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The Complementarity and Substitution Effects of CSR-Focused Governance Mechanisms on CSR Decoupling

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ABSTRACT

Research Question/Issue: The study examines whether CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) operate as complements or substitutes for each other in mitigating CSR decoupling.

Research Findings/Insights: The study finds that CSR-focused governance mechanisms diminish CSR decoupling and enhance CSR credibility in UK firms. In addition, the simultaneous presence of CSR committees and standalone CSR reports has a complementary effect in mitigating CSR decoupling. Conversely, the combinations of CSR committees and CSR contracting as well as standalone CSR reports and CSR contracting exhibit a substitute relationship. These impacts remain consistent when categorizing CSR decoupling into underreporting and overreporting. During the financial crisis of 2008–2009, the complementary relationship between CSR committees and CSR reports remained consistent, although the substitution between CSR committees and CSR contracting, and CSR reports and CSR contracting, is only observed after the crisis.

Theoretical/Academic Implications: The study innovatively contributes to the agency theory literature by adopting a bundle corporate governance approach while focusing on specific CSR governance mechanisms to address agency issues. It empirically shows that complementary combinations of CSR-focused governance mechanisms signify a marginal benefit in reducing CSR decoupling, leading to a reduction in agency costs.

Practitioner/Policy Implications: The study offers several implications. First, it helps firms create ideal combinations of different CSR-focused governance mechanisms that provide superior marginal benefits. Second, firms' stakeholders, especially the investors, could identify the usefulness of adopting CSR-focused governance mechanisms in CSR reporting. Finally, it could also attract regulators' attention toward the weaker aspects of the existing corporate governance code regarding CSR.

1 | Introduction

Do corporate governance mechanisms effectively mitigate the opportunistic use of corporate social responsibility (CSR)? This research question has gained considerable attention due to concerns about the gap between what is being disclosed regarding CSR and what is actually practiced, commonly known as CSR decoupling (García-Sánchez et al. 2021; Sauerwald and Su 2019; Tashman, Marano, and Kostova 2019). Such opportunistic behavior not only damages the credibility of CSR (Jauernig and Valentinov 2019) but also has adverse effects on firm value (Hawn and Ioannou 2016) and legitimacy (Maclean and Behnam 2010; Tashman, Marano, and Kostova 2019). Thus, the increasing interest in the correlation between governance mechanisms and CSR decoupling signifies a growing awareness of the negative consequences associated with CSR decoupling

and other forms of selective disclosure (Ali Gull et al. 2022; Eliwa, Aboud, and Saleh 2023; García-Sánchez et al. 2022; Gull et al. 2022; Zhang 2021).

Previous research has mainly investigated the influence of each monitoring mechanism on CSR decoupling, neglecting their collective effects (Ali Gull et al. 2022; Eliwa, Aboud, and Saleh 2023; Gull et al. 2022; Gull et al. 2023; Zhang 2021). This narrow approach not only disregards the complementarity of governance mechanisms but also diminishes the effectiveness of the overall corporate governance system (Aguilera et al. 2008; Rediker and Seth 1995). 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). However, some studies suggest that multiple governance mechanisms may be used symbolically and substitute one another, resulting in reduced effectiveness of the corporate governance bundle (Misangyi and Acharya 2014; Schepker and Oh 2013; Siggelkow 2002; Ward, Brown, and Rodriguez 2009).

The role of CSR-focused governance mechanisms (such as CSR committees, standalone CSR reports, and CSR contracting) in mitigating CSR decoupling remains an underexplored area despite the incremental adoption of such mechanisms by firms.[1] Derchi, Zoni, and Dossi (2021) indicate that these mechanisms can enhance the monitoring and guidance provided to corporate executives regarding CSR-oriented performance. However, how these mechanisms interact concerning CSR decoupling demands further investigation. Thus, analyzing CSR-focused governance mechanisms' complementarity and substitution effects on CSR decoupling are critical research issues.

This study adopts an agency theory perspective and examines the interaction across CSR-focused governance mechanisms and their impact on CSR decoupling. It is widely recognized that an effective corporate governance system helps mitigate agency problems by preventing opportunistic actions taken by managers (Eisenhardt 1989, Milgrom and Roberts 1992, Shleifer and Vishny 1997). However, extant literature lacks a comprehensive understanding of whether CSR-focused mechanisms complement or substitute each other in mitigating CSR decoupling. This study addresses this gap and contributes to the literature on corporate governance and CSR.

The study, examining 2163 firm-year observations of UK firms listed on the FTSE All-Share Index from 2007 to 2017 using a two-way cluster regression approach, reveals that CSR-focused governance mechanisms effectively mitigate CSR decoupling and enhance CSR credibility. Notably, the presence of a CSR committee when issuing a standalone CSR report further diminishes CSR decoupling. However, the simultaneous implementation of CSR committees and CSR contracting is identified as a substitute mechanism. Similarly, the interaction effect between standalone CSR reports and CSR contracting on CSR decoupling is also substitutive. Further tests demonstrate that our main findings remain consistent when categorizing CSR decoupling into underreporting and overreporting. In the Supporting Information, we show that CSR committees effectively reduce CSR decoupling during and after the financial crisis, whereas the adverse impact of CSR reports and CSR contracting on CSR decoupling is observed only after the crisis. Furthermore, during and after the crisis period, CSR committees exhibit a complementary relationship with CSR reports. However, interactions between CSR committees and CSR contracting, as well as CSR reports and CSR contracting, indicate substitution effects only after the crisis period.

The study makes several important contributions to the literature. Firstly, it adds to the growing body of research on CSR decoupling by emphasizing the significance of corporate governance mechanisms in reducing CSR decoupling, especially those that are CSR-focused. This finding supports the argument that CSR-focused governance mechanisms can act as a substantive strategy for firms to improve the credibility and transparency of their CSR reporting. Secondly, prior studies have primarily focused on examining the impact of governance mechanisms in isolation (Eliwa, Aboud, and Saleh 2023; Gull et al. 2022; Zhang 2021). However, this study is the first to investigate the combined effects of CSR-focused governance mechanisms on CSR decoupling. Therefore, it contributes to the literature on agency theory by demonstrating the complementary relationship among monitoring governance mechanisms related to CSR, leading to improved effectiveness and thus reduced agency costs. Conversely, it also highlights the substitute relationship between monitoring and incentive mechanisms, indicating additional agency costs incurred in such cases. Thirdly, our study contributes to the corporate governance literature by documenting the effectiveness of CSR-focused governance in mitigating both CSR underreporting and overreporting. This contribution also emphasizes the importance of specialized governance mechanisms in mitigating managerial opportunistic actions like CSR decoupling. Lastly, the study significantly contributes to the literature on the effectiveness of corporate governance in response to the 2008–2009 financial crisis. Specifically, it illustrates that governance mechanisms exhibit varying individual effects and interactions with each other in mitigating CSR decoupling during crisis periods compared to post-crisis times, as detailed in the Supporting Information.

The remainder of the study is structured as follows. Section 2 discusses the theoretical background. Section 3 reviews previous literature and develops testable hypotheses. Section 4 describes the sample and empirical techniques used. Section 5 presents empirical results, and Section 6 discusses the results and draws conclusions.

2 | Theoretical Background

CSR engagement is typically investigated based on the stakeholder theory, which posits that managers are required to consider the interests of all stakeholders (Freeman 1984). However, managers may opportunistically use CSR to pursue their personal interests, disregarding the interests of other stakeholders (Jensen and Meckling 1976). As a case in point, managers are inclined to engage in CSR decoupling, particularly exaggerating favorable CSR information to entrench themselves and protect their discretion (Cespa and Cestone 2007), which can provoke conflicts between managers and stakeholders (García-Sánchez et al. 2022). Therefore, the establishment of strong corporate governance is crucial to

mitigate agency problems and safeguard the interests of stakeholders (Eisenhardt 1989).

High-quality monitoring is one approach to reducing agency conflicts between managers and stakeholders (Burkart, Gromb, and Panunzi 1997; Hermalin and Weisbach 1998), whereas providing financial incentives is the other that aligns their interests (Eisenhardt 1989; Shleifer and Vishny 1997). Focusing solely on a singular corporate governance mechanism in isolation from others limits their effectiveness in mitigating agency problems (Aguilera et al. 2008; Dalton et al. 2003). This follows the view that governance mechanisms do not function independently, instead, they interact interdependently to attain optimal corporate governance (Rediker and Seth 1995; Ward, Brown, and Rodriguez 2009). This argument has reoriented governance research toward the study of corporate governance as a bundle of mechanisms rather than a singular mechanism (Ward, Brown, and Rodriguez 2009).

The consideration of corporate governance as a bundle of mechanisms implies that these may complement or substitute each other to achieve a desired outcome (Misangyi and Acharya 2014; Poppo and Zenger 2002; Schepker and Oh 2013; Ward, Brown, and Rodriguez 2009). Therefore, the fundamental question, in this case, is how to establish an effective governance bundle to mitigate actions taken by managers that are not in the interests of other stakeholders (Roe 1996). Based on a cost–benefit analysis, the presence of a complementary association among governance mechanisms signifies their effectiveness (Rediker and Seth 1995). This occurs as one mechanism reinforces the other, leading to a reduction in agency costs and the avoidance of moral hazard issues (Ward, Brown, and Rodriguez 2009). Conversely, the substitutive association diminishes the effectiveness of governance mechanisms, incurring additional costs for firms. This is because one mechanism serves as a replacement for the other and their simultaneous presence becomes redundant (Rediker and Seth 1995; Zajac and Westphal 1994). In other words, multiple governance mechanisms function as complements [substitutes] when they jointly raise [reduce] shareholders' wealth or/and reduce [increase] agency costs (Rediker and Seth 1995; Siggelkow 2002).

Therefore, the effective corporate governance bundle incorporates mechanisms complementing each other in reducing agency problems (Aguilera et al. 2008; Hoskisson, Castleton, and Withers 2009; Schepker and Oh 2013; Ward, Brown, and Rodriguez 2009). In addressing CSR agency issues, firms are increasingly investing in CSR-focused governance mechanisms (Derchi, Zoni, and Dossi 2021). The construction of a governance bundle that relies on CSR-linked mechanisms is considered a powerful approach for overseeing CSR strategies, translating these strategies into actions, and providing the executives with appropriate incentives to promote CSR performance (Flammer, Hong, and Minor 2019; Mallin and Michelon 2011; Paine 2014). Accordingly, Derchi, Zoni, and Dossi (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, Zoni, and Dossi (2021) and examines whether CSR-focused governance mechanisms act as complements or substitutes for each other in mitigating opportunistic actions, particularly CSR decoupling.

