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Essays on the Opportunistic Use of Corporate Social Responsibility

A thesis submitted to The University of Kent for the degree of Doctor of Philosophy (PhD)

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The Prophet Mohammad, peace be upon him, said,

"He has not thanked Allah who has not thanked people"
(reported by Abi Dawud)

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DEDICATION

I sincerely dedicate this thesis to my parents, who have always blessed me with their prayers, and to my brother and sisters for their love and support.

DECLARATION

I hereby declare that this thesis entitled “Essays on the Opportunistic Use of Corporate Social Responsibility” is entirely my original research and it has not been previously submitted to any other universities.

The thesis comprises three interrelated essays. The first, presented in Chapter 3, entitled “The Influence of Abnormal Audit Fees on the Relationship between Corporate Social Responsibility (CSR) Disclosure and Firm Risk”. This essay was submitted to the Kent Business School (KBS) PhD conference at the University of Kent, 19 June 2020. The second essay in Chapter 4 entitled “The Influence of Strategic Shareholders on the Relationship between CEO Entrenchment and CSR Decoupling”. This essay was also submitted to the Kent Business School (KBS) PhD conference at the University of Kent, 17 July 2021. The third essay in Chapter 5 entitled “The Influence of Interaction among Governance Mechanisms on CSR Decoupling”. This essay was submitted to the British Accounting and Finance Association (BAFA) conference at the University of Nottingham, 11 April 2022.

ABSTRACT

This thesis aims to provide a comprehensive understanding of the opportunistic use of CSR disclosure. This objective is achieved through three interrelated essays; each one tackles a particular CSR-related issue using a sample of UK firms listed on the FTSE All-Share index during the period 2007-2017. The initial sample consists of 4884 firm-year observations from ten industries, namely Telecommunications, Consumer Discretionary, Financial, Consumer Staples, Energy, Health Care, Industrials, Basic Materials, Technology, and Utilities. Based on quantitative methodology, various regression models are applied including ordinary least squares, fixed effect, two-way cluster approach, generalised estimating equation, and generalized method of moments.

The first essay examines the effect of CSR disclosure on firm risk measures, and the moderating role of abnormal audit fees on such a relationship. The agency and stakeholder theories are used to explain the relationship between CSR disclosure and firm risk. Accordingly, a negative relationship between CSR disclosure and two out of three firm risk measures (total and idiosyncratic risk) is found, supporting agency theory that CSR disclosure creates insurance-like protection against negative actions by generating moral capital goodwill among stakeholders. This negative relationship is strengthened when considering abnormal audit fees as a moderating variable, confirming that charging higher audit fees conveys a form of credibility assurance of CSR disclosure. The additional tests show that social and governance disclosures have a negative effect on total risk and idiosyncratic risk. However, environmental disclosure has a negative effect on all firm risk measures, including systematic risk.

Building on the first essay's finding that CSR disclosure generates benefits represented by reducing firm risk, the second essay examines the role of entrenched CEOs in CSR decoupling engagement and the role of strategic shareholders in mitigating such decoupling. Based on a social-political perspective, it is argued that managers may tend to decouple policies and practices to meet stakeholders' expectations and thereby gain political ground. In line with this perspective, this essay finds that entrenched CEOs play a significant role in decoupling between CSR disclosure and performance in order to protect their political interest. This relationship is stronger when firms face high pressures, such as those operating in CSR-intensive industries, and after CSR reporting became mandatory. However, the essay finds that

the ability of entrenched CEOs to engage in CSR decoupling is mitigated by the presence of strategic shareholders (institutional and family).

Finally, the third essay examines the effect of CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) on CSR decoupling. Based on corporate governance bundle perspective, it is argued that the effective corporate should incorporate both monitoring and incentive alignment mechanisms to complement each other to minimise the manger-stakeholder agency problems. This essay finds a negative relationship between these mechanisms and CSR decoupling. This negative relationship is significantly stronger if a standalone CSR report is issued in the presence of a CSR committee. In the same vein, the CSR committee and CSR contracting have a complementary relationship in reducing CSR decoupling. However, such a relationship between CSR reports and CSR contracting is only found in the post-financial crisis period. This essay also finds that the simultaneous presence of all CSR-focused governance mechanisms does not have any additional marginal benefit in reducing CSR decoupling, either during or after the financial crisis period.

Keywords: corporate social responsibility (CSR), CSR disclosure, CSR decoupling, corporate governance mechanisms, audit fees, and firm risk measures

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
BICS	Bloomberg Industry Classification System
CEC	Commission of the European Communities
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSI	Corporate Social Irresponsibility
CSO	Chief Sustainability Officer
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
DJSI	Dow Jones Sustainability Index
FE	Fixed Effects
FF3	Fama French 3-Factor
FTSE	Financial Times Stock Exchange
GEE	Generalised Estimating Equation
GMM	Generalised Method of Moments
GRI	Global Reporting Initiative
ICB	Industry Classification Benchmark
IFC	International Finance Corporation
IV	Implied Volatility
KLD	Kinder, Lydenberg, Domini
K-S	Kolmogorov-Smirnov
LSE	London Stock Exchange
NGOs	Non-governmental organizations
OLS	Ordinary Least Squares
S&P	Standard and Poor
SMEs	Small and Medium Enterprises
SP	Social Performance
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

CHAPTER ONE
Introduction

1.1 Research background

Academic literature on corporate social responsibility (CSR) has considerably increased since the 1950s (Carroll, 1999). Although several definitions of CSR have been made, the most widespread one was suggested by the Commission of the European Communities (Dahlsrud, 2008), namely the voluntary incorporation of the social and environmental concerns of firms in their strategies and interaction with stakeholders[1]. Concurrently, several theories have emerged as points of reference for predicting and explaining the motivations and consequences of CSR activities. Garriga and Melé (2004) summarise CSR-related theories into four categories: instrumental, political, ethical and integrative.

Based on the above theories, CSR activities are observed in the accounting and management literature from three dominant perspectives: the instrumental (Godfrey, 2005); the opportunistic (Friedman, 1970), and the ethical (Carroll, 1979, Atkins, 2006). The first of these links CSR activities and firm benefits, a process in which firms use such activities as an instrument to improve their performance (Qiu et al., 2016, Lenssen et al., 2005); second is meant to generate insurance-like protection (Godfrey et al., 2009); and third one to improve their public reputation (Barnea and Rubin, 2010), respectively. Given the potential benefits of engaging in CSR activities, the second perspective argues that CSR can be opportunistically used by managers as an entrenchment strategy (Cespa and Cestone, 2007) or to hide misconduct (Prior et al., 2008). However, the ethical perspective posits that firms use CSR activities to create an ethical business environment (Atkins, 2006) and to build a strong relationship with stakeholders by meeting their expectations (Freeman, 1984).

Therefore, this thesis complements previous CSR research by providing insightful understanding of the motivations of CSR activities. It consists of three interrelated essays, each of which tackles a specific CSR-related issue. The first essay in Chapter 3 is entitled "The Influence of Abnormal Audit Fees on the Relationship between Corporate Social Responsibility (CSR) Disclosure and Firm Risk". This essay provides clear evidence that CSR disclosure

[1] See Dahlsrud (2008) for more details about CSR definitions and the frequency of each in the literature.

generates benefits represented by the mitigation of firm risk. Based on the results of this essay, the second essay was developed and is presented in Chapter 4. It is titled "The Influence of Strategic Shareholders on the Relationship between CEO Entrenchment and CSR Decoupling", which considers the probability of opportunistic use of CSR disclosure. Finally, the third essay presented in Chapter 5, titled "The Influence of Interaction among Governance Mechanisms on CSR Decoupling" investigates mechanisms for mitigating opportunistic use of CSR disclosure.

1.2 Research objectives

Recently, research has shown that CSR disclosure is used to send a positive signal about CSR performance (Nazari et al., 2017) and to cover up opportunistic behaviours (Hemingway and Maclagan, 2004). Therefore, the main objective of this thesis is to provide a comprehensive understanding of the opportunistic use of CSR disclosure. This objective is divided into three sub-objectives, which were developed after reviewing previous research and identifying research gaps. Each sub-objective is tackled in a separate essay in the thesis.

The first essay aims to examine the consequences of issuing CSR disclosure on firm risk measures. Previous research on the CSR-risk relationship has yielded inconclusive and mixed results[2]. Therefore, this essay offers an in-depth investigation of this relationship and provides an understanding of how CSR disclosure and its components (environmental, social, and governance) influence firm risk (total, idiosyncratic, and systematic). Given that external auditors take into consideration the financial implications of voluntary disclosure (Chen et al., 2016, Sharma et al., 2018), this essay also investigates the CSR-risk relationship in the case of high audit fees, as these convey a form of credibility assurance of CSR disclosure and its financial implications.

Building on the first essay, which finds that CSR disclosure provides benefits to firms, the second aims to examine the probability of decoupling between CSR disclosure and CSR performance to manage stakeholders' impressions. More specifically, it investigates the role of entrenched CEOs in CSR decoupling engagement. This essay is based on the socio-political perspective on decoupling, that entrenched CEOs tend to decouple policies and practices to

[2] For example, while Salama et al. (2011) find a weak negative relationship between CSR and systematic risk, the findings of Jo and Na (2012) show it to be strong. On the other hand, Benlemlih et al. (2018) find that CSR only negatively affects idiosyncratic risk, having no effect on systematic risk.

meet stakeholders' expectations and thereby gain political ground (Westphal and Zajac, 1998, Zajac and Westphal, 1995). Given the possibility of the existence of CSR decoupling, this essay also examines the influence of large shareholders (institutional and family) in mitigating the level of CSR decoupling.

Finally, the third essay aims to build a bundle of governance systems and examine their effectiveness in reducing CSR decoupling. More specifically, it examines whether CSR-focused governance mechanisms work as complements or substitutes for each other in mitigating CSR decoupling. In addition, it examines the effect of the financial crisis period on such relationships.

1.3 Research methodology

Research methodology refers to the overall process of the research, which is driven by a consistent philosophical paradigm (Collis and Hussey, 2013). Research paradigms provide a pattern of shared assumptions among a research community, on the basis of which the research should be conducted (Kuhn, 1970). These assumptions are ontology (the nature of reality), epistemology (the validity of knowledge), methodology (the appropriate research process), and axiology (the role of values and ethics in the research) (Creswell and Poth, 2016, Saunders et al., 2009).

Social scientists hold various views about the assumptions based on the three paradigms (positivism, interpretivism, and pragmatism) (Onwuegbuzie and Leech, 2005). Positivists argue that reality is singular and independent; therefore, the research goal is to discover reality using empirical studies. As such, this paradigm adopts statistical analysis based on quantitative research methodology (Collis and Hussey, 2013). In this case, knowledge can be verified on a scientific basis (Walliman, 2010). On the other hand, interpretivists believe that reality is highly subjective because it is multiple and socially constructed by individuals (Collis and Hussey, 2013). Interpretivists focus on explaining social phenomena rather than measuring them. Therefore, this paradigm describes, translates, and analyses qualitative data based on qualitative research methodology (Corbin and Strauss, 2014, Creswell and Poth, 2016). Finally, pragmatists contend that research should not be restricted by a single philosophical paradigm. Therefore, they allow the mixing of research methods from various paradigms and the choice of which ones are more useful for addressing particular research questions (Blackburn and Curran, 2000).

Researching CSR raises a set of philosophical questions about the appropriate research paradigm that should be followed as it is an interdisciplinary field (Schoolman et al., 2012). However, the positivist paradigm has dominated accounting research, including that on CSR. This is because research in the accounting discipline generally seeks to test theories using empirical data (Lukka, 2010). Therefore, the essays in the thesis are conducted based on the quantitative methodology that is guided by the positivist research paradigm.

Quantitative methodology is applied based on the deductive approach (Saunders et al., 2009). Accordingly, each essay in the thesis develops hypotheses with reference to the literature review and existing theories. These hypotheses then are tested by using various regression models (e.g., ordinary least squares, fixed-effect, two-way cluster approach, generalized estimating equation, and generalized method of moments). To test the hypotheses, empirical data from different databases (e.g., Bloomberg, BoardEx, ASSET4, Datastream, and Worldscope) are used for a sample of UK firms listed on the FTSE All-Share Index during the period 2007-2017. This period is able to capture the effect of the global financial crisis that took place in 2008-2010 (Arthur et al., 2015), thus providing better understanding of this crisis.

1.4 Research findings

As mentioned in the research objectives, each essay in the thesis aims to examine particular CSR-related questions. The first essay finds a negative relationship between CSR and two out of three firm risk measures (total and idiosyncratic). This negative relationship is stronger when considering abnormal audit fees as a moderator because higher fees convey a form of assured credibility of CSR disclosure and its financial implications. When CSR disclosure was broken down into social, environmental, and governance types, it is found that social and governance disclosures have a negative effect on total and idiosyncratic risk. However, environmental disclosure has a negative effect on all firm risk measures, including systematic risk.

The second essay finds a significant and positive relationship between CEO entrenchment and CSR decoupling; however, strategic shareholders have a significant and negative moderating effect on the association. Further analysis shows that these relationships are highly significant for firms facing strong institutional pressures, such as those operating in CSR-intensive industries (e.g., Basic Materials and Consumer Discretionary), and after CSR

reporting became mandatory. The results confirm the argument of the study, that entrenched CEOs do not prioritise CSR activities and tend to decouple CSR policies from practice, particularly by overstating CSR disclosure, in order to avoid institutional pressures and to protect their power.

Finally, the third essay finds that CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) significantly reduce the level of CSR decoupling. In addition, this reduction is greater if a standalone CSR report is issued together with the existence of a CSR committee. Similarly, it finds a complementary relationship between CSR committees and contracting in reducing CSR decoupling. However, such a complementary relationship between CSR reports and CSR contracting is only found in the post-financial crisis period. The results also indicate that there is no marginal benefit in reducing CSR decoupling when CSR committees, standalone CSR reports, and CSR contracting simultaneously exist in a bundle of governance systems, both during and post-financial crisis.

1.5 Research contributions

The thesis makes important contributions to the CSR literature; in particular, to that on CSR disclosure and decoupling. The first essay contributes to the CSR-risk relationship by examining it within a boundary condition (i.e., abnormal audit fees). To the best of my knowledge, this is the first study that examines the moderating effect of such a variable on the relationship between CSR and firm risk. Charging abnormal audit fees conveys a form of assured credibility of CSR disclosure and its financial implications (Chen et al., 2016, Sharma et al., 2018). Therefore, it is an important boundary condition in the CSR-risk relationship. It also expands previous studies by examining the effect of CSR disclosure on all financial risk measures (total, idiosyncratic, and systematic). In addition, the first essay takes an innovative step towards addressing the inconsistent results in previous research by examining the effect of all the components of CSR (i.e., social, environmental, and governance) on firm risk measures, which generates greater confidence in the study's findings.

The second essay contributes to the decoupling literature by investigating the potential of CSR decoupling based on the socio-political perspective. To the best of my knowledge, this is also the first study that examines the role of entrenched CEOs in CSR decoupling engagement building on the socio-political perspective. To do so, the essay uses an entrenchment index that involves six provisions, reflecting the weakness of corporate governance in replacing CEOs

(Bebchuk et al., 2009). As such, entrenched CEOs have a choice to either direct firms' behaviour towards shareholders' interests or to their own private interests (Keil et al., 2017). Therefore, this measure is more comprehensive and robust in examining the role of CEOs in CSR decoupling decisions. This essay also contributes to corporate governance research by demonstrating the importance of strategic shareholders (institution and family) as a form of governance monitoring in reducing CSR decoupling. For an in-depth investigation, the sample is separated into strategic and non-strategic shareholders for both institutional and family ownership, and the CEO entrenchment effect on CSR decoupling is examined. In addition, this essay examines how the effect of CEO entrenchment on CSR decoupling would differ when firms faced high institutional pressures, such as those operating in CSR-intensive industries, and after CSR reporting became mandatory.

The third essay contributes to the CSR decoupling and governance literature by providing empirical evidence that CSR-focused governance mechanisms can be part of a substantive strategy through which firms enhance the credibility and transparency of their CSR reporting. To the best of my knowledge, this is the first study to investigate the interaction effects of CSR-focused governance mechanisms on CSR decoupling. Therefore, it contributes to the literature on corporate governance bundles by showing the presence of a complementary relationship between multiple CSR-focused governance mechanisms and CSR decoupling. In addition, this essay enriches the research stream that investigates the effectiveness of corporate governance during and after the financial crisis of 2008-2010. The study is in line with previous research (Van Essen et al., 2013, Erkens et al., 2012) and confirms that governance mechanisms are more effective in post-financial crisis periods.

1.6 Thesis structure

The rest of the thesis is structured as follows. Chapter two provides a conceptual framework of the thesis. Chapter three investigates the effect of CSR disclosure on firm risk measures; Chapter four examines the role of entrenched CEOs in CSR decoupling engagement. Chapter five studies the effect of CSR-focused governance mechanisms on CSR decoupling. Each essay consists of six sections: an introduction, theoretical framework, literature review and hypothesis development, research design, empirical findings, and discussion and conclusion. Finally, Chapter six concludes the thesis.

CHAPTER TWO
Conceptual Framework

2.1 Brief introduction

This thesis involves three main concepts: CSR concept, firm risk, and corporate governance. Reviewing these concepts is important because it helps readers to obtain a general overview of the thesis and understand how previous scholars have explored, defined and measured these concepts.

2.2 CSR concept

2.2.1 CSR definitions

The concept of CSR appeared in the 20th century, mostly in developed countries. However, the majority of the sizeable body of CSR literature was written in the last 50 years (Carroll, 1999). During this period, although several scholars attempted to provide a comprehensive definition of CSR, Howard Bowen is considered the father of CSR and the first writer to define this concept in his book published in 1953 entitled *Social responsibility of the Businessman*. In this book, Bowen (1953) defines CSR as the businessman's obligation to make decisions, pursue policies or embrace lines of action that are desirable and acceptable in terms of the values and objectives of our society. However, Davis (1960) defines CSR as decisions and actions that are taken by businessmen to some extent for reasons beyond the economic or technical interest of firms.

Recently, the CSR concept has experienced considerable development and become more ramified. Therefore, alternative phrases of the CSR concept have become commonplace, such as corporate social performance (CSP), corporate social responsiveness, business ethics, stakeholder theory, and corporate citizenship (Carroll, 2008). As a result of these new themes, it is believed that firms have not only economic responsibilities, but also legal, ethical and philanthropic (discretionary) responsibilities (Carroll, 1991). While a number of definitions have been developed covering the different dimensions of CSR (i.e. economic, legal, ethical and philanthropic), the most widespread one was suggested by the Commission of the European Communities (Dahlsrud, 2008), namely the voluntary incorporation of the social and environmental concerns of firms in their strategies and interaction with stakeholders[3].

[3] See Dahlsrud (2008) for more details about CSR definitions and the frequency of each in the literature.

2.2.2 CSR theories

Several theories have emerged as points of reference for predicting and explaining the motivations and consequences of CSR activities. Garriga and Melé (2004) summarise CSR-related theories into four categories: instrumental, political, ethical and integrative. Accordingly, CSR activities are observed in the accounting and management literature from three dominant perspectives: the instrumental (Godfrey, 2005); the opportunistic (Friedman, 1970), and the ethical (Carroll, 1979, Atkins, 2006). The instrumental perspective links CSR activities and firm benefits, a process in which firms use such activities as an instrument to improve their performance (Qiu et al., 2016, Lenssen et al., 2005). The opportunistic perspective generate insurance-like protection (Godfrey et al., 2009). Finally, to the ethical perspective improve public reputation (Barnea and Rubin, 2010). Given the potential benefits of engaging in CSR activities, the opportunistic perspective argues that CSR can be opportunistically used by managers as an entrenchment strategy (Cespa and Cestone, 2007) or to hide misconduct (Prior et al., 2008). However, the ethical perspective posits that firms use CSR activities to create an ethical business environment (Atkins, 2006) and to build a strong relationship with stakeholders by meeting their expectations (Freeman, 1984).

2.2.3 CSR dimensions

The four dimensions of CSR, namely economic, legal, ethical, and philanthropic, are suggested by Carroll (1991). These dimensions are depicted in a pyramid with the economic dimension forming the base. However, it is important to note that these responsibilities should be fulfilled at the same time, not in a sequential fashion (Carroll, 2008).

Firstly, firms are established as economic entities that aim to make an acceptable income by producing goods and/or providing services that meet the needs of society (consumers). This economic responsibility forms the foundation of firms' existence, and other responsibilities are dependent on the economic responsibility (Schwartz and Carroll, 2003). Secondly, firms seek to achieve their economic objectives by complying with the regulations and laws issued by the government that are the basis on which firms must operate. Therefore, the legal responsibility is related to the responsiveness of the firms to legal expectations that are mandated by the lawmakers and expected by society (Carroll, 1991). In this context, the legal responsibility is viewed as codified ethics because it embodies basic concepts of just and fair procedures as established by the lawmakers. Therefore, the legally responsible firms are

expected to be compliant with the law, avoid civil litigation, and anticipate the law (Schwartz and Carroll, 2003). Thirdly, while economic and legal responsibilities incorporate ethical norms sourced from the law, the ethical responsibility embraces the practices and activities that are expected or banned by members of society, even if they are not enacted by law. Therefore, the ethical responsibility embodies the norms, expectations or standards that represent a concern of the stakeholders (e.g. shareholders, employees, consumers, and community) about justice and fairness (Carroll, 1991). Additionally, the ethical responsibility may be viewed as adopting freshly emerging norms and values that society expects the firms to meet, even if such norms and values are considered a higher performance standard. However, the legal responsibility in this context is difficult to deal with, and therefore there is still a debate regarding its legitimacy (Schwartz and Carroll, 2003).

Lastly, the philanthropic responsibility, which refers generally to the actions that aim to respond to the expectations of society so that firms can be good citizens. This includes firms' engagement in programmes or activities aimed at promoting goodwill or human welfare (Carroll, 1998). Financial contributions of firms, such as contributions to the community, education or arts, are examples of the philanthropic responsibility. One of essential differences between ethical and philanthropic responsibilities is that the latter is more voluntary or discretionary, but the ethical responsibility is derived from a moral sense. Therefore, while the society expects the firms to contribute their resources (e.g. money, employee time, and facilities) to humanitarian purposes, it does not consider them as unethical if they do not meet the expected level of contributions (Carroll, 1991). However, Schwartz and Carroll (2003) revised the hierarchy of social responsivities and acknowledge that it is inaccurate to consider the philanthropic activities as a responsibility of firms because such activities are voluntary and not the duty of firms. On the other hand, the classical economists believe that firms' sole responsibility is to maximise the wealth of their shareholders (Friedman, 1962). According to Friedman (1962), social issues are not the responsibility of firms, but rather should be addressed by individuals or non-profit organizations. Although Friedman (1962) emphasises that a firm's primary objective should be to maximize profits, he also asserts that this responsibility has to be fulfilled according to the law and ethical values.

2.2.4 CSR Disclosure and CSR Performance

The CSR concept encompasses both CSR disclosure and CSR performance. However, the difference between these concepts (CSR disclosure and CSR performance) has been largely overlooked. CSR disclosure stands for information gathered from firms' reports (e.g. annual report, sustainability report, and firm's website) and is mainly the accounting research area (Tilt, 1994). More specifically, CSR disclosure is defined as a means of communicating information about CSR activities to interested groups of stakeholders through the corporate reporting process (Basu and Palazzo, 2008). Due to the increased awareness of the importance of CSR activities, the disclosure of these activities has become an important requirement of stakeholders. Generally, CSR disclosure is classified into two categories: mandatory disclosure and voluntary disclosure (Owusu-Ansah, 1998). The disclosure that is legally required by self-regulation is mandatory disclosure. However, firms usually disclose more information than is legally required, which represents voluntary disclosure (Chau and Gray, 2002). The extent of CSR disclosure is usually measured by the content analysis approach (e.g., Lenssen et al., 2005, Moore, 2001, Platonova et al., 2018). However, other researchers rely on databases such as Bloomberg to collect data about the extent of CSR disclosure (Benlemlih et al., 2018).

CSR performance refers to the outcome of CSR activities (behaviour) (Carroll et al., 2016). Therefore, CSR performance is linked to two questions: 'what are the actual CSR activities of the firm?' and 'what are the outcomes of these activities?' (Pierick et al., 2004). Many databases, such as the Kinder, Lydenberg and Domini (KLD) Index, Dow Jones Sustainability Index (DJSI) and CSR Hub rating, provide a rating of a firm's CSR performance. Although CSR disclosure and CSR performance are different concepts, there is a significant correlation between them. The firms with good CSR performance are willing to disclose more CSR information. However, CSR disclosure is lower in the firms with poor CSR performance (Clarkson et al., 2008).

2.2.5 CSR decoupling

CSR decoupling is a symbolic management practice adopted to avoid institutional pressures and thus gain benefits (e.g., Cho et al., 2015, Tashman et al., 2019). Studies have discussed many related terms reflecting such symbolic behaviour, such as greenwashing, organizational facades, organization hypocrisy, and CSR faking (García-Sánchez et al., 2020). However, CSR decoupling is distinguished from these terms as it also involves a firm's silent

practice, in which the firm does not disclose about its positive social activities (Bromley and Powell, 2012).

Accordingly, firms may engage in CSR decoupling by selectively disclosing favourable CSR information and avoiding anything unfavourable (Lyon and Maxwell, 2011, Marquis et al., 2016); exaggerating their positive social activities (Delmas and Burbano, 2011); or understating their socially responsible practices (Kim and Lyon, 2015). Further, Hawn and Ioannou (2016) introduce another form of engagement in CSR decoupling, through the misalignment between internal and external CSR actions. As stated in Hawn and Ioannou (2016), internal CSR basically reflects firms' substantive inward-looking actions, which develop their capabilities and meet the expectations of those who provide critical resources. Adopting internal actions requires signficant changes in firms' structures, policies, norms and routines (e.g., establishing a CSR committee and making changes to emissions reduction policy). García-Sánchez et al. (2020) and Surroca et al. (2020) underline that CSR performance reflects internal actions, as it measures firms' actual socially responsible behaviours. Conversely, external CSR reflects visible public initiatives and communication patterns that have been adopted to generate external public endorsements of firms, their practices, and their top management (Hawn and Ioannou, 2016). External actions are represented by both the claims and reports that a firm makes to show commitment to socially responsible behaviours (e.g., Dhaliwal et al., 2012, Surroca et al., 2020).

Recent empirical studies have documented that CSR decoupling is attractive and beneficial as long as it can be utilised to positively influence social actors' opinions regarding firms' practices. For instance, Kim and Lyon (2015) demonstrate that engaging in greenwashing (i.e., overstating emissions reductions) helps growing firms to uphold their "license to operate" by reducing their exposure to environmental regulatory pressure as they expand. However, if CSR decoupling is detected by external stakeholders (e.g., regulators), it exposes a firm's activities as suspicious and destroys its legitimacy (e.g., Hawn and Ioannou, 2016, Lyon and Maxwell, 2011). This will result in a reduction in access to finance, higher capital costs (García-Sánchez et al., 2020), and weaker financial performance (Sauerwald and Su, 2019).

2.2.6 CSR in the UK context

CSR practices have gained significant attention in several countries over the years, with a growing movement nowadays to make CSR engagement an institutionalised business

practice. This movement can create effect on moving the world towards sustainability, thereby improving the quality of life for future generations (Lindgreen and Swaen, 2010). The UK is one of the pioneer countries that lead the sustainable-oriented movement by taking active steps to encourage firms listed on the London Stock Exchange (LSE) to carry out their activities in a sustainable and environmentally friendly manner (Moon, 2005, Carroll and Shabana, 2010). These steps incorporate legal regulations and voluntary frameworks and guidelines, which potentially increase CSR engagement and its effectiveness (Moon, 2005).

One of the most important CSR legal regulations issued by the UK government is *the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*. This regulation applies to annual reports published in or after September 2013 and mandates that firms issue a strategic report comprising specific information about environmental matters, employees, human rights, community and social issues[4]. As a consequence of issuing this regulation, firms are required to comply with it by reporting on CSR engagement rather than only explaining the reasons for not reporting. Alongside, UK firms are encouraged to implement voluntary standards (e.g., the Global initiative reporting), which improve their transparency and consistency regarding CSR reporting (Fernandez-Feijoo et al., 2014, Lock and Seele, 2016).

However, there is still a concern that firms may decouple CSR practices from policies (i.e., CSR decoupling), which most likely reduces CSR credibility (Jauernig and Valentinov, 2019). To address the possibility of CSR decoupling, agency theory suggests that strong governance mechanisms can mitigate corporate executives from engaging in opportunistic actions (Eisenhardt, 1989, Shleifer and Vishny, 1997). In the UK context, therefore, there is a well-established governance system code, which was first issued in 1992 and has been updated several times since then. This governance system code includes several principles and guidelines that UK firms are expected to follow, such as the establishment of an effective board of directors, a risk management system, and transparent reporting on CSR activities[5]. However, it should be noted that the Code is not legally binding, but rather operates on a "comply or explain" basis, meaning that firms are not required to follow it but must explain if they have not done so.

[4] https://www.legislation.gov.uk/ukdsi/2013/9780111540169
[5] https://www.frc.org.uk/directors/corporate-governance/uk-corporate-governance-code

2.3 Firm risk

2.3.1 Firm risk definition

There is no broadly accepted definition of risk that distinguishes it from uncertainty, which may cause risk and uncertainty to be used interchangeably in a misleading way. According to Knight (2012), the central idea underlying both risk and uncertainty is the unknown future. However, the distinguishing aspect between these two concepts is 'measurement'. While risk is a measurable concept because the probability distribution of risk is identifiable, uncertainty cannot be measured since its probability distribution is generally unknown. Nevertheless, Miller (1977) states that little attention is paid to such differentiation because probability distribution can be identified by an individual's subjective estimations in both cases (risk and uncertainty).

A practical definition of risk is the probability of variation in the outcome of an action, which may have either negative or positive consequences (Shapira, 1995). In the business context, due to the value of financial assets (e.g. securities) relies on expected return and risk, the risk here represents the volatility of return. Therefore, the greater the stock price volatility, the higher the firm risk will be (Crouhy et al., 2006). The volatility in the stock price that represents firm risk usually occurs as a result of external or internal factors, for example, changes in customer demand cause volatility in the stock price, and therefore less demand means more firm risk, and vice versa.

The Capital Asset Pricing Model (CAPM) developed by Sharpe (1964) and Lintner (1965) posits that the total firm risk (i.e. volatility) is generally composed of two components: systematic risk and idiosyncratic risk. The former is also called market risk because it affects many assets, while the latter is known as firm-specific risk because it is related to the firm's unique characteristics (Ross et al., 2011). The idiosyncratic risk accounts for the majority of the total firm risk. This is supported by Bansal and Clelland (2004) who report that idiosyncratic risk represents approximately 80 percent of total firm risk, while systematic risk represents only 20 percent.

2.3.2 Systematic risk

Systematic risk refers to volatility in the stock price responding to the news of broad market changes (e.g. inflation) or changes in market returns (Luo and Bhattacharya, 2009). Based on this definition, the systematic risk occurs as a result of "*systematic events that affect*

a considerable number of financial institutions or markets in a strong sense, thereby severely impairing the general well-functioning (of an important part) of the financial system" (De Bandt and Hartmann, 2000, p. 11). The extent to which firms and markets are affected by systematic events depends on the latter whether it is single (which can affect one firm/market) or wide (which endangers many firms/markets). Consequently, the geographical extent of systematic risk can be regional, national or global (De Bandt and Hartmann, 2000). For instance, the recent global financial crisis (2008–2009) occurred because of the subprime mortgage crisis in the market in the US and then developed into a widespread economic recession due to the collapse of Lehman Brothers.

Systematic risk, therefore, begins as a shock (event) in one financial institution or a small group of financial institutions (firms) and then spreads to other financial institutions (firms) to become systemic risk. According to Dow (2000), the most common reasons for shock are: excessive risk-taking by one trader or a group of traders, an aggressive firm culture that pushes towards short-period profits, and a collective failure in managing the financial system. Benoit et al. (2017) suggest that three major mechanisms cause the spreading of a shock: systematic risk-taking mechanisms, amplification mechanisms, and contagion mechanisms.[6] However, Smaga (2014) argues that contagion is the main mechanism through which shock spreads and becomes systemic risk.

2.3.3 Idiosyncratic risk

Idiosyncratic risk (firm-specific risk) refers to volatility in the stock price that is related to the unique characteristics of individual or a small group of firm assets or firm-specific strategies after taking into consideration the volatility induced by market variation (Luo and Bhattacharya, 2009). In other words, idiosyncratic risk represents the residual part of the total firm risk (volatility in the stock price) that cannot be explained by the market variation.

The firm-specific characteristics are the main determinant of idiosyncratic risk. Therefore, Ferreira and Laux (2007) suggest eight firm characteristics that cause idiosyncratic risk (whether upward or downward): profitability, profit volatility, leverage, market-to-book

[6] Systematic risk-taking mechanisms explain how choosing to be exposed to a similar type of risk by financial institutions (firms) leads to multiplying (spreading) the shock. Amplification mechanisms explain how the failure of a single financial institution can be due to systematic risk. Finally, contagion mechanisms explain how the interconnectedness between financial institutions leads to the spreading of shock (e.g. losses). For more details of these mechanisms, see Benoit et al. (2017).

ratio, market capitalisation, dividend pay, firm age, and firm diversification. Unlike systematic risk that affects each firm in the same way, the level of idiosyncratic risk is different for each firm because it is diversifiable risk. Although idiosyncratic risk can be eliminated by investment in a diversified portfolio, there are several situations in which, or reasons explaining why, idiosyncratic risk does matter for managers and investors alike. With regard to investors, in some situations[7] they fail to hold a well-diversified portfolio (Barberis and Thaler, 2003). Therefore, the investors should incorporate total firm risk (systematic and idiosyncratic risk) in their decision, as idiosyncratic risk is not completely eliminated. Conversely, the firms' managers have to pay more attention to managing idiosyncratic risk because of transaction costs, market inefficiency, and information asymmetry (Brown and Kapadia, 2007).

In addition to the firm characteristics factor, Bekaert et al. (2012) identify other factors that determine idiosyncratic risk. These factors are related to the ability of a firm to react appropriately to changes in the business environment (that occur due to systematic risk), such as having a dynamic management style and developing an appropriate capital structure, accessing and using information, and choosing and training employees.

2.3.4 Risk measurement models

The total firm risk is commonly measured by the volatility of stock returns. This volatility is attributed to two elements (e.g., Carhart, 1997, Lintner, 1965, Sharpe, 1964). The first element is the systematic risk (market risk), which is explained by the variation in market portfolio returns, and the second element is the idiosyncratic risk (firm-specific risk), which is related to firm-specific characteristics (Luo and Bhattacharya, 2009). Since the idiosyncratic risk is diversifiable, asset pricing models[8] ignore idiosyncratic risk and focus on systematic risk. However, the idiosyncratic risk can be observed indirectly by computing the volatility of the residuals resulting from asset pricing models. Therefore, the accuracy of idiosyncratic risk computation relies on the accuracy of the CAPM used.

