



The Impact of Board of Directors' Independence on Corporate Social Responsibility Disclosure in Palestinian Companies

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ABSTRACT - Corporate Social Responsibility (CSR) is a comprehensive approach of the company that determines the amount of the organisation's contribution to society and the use of its available resources in a responsible manner. Previous statistics have shown that the contributions of Palestinian companies towards social issues are still limited, and Corporate Social Responsibility Disclosure (CSRD) is at a low level. This paper aims to examine the level of CSRD in Palestinian companies and the relationship between the Board of Directors (BOD) independence and CSRD. The study employs OLS linear regression analysis to analyse data using a sample of 31 companies listed on the Palestine Stock Exchange (PSE) during the period from 2012 to 2021. The findings reveal that the level of CSR disclosure in Palestinian companies included in the study sample is 29.5%. The results of the study also indicated a positive and significant relationship between BOD independence and CSRD.

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INTRODUCTION

The idea of Corporate Social Responsibility (CSR) began to emerge and develop among academics and executive managers of institutions. A great deal of controversy took place over the concept of social responsibility, and many schools that adopted many definitions of this concept emerged. These definitions centre around the fact that institutions exist to serve societies and must preserve the environment (Alia & Barham, 2020; Mardawi & Saed, 2018; Orazalin, 2019).

Globally, with the advent of globalisation and the increasing integration of economies between countries, companies have faced greater pressure to disclose their societal contribution (Li et al., 2013). Therefore, there is an increasing need to modify and develop the traditional reporting model to reflect these items and provide the necessary information to stakeholder groups (Musallam, 2018). Since corporate reports have an impact on individuals other than direct users of the reports and can also affect all stakeholders, the scope of the traditional report content has been extended to include environmental and social performance as well as economic performance (Habbash & Haddad, 2020).

Many developed countries have implemented procedures encouraging companies to disclose their CSR strategies and practices. For example, in the United States, there have been several social indexes since 1990 (Domini Social Index) (Sun et al., 2011), and the European Commission announced that Corporate Social Responsibility Disclosure (CSRD) should be implemented in European countries in 2005 (Orazalin, 2019). In addition, with the advent of the

Sustainability Development Goals (SDGs) in 2015 in the United States, most countries, especially developed ones, have moved towards achieving the SDGs in their countries and Sustainability Responsibility Disclosure (SRD) by disclosing incidents of non-discrimination and information related to society, the economy, the environment, and child labour. Global Reporting Initiative (GRI) defined the SRD as the disclosure of environmental, economic, and societal information, incidents of non-discrimination, and data related to child labour and forced and compulsory labour (Brown, 2011).

However, there are no similar initiatives in developing countries. In most Arab countries, such as Qatar, Kuwait, Saudi Arabia, Bahrain, Oman, the United Arab Emirates, Syria, Jordan, and Palestine, CSR is low (Kamla, 2007). Moreover, this is confined to specific dimensions and does not fully adhere to GRI. This may result from the latter being lower economic development, weaker legal systems, corporate governance being a new concept, or the low demands of stakeholders.

There is no comprehensive and integrated notion of social responsibility among Palestinian companies, particularly in the absence of legislative and regulatory frameworks that would enhance this concept. However, there is some indication of the existence of social responsibility practices by companies that think they are practising social responsibility through some programs and assistance.

The importance of Corporate Governance (CG) has increased in the past few decades, aiming to protect the interests of all relevant parties while ensuring the company's economic efficiency and sustainability (Alia & Mardawi, 2021). In addition, many studies have confirmed the relationship between CG and CSR. For example, Huynh (2019) and Nwude and Nwude (2021) confirm that strong CG practices raise awareness of societal responsibility, enabling companies to earn the trust of stakeholders and achieve optimal performance. According to Croci et al. (2020), the characteristics of the Board of Directors (BOD) play a crucial role in determining the extent and effectiveness of CG.

