Chapter 59
Corporate Governance and Corporate Social Responsibility Disclosure

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ABSTRACT

Developed countries are increasingly concerned about the relationship between corporate governance and corporate social responsibility disclosure while developing countries recently started to take care of this issue. Therefore, the main objective of the study is to examine the effect of the board mechanisms of corporate governance on the extent of social responsibility disclosure of Jordanian public industrial companies during the period (2010 to 2014). In this research, descriptive statistics are used to study variables, both correlation matrix and collinearity diagnostic are used to test whether multicollinearity problem exists. Finally, OLS regression analysis is used to test the hypotheses of the study. The results show that the extent of social responsibility disclosure is positively affected by board size and percentage of women on board, negatively affected by duality and board average age. Board meetings and board composition are insignificant to social responsibility disclosure. The study faces several limitations where the measurement of corporate social responsibility requires human judgment, which is subjective and ambiguous. Furthermore, the study sample was limited to industrial companies. Understanding the relationship between CG and CSR is very important because the CG mechanism is an obligation to protect and improve social, economic, and environment, as well as the welfare of society. CSR elements should be included within the companies' vision, mission, strategies and daily practices to maximize the shareholder value.

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INTRODUCTION

Corporate Governance (GCG)

According to the World Bank, governance is "the manner in which power is exercised in the management of a country's economic and social resources for development" (The World Bank, 1992). Good corporate governance (GCG) cares about social, economic and political factors and ensures that decision-making is about the best resource allocation (UNDP, 1997). Governance is about economic activities, policy formulation system, and policy implementation system (IFAD, 1999). The aim of GCG is to improve economy and growth (OECD, 2004). "Governance refers to the processes in government actions and how things are done, not just what is done" (UN, 2008). Governance is the ability to design and implement policies for sustainability and growth (UNDP, 2011). The governance board is responsible for directing and controlling the organization to achieve its objectives and goals (Nasereddin and Sharabati, 2016). Although there is no consensus about governance definition and components, which suite all countries, institutions, and industries, there are criteria through which GCG can be evaluated (Nasereddin and Sharabati, 2019). GCG includes rights and equitable treatment of shareholders; interests of other stakeholders; role and responsibilities of the board; integrity and ethical behavior; accountability, transparency, and disclosure (OECD, 2004). It includes mandatory and voluntary information disclosure about CSR activities. At the same time, agency theory regulates the relationship between owners and executives (Deegan 2002, Ntim and Soobaroyen, 2013). The ownership structure is classified as concentrated and dispersed; concentrated ownership is related to a small number of shareholders own a significant proportion of shares. Whereas dispersed ownership is related to a large number of shareholders, own the shares (Sheikh et al., 2013). Finally, this study uses the following indicators to evaluate GCG practices such as:

1. Board independence, which is the number of non-executive directors as a percentage of the whole board (Laing and Weir, 1999). The independence of some board members will give power to the board (Khan et al., 2013). Board with dominant non-executive directors are not effective since non-executive directors are characterized by a lack of information about the company (Pearce and Zahra, 1991). The proportion of the non-executive board of directors affects CSRD (Arani, 2016; Furtado et al., 2016; Pramono, 2018). Board independence is having a positive relationship with CSRD (Jizi et al., 2014; Kaymak and Bektas, 2017). There is no relationship between board independence CSRD (Habbash, 2015). There was an insignificant correlation between board independence and CSRD (Yusoff et al., 2019);
2. Chief Executive Officer (CEO) duality occurs when two positions, namely: the CEO and board Chairman, managed by the same person in the same firm (Rechner and Dalton, 1989; Said et al., 2009). CEO duality is a way to avoid agency problems (Brown and Caylor, 2004). Firms that have duality may have a powerful individual who has the ability to make decisions that may not maximize shareholders' wealth. Therefore, the Chairman and CEO roles should be separated (Laing and Weir, 1999). CEO duality is having a positive relationship with CSRD (Jizi et al., 2014; Umoh-Daniel and Uroghide, 2018). CEO duality has a negative correlation with CSRD (Giannarakis, 2014b; Jibril et al., 2016). Finally, there is no relationship between role duality and CSRD (Habbash, 2015; Qoyum et al., 2017);
3. Board size is one of the main GCG elements to monitor the progress of work at the company correctly (Said et al., 2009). Larger board size is more efficient than smaller board size (Haji, 2013).