

The role of representatives of dominant shareholders with the sustainable development through corporate social responsibility matters

Abstract

In this paper, we analyse the effect that directors representing controlling shareholders have on corporate social responsibility (CSR) matters since these investors are the core shareholders in civil law countries, given their high presence on boards. Thus, we analyse the effect of institutional directors on CSR disclosure, but also the impact of the classification of these directors between pressure-sensitive and pressure-resistant institutional directors, depending on if they maintain only an investment relationship with the firm or both an investment and commercial link, respectively. We hypothesise a quadratic relationship between institutional directors and CSR disclosure. We show a curvilinear relationship between institutional directors/pressure-resistant directors and CSR reporting, suggesting that these directors may play two opposite roles (monitoring or entrenchment with managers). However, pressure-sensitive directors do not affect CSR disclosure. These findings indicate that there is an association between board members and strategic decisions. Moreover, our evidence shows that institutional directors do not act in an identical way. Finally, the enhancement of corporate governance depends on the proportion of institutional and pressure-resistant directors on boards.

Key words: Sustainable development, Corporate Social Responsibility reporting, Institutional shareholding, Pressure-resistant institutional shareholding, Pressure-sensitive institutional shareholding

INTRODUCTION

Malpractice, corporate corruption or increasing pollution, among others, have led to the rise of CSR as an issue of considerable importance. Indeed, the market no longer only considers economic performance, but also examines social and environmental performance when evaluating companies (see Gunningham, 2009). Therefore, CSR has become a key strategic element.

Company's features such as corporate governance may influence CSR. In this sense, past literature has analysed the relationship between board characteristics and CSR (Galbreath, 2016; Jizi, 2017). However, prior research on CSR has paid scarce attention to the role of directors appointed by institutional investors (hereinafter institutional directors).

Institutional investors are the most important controlling shareholders in Europe (Brossard et al., 2013), due to the particular agency problems, where minority shareholders' wealth is appropriated by controlling shareholders and, therefore, they perform an important role on boards as directors. According to prior evidence, institutional directors have an effect on board compensation (López-Iturriaga et al., 2015) or financial reporting quality (Pucheta-Martínez and García-Meca, 2014), among others.

Boards of directors play a relevant role in corporate governance, affecting CSR practices (Frias-Aceituno et al., 2013). Therefore, given the role performed by institutional directors on boards and the relevance of CSR issues to boards' daily business, it is necessary to gain an understanding of whether institutional directors have an effect on CSR. Accordingly, this research aims at investigating the association between institutional directors and CSR reporting. Furthermore, previous evidence suggests that the kind of business relations between institutional investors and companies (Brickley et al., 1988) can explain why their abilities, incentives and aims to engage in corporate governance may be different (Almazán et al., 2005). Thus, we also distinguish between pressure-sensitive directors, who represent institutional investors maintaining business relations with the firm on the board where they serve, and pressure-resistant directors, who represent institutional investors who do not maintain such relations and, therefore, the repercussion of these two categories of directors is also examined.

This research makes some contributions to the literature on the role of institutional directors in corporate governance. Our evidence shows a link between the mechanisms of corporate governance and strategic decisions. Specifically, we provide evidence that institutional directorship is associated with CSR disclosure, exerting an effect that is complicated to show in UK and US environments because this kind of directors is less common on their boards. Consistent with prior evidence (e.g., Almazán et al., 2005), our results display that institutional directorship has not to be considered as a whole as these

directors participate in corporate governance in dissimilar ways. Thus, when a distinction is made between pressure-resistant and pressure-sensitive directors, the evidence shows that their attitudes concerning CSR reporting are different: whereas pressure-resistant directors affect CSR disclosure, pressure-sensitive directors do not. The results also show that institutional directors as a whole and pressure-resistant directors may perform two opposite roles, depending on their representation on boards. Thus, when their representation is low, the entrenchment/collusion hypothesis prevails as they are negatively associated with CSR reporting. However, when their representation on boards exceeds a critical point, they support CSR initiatives as the monitoring hypothesis prevails and their monitoring role becomes more active and efficient, given that they encourage managers to disclose CSR information. This evidence suggests that the relationship between institutional/pressure-resistant directors and CSR disclosure is quadratic (U-shaped). Finally, we have constructed an index which includes economic, social and environmental matters that can be used to assess to what extent a company provides CSR information.

The next section explores the institutional setting within which this paper is situated. In the third section, the theoretical background and hypotheses are described. Then, the research design and results are described. Finally, the discussions and conclusions are displayed.

Spanish context

The promotion of CSR in the Spanish business sector has been provided by the Spanish civil society (Spanish Government, 2014). Spanish multinationals occupy the top positions in international rankings of CSR and sustainability, making Spain the European country with a greater number of multinationals in these rankings (European Commission, 2013).

Spain has driven some initiatives to promote and perform CSR properly, in line with Europe (Steurere, 2011). In this regard, Spain published a White Paper and created the State Council of Corporate Social Responsibility. In 2011, the Spanish Government enacted a sustainable economy law to turn the Spanish productive model into something more competitive and environmentally and socially sustainable. The Conthe Code (CUBG) was updated in 2015; this proposes the incorporation of CSR practices in businesses. And in 2002, the Spanish Accounting Standard Setting Board published its White Paper for the Reform of Accounting in Spain, according to which firms have to include in their annual reports environmental information on a compulsory basis and social information on a voluntary basis.