3 | Development of Hypotheses

Extant research has shown that managers' opportunistic behavior increases CSR decoupling (Gull et al. 2023; Sauerwald and Su 2019; Shahab et al. 2022), which can lead to a decline in firm value (Hawn and Ioannou 2016) and legitimacy (Maclean and Behnam 2010, Tashman, Marano, and Kostova 2019). Agency theory suggests that allocating resources toward controlling CSR activities can enhance the transparency and credibility of these activities (Hussain, Rigoni, and Orij 2018). Recent studies have investigated the impact of corporate governance on CSR decoupling. They show that factors such as director experience and ownership (Sauerwald and Su 2019), analyst coverage (Zhang 2021), CSR committee presence (Gull et al. 2022), Global Reporting Initiative (GRI) guidance adoption (García-Sánchez et al. 2022), and board gender diversity (Ali Gull et al. 2022; Eliwa, Aboud, and Saleh 2023) can mitigate the firm's engagement in CSR decoupling. However, these studies have narrowly focused on examining the impact of a single governance mechanism on CSR decoupling, which limits their scope in fully exploring the governance–CSR decoupling relationship. This study examines the impact of a bundle of CSR-linked governance mechanisms, namely, CSR committees, standalone CSR reports, and CSR contracting on CSR decoupling. We focus on these mechanisms as their adoption (i) reflects a firm's commitment to enhancing CSR integrity and reliability (Derchi, Zoni, and Dossi 2021), (ii) is a voluntary decision (Radu and Smaili 2021), and (iii) has been steadily on the rise (as indicated in Figure 2).

3.1 | Singular CSR-Focused Governance Mechanisms

A CSR committee is a board-level committee explicitly responsible for monitoring and advising corporate executives about CSR issues (Liao, Luo, and Tang 2015; Radu and Smaili 2021). Establishing such a committee is a voluntary business decision through which firms reflect their commitment toward stakeholder issues and society (Mallin and Michelon 2011; Shaukat, Qiu, and Trojanowski 2016) and attain a balance between their financial and nonfinancial objectives (Liao, Luo, and Tang 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 oversee their implementation (Ricart, Rodríguez, and Sanchez 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, Rodríguez, and Sanchez 2005).

Additionally, as part of its monitoring and advising role, CSR committees manage the risks and opportunities of CSR activities and fulfill 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 to the audit committee, which works to provide transparent financial reporting practices (García-Sánchez et al. 2019; Liao, Luo, and

Tang 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, Suárez-Fernández, and García-Sánchez 2019).

Another CSR-focused governance mechanism used to oversee the impact of CSR is the issuance of standalone CSR reports (Derchi, Zoni, and Dossi 2021). These 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, Mahoney, and Manetti 2014). These reports serve as signals of a firm's commitment to CSR, thereby alleviating information asymmetry between managers and other stakeholders (Al-Tuwaijri, Christensen, and Hughes Ii 2004; Christensen 2016; Dhaliwal et al. 2011; Dhaliwal et al. 2012). Furthermore, CSR reports provide a comprehensive overview of CSR achievements and highlight specific actions and risks associated with different aspects of CSR (Derchi, Zoni, and Dossi 2021). Thus, standalone CSR reports enable the board of directors to effectively monitor managers' actions and tackle agency conflicts such as inaccurate information and poor investments (Armstrong, Guay, and Weber 2010). The CSR reporting process assists managers in effectively overseeing their operations and facilitating the measurement and analysis of CSR activities (Christensen 2016).

Previous research indicates that companies involved in genuine CSR activities are more inclined to generate standalone CSR reports (Du and Yu 2021; Koseoglu et al. 2021; Prado-Lorenzo and Garcia-Sanchez 2010), thereby narrowing the gap between performance and disclosure. The issuance of CSR reports is associated with greater transparency of information (Dhaliwal et al. 2011) and a decrease in analyst forecast error (Dhaliwal et al. 2012), leading to lower levels of asymmetric information (Healy and Palepu 2001; Martínez-Ferrero et al. 2018). However, other studies argue that firms produce standalone CSR reports to manage stakeholders' perceptions of their CSR strategy (Guidry and Patten 2010; Lyon and Maxwell 2011). This has led to criticism regarding the quality, reliability, and usefulness of standalone CSR reports (Laine 2010) and their potential disconnection from actual CSR actions (Mio 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, Crifo, and Guidoux 2020; Flammer, Hong, and Minor 2019; Tsang et al. 2021). This practice encourages CSR actions by incentivizing corporate executives to implement them (Maas 2018; Radu and Smaili 2021). Based on agency theory, incentive-linked compensation is used to align managers' interests with shareholders' objectives to mitigate agency problems between the two parties (Eisenhardt 1989; Holmstrom and Milgrom 1991). 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, Li, and Minor 2016).

Recent studies have shown that providing managers with financial incentives based on CSR targets can reduce opportunistic activities, such as earnings management (Li and Thibodeau 2019) and encourage them to adopt GRI guidance (Nandy et al. 2023), thereby reducing CSR decoupling tendencies (García-Sánchez et al. 2022). Moreover, CSR contracting is found to have a positive impact on firm value, CSR initiatives, long-term orientation, and corporate governance (Flammer, Hong, and Minor 2019). However, Derchi, Zoni, and Dossi (2021) suggest that the positive effect of CSR contracting on substantial engagement in CSR is only observed after firms have accumulated experience in using the approach, typically from the third year of adoption. They identify the difficulty of measuring nonfinancial targets and the multiplicity of tasks assigned to managers as potential reasons for the conflicting results in the use of CSR contracting (Derchi, Zoni, and Dossi 2021).

Based on the above discussion, we propose the following hypothesis:

Hypothesis 1. *A negative relationship exists between each CSR-focused governance mechanism (i.e., CSR committees, standalone CSR reports, and CSR contracting) and CSR decoupling.*

3.2 | CSR-Focused Governance as a Bundle

Corporate governance bundles are a system of monitoring and incentive mechanisms that are collectively used to control agency issues (Aslan and Kumar 2014; Ward, Brown, and Rodriguez 2009). Given that the simultaneous presence of multiple governance mechanisms can either complement or substitute each other in impacting corporate outcomes (Misangyi and Acharya 2014; Poppo and Zenger 2002; Schepker and Oh 2013; Ward, Brown, and Rodriguez 2009), we develop two competing hypotheses using the complementary effect perspective and substitutive effect perspective:

3.2.1 | 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). Accordingly, this study argues that standalone CSR reports can be more effective in mitigating CSR decoupling if a CSR committee also exists. CSR 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. 2019). Furthermore, the existence of a CSR committee increases the likelihood of issuing standalone CSR reports in compliance with GRI guidelines and International Finance Corporation (IFC) performance standards, thereby augmenting the marginal benefit associated with such reports (García-Sánchez et al. 2019). Al-Shaer and Zaman (2019) and Mardawi et al. (2023) demonstrate that the presence of a CSR committee increases the probability of standalone CSR reports being

externally assured by a Big 4 auditor, which improves their reliability and transparency. Consequently, the joint presence of CSR committees and standalone CSR reports may offer a complementary effect, resulting in increased marginal benefits that enhance the comparability and credibility of such reports, enabling stakeholders to better evaluate a firm's CSR activities (Al-Shaer and Zaman 2019; García-Sánchez et al. 2019). As a result, we propose that their simultaneous existence contributes to mitigating CSR decoupling by creating an effective corporate governance bundle.

The interaction between CSR committees and CSR contracting may also have a complementary effect on mitigating CSR decoupling. This is based on the premise that both CSR and compensation committees are overseen by the board of directors and their members collaborate to offer advice and information to reflect the overall strategic vision of the board. Additionally, there could be an overlap in committee membership, resulting in greater interaction and a more effective approach to mitigate the agency problem (Radu and Smaili 2021). As such, the CSR committee may guide the compensation committee to include a specific CSR target in the CEO's compensation plan, as well as monitor the achievement of this target.

Likewise, it is reasonable to argue that these mechanisms may jointly work to mitigate CSR decoupling. The standalone CSR reports are considered to be a powerful monitoring mechanism that compels corporate executives to meet CSR targets associated with their compensation scheme, due to social image and individual reputation considerations (Bénabou and Tirole 2010). Integrating CSR targets into executive compensation schemes formalizes executive accountability for achieving CSR targets, particularly if these targets are published in a standalone CSR report (Derchi, Zoni, and Dossi 2021).

Consequently, drawing from the complementary effect perspective, we propose the following hypothesis:

Hypothesis 2. *The interaction between any pair of CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) is anticipated to amplify their effectiveness in mitigating CSR decoupling.*

3.2.2 | Substitutive Effect Perspective

The substitutive effect refers to a diminishing marginal benefit of one governance mechanism in the presence of another (Oh, Chang, and Kim 2018). Therefore, the effectiveness of corporate governance is diminished if there is a substitutive effect between two such mechanisms (Schepker and Oh 2013). In line with this perspective, it is argued that CSR committees may be less effective when they are assigned multiple tasks (Burke, Hoitash, and Hoitash 2019). Furthermore, Derchi, Zoni, and Dossi (2021) find that implementing both CSR committees and CSR assurance as monitoring mechanisms simultaneously does not improve the overall effectiveness of the governance system, as these mechanisms may have overlapping tasks and result in a substitution effect. Similarly, it may also be argued that the joint implementation of two monitoring mechanisms, such as CSR committees and standalone CSR reports, focused on CSR issues is a symbolic initiative. For example, prior research suggests that firms may use CSR reports to manage stakeholder perceptions and signal their commitment to social responsibility (Guidry and Patten 2010; Lyon and Maxwell 2011).

Furthermore, some studies argue that monitoring mechanisms and incentive alignment mechanisms may work as substitutes in a corporate governance bundle (Armstrong, Guay, and Weber 2010; Hoskisson, Castleton, and Withers 2009; Rediker and Seth 1995). As such, the extent of monitoring of corporate executives should be lax when incentives are provided (and vice versa) indicating that a systematic balance between mechanisms is preferable over a substitution scenario (Hoskisson, Castleton, and Withers 2009). In the CSR context, if one mechanism (e.g., CSR contracting) incentivizes executives to align their behavior 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 required. Derchi, Zoni, and Dossi (2021) observe this governance practice in several firms that are recognized as CSR leaders in the Dow Jones Sustainability Index (DJSI). They also find that these firms exclude the use of CSR contracting in conjunction with other CSR-focused monitoring mechanisms.

