Diversity, corporate governance and CSR reporting

A comparative analysis between top-listed firms in Egypt, Germany and the USA

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Abstract

Purpose – Taken from an institutional theory perspective, the purpose of this paper is to explore the effects of organizational-level factors, specifically diversity and corporate governance structure, on the corporate social responsibility (CSR) reporting practices of corporations operating in developing and developed country contexts, namely, Egypt, Germany and the USA. Since developed countries are exposed to different settings, the paper argues that there is likely to be a difference in the organizational-level drivers of CSR reporting in developed vs developing countries.

Design/methodology/approach – The sample consists of companies listed on the Egyptian EGX 30 index, the German DAX 30 index and the US Dow Jones 30 index. Governance- and diversity-related data are gathered from multiple sources including the BoardEx and Orbis databases. Content analysis is used to analyze the CSR information of sample companies using the software package MAXQDA. To examine the relationship between the explanatory variables of the study and CSR disclosures, multiple regression analysis is used.

Findings – The results are mostly consistent with institutional theory where the effects of diversity and governance structure, observed mainly by foreign BOD, board independence and institutional ownership, are found to be significant on the CSR disclosure levels of sample Egyptian companies only. On the other hand, no significant influence of tested factors was observed on the level of CSR reporting in the USA and Germany. The results thus indicate that the influence of organizational-level factors on CSR is highly dependent on the institutional context where companies operate.

Originality/value – The influence of diversity and corporate governance on CSR has been separately studied in the management literature. Yet, the potential effects of both variables on CSR have received limited attention. In addition, no study combining such explanatory variables of CSR was carried out in the specific context of developing Middle Eastern countries. Also, illustrating how institutional contexts can influence the dynamics of interaction between organizational-level variables and CSR is still understudied. This kind of multi-level research can help broaden the understanding of the drivers and practices of CSR in developing vs developed countries that have distinct institutional environments.

Keywords Diversity, Corporate governance, Developing countries, Corporate social responsibility, Institutional environment

Paper type Research paper

1. Introduction

Corporate social responsibility (CSR) reporting is becoming a common practice nowadays where thousands of companies worldwide issue CSR reports and their number is growing every year (Ernst & Young and Boston College Center for Corporate Citizenship, 2016). A wide range of factors have been identified that contribute to increasing corporate disclosures of CSR information including corporate governance practices (Chau and Gray, 2010; Ezat and El-Masry, 2008; Khan *et al.*, 2013), industry characteristics (Young and Marais, 2012), diversity (Oliver, 1992) and stakeholder pressures (Cooper and Owen, 2007; Golob and Bartlett, 2007), among others. Yet, research studies have revealed wide variations in the extent of CSR reporting among companies ranging from limited disclosures to disclosing detailed information regarding the full CSR "status" of the corporation (Chen and Bouvain, 2009).

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Disclosure variations across countries may be due to differences in underlying environments that include factors like the level of economic development, type of economy and size and activity of stock markets (Adhikari and Tondkar, 1992). While corporate social engagement is spreading globally, the reasons behind such global spread may differ from country to country (Matten and Moon, 2008).

Cross-country heterogeneity of CSR (reporting) practices may be explained by differences in the institutional environments within which corporations operate. Neo-institutional theory indicates that the broad institutional framework in which corporations operate can have immense influences on their strategies (Doh and Guay, 2006). Such institutional framework not only includes formal regulations and laws but also informal social institutions that define societal norms and traditions. Accordingly, the CSR practices of firms operating in different contexts can be better understood considering their institutional framework (Brammer *et al.*, 2012). Although institutional theory has its criticisms (Martinez and Dacin, 1999), Dacin *et al.* (2002, p. 45) argued that it is a "vibrant theory" that can powerfully explain organizational actions. Institutional theory highlights the contexts within which organizational structures and actions take place (Yang and Konrad, 2011). Accordingly, a better understanding of corporate actions becomes more likely when the institutional framework in which corporations operate is examined (Martinez and Dacin, 1999).

The institutional embeddedness of CSR in the societal fabric has great influences on the degree of embracement of social responsibility practices. Countries' political, legal, economic and cultural conditions create the ambience in which businesses operate which reflects on the "social roles" of the participants in the business cycle such as employers, employees, suppliers, etc. The inter-dynamics of macro-environmental factors and the business culture of a given nation can propel or confound the social responsibility agenda. For instance, societal standards regarding corporate citizenship and environmental sustainability can cascade down on firms operating on a micro level (Jones, 1999). In developing countries, where there are weak institutions and low awareness and demand on CSR, undergoing change in corporations operating in such environments may offer them new opportunities and incentives to adopt social responsibility practices.

Diversity in organizations could create new norms and expectations that could be a potent driving force for CSR practices in developing countries. Diversity encompasses new members with diverse experiences, viewpoints and backgrounds (Oliver, 1992). When new norms and practices are expected by new agents in the organization, legitimacy gaps may also occur (Oliver, 1992). Such new norms may pose pressures on organizations to carry out practices that ensure corporate accountability. Beside potential legitimacy gaps and threats that might occur from new agents in organizations, diversity can enhance other areas that can create a competitive advantage for organizations by enhancing creativity, system flexibility and better problem-solving skills. Having a diversity of perspectives can produce better decisions and a more thorough analysis of issues that can directly lead organizations to achieve and enhance their social responsibility goals (Cox and Blake, 1991).

Previous literature in developing countries also provides evidence that corporate governance acts as a significant driving force for CSR disclosures (Siregar and Bachtiar, 2010; Haji, 2013; Chau and Gray, 2010; Khan *et al.*, 2013; Saleh *et al.*, 2010). Its mechanisms include the internal governance structure of organizations such as ownership structures, board composition and independence that can promote the social disclosure practices of corporations (Khan *et al.*, 2013). In developing countries, corporate governance is increasingly viewed as a critical pillar for effective CSR implementation (Jamali *et al.*, 2008). From reviewing previous literature on developing countries, the composition of corporate boards and the ownership structure of corporations represent key variables in boosting organizational change with regard to CSR.