Corporate governance is essential to undertake and ensure the proper development of CSR (European Commission, 2013). Spain has a non-market-based system, but one that is oriented to a banking system. Thus, banks play an important role in economic and business

development. Therefore, the corporate control market is not very common. Moreover, Spanish corporate governance is distinguished by a high ownership concentration, which leads to the presence of controlling shareholders and allows them to play a major role on boards and influence managers. Among controlling shareholders, the position of institutional investors in Spain is noteworthy and their impact on corporate governance is significant. The level of shareholder protection is low. As a result, the board of directors is one of the most important mechanisms for alleviating agency costs characterized by the expropriation of minority shareholders' wealth by controlling shareholders.

Consequently, the analysis of the effect of institutional directors on CSR in the Spanish context is important as the board is one of the main bodies making decisions and mitigating agency problems. Thus, given the importance that CSR has acquired in Spain for sustainable development, it is essential to examine such relationships. In addition, in examining institutional investors, most prior research has focused on their roles as shareholders and not as directors and the majority of the previous literature on CSR has been based on the US and UK (Miras-Rodríguez et al., 2014).

THEORETICAL BACKGROUND AND HYPOTHESES

According to stakeholder theory (Freeman, 1984), companies should not only consider owners' interests, but also those of all stakeholders as they can influence or can be influenced by the company. Thus, the relationships between managers and decisive stakeholders are essential in creating sustainable long-term value. The triple bottom line (TBL), based on stakeholder theory, offers a wider view of the stakeholders affected by firms. This framework has been adopted by many companies to evaluate their performance from a broader perspective and, thus, create greater business value. Accordingly, the three components that make up the TBL – social, environmental and financial – are considered to assess firm performance. Thus, this approach adds social and environmental measures of performance and, therefore, companies are not only responsible for economic aspects. Consequently, the ultimate goal of firms is not to generate wealth for their shareholders, but also to create social and environmental value, extending the benefits not only to shareholders, but also to all stakeholders.

Firms can gain competitive advantage and greater financial benefits through engaging in CSR activities (e.g., Jung et al., 2017, Martínez-Ferrero and Frías-Aceituno, 2015). Thus, CSR is part of the corporate strategy (Manescu, 2011) for developing competitive advantage and is considered a strategic investment. Consequently, boards are increasingly making decisions concerning CSR. Hence, boards not only have to focus on economic performance, but have to extend their aims and consider social and environmental performance as well,

creating value for stakeholders and being responsible towards them and not only towards owners.

Boards exert significant influence on the responsible behaviour of firms. Thus, board composition may play an essential role in CSR policies. Some authors (e.g., Pucheta-Martínez and García-Meca, 2014) suggest that corporate governance is enhanced by institutional directors.

Some theories suggest a positive impact of institutional directors on CSR practices. Among these, stewardship theory is frequently used to understand the implications of the presence of institutional directors for company strategy as it stresses the experience, knowledge, and skill of directors. The rising belief that CSR activities enhance financial performance has put social and environmental issues on firms' agenda. Hence, institutional directors are expected to foster CSR practices because they focus on social and environmental issues as well as financial performance. In addition, they are interested in showing the responsible behaviour of the company as otherwise their professional reputation can be harmed (Pathan, 2009). Stakeholder power theory shows that firms are likely to meet the requests of stakeholders who control critical resources (Ullman, 1985). Therefore, outside directors, such as institutional directors, may be more aware of CSR activities than executives, who are more concerned with economic questions. According to resource dependence theory, the board of directors is a necessary body to manage outside dependencies, such as those imposed by social and environmental challenges. This theory suggests that outside directors, such as institutional directors, are an effective tool to connect the firm with its external environment. Finally, agency theory posits that institutional directors who are committed to CSR issues may strengthen the internal control of firms. Therefore, they may reduce opportunistic behaviour problems due to asymmetric information (Frias-Aceituno et al., 2013), disclosing social and environmental information.

According to myopic institutional theory (Hansen and Hill, 1991), institutional investors tend to be short-sighted and focus on returns. This is in line with the thesis that institutional investors will not support CSR investment decisions, given the long-term horizons and uncertain results associated with them (Coffey and Fryxell, 1991). However, institutional investors usually own a large proportion of shares, making it complicated and costly to sell off their shares without negatively affecting the stock price. Furthermore, institutional investors hold stock in most companies and, consequently, may have difficulty in finding other suitable investments. Accordingly, institutional directors have sufficient incentives to perform monitoring activities, which implies both collecting and analysing information and influencing management, as well as being involved in the strategic decisions of firms such as CSR decisions.

In addition, Spicer (1978) suggests that institutional directors consider firms which do not behave responsibly to be riskier (Scholtens and Zhou, 2008) and potentially less efficient. Moreover, these directors view CSR as essential to attain sustainability and competitive advantage (Neubaum and Zahra, 2006), as in changing and unpredictable environments socially responsible behaviour can help firms gain legitimacy through support from different stakeholders. Thus, institutional directors are likely to support CSR activities because they are necessary for long-term value creation (Mahapatra, 1984). In this line, previous research shows a positive impact of institutional investors on CSR practices, demonstrating the effectiveness of these owners in promoting responsible behaviour (e.g. Dyck et al., 2015).

