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Relationship between corporate governance and corporate social responsibility disclosure in Brazilian companies

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Abstract

This article aims to analyze the relationship between corporate governance indicators and corporate social responsibility disclosures (CSR). The issue has gained more importance in recent years as more companies seek to improve its corporate governance, coupled with the fact that concerns about social factors, whether related to the environment or the community. This paper analyzes whether a company with a greater level of governance is related to a greater concern with social responsibility. Assuming that companies with this concern are interested in disclosure this information; we consider disclosure as proxy for CSR. The sample is formed by 146 Brazilian companies listed in BM&FBovespa in 2012 and the statistic model used by us was based on Khan and Siddiqui (2013). The findings demonstrate a positive relationship between board size and the social responsibility disclosure. Such finding suggests that greater boards are able to improve disclosure. Furthermore, company size has also positive relationship with disclosure, because due the greater visibility, more information is required by society.

Keywords: Corporate social responsibility; corporative governance; social disclosure.

1. Introduction

In a context where the current social and environmental challenges are latent in our society, everyone is charged to fulfill their social role; mainly companies have been required to engage in socio-environmental activities in order to answer the society. Therefore, corporate social responsibility emerges as an important tool in the practice of social business in recent decades. According to Ethos (2010), corporate social responsibility (CSR) implies practices of dialogue and engagement from company to all stakeholders connected to it, considering an ethical and transparent relationship.

A common definition in the management literature comes from Davis (1973, p. 312), who defines CSR as ''the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks.

There are numerous reasons underlying organizations' motivations for engaging in socially responsible endeavors. First, firms may have altruistic intentions: they simply believe their CSR efforts are part and parcel of being a good global citizen. Second, organizations may engage in CSR activities as ''window dressing'' to appease various stakeholder groups, such as nongovernmental organizations. Third, there are potential contracting benefits: firms believe that CSR helps recruit, motivate, and retain employees. Fourth, there are customer-related motivations: CSR may entice consumers to buy a company's products or services. Fifth, companies' focus on environmental concerns can lead to reductions in production costs. Finally, CSR can be viewed as an integral part of a company's risk management efforts (Sprinkle and Maines, 2010).

CSR has the goal of that companies are able to maximize profits of business for shareholders but without hurting the basic rules of society and without disrespecting the law and the ethic. Many companies make it a point to highlight activities related to social responsibility in their financial statements, reports and websites, which characterizes the social disclosure. Disclosure has high quality when it is able to provide useful information to external users. Consequently, it is expected that high level of governance corporative be correlated with high levels of CRS disclosure (Friedman, 1970).

CRS concept is intrinsically matched to Corporate Governance (CG), because both CRS and CG intend to make information more transparent in an institutional environment. CRS disclosure makes public the responsiveness of companies to socio-environmental issues, as well as the behavior of managers facing real situations, for example, the benefits to employees, the concern for people living around, or even the handling of polluting materials.

Corporate governance and corporate social responsibility (CSR) reporting have separately established themselves as well-researched areas, however relatively less attention has been paid in setting up a link between these two (Khan e Siddiqui, 2013).

Research in this area have found CSR choice to be positively associated with internal and external corporate governance mechanisms (Johnson and Greening 1999; Jo and Harjoto 2011), with the purpose of gaining legitimacy (Biggart 1991; Hamilton and Biggart 1988). According to Khan and Siddiqui (2013), there was a gap in both corporate governance and CSR literature about the paucity of such research in the context of emerging economies and they studied CRS in Bangladesh.

We agree with the gap raised by them, but we believe it is important to evaluate their model in other emerging economies, with other culture, commercial characteristics and legal and religion structures. Therefore, we will apply the Khan and Siddiqui´s model in the Brazilian environment.

Brazilian Institute of Corporate Governance (IBGC) (2015) defines corporate governance as the practices and relationships among shareholders, board, CEO, independent audit members, etc. that seek to optimize company's performance and facilitate access to capital. In this context, our goal is to answer the following question: **What is the relationship between better corporate governance practices and disclosure on the Corporate Social Responsibility of Brazilian companies?**

The organization of the paper is as follows. In Section 2, we describe a theoretical baseline. The methodology is presented in Section 3. Numerical results of the research are given in Section 4, and final consideration are outlined in Section 5.