Taken from an institutional theory perspective, this paper explores the effects of organizational-level factors, specifically diversity and corporate governance structure, on the CSR reporting practices of corporations operating in developing and developed country contexts. Since developed countries are exposed to different settings, the paper argues that there is likely to be a difference in the drivers of CSR reporting in developed vs developing countries. This paper thus addresses the following questions:

RQ1. Can corporate governance structure and diversity promote the CSR reporting practices of firms operating in developing country contexts?

RQ2. Do the examined organizational-level variables have significant influences on the CSR reporting practices of companies operating in developed country contexts?

The influence of diversity and corporate governance on CSR has been separately studied in the management literature. Yet, the potential effects of both variables on CSR have received limited attention. In addition, no study combining such explanatory variables of CSR was carried out in the specific context of developing Middle Eastern countries. Although organizational-level variables tend to be the main focus of the CSR literature in developing countries (Jamali and Karam, 2016), illustrating how institutional contexts can influence the dynamics of interaction between organizational-level variables and CSR is still understudied. This kind of multi-level research can help broaden our understanding of the drivers and practices of CSR in developing vs developed countries that have distinct institutional environments.

Egypt is chosen as a representative developing country given its dominating economic activity in the African continent (Rossouw, 2005). On the other hand, the USA and Germany are chosen as developed industrial countries. Germany is specifically chosen from Europe since, unlike other European countries, CSR information disclosure is voluntary and no specific legal regulations exist demanding companies to report on their CSR activities (Gamerschlag *et al.*, 2011). While (institutional) differences exist between the USA and Germany, as a European country (Doh and Guay, 2006), they represent two developed continents that are prominent in CSR practices.

Comparing differences in the CSR disclosure practices of Egypt with that of developed countries helps reduce the gap in the emerging markets literature. In addition, providing empirical evidence that interlinks diversity, governance and CSR would enrich the literature domains of both influencing factors and CSR.

The remainder of the paper is structured as follows: the paper starts with providing a literature review on CSR practices in developed vs developing countries. The paper then moves on to highlighting the organizational-level drivers for CSR with a focus on developing countries. Diversity and corporate governance are specifically tackled in relation to CSR reporting. This is followed by the research methodology, results and conclusion.

2. Literature review and hypotheses development

2.1 CSR in different contexts: developing vs developed countries

The economic environment has particular influence on the level and maturity of CSR practices. In general terms, CSR represents the voluntary contributions of corporations to sustainable development (Gamerschlag *et al.*, 2011). Unlike developed countries, both consumer and financial markets and market dynamics in developing countries are considered largely immature. This reverberates on indicators like higher presence of family businesses and higher unemployment. Developed countries are industrial economies whereas developing countries are "resource based" (Reed, 2002). Such structures and conditions create varying influences on CSR practices. Developing countries are generally more focused on satisfying basic consumer needs rather than being focused on higher-level issues of CSR and sustainability (Jones, 1999).

The economic environment in developed and developing countries also causes differences in the stringency of accounting standards, which, in turn, causes differences in disclosure of information in general, and CSR information in specific. The accounting function matures in conjunction with the level of economic development. The richer economies of developed countries also make corporate expenditures on accounting regulations more justifiable. Whether countries' wealth and economic well-being are based on agriculture or service or industry reflects on variations in sources of financing. For example, agricultural economies rely on governmental subsidies and when they become industrial, the financial structure changes and diversifies toward external financing. A parallel increase in the infrastructural accounting system backing up external financing is observed as external parties look for better corporate disclosures and governance systems (Adhikari and Tondkar, 1992).

Just as an unhealthy economic environment impacts CSR negatively, on a more micro level, companies' financial performance has been shown to have profound influence on their level of interest in CSR. Companies with lower financial performance opt against extensive CSR expenditures for resource constraint reasons. The more companies fear risking shareholder wealth, the less probable they are to spend considerable investments in CSR. Managers in this situation outweigh financial performance over socially responsible behavior (Lee *et al.*, 2013).

Other institutional differences may lead to different practices of CSR between developing and developed countries. For instance, corporations are more likely to act responsibly when regulations are well-enforced and when effective self-regulatory systems and private independent organizations are present. The legal environment and the presence of legal regulations strongly influence firms' propensity to become socially responsible especially when there was a participatory process in developing these regulations that involved the firms, the government, independent parties, etc. The presence of effective self-regulatory systems is also of major importance. The level of enforcement of these systems, including the potential of governmental intervention in case of lack of application, represents an important propeller for corporate CSR behavior (Campbell, 2007).

The presence of an enabling institutional environment also has profound impact on the implementation of CSR practices. Since organizations are part of the external environment, their outcomes are shaped by the institutional framework within which they are embedded (Singh *et al.*, 2018). Parallel with economic development, the institutional environment in developed countries is stronger and more structured than in developing countries (Gaur *et al.*, 2014). These include private independent organizations that monitor corporate behavior (such as NGOs), an interested media and a critical civil society that is able and powerful enough to scrutinize corporate behavior (Campbell, 2007). As such, the CSR enabling environment is more clear in developed rather than developing countries (Idemudia, 2011; Jamali and Mirshak, 2007).

In Germany, for instance, although legal regulations do not play a critical role in encouraging the implementation of CSR (Gamerschlag *et al.*, 2011), corporate acknowledgment of international guidelines and norms such as the OECD and Global Compact Guidelines represents the self-regulatory system that encourages CSR disclosures among German companies. It is also argued that companies undertake the self-regulatory process in order to avoid potential government regulatory intervention (Campbell, 2006). In their study on CSR disclosures in Germany, Gamerschlag *et al.* (2011) concluded that German companies tend to engage in CSR disclosure practices to reduce information asymmetries that may lead to the enactment of additional legal regulations and taxes that may negatively affect firm value. The UK, on the other hand, has a Minister of CSR yet the government has enacted tax laws to facilitate and stimulate CSR (Idemudia, 2011). Conversely, in the USA, the government plays a minor role in encouraging and regulating corporate social practices. Environmental regulations set by the Environmental Protection Agency affect the CSR practices of firms in some industries. Nonetheless, the US Government promotes CSR behavior by leading a lot of CSR projects. Also, watchdog groups such as Human Rights Watch and Corporate Watch are a source of pressure on US companies to improve their social behavior (Griffin and Vivari, 2009).

