Corporate Social Responsibility in Latin American firms: Exploring the interrelationships between financial constraints, corporate governance and financial performance

A thesis submitted to The University of Manchester for the degree of

Doctor of Philosophy

in the Faculty of Humanities

2020

Paola Isabelle Velásquez Bellido

Alliance Manchester Business School

Table of contents

This thesis contains 45,338 words including title page, tables, and footnotes.

List of Tables

Abstract

The University of Manchester

Paola Isabelle Velasquez Bellido

Doctor of Philosophy (PhD)

Corporate Social Responsibility in Latin American firms: Exploring the interrelationships between financial constraints, corporate governance and financial performance

07th January 2020

The aim of this dissertation is to explore corporate social responsibility (CSR) among Latin American firms. Our main objectives are: 1) to understand the relationship between CSR and corporate financial performance (CFP), and the potential influence of the contextual conditions of Latin America; 2) to examine the connection between financial constraints and CSR investment in Latin American firms; and 3) to analyse the relationship between corporate governance (CG) and CSR and CFP in Latin American firms. Through a comprehensive review of meta-analysis studies regarding the CSR-CFP relationship, we discover a gap regarding coverage for Latin American firms in the literature. This study is the first to explore the relationship between financial constraints and CSR in Latin America, using a sample of 134 firms for the 2009-2015 period. We measure CSR through Thomson Reuters ASSET4 equal-weighted ratings. To measure financial constraints we use the Kaplan-Zingales (KZ) Index and the Hadlock-Pierce (SA) index. Our empirical analysis provides evidence of a negative relationship between financial constraints and CSR, consistent across the different countries and industries in the sample. If Latin American firms are already constricted in their access to funds, what would be the best resource allocation between social, environmental and CG strategies when looking to improve corporate performance? Using our previous sample of Latin American firms, we evaluate whether CSR and CG mechanisms can complement/substitute each other. We measure CG through ThomsonReuters Management Category Score, which has not been used in previous research due to its recent addition in 2018. We also address institutional differences for this region through country-level CG variables, Thus, our study becomes also the first to explore both levels of CG mechanisms for Latin American firms. We find that social activities and CG mechanisms function as substitutes, while environmental activities are actually complementary with CG strategies when looking to improve CFP in Latin American firms.

Declaration

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

Copyright Statement

i. The author of this thesis (including any appendices and/or schedules to this thesis) owns certain copyright or related rights in it (the "Copyright") and s/he has given The University of Manchester certain rights to use such Copyright, including for administrative purposes.

ii. Copies of this thesis, either in full or in extracts and whether in hard or electronic copy, may be made **only** in accordance with the Copyright, Designs and Patents Act 1988 (as amended) and regulations issued under it or, where appropriate, in accordance with licensing agreements which the University has from time to time. This page must form part of any such copies made.

iii. The ownership of certain Copyright, patents, designs, trademarks and other intellectual property (the "Intellectual Property") and any reproductions of copyright works in the thesis, for example graphs and tables ("Reproductions"), which may be described in this thesis, may not be owned by the author and may be owned by third parties. Such Intellectual Property and Reproductions cannot and must not be made available for use without the prior written permission of the owner(s) of the relevant Intellectual Property and/or Reproductions.

iv. Further information on the conditions under which disclosure, publication and commercialisation of this thesis, the Copyright and any Intellectual Property and/or Reproductions described in it may take place is available in the University IP Policy (see http://documents.manchester.ac.uk/DocuInfo.aspx?DocID=24420), in any relevant Thesis restriction declarations deposited in the University Library, The University Library's regulations (see http://www.library.manchester.ac.uk/about/regulations/) and in The University's policy on Presentation of Theses.

Acknowledgements

To my family, without whom neither the beginning nor the end of this journey would have been possible. I would be nothing without your unconditional love and support. To my father, whose strength and faith gave me the courage to keep going. Forever my hero. To my mother, whose kindness and understanding gave me the light to keep trying. To my sister, whose little details and company gave me the joy to keep believing. You have all been my inspiration and never let me get lost. I dedicate this thesis to the three of you.

To my little Mexican family in Manchester. To my friends Ali, Montse, Natali and Sharon. For making this place a home. For holding my hand and my heart when I needed it the most. For letting me in, so much of me now is made from our shared adventures. We all came through, together, and I will never forget you for this.

To Felipe. I would not be writing these lines if you had not been there for me these past few years as my roommate and closest friend. I do not have words left for you, after so many we have shared, so I will borrow from others: I have heard that people come into our lives for a reason, bringing something we must learn. And we are led to those who help us most to grow, if we let them and we help them in return. All I know is that I am standing here today because I met you. I will never be able to repay that debt.

To Cinzia, my little Italian sister. You have been a beam of kindness and hope my friend. For bringing me happiness and a safe harbor, never letting me fall. I will always carry your heart in mine.

To my PhD colleagues and friends: Brandon, Jose, Omar and Uri, for walking this journey along with me. For sharing advice, support, laughter, so much coffee, little sleep and a few tears. Time was never on our side but we made the most of it, every step of the way.

To Maria, for saving me from the worst of myself when I was about to give up. I breathe now and will always remember how lucky I was to find you in the end.

To my supervisors, Marie and Paul, for their understanding and continuous support on this thesis. Thank you for your time and patience throughout these years.

To the University of Manchester, for providing me with the financial support necessary to complete this thesis.

Chapter 1: Introduction

1.1. Background

Corporate social responsibility (CSR) has been widely discussed for decades in academic research, dating back to the early 1950s with the publication of Bowen's book *Social Responsibility of the Businessman* (Carroll, 1979). The discussion since has developed around what dimensions a firm's responsibilities should encompass. Friedman's (1970) theory narrows firm's obligations to maximising stakeholders' profits. In 1984, Freeman states that all actors with interest or affected by the firm's activities deserve management's attention. Since then, the United Nations emphasized the wider responsibility of firms in addressing society's concerns with the publication in 1987 of *Our Common Future* (otherwise known as the Brundtland Report) introducing the term *sustainable development* into business literature. CSR has evolved to become a multidimensional construct, one that lies beyond the firm's economic and financial obligations, and should take into account legal, ethical and philanthropic responsibilities (Carroll, 1991). Elkington (1999) further developed this concept stating that a firm's contribution to society concerns value creation in three areas, thereafter known as the triple bottom line: profit (economic dimension), people (social dimension), and planet (ecological dimension). In recent years, globalization has brought a growing need for corporate transparency and accountability, alongside renewed public awareness for the topic, with increasing pressure from international organizations to establish standards regarding CSR practices: the United Nations Global Compact Principles, the Global Reporting Initiative (GRI), the ISO26000 guidance for social responsibility, or the OECD Principles of Corporate Governance. Social responsibility development present new challenges for firms, who need to adjust their strategies accordingly while still keeping its long-term financial viability. While CSR activities have also proved beneficial for the firm, the link with financial performance

(CFP) has not been thoroughly explored in one region with quite high social expectations and inequality: Latin America. Emerging economies present a particular operational framework for firms due to their institutional characteristics and restrictions, which might affect corporate decisions and resource allocation (Hodges, 2007; Blowfield and Frynas, 2008). In light of the current theoretical framework surrounding CSR, we would like to explore this link further to expand the understanding of socially responsible activities in Latin America.

1.2. Theoretical framework and recent findings: the CSR-CFP link

To analyse a firm's investment in CSR activities, most of the academic literature relies on instrumental stakeholder theory, where expectations of both internal and external stakeholders are taken into account as they can influence the firm's competitive advantage and long-term sustainability (Garriga and Mele, 2004; Endrikat et al., 2014; Lopez and Fornes, 2015; Wang et al., 2015). This is complemented by the resource-based view (RBV), where firms strategically invest in CSR to increase their endowment of intangible assets, which lead to differences in performance that enhance corporate value creation (Lourenco and Castelo, 2013). CSR has been linked to better reputation and human capital, which help improve the firm's legitimacy and relationships with stakeholders. CSR also helps deal with agency costs through reduction of information asymmetry and lowering risk for investors. However, a firm has to balance the different expectations of stakeholders when implementing CSR, as they have financial resource limitations and restrictions imposed by the particular setting where they carry out their operations. Institutional theory mainly discusses how country or region-specific legal environment, regulation, monitoring and norms, corporate governance structures, and sociocultural and political context can influence firms' social license to operate, investment decisions and policies (Aguinis and Glavas, 2012). Corporate governance (CG) and CSR have been closely interlinked in academic literature (Sáenz González & García-Meca, 2014; Liu & Zhang, 2016). Both constructs have also been consistently associated with the same

competitive advantages for the firm: reduced information asymmetry and transaction costs (Beltratti, 2005). In imperfect capital markets, CG and CSR mechanisms could complement or substitute each other when dealing with these agency problems. Firms operating with lower corporate governance quality might need more CSR and vice versa (substitution strategy). Alternatively, if firms' agency costs are high, then firms might want to add CSR to corporate governance to reduce agency costs further (complementary strategy). CSR-CFP literature has so far been dominated by empirical research in Western developed countries, which we analyse throughout a summary of meta-analysis covering primary studies from 1972 to 2012, starting with Orlitzky's seminal meta-analysis in 2001. The vast majority of them find a positive link between investment in CSR activities and an increase in financial performance, but do not include Latin America as part of their primary studies, leaving a gap in academic literature regarding emerging economies. If we follow institutional theory, the particular characteristics of the region might lead to different stakeholder expectations, capital market regulations and legal norms that influence a firm's investment decisions. We want to position our research within this research gap for Latin American markets.

1.3. Latin American framework

Following the seminal work of Haslam (2007) and Schneider (2009), we find that Latin America presents a particular capitalism: the region is a hierarchical market economy (HME), a particular type of capitalism that is different from Anglo-Saxon countries. In this environment, strong business groups (usually family groups) are predominant, with particular corporate governance characteristics such as concentrated ownership and weak protection for minority shareholders. Underdeveloped financial markets mean that the roles of stock exchanges is relatively small, making Latin America development business-led. The absence of a strong government leaves a gap where the private sector many times take on responsibilities from the state to address society's public needs. As recent socio-political events

in countries such as Bolivia, Colombia, Peru, Venezuela, Ecuador and Chile have revealed[1], the region is one with rampant political instability and public policy tensions, which increase the risk in capital markets and makes CSR a potential instrument for contribution to regional development. However, in this unstable environment, studies from the International Monetary Fund (IMF, 2015) and the World Bank (2014) evidence that Latin America firms face problems with financial inclusion due to information asymmetries, lack of reliable credit information, and irregular legal systems and regulations. These factors influence access to credit for firms who would like to invest in the CSR activities that would ensure their legitimacy and social license to operate in weak institutional environments. Given the already extensive academic work regarding the benefits of CSR, we would like to address the gap in research regarding whether Latin American financial constraints influence a firm's CSR investment decisions.

1.4. Justification and hypothesis

The concept of CSR has already become widely recognised at a global level, due to the increased attention both at the academic and business levels. However, firms do not operate isolated but embedded within a particular institutional environment, which affects its management and investment decisions. Access to external financing in underdeveloped capital markets might present growth impediments for firms in emerging countries (Beck, 2007). There has been little discussion so far on how financial restrictions in Latin American markets might affect a firm's CSR investment decisions. CSR investments, just as R&D, are characterized by being long-term decisions that might not yield immediate financial results. Therefore, managers and investors might decide on alternative allocation of resources, depriving firms of the competitive advantages of engaging in CSR. We would like to explore how financial restrictions affect CSR different dimensions in Latin America, to improve

---

[1] For a summary of the past few months wave of protests, we recommend reviewing the article: "What's going on in South America? Understanding the wave of protests", at http://theconversation.com/whats-going-on-in-south-america-understanding-the-wave-of-protests-126336

understanding of how firms prioritize social, environmental and governance activities when faced with limited access to capital. If Latin American firms are already constricted in their access to funds, what would be the best resource allocation between these two managerial strategies when looking to improve corporate performance? The aim of this research is to explore CSR among Latin American firms. Our main objectives are: 1) to understand the relationship between CSR and CFP, and the potential influence of the contextual conditions of Latin America; 2) to examine the connection between financial constraints and CSR investment in Latin American firms; and 3) to analyse the relationship between CG and CSR and CFP in Latin American firms. Our two hypotheses are thus as follow:

H1: Financial constraints in Latin American firms will be negatively associated with CSR activities.

H2: In Latin America, CG mechanisms and CSR mechanisms act as substitutes for each other when influencing CFP.

Both questions have not been covered before in the CSR literature. Our hypotheses have only been explored in developed markets but never in a context such as Latin America. Being one of the most unequal regions in the world, and with the political turmoil that has been part of its socio-economic development, Latin America depends strongly on corporate investment to cover the gap left by a lack of government efficiency. However, in order for firms to be able to engage in CSR activities that might address local society's issues, institutional frameworks need to be in place that assure firms have access to enough capital for such long-term investments. We also want to contribute to the academic literature by exploring the gap regarding how firms in Latin America should better allocate limited resources between CG and CSR activities since both are positively related to corporate market value. What would be the best strategy when trying to influence CFP?

1.5. Thesis structure

Chapter 2 will lay the foundations of CSR, with a brief discussion regarding its definition and main theories, since it is not the focus of this thesis to delve into the philosophies of the construct. There has been an ongoing debate regarding the link between CSR and CFP, which we review through an extensive review of meta-analysis studies. We also discuss the main theories behind such an investment decision. Institutional theory is one of our most salient frameworks to approach this relationship as there have been plenty of studies to cover as many empirical evidence from primary studies as possible we engage in a meta-analyses summary, beginning with Orlitzky's seminal work in 2001. This way, we cover business studies from 1972 to 2012, both quantitative and qualitative. Results from this literature review are mixed, though most of them find a positive relationship between socially responsible activities and a firm's financial performance. All meta-analyses emphasize the multidimensional nature of the CSR construct, which we will be taking into account for our empirical sections. However, the meta-analyses reviewed used a number of primary studies that focused on the KLD database as measurement for CSR, which biases results towards a mostly US-based firm sample (Scholtens, 2008; Patari et al., 2014; McWilliams and Siegel, 2000; Wood, 2010; Dixon-Fowler et al., 2013; Lioui and Sharma, 2012; Weber and Gladstone, 2014). Campbell (2007) urges researchers to not only focus on the CSR-CFP link, but on how diverging institutional mechanisms in different countries might influence corporations investing in certain CSR initiatives or not. In subsequent chapters, we therefore turn our focus of research to the Latin American context, a region mostly left out from this area of research.

Chapter 3 introduces the case for Latin American markets and how they differ from their developed counterparts in various institutional particulars. We include in this chapter a section reviewing individual studies analysing CSR in Latin America, to build an initial narrative of the results found so far. We find mainly qualitative CSR case studies for the region,

studying either isolated countries or independent sectors. Research so far includes the same environmental and social challenges: weak CG, non-adequate financial and corporate disclosure, less developed state role, underdeveloped financial markets, erratic law enforcement, corruption and political instability (Kahnna and Palepu, 2000; Jamali and Neville, 2011). Another challenge for gathering data for Latin America is the scarcity of standardized information and regulatory frameworks (Cueto, 2009). The search for legitimacy is the main driver for firm's behaviour and decision-making in most of the literature. This has also been called 'social license to operate', which may affect the firm's long-term operations in economies with higher institutional instability. We would like to focus on how access to capital and financial restrictions in this context may influence a firm's decision to invest in CSR, thus affecting their ability to achieve competitive advantage.

Chapter 4 presents our empirical analysis to explore these potential Latin American restrictions to CSR investment. CSR is measured through two ESG indexes (ThomsonReuters ASSET4 ratings and the Bloomberg ESG Disclosure index); while our financial constraints (FC) construct is measured through the Kaplan-Zingales index and the SA index. With Latin America's institutional background, we would expect financial constraints to play an important role within firm's CSR investment decisions. Following Hmaittane's (2012) methodology, we run a fixed-effects model for this regression, including year and industry effects. To control for endogeneity, we use dynamic panel-data, one-step generalized method of moments (GMM). The results of our analysis show evidence of a negative relationship between financial constraints and CSR performance, which holds for both our measurements of financial constraints.

Chapter 5 addresses our second empirical research question: if Latin American firms are facing financial restrictions, what strategies would they focus on when trying to influence CFP? Both CG and CSR are constructs that have been consistently associated with competitive

advantages for the firm: increased financial performance, legitimization, reduced information asymmetry and transaction costs. In this situation, management might decide that one of the two should suffice when faced with limited resources (substitutability), or find synergies between the two constructs that improve firm's performance (complementarity). To align with our previous empirical analysis we measure CSR through the Thomas Reuters ASSET4 score; CG through the Thomas Reuters Management Score, which measures a company's commitment to and effectiveness in following best practice corporate governance principles; financial constraints through the SA index; and CFP through market (Tobin's Q) and accounting variables (Return on Assets). Our empirical results partially corroborate our hypothesis of a substitution effect for some CSR activities and CG mechanisms. Specifically, those activities related to the social pillar of our CSR construct act as substitutes for CG mechanisms. This means that when a firm invests in CG mechanisms when looking to improve its financial performance, the effect of the social activities on firm performance is diminished.

Finally, Chapter 6 presents our general discussion regarding our empirical findings as well as limitations of the present study and lines for future research. We discover an empirical gap regarding CSR in Latin America, so we elaborate and extend the literature on CSR by exploring the interrelationship between financial constraints, CG and CFP in this context. Emerging markets present alternative challenges for firms than those found in an Anglo-Saxon framework, where most of the current academic studies take place. Latin American markets are characterized by informational asymmetries due to a weak institutional environment, corruption, low legal protection and concentrated family ownership in firms (Aditya and Acvharyya, 2012; Levitsky and Murillo, 2013). These characteristics make Latin America an exciting new setting to provide a more comprehensive understanding of the association between CSR, CG and CFP.

Chapter 2: Foundations of Corporate Social Responsibility

2.1. Introduction

The role of business in society has been addressed in academic research for quite some time. Previous studies suggest that corporate social responsibility (CSR) could be a different option for achieving regional development, broadening the potential benefits of CSR to a scope beyond that of the so-called 'business case' (Frynas, 2005). Most of the empirical research regarding CSR has focused on exploring its impact on financial variables such as performance, access to external financing, cost of capital, earnings management, amongst others. (Reverte, 2012; Luo et al., 2015; El Ghoul and Karoui, 2017). As with any other investment decision, firms need to assess the impact on corporate financial performance (CFP) to decide on the best allocation of resources, and this instrumental approach to CSR has driven research so far. For this chapter, we will first present a brief summary of the state of the art of CSR studies and related theories. We focus on the most cited theories in the studies reviewed: stakeholder theory, resource-based view and agency problems as CSR disclosures can help deal with a firm's information asymmetry issues. We will next discuss the role of institutional theory in CSR studies, which is increasingly being used to understand cross-country differences better, since they provide the framework where firms carry out their activities. Different national and socio-cultural environments can present a full context for understanding how CSR might behave in such markets (Jamali, 2007).

To cover the link of CSR with corporate financial performance (CFP) we carry out a general review of all meta-analysis in business literature regarding CSR-CFP to better understand the research's current state of the art and summarise previous results. A focus on meta-analyses studies allows us greater regional and data coverage, building on existing results to identify which questions have already been answered and which ones remain to be answered.

For this section, online resources (academic journals) are browsed. Refereed journals from the ProQuest and EBSCO databases are the main ones reviewed; keyword searches were the approach used for the selection process. For comparing purposes and to better define our search, we have mainly focused on those studies that specifically used the CSR construct as a whole (or the term-equivalent corporate social performance, CSP), excluding those that analysed only one aspect of CSR (i.e. environmental or social). We believe this also helps to better capture the multidimensionality of the CSR construct (Inoue and Lee, 2011; Cavaco and Crifo, 2014). Early work was only examined for seminal references in the field and a brief recap of the main constructs' evolution. Van Beurden and Gosling (2008) argue that empirical research on this topic should be mainly reviewed after 1990, following the publication of the Brundtland Report in 1987. The authors maintain that this event is definitely a milestone for the CSR construct development. For the meta-analysis, we considered only those studies that included both terms CSR and CFP at a meta-analysis level, as well as theoretical studies regarding the evolution of the link between the two variables. Since there was a relative scarcity of these type of studies, environmental performance and sustainability were also taken into account as alternative terms for CSR, to increase our coverage. Although thirty-six percent of meta-analysis reviewed found either a neutral or ambiguous relationship between CSR-CFP, the majority found a statistically significant positive relationship between the two constructs. This leads support to the ongoing academic argument that firms may financially benefit from investing in socially responsible activities, while preserving long-term value for their operations. One fundamental gap found throughout the meta-analyses was the absence of one emerging market in the discussion: the Latin American region. We will address this particular context for the expansion of CSR understanding in the next chapter.

2.2. Definition of the CSR concept

Firms have been taking a more comprehensive involvement with society throughout the years, focusing more on social and environmental concerns (Lu et al., 2014; Miras et al., 2014). A primary driver behind this is globalization, and the new challenges it has brought for firms to remain competitive. Nowadays firms face greater accountability due to increased visibility through new communication technology and activism, the more considerable involvement of international voluntary and non-governmental organizations in many countries, and new global standards for ethics and sustainability (ISO 26000, SA 8000, the OECD Guidelines for Multinational Enterprises, the United Nations Principles for Responsible Investment, amongst others). This has led to the rise of CSR as part of business' investment concerns. The appearance and evolution of sustainable development principles (starting with the publication of the *Brundtland Report* in 1987 and the Conference of the United Nations on Environment and Development in 1992) had an essential impact on the conceptualization of CSR. Elkington (1998) further develops the construct by emphasizing the fact that a firm's contribution to society involved value creation in three different dimensions, named as the triple bottom line: profit (economic dimension), people (social dimension), and planet (ecological dimension). The balance between these three dimensions underlines corporate sustainability strategies (Salzmann et al., 2005). Many of the studies reviewed tend to use the terms sustainability and CSR interchangeably since both constructs tend to encompass the same dimensions, albeit CSR concerns itself with mainly the social and environmental ones with the addition of a corporate governance aspect (Cowe, 2002; Ameer and Othman, 2012; Charlo et al., 2013). Corporate environmental activities have been usually the target of activist groups. For example, firms in the extractive industries do not have the best record when delivering sustainable operations or dealing with scarce natural resources (e.g. oil spills, deforestation, water and land

contamination). The wider visibility these cases have got through media and communication platforms have led to further pushing the CSR agenda into the open.

The development of CSR has established its potential as a driving force for allocating a firm´s resources towards initiatives that can lead to deeper involvement with its surrounding environment. Therefore, we can also argue that there is a potential for CSR as an engine for local growth (Jamali, 2007). However, the academic literature tends to focus on developed countries (Abreu et al., 2005; Aguinis and Glavas, 2012, Lee et al., 2013; Chung and Safdar, 2014; Epstein et al., 2015), leaving behind the emerging markets that may benefit the most from a more sustainable business performance. CSR may have the potential to channel business efforts and responsibilities in alleviating some of the existing problems in these regions.

Throughout its history, a standard definition for CSR has proved hard to find among academics and practitioners. This has been discussed many times as one of the main culprits for the ambiguity in empirical results, especially when writing about CSR's link with CFP (Wood, 2010; Ioannu and Serafeim, 2012; Uddin et al., 2012). However, one aspect of CSR where all researchers usually agree is the multidimensionality of the construct. The spectrum of CSR activities can go from environmentally-friendly projects to philanthropic programs (Albertini, 2013; Charlo et al., 2013; Lu et al., 2014; Miras et al., 2014). Research has also focused on institutional investors, who are steadily incorporating societal concerns as part of their focus (Revelli and Viviani, 2015). This movement has been labelled socially responsible investing (SRI), or investment focused on environmental, social and governance (ESG) criteria. This construct also focuses on the different dimensions covered by CSR initiatives. Recent studies reviewed for this chapter may use the term ESG interchangeably to talk about CSR initiatives, just as mentioned before with the sustainability definition. So far, most analyses have relied on third-party rankings and indices for their ESG measurements. These ratings are mainly based on corporate social disclosure, both explicit in firms reports and privately

gathered through public information by different assessment companies such as ThomsonReuters, MSCI, Bloomberg and country-specific ratings (Friede et al., 2015; Ferrell et al., 2016; Zuraida et al., 2016). Although some studies find a positive association with firm value, research has also cautioned against relying too heavily on these disclosure measurements because they could be positively biased. Thus, higher disclosure ratings may not necessarily reflect a better CSR performance. Research has also provided evidence that CSR disclosure can also be used to manipulate stakeholder impressions. This is also known as greenwashing. (Clarkson et al., 2008; Ioannu & Serafeim, 2012; Chan et al., 2017). Which is why throughout the literature we will find that many authors (e.g. Orlitzky, 2001; Wang, 2010; Baird et al., 2012; Ho et al., 2012) distinguish between the responsibility taken by firms to behave in a socially responsible way (CSR) and the actual actions taken to behave in this manner: corporate social performance (CSP). For this research, to avoid ambiguity and following the most common practice in the main articles reviewed, we will use the CSR term indistinctly to refer also to CSP.

For this research, we focus on two particular CSR definitions. One is the 2000 report by the World Business Council for Sustainable Development (WBCSD), because it emphasizes the focus of this research: local context leads to local needs and local priorities for CSR activities. The WBCSD funded a two-year project to better understand what different countries understood as CSR and what acceptable practices meant for each different context. Overwhelmingly, the construct was interpreted as helping to meet local needs. For example, participants from Brazil stressed the sustainable component and need for stakeholder participation in CSR. The report gave the following definition: "Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (p. 8). The other is the one given by Carroll (1991), and it's the one most cited

20

in developing countries' studies: a firm's social responsibility is defined as going beyond compliance of the local economic and legal requirements to include all of society's ethical and discretionary expectations. To meet these demands and expectations, firms engage in a series of activities related to employee relations, labour conditions, community support, and environmental initiatives, amongst others.

2.3. Theories on the link between CSR and corporate performance

As with any other firm´s investment decision, regardless of whether it is being considered a part of the firm's strategy or merely instrumental, most academic concerns regarding CSR is how to justify resource allocation on these activities. As has been stated by Lu et al. (2014): "CSR needs an economic justification; without evident benefits for companies, CSR may not continue to flourish as CSR programs are costly and must compete for companies' limited financial resources" (p. 196). This is why the bulk of studies reviewed tend to drift towards finding an empirical link between the firm's commitment to socially responsible behaviour and its bottom-line (McWilliams and Siegel, 2000; Margolis and Walsh, 2003; van Beurden and Gosling, 2008; Peng and Yang, 2014).

Following Boesso et al. (2013), most academic studies regarding CSR practices and motivation can be classified as either: normative (what should be, a more ethical or sociological perspective: mainly discursive research); descriptive (what is actually happening, current managerial practices: mainly case studies); or instrumental (linking the CSR activities to specific firm goals, to align with benefit-seeking motivation). Carroll and Shabana (2010) argue that CSR needs to add value to corporate success in order to become a viable investment. This economic justification builds the so-called 'business case' for CSR. More recent studies recommend a strategic approach to CSR (Porter and Kramer, 2011), where firms are still looking for a profitable outcome from social engagement. However, engagement in these activities should be related to the core business of the company. This would entail identifying

local critical social issues and stakeholders that could help strengthen the firm's competitiveness. Grant and Jordan (2012) specify that socially responsible practices can only create value when incorporated into the overall business strategy, thus benefitting both shareholders and society as a whole. From our literature review, we focus on the following instrumental theories as being the most relevant and salient for our analysis:

Stakeholder theory is a widely used approach when analysing the involvement of a firm in society, implying that corporate decisions should take into account more than shareholders' benefits. Freeman (1984) introduces stakeholder theory, which states that all societal actors that have an interest or are affected by the firm's activities deserve management's attention. Stakeholder theory has been linked to CSP by highlighting the fact that the firm's relationships with key stakeholders do lead to better performance, and socially responsible behaviour is indeed in the firm's best interests. According to stakeholder theory, it is not just shareholders who have claims on the firm, but other stakeholders as well (such as customers, government, and the community). Some stakeholders might have an economic or market-based relationship with a firm. Others might maintain a social or nonmarket- based relationship with business, such as governments, the media, non-governmental organizations, and the general public. The environment itself is sometimes also considered as part of the stakeholder groups, being part of the context the firm has to interact with, and usually represented through activist groups, as mentioned before. A firm can be seen as engaged in several contracts with its different stakeholders; therefore it can minimize the costs of contracting by developing trusting bonds with these groups. Mitchell et al. (1997) establish a categorization map to prioritize stakeholders which can be a challenge when developing firm's abilities to identify specific initiatives that would be the best allocation of resources. A strategic approach to CSR could use this tool to identify the best avenue of social/corporate/environmental action. Several studies state that efforts to address claims from the different stakeholders may increase the

competitive advantage of firms mainly through reputation enhancement. CSR could defend the organization from potential accusations and legitimacy threats (Wang and Berens, 2014; Vidaver-Cohen et al., 2015). It has also been linked to a better inner communication, increased employee engagement and job satisfaction, better consumer purchasing behaviour, and lowering transaction costs while fostering productivity (Mahon, 2002; Artiach et al., 2010; Becchetti et al., 2012; Lioui and Sharma, 2012; Jo, Kim and Park, 2015).

These potential CSR benefits are also linked to the *resource-based view (RBV)*, which focuses on the heterogeneity of firms in terms of their strategic internal resources (specialized skills or capabilities). Such resources can become valuable for achieving firm-specific sustained competitive advantage. One of these critical intangible assets is CSR (Perez-Batres et al., 2010; Inoue and Lee, 2011; Chung and Safdar, 2014). Firms possess both tangible (capital, machinery) and intangible assets (copyrights, R&D), and needs to effectively distribute resources between these two types of investment to improve its bottom-line. A firm's assets influence its survival success. According to the RBV, the firm-specific competitive advantage brought by the investment in CSR (in one or all of its dimensions) acts as a mediating variable between the firm's sustainable initiatives and its financial performance (Frynas and Stephens, 2014; Qi et al., 2014). This theory also supports the business case for CSR. One way CSR can contribute to a firm's differentiation is lowering risk: the socially responsible initiatives can serve as a buffer from troublesome events such as attacks from activist groups or negative comments on the media. Shareholders and potential investors could then perceive firms engaged in positive CSP as less risky due to this goodwill resource (Godfrey et al., 2009). Studies focused on an environmental perspective use an extension of this theory called the *natural resource-based view of the firm* (NRBV). Here, the firm's ability to address environmental issues raised by its local framework helps lead to a superior financial performance (Endrikat et al., 2014). Through RBV, firms may approach meeting stakeholders

demands and dealing with environmental pressures as part of a strategic investment (Ruf et al. 2001). By investing in such a strategy, organizations develop assets that are valuable, rare, and non-substitutable, such as positive social reputation. These assets, in turn, lead firms to competitive advantage and potentially higher financial return.

As part of every firm's strategy, CSR investment is a decision mostly held by managers. Some studies focus on this ex-ante aspect behind CSR-oriented decision, due to a potential conflict between managerial incentives and resource availability (Salzmann et al., 2005; Ferrell et al., 2016). The conflict of interest between managers' actions and a firm's objectives has been discussed as the *agency problem*, where the principal (shareholder) and the agent (manager) may have opposing interests that could cause conflicts with the firm's bottom-line. Agency problems could potentially lead managers to invest in certain actions to enhance their utility or reputation instead of devoting resources to more profitable investments (Brammer and Millington, 2008). The agency problem is a concept widely used in financial literature, and it frequently appears also in CSR (El Ghoul et al., 2011; Masulis and Reza, 2015; Ferrel et al., 2016) and corporate governance research (Francis et al., 2013). Friedman (1970) asserted that engaging in socially responsible projects is symptomatic of an agency problem or a conflict between the interests of CEOs/managers and shareholders. Investing in CSR initiatives implies engaging in costs that could deviate essential resources from other corporate strategies. However, as has been previously discussed, focusing solely on a firm's profit (shareholders' interests) at the cost of ignoring other stakeholders' legitimate claims can lead to long-term repercussions that could culminate in a firm's failure to continue operating in its current context. Heraclous and Lan (2012) present an updated version of this theory in their research, where the firm is the principal, with the board of directors acting as mediators with the rest of the stakeholders to reduce uncertainty and minimise losses. Under the law, and in contrast to traditional agency theory, boards of directors are expected to act on behalf of the interests of

the whole firm, rather than just those of shareholders. What is in the best interests of a firm would therefore be not only what increases the welfare of shareholders, but also the welfare of its employees, customers, and community.

In emerging countries, the difference in corporate ownership structure affects the kinds of agency problems faced by the firm. As mentioned before, the conflict moves from one between agency-principal to one between the dominant shareholders-minority shareholders. This reflects that the institutional structures of these economies may present a very different context in which to explore established CSR assumptions. Government, civil society and business view CSR as a bridge connecting business and development (Blowfield and Frynas, 2008).

2.3.1. *Institutional theory and CSR*

A firm's activities and day-to-day operations do not occur in a vacuum. Instrumental and strategic theories tend to focus on the firm as the main actor initiating social engagement, mostly from a voluntary desire according to managerial incentives and rationale (Brammer et al., 2012). However, this may fail to fully explain the CSR dynamics and the firm interaction with its environment, as well as the determinants behind the different implementations of social responsibilities in emerging countries. An understanding of the social responsibility of business in other regions depends on the institutional framework of business.

According to stakeholder theory, a firm should try and acknowledge quite a diverse number of actors in its surroundings. Still, the identities and interests of these actors may vary from country to country. Husted and Allen (2006) suggest that institutional theory may provide an understanding of the forces within and without the firm that lead to different socially responsible initiatives. Mehra (2006) also emphasises the importance of CSR being strongly linked with the socio-political reality, arguing that best practices are usually influenced by the regional social expectations, political context, and legal and regulatory regimes.

Institutional theory has been used in organizational business studies for some years, as a contemporary approach to organizations that develops a sociological view of institutions. Organizations are embedded in society, within particular cultural frames that can influence the firm's policies, programs and procedures (Powell and DiMaggio, 1991). Within organizational studies, the institutional approach implies that organizations compete not just for resources and customers; but also for institutional legitimacy and social validity. Institutional theory focuses on how formal constraints placed by political, economic, and legal systems; and informal requirements established by social practices of norms, codes, and expectations may influence economic activity. This approach suggests that organizations exist in an institutional environment which contains "social and cultural meaning systems or norms that define social reality" (Handelman and Arnold, 1999, p.34) and that the effectiveness of a firm's economic-oriented actions can be affected significantly by social dimensions. Institutional theory may help understand the emergence and growth of CSR in a more systemic perspective (Beckman et al., 2007).

If CSR means going beyond basic compliance on social and legal requirements (Freeman et al., 2010), companies will find this concept may change depending on the local legal standards, as well as the historical and social context of each region. Differences in CSR may very well be attributed to the differences in previously established institutions. Priorities need to be set strategically according to the different frameworks where a company carries out its operations. Firms attempt to establish themselves by conforming to their context's particular norms, hence attaining institutional support and managing survival. According to Dogl and Behnam (2015), from an institutional theory perspective firms that act accordingly with the regulatory, market and social expectations of their stakeholders in terms of environmental practices are usually rewarded more than those firms that do not respond to these demands.

Matten and Moon (2008) make a case for the lack of a standard definition in CSR research based on how the construct changed from country to country due to institutional differences. They established that CSR could be seen as either explicit (mostly present in European firms) or implicit (primarily associated with US firms), with some potential overlap between the two in certain economies. Implicit CSR is usually more embedded in the firm, as part of formal and informal historical institutions of the local society. The difference with explicit CSR is that the latter is more of a voluntary or explicit decision on behalf of the firm, while the former is more of a reflection of the firm's institutional environment.

Most of the studies reviewed use predominantly an economic approach: the new institutional economics (NIE), with emphasis mainly on transaction cost theory (Kostova and Roth, 2002; Herath, 2005; Da Rocha and De Azevedo, 2015). From a transaction cost economics approach, it could be argued that firms would try to satisfy stakeholders' needs in order to minimize potential transaction costs (Rodgers et al., 2013). When a firm fails to comply with institutionally established beliefs and rules, other stakeholders may doubt about whether the firm will honour any other remaining claims. These stakeholders could transfer low-cost implicit contracts into costly explicit claims if they believe the firm to be socially irresponsible, be it through strikes or boycotting (Bhattacharya and Sen, 2003; Julian and Ofori-Dankwa, 2013; Zyglidopoulos et al., 2016). NIE emerged with the work of North (1990), who established that institutions reduce uncertainty and risk and therefore can give efficient frameworks that increase legitimacy for business, a crucial aspect in emerging markets as already discussed. We find that Campbell's (2007) seminal work sets the trend for further studies to started grounding CSR in institutional theory, either directly or indirectly. To maintain a good relationship with its different stakeholders, firms need to follow local institutional conditions, which will affect their tendency to behave in a socially responsible manner. Even though Campbell remains an essential reference when linking institutional

theory with CSR theory research, some earlier studies still refer to the notion of institutional influence in CSR through the mention of a firm's reaction and adaptation to its complex environment (Kostova and Raheer, 1999; Kostova and Roth, 2002; Husted and Allen, 2006).