Accordingly, drawing from the substitution effect, we propose the following hypothesis:

Hypothesis 3. *The interaction between any pair of CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) is expected to diminish their effectiveness in mitigating CSR decoupling.*

Figure 1 presents the independent (Hypothesis 1), complementary (Hypothesis 2), and substitutive (Hypothesis 3) effects of CSR-focused governance mechanisms on CSR decoupling.

4 | Research Design

4.1 | Data and Sample

The study data are obtained from the Refinitiv Eikon database, which includes information on internal and external CSR actions and CSR-focused governance mechanisms sourced from ASSET4. Other control variables data are collected from Worldscope and DataStream and merged with the ASSET4 data. The resulting panel dataset comprises 4884 firm-year observations corresponding to 445 UK-based firms listed on the FTSE All-Share Index between 2007 and 2017.

ASSET4 provides relevant and auditable CSR information through a rigorous process. Specifically, specialized analysts collect 900 objective and publicly available data points, which are further transformed into over 270 key performance indicators (KPIs). The KPIs are organized and aggregated into four pillars: environmental, social, governance, and economic. The environmental pillar comprises three categories: product innovation, resource reduction, and emission reduction. The

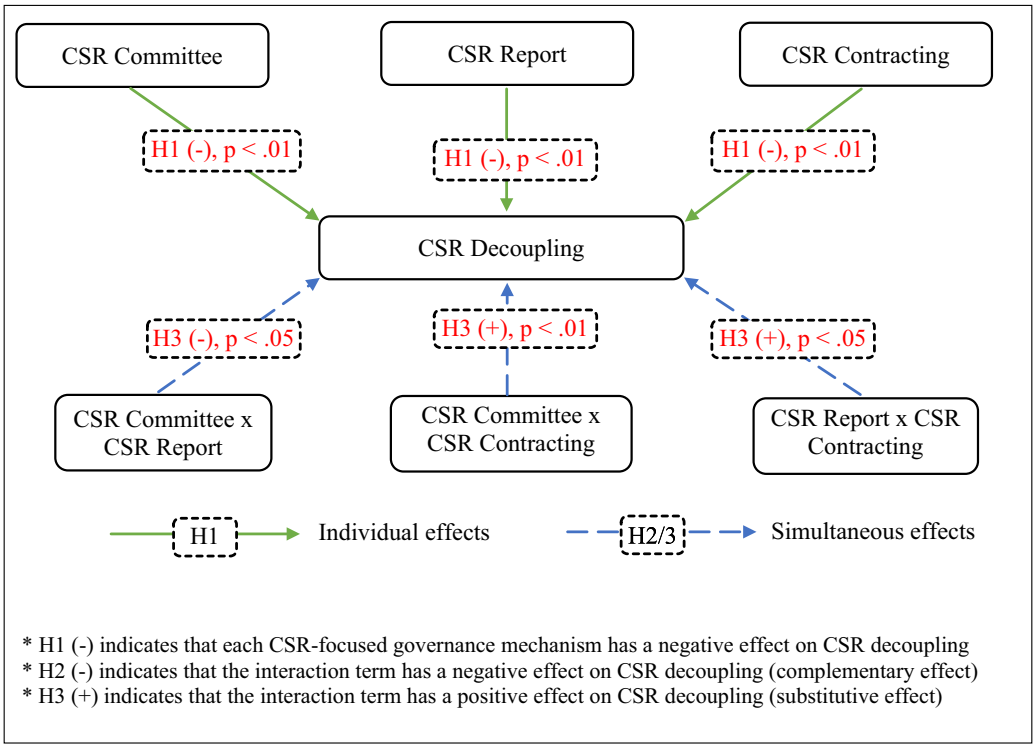

FIGURE 1 | Conceptual framework of the study.

governance pillar consists of five categories: compensation policy, board structure, board functions, vision and strategy, and shareholders' rights. The social pillar encompasses seven categories: employment quality, community, human rights, health and safety, diversity, training and development, and product responsibility. Finally, the economic pillar includes three categories: client loyalty, performance, and shareholder loyalty.

Financial firms are excluded due to their distinct financial reporting requirements and that they are more strictly regulated (Macve and Chen 2010). In addition, firm-year observations with incomplete information for the main variables are also excluded. Finally, due to the inclusion of lagged values of independent variables, some further observations are omitted. As a result, the final dataset consists of an unbalanced panel of 2163 firm-year observations covering the period of 2007–2017. A Kolmogorov–Smirnov (K-S) test indicates that there are no significant differences between the full ($N = 4884$) and the final ($N = 2163$) dataset used in the analyses, suggesting that the attrition issue is not a concern in the final sample. The final sample accounts for approximately 70% of the total UK market capitalization,[2] indicating the absence of a selection bias. Table 1 summarizes the sample selection process.

Based on the Industry Classification Benchmark (ICB) code level 1, Panel A of Table 2 shows that the final sample is distributed over nine industries, that is, telecommunications, consumer discretionary, consumer staples, energy, healthcare, industrials, basic material, technology, and utilities, with greater concentration in consumer discretionary and industrials. Panel B of Table 2 displays the annual distribution of firm-year observations.

TABLE 1 | Sample selection process.

	Freq.	%
Firms listed on the FTSE All-Share Index from 2007 to 2017	4884	100
Less		
Financial firms	212	4.34
Observations with missing main variables	2312	47.34
Sample firms before considering lagged values	2360	
Less		
Missing observations due to including lagged values of independent variables	197	4.03
Final sample	2163	44.29

Note: This table presents the sample selection process.

4.2 | Variable Measurement

4.2.1 | Dependent Variable

Consistent with previous literature, this study employs the Hawn and Ioannou (2016) CSR decoupling measure, as it has been developed through a rigorous process and verified for its stability and consistency based on various tests and techniques (Ali Gull et al. 2022; García-Sánchez et al. 2022; Shahab et al. 2022; Surroca et al. 2020). Hawn and Ioannou (2016) classify ASSET4 data points into 21 internal CSR actions for data focused on internal firm policies and 24 external ones for data related to disclosure and claims. More specifically, the internal and external CSR

TABLE 2 | Distribution of the sample.

	Freq.	%
Panel A: Industry classification of the sample		
Basic materials	219	10.12
Consumer discretionary	676	31.25
Consumer staples	181	8.37
Energy	127	5.87
Health care	72	3.33
Industrials	632	29.22
Telecommunications	78	3.61
Utilities	70	3.24
Technology	108	4.99
Total	2163	100
Panel B: Yearly distribution of the sample		
2008	194	8.97
2009	195	9.02
2010	211	9.75
2011	209	9.66
2012	219	10.12
2013	222	10.26
2014	224	10.36
2015	227	10.49
2016	233	10.77
2017	229	10.59
Total	2163	100

Note: This table presents the distribution of the sample firms by industry and year. The observations of 2007 are dropped due to the inclusion of 1-year lagged values of independent variables.

actions are normalized based on a scale of 0–1 to measure CSR decoupling, which is the difference between the sums of current external actions and lagged internal ones.[3] To account for the potential time gap between policy disclosure and implementation, the study considers a 1-year lag in internal actions. Therefore, in line with CSR literature (García-Sánchez et al. 2022; Kim and Lyon 2015; Sauerwald and Su 2019; Tashman, Marano, and Kostova 2019), the higher the value, the greater the decoupling between internal and external CSR actions.

4.2.2 | Independent Variables

Drawing from the ASSET4 database, this study employs three indicators to measure the adoption 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 (see, e.g., Hussain et al. 2023). The standalone CSR report is a separate report issued voluntarily, intended to inform stakeholders about CSR issues. The report must contain at least five pages to be classified as a standalone report by ASSET4. In this regard, a binary variable is coded 1 if a firm issued a standalone CSR report and 0 otherwise (see, e.g., Derchi, Zoni, and Dossi 2021). CSR contracting is an incentive alignment mechanism, coded 1 if the CSR target is linked to corporate executives' compensation and 0 otherwise (see, e.g., Radu and Smaili 2021).

4.2.3 | Control Variables

Consistent with the prior literature on the relationship between CSR and corporate governance (Adams 2002; Derchi, Zoni, and Dossi 2021; García-Sánchez et al. 2022; Maas 2018; Oh, Chang, and Kim 2018; Radu and Smaili 2021; Zhang 2021), this study considers a set of control variables while examining the effect of CSR-focused governance mechanisms on CSR decoupling. These include firm size, profitability, market value, age, and financial leverage.

Larger firms have stronger incentives to exaggerate their positive CSR image because of their high visibility (Sauerwald and Su 2019). In effect, a positive relationship exists between firm size, proxied by the natural logarithm of total assets, and CSR decoupling (Ali Gull et al. 2022; Gull et al. 2022). Similarly, firms' profitability and their market values are also expected to be positively associated with CSR decoupling (Gull et al. 2022). More profitable and overvalued firms focus on bottom-line performance (Adhikari 2016), which may lead them to overreport their CSR activities to capitalize on potential financial benefits (Delmas and Burbano 2011; Kim and Lyon 2015). Firm profitability is calculated as the proportion of net income to total assets, and firm value is measured as the ratio of market value to book value (Ali Gull et al. 2022; García-Sánchez et al. 2021; García-Sánchez et al. 2022; Gull et al. 2023). However, financial leverage and firm age are expected to have a negative effect on CSR decoupling. As financial leverage influences the risk-taking propensity (Acosta-Smith, Grill, and Lang 2020; Bhagat, Bolton, and Lu 2015; Cathcart et al. 2020), firms with a high level of financial leverage, estimated as long-term liabilities divided by common equity, may refrain from undertaking additional risk associated with CSR decoupling. Likewise, older firms are more concerned about their reputation (Khan, Muttakin, and Siddiqui 2013), which may diminish their tendency toward CSR decoupling. Consistent with Khan, Muttakin, and Siddiqui (2013), this study proxies firm age by the natural logarithm of total years since a firm's incorporation date.

Furthermore, we control for various monitoring factors (such as ownership concentration, board independence, and board activism), as they are expected to mitigate CSR decoupling (Burkart, Gromb, and Panunzi 1997; Hermalin and Weisbach 1998; Hussain et al. 2023; 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 (Hussain et al. 2023), although the frequency of directors' attendance at board meetings proxies board activism (Chou, Chung, and Yin 2013).