However, although institutional directors are active and vigilant investors and, therefore, may encourage CSR activities (Useem, 1996), monitoring is extremely costly. The cost of monitoring activities is borne by institutional investors and all stakeholders benefit from them. Consequently, institutional directors have to determine the benefit–cost ratio of monitoring activities and the intensity of monitoring will vary depending on the value of this ratio (Almazán et al., 2005). Additionally, institutional directors have the power to make decisions based on their own benefits, (Ruiz-Mallorquí and Santana-Martín, 2009) and tend to deal personally with firms to achieve their own goals (Carleton et al., 1998). Accordingly, it is reasonable to suggest that institutional directors may participate in tunnelling activities, namely expropriating wealth from minority owners (Johnson et al., 2000), instead of performing control activities. Therefore, institutional directors may negatively influence CSR activities (Arora and Dhawadkar, 2011) despite the potential for CSR practices to increase firm performance, as they may hope to derive lower profits due to the wedge between cash flow and control rights.

Previous literature finds a linear relationship between institutional directors and CSR. However, Jara-Bertin et al. (2012) and Zou (2010) show a quadratic non-linear association between institutional investors and firm performance. This relationship is supported by the theory of optimal distinctiveness (Brewer 1991). Accordingly, the effect of a collective is expected to be non-linear: the presence of features (institutional directors) at very low and very high levels within a team (board of directors) can lead to more positive results (more CSR practices), while more negative outcomes (fewer CSR practices) can take arise when there is a balanced proportion of features (a U-shaped relationship). These views are also supported by social identity approach. Therefore, focusing on these arguments, it can be suggested that institutional directors not only have a linear effect on CSR practices, but also a non-linear effect. Therefore, we extend this quadratic relationship to institutional directors and CSR practices.

Thus, we hypothesize that as the proportion of institutional directors increases, they will prefer to collude and entrench with managers to obtain private benefits, given the high costs of both monitoring and challenging the management team to adopt CSR activities; consequently, they will align with managers' decisions rather than supporting CSR practices. Institutional directors will be less likely to wish to bear more monitoring costs and, as a result, they will have fewer incentives to push managers to perform CSR activities. When their presence on boards is increasing, it is easier for them to collude with managers. In this line, Oh et al. (2011) report that executives have a negative impact on CSR practices, showing that managers are more interested in financial performance than CSR activities. This is because managers may perceive CSR activities as an extra cost and consider that they do not create firm value. Accordingly, managers may deal with institutional directors to obtain their support and, in exchange, institutional directors may fulfill their own aims. Furthermore, more than 50% of board members do not perceive CSR to be a key issue (Ricart et al. 2005) and the views of a low proportion of institutional directors wishing to promote CSR policies may, therefore, not be considered.

Nevertheless, when their presence on boards reaches a certain threshold, institutional directors may have a positive effect on CSR activities, in line with the monitoring hypothesis. Thus, the addition of more institutional directors on boards above this inflection point will concentrate a higher proportion of institutional directors, who may share monitoring costs. Their monitoring role will, therefore, be more efficient and it will be more difficult for managers to collude with all institutional directors. Moreover, the presence of more institutional directors on boards will militate against other institutional directors taking part in tunnelling activities. Accordingly, it is more likely that institutional directors will perform monitoring activities, avoid expropriation activities and challenge boards and management team to implement CSR strategies, viewing the benefits of CSR as essential to achieve competitive advantage, which leads to the long-term sustainability of the firm and enhances firm value. Therefore, there can be two opposite impacts on CSR from the presence of institutional directors, suggesting a U-shaped relationship between them and CSR practices. Based on the above, we posit the following hypothesis:

H1: Institutional directors have a negative effect on CSR reporting, but when they exceed a critical point, they affect them positively.

However, institutional directors do not behave in a monolithic manner with regard to corporate issues (e.g., Ferreira and Matos, 2008). Business relationships are considered as a key factor that may influence the effectiveness of control by institutional directors, affecting their capability to perform monitoring activities and the extent of their influence (Brickley et

al., 1988). Accordingly, institutional directors can be categorized as either pressure-resistant institutional directors or pressure-sensitive institutional directors (e.g. Almazán et al., 2005).

Pressure-resistant directors, including mutual funds, pension funds, investment funds, venture capital firms, and endowments, do not incur conflicts of interest arising from business ties and the pressure from the company in which they invest is lower and, consequently, they can behave more independently. Hence, pressure-resistant directors may be more active in monitoring and may exert pressure to encourage change (Pucheta-Martínez and García-Meca, 2014), such as engaging in CSR practices. Moreover, these directors prefer to invest over a long-term horizon (Tihanyi et al., 2003) and to reduce agency problems, performing monitoring activities to mitigate fraudulent behaviour. Thus, they will be more active in monitoring managers and may affect firm decisions in line with stakeholders' interests, supporting CSR activities and increasing the disclosure of environmental and social issues. So, some authors evidence a positive relationship between pressure-resistant institutional ownership and CSR (e.g., Harjoto and Jo 2008).

However, Jiao and Ye (2013) show a quadratic relationship between pressure-resistant directors and firms' future performance. Consequently, we extend this non-linear relationship to pressure-resistant directors and CSR practices. Therefore, we propose that when the presence of pressure-resistant institutional directors goes from low to medium levels, their position may not be considered when trying to enhance CSR practices as most of the board members do not consider CSR an essential matter (Ricart et al., 2005). Furthermore, their incentives to perform monitoring activities will be lower because they bear more monitoring costs and, as a result, they will be less likely to challenge managers to undertake CSR activities. In addition, it is also more likely that pressure-resistant directors will take part in tunnelling activities because executives may collude with them to obtain their support; in exchange, these directors may achieve fulfillment of their own interests. Conversely, as the proportion of pressure-resistant directors grows from medium to high levels, they may monitor management team more effectively as they can share monitoring costs. When their presence on boards reaches a certain point, it will be more difficult for managers to attain the support of pressure-resistant directors. Thus, the greater the presence of pressure-resistant directors on the board the more likely it is that they will perform monitoring activities, militating against other pressure-resistant directors taking part in expropriation activities and challenging boards to implement a CSR strategy. These arguments support a U-shaped relationship between pressure-resistant directors and CSR practices.