The CAPM is the most widely used model (Fama and French, 2004). Nevertheless, this model has not always been shown to be an accurate model (Merton, 1973). Although the

[7] An example of this is the 'home-bias' situation. French and Poterba (1991) find evidence for the existence of the investors' home-bias which implies that most investments in the portfolio are allocated to domestic firms. In this case, therefore, the portfolio is not well-diversified.

[8] Asset pricing models are used to determine the amount of market risk by describing the relationship between expected return and market risk (Avramov and Chordia, 2006).

CAPM has been examined extensively by using different proxies for the market portfolio (e.g. free market risk), the results have not always been in favour of the CAPM (e.g., Black et al., 1972, Merton, 1973). Consequently, research on asset price models has gone further to produce other models such as the Fama-French Three-Factor Model and Carhart's Four-Factor Model. Unlike the CAPM (which suggests that market risk is the only determinant of returns), two additional determinants (i.e. market-to-book ratio and firm size) have been incorporated into the Fama-French Three-Factor Model to capture the expected return (Fama and French, 1992). Although the Fama-French Three-Factor Model has been successful in capturing the book-to-market, size and effect of long-term reversal, it has not been able to capture the effect of short-term momentum (Fama and French, 1996). Therefore, Carhart's Four-Factor Model was developed Carhart (1997) to capture the momentum effect by incorporating an additional factor to measure this effect.

2.4 Corporate governance

2.4.1 Corporate governance definition

In the modern economy, where there is a separation between ownership and management, it is important to establish an effective corporate governance system to reduce the opportunistic behaviour of managers (e.g. non-disclosure of the true state of a firm's performance) that could end in a residual loss for the owners (Jensen and Meckling, 1976). Accordingly, corporate governance is defined as a range of practices, procedures, and policies through which firms are effectively directed and controlled to reduce agency problems and align the interests of their management and shareholders (Monks and Minow, 2011, Cadbury, 1992). The primary objective of corporate governance is to improve accountability, transparency, and ethical behaviour within firms (Solomon, 2020).

2.4.2 Corporate governance mechanisms

Corporate governance mechanisms are classified into monitoring and incentive alignment mechanisms (Eisenhardt, 1989, Shleifer and Vishny, 1997). Based on a corporate governance bundle perspective, effective corporate governance should incorporate monitoring and incentive alignment mechanisms that complement each other to address the manager-stakeholder agency problem (Rediker and Seth, 1995). In this thesis, the effectiveness of multiple of governance mechanisms in reducing agency conflicts are investigated.

2.4.2.1 Audit quality

External auditing is proposed to provide independent verification of financial statements prepared by managers (Watts and Zimmerman, 1980). The external audit process involves the collection and evaluation of sufficient appropriate audit evidence (IAS 500). Based on this evidence, an auditor issues a report (i.e. an audit report) to express his/her opinion[9] on the financial statement (IAS 700 and IAS 705). However, the value of an auditor's opinion about the financial statements relies on the quality of the auditor because high-quality auditors have more competency to detect the material misstatement on these statements than low-quality auditors, which adds more credibility to the financial statements audited by such auditors (Mansi et al., 2004). Therefore, high audit quality ensures that the financial statements are credible and reliable and reflect the real economic position of the firm's activities, which would definitely help users of these statements to make relevant decisions.

The audit quality concept and the factors that could affect quality, therefore, have received considerable attention in debates among academics, practitioners and standard setters. For instance, the Financial Reporting Council (2006) states that there is no widely agreed definition of audit quality that can be used as a guideline against which real audit quality can be evaluated. This is due to the fact that each stakeholder group has a different perspective of audit quality (IAASB, 2013). The users of financial statements view the audit quality as a mechanism to monitor management. However, the management perceive the audit quality as the ability of an auditor to complete the audit process as quickly as possible (Gul et al., 2009).

On the academic side, much of the literature relating to audit quality depends on DeAngelo (1981, p. 186) definition of audit quality, which is the "*market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach*". This means that the audit quality is a spectrum from low quality to high quality based on two basic factors: the technical competence of the auditor to discover material misstatement, and the independence of the auditor to ensure that the material misstatement is disclosed in the audit report.

[9] According to IAS 700 and IAS 705, the auditor's opinion is either an unmodified opinion (i.e. financial statements are free from material misstatement) or a modified opinion that is divided into a qualified opinion (i.e. financial statements include material misstatement but it is not pervasive), an adverse opinion (i.e. financial statements include material misstatement and it is pervasive) or a disclaimer of opinion (i.e. when the auditor is unable to collect audit evidence to conduct an audit process).

It is argued that direct measurement of audit quality is complex and costly because of the difficulty in observing the procedures employed by the auditor that determine the auditor's competency and in observing the incentives included in the auditor-auditee contract that can affect independence (DeAngelo, 1981). A number of proxies have been proposed for measuring audit quality by considering the relationship between a set of inputs (that may affect audit quality) and outputs (that indicate audit quality). One of the most commonly used proxies to measure audit quality is audit firm size, which is proposed by DeAngelo (1981). She argues that big audit firms have higher quality than small firms for several reasons. For example, the big audit firms have enough resources to allow them to hire professional auditors and invest in advanced audit technologies, which means that their ability to detect material misstatement is greater than that of other audit firms (DeAngelo, 1981, Francis, 2004). From the economic perspective, since the big audit firms provide services to a large number of clients, they do not rely economically on a single client. Therefore, they are more able to resist a client's pressure to violate professional auditing standards (Deis Jr and Giroux, 1992). In addition, big audit firms are keen to be professional and provide high-quality services to protect their reputation from litigation risk that may arise as a result of issuing an incorrect opinion on financial statements (Skinner and Srinivasan, 2012).

Furthermore, it has also been documented that big audit firms charge clients higher audit fees than other audit firms because they spend more effort and time in the auditing process, which helps to improve the audit quality (Elitzur and Falk, 1996). In addition, Hill et al. (1994) believe that the premium on audit fees reflects the specialised knowledge of an audit firm, which increases its ability to detect the material misstatement. Therefore, audit fees also serve as a proxy for measuring audit quality (DeAngelo, 1981). The audit fees are defined as the amount that clients pay to the auditor in exchange for performing the services. These services could consist of both an audit service, which is the core of an auditor's work, and non-audit services such as risk management advisory services, income tax services, internal control services or any other services other than auditing (Kinney Jr et al., 2004). The concern here is when the auditor provides both an audit service and non-audit services to the same client. This may affect the audit quality because the non-audit services would impair the independence of auditors due to their economic reliance on the client (Frankel et al., 2002). Therefore, the Sarbanes-Oxley Act (SOX) 2002 requires more detailed disclosures regarding audit fees, as well

as a clear breakdown of fees related to audit services and those related to non-audit services. This law also restricts the non-audit services that auditors can provide to their clients.

2.4.2.2 Strategic shareholders

Strategic shareholders are investors who hold 5% or more of a firm's shares and play an essential role in mitigating the agency problem (Eisenhardt, 1989, Shleifer and Vishny, 1997). Due to the high costs of monitoring, such shareholders have more ability and incentive to monitor the board of directors than ones who have a dispersed ownership (Martin et al., 2019). In accordance with this argument, governance literature has found that strategic shareholders can closely monitor managers and thus reduce their self-serving behaviours (McCahery et al., 2016). In line with previous studies, we focus on two types of strategic shareholders, namely institutional and family investors (Cordeiro et al., 2020, Ho et al., 2020).

Institutional ownership refers to the percentage of a firm's shares held by financial institutions (e.g., banks, pension funds, and insurance companies) on behalf of individual investors in order to maximise their profit (Ozdemir, 2020). A high level of ownership gives institutional investors access to the board of directors and the power to influence their behaviour (Ramalingegowda et al., 2020). Previous research indicates that institutional investors can exert their preferences through three actions. First, large institutional investors have strong voting power, which allows them to voice their preferences to management. For instance, such investors can vote to encourage better disclosures if they believe these are not adequate (Boone and White, 2015). Furthermore, managers have more interaction with institutional investors due to their voting power (Hadani, 2012). Second, institutional investors can use the threat of exit to influence managers' decisions, which drives them to align their interests with those of investors (Azar et al., 2018) and reduce their rent-extracting activities (Dou et al., 2018).

Third, institutional investors demand intensive internal control mechanisms (Ho et al., 2020), as they have a short-term horizon and are less engaged in daily operating activities (Buchanan et al., 2018) Therefore, institutional ownership acts as an external monitoring mechanism that strengthens (complements) internal governance mechanisms (Hoskisson et al., 2009). Hadani (2012) provides empirical evidence that institutional ownership is significantly and positively associated with corporate governance quality. Likewise, Ho et al. (2020) report that firms with larger institutional ownership have a higher proportion of

independent directors on the board and a greater likelihood of CEO-Chairman separation. Consequently, a number of studies have found that institutional ownership is negatively associated with managerial opportunistic behaviours, such as earnings management (Koh, 2003), and positively related with firm performance measures (e.g., Elyasiani and Jia, 2010, Lin and Fu, 2017).

Similarly, family ownership has a strong potential to reduce owner-manager conflicts and improve firm performance (Wang, 2006). Family members seek to protect their interests and family name, as they usually have undiversified equity stakes (Ho et al., 2020) and need to pass on their investment to future generations (Cordeiro et al., 2020). Hence, they have a great incentive to monitor managerial performance and forgo short-term benefits that might be gained from opportunistic behaviours (Wang, 2006). Larger ownership of family members increases their influence and opportunities to hold important positions on the management team (Anderson and Reeb, 2003). This enables them to intensively monitor managerial activities, which reduces opportunistic behaviours (Ho et al., 2020).

Unlike institutional investors, family investors are closely involved in firms' day-to-day activities, as the wealth of the family is related to that of the firm (Anderson and Reeb, 2003). This allows them to have superior firm-specific knowledge and detailed information about the firm's operations, enabling them to provide effective monitoring of managers' behaviours, which in turn mitigates information asymmetry between managers and shareholders (Chen et al., 2008). Moreover, the long-term presence of family investors means that they are more likely to create long-term employees and customer loyalty, and they are willing to engage in long-term investments, which reduces the problem of managerial short-sightedness (Chen et al., 2010). The relationship between family ownership and the quality of monitoring is empirically documented by a number of studies. For instance, Martin et al. (2016) find a positive relationship between family ownership and earnings quality, while Ho et al. (2020) show that family members encourage an increased proportion of independent directors on the board.

2.4.2.3 CSR-focused governance mechanisms

The implementation of corporate mechanisms that focus on CSR issues (CSR committee, standalone CSR report, and CSR contracting) has been substantially increasing over time, despite the fact that they are voluntary mechanisms (Radu and Smaili, 2021). The use of these

mechanisms reflects the a firm's commitment to enhancing CSR integrity and reliability (Derchi et al., 2021).

A CSR committee is a board-level committee explicitly responsible for monitoring and advising corporate executives about CSR issues (Radu and Smaili, 2021, Liao et al., 2015). Establishing such a committee is a voluntary business decision through which firms reflect their commitment towards stakeholder issues and society (Mallin and Michelon, 2011, Shaukat et al., 2016) and attain a balance between their financial and non-financial objectives (Liao et al., 2015). The committee comprises a group of knowledgeable members who are specifically delegated to provide corporate executives with appropriate CSR development strategies (Berrone and Gomez-Mejia, 2009, Paine, 2014) and to review the implementation of these (Ricart et al., 2005). Therefore, the existence of a CSR committee at the board level significantly improves the board's oversight of CSR decisions (Spira and Bender, 2004); turns CSR strategies into actions (Mallin and Michelon, 2011); and communicates CSR issues (Ricart et al., 2005).

Additionally, as part of its monitoring and advising role, CSR committees manage the risks and opportunities of CSR activities and fulfil commitments to stakeholders (Peters and Romi, 2015), thus enhancing CSR transparency and awareness of its concerns (Adams, 2002). The functioning of the committee in ensuring transparent CSR practices is analogous with the audit committee, which works to provide transparent financial reporting practices (García-Sánchez et al., 2019a, Liao et al., 2015). Hence, the CSR committee is considered to be a proactive monitoring mechanism that has the authority to audit all CSR activities and ensure that these comply with ethical standards and stakeholders' interests (Martínez-Ferrero et al., 2019).

Another CSR-focused governance mechanism used to oversee the impact of CSR is the issuance of standalone CSR reports (Derchi et al., 2021). Such reports are also referred to as "sustainability reports", "citizenship reports", or "environmental reports" in the literature, and are distinct from annual reports as they specifically focus on CSR issues and are not mandatory under reporting standards (Thorne et al., 2014). The decision to produce and release a standalone CSR report demonstrates a company's commitment to CSR issues (Christensen, 2016, Al-Tuwaijri et al., 2004, Dhaliwal et al., 2012). These reports provide a comprehensive overview of CSR performance and highlight specific actions and risks associated with different aspects of CSR. By doing so, standalone CSR reports enable boards of directors to effectively

monitor executive actions and tackle agency conflicts such as inaccurate disclosures and poor investments (Armstrong et al., 2010).

A recently developed CSR-focused governance mechanism for promoting CSR is the use of CSR contracting, which incorporates CSR criteria into executive compensation schemes (Cavaco et al., 2020, Flammer et al., 2019, Tsang et al., 2021). This practice encourages CSR actions by incentivising corporate executives to implement them (Maas, 2018, Radu and Smaili, 2021). Based on agency theory, incentive-linked compensation is used to align managers' efforts with shareholders' desires, which mitigates agency problems between the parties (Holmstrom and Milgrom, 1991, Eisenhardt, 1989). Thus, CSR contracting is a promising approach to governance because it links executive compensation with specific CSR targets and helps boards of directors reduce the agency costs associated with CSR initiatives (Hong et al., 2016). Furthermore, CSR contracting encourages executives to consider the needs of stakeholders who are essential to the firm's long-term financial success, ultimately improving the effectiveness of corporate governance (Flammer et al., 2019).

CHAPTER THREE

The Influence of Abnormal Audit Fees on the Relationship between Corporate Social Responsibility (CSR) Disclosure and Firm Risk

3.1 Brief summary

This essay examines the effect of CSR disclosure on firm risk measures, and the moderating role of abnormal audit fees on such a relationship. This essay is based on agency and stakeholder theories to explain the relationship between CSR disclosure and firm risk. Accordingly, a negative relationship between CSR disclosure and two out of three firm risk measures (total and idiosyncratic risk) is found, supporting agency theory that CSR disclosure creates insurance-like protection against negative actions by generating moral capital goodwill among stakeholders. This negative relationship is strengthened when considering abnormal audit fees as a moderating variable, confirming that charging higher audit fees conveys a form of credibility assurance of CSR disclosure. The additional tests show that social and governance disclosures have a negative effect on total risk and idiosyncratic risk. However, environmental disclosure has a negative effect on all firm risk measures, including systematic risk.

3.2 Introduction

Corporate social responsibility (CSR) refers to voluntary activities and initiatives with social, environmental, and governance implications (Mishra and Modi, 2013). As such, several academic studies have examined the consequences of such activities and initiatives on different firm attributes (Chen et al., 2018, Gregory et al., 2016, Kim et al., 2012, Sharfman and Fernando, 2008). The arguments of Friedman (1970) and Freeman (1984) shape the theoretical basis for most of these studies. Friedman (1970) argues that the sole objective (responsibility) of firms is to maximise the wealth of shareholders and that CSR activities do not align with this objective since they waste firms' limited resources. This view is in line with agency theory, which posits that CSR engagement aggravates the agency problem, as it can be exploited by managers to advance their own benefits at the expense of shareholders (Jensen and Meckling, 1976). Conversely, Freeman (1984) argues that firms have to satisfy the interest of all stakeholders, who can affect or be affected by firms, not only shareholders. Therefore, they believe that CSR activities can be used to balance the interest of all stakeholders (Ruf et al., 2001).

Friedman's view has been empirically supported by the demonstration of the opportunistic use of CSR activities to entrench firm managers (Cespa and Cestone, 2007, Surroca and Tribó, 2008) and to hide earnings management (Prior et al., 2008). However, other studies support Freeman's view and show that such activities are linked to several benefits, such as improving firm value (e.g., Gregory et al., 2016, Lourenço et al., 2012, Surroca et al., 2010); reducing the cost of capital (e.g., Cheng et al., 2014, Hoepner et al., 2016, Reverte, 2012); and enhancing the quality of financial reporting (e.g., Choi et al., 2013, Hong and Andersen, 2011, Kim et al., 2012). Furthermore, although some studies have investigated the relationship between CSR and firm risk, they have obtained mixed results[10]. This may be attributed to various reasons, including problems associated with CSR/firm risk measurement, the omission of significant variables, or differences in the conceptual framework of the studies (Bouslah et al., 2018). Consequently, the relationship between CSR and firm risk (either systematic or idiosyncratic) remains ambiguous and is worthy of further investigation.

This study is focussed on gaining an understanding of the relationship between CSR and firm risk. Given that the relationship is a complex one, it is essential to establish boundary conditions for it (Luo and Bhattacharya, 2009). Therefore, the study goes beyond previous research and considers whether abnormal audit fees can moderate the CSR-firm risk relationship. Its contribution is built on the argument that charging higher audit fees conveys a form of assured credibility of CSR disclosure and its financial implications (Chen et al., 2016, Sharma et al., 2018). Based on a sample of UK firms listed on the FTSE All-Share Index during the period 2007–2017, a negative relationship is found between CSR disclosure and two measures of firm risk (total and idiosyncratic risk), which is negatively moderated by abnormal audit fees. Finally, while social and governance disclosures have a negative effect only on total risk and idiosyncratic risk, environmental disclosure is negatively related to all firm risk measures.

The study makes several important contributions to the literature. First, previous studies have often overlooked significant variables that may govern the CSR-risk relationship, resulting in misspecified models (McWilliams and Siegel, 2000). To the best of my knowledge, this is the first study that examines the moderating effect of abnormal audit fees on the relationship

[10] For example, while Salama et al. (2011) find a weak negative relationship between CSR and systematic risk, the findings of Jo and Na (2012) show it to be strong. On the other hand, Benlemlih et al. (2018) find that CSR negatively affects only idiosyncratic risk, having no effect on systematic risk.

between CSR and firm risk. Such a moderating variable plays an important role in sending a positive signal about the credibility of voluntary disclosure (Ball et al., 2012, Chen et al., 2016). Therefore, it is an important boundary condition in the CSR-risk relationship. Second, the study expands the current literature by investigating the effect of CSR on both systematic and idiosyncratic risk. Systematic risk represents volatility in stock prices in response to major market changes; therefore, lower systematic risk in firms means CSR disclosures reflect the ability of CSR activities to create 'insurance-like' protection against bad news (Godfrey, 2009). However, such activities affect idiosyncratic risk by impacting on relationship-based intangible assets, such as customer loyalty, employee morale, reputation, brand, and trust. Therefore, documenting the CSR-idiosyncratic risk relationship would reflect the ability of these activities to build a strong relationship with key stakeholders (e.g., workers, suppliers, customers, government, and the community). Finally, the study takes an innovative step towards addressing the inconsistent results in previous research by examining the effect of all the components of CSR (i.e., social, environmental, and governance) on firm risk measures, which generates greater confidence in the study findings.

The remainder of the study is structured as follows. Section 2.2 provides the theoretical framework of the study. Section 2.3 discusses the previous literature and develops the hypotheses. Section 2.4 describes the sample and empirical techniques used, while Section 2.5 presents the empirical results. Finally, Section 2.6 discusses the results and draws conclusions.

3.3 Theoretical framework

Two main theories have been used to explain the relationship between CSR and firm risk (i.e. stakeholder theory and agency theory). In this essay, these theories are reviewed together to provide a comprehensive picture of the effect CSR disclosure has on firm risk. Starting with stakeholder theory which is one of most dominant theories that is used extensively in the literature to explain the relationship between a firm and its stakeholders. This theory was developed by Freeman (1984, p. 46), who defines stakeholders as "*any identifiable individual or group who can affect the achievement of an organisation's objectives, or is affected by the achievement of an organisation's objectives*". According to this definition, the firms' key stakeholders are not limited to shareholders, but also include workers, suppliers, customers, the government, and the community (Maignan and Ferrell, 2004).

The main assumption of stakeholder theory is that firms' managers should manage and satisfy the interests of stakeholders for them to ensure the survival of their firms and succeed in their operations (Freeman, 1984). Stakeholder theory is explicitly or implicitly employed in the literature in three approaches, namely descriptive, instrumental, and normative (Donaldson and Preston, 1995). This study focuses on instrumental stakeholder theory because this approach concerns to make a linkage between stakeholder management and achieving the firm's objectives. However, the other approaches are related to describe firm behaviour (i.e., descriptive) and explain firm functions (i.e., normative) (Donaldson and Preston, 1995).

In line with instrumental stakeholder theory, since CSR activities can satisfy the interests of multiple stakeholders, the decision to engage in such activities provides significant benefits for the firms (Ruf et al., 2001). In other words, CSR activities fulfil the ethical, moral and social expectations of stakeholders and strategically achieve the economic expectation of shareholders. This will ensure the stakeholders' approval and support as well as their satisfaction with the firm's decisions, which, in turn, secures the benefit from resources provided by stakeholders and reduces the firm's exposure to the risks (Godfrey et al., 2009, Shankman, 1999). More specifically, CSR investment can generate goodwill or moral capital among the stakeholders, which provide 'insurance-like' protection (Godfrey, 2005). This moral capital or goodwill creates relational wealth among different groups of stakeholders in different forms, such as emotional commitment among employees, trust among partners and suppliers, legitimacy among regulators and communities, greater attractiveness for investors, and enhanced brand and credibility of firm among customers (Godfrey, 2005). In particular, moral capital that is created by CSR will translate into a more favourable evolution of the firm in the eyes of various stakeholder groups, which mitigates negative stakeholder assessments. As such, engaging in CSR is considered a strategic option to enhance a firm's performance and mitigate its exposure to risk (McWilliams and Siegel, 2011).

Agency theory discusses the principal-agent relationship that is defined as "a *contract under which one or more persons (the principal[s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent*" (Jensen and Meckling, 1976, p. 308). According to this definition, the fundamental issue confronting the principal-agent relationship is the agency problem. This arises for two reasons: conflict of interest between principals (i.e. owners) who provide the

capital of the firm and the agents (i.e. management), and the difficulty or expense for principals (i.e. owners) in verifying the agents' (i.e. management) behaviour (Eisenhardt, 1989).

The basic assumptions of agency theory are the self-interest of managerial behaviour and the conflict of goal between principals and agents (Eisenhardt, 1989). Therefore, the agents (i.e. managers) are expected to behave in an opportunistic manner and advance their own benefits at the expense of the firm's owners and other stakeholders (Jensen and Meckling, 1976). Researchers have focused on specifying circumstances in which the owner and manager are likely to have a conflicting objective and then defining the mechanisms of governance that limit the manager's self-serving behaviour (Eisenhardt, 1989). For example, (Friedman, 1970) posits that CSR activities are symptomatic of a conflict between the interest of owners and managers (i.e. the agency problem). He believes that managers utilise CSR as a tool to advance their own agendas (e.g. social, career or political) at the expense of owners and other stakeholders.

The problem here is that the shareholders cannot effectively control the managers' behaviour. Consequently, managers may opportunistically engage in CSR to improve their personal reputation in the eyes of society (Barnea and Rubin, 2010), to create a positive impression of ethical behaviour or transparency among stakeholders to hide earnings management or firm misconduct (Hemingway and Maclagan, 2004, Prior et al., 2008), or to reduce the likelihood of their replacement in the future by generating support from CSR activities, even if these activities are at the expense of shareholders through over-expenditure on them (Cespa and Cestone, 2007). As a result of the agency problem, all these opportunistic motivations of engaging in CSR may ultimately lead to increasing the likelihood of exposing firms to the risks.

3.4 Literature review and Hypothesis development

3.4.1 CSR and firm risk

Based on the theoretical framework, there has been a long debate regarding the relationship between CSR and firm risk (Cespa and Cestone, 2007, Godfrey et al., 2009, Hemingway and Maclagan, 2004, Lee and Faff, 2009). The literature has discussed the relationship from two perspectives. The first perspective, known as the risk mitigation view, supports stakeholder theory, while the second perspective, known as the managerial

opportunism view, supports agency theory (Bouslah et al., 2018). To provide a comprehensive understanding of the effect of CSR on firm risk, we review both perspectives and draw on the extensive literature on this topic.

3.4.1.1 Risk mitigation view

One side of the debate is based on the stakeholder theory developed by Freeman (1984), who argues that corporate managers should manage and satisfy the interests of stakeholders in order to ensure the survival of their firms and the success of their operations. Accordingly, since CSR activities can satisfy the interests of multiple stakeholders, the decision to engage in such activities provides significant benefits to the firms (Ruf et al., 2001). In other words, CSR activities fulfil the ethical, moral and social expectations of stakeholders and strategically achieve the economic expectation of shareholders. This will ensure stakeholders' approval and support, as well as their satisfaction with the firm's decisions, which in turn will allow firms to benefit from the resources provided by stakeholders and thus reduce their exposure to risk (Godfrey et al., 2009, Shankman, 1999).

More specifically, CSR investment can generate goodwill or moral capital among stakeholders, which provides 'insurance-like' protection (Godfrey, 2005). This moral capital or goodwill creates relational wealth among different groups of stakeholders in different forms, such as emotional commitment among employees; trust among partners and suppliers; legitimacy among regulators and communities; greater attractiveness for investors; and enhanced brand credibility among customers (Godfrey, 2005). In particular, the moral capital that is created by CSR will translate into a more favourable evolution of the firm in the eyes of various stakeholder groups, which mitigates any negative assessments by them. As such, engaging in CSR is considered a strategic option to enhance a firm's performance and mitigate its exposure to risk (McWilliams and Siegel, 2011).

The majority of previous studies provide empirical support for the stakeholder theory perspective by demonstrating a negative relationship between CSR and firm risk, particularly systematic and idiosyncratic risk. Concerning systematic risk, for instance, Sharfman and Fernando (2008) investigate the relationship between environmental risk management (one dimension of CSR) and the cost of equity, based on a sample of 267 US firms. They prove statistically that the risk management of environmental issues adversely affects the cost of equity through various pathways, including an increase in tax benefits and reduced systematic

risk. However, their study depends on data from a single year (i.e. 2001), which means it is limited to a cross-sectional analysis. Godfrey et al. (2009) examine 178 negative events (legal and regulatory) affecting 160 firms in the Socrates dataset from 1991 to 2002. They find that the CSR investment targeting secondary stakeholders of firms or society carried 'insurance-like' protection against firms' negative events by generating moral capital (goodwill) among stakeholders, thus mitigating their exposure to systematic risk, whereas the CSR investment that targets a firm's trading partners does not have such benefits. However, the focus on particular negative events (legal and regulatory) prevents generalised inferences concerning the effect of other uncertain events on a firm's systematic risk.

Oikonomou et al. (2012) investigate whether socially responsible firm behaviour protects firms' wealth by linking CSP and systematic risk using the KLD database for a sample of S&P 500 companies (including utilities and financial companies) between 1992 and 2009. They find an asymmetric relationship; that is, the association between CSP (strengths) and financial systematic risk is negative but weak, whereas there is a strong positive association between CSP (concerns) and such risk. In contrast to the findings of Oikonomou et al. (2012), Jo and Na (2012) find a strong negative relationship between CSR and a firm's systematic risk for a sample of 513 US firms taken from controversial industry sectors (e.g. tobacco, alcohol, gambling, firearms, biotech) between 1991 and 2010. This result is consistent with that of Godfrey et al. (2009), that CSR investment carries 'insurance-like' protection against negative actions. Therefore, since the activities of controversial industries are generally undesirable, CSR engagement can reduce their systematic risk by improving their public image and reputation.

Regarding idiosyncratic risk, Mishra and Modi (2013) investigate the effect of positive (negative) CSR on such risk for a cross-industrial sample of 192 US firms during the period 2000–2009. They find an asymmetric (unconditional) effect; that is, positive CSR is adversely related to idiosyncratic risk, while negative CSR is positively related. They also find that the adverse relationship between positive CSR and idiosyncratic risk would be stronger with a lower financial leverage ratio as a moderator, whereas the link between negative CSR and such risk would not affected by the financial leverage ratio. However, Price and Sun (2017) consider corporate social irresponsibility (CSI) to be a moderator of the relationship in relation to a sample of 562 firms from the period 2000–to 2010. Similar to the findings of Mishra and Modi (2013), they find that CSR/CSI is related to lower/higher idiosyncratic risk, which means that

there is an asymmetric relationship between them. However, they report that the effect of CSI on idiosyncratic risk is stronger and longer lasting than the effect of CSR on such risk and that firms engaging in a low level of CSR and CSI enjoy better performance than those with a high level of both.

Furthermore, some studies have considered both types of risk (systematic and idiosyncratic) together. For example, Benlemlih and Girerd-Potin (2017) investigate the relationship between CSR and firm risk using a cross-country sample of 1,169 firms from the period 2001–to 2011. In general, they find a negative relationship between CSR and both types of firm risk. However, after considering the moderating effect of the legal environment on the CSR-risk relationship, they find that while CSR is negatively correlated with idiosyncratic risk in civil law countries, this correlation does not appear in common law countries. A more detailed classification of the legal environment reveals that systematic risk and idiosyncratic risk are negatively affected by CSR only in more stakeholder-oriented and less shareholder-oriented countries. Bouslah et al. (2018) examine the effect of social performance (SP) on firm risk during the financial crisis (2008–2009) for a sample of 28,110 observations (firm-years) between 1991 and 2012. They find that SP negatively affects idiosyncratic risk, but has no effect on systematic risk, and that this negative link is significantly stronger during the financial crisis compared to the pre-crisis period. Unlike previous studies,[11] they find that the effect of SP (strength) on idiosyncratic risk is stronger than the effect of SP (concerns) on such risk during the financial crisis. However, their study is limited to one component of CSR (i.e. SP). Similarly, Benlemlih et al. (2018) find a significant negative relationship between two components of CSR (i.e. environmental and social) and idiosyncratic risk, but that these components do not affect systematic risk in a sample of 1,755 observations (firm-years) during the period 2005–2013.

To summarise, CSR engagement can build strong stakeholder relationships, that provide firms with 'insurance-like' protection (Godfrey et al., 2009); enhance their public image (Luo and Bhattacharya, 2006); make access to financial resources easier (Cheng et al., 2014); improve information transparency (Kim et al., 2012); and improve risk management (Husted, 2005, Sharfman and Fernando, 2008), which eventually enhance firms' financial performance and reduce their risk exposure. Therefore, the following hypothesis is formulated:

[11] Oikonomou et al. (2012), Mishra and Modi (2013) and Price and Sun (2017) find that the relation between CSR (concerns) and risk is stronger than that between CSR (strengths) and risk.

Hypothesis 3.1a (H3.1a): Based on the risk mitigation view, a negative relationship between CSR and firm risk measures (total, idiosyncratic, and systematic) is expected.

3.4.1.2 Managerial Opportunism View

The other side of the debate is represented by Friedman (1962), who asserts that the sole objective of corporate managers is to maximize the wealth of shareholders. As such, Friedman (1970) argues that CSR activities do not align with this objective since they waste the limited resources of corporations. In line with Friedman's view, agency theory is developed by Jensen and Meckling (1976) to argue that CSR engagement aggravates the agency problem, as it can be exploited by managers to advance their interests at expense of shareholders, since managerial behaviour stems from self-interest.

Studies supporting the managerial opportunism view of CSR activities argue that such activities could be used by managers as an entrenchment strategy to reduce the likelihood of their being replaced. For instance, Surroca and Tribó (2008) find a positive relationship between CSR and managerial entrenchment practices using the SiRi PRO^{TM} database to measure entrenchment in a sample of 358 firms in 22 countries covering the period 2002 to 2005. Similarly, Barnea and Rubin (2010) claim that managers and large block-holders are inclined to overinvest in CSR activities at the expense of remaining shareholders to enhance their reputation. They demonstrate this by linking CSR rating and ownership structure in relation to a sample of 2,278 firms, finding that insider investors (managers and large block-holders) are encouraged to overinvest in CSR activities if they incur little cost in doing so, and vice versa.

Moreover, firms, especially those in controversial industries, may use CSR activities as 'window dressing' to legitimize their questionable products. For example, the findings of Palazzo and Richter (2005) indicate that tobacco firms exploit CSR for whitewashing, or at least as a strategic approach to deflect attention from their socially undesirable products by a creating positive image through CSR practice. However, Jo and Na (2012) argue that if stakeholders perceive CSR activities as 'window dressing', they could be punished through lower valuation on the stock market or from boycotts, and thus their opportunistic engagement in CSR activities may lead to increased firm risk. This is confirmed by El Ghoul et al. (2011), who investigate the link between CSR and the cost of capital for a relatively large sample of 12,915 firm-years from different industries during the period 1992–2007. They find

a positive relationship between CSR and the cost of capital in controversial industries (i.e. tobacco and nuclear power), whereas the relation is negative in all other industries.

In addition, firms may engage in CSR activities to create an impression among stakeholders that their financial statements are credible, while in fact they are managing their earnings. For instance, Prior et al. (2008) examine the relationship between CSR and earnings management for a cross-country sample of 593 firms during the period 2002–2004. They find a positive relationship and argue that since CSR activities satisfy the interests of stakeholders, they reduce the probability of scrutiny of earnings management. They also find that the combination of CSR and earnings management has a negative effect on firms' financial performance. Similarly, Chih et al. (2008) find a positive relationship between CSR and earnings aggressiveness (a proxy for earnings management) in a multinational sample of 1,653 firms in 46 countries during the period 1993–2002. Furthermore, Muttakin et al. (2015) find that a positive relationship between CSR and earnings management exists in emerging economies, as managers exploit the weak legal and institutional characteristics in such economies to hide their opportunistic behaviour (earnings management) by engaging in CSR activities.

Other studies, however, argue that CSR activities are perceived as opportunistic behaviour when firms employ over-expenditure in relation to them. For instance, LópezPuertas-Lamy et al. (2017) find a U-shape relationship between CSR and firm risk assessment by auditors in relation to a sample of 12,330 observations over the period 2003–2012. They explain this result by showing that CSR engagement has a positive effect on firms (reducing firm risk) up to a certain point. However, the over-expenditure on CSR activities helps to level off the positive effect and turn it into a negative effect (increases firm risk) since it is perceived as opportunistic behaviour.

To summarise, CSR activities could be exploited by managers to advance their personal benefits and agendas at the expense of shareholders, and thus are considered to be a type of agency cost (Jensen and Meckling, 1976). Therefore, in light of the managerial opportunism view that stems from agency theory, the following hypothesis is formulated:

Hypothesis 3.1b (H3.1b): Based on the managerial opportunism view, a positive relationship between CSR and firm risk measures (total, idiosyncratic, and systematic) is expected.