Besides that, numerous studies have demonstrated the direct relationship between BOD independence and CSR (Adnan et al., 2018; Alia & Barham, 2020; Alia & Mardawi, 2021; Gallego-Álvarez & Pucheta-Martínez, 2020; Orazalin, 2019). Nevertheless, the results of these studies have not always been consistent.

In addition to the lack of sufficient understanding of social responsibility and the scarcity of previous studies that dealt with this topic in Palestine, Palestinian companies face unique challenges and circumstances related to local laws and legislation. Therefore, this study can be particularly important for understanding the factors that affect the independence of the BOD and the exercise of social responsibility in these specific contexts. Furthermore, it enhances compatibility with the local reality and enables the development of recommendations and policies that can effectively apply to the Palestinian environment.

This study aims to examine the level of CSR and the relationship between BOD independence and CSR of Palestinian companies. This study will also apply agency theory to explain the relationship between the variables studied. This paper consists of five sections: an introduction, a literature review and hypothesis development, a proposed conceptual framework, research design and methodology, empirical results, and a discussion and conclusion.

LITERATURE REVIEW

Corporate Social Responsibility Disclosure (CSR)

Recently, companies have faced a great challenge as they practice their work in a more complex and changing environment economically, politically, and socially. It has become unacceptable to just focus on the economic goals of the organisation without focusing also on social and environmental goals. Researchers see CSR in its modern concept as a Western creation through their interest in developing CSR principles, standards, and indicators (Visser, 2008). CSR programs

in developing countries differ from those in developed countries. Meanwhile, social responsibility activities in developing countries revolve mainly around donations and charitable works. Meanwhile, social responsibility in developed countries is more concerned with the environment and sustainability (Mardawi & Saed, 2018).

CSR refers to the process of providing information and data relating to the social, environmental, and ethical aspects of a company's activities in its financial reports (Orazalin, 2019). CSR is a critical component of today's communication between businesses and their stakeholders, and it continues to be a hot topic on the corporate agenda (Bhattacharya et al., 2008). Through CSR, the firms may improve their corporate image and provide useful information for investment and non-investment decisions, in addition to providing transparency and accountability of the company's activities and enhancing the confidence of all interested parties in financial reports (Alia & Barham, 2020). The trust from the stakeholders will increase investment in the company and thus will help to enhance the company's performance (Javaid Lone et al., 2016; Orazalin, 2019). CSR helps to strengthen the competitive position (Javaid Lone et al., 2016) and develops the capabilities and resources of the company in a more effective way (Musallam, 2018). In addition, the company's CSR will also portray its commitment to society and thus attract distinguished scientific and professional competencies and skills to work in this institution (Esa et al., 2012).

Despite these benefits of CSR, unfortunately, the CSR in developing nations is regarded as inadequate and minimal. The low CSR in developing nations may be the result of economic weakness and lax laws requiring businesses to contribute and disclose their social responsibility.

The common consensus in Palestine is that the level of CSR is still insufficient. Palestine suffers from a lack of developed bodies working to regulate social responsibility, the absence of a government oversight role, and the absence of laws compelling Palestinian companies to allocate a portion of their budget towards social responsibility activities (Saleh et al., 2021). According to Saleh et al. (2021), the institutionalisation of CSR in Palestine needs to take many steps to promote related policies and strategies.