On the other hand, pressure-sensitive investors include banks and insurance companies. These, particularly banks, are entities with high public visibility (Khan, 2010). They can act as creditors and shareholders and, as a result, society may press these investors

to increase CSR activities in the firms in which their representatives serve on boards to avoid unsafe products or polluting the environment. Accordingly, pressure-sensitive investors have directed their activities towards engaging in socially responsible behaviour to meet the expectations of a wider group of stakeholders. In this line, banks have increased their CSR activities (Sharif and Rashid, 2014).

Moreover, banks perform a triple role, as shareholders, creditors and directors. This position gives them more information, reduces information asymmetry and makes them more efficient monitors as their knowledge of the firms, obtained through their relationships, allows pressure-sensitive directors to supervise firms' investments and mitigate adverse selection and moral hazard problems. Furthermore, pressure-sensitive directors may also act as creditors and, therefore, they may be interested primarily in the viability of the company and paying off debt. Thus, pressure-sensitive directors may support CSR activities as they can improve internal control systems, enable better decision making and save costs, resulting in lower firm risk. In this way, increasing CSR activities will allow pressure-sensitive investors to lessen the risk faced by lenders and to lower the probability of default, thereby protecting their loans.

In addition, banks reduce their opportunistic behaviour when they behave as both shareholders and creditors (DeAndrés-Alonso et al., 2010). Consequently, pressure-sensitive directors may play an active and effective monitoring role and will tend to align their representatives' interests with those of other shareholders, trying to guarantee management involvement in CSR. However, Morck et al. (2000) show a non-linear association between pressure-sensitive institutional ownership and corporate performance. Therefore, we extend this non-linear association to pressure-sensitive directors and CSR.

Drawing on the above arguments, we predict that as the presence of pressure-sensitive directors on boards increases, they will challenge boards and managers to undertake CSR activities as their monitoring role may be more active and effective than that of other directors, due to their triple role as shareholders, creditors and directors. Moreover, CSR reporting may be promoted by pressure-sensitive directors because they tend to consider not only their own interests, but also those of other stakeholders. However, when their presence on boards reaches a tipping point, the incorporation of more pressure-sensitive directors will result in them playing a less effective and weaker monitoring role due to their commercial ties (Brickley et al., 1988). This will, then, affect corporate decisions as each pressure-sensitive investor will tend to enforce their own interests at the expense of other pressure-sensitive investors; their aim will not be to boost corporate value, but to obtain private profits. Consequently, pressure-sensitive directors will be likely to give more support to managers and less willing to challenge them with regard to CSR practices, due to the interest disputes

pressure-sensitive institutional investors have to contend with arising from their commercial ties (Almazán et al., 2005). Otherwise, they may compromise their business relations.

Additionally, the monitoring costs are higher for pressure-sensitive than for pressure-resistant directors (Almazán et al., 2005) and, therefore, when the presence of pressure-sensitive directors is high, they may not have the incentives and abilities to control managers; if they do so, they might endanger their opportunities to obtain private benefits in favour of other pressure-sensitive directors who support managers' decisions. Hence, pressure-sensitive directors may choose to favour their decisions (Brickley et al., 1988), for example limiting CSR activities. This would be in line with research which has shown that when pressure-sensitive directors make corporate decisions, they are contrary to shareholders' interests (e.g., Tribó and Casasola, 2010). Thus, pressure-sensitive directors might collude with managers, supporting their decisions, such as not being involved in CSR practices, to attain their own aims and avoid jeopardizing business ties.

Accordingly, we hypothesize an inverted U-shaped relationship between pressure-sensitive directors and CSR activities: as the proportion of pressure-sensitive directors increases on boards, they will perform an active monitoring role to avoid negative and opportunistic disclosures and will support those that benefit a broad range of stakeholders, for example, supporting CSR reporting. Nevertheless, given the monitoring costs and the conflicts of interest, when their presence exceeds a critical point, their aim might be to collude with managers and to support managers' decisions, such as reducing CSR activities to obtain private benefits. In return, managers will provide benefits to those pressure-sensitive directors who do not hinder their decisions, such as limiting CSR.

Thus, according to the above views, we propose the following hypotheses:

H2a: Pressure-resistant directors have a negative effect on CSR reporting, but when they reach a critical point, they affect it positively.

H2b: Pressure-sensitive directors have a positive effect on CSR reporting, but when they reach a critical point, they affect it negatively.

RESEARCH DESIGN

Sample

The database used in this research was drawn from the population of Spanish non-financial listed companies for the period 2007–2014. Both financial and insurance firms were removed from the sample due to their particular accounting practices, which make their financial statements incomparable with those of firms in other sectors. An unbalanced panel, consisting of 864 firm-year observations, was constructed. The findings provided for such panels are as reliable as those achieved by balanced panels (Arellano, 2003).

Financial data were collected from the “Sistema de Análisis de Balances Ibéricos” (SABI database) and corporate governance information was obtained from the annual corporate governance reports. Finally, CSR data were collected from both the companies’ websites and the Global Reporting Initiative (GRI).