3.4.2 The role of abnormal audit fees

Based on the audit risk model suggested by the American Institute of Certified Public Accountants (AICPA), the auditing process is a thorough understanding of clients' environment, business and industry to assess the various types of risk (Knechel, 2007). This includes understanding the incentives and opportunities that may drive managers and employees to undertake opportunistic activities (Johnstone et al., 2014). Therefore, although auditors do not directly audit non-financial disclosure (e.g., CSR disclosure), they take into consideration the risk and financial statement implications of such disclosure (Sharma et al., 2018). Watson and Mackay (2003) contend that auditors are required to consider the consequences of CSR activities because they are part of clients' strategies and controls, which affect the assessment of client risk.

Previous studies have documented that CSR activities have significant financial and reporting implications, which can affect firm valuation (Watson and Mackay, 2003, Cohen et al., 2011). An example of such implications can be seen in the uncovered cost and risk of CSR, such as decoupling activities (Hawn and Ioannou, 2016, Sauerwald and Su, 2019). These risks associated with CSR activities can affect the continuity of the firm (as a going concern) (Sharma et al., 2018). During the annual financial statement audit, therefore, external auditors must assess all client-related risks and collect a sufficient amount of audit evidence to assess these risks (Knechel, 2007). To keep the audit risk at an acceptable level, if the auditors perceive a high risk in the client assessment, they should endeavour to reduce the detection risk, which can be achieved by increasing and tightening the auditing analytical procedures (Dusenbury et al., 2000). Following these procedures means clients are charged high audit fees, because they require more effort, improved audit technological capabilities, and the involvement of skilled personnel to design effective audit procedures for detecting misstatements (Johnstone and Bedard, 2003).

Charging high audit fees in conjunction with CSR activities could also be seen as a positive signal that audit firms take into consideration the financial implications of such activities (Sharma et al., 2018, Chen et al., 2016). Therefore, audit fees are considered to be a signalling mechanism indicating that information provided by audited firms is credible (Ball et al., 2012). Previous research provides empirical evidence that firms pay higher audit fees when they perceive a lack of credibility in their CSR disclosure (Chen et al., 2016). In addition, firms are

priced higher when they issue CSR disclosure in conjunction with higher audit fees. This is because the abnormal audit fees convey a form of assured credibility of CSR disclosure and its financial implications (Sharma et al., 2018).

In summary, auditors are required to understand their client's environment, business, and strategy (Johnstone et al., 2014, Knechel, 2007). This involves assessing various types of risks, including the risks and implications of non-financial disclosure (e.g., CSR disclosure). Therefore, charging higher audit fees in relation to non-financial disclosure conveys audited credibility of such disclosure and improves firm valuation (Sharma et al., 2018, Chen et al., 2016). Accordingly, the following hypotheses are formulated:

Hypothesis 3.2a (H3.2a): When the risk mitigation view is dominant, the negative relationship between CSR and firm risk measures (total, idiosyncratic, and systematic) will be stronger when considering abnormal audit fees as a moderator.

Hypothesis 3.2b (H3.2b): When the managerial opportunism view is dominant, the positive relationship between CSR and firm risk measures (total, idiosyncratic, and systematic) will be weaker when considering abnormal audit fees as a moderator.

3.5 Research Design

3.5.1 Data and sample

To test the study hypotheses, a combined dataset is used from two main secondary sources: Bloomberg and Datastream. CSR disclosure data are collected from Bloomberg, which has been extensively used in previous research (e.g., Benlemlih et al., 2018, Harjoto et al., 2015, Malik, 2015, Qiu et al., 2016). Bloomberg adopts a comprehensive index for assessing and assigning a disclosure score for each CSR dimension (a detailed explanation is given in the following section). On the other hand, other variables including stock price and control variables are collected from Datastream, a rich database that provides a wide range of financial information.

The study sample comprises UK firms listed on the FTSE All-Share Index. This is considered the broadest index in the UK market, as it consists of around 98% of firms listed on the London Stock Exchange (LSE) (FTSE Russell, 2020). The index covers FTSE 350, which is an aggregation of FTSE 100 and FTSE 250, and the FTSE Small Cap Index. Therefore, the sample is free from the possibility of size bias (as it includes large, medium, and small firms) or

survivorship bias (as it includes both active and dead stocks that were delisted during the study sample period).

The initial sample consists of 4884 firm-year observations covering the period 2007-2017. Based on the Industry Classification Benchmark (ICB) code level 1, the sample is classified into ten industries: Telecommunications, Consumer Discretionary, Consumer Staples, Energy, Healthcare, Industrials, Basic Material, Technology, Utilities, and Financials. However, firms classified in the financial industry are excluded because it is more tightly regulated industry (Macve and Chen, 2010). In addition, since financial firms have a higher level of risk, it is difficult to generalise their results to other firms (Laeven and Levine, 2009).

The final study sample includes the firms that met the following criteria: non-financial firms covered by Bloomberg and Datastream over the period 2007-2017. Accordingly, these criteria results in an unbalanced panel dataset of 2422 non-financial observations. A Kolmogorov-Smirnov (K-S) test reveals no significant differences between the sample that lacked full data (N=4884) and that used in the analyses (N=2422), suggesting that the attrition problem is not a concern in the final sample. Appendix 3.1 presents sample selection process.

3.5.2 Variable measurement

3.5.2.1 CSR disclosure score

CSR disclosure data are collected from Bloomberg, which provides information about environment, social, and governance issues. The score for each component is assigned based on data points gathered from various sources, including standalone sustainability reports, annual reports, firm websites, and the Bloomberg survey. The weighted score of each component is scaled to range from '0' to '100' based on the extent of the CSR data disclosed. The score is designed to be industry-relevant, meaning that each firm is evaluated according to the information related to its industry. For instance, "Renewable Energy Use" is only taken into account for those firms operating in the energy sector, while this data point is not considered for those operating in the other sectors (Benlemlih et al., 2018, Buchanan et al., 2018).

The weighting of data points within each category is based on its importance. In the environment category, for example, "Green House Gas emissions" or "Gas Flaring" is more important than other data points, so they would be given more weight (Ioannou and Serafeim,

2017). Therefore, the disclosure score reflects the quantity and quality of data reported by firms, as it is calculated based on the relevant and important data points within each category.

The data points of environmental disclosure are broadly classified into "soft" and "hard" items. "Soft" items cover initiative and policies such as green building policy, energy efficiency policy, and waste reduction policy. However, "hard" items cover quantifiable data such as water/energy consumption, greenhouse gas/carbon emissions, waste recycled, and ISO certification. The social score includes issues related to quality and diversity in community spending, employment, and human rights, in addition to employee relations issues (e.g., training and development and health and welfare). Finally, the governance score covers items such as board duration, independent directors, takeover defence, shareholders' rights, and political donations (Benlemlih et al., 2018).

3.5.2.2 Firm risk measures

According to capital asset pricing, firms' total risk is divided into two categories: systematic and idiosyncratic risk (Lintner, 1965, Sharpe, 1964). In this study, both types of risks are considered. Following previous studies (e.g., Benlemlih et al., 2018, Bouslah et al., 2018, Jo and Na, 2012), the annualized standard deviation of the daily stock return is used to measure firms' total risk. On the other hand, Fama French three-factor model (FF3) (Fama and French, 1992) is employed to measure systematic and idiosyncratic risk. This model is as follows:

$$R_{it} - RF_t = \alpha_i + \beta_{im}(MR_t - RF_t) + \beta_{is}SMB_t + \beta_{ih}HML_t + \varepsilon_{it} \quad (3.1)$$

In equation 3.1, R_{it} is the stock return for firm i and day t; the stock return is calculated by using the stock price index from Datastream[12]; RF_t is the risk-free rate; MR_t is the market return (return on the FTSE All-Share Index) for day t; SMB_t is the size-based risk premium for day t; HML is the book to market risk premium for day t; and ϵ_{it} is the error term for firm i and day t.

The risk-free rate (RF), size-based risk premium (SMB), and book to market risk premium (HML) are available on the University of Exeter's website[13]. These factors are constructed by Gregory et al. (2013) for the UK market. RF is the daily return on treasury bills; SMB is the

[12] Stock return = ln ($Price_{it}$ / $Price_{it-1}$), where price according to the Datastream definition is adjusted by dividend yield and stock split.

[13] http://business-school.exeter.ac.uk/research/centres/xfi/famafrench/files/

excess between the return on portfolio of small market and large market capitalization stocks; and HML is the excess between the return on portfolios of high book-to-market and low book-to-market ratio stocks (Gregory et al., 2013). Gregory et al. (2013) use six portfolios, which include the main non-financial stocks in the UK, to construct SMB and HML for the period 1980 to 2017.

Following previous research (e.g., Benlemlih et al., 2018, Bouslah et al., 2018, Jo and Na, 2012, Luo and Bhattacharya, 2009), systematic and idiosyncratic risks are estimated for the above model using daily data. Systematic risk is the market beta (β_{im}) and idiosyncratic risk is measured as the annualized standard deviation of the residual (ϵ_{it}) (Bouslah et al., 2018, Luo and Bhattacharya, 2009).

3.5.2.3 Abnormal audit fees

Following Chen et al. (2016), the residual value of audit fees, after controlling for their determinants, is employed to measure abnormal fees. Based on the enhanced audit pricing model that is developed by Hay et al. (2006), the determinates of audit fees are as follows:

$$LNFEES_{it} = \alpha_0 + \beta_1 FSIZE_{it} + \beta_2 CRATIO_{it} + \beta_3 REV_{it} + \beta_4 INV_{it} + \beta_5 ROA_{it} + \beta_6 FLEV_{it} + \beta_7 SGROW_{it} + \beta_8 MTB_{it} + \beta_9 CASSET_{it} + \beta_{10} LOSS_{it} + + \beta_{11} EXITEM_{it} + \beta_{12} BFOUR_{it} + \beta_{13} ATEN_{it} + \sum_j \beta_j\, industry_j + \sum_t \beta_t\, year_t + \varepsilon_{it} \quad (3.2)$$

In equation 3.2, LNFEES is the natural logarithm of audit fees for firm i in year t. FSIZE denotes firm size (measured by the natural logarithm of total assets); CRATIO is the current ratio (measured by current assets to current liability); REV and INV represent the receivable to total assets and inventory to total assets respectively; ROA, FLEV, SGROW, MTB, and CASSET are the return on assets, leverage, sales growth, market-to-book ratio, and current assets to total assets, respectively; LOSS is a dummy variable with a value of 1 if the firm has made a loss in the current period and 0 otherwise; EXITEM is a dummy variable with a value of 1 if the firm has extraordinary items and 0 otherwise; BFOUR and ATEN denote auditor size (with a value of 1 if the auditor is one of the Big Four and 0 otherwise) and audit tenure (measured by the length of the client-auditor relationship). $Industry_j$ and $year_t$ are dummy variables for industry and the year fixed effect respectively. ϵ_{it} is the residual value of LNFEES for firm i and day t.

3.5.2.4 Control variables

After reviewing previous research (Benlemlih and Girerd-Potin, 2017, Benlemlih et al., 2018, Bouslah et al., 2018, Jo and Na, 2012, Salama et al., 2011), a set of control variables that influence the CSR-risk relationship are employed, namely firm size, firm age, market-to-book ratio, financial leverage, return on assets, capital expenditure, and asset growth. It is considered that these variables are essential, as they reflect firm characteristics and performance (Luo and Bhattacharya, 2009).

Firm size is measured as a natural logarithm of total assets. Larger firms have more ability and experience to manage risk, especially in uncertain situations (Jo and Na, 2012). In the same vein, firm age is measured as the natural logarithm of the number of years a firm has been incorporated, and is expected to be negatively associated with firm risk measures (Luo and Bhattacharya, 2009). With regard to the financial ratios, Price and Sun (2017) contend that firm profitability and growth are indicators of resource abundance, which leads to improved firm performance. Therefore, highly profitable and high growth firms are expected to be less risky (Jo and Na, 2012, Price and Sun, 2017). Accordingly, this essay expects a negative effect of firm size, firm age, profitability and asset growth on firm risk measures.

However, Gode and Mohanram (2003) argue that a high market-to-book ratio may reflect lower accounting conservatism and lower opportunity growth, exposing firms to more risk. Similarly, other studies have found that firm risk measures are positively affected by financial leverage and capital expenditure (Bouslah et al., 2018, Jo and Harjoto, 2014, Price and Sun, 2017). Therefore, a positive effect of market-to-book ratio, financial leverage and capital expenditure on firm risk is expected.

3.5.3 Model specification

The study objective is to examine the relationship between CSR and firm risk measures. It also aims to examine how such measures are affected when CSR disclosure takes place in conjunction with abnormal audit fees. To do so, the following models are estimated based on the ordinary least squares (OLS) approach.

$$RISK_{it} = \alpha_0 + \beta_1 CSR_{it} + \sum_k \beta_k X_{kit} + \sum_j \beta_j Industry_j + \sum_t \beta_t Year_t + \varepsilon_{it} \quad (3.3)$$

$$RISK_{it} = \alpha_0 + \beta_1 CSR_{it} + \beta_2 CSR_{it} \times ABFEES_{it} + \beta_3 ABFEES_{it} + \sum_k \beta_k X_{kit} + \sum_j \beta_j Industry_j + \sum_t \beta_t Year_t + \varepsilon_{it} \quad (3.4)$$

In equations 3.3 and 3.4, subscripts i and t represent firm *i* in year *t*; risk denotes one of three risk measures, namely total risk, idiosyncratic risk, and systematic risk. CSR is the aggregate score of the environment, social, and governance score; ABFEES represents abnormal audit fees; X_k denotes k control variables, consisting of firm size (FSZIE), firm age (FAGE), market-to-book ratio (MTB), financial leverage (FLEV), return on assets (ROA), capital expenditure (CAPEX), and asset growth (AGROW); $Industry_j$ and $Year_t$ are dummy variables for industry and *j* year *t* fixed effects respectively. To reduce the possibility of multicollinearity, the mean-centre values of CSR and ABFEES are used to obtain the interaction term in Eq. 3.4. Finally, standard errors are clustered at both firm and year levels, which correct heteroskedasticity issues and provide well-specified standard errors in the presence of cross-sectional and time series (Gow et al., 2010). Appendix 3.2 gives the definition of the variables presented in Eqs. 3.3 and 3.4.

3.6 Empirical results

3.6.1 Univariate analysis

Table 3.1 presents the distribution of firm-year observations covered by the sample across different industries, while Table 3.2 shows the descriptive statistics for all the variables in the study regression models. With regard to the risk measures, the mean (median) values of TORISK (measured by the volatility of daily return) is 0.339 (0.298), and the mean (median) values of IDRISK and BETA (measured by the FF3 model) are 0.283 (0.248) and 1.031 (1.001) respectively. These values are consistent with previous UK studies (e.g., Benlemlih et al., 2018, Salama et al., 2011). Based on Bloomberg, the CSR disclosure scores of UK firms range from 10 to 70, with an average of around 35. The values of ABFEES (estimated by the residual value of Eq. 2.2) range between -3 and 6, with an average of approximately 0.

With respect to the control variables, Table 3.2 shows that the average FSIZE (measured by the natural logarithm of total assets) is 14.536 and that this value ranges from a minimum of 11.267 to a maximum of 19.161. These values are in line with previous studies conducted in the UK setting (Al-Shaer, 2020, Benlemlih et al., 2018). FAGE in the study sample ranges from 0.778 to 4.770, with an average of 3.121. The averages of the financial indicators are 3.573 for MTB, 0.242 for FLEV, and 0.063 for ROA, with an average of 0.046 for capital expenditure to total assets and 0.075 for asset growth. These figures are also consistent with previous studies (e.g., Benlemlih et al., 2018, Salama et al., 2011).

(Insert Tables 3.1 and 3.2 here)

Table 3.3 presents the correlation matrix of coefficients among the independent variables. The results show that the correlation coefficients among the independent variables are relatively small, which clearly indicates that there is no multicollinearity problem in the specified model. In addition, the variance inflation factor (VIF) test confirms that multicollinearity is not a concern for the study models, as the values of VIF are well below 10, which is the threshold of concern (Kennedy, 2008).

(Insert Table 3.3 here)

3.6.2 Multivariate analysis

Table 3.4 presents the results of Eq. 3.3, which concern the relationship between CSR and firm risk measures. With regard to total risk, Model 1 shows a significant negative relationship between the CSR score and TORISK (β =-0.084, $p < 0.05$). In terms of economic significance, the results indicate that an increase in the CSR score of one standard deviation reduces TORISK by 0.037%[14]. This result supports H3.1a, that CSR disclosure helps build strong stakeholder relationships, increases firm transparency, and reduces information asymmetry, which in turn reduce stock price volatility (total risk). Similarly, in terms of idiosyncratic risk, Model 3 shows that IDORISK is negatively and significantly affected by CSR (β =-0.101, $p < 0.01$). This finding confirms H3.1a, that firm-specific risk (idiosyncratic risk) is negatively affected by the level of CSR disclosure. According to the economic significance, one standard deviation increase in the CSR score reduces idiosyncratic risk by 0.040%. The results also support stakeholder theory, in that CSR activities provide 'insurance-like' protection against negative actions by generating moral capital goodwill among stakeholders (Godfrey et al., 2009). However, the results presented in Model 5 fail to find a significant relationship between CSR and BETA. This finding indicates that CSR disclosure does not reduce the risk resulting from broad market changes. Accordingly, the reduction in total risk is mainly because of idiosyncratic risk.

Table 3.4 also presents the results of Eq. 3.4, which examines how the firm risk measures are affected when CSR disclosure takes place in conjunction with abnormal audit fees. Models

[14] The economic significance is calculated as follows: (SD of Y * coefficient on Y/ mean of X), i.e., (0.155*-0.084)/ 35.235 = 0.037%).

2 and 4 show that the effect of CSR*ABFEES on TORISK (β =-0.402, p < 0.01) and IDRISK (β =-0.408, p < 0.01) is negatively significant. However, the effect of CSR*ABFEES on BETA is not significant. These findings indicate that when firms have a high CSR score in conjunction with highly abnormal audit fees, they are considered to be less risky in terms of total and idiosyncratic risk. The results are consistent with the argument of Chen et al. (2016) and Sharma et al. (2018), that an increase in audit fees in conjunction with a higher CSR disclosure score sends a positive signal that the financial consequences of CSR have been taken into consideration during the auditing process. Therefore, higher audit fees support the credibility of the financial implications of CSR disclosure, reducing stock price volatility (firm risk).

Table 3.4 also demonstrates a significant relationship between several of the control variables and firm risk measures. FSIZE is significantly and negatively related to TORISK and IDRISK, but positively related to BETA. Similarly, ROA has a significant and negative effect on TORISK and IDRISK, but a positive effect on BETA. These findings are consistent with previous studies (e.g., Benlemlih et al., 2018, Bouslah et al., 2018). However, FAGE has a significant and negative effect on all firm risk measures. CAPEX is significantly and positively affected by TORISK and IDRISK and insignificantly affected by BETA.

(Insert Table 3.4 here)

3.6.3 Additional test—CSR components

Based on Bloomberg database, the CSR disclosure scores are an aggregate of three main components: environmental, social, and governance[15]. To provide a holistic view of CSR consequences and to enable comparison between CSR components, this essay examines the effect of each component on firm risk measures. Each component is tested in a separate regression to avoid the possibility of multicollinearity.

Table 3.5 (panel A) shows that ENV, SOCIAL, and GOV have a significant and negative effect on TORISK, as shown in Models 1-3, and on IDRISK, as shown in Models 5-7. Following previous studies (Benlemlih et al., 2018, Radu and Smaili, 2021), the effect of environmental and social (ES) disclosure together on firm risk measures is also examined. Models 5 and 8 show that ES is negatively related to TORISK and IORISK. Interestingly, Model 12 shows that ES also has a negative and significant effect on BETA (β =-0.170, p < 0.05). With regard to the

[15] For more details of CSR components, see section 2.3.2.1, CSR disclosure scores.

moderating effect of ABFEES, Table 3.5 (panel B) shows that it negatively moderated the effect of ENV (Model 1) and SOCIAL (Model 2) on TORISK at the 5% level. However, Model 3 shows that the effect of GOV*ABFEES on TORISK is insignificant. That means that GOV and ABFEES work as substitutes for each another in mitigating TORISK. Similarly, Models 5 and 6 demonstrate negative interaction terms between ENV*ABFEES and SOCIAL *ABFEES on IDRISK at the 5% level respectively. However, the interaction term between GOV*ABFEES has a negative effect on IDRISK at the 10% level. Interestingly, ABFEES negatively moderates the relationship between ES and all firm risk measures (TORISK in Model 4, IDRISK in Model 8, and BETA in Model 12).

(Insert Table 3.5 here)

3.6.4 Robustness check

3.6.4.1 Accounting for endogeneity issues

The endogeneity problem is one of most important concerns in the study of CSR and firm risk, leading to inconsistent and biased results (e.g., Bouslah et al., 2018, Price and Sun, 2017). The problem arises when the dependent variable is affected by explanatory variables, while affecting one or more of the explanatory variables (Abdallah et al., 2015). Such a situation could be dynamic if values of the dependent variable in period (t-1) affect one or more values of the explanatory variables in period (t). However, it would be a simultaneous type if the values of both the dependent variable and the explanatory variables in period (t) influence each other (Abdallah et al., 2015). The endogeneity problem could also arise if the explanatory variables are correlated with the error term, as a result of omission (unobservable) of some explanatory variables (Abdallah et al., 2015).

To correct for the potential of the endogeneity problem, Eqs. 3.3 and 3.4 are re-estimated using the two-step system Generalized Method of Moments (GMM), a method developed by Blundell and Bond (1998) and Arellano and Bover (1995). The two-step system GMM estimator overcomes the limitations of traditional methods (e.g., Ordinary Least Squares (OLS) and Fixed Effect), controlling endogeneity problems (i.e., unobservable, dynamic, and simultaneous ones) and correcting panel dataset problems (i.e., heteroscedasticity and autocorrelation) (Bouslah et al., 2018). Therefore, the two-step system GMM estimator provides consistent, valid, and unbiased results.

The results reported in Table 3.6 are consistent with those presented in Table 3.4, which thus provide confidence in the study results. In addition, all the specification tests in Table 3.6 for first and second serial correlation and the Hansen test are passed. Wintoki et al. (2012) argue that (AR1) and (AR2) refer to serial correlation; first serial correlation (AR1) should be detected, but second serial correlation (AR2) should not. The results in this study are consistent with these arguments, shown by the fact that the p-value of AR (1) is significant for all regressions and the p-value of AR (2) is not significant in any regressions. In addition, the p-value of the Hansen test is insignificant (the null hypothesis is accepted), which means that the instrumental variables used in Eq. 3.3 and Eq. 3.4 are valid.

(Insert Table 3.6 here)

3.6.4.2 Alternative model specification

To make sure that the results are not driven by particular measures, the GMM model is re-estimated by using alternative variable measurements. First, the firm risk is re-estimated by using Capital Asset Pricing Model (CAPM). This model is as follows:

$$R_{it} - RF_t = \alpha_i + \beta_{im}(MR_t - RF_t) + \varepsilon_{it} \quad (3.5)$$

In Equation 3.5, R_{it} is the stock return for firm i on day t, the stock return was calculated by using stock price index from Datastream[16]. RF_t is the risk-free rate, β_{im} denotes to systematic risk, MR_t is the market return (return on the FTSE all-share index) for day t. ϵ_{it} is the error term for firm i and day t (idiosyncratic risk).

Second, following to Lobo et al. (2018), abnormal audit fees is re-calculated as a binary variable that is equal "1" if ratio of audit fees to client revenue is above median of industry-year sample, and "0" otherwise. Finally, a different industry classification is used, which is the Bloomberg Industry Classification Systems (BICS). The results reported in Table 3.7 are consistence with those presented in Tables 3.4 and 3.6, which provide more robustness to the study results. In addition, Table 3.7 shows that the alterative regressions are valid since first serial correlation test (AR1), second serial correlation test (AR 2) and instrumental variables test (Hansen test) are passed.

(Insert Table 3.7 here)

[16] Stock return = ln ($Price_{it}$ / $Price_{it-1}$), where the price according to the Datastream definition is adjusted by dividend yield and stock split.

3.7 Discussion and conclusion

Research on CSR activities is mostly based on either agency or stakeholder theory in its explanation of the consequences of such activities. According to agency theory, managers may opportunistically exploit CSR activities for entrenchment purposes, to create a positive impression on stakeholders, or to hide misconduct (e.g., earnings management) (Cespa and Cestone, 2007, Prior et al., 2008). On the other hand, stakeholder theory predicts that CSR disclosure improves (or reduces) firm performance (firm risk) by building a strong relationship with stakeholders, reducing information asymmetry, and increasing transparency (Godfrey et al., 2009, Kim et al., 2012).

Accordingly, agency and stakeholder theory have been reviewed together to examine the relationship between CSR disclosure and firm risk measures. Given that voluntary disclosure gains more credibility if it is issued in conjunction with the payment of higher audit fees (Ball et al., 2012, Chen et al., 2016, Sharma et al., 2018), the study has also examined how risk measures are affected when CSR disclosure takes place in conjunction with abnormal fees. Based on UK firms listed on the FTSE All-Share Index over the period 2007-2017, the results show a negative relationship between CSR disclosure and two out of three firm risk measures (total risk and idiosyncratic risk). The results are consistent with previous studies, showing that CSR is negatively related with idiosyncratic risk, but not with systematic risk (e.g., Benlemlih and Girerd-Potin, 2017, Jo and Na, 2012). The results also support stakeholder theory, in that CSR activities provide 'insurance-like' protection against negative actions by generating moral capital goodwill among stakeholders (Godfrey et al., 2009). In addition, the study finds that abnormal audit fees negatively moderate the relationship between CSR and firm risk. This is consistent with Sharma et al. (2018) and Chen et al. (2016), who also find that charging higher audit fees conveys a sort of assured credibility of CSR disclosure. The study's findings complement previous studies (Benlemlih et al., 2018, Bouslah et al., 2018), as it also demonstrates that environmental disclosure has a negative effect on all risk measures. However, social and governance measures are negatively associated with only total and idiosyncratic risk.

Based on the above results and contributions, important implications are provided from both theoretical and practical perspectives. With regard to the former, the study contributes to stakeholder theory by showing the importance of CSR credibility in improving the

stakeholder-firm relationship. Therefore, a lack of CSR credibility could explain why previous studies have failed to find consistent relationships between CSR and firm performance (e.g., Price and Sun, 2017, Prior et al., 2008). This study also provides evidence that the credibility of voluntary disclosure is essential to reap associated benefits. CSR credibility could be achieved by the existence of a moderating variable (abnormal audit fees) in conjunction with the issuing of CSR disclosure. This finding suggests that understanding the CSR mechanism significantly strengthens the firm-stakeholder relationship.

With regard to practical implications, the results could benefit managers by showing the effect of each CSR component on firm risk measures. It is demonstrated that stakeholders give environmental issues special attention since they have a great effect on all types of firm risk. Therefore, managers have clear disclosure of their environmental activities. In addition, the results also show that CSR activities could be strategic options used by managers to manage firm risk, which ultimately improves firm performance (Eccles et al., 2014, Flammer, 2015). The findings could also benefit investors by providing a mechanism to evaluate the credibility of CSR disclosure, by showing that charging higher audit fees in conjunction with issuing CSR disclosure means that external auditors take the financial implications of the disclosure into consideration.

Although the study provides important implications and contributions, it suffers from some limitations that could be covered by future research. First, the risk measures used are restricted to financial ones. Therefore, further research could establish a complete view of firm risk by using alternative types of risk, such as accounting risk and implied volatility (IV) measures. Second, due to the limitations of databases, only Bloomberg CSR disclosure scores are used. Future research could strengthen the results by using alternative measures of CSR disclosure. Third, the study sample is restricted to UK firms, which limits generalization of the results. In addition, Benlemlih and Girerd-Potin (2017) state that each geographic area has different characteristics that may affect the CSR-firm risk relationship. Therefore, future research could employ an international sample, which would provide a more comprehensive view of the relationship.

Table 3.1 Sample distribution

Industry	Freq.	%
Basic Materials	264	10.90
Consumer Discretionary	749	30.92
Consumer Staples	219	9.04
Energy	129	5.33
Health Care	103	4.25
Industrials	699	28.86
Telecommunications	68	2.81
Utilities	93	3.84
Technology	98	4.05
Total	2422	100 %

This table presents the sample distribution across different industries in terms of available firm years and their percentage in final sample.

Table 3.2 Descriptive statistics

	Obs.	Mean	Median	SD	Min	Max
TORISK	2422	0.339	0.298	0.155	0.150	1.403
IDRISK	2422	0.283	0.248	0.138	0.113	1.377
BETA	2422	1.031	1.001	0.392	-0.749	2.552
CSR	2422	35.230	33.471	10.860	10.331	70.954
ABFEES	2422	-0.005	0.114	0.835	-3.578	6.230
FSIZE	2422	14.536	14.366	1.479	11.267	19.161
FAGE	2422	3.121	3.004	0.825	0.778	4.770
MTB	2422	3.573	2.491	6.007	-17.607	40.982
FLEV	2422	0.242	0.229	0.178	0.000	1.014
ROA	2422	0.063	0.058	0.084	-0.609	0.337
CAPEX	2422	0.046	0.031	0.046	0.000	0.245
AGROW	2422	0.075	0.050	0.181	-0.602	1.028

This table displays descriptive statistics for the variables. The variables are as defined in Appendix 3.2. All continuous variables are winsorized at 1% and 99% levels to adjust for outliers.

Table 3.3 Correlation matrix

	VIF	CSR	ABFEES	FSIZE	FAGE	MTB	FLEV	ROA	CAPEX	AGROW
CSR	1.72	1.000								
ABFEES	1.02	0.009	1.000							
FSIZE	1.87	0.629*	0.007	1.000						
FAGE	1.10	0.059*	-0.017	-0.004	1.000					
MTB	1.07	0.005	0.080*	-0.076*	-0.061*	1.000				
FLEV	1.12	0.117*	0.032	0.243*	-0.189*	0.035	1.000			
ROA	1.21	-0.107*	0.106*	-0.229*	-0.106*	0.232*	-0.112*	1.000		
CAPEX	1.11	-0.002	0.007	-0.020	-0.193*	0.015	0.024	0.144*	1.000	
AGROW	1.15	-0.077*	0.071*	0.026	-0.077*	0.022	-0.053*	0.223*	0.247*	1.000

This table displays the Pearson's correlation matrix of coefficient among the independent variables. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The variables definition are presented in Appendix 3.2. * represents statistical significant at $p < 0.05$.

Table 3.4 CSR disclosure, risk measures, and abnormal audit fees

	Total Risk		Idiosyncratic risk		Systematic risk	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
CSR	-0.084**	-0.103***	-0.101***	-0.092**	-0.010	-0.333***
	(-2.56)	(-2.72)	(-3.07)	(-2.49)	(-0.12)	(-3.00)
ABFEES		-0.671**		-0.177		-1.029
		(-1.99)		(-0.59)		(-0.24)
CSR*ABFEES		-0.402***		-0.408***		-0.141
		(-2.60)		(-2.77)		(-1.09)
FSIZE	-2.204***	-1.553***	-3.468***	-2.574***	8.228***	4.612***
	(-9.50)	(-6.28)	(-14.31)	(-11.03)	(12.28)	(5.40)
FAGE	-1.974***	-1.399***	-1.961***	-1.569***	-1.919**	-0.145
	(-6.05)	(-3.68)	(-6.15)	(-4.30)	(-2.14)	(-0.14)
MTB	-0.114***	-0.078**	-0.097**	-0.072**	0.070	-0.165
	(-2.69)	(-2.09)	(-2.09)	(-1.98)	(0.66)	(-1.42)
FLEV	10.000***	1.532	11.500***	2.052	-4.996	0.483
	(4.88)	(0.83)	(5.39)	(1.19)	(-1.07)	(0.09)
ROA	-54.798***	-41.617***	-59.012***	-45.073***	13.152*	24.339**
	(-15.45)	(-10.06)	(-14.85)	(-11.06)	(1.69)	(2.27)
CAPEX	0.170***	0.244***	0.185***	0.249***	0.022	0.103
	(3.24)	(3.75)	(3.47)	(3.96)	(0.15)	(0.57)
AGROW	-6.060***	-5.353***	-5.710***	-4.838***	4.404	1.706
	(-3.85)	(-3.23)	(-3.44)	(-3.14)	(1.23)	(0.36)
Constant	79.824***	67.775***	93.079***	77.314***	-15.613*	45.589***
	(27.19)	(20.65)	(29.42)	(24.85)	(-1.82)	(4.04)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2422	2422	2422	2422	2422	2422
Adjusted R^2	0.491	0.496	0.467	0.437	0.177	0.152
F statistic *P* value	0.000	0.000	0.000	0.000	0.000	0.000

This table presents the relationship between CSR and firm risk measures, and how this relationship is affected by abnormal audit fees, using two-way cluster method. The variables definitions and measures are reported in appendix 3.2. All variables are winsorized at level 1% and 99%, except the CSR disclosure score, to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t* statistics reported in parentheses are clustered by firm and year based on Petersen (2009) approach.