2.4. The CSR – CFP link: a summary of meta-analysis studies

Throughout the academic rise of CSR studies, there also has been a discussion amongst researchers regarding its alleged positive influence on firm's performance. According to the neoclassical view of the firm, CSR costs may divert resources from activities more closely related to the firm's primary objective: increasing shareholder value. As is sometimes the case with intangible resources investments, engaging in socially responsible behaviour may not provide immediate short term payoffs to the firm (Jamali, 2007). Investments such as those in R&D or CSR activities tend to consume financial and non-financial resources, which could negatively affect immediate bottom-line results. This aligns with Friedman´s famous 1970's article that the only social responsibility of business was to increase its profits. Following traditional financial reasoning, CSR activities are not necessarily aligned with the economic objectives of the firm, and should thus better be avoided (Jensen and Meckling, 1976). CSR might harm financial performance also because private incentives from managers can motivate socially responsible investments: the desire for personal respect, the benefit of control, better public image, networks or job security (Masulis and Reza, 2015; Nollet et al., 2016). However, several other studies have stated that many competitive advantages accumulate over time for socially engaged firms, most of them concerning legitimacy issues, reputation, saved stakeholder goodwill which can translate into financial and performance benefits (Salzmann et al., 2005; Peloza and Papania, 2008; Saeidi et al., 2015). CSR has been studied not only as an ethical imperative regarding the firm's obligations to society but also as an instrument to further the firm's economic well-being when aligned with the corporate strategy (Garriga and Mele, 2004; Mackey et al., 2007). Therefore, an instrumental view of CSR would still allow for

investment in social initiatives while increasing firm performance and profits. Nevertheless, it is still a contentious subject whether companies should get involved in sustainable activities.

Since the link CSR-CFP has been so extensively covered in academic research, our approach for this literature review is focusing on CSR-CFP meta-analysis. As defined by Hunetr and Schmidt (2004), a meta-analysis aggregates the results of primary studies with different outcomes and make sense of them jointly. Meta-analytic reviews help to synthetize the generalizability of previous empirical findings better, increasing precision and coverage (Orlitzky and Benjamin, 2001; Albertini, 2013; Lu et al., 2014). We will begin our meta-analysis studies benchmark with Orlitzky and Benjamin's (2001), which is the first known meta-analysis for the CSR-CFP link. It covers individual research done since 1982. Two years later, Orlitzky et al. (2003) review this first meta-analysis by expanding their firm sample (from 18 to 52 studies) and time coverage (by seven years). We take their seminal work as the starting point for our meta-analytic review. We included meta-analyses that focused on one or more of the different CSR dimensions and ESG criteria. All the studies reviewed rely heavily on previously discussed stakeholder theory, and institutional theory (albeit sometimes indirectly).

The following table summarizes the findings from the meta-analyses reviewed:

Table 1. Summary of meta-analyses studies

Author and year	CSR classification	CSR measurements	CFP classification	CFP measurement	Moderating / controlling variables	Number of studies	Years for data	Theoretical background	Relationship
Revelli and Viviani (2015)	Socially Responsible Investment (SRI)	SRI mutual funds, SRI indices and SRI portfolios	Financial performance	n/a	Financial risk / Liquidity / market variables	85	1972 - 2012	Asymmetric information / Stakeholder theory	Neutral
Wang et al. (2015)	CSR activities	Reputation ratings / social audits / reports	Financial performance	Accounting, market based and perceptual (surveys)	Market variables	42	2003 - 2012	Stakeholder theory / Resource-based view / Agency theory / Institutional theory	Positive
Lu et al. (2014)	CSR activities	Disclosures / reputation ratings / social audits / other processes	Financial performance	Accounting, market based and perceptual (surveys)	Size / Industry / Capital structure / Financial return / Financial risk	84	2002 - 2011	Institutional theory / Stakeholder theory	Ambiguous
Endrikat et al. (2014)	CSR focused on environmental management	Process-based and outcome-based: measures of environmental internal efforts, activities and actual	Financial performance	Accounting and market based	Size / Industry / Financial risk / R&D intensity / Advertising and capital intensity	149	n/a	Natural-resource based view / Stakeholder theory / Slack resources theory	Positive

		effects on pollution prevention							
Miras-Rodríguez et al. (2014)	CSR activities and disclosure	Focus on activities related to philanthropy, environmental, and stakeholder management	Financial performance	Accounting, market based and perceptual (surveys)	Firm size / Country of origin / Market variables	70	2000 - 2012	Slack-resources theory / Stakeholder theory / Agency theory	Positive
Albertini (2013)	CSR focused on environmental management	Focus on activities related to pollution control, pollution prevention, and product steward- ship	Financial performance	Accounting-based, market-based, organizational- based, cumulative abnormal return	Accounting variables / Industry	52	1975 - 2011	Instrumental theory / Natural-resource based view	Positive
Dixon-Fowler et al. (2013)	CSR focused on environmental management	Proactive activities (e.g. process innovation) and reactive activities (e.g. compliance local regulations)	Financial performance	Accounting based and market based	Firm size / ownership concentration / Country of origin / Industry	39	1970 - 2009	Instrumental theory / Agency theory	Positive
Fifka (2013)	CSR reporting	n/a	Financial performance	n/a	Firm size / Industry / Ownership concentration /	186	1972 - 2011	Institutional theory / Stakeholder theory	Neutral

					Country of origin / Market variables / Media visibility				
Quazi and Richardson (2012)	CSR activities and disclosure	Corporate sustainability reports, reputational indices, social audit, process and outcome measures	Financial performance	Accounting measures	Financial risk	51	1974 - 1999	Instrumental theory	Ambiguous
Perrini et al. (2011)	CSR activities and disclosure	Focus on internal organization / customers / supply chain / society / environment and CG dimensions	Financial performance	Accounting based and market based	Firm size / Industry	250	1985 - 2011	Instrumental theory / Stakeholder theory / Agency theory / Shared value	Positive
Wood (2010)	Corporate social performance (CSP)	CSP reports, KLD ratings, Vigeo ratings and country-specific sustainability reports	Financial performance	n/a	n/a	52	1984-2009	Instrumental theory / Stakeholder theory / Agency theory	Ambiguous
van Beurden and Gossling (2008)	CSR and CSP	Measures for social disclosure, social	Financial performance	Accounting based and market based	Firm size / Ownership	34	1991 - 1997	Instrumental theory / Stakeholder theory	Positive

		actions (CSR programs), and corporate reputation ratings			concentration / Industry / R&D investment / Financial risk				
Margolis et al. (2007)	Corporate social performance (CSP)	Measures for philanthropy, corporate policies, environmental performance, CSR disclosures and third-party audits	Financial performance	Accounting based and market based	Firm size / Industry / Financial risk	167	2003-2006	Instrumental theory / Stakeholder theory	Positive
Wu (2006)	CSR activities: focus on environmental and social dimensions	n/a	Financial performance	Accounting based and market based	Firm size / Cash flow	121	1995-2004	Instrumental theory / Stakeholder theory	Positive
Salzmann et al. (2005)	CSR activities: focus on environmental and social dimensions	CSR ratings, ESG indexes and corporate disclosures	Financial performance	Accounting based and market based	Firm size / Industry / Financial risk	n/a	1970 - 2004	Stakeholder theory / Agency theory / Slack-resources hypothesis	Ambiguous
Margolis and Walsh (2003)	Corporate social performance (CSP)	Reputation ratings, corporate disclosures, management	Financial performance	Accounting, market based and perceptual (surveys)	n/a	127	1997 - 2002	Instrumental theory / Stakeholder theory	Ambiguous

		surveys, social audits and KLD evaluations							
Orlitzky et al. (2003)	Corporate social performance (CSP)	CSP activities (philanthropy, environmental, stakeholder management) and CSP disclosures	Financial performance	Accounting, market based and perceptual (surveys)	Firm size / industry	52	1972-2002	Instrumental theory / Stakeholder theory / Slack-resources theory	Positive
Orlitzky (2001)	Corporate social performance (CSP)	CSP disclosures; reputation ratings; social audits, observable outcomes (e.g. charitable contributions), and CSR principles and values	Financial performance	Accounting based and market based	Firm size	18	1982 - 2001	Instrumental theory / Stakeholder theory / Slack-resources theory	Positive

Source: Own elaboration. CSR and CFP classification and measurements refer to how each meta-analysis approaches socially responsible activities and financial performance, and what they found as common threads throughout the studies reviewed. Moderating/controlling variables refer to the ones highlighted in each meta-analysis as the most usually included in the studies reviewed. The *n/a* stands for those meta-analyses that did not provide the information required in the columns as part of their methodology reviewed.

From the different studies and meta-analyses reviewed regarding the current state of academic research on this subject, the KLD database has been the one mostly used, which biases results towards a mostly US-based firm sample[2] (Scholtens, 2008; Patari et al., 2014; McWilliams and Siegel, 2000; Wood, 2010; Dixon-Fowler et al., 2013; Lioui and Sharma, 2012; Weber and Gladstone, 2014). Therefore, the summary of findings presented in this section corresponds mainly to developed countries. The set of first-order meta-analytical results for the sample of primary studies in Table 1 are calculated with the quantitative Hunter–Schmidt approach (Orlitzky, 2001; Albertini, 2013; Dixon-Fowler et al., 2013; Miras-Rodriguez et al., 2014; Revelli and Viviani, 2015, Wang et al., 2015), a mixed-methods of content analyses and statistical analyses (Margolis et al., 2007; Quazi and Richardson, 2012; Lu et al., 2014) and descriptive vote-counting (Salzmann et al., 2005; van Beurden and Gossling, 2008; Wood, 2010; Perrini et al., 2011; Fifka, 2013).

All meta-analyses emphasize the multidimensional nature of the CSR construct (Charlo et al., 2013; Lu et al., 2014; Albertini, 2013; Miras et al., 2014). The relationship found between CSR and CFP within the 16 meta-analyses, covering a period from 1970 to 2012, is mostly positive. This suggests that for the most part, engaging in socially responsible activities can lead to a positive financial outcome, as underlined by instrumental theories of CSR. However, studies stress that it is imperative to account for mediating variables and contingencies in these outcomes. Some of the most common control variables, which we will address later in our empirical chapters, were industry sector, financial risk, ownership concentration, and firm size. The latter is considered relevant because some studies believe that bigger firms usually have more resources due to economies of scale (Perrini et al., 2011; Quazi and Richardson, 2012). Slack financial resources, such as cash, have been studied as influencing corporate ability to

---

[2] For the timeline used in these studies, the KLD STATS was still focusing on US companies. In 2010 it was acquired by MSCI, becoming the MSCI ESG KLD STATS and expanding its coverage to a more global focus.

engage in social actions. In research, this has been called the slack-resources theory wherein a positive association also exists between CSR and CFP, but in the opposite direction: prior high levels of CFP may provide the additional resources necessary to invest in sustainable initiatives (Waddock and Graves 1997; Wang et al., 2015). Gainet (2010) state that these other resources (measured through extra cash or profitability) highlight the influence of corporate financial structures on CSR. In general, there was no supporting evidence for this latter approach in the meta-analyses reviewed.

Throughout the different meta-analyses reviewed, CSR has mainly been studied in three ways: (1) social disclosure, such as public reports (2) actual corporate action, such as social and environmental programs (3) corporate reputation ratings such as KLD, Fortune 100, etc. Most of the initial studies reviewed regarding the relationship between CSR and CFP used market-based stock returns, Tobin's Q or accounting-based measures (ROA, ROE, ROS) of financial performance. Some used perceptual measures of financial performance based on managers' statements. According to Lu et al. (2014), from the three most used CFP measures; the accounting-based measures are objective and audited, the market-based measures can be considered as partly objective due to being about share price appreciations, and perceptual measures are largely subjective based on the survey respondents' perceptions. This should be taken into account during research modelling; Wu (2006) finds that the intensity of the relationship between social strategies and financial performance depends on how the constructs are operationalized.

2.5. Conclusions

The CSR-CFP link has been thoroughly studied in business literature due to the potential competitive advantage socially responsible investment might bring to a firm. As we have seen in these chapter, these range from intangible assets such as operational legitimization (social license to operate), reputation improvement and an increase in human capital (higher

employee retention) and financial capital (reduced risk from higher accountability and disclosure help improve CFP). Stakeholder theory opens a new, more comprehensive version of the firm's responsibilities beyond that stated by Friedman (1970) sole focus on stakeholders. To broaden our time and study scope, we decide to analyse the CSR-CFP link through meta-analyses. Given the multidimensionality of the CSR construct, many of the conflicting findings are due to the great variety of measures applied in the primary empirical studies, along with the use of different variables as mediators or controls (firm size, industry, financial risk and corporate governance variables amongst them). From the different meta-analysis reviewed, a common thread amongst them was the instrumental view of CSR to help improve firm's performance, most of them thus supporting the so-called 'business case' for CSR. While many of the meta-analytical studies did not focus on theoretical groundwork when reviewing primary studies, they all mentioned the main CSR theories discussed in sections above as a justification for exploring CSR as part of the business strategy. However, none of these meta-analyses focused on the geographical scope of emerging countries. While some mention the relevance of legal and regulatory characteristics of each country where the studies were analysed, institutional theory is not explicitly acknowledged as part of the theoretical framework for many of the studies considered in our benchmark meta-analysis. The country of origin was never mentioned as a separate criterion for classification, except for Dixon-Fowler et al. (2013) and Fifka (2013). Their studies, while mentioning geographical relevance, focused on developed countries. Wang et al. (2015) also highlight the significance of the environment where a firm operates but focusing on a developed context. Campbell (2007) urge researchers to not only focus on the CSR-CFP link but how diverging institutional mechanisms in different countries might influence corporations investing in certain CSR initiatives or not. Findings from other studies also showcase that different sustainable initiatives can work as an important source of goodwill for companies, which they may need when facing many of the convoluted

contexts of some developing economies; while also serving as a potential leverage for higher stock market value (Godfrey et al., 2009). This literature gap presents an opportunity to discuss the different findings in emerging markets as part of a specific meta-analysis for these economies.

Chapter 3: Corporate Social Responsibility in emerging markets: the case of Latin America

3.1. Introduction

Emerging markets present a different set of institutional characteristics than their developed counterparts (Mehra, 2006; Visser, 2009; Elango and Lahiri, 2014), which may not foster the basic conditions needed for corporate social responsibility (CSR) development (Matten and Moon, 2008). Underdeveloped financial, legal and regulatory systems increase the uncertainty and risk faced by firms operating in such frameworks (Beck, 2007; Campbell, 2007). It has been argued before that Western-centric evidence regarding CSR, corporate governance (CG) and corporate financial performance (CFP) should be re-evaluated for developing countries, to broaden the institutional scope on these topics (Jamali, 2007; Rettab et al., 2009; Gao, 2011; Peters et al., 2011). Latin America presents an interesting opportunity to explore socially responsible investment due to the scarcity of regional research on this topic. It is one of the most unequal regions in the world, with recurrent economic crises and political volatility. Latin American capitalism is classified as hierarchical (Schneider, 2009), with strong influence from the large business groups prevalent in the market, which sets it apart from developed countries. Its economic growth tends to be business-led due to the scarcity of national resources and lack of government initiatives, so this gives an additional incentive for firms to invest in CSR to increase their legitimacy and ensure survival for their long-term operations (Torres-Baumgarten and Yucetepe, 2009, Casanova and Dumas, 2010; Vives, 2012). For this chapter, we begin by presenting an overall introduction for the Latin American region, our focus of study. We will then discuss the institutional framework that characterizes Latin American economies, following the previous discussion in Chapter 2 regarding the

relevance of institutional theory for CSR studies. Our CSR-CFP meta-analyses' summary revealed a gap in the meta-analyses literature regarding emerging countries, more specifically, the Latin American region. Therefore, we include in this chapter a section reviewing individual studies analysing CSR in Latin America, to build an initial narrative of the results found so far. Empirical and theoretical works are reviewed, favouring recent research for more timely analysis, and because academic research linking CSR and corporate performance is not extensive for Latin American economies (Fifka, 2013). We find mainly qualitative CSR case studies for the region, studying either isolated countries or independent sectors. Almost all those included mention the same environmental and social challenges: weak CG, non-adequate financial and corporate disclosure, less developed state role, erratic law enforcement, corruption and political instability (Kahnna and Palepu, 2000; Jamali and Neville, 2011). This chapter presents the setting for our empirical sections and highlights the relevance of Latin America as a venue for research, given its particular institutional voids, which affect the environment where firms operate and their investment decisions.

3.2. Emerging markets: Latin American context

3.2.1. General overview

Globalization and the spread of multinational corporations (MNCs) looking for new lower-cost markets have led to the economic rise of emerging countries, as well as to increasing awareness of their social and environmental problems (Cowe, 2002; Fransen, 2012). We use the term emerging markets as defined by the International Finance Corporation (IFC), part of the World Bank, in 1981. Since then this database has been bought by Standard & Poor's in 1999 and updated yearly. The International Monetary Fund (IMF) also uses the term in its annual report World Economic Outlook (WEO). Amongst emerging economies, Latin America is part of what has been denominated in political economy literature as the 'Global South', a term referring to less developed economies or regions, which are located primarily in the

Southern Hemisphere. As stated by Milciades (2014), this group of countries (which also includes Africa, developing Asia and the Middle East) has started losing its peripheral role with the spread of globalization. The economic relevance of the BRICs has been widely discussed on these reports in terms of collaboration to global GDP growth, which coupled with the globalization of multinational corporations (MNCs) also present new transaction costs and business systems frameworks (Kostova and Roth, 2002; Lopez and Fornes, 2015; Ni et al., 2015) for firms. The World Bank (2015) reported that the gross domestic product (GDP) of the South, which accounted for 20% of the world GDP between the early 1970s and the late 1990s, doubled to about 40% by 2012. According to the latest World Bank's Global Development Horizons, this share will reach 55% by 2025. As part of this trend in the global economy, it becomes relevant to study how the Latin American setting may affect a firm's behaviour and performance, especially related to sustainable practices that may help improve some of the region's social and economic deficiencies in a context of weak state assistance.

These sustainable practices are also being driven by socially responsible investment (SRI) in stock markets, as indexes such as the Dow Jones Sustainability Index, the MSCI Environmental, Social and Governance (ESG) Index, and the FTSE4 Good Index compel their members to disclose information on their social and environmental activities and performance. Even though socially responsible indexes cover mostly developed countries, emerging markets have also created sustainability indexes. SRI has been slowly taking hold in Latin America, with regional stock markets catching up with sustainable global trends in the recent decade. Brazil leads the initiative in sustainable indexes. The Corporate Sustainability Index (ISE by its Portuguese acronym) was launched in 2005 to encourage corporations to be ethically responsible. The ISE is a tool for comparative analysis of the sustainable performance of the companies listed on the local market index BM&FBOVESPA. The Mexican Stock Exchange also launched its Sustainability Index in 2011. The integration of the local economies in the

global market has been an essential factor for companies starting to adopt new approaches that could meet the increasing market demands for environmentally, economically and socially sustainable business activities. Table 2 lists the existing sustainability indexes in the regional stock markets:

Table 2. Latin American Sustainability Indexes in national stock markets

Country	Stock Exchange Market	Sustainability Index	Firm members
Mexico	Mexican Stock Exchange (MSE)	ISRS Sustainability Index (Índice IPC Sustentable - ISRS)	30
Brazil	BM&FBOVESPA S.A.	Corporate Sustainability Index (ISE)	34
		Carbon Efficient Index (ICO2)	30
Chile	Bolsa de Comercio de Santiago	Dow Jones Sustainability Chile Index	21
Colombia	Bolsa de Valores de Colombia (BVC)	IR Recognition Index (COLIR)	28
Perú	Bolsa de Valores de Lima (BVL)	Good Corporate Index (IBGC)	9

Source: National stock exchange market websites. Own elaboration

Brazil was the first regional stock market to join the Sustainable Stock Exchanges (SSE) initiative in 2012, followed by Chile, Perú, México and Colombia two years later; and later Argentina in 2016. This project, started by the United Nations, encourages sustainable investment and promotes improved ESG disclosure. In 2013, the Latin American Sustainable Investment Forum (LatinSIF) was launched, in partnership with the Colombian Securities Exchange, Sustainalytics and Deloitte. It was created to collaborate in sharing responsible

investment practices. LatinSIF joined the United Nations' Principles for Responsible Investment (PRI) in the same year, an organization that also supports the SSE platform. The PRI Latin America network currently has signatories in Brazil, Argentina, Peru, Colombia, Chile, Uruguay and Mexico. Initiatives regarding greater transparency are especially needed in Latin America to lead to better corporate governance principles, an area where the region faces specific challenges. The CAF (Development Bank of Latin America) has established guidelines to provide tools and mechanisms that will strengthen regional firms, by helping them realize the importance of acceptable CG practices for greater competitiveness and efficiency. As we will discuss later, international institutions and external drivers tend to exert pressure in the Latin American context to adopt certain global corporate practices and standards.

Elson (2006) identifies the lack of strength in the region´s political and public institutions as an important factor in explaining its growth path. Latin America has a history of macroeconomic and political instability (fiscal deficits and high inflation), coupled with debilitating corruption (Dowell-Jones, 2013; Kaymak and Bektas, 2015). Annual surveys done by the World Bank (Doing Business), and the World Economic Forum (Global Competitiveness Report) usually reveal weaker institutional capacities for Latin America (greater corruption, low regulatory enforcement, paired with weak governments). When social inequality plays such an important role as in these economies, addressing some of the local market's needs may help companies provide a more stable environment for their ventures. Social authorisation can only be gained through trust-based relationships, which is why firms need a better understanding of their local stakeholders to adequately meet their demands (Perrini et al., 2011; Patari et al., 2014). However, firms need to be able to follow specific guidelines regarding local social and environmental issues, which becomes harder in Latin America due to its aforementioned low regulatory quality, which might become an obstacle for firms in order to obtain institutional legitimacy and ensure social license to operate.

3.2.2 A developing market framework

As stated throughout this research, challenges for firms in emerging markets may be different from those found in an Anglo-Saxon framework, where most of the current academic studies take place. As has been mentioned, Latin American markets are characterized by several informational asymmetries and higher transaction costs due to low levels of transparency, a weak institutional environment with low legal protection and regulatory enforcement, and higher corporate concentrated ownership (Aditya and Acvharyya, 2012; Levitsky and Murillo, 2013). What if this particular framework does not even provide the necessary conditions for CSR? Matten and Moon (2008) specify that socially responsible practice requires a particular set of requirements, such as a well-functioning capital market, strong government and legal institutions, with functioning enforcement mechanisms that also help articulate civil society's demands. Research has established how in economies that lack a stable governance system, the private sector tends to cover through socially responsible practices some of the gaps left by the absence of a welfare state (Blowfield and Frynas, 2005; Kang and Moon, 2012). Latin America scores very low on international measurements of government institutional capacity, such as control of corruption, bureaucratic quality, regulatory quality and political stability (Aditya and Acharyya, 2012). For example, Globescan (2016) states that in Brazil, one of the most advanced markets in the region, citizens' trust in their government has plummeted since 2009, while trust for national and global companies has risen. In Chile and Peru, global companies are less well perceived, but national companies are more trusted than the government. On average, Latin American government spending accounts for 31% of GDP, quite low compared to other OECD countries. Health system packages are also highly fragmented, with a relatively high coverage but not as comprehensive as its developed counterparts. Most countries have coexisting financing programs that include private cover on the side of many businesses (OECD, 2015). In this context, the private sector

may have to rise to meet some of society's needs and expectations while building trust relationships and legitimacy bonds.

Globescan's 2016 SustainAbility Survey finds that in Latin America, the majority of leaders believe the sustainable agenda should be led by the private sector or multi-sectoral partnerships that include the government. According to the 2016 Latin American CEO Survey on Sustainable Development by PricewaterhouseCoopers (PwC), 80% of the region's CEOs consider that sustainability is a relevant issue in their business. This is in line with a 2016 global study by the United Nations Global Compact and Accenture, which found out that 87% of the top CEOs have the same approach to corporate value creation. Amongst the benefits of investing in these activities, they cited a better reputation and relations with stakeholders, risk management and cost savings. From those firms participating in the survey, 79% stated that they systematized their social initiatives through some kind of strategy or guidelines. The United Nations (2010) CSR collection of case studies in Latin America stressed the importance of viewing the regional CSR agenda as an interactive network of actors and issues. In 2004, Haslam emphasised a three-way relationship between the firm, the state, and business-industry NGOs as the fundamental framework of development for these practices.

Latin America also presents a particular type of capitalism: it has been classified as a hierarchical market economy (HME). Since Hall and Soskice's (2001) seminal work, institutional analysis has classified developed countries between liberal market economies (LMEs) and coordinated market economies (CMEs). Schneider's seminal analysis (2009) of the distinctive structure and characteristics of markets in Latin America gives rise to another capitalism classification as an HME. He studies the institutional features of several countries in the region (Argentina, Brazil, Chile, Colombia and Mexico) and establishes that Latin America's capitalism can be identified through the hierarchical relations in business groups, employment relations and labour markets, as well as multinational corporations (MNCs).

Regional big corporations and the MNCs are usually the ones driving economic growth (business-led development); unlike LMEs and CMEs prevalent in developed economies, which gives rise to monopolies and oligopolies. These business groups tend to be even more hierarchical because prominent industrial conglomerates or family groups own them, and tend to control and manage the firms directly. As with other emerging economies, low-skilled labour is one of the region's main features and attraction for foreign investment. In 2013, Schneider published a book as an expanded theoretical review of his work, including Peru in the Latin American previous analysis. He concluded that even adjusting for large income disparities with developed countries, his original capitalism classification holds. Despite the countries' variations in size, growth development, and government capabilities, the core characteristics of HME prevail throughout the sample. This homogeneous denomination for all the region was reviewed by Saucedo et al. in 2015, comparing Brazil, Mexico and Argentina to other transitional economies (South Korea, Spain and Croatia) concluding that Latin American countries do share overall hierarchical capitalism characteristics: monopoly and oligopolistic structures, which has led to lower economic growth and slow democratic progress. Zicari (2017) addresses the hierarchical characteristics of Latin America in Brazil, Mexico and Chile, which has led to a limited role for stock markets in the region.

3.3. CSR in emerging countries: the case of Latin America

Emerging countries share a certain set of characteristics: low GDP per capita, weak legal enforcement and regulatory systems, inequality of income distributions, underdeveloped financial markets, highly unequal power relationships and weak regulatory systems (Dobers and Halme, 2009; Visser, 2009). Firms operating in these countries face a particular institutional environment, which influences their CSR investment decisions and what activities they decide to engage in. For example, in China, one of the biggest emerging countries, recent practices such as paying tax, technological innovation, working along the public sector, and

avoiding corporate cutbacks to maintain social stability are considered a manifestation of growing CSR, in a context where tax evasion, disregard for intellectual property rights, and counterfeit are usually the norm (Yin and Zhang, 2012). Within this context, Latin America presents a different institutional setting where to explore a firm's CSR activities. Working in imperfect markets and facing growing uncertainty regarding political regimes, institutional change and regulatory enforcement, Latin American firms may not be able to make optimal investment decisions that maximize their financial performance. In Chapter 2, we found an empirical knowledge gap in our CSR-CFP meta-analyses review regarding coverage of Latin American countries. The concept of legitimacy was one common thread behind all the analysed studies, which ties in with the inherent uncertainty that surrounds the macro-economic environment in emerging countries, particularly the Latin American region (Herath, 2005; Levitsky and Murillo, 2013). Firms require long-term sustainability in order to survive, and legitimacy is necessary for this purpose. The growing global prominence of CSR reflects the need for its study in emerging economies in Asia, Eastern Europe and Latin America, the ones most affected by social and environmental issues, with huge differences regarding economic growth, business environment and income levels (Blowfield and Frynas, 2008; Scarlato, 2013; Aya and Sriramesh, 2014). For this section, we selected studies within the same time framework as our meta-analyses review, to explore the aforementioned lack of a geographical approach. We started our literature search with Araya's seminal work (2006), where she labels Latin America as terra incognita regarding empirical studies for non-financial reporting. We reviewed individual studies focusing on Latin American countries exclusively or as part of their general firm sample, which addresses the CSR activities in the region. From the studies reviewed, we present the following list accounting for a number of studies reviewed for each country, and within parentheses the total number of firms reviewed for the region.

Table 3. Studies by country

Countries covered	No. studies
Latin America	**37 (1892)**
Brazil	8
Colombia	7
Chile	8
Mexico	4
Argentina	3
Peru	3
Others	4

Source: Own Elaboration

Cultural and institutional differences play an important role in addressing these economies as a separate unit. If there are potential financial benefits from investing in CSR activities, do the regional institutional characteristics support this relationship as well? Firms operating in emerging markets need to develop specific strategies to deal with local stakeholders to reduce risks and increase their potential positive impact and legitimacy to operate (Lopez and Fornes, 2015). Thus, cultural and institutional differences play an important role in addressing these economies as a separate unit. Fifka (2013) was the only researcher to group the studies included in his meta-analysis according to their geographical origin. However, the study did not specify the most used theories for this analysis. The drivers for CSR in emerging countries found in this research were mainly corporate governance codes,

ownership and size of the firm and international pressure. Some of the most common guidelines for non-financial reporting include the Global Reporting Initiative (GRI) evaluation, the United Nations Global Compact, the International Integrated Reporting Council (IIRC) framework, the OECD Guidelines for Multinational Enterprises; and the International Organisation for Standardisation (ISO) different standards. The ISO 26000 is exclusively designed to measure CSR practices, although it does not yet warrant any special accreditation as the other ISO standards. The IIRC is a global coalition of regulators, investors, companies, regulators of standards, accounting professionals and NGOs. In 2013, they released the International Integrated Reporting Framework (IR), which requires organisations to publish information on the organisation, its strategy, governance, performance, and goals conducive to the creation of value in the short and long term. Ortas and Moneva (2011) state that the case of the Latin American companies is especially interesting because, between 1999 and 2004, they had only disclosed up to 30 GRI reports. However, by 2009 the number had increased to 489. The authors also state that the relative global weight of GRI reports disclosed by Latin American companies has increased, rising from 4.01% (30 reports in Latin America to 748 worldwide) in 2004 to 10.12% in 2009 (489 reports in Latin America to 4,832 worldwide). A WBCSD (2015) report states that 85% of Latin American firms use the guidelines of the GRI report. The GRI has been in place since 2000, providing a framework for the writing of sustainability reports, looking to promote a standardized reporting approach. It is internationally-recognized and establishes a series of principles and indicators so that firms can report on their triple bottom line accounts to their stakeholders. In Table 4 we show a summary of the main findings and theories reviewed for this section of our academic literature benchmark.

Table 4. Institutional characteristics of Latin American studies reviewed

Author	Research methods	Primary research topic	Countries	Sectors	Company sample size	Years for data	Theories applied	General conclusions
Haslam, P. (2004)	Qualitative: different case studies	CSR initiatives	Latin America and the Caribbean	n/a	30	2003	Institutional theory (national systems)	CSR in LA is driven by international external agents such as the OECD, IDB, World Bank, private foundations, international NGOs, and the home offices of MNCs. Problem is with monitoring and promoting compliance. Globalization and changes in the business environment lead to increased cooperation between governments, the private sector and civil society organizations.
Baskin, J. (2006)	Qualitative: report analysis	CSR activities: reporting through GRI, membership of ISO14001 and DJSI	21 (Asia, Latin America, Africa, Eastern Europe)	n/a-	127	2005	Institutional theory	CSR in emerging markets, while more extensive than commonly believed, is less embedded in corporate strategies, less pervasive and less politically rooted than in most high-income OECD countries
Gutiérrez et al. (2006)	Qualitative: different case studies	CSR initiatives	Colombia	n/a	98	2004	Institutional theory and stakeholder theory	CSR initiatives in Colombia are led by the private sector and are later adopted as public policy. It is necessary to define plans and social programs by sector and theme to advance CSR and

								create synergies between existing programs.
Peinado-Vara, E. (2006)	Qualitative: Case study	CSR activities	Venezuela / Colombia	Consumer goods and Energy	2	n/a	Institutional theory and stakeholder theory	CSR in LA has a long tradition of corporate philanthropy: the private sector has a paternalistic view of its role in society. Firms face deficiencies in infrastructure and financial capacity. However, case studies in both countries show that CSR positively affects the firm's bottom line and helps improve communication with stakeholders. However, this depends on firms adopting a CSR agenda that fits the specific needs of the region.
Faria, A. (2007)	Qualitative: descriptive historical political account	Strategic corporate social responsibility (SCSR)	Latin America (as a whole but Brazil as a separate section)	n/a	n/a	n/a	Institutional theory	CSR in LA has been strongly shaped by Western literature. Key issues for the development of CSR in the region are the decreasing power of the state and civil society in favour of big corporations and the increasing dependence of the field of strategic management on corporate resources.
Gutiérrez and Dario Lobo (2007)	Qualitative: different case studies	CSR initiatives	Colombia	Agriculture, food and extractive industries	3	n/a	Institutional theory / Risk management	CSR is affected by the weakness of the government and civil society, and political and institutional transformations. Business is seen as an alternative to foster social development, becoming instrumental for institutional strengthening and using CSR as

								part of their social license to operate.
Haslam, P. (2007)	Qualitative: descriptive historical political account	CSR initiatives	Latin America	n/a	n/a	n/a	Institutional theory / Legitimacy theory / Risk management / Stakeholder theory	In LA, CSR regime exists based on the principle of legitimacy due to weak regulatory systems. Government delegates certain functions to private actors: diffusion of authority to firms. Businesses in this context depend on a social license to operate, with CSR as the intervening variable to enable communication between multiple stakeholders.
Hodges, C. (2007)	Qualitative: descriptive historical and cultural context	CSR initiatives	Mexico	n/a	n/a	n/a	Institutional theory /. Stakeholder theory	CSR needs to respond to local developmental needs: there is a problem of deep mistrust in LA regarding political system and institutions, so firms could use CSR as part of their social license to operate and ensure long-term success
O'Keefe and O'Keefe (2007)	Qualitative: different case studies	CSR reporting	South America (Argentina, Brazil, Colombia and Peru)	n/a	482 (SMEs)	2002-2006	Descriptive account	There is not a lot of reporting and communication between UNGC members regarding CSR, problems of language present barriers for global learning and exchange regarding these practices.

Beckman et al. (2009)	Qualitative: case study (interviews)	CSR initiatives	Chile	n/a	44 (between NGOs and private firms)	n/a	Stakeholder theory	CSR is driven by the business sector (including MNCs), supported by NGOs rather than by consumers or government. Society is sceptical about CSR efforts so a multiple-stakeholder relationship model is needed to insure perceptions of authenticity.
Dobers and Halme (2009)	Qualitative: descriptive historical political account	CSR initiatives	South America and Africa	n/a	n/a	n/a	Institutional theory (national business systems)	CSR is context-dependent in both cases (Global South). Weak institutional environments lead to financial outflow from emerging countries to developed ones, which deprives developing nations of critical resources and contributes to failed states.
Muller and Kolk (2009)	Quantitative: descriptive statistics / correlations	CSR activities (KLD/DSJI indexes and GRI compliance)	Mexico	Auto industry	93	2006	Institutional theory / Stakeholder theory	Certain CSR activities tend to be associated with those commonly followed in developed countries: recycling, environmental concerns, community relationships, philanthropy and management training. The increase in environmental policy in Mexico is due to rising consciousness of pollution problems and the country's higher international profile.
Torres-Baumgarten and Yucetepe (2009)	Qualitative: different case studies	CSR activities	US MNCs based in Latin America	n/a	10	2007	Institutional theory	CSR initiatives in Latin America on the part of U.S.-based multinationals are limited: due to lack of standards

								for good corporate citizenship and dangers associated with publicizing one's personal wealth
Huemer, L. (2010)	Qualitative: case study	CSR initiatives	Chile	Aquaculture	2	2003 - 2008	Institutional theory / Stakeholder theory	MNCs in Chile select a CSR strategy contingent on their organizational identity and principles, but face institutional legitimacy pressures and need to translate their headquarters strategy to adapt to local stakeholders needs.
de Waal and Escalante (2011)	Qualitative: case study	CSR initiatives	Peru	Mining	2	2007	Business case for CSR	CSR helps to achieve better organisational results, improving competitive performance and leading a firm to become a high performance organisation (HPO).
Perera and Zicari (2012)	Qualitative: case study	CSR reporting: value-added statement (VAS) model	Chile, Colombia and Uruguay	Mining, financial services, consumer products, utilities and oil	6	n/a	Descriptive of application of the VAS in different companies	The VAS, based on financial accounting principles, can provide relevant information for CSR accountability. Socio-political factors tend to drive this type of reporting, which needs a wider adaptation for better communication with stakeholders.
Vives, A. (2012)	Qualitative: descriptive	Socially responsible investment (SRI)	Latin America (Brazil)	n/a	n/a	2012	Institutional theory / Asymmetrical information	Underdeveloped financial markets do not sufficiently promote SRI in the region. Not enough evidence in Brazil or other LA countries that investing in sustainable companies improves financial

								returns, although the study presents arguments that there is potential to strengthen this position.
Yakovleva and Vazquez-Brust (2012)	Qualitative: case (content analysis)	Corporate Social Responsibility Orientation (CSRO)	Argentina	Mining	n/a	2007 - 2008	Institutional theory / Stakeholder theory	Local mining companies slightly depart from CSR from their abroad headquarters, negotiating their activities in response to expectations from government expectations and philanthropic responsibilities with local communities (focusing on environmental activities) to build social legitimacy.
Scarlato, M. (2013)	Qualitative: descriptive (theoretical frameworks for social enterprises)	Social enterprises	Ecuador	n/a	n/a	n/a	Institutional theory	Social initiatives in Ecuador need to get involved not only on traditional social protection measures, but also innovate in the management of natural resources, indigenous community, and help develop projects for local communities, given the weak government response to regional social crisis.
Tamajon and Aulet (2013)	Qualitative: interviews and questionnaires	CSR activities	Catalonia and Chile	Hospitality and Tourism	Catalonia (394) and Chile (465) SMEs	2010	Stakeholder theory / resource-based view	In Chile, CSR initiatives by this industrial sector are led by environmental conservation and community development. They tend to work directly with local suppliers and products for they see it as part of improving their competitive advantage.

