

CORPORATE GOVERNANCE AND CORPORATE SOCIAL AND ENVIRONMENTAL PERFORMANCE: DOES FINANCIAL SLACK HAVE A MODERATING ROLE? EVIDENCE FROM THE FOOD INDUSTRY

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Abstract

Extra-financial information concerning how firms deal with environmental, social and governance (ESG) issues is becoming every day more relevant. Financial information, indeed, lacks to provide adequate knowledge about some significant corporate dimension that may lead, in the long run, to firm's competitive advantage and that is embedded in its citizenship and community legitimacy (Cucari et al., 2018). There is a wide body of literature analyzing these three pillars of sustainable investing (Elkington, 2006), particularly with reference to how these CSR pillars affect firms' performance (Kong, 2012). The relation between CG and CSR engagement has also been widely investigated (Jo & Harioto, 2012); however, there is a lack in previous studies concerning how the mentioned pillars influence each in the food industry.

This empirical research has therefore the purpose to shed more light on the relation between ESG pillars in this specific setting. In particular, the aim of the study is twofold. On one side, according to Jamali et al. (2008), we hypothesize that effective corporate governance (CG) may lead to corporate social and environmental performance (CSEP). On the other side, we investigate if this relation can be moderated by financial slack.

To address this gap in the existing literature concerning the food industry, we gathered data from Thomson Reuters Asset4 and Worldscope and we ran multiple regressions on a sample of 324 firms operating in 42 different countries, over a time horizon 2011-2017, with a final sample of 1.379 firms' year observations.

We measured CSEP with the mean of social and environmental score and CG with the corporate governance score (Gangi et al., 2019; Brogi & Lagasio, 2019). Furthermore, we measured financial slack with several variables such as ROI, ROA, ROE, Debt/Equity ratio, Working Capital scaled by total asset, Ebitda/Sales and Altman Z-score (Arora & Dharwadkar, 2011; Waddock & Graves, 1997). Since we hypothesize that CG at time t has an effect on CSEP at time t+1, we measured dependent and independent variables with a 1-year lag. Furthermore, we controlled for country, year, size, growth, capital expenditures and subsectors (producers and retailers).

Our findings, reported in Table 1, show that, in the food industry, corporate governance has a strong, positive and significant impact on corporate social and environmental performance.

Table 1. OLS regression models showing the relation between CG and CSEP

	<i>Y = CSEP</i>								
	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>	<i>Model 7</i>	<i>Model 8</i>	<i>Model 9</i>
Country		-	-	-	-	-	-	-	-
Year		-	-	-	-	-	-	-	-
Size		0,322**	0,328**	0,328**	0,334**	0,323**	0,323**	0,323**	0,320**
Growth		-0,056*	-0,052*	-0,057*	-0,082**	-0,057	-0,084**	-0,057*	-0,056*
Subsector		0,104**	0,098**	0,099**	0,086**	0,102**	0,089**	0,102**	0,103**
Capex		0,57*	0,042*	0,053	0,038	0,054	0,04	0,051	0,57*
CG		0,470**	0,654**	0,659**	0,655**	0,654**	0,655**	0,653**	0,653**
ROI			0,068**						
ROA				0,047*					
ROE					0,051*				
Z-score						-0,001			
D/E							0,28		
WC/TA								-0,005	
Ebitda/ Sales									0,023
N	1 379	1 232	1 232	1 214	1 194	1 230	1 218	1 230	1 232
F	391,374	52,435	50,173	48,538	48,272	49,382	49,778	49,384	49,419
R-squared	0,221	0,408	0,413	0,408	0,411	0,409	0,414	0,409	0,409
Adj R-squared	0,221	0,401	0,404	0,400	0,402	0,401	0,405	0,401	0,401
Model sig	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000

Note: Coefficients for dummy industry and year variables not reported for the sake of brevity;

*Significance levels: *p<.05; **p<.01;*

Standardized coefficients are reported.

Furthermore, we found that the positive effect of CG on CSEP is weakly moderated by financial slack (measured by ROI, ROA, ROE, and Z-score), as reported in Table 2. However, the moderating effect doesn't produce a relevant change in predicting the variance of the depending variable.

