Ntim and Soobaroyen, 2013a);*
- *Age is the average age of directors in the boardroom (Giannarakis, 2014a, 2014b);*
- *Bdmeet is the number of board meeting frequency in each year(Vafeas, 1999; Laksmana, 2008);*
- *Size refers to firm's size measured by the natural logarithm of Total Assets;*
- *Industry refers to industry dummies (Ntim and Soobaroyen, 2013a, 2013b; Young Kyun Chang et al., 2015);*
- *UNGC is a dummy variable that takes 1 if a firm is adhering to the UNGC and 0 otherwise (Giannarakis, 2014a; Godos-Diez et al., 2018);*
- *α the constant;*
- *ε the error term.*

V. Results and discussion

a. Correlation analysis

To test for multicollinearity between the independent variables, we proceed in two ways: the variance inflation factor (VIF) along with the Pearson correlation matrix (Table 1). VIF in excess of 10 provides evidence of possible multicollinearity (Kennedy, 1998;Haniffa and Cooke, 2005), and as a rule of thumb, coefficients between independent variables higher than 0.8 (absolute value) is a sign of multicollinearity (Guajarati, 1995; Kennedy, 1998). Both techniques show that our data set does not present any multicollinearity problems, with VIF value well below the threshold of 10, not exceeding the maximum of 1.53.

b. Descriptive analysis

Homogeneity in CSR disclosure among the different firms in our sample is noticeable, with CSP score ranging from 58% to 93%, with an average of 79%. This confirm our notice that the firms listed in the Vigeo Eiris' Best EM Performers have a certain maturity in their CSR disclosure and practices, which is confirmed by a UNGC average adoption rate of 85%,denoting a high level of development in the management of social impacts in the South African indexed companies. Comparing to other studies in the SA context, this remarque is still valid. Ntim and Soobaroyen (2013a) for example, while studying the impact of board characteristics on CSR disclosure among the 15 largest firms in five industrieslisted Johannesburg Stock Exchange, have reported a great degree of heterogeneity in terms of the importance attached to CSR disclosure, with CSR word count varying from 0 to 13,107 words.

The average board size is 12 members with a minimum of 7 directors and a maximum of 16, with a mean of independence rate of 71%, ranging from 52% to 84%, and therefore, fulfilling King III principle of the majority of board members should be non-executive directors (Institute of Directors (IoD), 2009). Comparing to the results found by Ntim and Soobaroyen (2013a), with an average of 11 directors and an average proportion of non-executive directors of 66%, it seems that firms listed in the Vigeo Eiris' Best EM Performers tend to have relatively bigger and more independent boards of directors comparing to non-indexed firms. These firms tend as well to have the majority of their AC members non-executive directors.

With an annual mean frequency of board meetings of about 5, we can conclude that these boards are relatively active, meeting almost every two months a year.

Furthermore, boards of these firms are relatively old, with an average age of 54. As the age is an indicator of the directors' experience (Anderson et al., 2004), it seems that board members in these companies tend to master the decision-making process and the organizational strategies (Fallah and Mojarrad, 2018).

Table 1: Descriptive statistics and correlation analysis

	Mean	Min	Max	VIF	CSP	Bdsize	Age	Bdmeet	Bdindp	CEOduality	ACC	UNGC	Size
CSP	0.793	0.582	0.931	n. a	1								
Bdsize	12.150	7.000	16.000	1.32	0.083	1							
Age	54.215	50.451	61.025	1.28	-0.291	0.031	1						
Bdmeet	5.213	3.000	10.000	1.29	-0.009	0.166	-0.314	1					
Bdindp	0.710	0.520	0.840	1.53	-0.169	0.023	0.273	0.157	1				
CEOduality	0.012	0.000	1.000	1.29	0.031	-0.136	-0.128	-0.077	-0.328	1			
ACC	0.953	0.710	1.000	1.07	-0.169	0.020	0.085	0.003	0.218	0.017	1		
UNGC	0.853	0.000	1.000	1.21	0.067	0.010	0.012	0.215	0.168	-0.358	-0.047	1	
Size	20.549	18.566	22.852	1.43	0.354	0.427	0.024	0.148	0.341	-0.163	0.060	0.042	1

c. Regression analysis

Table 2 shows the results of our regression findings. The model shows a coefficient of determination (R2) of 64%, indicating that board characteristics including in this study explain CSR performance variation for 64%. The highest effect is accounted for board size and audit committee independence, statistically significant at 1% level. Followed by Board independence and Age, at 10% significant level.