The CSR literature is also largely originating from developed countries where the CSR practice and vibrancy in such market economies fuels scholarly interest. The lack of stringency in the regulatory system, the presence of corruption and the lack of a general enabling environment in developing countries give a different direction to CSR behavior, albeit escalating its importance (Dobers and Halme, 2009; Idemudia, 2011; Jamali and Mirshak, 2007).

According to Jamali and Neville (2011), there are unique differences between the face of CSR in developing vs developed countries where CSR in developing countries is less strategic and less political. In developing countries, CSR is focused on fulfilling where "governments fall short" (Jamali and Neville, 2011). The institutional drivers and infrastructure for CSR are weak in developing countries where there is lack of pressure by different stakeholders including governments and NGOs (Jamali *et al.*, 2008).

Overall, since corporations operating in developed countries are exposed to different country settings and pressures, it can be argued that there is likely to be a difference between the drivers of CSR reporting in developing vs developed countries. As mentioned previously, this research focuses on Egypt as an important developing country in transition, and Germany and the USA as developed countries that have well progressed in the CSR agenda. Accordingly, the following is hypothesized:

H1. There is a significant difference between the drivers of CSR in USA/Germany and Egypt.

2.2 Firm-level influencers and organizational change: a focus on developing countries

Hannan and Freeman (1984) argued that organizational change "reflects designed changes in strategy and structure of individual organizations in response to environmental changes, threats, and opportunities" (p. 150). International business literature suggests that diversity represents one factor that can play a role in fostering organizational change (Kondra and Hinings, 1998; Sako, 2006; Stevens *et al.*, 2008). The degree of organizational internationalization is estimated based on three main attributes: performance, structure and attitude (Jaw and Lin, 2009). Diversity represents the attitudinal attribute which reflects the qualitative internationalization of organizations including the heterogeneous origin of board members and top management (Ruigrok and Wagner, 2003). Accordingly, when an organization is faced with a wide variety of origin of board members, executives and stakeholders, it is moving toward increased internationalization. Such internationalization may place pressures on organizations to adopt CSR practices that fit global demands.

Organizational structure can also play an important role in giving strategic importance to CSR issues (Husted and Allen, 2006). Internal governance structure, such as board and ownership structure, represents an internal corporate mechanism that helps ensure the alignments of manager-stakeholder interests (Young *et al.*, 2008). While the adoption of effective international corporate governance codes is still questioned in developing countries (Dahawy, 2007; Jamali *et al.*, 2008; Peng, 2004), corporate governance is increasingly viewed as an important "foundational pillar" for CSR in developing country contexts (Jamali *et al.*, 2008, p. 455). Hence, the need for effective implementation of corporate governance practices to enhance the quality of corporate disclosures and stimulate the economy in developing countries is salient.

2.2.1 Diversity and CSR. The presence of a multinational board and shareholder structure within organizations may place pressures on organizations to integrate CSR issues in their organizational strategies. If social actors within organizations have social norms and expectations that value social responsibility, organizations are more likely to instill social issues in their organizational strategies. Our conceptualization thus suggests that the more corporate norms empower CSR practices, the greater the pressures will be on corporations operating in a developing country setting to adopt CSR.

Previous research studies suggest a link between diversity and CSR practices (Muttakin *et al.*, 2015; Ferrero-Ferrero *et al.*, 2015). From a theoretical standpoint, the diversity of board members enhances the decision-making process inside organizations as a result of diversified knowledge, perspectives and values which, in turn, improves corporate performance (Ferrero-Ferrero *et al.*, 2015). In addition, stakeholders' interests are taken into consideration by diversified board members and social practices are addressed more sensitively leading to improved social responsibility of organizations (Fernández Sánchez *et al.*, 2011). A number of studies support the importance of diversity in developing country contexts. In their study, Muttakin *et al.* (2015) examined the effect of board diversity on the CSR disclosure practices of 116 listed Bangladeshi companies and found that foreign directorship has a positive influence on corporate CSR disclosures. Khan (2010) also argued that the CSR reporting strategies of corporations in Bangladesh are more likely supported by foreign directors. His study provides evidence on a significant positive relationship between the percentage of foreign origins on the board and level of CSR reporting of 30 commercial banks in Bangladesh. Accordingly, having more diversity of board members in developing countries may pressure corporations in developing countries to enhance their CSR disclosures.

Foreign shareholders may also exert pressures on corporations to adopt CSR practices. Young and Marais (2012) argued that shareholders' priorities are also emphasized in CSR reports as an evidence of responsible management practices as a result of normative or mimetic pressures enforced on organizations. In a developing country context, the CSR reporting of corporations may increase to reduce the perceived legitimacy gap between foreign shareholders and corporate management (Khan, 2010). It is also argued that foreign shareholders may demand more CSR disclosures from management given the geographic separation between them (Khan *et al.*, 2013). Oh *et al.* (2011) examined the effect of ownership structure on the CSR practices of 118 large Korean firms and found a positive relationship between foreign ownership and CSR ratings. In the same vein, Khan *et al.* (2013) examined the effect of foreign ownership on the CSR disclosure practices using 580 firm-year observations in Bangladesh. Their study shows a significant positive influence of foreign ownership on CSR disclosures. Based on that, diversity of board members and shareholders represents (internal and external) organizational-level factors that are expected to have a positive effect on the CSR reporting practices of corporations operating in developing countries. Hence, the following are hypothesized:

H2. Foreign BOD has a positive influence on CSR disclosure practices in developing countries.

H3. Foreign shareholders have a positive influence on CSR disclosure practices in developing countries.