According to Turshan et al. (2020), Palestinian companies contribute no more than 1% of their profits to social activities. According to Alia & Barham (2020), the CSR rate for 41 Palestinian companies between 2012 and 2017 was 28.1%. Another study by Barakat et al. (2015) was conducted for 46 firms in Palestine and 55 firms in Jordan. They showed that CSR disclosure is low in both countries, where the percentages of disclosure in Palestine and Jordan are 33% and 50%, respectively. Clearly, the CSR disclosure rate in Palestine is low compared to Jordan and developed countries as well. Bhatia and Makkar (2020) showed a CSR disclosure rate in UK companies of 98% and 85% in US companies. Haniffa and Cook (2005) indicated that social responsibility and its disclosure in financial reports has increased over time in developed countries in response to many factors, for example, social awareness, legitimising aims, increases in legislation, ethical investors, activities of pressure groups, and media interest. So far, there is no law regulating social responsibility practices in Palestine, and the Palestine Exchange has not obligated companies to make the mandatory disclosure of social responsibility practices mandatory. Disclosure of social responsibility by Palestinian companies is one of the recommendations contained in the Palestinian Corporate Governance Code, where it was mentioned in one of the optional rules in the Palestinian CG Code that it is "preferable for the company to disclose its social and environmental responsibility at least once a year through the annual report" (PCCG, 2009).

BOD Independence and CSR

The independence of the company board is the most frequent variable through which scholars describe the board structure (Cucari et al., 2018). BOD independence plays a vital role in controlling and supervising the management team and protecting the shareholders' interests and

those of the minority shareholders in particular (Gallego-Álvarez & Pucheta-Martínez, 2020). According to Hassan Al-Tamimi (2014), non-executive directors are a governance device that helps the board resolve agency issues between owners and managers, where the majority of these conflicts arise while deciding whether or not to voluntarily release information in annual reports (Barako & Brown, 2008). According to agency theory, independent directors not only critically examine the executive directors' recommendations but also provide an outstanding monitoring system within the governing body (Bertoni et al., 2014). In order to reduce the cost of the agency, the BOD must include a large percentage of independent members (Mobbs, 2013). The BOD, which includes a large proportion of the independents, is more objective and has the ability to monitor and make decisions (Fama & Jensen, 1983), as the independents have a strategic vision of the long-term economic performance, the environment and the society (Johnson & Greening, 1999). Therefore, Beji et al. (2021) found a positive relationship between the independence of the members of the board and the performance of the company related to the environment and society. External managers play an important role in promoting CSR in the long term as they may see the long-term potential of investments in environmental and social projects (De Villiers et al., 2011; Embi, & Shafii, 2018; Post et al., 2011).

Palestinian Corporate Governance Code (PCCG) was not decisive with regard to the independence of the BOD. The PCCG stipulates that having two independent members from among the members of the BOD is preferable. However, the PCCG did not specify the nature of the independent members in terms of their educational qualifications or the level of experience they should have. Several previous studies examined the relationship between the independence of the BOD and the disclosure of social responsibility. Gallego-Álvarez & Pucheta-Martínez (2020) discovered a significant positive relationship between BOD independence and CSRD. The study by Adnan et al. (2018) concurred with these findings on the existence of a significant and positive impact relationship between BOD independence and CSRD. Other than that, Cuadrado-Ballesteros et al. (2017), Jizi et al. (2014) and Javaid Lone et al. (2016) agreed that there is a positive relationship between BOD independence and the CSRD. However, the results of other studies were different. Dias et al. (2017) and Orazalin (2019) studies stated that there is a positive and insignificant relationship between BOD independence and CSRD. There are limited studies in Palestine on CSRD. Alia and Barham (2020), Alia and Mardawi (2021) and Zaid et al. (2019) examined the impact of BOD independence on the level of CSRD. They found a significant and positive relationship between BOD independence and CSRD. However, on the contrary, Barakat et al. (2015) established BOD independence does not significantly influence CSRD. Consequently, Barakat et al. (2015) indicated that independent members of the BOD might have a strategic orientation that prioritises financial aspects and short-term profits over social responsibility.

CONCEPTUAL FRAMEWORK

In this study, agency theory was employed to explain the relationship between BOD independence and CSRD. This theory is considered the most widely used among researchers. According to Jensen (1993), an agency relationship is a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. If both parties to the relationship are utility maximisers, there is good reason to believe that the agent will not always act in the best interests of the principal. Subsequently, the principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent (Alia & Barham, 2020).