d. Discussion of results

Our result for board size suggests that larger board of directors tend to have a great positive impact on CSR activities and disclosure, supporting Resource Dependence Theory and Agency Theory logics, as well as the Neo-institutional theoretical framework (Ntim and Soobaroyen, 2013b), suggesting that Vigeo Eiris EM best performers firms with larger boards engage more in CSR activities. These findings are in line with previous studies in the literature (Wang and Coffey, 1992; Said et al., 2009; Giannarakis, 2014b; Jizi et al., 2014). In the South African context, our results are in the same vein as Ntim and Soobaroyen (2013a, 2013b), who reported that CSR practices and disclosure are higher in South African firms with larger boards. Furthermore, our findings support the King III stakeholders' perspective, whichimplies that larger boards will allow a greater representation of a wider set of stakeholders, and thus more CSR practices, which can improve the firm's Social Performance. However, these results contradict some previous empirical studies, such as Giannarakis (2014a), who reported a non-significant relationship between the two variables in the US.

Table 2: Regression analysis

Dependent Variable - CSP	Predicted sign	Coefficients	Standard errors	t-statistic	p-value	Hypothesis
Bdsize	+	0.015***	0.005	2.950	0.005	H1
Bdindp	?	-0.222*^	0.154	-1.440	0.156	H2
ACC	?	-0.238***^	0.048	-4.960	0.000	H3
CEOduality	-	-0.052	0.037	-1.380	0.175	H4
Age	-	-0.008*	0.004	-1.880	0.067	H5
Bdmeet	+	-0.005	0.004	-1.500	0.141	H6
UNGC	+	0.036	0.023	1.600	0.116	
Size	+	0.081***	0.024	3.350	0.002	
Constant		3.451	0.712	4.850	0.000	
Industry effects	*YES*					
Robust Standard errors	*YES*					
Skewness/Kurtosis (Chi2) test	*0.9930*					
Ramsey RESET test	*0.1775*					
F-value	*5.32*					
p-value of F-test	*0.0000*					
R-squared	*0.6448*					

This table shows the OLS with robust standard errors regression. The dependent variable is ''CSP'' developed from dichotomous data related to 38 items of CSR disclosure from annual reports and CSR reports. The independent variables are Board size (total number of directors in the boardroom), CEO duality (dummy variable that takes 1 if the CEO is also the Chairman of the board and 0 otherwise), Audit Committee Composition (%)

(proportion of non-executive directors among the AC members), Board Independence (%) (the proportion of non-executive directors on the board), Age (years) (the average age of board members) and Bdmeet (number of board meetings in each year). Control variables are Firm size (natural log of firm's total assets), Industry Dummies (for eight industries according to Vigeo Eiris classification) and UNGC (dummy variable that takes 1 if a firm is adhering to the UNGC and 0 otherwise).

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

^ two tailed

Based on Signaling Theory and Agency Theory perspectives, board independence should have a positive influence on CSR activities and disclosure, but empirical studies have suggested mixed results. Surprisingly, our regression outcome shows a significative and negative influence of board independence on CSP, but still supporting our two-tailed predicted association in H2. This finding is consistent with the outcomes of Barako et al. (2006), who studied voluntary disclosure practices in Kenya. Following these later, thisresult can be explained by two main reasons. First, the existence of non-executive directors in the boardroom can be considered as a substitute for voluntary disclosure [CSR disclosure](Barako et al., 2006) and as a practice to signal the engagement and activeness of these firms regarding CSR activities, since non-executive directors usually presentminorities and stakeholders other than shareowners (Signaling Theory).The second reasonis that these non-executive directors might not be truly independent to defend the firm's engagements in CSR activities (Barako et al., 2006). This notice is confirmed by the finding of Ntim and Soobaroyen (2013b), who reported a positive relationship between CSR disclosure and the proportion of independent non-executive directors among the board members.

Regarding the average age of board members, our regression analysis suggests a significant negative influence ($p < 0.1$) on CSP, thereby providing support to our hypothesis (H5). This finding is in line with Post et al. (2011) study on board of directors' characteristics and their impact on environmental CSR, suggesting that older boards [engage] and disclose less about CSR activities. As discussed above, this outcome can be explained by the fact that old directors exhibit more conservatism and risk-averseness (Vroom and Pahl, 1971), and may consider engaging in CSR activities as risky and not beneficial. Nevertheless, our outcome does not follow some earlier studies in the literature. Giannarakis (2014a, 2014b) has reported a non-significant relationship between average boards members' age and CSR disclosure index in the US, while Ntim and Soobaroyen (2013a) have suggested a positive nexus between the two variables in South Africa, with 7 age bands (under 30, 30–39, 40–49, 50–59, 60–69, 70–79, and 80 and above) as a proxy for board age diversity.