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

Table 3.5 CSR disclosure, risk measures, and abnormal audit fees

Panel A	Total risk				Idiosyncratic risk				Systematic risk			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
ENV	-0.050**				-0.051**				-0.216***			
	(-2.38)				(-2.49)				(-2.96)			
SOCIAL		-0.052**				-0.071***				0.016		
		(-1.99)				(-2.80)				(0.23)		
GOC			-0.204***				-0.239***				0.076	
			(-4.45)				(-5.28)				(0.62)	
ES				-0.061**				-0.071**				-0.170**
				(-1.97)				(-2.33)				(-1.98)
FSIZE	-1.970***	-2.403***	-2.037***	-2.266***	-3.070***	-3.550***	-3.193***	-3.428***	8.653***	7.660***	8.027***	8.243***
	(-11.15)	(-11.89)	(-9.47)	(-9.98)	(-17.83)	(-18.00)	(-15.10)	(-15.45)	(11.36)	(11.46)	(11.06)	(10.88)
FAGE	-1.659***	-2.025***	-1.954***	-1.890***	-1.569***	-1.938***	-1.858***	-1.767***	-1.905**	-2.153**	-2.062**	-2.259**
	(-5.92)	(-6.10)	(-6.01)	(-5.73)	(-5.87)	(-6.11)	(-6.02)	(-5.63)	(-2.00)	(-2.32)	(-2.25)	(-2.39)
MTB	-0.125***	-0.115***	-0.112***	-0.119***	-0.129***	-0.114***	-0.111***	-0.119***	0.108	0.083	0.079	0.098
	(-3.55)	(-2.72)	(-2.64)	(-2.79)	(-3.67)	(-2.70)	(-2.61)	(-2.77)	(0.96)	(0.74)	(0.71)	(0.88)
FLEV	5.836***	9.598***	10.096***	10.081***	6.867***	10.674***	11.072***	11.222***	-7.041	-5.803	-4.777	-6.290
	(3.87)	(4.63)	(4.96)	(4.86)	(4.72)	(5.21)	(5.52)	(5.48)	(-1.24)	(-1.04)	(-0.87)	(-1.11)
ROA	-44.716***	-54.490***	-54.068***	-53.769***	-45.762***	-56.494***	-55.914***	-55.697***	11.099	12.221	10.994	11.225
	(-17.01)	(-14.95)	(-15.45)	(-13.93)	(-17.99)	(-15.53)	(-16.05)	(-14.48)	(1.11)	(1.35)	(1.27)	(1.13)
CAPEX	0.180***	0.196***	0.173***	0.197***	0.187***	0.207***	0.188***	0.205***	0.055	0.052	0.049	0.054
	(4.08)	(3.65)	(3.30)	(3.74)	(4.36)	(3.93)	(3.69)	(3.97)	(0.34)	(0.34)	(0.32)	(0.34)
AGROW	-5.162***	-5.960***	-6.282***	-7.275***	-4.706***	-5.703***	-6.021***	-6.997***	4.613	4.008	4.204	4.420
	(-4.22)	(-3.72)	(-4.04)	(-4.64)	(-3.96)	(-3.60)	(-3.92)	(-4.54)	(1.19)	(1.06)	(1.14)	(1.14)
Constant	73.199***	81.714***	85.907***	79.089***	83.263***	93.093***	98.723***	90.196***	-16.029	-6.866	-16.823*	-9.147
	(29.58)	(28.91)	(29.66)	(26.48)	(34.72)	(33.45)	(34.74)	(30.84)	(-1.52)	(-0.76)	(-1.93)	(-0.90)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2422	2422	2422	2422	2422	2422	2422	2422	2422	2422	2422	2422
Adjusted R^2	0.518	0.495	0.494	0.487	0.490	0.475	0.480	0.460	0.166	0.164	0.168	0.164
F statistic *P* value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Panel B	Total risk				Idiosyncratic risk				Systematic risk			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12

ENV	-0.065**				-0.054**				-0.284***			
	(-2.28)				(-2.00)				(-3.17)			
SOCIAL		-0.002				-0.004				-0.147*		
		(-0.08)				(-0.17)				(-1.66)		
GOC			-0.184***				-0.192***				-0.126	
			(-3.82)				(-4.12)				(-0.81)	
ES				-0.059**				-0.056**				-0.300***
				(-1.97)				(-1.98)				(-2.90)
ENV*ABFEES	-0.283**				-0.294**				-0.080			
	(-2.19)				(-2.38)				(-0.79)			
SOCIAL*ABFEES		-0.193**				-0.180**				-0.217		
		(-2.03)				(-2.17)				(-0.71)		
GOV*ABFEES			-0.229				-0.313*				0.112	
			(-1.31)				(-1.96)				(0.66)	
ES*ABFEES				-0.286**				-0.291**				-0.219*
				(-2.27)				(-2.45)				(-1.81)
ABFEES	-0.864**	-0.667*	-0.624*	-0.825***	-0.381	-0.209	-0.139	-0.364	-4.254*	-5.756***	-12.273	0.705
	(-2.53)	(-1.96)	(-1.85)	(-2.61)	(-1.29)	(-0.76)	(-0.48)	(-1.32)	(-1.81)	(-5.11)	(-1.32)	(0.20)
FSIZE	-1.612***	-1.987***	-1.517***	-1.649***	-1.567***	-2.714***	-2.471***	-2.486***	4.604***	3.462***	3.295***	4.526***
	(-6.79)	(-9.19)	(-6.99)	(-6.88)	(-7.13)	(-13.97)	(-12.07)	(-11.80)	(5.34)	(4.54)	(3.91)	(5.37)
FAGE	-1.519***	-1.540***	-1.435***	-1.573***	-1.521***	-1.507***	-1.570***	-1.668***	0.059	-0.303	-0.567	-0.109
	(-3.92)	(-4.00)	(-3.79)	(-4.05)	(-4.45)	(-4.78)	(-4.42)	(-5.17)	(0.05)	(-0.28)	(-0.53)	(-0.10)
MTB	-0.072*	-0.089**	-0.081**	-0.084**	-0.075**	-0.064*	-0.073**	-0.072**	-0.121	-0.180	-0.196*	-0.113
	(-1.90)	(-2.36)	(-2.16)	(-2.22)	(-2.08)	(-1.81)	(-2.00)	(-2.03)	(-1.03)	(-1.52)	(-1.66)	(-0.96)
FLEV	1.939	1.689	1.853	2.297	2.301	-0.462	2.458	3.078*	1.471	0.766	1.962	1.954
	(1.05)	(0.91)	(1.00)	(1.24)	(1.31)	(-0.27)	(1.43)	(1.86)	(0.25)	(0.13)	(0.33)	(0.32)
ROA	-41.459***	-42.239***	-41.586***	-38.212***	-34.770***	-65.343***	-44.732***	-37.872***	29.212***	25.540**	22.978**	23.526**
	(-9.88)	(-10.33)	(-10.15)	(-9.81)	(-11.37)	(-13.28)	(-11.25)	(-12.43)	(2.63)	(2.33)	(2.11)	(2.28)
CAPEX	0.220***	0.256***	0.259***	0.217***	0.219***	0.263***	0.265***	0.218***	0.117	0.153	0.143	0.168
	(3.44)	(3.85)	(3.95)	(3.39)	(3.74)	(4.48)	(4.18)	(3.88)	(0.61)	(0.80)	(0.75)	(0.89)
AGROW	-5.640***	-4.894***	-5.363***	-5.299***	-4.883***	-3.832**	-4.900***	-4.450***	1.121	2.906	3.076	0.973
	(-3.45)	(-2.92)	(-3.20)	(-3.24)	(-3.23)	(-2.55)	(-3.13)	(-3.11)	(0.22)	(0.57)	(0.61)	(0.19)
Constant	66.862***	70.910***	74.082***	67.424***	65.573***	76.117***	83.337***	73.882***	39.543***	56.333***	61.210***	43.756***
	(19.04)	(23.03)	(23.94)	(20.24)	(21.50)	(28.00)	(28.40)	(25.31)	(3.22)	(5.10)	(5.53)	(3.82)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
industry fixed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

effect												
Observations	2422	2422	2422	2422	2422	2422	2422	2422	2422	2422	2422	2422
Adjusted R^2	0.498	0.492	0.497	0.512	0.443	0.462	0.443	0.459	0.148	0.144	0.142	0.148
F statistic *P* value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

This table presents the relationship between CSR's components and firm risk measures, and how this relationship is affected by abnormal audit fees, using two-way cluster method. The variables definitions and measures are reported in appendix 3.2. All variables are winsorized at level 1% and 99%, except the CSR disclosure score, to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t* statistics reported in parentheses are clustered by firm and year based on Petersen (2009) approach.
* p < 0.1, ** p < 0.05, *** p < 0.01

Table 3.6 CSR disclosure, risk measures, and abnormal audit fees (GMM estimation)

	Total risk		Idiosyncratic risk		Systematic risk	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
CSR	-0.071**	-0.094**	-0.239***	-0.078*	-0.230	-0.291*
	(-2.07)	(-2.07)	(-2.83)	(-1.94)	(-1.41)	(-1.85)
ABFEES		-0.189		-0.102		-2.415
		(-0.53)		(-0.33)		(-1.61)
CSR*ABFEES		-0.486***		-0.458***		-2.296
		(-2.91)		(-2.64)		(-1.02)
FSIZE	-1.297***	-0.970***	-1.258***	-1.494***	1.186	2.160
	(-5.42)	(-3.18)	(-3.04)	(-5.13)	(1.06)	(1.51)
FAGE	-1.263***	-0.697	-1.008**	-0.701	-2.252	-1.689
	(-2.97)	(-1.36)	(-2.41)	(-1.48)	(-1.29)	(-1.19)
MTB	-0.034	-0.042	-0.031	-0.054	0.032	-0.089
	(-0.94)	(-1.33)	(-0.71)	(-1.55)	(0.28)	(-0.91)
FLEV	6.952***	3.748	6.727***	4.115*	4.257	3.154
	(3.00)	(1.53)	(2.94)	(1.89)	(0.59)	(0.47)
ROA	-38.092***	-25.293***	-37.880***	-26.566***	7.204	6.042
	(-10.64)	(-4.62)	(-10.16)	(-5.13)	(0.54)	(0.50)
CAPEX	0.238***	0.263***	0.236***	0.252***	0.117	0.454*
	(4.85)	(4.42)	(4.84)	(4.05)	(0.60)	(1.89)
AGROW	-4.993***	-4.705***	-6.138***	-3.863**	6.489	6.312
	(-3.55)	(-2.79)	(-4.27)	(-2.32)	(1.31)	(1.34)
$TORISK_{t-1}$	43.024***	34.138***				
	(11.33)	(6.60)				
$IDRISK_{t-1}$			41.863***	35.640***		
			(10.15)	(6.26)		
$BETA_{t-1}$					60.968***	47.334***
					(7.52)	(6.37)
Constant	43.058***	35.820***	61.630***	58.812***	22.846*	4.068

	(10.29)	(6.96)	(11.54)	(10.43)	(1.69)	(0.21)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2243	2243	2243	2243	2243	2243
F statistic *p* value	0.000	0.000	0.000	0.000	0.000	0.000
AR1 statistic *p* value	0.000	0.000	0.000	0.000	0.000	0.000
AR2 statistic *p* value	0.800	0.179	0.533	0.193	0.182	0.101
Hansen test of overid restrictions *p* value	0.458	0.208	0.216	0.195	0.175	0.146

This table presents the relationship between CSR's components and firm risk measures, and how this relationship is affected by abnormal audit fees, using GMM method. The variables definitions and measures are reported in appendix 3.2. All variables are winsorized at level 1% and 99%, except the CSR disclosure score, to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t* statistics reported in parentheses are clustered by firm and year based on White (1980) approach.

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

Table 3.7 CSR disclosure, risk measures, and abnormal audit fees (alternative measurements)

	Total risk		Idiosyncratic risk		Systematic risk	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
CSR	-0.065**	-0.108**	-0.234**	-0.156***	-0.159	-0.333
	(-1.98)	(-2.08)	(-2.52)	(-2.72)	(-1.09)	(-1.28)
ABFEES		3.823		4.193		-33.019
		(1.50)		(1.60)		(-1.17)
CSR*ABFEES		-0.124*		-0.147*		0.861
		(-1.66)		(-1.88)		(1.07)
FSIZE	-1.488***	-1.068***	-1.336***	-1.866***	5.538***	4.936***
	(-5.67)	(-3.37)	(-2.83)	(-5.01)	(3.65)	(3.45)
FAGE	-1.375***	-0.949**	-1.063**	-1.239**	-3.000	-3.208
	(-3.16)	(-2.17)	(-2.43)	(-2.50)	(-1.41)	(-1.57)
MTB	-0.026	-0.039	-0.043	-0.041	0.201	0.164
	(-0.70)	(-1.06)	(-0.97)	(-0.79)	(1.54)	(1.23)
FLEV	7.944***	8.146***	7.587***	8.567***	0.494	0.817
	(3.31)	(3.20)	(3.14)	(3.07)	(0.07)	(0.11)
ROA	-39.316***	-34.311***	-36.136***	-43.207***	11.775	9.867
	(-10.15)	(-9.26)	(-8.87)	(-7.79)	(0.76)	(0.65)
CAPEX	0.173***	0.193***	0.145**	0.221***	0.583**	0.416
	(2.97)	(3.17)	(2.39)	(2.83)	(2.14)	(1.55)
AGROW	-4.506***	-6.376***	-6.054***	-6.975***	1.703	0.278
	(-3.33)	(-4.25)	(-4.11)	(-4.56)	(0.27)	(0.04)
$TORISK_{t-1}$	41.722***	42.893***				
	(10.96)	(11.07)				
$IDRISK_{t-1}$			41.483***	32.817***		
			(10.28)	(4.92)		
$BETA_{t-1}$					58.615***	54.991***
					(6.12)	(5.72)
Constant	56.071***	49.438***	71.624***	63.376***	-55.690***	-34.741*

	(12.25)	(10.58)	(12.34)	(7.85)	(-3.33)	(-1.94)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2282	2282	2282	2282	2282	2282
F statistic *p* value	0.000	0.000	0.000	0.000	0.000	0.000
AR1 statistic *p* value	0.000	0.001	0.000	0.001	0.000	0.000
AR2 statistic *p* value	0.574	0.516	0.793	0.535	0.112	0.215
Hansen test of overid restrictions *p* value	0.581	0.184	0.173	0.144	0.125	0.147

This table presents the relationship between CSR's components and firm risk measures, and how this relationship is affected by abnormal audit fees, using GMM method. The variables definitions and measures are reported in appendix 3.2. All variables are winsorized at level 1% and 99%, except the CSR disclosure score, to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t* statistics reported in parentheses are clustered by firm and year based on approach White (1980).

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

Appendix 3.1 Sample selection process

	Freq.	%
Firms listed on FTSE All-Share Index from 2007-2017	4884	100
Less		
Financial firms	212	4.34
Observations with missing main variables	2250	46.07
Final sample	2422	49.60

Appendix 3.2 Definition of the variables

Variables	Measure
Total risk (TORISK)	The annualised standard deviation of daily stock return
Idiosyncratic risk (IDRISK)	The annualised standard deviation of residuals from estimating Eq. 2.1
Systematic risk (BETA)	The market beta from estimating Eq. 2.1
CSR	The aggregate value of ESG disclosure from Bloomberg
Environment (ENV)	The environment disclosure score from Bloomberg
Social	The social disclosure score from Bloomberg
Governance (GOV)	The governance disclosure score from Bloomberg
Abnormal audit fees (ABFEES)	The residual value from estimating Eq. 2.2
Firm size (FSIZE)	The natural logarithm of total assets
Firm age (FAGE)	The natural logarithm of years since a firm was incorporated
Market-to-Book (MTB)	The Market value of equity divided by the Book value of equity
Financial leverage (FLEV)	The long-term debt to total assets.
Return on asset (ROA)	The income from operating to total assets.
Capital expend. (CAPEX)	The capital expenditure to total assets
Asset growth (AGROW)	The change of total asset by total assets in t-1

All variables are winsorized at level 1% and 99%, except CSR and dummy variables to adjust for outliers.

CHAPTER Four

The Influence of Strategic Shareholders on the Relationship between CEO Entrenchment and CSR Decoupling

4.1 Brief summary

This essay examines the role of entrenched CEOs in CSR decoupling engagement and the role of strategic shareholders in mitigating such decoupling. This essay is based on a social-political perspective in which the manager may tend to decouple policies and practices to meet stakeholders' expectations and thereby gain political ground. In line with this perspective, this essay finds that entrenched CEOs play a significant role in decoupling between CSR disclosure and performance in order to protect their political interest. This relationship is stronger when firms face high pressures, such as those operating in CSR-intensive industries, and after CSR reporting became mandatory. However, the essay finds that the ability of entrenched CEOs to engage in CSR decoupling is mitigated by the presence of strategic shareholders (institutional and family).

4.2 Introduction

The level of investment in corporate social responsibility (CSR) has dramatically increased in a bid to enhance stakeholder relations[17], following the recent shift of focus from shareholder-oriented to stakeholder-oriented performance (Hillman and Keim, 2001, Van Marrewijk et al., 2004). Such a shift in the focus and growth of CSR performance is expected to improved reputation and financial performance (Pham and Tran, 2020); to insure against risk (Benlemlih et al., 2018); and to reduce the cost of capital (Dhaliwal et al., 2014). However, reaping these benefits is contingent on external stakeholders' awareness of a firm's CSR performance (Du and Wu, 2019). Therefore, CSR reporting is used to communicate a firm's socially responsible activities to external actors (Crane and Glozer, 2016). Given the importance of CSR reporting (Clarkson et al., 2011, Tata and Prasad, 2015) and the consequences of corporate social irresponsibility (CSI)[18] (Lyon and Maxwell, 2011, Marek and Zasuwa, 2020), some firms may decide to manage stakeholders' impression by decoupling CSR reporting from

[17] Fortune 500 companies spend more than 15 billion dollars each year on CSR activities. https://www.ft.com/content/95239a6e-4fe0-11e4-a0a4-00144feab7de#comments-anchor

[18] For instance: consumers punish socially irresponsible firms by boycotting their products, which can reach a level of 30% in high social capital countries (Marek and Zasuwa, 2020).

actual CSR performance (CSR decoupling) (Kim and Lyon, 2015, Tashman et al., 2019). As such, CSR decoupling, defined as "the gap between how firms communicate about CSR and what firms do in terms of CSR" (Sauerwald and Su, 2019, p. 294), can have a significant effect on stakeholders by misleading them into making wrong decisions (Pope and Wæraas, 2016). Therefore, understanding what influences CSR decoupling, is a crucial research phenomenon worthy of investigation.

Previous literature has so far focused on external factors in explaining the causes of CSR decoupling (Marquis and Qian, 2014, Surroca et al., 2020) . However, internal factors that could influence the process remain largely unknown. Entrenched CEOs may conspicuously engage in CSR decoupling to avoid the potential problem of being seen as socially irresponsible and thus protect their power. This is because such CEOs do not prioritise CSR activities, as they are costly (Wickert et al., 2016) and conflict with their short-term return targets (Qiu et al., 2016). According to Westphal and Zajac (2001), CEO characteristics could play a role in decoupling decisions. They find that firms with entrenched CEOs tend to decouple repurchase stock policy from actual practice to maintain a high level of free cash flow. Accordingly, based on the socio-political perspective on decoupling, this study examines whether or not CEO entrenchment influences CSR decoupling engagement.

Entrenched CEOs may opportunistically engage in CSR decoupling when actual CSR performance falls below the desired CSR outcome (Deegan, 2002) in order to consolidate their power. Given this possibility, it is therefore crucial to proactively monitor such behaviour by implementing corporate governance mechanisms (Daily et al., 2003). Previous research has shown that active board monitoring can reduce the self-serving activities of managers (e.g., Hambrick et al., 2015, Neville et al., 2019). However, to conduct effective monitoring, governors have to be capable and motivated (Hillman and Dalziel, 2003). Shleifer and Vishny (1997) contend that larger shareholders have greater monitoring capabilities and incentives due to the fact that such monitoring is costly and larger shareholders are more affected by opportunistic managerial decisions. Based on Shleifer and Vishny (1997) argument, this study proposes two proxies of large shareholder, institutional and family, as moderators of entrenched CEOs' tendencies to engage in CSR decoupling. Based on Datastream, these large shareholders are defined as strategic ones because they can exert a strong influence on managerial decisions and thus constrain the opportunistic decisions of CEOs (Buchanan et al.,

2018). The study, therefore, examines how strategic shareholders influence the relationship between CEO entrenchment and CSR decoupling.

Based on empirical evidence from UK firms listed on the FTSE All-Share Index during the period 2007-2017, this study finds a significantly positive association between CEO entrenchment and CSR decoupling. However, strategic shareholders (proxied by institutional and family) negatively moderate the association. The results further show that such positive associations are stronger when firms are facing high institutional pressures, such as those operating in CSR-intensive industries, and after CSR reporting became mandatory. The results also are robust to endogeneity and alternative measures.

The study makes several important contributions. First, it contributes to research on decoupling by exploring the potential influence of CSR decoupling based on the socio-political perspective (Westphal and Zajac, 1998). Previous research has explored CSR decoupling decisions based on institutional theory (Hawn and Ioannou, 2016, Kim and Lyon, 2015, Tashman et al., 2019) and CEOs' cognitive biases (Sauerwald and Su, 2019). However, little is known about whether a CEO's interest in staying in power directly accounts for CSR decoupling. This study fills this gap and demonstrates that entrenched CEOs engage in CSR decoupling to protect their power by avoiding institutional pressures. Second, the study contributes to corporate governance research by investigating the importance of external governance mechanisms in reducing CSR decoupling. Previous studies have shown that directors and financial analysts who are experts in CSR can mitigate the symbolic actions of CSR (García-Sánchez et al., 2020, Sauerwald and Su, 2019). Finally, this study contributes to the literature by considering the importance of strategic shareholders in mitigating CSR decoupling.

The remainder of the study is structured as follows. Section 4.2 provides the theoretical framework of the study. Section 4.3 is the literature review and hypothesis development, which discusses CSR decoupling and its relationship with CEO entrenchment. Section 4.4 describes the sample and empirical methods used in the study. Section 4.5 presents the empirical findings, and the final Section 4.6 comprises the discussion and conclusion.

4.3 Theoretical framework

A socio-political perspective suggests that corporate executives may tend to decouple their policies and practices to respond to institutional pressures and thereby gain political ground (e.g., Westphal and Zajac, 1998, Zajac and Westphal, 1995). This is because the

expectations of stakeholders may not always align with the institutional logic, norms, and values that guide the decision-making processes within firms (Meyer and Rowan, 1977). While CSR decoupling engagement may serve as a strategic response to manage institutional pressures and maintain firms' legitimacy, it also can raise questions regarding the effectiveness and credibility of CSR activities. From the socio-political perspective, therefore, addressing decoupling requires not only promoting external pressures for social responsibility but also addressing the institutional logic that may enable decoupling behaviour (Westphal and Zajac, 2001). Despite facing similar institutional pressures, firms may adopt heterogeneous strategies (Walls and Hoffman, 2013, Lewis et al., 2014). This variation in strategy may be due to differences in the sensitivity effect of institutional pressures among firms, which is influenced by the potential benefits they can receive (Christmann and Taylor, 2001).

Existing research has noted that CEO characteristics play a crucial role in how institutional pressures are perceived and responded to within a firm (e.g., Sharma, 2000, Egri and Herman, 2000, Lewis et al., 2014). The critical role of CEOs in top management is attributed to their power and ability to make decisions that can significantly impact organizational outcomes (Lewis et al., 2014). Grounded on a socio-political perspective, Westphal and Zajac (2001) find that firms with powerful CEOs tend to decouple repurchase stock policy from actual practice to maintain a high level of free cash flow. Building on Westphal and Zajac (2001) argument that managers decouple policies from practices to relieve institutional pressures, this study expands the argument to the CSR domain and aregues that entrenched CEOs have a considerable effect on how firms perceive and respond to institutional pressures regarding CSR issues because they want to protect their power and influence over the firms.

4.4 Literature review and hypothesis development

4.4.1 CSR decoupling

CSR decoupling is a symbolic management practice adopted to avoid institutional pressures and thus gain benefits (e.g., Cho et al., 2015, Tashman et al., 2019). Studies have discussed many related terms reflecting such symbolic behaviour, such as greenwashing, organizational facades, organization hypocrisy, and CSR faking (García-Sánchez et al., 2020). However, CSR decoupling is distinguished from these terms as it also involves a firm's silent practice, in which the firm does not disclose about its positive social activities (Bromley and Powell, 2012).

Accordingly, firms may engage in CSR decoupling by selectively disclosing favourable CSR information and avoiding anything unfavourable (Lyon and Maxwell, 2011, Marquis et al., 2016); exaggerating their positive social activities (Delmas and Burbano, 2011); or understating their socially responsible practices (Kim and Lyon, 2015). Further, Hawn and Ioannou (2016) introduce another form of engagement in CSR decoupling, through the misalignment between internal and external CSR actions. As stated in Hawn and Ioannou (2016), internal CSR basically reflects firms' substantive inward-looking actions, which develop their capabilities and meet the expectations of those who provide critical resources. Adopting internal actions requires signficant changes in firms' structures, policies, norms and routines (e.g., establishing a CSR committee and making changes to emissions reduction policy). García-Sánchez et al. (2020) and Surroca et al. (2020) underline that CSR performance reflects internal actions, as it measures firms' actual socially responsible behaviours. Conversely, external CSR reflects visible public initiatives and communication patterns that have been adopted to generate external public endorsements of firms, their practices, and their top management (Hawn and Ioannou, 2016). External actions are represented by both the claims and reports that a firm makes to show commitment to socially responsible behaviours (e.g., Dhaliwal et al., 2012, Surroca et al., 2020).

Recent empirical studies have documented that CSR decoupling is attractive and beneficial as long as it can be utilised to positively influence social actors' opinions regarding firms' practices. For instance, Kim and Lyon (2015) demonstrate that engaging in greenwashing (i.e., overstating emissions reductions) helps growing firms to uphold their "license to operate" by reducing their exposure to environmental regulatory pressure as they expand. However, if CSR decoupling is detected by external stakeholders (e.g., regulators), it exposes a firm's activities as suspicious and destroys its legitimacy (e.g., Hawn and Ioannou, 2016, Lyon and Maxwell, 2011). This will result in a reduction in access to finance, higher capital costs (García-Sánchez et al., 2020), and weaker financial performance (Sauerwald and Su, 2019).

4.4.2 CSR decoupling and CEO entrenchment

CEO entrenchment takes place as a result of weakness in corporate governance system in which it is costly or difficult of such CEOs to be replaced (Morck et al., 1988, Shleifer and Vishny, 1997). Accordingly, previous research has reported that entrenched CEOs are more likely to engage in symbolic actions that could lead to a decrease in the quality of financial

reports (Feng et al., 2011); to increased analyst bias (Ulupinar, 2018); a reduction in firm value (Chang and Zhang, 2015); and a fall in the production of firm-related information (Lin et al., 2019). However, the extent to which an entrenched CEO engages in CSR decoupling is still unclear. Building on Westphal and Zajac (2001) argument that managers decouple policies from practices to relieve institutional pressures, this study expands the argument to the CSR domain and hypothesises that entrenched CEOs are more likely to engage in CSR decoupling.

Entrenched CEOs are more keen to maintain their power over their firms by showing commitment to meeting stakeholder expectations (Westphal and Zajac, 2013). Therefore, when actual CSR performance is lower than expected, entrenched CEO may engage in CSR decoupling to give the impression of fulfilling stakeholders' wishes, which in turn protects their interest in staying in power. In addition, shareholders expect firms to be profitable and socially responsible by other stakeholders (Hussain et al., 2018). Such a conflict leads entrenched CEOs to adopt symbolic managerial practices, as they cannot fulfil conflicting expectations simultaneously (Tashman et al., 2019). For instance, in a deregulated environment, managers underreport CSR disclosure to avoid shareholders' suspicions that firms are pursuing CSR activities at the expense of other profitable ones. Similarly, under financial pressure, firms engage in silent practice (i.e., understating CSR activities) to avoid shareholder pressure (Kim and Lyon, 2015). Firms also face regulatory pressures (e.g., environmental and local), which pose no problems for environmentally and legally responsible ones (Decker, 2003). This motivates entrenched CEOs to decouple firms' policies and practices related to such regulations because substantive commitment is costly (Kim and Lyon, 2015).

Furthermore, firms are highly sensitive to institutional pressures because they want to benefit from satisfying stakeholders by providing insurance-like protection from financial risk or legal actions (Godfrey et al., 2009); improving the firm's reputation (Barnea and Rubin, 2010); and having a stronger voice in the public policy process (Cho and Patten, 2007). Given the potential benefits of being socially responsible, entrenched CEOs may select to disclose favourable CSR information and avoid that which is unfavourable in order to paint a rosy picture of their respective firms, as they want to protect their discretion and position (Westphal and Zajac, 2013). Moreover, Cespa and Cestone (2007) show that CSR activities can be used as an entrenchment strategy. Therefore, entrenched CEOs may engage in CSR decoupling to strengthen their entrenchment.

Research on the involvement of CEOs in CSR strategy has shown that they play a crucial role in shaping CSR investment (Chin et al., 2013), CSR practices (Godos-Díez et al., 2011), and CSR reporting (Lewis et al., 2014). As such, since entrenched CEOs are exposed to fewer monitoring pressures (Muttakin et al., 2018), this motivates them to engage in CSR decoupling rather than investment in actual CSR programs. McWilliams (2006) finds that entrenched CEOs are not motivated to invest in CSR programs, as they are costly (Wickert et al., 2016) and lack a short-term return horizon (Qiu et al., 2016). In addition, entrenched CEOs have great influence over other directors, who behave in line with CEOs' preferences (Muttakin et al., 2018). Baker et al. (2019) finds that CEO power is an important factor in influencing chief financial officers' (CFOs) engagement in earnings management. In the same vein, entrenched CEOs may influence their chief sustainability officers (CSOs) to decouple CSR performance from CSR reporting.

In summary, a central premise of the socio-political perspective on decoupling is that while firms generally adopt formal policies displaying conformity to institutional norms and governance standards, they may decouple these policies from practices in order to gain political benefits by maintaining external public endorsement (Westphal and Zajac, 1998, Zajac and Westphal, 1995). In line with this argument, it is suggested that an entrenched CEO is an important driver of decoupling decisions, particularly CSR decoupling, because of the incentive to preserve their power over the firm. Additionally, entrenched CEOs can inhibit the monitoring ability of the board and they also have an influence over other directors' decisions (Muttakin et al., 2018). Therefore, the following hypothesis is proposed:

Hypothesis 4.1 (H4.1): A positive relationship between CEO enchrenchment and CSR decoupling is expected.

4.4.3 The role of strategic shareholders

Agency theorists have established the importance of strategic shareholders (i.e., investors who hold 5% or more of a firm's shares) as external monitors to mitigate the agency problem (Eisenhardt, 1989, Shleifer and Vishny, 1997). Due to the high costs of monitoring, such shareholders have more ability and incentive to monitor the board of directors than ones who have a dispersed ownership (Martin et al., 2019). In accordance with this argument, governance literature has found that strategic shareholders can closely monitor managers and thus reduce their self-serving behaviours (e.g., Connelly et al., 2010, McCahery et al., 2016). In

line with previous studies (Cordeiro et al., 2020, Ho et al., 2020, Zhong et al., 2017), institutional investors and family members are used as a proxy of strategic shareholders, and examined their moderating effect on relationship between CSR decoupling and CEO entrenchment.

Institutional ownership refers to the percentage of a firm's shares held by financial institutions (e.g., banks, pension funds, and insurance companies) on behalf of individual investors in order to maximise their profit (Ozdemir, 2020). A high level of ownership gives institutional investors access to the board of directors and the power to influence their behaviour (Ramalingegowda et al., 2020). Previous research indicates that institutional investors can exert their preferences through three actions. First, large institutional investors have strong voting power, which allows them to voice their preferences to management. For instance, such investors can vote to encourage better disclosures if they believe these are not adequate (Boone and White, 2015). Furthermore, managers have more interaction with institutional investors due to their voting power (Hadani, 2012). Second, institutional investors can use the threat of exit to influence managers' decisions, which drives them to align their interests with those of investors (Azar et al., 2018) and reduce their rent-extracting activities (Dou et al., 2018).

Third, institutional investors demand intensive internal control mechanisms (Ho et al., 2020), as they have a short-term horizon and are less engaged in daily operating activities (Buchanan et al., 2018) Therefore, institutional ownership acts as an external monitoring mechanism that strengthens (complements) internal governance mechanisms (Hoskisson et al., 2009). Hadani (2012) provides empirical evidence that institutional ownership is significantly and positively associated with corporate governance quality. Likewise, Ho et al. (2020) report that firms with larger institutional ownership have a higher proportion of independent directors on the board and a greater likelihood of CEO-Chairman separation. Consequently, a number of studies have found that institutional ownership is negatively associated with managerial opportunistic behaviours, such as earnings management (Koh, 2003), and positively related with firm performance measures (e.g., Elyasiani and Jia, 2010, Lin and Fu, 2017).

Similarly, family ownership has a strong potential to reduce owner-manager conflicts and improve firm performance (Wang, 2006). Family members seek to protect their interests and family name, as they usually have undiversified equity stakes (Ho et al., 2020) and need to

pass on their investment to future generations (Cordeiro et al., 2020). Hence, they have a great incentive to monitor managerial performance and forgo short-term benefits that might be gained from opportunistic behaviours (Wang, 2006). Larger ownership of family members increases their influence and opportunities to hold important positions on the management team (Anderson and Reeb, 2003). This enables them to intensively monitor managerial activities, which reduces opportunistic behaviours (Ho et al., 2020).

Unlike institutional investors, family investors are closely involved in firms' day-to-day activities, as the wealth of the family is related to that of the firm (Anderson and Reeb, 2003). This allows them to have superior firm-specific knowledge and detailed information about the firm's operations, enabling them to provide effective monitoring of managers' behaviours, which in turn mitigates information asymmetry between managers and shareholders (Chen et al., 2008). Moreover, the long-term presence of family investors means that they are more likely to create long-term employees and customer loyalty, and they are willing to engage in long-term investments, which reduces the problem of managerial short-sightedness (Chen et al., 2010). The relationship between family ownership and the quality of monitoring is empirically documented by a number of studies. For instance, Martin et al. (2016) find a positive relationship between family ownership and earnings quality, while Ho et al. (2020) show that family members encourage an increased proportion of independent directors on the board.

Although concentrated ownership helps to reduce the classical agency problem between managers and shareholders, it may create another type of agency problem between the majority and minority of shareholders (Chau and Gray, 2010). Due to the heterogeneity in respect of the level of information among investors, majority shareholders (e.g., institutional and family) may exploit their information superiority and thus behave opportunistically to advance their own benefits at the expense of minority shareholders (Fan and Wong, 2002, Martínez-Ferrero et al., 2018).

In summary, since institutional and family investors have the ability and a strong incentive to effectively monitor managerial behaviour and reduce any opportunistic behaviour caused by managers (Ho et al., 2020, Wang, 2006, Zhong et al., 2017), it is expected that those investors as a proxy of strategic shareholders will constrain the ability of entrenched CEOs to engage in CSR decoupling. Therefore, the following hypothesis is posited:

Hypothesis 4.2 (H4.2): The positive relationship between CSR decoupling and CEO entrenchment is expected to be negatively moderated by strategic shareholders (proxied by institutional and family ownership).

4.5 Research design

4.5.1 Data and sample

The study dataset is constructed based on a number of archival data sources: Bloomberg, ASSET4, Datastream, and BoardEx. Data on CSR disclosure is compiled from Bloomberg, while the CSR performance and CEO entrenchment indices are compiled from ASSET4. Although ASSET4 is a relatively new database, it has been widely used in CSR literature (e.g., Bettinazzi and Zollo, 2017, Cheng et al., 2014, Hawn and Ioannou, 2016, Surroca et al., 2020) as it provides relevant, auditable and systematic information on actual CSR performance for global listed firms. Data on other variables such as CEO and board characteristics are collected from BoardEx and financial data from Datastream.

The study sample comprises all UK firms listed on the FTSE All-Share Index during the period 2007-2017. This index is free from the possibility of size bias because it includes large firms as well as small and medium-sized (SMEs) ones. First, CSR disclosure and performance data are obtained for the study sample and then merged with the CEO entrenchment index and other control variables. After merging the four data sources, a sample of 4884 firm-year observations is constructed covering the period 2007-2017. The sample is classified into ten industries based on the Industry Classification Benchmark (ICB) codes level 1, namely Telecommunications, Consumer Discretionary, Financial, Consumer Staples, Energy, Health Care, Industrials, Basic Materials, Technology, and Utilities.

The study excludes firms classified in the financial industry as it has more strictly-regulated rules compared to other industries (Macve and Chen, 2010). It also ignores observations with missing main variables. The final sample comprises an unbalanced panel data of 2315 firm-year observations over the 11-year period from 2007-2017. A Kolmogorov-Smirnov (K-S) test reveals no significant differences between the sample that lacked full data (N=4884) and that used in the analyses (N=2315), suggesting that the attrition problem is not a concern in the final sample. Appendix 4.1 provides the sample selection procedure and the industry distribution of the sample.