Variables

Two different dependent variables are used. REPORT, measured as a dummy variable coded 1 if the company discloses a CSR report and 0, otherwise (Frias-Aceituno et al., 2013). The second one is defined as CSR_REPORTING. To measure this variable, we built a CSR index based on the triple bottom line approach, which includes economic, social and environmental performance (Gallego, 2006). This index was constructed through content analysis of the CSR reports (Frías-Aceituno et al., 2013). Specifically, we used an aggregate construct calculated as the aggregation of 25 items measured as dummy variables, assigning each item the value 1 if the firm provides information concerning the item considered and 0, otherwise (Miras-Rodríguez, 2014). The selection of the 25 items was focused on investigations conducted in Spain (e.g., Gallego, 2006) as our study is also based on this context and, therefore, both the legal and cultural environments should be taken into account; they influence CSR practices and CSR disclosure (Cuadrado-Ballesteros et al., 2015). The CSR_REPORTING value for each company is estimated as follows in Table 1:

$$CSR_REPORTING_{it} = \frac{\sum \text{item points}_{it}}{\text{total points (25 points)}}$$

[Insert Table 1 about here]

The CSR_REPORTING variable is in the range (0–1), based on the following classification shown in Table 2:

[Insert Table 2 about here]

To test how institutional directors influence CSR_REPORTING, several independent variables are used. The variable PINST represents institutional directors on boards measured as the proportion of institutional directors on boards. The variables PSENSIT and PRESIST represent the proportion of pressure-sensitive and pressure-resistant directors on boards, respectively. Both PSENSIT and PRESIST are the quotient of the total number of pressure-sensitive/pressure-resistant directors on boards, respectively, and the total number of members on boards. Finally, the squares of these variables (PINST²; PSENSIT²; PRESIST²) are used to analyse whether these directors affect CSR in a quadratic manner.

Other factors may have an effect on CSR_REPORTING and, therefore, several variables have been considered. Firm size is defined as FSIZE and measured as the log of total assets. Firm performance is defined as ROA and measured as operating income before interest and taxes over total assets. Leverage is defined as LEV and measured as the ratio

between the volume of the firm's short- and long-term debt and its total assets (Fernández-Gago et al., 2014). Board size is defined as BDSIZE and measured as the number of directors on boards. Board independence is labelled as INDP and calculated as the proportion of independent directors on boards. A dual position as CEO and president of the board of directors is defined as CEO_DUALITY. This variable is calculated as a binary variable coded 1 if the CEO serves as CEO and chairman of the board and 0, otherwise. Board activity is defined as BDMEET and measured as the number of meetings held by the board. Finally, the sector to which the company belongs is also considered. The sector will affect CSR activities (Fernández-Gago et al., 2014) and the companies that belong to highly sensitive sectors are more likely to disclose CSR information (Deegan and Gordon, 1996). Thus – and according to the Spanish Stock Exchange sector classification – we use three sector variables, defined as SECT_OE, SECT_IC and SECT_CO and measured as a dummy variable coded 1 if the company belongs to the oil and energy sector, the basic materials, industry and construction sector and the consumer services sector respectively and 0, otherwise. Year and firm fixed effects have been considered to control for a specific year and company effects on the dependent variables.

RESULTS

Descriptive statistics

Table 3 displays the mean and median values, the standard deviation and the 10th and 90th percentiles.

[Insert Table 3 about here]

The results show that the 47.5% of the firms provide CSR reports, while the value of CSR_REPORTING is 0.31 out of 1, demonstrating that the CSR disclosure of firms is moderate. Regarding economic data, on average, firms present a size of 13.05 (log. of total assets expressed in Euros), negative profitability (-1.31%) and debt of 57.56%. The board of directors, on average, consists of 10 members; independent directors represent 33.19% and institutional directors account for 45.03%. The percentages of pressure-sensitive and pressure-resistant directors are 7.72% and 36.89%, respectively. The board meets, on average, 9.7 times per year. Moreover, the same person holds the position of CEO and board president in 32% of companies. Finally, 7.74% of firms belong to the oil and energy sector, 26.52% of firms are in the basic materials, industry and construction sector and 12.34% operate in the consumer services sector.

Multivariate analysis

To examine for multicollinearity problems, Spearman's correlation matrix was calculated. The values, not provided for the sake of brevity, show that the correlation coefficients are not high enough (> 0.8) to trigger multicollinearity issues (García-Meca and Pucheta-Martínez, 2015), except for the pair PINST–PRESIST, which has a value of 0.825. However, these variables are not simultaneously incorporated in the model. Accordingly, the models employed do not exhibit multicollinearity problems.

Tables 4 and 5 display the findings of the baseline model for institutional, pressure-sensitive and pressure-resistant directors. Table 4 provides the results for the dependent variable REPORT and Table 5 reports the findings for the dependent variable CSR_REPORTING.

[Insert Table 4 about here]

[Insert Table 5 about here]

According to model 1 in Table 4 and model 4 in Table 5, the variables PINST and PINST² show that the presence of institutional directors on boards presents the expected signs (negative and positive, respectively) in a linear and quadratic way and the values are statistically significant in both models. Therefore, H1 cannot be rejected. The results find that as the number of institutional directors on boards increases, there will be a negative effect on CSR reporting, but when they reach a turning point, this situation will be inverted and the addition of new institutional members on boards beyond this tipping point will positively affect CSR disclosure. Accordingly, two opposite roles may be performed by institutional directors. When their presence on boards goes from low to intermediate levels, the collusion hypothesis predominates and they prefer to support executives' decisions, such as reducing CSR reporting, but from intermediate to high levels of representativeness of these directors on boards, above a critical point, the monitoring hypothesis prevails and they challenge the executive team to undertake CSR reporting. These results are in line with previous research demonstrating these two opposite roles (e.g. Jara-Bertin et al., 2012; Zou, 2010). Therefore, there is evidence of a U-shaped relationship between institutional directors and CSR disclosure, consistent with Hu and Izumida (2008), who find this relationship between dominant shareholders (such as institutional investors) and corporate performance, as CSR is essential to create organizational value (Mahapatra, 1984).

