

CAN A CORPORATE SOCIAL RESPONSIBILITY COMMITTEE BE UTILIZED TO ENHANCE THE EFFECTIVENESS OF INDEPENDENT DIRECTORS?

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Abstract

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The aim of this study is to investigate the role of board independence on environmental, social and governance (ESG) performance and the moderating role of a corporate social responsibility (CSR) committee on the relationship between these variables. The sample includes 2,925 companies from 18 industries and 38 countries for the period of 2002–2020. To test our hypotheses, we developed a regression model based on the panel data dependence technique. The results confirm that the establishment of a CSR committee within the board moderates the relationship between board independence and ESG performance. A CSR committee acts as a booster into enhancing the effectiveness of the board as a corporate governance mechanism. This article contributes to the academic literature evidencing the importance of establishing a sub-committee within the board of directors delegated to CSR issues. It provides also interesting insights for companies and policy makers for formulating future guidelines on corporate governance.

Keywords: ESG Performance, Board Independence, CSR Committee, Refinitiv Eikon Datastream

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1. INTRODUCTION

In recent years, the academic literature has revealed an increasing attention of stakeholders to social and environmental impact of company's activities, demanding a radical change in corporate strategies, activities and operations in order to meet

sustainability requirements. To meet their expectations and gain trust, consensus and social legitimacy, companies engage in corporate social responsibility (CSR) disclosure, aimed to communicate with stakeholders and show their respect of societal values (Crifo et al., 2019; Hussain et al., 2018). The CSR paradigm is grounded on

the existence of several interests beyond those of the shareholders and advocates a company's responsibility to strike a balance between economic, social and environmental pillars.

Implementing a CSR business model, however, does more than just help the environment and society: it also has a positive impact on a business's reputation. As people are becoming more socially conscious, they are choosing to prioritise businesses that focus on social responsibility. Thus, understanding the appropriate ways to implement a socially responsible business model has become vital for the competitiveness and growth of companies. In this context, how corporate governance influences a firm's decisions on CSR issues is an emerging field of research/inquiry (Naciti, 2019). In fact, a growing number of scholars have investigated the role that corporate governance mechanisms play in the adoption of sustainable practices and to what extent these are communicated externally.

In the context of the governance tools most frequently investigated in the literature, a key role is played by independent directors, particularly in deciding which practices and strategies for sustainability to implement (Rao & Tilt, 2016) and in directing corporate communication towards environmental, social and governance (ESG) topics to which stakeholders are more sensitive today (Shahbaz et al., 2020). In fact, ESG information is considered broader and clearer than classic financial information and is able to show the contribution that the company offers stakeholders, in terms of environmental protection and attention to social issues.

The responsibility of the board is to ensure company profitability, aligning the firm's behaviour to the interests of its shareholders and relevant stakeholders (Aguilera et al., 2006; Jo & Harjoto, 2012). Specifically, according to agency theory, independent directors are more capable of monitoring managers and dominant shareholders, resulting in less opportunistic behaviour because they receive less pressure compared with executive members (Govindan et al., 2021; Hussain et al., 2018). The adoption of CSR strategies and practices is another mechanism used by firms to align the economic interests of dominant shareholders and managers to the interests of external stakeholders, also including social and environmental issues.

Thus, independent directors, who have also higher reputational costs (Rao & Tilt, 2016), push towards the adoption of CSR strategies and practices to show externally that the company acts responsibly, and they are able to protect all stakeholders' interests (Michelon & Parbonetti, 2012).

As a result, companies throughout the world have started to use CSR reporting as a tool through which they regulate their relationships with relevant stakeholders (Bhattacharyya & Cummings, 2015; Pedersen et al., 2013; Gray et al., 1995). To gain legitimacy (Suchman, 1995) and to influence public perception (Cho & Patten, 2007), companies tend to release information about the impact of their activities on society and environments to show that the ways they do business are aligned with societal values (Garcia-Sanchez et al., 2014), going beyond legal compliance.

Although several scholars have analysed whether the role of board independence influences CSR disclosure (Michelon & Parbonetti, 2012; Prado-Lorenzo & Garcia-Sanchez, 2010), few of these studies have focused on the relationship between board independence and CSR performance (Hussain et al., 2018; Naciti, 2019). Besides, empirical research has revealed contrasting evidence on the relationship between board independence and CSR performance (Birindelli et al., 2018; Hussain et al., 2018; Jo & Harjoto, 2012; Naciti, 2019; Shahbaz et al., 2020). These could be explained by the existence of other internal and external corporate governance mechanisms that can influence the functioning of that relationship, given that board composition influences the supervisory capacity of the board of directors (Villanueva-Villar et al., 2016).

To our knowledge, only García-Sánchez et al. (2019) and Uyar et al. (2021) have considered a CSR committee as a mediator/moderator variable in the association between board structure and ESG performance. ESG criteria are the three key features commonly used to measure the sustainability and ethical impact of a strategy, activity or investment. This concept includes several different metrics and data, such as carbon footprint, climate change, labour management, corporate governance and corruption, among many others.

This paper makes a novel contribution to the literature because it considers how the existence of a CSR committee interacts with board independence in affecting ESG performance. Analysing the moderating effect of a CSR committee is important to understand whether it strengthens the association between board independence and ESG performance. In fact, the aim of this research is to investigate whether board independence and CSR committee act in a complementary way in influencing ESG performance.

We conducted our analysis on a sample of 2,925 companies from 18 industries and 38 different countries for the period of 2002–2020, for a total of 17,989 observations. We gathered data from Refinitiv Eikon DataStream, which offers one of the most comprehensive ESG databases, covering over 80% of the global market cap across more than 450 different ESG metrics. We show that independent directors play a key role in influencing ESG performance and that the establishment of a CSR committee within the board enhances the effectiveness of independent directors as a mechanism to improve ESG performance. Specifically, the greater the board's independence, the higher the firm's ESG score, which is a measure of a company's ESG performance and commitment towards sustainability issues.