2.2.2 Corporate governance structure and CSR. Generally, corporate governance represents the mechanisms in a firm that ensure that the strategic decisions taken by managers serve the best interests of corporate owners rather than their own (Singh and Delios, 2017; Singh and Gaur, 2013). Two important corporate governance mechanisms are the board of directors and corporate ownership structure (Singh and Delios, 2017). The composition of corporate boards can influence the degree to which corporations effectively manage CSR issues (Bear *et al.*, 2010). From a theoretical standpoint, the key functions that the board offers to its corporations including advice, counsel and management monitoring (Bear *et al.*, 2010) provides the rationale for the critical need of effective board members and board structure if sustainable CSR strategies are sought. Jaw and Lin (2009) also argued that corporate chief executives are the main agents responsible for strategic changes in organizations. The importance of the existence of effective corporate governance mechanisms that may drive change with regards to CSR is also highlighted by studies in developing countries. For, instance, the study of Jamali *et al.* (2008) showed that several managers operating in the Lebanese context view strong corporate governance policies as necessary instruments for the proper implementation of CSR programs. They further communicated that the way corporate governance is applied and structured in a corporation highly influences management emphasis on CSR goals and objectives (Jamali *et al.*, 2008). In an environment where the economic structure is weak, awareness is low and corporate disclosures are not a common practice (Dahawy, 2007), the importance of internal governance mechanisms on enhancing the CSR (disclosure) practices of companies becomes most noticeable.

Empirical evidence exists on the significant influence of corporate board structure on voluntary and social disclosures of corporations operating in developing countries. This includes the influence of the number of board members, chief executive officer (CEO) duality and level of board independence. For board size, it is argued that the larger the number of board members, the less likely they are to be controlled by the CEO (Samaha, Dahawy, Hussainey and Stapleton, 2012), thus increasing the effectiveness of the monitoring process (Siregar and Bachtiar, 2010). Previous studies in developing countries found a positive influence of board size on voluntary and social disclosures (Ezat and El-Masry, 2008; Samaha, Dahawy, Hussainey and Stapleton, 2012; Siregar and Bachtiar, 2010; Haji, 2013). Accordingly, we hypothesize the following:

H4. Corporate board size has a positive influence on CSR reporting practices in developing countries.

Another important element in corporate board structure is the separation of the role of chairman of the board from the role of the CEO. CEO duality exists if the chairman also acts as the CEO (Samaha, Dahawy, Hussainey and Stapleton, 2012). It is argued that conflicts of interests may arise in the presence of CEO duality and that the separation of their roles can lead to higher levels of corporate transparency and disclosure (Lattemann *et al.*, 2009). Studies in developing countries examining the effect of CEO duality on voluntary and social disclosures show a significant negative association between both variables (Lattemann *et al.*, 2009; Li *et al.*, 2010; Samaha, Dahawy, Hussainey and Stapleton, 2012). Accordingly, the following is hypothesized:

H5. CEO duality has a negative influence on CSR reporting practices in developing countries.

Independent board members represent a "balance mechanism" that ensures that the interests of corporate shareholders as well other stakeholders are protected. Based on that, it is argued that independent directors are more likely to pressure companies to perform social disclosures as way of ensuring that corporate actions are aligned with societal values (Haniffa and Cooke, 2005). As such, the existence of independent board members is argued to be a critical corporate governance mechanism that can enhance CSR disclosures (Khan *et al.*, 2013). Previous studies in developing countries support such arguments and show a positive influence of the level of board independence on the CSR reporting practices of firms (Chau and Gray, 2010; Khan *et al.*, 2013). Accordingly, the following is hypothesized:

H6. The level of board independence has a positive influence on CSR reporting practices in developing countries.

The variation in the level of CSR disclosures can also be explained by ownership structure since different types of disclosures could be demanded by different corporate owners (Siregar and Bachtiar, 2010). Previous studies also show a significant influence of ownership structure on corporate reporting practices (Johnson and Greening, 1999; Li and Zhang, 2010; Oh *et al.*, 2011; Saleh *et al.*, 2010; Samaha, Dahawy, Abdel-Meguid and Abdallah, 2012). In a developing country context, Saleh *et al.* (2010) explored the effect of institutional ownership on the CSR disclosures of publicly listed companies in Malaysia. Their results show a significant positive relationship between CSR disclosures and institutional ownership. Also, the results of a study conducted by Oh *et al.* (2011) show a significant positive influence of institutional ownership on the CSR ratings of 118 Korean companies. It can then be argued that internal corporate governance practices can be used as an (internal) organizational-level factor to enhance CSR disclosures in developing countries. Accordingly, the following is hypothesized:

H7. Corporate institutional ownership has a positive influence on CSR reporting practices in developing countries.

3. Methodology

3.1 Sample construction

The sample consists of companies listed on the Egyptian EGX 30 index, the German DAX 30 index and the US Dow Jones 30 index (as of January 1, 2015). CSR reports were gathered from companies' websites and annual reports were gathered from companies' websites and the Thomson Reuters database. Two Egyptian companies had no reports available in year 2014 and were therefore excluded from the analysis. Based on that, the final sample companies examined are 88. All German companies offer their reports in English language while only some Egyptian companies offer their reports in English language. Details about the number of examined annual and CSR reports are shown in Table I.

3.2 Data collection procedures

Content analysis is used to analyze the CSR information communicated through the annual and CSR reports of Egyptian, German and US companies. Content analysis is "a method of

Egyptian reports for year 2014 (N = 28)	
English annual reports	6
Arabic annual reports	3
English financial reports	10
Arabic financial reports	9
CSR report(s)	*1*
Total sample reports examined in Egypt	29
German reports for year 2014 (N = 30)	
Annual reports	25
Integrated reports	5
CSR reports	*23*
Total sample reports examined in Germany	53
US reports for year 2014 (N = 30)	
Annual reports	29
Financial report(s)	1
Integrated report(s)	1
CSR reports	*26*
Total sample reports examined in the USA	*57*
Total sample reports examined	139

Table I. Sample description: total number of examined reports analyzing written, verbal or visual communication messages" (Elo and Kyngas, 2008, p. 107) and assumes that the importance of the subject matter is indicated by how frequent it is mentioned (Guthrie *et al.*, 2004). Words are used as the unit of analysis since specific term search yields reliable results and can be replicated easily compared to other forms of content analysis such as counting sentences or sections (Gamerschlag *et al.*, 2011). Word count was performed using the software package MAXQDA. Using computer software programs to analyze qualitative data provides many advantages to the analysis process including enhanced systemization, transparency and speed (Crofts and Bisman, 2010). Keywords are used to identify the extent of CSR disclosures in companies. In line with previous comparative studies (Chen and Bouvain, 2009; Gamerschlag *et al.*, 2011; Guthrie and Farneti, 2008), the Global Reporting Initiative (GRI) guidelines are used for keyword identification since they represent global standards for voluntary CSR disclosures. However, manual keyword search was done for the reports of 19 Egyptian companies since such reports were unreadable by the program.