Regarding pressure-sensitive directors, both the PSENSIT and PSENSIT² variables exhibit the expected signs for both dependent variables, reported in model 2 and 5 in Table 4 and 5, respectively, but the results are not statically significant in either model. Consequently, H2b has to be rejected. Hence, the presence of pressure-sensitive directors on boards does not influence CSR disclosure. These findings are consistent with previous research showing that pressure-sensitive directors do not affect CSR (e.g. Johnson and Greening, 1999; Neubaum

and Zahra, 2006; Oh et al., 2011). This result could be due to the lack of interest of pressure-sensitive directors on strategic issues such as CSR, since controlling CSR practices is a long-term activity (Johnson and Greening, 1999) and they might prefer to be involved in activities that increase short-term earnings. Additionally – and given that they represent institutional investors who maintain commercial ties with the firm in which they hold a directorship on boards – they may prefer to obtain private benefits by supporting other executives' decisions, for example increasing executives' compensation (López-Iturriaga et al., 2015), rather than strategic decisions, such as CSR disclosure or practices.

The variables PRESIST and PRESIST² also present the expected signs (negative and positive respectively) for both dependent variables, as shown in model 3 in Table 4 and in model 6 in Table 5 and these are statistically significant. Therefore, H2a cannot be rejected. These findings display a U-shaped association between the presence of pressure-resistant directors on boards and CSR reporting. Particularly, these findings show that pressure-resistant directors collude with executive teams (collusion hypothesis) when their presence on boards goes from low to medium levels and they may support their decisions, for example, lowering CSR initiatives. However, when they reach a certain point in terms of increased presence, they perform a monitoring role more effectively, mitigating the potential for other pressure-resistant directors to take part in tunnelling activities (contest hypothesis) and challenging boards and managers to engage in CSR activities, as these are essential to boost company performance. These results are in line with Jiao and Ye (2013), who also argue that these two opposite roles are played by pressure-resistant directors in analysing the association between pressure-resistant directors and company value.

Regarding the control variables, the variables that represent the sector exhibit the expected signs (positive) in all models and they are statistically significant. BDSIZE is also statistically significant and has a positive impact on CSR, demonstrating that larger boards support CSR reporting. BDMEET is statistically significant, but the number of meetings held by the board has a negative effect on CSR reporting. The variables ROA and LEV exhibit the expected signs (positive and negative, respectively), but they are not statistically significant. These findings show that these two variables do not influence CSR disclosure, in line with Cuadrado-Balleteros et al., (2015) and Frias-Aceituno et al. (2013). The findings obtained for the other control variables should be considered with caution. FSIZE influences CSR disclosure positively and it is statistically significant except in models 2 and 5. CEO_DUALITY exhibits the expected sign (negative) and it is statistically significant, except in models 2 and 5. Finally, the variable INDP does not have an effect on CSR reporting (models 1, 3, 4 and 6), but INDP has a positive effect on CSR activities when the presence of pressure-sensitive directors is considered (models 2 y 5).

Finally, we also take into account possible endogeneity problems between institutional, pressure-sensitive and pressure-resistant directors and CSR disclosure as they may emerge in studies such as this. Namely, we wonder if these directors have a positive/negative effect on CSR reporting, or if firms with CSR reporting attract institutional, pressure-sensitive, or pressure-resistant directors to their boards. Causality usually goes from these directors to CSR disclosure, but it is also possible that CSR disclosure may affect board structure. Accordingly, we address this matter by lagging our independent and explanatory variables in our regressions in line with Hartzell and Sarks (2003), who support the use of lagged explanatory variables to alleviate possible endogeneity concerns. The findings, unreported for the sake of brevity, are consistent with the core findings provided earlier and, thus, we can confirm that potential endogeneity is not a concern in our analysis.

DISCUSSION AND CONCLUSIONS

Given the great importance that CSR is acquiring as a strategic element, boards of directors are increasingly considering CSR issues. Thus, our aim is to explore whether directors who represent institutional ownership impact on CSR reporting, as they are the most important controlling shareholders in Europe, and corporate governance is a key issue in developing CSR. We also distinguish between pressure-resistant directors, who are appointed by institutional investors who only maintain an investment tie with the firm, and pressure-sensitive directors, who are appointed by institutional ownership who maintain both a commercial and investment relation with the firm.