This study goes beyond the state of the art because it also offers a unique analysis of the direct influence of board independence on CSR performance, by investigating how the previous relationship is moderated by the presence of a CSR committee. The findings have implications for managers, boards of directors, shareholders and regulators. The establishment of a specific committee delegated to handle CSR issues enforces the effectiveness of board independence as a mechanism for good governance. However, this study also contains some limitations because some

quantitative variables of CSR committees are not considered (e.g., the number of members, gender, age, education, etc.), and specific country-oriented governance variables are not included. Besides, this study uses a synthetic measure for the estimation of ESG performance and does not include unlisted companies.

The paper is structured as follows. In Section 2, we review the literature and present the hypotheses. In Section 3, we describe the research methodology, including sample selection, the variables and measures, and data collection and analysis. In Section 4, we analyse the results and in Section 5, we discuss the findings. Finally, in Section 6 we present implications, limitations and conclusions.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Within the corporate governance mechanisms, the board of directors is considered an effective way to pursue and implement CSR policies (Shahbaz et al., 2020), given its key role in deciding the CSR practices and strategies to implement (Rao & Tilt, 2016). The most common theories that are used to explain the association between a board of directors' characteristics and CSR performance include agency theory and stakeholder theory (Govindan et al., 2021; Shahbaz et al., 2020).

According to agency theory (Jensen & Meckling, 1976), the presence of information asymmetry in the principal-agent relationship generates agency problems between management and shareholders (type I agency problems) or between management/dominant shareholders and minority shareholders/third parties (type II agency problems). To reduce agency problems, firms can use different control mechanisms, such as the board of directors, whose function is to monitor and reduce managerial opportunistic behaviour (Ho & Wong, 2001), in order to protect the stakeholders' interests. Embedding CSR issues within the firm's strategy is another control mechanism used to align the principal (stakeholders') interests with the agents' interests (Prado-Lorenzo & Garcia-Sanchez, 2010). Therefore, according to agency theory, one can expect to find a positive association between effective performance by the board of directors and CSR, because both of these mechanisms operate in a complementary way to reduce agency problems. The positive relationship is also supported by the consideration that, for its role, the board of directors has the power to influence the decision-making process, also favouring the implementation of CSR strategies and practices (Rao & Tilt, 2016).

According to stakeholder theory (Freeman, 1984), firms have to create and maintain solid and durable relations with stakeholders in order to achieve legitimacy (Michelon & Parbonetti, 2012). Firms engage in CSR to fulfil their ethical and social duties, improving their relationships with stakeholders (Jo & Harjoto, 2012; Rodgers et al., 2013). In this context, an effective board of directors can favour the implementation of CSR practices and strategies (Rao & Tilt, 2016), achieving better CSR performance. In addition, the presence of an effective board of directors improves corporate legitimacy, assuring stakeholders that their interests are considered (Govindan et al., 2021) and enhancing

their relationship with the firm (Shahbaz et al., 2020). In this sense, an effective board of directors and engagement in CSR operate as complementary mechanisms for better stakeholder management (Michelon & Parbonetti, 2012). Based on all previous considerations, there is a positive association between effective board of directors and CSR performance (Jo & Harjoto, 2012).

When investigating the relationship between a board of directors and CSR issues, most scholars have mainly focused on disclosure practices (Cucari et al., 2018; Khan et al., 2013). A limited number of studies have been conducted on the relationship between board characteristics and CSR performance (Hussain et al., 2018; Naciti, 2019). However, the structure and composition of the board of directors is a key factor for integrating CSR issues in a firm's strategies (Ricart et al., 2005), which makes it necessary to enquire into the association between a board of directors' structure and CSR performance (Homroy & Slechten, 2019). In this paper, we specifically focus on two aspects of the structure of board of directors, namely board independence and the existence of a CSR committee, and investigate how these variables interact with each other in the context of CSR performance.

2.1. Board independence and CSR performance

Independent directors are members with no relationship with the manager and the owners of the firm. Boards characterised by higher levels of independence are considered more effective because independent members can reduce the opportunistic behaviour of top management (Fama, 1980; Hillman & Dalziel, 2003; Zattoni & Cuomo, 2010).

According to the agency theory, independent directors reduce agency costs because, by monitoring the behaviour of executive members, they can avoid the possibility of management pursuing personal objectives at the expense of external stakeholders. With respect to the relationship with CSR performance, independent directors are expected to influence CSR strategies and practices by offering new insights of CSR stakeholders (Naciti, 2019).

According to stakeholder theory, board independence is expected to have a positive association with better CSR performance because independent directors, who receive less pressure from management and shareholders compared with executive members (Govindan et al., 2021; Hussain et al., 2018), are more in favour of implementing CSR practices (Rao & Tilt, 2016). In addition, independent directors have reputational costs (Prado-Lorenzo & Garcia-Sanchez, 2010), and thus they are interested in showing that the firm operates responsibly (Zahra & Stanton, 1988). These reputational costs lead them to better consider all the interests of external stakeholders (Michelon & Parbonetti, 2012).

Although most prior empirical studies have found a positive relationship between board independence and CSR performance (Hussain et al., 2018; Jo & Harjoto, 2012; Shahbaz et al., 2020), some studies have reported a negative association (Birindelli et al., 2018; Naciti, 2019). In addition, Allegrini and Greco (2013) and Michelin and Parbonetti (2012) found no significant association

between board independence and sustainability initiatives.

In line with theoretical arguments, we hypothesise that board independence increases CSR performance. Therefore, we state the following hypothesis:

H1: Board independence has a positive relationship with CSR performance.