Milcíades (2014)	Qualitative: descriptive historical political account	CSR evolution	Brazil	n/a	n/a	1980s to 2000s	Institutional theory (political institutions)	Political parties lead CSR movement in Brazil: overlapping of government-business relations, which characterize the Brazilian political economy. CSR trajectory in the region is co-dependent on local institutions (variety of LA capitalism: HME)
Pastrana and Sriramesh (2014)	Qualitative data: study of frequencies, mean and standard deviations	CSR perceptions: understanding of CSR and measurement of CSR practices in companies	Colombia	n/a	54 SMEs	2012	Institutional theory / Stakeholder theory	Colombian SMEs practice informal internal and external CSR influenced by cultural and contextual aspects of the country's society. Key stakeholders for implementation of CSR in Colombia are government, international organizations and business associations
Joutsenvirta and Vara (2015)	Qualitative studies: discursive analysis of case study	CSR activities	Uruguay	Paper manufacturing	1 (MNC)	2005-2006	Institutional theory / Legitimacy theory	This case study presents how CSR in Uruguay involves political and ideological struggles, usually embedded in international relations. MNCs require to adapt to local contexts to obtain legitimacy for their CSR activities.
Lopez and Fornes (2015)	Qualitative: case study	CSR perceptions: understanding of CSR and measurement of CSR practices in companies	Latin America	n/a	8 (Spanish MNCs in Latin America)	n/a	Institutional theory / Instrumental CSR theories / Stakeholder theory	MNCs operating in these countries use CSR as instrumental, as a strategical advantage to cope with the relatively low development of local markets (improving competitiveness and reputation), engage with

								stakeholders, to protect their operations or to improve employees' morale and retention.
Araya, M. (2006)	Quantitative: logistic regression	CSR reporting	Latin America (Brazil, Mexico and Chile)	n/a	250	2003 - 2004	Institutional theory	CSR reporting practices is higher among companies operating in environmentally sensitive industries and among firms that are internationally oriented. A company's country of origin also affects reporting choices: Brazil is more likely to report than those from other LA companies and US affiliates.
Husted and Allen (2006)	Quantitative: multinomial logit analysis	CSR activities	Mexico	n/a	39 (MNEs operating in Mexico)	n/a	Institutional theory	Firms trying to implement CSR in Mexico face social problems related to poverty and income distribution, multidomestic and trasnational MNEs focus on country-specific issues (job creation and community issues), while global MNEs focus more on environmental conservation.
Aqueveque. and Encina. (2010)	Quantitative: quasi-experimental design / factorial design (ANOVA)	Corporate social accountability (CSA): perceptions from surveys	Chile	Electronics and banking	2 (perceptions from 280 local engineering students)	n/a	Legitimacy theory / Stakeholder theory	Interviews found that a null effect of CSR on corporate perceived trustworthiness, but corporate work environment (CWE) has a significant impact on perceived quality. In Chile, working conditions might be more related to well-being than socially responsible activities,

Study	Method	CSR Measure	Country		Sample	Period	Theory	Findings
Perez-Batres et al. (2010)	Quantitative: logistic regression model	CSR reporting: Global compact (GC) and GRI membership	Latin America (Argentina, Brazil, Chile, Colombia, Mexico, and Peru)	n/a	207	n/a	Institutional theory	LA firms are influenced to follow GC and GRI guidelines through normative and mimetic institutional pressures. Firms that have more commercial deals with the EU engage more in sustainably development initiatives. There was no coercive function from the government on this aspect.
Crisostomo et al. (2011)	Quantitative: cross-sectional regression (OLS)	CSR Index	Brazil	n/a	78	2001 - 2006	Stakeholder theory	There is negative effect of CSR on firm value in Brazil. This negative influence appears to be stronger for social actions related to employee relationships and environmental concerns
de Campos and Santos (2013)	Quantitative: exploratory factor analysis / regression /	Corporate Social Performance (CSP) perceptions with firm performance	Brazil	n/a	112 interviews	2008	Stakeholder theory	Perceptions of CSR managers in Brazil rendered the following: firms´ CSR activities are positively associated with stakeholders satisfaction, and this leads to better financial performance.
Zyglidopolous et al. (2016)	Quantitative: regression	CSR activities: ASSET4	Brazil, Russia, India, China and south Africa	n/a	412 (MNCs)	2009 - 2012	Institutional theory	MNCs in developing countries have to deal with weak institutions and infrastructure. They often face reputation and legitimacy issues, which they address by improving their CSR activities

Source: Own elaboration. Even though some of the studies included do not specifically address institutional theory as part of their methodological framework, we are including this theory as such in all of those that address the regulatory, legal, political, cultural and economic conditions (formal and informal institutions) in which business operates as part of the drivers of CSR activities. Those spaces with *n/a* indicate where such information was not available in the specific paper discussed.

When trying to build theoretical frameworks for CSR in emerging countries, the studies reviewed base their approach on the institutional environment of the country. Whether directly or indirectly, researchers agreed that current CSR theories, concepts and ideas primarily originate from market economies with efficient and well-enforced regulation. All of the reviewed studies emphasized that firms operating in emerging markets need to develop specific strategies to deal with local stakeholders to reduce risks and increase their potential positive impact and legitimacy to operate. Practices in developing countries tend to draw mainly on cultural traditions of philanthropy, religion, and a strong sense of community (Visser, 2009; Yin and Zhang, 2012; Lopez and Fornes, 2015).

Perez-Batres et al. (2010) elaborate extensively on how institutional pressures can explain firms' socially responsible engagement and sustainable development practices in Latin America. They argue that, in the region, adopting CSR guidelines into the business models is more a necessary adaptation to changing global norms and catching up with developed economies than a coercive movement from local governments and regulatory frameworks. Firms in these markets do not usually have standardized rules to follow, and therefore do not engage in standardized practices. Third-party auditors may help collect what information is available and create a more replicable dataset that can be used in academic research. CSR disclosure may help provide necessary social legitimacy to firms operating in these asymmetric information environments. Legitimacy issues become relevant in unstable markets, as well as the so-called 'social license to operate', which may affect the firm's sustainable operations in certain economies due to different institutional frameworks. Also, many of the firms operating in the Latin American region are seen as having an economic, political, social and environmental impact and a responsibility to deal with any potential fall-out from their activities (Julian and Ofori-Dankwa, 2013; Zyglidopoulos et al., 2016). Latin America has been portrayed as having neither a state-led nor a market-led development, but rather a business-led

development. On a macro level, research has established how in economies that lack a strong governance system, the private sector tends to cover through socially responsible practices some of the gaps left by the absence of a welfare state (Blowfield and Frynas, 2008; Kang and Moon, 2012). Lack of funding for these initiatives could also present an obstacle for regional growth. Therefore, as well as being capable of improving a firm's market value, socially responsible investments may become strategically important in the region. We could hypothesise that firms experiencing financial constraints, and unable to invest in these projects may not be as competitive as their other market counterparts may over the long term.

According to literature, most CSR drivers in European countries are linked to external stakeholder pressure, especially from society. If we take the case of civil society in Latin America, research has found a lower level of association due to a more hierarchical structure (Zicari, 2017). As mentioned before, in emerging countries, the state has retreated from many regulating activities, and weaker norms of social responsibility lead to private actors taking the lead on these activities. In these markets, performance in social responsibility tends to be less formal and more related to philanthropy. Main activities found in empirical research include educational investment and covering for social and public services in the local community (Casanova and Dumas, 2010; Lopez and Fornes, 2015). Regulatory forces such as the European Modernization Directive, the OECD Guidelines for Multinational Enterprises, or the US Environmental Protection Agency that keep firms aligned with certain social and environmental principles are not always present in emerging economies, which leaves no standard procedures for firms to follow. As discussed before, socially responsible investment in stock markets is another driving force for CSR activities, as indexes such as the Dow Jones Sustainability Index, the MSCI Environmental, Social and Governance (ESG) Index, and the FTSE4 Good Index compel their members to disclose important information regarding the extent of their involvement. These indexes have increased their coverage of Latin American

companies, and as listed in the previous section, the region has launched their initiatives to keep up with this global trend.

If we compare the studies reviewed with analysis in other emerging countries, we find that CSR research in Asia-Middle East and Eastern Europe has used predominantly quantitative analysis and tend to find a positive and significant effect of CSR in CFP (Rettab et al., 2009; Mishra et al., 2010; Jang et al., 2013; Parastoo and Saeidi, 2015; Liu and Zhang, 2016; Peng, 2016). Most studies of the relationship between CSR and CFP have used a regression model (panel data and cross-sectional), correlation analysis, or a t-test. Most of them use a mixture of accounting and market-based measures for CFP (mainly return on assets (ROA), return on equity (ROE) and return on sales (ROS), earnings per share (EPS) and Tobin's Q). CSR studies in Latin America used mainly qualitative analysis (descriptive case studies), which makes definite conclusions about the constructs relationship harder to define. Half of them belong to analysis done in a single country in Latin America (Huemer, 2010; Yakovleva and Vazquez-Brust, 2012; Stocco and Bonomi, 2013; Scarlato, 2013; Lopez and Fornes, 2015). Narrative studies can be subject to several limitations, among the most important are their purely descriptive nature, subjectivity, and their lack of critical assessment (Endrikat et al., 2014). However, given that no cultural dimension has so far been included in the academic literature reviewing the CSR-CFP relationship, narrative reviews allows us to describe the current state of the art and add some much-needed insight into the link between these variables in emerging regions. Business leaders may interpret and practice CSR differently when making sense of the local and international contexts in their social decision making.

3.4. Conclusions: Why should we study CSR in Latin America?

Institutional theory may present a potentially useful framework to understand why it is crucial to explore previous CSR findings in emerging countries, where firms have to operate in relatively challenging economic conditions with state regulations that are not well-enforced,

and weak normative and legal institutions (Jamali and Neville, 2011; Elango and Lahiri, 2014). From our discussion throughout this chapter and studies analysed in Table 4, we can summarize that Latin America presents a series of lack of well-developed institutions that make transactions more costly: abrupt changes in political and economic regimes, informal business arrangements, legal non-compliance and lack of enforcement, tax evasion and fraud (Gutierrez et al., 2006; Hodges, 2007; Beckman et al., 2009; Dobers and Halme, 2009; Perez-Batres et al., 2010; Vives, 2012; Milcíades, 2014). CSR activities in less developed markets may help bridge the institutional voids discussed before, reducing transaction costs and uncertainty. Thus, CSR can contribute to a firm's differentiation by lowering risk: the socially responsible initiatives can serve as a buffer from troublesome events such as attacks from activist groups or negative comments on the media. Shareholders and potential investors could then perceive firms engaged in positive CSP as less risky due to this goodwill resource (Godfrey et al., 2009; Tsui-Ach and Mollering, 2010; Demirbag et al., 2010). Understanding these conditions in order to manage these institutional deficiencies constitutes an important asset for local firms that may provide competitive advantage; we have seen these in case studies regarding social entrepreneurship and bottom-of-the-pyramid business models (Dobers and Halme, 2009; Scarlato, 2013; Joutsenvirta and Vaara, 2015; Lopez and Fornes, 2015). There are different expectations and concerns in Latin America of different expectations regarding public and private institutions due to weak governments and the failure of welfare states, along with limited regulatory capacity and corruption. The retreat of the state from a wide range of economic and social duties has led to its replacement by for-profit actors in these economies (Haslam, 2004; Faria, 2007; Gutierrez and Lobo, 2007). In this context, firms are motivated by sense of institutional necessity, and a desire to seek social legitimacy in local communities, CSR activities might bring them benefits such as lower risks, better reputation, and the opportunity to enter new markets (de Waal and Escalante, 2010; Huemer 2010; de Campos et

al., 2013; Tamajón et al., 2013; Pastrana and Sriramesh, 2014). Firms in Latin America have a strong potential contribution to economic and financial market development; and to the quality of individuals' lives in general, as has been studied on the few qualitative studies through ESG practices (Husted and Allen, 2006; Torres-Baumgarten and Yucetepe, 2009; Scarlato, 2013). CSR in developing countries is not just a response to global institutional pressures, but can also be an answer to national institutional pressures: informal social norms, so-called green consumers, religious based beliefs (Haslam, 2004; Jamali and Mirshak, 2007; Brammer et al., 2012). In emerging countries, Rocha and Avila (2015) explored the institutional adaptation strategies of foreign firms that want to enter the Brazilian market. Again, the search for legitimacy is the main driver for firm's behaviour and decision-making in most of the literature. This has particular relevance in emerging countries, where the aptly called 'social license to operate' may affect the firm's long-term operations in economies with higher institutional instability.

Chapter 4: Role of financial constraints in Latin America's CSR investment

4.1. Introduction

A comprehensive body of academic work examines corporate social responsibility (CSR) and its links with corporate and even national performance (Esteban-Sanchez et al., 2017; Gutsche et al., 2017; Rodrigo et al., 2016; Wang et al., 2016). However, as previously discussed, CSR studies in emerging countries are scant, and mostly carried out descriptively. In Chapter 2 our meta-analyses review reveals that while Latin America was left behind in the CSR-CFP debate, most of the extant research seemed to find a positive link between these two constructs (Patari et al., 2014; Qang et al., 2015; Valenzuela et al., 2015). Emerging countries could take advantage of the benefits of CSR, especially in Latin America, where there is a lack of public and social services due to weak governments. In these cases, corporate actions could help cover for the lack of public funds. Firm growth would therefore, also contribute to local growth. Therefore, firms could internally benefit from CSR activities while also influencing external societal outcomes. Academic literature has focused on CSR's influence on different organizational outcomes, but as has also been discussed in our meta-analyses review, there are not many studies addressing the factors that influence CSR investment. The seminal work of Margolis et al. (2007) calls for future research on CSR to redirect its efforts to "the mechanisms connecting prior corporate financial performance (CFP) to subsequent CSR". However, incentives for this type of investments could be thwarted by regional institutional conditions, amongst them: inadequate financial markets, poor enforcement of existing regulations and macroeconomic instability. The firm's access to capital will inevitably restrict investment in socially responsible activities, which in turn is affected by the local market characteristics.

Beck (2007) conducts a study for the World Bank regarding financing obstacles in emerging countries and found that markets with higher institutional development reported significantly lower restrictions than their less-developed counterparts. Emerging countries such as Latin America usually lack well-developed institutions regulating financial and legal areas. Sasidharan et al. (2015) stress the importance of the role of capital markets in emerging economies when allocating resources. Firms that, due to financial constraints, cannot invest in CSR projects may not be as competitive as their developed market counterparts in the long term.

Given the value-enhancing benefits of CSR, which have been already extensively discussed in academic literature, we would like to focus on these potential regional restrictions to CSR investment. As stated in our first chapter, CSR may give firms a competitive advantage and also help with regional performance. Didier and Schmukler (2014) state that Latin America has made significant efforts to improve its financial system, but it still has some way to go in order to catch up with its developed counterparts. As mentioned in Chapter 3, Latin America is a hierarchical economy which means many firms finance themselves directly through private owners, in a "hierarchical" way. By exploring this relationship only in developed countries, we miss the opportunity to explore if, in such an institutional context, financial market restrictions affect investment in intangible assets such as CSR. As seen in our earlier meta-analysis summary, latest research has seen business more invested in creating value through socially responsible activities that go beyond a firm's financial and regulatory obligations (Wang et al., 2015; Endrikat et al., 2014). In the latest UN Global Compact-Accenture Strategy CEO Study (2016), of more than 1,000 CEOs interviewed in over a hundred countries, 89% stated that commitment to sustainability initiatives translated into a real impact to their bottom-line, and 88% believe that integration of socially responsible issues in financial markets will be essential

to making progress on this matter. Financial restrictions may prevent some firms from taking advantage of these benefits when making investment decisions.

This chapter will explore the link between financial constraints (FC) and CSR in Latin America: the influence of a firm's funding availability on its socially responsible investment decisions. We begin by describing our independent variable, the FC construct, and its different measurements in business studies. We continue by examining the relationship between CSR and FC within recent academic literature. As part of our research background, we build a table summarizing the specific studies relevant for our analysis. This latest literature review concludes that there are few studies of this type in emerging markets. More specifically, none have addressed the case of Latin American firms. Therefore, we want to address this gap with an exploratory empirical analysis in the region. For this chapter, the CSR construct will be measured through ESG indexes (both through the ThomsonReuters ASSET4 ratings and the Bloomberg ESG Disclosure index); while our financial constraints (FC) construct will be measured through the Kaplan-Zingales index and the SA index. With Latin America's institutional background, we would expect financial constraints to play an important role within the firm's CSR investment decisions. Following Hmaittane (2012) methodology, we run a fixed-effects model for this regression, including year and industry effects. To control for endogeneity, we use dynamic panel-data, one-step generalized method of moments (GMM). The results of our analysis show evidence of a negative relationship between financial constraints and CSR performance, which holds for both our measurements of financial constraints. We wish to contribute to widening the understanding of the role of financial constraints in socially responsible investment for emerging markets, specifically the Latin American region, which has not been discussed before in academic literature.

4.2. Review of relevant literature

As we extensively discussed in our previous chapters, plenty of academic work emphasize the potential benefits of CSR for firms' performance and survival, whether it is in emerging or developed markets. Investment in these activities will depend on the firm's availability of financial resources. In this section, we will begin by describing our main independent variable, financial constraints, and how it has been measured throughout the relevant literature. Our dependent variable, CSR, was extensively reviewed in Chapter 2. We will then proceed to discuss the relationship between our two main variables, summarizing the research been done so far and identifying a gap for emerging markets, specifically Latin America. We will finish this section with a brief portrayal of the state of financial markets in Latin America.

4.2.1. *Research on financial constraints*

4.2.1.1. Definition

Throughout financial literature, we find that research has tried to address a firm's decision-making investment process when facing financial constraints. Lamont et al. (2001) describe financial constraints as those restrictions that come between a firm and its investment funding ability, or cost of accessing these resources in the capital market. Financial constraints are key for a firm's investment decisions, and these investments, in turn, play an important role in the long-term sustainability and performance of firms. Several studies approach this issue as one concerning investment-cash flow sensitivity, or liquidity of a firm's balance sheet (which could be affected by cash flow, leverage and size). Crisostomo et al. (2014), study the influence of financial constraints on Brazilian non-financial firms' investment decisions, through investment-cash flow sensitivity, finding evidence of the relevance of capital market restrictions on capital expenditures. Research has explored the many factors affecting a firm's financial limitations: credit constraints or inability to borrow, inability to issue equity,

dependence on bank loans, and illiquidity of assets or asset tangibility (Almeida and Campello, 2007; Beck 2007). These limitations can potentially affect an efficient allocation of resources and hamper firm value, as financing is strongly linked to business growth (Ayyagari et al., 2006, Beck et al., 2006; Francis et al., 2013). Firms with insufficient internal resources to finance new investments may have to resort to capital markets. Capital market imperfections, such as information asymmetry between the firm and external capital providers, or agency costs, can make external financing more expensive than internal financing (Kaplan and Zingales, 1997). The firm may find restrictions for making efficient investments both by lack of internal funds and external financing costs.

4.2.1.2. Measurement

Throughout the literature reviewed for this chapter, studies analyse a firm's internal financial constraints through the following criteria: a) cash flow availability, cost of capital or cost of equity; which are indicators of how difficult it is for firms to access external funds due to informational asymmetries, or b) self-constructed indexes that act as proxies for the level of internally generated funds available in the firm, a more direct approach to the degree of internal financial restrictions (Guariglia, 2008; Dhaliwal et al., 2011; Kim and Park, 2015; Francis et al., 2013; Cheng et al., 2014; Reverte, 2012). Cash flow availability is measured as investment-cash flow sensitivity (ICFS), or how corporate investment expenditures respond to internal cash flow availability (Attig et al., 2014; Samet and Jarboui, 2017). The cost of capital refers to the cost that the firm must pay in order to raise new capital funds. Firms that are publicly listed can raise money by either borrowing money or selling shares, which would require interest payments. A firm's cost of equity measures the returns demanded by the investors or owners through capital gains/dividends. The firm's cost of equity relies on the firm's stock and is thus tied to the firm's perceived risk and market valuation. It has been measured through the capital asset pricing model (CAPM model), assuming perfect information in markets, and

through accounting-based approaches that use dividend capitalization and analysts' consensus forecasts to build their measurements (forecasts of earnings and stock price). Fama and French (1992) develop a three-factor asset-pricing model that depends on market beta, firm size and market-to-book ratio, concluding that it has more explanatory power than the CAPM. Accounting measures usually provide a more accurate estimation than market approaches because they control for expected future cash flows and growth rates, giving better estimates than traditional asset pricing models (El Ghoul et al., 2011; Baird et al., 2012; Reverte 2012). Regarding indices, the most discussed ones in academic papers for measuring financial constraints are the Kaplan and Zingales (KZ) index, the Hadlock-Pierce index (also called the SA index because it is composed by only firm size and age variables), and the Whited-Wu (WW) index (Hmaittane, 2012; Hong et al., 2012; Attig et al., 2014; Rusinova and Wernick, 2016). Kaplan and Zingales (1997) criticize the investment-cash flow approach indicating that any sensitivity is just indicating an increase in the positive net present value investment project. The KZ index evaluates a firm's productivity and equity (stock) dependence, along with its cash flow liquidity. Hadlock and Pierce (2010) test the validity of the KZ index throughout all USA Compustat firms (non-financial) consider that age and size are the only useful predictors of financial constraints. Whited and Wu (2006) focus on quantitative data, adding to the KZ index by also including external financial variables relating to exogenous firm characteristics. The WW index optimizes the present discounted value of future dividends. From our literature review, we find these last three measures to be the ones most used in the latest research. An expanded table will be presented in our next section. We will further discuss the first two constructs in the methodology section, as they will be the main ones used in our analysis.

4.2.1.3. Relationship between financial constraints and CSR

A first stream of studies focuses on the relation between CSR and financial constraints measures, like the ones discussed above. CSR can influence a firm's access to financing and

thus influence investment decisions. The benefits of investing in CSR activities have been thoroughly discussed throughout literature, with research showing such investment brings financial and competitive advantages benefitting the firm's bottom line (Ferrell et al., 2016; Martinez-Conesda et al., 2016; Gutsche et al., 2017; Friede et al., 2015; Marti et al., 2015; Saeidi et al., 2015). Inclusion in socially responsible ratings and indexes are increasingly being taken into account by investors and analysts alike (Becchetti et al., 2012; Charlo et al., 2013; Oberndorfer et al., 2013). El Ghoul et al. (2011) work with a big sample of US firms to analyse the link between CSR and the cost of equity capital, using several models for estimating the dependent variable. Because the cost of equity represents long term valuation of the firm by the market, it is one mechanism that improves access to external capital. They discover that firms with higher levels of CSR usually have a lower cost of equity, with the relationship being stronger for specific KLD areas such as employee relations, environmental policies and product strategies. They also control for so-called 'sin' industries, such as tobacco, and establish that these firms face a higher cost of equity capital, due to higher perceived risk. Through this sample, the authors find evidence that socially responsible performance has an effect on a firm's market valuation and risk appraisal. Through better disclosure practices, higher CSR engagement can lower risk in capital markets, and increased transparency can also reduce transaction costs and information asymmetry, increasing a firm's valuation and lowering financial restrictions. Reverte (2012) also analyses on how CSR disclosure can affect the cost of equity capital, focusing on Spanish firms. His study uses disclosure ratings from the Observatory on Corporate Social Responsibility (OCSR), trying to find whether investors reward firms that present higher ratings. Cost of equity is calculated controlling for the aforementioned Fama and French risk factors (firm's beta, market-to-book, and size).They find a negative relationship between both constructs, which means that disclosure of CSR initiatives can reduce agency problems involving information asymmetry, thus lowering the cost of

equity. Also, the relationship tends to be stronger for firms in environmentally sensitive industries. In his doctoral thesis, Hmaittane (2012) researches both sides of this relationship. Focusing on the KLD index as their measurement for CSR and using the Whited-Wu index as a proxy for financial constraints they find that for undifferentiated firms, high levels of socially responsible investment have no impact on financial constraints. However, when they divide their firm sample into constrained and non-constrained firms, CSR has a negative impact on access to external capital for financially constrained firms. In financially unconstrained firms, higher scores of the CSR proxy tend to reduce the level of financing constraints. Cheng et al. (2014) confirm as well this proposal using the ASSET4 database, specifically that the social and environmental dimensions of CSR are the ones influencing the firm's capital constraints. Implementing the KZ index, the SA index and the WW index they establish that CSR affects market evaluation by lowering information asymmetry and improving stakeholder relationships. In this sense, better CSR improves corporate governance and therefore, a firm's position among socially responsible investors. Therefore, the firm can access a broader range of investors. Socially responsible investing requires firms to have a good CSR performance to be included in portfolios. Social screening has become more important in later years in capital markets. Attig et al. (2014) reinforce the evidence of CSR impact on investment-cash flow sensitivity through the reduction of information asymmetry and agency costs. They use the MSCI ESG scores as their proxy for CSR in US firms. Specifically, they find that activities related to the areas of Community, Diversity, and Human Rights improve firms' access to financial capital. Kawk and Choi (2015) study firms' CSR impact on financial constraints as measured through the KZ Index in an emerging economy context, finding that Korean CSR activities also impact access to finance in capital markets. They measure CSR through both an equal-weighted index and a stakeholder-weighted one, both based on information from the Korea Economic Justice Institute (KEJI). The stakeholder-weighted activities tend to have a

stronger negative effect on financial constraints, again emphasizing the importance of addressing all stakeholders' concerns to improve access to capital markets.

A second stream of studies focuses on the impact of financial constraints on CSR investments. Waddock and Graves (1997) establish with their slack resources hypothesis that it is the availability of additional financial resources which allows additional firm investment in CSR. Orlitzky et al. (2003) show in their CSR-CFP meta-analysis that those more financially successful firms will be able to spend more because of these additional funds. In his study for developing countries, Beck (2007) cites access and cost of finance as the main growth restriction for firms in developing countries. For our literature benchmark, Hmaittane (2012) also addresses this direction of the relationship between these two constructs, using the KLD ratings for CSR and the Whited-Wu index for financial constraints. Focusing on the same sample of US firms, they find that financial constraints have a negative effect on CSR. They provide support for the slack resources hypothesis in that access to external financing and availability of internal funds affect the firm's investment in CSR commitment. Hong et al. (2012), and later Rusinova and Wernick (2016), analyse the hypothesis that financially constrained firms will have less money to invest in socially responsible capital. Both studies analyse US firms using the KLD index and several proxies for financial constraints (KZ index, WW index, SA index, and bond ratings). They find that no matter whether CSR spending is being driven by corporate governance motives or agency issues, financial constraints play an important role in promoting social investment. More recently, Chan et al. (2017) analyse this relationship using the MSCI ESG ratings to study the impact of cash flow liquidity on a firm's CSR investments. They also support the hypothesis that it is a firm's access to funds that will eventually lead to their involvement in this type of activities, in line with conclusions from most CSR and financial restrictions research.

The following table summarizes the results of the studies specifically related to our analysis, narrowing down our research benchmark to those studies that specifically discuss the term financial constraints and their relationship with CSR investment.

Table 5. Summary of studies researching the financial constraints and corporate social performance link (both directions)

Author	Country	Year	Financial Constraint Measure	CSR Measure	Relationship direction	Relationship outcome	Number of firms	Years covered
El Ghoul et al.	US	2011	Cost of equity (4 models: Claus and Thomas model, the Gebhardt et al. model, the Ohlson and Juettner-Nauroth model, and the Easton model)	KLD index	CSR to financial constraints (equity)	Negative	2809	1992-2007
Reverte, C.	Spain	2012	Cost of equity (PEG: price/earnings to growth ratio method)	Observatory on Corporate Social Responsibility (OCSR) reports	CSR to financial constraints (equity)	Negative	26	2003-2008
Hmaittane, A.	US	2012	WW index / bond rating / size	KLD index	CSR to financial constraints	Negative	17,362 (firm-year observations)	1991-2007
Cheng et al.	World	2014	WW index / KZ index / HP Index	ASSET4 ratings	CSR to financial constraints (capital)	Negative	2349	2002-2009

Attig et al.	US	2014	KZ index modified	MSCI ESG STATS ratings	CSR to investment–cash flow sensitivity (ICFS)	Negative	2943	1992-2010
Kawk & Suk.	Korea	2015	KZ index	Korea Economic Justice Institute (KEJI) index	CSR to financial constraints	Negative	342	2002-2011
Hmaittane, A.	US	2012	WW index / bond rating / size	KLD index	Financial constraints to CSR	Negative	17,362 (firm-year observations)	1991-2007
Hong et al.	US	2012	KZ index	KLD index	Financial constraints to CSR	Negative	500	1991-2008
Rusinova & Wernick	US	2016	WW index / KZ index / HP Index	KLD index	Financial constraints to CSR	Negative	908	2001-2007
Chan et al.	World	2017	KZ Index / Altman's Z score	MSCI ESG STATS ratings	Financial constraints to CSR	Negative	8,000 (firm-year observations)	1992-2010

Source: Own elaboration.

From Table 5, we find that the extant literature regarding financial constraints and CSR is realtively recent, and mostly focuses on the US and developed markets. This leaves a gap in research, because access to credit is significant in emerging countries with underdeveloped equity markets, as will be detailed in the next section. Firms in these markets could face a potential disadvantage to benefit from the CSR benefits discussed in Chapter 2 if they are constrained in their investment decisions. While searching for benchmark studies, we found fewer ones addressing the influence that financing frictions could have on investment decisions, which is a question initially addressed by Almeida and Campello (2007) in their study regarding how tangible assets may affect a firm's access to credit. Some studies focusing on financial constraints in emerging markets (although not explicitly discussing CSR, and usually focusing on individual countries) confirm that this is a problem that could eventually affect productivity and competitiveness (Crisostomo et al., 2014; Guariglia and Liu, 2014; Hasan and Sheldon, 2016; Li et al., 2018). The few studies directly focusing on the influence of financial constraints on CSR activities find a negative relationship between the two, which leads to this research objective of finding whether these restrictions would also apply in a capital market framework such as Latin America.

4.3. The case of Latin American financial markets

In underdeveloped markets, a firm's investment decisions will depend on its financial position. Campbell (2007) is among the first studies to trace the potential institutional drivers behind CSR and establish that weak financial performance and regulation environments may affect a firm´s capacity and willingness to invest in sustainable initiatives. The World Bank Enterprise Surveys Data (2014) highlights institutional development as the most important factor explaining the different financing obstacles firms can face cross-country. In emerging countries, development in the banking sector and stock markets does not always translate into

greater firm access to financial markets and service. As discussed, CSR investments may be influenced by the firm's financial resources or access to financing.

As established by the OECD Corporate Governance Review of Latin America (2015), emerging economies tend to have imperfect capital markets because of their regulatory and institutional issues. The region's relatively shallow banking sector had also been highlighted by Vives (2012) when questioning the possibility of social investment amongst Latin American economies. World Bank statistics for 2015 reveal that amongst developing countries, Latin America was one of the regions with lowest lending to the private sector as a percentage of the gross domestic product (GDP): 49.4%. The region's market capitalization of listed companies is the lowest at a global level: 30% as a percentage of GDP. This shows a relatively low level of financial penetration compared to other high-income countries (146.6% as a percentage of GDP).

Table 6. Latin America in context: financial development by regions

Year	Region	Number of countries	Private sector lending (% GDP)	GDP per capita (in US$)	Market capitalisation of listed domestic companies (% GDP)
2015	Latin America and the Caribbean	28	49.4	8450.3	30.1
	Latin America and the Caribbean (excluding high income)	10	46.4	8110.9	27.2
	East Asia & Pacific	24	149.6	9537.8	100.5
	Middle East & North Africa	13	56.1	7398.7	57.8
	Europe & Central Asia	23	96	7118.7	-
	South Asia	8	47.3	1538.5	70.8
	Sub-Saharan Africa	46	45.8	1594.2	-
	High income countries	32	146.6	39944.8	107

Source: World Bank indicators. Own elaboration.

Higher-income countries usually have more developed financial systems. Financial markets can be classified as having either a bank-based or market-based structure (Demirguc-Kunt and Maksimovic, 2002; Haque et al., 2011; Brown et al., 2012). In the case of Latin America, most countries have been gravitating towards a more market-based financing economy. Chile's development of a private pension system (called the AFP system), which was subsequently adopted by the region, started the reinvigoration of the capital markets.

Institutional investors such as private pension systems, as stated by Vives (2012) are the ones more likely to make sustainable investments and promote socially responsible practices. The banking sector in Latin America has been considered as a concentrated industry, which may increase financial constraints. Alvarez and Jara (2016) study the region and conclude that the effect of financial constraints may differ among industries and firms, but that it plays an important role. Their research focuses on the effect of banking competition on credit access, concluding that the negative impact of competition is higher for smaller firms and low-assets tangibility industries. Financial constraints also tend to have a more considerable effect during a global financial crisis. They recommend the implementation of policies and instruments to improve Latin American credit access.

Though financial constraints have been examined in Latin America, the discussion is usually related to overall firm performance or the region's financial stability, trade and growth. The role these restrictions can play in corporate investment decisions has been addressed, but not explicitly studied as an influence in intangible assets' investment, such as CSR (Alvarez and Jara, 2016; Dabla-Norris et al., 2016; Hasan and Sheldon, 2016). Latin America is absent from the financial constraints-CSR academic analysis. This allows us to explore the validity of these results in a different institutional context. Due to market imperfections access to external funds may not be readily available for some firms, and these financial constraints may affect the type of investments they make. As discussed in previous chapters, bypassing particular type of investments may affect a firm's competitiveness and long-term sustainability. This, in turn, may also affect the country's productivity, which is an essential shortcoming in order for emerging countries to catch up. Crespi et al. (2015) and Crisostomo et al. (2011) research how financial constraints for innovation and R&D are an important constraint for Latin American firms when developing technological and economic advantages. Both studies show that market

imperfections lead to financing difficulties for firms and investors when trying to undertake innovative activities.

Efficient financial markets are supposed to reduce a firm's reliance on internal funds or informal sources by facilitating funding through a broader range of credit sources. In emerging countries, the weak legal environment and lack of public enforcement of regulations regarding socially responsible behaviour, disclosure and accountability can constrain a firm's ability to raise capital and external funds, leading to information gaps and influencing managerial incentives regarding CSR (Campbell, 2007; Matten and Moon, 2008; Damodaran, 2009; Visser, 2009; Carvalhal, 2012). Most of Latin American firms tend to be family-owned and even after going public they hold a different ownership structure, highly concentrated and low information disclosure (Cueto, 2009; Peters et al., 2011; Francis et al., 2013; Briano-Turrent and Rodriguez-Ariza, 2016). Data gathered in 2014 by the World Bank Group shows that large firms in Latin America and the Caribbean have the second-highest share of constrained firms in the world, which is associated with lower productivity and low employment growth. Also, according to the firm survey carried out in the region, Latin American firms rely more on external funding for financing than the average firm in the rest of the world. The regional financial system has experienced some development in the last decade, transitioning from a mostly bank-based market to a more interconnected one, with institutional investors playing a bigger role. In Latin America, according to an OECD report (2013), firms are more likely to use domestic equity markets when searching for capital. This report states that the region has experienced a growth in the size of its equity markets, which still positions it below the OECD average. Between 2000 and 2012 these economies showed a rise in market capitalization almost eight times higher than other international markets. However, this still leaves Latin American financial systems around 20 years behind developed counterparts (Didier and Schmukler, 2013). The Inter-American Development Bank (2016) has also established that

regional firms do not have better access to long-term financial resources due to inefficiency in the institutional framework (regulatory uncertainty, socio-political unrest, lack of contracts enforceability, amongst others).