The results show the influence that institutional investors exert when they are directors. Specifically, when the presence of institutional directors on boards runs from low to intermediate levels, they have a negative influence on CSR reporting, but when their participation reaches a critical point, the addition of more institutional directors will have a positive effect on CSR disclosure. Thus, this shows a U-shaped association, suggesting that these directors may play two opposite roles (collusion or monitoring), depending on their level of representation on boards. Indeed, when the proportion of institutional directors is increasing from low to medium, they prefer to collude with managers, who perceive CSR as an extra cost in order to obtain private benefits rather than undertaking monitoring activities to promote CSR. Most board members do not consider CSR an essential matter and, therefore, if institutional directors were to undertake monitoring activities and challenge board members to engage in CSR activities, they would have to bear higher costs to implement these activities. Nevertheless, adding more institutional directors beyond a tipping point will impact positively on CSR reporting, perhaps because they may share the costs of inducing board members and management teams to foster CSR. Furthermore, as the presence of institutional directors exceeds this critical point, the other directors may take into account the

institutional directors' preferences, e.g. CSR activities. Therefore, a proportion of institutional directors above a certain threshold results in them performing more effective and active roles, allowing better control of managers to support CSR. This conclusion is in line with the idea that when the presence of certain directors (in our case institutional directors) reaches a critical mass on boards, it is likely to affect the behaviour of the board and it is more probable that the company will behave in a socially responsible way (Landry et al., 2014).

On the other hand, our findings show institutional directors should be treated as a diverse group as their attitudes with respect to CSR do not drive in the same direction. Particularly, pressure-sensitive directors do not affect CSR matters, probably because, given their short-term orientation, they are not interested in influencing corporate strategy in relation to CSR as the benefits of these strategies are derived over the long term. Moreover, their business links with the firm will determine their level of support for managers to guarantee their commercial relations. Consequently, pressure-sensitive directors will be less likely to promote CSR disclosure. The complexity and uncertainty of CSR practices may also explain the lack of engagement of pressure-sensitive directors in these activities; they will be more inclined to focus on others matters involving less effort and cost.

In contrast, pressure-resistant directors negatively affect CSR disclosure. However, beyond a critical point, more pressure-resistant directors on boards will have positive repercussions for CSR reporting, suggesting a U-shaped association. These results demonstrate that pressure-resistant directors engage in collusion when their presence on boards goes from low to intermediate levels, probably because they prefer to support managers' decisions to implement tunnelling activities and attain their own goals. They may choose not to support the implementation of CSR, given that the costs of challenging executives and other directors to undertake such activities may be greater than the benefits. However, when their presence reaches a certain tipping point, pressure-resistant directors will display a monitoring role as a higher presence of these directors will allow them to share the monitoring costs and control will become more efficient. Thus, it will be more likely that pressure-resistant directors encourage changes related to CSR and the behaviour of firms will be more responsible, resulting in them gaining the benefits of carrying out such practices. This conclusion is in line with the view that pressure-resistant directors are probably keener to engage with complex and uncertain issues, such as defining corporate strategies (García-Meca et al., 2013) related to CSR disclosure, rather than aligning with managers.

The presence of institutional directors in Anglo-Saxon countries is less frequent than in civil law contexts. Therefore, the findings obtained in this research have significant and interesting implications both in the political and academic arenas. The representation of independent directors on boards is recommended to improve corporate governance, but

policymakers should also consider the ownership structure when they suggest board composition, particularly the presence of directors appointed by institutional investors, as they influence corporate governance, especially concerning CSR policies. Institutional directors, as supported by the previous literature, do not behave in the same way and can be classified as pressure-resistant and pressure-sensitive directors. Thus, the types of institutional directors on boards should be considered when policymakers make suggestions regarding board structure, given that pressure-resistant directors affect CSR reporting, whereas pressure-sensitive directors do not. Another point to be emphasized is the contrasting roles that institutional directors and pressure-resistant directors can play, namely, monitoring and collusion, depending on the proportion of these directors on boards. Policymakers should take this into account as these directors can damage corporate governance if their presence is increasing from low to medium levels, reducing CSR reporting, but they will be more likely to disclose CSR information if their presence is higher than a critical point. Another implication of our analysis is that pressure-sensitive directors do not have the incentives or capabilities to participate in and affect the strategic decisions of firms in relation to CSR. Finally, pressure-sensitive directors do not consider the stakeholders' interests in firms, in contrast to pressure-resistant directors, who take into account such interests when their presence on boards exceeds a tipping point. Hence, there is a need for more research focused on institutional directors taking part in corporate governance mechanisms, such as boards of directors, especially in countries where their presence as directors is significant, as new insights into the reasons for their participation in corporate governance and their implications are essential. This is particularly the case given the two opposite roles (monitoring and collusion) that they can play and the fact that their incentives can be different (pressure-resistant/pressure-sensitive).

Some limitations should be considered. The data used in this research were obtained from a population of Spanish listed firms for the period 2007–2014. Thus, the findings may not be applicable to other periods. Apart from institutional directors, other factors that may influence CSR have been taken into account. These were chosen based on theory and prior evidence, but it may be possible that other unknown aspects might affect CSR reporting.

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Table 1
Items considered in the CSR index

Social dimension
1. Hiring people at risk of social exclusion
2. Commitment to job creation
3. Training and professional development of employees
4. Flexible labour policies for reconciling work and family life
5. Consideration of employees’ proposals in the management decisions of the company
6. Information on accidents and absenteeism
7. Money earmarked for political parties
8. Investments in social programmes
9. Awards and/or mentions received related to social, ethical and environmental performance
Economic dimension
1. Geographical distribution of markets
2. Geographical distribution of suppliers

3. Information on responsible purchasing
4. Information on enhancing stable relations, cooperation and mutual benefit with suppliers
5. Information on non-compliance with the terms agreed with suppliers
6. Complete and accurate information about the products and/or services delivered to customers
7. Information on customer complaints
8. Taxes paid to the government by country