2. Theoretical Baseline

2.1 Corporate Social Responsibility

The theoretical concept of social responsibility emerged in the 1950s, as soon as the formal literature on Corporate Social Responsibility appeared in USA and Europe. In that context, the academic field was concerned with the power of business in society, but leaving aside responsibility for ethical conduct, as the practice of labor exploitation and environmental destruction (Borges, 2001). Researches have exposed the concept of CRS; however, there is not a consensus about which activities should be done by companies socially responsible. According to definition developed by World Businesses Council for Sustainable (WBCSD, 2004), CSR is the commitment of a company to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

Servaes and Tamayo (2013) state that this definition contains the components that are generally included in the empirical work on the CSR, they are: the community, the human rights, the environment and the treatment of employees. Some of these components are related to social dimensions and other components prioritize interested parties, such as the treatment of employees.

2.2 Relationship between CRS and CG

In general, relationship between CRS and CG is studied using two concurrent theories, which are Stakeholders' Theory and Agency Theory. The first one implies that there is an expectation from community that company will work in an ethic way and it will be socially responsible. Thus, managers have to act ethically, but more important, managers have to show such ethic act in order that people perceive it. When a manager lose credibility, hardly it will be recovered (Carroll, 1999).

Wood (1991) goes further in his statement and argues that the principle of administrative discretion recognizes managers as moral actors who are required to perform their functions and decision-making directed toward socially responsible results.

The reputation of the company can be enhanced by CSR and CG, both working together. Consequently, it can strengthen the relations with key stakeholders and can mitigate agency conflicts. In this way, engagement in CSR would be positively related to effective mechanisms for CG (Aguilera et al., 2007). Therefore, companies seek congruence between their organizational actions and values of its relevant and general public or stakeholders (Dowling and Pfeffer 1975; Lindblom 1994).

Based on the agency theory of Jensen and Meckling (1976), the researchers Barnea and Rubin (2010) consider that the engagement between CSR and CG can be seen as a relationship between managers and shareholders (principal-agent). The authors agree that increasing in CSR expenditure can be consistent with firm value maximization in order to answer stakeholders' preferences. On the other hand, they argue that a firm's insiders (managers and large blockholders) may seek to overinvest in CSR for their private benefit to the extent that doing so improves their reputations as good global citizens and has a ''warm-glow'' effect.

Jo and Harjoto (2011) found a positive association between CRS and CG. They considered some corporate governance mechanisms, such as board members, board independence and institutional ownership; in general, they observed that companies high in CRS engagement had higher values (q-tobin). They also found that social responsibility activities that address intern social value, as the companies' relationship with their employees and the quality of products, increase the company's value more than other CSR subcategories of extern social improvement, for example, relationship with community and environmental concerns.

Deng, Kang and Low (2013) examined whether CSR creates value in a business combination process. Their results show that there are higher returns for companies that invest in CSR. Furthermore, acquiring companies with greater investment in CSR take less time to have the process completed. Servaes and Tamayo (2013) showed that CSR activities have negligible or negative impact on companies with low advertising, suggesting that the cost-benefit ratio is not advantageous in such cases. On the other hand, the relationship is positive for companies with greater exposure to the public.

Khan and Siddiqui (2013) observed that corporate governance attributes play a vital role in ensuring organizational legitimacy through CSR disclosures. Moreover, in context of emerging economies, family firms are the most dominant form of business enterprises. The strong family presence in the board of directors has led to the emergence of a culture where the values of corporate governance mechanisms are not always properly appreciated by the management. Thus, their results suggest that pressures exerted by external stakeholder groups and corporate governance mechanisms involving independent outsiders may allay some concerns relating to family influence on CSR disclosure practices.

3. Methodology

Our dates were collected from the financial statements of a sample of 146 companies in 2012. More specifically, they were collected in the explanatory notes, management reports, reference form, balance sheet and income statement. All of these reports are available at the website of BMF&Bovespa and at the website of *Comissão de Valores Imobiliários* (CVM) (Securities and Exchange Commission). We have based on Khan and Siddiqui (2013) in order to do our research, however with concern to tailor it to the Brazilian reality, and the available databases.