In summary, given the conditions faced by Latin American firms, we would expect financial constraints to have an even stronger impact on CSR investments in these markets than in their developed counterparts. Firms facing cumbersome legal systems, lack of regulation enforcement and unreliable credit information may hesitate in allocating capital to CSR expenditures (Julian and Ofori-Dankwa, 2013). Financial inclusion is an important factor to take into account in the region if firms are to benefit from the competitive advantages of sustainability. Focus on this subject has been scarce in academic literature, with plenty of studies regarding CSR addressing its influence on different organizational outcomes. However, as we have seen on our meta-analyses review, not that many address what factors might influence CSR investment. Following Chan et al. (2017) recent research, we want to provide further understanding of the barriers to CSR in Latin American firms by choosing to address this sometimes overlooked topic. According to the discussed framework and previous studies, we predict that:

H1: Financial constraints in Latin American firms will be negatively associated with CSR activities.

4.4. Variable measurement, sample description and methodology

As we have reviewed, in emerging economies, financial markets are characterized by information asymmetry conditions, and also standardized data limitations when gathering information across countries. In the case of Latin America, this has been acknowledged as a primary limitation for result comparability with developed countries (O'Keefe, 2007; Cueto, 2009; Zicari, 2017). Our sample exclusively covers listed Latin American companies.

According to other studies, it is the largest companies that influence and drive growth in equity markets (Mishra et al., 2010; Perez-Batres et al., 2010). So by analysing these firms, we will be covering those main components driving the region's market growth, as an exploratory first step when testing the financial constraints-CSR relationship. We follow similar emerging countries studies, as discussed in Chapter 3, that have also relied on listed companies for their analysis, which also facilitates the concept standardization when accessing financial variables due to the disclosure agreements these companies have to follow when entering the stock market. Our data universe is taken from the Thomson Reuters Datastream database, as our main measurement for CSR will be the ESG performance rating ASSET4, by Thomson Reuters. For Latin American firms, we compared MSCI ESG STATS (former KLD) and DJSI Emerging Markets information, and Thomson Reuters provides the most comprehensive coverage with 157 firms. We will further discuss our selections in the measurement section.

We will be excluding the aforementioned studies measuring financial restrictions as cash flow or cost of equity, which could be analysed in future research. Although these studies have not been included as part of this exploratory study, they conform an essential part of the broader analysis of the link between financial markets and the firm's decision to invest in socially responsible activities.

4.4.1. *Measures for financial constraints*

Our selection of measurement for financial restrictions faced the aforementioned data availability challenge, as this exploratory study aims to replicate previous research done in developed markets. Therefore, we address the gap in financial constraints-CSR literature by focusing on available secondary data for Latin American firms. For this chapter, we measure financial constraints through two of the most used indexes in our literature review, as reviewed in Table 5: the KZ and the SA index. We excluded the WW index due to the lack of enough available data in the Datastream or Bloomberg database for one of its components: three-digit

industry sales growth, for all of our Latin American sample. As we have already mentioned in our research, we find these indexes to be financial constraints measures most used in the latest literature. Through the use of these measurements, we aim to establish a better benchmark of comparison by using established indexes with the available information.

Our primary measure for financial constraints is the KZ index, following most of the studies reviewed for the extant financial constraints literature review (Kalatzsi et al., 2010; Byun et al., 2015; Lee, 2017). As stated in several papers, measuring firms' financial constraints is difficult given that they cannot be directly observed (Rusinova and Wernick, 2016), but as we presented on Table 1, the KZ index is the most often used construct to measure this variable. The KZ index quantifies a firm's reliance on external financing. According to the original study by Kaplan and Zingales (1997), this index is a linear combination of the following financial variables: cash flow to lagged assets (CFit/Ait-1), dividends to lagged assets (DIVit/Ait-1), cash holdings to lagged assets (Cit/Ait-1), leverage (Levit/Ait-1), and Tobin's Q (Qit). We calculate Tobin's Q as the ratio of the sum of the market value of assets (market capitalization) and liabilities market value (total liabilities) with the sum of equity book value (common stakeholders' stock) and the book value of total liabilities. Higher values of the KZ index imply that the firm is more capital constrained. So we calculate the following equation:

KZ Index = -1.002 CFit/Ait-1 -39.368(DIVit/Ait-1) -1.315(Cit/Ait-1) +3.139(Levit/Ait-1) +0.283(Qit)

We removed some values of the variables used for Tobin's Q when building the index. Specifically, we removed those observations for total liabilities and stakeholders' stock that appeared negative in the dataset. We winsorize the observations to lessen outlier impacts, at

99th percentile to avoid extreme ratios (Cheng et al., 2014; Ferrell et al., 2016; El Ghoul et al., 2011).

For robustness, and given academic concerns (Hong et al., 2012) regarding the use of Q-theory as a proxy for market productivity, we will also use an alternative measure for financial constraints to provide further validity to findings: the SA index built by Hadlock and Pierce (2010). They found that a different set of variables could be good predictors of the probability of being credit restricted. Their index is a linear combination of the firm's size (natural logarithm of total assets) and age (years since the firm went public):

$SA\ Index = (-0.737*Size) + (0.043*Size^2) - (0.040*Age)$

Just as with the KZ index, we also winsorize the SA values to avoid extreme outliers effect.

4.4.2. Measures for CSR

In the studies previously reviewed for the financial constraints – CSR link, multidimensional measurements are used as CSR proxies. ESG scores provide a standardized measurement across different countries that make it easier for investors and other stakeholders to assess a firm's performance, especially in an emerging economy context with less regulated markets (Han et al., 2016). Following previous studies regarding CSR performance, we selected ThomsonReuters ASSET4 due to its objective and systematic ESG information, which makes our results comparable to other studies (Ioannou and Serafeim, 2012; Cheng et al., 2014; Lopatta et al., 2016; Zyglidopoulos et al., 2016). Unlike the also widely used MSCI ESG ratings, ASSET4 provides an additional aggregate measure for all three ESG dimensions and provides a more comprehensive calculation of the rating scores. (Shaukat et al., 2015; Gutsche et al., 2017).

Our primary data comes from the Thomson Reuters ASSET4 Rating, which equally weighs a company's financial and extra-financial health based on the information in ASSET4's economic, environmental, social and corporate governance pillars. Thomson Reuters analysts transform the data gathered from companies (from over 500 separate data points from multiple sources, including company reports, filings and websites, NGO websites, CSR reports, and established and reputable media outlets) into consistent units to enable quantitative analysis of this qualitative data. It reflects a balanced view of a company's performance in these four areas. Each firm receives a z-score for every pillar in year t, benchmarking its performance against the rest of the firms based on all information available in fiscal year t-1. Therefore, by construction, the CSR variable is lagged by one year. In summary, ASSET4 covers 226 key performance indicators (KPIs), that form the basis for scores that are normalized, adjusted for skewness and fitted to a bell curve to derive ratings between 0 and 100 (Cheng et al., 2014; Ferrell et al., 2016). This construct covers the ESG dimensions, rating firm's performance on their social, environmental and corporate governance performance. The environmental pillar measures a company's impact on living and non-living natural systems, including the air, land and water, as well as complete ecosystems. It reflects how well a company uses best management practices to avoid environmental risks and capitalize on environmental opportunities in order to generate long term shareholder value. The social pillar measures a company's capacity to generate trust and loyalty with its workforce, customers and society, through its use of best management practices. It is a reflection of the company's reputation and the health of its license to operate, which are vital factors in determining its ability to generate long term shareholder value. The corporate governance pillar measures a company's systems and processes, which ensure that its board members and executives act in the best interests of its long term shareholders. It reflects a company's capacity, through its use of best management practices, to direct and control its rights and responsibilities through the creation of incentives,

as well as checks and balances in order to generate long term shareholder value. From the ThomsonReuters ASSET4 we present in Table 7 a summary of the categories which build each score:

Table 7. ASSET4 ESG ratings: components for the environmental, social and governance dimensions

Environmental Performance Score	Social Performance Score	Corporate Governance Performance Score
Emissions Reduction	*Employment Quality*	*Board Structure*
Emissions Reduction Policy	Policy	Board Structure/ Policy
CO2 Equivalents Emission Total (tonnes)	Employment Satisfaction	Experience / Average years serving on Board
CO2 Equivalents Emission Direct (tonnes)	Salaries	% Non-Executive Board Members
CO2 Equivalents Emission Indirect (tonnes)	Salaries Distribution	% Independent Board Members
CO2 Equivalent Indirect Emissions, Scope Three (tonnes)	Bonus Plan for Employees	CEO-Chairman Separation
Commercial Risks and/or Opportunities Due to Climate Change	Generous Fringe Benefits	Background and Skills
CO2 Reduction	Employment Awards	Size of Board (Number of Board Members)
Ozone-Depleting Substances Reduction	Trade Union Representation	Board Diversity (% Women on Board)
NOx and SOx Emissions Reduction	Employees Leaving	*Board Function*
NOx Emissions (tonnes)	Turnover of Employees	% Audit Committee Independence
SOx Emissions (tonnes)	*Health & Safety*	% Audit Committee Management Independence
VOC Emissions Reduction	Policy	Audit Committee Expertise
VOC Emissions (tonnes)	Total Injury Rate	% Compensation Committee Independence
Waste Total (tonnes)	Lost Time Injury Rate	% Compensation Committee Management Independence
Non-Hazardous Waste (tonnes)	Lost Days	% Nomination Committee Independence

Hazardous Waste (tonnes)	HIV-AIDS Programme	% Nomination Committee Management Independence
Waste Recycling Ratio	*Training & Development*	Number of Board Meetings
Water Pollutant Emissions (tonnes)	Policy	% Board Meeting Attendance Average
Waste Reduction Initiatives	Average Training Hours Per Employee	*Compensation Policy*
Environmental Management System Certified Percent	Training Costs Total	Compensation Policy
Sustainable Transportation	Internal Promotion	Highest Remuneration Package
Environmental Expenditures	Management Training	Total Board Member Compensation
Resource Reduction	*Diversity*	Stock Option Program
Energy Efficiency Policy	Policy	Senior Executive Long-term Compensation incentives
Toxic Chemicals or Substances Reduction	Women Employees	Vesting of Stock Options/Restricted Stock
Energy Use Total (GJ)	Women Managers	*Shareholder Rights*
Direct Energy Purchased (GJ)	Positive Discrimination	Shareholder Rights/ Policy
Direct Energy Produced (GJ)	Flexible Working Hours	Voting Rights
Coal Energy Purchased (GJ)	Day Care Services	Ownership
Coal Energy Produced (GJ)	*Human Rights*	Classified Board Structure
Natural Gas Energy Purchased (GJ)	Policy	Staggered Board Structure
Natural Gas Energy Produced (GJ)	Human Rights Contractor	*Vision & Strategy*
Oil Energy Purchased (GJ)	Human Rights Breaches Contractor	Integrated Vision and Strategy Challenges and Opportunities
Oil Energy Produced (GJ)	*Community*	CSR Sustainability Committee

Electricity Purchased (GJ)	Policy	GRI Report Guidelines
Electricity Produced (GJ)	Donations Total	CSR Sustainability Report Global Activities
Renewable Energy Use	Cash Donations	CSR Sustainability External Audit
Green Buildings	In-Kind Donations	
Water Efficiency Policy	Donations	
Water Use Total (m3)	Crisis Management Systems	
Water Recycled (m3)	*Product Responsibility*	
Environmental Supply Chain Management	Product Responsibility/ Policy	
Product Innovation	Customer Satisfaction	
Energy Footprint Reduction	Product Access Low Price	
Environmental R&D Expenditures	Healthy Food or Products	
Renewable/Clean Energy Products		
Water Technologies		
Product Innovation/ Product Impact Minimization		

Source: ThomsonReuters ASSET4 database.

The ASSET4 ratings allow us to measure CSR performance, and we will cross-validate our results with the Bloomberg ESG Disclosure Score. CSR disclosure has been previously used in literature as an approximation of CSR, not necessarily signalling better CSR performance but better firm transparency on these activities. Although it does not reflect the firms' direct ESG performance level, it is assumed to reflect the firms' ESG responsibility improvement effort (Nollet et al., 2016; Han et al., 2016). The Bloomberg ESG focuses on the level of a firm's commitment to transparency and accountability and provides a standardized scale that allows for the measurement of corporate behaviour's external manifestations. In this sense, we choose this score as a close approach to the interaction between the firm and its environment, and also to the firm's efforts to meet society's expectations. (Ioannou and Serafeim, 2012; Gutsche et al., 2017; Chan et al., 2017; Tamimi and Sebastianelli, 2017). As an alternative measurement to validate our results, the Bloomberg ESG Disclosure is quite a recent measurement that has not been used so far for studying the Latin American context. It has not been widely used in research given the fact that the disclosure score has only been available since 2009. Recent studies in developed countries have started using it as its comprehensive coverage provides ample standardized information regarding this topic (Zuraida et al., 2016; Gutsche et al., 2017; Eggington and McBrayer, 2019).

The Bloomberg ESG disclosure scores rate those listed firms included within the Bloomberg database based on their disclosure of ESG data, both quantitative and policy-wise. Each listed firm is considered, even if it does not publish a sustainability report, which widens the pool of eligible firms. Since 2009, Bloomberg analysts have been annually reviewing each firm's disclosed performance, websites, third-party research and press releases related to their sustainable performance to build an individual score. The company also sends a proprietary Bloomberg survey that directly requests for specific firm data. This has the advantage of providing every data field in the score with a direct corporate document backup. The three ESG

scores (environmental, social and governance) each goes from 0.1 (companies that disclose a minimum amount of ESG data) to a 100 (those that disclose every data point collected by Bloomberg), and are then combined to form a single score (also ranging from 0.1 to 100) using a proprietary method. Firms that are not covered by the ESG group will have no score and will show N/A. Firms that do not disclose anything will also show N/A. Each data point is weighted in terms of importance, with data such as Greenhouse Gas Emissions carrying greater weight than other disclosures. The score is also tailored to different industry sectors. In this way, each company is only evaluated in terms of the data that is relevant to its industry sector. This score measures the amount of ESG data a firm reports publicly and does not measure the firm's performance on any data point. It is based on the Global Reporting Initiative (GRI) guidelines, based on around 120 quantitative and qualitative measures covering over 800 metrics that include resource efficiency, greenhouse gas (GHG) emissions, ISO 14000 environmental certification, anti-bribery ethics policies, good community relations, board structure, and workforce practices; amongst other activities. However, the scoring methodology is not publicly disclosed as it is considered proprietary. The Bloomberg ESG disclosure index covers a bigger universe than the ASSET4, with 282 Latin American companies.

4.4.3. *Measurement of Control variables*

Besides our dependent (ESG score) and independent variable (KZ index), we will be using a set of control variables, following some of the recent research on the topic. These include: firm size (natural logarithm total assets), firm age (years since going public), which have been used as proxy for visibility and availability of financial resources (Demirbag et al., 2010; Koos, 2012); leverage (measured by the total debt to total assets ratio) to account for the extent of resources available for the firm, and ROA (return on assets) which has been previously linked to financial performance (Margolis et al., 2007; McWilliams and Siegel, 2000).

4.4.4. Sample description

Our main sample from ASSET4 covers firms from Brazil, Colombia, Chile, Mexico and Perú for the years 2009-2015. The raw sample for this dataset was of 157 firms. In order to obtain strong regression results, only countries with at least four companies consistently having ratings over the study period were included in the sample (La Porta et al., 1998). Following practices in other benchmark studies, financial institutions were excluded from the final sample because of their different nature and regulatory environment (Attig et al., 2014; Zuraida et al., 2016). After applying these two filters to our raw dataset, this leaves us with a reduced sample of 131 firms. We use the two first digits of the Worldscope Industry Classification Benchmark (ICB) to classify our firms by industry. Tables 8 and 9 show a summary of our sample:

Table 8. Sample distribution by country

Country	Number
Brazil	74
Chile	19
Colombia	7
Mexico	30
Peru	4
Total	**134**

Note: Firm's country of origin is taken from Thomson Reuters ASSET4 information about selected companies.

Table 9. Sample distribution by industry category

Industry Categories	Number
Utilities	24
General Retailers	17
Metal & Mining	16
Real Estate	8
Food Producers & Retailers	8
Construction & Materials	7
Beverages	6
Oil & Gas	6
Telecommunications	5
Pharmaceutical & Healthcare	4
Household Goods	4
Industrial Transportation	4
Non-Life Insurance	4
Forestry & Paper	4
Chemicals	3
Personal Goods	3
Software & Technology	2
Travel & Leisure	2
Aerospace & Defense	1
Automobile & Parts	1
Electronical & Electronic Equipment	1
Media	1
General Industrials	1
Total	**134**

Note: Firm's industry category is selected from two first digits of Worldscope Industry Classification Benchmark (ICB), available from Datastream database.

Brazil, Mexico and Chile have been the leading countries in the region regarding CSR practices, and are the ones with the biggest representation in our sample. As discussed in Chapter 2, all of the countries selected for the sample also have their own Sustainability Indexes in local stock markets, which could explain the availability of standardized data over the rest of the Latin American countries not included in the Thomson Reuters database. From the industry distribution, we can see the predominance of natural resources industries such as Metal & Mining, and Utilities (which include electricity and water companies that also work with natural resources). As has been discussed before, Latin America is a region mostly dependent on raw materials (commodities), due to its diverse natural resource endowments . As a result, Latin America works under the so-called resource curse, which has hindered economic development but also gives an opportunity for firms in these industries to contribute to local development through CSR initiatives as often they can fulfil the multiple needs that governments are currently not able to meet (Rodrigo et al., 2016).

We acknowledge when discussing our final results that the sample used may not be wholly representative of the population. So any findings and implications will be taken as exploratory, as there may be a difference in financial constraints according to firm size: bigger firms might face lower financial constraints (Alvarez and Jara, 2016).

4.4.5. Methodology

For the empirical analysis, we will be using not only the aggregated ASSET4 ESG rating but the decomposed factors to compare how each dimension of CSR is affected by the financial constraints measurements, following previous studies and to account for the fact that each dimension of CSR might face different investment decisions for each firm. Most of the studies mentioned in the previous measurement sections use this type of data disaggregation. To corroborate our findings and check for robustness we will run our models with both market and accounting measurements of CFP. Given academic concerns (Hong et al., 2012) regarding

the use of Q-theory as a proxy for market valuation, we will also use the alternative measure return on assets (ROA). We will include ROA when using the KZ index and Tobin's Q for the SA index. To prevent endogeneity we also use Sales as a control variable when using the SA index, as Size is a variable already used in the index composition. The final versions of these are shown in the following equations:

(1) $ASSET4_{it} = \beta_0 + \beta_1(SIZE) + \beta_2(ROA) + \beta_{8\backslash 3}(LEVERAGE) + \beta_4(KZ\ INDEX) + \beta_5(FIRM\ AGE) + \mu_{it}$

(2) $ASSET4_{it} = \beta_0 + \beta_1(SALES) + \beta_2(TOBIN'S\ Q) + \beta_3(LEVERAGE) + \beta_4(SA\ INDEX) + \beta_5(FIRM\ AGE) + \mu_{it}$

Tables 10 and 11 provide some descriptive statistics and correlation of our main financial constraints, CSR and control variables:

Table 10. Descriptive statistics

Variable	N	Mean	S.D.	Min	Median	Max
KZ index	909	1.05	0.63	-3.32	1.21	3.07
ASSET4	820	48.99	30.6	2.53	54.83	94.33
SOC	820	60.94	32.25	4.03	73.57	97.16
ENV	815	52.88	27.97	9.44	57.49	94.31
GOV	820	23.9	20.3	1.32	17.69	90.36
Size	1061	17.68	2.69	8.44	17.03	25.68
Leverage	1040	0.31	0.29	0	0.29	5.37
Q	1029	1.48	1	0.25	1.17	6.46
ROA	1039	7.35	19.34	-302.82	6.83	396.53
Age	1080	15.97	9.33	4	13	52
SA INDEX	904	0.05	2.08	-2.39	1.43	5.26

Note: The variables are ASSET4 = ThomsonReuter ASSET4 rating, ENV =environmental rating, SOC =social rating, GOV =governmental rating, Size=natural logarithm total assets, Leverage=ratio total debt to total assets, Q=tobin's Q, ROA=Return on Assets, Age=years since firm went public.

Table 11. Pearson's correlation matrix: ASSET4

	ASSET4	SOC	ENV	GOV	KZ Index	Q	ROA	Size	Leverage	Age
ASSET4	1									
SOC	0.930***	1								
ENV	0.895***	0.861***	1							
GOV	0.624***	0.464***	0.412***	1						
KZ Index	-0.163***	-0.105**	-0.105**	-0.187***	1					
Q	-0.0998**	-0.162***	-0.135***	0.0129	-0.299***	1				
ROA	0.104**	0.0633	0.0511	0.0555	-0.532***	0.415***	1			
Size	-0.0348	-0.0248	0.0502	-0.206***	0.0436	-0.194***	-0.0279	1		
Leverage	-0.0861*	-0.0485	-0.0439	-0.0734*	0.605***	0.124***	-0.397***	-0.130***	1	
Age	0.0549	0.0522	0.105**	-0.0596	-0.0524	0.0564	0.067	0.398***	-0.0744*	1

Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$. The variables are ASSET4 = ThomsonReuter ASSET4 rating, ENV =environmental rating, SOC =social rating, GOV =governmental rating, Size=natural logarithm total assets, Leverage=ratio total debt to total assets, Age=years since firm went public.

From Table 10, the total number of year observations is around 1,000 firm years. The sample size is smaller for the CSR measurements due to the data availability issue mentioned before. Some firms do not have ratings for all the years included in our analysis. The average KZ index is 1.05, which is slightly higher than previous studies in developed countries that usually report values below 1 as the mean (Hong et al., 2012; Lopatta et al., 2016; Chan et al., 2017). This would suggest that firms in Latin America do present higher financial restrictions than some developed countries. Table 10 also shows that the ESG sub-components have distinctive characteristics. Amongst them, Governance (GOV) has the lowest average value, compared to studies done in developed countries, where this pillar usually the one with the highest mean, in line with the most structured corporate governance regulations prevalent in those institutional frameworks (Gutsche et al., 2017; Zuraida et al., 2018). The highest mean of the scores is observed for the Social (SOC) pillar, while in Gutsche et al. (2017) and Nollet et al. (2016) studies for S&P 500 firms this dimension got the lowest average score across the data sample. This rating is only slightly lower than those found for UK companies: a mean of 60.94 in our sample and a mean of 63.40 in UK Datastream universe analysed by Shaukat et al. (2010). The GOV score is the most stable for our sample, as its standard deviation shows this but still presents a high value; while SOC is the most volatile of the variables. The high standard deviations tell us that there is significant variation across firms regarding their performance across the CSR pillars. The Environmental (ENV) value ranks relatively in line with other studies using world-wide samples: a 52.88 mean for Latin America and 50.53 world-wide (Rees and Rodionova, 2015). Due to the nature of the majority of industries in Latin America, most firms follow international standards when dealing with natural resources activities. Iglesias and Felipe (2015) studied the scope of environmental codes of conduct and their influence in multi-national companies (MNCs) performance in Latin America. They concluded that it is environmental initiatives that allow firms to adapt to the region's

socioeconomic context gain social legitimacy for their activities. Correlation coefficients in Table 11 show us that the KZ Index has a strong negative correlation with the main ASSET4 rating and each of its components, in line with our main hypothesis (p<0.001).

We begin our empirical work by examining how our proxy for CSR varies with financial constraints. We analyse our data with the STATA 14 software. Because we are working with panel data, OLS models can sometimes provide overstated significance levels and understated standard errors (Saleh et al., 2011). Therefore we will use a fixed-effects model for this regression, including year and industry effects. Cheng et al. (2014) also follow this method to control for the possibility that potential outcomes are driven by an unknown firm variable, time-invariant and correlated with the financial constraint and CSR measures. The Hausman test was used to select between a random-effects or fixed-effects model, which estimates the significance level between estimators. This method is also applicable with a small number of countries and avoids the omitted variable bias through controlling for country level heterogeneity. Therefore, the moderator effect of macro-level characteristics can be estimated by means of cross-level interaction effects. Following previous studies reviewed for this chapter (Peng and Yang, 2014; Mallin et al., 2014) we calculate the variance inflation factors (VIF) for the independent and control variables as part of the STATA regression diagnostics and find no multicollinearity (value: 2.22, below 5). To take into account that CSR activities are usually long-term investments, we expect that any investment decisions will be based on financial data from the previous year. Therefore, we use a one-year lag of the KZ index variable in our regression, which will also help us prevent endogeneity issues (Gainet, 2010). For robustness, we account for heteroskedasticity and/or autocorrelation via the cluster-robust

standard error command, which drops our time constant independent variables from the

equation3. The results for this regression are presented in Table 12:

---

[3] Following Ntim and Soobaroyen (2013), the coefficients are estimated by using the robust clustered standard errors technique along both industry and year dimension

Table 12. Results of regression analysis: KZ Index with Country, Year and Industry Effects

(Asset4)

	ASSET4	SOC	GOV	ENV
KZ Index	-2.538***	-2.299***	-1.230**	-2.438***
	(0.565)	(0.457)	(0.380)	(0.558)
Size	3.783***	4.329***	-0.319	6.233***
	(0.850)	(0.459)	(0.525)	(0.767)
ROA	0.308*	0.369*	-0.026	0.183
	(0.123)	(0.147)	(0.084)	(0.125)
Leverage	2.118	5.626	-0.212	4.466
	(4.218)	(4.334)	(2.611)	(3.821)
Age	0.509***	0.547***	0.094	0.512***
	(0.130)	(0.136)	(0.081)	(0.116)
_cons	29.41*	7.825*	12.89***	64.81***
	(9.234)	(9.759)	(3.143)	(8.334)

Note: *p<0.05, * *p<0.01, *** p<0.001 Number of observations for regression = 914. Standard

errors in parentheses

Table 12 allows us to corroborate our initial hypothesis, showing a significant negative relationship between our key variables of interest, firms being less financially constrained as measured by the KZ Index presenting higher ASSET4 ratings (-2.538, p-value < 0.001). The negative relationship also holds for the different components of the disclosure score: social, governance and environmental (all with strong statistical significance of $p<0.001$). Our results present a higher statistical significance of the coefficients and a stronger effect of the KZ Index over each dimension of the ASSET4 ratings when compared with results from our benchmark studies: In their study for US firms, Chan et al. (2017) find a much lower effect of KZ scores on CSR activities (-0.0116, p-value < 0.001). Also focusing on US firms Hong et al. (2012) find a weaker negative correlation between the KZ index and CSR activities (-0.063), although their study only states coefficients as statistically significant, without reporting the exact p-values. Next, we validate our results with an alternative financial constraint measurement: the SA index (Table 13), where we also obtain highly significant negative coefficients for the aggregated and individual dimensions of the ASSET4 ratings. To corroborate these findings and check for robustness, we use the previously discussed Bloomberg ESG Disclosure Score as an alternative measure for CSR, also controlling for year and industry fixed effects. The results for both measures of financial constraints (KZ Index and SA Index) are shown in Tables 13 and 14.

Table 13. Results of regression analysis: SA Index with Country, Year and Industry Effects (Asset4)

	ASSET4	SOC	GOV	ENV
SA Index	-2.087***	-2.367***	-1.440***	-1.901*
	(0.443)	(0.486)	(0.700)	(0.395)
Sales	0.695***	0.703***	0.148	0.582***
	(0.139)	(0.145)	(0.0937)	(0.124)
Leverage	-0.622	3.793	-5.936	2.192
	(4.491)	(5.334)	(3.031)	(4.001)
Q	-4.632***	-7.044***	-0.558	-5.009***
	(1.385)	(1.449)	(0.877)	(1.158)
Age	0.128	0.353**	-0.331***	0.450***
	(0.119)	(0.136)	(0.0805)	(0.106)
_cons	46.17***	58.27***	30.76***	42.39***
	(5.469)	(5.720)	(3.691)	(4.871)

Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$ Number of observations for regression = 920. Standard errors in parentheses

Table 14. Results of regression analysis: KZ Index with Country, Year and Industry Effects

(Bloomberg ESG)

	ESG Score	SOC Score	GOV Score	ENV Score
KZ Index	-1.668***	-1.858**	-0.909**	-1.206*
	(0.402)	(0.644)	(0.326)	(0.567)
Size	0.204	-0.825***	-0.489***	0.614**
	(0.166)	(0.238)	(0.133)	(0.209)
ROA	0.0561**	0.155	-0.0442	0.0586
	(0.0192)	(0.201)	(0.0249)	(0.175)
Leverage	11.20***	10.83*	7.411***	15.53***
	(2.574)	(5.124)	(2.247)	(4.501)
Q	-0.604	-4.758**	1.005*	-1.144
	(0.423)	(1.536)	(0.402)	(1.363)
Age	0.137**	-0.0103	0.0150	-0.0191
	(0.0516)	(0.238)	(0.0418)	(0.0637)
_cons	23.50***	60.91***	44.42***	13.99***
	(3.325)	(4.817)	(2.611)	(4.188)

Note: *$p<0.05$, ** $p<0.01$, *** $p<0.001$ Number of observations for regression = 1722.
Standard errors in parentheses

Table 15. Results of regression analysis: SA Index with Country, Year and Industry Effects

(Bloomberg ESG)

	ESG Score	SOC Score	GOV Score	ENV Score
SA Index	-1.423*	-5.259***	-0.331**	-6.055***
	(1.073)	(1.576)	(0.112)	(1.449)
ROA	0.045**	0.478	-0.033	-0.062
	(0.019)	(0.188)	(0.024)	(0.040)
Leverage	6.000**	2.800	3.973*	6.805*
	(2.219)	(4.132)	(2.247)	(3.306)
Q	0.255	-4.151**	1.393***	1.383*
	(0.385)	(1.491)	(0.376)	(0.676)
Age	0.090	-0.233*	-0.013	-0.266**
	(0.069)	(0.105)	(0.0570	(0.089)
_cons	23.50***	-23.22	34.20*	-75.79***
	(3.325)	(24.28)	(2.611)	(22.25)

Note: *p<0.05, ** p<0.01, *** p<0.001 Number of observations for regression = 1740. Standard errors in parentheses.

Both financial constraints measurements have a significant negative relationship with all dimensions of the Bloomberg ESG scores, confirming our findings that firms less financially constrained as measured by the KZ Index (-1.668, p-value < 0.001) and SA Index (-1.423, p-value < 0.05) present higher ESG scores.

To address the potential endogeneity issue we follow Sasidharan et al. (2015) and Guariglia (2008). Their analysis study the effect of financial constraints on investment using the one-step generalized method of moments (GMM) estimator for panel data, which estimates our equation in first-differences, controlling for endogeneity by using the model variables lagged two or more periods as instruments (t-2 for our study in the case of the independent variable). To correct for the presence of clustered errors we specify a GMM option in the regression to allow for clustering the errors at the firm level and obtain efficient estimations. The results from the GMM estimation using both our measurements for financial constraints can be seen in tables 16 and 17.

Table 16. Results of regression analysis: GMM for KZ Index (ASSET4 scores)

	ESG Score	SOC Score	GOV Score	ENV Score
ESG/SOC/GOV/ENV_lag	0.732***	0.040***	0.527***	0.608***
	(0.065)	(0.032)	(0.058)	(0.056)
KZ Index	-0.058	-0.274	-1.770***	-1.133*
	(0.545)	(0.782)	(1.906)	(2.073)
ROA	0.054	0.095***	0.349	0.056
	(0.047)	(0.026)	(0.078)	(0.031)
Age	0.018	0.054	-0.025	0.118*
	(0.054)	(0.041)	(0.049)	(0.052)
Size	-2.162**	-6.736***	-0.727	-2.272**
	(0.828)	(0.574)	(0.726)	(0.858)
Sales	2.209*	6.427***	0.409	2.974***
	(0.735)	(0.504)	(0.626)	(0.758)
_cons	16.35**	72.93***	80.59**	-49.56
	(5.872)	(3.858)	(24.90)	(27.25)

Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$. Standard errors in parentheses. To fit regression coefficients in one single table the first row indicates the GMM instrument lag (t-2) with respect to each column in the ASSET4 components.

Table 17. Results of regression analysis: GMM for SA Index (ASSET4 scores)

	ESG Score	SOC Score	GOV Score	ENV Score
ESG/SOC/GOV/ENV_lag	0.661***	0.619***	0.551***	0.610***
	(0.051)	(0.066)	(0.045)	(0.054)
SA Index	-2.638	-3.42	-4.065*	-4.752***
	(1.953)	(1.968)	(1.906)	(2.073)
ROA	0.0854**	0.089**	0.068*	0.056
	(0.031)	(0.031)	(0.027)	(0.031)
Leverage	-3.594*	-1.549	-6.377***	1.324
	(1.723)	(1.549)	(1.407)	(1.592)
Q	-0.650	-3.252*	4.239***	-2.924*
	(1.689)	(1.307)	(1.097)	(1.272)
Sales	2.433	3.088*	-3.892**	4.473**
	(1.598)	(1.529)	(1.473)	(1.616)
_cons	-18.03	-23.38	80.59**	-49.56
	(26.19)	(25.06)	(24.90)	(27.25)

Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$. Standard errors in parentheses. To fit regression coefficients in one single table, the first row indicates the GMM instrument lag (t-2) with respect to each column in the ASSET4 components.

Our GMM results also present a significant negative relationship between financial constraints and our CSR measurement (ASSET4). However, the relationship is significant only for certain dimensions of the ASSET4 ratings. The KZ index does not have a statistically significant effect on the construct as a whole or for the Social dimension. It does negatively affect the governance pillar (-1.770, p-value < 0.001) and environmental one (-1.133, p-value < 0.05). These same results hold for the SA index, which indicates that when facing external restrictions for funding, Latin American firms might first reduce investment in environmental and governance activities. Comparing these results with US firms, Rusinova and Wernick (2016) also find a significant negative relationship only for the environmental and corporate components of CSR. On the contrary, Chan et al. (2017) find that social investments are the first to be foregone when firms are under financial distress. Both the other studies studying the link from FC to CSR included in Table 5, Hmaittane (2012) and Hong et al. (2012), do not decompose their CSR measurement (KLD ratings) so there is no comparison regarding the different pillars. Our study also presents an additional contribution focusing on the multidimensionality of the CSR construct.

4.5 Conclusions

We have focused our analysis from previous chapters in developing the framework for our empirical study. Emerging economies and particularly Latin American ones have been largely left outside empirical research regarding CSR and financial constraints. This even though the former could help bring actual corporate and national benefits, and the second is an actual obstacle to corporate and national performance, as we have reviewed throughout this chapter. Previous empirical studies have analysed the relationship between financial constraints and CSR in the context of developed countries. To our knowledge, this study is the first to directly explore in a Latin American context whether there is any specific relationship between a firm's CSR investment and its cost of funding, given the specific capital market

conditions of the region. While one of the main questions in CSR literature is why do firms decide to engage in these activities, we approach it from the perspective of can firms make these investments in the context of underdeveloped financial markets? What obstacles might they face? This study contributes to emerging countries research on this topic, by being the first in using the KZ index to measure financial constraints and its relationship with two ESG scores. In line with our expectations, the results of our analysis point in the direction of a negative relationship between CSR and financial constraints. The analysis holds when using different measures for financial constraints, as well as another CSR proxy to validate the outcome. This goes in line with previous results found in developed countries (Hong et al., 2012; Rusinova and Wernick, 2016; Chan et al., 2017) which could indicate that Latin American firms can face the same obstacles for investing in CSR activities than their developed counterparts. Han et al. (2016) find similar results for listed firms in Korea, though they explore the relationship between the Bloomberg ESG score and accounting measures of CSR. Overall, as found in our sample, financing frictions can influence real firm activity. Investing in CSR requires funding allocation, which might be used for other tasks. Neoclassical economics says firms' ultimate goal is to maximize shareholders' wealth, so firms need to seek a balance between keeping sufficient liquidity within the firm and investing in CSR. These investments may sometimes be higher than in developed countries, due to private firms covering the role of the state in welfare provision. We would agree with Campbell's (2007) argument that firms with weaker financial access are less likely to perform well in the different ESG dimensions. This could be potentially useful for market participants when making investment decisions, while the virtuous circle hypothesis indicates a potential market for CSR activities in Latin America, and could help dispel the notion that CSR is not financially rewarding. Better CSR could enhance firm value by reducing financial constraints, sending a positive signal to the market. As stated by Perez-Batres et al. (2010), Latin American firms listed on stock markets

tend to follow more sustainable initiatives due to legitimacy and institutional pressures. As stated before, many of the local Latin American markets have developed their own sustainability indexes, which indicate a growing institutional demand for more information regarding CSR. Many of the firms from our sample are also listed in international stock markets, such as the NYSE, which would also establish pressure for them to adopt international ESG performance standards. This would stand in contrast to Julian and Ofori-Dankwa's (2013) findings for firms in Sub-Sahara Africa, aligning the Latin American region more with their developed counterparts than other emerging economies. However, given that both ThomsonReuters and Bloomberg construct the social, corporate governance and environmental scores by examining publicly available information, findings should be more relevant for public held firms than for privately owned ones. We also acknowledge the fact that as with other CSR proxies tried in literature, the scores used for this analysis may not fully reflect the actual impact of CSR activities. They might differ from the actual CSR initiatives the firm engages in. Although there is a positive association with firm value, research has also cautioned against relying too heavily on these measurements, given that they could sometimes be positively biased and not always a perfect reflection of CSR performance (Ioannou & Serafeim, 2012; Chan et al., 2017). Other data sources, mainly primary ones, could be used to extend this analysis, for our research was limited to local availability. A larger sample size could also be helpful to check among different industries for possible heterogeneity in CSP effects. Also, our model uses contemporaneous variables while the effect of financial constraints on CSP might require time to be revealed. Future research could use lagged independent variables to investigate such an effect. If firms in Latin America are already facing certain obstacles for investing in CSR, but there is also a potential benefit of doing so, they need to analyse their resource allocation to maximize their performance carefully. In our next chapter we will explore whether a firm should balance its engagement between socially responsible activities

and corporate governance to improve its bottom line and make the most of sometimes restricted funding; or if these two constructs are actually substitutes in the Latin American corporate framework.

