The Association between Corporate Social Responsibility Disclosure and Corporate Governance – A Survey of Egypt

Marwa Abdel Razek
Senior accountant –alexandria –egypt
Marwa_moh_mm@yahoo.com

Abstract
This study aims to investigate the association between corporate social responsibility disclosure and corporate governance in egyptian companies , using a survey designed and distributed randomly , response received from 17 professional (financial managers , accountant), 23 academician from Cairo university and 9 postgraduate students , study found that corporate governance mechanics that effect corporate social responsibility disclosure in egyptian annual reports are respectively internal audit quality , audit committee , board structure mainly multiple directorship and finally ownership structure I hope this study aid firm increase their value by increasing value share price and profitability , and aid firm to gain reputation so it can attract more investors and other stakeholders .
Keywords : corporate social responsibility disclosure, Egypt country , board size, board diversity , multiple ship directors , audit committee existence , audit committee size , internal auditing quality , private vs public owned
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Introduction
Gray et al 1996 defined corporate social responsibility disclosure as the process of communicating the social and environmental effects of organization economic actions to particular interest groups within the society and to society at larger. According to Deegan 2002 CSRD is a method by which management can interact with the broader society to define the external perception about their organization. Woodward et al 1996 posits that CSRD enhance corporate reputation through gaining the confidence and support of diverse stakeholders. In addition Dowhings and Pferrer (1975) also postulate that CSRD assist to evaluate the congruence between the social values implied by corporate activities and social norms.
Adam et al (1998) argues that companies with more environmental impact are found to disclose more environmental information that others. According to Mathews (1993) making a profit or complying with legal requirement does not legitimatize activities of an organization, but it comes from the continuing mandate of society at large .Consequently business organizations use corporate social responsibility disclosure as a strategy to legitimize them activities in the mind of the member of the public. Deegan (2002) posits that the increase in social disclosures as a means of changing public perceptions about the legitimacy of an organization, and then achieve the continuing mandate of the society.
Branco and Rodngues (2008) defined CSRD is a means by which organizations informs and convince the society that they are meeting their social outlook. According to Pattern (1992) CSRD via annual report can be used to influence public policy by using it to project the image and reputation of the company Akano et al (2013).
Previous studies on CSR are characterized by three kinds of empirical research Reverte, (2009). Firstly, there are descriptive studies' which report on the extent and nature of CSR with some comparisons between countries and periods. Secondly, explicative studies, focus on the potential factors influencing levels of CSR reporting. Thirdly there are studies on the effect CSR information has on various users with an emphasis on market response.
This study categorizes as explicative studies as it examines the potential influence of corporate governance mechanism mainly board composition, audit committee, ownership structure and internal audit in an emerging country namely Egypt
Egypt has initiated many pragmatic steps to improve CSR practices. On the one hand, the ministry of investment (MoI) recently established the Egyptian Corporate Responsibility Center (ECRC) 1, which as part of the Egyptian institute of directors (EIoD), has taken significant steps to promote awareness of CSR issues and has assumed a leadership role in the region in this respect (ROSC, 2009, p. 29). Additionally, ECRC recently published its Sustainability Report guidelines in 2008 in collaboration with the UN Development Program me (UNDP). On the other hand, the Egyptian stock exchange (EGX) established a special index in alliance with Standards and Poor (S&P) and Crisil specialized in corporate environmental, social and governance, this index so called S&P EGX/ESG 30 (shortly: ESG). Furthermore the 30 constituents of ESG are ranked annually through checking their CSR and governance performance. This index is considered one of the pioneer ESG indexes in Africa and MENA region. Apparently those initiatives may lead to enhance the profile of CSR practices in Egyptian listed companies

Prior studies examine corporate social responsibility in Egypt and its determinants, Hannaffi (2006) investigated the CSR in the annual reports of 82 non-financial Egyptian listed companies for the period 1998-2001. The study compared the general practices of CSR between Egypt and the UK, and found that although the CSR was lower in Egyptian companies, the patterns of reporting were similar. Both countries had a dominance of employee-related information, subsequently came the environmental and community information, followed by consumer information which ranked last. The study also conducted 12 semi-structured interviews with Egyptian managers and found that although management retains its own culture, it is regarded by western capitalism. Additionally, the Egyptian civilization, Islamic principles, country development and corporate size encompass important explanations to CSR. investigation,

