

# Chapter 6

## Empirical Evidence on Corporate Governance Impact on CSR Disclosure in Developing Economies: The Tunisian and Egyptian Contexts

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### **ABSTRACT**

*This chapter investigates the influence of the board composition and leadership on Corporate Social Responsibility (CSR) disclosure. The empirical study of 68 Tunisian listed companies and 100 Egyptian listed companies reveals that board independence, foreign directorship, female directorship and state directorship, influence positively CSR disclosure. However, these findings indicate that CEO duality has a negative impact on CSR disclosure. Overall, the findings are consistent with the agency theory as well as the stakeholders theory and suggest that CSR disclosure seems to result from the willingness to meet shareholders' expectations in terms of transparency and voluntary disclosure of non-financial information.*

### **INTRODUCTION**

The issue of CSR has gained importance recently with the growing awareness for sustainable development but also due to several financial crises, food scandals and ecological problems orienting the debate towards the role of business in society beyond its classic economic purpose (Deegan & Gordon, 1996; Gray et al., 1995; Hooghiemstra, 2000; Kolk, 2003). There is no universal definition of CSR (Godfrey & Hatch, 2007) but most definitions describe CSR as the voluntary integration by companies of social and environmental concerns in their activities and through their relations with their stakeholders. The arising of the CSR issues is reflected through the growing number of CSR and sustainability reports, as well as through institutional communication of information in relation with CSR (Gray et al., 2001; Kolk 2005).

DOI: 10.4018/978-1-5225-0720-8.ch006

CSR Disclosure can be defined as the information that the company disclose, in relation with the impact of its activities on the environment as well as its relationship with its stakeholders, through relevant communication channels (Campbell, 2004; Gray et al., 2001). The stakeholder theory suggests that CSR disclosure is part of a dialogue between the company and its stakeholders through which the company provides information on its activities to legitimize its behavior, to educate, to inform and to change the perceptions of its stakeholders (Adams & Larrinaga-González, 2007; Adams & McNicholas, 2007; Gray et al., 1995). Literature review shows that the impact of corporate governance on financial disclosure has received considerable attention (Anderson et al., 2004), unlike the effect of corporate governance mechanisms on non-financial voluntary disclosure (Haniffa & Cooke, 2005). Indeed, previous studies have concluded that disclosure policies emanate from the Board of Directors (Cerbioni & Parbonetti, 2007; Fernandez-Feijoo et al., 2012; Gul & Leung, 2004; Haniffa & Cooke, 2005; Ho & Wong, 2001).

The objective of this chapter is to investigate the impact of board characteristics and leadership on the CSR disclosure in Tunisian and Egyptian listed companies. This chapter deals with three sections: literature review, methodology, and findings.

## **BACKGROUND**

The purpose of this section is to provide an overview of CSR disclosure within the Tunisian and Egyptian contexts in Tunisia and Egypt. The review of institutional arrangements and previous researches in this field in relation with the previously mentioned countries will be also examined in this section.

### **Context of CSR Disclosure in Tunisia**

The implementation of reports on the CSR disclosure by Tunisian companies is relatively a new concern and has become a popular topic since late 90'. In fact, Koleva and Gherib (2012) demonstrate that the interaction between specific features of Tunisian capitalism which is characterized by state capitalism and the dominance of small and family-owned companies as well as the influence of globalization and the economic relationship with the EU, has shaped the perception and the involvement of Tunisian companies in CSR orientations. According to Koleva and Gherib (2012), the search for differentiation and the enhancement of the brand image are the most important motivations for the CSR orientation, especially as far as large Tunisian industrial companies are concerned. Tunisian firms from industries with higher sensitivity to the environment tend to provide more CSR disclosure than firms from less environmentally sensitive industries. This is also supported by Belhaj and Damak-Ayadi (2011) who reported that out of 500 largest Tunisian firms, only 53 have published environmental information in their annual reports or in their websites.

Concerning the institutional aspect of CSR disclosure, the Financial Market Council imposes to listed companies on the Tunis Stock Exchange (BVMT) an obligation of regular information disclosure with regards to its financial performance, governance structure as well as Top - Management compensation. In this respect, CSR disclosure is not mandatory and remains at the discretion of companies and their shareholders.

Moreover, the Tunisian accounting conceptual framework provides information on the social and environmental corporate disclosure as a supplement to conventional reporting of financial information.

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