In the first moment, we sought to identify evidence about stakeholders' theory application between CRS and CG. Khan and Siddiqui (2013) used social information disclosure of companies, creating an index of social responsibility and relating it to Corporate Governance measures.

Khan and Siddiqui's model can be seem in the following:

$$DIRSC = \alpha + \beta_1 IND + \beta_2 CEODU + \beta_3 AUDCOM + \beta_4 BOARDSIZE + \beta_5 COMSIZE + \beta_6 DEBT + \beta_7 EPS$$

DIRSC is a Social Responsibility disclosure index; IND is board's independence; CEODU is a dummy variable equals 1 when CEO is also the Chairman of board, and 0 otherwise. AUDCOM is a dummy variable equals 1 when there is audit committee; BOARDSIZE is the number of people in a size. COMSIZE is a natural logarithm of gross revenue; DEBT is the ratio of the book value between debt and assets. Finally, EPS is the net earnings per share.

DIRSC was built based on Khan and Siddiqui (2013) work through a checklist with 25 items (Table1). The measure process is dichotomy videlicet companies receive 1 point whether she disclosure a specific item, and 0 if they do not disclosure a specific item.

We expect that IND and AUDCOM variables be positively related to DIRSC, because they are indicative of better corporate governance, which would influence the level of social disclosure. On the other hand, we expect that CEODU be negatively related to DIRSC, because it is not a good practice of corporative governance. Conflicts of interest between directors and executive officers may cause a worsening of the company's disclosure.

Correia and Amaral (2009) observed that bigger boards generate internal conflicts more easily than smaller boards. This occurs because it is harder to reach a consensual decision, reducing quality of the corporate governance and the disclosure. Contrary to this statement, Gondrige (2010) suggests that the relationship between the size of the board and the disclosure level is positive, since a greater number of members increases the debate among members of board and makes them less likely to withhold information.

Table 1
Items considered in RSC disclosure

1	Community involvement
2	Donations and Signatures
3	Sponsorships and Advertising
4	Community program (Health and Education)
5	Environment
6	Environmental policies
7	Information on employees
8	Number of Employees / Human Resources
9	employees report
10	Welfare of employees
11	Education of employees
12	Employee training and development
13	Profit sharing
14	Management remuneration
15	Occupational health and worker safety
16	Child labor and related actions
17	Information products and services
18	Types of products released
19	product development and research
20	Quality and product safety
21	Network Marketing Discussion
22	Focus on customer service and satisfaction
23	Award client / received Rating
24	Value added information
25	Statement of value added

Larger the company is, more probably it will disclose information about CSR, because larger companies have greater visibility. In this way, larger companies are more likely to an image's damage when society's expectations are not accomplished by them (Hossain, 2008). Additionally, the positive relationship between firm size and the level of disclosure can be explained by the fact that larger companies have their cost of preparation and transmission of information relatively lesser than the cost that a smaller company would have (Lanzana, 2004)

A positive sign for the DEBT index also is expected. The higher the debt, the greater the imposition of stakeholders for the company to disclose more information to facilitate monitoring. Earnings per share (EPS) is expected to present a positive sign, because companies with higher profitability tend to have better disclosure than the less profitable, in order to minimize the risk of adverse selection (Akerlof, 1970).

4. Data Analisys and Discussion

In Table 2 are listed descriptive statistics for all variables used in this paper.

Table 2
Descriptive statistics

Variable	Obs.	Mean	S.D.	Min	Max.
DIRSC	146	0,501	0,230	0	0,960
IND	146	0,225	0,215	0	0,888
CEODU	146	0,779	,416	0	1
AUDCOM	146	0,345	0,477	0	1
BSIZE	146	7.479	2,433	3	16
COMSIZE	146	14.456	1,726	9,469	19,455
DEBT	146	0,639	0,349	0,110	3,351
EPS	146	-10,963	62,767	-584,2	41,9

DIRSC had a minimum of 0% and a maximum of 96% in scale used. There are companies that have not made any disclosure, while other companies disclosed almost all items of CRS disclosure scale. In average, only 22% members of the board are independent, while the ideal would be to have the greatest possible independence of the council. In most companies, the CEO is also the Board Chair, although this practice not be recommended by the IBGC. Finally, a minority of companies have an audit committee.