4.3 | Model Specification

To test our hypotheses, we use a two-way cluster regression model that clusters standard errors at both the firm and year

levels based on the approach of Petersen (2009). This method corrects heteroskedasticity issues and provides well-specified standard errors in the presence of cross-sectional and time-series data (Gow, Ormazabal, and Taylor 2010). Previous studies have highlighted various macroeconomic issues related to CSR, such as economic shocks and changes in governmental systems and policies (Barnett and Salomon 2012; Maas 2018). To mitigate these macroeconomic effects, we include industry and year dummies in these models in addition to 1-year lagged values of independent variables to avoid simultaneity issues.

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

$$CSRDE_{it} = \alpha_0 + \beta_1 CSRCOM_{it-1} \times CSRRE_{it-1} + \beta_2 CSRCOM_{it-1} + \beta_3 CSRRE_{it-1} + \sum_k \beta_k X_{kit-1} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \epsilon_{it} \quad (2)$$

$$CSRDE_{it} = \alpha_0 + \beta_1 CSRCOM_{it-1} \times CSRCON_{it-1} + \beta_2 CSRCOM_{it-1} + \beta_3 CSRCON_{it-1} + \sum_k \beta_k X_{kit-1} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \epsilon_{it} \quad (3)$$

$$CSRDE_{it} = \alpha_0 + \beta_1 CSRRE_{it-1} \times CSRCON_{it-1} + \beta_2 CSRRE_{it-1} + \beta_3 CSRCON_{it-1} + \sum_k \beta_k X_{kit-1} + \sum_j \beta_j industry_j + \sum_t \beta_t year_t + \epsilon_{it} \quad (4)$$

In Equations (1) and (4), $CSRDE_{it}$ refers to CSR decoupling for firm i in year t. *GOVFCSR* represents CSR-focused governance mechanisms, that is, 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*). Table 3 summarizes the definitions, measurements, and data sources of these variables.

Following previous literature (Poppo and Zenger 2002; Siggelkow 2002), we ascertain whether the impact of CSR-focused governance on CSR decoupling is complementary or substitutive by analyzing the interaction terms in Equations (2)–(4). Thus, the conditions for the presence of complementary or substitutive effects are as follows:

- Complementary condition: $\int (X_{-existent}, Z_{-existent}) > \int (X_{-non\text{-}existent}, Z_{-existent})$ *OR* $\int (X_{-existent}, Z_{-non\text{-}existent})$
- Substitutive condition: $\int (X_{-non\text{-}existent}, Z_{-existent})$ *OR* $\int (X_{-existent}, Z_{-non\text{-}existent}) > \int (X_{-existent}, Z_{-existent})$

X and Z represent possible pairs of CSR-focused governance mechanisms. For instance, if we suppose X as *CSRCOM* and Z as *CSRRE*, complementary interactions occur when the reduction in CSR decoupling is more pronounced with the simultaneous existence of *CSRCOM* and *CSRRE* $\int (X_{-existent}, Z_{-existent})$ compared to other scenarios $\int (X_{-non\text{-}existent}, Z_{-existent})$ *OR* $\int (X_{-existent}, Z_{-non\text{-}existent})$. Conversely, substitutive interactions occur when the reduction in CSR decoupling is higher with the individual existence of *CSRCOM* or *CSRRE* $\int (X_{-non\text{-}existent}, Z_{-existent})$ *OR* $\int (X_{-existent}, Z_{-non\text{-}existent})$ than with their simultaneous existence $\int (X_{-existent}, Z_{-existent})$.

5 | Empirical Results

5.1 | Univariate Analysis

Table 4 reports the descriptive statistics and frequencies of the continuous and dummy variables, respectively. The majority of sample firms undertake more internal actions than external ones, with the mean of *CSRDE* being −0.279 (ranging from −0.688 to 0.382) and a standard deviation of 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 the 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 2 shows annual trends in firms adopting different CSR-focused governance mechanisms over the sample period. It shows that in 2007, only 100 firms had a CSR committee, and approximately a similar number of firms had issued CSR reports, whereas only around 30 incentivized their managers based on CSR performance. By 2017, the corresponding figures had increased significantly to about 200, 250, and 150, respectively.

Concerning firm-level factors, Table 4 shows that FSIZE, measured by the natural logarithm of total assets, has a mean [SD] of 14.460 [1.480], indicating that our sample consists of large, medium, and small firms with an average age of 21.28 years.[4] Financially, the sample firms have on average 5.8% ROA, 3.2% BTMV, and 19.4% FLEV. These figures are also consistent with previous UK-based studies (e.g., Al-Shaer 2020; Benlemlih et al. 2018). Referring to the monitoring factors, the mean of shares owned by block holders 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 block holders. 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).

Table 5 shows the correlation coefficients across the independent variables indicating that multicollinearity is not a concern in our study, as the coefficients are lower than the 0.6 threshold (Gujarati, Porter, and Gunasekar 2012). The table also shows that the variance inflation factors (VIF) are well below 10, confirming the absence of any multicollinearity problem (Kennedy 2008).

5.2 | Multivariate Analysis

Table 6 presents regression results. Starting with the control variables, Model 1 shows that FISZE, ROA, and MTBV have a positive effect on CSRDE, whereas FLEV, FAGE, OWNCON,

TABLE 3 | Definitions and data sources of the variables.

Variable name	Symbol	Definition	Data source	Relevant literature
Dependent variable				
CSR decoupling	*CSRDE*	Difference between the normalized value of current external actions and lagged internal ones	ASSET4	Hawn and Ioannou (2016)
Independent variables				
CSR committee	*CSRCOM*	The dummy variable coded 1 if the firm has a CSR committee, and 0 otherwise	ASSET4	Hussain et al. (2023)
Standalone CSR report	*CSRRE*	The dummy variable coded 1 if the firm issues a standalone CSR report and 0 otherwise	ASSET4	Derchi, Zoni, and Dossi (2021)
CSR contracting	*CSRCON*	The dummy variable coded 1 if the firm links executives' compensation with CSR target and 0 otherwise	ASSET4	Radu and Smaili (2021)
Control variables				
Firm size	*FSIZE*	Natural logarithm of total assets	Worldscope	Sauerwald and Su (2019)
Profitability	*ROA*	Total income divided by total assets	Worldscope	Gull et al. (2022)
Market-to-book value	*MTBV*	Market value divided by book value	Worldscope	Gull et al. (2023)
Financial leverage	*FLEV*	Long-term liabilities divided by common equity	Worldscope	Acosta-Smith, Grill, and Lang (2020)
Firm age	*FAGE*	Natural logarithm of total years since a firm's date of incorporation	Worldscope	Khan, Muttakin, and Siddiqui (2013)
Board independence	*BIND*	Percentage of independent directors on the board	ASSET4	Hussain et al. (2023)
Ownership concentration	*OWNCON*	100% subtracted from the percentage of free-float shares	DataStream	Surroca et al. (2020)
Board meeting attendance	*BMEET*	Percentage of directors who attend the board meetings	ASSET4	Chou, Chung, and Yin (2013)

Note: This table presents the definitions and data sources of the variables used in the study. All continuous variables are winsorized at 1% and 99% levels to adjust for outliers.

TABLE 4 | 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	0.032	0.025	0.027	0.002	0.103
$FLEV_{t-1}$	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	0.208	0.150	0.194	0.000	0.920
$BINDE_{t-1}$	2163	0.559	0.556	0.129	0.177	0.857
$BMEET_{t-1}$	2163	0.960	0.970	0.045	0.750	1.000

Note: This table presents descriptive statistics for the variables used in the analysis. The variables are defined in Table 3, and all continuous variables are winsorized at 1% and 99% levels to adjust for outliers.

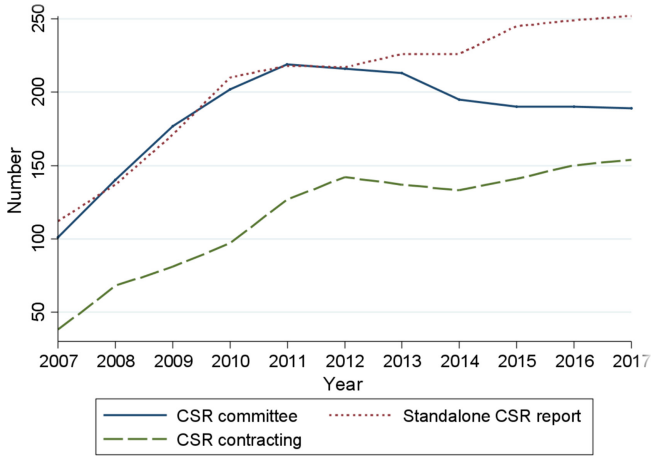

FIGURE 2 | CSR-focused governance mechanisms. This figure reports the annual (x-axis) trend in firms (y-axis) adopting CSR mechanisms of CSR committees, standalone CSR reports, and CSR contracting.

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 ($\beta = -5.895$, $p < 0.01$), CSRRE ($\beta = -4.447$, $p < 0.01$), and CSRCON ($\beta = -3.116$, $p < 0.01$) on CSRDE. These findings are consistent with Hypothesis 1, which predicts a negative relation between CSR-focused governance mechanisms and CSR decoupling. These results support the agency theory perspective, which suggests that effective governance mechanisms can minimize opportunistic behavior and protect stakeholders' interests (Eisenhardt 1989; Shleifer and Vishny 1997). This is also consistent with previous research demonstrating that CSR committees (Amran, Lee, and Devi 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. Moreover, Model 5 illustrates the impact of all three CSR-focused governance mechanisms on CSR decoupling within a single regression showing that these relationships are negative and statistically significant at the 1% level. To avoid measurement issues, we merge CSR committee, standalone CSR report, and CSR contracting into an index (CSRGOV) using two distinct methods. Both methods reveal a notable negative impact of the CSRGOV index on CSR decoupling, as outlined in Table S3, Model 1, and Model 2 in the Supporting Information.

The complementarity and/or substitution relationships are tested in Table 7 (Models 1–3). 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 negative and significant ($\beta = -3.154$, $p < 0.05$). This indicates that the effect of CSRRE on CSRDE is reinforced by the existence of a CSR committee. This finding supports Hypothesis 2, which is based on the complementary effect perspective that posits governance mechanisms do not operate independently; rather, they work interdependently to achieve the desired outcomes of governance systems (Rediker and Seth 1995;

TABLE 5 | Correlation matrix.