2.2. The moderating role of a CSR committee

The variable results of empirical studies on the association between board independence and CSR performance suggest the relevance to investigate the combined effect of various board aspects in addition to the direct association (Rao & Tilt, 2016). In this paper we investigate the integrated effect of board independence and the presence of a CSR committee on CSR performance, by analysing how previous relationship is moderated by the presence of a CSR committee.

During the last decade, an increasing number of firms have established a CSR committee as a subcommittee of their board of directors (Birindelli et al., 2018). Establishing a subcommittee is strongly suggested because it permits delegating some issues to fewer decision-makers (Eberhardt-Toth, 2017). The main function of a CSR committee is to manage sustainability issues, favouring the implementation of CSR practices and strategies within the firm (Amran et al., 2014; Liao et al., 2015). For this reason, a myriad of international standards and corporate governance codes recommend that firms establish a CSR committee as one of the first steps in the integration of CSR agenda in concrete strategies (Baraibar-Diez & Odriozola, 2019). The presence of a CSR committee is also seen as a means to enhance stakeholder engagement (Michelon and Parbonetti, 2012), consistent with the stakeholder theory framework (Baraibar-Diez & Odriozola, 2019). In this sense, Birindelli et al. (2018) sustain that the board of directors, which implements CSR strategies through a CSR committee, also enhances stakeholder engagement. Therefore, the existence of a CSR committee is regarded as a proxy of the firm's orientation towards sustainability (Hussain et al., 2018) and as a governance mechanism to enhance CSR performance (Govindan et al., 2021).

Although its role as a CSR governance mechanism is widely recognised, the capacity of a CSR committee to influence CSR performance is a subject area that requires much attention and investigation (Elmaghrabi, 2021). In effect, scholars have mainly focused on its effect on CSR disclosure, largely finding a positive association between the variables (Liao et al., 2015), and have given less attention to the relationship between a CSR committee and CSR performance. With respect to empirical studies, Govindan et al. (2021), Hussain et al. (2018) and Shahbaz et al. (2020) have found a positive association between the presence of a CSR committee and CSR performance.

Eberhardt-Toth (2017) investigated the characteristics of a CSR committee that affect CSR performance and found that the presence of independent, female and older directors positively influences CSR performance, as well as the small dimension of a CSR committee and

the non-membership of the chief executive officer (CEO). In addition to previous attributes, Elmaghrabi (2021) found that CSR committees chaired by a woman and having more meetings are related to better CSR performance. However, Rodrigue et al. (2013) found no significant association between the existence of a CSR committee and environmental performance.

Most previous research has operationalised a CSR committee as a control or independent variable, and scholars have investigated its direct influence on CSR performance. However, in this paper we consider the existence of a CSR committee as a moderating variable in the relationship between board independence and CSR performance. More specifically, we hypothesise that the effectiveness of board independence in improving CSR performance enhances whether the firm establishes a CSR committee within the board of directors. Therefore, we state the following hypothesis:

H2: The existence of a CSR committee positively moderates the relationship between board independence and CSR performance, in the sense that firms with a CSR committee have a stronger positive association between independent directors and CSR performance.

3. RESEARCH METHODOLOGY

3.1. Sample selection and data source

We gathered data from Refinitiv Eikon DataStream for the period of 2002–2020 to test our hypotheses. Refinitiv offers one of the most comprehensive ESG databases, covering over 80% of global market cap, across more than 450 different ESG metrics. The ESG ratings are available on close to 9,000 companies globally with time series data going back to 2002. They are simple-to-understand percentile rank scores (available in both percentages and letter grades from D- to A+). Our initial balanced sample was composed of 5,658 firms (113,160 observations) from 42 different countries operating in all industries present in the database. We removed those firms that had not issued a CSR report and firms without ESG and financial data useful for our analysis. The final sample was composed of 2,925 firms (17,989 observations) from 18 industries and 38 different countries for the same period (see Table 1, panels A and B).

3.2. Dependent, independent, moderating and control variables

Our dependent variable is *ESGScore*. Refinitiv's ESG Score is an overall company score based on publicly reported data in the environmental, social and corporate governance (Elkington, 1998). It measures a company's relative ESG performance, commitment and effectiveness based on company-reported data in the public domain (corporate website, annual reports, ESG reports, bylaws, code of conduct, etc.) across 10 categories (community, CSR strategy, emissions, human rights, innovation, management, product responsibility, resources use, work force and shareholders). Table 2 summarises the dependent variables and the independent, moderating and control variables,

providing a description and information on their measurement and data sources.

BoInd measures the percentage of all independent directors appointed on the board, as

reported by the company. The moderator variable used is *CSRComm*, which is a dummy variable that assumes value of 1 if the company has a CSR committee and 0 otherwise.