Following the coding framework of Gamerschlag *et al.* (2011), the keywords used reflect only core GRI environmental and social indicators since the majority of stakeholders have interest in them. Table II shows the social and environmental keywords used based on GRI. In the analysis, more than one keyword can be used for the same indicator to account for plural and singular forms as well as British and English differences (Gamerschlag *et al.*, 2011). Also, MAXQDA searches for words that may not be exactly the same as the search string unless otherwise specified. For example, the search results for the word "spill" include spills, spillage and spillover. Also, the search for "discrimination" yields not only the word discrimination but also non-discrimination and anti-discrimination. However, the search for a keyword like "fines" was restricted to the same word to avoid counting a word like "de-fines."

Environmental	Social
Recycled	Employment
Energy consumption	Employee turnover
Biodiversity	Collective bargaining
Emissions	Collective agreements
Effluents	Occupational health
Waste	Occupational safety
Spills	Training
Environmental impacts	Diversity
	Equal opportunities
	Human rights
	Discrimination
	Freedom of association
	Child labor
	Forced labor
	Compulsory labor
	Community
	Corruption
	Public policy
	Compliance
	Fines
	Sanctions
	Product responsibility
	Customer health
	Customer safety

Source: Gamerschlag *et al.* (2011)

Table II.
CSR Keywords based on GRI

Governance- and diversity-related data were gathered from multiple sources. Data on diversity variables for Egyptian corporations were mainly gathered from the General Authority for Investment as well as the BoardEx and Orbis databases. For German and American companies, diversity-related data were gathered from corporate websites, BoardEx and Orbis databases. Data on the corporate governance structures of all sample companies were gathered from corporate websites, BoardEx and Orbis databases as well as other internet sources.

3.3 Measures

The dependent variable in this study is the total quantity of disclosed CSR information. The CSR disclosure score is calculated by adding the number of disclosed social and environmental keywords in the reports of each company. For example, the CSR score of a company that issues a CSR report represents the total number of social and environmental hits disclosed in its annual as well as its CSR report.

Diversity is measured by the multi-nationalities of board members and shareholders (Haniffa and Cooke, 2005). The diversity of board members is calculated as the percentage of foreign members in the board of directors. The diversity of shareholders is calculated as the percentage of foreign shareholders in each company. Four proxies are used to measure corporate governance structure: CEO duality, board size, board independence and institutional ownership structure. Consistent with previous studies (Haniffa and Cooke, 2005; Khan *et al.*, 2013; Liao *et al.*, 2015; Michelon and Parbonetti, 2012; Said *et al.*, 2009; Samaha, Dahawy, Hussainey and Stapleton, 2012), the number of board members acts as the board size measurement, CEO duality is measured as a dummy variable where a value of 1 is given if the CEO also serves as the chairman of the board and a value of 0 is assigned otherwise and board independence is measured as the percentage of independent members in the board. Following Saleh *et al.* (2010), institutional ownership is measured as the percentage of shares held by institutional investors.

A country dummy variable is measured by classifying companies operating in Egypt, a developing country, in one group and companies operating in developed countries in another group. Here, 1 indicates that the company operates in a developing country (Egypt) and 0 otherwise (USA and Germany). Also, firm size is used in this study as a control variable to represent industry characteristics. Since larger firms are faced with greater pressures to legitimize their operations, they are expected to disclose more CSR information (Khan *et al.*, 2013; Muttakin and Khan, 2014). Also firm size is likely to be positively correlated with board structure (Samaha, Dahawy, Hussainey and Stapleton, 2012). Accordingly, firm size is included as a control variable and is measured as the log of total assets in the analysis year[1] (Gamerschlag *et al.*, 2011; Haniffa and Cooke, 2005).

3.4 Empirical model

To examine the relationship between the explanatory variables tested in this study and corporate CSR disclosures, multiple regression analysis is used. A multicollinearity test was first performed to examine collinearity among variables. The core regression model is presented below:

$$\text{CSRD} = \beta_0 + \beta_1\text{FBOD} + \beta_2\ \text{FShare} + \beta_3\text{Duality} + \beta_4\text{Bsize} + \beta_5\text{Bindep} + \beta_6\text{Fsize} + \epsilon$$

where CSRD = corporate social responsibility disclosure score index, FBOD = percentage of foreign board members, FShare = percentage of foreign shareholders, Duality = dummy variable; 1 if CEO duality exists, 0 otherwise, Bsize = number of board members, Bindep = percentage of independent board members, Fsize = size of the firm represented by total number of employees and ϵ = error term.

4. Results and implications

4.1 Tests of variances: CSR disclosure levels

Figure 1 presents a graphical representation of the environmental and social disclosures for the three countries analyzed in this study. As shown in the figure, differences between the CSR disclosure scores of Egypt, Germany and the USA are apparent. To determine the statistical significance of the differences in the CSR scores of the three countries, a Kruskal-Wallis non-parametric test is performed given the non-normality distribution of the data. The results reveal a statistically significant difference between the CSR disclosures of the three groups examined ($H = 56.132$, $p < 0.01$), with a mean rank of 15.21 for Egypt, 62.98 for Germany and 53.35 for the USA.

German companies exhibit the highest CSR disclosures scores on both the environmental and social levels. This may be due to the high degree of corporate engagement with investors in Germany compared to the USA (Campbell, 2006). Campbell (2006, p. 934) argued that "corporations will be more likely to act in socially responsible ways if they are engaged in institutionalized dialogue with unions, employees, community groups, investors, and other stakeholders." This is also consistent with previous studies that revealed higher CSR disclosures in Europe than in the USA (Meek *et al.*, 1995; Saida, 2009; Michelon, 2011). Matten and Moon (2008) argued that the institutional reordering in Europe has increased European companies' discretion in areas like education, health, energy and social services. However, it should be noted that this mainly applies on large companies in Europe rather than on small and medium enterprises. The CSR disclosure levels in Egypt are the lowest compared to that of Germany and the USA. This may reflect the fact that Egypt is a developing country (GDP per capital $3,436.3 in 2014) compared to Germany (GDP per capita 47,627.4 in 2014) and the USA (GDP per capita $54,629.5 in 2014) (The World Bank Group, 2015). This is consistent with previous literature that suggests that the social responsibility is practiced more by corporations operating in developed countries since such practices exceed the basic needs of developing societies that need to be fulfilled first (Jones, 1999).