Environmental dimension

1. Information on energy, water, etc.
 2. Information on the use of renewable energy sources
 3. Information on waste generation and emissions
 4. Information on the use of waste as inputs for the production process
 5. Information on the use of consumables, work in progress products/processed, packaging of low environmental impact
 6. Information on the commitment to reducing the negative impact of the final product on the environment
 7. Incidents/fines related to the environment
 8. Investment in environmental programmes
-

Table 2
CSR classification

Index Score	Classification
0	Firm does not disclose CSR information concerning the items analysed
0.1–0.5	The CSR disclosure of the firm is moderate
0.6–0.9	The CSR disclosure of the firm is considerable
1	The CSR disclosure of the firm concerning the items analysed is complete

Table 3
Main Descriptive Statistics

Panel A. Continuous variables						
Variables	N	Mean	Median	Std. Dev.	Perc. 10	Perc. 90
CSR_REPORTING	864	0.311	0.000	0.359	0.000	84.000%
PINST	864	45.031%	45.455%	28.407%	11.111%	75.000%
PSENSIT	864	7.720%	0.000%	13.909%	0.000%	26.667%
PRESIST	864	36.889%	33.333%	26.751%	0.000%	71.429%
FSIZE	864	13.048	13.057	2.098	10.608	15.683
ROA	864	-1.315%	1.649%	56.101%	-16.208%	14.639%
LEV	864	57.557%	54.294%	46.899%	11.059%	91.51%
BDSIZE	864	10.263	10.000	3.914	5.000	16.000
BDMEET	864	9.700	10.000	4.002	5.000	14.000
INDP	864	33.186%	33.333%	18.379%	11.111%	60.000%

Panel B. Dummies variables				
Variable	0	% (0)	1	% (1)
REPORT	454	52.546%	410	47.454%
CEO_DUALITY	587	67.940%	277	32.060%
SECT_OE	797	92.245%	67	7.755%
SECT_IC	635	73.495%	229	26.505%
SECT_CO	757	87.616%	107	12.384%

Mean, median, standard deviation, and percentiles of the main variables.

Table 4
Results of the regression for institutional, pressure-sensitive and pressure-resistant directors sit on the board when the dependent variable is REPORT

Variables	Expected Sign	Model 1 Estimated coefficient	Model 2 Estimated coefficient	Model 3 Estimated coefficient
PINST	-	-0.721*** (0.000)		
PINST ²	+	0.205*** (0.000)		
PSENSIT	+		0.149 (0.655)	
PSENSIT ²	-		-0.650 (0.265)	
PRESIST	-			-0.587*** (0.000)
PRESIST ²	+			0.195*** (0.000)
BDMEET	+	-0.011** (0.014)	-0.017*** (0.000)	-0.012*** (0.005)
LEV	-	-0.052 (0.108)	-0.040 (0.261)	-0.035 (0.308)
ROA	+	0.046 (0.176)	0.044 (0.213)	0.050 (0.155)
FSIZE	+	0.028*** (0.003)	0.003 (0.722)	0.020** (0.022)
CEO_DUALITY	-	-0.117*** (0.002)	-0.060 (0.102)	-0.102*** (0.006)
INDP	+	0.002 (0.989)	0.415*** (0.000)	0.151 (0.196)
BDSIZE	+	0.049*** (0.000)	0.046*** (0.000)	0.044*** (0.000)
SECT_OE	+	0.150** (0.010)	0.179*** (0.008)	0.167*** (0.006)
SECT_IC	+	0.165*** (0.000)	0.141*** (0.003)	0.180*** (0.000)
SECT_CO	+	0.133** (0.011)	0.122* (0.033)	0.151*** (0.007)
Observations		864	864	864
R ²		66.08%	63.87%	65.79%

Estimated coefficients. * p<0.1; **p<0.05; ***p<0.01

Table 5
Results of the regression for institutional, pressure-sensitive and pressure-resistant directors sit on the board when the dependent variable is CSR_REPORTING

Variables	Expected Sign	Model 4 Estimated coefficient	Model 5 Estimated coefficient	Model 6 Estimated coefficient
PINST	-	-0.602*** (0.000)		
PINST ²	+	0.177*** (0.000)		
PSENSIT	+		0.111 (0.631)	
PSENSIT ²	-		-0.622 (0.125)	
PRESIST	-			-0.529*** (0.000)
PRESIST ²	+			0.193*** (0.000)
BDMEET	+	-0.007** (0.029)	-0.122*** (0.000)	-0.008** (0.012)
LEV	-	-0.028 (0.196)	-0.017 (0.469)	-0.127 (0.580)
ROA	+	0.030 (0.121)	0.029 (0.160)	0.033* (0.098)
FSIZE	+	0.017*** (0.007)	-0.004 (0.408)	0.101* (0.056)
CEO_DUALITY	-	-0.063** (0.018)	-0.157 (0.541)	-0.527* (0.048)
INDP	+	-0.055 (0.497)	0.294*** (0.000)	0.061 (0.41)
BDSIZE	+	0.037*** (0.000)	0.034*** (0.000)	0.033*** (0.000)
SECT_OE	+	0.270*** (0.000)	0.296*** (0.000)	0.284*** (0.000)
SECT_IC	+	0.111*** (0.000)	0.093*** (0.003)	0.125*** (0.000)
SECT_CO	+	0.136*** (0.001)	0.130*** (0.003)	0.153*** (0.000)
Observations		864	864	864
R ²		66.64%	63.61%	66.58%

Estimated coefficients. * p<0.1; **p<0.05; ***p<0.01