Rizk et al. (2008) provided a survey to the CSR practices in the Egyptian context, using a 34-point disclosure index to CSR disclosures which included four areas being: customer related, employee related, environment related, and community related. The study found that although there are some examples of CSR disclosures, the information disclosed was relatively modest. Another study by Salama (2009) examined the voluntary disclosure of social internet reporting as a determinant to the Egyptian companies‟ communication to stakeholders‟ requirements. Likewise, the study reached to the conclusion that the CSR in Egypt is still far beyond the community stakeholder expectations. It is worth noting that one of the findings of Rizk et al (2008) was that companies with the lowest CSR disclosure were governmentally owned. Clearly, it can be shown that the limited literature review in CSR in developing countries and especially Egypt would serve as an advantage to discover the realm to the CSR in Egypt. (Elmaghrabi 2010) shows that 56.5% of the sample reported CSR, and that community/ social information was dominant under the three disclosure channels. Results demonstrate that industries/sectors had different CSR disclosure focuses, and that the relative importance of a category may change from channel of disclosure to another. The Empirical study tested the significance of corporate governance mechanisms and firms' characteristics in explaining the variations in CSR. Two methods of scoring were used: weighted and un-weighted. A significant relationship was found between CSR and the existence of a CSR division, the existence of family directors on the board and companies which are cross-listed. The results though do not prove a substantial relationship between CSR and non-executive directors, CEO duality, institutional ownership, foreign ownership, size, profitability, leverage and audit firm type. The results of the t-test and Mann-Whitney U test shows that non-governmental companies use various channels of *disclosure more than governmental companies.* [1]

Hussainey, et al (2011) Using a sample of 111 Egyptian listed companies for the period of 2005–2010, we find that 66% of the Egyptian listed companies disclose on average 10–50 CSR statements. The study found that product/customer data is used extensively by Egyptian listed companies compared with other types of CSR data. Ultimately we find that profitability is the main determinant for the aggregated and most of the individual CSR information in Egypt,

recently Soliman et al (2012) has indicated a significant positive relationship between corporate social responsibility rating and ownership by institutional and foreign investors in contrasting shareholding by top managers is negatively associated with solid corporate social responsibility rate.

This study is an extension of prior study but differ from them in many ways, firstly most of prior studies use disclosure index and quantitative methods but this current study use a developed and distribution survey, secondly I used a new variable that such as internal auditing function, audit committee number and qualification

The results of this survey show that the primary indicators for corporate are respectively internal auditing quality , audit committee skills and quality , audit committee's existence , the number of audit committee members , multiple directors ship (busy directors) and companies owned by private sector

I hope this study aid firm increase their value by increasing value share price and profitability and aid firm to gain reputation so it can attract more investors and other stakeholders

To accomplish the objective of the study is reminded of the paper is organized as follows: Section 2, literature and hypothesis development , section 3 methodology and data collection, final section 4 conclusions , remarks , limitation and suggest for researchers.

Literature review and research question:

Corporate social responsibility and corporate governance in literature:

Previous studies examine the association between corporate social responsibility disclosure and corporate governance for example Halme & Huse, (1997) examined the relation between environmental disclosure and corporate governance variables (ownership concentration and board size), industry and

Country in four European countries (Finland, Norway, Spain, and Sweden). The empirical results, based on a sample of 140 companies in four countries, show that no association between both ownership concentration and the number of board members with environmental disclosure, while industry appear to be the most important factor in explaining environmental disclosure.

Haniffa & Cooke, (2005) examined the impact of culture and corporate governance mechanisms on social reporting in Malaysian companies. The culture value that is examined is the ethnic background of directors and shareholders. The governance mechanisms that are examined are proportion of non-executive directors on the board, multiple directorships for chairman, and proportion of foreign shareholders. The results based on a sample of 139 non-financial companies show CSD is significantly associated with culture, multiple directorship, and foreign ownership. Non-executive directors are negatively associated with CSD. Ghazali, (2007) indicated that no studies have been done on the association between corporate ownership structure and CSD, so his study examined the influence of ownership structure on CSD. The factors that examined are: ownership concentration, director ownership; government ownership; company size; profitability, and industry.

The empirical findings, based on sample of 86 Malaysian companies, indicated that two ownership variables, director ownership and government ownership, are significantly influence of CSD in annual report, while, third ownership variable, ownership concentration, is not statistically significant in explaining the level of CSD. Profitability is not a significant factor in explaining CSD, while industry was also significant factor influencing CSD.

To accomplish the aim of this study I used the following variables:

Multiple board directors (directorate interlocking) and corporate social responsibility

Multiple directorships refer to the situation where directors sit on more than one board. This aspect is frequently discussed in the literature under directorship interlocks (The informational effects of interlocks have been widely discussed in the literature. For instance, Useen (1984) suggests that interlocks function as a channel of information about business practices while Lorsch and MacIver (1989) assert that the interlocking of CEOs of other firms along the boards is desirable because of their experience and credibility as peers' .S of other firms along the boards is desirable because of their experience and credibility as peers.