4.5.2 Variable measurement

4.5.2.1 Dependent variable

CSR decoupling is the dependent variable in the study. In line with Tashman et al. (2019) and Sauerwald and Su (2019), CSR decoupling is measured as the difference between CSR disclosures and performance in a given firm year. More specifically, CSR disclosure and performance are standardised using the z-score to ensure that they have the same measurement units (Sauerwald and Su, 2019). Although the absolute value of CSR decoupling gives the overall practices, it has limitations because it does not differentiate between underreporting and overreporting practices (García-Sánchez et al., 2022b). Therefore, following the previous literature (Lyon and Maxwell, 2011, Sauerwald and Su, 2019, Tashman et al., 2019), a signed measure of CSR decoupling is used in which a positive value indicates that firms have exaggerated their disclosure (overreporting), while a negative one shows that they have understated it (underreporting).

4.5.2.2 Independent variable

CEO entrenchment is measured by adopting the entrenchment index (E-index) created by Bebchuk et al. (2009). It was developed by investigating the 24 provisions involved in the G-index of Gompers et al. (2003) and reducing them to 6 (staggered boards; limits to shareholder amendments of bylaws; supermajority requirements for mergers; supermajority requirements for charter amendments; poison pills; and golden parachutes). Bebchuk et al. (2009) contend that a refined index (E-index) is better than an aggregated one (G-index) for measuring CEO entrenchment. Each provision in the E-index is converted to a dummy variable that takes the value of 1 if the provision is applied, and 0 otherwise. Therefore, the E-index ranges from 0 to 6 by computing the sum of these dummy variables. Consistent with Di Meo et al. (2017), the E-index is coded 1 if its total is greater than 3, and 0 otherwise.

4.5.2.3 Moderator variables

Datastream defines strategic shareholders as investors who hold an interest of at least 5% in a firm. This definition has been validated in previous studies (e.g., Zhong et al., 2017, Ding et al., 2016, Rees and Rodionova, 2015, Moussa et al., 2021). In line with Ho et al. (2020), this study focuses on two important types of strategic shareholder ownership (institutional and family). Institutional ownership is the percentage of strategic interest (at least 5%) held by

investment banks and other institutions as measured by Datastream, while family ownership refers to the percentage of strategic interest (at least 5%) held by family members.

4.5.2.4 Control variables

Following previous studies, a range of variables that may potentially affect the decision to engage in CSR decoupling are controlled. The first group of control variables reflects CEO-related factors: CEO gender, CEO age, and CEO tenure, and are collected from BoardEx. These factors play an important role in determining firm strategies (Simsek, 2007, Tang et al., 2011). CEO gender is measured as a dummy variable coded 1 if the CEO is female, and 0 otherwise. Evidence documents that woman CEOs are more ethical and conservative (Ho et al., 2015); are more risk averse (Gul et al., 2009); and are less likely to use a symbolic management approach, such as earnings management (Gavious et al., 2012). Likewise, previous research reports a positive association between managers' age and ethical behaviour (Sundaram and Yermack, 2007, Loe et al., 2000). Huang et al. (2012) find that older CEOs are more likely to produce high-quality financial reporting. Accordingly, it is expected that female CEOs and older ones are less likely to engage in CSR decoupling. In contrast, CEO tenure is expected to have a positive relationship with CSR decoupling, since it has been shown to reinforce CEO power (Ryan Jr and Wiggins III, 2004) and thus reduce the effectiveness of the board (Muttakin et al., 2018). This variable is measured as the number of years that the CEO has served in the focal firm.

The second group of control variables reflects board-related factors. An effective board of directors will ensure that CEOs are working in the best interest of stakeholders (Fama and Jensen, 1983), which reduces CSR decoupling. In line with previous research (Muttakin et al., 2018, Sauerwald and Su, 2019, Surroca et al., 2020), the study includes board size, board independence, board meeting attendance, and board diversity to control the effectiveness of the board. Board size is the total number of directors on the board. Lipton and Lorsch (1992) and Jensen (1993) hypothesise that larger boards (more than nine directors) are less effective than smaller ones because they become more symbolic and neglect their monitoring duties. Yermack (1996) demonstrates that smaller boards have a positive relationship with firm performance. However, other studies argue that larger boards are more able to provide firms with critical resources (Goodstein et al., 1994) and can draw on a wide range of experience (Xie

et al., 2003). Given these conflicting arguments, the relationship between board size and CSR decoupling could be either negative or positive.

Board independence is measured as the percentage of independent directors. Fama and Jensen (1983) stress the importance of independent directors with respect to the rectification and monitoring of managerial decisions. As independent boards have the power to closely monitor managers and fire those who perform unsatisfactorily (Hermalin and Weisbach, 1998), firms with more independent directors perform better (Liu et al., 2015) and exhibit fewer opportunistic activities (Klein, 2002). Board meeting attendance is another proxy for board effectiveness (DeBoskey et al., 2019, Anderson et al., 2004). Adams and Ferreira (2009) argue that it is considered an important way by which directors can obtain firm-specific information and fulfil their monitoring role. This variable is measured as the frequency of directors' attendance at board meetings. Board diversity is measured as the percentage of females on the board. Female directors improve board communication (Gul et al., 2011) and provide better monitoring of CEOs' behaviour and reporting (Adams and Ferreira, 2009). Accordingly, board independence, board meeting attendance, and board diversity are expected to be negatively associated with CSR decoupling.

Finally, this study controls for a firm-related factor, firm size, which is measured as the natural logarithm of total assets. Larger firms are more attracted and visible to the attention of society (Sauerwald and Su, 2019), which may drive them to overstate their favourable CSR disclosure. The CSR committee is a dummy variable coded 1 if the firm has one, and 0 otherwise. The committee serves as a control mechanism for improving the quality of CSR practices; preventing risk from irresponsible behaviour (Burke et al., 2019); and alleviating any negative impact of CEO power on CSR activities (Endrikat et al., 2020). Therefore, a positive (negative) relationship between firm size (CSR committee) and CSR decoupling is expected.

4.5.3 Model specification

Consistent with previous research (Hawn and Ioannou, 2016, Sauerwald and Su, 2019, Westphal and Zajac, 2001), two separate models are used to test the hypotheses. Model 4.1 tests Hypothesis 4.1, which predicts a positive relationship between CEO entrenchment and CSR decoupling, while Model 4.2 tests Hypothesis 4.2, which expects a negative moderating effect of strategic shareholders (institutional and family) on such a relationship.

$$CSRDE_{it} = \alpha_0 + \beta_1 E\_INDEX_{it} + \sum_k \beta_k X_{kit} + \sum_j \beta_j INDUSTRY_j + \sum_t \beta_t YEAR_t + \varepsilon_{it} \quad (4.1)$$

$$CSRDE_{it} = \alpha_0 + \beta_1 E\_INDEX_{it} + \beta_2 E\_INDEX_{it} \times STOWN_{it} + \beta_3 STOWN_{it} + \sum_k \beta_k X_{kit} + \sum_j \beta_j INDUSTRY_j + \sum_t \beta_t YEAR_t + \varepsilon_{it} \quad (4.2)$$

In equations 4.1 and 4.2, CSRDE refers to CSR decoupling for firm i and year t. E-INDEX represents CEO entrenchment; STOWN denotes strategic shareholders and takes two values: institutional or family ownership; X_k is a vector of control variables that consists of nine variables: firm size (SIZE), CEO gender (CEOGEN), CEO age (CEOAGE), CEO tenure (CEOTEN), board size (BSIZE), board independence (BIND), board meeting attendance (BMEET), board diversity (BDIV), and CSR committee (CSRCOM). Appendix 4.2 summarises the definitions, measurements and data sources of the selected variables.

Equations 4.1 and 4.2 are estimated based on the two-way cluster approach of Petersen (2009). In this approach, standard errors are clustered at both firm and year level, which provides well-specified standard errors in the presence of cross-sectional and time-series (Gow et al., 2010). Industry and year are included as dummy variables to control for their unobservable fixed effects.

4.6 Empirical results

4.6.1 Univariate analysis

Table 4.1 shows the descriptive statistics for all the variables included in the regression models. Regarding the main variables, CSRDE shows a mean (median) value of 0.163 (0.168), which indicate that on average firms are inclined to CSR overreporting rather than underreporting. This result is consistent with Kim and Lyon (2015), who find a positive mean when they subtracted actual emissions reductions from reported ones. E-INDEX is coded 1 in 1,181 firm-year observations, which represents 41% of the sample. The mean values of INSTWN and FAMWN are around 9% and 7%, respectively. These results support Sun et al. (2016) and Garcia-Meca and Sanchez-Ballesta (2010) observations that UK firms are generally characterised by widely dispersed ownership. With respect to the control variables, the results are consistent with those of previous UK studies (e.g., Al-Shaer and Zaman, 2019, Katmon and Al Farooque, 2017, Haque, 2017). For instance, CEOGEN is coded 1 in only 163 firm-year observations, indicating that female CEOs represent around 4% of the overall sample. The

mean values of CEOAGE and CEOTEN are around 52 and 5 years respectively. BSIZE ranges between 5 and 16 directors, with a mean of around 9. On average, 56% of directors are independent, around 14% of the boards of directors are women, and 96% of directors attend the board meetings.

(Insert Table 4.1 here)

Figure 4.1 shows the degree of overreporting and underreporting for the firms engaging in CSR decoupling. The horizontal axis presents the difference between CSR disclosure and performance, while the vertical axis gives the corresponding probability density. The most frequent values of CSR decoupling are around zero. Therefore, many firms engage in neither overreporting nor underreporting.

(Insert Figure 4.1 here)

Table 4.2 presents the correlation matrix of the independent variables. The largest coefficient (0.566) is between board size (BSIZE) and firm size (SIZE), measured by the logarithm of total assets. Accordingly, multicollinearity concerns are unlikely in the study models, as the coefficients among the independent variables are generally less than 0.6 (Gujarati et al., 2012). For more collinearity diagnostics, the variance inflation factor (VIF) is shown in Table 4.2. The VIF values range from 1.04 to 1.97, also suggesting an absence of multicollinearity problems.

(Insert Table 3.2 here)

4.6.2 Multivariate analysis

Table 4.3 presents the relationship between CSR decoupling and CEO entrenchment. It also shows the effect of strategic shareholders (institutional and family) on such a relationship. Model 1 indicates that E-INDEX has a positive and significant relationship with CSRDE. Therefore, a greater level of CEO entrenchment increases CSR overreporting. In terms of economic significance, the result shows that an increase in CEO entrenchment by one standard deviation increases CSR decoupling by 18%[19]. This provides evidence to support the prediction of Hypothesis 4.1 (H4.1), that entrenched CEOs behave opportunistically to protect their power and influence over firms (Westphal and Zajac, 2013) by pretending to be socially responsible.

[19] The economic significance is calculated by multiplying the coefficient of E-INDEX with its standard divination, and then divided by the mean of CSRDE [i.e., (0.492*5.965)/0.163 = 18%].

Models 2 and 3 display the interaction effect of institutional ownership (INSTWN) and family ownership (FAMWN) on the main relationship. Model 2 shows a negative effect of the interaction term between E-INDEX and INSTWN on CSRDE (β= -0.760, p < 0.05), which outweighs the size of the coefficient for the positive INSTWN variable (β= 0.422, p < 0.05). Accordingly, an increase in INSTWN negatively moderates the relationship between E-INDEX and CSRDE. More specifically, a 1% increase in INSTWN leads to a 0.338[20] decrease in CSRDE. This finding is line with Shleifer and Vishny (1997), who find that larger shareholders are considered an important mechanism for reducing classical owner-agent conflict.

Similarly, based on Model 3, family members negatively moderate the association between E-INDEX and CSRDE. Model 3 reports a negative and significant coefficient of the interaction term between E-INDEX and FAMWN on CSRDE (β= -0.711, p < 0.05), and it also outweighs the size of the coefficient for the positive FAMWN variable (β= 0.281, p < 0.05). Therefore, a 1% rise in FAMWN leads to a 0.43 decrease in CSRDE. These findings provide support for H4.2, that strategic shareholders constrain the ability of entrenched CEOs to engage in CSR decoupling.

In terms of the control variables, Models 1 to 3 show a positive and significant influence of CEOTEN on CSRDE (at the 5% level), which suggests that a long period in the CEO position reinforces their power and so they can exert an influence on engaging in CSR decoupling. However, BIND and BDIV are negatively and significantly related to CSRDE (at the 1% level) and BMEET is negatively and significantly associated with CSRDE (at the 10% level). These findings confirm that independent, diversified, and active boards of directors play an important role in monitoring and reducing managerial opportunistic activities, such as CSR decoupling. Finally, CSRCOM has a negative and significant relationship with CSRDE (at the 1% level), which is consistent with Burke et al. (2019) contention that CSRCOM is a control mechanism which improves the quality of CSR reporting.

(Insert Table 4.3 here)

4.6.3 Further analysis

In order to explore more directly how entrenched CEOs behave under institutional pressures, two additional tests are conducted. The first examines the effect of CEO

[20] The net coefficient of the moderating effect is calculated by taking the sum of the coefficients on E-INDEX* INSTWE and INSTWE [i.e., -0.760 + 0.422 = -0.338].

entrenchment on CSR decoupling in CSR-intensive industries compared with non-intensive ones, while the second test compares such an effect before and after CSR reporting was made mandatory.

4.6.3.1 CSR-intensive industries

The intensity of CSR performance varies across industries and results in more pressure on firms working in high CSR-intensive industries (Hawn and Ioannou, 2016), as they have to align themselves with other firms in such industries. Therefore, this study expects a strong positive relationship between CSR decoupling and CEO entrenchment for firms that operate in the high CSR-intensive industries compared to those in the low CSR-intensive ones. Consequently, an indicator variable is created and coded 1 if an industry-level average CSR performance score is higher than the median CSR performance score across industries, and 0 otherwise. Accordingly, 1387 firm-year observations are classified for CSR-intensive industries and 928 for CSR-non-intensive ones, as shown in Table 4.4.

Table 4.4 provides additional evidence supporting the theoretical mechanisms at work, which mean that entrenched CEOs are more likely to engage in CSR decoupling under institutional pressures. Models 1-3 in Table 4.4 relate to the CSR-intensive industries, while Models 4-6 relate to the CSR-non-intensive industries. Model 1 shows a strongly positive and significant relationship between E-INDEX and CSRDE (β= 8.928, $p < 0.05$), which remains positive but insignificant in Model 4. In addition, the association between E-INDEX and CSRDE is negatively and significantly moderated by INSTWN (β= -1.142, $p < 0.01$) and FAMWN (β= -0.768, $p < 0.05$) in Models 2 and 3, respectively.

However, although the coefficients on E-INDEX*INSTWN (β= -0.422, $p > 0.10$) and E-INDEX*FAMWN (β= -0.910, $p > 0.10$) remain negative in Models 5 and 6 respectively, they are not significant. These results are consistent with Hawn and Ioannou (2016), who find that CSR-intensive industries are heavily monitored by external governors (e.g., regulators, markets and other stakeholders) than CSR-non intensive ones.

(Insert Table 4.4 here)

4.6.3.2 CSR mandatory reporting

In the UK, CSR reporting has been mandatory after parliament approved the *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*. This regulation applies to

annual reports published in or after September 2013 and mandates that firms issue a strategic report comprising specific information about environmental matters, employees, and human rights, community and social issues[21]. Therefore, firms face regulatory pressure to engage in CSR activities and report on them. However, entrenched CEOs do not prioritise such activities, as the substantial commitment to them is costly (Wickert et al., 2016). Therefore, it is expected that entrenched CEOs may be inclined towards CSR decoupling to avoid such regulatory pressure. For that reason, an indicator variable is created and coded 1 for 2013 or later, and 0 otherwise.

Table 4.5 confirms the results reported in Table 4.4, that the positive relationship between CSR decoupling and CEO entrenchment is significantly stronger under institutional pressures. Model 1 in Table 4.5 shows a strongly positive and significant coefficient on E-INDEX (β= 9.848, $p < 0.05$) after CSR reporting became mandatory and is directionally consistent but insignificant before this time, as shown in Model 4. Table 4.5 also indicates that INSTWN and FAMWN have a negative and significant moderation effect on the relationship between E-INDEX and CSRDE in Models 2 and 3 (CSR mandatory) respectively, and a negative but insignificant one in Models 5 and 6 (CSR non-mandatory) respectively, which is consistent with the results shown in Table 4.4.

(Insert Table 4.5 here)

4.6.4 Robustness check

To check for the robustness of the study results, the study models are (i) re-estimated after dividing strategic shareholders (strategic and non-strategic), (ii) re-examined by using Generalized Method of Moments (GMM) technique to address the potential problem of endogeneity, and (iii) re-estimated by GMM with alternative measures to ensure that the results are not driven by a particular measure.

4.6.4.1 Strategic vs non-strategic shareholder

Based on Datastream, strategic shareholders (institutional and family) are those investors who hold at least 5% of firm's shares, while for those shareholders who have an interest less than 5% in a firm are classified as non-strategic shareholders. This definition is used to carry out a comparison between the moderating effect of strategic and non-strategic

[21] https://www.legislation.gov.uk/ukdsi/2013/9780111540169

shareholders on the relationship between CSR decoupling and CEO entrenchment. The results reported in Table 4.6 show that such association is not significant with the existence of strategic institutional (Model 1) as well as family investors (Model 3). This is robust in the results of Table 4.3 (Model 2-3) that strategic shareholders significantly constrain the ability of entrenched CEOs to engage in CSR decoupling. However, E-index has a positive and a significant effect on CSRDE with the presence of non-strategic shareholders either institutional (β=9.490, p<0.05) or family (β=7.698, p<0.05) as shown in Model 2 and 4, respectively. These results are consistent with previous studies (Shleifer and Vishny, 1997), in indicating that dispersed ownership impairs the efficiency of monitoring managers.

(Insert Table 4.6 here)

4.6.4.2 Accounting for endogeneity

A potential problem in the study results is the reverse causality between CEO entrenchment and CSR decoupling. This is because such a relationship could be caused by the entrenched CEOs influencing CSR decoupling to protect their power, or by CSR decoupling entrenching the CEOs. In addition, although a comprehensive set of control variables is included, unobserved factors may have affected the findings. To address these endogeneity concerns, Equations 4.1 and 4.2 are re-estimated using two-step system GMM. This method relies on a lagged dependent variable for estimating the dynamic relationship (Roodman, 2009). Accordingly, based on Wintoki et al. (2012), the following model is used to determine the appropriate number of dependent variable lags to be included:

$$CSRDE_{it} = \alpha_0 + \sum_{p=1}^{P=3} \beta_p CSRDE_{i(t-p)} + \sum_k \beta_k X_{kit} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \varepsilon_{it} \quad (4.3)$$

Where $CSRDE_{i(t-p)}$ denotes CSR decoupling in firm (i), year (t), and lag (p). X_k is a vector of control variables that includes nine variables: firm size (SIZE), CEO gender (CEOGEN), CEO age (CEOAGE), CEO tenure (CEOTEN), board size (BSIZE), board independence (BIND), board meeting attendance (BMEET), board diversity (BDIV), and CSR committee (CSRCOM). The untabulated results show that first and second lags of CSR decoupling are significant, so are included as regressors in the re-estimated Equations 4.1 and 4.2.

The results of the GMM estimation reported in Table 4.7 provide evidence that the study results are robust, since they are consistent with those shown in Table 4.3. In particular, Model 1 indicates a positive and significant association between CSRDE and E-INDEX (β= 13.588, p < 0.05). In addition, the coefficients of the interaction terms between E-INDEX*INSTWN (β= -0.911, p < 0.05) and E-INDEX*FAMWN (β= -1.517, p < 0.05) are negatively and significantly related with CSRDE, outweighing the size of the coefficients for the positive INSTWN (β= 0.453, p < 0.05) and FAMWN (β= 0.461, p < 0.05) in Model 2 and 3 respectively. These results clearly indicate that strategic shareholders (institutional and family) work as external monitors and mitigate the ability of entrenched CEO to engage in opportunistic activities, such as CSR decoupling.

Table 4.7 shows that the p-values of the first serial correlation tests (AR1) are significant (meaning the null hypothesis is rejected), while those of the second serial correlation tests are insignificant (meaning the null hypothesis is accepted) in all the models, which is consistent with Wintoki et al. (2012) argument that first serial correlation (AR1) should be detected, but not second serial correlation (AR2). Additionally, the p-values of the Hansen tests of over identification restrictions and the difference in the Hansen test of exogeneity are insignificant in Models 1-3, implying that the instrumental variables are valid and exogenous.

(Insert Table 4.7 here)

4.6.4.3 Alternative measures

Three alternative proxies are used to measure CEO entrenchment, which provides more robustness to the study findings. The first measure is CEO ownership (CEOWN); that is, the percentage of shares owned by the CEO. Berger et al. (1997) show that CEO entrenchment is increased by their higher percentage of ownership. Therefore, a dummy variable is created and coded 1 if CEO ownership of the focal firm is above an industry-year median of CEO ownership, and 0 otherwise. The second measure is CEO duality (DUALITY), a dummy variable coded 1 if the chairperson of the board and the CEO are the same person, and 0 otherwise. CEO duality increases CEO power (Muttakin et al., 2018) and strengthens the ability of the CEO to influence firm policies and decisions (Baker et al., 2019). The third measure is the total index (T-INDEX), which combines the E-index, CEO ownership, and CEO duality in a composite measure. In line with Di Meo et al. (2017), the total index is a dummy variable coded 1 if at least two of its components are equal to 1, and 0 otherwise.

Table 4.8 shows the relationship between the different measures of CEO entrenchment (i.e., CEOWN, DUALITY, and T- INDEX) and CSRDE. The findings in the table are consistent with the results shown in Tables 4.3 and 4.7, as they indicate a significant (at the 5% level) and negative association between CEOWN (Models 1), DUALITY (Models 4), and T-INDEX (Models 7) and CSEDE. In addition, the relationship between the different measures of CEO entrenchment and CSRDE are negatively moderated by INSTWN (Models 2, 5, and 8) and FAMWN (Models 3, 6, and 9). Moreover, Table 4.8 shows that all the specification tests are passed, since first serial correlation test (AR1) is significant, while the second (AR2) and the instrumental variables test (Hansen test) are insignificant.

(Insert Table 4.8 here)

4.7 Discussion and conclusions

The CSR decoupling issue has recently attracted considerable attention from researchers, who have investigated the external factors that could cause such decoupling between CSR performance and reporting (e.g., Marquis and Qian, 2014, Surroca et al., 2020, Tashman et al., 2019). However, this study focuses on the internal factors that drive CSR decoupling. In particular, it explores the relationship between CEO entrenchment and CSR decoupling, and also examines the moderating effect of institutional investors and family members who hold an interest of at least 5% in the firm on the relationship. To this end, a sample of UK firms listed on the FTSE All-Share Index is used from the period 2007-2017.

Given that entrenched CEOs do not prioritise CSR activities as they are costly (Wickert et al., 2016) and contradict with their short-term return targets (Qiu et al., 2016), this study hypothesises that these CEOs are more motivated to engage in CSR decoupling to avoid the potential problems of appearing socially irresponsible. This hypothesis is grounded on the socio-political perspective that managers tend to decouple their policies from practices to avoid institutional pressures and thus gain political interest. Based on the two-way cluster approach of Petersen (2009), the study finds a significant and positive association between CEO entrenchment and CSR decoupling. This provides evidence to support the prediction of Hypothesis 4.1 (H4.1), that entrenched CEOs behave opportunistically to protect their power and influence over firms (Westphal and Zajac, 2013) by pretending to be socially responsible. The study also finds that the degree of CSR decoupling is wider in firms operating in CSR-intensive industries and after CSR was made mandatory. That is, under institutional pressures,

entrenched CEOs are more motivated to manage stakeholders' impressions by decoupling CSR performance from reporting, rather than by substantial engagement with CSR activities. This is consistent with Meyer and Rowan (1977) argument that the gap between policy and practice is exacerbated by higher institutional pressures.

Furthermore, the study finds a negative moderation effect of institutional and family ownerships on the relationship between entrenched CEO and CSR decoupling, implying that strategic shareholders (institutional and family) mitigate the ability of entrenched CEOs to engage in CSR decoupling. This finding is line with Shleifer and Vishny (1997), who find that larger shareholders are considered an important mechanism for reducing classical owner-agent conflict. However, the results also show a positive relationship between strategic shareholders and CSR decoupling, which supports the idea that concentrated ownership causes another type of agency conflict between majority and minority ownership (Fama and Jensen, 1983, Shleifer and Vishny, 1997). The majority-minority ownership conflict arises as a consequence of information asymmetry among shareholders and exploitation by the majority shareholders of their information superiority to advance their own benefits at the expense of the minority shareholders (Fan and Wong, 2002).

Based on the above results, the study offers several important contributions. From a theoretical perspective, it contributes to the research on decoupling by demonstrating that being socially irresponsible creates institutional pressures that drive managers to decouple CSR performance and reporting. Institutional theorists argue that decoupling decisions are taken when firms and CEOs are under pressures which threaten their external legitimacy (Edelman, 1992, Meyer and Rowan, 1977). However, based on the socio-political approach, managers take decoupling decisions to relieve institutional pressures and ultimately protect their political interests (Fiss and Zajac, 2004, Westphal and Zajac, 2001). This study expands the socio-political approach to the CSR context and contributes to the notion that the political interests of CEOs (i.e., preservation of their power and influence over firms) play a crucial role in CSR decoupling decisions, particularly when CEOs are entrenched. As such CEOs have an influence on shaping CSR investment and practices (Chin et al., 2013, Godos-Díez et al., 2011), and they employ symbolic actions (CSR decoupling) to maintain their power over other directors. This finding also complements the symbolic management research by confirming the symbolic nature of CSR (Kim and Lyon, 2015). That is, entrenched CEOs may engage in CSR decoupling to advance their political interests rather than satisfying stakeholder demands.

Furthermore, the study enriches the corporate governance literature by emphasising the importance of internal and external governance mechanisms in constraining the symbolic use of CSR. A number of studies have documented that external monitors reduce the agency cost of CSR (García-Sánchez et al., 2020, Jo and Harjoto, 2011). However, the external governors should possess strong motivation and capability to conduct effective monitoring of managers (Hillman and Dalziel, 2003). Therefore, this study contends that strategic shareholders (institutional and family investors) are motivated and capable external monitors (Shleifer and Vishny, 1997), as they can significantly limit the symbolic actions of entrenched CEOs. In addition, the study confirms that symbolic CSR (e.g., CSR decoupling) can be internally mitigated by establishing an effective board of directors.

From a practical perspective, the study could be of interest to different groups of stakeholders, such as investors, regulators, and shareholder activist groups. With regard to investors, the study may warn them that they need to pay attention to and analyse the possibility of CSR decoupling, as a firm will be punished if such action is discovered by external stakeholders (Kim and Lyon, 2015). While common governance practice is to monitor CEOs from the outside (Marquis and Qian, 2014), this study suggests that shareholders can play an important role in reducing managerial opportunistic actions through direct monitoring and lobbying for an independent, active, and diversified board of directors to provide strong internal monitoring. For regulators, the study highlights that although there are a number of guidelines regulating CSR reporting in the UK, decoupling between such reporting and CSR performance is still possible. Therefore, this finding could place in policymakers' minds the importance of issuing guidelines limiting such actions. Finally, the study could encourage activist groups (e.g., environmental groups, NGOs, and media) to focus their scrutiny on firms managed by entrenched CEOs, as such firms are highly motivated to engage in CSR decoupling when they are exposed to institutional pressures. This focus could significantly reduce CSR decoupling, as environmental activists, NGOs, and media-led campaigns against firms engaging in symbolic actions are widespread and easily accessed by the public (Delmas and Burbano, 2011).

This study has some limitations that could be considered as opportunities for future research. First, the study sample is restricted to UK firms, a fact which needs to be carefully considered when the results are generalised, as different empirical settings could lead to different results. Therefore, future research could extend this study by taking an international

sample or focusing on emerging countries that have different empirical settings. For instance, 63.15% of Chinese firms are state-owned and 36.85% non-state-owned, compared to only 0.08% of UK firms which are state-owned and 99.20% non-state-owned (Li and Zhang, 2010).

Second, other corporate governance mechanisms (e.g., CSR assurance) may also constrain the positive relationship between entrenched CEOs and CSR decoupling. The role of CSR assurance practices in enhancing CSR credibility has been documented by a number of studies, such as those of Du and Wu (2019) and Jones and Solomon (2010). These studies depend on the GRI sustainability disclosure database, which provides detailed information about CSR assurance practices (e.g., assurance providers, assurance scope, and assurance level) for around 15,500 firms in different countries[22]. Therefore, future research could examine how the attributes of CSR assurance reduce the ability of entrenched CEOs to engage in CSR decoupling. More specifically, future studies could compare the effects of different types of assurance providers on the relationship between entrenched CEOs and CSR decoupling.

Finally, this study focuses on the internal drivers of CSR decoupling and theoretically mentions the consequences of such decoupling. Further empirical research on the consequences of CSR decoupling would enrich the research stream that explores the negative outcomes of decoupling and symbolic management (e.g., García-Sánchez et al., 2020, Kim and Lyon, 2015, Sauerwald and Su, 2019). In addition, future research could build on this study and examine other potential responses of entrenched CEOs to institutional pressures from different theoretical perspectives.

[22] https://database.globalreporting.org/

Table 4.1 Descriptive statistics

Variable	Obs.	Mean	Median	SD	Min	Max
CSRDE	2315	0.163	0.168	0.739	-1.636	2.142
E-INDEX	2315	0.410	0.000	0.492	0.000	1.000
INSTWN	2315	8.613	6.000	9.144	0.000	40.000
FAMWN	2315	6.973	0.000	14.315	0.000	65.000
SIZE	2315	13.524	13.344	1.818	6.217	19.746
CEOGEN	2315	0.041	0.000	0.197	0.000	1.000
CEOAGE	2315	51.964	52.000	6.328	37.000	69.000
CEOTEN	2315	5.269	3.700	5.249	0.000	27.900
BSIZE	2315	9.036	9.000	2.336	5.000	16.000
BIND	2315	56.048	55.560	13.305	17.650	85.710
BMEET	2315	96.082	97.000	4.585	75.000	100.000
BDIV	2315	14.264	13.330	11.126	0.000	44.440
CSRCOM	2315	0.695	1.000	0.460	0.000	1.000

This table shows descriptive statistics for the variables included in the regression models. The variables definition are presented in appendix 4.2. All continuous variables are winsorized at level 1% and 99% to adjust for outliers.

Figure 4.1 Difference between CSR disclosure and CSR performance

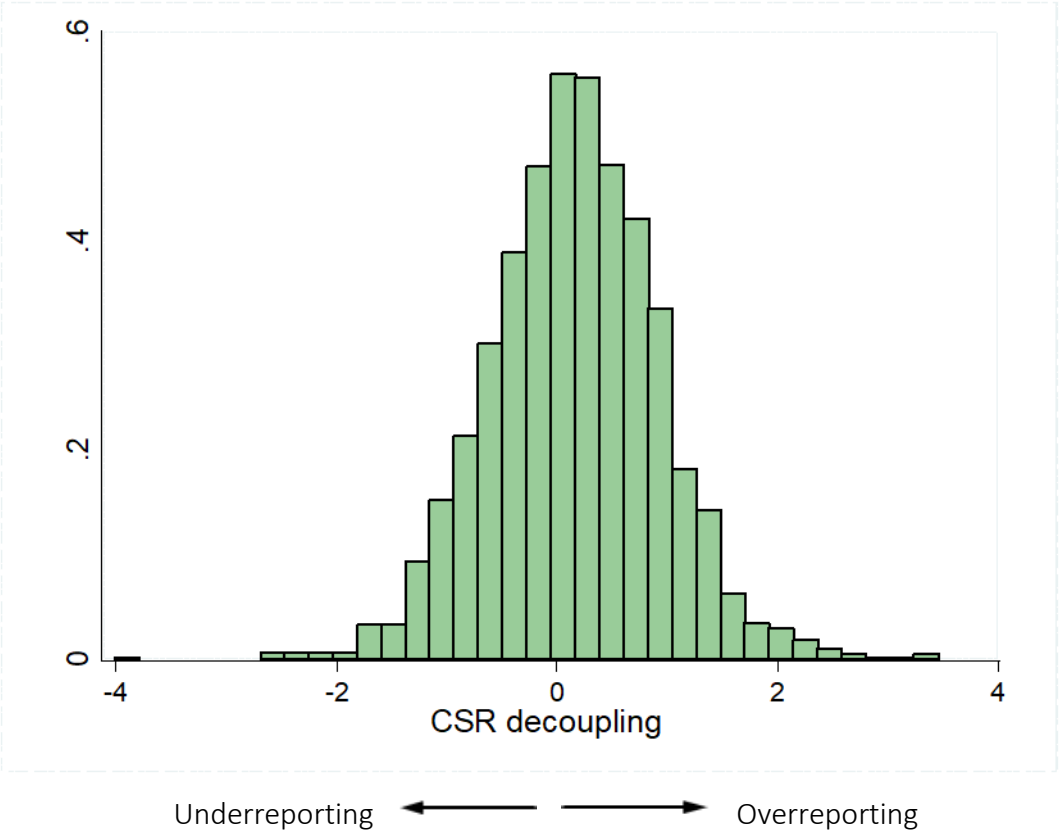


Table 4.2 Correlation matrix

Variables	VIF	E-INDEX	INSTWN	FAMWN	SIZE	CEOGEN	CEOAGE	CEOTEN	BSIZE	BIND	BMEET	BDIV	CSRCOM
E-INDEX	1.07	1.000											
INSTWN	1.10	-0.004	1.000										
FAMWN	1.11	-0.109*	-0.143*	1.000									
SIZE	1.97	0.051*	-0.214*	-0.108*	1.000								
CEOGEN	1.06	-0.025	-0.012	-0.028	0.017	1.000							
CEOAGE	1.28	-0.024	-0.053*	-0.132*	0.188*	-0.061*	1.000						
CEOTEN	1.24	-0.035	0.025	0.061*	-0.106*	-0.020	0.367*	1.000					
BSIZE	1.57	0.051*	-0.182*	-0.069*	0.566*	0.050*	0.147*	0.008	1.000				
BIND	1.25	-0.013	0.016	-0.154*	0.356*	-0.004	0.092*	-0.082*	0.086*	1.000			
BMEET	1.04	-0.012	0.032	-0.041*	-0.040	0.010	0.004	0.011	-0.151*	0.017	1.000		
BDIV	1.24	-0.192*	0.006	-0.091*	0.248*	0.217*	0.084*	-0.004	0.141*	0.260*	0.071*	1.000	
CSRCOM	1.18	0.023	-0.068*	-0.066*	0.371*	0.026	0.074*	-0.068*	0.235*	0.171*	0.019	0.182*	1.000

This table presents the Pearson's correlation matrix of coefficient among the independent variables. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The variables definition are presented in appendix 4.2. * Represents statistical significant at $p < 0.05$.