Table III shows the detailed CSR reporting by category for each of the analyzed countries. In all three countries, social-related CSR disclosures combined are higher than environmental disclosures. However, as shown in the table, the social category does not only refer to "society" but also includes social aspects related to labor, human rights and product responsibility. Consistent with previous CSR studies in developing countries (Jamali and Mirshak, 2007; Amaeshi *et al.*, 2006), the society category of CSR is the most disclosed among sample Egyptian companies representing around 63 percent of total Egyptian CSR disclosures.

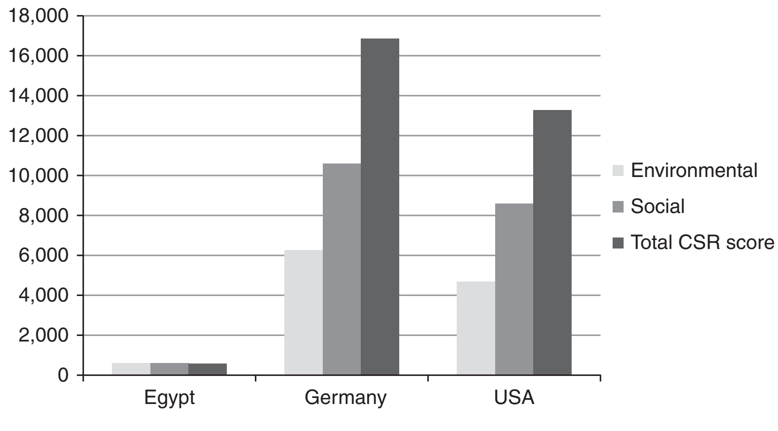

Figure 1.
CSR disclosure levels in Egypt, Germany and the USA

Yet, this finding is inconsistent with Hanafi (2006) who found that employee-related CSR disclosures were the highest among Egyptian companies in the period between 1998 and 2001. This may then indicate a recent shift in CSR initiatives related to community development. The labor practices category represents the second highly disclosed category (around 22 percent), yet still relatively low compared to the society category. Although regulations related to disclosures of employee-related CSR information are the highest as compared to other mandatory CSR disclosures in Egypt, compliance of Egyptian companies with all legally required employee information is highly deficient (Hanafi, 2006). Regulations are important institutional factors that influence the social behavior of companies (Campbell, 2006). However, the enforcement of such regulations depends on the level of economic development (Jones, 1999). Also, the little attention given to the environmental, human rights and product responsibility categories of CSR in Egypt may reflect the weak institutional environment generally present in developing countries (Amaeshi *et al.*, 2006).

In Germany, the highest percentage of CSR hits relates to the environmental category representing around 37 percent of total CSR hits found in sample German corporate reports. This is followed by the society category (around 30 percent) and labor practices (26 percent). These findings are close to the findings of Chen and Bouvain (2009) who showed that German companies placed high importance on social and environmental issues followed by employee-related issues. Accordingly, while environmental issues remain central, a clear emphasis is placed on the environment, society and labor categories of CSR disclosures among sample German companies. American companies show equal high emphasis for the environment and society categories with each representing around 35 percent of total CSR disclosures made by sample US companies. Labor practices are also central representing around 20 percent yet are still relatively less important than environment and society. This finding is partially consistent with Chen and Bouvain (2009) who found that US companies placed relatively higher emphasis on community- and employee-related issues. However, unlike the findings of this study, environmental issues were less focused on by American companies examined in their study.

Overall, although differences appear between the CSR practices of German and US companies, their CSR disclosure levels are adjacent compared to that of Egypt. This can be explained by the presence of institutional factors such as non-government and other independent organizations and industry self-regulation that promote corporate social behavior in such countries.

4.2 Descriptive statistics and correlations

Table IV displays the descriptive statistics of the variables for all sample companies as well as per country. As mentioned in the previous section, the CSR scores in Egypt are the lowest compared to Germany and the USA. This is depicted by the mean scores for sample companies in each country. The table also shows that some Egyptian companies do not have any CSR disclosures as represented by the minimum score value of 0.

	Egypt		Germany		USA	
CSR category	Hits	%	Hits	%	Hits	%
Environment	56	12	6,258	37.1	4,681	35.2
Labor practices	101	22	4,377	26	2,625	19.8
Human rights	13	3	1,130	6.7	1,249	9.4
Society	288	63	4,996	29.6	4,696	35.4
Product responsibility	0	0	101	0.6	32	0.2
Total number of CSR hits	458	100	16,862	100	13,282	100

Table III. Corporate reporting per CSR category

The mean scores of the corporate governance structure variables also show differences between companies specifically in the percentage of independent board members. The table shows that sample Egyptian companies have the lowest percentage of independent board members (6.2 percent), followed by sample German companies (12 percent). Yet, sample American companies exhibit a high level of board independence representing an average of 91 percent. Also, the leadership structures, as represented by CEO duality, are different between sample companies in the three countries. The percentage of unified leadership structures across the three groups reveals that all sample German companies experience no CEO duality while 60 percent of sample American companies and around 54 percent of sample Egyptian companies have unified leadership structures. The separate leadership structure found in all sample German companies can be explained by the two-tiered system in Germany that strictly separates between the tasks of the executive and supervisory boards (Veen and Albertsen, 2008). Also, the high concentration of CEO power in American companies has led the New York Stock Exchange to add in its listing standards, as a counterbalance, that independent board members should be a majority in listed companies (Aguilera *et al.*, 2006). This is consistent with our findings that reveal a high percentage of board independence in sample American companies compared to Egyptian and German companies.