In Table 3 are presented our estimate for the model.

Table 3
Impact on Disclosure de RSC

Variable	Coef.	t	P> |t|
IND	-0,063	-0,73	0,468
CEODU	-0,002	-0,06	0,948
AUDCOM	0.032	0,83	0,411
BSIZE	0,026	3,37	0,001
COMSIZE	0,036	3,30	0,001
DEBT	0,004	0,08	0,937
EPS	0,000	1,89	0,060
Cons.	-0,215	-1,33	0,185
Obs.	145	Breusch-Pagan (Prob.)	0,4760
prob F	0,000	VIF	1,16
Adj. R^2	0,216		

Notes: Breusch-Pagan test show that our model did not present heteroscedasticity problems. VIF show that our model did not present multicollinearity.

There is a positive relationship between the board size and CSR index, in other words, larger boards tend to disclose more CSR information. The result differs from Correia and Amaral (2009) who observed that larger boards might generate internal conflicts that make hard to reach consensus. Our finds coincides with what was observed by Gondrige (2010) which suggested a positive relationship since that a larger board is favorable for a better debate, making it less likely retention information.

Larger companies tend to disclose more CRS information, corroborating the work of Hossain (2008) and Lanzana (2004). Higher visibility makes companies more concerned with their image. Furthermore, larger companies have fewer cost of preparation and transmission of information than smaller companies do; consequently larger companies have higher disclosure about social responsibilities engagement.

Only company's size and the board size obtained statistically significant influence in relation to the disclosure of corporate social responsibility. The model explains 21% of variation (Adj. R2). The explained variation found in this work is considerably lower than the results reported by Khan and Siddiqui (2013), which ranged between 39% and 50% for different samples. Among the reasons for this difference may be cited the use of different variables due to model adaptation to the Brazilian reality and databases available in Brazil.

Other authors investigated some relationships that we also did, and then we can establish some relationship between our findings with findings of other researchers. We did not find results statically significant for the DEBT. Although we have not found significant statistically outcome for the debt, our expectation was a positive relationship with CSR, corroborating Khan and Siddiqui (2013) that found negative relationship between leverage (debt) and CSR.

However, Barnea and Rubin (2010) found a significant and negative relationship between LEVERAGE and CSR. Their explanation for the negative relationship is that over-investment is relatively easy when firms have many cash in place; in contrast, debt-servicing obligations may discourage over-investment in CSR by self-serving insiders.

In order to investigate company size effects, Barnea and Rubin (2010) used logarithm of total assets as proxy to company size, because larger companies are expected to spend more on CSR. However, their findings presented a negative correlation between CRS and company size. The authors did not make an explanation about such finding, because company size was considered a control variable by them. Khan and Siddiqui (2013) found a positive relationship between company size and CSR. Our findings presented a positive relationship between CRS and company size as expected, supporting results from Khan and Siddiqui (2013).

CEO duality also was investigated by above authors, but as our results, the coefficients were not significant. AUDCOM was not significant in our model but it were significant in Khan and Siddiqui (2013). None of these papers cited above analyzed the board size, so our work contributes to the literature because it shows that larger boards tend to have higher disclose related to corporate social responsibility.

5. Final Considerations

Our study aimed to investigate the relationship between corporate governance and disclosure indicators in social responsibility. We used an adaptation of the model proposed by Khan and Siddiqui (2013) in a sample of 146 companies from different sectors of the BM&F BOVESPA.

Size of the company's board of directors and company size had a significant relationship with the disclosure in corporate social responsibility. Thus, it was observed that companies with the highest board of directors have a tendency to raise their level of social disclosure, as well as larger companies also tend to have a higher level of social disclosure. The other indices showed no statistical relationship that would conclusively prove their relationship to the disclosure. Given that the model was adapted to suit the conditions of the Brazilian market, it is possible that these adaptations have caused differences in the expected results. Another limitation is that, for this work, we assume the disclosure as a means of social responsibility, however there is no certainty that all information regarding CSR were disclosed by the companies. We recommend other ways to analyze that relationship, for example, using a bigger period of analyses.

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