Table 4.3 CSR decoupling and CEO entrenchment: the role of strategic shareholders (Two-way cluster)

	Model 1	Model 2	Model 3
E-INDEX	5.965*	12.689***	8.603**
	(1.78)	(2.67)	(2.45)
E-INDEX*INSTWN		-0.760**	
		(-2.09)	
INSTWN		0.422**	
		(2.05)	
E-INDEX*FAMWN			-0.711**
			(-2.10)
FAMWN			0.281**
			(1.98)
SIZE	1.239	1.484	1.161
	(0.99)	(1.18)	(0.92)
CEOGEN	-3.835	3.489	-4.492
	(-0.63)	(0.58)	(-0.73)
CEOAGE	0.079	0.061	0.069
	(0.31)	(0.24)	(0.27)
CEOTEN	0.555**	0.598**	0.526**
	(2.03)	(2.33)	(2.05)
BSIZE	-0.860	-0.890	-0.826
	(-1.03)	(-1.06)	(-0.99)
BIND	-1.084***	-1.089***	-1.066***
	(-8.68)	(-8.67)	(-8.51)
BMEET	-0.573*	-0.587*	-0.554*
	(-1.76)	(-1.80)	(-1.70)
BDIV	-0.734***	-0.740***	-0.715***
	(-4.46)	(-4.51)	(-4.35)
CSRCOM	-11.079***	-11.181***	-11.024***
	(-3.19)	(-3.23)	(-3.18)
Constant	130.661***	122.471***	127.319***
	(3.51)	(3.25)	(3.36)
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Observations	2315	2315	2315
Adjusted R^2	0.135	0.135	0.135
F statistic *p* value	0.000	0.000	0.000

This table presents the relationship between CSR decoupling and CEO entrenchment and how this relationship is affected by strategic shareholders (institutional and family), using two-way cluster method. The variables definitions and measures are reported in appendix 4.2. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t* statistics reported in parentheses are clustered by firm and year based on approach of Petersen (2009).

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

Table 4.4 CSR-intensive and non-intensive industries

	CSR-intensive industries			CSR-non intensive industries		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
E-INDEX	8.928**	18.230***	12.559***	2.141	4.555	3.861
	(2.04)	(3.21)	(2.69)	(0.41)	(0.55)	(0.71)
E-INDEX*INSTWN		-1.142***			-0.422	
		(-2.98)			(-0.61)	
INSTWN		0.706***			0.287	
		(3.05)			(0.81)	
E-INDEX*FAMWN			-0.768**			-0.910
			(-1.98)			(-1.31)
FAMWN			0.444***			-0.047
			(2.67)			(-0.18)
SIZE	-0.260	0.349	-0.547	5.429**	5.425**	5.192**
	(-0.17)	(0.22)	(-0.35)	(2.55)	(2.50)	(2.34)
CEOGEN	-8.417	-8.385	-9.263	14.517	16.832	13.640
	(-1.34)	(-1.34)	(-1.44)	(0.90)	(0.99)	(0.83)
CEOAGE	-0.226	-0.233	-0.111	0.778	0.727	0.694
	(-0.75)	(-0.78)	(-0.36)	(1.63)	(1.46)	(1.43)
CEOTEN	0.719**	0.711**	0.697**	0.423	0.588	0.520
	(2.02)	(2.03)	(2.01)	(0.94)	(1.43)	(1.29)
BSIZE	-0.077	-0.162	0.053	-2.640*	-1.875	-2.635*
	(-0.07)	(-0.16)	(0.05)	(-1.78)	(-1.28)	(-1.76)
BIND	-1.208***	-1.219***	-1.157***	-0.938***	-0.882***	-0.948***
	(-7.53)	(-7.61)	(-7.18)	(-4.67)	(-4.38)	(-4.72)
BMEET	-0.599	-0.594	-0.524	-0.776	-0.442	-0.857
	(-1.55)	(-1.52)	(-1.36)	(-1.31)	(-0.70)	(-1.44)
BDIV	-0.598***	-0.628***	-0.582***	-0.983***	-1.067***	-0.981***
	(-3.04)	(-3.17)	(-2.96)	(-3.27)	(-3.53)	(-3.26)
CSRCOM	-15.203***	-15.213***	-15.103***	-5.134	-7.235	-5.463
	(-3.45)	(-3.47)	(-3.44)	(-0.89)	(-1.23)	(-0.95)
Constant	170.394***	157.321***	154.145***	62.185	22.157	78.148
	(3.80)	(3.42)	(3.34)	(0.95)	(0.32)	(1.19)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1387	1387	1387	928	928	928
Adjusted R^2	0.181	0.185	0.184	0.069	0.069	0.070
F statistic *p* value	0.000	0.000	0.000	0.000	0.000	0.000

This table presents the relationship between CSR decoupling and CEO entrenchment and how this relationship is affected by strategic shareholders (institutional and family) within CSR-intensive industry and CSR non-intensive industry, using two-way cluster method. The variables definitions and measures are reported in appendix 4.2. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t* statistics reported in parentheses are clustered by firm and year based on approach of Petersen (2009).

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

Table 4.5 CSR-mandatory reporting and CSR-non mandatory reporting

	CSR-mandatory reporting			CSR-non mandatory reporting		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
E-INDEX	9.848**	18.212**	12.333**	4.056	6.360	5.804
	(2.02)	(2.34)	(2.44)	(0.90)	(0.97)	(1.22)
E-INDEX*INSTWN		-1.218*			-0.267	
		(-1.96)			(-0.49)	
INSTWN		0.667***			-0.083	
		(3.02)			(-0.25)	
E-INDEX*FAMWN			-1.602**			-0.431
			(-2.52)			(-1.00)
FAMWN			0.258*			0.486
			(1.65)			(1.57)
SIZE	-1.292	1.003	0.055	2.582	2.280	2.740
	(-0.65)	(0.54)	(0.03)	(1.44)	(1.26)	(1.51)
CEOGEN	-8.575	-8.523	-9.972	2.674	2.619	3.514
	(-0.79)	(-0.86)	(-1.07)	(0.32)	(0.32)	(0.42)
CEOAGE	-0.057	0.091	0.123	0.090	0.054	0.136
	(-0.14)	(0.24)	(0.36)	(0.26)	(0.15)	(0.39)
CEOTEN	0.731**	0.590	0.477	0.604	0.577	0.504
	(2.00)	(1.57)	(1.24)	(1.48)	(1.35)	(1.18)
BSIZE	-1.559	-1.631	-1.453	-0.839	-0.826	-0.786
	(-1.21)	(-1.27)	(-1.10)	(-0.77)	(-0.76)	(-0.72)
BIND	-0.939***	-1.132***	-1.094***	-1.035***	-1.007***	-0.998***
	(-5.70)	(-6.97)	(-6.60)	(-5.65)	(-5.42)	(-5.42)
BMEET	0.505	-0.008	0.119	-0.947**	-0.956**	-0.931**
	(1.01)	(-0.02)	(0.33)	(-2.14)	(-2.16)	(-2.10)
BDIV	-0.522**	-0.755***	-0.761***	-0.747***	-0.750***	-0.743***
	(-2.23)	(-3.33)	(-3.45)	(-3.31)	(-3.32)	(-3.29)
CSRCOM	-13.492***	-14.573***	-14.797***	-8.427*	-8.452*	-8.526*
	(-2.74)	(-3.18)	(-3.20)	(-1.67)	(-1.67)	(-1.67)
Constant	83.139	95.415*	96.770**	132.351**	138.497***	122.084**
	(1.45)	(1.71)	(2.30)	(2.54)	(2.62)	(2.24)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1128	1128	1128	1187	1187	1187
Adjusted R^2	0.133	0.167	0.168	0.105	0.102	0.103
F statistic *p* value	0.000	0.000	0.000	0.000	0.000	0.000

This table presents the relationship between CSR decoupling and CEO entrenchment and how this relationship is affected by strategic shareholders (institutional and family) before and after CSR reporting was made mandatory, using two-way cluster method. The variables definitions and measures are reported in appendix 4.2. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t* statistics reported in parentheses are clustered by firm and year based on approach of Petersen (2009).

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

Table 4.6 Strategic and Non-strategic shareholders

	Institutional ownership		Family ownership	
	Strategic	Non-Strategic	Strategic	Non-Strategic
	Model 1	Model 2	Model 3	Model 4
E-INDEX	3.255	9.490**	-8.976	7.698**
	(0.69)	(2.05)	(-1.15)	(2.10)
SIZE	-0.527	3.390*	-6.651***	0.846
	(-0.29)	(1.87)	(-2.73)	(0.55)
CEOGEN	-19.785**	13.141	-41.101**	0.294
	(-2.45)	(1.49)	(-2.20)	(0.05)
CEOAGE	0.242	-0.142	0.856*	-0.018
	(0.66)	(-0.39)	(1.75)	(-0.06)
CEOTEN	0.846**	0.098	0.199	0.698**
	(2.08)	(0.26)	(0.34)	(2.32)
BSIZE	-0.070	-1.130	-4.992***	0.558
	(-0.06)	(-1.01)	(-2.66)	(0.61)
BIND	-0.803***	-1.365***	-1.137***	-1.087***
	(-4.62)	(-7.62)	(-4.37)	(-7.71)
BMEET	-0.018	-0.994**	-0.569	-0.612
	(-0.04)	(-2.25)	(-0.90)	(-1.62)
BDIV	-0.560**	-0.966***	0.022	-0.905***
	(-2.30)	(-4.44)	(0.06)	(-4.71)
CSRCOM	-5.106	-18.652***	-22.672***	-12.607***
	(-1.03)	(-3.83)	(-3.32)	(-3.08)
Constant	64.458	177.896***	245.346***	134.470***
	(1.22)	(3.46)	(3.58)	(2.99)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Observations	1225	1090	529	1786
Adjusted R^2	0.115	0.172	0.243	0.130
F statistic *P* value	0.000	0.000	0.000	0.000

This table compares between the effect of strategic and non-strategic shareholders (institutional and family) on the relationship between CSR decoupling and CEO entrenchment, using two-way cluster method. The variables definitions and measures are reported in appendix 4.2. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The coefficients are reported are multiplied by 100 due to variable scaling issues. *t* statistic reported in parentheses are clustered by firm and year based on approach of Petersen (2009). * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 4.7 CSR decoupling and CEO entrenchment: the role of strategic shareholders (GMM estimation)

	Model 1	Model 2	Model 3
E-INDEX	13.588**	22.559***	19.668***
	(2.39)	(2.71)	(2.99)
E-INDEX*INSTWN		-0.911**	
		(-2.12)	
INSTWN		0.453**	
		(2.06)	
E-INDEX*FAMWN			-1.517**
			(-2.57)
FAMWN			0.461**
			(2.08)
SIZE	1.469	1.680	1.119
	(1.26)	(1.41)	(0.92)
CEOGEN	0.151	-0.468	-0.354
	(0.03)	(-0.09)	(-0.07)
CEOAGE	0.107	0.083	0.185
	(0.43)	(0.33)	(0.68)
CEOTEN	0.078	0.052	-0.005
	(0.30)	(0.21)	(-0.02)
BSIZE	-0.209	-0.263	-0.241
	(-0.27)	(-0.34)	(-0.32)
BIND	-0.554***	-0.559***	-0.534***
	(-4.44)	(-4.45)	(-4.38)
BMEET	-0.888***	-0.917***	-0.864***
	(-3.20)	(-3.22)	(-3.14)
BDIV	-0.462***	-0.467***	-0.420**
	(-2.66)	(-2.77)	(-2.36)
CSRCOM	-8.893**	-8.981***	-7.592**
	(-2.57)	(-2.60)	(-2.17)
CSRDE (t-1)	59.659***	59.277***	61.139***
	(12.84)	(13.09)	(13.69)
CSRDE (t-2)	6.819**	6.811**	6.625**
	(2.09)	(2.13)	(1.97)
Constant	89.014***	73.557**	70.405**
	(2.81)	(2.35)	(2.17)
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Observations	1822	1822	1822
F statistic *p* value	0.000	0.000	0.000
AR1 statistic *p* value	0.000	0.000	0.000
AR2 statistic *p* value	0.657	0.661	0.551
Hansen test of overid restrictions *p* value	0.413	0.331	0.360
Diff-in-Hansen test of exogeneity *p* value	0.757	0.669	0.690

This table presents the relationship between CSR decoupling and CEO entrenchment and how this relationship is affected by strategic shareholders (institutional and family), using two-step system GMM. The variables definitions and measures are reported in appendix 4.2. All continuous variables

are winsorized at level 1% and 99% to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. Robust *t* statistics based on approach of White (1980) are reported in parentheses.

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

Table 4.8 Alternative measures

	Independent variable = CEOWN			Independent variable = DUALITY			Independent variable = T-INDEX		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
CEOWN	78.148**	151.909*	96.024**						
	(1.99)	(1.97)	(2.20)						
DUALITY				27.347**	44.358***	38.684**			
				(2.02)	(2.67)	(2.56)			
T-INDEX							13.104**	14.597**	15.491**
							(2.02)	(2.10)	(2.18)
CEOWN* INSTWN		-9.887**							
		(-2.02)							
DUALITY * INSTWN					-2.365**				
					(-2.25)				
T-INDEX* INSTWN								-0.807**	
								(-2.21)	
CEOWN* FAMWN			-3.714**						
			(-2.04)						
DUALITY * FAMWN						-1.088**			
						(-2.35)			
T-INDEX* FAMWN									-0.840**
									(-2.48)
INSTWN		0.234			0.195			0.726**	
		(1.07)			(1.16)			(2.53)	
FAMWN			0.102			0.081			0.753*
			(0.40)			(0.43)			(1.69)
SIZE	1.068	0.942	0.989	2.696**	2.433**	2.605*	0.893	1.125	0.323
	(0.79)	(0.66)	(0.78)	(2.23)	(2.00)	(1.94)	(0.67)	(0.85)	(0.25)
CEOGEN	5.294	4.473	5.754	-1.839	-3.026	-1.743	4.685	4.645	3.116
	(1.10)	(0.87)	(1.15)	(-0.42)	(-0.66)	(-0.37)	(0.88)	(0.92)	(0.57)
CEOAGE	0.460*	0.342	0.389	-0.013	-0.036	-0.064	0.396	0.395	0.385

	(1.68)	(1.25)	(1.42)	(-0.05)	(-0.14)	(-0.23)	(1.51)	(1.47)	(1.36)
CEOTEN	-0.427	-0.537	-0.346	0.121	0.330	0.347	-0.811	-0.541	-0.862
	(-1.29)	(-1.22)	(-1.02)	(0.50)	(1.29)	(1.25)	(-1.59)	(-1.26)	(-1.58)
BSIZE	-0.071	-0.447	-0.175	-0.579	-0.563	-0.958	-0.461	-0.475	-0.358
	(-0.08)	(-0.53)	(-0.23)	(-0.69)	(-0.65)	(-1.08)	(-0.57)	(-0.59)	(-0.45)
BIND	-0.635***	-0.584***	-0.557***	-0.519***	-0.558***	-0.539***	-0.634***	-0.639***	-0.623***
	(-5.07)	(-4.43)	(-4.66)	(-3.81)	(-4.01)	(-3.84)	(-4.84)	(-4.78)	(-4.87)
BMEET	-0.701**	-0.889***	-0.737**	-0.680**	-0.687**	-0.686**	-0.933***	-0.949***	-1.089***
	(-2.30)	(-2.68)	(-2.28)	(-2.42)	(-2.40)	(-2.48)	(-2.80)	(-2.87)	(-3.40)
BDIV	-0.454**	-0.483**	-0.500***	-0.366**	-0.380**	-0.527***	-0.467**	-0.509***	-0.434**
	(-2.53)	(-2.56)	(-2.93)	(-2.08)	(-2.01)	(-2.87)	(-2.52)	(-2.90)	(-2.37)
CSRCOM	-8.684**	-8.399**	-7.473**	-8.804**	-9.257***	-9.963***	-9.067**	-7.647**	-8.378**
	(-2.24)	(-2.26)	(-2.00)	(-2.58)	(-2.66)	(-2.79)	(-2.28)	(-1.99)	(-2.14)
CSRDE (t-1)	59.109***	57.578***	60.076***	60.798***	60.678***	57.588***	56.145***	55.091***	56.258***
	(12.29)	(11.46)	(13.75)	(12.37)	(11.15)	(11.53)	(10.92)	(11.13)	(10.95)
CSRDE (t-2)	7.140**	7.666**	8.595**	7.617**	8.953**	6.745**	7.315**	7.700**	7.482**
	(1.98)	(1.98)	(2.47)	(2.27)	(2.53)	(1.99)	(1.98)	(2.19)	(2.07)
Constant	63.050*	92.878**	67.723*	53.372*	75.950**	59.122*	79.352**	77.558**	98.866***
	(1.75)	(2.20)	(1.79)	(1.67)	(2.27)	(1.74)	(2.18)	(2.20)	(2.76)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1688	1688	1688	1827	1827	1827	1682	1682	1682
F statistic *p* value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
AR1 statistic *p* value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
AR2 statistic *p* value	0.834	0.811	0.848	0.940	0.835	0.885	0.683	0.820	0.607
Hansen test of overid restrictions *p* value	0.275	0.460	0.529	0.101	0.233	0.168	0.296	0.265	0.354
Diff-in-Hansen test of exogeneity *p* value	0.651	0.642	0.614	0.597	0.444	0.382	0.259	0.298	0.401

This table presents the relationship between CSR decoupling and different measures of CEO entrenchment and how this relationship is affected by strategic shareholders (institutional and family), using two-step system GMM. The variables definitions and measures are reported in appendix 4.2. All continuous

variables are winsorized at level 1% and 99% to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. Robust *t* statistics based on approach of White (1980) are reported in parentheses.

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

Appendix 4.1 Sample selection and industry distribution

Panel A: Sample selection procedure	**Freq.**	**%**
UK firms listed on the FTSE all-share index	4884	100
After merging the four data sources	3991	81.71
After excluding firms in the financial industry	3779	77.38
After deleting observations with missing main variables	2315	47.40
Final available data	2315	47.40
Panel B: Industry classifications		
Industry name	**Freq.**	**%**
Telecommunications	90	3.89
Consumer Discretionary	712	30.76
Consumer Staples	204	8.81
Energy	148	6.39
Health Care	80	3.46
Industrials	636	27.47
Basic Materials	233	10.06
Technology	129	5.57
Utilities	83	3.59
Total	2315	100

This table shows the sample selection process and distribution of the sample by industries

Appendix 4.2 Definition, measurement, and data source of the variables

Variable	Measurement	Data source
Dependent variable:		
CSR decoupling (CSRDE)	Difference between the z-score of CSR disclosure and CSR performance.	Bloomberg and ASSET4
Independent variable:		
CEO entrenchment (E-INDEX)	Dummy variable coded 1 if the total provisions of E-index are greater than 3, and 0 otherwise.	ASSET4
CEO ownership (CEOWN)	Dummy variable coded 1 if CEO ownership for the focal firm is above industry-year median of CEO ownership, and 0 otherwise.	BoardEx
CEO duality (DUALITY)	Dummy variable coded 1 if the chairman of the board and the CEO are the same person, and 0 otherwise.	BoardEx
Total index (T-INDEX)	Dummy variable coded 1 if two of E-INDEX, CEOWN, and DUALITY are equal to 1, and 0 otherwise.	BoardEx and ASSET4
Moderator variables:		
Institutional ownership (INSTWN)	Percentage of strategic interest (at least 5%) held by investment banks and other institutions.	Datastream
Family ownership (FAMWN)	Percentage of strategic interest (at least 5%) held by family members.	Datastream
Control variables:		
Firm size (SIZE)	Natural logarithm of total assets.	Worldscope
CEO gender (CEOGEN)	Dummy variable coded 1 if CEO is a female, and 0 otherwise.	BoardEx
CEO age (CEOAGE)	Age of CEO.	BoardEx
CEO tenure (CEOTEN)	Number of years that the CEO has served at the firm.	BoardEx
Board size (BSIZE	Total number of directors on the board.	ASSET4
Board independence (BIND)	Percentage of independent directors on the board.	ASSET4
Board diversity (BDIV)	Percentage of women directors on the board.	ASSET4
Board meeting attendance meeting (BMEET)	Percentage of directors who attend the board meetings.	ASSET4
CSR committee (CSRCOM)	Dummy variable coded 1 if the firm has a CSR committee, and 0 otherwise.	ASSET4

All the continuous variables are winsorized at levels of 1% and 99% to adjust for outliers.

CHAPTER FIVE

The Influence of Interaction among Governance Mechanisms on CSR Decoupling

5.1 Brief summary

This essay examines the effect of CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) on CSR decoupling. This essay is based on corporate governance bundle perspective in which the effective corporate should incorporate both monitoring and incentive alignment mechanisms complement each other to minimise the manger-stakeholder agency problems. This essay finds a negative relationship between these mechanisms and CSR decoupling. This negative relationship is significantly stronger if a standalone CSR report is issued in the presence of a CSR committee. In the same vein, the CSR committee and CSR contracting have a complementary relationship in reducing CSR decoupling. However, such a relationship between CSR reports and CSR contracting is only found in the post-financial crisis period. This essay also finds that the simultaneous presence of all CSR-focused governance mechanisms does not have any additional marginal benefit in reducing CSR decoupling, either during or after the financial crisis period.

5.2 Introduction

Over the last decade, stakeholders have become more concerned about the credibility of corporate social responsibility (CSR) (Ballou et al., 2018, Clarkson et al., 2019). This concern has arisen as a result of the gap between what is being disclosed regarding CSR and what is actually performed, which is often known as CSR decoupling (García-Sánchez et al., 2020, Sauerwald and Su, 2019, Tashman et al., 2019). Such selective practice compromises CSR credibility (Jauernig and Valentinov, 2019) and harms the reliability and integrity of related reports (Boiral et al., 2019). Given that CSR credibility is critical in stakeholders' decisions (Tata and Prasad, 2015), there has been growing interest in investigating how corporate governance mechanisms influence CSR decoupling and other forms of selective disclosure (García-Sánchez et al., 2020, Kim and Lyon, 2015, Lyon and Maxwell, 2011, Marquis and Qian, 2014, Sauerwald and Su, 2019, Tashman et al., 2019).

Based on the view that CSR is a function of corporate governance (Zaman et al., 2020), previous research has shown that the characteristics of directors (their experience and

ownership) (Sauerwald and Su, 2019) and compliance with Global Reporting Initiative (GRI) guidelines (García-Sánchez et al., 2022a) play an important role in mitigating CSR decoupling. Other studies have focused on external monitoring and have found that financial analyst coverage (García-Sánchez et al., 2021, Zhang, 2021), stakeholder scrutiny (Tashman et al., 2019), and government regulations (Marquis and Qian, 2014) reduce CSR decoupling. However, García-Sánchez et al. (2022a) argue that CSR assurance is symbolically used by firms, since it has no significant influence on such decoupling.

Surprisingly, the role of CSR-focused governance mechanisms in alleviating CSR decoupling remains largely unexplored. Derchi et al. (2021) contend that the presence of a bundle of such mechanisms enhances the monitoring and advising of corporate executives regarding CSR-oriented performance. Accordingly, ASSET4 reveals an increase in the adoption of such mechanisms by firms[23]. Nevertheless, other research indicates the possible symbolic use of multiple governance mechanisms, since these may act as substitutes for each other in governance (e.g., Misangyi and Acharya, 2014, Rodrigue et al., 2013, Schepker and Oh, 2013, Siggelkow, 2002). As such, simultaneous use of governance mechanisms which have a substitution relationship with each other does not substantially affect CSR performance and may even have a negative effect (Oh et al., 2018). Therefore, understanding how CSR-focused governance mechanisms interact with one another is an important research question worthy of investigation.

Based on the governance mechanism bundle perspective, this study examines whether CSR-focused mechanisms complement or substitute each other, by analysing their influence on CSR decoupling. Analysis of UK firms listed on the FTSE All-Share Index (2360 firm-year observations during the period 2007-2017) shows that CSR-focused governance mechanisms significantly mitigate CSR decoupling. In addition, the decrease is greater when the standalone CSR report is issued with the existence of CSR committee, and when CSR contracting and committee exist at the same time. These results suggest that there is a complementary relationship between CSR committees and CSR reports, and between CSR committees and CSR

[23] In 2007, approximately 42% of firms established a CSR committee; 46% issued standalone CSR reports; and 16% linked corporate executives' compensation with CSR targets. These percentages increased to around 70%, 80%, and 50% respectively by 2017.

contracting, in mitigating CSR decoupling. However, the complementary effect of CSR report and CSR contracting on CSR decoupling is only found in the post-financial period.

The study makes several important contributions to the literature. First, it contributes to research on CSR decoupling by demonstrating the importance of corporate governance in curbing the practice, in particular those mechanisms, that focus on CSR. This provides empirical evidence to the symbolic management literature that CSR-focused governance mechanisms can be part of a substantive strategy through which firms enhance the credibility and transparency of their CSR reporting. Second, to the best of my knowledge, this is the first study that examines the interaction effects between CSR-focused governance mechanisms on CSR decoupling. Therefore, it contributes to the literature on corporate governance bundles by showing the presence of a complementary relationship between multiple CSR-focused governance mechanisms on CSR decoupling. Finally, the study enriches the research stream that investigates the effectiveness of corporate governance during and post-financial crisis of 2008-2010. The study is in line with previous research (Van Essen et al., 2013, Erkens et al., 2012) and confirms that governance mechanisms are more effective in the post-financial crisis periods.

The remainder of the study is structured as follows. Section 4.2 discusses the previous literature and develop the hypotheses. Section 4.3 section describes the sample and empirical techniques used. Section 4.4 presents the empirical results, while Section 4.5 discusses the results and draws conclusions.

5.3 Theoretical framework

According to agency theory, corporate managers are primarily driven by their self-interest, disregarding the interests of other stakeholders (Jensen and Meckling, 1976), unless they are subject to monitoring or provided with alignment incentives (Shleifer and Vishny, 1997). Therefore, the establishment of strong corporate governance is crucial to mitigate agency problems and safeguard the interests of stakeholders (Eisenhardt, 1989). Effective corporate governance serves to prevent opportunistic behaviours (Liu and Lu, 2007), and enhances a firm's ability to respond to emerging challenges, thus reducing agency problems (Haniffa and Cooke, 2005).

High-quality monitoring is one approach to reduce agency conflicts by holding managers accountable to the stakeholders (Burkart et al., 1997, Hermalin and Weisbach, 1998), while

providing financial incentives is another approach to reduce agency conflicts by alignment the interests of managers and stakeholders (Eisenhardt, 1989, Shleifer and Vishny, 1997). Based on the agency theory framework, a significant stream of studies has explored either the roles of effective monitoring or appropriate incentive alignment in promoting CSR credibility (Miras-Rodríguez and Di Pietra, 2018, Adel et al., 2019, Wang et al., 2020) and CSR performance (Jo and Harjoto, 2012, Hong et al., 2016, Arora and Dharwadkar, 2011, Maas, 2018, Oh et al., 2018). However, their empirical findings are inconclusive and in some cases inconsistent. Rediker and Seth (1995) contend that such inconsistent findings are caused by the consideration that each governance mechanism works independently, rather than recognizing their potential interdependent effects on CSR decision-making. This argument has reoriented governance research towards the study of corporate governance as a bundle of mechanisms that work homogeneously to improve transparency, accountability, disclosure, and corporate performance (Radu and Smaili, 2021).

Considering corporate governance as a bundle of mechanisms implies that these may complement or substitute each other to achieve a desired outcome (Hoskisson et al., 2009, Schepker and Oh, 2013, Oh et al., 2018). Therefore, the fundamental question, in this case, is how to establish an effective governance bundle to reduce symbolic actions taken by managers which are not in the interests of other stakeholders (Roe, 1996). Misangyi and Acharya (2014) contend that the effective corporate governance bundle incorporates mechanisms complementing each other in reducing agency problems. Based on the governance bundle perspective, a complementary interaction between governance mechanisms fosters CSR-oriented performance (Oh et al., 2018). More specifically, Derchi et al. (2021) illustrate that CSR-focused governance mechanisms have a significant effect on promoting CSR performance. Nevertheless, how such CSR-focused mechanisms jointly interact to reduce opportunistic actions is unclear. Therefore, this study develops that of Derchi et al. (2021) and examines whether CSR-focused governance mechanisms act as complements or substitutes for each other in mitigating opportunistic actions, particularly CSR decoupling.

5.4 Literature review and hypothesis development

5.4.1 CSR-focused governance and CSR decoupling

CSR decoupling is a symbolic action referred to in the accounting and management literature as the difference between what is disclosed about CSR and what is actually

performed (Kim and Lyon, 2015, Tashman et al., 2019, Sauerwald and Su, 2019). Based on agency theory, the effectiveness of governance systems deters managers from engaging in symbolic actions (Milgrom, 1992, Shleifer and Vishny, 1997). Accordingly, this study examines three CSR-focused governance mechanisms, CSR committees, standalone CSR reports, and CSR contracting, since these have been increasingly adopted by firms (as discussed above).

A CSR committee is a board-level committee explicitly responsible for monitoring and advising corporate executives about CSR issues (Radu and Smaili, 2021, Liao et al., 2015). Establishing such a committee is a voluntary business decision through which firms reflect their commitment towards stakeholder issues and society (Mallin and Michelon, 2011, Shaukat et al., 2016) and attain a balance between their financial and non-financial objectives (Liao et al., 2015). The committee comprises a group of knowledgeable members who are specifically delegated to provide corporate executives with appropriate CSR development strategies (Berrone and Gomez-Mejia, 2009, Paine, 2014) and to review the implementation of these (Ricart et al., 2005). Therefore, the existence of a CSR committee at the board level significantly improves the board's oversight of CSR decisions (Spira and Bender, 2004); turns CSR strategies into actions (Mallin and Michelon, 2011); and communicates CSR issues (Ricart et al., 2005).

Additionally, as part of its monitoring and advising role, CSR committees manage the risks and opportunities of CSR activities and fulfils commitments to stakeholders (Peters and Romi, 2015), thus enhancing CSR transparency and awareness of its concerns (Adams, 2002). The functioning of the committee in ensuring transparent CSR practices is analogous with the audit committee, which works to provide transparent financial reporting practices (García-Sánchez et al., 2019a, Liao et al., 2015). Hence, the CSR committee is considered to be a proactive monitoring mechanism that has the authority to audit all CSR activities and ensure that these comply with ethical standards and stakeholders' interests (Martínez-Ferrero et al., 2019).

A number of previous studies have empirically documented positive consequences of the presence of a CSR committee on CSR performance (Hussain et al., 2018, Derchi et al., 2021, Radu and Smaili, 2021); on the transparency of CSR information (Liao et al., 2015); and on the quality of CSR performance (Helfaya and Moussa, 2017). Likewise, stronger human rights and community performance (Mallin and Michelon, 2011) and lower greenhouse gas emissions (Homroy and Slechten, 2019) are related to the existence of a CSR committee. However, other studies have found that such committees have no significant influence on CSR performance

and perform symbolic acts rather than monitoring mechanisms (Rankin et al., 2011, Rupley et al., 2012, Rodrigue et al., 2013). The lack of an association between the CSR committee and CSR performance is explained by the fact that the committee is only effective when firms adopt sustainable behaviour (García-Sánchez et al., 2019a). Burke et al. (2019) also show that heterogeneous tasks delegated to the committee reduce its effectiveness.

Another CSR-focused governance mechanism used to oversee the impact of CSR is the issuing of standalone CSR reports (Derchi et al., 2021). These are known in the literature under multiple names, such as "sustainability reports", "citizenship reports", and "environmental reports". Regardless of the term used, such reports are characterised by their focus on CSR issues, are separate from annual reports, and are not prescribed by mandatory reporting standards (Thorne et al., 2014). Producing and releasing a standalone CSR report is a signal of substantive corporate commitment to CSR issues (Christensen, 2016, Al-Tuwaijri et al., 2004, Dhaliwal et al., 2012). It provides an aggregate score of CSR performance, and a segmentation of CSR components, with each involving specific actions and risks. Therefore, standalone CSR reports expose particular corporate strengths and weaknesses, which help the board of directors to improve monitoring of executives and to correct agency conflict problems; e.g., misleading disclosures and poor investments (Armstrong et al., 2010).

Previous research shows that firms with superior CSR performance are more likely to issue standalone CSR reports (Koseoglu et al., 2021, Prado-Lorenzo and Garcia-Sanchez, 2010, Du and Yu, 2021). Furthermore, issuing such a report leads to enhanced information transparency (Dhaliwal et al., 2011) and reduces analyst forecast error (Dhaliwal et al., 2012), which ultimately result in reduced asymmetric information (Healy and Palepu, 2001, Martínez-Ferrero et al., 2018). However, Guidry and Patten (2010) and Lyon and Maxwell (2011) argue that firms issue standalone CSR reports to manage stakeholders' perceptions that they are adopting a CSR strategy. Likewise, Neu et al. (1998) contend that CSR reports are used to improve the impression of legitimate CSR values that may not in fact be true. Consequently, criticism has been made of the quality, reliability, and usefulness of such reports (Laine, 2010, Boiral, 2013) and their disconnection with CSR actions (Mio, 2010).

A recently developed CSR-focused governance mechanism involves the incorporation of CSR criteria in executive compensation schemes, known by practitioners as CSR contracting (Cavaco et al., 2020, Flammer et al., 2019, Tsang et al., 2021). This practice is a way to

encourage CSR actions by incentivising corporate executives to implement them (Maas, 2018, Radu and Smaili, 2021). Based on agency theory, incentive-linked compensation is used to align managers' efforts with shareholders' desires, which mitigates agency problems between the parties (Holmstrom and Milgrom, 1991, Eisenhardt, 1989). Accordingly, CSR contracting is considered to be an effective governance mechanism, as it links executives' compensation with a particular CSR target and thus helps boards of directors to reduce the agency costs that may be embedded in CSR actions (Hong et al., 2016). Flammer et al. (2019) show that CSR contracting directs corporate executives' attention towards the less silent stakeholders, who are financially essential for firms over the long term, ultimately improving the effectiveness of corporate governance.

Empirical results on the effect of using incentive-linked compensation based on financial and non-financial targets are conflicting (Russo and Harrison, 2005, Cai et al., 2011, Mahoney and Thorn, 2006, Berrone and Gomez-Mejia, 2009, Mahoney and Thorne, 2005). For instance, Maas (2018) shows that the use of CSR targets has no positive automatic effect on CSR performance, while the use of quantitative hard targets is positively associated with performance and negatively related with weaknesses. Flammer et al. (2019) find a positive effect of CSR contracting on long-term orientation, firm value, CSR initiatives, and corporate governance. However, Derchi et al. (2021) show that the positive effect of CSR contracting on CSR performance takes place after firms have accumulated experience and learnt how to use the approach, namely from the third year of the adoption of such contracting. Furthermore, Derchi et al. (2021) argue that the difficulty of measuring non-financial targets and the multiplicity tasks assigned to managers are the main reasons for conflicting results in the use of CSR contracting.