Companies adopt different strategies in corporate management to reduce agency problems in pursuit of the interests of owners and people alike. This is because if the agency problem is resolved, it becomes easy for managers and investors' interests to be met, thus positively affecting the company in terms of increasing value and improving performance (Jensen, 1993). According

to agency theorists, the board can impose influence over management, and their oversight can lower agency costs (Zahra & Pearce, 1989). Therefore, the board's effectiveness in governance and decision-making processes, such as the firm's CSR information, depends on the diversity of the BODs' characteristics (Katmon et al., 2019). According to agency theory, independent directors not only critically examine the executive directors' recommendations but also provide an outstanding monitoring system within the governing body (Bertoni et al., 2014). Based on the agency theory, in order to reduce the cost of the agency, the BOD must include a large percentage of independent members (Mobbs, 2013). The BOD, which includes a large proportion of the independents, is more objective and has the ability to monitor and make decisions (Fama & Jensen, 1983), as the independents have a strategic vision of the long-term economic performance, the environment and the society (Johnson & Greening, 1999).

In addition to the agency theory, stakeholder theory is widely recognised as an effective framework for explaining the link between the independence of board members and the CSR. This theory posits that independent board members significantly facilitate the transparent and effective disclosure of CSR (Orazalin, 2019; Mardawi & Saed, 2018). When board members are independent, they are more likely to make decisions that prioritise the company's overall welfare and the broader interests of society rather than pursuing self-serving or narrow objectives (Orazalin, 2019). This inclination motivates them to integrate social and environmental considerations into their decision-making processes and embrace socially responsible policies and practices (Orazalin, 2019).

Therefore, this study hypothesises that there is a positive relationship between BOD independence and CSR.

H₁: Board of Directors (BOD) independence has a positive and significant impact on the level of Corporate Social Responsibility (CSR) disclosures in Palestinian companies.

Figure 1 depicts the theorised relationships between study variables.

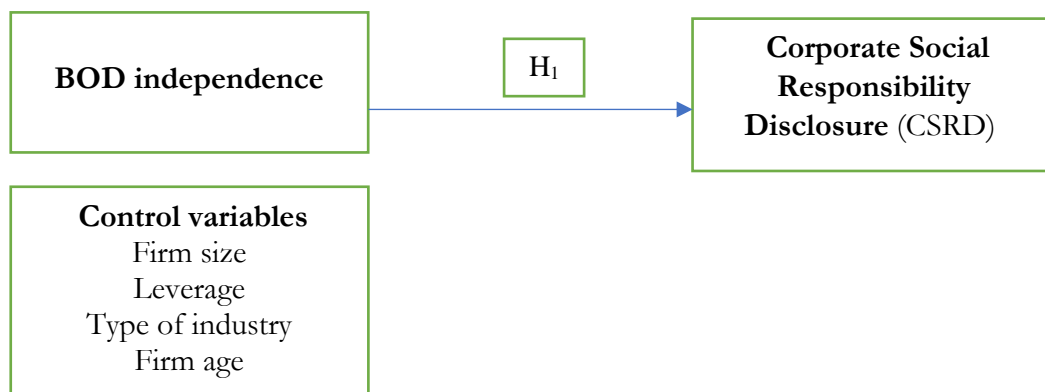


Figure 1: Conceptual framework

RESEARCH DESIGN AND METHODOLOGY

Sample and Data Collection

This study examines the relationship between BOD independence and CSR. The target population of this study includes the companies listed on the Palestinian stock exchange, which have appropriate data and measures regarding all the proposed variables. The desired population is 49 companies. The sample consists of 31 firms listed on the Palestine Stock Exchange from 2012 to 2021. Certain industries were excluded from the study, like the banking and insurance sectors, as their accounting standards differ significantly from others (Alia & Barham, 2020). Table

1 shows the summary distribution of company counts in each of the five business sectors. In addition, Table 2 lists the selection process.