	Variable	VIF	1	2	3	4	5	6	7	8	9	10	11
1	$CSRCOM_{t-1}$	1.33	1.000										
2	$CSRRE_{t-1}$	1.28	0.391*	1.000									
3	$CSRCON_{t-1}$	1.12	0.246*	0.195*	1.000								
4	$FSIZE_{t-1}$	1.47	0.375*	0.314*	0.235*	1.000							
5	ROA_{t-1}	1.28	−0.071*	−0.027	−0.053*	−0.115*	1.000						
6	$MTBV_{t-1}$	1.26	−0.018	0.029	−0.042*	−0.104*	0.405*	1.000					
7	$FLEV_{t-1}$	1.15	0.031	0.033	−0.002	0.246*	−0.162*	0.049*	1.000				
8	$FAGE_{t-1}$	1.10	0.052*	0.097*	0.027	−0.061*	−0.028	−0.070*	−0.105*	1.000			
9	$OWNCON_{t-1}$	1.14	−0.056*	−0.082*	−0.089*	−0.095*	−0.051*	−0.057*	−0.079*	−0.201*	1.000		
10	$BINDE_{t-1}$	1.18	0.175*	0.200*	0.123*	0.308*	0.018	−0.034	0.021	−0.014	−0.194*	1.000	
11	$BMEET_{t-1}$	1.06	−0.008	0.029	0.064*	−0.108*	0.075*	0.040	−0.002	0.118*	−0.172*	0.025	1.000

Note: This table presents the correlation matrix of coefficients across the independent variables. The variables are defined in Table 3, and all continuous variables are winsorized at 1% and 99% levels to adjust for outliers.
* represents statistical significance at the 5% level.

TABLE 6 | CSR-focused governance mechanisms and CSR decoupling.

	Model 1	Model 2	Model 3	Model 4	Model 5
$CSRCOM_{t-1}$		−5.895***			−5.551***
		(−8.85)			(−7.86)
$CSRRE_{t-1}$			−4.447***		−2.213***
			(−5.98)		(−2.78)
$CSRCON_{t-1}$				−3.116***	−1.883***
				(−5.14)	(−3.11)
$FSIZE_{t-1}$	0.722***	1.303***	1.029***	0.883***	1.483***
	(3.59)	(6.53)	(4.96)	(4.38)	(7.21)
ROA_{t-1}	3.119**	3.139***	3.127**	3.126**	3.190***
	(1.99)	(2.77)	(2.25)	(2.18)	(2.71)
$MTBV_{t-1}$	20.967*	20.587*	25.021**	20.126*	22.430**
	(1.93)	(1.94)	(2.33)	(1.88)	(2.17)
$FLEV_{t-1}$	−6.096***	−6.270***	−6.368***	−6.365***	−6.840***
	(−3.26)	(−3.49)	(−3.48)	(−3.43)	(−3.86)
$FAGE_{t-1}$	−0.941***	−0.477	−0.777**	−0.857**	−0.679**
	(−2.64)	(−1.38)	(−2.20)	(−2.42)	(−1.97)
$OWNCON_{t-1}$	−5.827***	−4.816***	−5.942***	−6.313***	−6.097***
	(−3.46)	(−2.91)	(−3.54)	(−3.75)	(−3.69)
$BINDE_{t-1}$	−9.100***	−6.771***	−7.636***	−8.407***	−6.514***
	(−3.98)	(−2.96)	(−3.39)	(−3.69)	(−2.88)
$BMEET_{t-1}$	−16.775**	−11.697*	−15.656**	−15.218**	−15.643**
	(−2.57)	(−1.87)	(−2.43)	(−2.35)	(−2.48)
Constant	−12.520*	−24.514***	−15.889**	−15.404**	−20.167***
	(−1.75)	(−3.52)	(−2.23)	(−2.17)	(−2.89)
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	0.075	0.134	0.090	0.086	0.123
F statistic p value	0.000	0.000	0.000	0.000	0.000

Note: This table presents the effect of CSR-focused governance mechanisms on CSR decoupling using a two-way cluster regression approach. The variables are defined in Table 3, and 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).

*, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

Zajac and Westphal 1994). Furthermore, a simple effect test shows that the relationship between CSRRE and CSRDE is significantly negative (at the 1% level with a slope of −4.969) when a CSRCOM exists, whereas the same relationship is only marginally negative (at the 10% level with a slope of −1.815) when a CSRCOM does not exist. These results, as presented in Figure 3, also suggest that the simultaneous presence of standalone CSR reports and CSR committees amplifies their impact in reducing CSR decoupling. This finding is consistent with the literature, which asserts that CSR committees play a critical role in monitoring the CSR information provided in standalone CSR reports, thereby enhancing their effectiveness (García-Sánchez et al. 2019).

Under Model 2, although the coefficients of CSRCOM ($\beta = -6.585$, $p < 0.01$) and CSRCON ($\beta = -4.413$, $p < 0.01$) on CSRDE are significantly negative, the interaction term between CSRCOM and CSRCON reveals a significantly positive coefficient ($\beta = 3.382$, $p < 0.01$). This result suggests that the joint presence of CSRCOM and CSRCON diminishes their effectiveness in mitigating CSRDE, supporting Hypothesis 3, which proposes that one mechanism may negatively affect the other due to its substitutive effect. The simple effect test further confirms this result by revealing that the slope of the relationship between CSRCOM and CSRDE is −6.585 at a 1% significance level when executive compensation schemes are not integrated into CSR targets. Conversely, the slope increases to −3.203 (significant at the 1% level) when executive compensation is integrated into CSR targets. These results are illustrated in Figure 4 suggesting that an incentive alignment mechanism, such as CSR contracting, reduces the effectiveness of CSR committees as monitoring mechanisms in mitigating CSR decoupling (and vice versa).

Similarly, Model 3 shows that the interaction term between CSRRE and CSRCON is positive and statistically significant ($\beta = 3.111$, $p < 0.1$). This finding also supports the substitutive hypothesis (Hypothesis 3) suggesting a diminished effectiveness

TABLE 7 | The complementary/substitutive effect of CSR-focused governance mechanisms on CSR decoupling.

	Model 1	Model 2	Model 3
$CSRCOM_{t-1}$*$CSRRE_{t-1}$	−3.154**		
	(−2.00)		
$CSRCOM_{t-1}$*$CSRCON_{t-1}$		3.382***	
		(2.58)	
$CSRRE_{t-1}$*$CSRCON_{t-1}$			3.111**
			(1.97)
$CSRCOM_{t-1}$	−3.470**	−6.585***	−4.498***
	(−2.52)	(−7.94)	(−2.75)
$CSRRE_{t-1}$	−1.815*	−2.127***	−5.812***
	(−1.76)	(−2.66)	(−6.32)
$CSRCON_{t-1}$	−3.299**	−4.413***	−5.454***
	(−2.31)	(−3.89)	(−3.82)
$FSIZE_{t-1}$	1.447***	1.463***	1.182***
	(7.04)	(7.13)	(5.70)
ROA_{t-1}	3.166**	3.113***	3.056**
	(2.53)	(2.64)	(2.41)
$MTBV_{t-1}$	24.929**	22.871**	23.489**
	(2.39)	(2.22)	(2.21)
$FLEV_{t-1}$	−6.807***	−6.722***	−6.674***
	(−3.85)	(−3.80)	(−3.68)
$FAGE_{t-1}$	−0.654**	−0.637*	−0.730**
	(−1.99)	(−1.95)	(−2.20)
$OWNCON_{t-1}$	−5.978***	−5.974***	−6.209***
	(−3.63)	(−3.62)	(−3.71)
$BINDE_{t-1}$	−6.827***	−6.742***	−8.862***
	(−3.02)	(−2.98)	(−3.62)
$BMEET_{t-1}$	−15.999**	−15.650**	−15.711**
	(−2.54)	(−2.48)	(−2.43)
Constant	−19.815**	−19.425**	−14.834**
	(−2.84)	(−2.80)	(−2.07)
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Observations	2163	2163	2163
Adjusted R^2	0.123	0.126	0.102
F statistic p value	0.000	0.000	0.000

Note: This table presents the effect of CSR-focused governance mechanisms on CSR decoupling, using a two-way cluster regression approach. The variables are defined in Table 3, and 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).

*, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

in mitigating CSR decoupling when two governance mechanisms operate simultaneously. The validation of Hypothesis 3 is further strengthened by the outcomes from the simple slope test. Specifically, when executive compensation is not linked to CSR targets, the relationship between CSRRE and CSRDE shows a substantial negative slope of −5.812. However, when the compensation is linked to CSR targets, this negative slope becomes less pronounced, with a value of −2.701, as illustrated in Figure 5.

The results of Models 2 and 3 are in line with the argument that if managers' activities are subject to monitoring, the introduction of incentive mechanisms to align the interests of managers and stakeholders may become redundant and could potentially result in unnecessary costs (Hoskisson, Castleton, and Withers 2009).

5.3 | Additional Tests

5.3.1 | CSR Decoupling: A Typology Analysis

CSR decoupling can manifest in two distinct forms, commonly referred to as underreporting and overreporting (Eliwa, Aboud, and Saleh 2023; Kim and Lyon 2015). Underreporting occurs when executives engage in CSR activities but do not

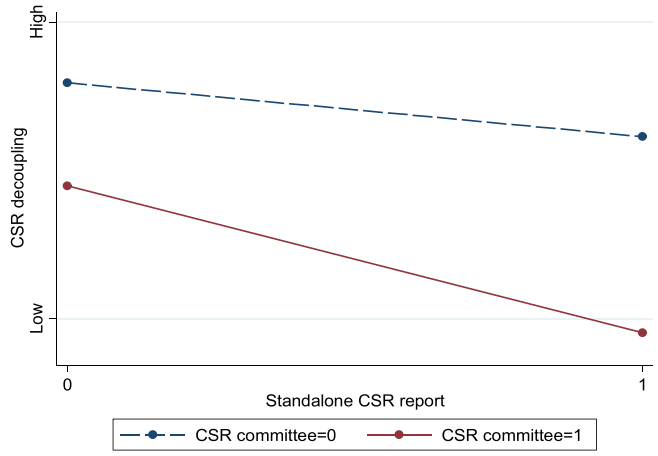

FIGURE 3 | The complementary effect of the CSR committee and standalone CSR report on CSR decoupling.