In summary, the central premise of agency theory is that managers' actions derive from self-interest (Jensen and Meckling, 1976), in which establishing governance mechanisms is considered to be an important proactive practice to reduce opportunistic activities that may occur due to the agency problem (Shleifer and Vishny, 1997). Accordingly, this study hypothesises that monitoring and incentivising CSR activities are effective governance mechanisms to reduce related opportunistic activities (i.e., CSR decoupling). Therefore, the following hypothesis is proposed:

Hypothesis 5.1 (H5.1): a negative relationship between CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) and CSR decoupling is expected.

5.4.2 CSR-focused governance as a bundle

Corporate governance bundles are a system of monitoring and incentivising mechanisms that are collectively used to control agency issues (Aslan and Kumar, 2014, Misangyi and Acharya, 2014). The concept is developed based on the argument that governance mechanisms do not function independently; rather, they interact interdependently in attaining effective corporate governance (Tosi et al., 1997, Zajac and Westphal, 1994, Rediker and Seth, 1995). Each mechanism has different roles, characteristics, and functions, so it is not sensible to consider that they work in the same manner, even though they have a similar objective, namely mitigating agency costs (Oh et al., 2018). Yoshikawa et al. (2014) contend that the existence of multiple governance mechanisms that function interdependently within a firm constitutes the context of the governance environment. However, previous research shows that the varying mechanisms can either complement or substitute each other in affecting corporate outcomes (Poppo and Zenger, 2002, Schepker and Oh, 2013, Ward et al., 2009, Misangyi and Acharya, 2014). Based on cost-benefit analysis, multiple governance mechanisms function as complements (substitutes) when they jointly raise (reduce) shareholders' wealth or/and reduce (increase) agency costs (Siggelkow, 2002). Accordingly, it is proposed that the bundle of CSR-focused governance mechanisms is effective only in certain combinations, based on whether they interact as complements or substitutes.

5.4.2.1 Complementary effect perspective

The complementary effect implies an increase in the marginal benefit of one governance mechanism in the presence of another (Schmidt and Spindler, 2002). Therefore, the effectiveness of a specific governance bundle is achieved by combining mechanisms that have a complementary effect on each other (Misangyi and Acharya, 2014). In accordance with this perspective, this study argues that standalone CSR reports can be more effective in mitigating CSR decoupling if a CSR committee also exists. Such a committee plays an important role in monitoring the information provided in standalone CSR reports, which in turn increases the truthfulness and credibility of this information (García-Sánchez et al., 2019a). Furthermore, it is more likely that the standalone CSR report will be prepared in compliance with GRI guidelines

and International Finance Corporation (IFC) performance standards if there is a CSR committee (García-Sánchez et al., 2019a). Al-Shaer and Zaman (2019) show that the existence of a CSR committee increases the probability of a standalone CSR report being externally assured by a big-4 auditor, which improves its reliability and transparency. As mentioned above, a standalone CSR report is a channel through which firms can communicate CSR information with stakeholders; therefore, having a CSR committee ensures that the report's objective is accomplished (Helfaya and Moussa, 2017).

Based on the complementary effect perspective, Radu and Smaili (2021) show that CSR committees and CSR contracting positively interact to improve CSR performance. They argue that CSR and compensation committees are monitored by the board of directors, whose members work together to reflect the boards' strategy. In addition, the members of the CSR committee and compensation committees might overlap, which enhances the interaction between them in reducing the agency problem. Al-Shaer and Zaman (2019) document that the existence of a CSR committee increases the likelihood of incorporating CSR targets in executives' compensation contracts. Likewise, CSR contracting and standalone CSR reports interact to improve CSR strengths and reduce any concerns (Derchi et al., 2021). Once CSR targets are incorporated into executives' compensation, CSR reporting renders executives formally accountable for the achievement of related targets (Derchi et al., 2021). Due to social image and individual reputation, standalone reports are considered to be a powerful monitoring mechanism that forces corporate executives to meet CSR targets (Bénabou and Tirole, 2010). Therefore, this study argues that the simultaneous presence of a CSR committee and CSR contracting, and/or a standalone CSR report and CSR contracting reduces CSR decoupling.

In summary, according to the complementary effect perspective, CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) interact to reduce CSR decoupling. Therefore, the following hypothesis is proposed:

Hypothesis 5.2 (H5.2): based on the complementary effect perspective, a negative total marginal effect of the interaction of CSR-focused governance mechanisms on CSR decoupling is expected.

5.4.2.2 Substitutive effect perspective

The substitutive effect refers to a diminishing marginal benefit of one governance mechanism in the presence of another (Oh et al., 2018). Therefore, effective corporate governance is reduced if there is a substitute effect between two such mechanisms (Schepker and Oh, 2013). The substitutive relationship between governance mechanisms may also lead to diminished behavioural returns and incur additional costs that may outweigh the expected benefits (Zajac and Westphal, 1994).

Accordingly, a number of studies note that monitoring mechanisms and incentive alignment may work as substitutes in a bundle of governance mechanisms (Armstrong et al., 2010, Hoskisson et al., 2009, Rediker and Seth, 1995). As such, the intensity of monitoring of corporate executives should be to a lower extent when they are given incentives, and vice versa, which suggests that a systematic balance between mechanisms is preferable to the presence of a substitute situation (Hoskisson et al., 2009). In the CSR context, if one CSR-focused mechanism (e.g., CSR contracting) incentivises executives to align their behaviour with the interests of stakeholders, jointly establishing other monitoring mechanisms (e.g., CSR committees and standalone CSR reports) will be redundant, incur extra costs and thus not be necessary. Based on this argument, several firms identified as CSR leaders in the Dow Jones Sustainability Index (DJSI) do not use CSR contracting with other CSR-focused monitoring mechanisms at the same time (see Derchi et al. (2021) for more statistical details).

Other studies show that the combination of multiple governance mechanisms is a symbolic initiative rather than a substantive one (Berrone and Gomez-Mejia, 2009, Christensen, 2016, Oh et al., 2018, Rodrigue et al., 2013, Simnett et al., 2009). Consistent with the agency theory, firms establish numerous CSR-focused governance mechanisms together as a formal signal of their strong commitment towards CSR issues (Derchi et al., 2021). However, these mechanisms do not collectively promote CSR, and one mechanism may negatively affect another because they interact in a substitutive manner (Rodrigue et al., 2013). As discussed above, some research for instance has found insignificant or negative effects of CSR committees (Rankin et al., 2011, Rodrigue et al., 2013, Rupley et al., 2012) and standalone CSR reports (Guidry and Patten, 2010) on CSR performance. Likewise, Derchi et al. (2021) examine the joint effect of CSR-focused governance mechanisms on CSR performance and find that CSR report has a positive effect, while CSR committees and assurance have no effect.

Therefore, such findings suggest that some mechanisms could be symbolic rather than substantive.

In summary, according to the substitutive effect perspective, a simultaneous presence of multiple CSR-focused governance mechanisms may be redundant and symbolic since they may work as substitutes (Armstrong et al., 2010, Rodrigue et al., 2013), thus diminishing their effectiveness (Schepker and Oh, 2013). Therefore, the following hypothesis is proposed:

Hypothesis 5.3 (H5.3): based on the substitutive effect perspective, a positive total marginal effect of the interaction of CSR-focused governance mechanisms with each other on CSR decoupling is expected.

5.5 Research design

5.5.1 Data and sample

Study data are obtained from the Refinitiv Eikon database. In particular, data on internal and external CSR actions and CSR-focused governance mechanisms are obtained from ASSET4[24]. Subsequently, the ASSET4 data are combined with other control variables data gathered from Worldscope and Datastream. The initial sample is involved a panel dataset of 4,884 firm-year observations corresponding to 445 UK-based firms listed on the FTSE All-Share Index[25] during the period 2007-2017.

Financial firms are excluded due to their distinct financial reporting requirements and that they are strictly-regulated (Macve and Chen, 2010). The firm-year observations that have main variables missing are also excluded. Accordingly, the final sample comprises an unbalanced panel of 2360 firm-year observations for the period 2007-2017. A Kolmogorov-Smirnov (K-S) test reveals no significant difference between the full data (N=4884) and the one used in the analyses (N=2360), suggesting that the attrition problem is not a concern in the final sample. The market value of the final sample accounts for approximately 70% of total UK market capitalisation[26], also suggesting an absence of a selection bias problem. Panel A in Table 5.1 summarises the data collection process.

[24] For a detailed description of ASSET4, see Cheng et al. (2014)

[25] The FTSE All-Share Index is a largest index in the UK market, representing 98% of the firms listed on the London Stock Exchange (LSE). This index involves FTSE smallCap, FTSE 250, and FTSE 100, which account for small, medium and large firms respectively. https://www.ftserussell.com/products/indices/uk

[26] According to the LSE, 2017 UK total market capitalisation was around £4,234 billion and the total market value of sample in the same year was around £2,970 billion, representing 70% of the total.

Based on the Industry Classification Benchmark (ICB) code level 1, Panel B in Table 5.1 shows that the final sample is distributed over nine industries, Telecommunications, Consumer Discretionary, Consumer Staples, Energy, Healthcare, Industrials, Basic Material, Technology, and Utilities, with greater concentration in Consumer Discretionary and Industrials. In addition, Panel C in Table 5.1 displays the percentage of observations in each year of the study.

(Insert Table 5.1 here)

5.5.2 Variable measurement

5.5.2.1 Dependent variable

CSR decoupling is measured according to Hawn and Ioannou (2016). They classify ASSET4 120 data points into internal CSR actions for data focused on internal firm policies and external ones for data related to disclosure and claims. Due to missing data and performing the Cronbach's alpha test, Hawn and Ioannou (2016) finish with 21 internal CSR actions and 24 external CSR ones for the construction of the decoupling measure.[27]

More specifically, the internal and external CSR actions are normalised based on a 0 to 1 scale in order to compute the gap (CSR decoupling) between them. In this way, CSR decoupling is the difference between the sum of current external actions and lagged internal ones.[28] A lag of one-year on internal actions is included to consider the time gap that may exist between implementing policies and disclosing this. Therefore, In line with CSR literature (García-Sánchez et al., 2022a, Kim and Lyon, 2015, Sauerwald and Su, 2019, Tashman et al., 2019), the higher the value, the greater the decoupling between internal CSR actions and external ones.

5.5.2.2 Independent variables

Based on the ASSET4 database, three indicators are created to identify the use of CSR-focused governance mechanisms, namely CSR committee, standalone CSR report, and CSR contracting. The CSR committee is a monitoring and advisory committee, coded as a binary variable taking a value of 1 if a firm has a CSR committee, and 0 otherwise. The standalone CSR report is a separate report issued on a voluntary basis, intended to inform stakeholders about CSR issues. The report must contain at least five pages to be classified as a standalone report

[27] See Hawn and Ioannou (2016) for more details about the list of internal and external actions, and the tests performed to validate the method used for classifying them.

[28] CSR decoupling$_{it}$ = ∑ normalized value of external actions$_{it}$ − ∑ normalized value of internal actions$_{it-1}$

by ASSET4. In this regard, a binary variable is coded 1 if a firm issued a standalone CSR report, and 0 otherwise. CSR contracting is an incentive alignment mechanism, coded 1 if the CSR target is linked to corporate executives' compensation, and 0 otherwise.

5.5.2.3 Control variables

In accordance with the prior literature on the relation between CSR and corporate governance (Adams, 2002, Derchi et al., 2021, García-Sánchez et al., 2022a, Maas, 2018, Oh et al., 2018, Radu and Smaili, 2021, Zhang, 2021), this study considers two groups of control variables (firm specific and monitoring), while examining the effect of CSR-focused governance mechanisms on CSR decoupling. These are considered essential to provide unbiased results, as they undoubtedly influence firms' policies and actions (Delmas and Burbano, 2011).

Firm specific group consists of variables such as size, profitability, market value, age, and financial leverage. Large firms have stronger motivation to exaggerate their positive CSR disclosure because they are highly visible to society (Sauerwald and Su, 2019). As such, a positive relationship between firm size and CSR decoupling is expected. This variable is proxied by the natural logarithm of total assets to reduce its skewness. Similarly, firm profitability and firm market value are expected to be positively associated with CSR decoupling. More profitable and overvalued firms focus on bottom-line performance (Adhikari, 2016), which may lead them to overreport their CSR activities in order to achieve further financial benefits (Delmas and Burbano, 2011, Kim and Lyon, 2015). Consistent with the literature, firm profitability is calculated as the proportion of net income to total assets, and firm value is measured as the percentage of market value to book value. However, financial leverage and firm age are expected to have a negative effect on CSR decoupling. Due to the fact that financial leverage affects the risk-taking level (Acosta-Smith et al., 2020, Bhagat et al., 2015, Cathcart et al., 2020), firms with a high level of financial leverage may avoid taking the additional risk of engaging in CSR decoupling. To calculate financial leverage, long-term liabilities are divided by common equity. In the same vein, older firms are more concerned about their reputation (Khan et al., 2013), which may reduce their tendency towards CSR decoupling. In line with Khan et al. (2013), the natural logarithm of total years since a firm was incorporated is employed as a proxy for firm age.

In addition, the study controls for monitoring factors, namely ownership concentration, board independence, and board activism. These are expected to mitigate CSR decoupling as

they reflect the monitoring efficiency of shareholders and of board of directors (Burkart et al., 1997, Hermalin and Weisbach, 1998, Shleifer and Vishny, 1997). In line with Surroca et al. (2020), ownership concentration is measured by subtracting 100% from the percentage of free-float shares. The proportion of independent directors represents board independence, while the frequency of directors' attendance at board meetings is applied as a proxy for board activism.

5.5.3 Model specification

To test the hypotheses, an ordinary least squares (OLS) approach is used for all the models. Previous studies have highlighted various macroeconomic issues related to CSR, such as economic shocks and changes in governmental systems and policy (Barnett and Salomon, 2012, Maas, 2018). As such, industry and year dummies are included in the models to mitigate these macroeconomic effects. In addition, a one-year lag of independent variables is added to avoid simultaneity issues. Finally, standard errors are clustered at both firm and year levels, which correct heteroskedasticity issues and provide well-specified standard errors in the presence of cross-sectional and time series data (Gow et al., 2010).

$$CSRDE_{it} = \alpha_0 + \sum_x \beta_x GOVFCSR_{it-1} + \sum_k \beta_k X_{kit-1} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \varepsilon_{it} \quad (5.1)$$

$$CSRDE_{it} = \alpha_0 + \beta_1 CSRCOM_{it-1} + \beta_2 CSRRE_{it-1} + \beta_3 CSRCOM_{it-1} \times CSRRE_{it-1} + \sum_k \beta_k X_{kit-1} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \varepsilon_{it} \quad (5.2)$$

$$CSRDE_{it} = \alpha_0 + \beta_1 CSRCOM_{it-1} + \beta_2 CSRCON_{it-1} + \beta_3 CSRCOM_{it-1} \times CSRCON_{it-1} + \sum_k \beta_k X_{kit-1} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \varepsilon_{it} \quad (5.3)$$

$$CSRDE_{it} = \alpha_0 + \beta_1 CSRRE_{it-1} + \beta_2 CSRCON_{it-1} + \beta_3 CSRRE_{it-1} \times CSRCON_{it-1} + \sum_k \beta_k X_{kit-1} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \varepsilon_{it} \quad (5.4)$$

In equations 5.1-5.4, $CSRDE_{it}$ refers to CSR decoupling for firm i in year t. GOVFCSR represents CSR-focused governance mechanisms that take three values: CSR committee (CSRCOM), standalone CSR report (CSRRE), and CSR contracting (CSRCON). X_k is a vector of eight control variables: firm size (FSIZE), profitability (ROA), market to book value (MTBV), financial leverage (FLEV), firm age (FAGE), ownership concentration (OWNCON), board independence (BINDE), and board meeting attendance (BMEET). Appendix 5.1 summarises the definitions, measurement, and data sources of these variables.

5.6 Empirical results

5.6.1 Univariate analysis

Table 5.2 displays the descriptive statistics of the continuous variables and frequencies for the dummy variables. In the study sample, majority of the firms undertake more internal actions than external ones, with the mean of CSRDE being -0.279 (ranging from -0.688 to 0.382) and standard deviation 0.137. These figures are consistent with previous studies (Hawn and Ioannou, 2016, Sauerwald and Su, 2019, Zhang, 2021). Interestingly, around 70% of the firms have established a CSR committee at board level, and 80% have issued a standalone CSR report; however, less than half of the firms have linked their corporate executives' compensation with CSR targets. Figure 5.1 shows annual trend in firms adopting different CSR-focused governance mechanisms over the sample period. In can be seen that in 2007 100 firms had a CSR committee, and approximately the same number issued CSR reports, whereas only around 30 incentivised their managers based on CSR performance. By 2017, these figures had increased significantly to close to 200, 250, and 150 respectively.

With respect to firm-level factors, Table 5.2 also shows that FSIZE, measured by the natural logarithm of total assets, has a mean (SD) of 14.460 (1.480), indicating that the study sample consists of large, medium and small firms with an average age of 21.28 years[29]. Financially, the sample firms have on average 0.058% ROA, 3.221% BTMV, and 0.194% FLEV. These values are consistent with previous research UK-based studies (e.g., Benlemlih et al., 2018, Al-Shaer, 2020). Referring to the monitoring factors, the mean of shares owned by blockholders is around 20%, suggesting that the majority of UK firms have widely-dispersed ownership (Sun et al., 2016). This is not the case in emerging countries, as, for instance, Zhang (2021) reports that more than 50% of Chinese firms are owned by blockholders. Finally, on average 55% of directors are independent and around 96% attend board meetings. These figures correspond to those of Katmon and Farooque (2017), but are slightly lower than those reported by Al-Shaer and Zaman (2019).

(Insert Table 5.2 here)

(Insert Figure 5.1 here)

[29] The firm age average is converted from natural logarithmic form to original form as follows: [firm age in years=$e^{\ln(mean\ of\ firm\ age)}$], in which $e^{3.058}$= 21.28 years.

Table 5.3 shows the correlation coefficients among the independent variables. The results indicate that the multicollinearity is not a concern in this study, as the coefficients are lower than 0.6 threshold of concern (Gujarati et al., 2012). The table also shows that the values of the variance inflation factor (VIF) are well below 10, confirming the absence of any multicollinearity problem (Kennedy, 2008).

(Insert Table 5.3 here)

5.6.2 Multivariate analysis

The regression results are presented in Table 5.4 based on a step-by-step approach. Starting with the control variables, Model 1 shows that FISZE and ROA have a positive effect (at the 1% level) on CSRDE, while FLEV, OWNCON, BINDE, and BMEET are negatively related to CSRDE. The effects of CSR-focused governance mechanisms (CSR committee, CSR report, and CSR contracting) on CSR decoupling are individually reported under Models 2, 3, and 4, respectively. These models show a highly significant negative effect of CSRCOM (β=-5.883, p <0.01), CSRRE (β=-2.855, p <0.01), and CSRCON (β=-2.101, p <0.01) on CSRDE. These findings confirm H5.1, which predicts a negative relationship between CSR-focused governance mechanisms and CSR decoupling. The findings align with the agency theory's perspective, which suggests that effective governance mechanisms can minimise opportunistic behaviour and protect stakeholders' interests (Eisenhardt, 1989, Shleifer and Vishny, 1997). These results are also consistent with previous research demonstrating that CSR committees (Amran et al., 2014, Gull et al., 2022), standalone CSR reports (Dhaliwal et al., 2011), and CSR contracting (Li and Thibodeau, 2019) enhance the quality and transparency of CSR activities. Finally, Model 5 shows the effects of all three CSR-focused governance mechanisms on CSR decoupling in one regression; the relationships remain significant and negative, though the level of significance varies.

(Insert Table 5.4 here)

The complementarity and/or substitution relationships are tested in Table 5.5 (Models 1-4). In each model, the effects of the untested CSR-focused governance mechanisms on CSR decoupling are controlled. In Model 1, the coefficient of the interaction term between CSRCOM and CSRRE is negatively significant (β=-3.587, p <0.05). This indicates that the effect of CSRRE on CSRDE is reinforced by the existence of a CSR committee, as the coefficient of such a relationship without a CSR committee is (β=0.435, p >0.1). In addition, a simple effect test

shows that the relationship between CSRRE and CSRDE is significant (at the 5% level), with a simple slope of -3.151 when a CSRCOM exists, while the slope is not significant when a CSRCOM does not exist. These results are shown in Figure 5.2; suggest the simultaneous presence of CSR reports and CSR committees increases the marginal negative effect on CSR decoupling. This finding provides support for complementary hypothesis, which posits governance mechanisms do not operate independently, but rather interdependently work to achieve the desired outcomes of governance systems (Zajac and Westphal, 1994, Rediker and Seth, 1995).

In Model 2, although the interaction term between CSRCOM and CSRCON has a positive coefficient (β=3.023, $p < 0.05$), the total marginal effect of CSRCON (i.e., $\beta_1+\beta_3$) on CSRDE is negative (3.023-3.624=-0.601). Based on the simple effect test, CSRCOM reduces the predicted value of CSRDE by a net difference of 0.6% when CSR targets are linked with executives' compensation, compared with when such targets are not incorporated in executives' compensation contracts. The findings shown in Figure 5.3 indicate that when a CSR committee is present as a monitoring mechanism, introducing an incentive alignment mechanism (i.e., CSR contracting) slightly increases the total marginal negative effect on CSR decoupling (and vice versa). This result also supports the complementary hypothesis.

However, Model 3 shows that the interaction term between CSRRE and CSRCON is not statistically significant (β=0.374, $p > 0.1$). This finding implies that issuing a standalone CSR report does not have any marginal benefit when executives' compensation contracts incorporate an incentive for achieving CSR targets (and vice versa). Similarly, the interaction term across CSRCOM, CSRRE, and CSRCON is not statistically significant (β=-1.849, $p > 0.1$), as shown in Model 4. This indicates that the simultaneous existence of all CSR-focused governance mechanisms (CSR committee, CSR report, and CSR contracting) is only symbolic, since there is no additional benefit of their coexistence in a corporate governance bundle.

(Insert Table 5.5 here)

(Insert Figures 5.2 and 5.3 here)

5.6.3 Additional analysis—financial crises

Previous studies have argued that the effectiveness of corporate governance varies during and after financial crisis period (Van Essen et al., 2013, Erkens et al., 2012, Aebi et al., 2012). During this period, Gupta et al. (2013) find that well-established corporate governance does not outperform poorly-established ones. Therefore, it is expected that CSR-focused

governance mechanisms contribute more to mitigating CSR decoupling post-crisis than during the crisis. In addition, Kim and Lyon (2015) contend that firms understate their financial expenditure during financial crises; for example, on employee benefits and society development. Therefore, the marginal benefit of adding a financial incentive mechanism (CSR contracting) to a bundle of corporate governance is expected to be higher in the post-financial crisis period. To test this expectation, the study sample is divided into financial crisis (2008-2010) and post-financial crisis period (2011-2017). 2008-2010 is used as the crisis period in order to capture all the effects of the financial recession that began in late 2008 (Arthur et al., 2015).

Table 5.6 presents the results of both periods (financial crisis and post-financial crisis). During the financial crisis, Model 1 shows that only CSRCOM has a significant negative effect on CSRDE (β=-4.528, p <0.01). However, Model 6 shows that CSRCOM (β=-5.397), CSRRE (β=-2.941), and CSRCON (β=-2.179) have strong negative associations with CSRDE at the 1% significant level post crisis period. These findings support the expectation that CSR-focused governance mechanisms are more effective in reducing CSR decoupling in the post-financial crisis period. In addition, Models 8 and 9 respectively show that the simultaneous presence of an incentive mechanism (i.e., CSRCON) with CSRCOM ($\beta_1+\beta_3$; i.e., 3.544-4.929=-1.385) and CSRRE ($\beta_1+\beta_3$; i.e., 3.120-4.655=-1.535) has a negative total marginal effect on reduction CSRDE only in the post-financial crisis period. However, Models 3 and 4 indicate that such a simultaneous presence has no additional marginal effect on CSRDE during the crisis. This result is consistent with Kim and Lyon (2015) argument that firms do not finance CSR activities during times of financial pressure. Finally, Table 5.6 also shows that combining all CSR-focused mechanisms in a single governance system is symbolic both during the financial crisis (Model 5) and after (Model 10).

(Insert Table 5.6 here)

5.6.4 Robustness check

A number of alternative analyses are conducted to check the robustness of the study results. To ensure that the results are not driven by a particular measure, CSR decoupling is re-estimated by taking the difference between the normalised values of CSR disclosure and performance. This measurement has been validated in previous studies (e.g., Sauerwald and Su, 2019, Tashman et al., 2019, Zhang, 2021). Based on this measure of CSR decoupling, the

hypothesised relationships are re-examined by using different estimation techniques; i.e., the fixed-effect (FE) model[30] and the generalized estimating equation (GEE) model. The FE estimation includes all the unobserved effects, through which it tackles the endogeneity problem raised by the existence of unobservable factors (Oh et al., 2018). However, the GEE model controls for non-autonomous observations (Al-Shammari et al., 2019). In both models, a one-year lag of independent variables is included to address the endogeneity problem from simultaneity issues. Overall, the results reported in Table 5.7, based on the FE estimation (Models 1-5) and the GEE estimation (Models 6-10), are consistent with the results reported in Tables 5.4 and 5.5. This generates more confidence in the study findings.

(Insert Table 5.7 here)

5.7 Discussion and conclusions

The value of CSR activities will be lost if their credibility is questioned (Casey and Grenier, 2015, Talbot and Boiral, 2018). To protect this credibility, there has been an increase in the adoption of CSR-focused governance mechanisms, as shown in Figure 5.2. Recently, Ballou et al. (2018) have contended that the adoption of such mechanisms to improve credibility has become an established business practice. Therefore, this study has addressed the question concerning the substantive versus symbolic adoption of such mechanisms by examining their effects on CSR decoupling. In addition, whether such mechanisms act as complements or substitutes for each other in a bundle of governance mechanisms has been examined.

Based on UK firms listed on the FTSE All-Share Index during the period 2007-2017, the results indicate that CSR-focused governance mechanisms (i.e., CSR committees, CSR reports, and CSR contracting) cause CSR decoupling to be mitigated by the alignment between external (CSR disclosure) and internal actions (CSR performance). This is consistent with Derchi et al. (2021) who find that CSR-focused governance mechanisms are substantive in promoting CSR performance. Based on the governance mechanism bundle perspective, this study also finds that issuing a standalone CSR report in the presence of a CSR committee has additional benefits in reducing CSR decoupling. This indicates the existence of a joint complementary effect of CSR reports and CSR committees on CSR decoupling. It also supports García-Sánchez et al. (2019b) argument that CSR committees play a key role in enhancing the truthfulness and credibility of

[30] The Hausman test (p<0.001) shows that fixed-effects estimation is more efficient for the study regressions than that of random-effects estimation.

the information provided in the standalone CSR reports. Similarly, CSR committees and CSR contracting are complementary in reducing CSR decoupling. However, the complementary relationship between CSR reports and CSR contracting is only found in the post-financial crisis period. This result is in line with previous research (Van Essen et al., 2013, Erkens et al., 2012, Aebi et al., 2012, Gupta et al., 2013), which has found that governance mechanisms are more efficient in the post-financial crisis period. Finally, having all CSR-focused mechanisms in a bundle of corporate governance does not provide additional marginal benefit in mitigating CSR decoupling either during or after the financial crisis period, indicating that such governance system is symbolic rather than substantive.

The symbolic management literature has long debated whether governance mechanisms are substantive or symbolic in the context of CSR (Rodrigue et al., 2013, Marquis and Qian, 2014). Although some research has shown that CSR committees, CSR reports, and CSR contracting are positive signals of firms' commitment toward CSR behaviour (Hussain et al., 2018, Koseoglu et al., 2021, Liao et al., 2015, Maas, 2018), other studies have questioned the ability of such mechanisms to improve the transparency and quality of CSR reporting (Guidry and Patten, 2010, Rankin et al., 2011). Therefore, the study contributes to this strand of literature by providing empirical evidence that CSR-focused governance mechanisms are substantive in mitigating the opportunistic actions of CSR (i.e., CSR decoupling). Furthermore, previous studies have examined the effects of the interaction between monitoring and incentive alignment mechanisms on CSR performance (Derchi et al., 2021, Oh et al., 2018). However, to the best of my knowledge, this is the first study that explores the effects of CSR-focused governance mechanisms on CSR decoupling. Therefore, it contributes to the literature that takes a corporate governance bundle perspective by demonstrating that multiple CSR-focused governance mechanisms (i.e., CSR committees and CSR reports, and CSR committees and CSR contracting) work as complements in mitigating CSR decoupling. In addition, previous studies have focused on investigating the financial consequences of CSR decoupling (García-Sánchez et al., 2020, Hawn and Ioannou, 2016, Sauerwald and Su, 2019), while few have examined the determinants of such a phenomenon (García-Sánchez et al., 2022a, Zhang, 2021). Therefore, this study adds to the research on CSR decoupling by drawing attention to the importance of corporate governance in curbing CSR decoupling, in particular those mechanisms that focus on CSR.

Based on the above contributions, the study raises several implications for firms, stakeholders, and regulators. With regard to firms, it helps them in creating the ideal combinations between different CSR-focused governance mechanisms that provide higher marginal benefits. This will be positively reflected in the increased credibility of CSR reporting, which in turn will improve stock prices (Chen et al., 2016). In addition, the study highlights that some mechanisms (e.g., financial incentives) are not beneficial during a crisis period and may reduce the effectiveness of governance systems. The study may also be helpful to stakeholders and investors in identifying the usefulness of adopting CSR-focused governance mechanisms in CSR reporting. Therefore, they can pressurise their firms to adopt such mechanisms. The study will also reinforce investors' awareness of certain symbolic combinations of CSR-focused governance mechanisms that they should consider in their future investment decisions. Finally, the study provides an insightful understanding of the factors that affect CSR's credibility and transparency. This would direct regulators' attention towards the weak points in the existing corporate governance code in relation to CSR. Consequently, regulators could use the study recommendations in improving CSR credibility by encouraging the adoption of a bundle of governance mechanisms that focus on CSR.

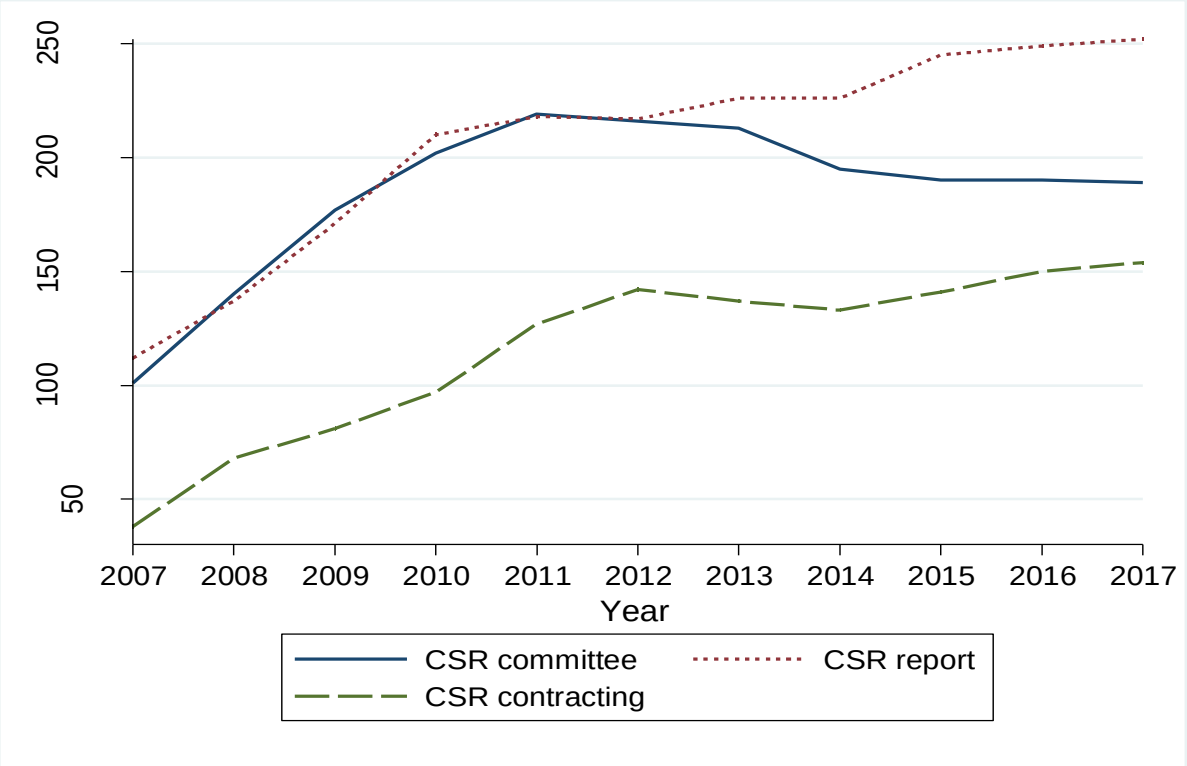
Although the study provides exciting results from a novel perspective, it is subject to certain limitations that could be considered as opportunities for future research. First, this study uses a dichotomous scale as a proxy for CSR-focused governance mechanisms. However, future research could use a different construction of variables. For instance, they could explore the effect of the characteristics of the CSR committee on CSR decoupling. Second, the study focuses on a certain group of corporate governance mechanisms (i.e., CSR-focused ones). However, future research could explore the effect of other mechanisms on CSR decoupling, such as shareholder activism, the presence of certain board committees, antitakeover provisions, and board characteristics. In addition, future research could examine the complementary (substitution) relationship between external and internal governance mechanisms in relation to CSR decoupling. Finally, the study sample is restricted to the UK firms, a fact that should be considered when the results are generalised. In addition, this limits the study in term of considering the influence of institutional factors on CSR decoupling. Therefore, future research could use an international sample to improve the generalisation of the findings and consider the influence of institutional factors.

Table 5.1 Sample selection and distribution

Panel A Sample selection process	Freq.	%
Firms listed on FTSE All-Share Index from 2007-2017	4884	100
Less		
Financial firms	212	4.34
Observations with missing main variables	2312	47.33
Final sample	2360	48.32
Panel B Sample distribution by industry	Freq.	%
Basic Materials	233	9.87
Consumer Discretionary	720	30.51
Consumer Staples	204	8.64
Energy	148	6.27
Health Care	80	3.39
Industrials	673	28.52
Telecommunications	90	3.81
Utilities	83	3.52
Technology	129	5.47
Total	2360	100
Panel C Sample distribution by Year	Freq.	%
2007	197	8.35
2008	194	8.22
2009	195	8.26
2010	211	8.94
2011	209	8.86
2012	219	9.28
2013	222	9.41
2014	224	9.49
2015	227	9.62
2016	233	9.87
2017	229	9.70
Total	2360	100

This table shows the sample selection process and distribution of the sample by industries and years

Figure 5. 1 CSR-focused governance mechanisms



This figure reports the annual (x-axis) trend in firms (y-axis) adopting CSR mechanisms of CSR committee, standalone CSR report, and CSR contracting.