Table 1: Listed companies distribution

| No | Sector | No. of Firms | Percentage |
|-------|------------|--------------|------------|
| 1 | Service | 9 | 18.4% |
| 2 | Industry | 13 | 26.5% |
| 3 | Investment | 11 | 22.4% |
| 4 | Insurance | 8 | 16.3% |
| 5 | Banking | 8 | 16.3% |
| Total | | 49 | 100% |

Table 2: Process of selecting the sample

| Selection Process | Sample |
|--|--------|
| The total number of companies listed | 49 |
| Less: Banking and insurance sector | (16) |
| Less: Two investment companies unlisted during the full period (2012-2021) | (2) |
| Final Sample | 31 |

Data Analysis

This study utilises secondary data obtained from the annual financial reports of publicly listed Palestinian companies during 2012-2021. The STATA software will be used to analyse data. The Ordinary Least Squares (OLS) regression estimation method will be used to examine the relationship between the variables.

Definitions and Measurements of Variables

i) Dependent Variable (CSR)

CSR is defined as presenting what companies provide in their financial reports for the benefit of society, the environment, and employees (Adnan et al., 2018). This study uses 53 items with four dimensions. The key areas encompassed in this context are environmental sustainability, human resource management, community engagement, and product and customer transparency. The checklist has been adopted from Alia & Barham (2020) and added additional items from other CSR studies, such as Alia and Mardawi (2021) and Barakat et al. (2015). The content analysis method will be used. The calculation of the final CSR index, also known as the ICSR index, was conducted in the following manner:

$$ICSRD = \sum_{j=1}^e e_j / e, \quad (1)$$

where;

ICSRD = Index of CSR

e_j = Analysis of attributes (1 if a disclosure item is identified, 0 otherwise)

e = Maximum number of items a company can disclose (53)

ii) Independent Variable (BOD Independence)

BOD independence is defined as the non-executive board members (Gallego-Álvarez & Pucheta-Martínez, 2020). This study used the number of independent non-executive directors on the board divided by the total number of BODs (Akbar et al., 2020; Waheed & Malik, 2021).

iii) Control Variable

This research, in line with the findings of Michelon and Parbonetti (2012), will employ the metric of size (LnSIZE), which is calculated as the logarithm of total sales, to assess the size of firms.

Leverage is also controlled; the various studies in the literature used the same technique of measuring leverage by total debt to total assets (Alia & Mardawi, 2021; Barakat et al., 2015). The present study will employ a uniform measurement instrument. Firm age is another control variable in this study; many of the studies in the literature used the number of years of existence to measure the age of the firm (Cuadrado-Ballesteros et al., 2017). By drawing upon prior research, the present study employed the duration of a company's existence since its inception as a metric to assess its organisational age. Finally, numerous works in the literature used the industry type as a control variable (Rashid, 2018), whereby dummy variable codes: Industry 1 (service) = 1, Otherwise = 0, Industry 2 (industrial) = 1, Otherwise = 0, and Industry 3 (investment) = 1, Otherwise = 0. This study will use the industry type using the same measurement tool.

Regression Model Specification

The following model will be used to test the relationship of BOD independence with CSR disclosure.

$$\text{CSR D} = \beta_0 + \beta_1 \text{BOD Independence} + \beta_2 \text{Logarithm of Total Sales} + \beta_3 \text{Leverage} + \beta_4 \text{Firm Age} + \beta_5 \text{Type of Industry} + \epsilon \quad (2)$$

RESULTS AND DISCUSSION

Descriptive Analysis

Table 3 provides a descriptive analysis of the study variables.