Chapter 5: Complementarity/Substitutability of Corporate Governance and Corporate Social Responsibility in Latin America

5.1. Introduction

Firms need to operate for the benefit of both shareholders and stakeholders in order to ensure legitimacy and sustainability (Mahrati and Soewarno, 2018; Tanggamani et al., 2018). The study of CSR in developing economies is also focusing on corporate governance (CG) issues, with CG as the missing link between the broader institutional arrangements that govern finance and labour and CSR. Throughout literature, the choice of a CSR strategy has been positively associated with the characteristics of good corporate governance (Sáenz González & García-Meca, 2014; Liu & Zhang, 2016). Both constructs have also been consistently associated with competitive advantages for the firm: increased financial performance, legitimisation, reduced information asymmetry and transaction costs (Beltratti, 2005).

Their interrelationship, however, is a much less discussed empirical topic. Jamali et al. (2008) advocate for future research to stop analysing CG and CSR independently, and start considering them jointly and systematically. CG and CSR mechanisms could complement or substitute each other when influencing certain organizational outcomes. Firms operating with lower corporate governance quality might need more CSR and vice versa (substitution strategy). Or if firms' agency costs are high, then firms might want to add CSR to corporate governance to reduce agency costs further (complementary strategy). Few complementarity and substitutive effects studies between CG and CSR mechanisms so far directly address their interactive effect on the firm's financial performance, and results so far about the effect of these constructs have been mixed and inconclusive (Harjoto and Jo, 2011; Cavaco and Crifo, 2010; Chan et al;, 2014; Deev and Khazalia, 2017). This might be due to inconsistent measurements of CG throughout the literature reviewed, with makes comparison difficult. Regional

institutional factors might also affect the firm's level of compliance with CSR and CG activities, and influence empirical analysis. Since the pioneering work by La Porta et al. (1999), academic research is focusing on how cross-country differences in legal structures (protection of outside investors) and financial systems can affect CG practices. More recently, Kang and Moon (2012) extensively discuss how institutional characteristics may shape the relationship between CSR and CG in their theoretical paper analysing three different types of capitalism in six developed economies. Empirical studies focusing on complement/substitute effects between CSR and CG so far mainly focus on the Anglo-Saxon markets, which replicates the gap found on our meta-analysis chapter. However, emerging economies share particular institutional characteristics such as weak shareholder protection and highly concentrated ownership structures, which set them apart from their developed counterparts (Khan et al., 2013; Rahim and Alam, 2014). Extant research has not addressed the interactive effect of CG and CSR mechanisms on the firm's performance in Latin America. As a hierarchical economy, Latin America presents a different type of institutional setting that will allow us to expand the state of the art literature. In Chapter 3 we discussed how Latin American firms' investment decisions are being affected by the financial constraints they face due to regional market irregularities. As stated by Misangyi and Acharya (2014), the decision to invest in one specific bundle of internal mechanisms will depend on how efficient they might be in improving organizational outcomes (performance-based incentives for investing). Given the financial restrictions faced by Latin American firms, and the cost implied in implementing CG mechanisms (due to a less developed legal framework and lack of regulatory enforcement) or CSR ones (due to them being long-term investments); we hypothesize that firms might decide to focus on one specific bundle of inner mechanisms (substitution effect) instead of trying to take advantage of their synergy (complementary effects) when looking to improve their performance. The substitution effect has been associated in previous studies with cost-benefit

trade-offs (Cormier and Magnan, 2014; Oh et al., 2016). One main contribution of this research would be to empirically explore how firms affected by these market restrictions might have to decide the best allocation of resources between socially responsible and corporate governance practices if they want to take the best advantage of what available capital they have.

We will begin by giving a brief introduction to the CG construct and the main theories associated with it, which are closely related to CSR. We follow by exploring the CSR-CG nexus established in academic studies so far, and how this might influence a firm's financial performance (CFP). As in our previous chapters, we could not find any Latin American coverage for this research topic. Existing coverage of the region has been exclusively for CG mechanisms (Cueto, 2013; Saenz-Gonzales and Garcia-Meca, 2014), without incorporating the stakeholders' dimension of CSR activities. Once the theoretical framework for our empirical study has been set, we will then focus on the particular CG characteristics of Latin American markets. Our empirical analysis will try to address the resulting gap and extend the literature regarding Latin American firms by exploring the interaction between: CSR, as measured through the Thompson Reuters ASSET4 score (following our previous empirical analysis: social and environmental dimensions); CG, measured through the Thomas Reuters Management Score, which measures a company's commitment to and effectiveness in following best practice corporate governance principles; and how both these constructs influence corporate financial performance or valuation, measured by market and accounting variables. For this we will replicate the coefficient analysis interaction methodology of Cavaco and Crifo (2010), which studies the effects of different CSR dimensions on financial performance; and also used by Francis et al. (2013) when exploring the relationship between firm and country-level CG mechanisms, with both levels being considered for our analysis. To capture the potential effect of resource availability, we include financial constraints as a control variable, together with several other controls discussed in the methodology section. Our sample

of listed public companies runs from 2009 to 2015, which makes it the most recent and updated study data-wise since all other analysis from our benchmark literature review only covers firm information up to 2010.

Our initial quantitative analysis aligns with extant research in that we do not find a precise overall complement or substitute effect between CG and CSR mechanisms on firm performance, thus finding no conclusive evidence for our initial hypothesis. Results indicate that the social component of CSR activities appears to have a consistent substitute effect throughout models with CG in the analysis, while environmental investments tend to interact in a complementary fashion with CG mechanisms when influencing financial performance. Also, our regression shows that in Latin America CSR has a positive effect on CFP, but moderated through financial constraints, not as a direct effect. As we use an aggregated index for CG as our measurement, further research could expand on this by exploring what unique combination of CG and CSR policies would be required in Latin American firms to maximize CFP. Good governance can result in better performance and long-term value creation, but as established by Deloitte (2016), there is not a 'one-size-fits-all solution' when establishing what this entails.

5.2. Review of relevant literature

In this section we will focus on describing one of the main independent variables used for this empirical section, corporate governance, and how it has been measured throughout literature. We have already discussed our other relevant empirical variables in Chapter 2 and Chapter 4[4], therefore we will not include additional detail in this section. We will then proceed to discuss the specific characteristics of CG in a Latin American market, and what this means for firms operating in such a context. We will finish by summarizing the research done so far

---

[4] Refer to Chapter 2 for CSR discussion, and Chapter 4 for financial constraints and a more extensive review of Latin American financial markets.

on the interaction between CG and CSR in academic research, and their influence on CFP; identifying a gap for emerging markets, specifically Latin America.

5.2.1. Research on Corporate Governance

5.2.1.1. Definition

Throughout business literature, we find that good CG is vital for firm growth, stability and investment opportunities. Most of the studies reviewed, both at a developed (Huang, 2010; Hillier et al., 2011; Deeve and Nazalia, 2017; Villaron-Peramato et al., 2018) and developing (Jamali et al., 2008; Briano-Turrent and Rodriguez-Ariza, 2014; Rahim and Alam, 2014; Agyemang and Castellini, 2015) market level refer to the OECD Principles of Corporate Governance when describing good CG mechanisms. The OECD has published several CG reports on Latin America and other emerging economies throughout the years[5], providing visible and standardized guidelines for international firms. The OECD Principles of Corporate Governance (2015b) establish a set of six core attributes as a benchmark for CG. In order to establish a general framework for understanding CG on an institutional level, we give a more detailed description of these in Table 18.

---

[5] For a more detailed discussion we would recommend reviewing http://www.oecd.org/daf/ca/. Most recent findings from these reports have been incorporated in the sub-section about Latin American markets further ahead in this chapter.

Table 18. OECD Principles of Corporate Governance

Principle 1	The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.
Principle 2	The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
Principle 3	The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.
Principle 4	The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
Principle 5	The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
Principle 6	The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Source: G20/OECD Principles of Corporate Governance (2015b).

Based on these principles, Jamali et al.'s (2008) holistic definition of CG sums up these attributes as the system directing and controlling firms, which encompasses concepts of accountability, compliance and transparency that should safeguard all shareholder and stakeholder's rights in equal measure. From an academic perspective, corporate governance has links with the following theories in business literature: agency theory, legitimacy theory, institutional theory and informational asymmetry (Kallen & Nordblom, 2013; Oh et al., 2016; Mahrani and Soewarno, 2018, Tanggamani et al., 2018). According to the traditional agency problem approach (Jensen and Meckling, 1976), the principal (shareholder) and the agent (manager) might have conflicts of interest that lead to managers not always making decisions

that maximize shareholder's wealth (firm's profits). Shareholders demand increased firm profitability and dividends; while management might have other concerns such as personal wealth, reputation, image, job security, etc., which they might prioritize. Academic research has linked different CG mechanisms as potential approaches to manage this control problem: board composition, board size, CEO duality, stock rights, and higher transparency. One of the most effective ways found in literature to reduce agency costs is to implement managerial incentive remuneration (Liu & Zhang 2016, Xiong et al., 2016). Higher remuneration could prove to be a good incentive for executives to align their interests with those of the firm. Saenz-Gonzales and Garcia-Meca (2014) propose insider ownership as another good mechanism to restrain opportunistic behaviour and deal with the agency problem, while also improving the monitoring of accounting decisions. However, this mechanism might come at the expense of the minority shareholder's interests if the concentration is too high. Also, managers could start making accounting decisions based solely on personal values due to their higher power concentration.

The traditional agency problem presents a different dilemma in emerging markets than in developed ones, which we will focus on further ahead in this chapter. Legitimacy theory is widely discussed in the context of emerging markets, mostly because of the more tumultuous and irregular institutional frameworks that characterize these regions[6]. According to this theory, firms' activities can be affected by the regional communities where they operate. To maintain social approval in order to survive, a company might deploy CSR activities or good CG mechanisms that give it a better image and reputation. CG effectiveness also depends on the legitimacy these practices have within regional sets of institutions that might differ across countries (Filatotchev et al., 2013). Since the pioneering work by La Porta et al. (1999),

---

[6] We have more extensively discussed this theory and the so-called "social license to operate" in our third chapter focused on CSR in Latin America.

institutional theory started playing an essential role in CG literature. Institutions are social structures, whether formal or informal, within which firms are embedded and carry out their activities (Scott, 2008). At an international level, this theory became further standardised with the aforementioned establishment of the OECD principles that emphasize the importance of the legal, institutional and regulatory framework for good practices of CG. According to Briano-Turrent and Rodriguez-Ariza (2016), an institutional approach might be more suitable to explain CG practices in regions characterized by underdeveloped financial markets and higher ownership concentration levels, where informal institutions such as CG become part of a firm's strategy to increase investors' confidence. CG mechanisms establish the operating conditions for internal and external stakeholders in the firm and as such can be considered a form of institutional design, one that is mostly determined by the external institutional framework where the firm operates (Lojpur and Draskovic, 2013). Informational asymmetry is usually linked to a higher investment risk for outside investors: rising monitoring costs raise the cost of capital and present problems for attracting funding (for both physical and intangible assets, one of the latter would include CSR projects that increase reputation and competitiveness). Good CG practices advocate better disclosure, which would reduce this information asymmetry between managers and shareholders and the issue of adverse selection in capital markets (Hillier et al., 2011; Egginton and McBrayer, 2019). Weak CG practices can have repercussions at a country level, weakening external capital markets due to investors avoiding higher risks and little manager protection (Mueller, 2006).

5.2.1.2 Measurement

Throughout the literature considered for this chapter, we find researchers use a wide variety of measurements for CG mechanisms. This presents a challenge for studies' comparability, with no apparent consensus on sources reviewed for these variables either. However, Jain and Jamali (2016) provide a review of recent literature between 2000 and 2015

and found that CG measurements at a firm-level could mainly be grouped in one of the following three categories: board structure (which includes variables such as board size, board independence, CEO duality, CEO compensation, board demography and board social capital), ownership structure (which includes variables such as ownership concentration, block owners, and managerial and top management team ownership), and CEO demography (which includes variables such as age, gender, and qualifications).

Some of the studies reviewed for our chapter use primary data for their analysis, through direct interviews with members of the firm (Jamali et al., 2008; Agyemang and Castellini, 2015; Bhaduri and Selarka 2016). Most of them rely on secondary data gathered through *a)* standardized databases such as the ones used in our previous empirical chapter: Thomson Reuters ASSET4 and Datastream (Ferrell et al., 2016; Rees and Rodionova, 2015); Vigeo ESG ratings (Cavaco and Crifo, 2010); ESG GMI ratings[7] (Oh et al., 2016); ECONOMATICA (Reyes, 2008; Cueto 2013); and *b)* firms' annual reports (Becher and Frye, 2011; Khan et al., 2013; Saenz González and Garcia-Meca, 2014) or country-specific governance reports (Chan et al., 2014; Cormier and Magnan, 2014; Galbreath, 2017).

In line with the sustainability approach followed in Chapter 4, where value creation for the firm requires leveraging human capital, environmental resources and strategic governance, we would like to focus on those studies taking their CG variables from ESG ratings or indexes[8]. This will also help us align our measurements with our previous empirical chapter and help future replication and comparability of our results. Since there is not a widely accepted use of a single secondary database in studies reviewed so far, we will continue using ThomsonReuters ASSET4 due to their broader coverage of Latin American companies, as previously discussed, and due to their recent updated methodology. In 2018, Thomson Reuters included new ESG

---

[7] Now part of the MSCI ESG ratings

[8] Discussed at greater length in Chapter 1

Scores measures, one of which is the Management Score. It measures a firm's commitment to and effectiveness in following best practice corporate governance principles and will be more thoroughly outlined in our methodology section.

5.2.2. Relationship between Corporate Social Responsibility, Corporate Governance and Financial Performance.

We have extensively discussed CSR as an important concern in academic research. Most of the empirical literature has focused on finding a connection between CSR and CFP (Margolis and Walsh, 2003; McWilliams and Siegel, 2000; Orlitzky et al., 2003; Wood, 2010)[9]. In sum, studies so far suggest a tentatively positive relationship between CSR activities (some of them highlighting the environmental dimension), and financial performance or firm value, as evaluated through market and accounting measures (Dixon-Fowler et al., 2013; Albertini, 2013; Miras-Rodriguez et al., 2014; Qang et al., 2015). Similar to CSR, good CG has also been empirically linked to better firm valuation and better financial performance (Tawfeeq et al., 2017; Rodriguez-Fernandez, 2016). Nollet et al. (2016) argue that poor corporate governance is equivalent to a lack of CSR, and is widely regarded as one of the key sources of the 2007-2009 financial crisis. More recently, Sarim et al. (2017) establish that despite CG and CSR mechanisms having differing concerns, both are striving for the firm's economic, social and environmental improvement. According to their study, CSR might be more inclined towards social and environmental concerns, while CG is more focused on responsibilities for shareholders, stakeholders, society, transparency, disclosures and risk management.

From our discussion so far in previous sections, we can establish that CSR and CG share quite an extensive theoretical background. Many of the theories discussed for CG (resource-based theory, legitimacy theory, institutional theory) have also been part of our initial CSR-focused chapter. Stakeholder theory has also been mentioned throughout CG studies, as

---

[9] Refer to Chapter 2 for a more extensive analysis on this link.

good governance implies dealing with several groups of internal stakeholders. Due to this theoretical convergence, many times these constructs have been jointly analysed when discussing each other, or their link with a firm's profit maximization, value creation, financial performance, etc. Jamali et al.'s (2008) study is one of the seminal theoretical works exploring the interrelationship between these two constructs, stating that much of previous literature had extensively discussed CG and CSR independently. Reviewing theoretical postulations so far, they build three relational models between CG and CSR, to examine whether they are mutually exclusive or mutually coexistent and increasingly convergent. They adopt a qualitative case research methodology to explore this models in eight firms operating in Lebanon. Their findings support the proposition that local socio-politico-institutional environments significantly affect CG practices in developing countries. They conclude that CG is increasingly considered as a necessary foundational component in developing economies for a genuine CSR orientation, while both constructs can be seen as complementary pillars for sustainable business growth. Kang and Moon (2012) separate CG and CSR mechanisms to theoretically study their relationship from an institutional approach. As one way to categorize institutional systems, they refer to three models of capitalism and use six countries as case studies for their contextual setting: liberal market economies (LMEs, USA and the UK), coordinated market economies (CMEs, Germany and Japan) and state-led market economies (SLMEs, France and South Korea)[10]. After taking into account the differences between the analysed economies, the authors found that all models presented a certain complementarity between CSR and CG mechanisms by a logic of similarity (a link based on similar properties between them that reinforce both shareholder and stakeholder value). This nexus between CG and CSR concepts has been empirically addressed in other academic studies. Khan et al. (2013)

---

[10] This follows Matten and Moon's (2008) seminal study focusing on an institutional framework exclusively for CSR that establishes how different arrangements in different countries influence CSR, and therefore should be taken into account for research and firm-related purposes.

find that certain CG mechanisms (government and foreign ownership, board independence, and presence of an audit committee) have positive impacts on the extent of CSR disclosures in Bangladeshi companies due to their legitimisation effects (mitigation of legitimacy threats). They recommend to study this link in a wider range of countries, to test this link in additional emerging economies where institutional arrangements may differ. Bhaduri and Selarka (2016), explore the influence of CG on CSR activities in Indian firms, also finding a positive association between CSR and government ownership, as well as family ownership. Insiders' control over the board tends to encourage CSR investment as well. Galbreath (2017) examines the impact of the CG mechanism board structure on CSR activities, considered a long-term investment, in Australian firms. This study focuses on inside board members who as firm's employees might be more pressured to deliver quantifiable, short-term returns. Galbreath's results find that insiders negatively relate to environmental and social dimensions of CSR. However, when inside director compensation linked to environmental and social metrics and inside director CSR training are introduced as moderating variables, they both positively moderate this negative insider–CSR relationship. These empirical studies all focus on the CSR-CG mechanisms interrelationship. Hossain et al. (2016) emphasize that throughout research these synergies found between CSR and CG can provide better access to capital markets through increased productivity, reduced costs for the firm and broader disclosure of socially responsible practices. Huang (2010) is one of the first empirical studies to jointly explore the interrelationship between the 3 variables: CG, CSR, and CFP. Focusing on a sample of 297 Taiwanese listed electronics companies he explores how two different CG mechanisms: board composition (independent directors) and ownership (public shareholders and presence of institutional stockholders) impact on CSR, and CFP in separate models. Relevant information is drawn from secondary databases such as the local stock exchange, which requires annual reports from its members according to OECD guidelines; and the Taiwan Economic Journal

(TEJ), which provides market data on companies throughout Asia. This study finds that firms with independent outside directors and specific ownership characteristics (domestic government shareholders and foreign institutional shareholders) positively impact most CSR dimensions (workers, customers, suppliers, community and society) and financial performance, through separate models. Therefore, CG mechanisms appear as strengthening CSR performance. We observe that both CSR and CG operate within the same systems, sharing theoretical background and their complex relationship is worthy of closer analysis to better understand their impact on the firm

However, empirical literature also states that besides these synergies (complementary effects) there could exist certain trade-offs (substitute effect) between CSR and CG that affect the firm's performance. This avenue of research has not been as extensively discussed, with most studies focusing on each set of mechanisms separately when discussing their influence on additional organizational outcomes. In the case of CG mechanisms, most studies review them independently related to their efficiency in alleviating the shareholder– manager agency problem, not really focusing on how they might influence firm performance (Dalton et al., 2003). Oh et al. (2016) warn against focusing on the independent effects of a firm's internal mechanisms because firm performance actually depends on the efficiency of a combined bundle interacting with each other. To analyse the most recent state of the art regarding complementary/substitution effects amongst CSR and CG we focus on studies dated after Jamali et al. (2008) analysis of the interrelationship between these two constructs, using it as a benchmark. Although previous studies have focused on this interrelationship (Beltratti, 2005; Bhimani and Soonawalla, 2005), they do not build a theoretical model as Jamali et al. do, which has served as basis from many of the other studies reviewed for this literature section. We group quantitative studies reviewing the relationship between CSR activities, CG mechanisms and their effect on different firm outcomes classified by independent variable (either CG

mechanisms on its own, CG and CSR mechanisms, or CSR with CG as one of its components).

As will be described in the following paragraphs, most studies focusing on this interrelationship use interactive terms in their methodology to analyse the impact on organizational outcomes, based on the economic concept of marginal effect which describes whether different instruments act as substitutes or complements. In this approach, a complementary effect would suggest that one mechanism could increase the marginal effects of another mechanism on organizational outcomes (significantly positive interaction coefficient). A substitutive effect suggests that one mechanism may decrease the marginal effects of another mechanism on organizational outcomes (significantly negative interaction coefficient).

For this chapter we will not review those studies that analyse the individual impact of CG or CSR mechanisms on firm outcomes, but restrict ourselves to those who regard the interdependence between them and how they might influence the firm's environment. This way, we can broadly identify three avenues of research that directly or indirectly address the complementary/substitute effect:

Studies which address the complementarity/substitutive effects of different CG mechanisms on organizational outcomes and/or CSR.

Cueto (2013) directly addresses the complementarity/substitutability of different CG mechanisms in Latin America and their effect on firm value. He emphasizes the region's highly concentrated ownership structures and weak formal protection for minority shareholders as a new venue for validating previous results. The study focuses on five Latin American markets: Brazil, Chile, Colombia, Peru and Venezuela from 2000-2006. The key finding is that the region's excessive ownership concentration and discrepancy between voting rights and cash flow rights affects firm value through a market discount. Data collection mixes three secondary databases: Economatica, Bloomberg and the Securities Data Company (SDC). His analysis suggests that Latin American firms resort to a number of different CG mechanisms (measures

for leverage, takeover activity, board size, board independence, cross-listing, single/multiple-class shares, and the dual role of the CEO as chairman of the board) to minimize the negative effects of ownership concentration on firm value; which complement rather than substitute each other. In addition, institutional investors assume monitoring roles and help curb asset expropriation. He recommends that fund managers considering investment in Latin America should understand the (expropriation) risks that come when board and management are controlled by a dominant shareholder. Schepker and Oh (2013) focus on the complementarity/substitutability of different CG mechanisms within the context of poison pill repeal, an antitakeover provision which works as contingent securities triggered in the event of the firm becoming a takeover target. They analyse whether firms should instead use CG mechanisms that can be complementary in effects to minimize agency problems. Another perspective argues that firms should instead use these mechanisms as substitutes in order to reduce these issues, due to the fact that some CG mechanisms could be costly in nature. This study uses board characteristics (independent directors, CEO duality and directors nominated by CEO) along with ownership characteristics (managerial/outside director ownership and pressure-resistant institutional ownership) to analyse the lower (complementary effects) or higher probability (substitutive effects) of the board repealing or terminating a poison pill provision. Taking US firms as their sample, they draw their variables from the Corporate Library database[11] from 2005-2007 and find that certain existing CG mechanisms have a complementary effect on the decision to repeal a poison pill (interdependent directors, pressure-resistant institutional ownership, and outside director ownership) while one supports the substitutive hypothesis (CEO/chair duality). They conclude that in general, firms prefer to bundle multiple CG mechanisms when limiting problems related to opportunism. Francis et al.

---

[11] Now known as the GMI ratings, but to preserve the author's description we will refer to it as the name given in the original paper.

(2013) explore how firms' CG mechanisms influence investment–cash flow sensitivity (referred also in their research as financing constraints) in 14 emerging countries (Brazil, Chile, Hong Kong, India, Indonesia, South Korea, Malaysia, Pakistan, Philippines, Singapore, South Africa, Taiwan, Thailand, and Turkey) for the year 2000. Their study uses both firm-level (corporate governance rating from 2001 Credit Lyonnais Securities Asia report) and country-level (the Anti-Self Dealing Index, Judicial Efficiency and Legality) governance mechanisms. They also use secondary databases such as the World Development Indicators (WDI) and Worldscope. Through interactions, they find a substitution effect between firm and country-level governance in determining a firm's investment sensitivity to internal cash flows. Better firm-level CG matters more in emerging countries that have weaker investor protection. One way to improve a firm's investment environment in these markets would then be to improve its private CG practices. Misangyi and Acharya (2014) conduct an exploratory qualitative comparative case analysis of CG mechanisms amongst the S&P 1500 US firms in 2005. They attempt to expand the set of CG mechanisms so far used in literature: internal mechanisms (CEO contingent compensation, CEO equity ownership, outside director independence, outside director equity ownership, Top management team (TMT) tournament, TMT Equity ownership, CEO Duality) and external mechanisms (external blockholders, market for corporate control), checking through a fuzzy-set approach how the combination of these affect firm's profits. For some measurements, the source was the Risk Metrics and Compustat Execucomp databases. The patterns of CG mechanisms across the configurations suggest a complex influence: high profits result when CEO incentive alignment and monitoring mechanisms complement each other, but some monitoring mechanisms (those related to TMT) tend to substitute each other. The one study directly addressing the interaction of different CG mechanisms in promoting CSR is from Oh et al. (2016), who specify interactive terms for their analysis focusing on a sample of US firms from 2004 to 2010. They gather CG mechanisms data from the GMI

Ratings and ExecuComp: monitoring mechanisms: blockholder ownership (BO) and proportion of outside directors (PO) and incentive alignment mechanisms: TMT ownership (TO) and TMT incentive intensity (TI). CSR is measured through the KLD ratings. Their study finds several conclusions, overall supporting the substitutive effect hypothesis: interaction of the two CG monitoring mechanisms (PO and BO) and the two incentive alignments (TO and TI) act as substitutes in relation to CSR. When combining the monitoring and incentive alignment mechanism (BO and TI, and PO and TO), the interaction term also suggest a substitutive effect. However, one exception was found: when combined, PO and TI complement each other to promote CSR. Managerial compensation based on long- term incentives may reduce agency problems, and make managers more likely to support CSR, therefore outside directors can also be more committed to supporting other stakeholders if they don't have to worry as much about monitoring managerial opportunism. Villaron-Peramato et al. (2018) take an alternative approach to their analysis of the complementary or substitutive role of CG mechanisms: they focus on CSR as an instrument used for managerial private benefit and self-defence (entrenchment strategy). In these cases, investors and shareholders use the firm's level of debt (capital structure) as their main control mechanism to manage this agency problem. Their study looks at CG mechanisms as additional controls that might act as complements or substitutes to external debt in 21 developed countries from 2003 to 2010. CSR investment information is taken from the Ethical Investment Research Service (EIRIS). Both firm-level governance (board independence, board diversity and foreign directors on board) and country-level governance (Anti-Self dealing index, Country ruled by common or civil law, Anti-director right index) variables are used. The market leverage ratio (Debt ratio) is the ratio between long-term debt and equity. Their findings at firm-level support the complementary role of debt and CG as control mechanisms regarding CSR entrenchment, specifically between board independence and diversity and capital structure. At a country-level, investor protection

and capital structure have a substitutive effect as control mechanisms of CSR as entrenchment. Greater shareholder protection reduces the principal-agent problem while decreasing managerial expropriation. When reporting which effect is greater when limiting the managerial entrenchment based on CSR, their findings suggest that firm-level mechanisms may be limited, contrary to the country-level ones, which reflect the institutional environment where a firm operates and cannot be manipulated by managers.

Studies which address the complementarity/substitutive effects of different CSR dimensions (one of them being CG) on organizational outcomes.

Cavaco and Crifo (2010) unfold the different CSR dimensions (focused on ESG criteria: environmental, social and corporate governance areas), to determine which set of practices would lead to higher CFP by analysing their interactions. Using the Vigeo database, they review the following factors within CSR: Human Rights, Environment, Human Resources, Clients and Suppliers, Corporate Governance, and Community Involvement. The Orbis database provides the financial variables for the firm sample of 15 developed countries between 2002 and 2007 (Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Norway, Portugal, Spain, Sweden. Switzerland, The Netherlands and the UK). Their analysis yields a set of mixed results of these mechanisms interaction on CFP: environment and CG appear to be complementary inputs in raising firm performance; but human resources and CG, along with the interaction CG and clients and suppliers appear to be substitutable (and more costly) inputs. However, since the significant positive interaction coefficient is higher for environment and CG, the authors conclude that complementary ESG factors may have a higher impact on CFP than substitutable ones.

Studies which address the complementarity/substitutive effects between CG and CSR mechanisms on organizational outcomes

Harjoto and Jo (2011) discuss whether strong CG forces managers to act on the best interests of the firm by engaging more in CSR and thus reducing the conflict of interest between managers, shareholders and stakeholders. Part of their analysis includes exploring if CSR is used by management (as discussed by the principal-agent theory) to build their reputations as good global citizens. They also examine the claim that managers strategically choose CSR activities to reduce the probability of CEO turnover in a future period through indirect support from activists. Finally, they explore the effect of these management strategy choices on US firms' performance from 1993 to 2004. For this, the renowned KLD dataset is used for CSR measurement and three different secondary databases (IRRC, S&P Execucomp database, and I/B/E/S) for CG mechanisms (board structure and ownership characteristics). Although they do not explicitly address the complementary/substitutive effect, they find a positive significant joint effect of certain CG mechanisms (monitoring by institutional investors, security analysts, and independent board) and CSR engagement on firm performance. This effect would support the argument that both CSR and CG can be complementary mechanisms when wanting to reduce conflicts of interest between managers and non-investing stakeholders and improve CFP. Ntim and Soobaroyen (2013) examine the links among CG, CSR and CFP through an institutional lens, which emphasizes the potential legitimation and efficiency effects of internal firm mechanisms. They investigate the extent to which a firm's CG structures may influence its CSR practices and the impact of the interaction between CG and CR mechanisms on firm performance in the South African context. Due to dispersed ownership structure, weak shareholder activism, and poor enforcement of corporate regulations, firms face higher managerial opportunism and conflict of interests that distinguish them from their Anglo-American counterparts. Their sample includes non-financial firms listed on the Johannesburg Stock Exchange from 2002 to 2009. CG mechanisms include ownership variables (block ownership, government ownership and institutional ownership) and board variables (board

diversity, board size and independent directors). CSR mechanisms are measured through corporate disclosure in the following areas: context-specific (black economic empowerment, and HIV/Aids); and traditional (environment, ethics, health and safety, and social investment CSR disclosures)[12]. Both CG and CSR variables are taken from the firms' annual and sustainability reports collected from the Perfect Information Database. Financial variables were taken from ThomsonReuters Datastream. They find that, on average, firms with better CG practices tend to increase their CSR investment (as measured through their disclosure on such practices), depending on the combination between these mechanisms. In particular, the interaction coefficient between CSR and the following CG mechanisms is statistically significant and positive: government ownership, board diversity and independent directors, which suggests a complementary effect between these mechanisms when influencing firm performance (block ownership and institutional ownership had a negative interaction coefficient which would suggest a substitutive effect). Cormier and Magnan (2014) explore the relationship between CSR disclosure, CG mechanisms and financial analysts' information environment (proxied by analyst forecasts precision regarding firm's earnings). Their study explores whether CSR disclosures and CG act as substitute or complement of each other when reducing information asymmetry and improving analyst forecasts. For this, they use a sample of Canadian firms listed on the Toronto Stock Exchange S&P/TSX Index in 2008. Environmental and social disclosures were collected from firm websites and CG scores from the 2008 Board Games ranking published by the Canadian newspaper The Globe and Mail (ranking is published annually). The score includes four components: board composition, shareholding and compensation, shareholder rights and disclosure. Financial analyst forecasting is measured as the degree to which analysts share a common belief or consensus.

---

[12] The authors build a CSR practice disclosure index containing 26 items based on these six main themes, for further information in the scoring procedure, the journal paper can be consulted.

This is a function of forecast dispersion, error and the number of forecasts. Through a series of simultaneous equations and use of interaction terms, they come to the following conclusions: CG substitutes environmental and social disclosures in improving analyst forecast precision. Also, there would appear to be a substitution effect between environmental and social disclosures concerning analysts' forecasts. Therefore, in this context, effective CG might be enough to reduce information asymmetry and improve earnings forecasts, although the authors recommend testing this hypothesis on different institutional contexts. Table 19 presents a summary listing of all the studies taken as a benchmark for this research.