Table 1. The final sample divided by (A) geographic zone and (B) industry

| <i>Panel A: Sample by geographic zone</i> | | | | | | | | |
|--|----------|----------|---|----------|----------|---|----------|----------|
| <i>Country</i> | <i>n</i> | <i>%</i> | <i>Country</i> | <i>n</i> | <i>%</i> | <i>Country</i> | <i>n</i> | <i>%</i> |
| USA | 4364 | 44.45% | India | 418 | 1.21% | Thailand | 175 | 0.99% |
| Australia | 751 | 1.05% | Indonesia | 149 | 0.45% | United Kingdom | 2040 | 11.92% |
| Belgium | 155 | 0.21% | Italy | 350 | 1.34% | Japan | 1365 | 5.04% |
| Brazil | 57 | 0.07% | Korea | 285 | 1.12% | Austria | 97 | 0.87% |
| Canada | 744 | 2.17% | Malaysia | 176 | 0.80% | Greece | 36 | 0.33% |
| Chile | 33 | 0.03% | Mexico | 36 | 0.18% | Ireland | 37 | 0.33% |
| China | 167 | 0.37% | Netherlands | 367 | 1.62% | Poland | 27 | 0.24% |
| Denmark | 133 | 0.31% | New Zealand | 84 | 0.39% | Portugal | 86 | 0.78% |
| Finland | 335 | 0.73% | Norway | 145 | 0.69% | Czech Republic | 9 | 0.08% |
| France | 1183 | 2.91% | Russia | 166 | 0.82% | Hungary | 20 | 0.18% |
| Germany | 644 | 2.37% | Singapore | 268 | 1.33% | | | |
| Hong Kong | 538 | 1.60% | South Africa | 676 | 3.25% | | | |
| <i>Panel B: Sample by industries</i> | | | | | | | | |
| <i>Industry</i> | <i>n</i> | <i>%</i> | <i>Industry</i> | <i>n</i> | <i>%</i> | <i>Industry</i> | <i>n</i> | <i>%</i> |
| Accommodation and food services | 328 | 2.07% | Finance and insurance | 1286 | 7.66% | Professional, scientific and technical services | 722 | 4.03% |
| Administrative and support and waste management and remediation services | 287 | 1.94% | Health care and social assistance | 105 | 0.73% | Real estate and rental and leasing | 1096 | 6.64% |
| Agriculture, forestry, fishing and hunting | 56 | 0.22% | Information | 1156 | 6.34% | Retail trade | 891 | 5.33% |
| Arts, entertainment and recreation | 57 | 0.24% | Manufacturing | 7397 | 41.01% | Transportation and warehousing | 837 | 4.10% |
| Construction | 802 | 3.38% | Mining, quarrying, and oil and gas extraction | 1503 | 7.48% | Utilities | 1055 | 6.50% |
| Educational services | 13 | 0.07% | Other services (except public administration) | 17 | 0.11% | Wholesale trade | 381 | 2.15% |

Table 2. Description of the variables and measurement

| <i>Variable</i> | <i>Description</i> | <i>Measurement</i> | <i>Source</i> |
|---|---------------------------|---|---------------|
| <i>Dependent variable</i> | | | |
| <i>ESGScore</i> | ESG score | Refinitiv's ESG score is an overall company score based on the self-reported information in the environmental, social and corporate governance pillars. | Eikon |
| <i>Independent and moderating variables</i> | | | |
| <i>BoInd</i> | Board independence | The ratio between independent directors and the total number of boards directors | Eikon |
| <i>CSRComm</i> | CSR committee | Dummy variable equal to 1 if there is a CSR committee or team and 0 otherwise | Eikon |
| <i>BoInd * CSRComm</i> | Interaction term | Two-way interaction term obtained by multiplying the <i>BoInd</i> and <i>CSRComm</i> | Eikon |
| <i>Control variables</i> | | | |
| <i>BoSize</i> | Board size | The total number of board members at the end of the fiscal year | Eikon |
| <i>BoMeetings</i> | Board meetings | Number of board meetings during the year | Eikon |
| <i>CeoChDual</i> | CEO chairman duality | Dummy variable equal to 1 if the CEO simultaneously chairs the board or has the chairman of the board been the CEO of the company | Eikon |
| <i>BoMembAff</i> | Board member affiliations | Average number of other corporate affiliations for each board member | Eikon |
| <i>Tenur</i> | Average board tenure | Average number of years each board member has been on the board | Eikon |
| <i>BoGenDiv</i> | Board gender diversity | Percentage of women on the board | Eikon |
| <i>Size</i> | Size | Natural logarithm of total assets | Eikon |
| <i>Lev</i> | Leverage | Long-term debt divided by total assets | Eikon |
| <i>ROA</i> | Return on asset | Return on assets | Eikon |

*BoInd * CSRComm* is the interaction terms used to evaluate the combined effect of board independence and *CSRComm* on *ESGScore*. To avoid biased results and in an effort to address any potential endogeneity problems relating to omitted variables, we employed a set of firm-specific factors to control for the studied associations. In particular, we inserted *BoSize* and expected to find a positive association with *ESGScore*, we expect to find a positive association considering that more

directors are exercising their monitoring function on ownership and management behaviour (Cheng & Courtenay, 2006). We also included *BoMeetings* and expected to find a positive association with *ESGScore*, hypothesising that directors play their monitoring role better if they meet with each other frequently (Adams & Ferreira, 2009). We included *CeoChDual* and predicted a negative relationship with *ESGScore*, assuming that the concentration of power in the hands of the same subjects reduces the

ability to exercise their role effectively (Pisano et al., 2015). We considered *BoMembAff* and expected a positive relationship with *ESGScore*, hypothesising that the directors play their monitoring role better if they sit on more than one board, thanks to their experience and skills (Haniffa & Cooke, 2005). We inserted *Tenur* and expected a positive relationship with *ESGScore*, hypothesising that the directors play their monitoring role better if they sit on the board since more time. According to previous studies (Hafsi & Turgut, 2013), tenure increases the directors' familiarity with a company's management as well as the possibility to be captured by managers, decreasing their independence. However, tenure is commonly associated with better CSR performance. Indeed, Krüger (2009) found that longer tenure increases the experience and commitment to support decisions that are consistent with long-term results. We also considered *BoGenDiv* and expected a positive relationship with *ESGScore*, hypothesising that women are more sensitive to CSR policies (Williams, 2003) and participative in decision-making processes (Konrad et al., 2008), resulting in better CSR performance. Besides, we inserted *Size* and predicted the existence of a positive association with *ESGScore*. In fact, larger firms are expected to have more resources to invest in CSR activities and in sustainable processes that reduce the impact of a company's activities on the environment. According to Erauskin-Tolosa et al. (2020), management practices compatible with the environment lead to better environmental performance; however, those require investments in technological innovations. We inserted leverage

(*Lev*), which we predicted to be positively associated with *ESGScore* because, according to Chan et al. (2014), firms with higher leverage have greater incentive to engage in CSR practices and to show their investors are aligned with same societal commitment to sustainability, because these would lead to lower opportunism and agency costs with their creditors (Jensen & Meckling, 1976).