Based on the inconclusive results about the AC composition influence on CSP, we hypothesized a nondirectional relationship. Our finding supports our expectation (H3), suggesting a negative relationship ($p<0.01$). Based on the results of board average age and board independence, this outcome can be explained by two main reasons. First, AC non-executive members may luck independence. Second, firms in our sample have relatively old board members (54 years old on average), which could influence negatively on CSP, and therefore lucking support to Agency Theory. Our findings are dissimilar to Said et al. (2009)and who found a positive association between the proportion of non-executive directors sitting on AC and the CSR disclosure in Malaysia. However, they are somehow in line with the results of Saha and Akter (2013) who reported a negative and significant relationship between voluntary disclosure and the existence or not of AC in listed firms in Bangladesh.

Results for CEO duality and board activism luck significance, and thereby inconsistent with hypothesis 4 and 6 respectively.The duality finding is in the same vein as the previous empirical studies in the literature (Barako et al., 2006; Said et al., 2009; Giannarakis, 2014a).In our case, it can be explained by the fact that all the firms under this study had opted for a separation between CEO and board chairman functions, according to King III principals.Furthermore, the number of board meetings seems not to be a substantial factor so as to explain CSP. This finding is similar to the studies of` Giannarakis (2014a, 2014b). According to this later, this result could be explained by the fact that board of directors is responsible for CSR activities and practices at the strategic level and it is not concerned about the execution and implementation process, which is a time-consuming part (Giannarakis, 2014a, 2014b).

VI. Robustness Analysis

To challenge the obtained results, we undertake panel regression estimation. The study made use of the Hausman test to choose for employing either the fixed-effect or the random-effect model. After running the Hausman test, the outcome suggests that we cannot reject the null hypothesis,and therefore the random-effect regression seems appropriate.Natural Logarithm of age, board size and board meetings have been used in order to reduce the skewness in the distribution (Kiel and Nicholson, 2003).

Random-effect analysis is presented in Table 3. The results are generally in line with the estimations found earlier from OLS regression, except for board independence, which does not show a statistically significant coefficient. However, the outcome shows significant coefficients for CEO duality ($p<0.05$) and UNGC ($p<0.1$), and thus supporting Agency Theory perspective (H5) and the CSR commitment behavior. The result of duality implies that separation between CEO and board chairperson positions enhance the impact of the board on CSP (Hussain et al., 2018).

Table 3: Random-effect regression

Dependent Variable - CSP	Coefficients	Standard errors	t-statistic	p-value
LnBdsize	0.188***	0.062	3.060	0.002
LnAge	-0.45*	0.260	-1.730	0.084
LnBdmeet	-0.033	0.028	-1.160	0.245
Bdindp	-0.227	0.226	-1.000	0.317
CEOduality	-0.05**	0.022	-2.280	0.023
ACC	-0.228***^	0.042	-5.460	0.000
UNGC	0.036*	0.021	1.690	0.091
Size	0.079**	0.034	2.320	0.020
Constant	4.514	1.934	2.330	0.020
Industry effects	*YES*			
Robust Standard errors	*YES*			
Wald chi2	*79.68*			
p-value of Chi2-test	*0.0000*			
R-squared	*0.6442*			
Hausman test (Chi2) p-value	*0.8032*			

This table shows random-effect regression with robust standard errors.
***** p < 0.1, ** p < 0.05, *** p < 0.01***
^ two tailed

VII. Conclusion

In the light of financial scandals and the recent global financial crisis, governments and leaders have made various changes in the governance systems and especially regarding boards' composition, with the aim of increasing their effectiveness (Ferrero-Ferrero et al., 2015b), this study examined the impact of board characteristicson the Corporate Social Performance.

Since most of previous studies have focused on developed countries, and since CSR in Africa is still in its embryonic status, we decided to study this nexus in the South African setting, as an emerging market, where corporate governance practices are well developed, so as to try to find a road-map to follow for other African countries in order to developtheir governance and CSR practices.

The authors conducted an empirical analysis based on OLS estimation whereCSP is the dependent variable and board characteristics are the regressors, while controlling for firmsize,industry types and CSR commitment.The CSP index was constructed based on the Vigeo Eiris38 criteria check-list. The outcomes of our regression suggest that board size, audit committee composition are significant factors for CSP at 1% level, followed by board independence and board members average age with a significance level of 10%. However, other board characteristics, namely CEO duality and board activism are statistically insignificant.

In addition, authors undertook a random-effect regression as a robustness test, and the results were generally similar, except for board independence.

Nevertheless, the study presents some caveats. First, it is based only on the presence or the absenceof CSR items in annual reports and CSRstand-alone report, neglecting the quality dimension which can lead tosome misinterpretations (Giannarakis, 2014a).Second, the results are hard to be generalized, as our sample contain only the best performers with a certain maturity in CSR and governance practices.

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