The mean scores of the diversity variables for sample companies in Egypt, Germany and the USA are also provided. As shown in the table, sample companies in the three countries exhibit low levels of foreign board members. Yet, board diversity in sample Egyptian companies (35 percent) is higher than that of sample German (20 percent) and American (19 percent) companies although sample Egyptian companies have the lowest board size. This finding is inconsistent with previous studies that found that larger boards tend to have more board diversity (Brammer *et al.*, 2007; Carter *et al.*, 2003). On the other hand, the percentage of foreign shareholders is much lower for sample Egyptian companies (25 percent) compared to their counterparts in Germany (69 percent) and the USA (82 percent). This may be due to the high multinationality of German and US companies as opposed to Egyptian ones.

Table V shows the correlations between the tested variables of the study. As shown in the table, the highest correlation between any of the main independent variables is 0.581 which is lower than the cut off value of 0.9. Also, the highest variance inflation factor value is 2.414 lower than the cut off value of 10 (Pallant, 2005). Accordingly, no multicollinearity problems exist between the independent variables. The table also shows strong significant correlations between the control variable, country of origin and the dependent and independent variables.

4.3 Regression analyses

4.3.1 A comprehensive regression analysis of examined CSR drivers for all sample companies in Egypt, Germany and the USA. The first stage of data analysis involved combining

Table IV. Descriptive statistics of variables in total and per country

Construct	All sample ($n=88$) Mean	SD	Egypt ($n=28$) Min.	Max.	Mean	Germany ($n=30$) Min.	Max.	Mean	USA ($n=30$) Min.	Max.	Mean
CSR score	347.78	359.36	0	206	16.43	140	1,237	562.07	33	1,302	442.77
Board size	12.99	4.26	5	23	10.89	6	22	15.8	8	16	12.13
Board independence	0.37	0.42	0	0.44	0.062	0	0.76	0.12	0.71	1	0.91
Foreign BOD	0.25	0.17	0	0.70	0.35	0	0.5	0.20	0	0.71	0.19
Foreign shareholders	0.59	0.29	0	0.91	0.25	0.25	0.93	0.69	0.49	1	0.82

Note: The table does not include the CEO duality categorical variables; however, a brief description of the differences between sample countries regarding this variable is provided in this section

	1	2	3	4	5	6	7	8	9
(1) Foreign BOD	1								
(2) Foreign shareholder	−0.3314***	1							
(3) CEO duality	0.2162**	−0.1275	1						
(4) Board size	−0.2022*	0.1536	−0.2456**	1					
(5) Board independence	−0.2009*	0.5808***	0.2636**	−0.1216	1				
(6) Institutional own	−0.1857*	0.2541**	−0.0464	0.1206	0.2676**	1			
(7) Firm size	−0.2716**	0.6543***	−0.0952	0.2029*	0.5806***	0.3785***	1		
(8) Country of origin	0.4218***	−0.7983***	0.2596**	−0.3378***	−0.5080***	−0.3715***	0.7770***	1	
(9) CSR score	−0.2982***	0.4399***	−0.2598**	0.3293***	0.2012*	0.1532	0.4837***	−0.6335***	1

Note: *,**,***Significant at the 10, 5 and 1 percent levels, respectively

Table V. Correlation matrix for constructs

Egyptian, German and US companies in one regression model and testing the effects of diversity and corporate governance variables on CSR reporting while controlling for country effects[2]. As shown in Table VI, the results of Model 1 reveal insignificant effects of all explanatory variables examined on CSR reporting except for the country variable. This general analysis shows that the country variable is the only relevant variable explaining variations in the CSR disclosure scores of the three countries examined. This provides support for *H1* and implies economic and institutional differences between developing and developed countries, specifically Egypt, Germany and the USA. Accordingly, separate regression models were run for Egyptian and US/German companies.

4.3.2 Test of separate models: diversity and corporate governance structure as drivers of CSR reporting for German/US vs Egyptian companies. The results of the separate regression models are shown in Table VII[3]. Model 2 examines the effects of the diversity and corporate governance variables on the CSR reporting of sample US and German companies. The results show insignificant influences of all explanatory variables on CSR reporting. This indicates that organizational-level factors, specifically diversity and corporate governance structure, may exhibit distinct roles in promoting CSR disclosures in different institutional contexts. In industrial countries, such as the USA and Germany, these factors may play only a minor role (if at all) in influencing CSR disclosures in the presence of well-established institutional systems, strong economies and high levels of awareness.

	Model 1 (all countries)
Constant	408.301
Foreign BOD	−70.188 (0.723)
Foreign shareholders	−150.352 (0.417)
CEO duality	−29.514 (0.688)
Board size	6.730 (0.411)
Board independence	−77.649 (0.485)
Institutional ownership	−146.880 (0.283)
Firm size	10.258 (0.573)
Country of origin	−536.303 (0.000)***
No. of observations	88
R^2	0.4418
Adj. R^2	0.3853
p-value	0.000***

Note: *,**,***Significant at the 10, 5 and 1 percent levels, respectively

Table VI. Regression analysis: comprehensive model

	Pred. sign	Model 2 (US/Germany)	Model 3 (Egypt)
Constant		304.879	−205.619
Foreign BOD	*H2* (+)	−135.348 (0.644)	147.743 (0.000)***
Foreign shareholders	*H3* (+)	−169.763 (0.580)	−36.515 (0.199)
CEO duality	*H5* (+)	−52.066 (0.701)	12.993 (0.256)
Board size	*H4* (+)	12.173 (0.400)	−0.352 (0.753)
Board independence	*H6* (+)	−45.458 (0.783)	172.475 (0.001)***
Institutional ownership	*H7* (+)	−341.131 (0.237)	−49.138 (0.006)***
Firm size		16.856 (0.599)	8.535 (0.002)***
No. of observations		60	28
R^2		0.093	0.738
Adj. R^2		−0.029	0.646
p-value		0.620	0.000***

Note: *,**,***Significant at the 10, 5 and 1 percent levels, respectively

Table VII.
Regression analysis: separate models

While the study done by Harjoto *et al.* (2015) shows that the diversity of board members of 1,489 US companies increased their overall CSR performance, this variable played a role in reducing CSR concerns rather than increasing CSR strengths. Also, the findings of Boesso and Kumar (2007) support our corporate governance findings in the USA and Germany. Their study examined the influence of corporate governance structure on the voluntary disclosures of companies operating in Italy and the USA and found that voluntary disclosures are not driven by internal governance mechanisms. Rather, corporate emphasis on stakeholder engagement represented the only within-company factor influencing voluntary reporting in both countries.