Finally, we included *ROA*, which we predicted to have a positive relationship with our dependent variable because companies characterised by high performance could be incentivised to make a greater investment in CSR practices, such as replace plastic with biodegradable alternatives, reduce water and energy consumption, improve labour management and fight corruption, and to communicate their investments and initiatives to their investors, in order to achieve legitimacy and to benefit indirectly with financial performance.

3.3. Regression analysis

To test our hypotheses, we developed the regression model represented by equation (1), based on panel data dependence techniques.

The use of panel data improves econometric specifications. It favours the assessment of a company's behaviour over time, allowing one to capture unobserved heterogeneity and undetected differences among a firm's behaviour and characteristics potentially correlated with the explanatory variables (Fuente et al., 2017; Martinez-Ferrero et al., 2016; Petersen, 2009).

$$FP_{it} = \alpha + \beta_1 BoInd + \beta_2 CSRComm + \beta_3 BoInd * CSRComm + \beta_4 CeoChDual + \beta_5 BoSize + \beta_6 BoMeetings + \beta_7 BoGenDiv + \beta_8 BoMembAff + \beta_9 Tenur + \beta_{10} Lev + \beta_{11} ROA + \beta_{12} Size + \varepsilon \quad (1)$$

4. RESULTS

4.1. Descriptive statistics

Table 3 shows descriptive statistics of the variables. The results of the correlation analysis are presented in Table A.1 (see Appendix).

Table 3. Descriptive statistics

| Variables | N obs. | Mean | SD | Min | Max |
|------------------------|--------|--------|--------|--------|-------|
| <i>ESGScore</i> | 17,989 | 58.16 | 18.46 | 3.032 | 95.19 |
| <i>BoInd</i> | 17,989 | 60.56 | 25.06 | 0 | 100 |
| <i>CSRComm</i> | 17,989 | 0.751 | 0.433 | 0 | 1 |
| <i>BoInd * CSRComm</i> | 17,989 | 45.00 | 33.70 | 0 | 100 |
| <i>CeoChDual</i> | 17,989 | 0.374 | 0.484 | 0 | 1 |
| <i>BoSize</i> | 17,989 | 10.92 | 3.367 | 1 | 37 |
| <i>BoMeetings</i> | 17,989 | 9.516 | 5.221 | 1 | 104 |
| <i>BoMembAff</i> | 17,989 | 1.312 | 1.030 | 0 | 19.33 |
| <i>Tenur</i> | 17,989 | 6.999 | 3.378 | 0 | 30.12 |
| <i>BoGenDiv</i> | 17,989 | 18.05 | 13.67 | 0 | 75 |
| <i>Lev</i> | 17,989 | 0.206 | 0.154 | 0 | 2.361 |
| <i>ROA</i> | 17,989 | 0.0529 | 0.0789 | -0.999 | 0.846 |
| <i>Size</i> | 17,989 | 22.79 | 1.567 | 16.65 | 27.81 |
| Number of firms | 2,925 | 2,925 | 2,925 | 2,925 | 2,925 |

Note: Please see Table 2 for a description of the variables.
SD — standard deviation

4.2. Regression results

Tables 4 and 5 show the results of regressions obtained using Stata software. In particular, they show the results for the tests of *H1*, and *H2*. We

used panel regression with a fixed effects model. Moreover, we proposed a random effects model and a pooled ordinary least squares method, but the fixed effects specification is supported by the Hausman test and the Chow test. Models 1, 2 and 3 in Table 4 test *H1* — that is, the direct effects of board independence on *ESGScore* — using pooled ordinary least squares (OLS), random effect (RE) and fixed effect (FE) methods respectively. Models 4, 5 and 6 in Table 5 test *H2* — the moderating effects of CSR committee on the relationship between board independence and *ESGScore*.

Concerning the direct effect of *BoInd* on *ESGScore*, Models 1, 2 and 3 (Table 4) show a positive association between board independence and ESG performance. More specifically, the coefficient *BoInd* is significant ($\beta = 0.133$, $p < 0.01$). Concerning the direct effect of a CSR committee on ESG performance, Model 1, 2 and 3 (Table 4) show a positive association between the existence of a CSR committee on ESG performance. In Model 3, the coefficient *CSRComm* is significant ($\beta = 12.45$, $p < 0.01$). Regarding the control variables used to test *H1*, the coefficients of *Tenur* and *BoGenDiv* are significant and positive. These results mean that wide experience of board members and a large number of women sitting on board positively influence ESG performance. On the contrary, CEO duality (*CeoChDual*), board size (*BoSize*) and board affiliation (*BoMembAff*) are negatively associated with ESG performance.

Table 4. Panel regressions for H1

| Variables | Model 1 OLS | Model 2 RE | Model 3 FE |
|----------------------|------------------------|-----------------------|-----------------------|
| <i>BoInd</i> | 0.0614*** (0.00461) | 0.102*** (0.00537) | 0.133*** (0.00628) |
| <i>CSRComm</i> | 17.90*** (0.256) | 13.85*** (0.225) | 12.45*** (0.243) |
| <i>CeoChDual</i> | -3.079*** (0.226) | -2.813*** (0.239) | -2.523*** (0.261) |
| <i>BoSize</i> | -0.00625 (0.0364) | -0.119*** (0.0411) | -0.167*** (0.0465) |
| <i>BoMeetings</i> | 0.0866*** (0.0208) | 0.0143 (0.0201) | -0.0245 (0.0221) |
| <i>BoGenDiv</i> | 0.239*** (0.00813) | 0.287*** (0.00784) | 0.280*** (0.00871) |
| <i>BoMembAff</i> | -1.184*** (0.107) | -2.164*** (0.0929) | -2.171*** (0.0972) |
| <i>Tenur</i> | 0.0443 (0.0324) | 0.385*** (0.0387) | 0.501*** (0.0463) |
| <i>Lev</i> | -2.416*** (0.691) | 1.788** (0.807) | 4.006*** (0.932) |
| <i>ROA</i> | 9.205*** (1.358) | -2.342** (1.159) | -3.441*** (1.217) |
| <i>Size</i> | 4.100*** (0.0803) | 5.110*** (0.125) | 6.659*** (0.199) |
| Constant | -55.08*** (1.646) | -79.18*** (2.638) | -114.3*** (4.365) |
| Observations | 17,989 | 17,989 | 17,989 |
| R-squared | 0.434 | | 0.510 |
| Number of ID numbers | | 2,925 | 2,925 |