Table 19. CSR – CG quantitative complementary-substitute studies

Studies which address the complementarity/substitutive effects of different CG mechanisms on organizational outcomes and/or CSR

Author and Year	Region	Number of firms	Method	Dependent variable	Independent variable	Control variables	Complementarity/ Substitutability/ independent variables	Theories
Cueto, 2013	Latin America (Brazil, Chile, Colombia, Peru and Venezuela)	220	Two-staged least squares (2SLS) and three-staged least squares (3SLS)	Firm Value: Tobin's Q	CG: board structure (board size, board independence, CEO duality) and ownership concentration (% voting right held by largest shareholders, % voting rights held by government/institutional investors)	Size (Log Assets), Leverage	Complements	Agency theory Institutional theory
Francis et al., 2013	Emerging countries (Brazil, Chile, Hong Kong, India, Indonesia, South Korea, Malaysia, Pakistan, Philippines, Singapore, South Africa, Taiwan, Thailand, and Turkey)	362	Ordinary least squares (OLS) and two-stage regressions	Firm financial restriction: investment–cash flow sensitivity	Firm-level CG: *Saints and sinners: Who's got religion* report Country-level CG: Djankov et al. (2008) AntiSelfDealing index, International Country Risk Guide Judicial Efficiency and Berkowitz et al. (2003) Legality	Size (Log Assets), Leverage, Sales, GDP per capita	Substitutes	Agency theory

Study	Country	Sample	Method	Dependent variable	Independent variables (CG)	Control variables	Findings	Theory
Schepker and Oh, 2013	US	288	Probit model	Antitakeover provisions: renewal/repeal poison pill provision	CG: board structure (independent directors, CEO duality and directors nominated by CEO) and ownership concentration (managerial/outside director ownership and pressure-resistant institutional ownership)	Size (Log Assets), Market-to-book-ratio, Poison pill age, Number of board meetings	Complement overall (one CG mechanism supporting substitute hypothesis)	Agency theory
Misangyi and Acharya, 2014	US	1135	Fuzzy-set qualitative comparative approach	Firm profitability: ROA	CG: internal (incentive-alignment and monitoring) and external mechanisms (control and monitoring)	n/a	Mixed: Substitute/ Complement depending on strategy	Agency theory Informational asymmetry
Oh, et al., 2016	US	1559	Hausman–Taylor estimation	CSR: KLD ratings	CG: monitoring mechanisms (blockholder ownership and proportion of outside directors) and incentive alignment mechanisms (TMT ownership and TMT incentive intensity)	Firm size (Log Sales), ROA, Market-to-book ratio, Debt ratio, Board size, Family and founder firms	Substitutes overall (one interaction of CG mechanisms supporting complementary hypothesis)	Agency theory
Villaron-Peramato et al., 2016	Developed countries (US, UK, Canada, Australia, Germany, the Netherlands, New Zealand, Austria, Denmark, Finland,	1490	GMM	Capital structure: level of debt	Firm-level CG: board independence, board diversity and foreign directors on board Country-level governance Djankov et al. (2008) Anti-Self	Size (Log Assets), ROA, Market-to-book ratio, Liquidity ratio, Depreciation, Total assets tangibility	Complementary (firm-level CG) Substitutes (country-level CG)	Agency theory Stakeholder theory Institutional theory

| | Sweden, Switzerland, France, Italy, Spain, Portugal, Belgium, Japan, Singapore, Korea and Hong Kong) | | | | | dealing index, Country ruled by common or civil law and Anti-director right index (Porta et al., 1999) CSR: EIRIS database | | |

Studies which address the complementarity/substitutive effects of different CSR dimensions (one of them being CG) on organizational outcomes.

| Cavaco and Crifo, 2010 | UK and 14 European countries (Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Norway, Portugal, Spain, Sweden. Switzerland and The Netherlands) | 300 | GMM | Firm performance (Tobin's Q) | CSR dimensions: Environmental, Human Resources, Clients and Suppliers and Corporate Governance | Size (Log Assets), Sales, Debt ratio, R&D expenses | Mixed: Complement and substitute effects but higher impact of complementary effect. | Stakeholder theory |

Studies which address the complementarity/substitutive effects between CG and CSR mechanisms on organizational outcomes

| Harjoto and Jo, 2011 | US | 2952 | Probit model, Instrumental Variables (IV) and Heckman's two-stage model. | Firm performance/value: Tobin's Q and ROA | CG: board structure (board independence, board ownership, external analysts monitoring, institutional blockholders) | Size (Log Assets), R&D expenditures, Advertising expenditures, Debt, Industry Herfin- dahl–Hirschman Index (HHI) | Complements | Agency theory |

					CSR: KLD index			
Ntim and Soobaroyen, 2013	South Africa	169	Fixed-effects and 2SLS	Firm performance: Tobin's Q and ROA	CG: ownership variables (block ownership, government ownership and institutional ownership) and board variables (board diversity, board size and independent directors). CSR disclosure index: own index from firm's sustainability reports	Size (Log Assets), R&D expenditures, Advertising expenditures, Capital expenditure, Audit firm size, Risk, Leverage	Mixed: Complement and substitute effects but higher impact of complementary effect	Institutional theory
Cormier and Magnan, 2014	Canada	192	3SLS and OLS	Financial analyst forecasting: forecast dispersion scaled by the mean forecast earnings per share (EPS)	CG: governance score from 2008 Board Games ranking CSR: disclosure reports on firm's websites.	Size (Log Assets), Leverage, ROA	Substitutes	Informational asymmetry

Source: Own elaboration

As we can observe from the studies reviewed, there is no overall consensus on whether CG and CSR mechanisms can be considered substitutes or complements when influencing organizational outcomes. We found relatively few studies undertaken after Jamali et al.'s (2008) call for additional empirical analysis on the interrelationship between CSR and CG mechanisms; with only two recent ones (Harjoto and Jo, 2011; Ntim and Soobaroyen, 2013) exploring their interaction in connection with CFP. This is one of the first gaps we find in our business literature review. As we mentioned in the measurement section, there is also no consistent shared view on how to measure CG mechanisms. While most studies consistently focus on board composition and ownership characteristics (whether they be regarding monitoring or incentive-alignment mechanisms), they draw from a wide variety of secondary databases when building their own measurements for the construct (either at a firm or country-level). This might also be one reason why there is a lack of consensus within studies, making comparability between them more challenging as well. Most of the studies do use renowned external standardized ratings when measuring CSR, some of them discussed in our previous empirical chapter. From the literature reviewed so far, we can see that research on CG and CSR mechanisms interrelationship explores mainly Anglo-Saxon economies. CG has not yet been studied in Latin America as a potential complement/substitute to CSR when influencing financial performance. While Cueto (2013) focuses on Latin America as his regional framework for analysis, underlining the need to focus on the region due to its different institutional market characteristics, he only addresses the complementarity/substitutive effect amongst CG mechanisms when related to firm's value. CSR has not been included in his discussion as part of the corporate activities that might improve organizational outcomes. As mentioned earlier in this section, there is extensive theoretical and empirical academic work that links it to improved firm performance, amongst other competitive advantages. However, in emerging economies, the weaker economic environment and higher financial challenges

may induce firms to lower their CSR engagement (considered a long-term investment) to pursue other expenditures that may ensure firm survival (short-term requirements). This could potentially impact investments that are key to their competitive performance. However, the aforementioned pyramidal structure of Latin American firms also means intra-group transfers of funds (internal capital markets within business/family groups) may alleviate financial constraints that as discussed in our previous empirical chapter affect CSR investments. The main driver behind investing in a complimentary/substitute strategy between corporate internal mechanisms are efficiency and relative costs (Misangyi and Acharya, 2014), and Latin American firms could make better investment decisions by understanding how to improve their resource allocation between either CSR, CG mechanisms, or a bundle of the two. Also, Latin American countries face great social and environmental challenges which, as discussed before, might be better addressed by business organizations than the local government. Against this backdrop, we attempt to bridge the research gap in the region by exploring the potential complementarity/substitutability between these two internal control mechanisms and their effect on firm value (CFP).

Peters, Miller and Kusyk (2011) argue that the challenges of corporate governance are quite different in emerging markets than in developed markets. Damodaran (2009) states that firms in emerging countries tend to have information gaps due to lower enforcement regarding disclosure and accountability. It is due to this particular framework that some of the reviewed academic studies conclude that the westernized model cannot just be applied to the emerging markets context, given the institutional differences already discussed. This is an issue that has been extensively raised in previous discussions regarding emerging markets. (Mueller, 2006; Rettab et al., 2009). In the next section, we will discuss some of these CG traits particular to Latin American markets as part of our research.

5.3. Latin American markets and corporate governance characteristics

Many authors have specified that, just as with CSR, specific institutional frameworks need to be in place to support strong CG practices, some of which may not always be present in emerging economies. As reviewed in Chapter 2, Latin America is characterized by weaker institutions regarding legal structures, regulatory and financial markets, which may affect the firm's compliance with CSR and CG standards (Filatotchev et al., 2013; Lojpur and Draskovic, 2013). Latin America's equity markets are still lagging behind the rest of the world. According to the 2012 World Economic Forum Financial Development Report, most countries in the region lack size and depth, ranking within the bottom quartile in market development. The report states that financial development refers to "the factors, policies and institutions that lead to effective financial intermediation and markets, as well as deep and broad access to capital and financial services" (p.3). As has been discussed in more detailed throughout our previous chapter, firms in countries with lower institutional development usually report higher financing obstacles or resource constraints (Tran and Santarelli, 2013). The predominance of corruption practices in the region also affects the effective function of governments and economies where these firms operate (Briano-Turrent & Rodriguez-Ariza, 2016). However, as mentioned earlier, these issues/imperfections regarding the firm's context could be managed through internal control mechanisms, such as CSR and CG. The Development Bank of Latin America (CAF) published in 2004 the first version of the voluntary guidelines for a Latin-American Code of Corporate Governance (updated since in 2006, 2010 and 2013), based fundamentally on the OECD´s Principles of Corporate Governance. The guidelines cover the following areas: (i) the Rights and Equitable Treatment of Shareholders; (ii) the Shareholders Meeting; (iii) the Board of Directors; (iv) the Control Structure; and, (v) Transparency and Financial and Non-Financial Information. These guidelines have contributed to strengthen CG practices and its effective promotion in many firms throughout the region. CAF has also written specific CG guidelines

for small and medium enterprises (SMEs) and family companies; as well as guidelines for state-owned enterprises (SOEs). This because, according to CAF it would not make much sense to impose the same levels required for listed companies and financial entities to companies that are not listed or have closed capital, like SMEs or family enterprises. Certain corporate governance characteristics in Latin America, such as weak legal protection of minority shareholders (La Porta et al., 1999), and a firm's high levels of concentrated ownership have been considered as part of the institutional framework surrounding both constructs. The importance of CG increases for firms presenting bigger agency problems and transaction costs because it helps them create comprehensive contracts as a solution (Dheev and Khazalia, 2013). The regional studies reviewed for our study focus on two main characteristics of Latin American financial markets:

Concentrated ownership: Extant research points out that the lack of a significant separation between ownership and control in Latin American companies may present a departure from existing market principles of corporate governance. In Latin America, the difference in ownership structure affects the kind of agency problems faced by the firm. The traditional agency problem focuses on the principal-agent conflict of interest when firms have a dispersed ownership structure (Byun et al., 2015). However, Latin American firms have a very concentrated ownership structure that gives a considerable amount of power to controlling shareholders. Therefore, they tend to override managers in terms of influence and decision-making. In this case, the conflict of interest in the agency problem shifts from shareholder-management to major shareholders-minority shareholders (Carvalhal, 2012; Briano-Turrent and Rodriguez-Ariza, 2016). Usually controlling shareholders tend to be short-term profit-seekers, which would not necessarily align with the long-term nature of, for example, CSR investments. Some of the issues to be addressed in this case might include asset diversion and expropriation of minority shareholder's interests. We discussed in Chapter 2 that the distinctive

institutional foundations of capitalism in Latin America have led to the establishment of hierarchical market economies (HMEs). In HMEs, the dominant corporate structures in private firms are family-owned, which may lead to improved monitoring (groups tend to have an active role in management). They also form large business groups or conglomerates that dominate industry sectors. (Cueto, 2009; Kalatzsi et al., 2010). When the majority of shareholders are part of family groups, they acquire a high level of leverage and voting rights, increasing their incentives to look for private benefits and leading to poor management. Family groups not only may be inclined to expropriate minority shareholders but tend to see the company as their own private domain (Cueto, 2009; Saenz-Gonzalez & García-Meca, 2014). Some studies (Mueller, 2006; Shaukat et al., 2015) have discovered that this managerial discretion can lead to the manipulation of earnings, creating agency problems due to how they influence the size and composition of the board of directors. Board independence tends to be low, given that board members can be related to the controlling shareholder by family ties or another kind of close relationship. With a low separation between ownership and control, board members tend to establish a higher level of remuneration and manipulate company results for their own benefit. Hence, investment in certain activities such as socially responsible ones might not be strategically chosen solely for the firm's competitiveness but to increase their reputation, or protect themselves against stakeholders' activism. In this case, CSR initiatives can be considered as a source of managerial opportunism (Villaron-Peramato et al., 2018). However, research also shows that the high degree of ownership and control concentration that results from these family structures may also lead to a more efficient monitoring and better value maximization for the firm, reducing information asymmetries (Cueto, 2009). This effect can be stronger in emerging economies where there is weaker enforcement of regulation and higher transaction costs. Concentrated ownership can also work as a strength in these markets because family ownership/business groups can be an alternative source of financial support to the firm

(OECD, 2003). Succurro (2014) finds a substitution effect between external funds and internal resources when investing in intangible assets (such as CSR projects) for regions with less developed capital markets. Overall, Saenz-Gonzalez and Garcia-Meca (2014) suggest that ownership concentration might work as an effective CG mechanism when monitoring accounting decisions of incumbent management. However, if the level of concentration is too high, it can lead to some of the aforementioned agency problems.

*Weak shareholder and investor protectio*n: All countries in Latin America follow the civil law tradition, which according to La Porta et al. (1999) is characterised by providing weak legal protection for minority shareholders and outside investors, at the cost of financial development. The Inter-American Development Bank (IADB) argues that the region has one of the weakest protection frameworks in the world in this area, which leads to significantly underdeveloped financial markets. Hillier et al. (2011) study also states that weak minority shareholder protection increases the likelihood of firms making non-value-maximizing investments because the rights of minority shareholders are positively linked to better capital allocation. The cost of external financing becomes higher when outside investors assume that controlling shareholders will try to expropriate internal resources. With weak investor protection, ownership concentration replaces legal protection to guarantee investment return for large shareholders. As mentioned earlier in this chapter, concentrated ownership and working in an environment with weak shareholder protection may provide different incentives for board members involved in corporate-decision making. When coupled with the particular agency problem of Latin American firms, expropriation issues come into play (Cueto, 2009; Saenz-Gonzalez and García-Meca, 2014). Latin America's lack of proper corporate governance affects the firms' ability to raise capital in the equity market. Asymmetrical information also presents an investment risk between outside investors and corporate insiders. The prevalence of economic conglomerates in the region might help minimize informational

costs and obtain long-term financing (OECD, 2015a). However, if they become largely dominant, they could prevent local financial market development by forming internal financial markets within each group.

As stated by Cueto (2009), it is this Latin American institutional environment of highly concentrated ownership and poor shareholder protection that gives a rich alternative setting for analysing good governance and responsible practices, and its relationship with corporate performance. Both better CSR and CG lead to better stakeholder relationships, which might play an important role in markets like Latin America, where the social license to operate is a bigger issue than in developed ones. Friede et al. (2015) analysed over 2,000 empirical business studies from 1982 to 2014 and established that investment in environmental, social and corporate governance initiatives can have a positive effect on the firm's financial performance. As we have seen from our literature review, although both CSR and CG mechanisms have been extensively researched on their own, there have been fewer studies establishing a link between them and how they could complement or substitute each other when looking to improve the firm's financial and socially responsible commitment to all stakeholders. We want to expand coverage of emerging markets by exploring this nexus for the first time in Latin American markets. As stated earlier, concentrated ownership and weak shareholder protection lead to higher cost of external financing for firms and manipulation of earnings. Given the financial restrictions faced by Latin American firms discussed in Chapter 4, and the cost implied in implementing CG mechanisms (due to a less developed legal framework and lack of regulatory enforcement) or CSR ones (due to them being long-term investments); we hypothesize that in a Latin American context firms might decide to focus on one specific bundle of inner mechanisms (substitution effect) instead of trying to take advantage of their synergy (complementary effects) when looking to improve their performance. If both mechanisms are linked to similar outcomes when improving legitimization and organizational outcomes, faced

with limited resources, managers could consider that the presence of only one or the other might be sufficient. The substitution effect has already been associated with some of our previously reviewed studies with cost-benefit trade-offs (Cormier and Magnan, 2014; Oh et al., 2016).

> *H_2: In Latin America, CG mechanisms and CSR mechanisms act as substitutes for each other when influencing CFP.*

5.4. Variable measurement, sample description and methodology

In our previous empirical chapter regarding CSR and financial constraints, we addressed the data collection issues faced by academic research in Latin America. This limited availability of standardized information can limit comparability with other studies (Cueto, 2013; Didier and Schmuckler, 2014; Zicari, 2017)[13]. For our Latin American sample, we focus on publicly traded firms matching data from three secondary databases: the Thomson Reuters ASSET4 equal-weighted ratings and Bloomberg ESG databases for our CG and CSR measurements; and ThomsonReuters Datastream for our financial information and main control variables. Following our previous empirical analysis, we will be using ESG performance ratings as our main CSR proxy. We follow similar emerging countries studies, as discussed in Chapter 3, that have also relied on listed companies for their analysis, which also facilitates the concept standardization when accessing financial variables due to the disclosure agreements these companies have to follow when entering the stock market. We include financial constraints in our model as a moderating variable to reflect the challenging capital markets of the region. We will now further discuss our variable measurement selection, Latin American firm sample and finally, the methodology used for this empirical section.

---

[13] ESOMAR, a global data analytics company stated in 2015: "Latin America is a region where VUCA [volatility, uncertainty, complexity, ambiguity] and crisis has been the rule for so long, we learn to deal with scarcity [of data]".

5.4.1 Measures for Corporate Governance

From our literature review, we find a wide variety of measurements for the CG construct, but not one standardised measure across studies. A broad spectrum of different variables has been selected according to each study's theoretical framework and data availability. However, as we have discussed early on, one common element in latest studies has been the inclusion of board of directors structure (size, composition, CEO duality, etc.) and ownership structure as the main variables representing CG internal mechanisms (Briano-Turrent and Rodriguez-Ariza, 2016; Hossain et al., 2016; Lopez-Arceiz et al., 2018; Villaron-Peramato et al., 2018). We have also found that certain studies use country-level CG measurements in addition to firm-level CG measurements (Francis et al., 2013; Jain and Jamali, 2016). To address institutional differences in ownership structure, we will include as controls two CG country-level measurements that will be discussed in our control variable section. For measurement of CG as one of our main independent firm-level variables, we will use ThomsonReuters Management Category Score, which has not been used in previous research due to its recent addition. In 2018 Thomson Reuters introduced new categories to its ESG score. The database used by ThomsonReuters is now updated on a continuous basis aligned with corporate reporting patterns and data is refreshed on products every two weeks, which includes the recalculation of the ESG Scores. Updates could include a brand new company being added to the database, the latest fiscal year update or the inclusion of a new controversy event. Thomson Reuters Management Score was one of the latest new categories included. This Governance category uses Country of Headquarters as the benchmark, as best governance practices are more consistent within countries. Each category score is the equally weighted sum of all the indicators used to create it. The normalized weights are calculated, excluding indicators with no data available in the public domain. The Management Score is composed of 34 indicators that contain multiple issues such as board composition, diversity, independence,

committees, compensation, etc. It also helps to capture how much confidence investors have in the company's management and risk profile.[14] This score allows our CG construct to follow other studies reviewed that take into account board independence and compensation policy as factors that could affect managerial incentives for making investment decisions (Francis et al., 2013; Khan et al., 2013; Dutordoir et al., 2014). More comprehensive detail of the composition of the Management Score is included in Table 20.

---

[14] Description taken from the ASSET4 Company level template on ThomsonReuters Datastream database.

Table 20. Composition of Thomson Reuters Management Score

Syntax	Title	Description
Board Functions	Value - Board Functions/Policy	Does the company have a policy for maintaining effective board functions?
Board Functions	Value - Board Functions/Audit Committee Independence	Percentage of independent board members on the audit committee as stipulated by the company.
Board Functions	Value - Board Functions/Audit Committee Management Independence	Does the company report that all audit committee members are non-executives?
Board Functions	Value - Board Functions/Compensation Committee Independence	Percentage of independent board members on the compensation committee as stipulated by the company.
Board Functions	Value - Board Functions/Compensation Committee Management Independence	Does the company report that all compensation committee members are non-executives?
Board Functions	Board Meeting Attendance Average	The average overall attendance percentage of board meetings as reported by the company.
Board Functions	Succession Plan for Executives	Does the company have a succession plan for executive management in the event of unforeseen circumstances?
Board Functions	External Consultants	Does the board or board committees have the authority to hire external advisers or consultants without management's approval?
Board Functions	Value - Board Functions/Nomination Committee Involvement	Percentage of nomination committee members who are significant shareholders (more than 5%).
Board Functions	Value - Board Functions/Board Attendance	Does the company publish information about the attendance of the individual board members at board meetings?
Board Structure	Value - Board Structure/Policy	Does the company have a policy for maintaining a well-balanced membership of the board?

Board Structure	Value - Board Structure/Size of Board	Total number of board members which are in excess of ten or below eight.
Board Structure	Value - Board Structure/Background and Skills	Does the company describe the professional experience or skills of every board member? OR Does the company provide information about the age of individual board members?
Board Structure	Value - Board Structure/Specific Skills	Percentage of board members who have either an industry specific background or a strong financial background.
Board Structure	Value - Board Structure/Experienced Board	Average number of years each board member has been on the board.
Board Structure	Value - Board Structure/Board Diversity	Percentage of female on the board.
Board Structure	Value - Board Structure/Non-Executive Board Members	Percentage of non-executive board members.
Board Structure	Value - Board Structure/Independent Board Members	Percentage of independent board members as reported by the company.
Board Structure	Value - Board Structure/CEO-Chairman Separation	Does the CEO simultaneously chair the board or has the chairman of the board been the CEO of the company?
Board Structure	Value - Board Structure/Board Member Affiliations	Average number of other corporate affiliations for the board member.
Board Structure	Value - Board Structure/Individual Reelection	Are all board member individually subject to re-election (no classified or staggered board structure)?
Compensation Policy	Value - Compensation Policy/Policy	Does the company have a policy for performance-oriented compensation that attracts and retain the senior executives and board members?
Compensation Policy	Value - Compensation Policy/Individual Compensation	Does the company provide information about the total individual compensation of all executives and board members?

Compensation Policy	Value - Compensation Policy/Highest Remuneration Package	Highest remuneration package within the company in US dollars.
Compensation Policy	Value - Compensation Policy/Long Term Objectives	Is the management and board members remuneration partly linked to objectives or targets which are more than two years forward looking?
Compensation Policy	Value - Compensation Policy/Sustainability Compensation Incentives	Is the senior executive's compensation linked to CSR/H&S/Sustainability targets?
Compensation Policy	Compensation Improvement Tools	Does the company have the necessary internal improvement and information tools for the board members to develop appropriate compensation/remuneration to attract and retain key executives?
Compensation Policy	CEO Compensation Link to Total Shareholder Return	Is the CEO's compensation linked to total shareholder return (TSR)?
Compensation Policy	Total Senior Executives Compensation	The total compensation paid to all senior executives (if total aggregate is reported by the company).
Compensation Policy	Shareholders Approval of Stock Based Compensation Plan	Does the company require that shareholder approval is obtained prior to the adoption of any stock based compensation plans?
Compensation Policy	Management Compensation Controversies	Number of controversies published in the media linked to high executive or board compensation.
Compensation Policy	Recent Management Compensation Controversies	Number of controversies published in the media linked to high executive or board compensation published since the last fiscal year company update..
Board Auditing	Internal Audit Department Reporting	Does the internal audit department report to the audit committee of the board?

Source: ThomsonReuters ASSET4 database

5.4.2. Measures for CSR and CFP

Following measurement used in Chapter 4, we will use an ESG score as a proxy for our second firm-level independent variable CSR. We have selected ThomsonReuters ASSET4 to measure CSR due to its objective and systematic ESG information[15], as well as for continuity and comparability purposes. For this study, we will separately analyse two of the general score's dimensions: social (SOC) and environmental (ENV). With this two scores, we want to cover the main impacts a firm may have, following latest studies and a corporate sustainability approach (Cormier and Magnan, 2014; Epstein et al., 2015; Ferrell et al., 2016; Esteban-Sanchez et al., 2017; Galbreath, 2017). Our dependent variable, corporate financial performance or firm value will be measured through one market performance measure and one accounting measure, to check for robustness: Tobin's Q and return on assets (ROA). Tobin's Q captures the value of long-term investments and can be considered as a proxy for future performance, which makes for better measurement if the cost-impact of CSR lasts for longer than one period. It also represents the shareholders' part of the firm's financial performance. It is not influenced by changes in accounting methods, so it allows for better comparability between firms while reflecting the value of future cash flows instead of past performance as do accounting profitability measures. Also, Tobin's Q has been known to help avoid some accounting measures issues such as management of earnings (Surroca et al., 2010; Lioui and Sharma, 2012; Jang et al., 2013). For robustness, and given academic concerns (Hong et al., 2012) regarding the use of Q-theory as a proxy for market valuation, we will also use an alternative measure for financial performance: return on assets (ROA). ROA is an extensively used accounting measurement for profitability throughout literature, helping assess the cost perspective of investing on CSR and capturing the firm's internal efficiency (Becher et al.,

---

[15] To avoid repetition, we refer the reader to Chapter 3 for the full description of this ESG measurement.

2011; Ameer and Othman, 2012; Endrikat et al., 2014; Peng and Yang, 2014; Luo et al., 2015; Chan et al., 2017).

5.4.3. Measurement of control variables

Besides our dependent (CFP) and independent variables (CSR and CG), we will be using a set of control variables following some of the studies reviewed for this chapter. Some of them will be the same variables used for our previous empirical chapter, such as: firm size (natural logarithm total assets) and firm age (years since going public), which have been used as proxy for firm visibility subject and increased monitoring by investors and analysts, which could lead to increased investment in CSR and CG strategies (Gainet, 2010; Demirbag et al., 2010; Perez-Batres et al., 2010; Shah, 2011; Koos, 2012); and leverage (measured by the total debt to total assets ratio), to account for the extent of resources available for the firm and also often used as a proxy for firms' risk in CSR studies (Lioui and Sharma 2012; Francis et al., 2013; Briano-Turrent and Rodriguez-Ariza, 2016). We also control for the industry sector in our estimation equation. An additional firm-level variable included for this empirical analysis will be CSR disclosure (CSRD), as it has been extensively studied as a potential factor affecting CFP and/or a firm's financial analyst valuation by also reducing information asymmetry (Cormier and Magnan, 2014; Chen et al., 2015). We will be taking our measurement for CSRD from the ASSET4 Thomson Reuters database, which establishes CSR Sustainability Reporting as a dichotomous variable on account of whether the firm publishes a separate sustainability report or a section in its annual report on sustainability. We choose this variable so that it better aligns with our firm database, which is taken from ASSET4. For this section we will also be including two additional country-level CG constructs to analyse the impact of the region's legal origins and capture the effectiveness of the countries' investor protection (Francis et al., 2013; Liang and Rennebog, 2013; Ferrell et al., 2016):

Country-level governance (anti-self dealing index): has been used in literature both as a control variable and to study substitutability between firm-specific and country-level governance in determining firm's sensitivity to cash flows. Djankov et al. (2008) update the seminal work by La Porta et al. (1998) and develop an anti-self dealing index to control for the country's legal protection of shareholders. Research indicates that this condition can influence the firm's financing and investment decisions. A higher value of the index means small investors are better protected (values range from 0 to 1).

Ownership concentration: Also developed by Djankov et al. (2008) as a variable to measure stock market development. It represents the average percentage of common shares owned by the top three shareholders in the country's ten largest non-financial, private domestic firms. A higher value means higher ownership concentration (values range from 0 to 1).

These control variables will help improve comparability with prior studies and reduce the possibility that the firm's performance is a function of correlated omitted variables. We also include financial constraints (FC) as a mediating variable between CSR, CG and CFP. Differences in the operation of financial markets have been used before as control variables in studies regarding CG and CSR (Hillier et al., 2011; Cueto, 2013; Bhaduri and Selarka, 2016). For this we will again use the SA index built by Hadlock and Pierce (2010). This index is a linear combination of the firm's size (natural logarithm of total assets) and age (years since the firm went public):

SA Index = (-0.737*Size) + (0.043*Size^2) – (0.040*Age)

5.4.4. Sample description

Our Latin American main sample from ASSET4 ESG covers firms from Brazil, Colombia, Chile, Mexico and Perú for the years 2009-2015. This period was chosen as the

most recent one available in our selected databases. It makes our research one of the most recent and updated studies data-wise since all other analysis from our benchmark literature review only covers firm information up to 2010. A total of 157 firms were gathered from this initial selection. Only countries with at least four companies consistently having information over our seven-year study period were included in the sample (Zuraida et al., 2016). We also exclude financial institutions, as is common in this type of studies because of their particular accounting practices (Saenz Gonzalez and Gracia-Meca, 2014; Briano-Turrent and Rodriguez-Ariza, 2016). After matching availability of our CSR and CG firms with the firm control variables found in the ThomsonReuters database our final sample consists of 134 firms from 5 countries (Brazil, Colombia, Chile, Mexico and Peru) for our selected 7-year period. We use the two first digits of the Worldscope Industry Classification Benchmark (ICB) to classify our firms by industry. Finally, we winsorize the observations to lessen outlier impacts, at 99th percentile to avoid extreme ratios (Cheng et al., 2014; Ferrell et al., 2016; El Ghoul et al., 2011). Table 21 and 22 show a summary of our sample. Brazil, Mexico and Chile have been the leading countries in the region regarding CSR practices, and are the ones with the biggest representation in our sample. As discussed in Chapter 2, all of the countries selected for the sample also have their own Sustainability Indexes in local stock markets, which could explain the availability of standardized data over the rest of the Latin American countries not included in the Thomson Reuters database.

Table 21. Sample distribution by country

Country	Number
Brazil	70
Chile	19
Colombia	7
Mexico	30
Peru	4
Total	**130**

Note: Firm's country of origin is taken from Thomson Reuters ASSET4 information about selected companies

Table 22. Sample distribution by industry category

Industry Categories	Number
Utilities	24
General Retailers	17
Metal & Mining	16
Real Estate	8
Food Producers & Retailers	8
Construction & Materials	7
Beverages	6
Oil & Gas	6
Telecommunications	5
Pharmaceutical & Healthcare	4
Household Goods	4
Industrial Transportation	4
Non-Life Insurance	4
Forestry & Paper	4
Chemicals	3
Personal Goods	3
Software & Technology	2
Travel & Leisure	2
Aerospace & Defense	1
Automobile & Parts	1
Electronical & Electronic Equipment	1
Media	1
General Industrials	1
Total	**130**

Note: Firm's industry category is selected from two first digits of Worldscope Industry Classification Benchmark (ICB), available from Datastream database.

From the industry distribution, we can see the predominance of natural resources industries such as Metal & Mining, and Utilities (which include electricity and water companies that also work with natural resources). As has been discussed before, Latin America is a region mostly dependent on raw materials (commodities), due to its diverse natural resource endowments[16]. As a result, Latin America works under the so-called resource curse, which has hindered economic development but also gives an opportunity for firms in these industries to contribute to local development through CSR initiatives as often they can fulfil the multiple needs that governments are currently not able to meet (Rodrigo et al., 2016).

We acknowledge when discussing our final results that the sample used in these two empirical chapters may not be wholly representative of the population. Since we are dealing with companies included in the stock market, there is a bias towards larger firms which might be better positioned to engage in CSR and CG activities (Shaukat et al., 2015). So any findings and implications will be taken as exploratory in nature, as there may be a difference in financial constraints according to firm size: bigger firms might face lower financial constraints (Alvarez and Jara, 2016).

5.4.5. Methodology

With our available sample, we will test our hypothesis regarding the substitutability/complementarity of CG and CSR mechanisms related to their impact on CFP. Following previous studies (Cormier and Magnan, 2014; Galbreath, 2017; Sarim et al., 2017) we will focus on the environmental (ENV) and social (SOC) aspects of CSR, accounting for the fact that each dimension of CSR might face different investment decisions for the firm. To corroborate our findings and check for robustness we will run our models with both market and

---

[16] Related extractive industries have "triggered the most contentious arguments between the state, the private sector, and social movements over the territorial, environmental, and human implications of their expansion. The result for those who live near extractive enterprises has been tension and conflict" (Bebbington, 2009, pp. 13-14).

accounting measurements of CFP. The final versions of these are shown in the following equations:

(3) Tobin's Q$_{it}$ = β$_0$ + β$_1$(SOC) + β$_2$(ENV) + β$_3$(CG) + β$_4$(SIZE) + β$_5$(ASELFDEALINDEX) + β$_6$(OWNERSHIPCONC) + β$_7$(SALES) + β$_8$(LEVERAGE) + β$_9$(SA INDEX) + β$_{10}$(FIRM AGE) + β$_{11}$(SOC*CG) + β$_{12}$(ENV*CG) +μ$_{it}$

(4) ROA$_{it}$ = β$_0$ + β$_1$(SOC) + β$_2$(ENV) + β$_3$(CG) + β$_4$(SIZE) + β$_5$(ASELFDEALINDEX) + β$_6$(OWNERSHIPCONC) + β$_7$(SALES) + β$_8$(LEVERAGE) + β$_9$(SA INDEX) + β$_{10}$(SOC*CG) + β$_{11}$(ENV*CG) +μ$_{it}$

Tables 23, 24 and 25 provide some descriptive statistics and correlation of our main variables.

Table 23. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ENV	769	53.301	27.855	9.57	94.31
SOC	770	61.708	31.822	4.31	97.16
CG	764	49.289	27.700	1.6	98
TOBINS Q	878	1.487	1.009	0.317	6.456
ROA	884	7.211	4.878	-5.52	18.08
SIZE	904	17.721	2.591	12.942	24.663
LEVERAGE	904	28.982	14.584	2.79	58.7
AGE	910	16.092	8.947	4	52
SALES	898	17.006	2.780	8.388	24.977
SA INDEX	904	0.057	2.085	-2.3913	5.267
ASELFDEALINDEX	910	0.320	0.151	0.172	0.625
OWNERSHIPCONC	910	0.572	0.057	0.450	0.640

Note: The variables are ENV= score regarding environmental performance from the ASSET4 ESG database and retrieved from Datastream, SOC = score regarding social performance from the ASSET4 ESG database and retrieved from Datastream, CG = Management score from the ASSET4 ESG database and retrieved from Datastream, Size=natural logarithm total assets, Leverage=ratio total debt to total assets, Sales = natural logarithm total sales, Age=years since firm went public.

Table 24. Tobin's Q model correlation

	1	2	3	4	5	6	7	8	9	10	11
1	1										
2	-0.165***	1									
3	-0.176***	0.861***	1								
4	0.017	0.183***	0.193***	1							
5	-0.157***	0.041	0.056	0.125***	1						
6	-0.238***	0.068	-0.004	0.027	0.052	1					
7	0.012	0.093*	0.017	0.058	-0.031	0.415***	1				
8	-0.141***	0.112**	0.039	0.058	0.019	0.947***	0.441***	1			
9	-0.217***	0.015	-0.038	0.029	0.035	0.975***	0.251***	0.913***	1		
10	-0.114***	-0.063	-0.078*	0.060	-0.041	0.621***	0.130***	0.569***	0.696***	1	
11	0.110**	0.044	0.080*	-0.062	-0.081*	-0.295***	0.028	-0.265***	-0.373***	-0.766***	1

Note: *p<0.05, **p<0.01, ***p<0.001

List of variables: 1. Tobin's Q 2. ASSET4 Environmental Score 3. ASSET4 Social Score 4. Corporate Governance (Management Score) 5. Leverage 6. Size 7. Firm Age 8. Sales 9. SA Index 10. Anti-Self Dealing Index 11. Ownership Concentration

Table 25. ROA model correlation

	1	2	3	4	5	6	7	8	9	10	11
1	1										
2	-0.011	1									
3	-0.021	0.861***	1								
4	0.030	0.183***	0.193***	1							
5	-0.243***	0.041	0.056	0.125***	1						
6	-0.195***	0.068	-0.004	0.027	0.052	1					
7	0.096*	0.093*	0.017	0.058	-0.031	0.415***	1				
8	-0.095**	0.112**	0.039	0.058	0.019	0.947***	0.441***	1			
9	-0.199***	0.015	-0.038	0.029	0.035	0.975***	0.251***	0.913***	1		
10	-0.073*	-0.082*	-0.078*	0.060	-0.041	0.621***	0.130***	0.569***	0.696***	1	
11	0.059	0.044	0.080*	-0.062	-0.081*	-0.295***	0.028	-0.265***	-0.373***	-0.766***	1

Note: *p<0.05, **p<0.01, ***p<0.001

List of variables: 1. ROA 2. ASSET4 Environmental Score 3. ASSET4 Social Score 4. Corporate Governance (Management Score) 5. Leverage 6. Size 7. Firm Age 8. Sales 9. SA Index 10. Anti-Self Dealing Index 11. Ownership Concentration

From Table 23, we can establish that the total number of year observations averages around 870 firm years. The sample size is smaller for the CSR and CG measurements due to the data availability issue mentioned before. Some firms do not have ratings for all the years included in our analysis. A brief look at Table 6 shows that the CSR sub-components have distinctive characteristics. Amongst them, the CG score has the lowest average value (49.2), as opposed to other studies in developed countries which find measurements of corporate governance mechanisms amongst the highest ranked when addressing CSR and CG, usually associated with more structured corporate governance regulations prevalent in those institutional frameworks (Rees and Rodionova, 2015; Zuraida et al., 2016; Gutsche et al., 2017). Since Thomson Reuters Management score is relatively recent, and to our knowledge the first time it is used in an empirical analysis, we cannot compare whether in itself the value is higher or lower than other studies. The highest score mean is observed for SOC (61.7). Our ENV measurement comes next with an average score of 53.3.

Regarding previous studies focused on ASSET4 ESG measurements these mean values are very close to those found for the UK, the US and other European firms (Ioannou and Serafeim, 2012; Shaukat et al., 2015). Likewise, values in developed firms also present standard deviations higher than 20 for social and environmental dimensions of their CSR decomposed measurements, reflecting quite high variability and extreme scores within the sample, even after winsorized. There is a great degree of heterogeneity in terms of the importance that Latin American firms attach to CSR activities. Highest values for social score provide some support for the legitimacy theory discussed earlier, since for ASSET4 this pillar reflects the firm's reputation and the health of its license to operate, which we determined are key factors in its ability to generate long term shareholder value and working in developing countries' institutional frameworks such as Latin America. The relatively weak enforcement of environmental disclosure initiatives in the region may also account for the samples' low

ENV score. The mean value for the SA index is 0.06 and the standard deviation is 2.08, suggesting that there exists significant variation across firms regarding the idiosyncratic capital constraints they face (Cheng et al., 2014).

Table 24 and Table 25 present the pairwise correlation matrixes for all variables, with Table 24 focusing on Tobin's Q as the dependent variable and Table 25 focusing on ROA. We observe a statistically significant negative correlation between the ENV (-0.16) and SOC (-0.17) scores and Tobin's Q, but none for ROA. Our CG variable does not seem to directly affect any of our measurements for firm's performance individually. The SA index has a statistically significant negative correlation with both Tobin's Q (-0.21) and ROA (-0.19), which would suggest that financial constraints can negatively impact firm performance. From the correlation tables, we can observe that for both models an initial complimentary effect (significant positive correlations) would appear to exist between the CG variable and the CSR components, both social (0.19) and environmental (0.18). Given the relatively moderate levels of correlations among most of our main variables ($| r | < 0.5$), we initially predict that multi-collinearity is not likely to be a problem for our analysis[17].