Model 3 tests the effects of diversity and corporate governance structure on the CSR reporting practices of Egyptian companies. As shown from Table VII, the explanatory power of Model 3 is high (adjusted $R^2 = 0.646$). This indicates that 64.6 percent of the variance in the CSR reporting practices of sample Egyptian companies can be explained by the model. The results of the model show insignificant influences of foreign shareholders, CEO duality and board size. Accordingly, *H3-H5* are not supported. Yet, the results suggest that higher levels of board diversity, board independence and firm size lead to more CSR disclosures providing support for *H2* and *H6*. Consistent with previous studies on board diversity and CSR (Muttakin *et al.*, 2015; Khan, 2010), the results indicate that foreign directors can play an important role in supporting the CSR reporting strategies of companies operating in a developing country context. The results also support previous studies in developing countries that show significant positive influence of board independence (Chau and Gray, 2010; Khan *et al.*, 2013). This may indicate that companies are more likely to emphasize societal interests when boards are dominated by independent directors (Khan *et al.*, 2013; Haniffa and Cooke, 2005). The study also supports previous studies that show that larger firms tend to disclose more CSR information (Khan *et al.*, 2013; Muttakin and Khan, 2014).

The results of Model 3 also show a significant negative influence of institutional ownership on CSR reporting in Egypt. Hence, *H7* is not supported. This is inconsistent with previous studies in developing countries that suggest a positive association between both variables (Oh *et al.*, 2011; Saleh *et al.*, 2010). Yet, the institutional ownership variable includes not only the percentage of shares owned by banks, mutual and pension funds and financial companies but also corporate groups and the government. While, government equity holdings in sample Egyptian companies were mild, corporate groups acted as controlling or substantial shareholders of more than 50 percent of the Egyptian companies examined. Based on that, the institutional ownership variable was subdivided into two separate variables: one representing the institutional ownership of corporate groups and the government and the other representing the institutional ownership of the remaining institutions. When the regression model was run again, the effect of the ownership of corporate groups and the government remained significantly negative ($\lambda = -57.823$, $p = 0.007$) while the effect of the other institutions became insignificant ($\lambda = -37.680$, $p = 0.111$). This indicates that institutional ownership of corporate groups and the government drives the general significant negative influence of the institutional ownership variable while the effects of the other institutions are insignificant. In many developing countries, having companies with family dominance or controlling/substantial shareholders is commonplace. Accordingly, the influence of other institutional investors is secondary and almost lacking (Khan *et al.*, 2013; Reed, 2002). Such an institutional weakness may represent a potential restriction to genuine CSR reporting strategies in Egypt.

5. Summary and conclusions

This study contributes to the CSR research field by comparing differences in the CSR disclosure practices and drivers of Egypt, as a developing country with that of developed countries, namely, the USA and Germany. Taken from an institutional perspective, the paper also examines the role of organizational-level factors, specifically diversity and corporate governance structure, in driving the CSR disclosure practices in a developing country context. The results are mostly consistent with institutional theory where the effects of diversity and governance structure, observed mainly by foreign BOD, board independence and institutional ownership, are found to be significant on the CSR disclosure levels of Egyptian companies only. This indicates that the influence of organizational-level factors on CSR is highly dependent on the institutional context where companies operate.

Differences in the environmental and social disclosures of sample companies in the three analyzed countries are also compared. The test of variances shows a statistically significant difference in the level of CSR disclosures in Egypt, Germany and the USA. The disclosure levels of sample Egyptian companies are found to be the lowest. This may reflect the weak economic and institutional conditions in Egypt compared to Germany and the USA. A country's level of economic development may influence the level of information disclosed in corporate reports as less CSR disclosures are expected when basic economic needs are not fulfilled. Also, the weak institutional environment represented through low enforcement of regulations, weak self-regulatory systems and the like hinder businesses in developing countries from actively pursuing social responsibility practices. German companies, on the other hand, exhibit the highest CSR disclosures scores.

The results of the comprehensive regression model (Model 1) show that corporate governance structures are driven by country effects. This may indicate differences in the organizational-level factors driving CSR reporting in developing vs developed countries. The results of the separate models further support that argument and imply that corporate governance structure and board and shareholder diversity drive CSR (disclosure) practices in neither the USA nor Germany (Model 2). On the other hand, the percentage of foreign board members, independent directors, institutional ownership and firm size was significant predictors of CSR disclosures of sample Egyptian companies (Model 3). It could then be argued that the level of Egyptian corporate social reporting can be enhanced by integrating more foreign and independent board members in corporate board structures and by reducing the percentage of corporate and government ownership.

This study has a number of limitations. First, the results of the study are based on a one-year observation of the governance and CSR disclosure practices of sample companies in Egypt, Germany and the USA. Longitudinal studies would provide more insight into how changes in diversity and governance structures may influence the development of CSR reporting over time. Second, the sample size of the study is limited, specifically for the separate models examined, and is mainly focused on large listed companies. A larger sample size can be considered in future research. Also, to improve the generalizability of the study, further research can explore cross-country differences in CSR disclosures of large and small and medium corporations. Third, although annual reports are considered as the main communication tool used by corporations, other corporate communication media, such as corporate websites, should be considered in future research. This is particularly important for developing countries, such as Egypt, where incidences of CSR disclosures on websites only have been found in sample Egyptian companies. This may indicate that corporate websites in Egypt may be a major means of communicating corporate CSR information. Finally, the content analysis approach used in this study provides only quantities of CSR disclosures. A more detailed content analysis approach can be utilized by future research that determines not only the quantity but also the quality of CSR information disclosed including the nature of information and type of CSR news disclosed.

Notes

1. The currencies of total asset values were unified to the Egyptian pound then the log of total assets was computed.
2. The standardized residuals of the comprehensive model are not normally distributed according to the Kolmogorov-Smirnov normality test ($z = 1.550$; $p = 0.016$).
3. The standardized residuals of the two separate regression models are normally distributed according to the Kolmogorov-Smirnov normality test ($z = 1.195$; $p = 0.115$ for Model 2 and $z = 0.548$; $p = 0.925$ for Model 3).

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