Note: see Table 2 for a description of the variables. FE — fixed effects model; OLS — ordinary least squares; RE — random effects model. Standard errors in parentheses: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 5. Panel regressions for H2

| Variables | Model 4 OLS | Model 5 RE | Model 6 FE |
|------------------------|------------------------|------------------------|------------------------|
| <i>BoInd</i> | 0.0315*** (0.00822) | 0.0655*** (0.00713) | 0.0904*** (0.00778) |
| <i>CSRComm</i> | 15.33*** (0.637) | 10.00*** (0.540) | 7.605*** (0.577) |
| <i>BoInd * CSRComm</i> | 0.0417*** (0.00947) | 0.0605*** (0.00774) | 0.0752*** (0.00814) |
| <i>CeoChDual</i> | -3.042*** (0.226) | -2.752*** (0.238) | -2.427*** (0.261) |
| <i>BoSize</i> | 0.00190 (0.0364) | -0.110*** (0.0411) | -0.164*** (0.0463) |
| <i>BoMeetings</i> | 0.0904*** (0.0208) | 0.0148 (0.0201) | -0.0268 (0.0220) |
| <i>BoGenDiv</i> | 0.236*** (0.00815) | 0.282*** (0.00785) | 0.275*** (0.00870) |
| <i>BoMembAff</i> | -1.190*** (0.107) | -2.171*** (0.0927) | -2.187*** (0.0969) |
| <i>Tenur</i> | 0.0408 (0.0324) | 0.379*** (0.0387) | 0.492*** (0.0462) |
| <i>Lev</i> | -2.532*** (0.692) | 1.510* (0.807) | 3.688*** (0.930) |
| <i>ROA</i> | 9.088*** (1.358) | -2.480** (1.157) | -3.600*** (1.214) |
| <i>Size</i> | 4.091*** (0.0802) | 5.099*** (0.124) | 6.611*** (0.198) |
| Constant | -53.04*** (1.709) | -76.47*** (2.661) | -110.2*** (4.376) |
| Observations | 17,989 | 17,989 | 17,989 |
| R-squared | 0.435 | | 0.512 |
| Number of ID numbers | | 2,925 | 2,925 |

Note: see Table 2 for a description of the variables. FE — fixed effects model; OLS — ordinary least squares; RE — random effects model. Standard errors in parentheses: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

To understand the role of CSR committee in the relationship between board independence and ESG performance, we tested H2. We found the existence of a CSR committee positively

moderates the relationship between board independence and ESG performance. Models 4, 5 and 6 (Table 5) confirm the effectiveness of a CSR committee to improve the role of board independence, by enhancing the ESG performance. Specifically, the coefficient *BoInd * CSRcomm* is significant ($\beta = 0.0752$, $p < 0.01$). This means that firms with a CSR committee have a stronger positive association between independent directors and ESG performance.

5. DISCUSSION

In the last decades, sustainability issues have assumed a great relevance for consumers, investors and, in general, for all stakeholders (Fonseca et al., 2014). This has prompted companies to adopt additional corporate governance mechanisms, aimed at addressing various ethical and social issues to align the interest of stakeholders to those of companies (Alipour et al., 2019).

Our findings show that board independence plays a key role into enhancing ESG performance and that its effectiveness is improved by the establishment of a CSR committee within the board. Independent directors, who by definition have no economic interests in the company, are more inclined to meet the expectations of all stakeholders, especially those without direct financial interests, rather than exclusively those of dominant shareholders, pushing companies to manage their relationship with society, not only for profitability reasons, but also to add value to environment and society itself. This entails the adoption of corporate responsible behaviour, which goes beyond the mere legal compliance for including strategies, investments and policies aimed to contribute to sustainability goals.

Having no relation with both the manager and the owners of the firm, independent directors are thought to represent the interests of multiple stakeholders more effectively, going beyond achieving better economic performance. Besides, the need to gain reputation and legitimacy bring them to direct corporate behaviour and communication towards actions aimed to reduce the impact on environment and society, to show that the company behave responsibly. Our results are consistent with several other studies (Hussain et al., 2018; Jo & Harjoto, 2012; Shahbaz et al., 2020), which have evidenced how independent directors protect the interest of all stakeholders engaging in CSR strategies and managerial practices. This means that higher levels of independence are associated with better ESG performance.

Independent directors exercise more effective control, monitoring and stimulation of managers and dominant shareholders than executive directors in guiding the company towards responsible and sustainable behaviour towards society and the environment. This is mainly due to the direct relationships they have with stakeholders and, consequently, to the reputational effect to which they are subjected, which push them to motivate companies to engage in CSR practices (Haniffa & Cooke, 2005; Khan, 2010). Indeed, their reputation strongly depends on the responsible behaviour placed by companies (Zahra & Stanton, 1988), so they stimulate companies to adopt measures that

make their activities sustainable and to release information about this to stakeholders (Chen & Jaggi, 2000; Cheng & Courtenay, 2006; Prado-Lorenzo et al., 2009), in order to gain legitimacy.