Table 5.2 Descriptive statistics

	Obs.	Mean	Median	SD	Min	Max
$CSRDE_t$	2163	-0.279	-0.278	0.137	-0.688	0.382
$CSRCOM_{t-1}$	2163	0.698	1.000	0.459	0.000	1.000
$CSRRE_{t-1}$	2163	0.782	1.000	0.413	0.000	1.000
$CSRCON_{t-1}$	2163	0.446	0.000	0.497	0.000	1.000
$FSIZE_{t-1}$	2163	14.460	14.246	1.480	11.158	19.161
ROA_{t-1}	2163	0.058	0.055	0.087	-0.609	0.337
$MTBV_{t-1}$	2163	3.221	2.480	2.654	0.220	10.320
$FLRV_{t-1}$	2163	0.194	0.171	0.168	0.000	0.879
$FAGE_{t-1}$	2163	3.058	2.915	0.850	0.778	4.762
$OWNCON_{t-1}$	2163	20.812	15.000	19.420	0.000	92.000
$BINDE_{t-1}$	2163	55.933	55.560	12.920	17.650	85.710
$BMEET_{t-1}$	2163	96.029	97.000	4.474	75.000	100.000

This table displays descriptive statistics for the variables. The variables are as defined in Appendix 5.1. All continuous variables are winsorized at 1% and 99% levels to adjust for outliers.

Table 5.3 Correlation matrix

Variable	VIF	$CSRCOM_{t-1}$	$CSRRE_{t-1}$	$CSRCON_{t-1}$	$FSIZE_{t-1}$	ROA_{t-1}	$MTBV_{t-1}$	$FLRV_{t-1}$	$FAGE_{t-1}$	$OWNCON_{t-1}$	$BINDE_{t-1}$	$BMEET_{t-1}$
$CSRCOM_{t-1}$	1.33	1.000										
$CSRRE_{t-1}$	1.28	0.391*	1.000									
$CSRCON_{t-1}$	1.12	0.246*	0.195*	1.000								
$FSIZE_{t-1}$	1.47	0.375*	0.314*	0.235*	1.000							
ROA_{t-1}	1.28	-0.071*	-0.027	-0.053*	-0.115*	1.000						
$MTBV_{t-1}$	1.26	-0.018	0.029	-0.042*	-0.104*	0.405*	1.000					
$FLRV_{t-1}$	1.15	0.031	0.033	-0.002	0.246*	-0.162*	0.049*	1.000				
$FAGE_{t-1}$	1.10	0.052*	0.097*	0.027	-0.061*	-0.028	-0.070*	-0.105*	1.000			
$OWNCON_{t-1}$	1.14	-0.056*	-0.082*	-0.089*	-0.095*	-0.051*	-0.057*	-0.079*	-0.201*	1.000		
$BINDE_{t-1}$	1.18	0.175*	0.200*	0.123*	0.308*	0.018	-0.034	0.021	-0.014	-0.194*	1.000	
$BMEET_{t-1}$	1.06	-0.008	0.029	0.064*	-0.108*	0.075*	0.040	-0.002	0.118*	-0.172*	0.025	1.000

This table displays the Pearson's correlation matrix of coefficient among the independent variables. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The variables are as defined in Appendix 5.1. * represents statistical significance at 5% level.

Table 5.4 CSR-focused governance mechanisms and CSR decoupling

	Model 1	Model 2	Model 3	Model 4	Model 5
$CSRCOM_{t-1}$		-5.883***			-5.496***
		(-8.49)			(-7.55)
$CSRRE_{t-1}$			-2.855***		-1.399*
			(-3.50)		(-1.65)
$CSRCON_{t-1}$				-2.101***	-1.280**
				(-3.38)	(-2.08)
$FSIZE_{t-1}$	0.848***	1.510***	1.062***	0.977***	1.675***
	(4.03)	(6.82)	(4.83)	(4.60)	(7.43)
ROA_{t-1}	12.975***	11.055***	12.735***	12.674***	11.401***
	(3.21)	(2.75)	(3.15)	(3.12)	(2.83)
$MTBV_{t-1}$	0.144	0.212*	0.177	0.144	0.219*
	(1.21)	(1.84)	(1.50)	(1.22)	(1.91)
$FLRV_{t-1}$	-6.876***	-8.057***	-7.283***	-7.233***	-8.139***
	(-3.64)	(-4.46)	(-3.91)	(-3.85)	(-4.55)
$FAGE_{t-1}$	-0.462	-0.357	-0.418	-0.456	-0.317
	(-1.36)	(-1.07)	(-1.23)	(-1.34)	(-0.95)
$OWNCON_{t-1}$	-0.051***	-0.051***	-0.055***	-0.056***	-0.055***
	(-3.08)	(-3.08)	(-3.29)	(-3.32)	(-3.25)
$BINDE_{t-1}$	-0.080***	-0.068***	-0.072***	-0.078***	-0.070***
	(-3.46)	(-2.96)	(-3.15)	(-3.38)	(-3.09)
$BMEET_{t-1}$	-0.143**	-0.143**	-0.146**	-0.136**	-0.143**
	(-2.20)	(-2.20)	(-2.24)	(-2.08)	(-2.18)
Constant	-19.318***	-25.729***	-20.379***	-20.945***	-26.588***
	(-2.60)	(-3.45)	(-2.73)	(-2.82)	(-3.52)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	2163	2163	2163	2163	2163
Adjusted R^2	0.112	0.141	0.117	0.116	0.146
F statistic *p*-value	0.000	0.000	0.000	0.000	0.000

This table presents the effect of CSR-focused governance mechanisms on CSR decoupling, using two-way cluster method. The variables are as defined in Appendix 5.1. All continuous variables are winsorized at 1% and 99% levels to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t*-statistics reported in parentheses are clustered by firm and year based on Petersen (2009).

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

Table 5.5 The complementary/substantive effect of CSR-focused governance mechanisms on CSR decoupling

	Model 1	Model 2	Model 3	Model 4
$CSRCOM_{t-1}$* $CSRRE_{t-1}$	-3.587**			
	(-2.27)			
$CSRCOM_{t-1}$* $CSRCON_{t-1}$		3.023**		
		(2.33)		
$CSRRE_{t-1}$* $CSRCON_{t-1}$			0.374	
			(0.24)	
$CSRCOM_{t-1}$* $CSRRE_{t-1}$* $CSRCON_{t-1}$				-1.849
				(-0.65)
$CSRCOM_{t-1}$	-2.859**	-6.304***	-5.384***	-3.332**
	(-2.05)	(-7.35)	(-7.36)	(-1.97)
$CSRRE_{t-1}$	0.435	-1.156	-1.333	1.023
	(0.43)	(-1.36)	(-1.40)	(0.86)
$CSRCON_{t-1}$	-1.313**	-3.624***	-1.667	-3.011*
	(-2.13)	(-3.23)	(-1.14)	(-1.69)
$FSIZE_{t-1}$	1.688***	1.593***	1.626***	1.650***
	(7.48)	(7.05)	(7.20)	(7.32)
ROA_{t-1}	11.159***	10.919***	10.927***	11.152***
	(2.75)	(2.72)	(2.70)	(2.77)
$MTBV_{t-1}$	0.219*	0.223*	0.223*	0.220*
	(1.91)	(1.94)	(1.93)	(1.91)
$FLRV_{t-1}$	-8.315***	-8.228***	-8.366***	-8.130***
	(-4.65)	(-4.59)	(-4.66)	(-4.55)
$FAGE_{t-1}$	-0.294	-0.336	-0.346	-0.279
	(-0.88)	(-1.01)	(-1.03)	(-0.83)
$OWNCON_{t-1}$	-0.056***	-0.054***	-0.055***	-0.055***
	(-3.38)	(-3.23)	(-3.31)	(-3.32)
$BINDE_{t-1}$	-0.064***	-0.066***	-0.064***	-0.067***
	(-2.84)	(-2.90)	(-2.82)	(-2.93)
$BMEET_{t-1}$	-0.133**	-0.139**	-0.139**	-0.132**
	(-2.05)	(-2.15)	(-2.15)	(-2.04)
Constant	-29.075***	-25.664***	-26.547***	-28.304***
	(-3.89)	(-3.44)	(-3.54)	(-3.77)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Observations	2163	2163	2163	2163
Adjusted R^2	0.145	0.145	0.143	0.147
F statistic *p*-value	0.000	0.000	0.000	0.000

This table presents the complementary/substantive effect of CSR-focused governance mechanisms on CSR decoupling, using two-way cluster method. The variables are as defined in Appendix 5.1. All continuous variables are winsorized at 1% and 99% levels to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t*-statistics reported in parentheses are clustered by firm and year based on Petersen (2009).* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Figure 5. 2 Complementary effect of CSR committee and CSR report on CSR decoupling

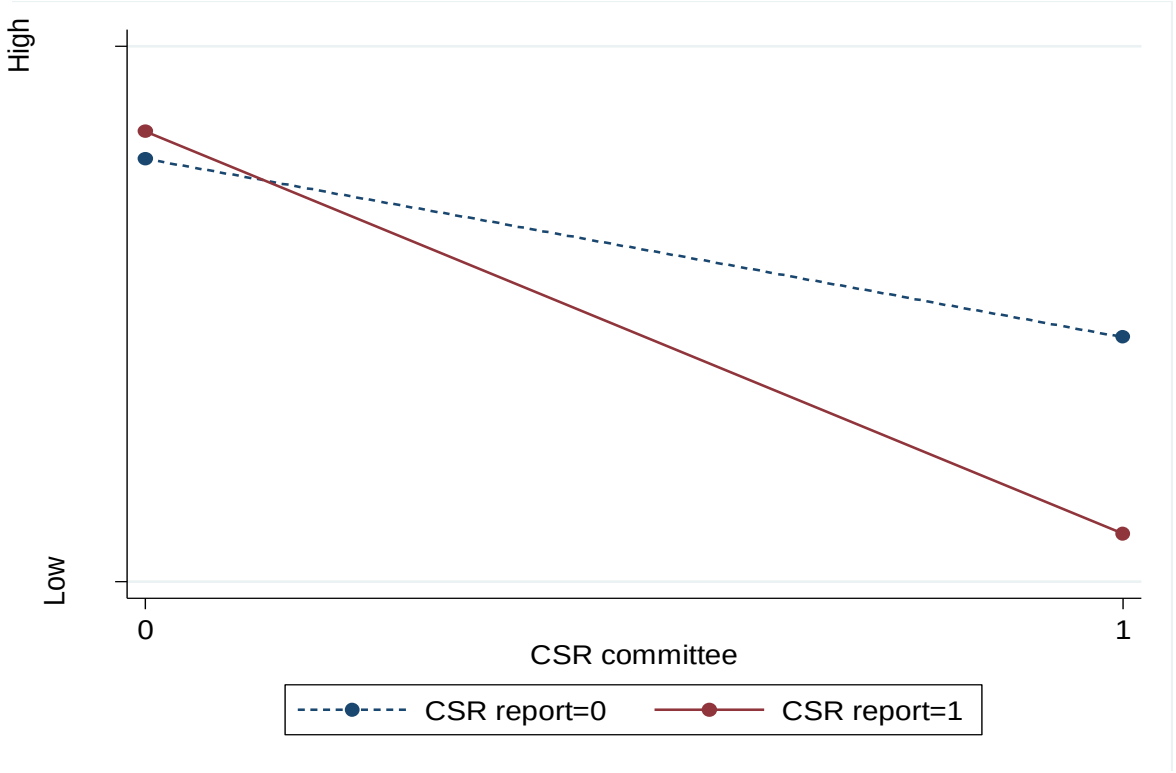


Figure 5. 3 Complementary effect of CSR contracting and CSR committee on CSR decoupling

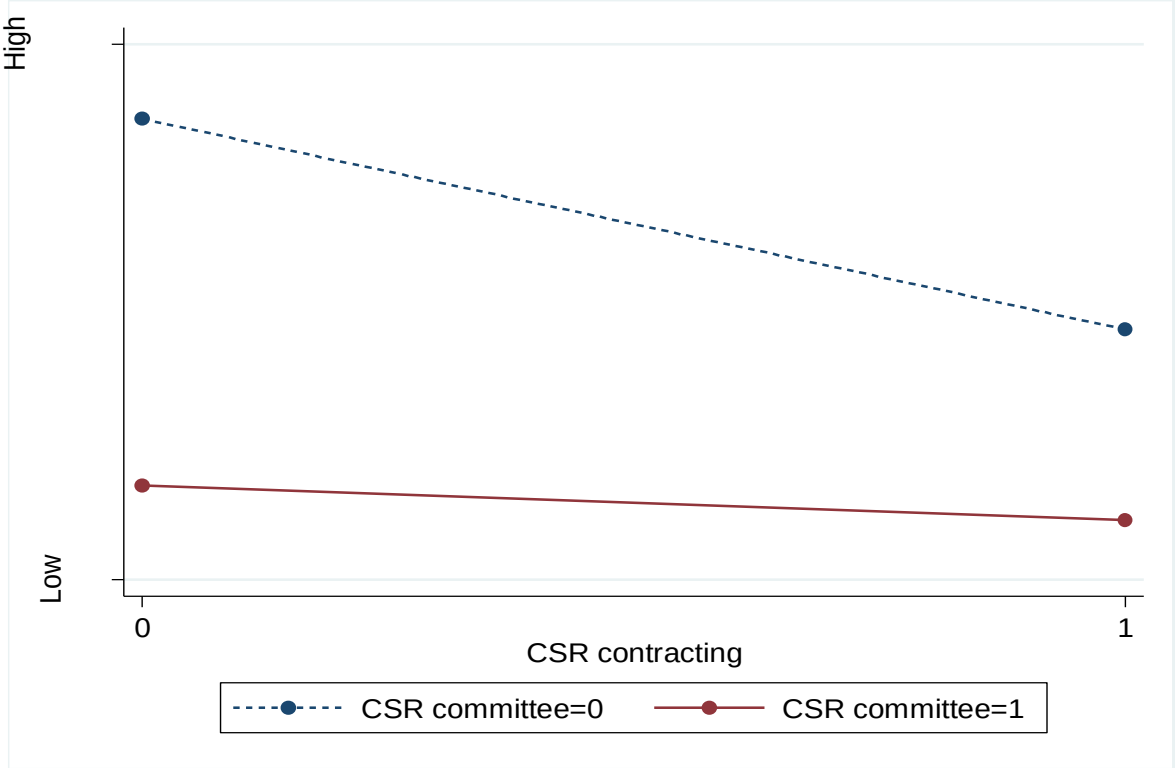


Table 5.6 The complementary/substantive effect of CSR-focused governance mechanisms on CSR decoupling during crisis and post- crisis periods

	Financial crisis					Post-financial crisis				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
$CSRCOM_{t-1}$* $CSRRE_{t-1}$		-4.390*					-3.715*			
		(-1.80)					(-1.65)			
$CSRCOM_{t-1}$* $CSRCON_{t-1}$			3.881					3.544**		
			(1.38)					(2.38)		
$CSRRE_{t-1}$* $CSRCON_{t-1}$				1.127					3.120*	
				(0.47)					(1.66)	
$CSRCOM_{t-1}$* $CSRRE_{t-1}$* $CSRCON_{t-1}$					-0.986					0.511
					(-0.20)					(0.13)
$CSRCOM_{t-1}$	-4.528***	-2.109	-5.140***	-2.456**	-2.406	-5.397***	-2.425	-6.517***	-2.687***	-3.062
	(-3.40)	(-1.08)	(-3.47)	(-2.02)	(-1.04)	(-6.17)	(-1.17)	(-6.15)	(-3.33)	(-1.21)
$CSRRE_{t-1}$	1.187	3.190*	1.167	1.562	3.673**	-2.941***	-1.287	-2.696**	-3.684***	-1.458
	(0.89)	(1.88)	(0.86)	(1.14)	(1.97)	(-2.62)	(-0.99)	(-2.41)	(-3.07)	(-0.93)
$CSRCON_{t-1}$	1.117	0.752	-1.656	0.926	-1.491	-2.179***	-2.202***	-4.929***	-4.655***	-5.868***
	(0.84)	(0.56)	(-0.71)	(0.48)	(-0.43)	(-3.13)	(-3.18)	(-3.84)	(-2.67)	(-2.90)
$FSIZE_{t-1}$	0.584	0.870*	0.425	0.781*	0.517	2.027***	2.189***	1.962***	2.097***	2.006***
	(1.20)	(1.75)	(0.84)	(1.69)	(1.02)	(8.02)	(8.47)	(7.76)	(8.53)	(7.94)
ROA_{t-1}	11.833*	20.251***	11.758	20.779***	12.004	9.493**	15.529***	9.314*	15.892***	9.504**
	(1.65)	(2.94)	(1.61)	(3.05)	(1.63)	(1.98)	(3.42)	(1.95)	(3.51)	(1.98)
$MTBV_{t-1}$	0.488**	0.401*	0.477**	0.264	0.467*	0.101	0.004	0.106	0.103	0.117
	(2.06)	(1.69)	(2.01)	(1.19)	(1.96)	(0.77)	(0.03)	(0.81)	(0.79)	(0.87)
$FLRV_{t-1}$	-7.951**	-8.738**	-7.503**	-4.612	-7.562**	-7.835***	-8.815***	-7.983***	-9.231***	-7.900***
	(-2.36)	(-2.43)	(-2.22)	(-1.58)	(-2.25)	(-3.76)	(-3.88)	(-3.83)	(-4.64)	(-3.79)
$FAGE_{t-1}$	-0.381	-0.346	-0.483	-0.130	-0.445	-0.266	-0.105	-0.235	-0.512	-0.198
	(-0.68)	(-0.61)	(-0.86)	(-0.26)	(-0.79)	(-0.64)	(-0.25)	(-0.57)	(-1.30)	(-0.48)
$OWNCON_{t-1}$	-0.052	-0.041	-0.046	-0.094***	-0.044	-0.059***	-0.065***	-0.061***	-0.073***	-0.063***
	(-1.51)	(-1.22)	(-1.36)	(-3.26)	(-1.29)	(-3.04)	(-3.32)	(-3.17)	(-3.94)	(-3.26)
$BINDE_{t-1}$	-0.038	0.011	0.013	-0.071	0.014	-0.083***	-0.094***	-0.093***	-0.062**	-0.095***
	(-0.80)	(0.22)	(0.26)	(-1.45)	(0.27)	(-3.21)	(-3.61)	(-3.63)	(-2.46)	(-3.70)
$BMEET_{t-1}$	-0.152	-0.151	-0.156	-0.316**	-0.154	-0.155**	-0.154**	-0.152**	-0.250***	-0.146*
	(-1.23)	(-1.27)	(-1.30)	(-2.49)	(-1.29)	(-2.08)	(-2.04)	(-2.03)	(-2.93)	(-1.95)

Constant	-13.938 (-0.92)	-23.442 (-1.60)	-13.639 (-0.92)	-7.879 (-0.53)	-16.064 (-1.08)	-28.139*** (-3.32)	-32.441*** (-3.77)	-26.506*** (-3.12)	-24.206** (-2.53)	-28.388*** (-3.30)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	578	578	578	578	578	1585	1585	1585	1585	1585
Adjusted R^2	0.133	0.145	0.135	0.106	0.136	0.149	0.153	0.150	0.139	0.150
F statistic *p*-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

This table compares the complementary/substantive effect of CSR-focused governance mechanisms on CSR decoupling within and post-financial crisis, using two-way cluster method. The variables are as defined in Appendix 5.1. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. *t*-statistics reported in parentheses are clustered by firm and year based on approach of Petersen (2009). * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 5.7 The complementary/substantive effect of CSR-focused governance mechanisms on CSR decoupling based on FE and GEE estimations

	Fixed-effect model					Generalized estimating equation model				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
$CSRCOM_{t-1}$* $CSRRE_{t-1}$		-5.818**					-4.292*			
		(-2.08)					(-1.78)			
$CSRCOM_{t-1}$* $CSRCON_{t-1}$			-2.522**					-2.082*		
			(-1.96)					(-1.66)		
$CSRRE_{t-1}$* $CSRCON_{t-1}$				-1.082					-0.327	
				(-0.49)					(-0.16)	
$CSRCOM_{t-1}$* $CSRRE_{t-1}$* $CSRCON_{t-1}$					-2.335					-1.008
					(-0.64)					(-0.30)
$CSRCOM_{t-1}$	-1.991**	4.856	-1.078	-2.006**	-1.221	-2.282**	3.265	-1.637**	-2.272**	-1.469
	(-2.00)	(1.59)	(-1.29)	(-2.04)	(-0.74)	(-2.53)	(1.37)	(-2.03)	(-2.53)	(-0.94)
$CSRRE_{t-1}$	-3.035***	-1.520	-3.233***	-2.777**	-2.788**	-2.830***	-1.918*	-3.424***	-2.783***	-2.692**
	(-2.83)	(-1.35)	(-4.23)	(-2.55)	(-2.05)	(-2.87)	(-1.76)	(-4.52)	(-2.71)	(-2.14)
$CSRCON_{t-1}$	-2.728**	-3.703***	-0.452	-1.855	-1.339	-3.175***	-3.808***	-0.914	-2.895	-3.095
	(-2.47)	(-3.70)	(-0.37)	(-0.82)	(-0.43)	(-3.22)	(-4.09)	(-0.79)	(-1.42)	(-1.09)
$FSIZE_{t-1}$	-0.608	-0.340	-0.533	-0.781	-0.776	-1.188**	-1.022*	-0.850**	-1.236**	-1.205**
	(-0.44)	(-0.26)	(-0.62)	(-0.56)	(-0.56)	(-2.27)	(-1.85)	(-2.31)	(-2.33)	(-2.28)
ROA_{t-1}	12.405***	6.359**	10.122**	7.328**	7.481**	11.823***	7.011**	12.633***	6.840***	7.034***
	(2.78)	(2.22)	(2.39)	(2.58)	(2.59)	(2.81)	(2.51)	(3.02)	(2.60)	(2.61)
$MTBV_{t-1}$	-0.091	-0.073	0.120	-0.077	-0.074	-0.094	-0.118	0.071	-0.070	-0.068
	(-0.61)	(-0.53)	(0.98)	(-0.52)	(-0.50)	(-0.70)	(-0.88)	(0.61)	(-0.52)	(-0.51)
$FLRV_{t-1}$	-0.435	-3.621	-1.820	-0.871	-0.687	-1.474	-2.458	-1.802	-1.730	-1.654
	(-0.11)	(-0.99)	(-0.66)	(-0.22)	(-0.18)	(-0.50)	(-0.86)	(-0.78)	(-0.58)	(-0.56)
$FAGE_{t-1}$	-9.541***	-6.673**	-1.810*	-9.282***	-9.141***	-1.195	-1.043	-0.582	-1.192	-1.179
	(-3.21)	(-2.26)	(-1.78)	(-3.11)	(-3.07)	(-1.38)	(-1.21)	(-1.10)	(-1.37)	(-1.36)
$OWNCON_{t-1}$	-0.013	0.016	0.016	-0.002	-0.003	0.022	0.030	0.028	0.020	0.020
	(-0.41)	(0.48)	(0.68)	(-0.05)	(-0.09)	(0.90)	(1.28)	(1.31)	(0.83)	(0.83)
$BINDE_{t-1}$	-0.142***	-0.114***	-0.143***	-0.143***	-0.142***	-0.171***	-0.155***	-0.103***	-0.171***	-0.170***
	(-4.17)	(-3.49)	(-5.75)	(-4.21)	(-4.18)	(-5.69)	(-5.14)	(-4.26)	(-5.67)	(-5.66)
$BMEET_{t-1}$	-0.288***	-0.222***	-0.318***	-0.297***	-0.297***	-0.263***	-0.224***	-0.278***	-0.265***	-0.264***
	(-4.52)	(-3.59)	(-4.72)	(-4.78)	(-4.81)	(-4.30)	(-3.54)	(-4.08)	(-4.35)	(-4.36)

Constant	68.853***	48.567**	48.961***	71.327***	70.535***	49.715***	43.360***	41.432***	50.675***	49.921***
	(3.15)	(2.46)	(3.40)	(3.24)	(3.26)	(5.00)	(4.29)	(4.82)	(5.04)	(4.98)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Observations	2163	2163	2163	2163	2163	2163	2163	2163	2163	2163
Adjusted R^2	0.082	0.068	0.086	0.079	0.079					
F statistic *p*-value	0.000	0.000	0.000	0.000	0.000					
Wald chi2 statistic *P* value						0.000	0.000	0.000	0.000	0.000

This table presents the complementary/substantive effect of CSR-focused governance mechanisms on CSR decoupling, using FE estimation and GEE estimation. The variables are as defined in Appendix 5.1. All continuous variables are winsorized at level 1% and 99% to adjust for outliers. The coefficients reported are multiplied by 100 due to variable scaling issues. Robust *t*-statistics are reported in parentheses.

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

Appendix 5.1 Definition, measurement, and data source of the variables

Variable	Measurement	Data source
Dependent variable:		
CSR decoupling (CSRDE)	Difference between the normalised value of current external actions and lagged internal ones.	ASSET4
Independent variables:		
CSR Committee (CSRCOM)	Dummy variable coded 1 if the firm has a CSR committee, and 0 otherwise.	ASSET4
Standalone CSR report (CSRRE)	Dummy variable coded 1 if the firm issues a standalone CSR report, and 0 otherwise.	ASSET4
CSR contracting (CSRCON)	Dummy variable coded 1 if the firm links executives' compensation with CSR target, and 0 otherwise.	ASSET4
Control variables:		
Firm size (FSIZE)	Natural logarithm of total assets.	Worldscope
Profitability (ROA)	Total income divided by total assets.	Datastream
Market-to-Book value (MTBV)	Market value divided by book value	Worldscope
Financial leverage (FLEV)	Long-term liabilities divided by common equity	Worldscope
Firm age (FAGE)	Natural logarithm of total years since a firm was incorporated.	Worldscope
Board independence (BIND)	Percentage of independent directors on the board.	ASSET4
Ownership concentration (OWNCON)	100% subtracted from the percentage of free-float shares.	Datastream
Board meeting attendance meeting (BMEET)	Percentage of directors who attend the board meetings.	ASSET4

All the continuous variables are winsorized at levels of 1% and 99% to adjust for outliers.

CHAPTER SIX
Conclusion

6.1 Research summary

The opportunistic use of CSR activities has significant negative consequences on firm value and reputation (García-Sánchez et al., 2020, Kim and Lyon, 2015, Sauerwald and Su, 2019). Therefore, this thesis investigates the probability of such opportunistic use in three interrelated essays. The first essay examines the effect of CSR disclosure on firm risk measures, and the moderating effect of abnormal audit fees on the CSR-risk relationship. Based on the finding of the first essay that CSR activities generate benefits for firms, the second essay examines the role of entrenched CEOs in CSR decoupling engagement. In addition, this essay examines the role of strategic shareholders in migrating the ability of entrenched CEOs to engage in such decoupling. The third essay examines the effect of CSR-focused governance mechanisms on CSR decoupling. The essays are based on a sample of UK firms listed on the FTSE All-share Index during the period 2007-2017.

Each essay documents important findings. The first reviewed agency and stakeholder theory together to examine the CSR-risk relationship, finding that total and idiosyncratic risks are negatively affected by CSR disclosure. This supports stakeholder theory, in which CSR disclosure creates 'insurance-like' protection against negative actions by generating moral capital goodwill among stakeholders (Godfrey et al., 2009). When CSR disclosure is broken down into social, environmental, and governance types, it is demonstrated that environmental disclosure has a negative effect on all risk measures. However, social and governance measures are negatively associated with only total and idiosyncratic risk. Given that voluntary disclosure gains more credibility if it is issued in conjunction with the payment of higher audit fees (Ball et al., 2012, Chen et al., 2016, Sharma et al., 2018), this essay also finds that such fees negatively moderated the CSR-risk relationship. This result is consistent with Sharma et al. (2018) and Chen et al. (2016), who also find that charging higher audit fees conveys a type of assured credibility of CSR disclosure.

The second essay relies on the socio-political perspective to explore the potential influence of entrenched CEOs on CSR decoupling engagement. From this perspective, managers tend to decouple their policies from practice in order to avoid institutional pressures

and thus gain political interest (Westphal and Zajac, 1998, Zajac and Westphal, 1995). The essay finds a significant positive relationship between CEO entrenchment and CSR decoupling. This positive relationship is more robust in firms operating in CSR-intensive industries and after CSR was made mandatory. However, the ability of entrenched CEOs to engage in CSR decoupling is mitigated by existing strategic shareholders (institutional and family). This finding is in line with Shleifer and Vishny (1997), who find that larger shareholders are considered an important mechanism for reducing classical owner-agent conflict.

The third essay uses the bundle of corporate governance perspective to examine the effect of CSR-focused mechanisms (CSR committees, standalone CSR reports, and CSR contracting) on CSR decoupling. It finds that CSR-focused mechanisms are negatively associated with CSR decoupling. This negative relationship is stronger when standalone CSR reports are issued together with the existence of a CSR committee, which means these mechanisms have a complementary relationship in mitigating CSR decoupling. A complementary relationship is also found between CSR committees and CSR contracting in reducing CSR decoupling. However, such a relationship between CSR reports and contracting is only found in the post-financial crisis period. Finally, having all CSR-focused mechanisms in a bundle of corporate governance does not provide additional marginal benefit in mitigating CSR decoupling, either during or after the financial crisis period, indicating that such governance system is symbolic rather than substantive.

6.2 Theoretical and practical contributions

Based on the above findings, each essay has generated several implications from both theoretical and practical perspectives. The first contributes to stakeholder theory by demonstrating the importance of CSR credibility in improving the stakeholder-firm relationship. Therefore, a lack of such credibility could explain why previous studies have failed to find consistent relationships between CSR and firm performance (e.g., Price and Sun, 2017, Prior et al., 2008). It also shows that CSR credibility can be achieved by a commitment to higher audit fees in conjunction with the issuing of CSR disclosure. This is because higher audit fees send a positive signal that the financial implications of such disclosure have been considered (Chen et al., 2016, Sharma et al., 2018). From the practical perspective, the essay demonstrates that stakeholders give environmental issues special attention since they have a great effect on all types of firm risk. Therefore, managers need to disclose their environmental

activities clearly. In addition, they could use CSR disclosure as a strategic option to manage firm risk, which ultimately improves firm performance (Eccles et al., 2014, Flammer, 2015).

The second essay contributes to the research on decoupling by demonstrating that being socially irresponsible creates institutional pressures, driving managers to decouple CSR performance and reporting. This essay expands the socio-political approach to the CSR context and contributes to the notion that the political interests of CEOs (i.e., preservation of their power and influence over firms) play a crucial role in CSR decoupling decisions, particularly when CEOs are entrenched. It also confirms that symbolic CSR (e.g., CSR decoupling) can be externally mitigated by having motivated and capable monitors (institutional and family investors), and internally by establishing an effective board of directors. Practically, the essay could serve to warn investors that they need to pay attention to and analyse the possibility of CSR decoupling, as firms will be punished if such action is discovered by external stakeholders (Kim and Lyon, 2015). With regard to policy makers, they need to keep in mind the importance of issuing guidelines which limit CSR decoupling. Finally, the study could encourage activist groups (e.g., environmental groups, NGOs, and media) to focus their scrutiny on firms managed by entrenched CEOs, as such firms are highly motivated to engage in CSR decoupling when they are exposed to institutional pressures. This focus could significantly reduce CSR decoupling, as environmental activists, NGOs, and media-led campaigns against firms engaging in symbolic actions are widespread and clearly visible to the public (Delmas and Burbano, 2011).

The third essay contributes to the corporate governance bundle perspective by demonstrating that multiple CSR-focused governance mechanisms (i.e., CSR committees and reports, and CSR committees and contracting) are complementary in mitigating CSR decoupling. The essay also provides empirical evidence that CSR-focused governance mechanisms are significant in mitigating opportunistic CSR actions (i.e., CSR decoupling). Practically, the essay helps firms to create the ideal combinations of different CSR-focused governance mechanisms that provide higher marginal benefits. It may also be helpful to stakeholders and investors in identifying the usefulness of adopting CSR-focused governance mechanisms in CSR reporting. The essay could also reinforce investors' awareness of certain symbolic combinations of CSR-focused governance mechanisms that they should consider in their future investment decisions. Finally, the study provides insightful understanding of the

factors that affect CSR credibility and transparency. This could direct regulators' attention towards the weak points in the existing corporate governance code in relation to CSR.

6.3 Limitations and future research

Although the thesis provides important implications and contributions, it also suffers from some limitations that could be opportunities for future research. In particular, the study sample is restricted to UK firms, a fact that needs to be carefully considered when the results are generalised, as different empirical settings could lead to different results. Therefore, future research could take an international sample or focus on emerging countries that have different empirical settings. In addition, each essay has some limitations could also be covered by future research. More specifically, the first essay only considers financial risk; future research could achieve a complete view of firm risk by using alternative types of risk, such as accounting risk and implied volatility (IV) measures. Due to the limitations of databases, only Bloomberg CSR disclosure scores are used in this essay. Future research could therefore strengthen the results by using alternative measures of CSR disclosure.

The second essay is limited to certain moderating variable. However, other corporate governance mechanisms (e.g., CSR assurance) may also constrain the positive relationship between entrenched CEOs and CSR decoupling. The role of CSR assurance practices in enhancing CSR credibility has been documented by a number of studies, such as those of Du and Wu (2019) and Jones and Solomon (2010). These studies depend on the GRI sustainability disclosure database, which provides detailed information about CSR assurance practices (e.g., assurance providers, assurance scope, and assurance level) for around 15,500 firms in different countries[31]. Therefore, future research could examine how the attributes of CSR assurance reduce the ability of entrenched CEOs to engage in CSR decoupling. More specifically, future studies could compare the effects of different types of assurance providers on the relationship between entrenched CEOs and CSR decoupling. Additionally, this essay focuses on the internal drivers of CSR decoupling and theoretically mentions the consequences of such decoupling. Further empirical research on the consequences of CSR decoupling would enrich the research stream that explores the negative outcomes of decoupling and symbolic management (e.g., García-Sánchez et al., 2020, Kim and Lyon, 2015, Sauerwald and Su, 2019). Furthermore, future

[31] https://database.globalreporting.org/

research could build on this study and examine other potential responses of entrenched CEOs to institutional pressures from different theoretical perspectives.

The third essay is also subject to certain limitations that could be considered as opportunities for future research. First, this essay uses a dichotomous scale as a proxy for CSR-focused governance mechanisms. However, future research could use a different construction of variables. For instance, they could explore the effect of the characteristics of the CSR committee on CSR decoupling. Second, the essay focuses on a certain group of corporate governance mechanisms (i.e., CSR-focused ones). However, future research could explore the effect of other mechanisms on CSR decoupling, such as shareholder activism, the presence of certain board committees, antitakeover provisions, and board characteristics. In addition, future research could examine the complementary (substitution) relationship between external and internal governance mechanisms in relation to CSR decoupling. Finally, this study takes into consideration the effect of the financial crisis period on relationship between CSR-focused mechanisms and CSR decoupling. Future research could examine the effect of other crises (e.g., COVID-19) on such relationship.

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