Table 2. OLS regression models showing different kind of financial slack moderating effect

	<i>Y = CSEP</i>						
	<i>Model 10</i>	<i>Model 11</i>	<i>Model 12</i>	<i>Model 13</i>	<i>Model 14</i>	<i>Model 15</i>	<i>Model 16</i>
Country	-	-	-	-	-	-	-
Year	-	-	-	-	-	-	-
Size	3,8489**	3,8056**	3,6948**	3,6059**	3,6008**	3,6047**	3,5107**
Growth	-3,2320*	-3,4428*	-6,1920**	-4,0707**	-6,4057**	-3,4535*	-3,5624**
Subsector	4,8795**	5,3479**	4,9170**	5,9061**	5,3099**	6,0553**	6,0049**
Capex	2,4621	4,8408	4,8171	7,1487*	4,4096	5,7052	6,1628*
CG	0,5804**	0,5785**	0,5764**	0,5097**	0,5774**	0,5714**	0,5712**
ROI	0,1176*						
CGxROI	0,009**						
ROA		-0,4572**					
CGxROA		0,125**					
ROE			0,076				
CGxROE			0,0021*				
Z-score				-0,718**			
CGxZ-score				0,0214**			
D/E					0,0097		
CGxD/E					0		
WC/TA						-2,9956	
CGxWC/TA						0,452	
Ebitda/Sales							0,0201
CGxEbitda/Sales							-0,005
N	1 230	1 214	1 194	1 230	1 218	1 230	1 232
F	49,8183	47,8603	45,9755	48,12876	46,9752	46,6136	46,7882
R-squared	0,425	0,419	0,4133	0,417	0,4136	0,4093	0,4098
Change in R-squared (due to interaction)	0,0124**	0,0107**	0,0022*	0,0078**	0,0000	0,0001	0,001
Model sig	0,000	0,000	0,000	0,000	0,000	0,000	0,000

Note: Coefficients for dummy industry and year variables not reported for the sake of brevity;

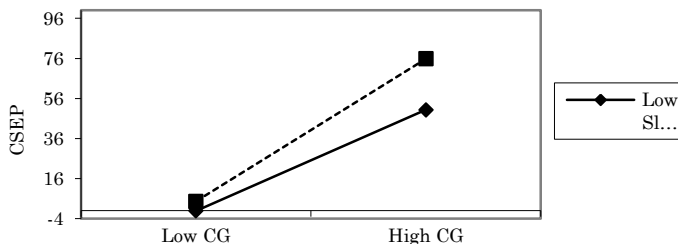
*Significance levels: *p<.05; **p<.01;*

Unstandardized coefficients are reported.

Our study has therefore two important implications. On one side, it clarifies that effective governance generates better sustainable performance in terms of social and environmental commitment. It means that when a company has systems and processes that ensure that its board members act in the best interests of long term shareholders, this will lead to higher corporate citizenship.

Furthermore, the study suggests that financial slack only slightly influences the managerial commitment toward environmental and social issues (as reported in Figure 1 which displays the effect of ROI in moderating the relation between CG and CSEP). This enforces the idea that environmental and social issues are not strictly dependent on financial slack of resources that rather respond to a strategic plan, which already has taken in account a certain amount of financial resources employment.

Figure 1. The effect of CG on CSEP moderated by the return on investment (ROI)



Moreover, the study has important social implications that are related to the peculiar features of the food industry. This sector is characterized by a series of specific concerns related both to social and environmental risks. Food safety and environment protection (from an extensive and sometimes even harmful use of natural resources) are definitely issues of social concern. Companies need therefore to improve their social and environmental commitment in order to foster their citizenship and improve their reputation (Ala-Harja & Helo, 2016; Manning & Soon, 2016; Hartmann, 2011). The study shows that effective governance mechanisms could help in achieving this objective.

The study has several interesting strengths in terms of originality. First of all, it provides additional progress to prior literature that, in this sector, is still scant and inconclusive. Secondly, it addresses the industry as a whole, consistently with other studies that stressed the importance of investigating this sector in terms of the entire value chain (Meynard et al., 2017; Jorgensen et al., 2008). Moreover, our results are supported by 1,379 firm-year observations that undoubtedly give robustness in confirming our hypotheses. Again, from a methodological point of view, investigating the CSR pillars in the way they are interconnected one another, provides an uncommon research strategy for this sector. Furthermore, the study doesn't simply investigate the impact of the governance comprehensive index on the other two pillars but proposes an analysis concerning the moderating role of financial slack. The study has two main limitations that could be overcome in further researches. First, we employed the overall score for corporate governance therefore it may be interesting to investigate the effect of corporate governance sub-pillars (such as board function, board structure, compensation policy, etc.) on CSEP, to provide more useful practical information. Secondly, we investigate the moderating effect without probing the conditional effects for different levels of the moderator. Therefore, a more in depth analysis is needed. Lastly, further interesting explorative studies may investigate separately the effect of CG on social and environmental scores, in order to better estimate the impact of effective governance mechanisms on the other two pillars.

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