Another governance mechanism adopted by companies is the establishment of a CSR committee within the board of directors because it represents a sub-committee specifically delegated to ensure the adoption of sustainable practices towards the environment and society. Our results show that the presence of a CSR committee within the board positively moderates the relationship between board independence and ESG performance, acting as a 'booster' that strengthens board of directors' sensitivity to social and environmental issues. It represents a corporate governance mechanism that stimulates companies to adopt strategies and practices aimed at respecting the environment and the society in which it is present. Specifically, our results evidence that the independent directors of companies with a CSR committee are encouraged to better perform their role of stimulating virtuous actions towards the environment and society, compared with companies that did not establish a CSR committee. This finding confirms the possibility of considering the presence of a CSR committee as a proxy of the board's orientation towards sustainable development (Hussain et al., 2018) and the relevant role it plays in enhancing CSR. This is consistent with corporate governance codes (introduced by law and, therefore, mandatory in many countries) that suggest the establishment of this committee within the boards of directors, recognising its effective role into enhancing sustainability performance.

Based on evidence from previous empirical studies, a CSR committee also acts as a stand-alone governance mechanism into favouring the adoption of CSR activities by companies (Cucari et al., 2018). However, our results evidence that its effect is strengthened when it interacts with greater board independence (Khan et al., 2013; Rao et al., 2012; Said et al., 2009), making it even more effective into protecting stakeholders' interests. This means that the presence of different corporate governance mechanisms can have a multiplicative effect on enhancing the adoption of CSR behaviour, thanks to interdependence among different mechanisms (Aguinis et al., 2011; Jain & Jamali, 2016). That is why corporate governance codes (Tariq & Abbas, 2013) suggest adopting various mechanisms that can enforce each other, thanks to the existing interdependence.

We have also shown that mechanisms like board gender diversity can play a key role into enforcing the role of the board into monitoring a company's activities. Gender diversity has been widely explored in the academic literature. Scholars have evidenced how companies with higher percentages of women sitting on the board tend to pay more attention to environmental impact of their activities and to adopt socially acceptable behaviour (Krüger, 2009). Galbreath (2011) confirmed that due to their relational abilities, women are more able to engage with multiple stakeholders and to respond to their needs. In the last decade there has been a growing pressure to increase the presence of female directors sitting on corporate boards (Vinnicombe et al., 2008), which has brought several countries to adopt either legislative or voluntary

initiatives to increase the presence of women in corporate boards. In Europe, several countries, like Norway, Sweden, Spain, France and, more recently, Italy, have issued legal rules/instruments requiring companies to ensure a certain percentage (between 30% and 50%) of women among board members (Rao & Tilt, 2016).

6. CONCLUSION

The adoption of CSR business models that meet environmental and social sustainability requirements and their communication to stakeholders undoubtedly generates a competitive advantage and, consequently, companies have long implemented various strategies to achieve it. In this regard, a decisive role is played by company boards (Ricart et al., 2005). Several studies have shown that certain characteristics and qualities of board members have a positive impact on ESG performance (Michelon & Parbonetti, 2012). In particular, as the present work confirms, the independence of the board, or the number of independent directors, determines better ESG performance.

A possible explanation is linked to the consideration that these directors, having no direct links with the owners — and, therefore, no economic interests in the strict sense regarding the financial dynamics of the company — are instead more attentive to other forms of performance, which can guarantee more consistent success. From this perspective, they represent a stimulus, but also a control tool, to increase ESG performance (Radu & Smaili, 2021).

Thus, independent directors have become a governance mechanism capable of making corporate management more balanced, protecting the broader interests of all stakeholders (Mallin & Michelon, 2011). Other studies have investigated in depth the characteristics of independent directors, but these have produced controversial results (Endrikat et al., 2021). More recently, the issue of their reputation (Mallin & Michelon, 2011; Post et al., 2015), also understood in a digital sense (Lepore et al., 2022), seems to confirm the importance of 'external' governance mechanisms in stimulating better ESG performance. Chief among these are the recent legislative and regulatory guidelines that, on the one hand, make independent directors more responsible (SEC, 2020) and, on the other hand, impose standards for communication. Moreover, the development of greenwashing strategies has drawn the attention of the authorities to the quality of communication (Wu et al., 2020). In fact, these interventions have been deemed appropriate in 'weak' institutional contexts, in which the reduced protection of minority shareholders (Endrikat et al., 2021) actually puts the authority and independence of independent directors into question, because they appear to have some level of connection with blockholders (Garcia-Meca & Sanchez-Ballesta, 2010).

In this sense, the present work intended to focus on a more recent internal mechanism of corporate governance, one that has been subject to less research: the role of a CSR committee (Hussain et al., 2018). We have also examined elements of mediation between the board and ESG performances (Endrikat et al., 2021). The main result our research provides to academia is evidence that a CSR

committee positively moderates the relationship between board independence and ESG performance. In other words, companies that have a CSR committee see a greater positive impact of board independence on ESG performance. A CSR committee acts as a driver or catalyst for the independence of the board. Furthermore, unlike other studies (Baraibar-Diez & Odriozola, 2019), our results are not influenced by country variables: they concern different governance contexts and consider ESG performance globally (Radu & Smaili, 2021), while they isolate the role of CSR committee (Birindelli et al., 2018) with respect to the characteristics of the boards (Endrikat et al., 2021).

The outcome does not seem obvious, as some studies had highlighted the purely formal aspect of an additional committee within the board (Elmaghrabi, 2021; Radu & Smaili, 2021; Velte & Stawinoga, 2020) or conflicting impacts on the different types of ESG performance (Govindan et al., 2021; Mallin & Michelon, 2011). Our work, however, highlights the stimulating and controlling role that a CSR committee plays, especially in improving the effective independence of the board, at least with reference to ESG performance (Ben-Amar et al., 2017). Therefore, it is an internal mechanism of governance that effectively monitors the real independence of the directors. In this sense, it spurs the actions of independent directors. Of note, some authors have compared the work of this body to that carried out by the statutory auditors or the internal control committee in relation to the directors (García-Sánchez et al., 2019; Liao et al., 2015).