We begin our empirical work by examining how our measurements of CG and CSR might interact and complement or substitute each other when affecting the firm's performance. We analyse our data with the STATA 14 software. Following previous studies reviewed for this chapter (Peng and Yang, 2014; Mallin et al., 2014) we calculate the variance inflation factors (VIF) for the main variables as part of the STATA regression diagnostics and find no multicollinearity (value: 2.92, below 5). Because we are working with panel data, we follow previous studies (Rees and Rodionova, 2014; Han et al., 2016; Nollet et al., 2016) and begin

---

[17] Although we acknowledge there are no established rules for assigning strength of association to particular values, we will follow the general guidelines provided by Cohen (1988): $0.1 < | r | < .3$ shows small correlation, $0.3 < | r | < .5$ a medium to moderate one, and $| r | > .5$ denotes a strong correlation. $| r |$ represents the absolute value of the correlation coefficient.

by running country-specific regressions through a Pooled Ordinary Least Squares (OLS) specification with robust standard errors adjusted for both heteroscedasticity and clustering of observations. To consider the specific time period and industry, we introduce dummy variables to capture these effects. To account for the long-term nature of CSR investments, we lag both SOC and ENV score one year. We also use a one-year lag of the KZ index variable in our regression, which will also help us prevent endogeneity issues (Gainet, 2010). We then examined our pooled OLS regression with the Breusch-Pagan test, which shows heteroskedasticity with all model specifications. Therefore, our other alternatives for panel data are running fixed-effects (FE) model or a random-effects (RE) model. Both of these methods have been extensively used in literature dealing with panel data methodology (Liang & Rennebog, 2017; Sasidharan et al., 2015; Lopatta et al., 2016). The Hausman test was used to select between a random-effects or fixed-effects model, which estimates the significance level between estimators. The FE specification was retained, Cueto (2009) and Cheng et al. (2014) also follow this method to control for the possibility that potential outcomes are driven by an unidentified firm variable, time-invariant and correlated with the CFP, CG and CSR measures. For robustness, we account for heteroskedasticity and/or autocorrelation via the cluster-robust standard error command, which drops our time constant independent variables from the equation[18]. We present the results for both regressions (equations 1 and 2) on Table 26.

---

[18] Following Ntim and Soobaroyen (2013), the coefficients are estimated by using the robust clustered standard errors technique along both industry and year dimension

Table 26. Pooled OLS and Fixed-Effects regressions

	TOBINS Q (POLS)	TOBINS Q (FE)		ROA (POLS)	ROA (FE)
ENV	-0.001	-0.004	**ENV**	-0.012	0.031
	(0.00)	(0.00)		(0.05)	(0.05)
SOC	0.002	0.009*	**SOC**	0.139**	0.219*
	(0.00)	(0.00)		(0.05)	(0.07)
GOV	0.002	0.007	**GOV**	0.187***	0.238**
	(0.00)	(0.02)		(0.05)	(0.08)
ASELFDEALINDEX	2.754*	-	**ASELFDEALINDEX**	48.294*	-
	(1.33)	-		(21.83)	-
OWNERSHIPCONC	2.756***	-	**OWNERSHIPCONC**	97.202*	-
	(0.55)	-		(45.36)	-
SALES	0.255***	0.007***	**SALES**	2.906***	5.436*
	(0.05)	(0.00)		(0.79)	(2.47)
SIZE	-0.779***	-0.583*	**SIZE**	5.960**	-4.359***
	(0.12)	(0.22)		(1.96)	(0.62)
LEVERAGE	0.002*	0.007***	**LEVERAGE**	0.041	0.148***
	(0.00)	(0.00)		(0.03)	(0.02)
SA INDEX	0.401**	-0.638***	**SA INDEX**	-11.349***	-20.293***
	(0.13)	(0.15)		(2.14)	(3.68)
FIRM AGE	0.016*	-	**FIRM AGE**	-0.436***	-
	(0.01)	-		(0.12)	-
CSRD	-0.11	-0.129	**CSRD**	2.061	4.166
	(0.1)	(0.14)		(1.72)	(2.38)
SOCGOV	-0.001**	-0.001**	**SOCGOV**	-0.002*	-0.003*

	(0.00)	(0.00)		(0.00)	(0.00)
ENVGOV	-0.001**	0.001*	**ENVGOV**	-0.000	0.001
	(0.00)	(0.00)		(0.00)	(0.00)
constant	2.652	3.486	**constant**	18.891***	56.961
	(1.45)	(2.58)		(4.93)	(55.17)
Year dummies (effect)	YES	YES	**Year dummies (effect)**	YES	YES
Industry dummy	YES	YES	**Industry dummy**	YES	YES
R2	0.372	0.27	**R2**	0.472	0.28

Note: *p<0.05, **p<0.01,***p<0.001. Standard errors in parentheses. Following Ntim and Soobaroyen (2013), the coefficients are estimated by using the robust clustered standard errors technique along with both industry and year dimensions.

As we can see from our table, the R^2 for all the regressions are consistent with the extant academic literature (between 0.2 and 0.4). Only the SOC score is statistically significant across both measurements of firm performance ($p<0.05$), with a higher positive coefficient impact for our accounting measurement ROA (0.219) than for our market measure Tobin's Q (0.009). Environmental performance coefficients proved non-significant across all models. This goes in line with the fact that the social dimension of the ASSET4 ESG score was the one with the highest mean, indicating thereby that in Latin America firms focusing on social activities could benefit the most when trying to improve their financial performance. However, as we discussed in our previous chapter, this investment in CSR activities is influenced by regional financial constraints. We have included the SA index as a moderator and find it highly statistically significant across all models and regressions ($p<0.001$), although again with a much stronger coefficient effect for the accounting performance measure (-20.29) than our market one (-0.63). Any potential effect from CSR practices on CFP would be mediated through financial availability and access to funding. Our country-level governance variables (Djankov et al., 2008) are statistically significant ($p<0.05$) in the Pooled OLS specification, though they are dropped from the fixed effects regression due to multicollinearity issues. Good country governance also tends to have a positive impact on Latin American firms, which goes in line with previous results found in emerging and developed markets (Beltratti, 2005; Elango & Lahiri, 2014). Our CG measurement is only positively statistically significant in the ROA model (coefficient 0.23, $p<0.01$). Despite these inconclusive individual results, there is one common result in that both equation regressions show one equally significant negative interaction component: the one including the social dimension and CG constructs. For the Tobin's Q model, this coefficient is -0.001 ($p<0.01$), and for the ROA model it is -0.003 ($p<0.0$). Both signal a significant substitution effect between these activities. The environmental score shows a positive interaction with CG that is only statistically significant

with Tobin's Q (coefficient 0.001, p<0.05), signalling a complementary effect. Both variables appear to be complementary, benefitting from a synergy between the two control mechanisms.

5.5. Conclusions

Our empirical results partially corroborate our hypothesis of a substitution effect for certain CSR activities and CG mechanisms. Specifically, those activities related to the social pillar of our CSR construct substitute CG mechanisms. This means that when a firm uses CG mechanisms when looking to improve its financial performance, the effect of the social activities on firm performance is diminished. According to the ASSET4 ESG scores, this includes activities regarding employment quality, health and safety, training and development, diversity, human rights, community and product responsibility[19]. Following our hypothesis, regarding the improvement of the firm's financial performance, the cost implied in implementing CG mechanisms (due to Latin America's less developed legal framework and lack of regulatory enforcement) or CSR ones (the activities included in the SOC score are of long-term nature) is regarded as a trade-off for management. Therefore, given the influence of financial constraints on CSR investments, and in financial performance, one of the two should suffice for management when faced with limited resources. On the other hand, environmental and CG mechanisms appear to have a complementary effect when measuring financial performance through Tobin's Q. These could be attributed to the more naturally resource-based approach in the region, and that a big percentage of the sample firms come from extractive industries, such as mining, oil refineries and electricity companies (around 35%), whose activities tend to have the bigger environmental impact. In this scenario, public firms tend to focus on these activities as the most effective way of improving legitimacy and reputation. While CG mechanisms might be effective as control mechanisms that might reduce information asymmetry and curb agency problems, thus improving performance, there exists a

---

[19] For a more detailed list of components refer to Table 3 in chapter 3.

synergy between the two. Our mixed results, with no clear overall complement or substitute effect between CG and CSR variables, aligns with the results summarised in Table 19 of this chapter (Cavaco and Crifo, 2010; Ntim and Soobaroyen, 2013). To be more precise, our results align with those of Cavaco and Crifo (2010) in a sample of UK and European countries, whereby environment and CG appear to be complementary inputs in raising firm performance. In contrast, activities related to the social pillar and CG appear to be substitutable (and more costly) inputs in explaining firm performance. While Harjoto and Jo (2011) find a complementary effect between CSR and CG mechanisms, their study does not decompose CSR to address which dimensions a firm should focus on, especially when faced with financial constraints limitations. Our study is the first to research the interactive effect of control mechanisms such as CG and CSR when looking to improve a firm's financial performance in Latin America. We do so by implementing a new measurement for CG that includes board structure, functions and compensation policy to capture those instruments most used throughout our literature review. We address institutional differences for this region through country-level CG variables, and both the high ownership concentration and low minority shareholder protection tend to be statistically significant moderators when measuring firm performance through Tobin's Q and ROA ($p<0.05$) in our Pooled OLS specification. Thus, our study becomes also the first to explore both levels of CG mechanisms for Latin American firms. By including the role of financial constraints as a moderating variable, we aim to link this empirical section with our previous one, thus broadening our understanding of Latin American firms in business literature.

Chapter 6: Conclusions

6.1 Introduction

This research aims to explore the interrelationship between corporate social responsibility (CSR), financial constraints (FC), corporate governance (CG) and financial performance (CFP) in Latin America through the following two hypotheses: *H1: Financial constraints in Latin American firms will be negatively associated with CSR activities* and *H2: In Latin America, CG mechanisms and CSR mechanisms act as substitutes for each other when influencing CFP.*

In 2006, Araya presented a controversial study qualifying Latin America as *terra incognita* for non-financial reporting, which includes socially responsible activities disclosure. CSR is still gaining support in the region, mostly due to pressure from international organisations and this is more likely to happen in environmentally sensitive industries. With this thesis we want to widen the understanding of corporate social CSR in emerging countries, particularly Latin America: how would institutional restrictions pertaining to the region might affect firm's investment on these activities and what would be the best allocation of resources to improve financial performance when facing these restrictions between two mechanisms: CSR and corporate governance (CG). CG is also an interrelated topic of research in CSR literature, coalescing around the same theoretical frameworks: agency theory, stakeholder theory, new institutional theory, resource dependency theory, and transaction costs (Kallen and Nordblom, 2013). Both types of activities bring similar competitive benefits and advantage for the firm, as has been empirically reviewed throughout the literature. This work wants to cover the gap found in academic literature regarding CSR in Latin America and its interactions with financial restrictions, corporate governance and financial performance. The region is one of the most unequal regions in the world, with recurrent economic crises and political volatility.

According to 2018 data from the World Economic Forum's Inclusive Development Index (IDI), the region accounts for 11 out of the 25 developing economies with the highest levels of income inequality. The Economic Commission for Latin America and the Caribbean (ECLAC) finds that in 2017 more than 30% of Latin American population lives in poverty and over 10% in extreme poverty conditions. Firms now have a stronger responsibility towards society, which drives them to look beyond shareholders' interests only. Corporate social responsibility (CSR) and corporate governance (CG) have become strong mechanisms for firms to address other stakeholders' interests in order to improve financial performance and also help drive local development, as we discuss in chapter 2. The institutional characteristics described in Chapters 3, 4 and 5 regarding Latin American general framework, financial markets and corporate governance characteristics show that firms engaging in socially responsible practices do not share the same local regulation enforcement as their developed counterparts, being led mostly by international organizational pressures. We contribute to the CSR, CG literature and also financial literature by addressing two topics not explored in this region 1) whether the cost of funding (external financial restrictions) has a statistically significant influence on a firm's CSR investment, given the specific Latin American capital market conditions; and 2) whether there is an interactive effect between control mechanisms such as CG and CSR in terms of a firm's financial performance in Latin America (whether it is through substitution/complementarity). From a broader perspective, our thesis uniquely brings together measures of corporate governance, financial constraints and ESG scores in a Latin American context, as will be detailed in the following section.

6.2. Findings and contribution

The CSR construct has been extensively developed, theoretically and empirically throughout the last decades. It is not our purpose in this thesis to delve further into this debate but to expand upon what has been called in many papers a Westernized approach to CSR

(Muller and Kolk, 2009; Peters et al., 2011; Fifka, 2013). Firms need to take into account both stakeholders and shareholders concerns in order to perform well in their operational frameworks. Which is why, in Chapter 2 we focus on meta-analyses studies to try and summarize the large volumes of information regarding CSR and its connection to financial performance. Starting from Orlitzky's seminal meta-analysis work in 2001, we aim to improve our sample size and time frame, as these meta-analyses summarize effects of several primary studies. Over 60% of the meta-analyses find a positive correlation between CSR and CFP. However, there are also studies which establish a negative relationship between the two, or a non-existent one. We find that findings in meta-analyses tend to have conflicting results. Given the multidimensionality of the CSR construct, many of the conflicting findings are due to the great variety of measures applied in the primary empirical studies, along with the use of different variables as mediators or controls (firm size, industry, financial risk and corporate governance variables amongst them). Also, the summary of findings presented in this chapter corresponds mainly to developed countries, due to the predominant use of indexes such as KLD ratings and European rankings. We find support for the so-called 'business case' for CSR, as most of the meta-analyses referred to the instrumental stakeholder theory: CSR helps improve firm's performance through the development of intangible assets such as reputation and improvement of human capital, while also helping alleviate some of the agency problems such as asymmetry of information. Investors and financial analysts are emphasizing the importance of a firm's social responsibility in order to lower risk and increase legitimacy that will sustain long-term sustainability in the communities where they operate. However, between the primary studies included, there was a gap left in emerging countries: Latin America has been left behind in academic research. Throughout the meta-analyses, we also find evidence of the so-called "slack-resources" theory posed by Waddock and Graves (1997), which states that a firm will invest in CSR when it has wider availability of financial resources. What is relevant in contexts

such as Latin America is that due to institutional irregularities, sometimes firms do not have access to the resources needed to fund long-term investments in CSR.

In Chapter 3, we discuss how the region could prove to be an essential context to explore the CSR construct and the restrictions firms might face benefiting from the competitive advantages these socially responsible activities might bring. Latin America presents a unique type of capitalism: a hierarchical market economy and absence from the state leaves a gap in many institutional regulatory and legal aspects. We review how these acute institutional irregularities may influence a firm's operations and competitive advantage. Should a firm in Latin America wish to improve its legitimacy and social license to operate, various theoretical frameworks signal that CSR is a good strategy to circumvent some of the regional societal challenges (Haslam, 2007; Blaga and Rodriguez, 2011). With the absence of a strong state, firms in Latin America play a relatively more important role in local development. Chapter 3 describes how the state has retreated from many economic and social duties, while weaker social responsibility regulations push private actors to take the lead on these activities. Communities, in many cases, expect private companies to fulfil the role of these failed welfare states. Main activities found in Latin American empirical research include educational investment and covering for social and public services in the local community. One benefit for firms is that these initiatives help them obtain a more stable environment for their operations (Casanova and Dumas, 2010; Lopez and Fornes, 2015). In a business-led development, as is the case of Latin America, benefits from CSR could be both at a corporate and national level as stated by the 2019 Edelman Trust Barometer report: "A company can take specific actions that both increase profits and improve the economic and social conditions in the communities where it operates" (p. 39). As reviewed in Chapter 3, most of the studies done for the region are qualitative ones, based on single countries (Aqueveque and Encina, 2010; Crisostomo et al., 2011; Pastrana et al., 2012; Valenzuela et al., 2015), one specific industry (Muller and Kolk,

2009; Lars, 2010; de Waal and Escalante, 2011) , or few case studies (Gutierrez and Lobo, 2007; Beckman et al., 2009; Huemer, 2010; Lopez and Fornes, 2015). When we focus on those CSR studies based solely in Latin America we find that institutional theory is present either directly or indirectly as part of the methodological framework for studying CSR (as can be seen in Table 4, p. 50).

What happens when these same weak institutional conditions also present limitations for firms to develop socially responsible activities that could give them a competitive advantage and social legitimacy for long-term sustainability? As reviewed throughout Chapter 2 and 3, Latin America's underdeveloped financial markets may present financial constraints for firms' access to external funding. With this research, we want to address the influence that financing frictions could have on investment decisions (specifically CSR), one question initially posed by Almeida and Campello (2007). We find that Latin American firms are affected by financial restrictions, and we follow on with an additional empirical analysis exploring how firms can allocate resources between similar mechanisms such as CSR and CG that are linked with very similar competitive advantages for the firm (increased financial performance, legitimization, reduced information asymmetry, and transaction costs) to best influence financial performance.

In Chapter 4 we focus on the relevance of these Latin American institutional characteristics as a new setting to explore the dynamics between firm's investment decisions and CSR. While one of the main questions in CSR literature is, why do firms engage in these activities, we approach it from another perspective: are firms influenced by Latin American underdeveloped financial markets when deciding to invest in these activities? Emerging economies, and particularly Latin American ones, have been largely left outside empirical research regarding CSR and financial constraints. Previous empirical studies addressed throughout our literature review have analysed the relationship between financial constraints and CSR in the context of developed countries. To our knowledge, this study is the first to

directly explore in a Latin American setting whether there is any specific relationship between a firm's CSR investment and its cost of funding, given the specific capital market conditions of the region. Many of the Latin American studies reviewed in Chapter 3 (Table 4, p. 50) were based on the analysis of single countries (case studies). This thesis intends to broaden the geographical by including data from Brazil, Colombia, Chile, Mexico and Perú, all of which are part of the Thomson Reuters ASSET4 database. Also, many of these studies did not separately analyse the different dimensions that encompass the CSR construct. We focus on each of the dimensions separately to have a better understanding of how our institutional framework may affect certain CSR activities. To capture CSR's multidimensionality, we use secondary data from the Thomson Reuters ASSET4 Rating, which equally weighs a firm's financial and extra-financial health based on the information in ASSET4's economic, environmental, social and corporate governance pillars. To validate our results, we also measure CSR through the Bloomberg ESG Disclosure Score, a measurement only recently used in academic research as it has only been available since 2009. While we found several ways to measure financial constraints, most of the studies summarized in Table 5 (p.75) of Chapter 4 shows us that the KZ index is the most often used construct to measure this variable. The KZ index quantifies a firm's reliance on external financing, and can be replicated for different studies with enough secondary data availability. We validate our results with the use of another used index in literature, the SA index that accounts for size and age and thus uses a different approach to the KZ index for measuring financial limitations. We follow Hmaittane (2012) and Chen et al.'s (2017) methodology for our empirical study, both benchmark works focus on a sample of US companies. Our 2009-2015 period allows us to include the most recently published data. It makes our research one of the most recent and up-to-date studies, since all other analysis from our benchmark literature review only covers firm information up to 2012. We corroborate our initial hypothesis that the institutional framework of Latin

America could affect firm's access to capital: firms less financially constrained as measured by the KZ Index present higher ASSET4 ratings. The negative relationship is also statistically significant for the different components of our measurement: social, governance and environmental dimensions. The average KZ index is 1.05, which is slightly higher than previous studies in developed countries that usually report values below 1 as the mean (Hong et al., 2012; Lopatta et al., 2016; Chan et al., 2017). These results hold also when validated by the Bloomberg ESG Disclosure Score and SA index. Firms in Latin America thus face financing frictions that can influence real investments and a proper allocation of resources. By stressing the stronger negative effect of financial constraints on the social and environmental dimension of our CSR measurement, we corroborate what many Latin American studies manifest as the more philanthropic view of CSR in the region. The social dimension is also the one with the highest mean average from the three ASSET4 pillars (Table 10, p.95). This dimension includes donations and activities with communities. As we have seen throughout Chapter 3, there has been a paternalistic view from the Latin American private sector regarding its role in society due to the absence of a strong government. With social unrest a strong characteristic of these economies, Latin American firms would allocate what resources they have on investments that help more with their social legitimacy to operate. As we have seen through institutional theory, firms seek to ensure they operate within the boundaries of their respective societies, performing activities that improve their legitimacy in order to maintain the necessary support and resources to survive. They will prioritize those stakeholders that present the greatest threat to their continuing operations: in Latin America communities tend not to trust private firms, due to the perception of corruption and organizational opportunism (Godfrey et al., 2009), CSR activities focused on communities and employees might work as an important source of goodwill that mitigates future attacks on the firm's reputation and could affect financial performance. Latin American firms include family-owned firms that belong to

strong business groups, which could increase internal financing. With our analysis, we show that even in this scenario, external financial constraints have a negative effect on CSR investments. In this institutional setting, which would be the best activities that a firm should invest in to improve its financial performance? Throughout our CSR literature review, we find that the choice of a CSR strategy has been positively associated with the characteristics of good corporate governance. Latin America also presents particular characteristics for CG, which we develop in our next chapter.

In Chapter 5 we empirically explore how firms in Latin American influenced by financial constraints approach investment in CSR and CG activities, which have similar competitive advantage outcomes (Jamali et al., 2008). As we stated in our introduction, firms operating with lower CG quality might need more CSR and vice versa (substitution strategy). Alternatively, if firms' agency costs are high, as is the case for Latin American markets, then firms might want to add CSR to corporate governance to reduce agency costs further (complementary strategy). We extensively describe regional financial markets, and how concentrated ownership and weak minority shareholder protection provides a rich environment to these practices in a regional setting (Cueto, 2009). To better align our results with the previous empirical chapter we also use as a measurement for our CSR independent firm-level variables ThomsonReuters ASSET4 due to its objective and systematic ESG information, focusing on its social and environmental dimensions. For our second independent firm-level variable, CG, we use ThomsonReuters Management Category Score, which has not been used in previous research due to its recent addition in 2018. This new measurement for CG that includes board structure, functions and compensation policy, capturing those instruments most used in empirical analysis throughout our literature review. Our dependent variable, CFP, is measured through one market performance (Tobin's Q) and one accounting measure (ROA), to check for robustness. We are also the first study to include institutional characteristics

through country-level CG variables (anti-self dealing index and ownership concentration) in a Latin American empirical study. We follow the coefficient analysis interaction methodology of Cavaco and Crifo (2010), and Francis et al. (2013) to analyse the substitution/complementarity effect of CSR and CG activities on CFP. Our empirical results for this chapter partially corroborate our hypothesis of a substitution effect for certain CSR activities and CG mechanisms. Activities that belong to the social pillar of the CSR construct substitute CG mechanisms. Therefore, when a firm decides to invest in CG mechanisms looking to improve its CFP, the effect of the social activities on firm performance is diminished. Since we included financial constraints in our model as part of our controls, we can see that the cost implied in implementing CG mechanisms (due to Latin America's less developed legal framework and lack of regulatory enforcement) or CSR ones (the activities included in the SOC score are of long-term nature) is regarded as a trade-off for management: a substitution effect. Faced with limited resources, one of the two strategies should suffice for a positive influence on CFP. Both models show this significant negative interaction between the social dimension and CG constructs (for the Tobin's Q model and the ROA). However, if we look at the environmental and CG mechanisms, they appear to have a complementary effect when measuring financial performance through Tobin's Q. As mentioned before, this could be related to the more naturally resource-based approach in Latin America. Table 9 (p. 93) describes our sample, showing a large percentage of firms (around 35%) come from extractive industries, such as mining, oil refineries and electricity companies, whose activities tend to have the bigger environmental impact. So while social activities and CG mechanisms might be substitutes, environmental ones are complementary with CG strategies for Latin American firms. This could help managers understand how to build a better strategy to influence CFP in a Latin American context. Both empirical analyses validate the idea that financial constraints also affect CSR investments in environments with different regulatory and market settings,

with CG and CSR mechanisms usually working as substitutes (in the case of social activities) or complements (in the case of environmental activities) when faced with external restrictions for funding. According to Campbell (2006), firms are also more likely to behave in environmentally responsible ways if they already have strong corporate governance regulations in place that will help drive these activities. Exploratory cross-country studies help expand empirical findings because they provide findings in other settings, different from those most commonly found in academic research (Lourenco and Costelo, 2013): markets with low ownership concentration and high investor protection (such as the USA) and markets where state ownership is predominant for the business sector (such as China).

6.3. Limitations and future research

Cueto (2009) states that one of the greatest challenges when analysing Latin American markets is standardized data collection. The lack of regulation enforcement leads to a wide variety of CSR practices, most of them not reported accurately by firms. This is why most of the studies done for this region rely on descriptive case studies, as seen in Table 4. CSR data for firms in Latin American markets is not widely available in a consecutive yearly manner, which is why our sample ranges from 2009 to 2015 (for some years, the data are insufficient). By combining two data sources (ThomsonReuters and Bloomberg) we were limited to conducting analysis for the years where data availability overlapped. We acknowledge that the size of our panel is small considering the number of firms in the sample and the years covered in this study. Nevertheless, it should be noted that standardized financial coverage of emerging market firms is a recent phenomenon, and many firms are not included in the data sources until recently (Elango and Lahiri, 2014). However, the focus of this research was exploratory, trying to gather as inclusive a sample of Latin American firms as possible to ensure that we had a cross-section representation of countries (unlike most of the studies which focus on only one of them). This means that another limitation of this study is its focus on listed firms, who have

access to higher resources than SMEs, which comprise a lot of the business sector in Latin America (Vives, 2005; Pastrana and Sriramesh, 2014). Access to this sector of firms is not straightforward and would require additional primary data, from surveys or similar qualitative methodologies to corroborate our findings for this important sector of the Latin American economy. As we have also seen in Table 9, the public firms listed in Latin America's stock market are not very diversified, mostly concentrating in extractive industries and utilities, so our sample is biased to a certain sector of the corporate universe. Further research could expand this empirical analysis by complementing it with exploring *ex-ante* motivations of management engaging in such CSR activities in Latin America (Ferrell et al., 2016), whether it is due to agency problems (entrenchment issues) or due to the good governance view of CSR (where CSR reduces agency concerns). Another interesting avenue for further research is the analysis of the influence of the type of firm ownership: state or foreign (MNCs). We have not made the distinction in this thesis between MNCs and local companies in Latin America, and we consider this would also be a relevant new venue to explore how MNCs are deploying their CSR initiatives in this context. Specifically, we would take our original sample to identify those whose headquarters lie in Western economies and explore how they are affected by external funding and whether do they allocate resources in the same way as in their home offices. As an exploratory study, our initial sample is biased towards bigger firms, listed in the stock market, our hypotheses could also be tested in the environment of small-medium enterprises (SMEs), which prevail in Latin America. This would require a primary data collection, given the fact most of these firms do not present standardised financial reports for data analysis.

References

Abreu, R., David, F., & Crowther, D. (2005). Corporate social responsibility in Portugal: empirical evidence of corporate behaviour. *Corporate Governance: The International Journal of Business in Society*, *5*(5), 3–18.

Aditya, A., & Acharyya, R. (2012). Does What Countries Export Matter? The Asian and Latin American Experience. *Journal of Economic Development*, *37*(3), 47-74.

Aguinis, H., & Glavas, A. (2012). What We Know and Don't Know About Corporate Social Responsibility: A Review and Research Agenda. *Journal of Management*, *38*(4), 932–968.

Agyemang, O. S., & Castellini, M. (2015). Corporate governance in an emergent economy: a case of Ghana. *Corporate Governance: The International Journal of Business in Society, 15*(1), 52–84.

Albertini, E. (2013). Does Environmental Management Improve Financial Performance? A Meta-Analytical Review. *Organization & Environment*, *26*(4), 431–457.

Aldrighi, D., Kalatzsi, A., & Pellicani, A. (2010). The impact of corporate governance and financial constraints on firms' investment decisions : Evidence from Brazil. In *International Conference on Applied Economics 2010 (ICOAE 2010)* (pp. 389–395).

Almeida, H., & Campello, M. (2007). Financial Constraints, Asset Tangibility, and Corporate Investment. *The Review of Financial Studies*, *20*(5), 1429–1460.

Alvarez, R., & Jara, M. (2016). Banking competition and firm-level financial constraints in Latin America. *Emerging Markets Review*, *28*, 89–104.

Ameer, R., & Othman, R. (2012). Sustainability practices and corporate financial performance: A study based on the top global corporations. *Journal of Business Ethics*, *108*(1), 61–79.

Artiach, T., Lee, D., Nelson, D., & Walker, J. (2010). The determinants of corporate sustainability performance. *Accounting and Finance*, *50*(1), 31–51.

Attig, N., Cleary, S., El Ghoul, S., & Guedhami, O. (2014). Corporate Legitimacy and Investment – Cash Flow Sensitivity. *Journal of Business Ethics*, *121*, 297–314.

Aya Pastrana, N., & Sriramesh, K. (2014). Corporate Social Responsibility: Perceptions and practices among SMEs in Colombia. *Public Relations Review*, *40*(1), 14–24.

Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2008). How important are financing constraints? The role of finance in the business environment. *World Bank Economic Review*, *22*(3), 483–516.

Baird, P., Geylani, P., & Roberts, J. (2012). Corporate Social and Financial Performance Re-Examined: Industry Effects in a Linear Mixed Model Analysis. *Journal of Business Ethics*, *109*(3), 367–388.

Becchetti, L., Ciciretti, R., Hasan, I., & Kobeissi, N. (2012). Corporate social responsibility and shareholder's value. *Journal of Business Research*, *65*(11), 1628–1635.

Becher, D. A., & Frye, M. B. (2011). Does regulation substitute or complement governance? *Journal of Banking and Finance*, *35*(3), 736–751.

Beck, T. (2007). *Financing Constraints of SMEs in Developing Countries : Evidence, Determinants and Solutions*. World Bank Development Research Group.

Beck, T. (2016). *Long-term Finance in Latin America: A Scoreboard Model* [online]. Available at https://publications.iadb.org/handle/11319/7809.

Beck, T., Demirgüç-Kunt, A., Laeven, L., & Maksimovic, V. (2006). The determinants of financing obstacles. *Journal of International Money and Finance*, *25*(6), 932–952.

Beckman, T., Colwell, A., & Cunningham, P. H. (2009). The Emergence of Corporate Social Responsibility in Chile: The Importance of Authenticity and Social Networks. *Journal of Business Ethics*, *86*(S2), 191–206.

Beltratti, A. (2005). The complementarity between corporate governance and corporate social responsibility. *The Geneva Papers on Risk and Insurance - Issues and Practice*, *30*(3), 373–386.

Bhaduri, S. N., & Selarka, E. (2016). *Corporate governance and corporate social responsibility of Indian companies*. 1st edition. Singapore: Springer.

Bhattacharya, C. B., & Sen, S. (2003). Consumer-Company Identification: A Framework for Understanding Consumers' Relationships with Companies. *Journal of Marketing*, *67*(2), 76–88.

Blowfield, M., & Frynas, J. G. (2008). Setting new Agendas : Critical Perspectives on Corporate Social Responsibility in the Developing World. *The Corporate Social Responsibility Reader*, *81*(3), 277–289.

Boesso, G., Kumar, K., & Michelon, G. (2013). Descriptive, instrumental and strategic approaches to corporate social responsibility: Do they drive the financial performance of companies differently? *Accounting, Auditing & Accountability Journal*, *26*(3), 399–422.

Brammer, S., & Millington, A. (2008). Does it pay to be different? An analysis of the relationship between corporate social and financial performance. *Strategic Management Journal*, *29*(12), 1325–1343.

Brammer, S., Jackson, G., & Matten, D. (2012). Corporate social responsibility and institutional theory: new perspectives on private governance. *Socio-Economic Review*, *10*, 3–28.

Briano-Turrent, G., & Rodríguez-Ariza, L. (2016). Corporate governance ratings on listed companies: An institutional perspective in Latin America. *European Journal of Management and Business Economics*, *25*(2), 63–75.

Brown, J. R., Martinsson, G., & Petersen, B. C. (2012). Do financing constraints matter for R&D? *European Economic Review*, *56*(8), 1512–1529.

Byun, H. S., Lee, J. H., & Park, K. S. (2015). Impact of Controlling Shareholders on Corporate Social Responsibility under External Financial Constraints. *Seoul Journal of Business*, *21*(2), 1–43.

Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review*, *32*(3), 946–967.

Carroll, A. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons*, *34*(4), 39-48.

Carroll, A., & Shabana, K. (2010). The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice. *International Journal of Management Reviews*, *12*(1), 85–105.

Carvalhal, A. (2012). Do shareholder agreements affect market valuation? *Journal of Corporate Finance*, *18*(4), 919–933.

Casanova, L., & Dumas, A. (2010). Corporate Social Responsibility and Latin American multinationals : Is poverty a Business Issue ? *Universia Business Review*, 132–145.

Cavaco, S., & Crifo, P. (2010). Complementarity between CSR practices and corporate performance: An empirical study. In P. Crifo & J. Ponssard (Eds.), *Corporate social responsibility: from compliance to opportunity* (pp. 77-91). Palaiseau : Éditions de l'École polytechnique.

Cavaco, S., & Crifo, P. (2014). CSR and financial performance: complementarity between environmental, social and business behaviours. *Applied Economics*, *46*(27), 3323–3338.

Chan, M., Watson, J., & Woodliff, D. (2014). Corporate governance quality and CSR disclosures. *Journal of Business Ethics*, *125*(1), 59–73.

Chan, C., Chou, D., & Lo, H. (2017). Do financial constraints matter when firms engage in CSR? *North American Journal of Economics and Finance*, *39*, 241–259.

Charlo, M. J., Moya, I., & Muñoz, A. M. (2013). Sustainable Development and Corporate Financial Performance: A Study Based on the FTSE4Good IBEX Index. *Business Strategy and the Environment*, *288*(December 2013), n/a-n/a.

Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate Social Responsibility and access to Finance. *Strategic Management Journal*, *35*, 1–23.

Cheung, P., & Mak, W. (2010). *The Relation between Corporate Social Responsibility Disclosure and Financial Performance: Evidence from the Commercial Banking Industry* [PhD Thesis]. Simon Fraser University, Canada.

Chung, M., & Safdar, N. (2014). Firms' Strategic CSR Choices during the Institutional Transition in Emerging Economies. *International Review of Management and Business Research*, *3*(3), 1709–1728.

Clarkson, P. M., Li, Y., Richardson, G. D., & Vasvari, F. P. (2008). Revisiting the relation between environmental performance and environmental disclosure: An empirical analysis. *Accounting, Organizations and Society*, *33*(4–5), 303–327.

Cormier, D., & Magnan, M. (2014). The impact of social responsibility disclosure and governance on financial analysts' information environment. *Corporate Governance: The International Journal of Business in Society*, *14*(4), 467–484.

Costa, R., & Menichini, T. (2013). A multidimensional approach for CSR assessment: The importance of the stakeholder perception. *Expert Systems with Applications*, *40*(1), 150–161.

Cowe, R. (2002). Developing Value: The Business Case for Sustainability in Emerging Markets. *World Bank Development Research Group*.

Crifo, P., Diaye, M.-A., & Pekovic, S. (2016). CSR related management practices and firm performance: An empirical analysis of the quantity–quality trade-off on French data. *International Journal of Production Economics*, *171*(3), 405–416.

Crisóstomo, V. L., López, F., & Vallelado, E. (2014). Financial constraints for investment in Brazil. *International Journal of Managerial Finance*, *10*(1), 73–92.

Cueto, D. (2009). *Corporate Governance and Ownership Structure in Emerging Markets: Evidence from Latin America* [PhD Thesis], Concordia University, Canada.

Cueto, D. C. (2013). Substitutability and complementarity of corporate governance mechanisms in Latin America. *International Review of Economics and Finance*, *25*, 310–325.

Da Rocha, A., & De Azevedo, H. (2015). Institutional theory and entry modes by emerging markets multinationals. *Revista de Administração de Empresas*, *55*(3), 246–257.

Dabla-Norris, E., Deng, Y., Ivanova, A., Karpowicz, I., Unsal, D. F., VanLeemput, E., & Wong, J. (2016). Financial Inclusion: Zooming in on Latin America. *IMF Working Papers*, *15*(206), 1-35.

Dalton, D., Daily, C., Certo, S., & Roengpitya, R. (2003). Meta-analyses of financial performance and equity: fusion or confusion? *Academy of Management Journal*, *46*(1), 13-26.

Damodaran, A. (2009). Volatility Rules: Valuing Emerging Market Companies [online]. Available at: https://ssrn.com/abstract=1609797

Deev, O., & Khazalia, N. (2017). Corporate governance, social responsibility and financial performance of European insurers. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*, *65*(6), 1873–1888.