Moreover Lorsch and MacIver, add that serving on a board is a way tounderstand how someone else is doing the same thing you're doing.

Davis, (1996) illustrated that CEOs join other boards and thereby create interlocking relationships specifically to 'embed' what they are doing .Argue in favor of interlocking directors is that members of other boards can offer insights or comparisons derived from personal knowledge of other systems. Bettenhausen and Murnighan, 1985, Mizruchi, 1992 and Haunschild, 1993 argue that board members who have participated in various strategic/structural changes on other boards may bring those beliefs to advocate changes in another board (Haniffa &Cooke (2005)

Hashim &Abdul Rahman (2011) argue that gross directorship has important positive implication for corporate social responsibility practice as they are able to obtain greater access to information in more than one company so I hypothesize :

There is a positive relationship between the number of multiple directorships sit in board directors and corporate social responsibility disclosure in Egyptian companies

Board diversity and corporate social responsibility:

It has been tested in the CG literature that board diversity has turned into significant element of CG arrangement in recent years. Bronco and Rodríguez (2008) mentioned the theme of board diversity correctly match into the structure of stakeholder theory. Prior research indicated that board diversity is associated with stronger orientation towards corporate social reporting and higher intensity of social performance (for review, see Ibrahim and Angelidis, 1994; Sicilian, 1996). Carter et al. (2003) argue supporting board diversity that increases board independence for the reason that with a unlike gender, ethnicity, or cultural background might ask questions that would not appear from directors with more traditional backgrounds'' (p. 37). Louis Carter et al. (2003) revealed empirical evidence of a significant positive relationship between board diversity, defined as the percentage of women, African American, Asians and Hispanics on the board of directors and firm value. Huse and Solberg (2006) illustrated that women could involve to boards through forming an alliance, preparing and involving themselves in board matters, taking part of vital decision making. Adams and Ferreira (2004, p. 3) suggest that boards with a higher proportion of women directors tend to make the more board meetings possible and special attendance patterns at board meetings, which make different boards more successful than homogenous boards.They also indicated that women are inherently more ''stabilizing'' than men. Bear et al. (2010) find that the number of women board members is positively associated with CSR strength ratings. (Belen et al 2012), based on the above-mentioned discussion, the second hypothesis of this work is:

The provision of higher proportion of women directors on the board, the greater is the degree of CSR reporting information.

Board size and corporate social responsibility:

Akhrtaruddin et al 2009 argue that the board size influence the level of voluntary disclosure , they noted that the level of disclosure is a strategic decision made of the board of directors as a top level management body , the board of directors formulate policies and strategies to be followed by managers , they added that a great number of directors on the board reduce the likehood of information asymmetry in addition the size of the board is believed to affect the ability of the board to monitor and evaluate management and small board encourages faster information processing , furthermore the ability of directors to control and promote value creating activities is more likely to increase with the increase of directors on the board with more directors , the collective experience and expertise of the board will increase and therefore the need for information disclosure will be higher thus I predict that

there is a positive relationship between board size and corporate social responsibility disclosure in egyptian companies

Audit committee

The audit committee has a vital role in ensuring the quality of financial reporting, reviewing and assessing Internal control systems and monitoring the relationship between management and the external auditor NACD (2000). this role will help the users of these reports to make optimal decisions.

Previous studies t (Arcay & Vazquez, 2005; Ho & Wong, 2001).hat found a positive relationship between the existence of an audit committee and voluntary disclosure (al janadi et al 2013) so I hypothesize

that there is a positive relationship audit committee's existence and corporate social responsibility

Internal audit quality and corporate social responsibility disclosure

In recent years and following the financial crises, the focus of attention has been moving towards IAF as an important factor in the structure of CG. IA, in relation to the task of organizational governance (a shetwi et al 2011) , the IIA 2010 argue that internal audit review compliance to ensure that the organizations adhering to rules , law ,codes of practice , guideline and principals as they apply individually and collectively to all part of their organization , thus I hypo these

That there is a positive relationship between internal audit quality and corporate social responsibility disclosure in Egyptian companies

Ownership structure and corporate governance:

Empirical studies examine the association between corporate governance and corporate social responsibility disclosure; companies controlled by the Italian State disclose Less CSR information than others. Adams and McNicholas (2007) study of a government owned statutory authority points to the influence played by the nature of ownership of CSR reporting. Their personal perspective and integrity of the managers 11Involved also clearly influenced the nature of reporting and the level of accountability achieved. Hence, in their case study organization, where wealth maximization for shareholders was not a driver, in other hand Tuominen et al.'s (2008) study on the Finnish forest industry. Tuominen et al. (2008) find that public limited companies are more active in CSR reporting than other companies in contract Secci (2005) shows that companies controlled by the Italian State disclose less CSR information than others , according toKotonen (2009),

Companies understand responsibility as a duty to act responsibly towards their stakeholders and CSR reporting as a response to stakeholders' expectations and demands.based on this view and Secci (2005), I hypothesise

Those companies owned by private sector disclose more information on social activities more than state owned companies

Methodology ,data collection and results :

A survey designed and submitted online (www.esurverpro.com) in addition; the survey was distributed to academician (Cairo university staff) and professionals (financial managers, accountants) The response received from 17 professional, 23 academician and 9 postgraduate students By using the statistical package for social SSPSS analysis results show as follows:

1- Corporate social responsibility disclosure and board composition :

Table 1 show that board number receive a mean of 3,10 with standard deviation 0.95 and variance 0.90 mean while gender (number of female in board of directors) has a mean of 2.95 , STD 1.051 and variance 1.10 , and the multiple directorship (interlock directors) receive means of 3.71 , STD 0.80 and variance of 0.65 finally according to Likart scale measure the multiple board director has a significant effect on corporate social responsibility disclosure This effect is similar to Hannaffi and Cooke 2005 who reveals that there is a positive relationship between corporate social responsibility disclosure and interlock directors (multiple directors)

2- Corporate social responsibility disclosure and audit committee :

Results found that member of audit committee skills and qualification is the most significant factor determinants corporate social responsibility with a mean of 4.187, STD 0.78 and variance 0.62, secondly factors affect social responsibility in Egypt is audit committee's existence with a mean of 4.08, STD 0.89 and variance 0.67 finally the number of audit committee obtain a mean of 0.37, STD 0.89 and variance 0.79 (see table 2)

3- Corporate social responsibility disclosure and ownership structure :

Results indicate that a private company disclose more information about corporate social responsibility activity (see table 3) this result is similar to risk et al 2008

4- Corporate social responsibility in Egypt and internal audit quality :

Table 4 indicates that the internal audit function quality effective corporate social responsibility with a mean of 4.27, STD 0.743 and variance 0.05

Concluding, remarks limitation and further scope of the field

This paper aims to investigate the impact of corporate governance mechanism in an emerging country named Egypt , used a developed survey , submitted online and distributed , the study proves that the primary indicators for corporate are respectively internal auditing quality , audit committee skills and quality , audit committee's existence , the number of audit committee members , multiple directors ship (busy directors) and companies owned by private sector, this study is limited to a survey so researcher could re- examine the impact of corporate governance using other methodology , the topics can take in other country especially Arab country . This study is limited to internal corporate governance researcher can investigate the impact of good governance (such as suppliers, creditors, regulatory agency on corporate governance. The study highlighted the impact of internal audit quality of corporate governance, further research needed for what is the determinants of internal audit and which one has more influence

The study takes corporate social responsibility as a total, further research need to investigate the impact of corporate governance on each factor of corporate governance (environment, human resource, community, product, energy)

This study introduce the impact of interlock directors so researcher on corporate social responsibility disclosure

The study investigate the relationship between ownership structure (private and public sector) and corporate social responsibility disclosure , further research needed for examine the association between forgein ownership , institutional ownership, managerial ownership and corporate social responsibility

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Appendix

Table 1:

		Board number	Gender	Multiple directors
N	Valid	48	48	46
	Missing	6	6	8
Mean		3.1042	2.9583	3.7174
Std. Standard error of the mean		.13722	.15170	.11903
Std. Deviation		.95069	1.05100	.80727
Variance		.904	1.105	.652

Table 2:

Statistics

		Audit committee's existence	Number of audit committee	Audit committee skills and character
N	Valid	48	48	48
	Missing	6	6	6
Mean		4.0833	3.7292	4.1875
Std. Error of Mean		.11848	.12889	.11399
Std. Deviation		.82083	0	.78973
Variance		.674	.797	.624

Table 3:

Statistics

Private versus state owned

N	Valid	47
	Missing	7
Mean		3.5957
Std. Error of Mean		.17906
Std. Deviation		1.22757
Variance		1.507

Statistics

Internal audit quality

N	Valid	47
	Missing	7
Mean		4.2766
Std. Error of Mean		.10840
Std. Deviation		.74315
Variance		.552