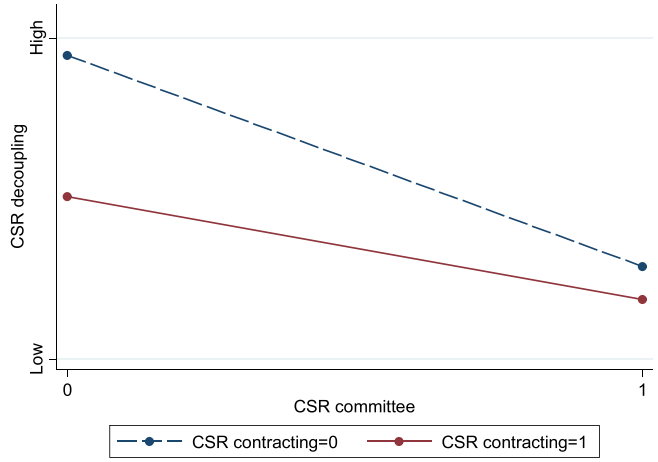

FIGURE 4 | The substitution effect of CSR committee and CSR contracting on CSR decoupling.

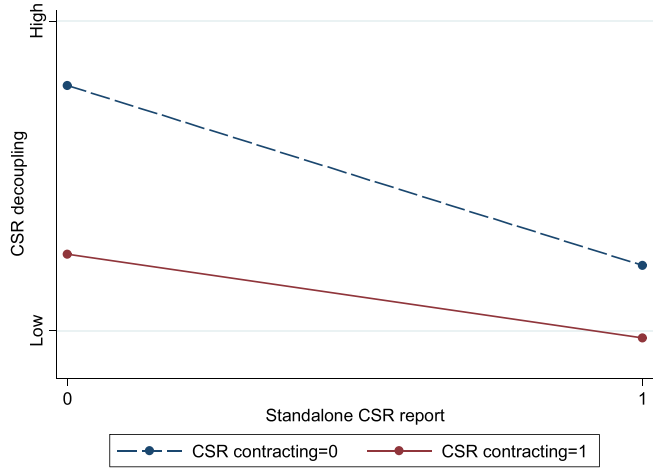

FIGURE 5 | The substitution effect of standalone CSR report and CSR contracting on CSR decoupling.

disclose the full extent of their activities, especially when investors are concerned about the potential for executives' opportunistic behavior or excessive spending on CSR activities (Kim and Lyon 2015). In contrast, overreporting occurs when executives exaggerate their firm's CSR performance to achieve personal objectives (Gull et al. 2023; Sauerwald and Su 2019; Shahab et al. 2022) or to alleviate stakeholder pressure when the firm's actual CSR performance is poor (García-Sánchez et al. 2022).

To further examine the relationship between CSR-focused governance mechanisms and CSR decoupling, we adopt a tobit regression approach following Gull et al. (2022). In this analysis, we use a 0 cutoff point for CSR decoupling as both an upper and a lower limit to account for negative and positive values, respectively. By doing so, we can effectively examine the impact of CSR-focused governance mechanisms on CSR underreporting and overreporting. The results, reported in Table 8, indicate that the implementation of CSR-focused governance mechanisms, such as CSR committees, standalone CSR reports, and CSR contracting, are effective in mitigating both underreporting (Model 1) and overreporting (Model 5) of CSR activities. These results also validate Hypothesis 1 that CSR-focused governance mechanisms significantly reduce CSR decoupling, regardless of its sign. The results also reveal a complementary relationship between CSR committees and standalone CSR reporting in reducing both underreporting and overreporting, as demonstrated in Models 2 and 6, respectively. These findings suggest that the reduction in underreporting and overreporting is more significant when a standalone CSR report is issued in the presence of a CSR committee. Conversely, the interaction between CSR contracting and CSR committees shows a less pronounced reduction in both types of CSR decoupling, as demonstrated in Models 3 and 7. This result indicates a substitute relationship between the CSR committee and CSR contracting in mitigating both underreporting and overreporting. Similarly, the interaction between standalone CSR reports and CSR contracting is significantly positive in both underreporting (Model 4) and overreporting (Model 8) scenarios.

5.3.2 | CSR Reporting Credibility

Prior research shows that CSR decoupling undermines the credibility of CSR reporting (Jauernig and Valentinov 2019), which we argue can be improved through the implementation of CSR-focused governance mechanisms. This argument is grounded in agency theory, which posits that principals are strongly incentivized to establish effective governance mechanisms that produce credible information and high-quality reporting (Eisenhardt 1989). Thus, the establishment of governance mechanisms that closely monitor CSR activities and align principal–agent interests can improve the credibility and quality of CSR reporting. To empirically test this argument, we follow prior studies which use the GRI guidelines and CSR external assurance as measures of CSR reporting credibility (Ballou et al. 2018; Caputo et al. 2021; Fernandez-Feijoo, Romero, and Ruiz 2014; Lock and Seele 2016).

We construct dummy variables for GRI guideline adherence and CSR external assurance. Accordingly, 35% of firms in our sample adhere to GRI guidelines in their CSR disclosure, whereas 41% engage an external assurer to audit their CSR disclosure. To examine the relationship between CSR-focused

TABLE 8 | The effect of CSR-focused governance mechanisms on both types of CSR decoupling.

	Underreporting				Overreporting			
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
$CSRCOM_{t-1}$*$CSRRE_{t-1}$		−4.660***				−5.592***		
		(−5.46)				(−5.37)		
$CSRCOM_{t-1}$*$CSRCON_{t-1}$			2.900**				5.004***	
			(2.08)				(3.19)	
$CSRRE_{t-1}$*$CSRCON_{t-1}$				3.489**				3.581*
				(2.13)				(1.87)
$CSRCOM_{t-1}$	−6.115***	−5.252***	−6.644***	−6.417***	−5.395***	−5.133**	−6.528***	−3.721**
	(−8.01)	(−2.82)	(−7.30)	(−3.94)	(−6.51)	(−2.37)	(−7.14)	(−1.98)
$CSRRE_{t-1}$	−2.174***	−3.414**	−2.019**	−6.452**	−1.617*	−4.343***	−1.044	−4.448***
	(−2.64)	(−2.56)	(−2.47)	(−5.91)	(−1.71)	(−2.93)	(−1.13)	(−4.36)
$CSRCON_{t-1}$	−1.935***	−5.259***	−4.114***	−5.884***	−2.369***	−7.392***	−5.876***	−6.110***
	(−2.98)	(−3.97)	(−3.39)	(−3.97)	(−3.37)	(−4.89)	(−4.28)	(−3.47)
$FSIZE_{t-1}$	1.790***	1.464***	1.369***	1.123***	1.880***	1.707***	1.452***	1.181***
	(7.28)	(5.97)	(6.00)	(4.91)	(7.15)	(6.08)	(6.24)	(5.02)
ROA_{t-1}	11.471***	7.338***	8.717***	8.991***	11.271***	8.765**	9.401***	9.616***
	(3.71)	(2.24)	(2.82)	(2.86)	(3.33)	(2.27)	(2.80)	(2.85)
$MTBV_{t-1}$	25.634**	4.372	19.029	18.441	9.590	−8.200	1.471	1.987
	(2.08)	(0.32)	(1.54)	(1.46)	(0.76)	(−0.53)	(0.12)	(0.15)
$FLEV_{t-1}$	−11.895***	−8.704***	−9.207***	−9.190***	−7.647***	−1.497	−4.144**	−4.127**
	(−6.22)	(−4.28)	(−4.88)	(−4.75)	(−3.85)	(−0.63)	(−2.13)	(−2.08)
$FAGE_{t-1}$	−0.710*	−0.998**	−0.827**	−0.923**	−0.357	−0.556	−0.324	−0.435
	(−1.89)	(−2.45)	(−2.21)	(−2.43)	(−0.85)	(−1.09)	(−0.79)	(−1.05)
$OWNCON_{t-1}$	−6.544***	−7.550***	−5.985***	−6.249***	−7.129***	−9.953***	−6.315***	−6.555***
	(−3.77)	(−3.98)	(−3.41)	(−3.55)	(−3.61)	(−4.30)	(−3.33)	(−3.40)
$BINDE_{t-1}$	−5.569***	−4.986*	−4.487*	−6.451**	−9.748***	−8.319***	−9.379***	−11.729***
	(−2.26)	(−1.83)	(−1.81)	(−2.42)	(−3.65)	(−2.73)	(−3.59)	(−4.12)
$BMEET_{t-1}$	−18.566***	−14.827*	−14.984**	−15.063**	−11.856	−18.573**	−11.556	−11.971
	(−2.67)	(−1.86)	(−2.13)	(−2.10)	(−1.54)	(−2.08)	(−1.59)	(−1.62)
Constant	−22.160***	−17.370*	−18.804**	−13.370*	−25.967***	−11.844	−19.514**	−14.335*
	(−2.79)	(−1.96)	(−2.42)	(−1.67)	(−2.91)	(−1.20)	(−2.42)	(−1.73)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2163	2163	2163	2163	2163	2163	2163	2163
Pseudo R^2	2.037	0.673	1.659	1.393	0.576	0.348	0.619	0.504
F statistic p value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Note: This table presents the effect of CSR-focused governance mechanisms on both types of CSR decoupling, namely underreporting and overreporting using a tobit regression approach. The variables are defined in Table 3, and 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).

*, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

governance mechanisms and the credibility of CSR reporting, we employ probit regressions with GRI guidelines and CSR external assurance as dependent variables. The results in Table 9, Model 1 and Model 5, respectively, indicate that the presence of CSR committees, standalone CSR reports, and CSR contracting significantly increase the likelihood of adopting GRI guidelines and engaging CSR external assurers for CSR reporting. This suggests an improvement in the transparency and credibility of such reports. Furthermore, the interaction between any pair of CSR-focused governance mechanisms (CSR committees, standalone CSR reports, and CSR contracting) exhibits a positive relationship with the credibility of CSR, as measured by GRI guideline adherence in Models 2–4 and CSR external assurance in Models 6–8. These findings suggest a complementary effect among CSR-focused governance mechanisms in enhancing the credibility of CSR reporting. Thus, our results further support the argument that CSR-focused governance mechanisms play a crucial role in enhancing credibility within the CSR reporting process.

5.4 | Robustness Checks

5.4.1 | Accounting for Endogeneity

Our main findings may be subject to various endogeneity issues such as reverse causality, simultaneity, and unobservable factors effect. One possibility is that our sample firms utilize CSR-focused governance mechanisms to mitigate CSR decoupling, but these mechanisms could also be employed to cover up such opportunistic activities. Moreover, although we included a set of control variables, the unobserved variables could have influenced our findings. To address potential endogeneity issues, we employ two further different estimation methods to re-evaluate Equations (1)–(4): (i) two-step system generalized method of moments (GMM) and (ii) generalized estimating equation (GEE) model. The use of the GMM approach is common in CSR and corporate governance literature because of its effectiveness in addressing issues related to reverse causality and omitted variables (García-Sánchez et al. 2021; Gull et al. 2022; Gull et al. 2023). On the other hand, the GEE approach is useful in controlling for nonautonomous observations (Liang and Zeger 1986). Additionally, a 1-year lag of independent variables is included to address the endogeneity problem from a simultaneity perspective.