Deloitte (2016). *Good governance driving corporate performance? a meta-analysis of academic research & invitation to engage in the dialogue*. Accessed from: https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/risk/deloitte-nl-risk-good-governance-driving-corporate-performance.pdf

Demirbag, M., McGuinness, M., & Altay, H. (2010). Perceptions of institutional environment and entry mode. *Management International Review*, *50*(2), 207–240.

Demirgüç-Kunt, A., & Maksimovic, V. (2002). Funding growth in bank- based and market- based financial systems: evidence from firm-level data. *Journal of Financial Economics*, *65*(3), 337-363.

Development Bank of Latin America. (2013). *Guidelines for a Latin American Code of Corporate Governance (GLACCG)* [online]. Available at: https://scioteca.caf.com/handle/123456789/840

Dhaliwal, D., Li, O., Tsang, A., & Yang, Y. G. (2011). Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting. *The Accounting Review*, *86*(1), 59–100.

Didier, T., & Schmukler, S. L. (2014). Financial Development in Latin America and the Caribbean: Stylized Facts and the Road Ahead. *Emerging Issues in Financial Development: Lessons from Latin America*, (August), 25–89.

Dixon-Fowler, H. R., Slater, D. J., Johnson, J. L., Ellstrand, A. E., & Romi, A. M. (2013). Beyond "Does it Pay to be Green?" A Meta-Analysis of Moderators of the CEP-CFP Relationship. *Journal of Business Ethics*, *112*(2), 353–366.

Dobers, P., & Halme, M. (2009). Corporate social responsibility and developing countries. *Corporate Social Responsibility and Environmental Management*, *16*(5), 237–249.

Dowell-Jones, M. (2012). Investing in Emerging Markets: The Ethical Context. *The Journal of Corporate Citizenship, 48*, 75-90.

Dögl, C., & Behnam, M. (2015). Environmentally Sustainable Development through Stakeholder Engagement in Developed and Emerging Countries. *Business Strategy and the Environment*, *24*(6), 583–600.

Dutordoir, M., Strong, N., & Ziegan, M. C. (2014). Does corporate governance influence convertible bond issuance? *Journal of Corporate Finance*, *24*, 80–100.

Egginton, J. F., & McBrayer, G. A. (2019). Does it pay to be forthcoming? Evidence from CSR disclosure and equity market liquidity. *Corporate Social Responsibility and Environmental Management*, *26*(2), 396–407.

El Ghoul, S., & Karoui, A. (2017). Does corporate social responsibility affect mutual fund performance and flows? *Journal of Banking & Finance*, *77*, 53–63.

El Ghoul, S., Guedhami, O., Kwok, C. C. Y., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking and Finance*, *35*(9), 2388–2406.

Elango, B., & Lahiri, S. (2014). Do Market- Supporting Institutional Characteristics Explain Firm Performance? Evidence from Emerging Markets. *Thunderbird International Business Review*, *56*(2), 145–155.

Elkington, J. (1998). Accounting for the triple bottom line. *Measuring Business Excellence*, *2*(3), 18–22.

Elson, A. (2006). The Economic Growth of East Asia and Latin America in Comparative Perspective. *World Economics*, *7*, 97-114.

Endrikat, J., Guenther, E., & Hoppe, H. (2014). Making sense of conflicting empirical findings: A meta-analytic review of the relationship between corporate environmental and financial performance. *European Management Journal*, *32*(5), 735–751.

Epstein, M. J., Buhovac, A. R., & Yuthas, K. (2015). Managing Social, Environmental and Financial Performance Simultaneously. *Long Range Planning*, *48*(1), 35–45.

Esteban-Sanchez, P., Cuesta-Gonzalez, M. de la, & Paredes-Gazquez, J. D. (2017). Corporate Social Performance and its relation with Corporate Financial Performance: international evidence in the banking industry. *Journal of Cleaner Production*, *162*, 1102–1110.

Fama, E. F., & French, K. R. (1992). The cross-section of expected Real Estate Management & Development stock returns. *The Journal of Finance*, *47*(2), 427-465.

Ferrell, A., Liang, H., & Renneboog, L. (2016). Socially responsible firms. *Journal of Financial Economics*, 122(3), 585-606.

Fifka, M. S. (2013). Corporate Responsibility Reporting and its Determinants in Comparative Perspective - a Review of the Empirical Literature and a Meta-analysis. *Business Strategy and the Environment*, *22*(1), 1–35.

Francis, B., Hasan, I., Song, L., & Waisman, M. (2013). Corporate governance and investment-cash flow sensitivity: Evidence from emerging markets. *Emerging Markets Review*, *15*, 57–71.

Fransen, L. (2012) Multi-stakeholder governance and voluntary programme interactions: legitimation politics in the institutional design of Corporate Social Responsibility, *Socio-Economic Review*, *10*(1), 163–192.

190

Freeman, E. (1984). *Strategic Management: A stakeholder approach*, 1st edition, Boston: Pitman.

Freeman, R.E., Harrison, J.S., Wicks, A.C., Parmar, B. and de Colle, S. (2010). *Stakeholder theory: The state of the art.* Cambridge: Cambridge University Press.

Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance : aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, *5*(4), 210–233.

Frynas, J. G., & Stephens, S. (2014). Political Corporate Social Responsibility: Reviewing Theories and Setting New Agendas. *International Journal of Management Reviews*, *17*, n/a-n/a.

Gainet, C. (2010). Exploring the Impact of Legal Systems and Financial Structure on *Corporate Responsibility. Journal of Business Ethics, 95*, 195–222.

Galbreath, J. (2017). The impact of board structure on corporate social responsibility: a temporal view. *Business Strategy and the Environment*, *26*(3), 358–370.

Gao, Y. (2011). CSR in an emerging country: a content analysis of CSR reports of listed companies. *Baltic Journal of Management*, *6*(2), 263–291.

Garriga, E., & Melé, D. (2004). Corporate Social Responsibility Theories : Mapping the Territory Social Responsibility Corporate. *Journal of Business Ethics*, *53*(1/2), 51–71.

Global Sustainable Investment Alliance (2016). *Global Sustainable Investment Review* [online]. Available at: http://www.gsi-alliance.org/members-resources/trends-report-2016/

Godfrey, P., Merrill, C., & Hansen, J. (2009). The relationship between corporate social responsibility and shareholder value: an empirical test of the risk management hypothesis. *Strategic Management Journal*, *30*(4), 425–445.

Guariglia, A. (2008). Internal financial constraints, external financial constraints, and investment choice: Evidence from a panel of UK firms. *Journal of Banking and Finance*, *32*(9), 1795–1809.

Gutsche, R., Schulz, J. F., & Gratwohl, M. (2017). *Firm - value effects of CSR disclosure and CSR performance*. Working Paper, American Accounting Association.

Hadlock, C. J., & Pierce, J. R. (2010). New evidence on measuring financial constraints: Moving beyond the KZ index. *Review of Financial Studies*, *23*(5), 1909–1940.

Hall, P., & Soskice, D. (2001). *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford University Press: Cambridge.

Han, J., Kim, H. J., & Yu, J. (2016). Empirical study on relationship between corporate social responsibility and financial performance in Korea. *Asian Journal of Sustainability and Social Responsibility*, *In Press*, 1–16.

Handelman, J. M., & Arnold, S. J. (1999). The Role of Marketing Actions with a Social Dimension: Appeals to the Institutional Environment. *Journal of Marketing*, *63*(3), 33-48.

Haque, F., Gopinath, T., & Kirkpatrick, C. (2011). Corporate governance and capital structure in developing countries: a case study of Bangladesh. *Applied Economics*, *43*, 673–681.

Harjoto, M. A., & Jo, H. (2011). Corporate governance and CSR nexus. *Journal of Business Ethics*, *100*(1), 45–67.

Hasan, S., & Sheldon, I. (2016). Credit Constraints, Technology Choice and Exports: A Firm-level Study for Latin American Countries. *Review of Development Economics*, *20*(2), 547–560.

Hassan, Y., Hijazi, R., & Naser, K. (2017). Does audit committee substitute or complement other corporate governance mechanisms: Evidence from an emerging economy. *Managerial Auditing Journal*, *32*(7), 658–681.

Haslam, P. (2007). Is Corporate Social Responsibility a Constructivist Regime? Evidence from Latin America. *Global Society*, *21*(2), 269–296.

Heracleous, L., & Lan, L. L. (2012). Agency theory, institutional sensitivity, and inductive reasoning: Towards a legal perspective. *Journal of Management Studies*, *49*(1), 223–239.

Herath, G. (2005). Analysis of the potential and problems of new institutional economics for third world development. *International Journal of Social Economics*, *32*(10), 877–892.

Hillier, D., Pindado, J., Queiroz, V., & De La Torre, C. (2011). The impact of country-level corporate governance on research and development. *Journal of International Business Studies*, *42*(1), 76–98.

Hmaittane, A. (2012). *Three essays on financial constraints and corporate social actions* [PhD thesis]. Université du Québec à Montréal.

Ho, F. N., Wang, H. M. D., & Vitell, S. J. (2012). A Global Analysis of Corporate Social Performance: The Effects of Cultural and Geographic Environments. *Journal of Business Ethics*, *107*(4), 423–433.

Hong, H., Kubik, J. D., & Scheinkman, J. (2012). Financial Constraints on Corporate Goodness. *NBER Working Paper Series*.

Hossain, M. M., Alamgir, M., & Alam, M. (2016). The mediating role of corporate governance and corporate image on the CSR-FP link: Evidence from a developing country. *Journal of General Management*, *41*(3), 33–51.

Huang, C. J. (2010). Corporate governance, corporate social responsibility and corporate performance. *Journal of Management and Organization*, *16*(5), 641–655.

Huemer, L. (2010). Corporate Social Responsibility and Multinational Corporation Identity: Norwegian Strategies in the Chilean Aquaculture Industry. *Journal of Business Ethics*, *91*(2), 265–277.

Husted, B. W., & Allen, D. B. (2006). Corporate Social Responsibility in the Multinational Enterprise: *Strategic and Institutional Approaches. Journal of International Business Studies, 37*(6), 838–849.

Husted, B. W., & Allen, D. B. (2007). Strategic Corporate Social Responsibility and Value Creation among Large Firms. Lessons from the Spanish Experience. *Long Range Planning*, *40*(6), 594–610.

Ioannou, I., & Serafeim, G. (2012). What drives corporate social performance? The role of nation-level institutions. *Journal of International Business Studies*, *43*(9), 834–864.

Inoue, Y., & Lee, S. (2011). Effects of different dimensions of corporate social responsibility on corporate financial performance in tourism-related industries. *Tourism Management*, *32*(4), 790–804.

Jain, T., & Jamali, D. (2016). Looking inside the black box: The effect of corporate governance on corporate social responsibility. *Corporate Governance: An International Review*, *24*(3), 253–273.

Jamali, D. (2007). The case for strategic corporate social responsibility in developing countries. *Business and Society Review*, *112*(1), 1–27.

Jamali, D., & Mirshak, R. (2007). Corporate Social Responsibility (CSR): Theory and practice in a developing country context. *Journal of Business Ethics*, *72*(3), 243–262.

Jamali, D., Safieddine, A. M., & Rabbath, M. (2008). Corporate governance and corporate social responsibility synergies and interrelationships. *Corporate Governance*, *16*(5), 443–459.

Jamali, D., & Neville, B. (2011). Convergence Versus Divergence of CSR in Developing Countries: An Embedded Multi-Layered Institutional Lens. *Journal of Business Ethics*, *102*(4), 599–621.

Jang, J. I., Lee, K., & Choi, H. S. (2013). The Relation between Corporate Social Responsibility and Financial Performance: Evidence from Korean Firms. *Pan-Pacific Journal of Business Research*, *4*(2), 3–17.

Jensen, M., & Meckling, W. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics*, *3*(4), 305–360.

Jian, M., & Lee, K. (2015). CEO compensation and corporate social responsibility. *Journal of Multinational Financial Management*, *29*, 46–65.

Jo, H., Kim, H., & Park, K. (2015). Corporate Environmental Responsibility and Firm Performance in the Financial Services Sector. *Journal of Business Ethics*, *131*, 257–284.

Julian, S., & Ofori-Dankwa, J. (2013). Financial Resource Availability and Corporate Social Responsibility expenditures in a Sub-Saharan Economy: The Institutional Differences Hypothesis. *Strategic Management Journal*, *34*, 1314–1330.

Kalatzsi, A., Mendes, D., & Damasceno, A. (2010). The Impact of Corporate Governance and Financial Constraints on Firms' Investment Decisions : Evidence from Brazil. In *International Conference on Applied Economics 2010 (ICOAE 2010)* (pp. 389–395).

Källén, B., & Nordblom, T. (2013). *Corporate governance in banks following the financial crisis*. Msc. Thesis for Copenhagen Business School.

Kaplan, S. N. & Zingales, L. (1997). Do investment-cash flow sensitivities provide useful measures of financing constraints? *Quarterly Journal of Economics*, *112*, 169-215.

Kang, N., & Moon; J. (2012). Institutional complementarity between corporate governance and Corporate Social Responsibility: a comparative institutional analysis of three capitalisms, *Socio-Economic Review*, *10*(1), 85–108.

Kawk, Y. M., & Choi, S. (2015). Corporate Social Responsibility and Financial Constraints: Evidence from Korean Firms. *Global Business & Finance Review*, *20*(2), 15–26.

Kaymak, T., & and Bektas, E. (2015), Corruption in Emerging Markets: A Multidimensional Study, *Social Indicators Research: An International and Interdisciplinary Journal for Quality-of-Life Measurement*, *124*(3), 785-805.

Khan, A., Muttakin, M. B., & Siddiqui, J. (2013). Corporate governance and corporate social responsibility disclosures: Evidence from an emerging economy. *Journal of Business Ethics*, *114*(2), 207–223.

Khanna, T., & Palepu, K. (2000). The Future of Business Groups in Emerging Markets: Long-Run Evidence from Chile. *The Academy of Management Journal*, *43*(3), 268–285.

Kim, J., & Park, J. L. (2015). How do financial constraint and distress measures compare? *Investment Management and Financial Innovations*, *12*(2), 41–50.

Koos, S. (2012). The institutional embeddedness of social responsibility: A multilevel analysis of smaller firms' civic engagement in Western Europe. *Socio-Economic Review*, *10*(1), 135–162.

Kostova, T., & Zaheer, S. (1999). Organizational Legitimacy under Conditions of Complexity: The Case of the Multinational Enterprise. *The Academy of Management Review, 24*(1), 64–81.

Kostova, T., & Roth, K. (2002). Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations: Institutional and Relational Effects. *The Academy of Management Journal*, *45*(1), 215–233.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Law and finance. *Journal of Political Economy*, 106, 1113–1155.

Lamont, O., Polk, C., & Saá-Requejo, J. (2001). Financial Constraints and Stock Returns. *The Review of Financial Studies*, *14*(2), 529–554.

Lee, M.-T. (2017). Corporate Social Responsibility, Corporate Governance, and Investment Efficiency: Evidence from an Asian Emerging Market. In *The 7th International Conference of The Japanese Accounting Review* (pp. 1–44).

Lee, S., Singal, M., & Kang, K. H. (2013). The corporate social responsibility–financial performance link in the U.S. restaurant industry: Do economic conditions matter? *International Journal of Hospitality Management*, *32*, 2–10.

Levitsky, S., & Murillo, M. V. (2013). Building Institutions on Weak Foundations: Lessons from Latin America. *Journal of Democracy*, *24*(2), 93–107.

Li, C., Wong, J. C., & Wong, J. (2018). *Financial Development and Inclusion in the Caribbean*. IMF Working Paper. 1-24.

Liang, H. (2015). *Finance and society: On the foundations of corporate social responsibility* Tilburg: CentER, Center for Economic Research.

Liang, H., & Renneboog, L. (2017). On the foundations of corporate social responsibility. *The Journal Of Finance*, *72*(2), 853–910.

Lioui, A., & Sharma, Z. (2012). Environmental corporate social responsibility and financial performance: Disentangling direct and indirect effects. *Ecological Economics*, *78*, 100–111.

Liu, X., & Zhang, C. (2016). Corporate governance, social responsibility information disclosure, and enterprise value in China. *Journal of Cleaner Production*, *142*, 1075–1084.

Lojpur, A., & Draskovic, V. (2013). The institutional context of corporate governance and corporate social responsibility. *Monetnigrin Journal of Economics*, *9*(1), 27–44.

Lopatta, K., Jaeschke, R., Tchikov, M., & Lodhia, S. (2016). Corruption, Corporate Social Responsibility and Financial Constraints: International Firm-level Evidence. *European Management Review*, *14*, 47–65.

Lopez, B., & Fornes, G. E. (2015). Corporate social responsibility in emerging markets: case studies of Spanish MNCs. *Latin America. European Business Review*, *27*(2), 214-230.

López-Arceiz, F. J., Bellostas-Pérezgrueso, A. J., Moneva-Abadía, J. M., & Rivera-Torres, M. P. (2018). El rol del gobierno corporativo y la transparencia en la generación de performance financiera en las empresas socialmente responsables. *Revista Espanola de Financiacion y Contabilidad*, *47*(1), 44–80.

Lu, W., Chau, K. W., Wang, H., & Pan, W. (2014). A decade's debate on the nexus between corporate social and corporate financial performance: a critical review of empirical studies 2002–2011. *Journal of Cleaner Production*, *79*, 195–206.

Luo, X., Wang, H., Raithel, S., & Zheng, Q. (2015). Corporate social performance, analyst stock recommendations, and firm future returns. *Strategic Management Journal*, *894*(June 2006), 12.

Mackey, A., Mackey, T., & Barney, J. (2007). Corporate Social Responsibility and Firm Performance: Investor preferences and corporate strategies. *Academy of Management Review*, *32*(3), 817–835.

Mahon, J. F. (2002). Corporate Reputation: Research Agenda Using Strategy and Stakeholder Literature. *Business & Society*, *41*(4), 415-445.

Mahrani, M., & Soewarno, N. (2018). The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable. *Asian Journal of Accounting Research*, *3*(1), 41–60.

Margolis, J., & Walsh, J. (2003). Misery loves rethinking companies : Social initiatives by business. *Administrative Science Quarterly*, *48*(2), 268–305.

Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. (2007). *Does it pay to be good? A meta-analysis and redirection of research on the relationship between corporate social performance and financial performance*. Working Paper.

Marti, C. P., Rovira-Val, M. R., & Drescher, L. G. J. (2015). Are Firms that Contribute to Sustainable Development Better Financially? *Corporate Social Responsibility and Environmental Management*, *22*(5), 305–319.

Martinez-Conesa, I., Soto-Acosta, P., & Manzano, M. P. (2016). Corporate social responsibility and its effect on innovation and firm performance: An empirical research in SMEs. *Journal of Cleaner Production*, *142*, 2374–2383.

Masulis, R. W., & Reza, S. W. (2015). Agency problems of corporate philanthropy. *Review of Financial Studies*, *28*(2), 592–636.

Matten, D., & Moon, J. (2008). "Implicit" and "Explicit" CSR: a Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility. *Academy of Management Review*, *33*(2), 404–424.

Mcwilliams, A., & Siegel, D. (2000). Corporate Social Responsibility and Financial Performance : Correlation or Misspecification ? *Strategic Management Journal*, *609*(January 1999), 603–609.

McWilliams, A., & Siegel, D. (2001). Corporate Social Responsibility : A Theory of the Firm Perspective. *The Academy of Management Review*, *26*(1), 117–127.

Mehra, M. (2006). Corporate Social Responsibility in Emerging Economies. *Journal of Corporate Citizenship*, *24*, 20–22(23).

Milcíades,A. (2014). The political trajectory of the Brazilian CSR movement. *Critical perspectives on international business*, *10*(4), 310-328.

Mishra, S., Suar, D., & Mishra, S. (2010). Does Corporate Social Responsibility Influence Firm Performance of Indian Companies? *Journal of Business Ethics*, *95*(4), 571–601.

Miras Rodríguez, M. del M., Carrasco Gallego, A., & Escobar Pérez, B. (2014). Responsabilidad Social Corporativa y Rendimiento Financiero: un Meta-Análisis. *Spanish Journal of Finance and Accounting / Revista Española de Financiación y Contabilidad*, *43*(2), 193–215.

Misangyi, V. F., & Acharya, A. G. (2014). Substitutes or compliments? A configurational examination of corporate governance mechanisms. *Academy of Management Journal*, *57*(6), 1681–1705.

Mitchell, R., Agle, B., & Wood, D. J. (1997). Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. *Academy of Management Review*, *22*(4), 853–886.

Mueller, D. C. (2006). The Anglo-Saxon approach to corporate governance and its applicability to emerging markets. *Corporate Governance: An International Review*, *14*(4), 207–219.

Nazari, J., Hrazdil, K. & Mahmoudian, F. (2017). Assessing social and environmental performance through narrative complexity in CSR reports. *Journal of Contemporary Accounting and Economics*, *13*(2), 166-178.

Ni, N., Egri, C., Lo, C. et al. (2015). Patterns of Corporate Responsibility Practices for High Financial Performance: Evidence from Three Chinese Societies. *Journal of Business Ethics*, *126*(2), 169-183.

Nollet, J., Filis, G., & Mitrokostas, E. (2016). Corporate social responsibility and financial performance: A non-linear and disaggregated approach. *Economic Modelling*, *52*, 400–407.

Ntim, C. G., & Soobaroyen, T. (2013). Corporate governance and performance in socially responsible corporations: New empirical insights from a neo-institutional framework. *Corporate Governance: An International Review*, *21*(5), 468–494.

Oberndorfer, U., Schmidt, P., Wagner, M., & Ziegler, A. (2013). Does the stock market value the inclusion in a sustainability stock index? An event study analysis for German firms. *Journal of Environmental Economics and Management*, *66*(3), 497–509.

OECD (2003). *Latin American White Paper on Corporate Governance* [online]. Available at: https://www.oecd.org/daf/ca/corporategovernanceprinciples/18976210.pdf

OECD (2013). *Trends and Factors Impacting on Latin American Equity Market Development* [online]. Available at: http://www.oecd.org/daf/ca/Trends-And-Factors-Latin-American-Equity-Markets-2013-Roundtable.doc.pdf

OECD (2015a). *Corporate Governance of Company Groups in Latin America* [online]. Available at: http://www.oecd-ilibrary.org/governance/corporate-governance-of-company-groups-in-latin-america_9789264241725-en

OECD (2015b). *G20/OECD Principles of Corporate Governance* [online]. Available at: https://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

O'Keefe, W. (2007). CSR in South America: Fostering the Dialogue. *Social Responsibility Journal*, *3*(1), 17-22

Oh, W.-Y., Chang, Y. K., & Kim, T.-Y. (2016). Complementary or substitutive effects? Corporate governance mechanisms and corporate social responsibility. *Journal of Management*, *44*(7), 2716–2739.

Orlitzky, M., & Benjamin, J. (2001). Corporate social performance and firm risk : A meta-analytic review. *Business & Society*, *40*(4), 369–396.

Orlitzky, M., Schmidt, F., & Rynes, S. L. (2003). *Corporate Social and Financial Performance: A Meta-Analysis*. *Organization Studies* (Vol. 24).

Ortas, E., & Moneva, J. (2011). Origins and development of sustainability reporting: Analyses of the Latin American context, *Journal of Globalization, Competitiveness and Governability*, 5(2), 16-37.

Parastoo, S., So, S., & Saeidi, P. (2015). How does corporate social responsibility contribute to firm financial performance ? The mediating role of competitive advantage, reputation, and customer satisfaction. *Journal of Business Research*, *68*, 341–350.

Pätäri, S., Arminen, H., Tuppura, A., & Jantunen, A. (2014). Competitive and responsible? The relationship between corporate social and financial performance in the energy sector. *Renewable and Sustainable Energy Reviews*, *37*, 142–154.

Peloza, J., & Papania, L. (2008). The Missing Link between Corporate Social Responsibility and Financial Performance: Stakeholder Salience and Identification. *Corporate Reputation Review*, *11*(2), 169–181.

Peng, M. W. (2016). Institutional Transitions and Strategic Choices. *The Academy of Management Review*, *28*(2), 275–296.

Peng, C.W., & Yang, M.L. (2014). The Effect of Corporate Social Performance on Financial Performance: The Moderating Effect of Ownership Concentration. *Journal of Business Ethics*, *123*(1), 171–182.

Perez-Batres, L. a., Miller, V. V., & Pisani, M. J. (2010). CSR, Sustainability and the Meaning of Global Reporting for Latin American Corporations. *Journal of Business Ethics*, *91*(S2), 193–209.

Perrini, F., Russo, A., Tencati, A., & Vurro, C. (2011). Deconstructing the Relationship Between Corporate Social and Financial Performance. *Journal of Business Ethics*, *102*(S1), 59–76.

Peters, S., Miller, M., & Kusyk, S. (2011). How relevant is corporate governance and corporate social responsibility in emerging markets? *Corporate Governance*, *11*(4), 429–445.

Powell, W. W., & DiMaggio, P. J. (1991). Introduction. In Powell, W. W. and DiMaggio, P. J. (Eds), *The New Institutionalism in Organizational Analysis*. Chicago, IL: University of Chicago Press, 1–38

PricewaterhouseCoopers (2016). *Latin American CEO Survey on Sustainable Development* [online]. Available at: http://pwc.blogs.com/files/pwc-survey-on-sustainable-development-in-latin-america-report-1.pdf

Qi, G. Y., Zeng, S. X., Shi, J. J., Meng, X. H., Lin, H., & Yang, Q. X. (2014). Revisiting the relationship between environmental and financial performance in Chinese industry. *Journal of Environmental Management*, *145*, 349–356.

Quazi, A., & Richardson, A. (2012). Sources of variation in linking corporate social responsibility and financial performance. *Social Responsibility Journal*, *8*(2), 242–256.

Rahim, M. M., & Alam, S. (2014). Convergence of corporate social responsibility and corporate governance in weak economies: The case of Bangladesh. *Journal of Business Ethics, 121*(4), 607–620.

Rees, W., & Rodionova, T. (2015). The influence of family ownership on corporate social responsibility: An international analysis of publicly listed companies. *Corporate Governance: An International Review*, *23*(3), 184–202.

Rettab, B., Brik, A. Ben, & Mellahi, K. (2009). A study of management perceptions of the impact of corporate social responsibility on organisational performance in emerging economies: The case of Dubai. *Journal of Business Ethics*, *89*(3), 371–390.

Revelli, C., & Viviani, J. L. (2015). Financial performance of socially responsible investing (SRI): What have we learned? A meta-analysis. *Business Ethics*, *24*(2), 158–185.

Reverte, C. (2012). The Impact of Better Corporate Social Responsibility Disclosure on the Cost of Equity Capital. *Corporate Social Responsibility and Environmental Management*, *19*, 253–272.

Reyes, F. (2008). Corporate governance in Latin America: A functional analysis. *University of Miami Inter-American Law Review*, *39*(2), 1–56.

Rodgers, W., Choy, H. L., & Guiral, A. (2013). Do Investors Value a Firm's Commitment to Social Activities? *Journal of Business Ethics*, *114*(4), 607–623.

Rodrigo, P., Duran, I. J., & Arenas, D. (2016). Does it really pay to be good, everywhere? A first step to understand the corporate social and financial performance link in Latin American controversial industries. *Business Ethics: A European Review*, *25*(3), 286–309.

Rodriguez-Fernandez, M. (2016). Social responsibility and financial performance: The role of good corporate governance. *Business Research Quarterly*, *19*(2), 137–151.

Ruf, B., Muralidhar, K., Brown, R., Janney, J., & Paul, K. (2001). An Empirical Investigation of the Relationship Between Change in Corporate Social Performance and Financial Performance: A Stakeholder Theory Perspective. *Journal of Business Ethics*, *32*(2), 143–156.

Rusinova, V., & Wernick, G. (2016). Access to Finance and Corporate Social Responsibility: Evidence from a Quasi - Natural Experiment. In *DRUID16 20th Anniversary conference Copenhagen* (pp. 1–37).

Saeidi, S. P., Sofian, S., Saeidi, P., Saeidi, S. P., & Saaeidi, S. A. (2015). How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation, and customer satisfaction. *Journal of Business Research*, *68*(2), 341–350.

Sáenz González, J., & García-Meca, E. (2014). Does Corporate Governance Influence Earnings Management in Latin American Markets? *Journal of Business Ethics*, *121*(3), 419–440.

Saleh, M., Zulkifli, N., & Muhamad, R. (2011). Looking for evidence of the relationship between corporate social responsibility and corporate financial performance in an emerging market. *Asia-Pacific Journal of Business Administration*, *3*(2), 165–190.

Salzmann, O., Ionescu-somers, A., & Steger, U. (2005). The Business Case for Corporate Sustainability: *European Management Journal*, *23*(1), 27–36.

Samet, M., & Jarboui, A. (2017). CSR, agency costs and investment-cash flow sensitivity: a mediated moderation analysis. *Managerial Finance*, *43*(3), 299–312.

Sasidharan, S., Lukose, P. J. J., & Komera, S. (2015). Financing constraints and investments in R&D: Evidence from Indian manufacturing firms. *The Quarterly Review of Economics and Finance*, *55*, 28–39.

Saucedo, E., Rullan, S., & Villafuerte, L. (2015). Hierarchical Capitalism in Latin America: Comparative Analysis with Other Economies. *International Journal of Business and Economic Sciences Applied Research*, *8*(3): 69-82.

Scarlato, M. (2013). Social Enterprise, Capabilities and Development Paradigms: Lessons from Ecuador. *The Journal of Development Studies*, *49*(9), 1270–1283.

Schepker, D. J., & Oh, W.-Y. (2013). Complementary or substitutive effects? Corporate governance mechanisms and poison pill repeal. *Journal of Management*, *39*(7), 1729–1759.

Scholtens, B. (2008). A note on the interaction between corporate social responsibility and financial performance. *Ecological Economics*, *68*(1–2), 46–55.

Shaukat, A., Qiu, Y., & Trojanowski, G. (2015). Board Attributes, Corporate Social Responsibility Strategy, and Corporate Environmental and Social Performance. Journal of Business Ethics, 135, 569–585.

Shen, L., Govindan, K., & Shankar, M. (2015). Evaluation of Barriers of Corporate Social Responsibility Using an Analytical Hierarchy Process under a Fuzzy Environment—A Textile Case. *Sustainability*, *7*, 3493–3514.

Stocco, I., & Bonomi, J. (2013). Do managers believe in the Corporate Social-Performance link? *Revista de Gestao Social e Ambiental*, *7*(3), 3–19.

Succurro, M. (2014). Intangible assets finance: a complementary or substitution effect between external and internal channels? Evidence from the Italian divide. *International Journal of Economics and Finance*, *6*(12), 1–14.

Tamimi, N., & Sebastianelli, R. (2017). Transparency among S&P 500 companies: an analysis of ESG disclosure scores. *Management Decision*, *55*(8), 1660–1680.

Tanggamani, V., Amran, A., & Ramayah, T. (2018). The corporate social responsibility and corporate financial performance virtuous loop: A theoretical framework. *Global Business and Management Research: An International Journal*, *10*(1), 331–343.

Tawfeeq, T., Alabdullah, Y., Yahya, S., & Ramayah, T. (2017). Corporate Governance Mechanisms and Jordanian Companies' Financial Performance. *Asian Social Science*, *10*(22), 247–262.

Tran, H. T., & Santarelli, E. (2013). Capital constraints and the performance of entrepreneurial firms in Vietnam. *Industrial and Corporate Change*, *23*(3), 827–864.

Tsui-Auch, L. S., & Möllering, G. (2010). Wary managers: Unfavorable environments, perceived vulnerability, and the development of trust in foreign enterprises in China. *Journal of International Business Studies*, *41*(6), 1016–1035.

Uddin, A., Islam, Z., & Hasan, I. (2012). Corporate Social Responsibility and Financial Performance Linkage -Evidence from the Banking Sector of Bangladesh. *Journal of Organizational Management*, *1*(1), 14–21.

United Nations Global Compact & Accenture (2016). *The UN Global Compact-Accenture Strategy CEO Study 2016* [online]. Available at: https://www.accenture.com/us-en/insight-un-global-compact-ceo-study

Uzma, S. H. (2016). Embedding corporate governance and corporate social responsibility in emerging countries. *International Journal of Law and Management*, *58*(3), 299–316.

Valenzuela Fernández, L., Jara-Bertin, M., & Villegas Pineaur, F. (2015). Prácticas de responsabilidad social, reputación corporativa y desempeño financiero. *Revista de Admisitração de Empresas*, *55*(4), 329–344.

van Beurden, P., & Gossling, T. (2008). The Worth of Values – A Literature Review on the Relation Between Corporate Social and Financial Performance. *Journal of Business Ethics*, *82*(2), 407-424.

Vidaver-Cohen, D., Gomez, C., & Colwell, S. R. (2015). Country-of-Origin Effects and Corporate Reputation in Multinational Firms: Exploratory Research in Latin America. *Corporate Reputation Review*, *18*(3), 131–155.

Villaron-Peramato, O., Martinez-Ferrero, J., & Garcia-Sanchez, I. M. (2018). CSR as entrenchment strategy and capital structure: corporate governance and investor protection as complementary and substitutive factors. *Review of Managerial Science*, *22*(1), 27–64.

Visser, W. (2009). Corporate Social Responsibility in Developing Countries. In: *Oxford Handbook of Corporate Social Responsibility* (pp. 473-494), Eds.: Andrew Crane, Abigail McWilliams, Dirk Matten, Jeremy Moon and Donalds Siegel, United Kingdom: Oxford University Press.

Vives, A. (2012). Is Socially Responsible Investment Possible in Latin America?'. *Journal of Corporate Citizenship*, *48*, 59–74.

Waddock, S. & Graves, S. (1997). The corporate social performance–financial performance link. *Strategic Management Journal*, 18, 303–319.

World Economic Forum (2012). *Financial Development Report.* Available at: http://www.worldbank.org/en/publication/gfdr.

Wang, H. M. D. (2010). Corporate social performance and financial-based brand equity. *Journal of Product and Brand Management*, *19*(5), 335–345.

Wang, H., Lu, W., Ye, M., Chau, K. W., & Zhang, X. (2016). The curvilinear relationship between corporate social performance and corporate financial performance: Evidence from the international construction industry. *Journal of Cleaner Production*, *137*, 1313–1322.

Wang, Y., & Berens, G. (2014). The Impact of Four Types of Corporate Social Performance on Reputation and Financial Performance. *Journal of Business Ethics*, 337–359.

Wang, Q., Dou, J., & Jia, S. (2015). A Meta-Analytic Review of Corporate Social Responsibility and Corporate Financial Performance: The Moderating Effect of Contextual Factors. *Business & Society*, *55*(8), 1083–1121.

Weber, J., & Gladstone, J. (2014). Rethinking the Corporate Financial – Social Performance Relationship : Examining the. Complex, Multistakeholder Notion of Corporate Social Performance *Business and Society Review*, *119*(3), 297–336.

Wood, D. J. (2010). Measuring Corporate Social Performance: A Review. *International Journal of Management Reviews*, *12*(1), 50–84.

World Bank. (2014). Obtaining Finance in Latin America and the Caribbean. *World Bank Group*, (5), 1–6.

World Business Council for Sustainable Development (2000). Corporate Social responsibility: making good business sense [online]. Available at: http://www.wbcsd.org/web/publications/csr2000.pdf

World Business Council for Sustainable Development (2015). Reporting matters: América Latina [online]. Available at: https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Reporting-matters/Resources/Reporting-matters-America-Latina

World Economic Forum (2012). *The Financial Development Report 2012* [online]. Available at: http://www3.weforum.org/docs/WEF_FinancialDevelopmentReport_2012.pdf

Wu, M. L. (2006). Corporate social performance, corporate financial performance, and firm size: a meta-analysis. *Journal of American Academy of Business, 8*(1), 163-171.

Xiong, B., Lu, W., Skitmore, M., Chau, K. W., & Ye, M. (2016). Virtuous nexus between corporate social performance and fi nancial performance: a study of construction enterprises in China. *Journal of Cleaner Production*, *129*, 223–233.

Yin, J., & Zhang, Y. (2012). Institutional Dynamics and Corporate Social Responsibility (CSR) in an Emerging Country Context: Evidence from China. *Journal of Business Ethics*, *111*(2), 301–316.

Zicari, A. (2017). Sustainability Indices in Latin America: Can Financial Markets Push for CSR? In *Developments in Corporate Governance and Responsibility* (pp. 3–20).

Zuraida, Z., Houqe, M., & van Zijl, T. (2016). Value Relevance of Environmental, Social, and Governance Disclosure. In *Handbook of Finance and Sustainability* (p. In Press).

Zyglidopoulos, S., Williamson, P., & Symeou, P. (2016). The Corporate Social Performance of Developing Country Multinationals. *Business Ethics Quarterly*, *3*(July), 379–406.