This consideration suggests the need to research, compare and above all integrate the internal and external governance mechanisms designed to ensure sustainability. This can also be considered as an important theoretical implication, as it highlights the need to study the mechanisms of corporate governance in a complementary way, especially in the context of non-financial dynamics (Jain & Jamali, 2016). Indeed, it becomes a possible explanation of the divergent results on the relationship between the independence of the board and the communication of CSR (Celentano et al., 2020). This work contributes to the literature on corporate governance, revitalising the importance of 'internal' (rather than 'external') mechanisms, the influence of which has been underestimated in recent research.

Besides, the emergence of a digital age, with the repercussions of a digital governance

(Cinquini, 2019; Luna-Reyes, 2017), characterised by the interaction of companies with their stakeholders by social media, has expanded the diverse audience and interests of stakeholders, making a decisive contribution to the transparency of corporate decisions, especially in the ESG field (Lepore et al., 2022). This has undoubtedly had a positive effect on the involvement of various corporate audiences in sensitive issues, such as carbon emission, water consumption, gender diversity and employee safety. This 'pressure' represents an effective 'external' governance tool but, as highlighted in our study, it can materialise from and find a privileged interlocutor in the 'internal' CSR committee, which plays an equally effective role. From the perspective of stakeholder theory, these ideal boundaries are blurred in the effectiveness demonstrated by a CSR committee, because it is a natural tool for stakeholder engagement and helps to strengthen governance as a whole (Stuebs & Sun, 2015). For example, this body can play a contrasting role even in contexts of inside blockholders (Shu & Chiang, 2020).

In other words, a CSR committee strengthens the board and represents a clear commitment to CSR (Shahbaz et al., 2020), and by supporting the independent directors, it helps to mitigate agency problems between shareholders and managers. Indeed, from the perspective of agency, this body represents an additional weapon — a new governance mechanism, capable of validating the role of independent directors, making them stronger, more effective in their tasks of control and reducing managerial myopia. Thus, CSR commitment helps to create more effective governance and a more balanced institutional set-up.

In conclusion, from a theoretical point of view, the impact of a CSR committee goes beyond traditional financial performance. Further lines of investigation could concern the qualitative characteristics of a CSR committee (Eberhardt-Toth, 2017; Rao & Tilt, 2016) and perhaps compare them with those of the board as a whole, or independent directors or other committees (Radu & Smaili, 2021). From the point of view policy implications, there is a need to implement, in every institutional context, a CSR committee and, therefore, to stimulate its adoption, at a regulatory or voluntary level. Our results show the effectiveness of independent directors, as a governance mechanism, is amplified in the presence of other governance mechanisms, such as a CSR committee (Celentano et al., 2020).

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APPENDIX

Table A.1. Correlation matrix

| | <i>ESGScore</i> | <i>BoInd</i> | <i>CSRComm</i> | <i>BoInd</i> * <i>CSRComm</i> | <i>CeoChDual</i> | <i>BoSize</i> | <i>BoMeetings</i> | <i>BoGenDiv</i> | <i>BoMembAff</i> | <i>Tenur</i> | <i>Lev</i> | <i>ROA</i> | <i>Size</i> |
|-------------------------------|-----------------|--------------|----------------|----------------------------------|------------------|---------------|-------------------|-----------------|------------------|--------------|------------|------------|-------------|
| <i>ESGScore</i> | 1.00 | | | | | | | | | | | | |
| <i>BoInd</i> | 0.12*** | 1.00 | | | | | | | | | | | |
| <i>CSRComm</i> | 0.53*** | -0.04*** | 1.00 | | | | | | | | | | |
| <i>BoInd</i> * <i>CSRComm</i> | 0.50*** | 0.52*** | 0.77*** | 1.00 | | | | | | | | | |
| <i>CeoChDual</i> | -0.05*** | 0.08*** | -0.07*** | -0.02** | 1.00 | | | | | | | | |
| <i>BoSize</i> | 0.20*** | -0.20*** | 0.16*** | 0.01 | 0.13*** | 1.00 | | | | | | | |
| <i>BoMeetings</i> | 0.07*** | -0.11*** | 0.06*** | -0.02** | -0.09*** | -0.01 | 1.00 | | | | | | |
| <i>BoGenDiv</i> | 0.29*** | 0.27*** | 0.18*** | 0.32*** | -0.04*** | 0.00 | -0.02** | 1.00 | | | | | |
| <i>BoMembAff</i> | -0.10*** | 0.13*** | -0.20*** | -0.08*** | 0.04*** | -0.02* | -0.05*** | -0.11*** | 1.00 | | | | |
| <i>Tenur</i> | -0.04*** | 0.06*** | -0.04*** | 0.01 | 0.23*** | 0.03*** | -0.23*** | -0.04*** | 0.06*** | 1.00 | | | |
| <i>Lev</i> | 0.04*** | 0.12*** | 0.04*** | 0.10*** | 0.01* | -0.00 | 0.04*** | 0.08*** | -0.02** | -0.02** | 1.00 | | |
| <i>ROA</i> | -0.05*** | 0.01 | -0.08*** | -0.05*** | 0.03*** | -0.07*** | -0.12*** | -0.02** | 0.04*** | 0.08*** | -0.19*** | 1.00 | |
| <i>Size</i> | 0.41*** | 0.08*** | 0.19*** | 0.19*** | 0.17*** | 0.46*** | 0.09*** | 0.02** | 0.16*** | -0.02** | 0.07*** | -0.14*** | 1.00 |

Note: see Table 2 for a description of the variables. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.