The results presented in Table 10 of both the GMM (Models 1–4) and GEE (Models 5–8) approaches are consistent with the findings reported in Tables 6 and 7, respectively. Specifically, in Models 1 and 5, both approaches confirm that CSR committees, standalone CSR reports, and CSR contracting significantly reduce CSR decoupling. The extent of CSR decoupling reduction is more pronounced when a standalone CSR report is issued in conjunction with the presence of a CSR committee, as demonstrated in Models 2 and 6, respectively. However, Models 3 and 7 reveal that the interaction between CSR committees and CSR contracting is significantly positive, indicating that these variables substitute each other in mitigating CSR decoupling. Similarly, consistent with the main results in Table 7, both the GMM and GEE methods show a significant positive coefficient of the interaction term between standalone CSR reports and CSR contracting concerning CSR decoupling in Models 4 and 8, respectively.

The validation tests of the GMM approach (Models 1–4), as presented in Table 10, indicate that endogeneity issues do not drive our results. In particular, the *p* values of the first serial correlation (AR1) tests and Hansen tests are significant, whereas those of the second serial correlation (AR2) tests are insignificant. These findings indicate that the models are valid and include appropriate instrumental variables.

5.4.2 | An Alternative Measure for CSR Decoupling

The difference between CSR disclosure and CSR performance is another measure used by the previous studies to estimate CSR decoupling (Sauerwald and Su 2019; Tashman, Marano, and Kostova 2019; Zhang 2021). To avoid potential biases from using a single measure of CSR decoupling, we also estimate CSR decoupling based on the difference between the normalized values of CSR disclosure and performance. CSR disclosure data are collected from Bloomberg and CSR performance data from ASSET4, both of which are widely used in the literature because of the comprehensive coverage of CSR disclosure and performance globally (García-Sánchez et al. 2021; Gull et al. 2022, 2023). The results illustrated in Table 11 are in line with the findings presented in Tables 6, 7, and 10, which further reinforces our findings.

6 | 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 CSR credibility, firms are increasingly adopting CSR-focused governance mechanisms, as illustrated in Figure 2. Ballou et al. (2018) note that the implementation of such mechanisms has become a widely established business practice to enhance CSR credibility. Therefore, this study addresses the question concerning the substantive versus symbolic adoption of such mechanisms by examining their effects on CSR decoupling. Additionally, it examines whether such mechanisms complement or substitute each other in a bundle of governance mechanisms.

Based on a sample of UK firms listed on the FTSE All-Share Index during the period of 2007–2017, the results suggest that the adoption of CSR-focused governance mechanisms (i.e., CSR committees, CSR reports, and CSR contracting) can mitigate CSR decoupling by promoting the alignment between internal and external CSR actions. This result is in line with prior research indicating that CSR committees (Amran, Lee, and Devi 2014; Gull et al. 2022), standalone CSR reports (Dhaliwal et al. 2011), and CSR contracting (Li and Thibodeau 2019) can improve the quality and transparency of CSR activities. From a corporate governance bundle perspective, the study demonstrates that the simultaneous presence of a CSR committee and a standalone CSR report significantly amplifies the reduction in CSR decoupling. This result suggests that there is a complementary effect of standalone CSR reports and CSR committees in reducing CSR decoupling.

TABLE 9 | CSR-focused governance mechanisms and CSR credibility.

	GRI guideline adherence				CSR external assurance			
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
$CSRCOM_{t-1}$*$CSRRE_{t-1}$		1.262**				0.569***		
		(2.29)				(3.56)		
$CSRCOM_{t-1}$*$CSRCON_{t-1}$			0.812**				0.545***	
			(2.09)				(3.47)	
$CSRRE_{t-1}$*$CSRCON_{t-1}$				1.016**				0.784***
				(2.23)				(4.76)
$CSRCOM_{t-1}$	1.040***	1.822**	0.467*	0.432*	0.410***	0.938***	0.205*	0.171*
	(2.80)	(2.56)	(1.65)	(1.79)	(3.89)	(3.17)	(1.87)	(1.73)
$CSRRE_{t-1}$	0.593*	0.917*	0.449	0.623	0.228*	0.446***	0.315**	0.463***
	(1.84)	(1.80)	(1.33)	(1.55)	(1.85)	(3.22)	(2.52)	(3.24)
$CSRCON_{t-1}$	0.521**	0.473*	0.522*	1.195*	0.360***	0.392***	0.440***	1.048***
	(2.12)	(1.87)	(1.73)	(1.81)	(3.63)	(3.91)	(3.47)	(3.79)
$FSIZE_{t-1}$	0.466***	0.547***	0.530***	0.535***	0.425***	0.417***	0.414***	0.415***
	(4.84)	(5.53)	(5.22)	(5.33)	(11.37)	(11.18)	(10.83)	(11.07)
ROA_{t-1}	−2.809*	−3.019*	−3.100*	−3.036*	0.471	0.113	0.099	0.177
	(−1.84)	(−1.92)	(−1.95)	(−1.89)	(0.89)	(0.23)	(0.20)	(0.35)
$MTBV_{t-1}$	−0.668	1.202	1.250	1.442	5.870***	6.098***	5.945***	6.003***
	(−0.18)	(0.32)	(0.33)	(0.37)	(3.50)	(3.60)	(3.52)	(3.53)
$FLEV_{t-1}$	0.110	−0.365	−0.345	−0.262	−0.383	−0.453	−0.452	−0.406
	(0.17)	(−0.59)	(−0.56)	(−0.42)	(−1.39)	(−1.58)	(−1.60)	(−1.42)
$FAGE_{t-1}$	−0.011	0.107	0.087	0.095	0.074	0.099*	0.087*	0.098*
	(−0.11)	(1.07)	(0.87)	(0.96)	(1.49)	(1.88)	(1.66)	(1.85)
$OWNCON_{t-1}$	−0.077	0.156	0.078	0.207	−0.840***	−0.916***	−0.962***	−0.882***
	(−0.13)	(0.25)	(0.12)	(0.32)	(−3.62)	(−3.93)	(−4.11)	(−3.75)
$BINDE_{t-1}$	0.380	0.979	0.797	0.803	−0.476	−0.206	−0.245	−0.255
	(0.47)	(1.17)	(0.98)	(0.99)	(−1.43)	(−0.60)	(−0.72)	(−0.75)
$BMEET_{t-1}$	−2.109	−1.983	−2.209	−2.034	−0.215	−0.320	−0.295	−0.301
	(−0.91)	(−0.84)	(−0.92)	(−0.84)	(−0.24)	(−0.34)	(−0.31)	(−0.32)
Constant	−4.336*	−6.055**	−5.013*	−5.370***	−7.117***	−6.882***	−6.690***	−6.828***
	(−1.69)	(−2.24)	(−1.90)	(−2.00)	(−6.41)	(−5.98)	(−5.80)	(−5.90)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2163	2163	2163	2163	2163	2163	2163	2163
Pseudo R^2	0.454	0.440	0.434	0.436	0.243	0.242	0.239	0.242
Wald chi-sq statistic p value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Note: This table presents the effect of CSR-focused governance mechanisms on CSR credibility using a probit regression approach. The variables are defined in Table 3, and all continuous variables are winsorized at 1% and 99% levels to adjust for outliers. Robust z-statistics are reported in parentheses.

*, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE 10 | The complementary/substitutive effect of CSR-focused governance mechanisms on CSR decoupling based on GMM and GEE.

	GMM approach				GEE approach			
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
$CSRCOM_{t-1}$*$CSRRE_{t-1}$		−6.657***				−2.413*		
		(−5.23)				(−1.76)		
$CSRCOM_{t-1}$*$CSRCON_{t-1}$			6.212**				3.631**	
			(2.07)				(2.45)	
$CSRRE_{t-1}$*$CSRCON_{t-1}$				6.288**				2.808*
				(2.26)				(1.80)
$CSRCOM_{t-1}$	−9.808***	−13.659***	−9.208***	−6.596***	−7.889***	−6.416***	−9.511***	−4.501***
	(−5.91)	(−4.96)	(−4.51)	(−4.34)	(−10.23)	(−5.30)	(−8.99)	(−3.26)
$CSRRE_{t-1}$	−3.438**	−7.032***	−1.519	−5.238**	−2.560***	−2.083*	−0.303	−6.016***
	(−2.00)	(−2.96)	(−0.82)	(−2.57)	(−3.22)	(−1.92)	(−0.27)	(−5.77)
$CSRCON_{t-1}$	−2.830**	−8.894**	−5.222**	−6.641**	−2.387***	−2.550*	−5.094***	−5.752***
	(−2.53)	(−2.42)	(−2.49)	(−2.36)	(−3.16)	(−1.82)	(−3.74)	(−3.85)
$FSIZE_{t-1}$	1.773***	1.052***	0.923***	0.940***	1.674***	1.590***	1.476***	0.974**
	(4.56)	(3.43)	(3.01)	(3.18)	(4.18)	(3.99)	(3.72)	(2.47)
ROA_{t-1}	3.393	4.531	6.353*	5.548	6.637**	6.790**	6.590**	7.791***
	(0.84)	(1.17)	(1.71)	(1.57)	(2.35)	(2.40)	(2.33)	(2.68)
$MTBV_{t-1}$	3.273	2.931	2.860	9.635	30.316***	31.036***	28.802**	28.032**
	(0.28)	(0.27)	(0.25)	(0.85)	(2.67)	(2.72)	(2.53)	(2.40)
$FLEV_{t-1}$	−4.150**	−1.722	−3.057	−3.660*	−6.497***	−6.373***	−6.124**	−5.793**
	(−2.01)	(−0.79)	(−1.54)	(−1.83)	(−2.66)	(−2.61)	(−2.51)	(−2.34)
$FAGE_{t-1}$	−0.265	−0.424	−0.383	−0.410	−0.403	−0.466	−0.539	−0.616
	(−0.56)	(−0.93)	(−0.88)	(−0.98)	(−0.64)	(−0.75)	(−0.86)	(−0.98)
$OWNCON_{t-1}$	−6.763**	−4.410**	−6.021**	−6.442**	−1.941	−1.852	−1.945	−2.157
	(−2.43)	(−2.02)	(−2.54)	(−2.55)	(−0.87)	(−0.83)	(−0.87)	(−0.95)
$BINDE_{t-1}$	−1.150	−3.739	−6.155*	−4.237	−1.318	−1.528	−1.700	−1.635
	(−0.46)	(−1.16)	(−1.84)	(−1.41)	(−0.55)	(−0.63)	(−0.70)	(−0.66)
$BMEET_{t-1}$	−32.938*	−40.979**	−35.427**	−36.455**	−4.388	−5.145	−4.761	−3.259
	(−1.85)	(−2.51)	(−2.22)	(−2.11)	(−0.80)	(−0.94)	(−0.87)	(−0.58)
$CSRDE_{t-1}$	57.433***	58.928***	51.710***	55.946***				
	(12.86)	(13.66)	(11.37)	(13.29)				
$CSRDE_{t-2}$	24.105***	25.287***	23.847***	23.284***				
	(5.59)	(6.52)	(5.35)	(4.94)				
Constant	10.846	34.797**	24.684	27.432	−36.625***	−34.985***	−32.923***	−27.744***
	(0.58)	(2.08)	(1.51)	(1.51)	(−4.49)	(−4.29)	(−4.04)	(−3.35)

(Continues)

TABLE 10 | (Continued)

	GMM approach				GEE approach			
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1969	1969	1969	1969	2163	2163	2163	2163
F statistic *p* value	0.000	0.000	0.000	0.000				
AR1 statistic *p* value	0.000	0.000	0.000	0.000				
AR2 statistic *p* value	0.120	0.145	0.131	0.104				
Hansen test of overid. restrictions *p* value	0.293	0.287	0.519	0.344				
Wald chi-sq statistic *p* value					0.000	0.000	0.000	0.000

Note: This table presents the complementary/substitutive effect of CSR-focused governance mechanisms on CSR decoupling using GMM and GEE regression approaches. The variables are defined in Table 3, and 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. Robust *t*-statistics of the GMM approach and *z*-statistics of the GEE approach are reported in parentheses.

*, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

This finding is in line with García-Sánchez et al. (2019), who argue that CSR committees play a crucial role in enhancing the credibility of information provided in standalone CSR reports. However, CSR committees and CSR contracting exhibit a substitutive relationship in mitigating CSR decoupling. Likewise, there is a substitute association between standalone CSR reports and CSR contracting in mitigating CSR decoupling. These results confirm the argument that introducing incentive mechanisms simultaneously with monitoring mechanisms is considered redundant and incurs additional costs, thus not being regarded as effective governance practices (Hoskisson, Castleton, and Withers 2009). Additional analyses reveal that the complementary relationship between standalone CSR reports and CSR contracting diminishes both types of CSR decoupling (underreporting and overreporting). Furthermore, the substitutive relationship between CSR committees and CSR contracting, as well as between standalone CSR reports and CSR contracting, is also evident in mitigating both types of CSR decoupling.

The literature on symbolic management has extensively debated the substantive or symbolic nature of governance mechanisms concerning CSR (Marquis and Qian 2014; Rodrigue, Magnan, and Cho 2013). Whereas some studies have highlighted the positive role of mechanisms such as CSR committees, standalone CSR reports, and CSR contracting in signaling a firm's commitment to CSR (Hussain, Rigoni, and Orij 2018; Koseoglu et al. 2021; Liao, Luo, and Tang 2015; Maas 2018), others have questioned their ability to enhance the transparency and quality of CSR reporting (Guidry and Patten 2010; Rankin, Windsor, and Wahyuni 2011). Therefore, our study contributes to this literature by providing empirical evidence that CSR-focused governance mechanisms serve as credibility-enhancing tools, thereby substantively mitigating the opportunistic behavior of firms about CSR (i.e., CSR decoupling). Although prior studies have investigated the relationship between corporate governance mechanisms and CSR decoupling (Eliwa, Aboud, and Saleh 2023; García-Sánchez et al. 2022; Gull et al. 2022; Zhang 2021), their focus has been restricted to the effects of individual governance mechanisms. This approach fails to fully capture the interplay of multiple governance mechanisms in mitigating CSR decoupling. To fill this gap in the literature, our study provides a novel contribution by examining the interactive effects of multiple CSR-focused governance mechanisms on CSR decoupling, thereby offering a more comprehensive understanding of this important relationship. Therefore, this study makes a valuable contribution to the agency theory literature by demonstrating the effectiveness of a corporate governance bundle approach in tackling CSR decoupling. Specifically, our research reveals that particular combinations of CSR-focused governance mechanisms operate complementarily to mitigate CSR decoupling, whereas others serve as substitutes. Moreover, our study emphasizes the importance of considering the potential impact of the financial crisis when designing a bundle of governance mechanisms to address CSR decoupling.

This study offers several implications. For example, it could help firms create ideal combinations between different CSR-focused governance mechanisms that provide higher marginal benefits. This will be positively reflected in the increased credibility of

TABLE 11 | Alternative measure of CSR decoupling.

	Model 1	Model 2	Model 3	Model 4
$CSRCOM_{t-1}$*$CSRRE_{t-1}$		−2.232***		
		(−2.91)		
$CSRCOM_{t-1}$*$CSRCON_{t-1}$			3.858**	
			(2.44)	
$CSRRE_{t-1}$*$CSRCON_{t-1}$				3.798**
				(2.25)
$CSRCOM_{t-1}$	−2.548***	−4.349***	−5.487***	−4.257***
	(−3.60)	(−3.17)	(−5.31)	(−3.10)
$CSRRE_{t-1}$	−2.029***	−3.473***	−3.242***	−4.898
	(−2.67)	(−3.11)	(−2.66)	(−4.82)
$CSRCON_{t-1}$	−2.879***	−6.049***	−6.306***	−6.561***
	(−4.66)	(−5.29)	(−4.46)	(−4.25)
$FSIZE_{t-1}$	−1.251***	−1.261***	−1.317***	−1.395***
	(−5.49)	(−5.52)	(−5.80)	(−6.18)
ROA_{t-1}	0.623	0.552	0.536	0.501
	(0.52)	(0.46)	(0.44)	(0.41)
$MTBV_{t-1}$	17.700*	18.237*	17.966*	18.732*
	(1.67)	(1.71)	(1.69)	(1.74)
$FLEV_{t-1}$	−3.750**	−3.830**	−3.800**	−3.824**
	(−1.98)	(−2.01)	(−2.01)	(−2.01)
$FAGE_{t-1}$	0.905**	0.900**	0.861**	0.838**
	(2.45)	(2.43)	(2.34)	(2.27)
$OWNCON_{t-1}$	7.315***	7.328***	7.390***	7.303***
	(4.58)	(4.58)	(4.61)	(4.56)
$BINDE_{t-1}$	−15.135***	−15.346***	−15.646***	−15.734***
	(−6.11)	(−6.23)	(−6.36)	(−6.35)
$BMEET_{t-1}$	2.661	1.963	1.579	1.904
	(0.39)	(0.29)	(0.23)	(0.28)
Constant	20.093***	22.064***	23.429***	24.267***
	(2.63)	(2.85)	(3.06)	(3.14)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Observations	2163	2163	2163	2163
Adjusted R^2	0.173	0.174	0.173	0.171
F statistic p value	0.000	0.000	0.000	0.000

Note: This table presents the effect of CSR-focused governance mechanisms on CSR decoupling using an alternative measure of CSR decoupling. The variables are defined in Table 3, and 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).

*, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

CSR reporting, which in turn will improve firm values (Chen et al. 2016). In addition, the study highlights that some mechanisms (e.g., financial incentives) are not beneficial during crisis periods and may diminish the effectiveness of governance systems. The study may also be helpful to investors and other stakeholders in identifying the usefulness of adopting CSR-focused governance mechanisms in CSR reporting. Therefore, they can influence firms to adopt such mechanisms. The study can also reinforce investors' awareness of certain symbolic combinations of CSR-focused governance mechanisms that they should consider in their future investment decisions. The study also provides an insightful understanding of the factors that affect CSR credibility and transparency. This would attract regulators' attention towards the weaker points in the existing corporate governance code concerning CSR. Consequently, regulators could use our findings to improve CSR credibility by encouraging the adoption of a bundle of governance mechanisms that focus on CSR. Finally, although our study focuses on the UK context, its findings hold significant implications for informing CSR-focused governance mechanisms in diverse global contexts. By studying the effectiveness of these mechanisms within a particular national framework, we provide insights that extend beyond geographical boundaries. For example, our identification of the complementary and substitute relationships among CSR committees, standalone CSR reports, and CSR contracting provides practical insights for organizations and policymakers worldwide seeking to strengthen CSR governance

frameworks. Additionally, our research methodology enables comparative analysis with similar studies conducted in different countries, facilitating cross-country comparisons and enriching the global dialogue on corporate governance best practices.

Although the study provides exciting results from a novel perspective, it is subject to certain limitations that offer opportunities for future research. First, we use a dichotomous scale as a proxy for CSR-focused governance mechanisms. However, future research could measure them using different approaches. For instance, they could explore the influence of specific characteristics of the CSR committee (e.g., members' independence, gender diversity, chairman independence, percentage of meetings attended) and standalone CSR reports (e.g., the length and existence of a specific section) on CSR decoupling. Second, we focus on a certain group of corporate governance mechanisms (i.e., CSR-focused ones), whereas 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. Third, future research could examine the complementary (and/or substitution) relationship between external and internal governance mechanisms regarding CSR decoupling. Finally, the study sample is restricted to UK firms, a fact that should be considered when the results are generalized. In addition, this limits our study in terms of considering the influence of institutional factors on CSR decoupling. Therefore, future research could use an international sample to improve the generalization of the findings as well as consider the influence of institutional settings.

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Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

Endnotes

[1] According to data from ASSET4, in 2007, about 42% of firms had a CSR committee, 46% issued standalone CSR reports, and 16% linked executive compensation to CSR targets. By 2017, these percentages had increased to approximately 70%, 80%, and 50%, respectively.

[2] According to the London Stock Exchange, the UK's total market capitalization was around £4234 billion in 2017, and the total market value of the sample firms in the same year was around £2970 billion.

[3] The Supporting Information, provided as a separate file, presents the list of both internal and external CSR actions, along with the results of the Cronbach's alpha test that is conducted to validate the classification method used in this study.

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

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Supporting Information

Additional supporting information can be found online in the Supporting Information section.