Table 3: Descriptive analysis

| | Mean | Median | Min | Max | Std. Dev. | Skewness | Kurtosis |
|--------------------------|--------|--------|--------|--------|-----------|----------|----------|
| CSR D % | .295 | .264 | .075 | .736 | .133 | .835 | 3.485 |
| BOD Independence% | .866 | .909 | .111 | 1 | .181 | -2.277 | 6.948 |
| Logarithm of total sales | 15.784 | 15.732 | 10.266 | 20.823 | 2.107 | -.066 | 2.808 |
| Leverage% | .334 | .328 | .009 | .751 | .181 | .133 | 2.131 |
| Firm age | 27.694 | 23 | 2 | 76 | 15.15 | 1.296 | 4.212 |
| Type of industry | 2 | 2 | 1 | 3 | .763 | 0 | 1.722 |

Table 3 shows the results of the descriptive analysis. The average CSR D for Palestinian companies is 29.5%. This means that Palestinian companies disclose only about 15 items of 53 items used to measure the CSR D, and the median for it is 26.4%. The highest percentage of CSR D is 73.6%. The lowest disclosure percentage is 7.5%, equivalent to 4 elements being disclosed, and the standard deviation of CSR D reached 13.3%. The results also indicate that the average independence of the members of the BOD is 86.6%, and the median is 91%. It is clear that the percentage of BOD independence of Palestinian companies is high. The highest percentage of board members' independence for some Palestinian companies is 100%, and the lowest percentage for some companies is 11%. Note that the standard deviation of the BOD independence variable was 18.1%.

In terms of the control variables, the logarithm of the sales of the listed companies included in the study yields a mean value of 15.78 for firm size. The dataset exhibits a median value of 15.7, with minimum and maximum scores of 10.21 and 20.8, respectively. The standard deviation of the dataset is calculated to be 2.1. The leverage variable exhibits a mean value of 33.4%, indicating that the total liabilities of the sampled company are equivalent to 33.4% of its total assets. The median value of leverage is 32.8%, with the minimum and maximum observed scores being 9% and 75%, respectively. Additionally, the standard deviation for leverage is 18.1%. The average age of the companies included in the study sample is 27.69 years, and the median firm age is 23 years, with minimum and maximum scores of 2 and 76, respectively, and a standard deviation of 15.15. Finally,

regarding the type of industry, they have a mean of 2, a median of 2, minimum and maximum scores of 1 and 3, respectively, and a standard deviation of 76.3%. The skewness and kurtosis values offer insight into the distribution of the data. Skewness indicates the symmetry of the data distribution, while kurtosis indicates its peakedness (Gorondutse & Hilman, 2015). This study's skewness values range from -2.277 to 1.29, while the kurtosis values range from 1.722 to 6.948. These values suggest that the data distribution is normal.

Correlation Analysis

Table 4 provides the correlation analysis for all variables used in this study.

Table 4: Correlation matrix

| | CSRD | BOD Independence | Logarithm of total sales | Leverage | Firm age | Type of industry |
|--------------------------|----------|------------------|--------------------------|----------|----------|------------------|
| CSRD | 1.0000 | | | | | |
| BOD Independence | 0.183* | 1.0000 | | | | |
| Logarithm of total sales | 0.6135* | 0.007 | 1.0000 | | | |
| Leverage | 0.2108* | -0.070 | 0.3170* | 1.0000 | | |
| Firm age | -0.1543* | -0.100 | -0.0017 | -0.2687* | 1.0000 | |
| Type of industry | -0.2625* | 0.097 | -0.0702 | -0.1635* | -0.1092 | 1.0000 |

Note that the symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4 presents the correlation matrix between the variables. The results indicate that the CSRD has a positive correlation with BOD independence, firm size, and leverage. On the other hand, the firm age and type of industry negatively correlate with CSRD. Table 4 also shows that firm size and type of industry positively correlate with BOD Independence. Conversely, firm age and leverage negatively correlate with BOD independence. Regarding control variables, correlation results show that leverage has a positive correlation with firm size. Firm age and type of industry have a negative correlation with firm size. The findings also indicate a negative correlation between firm age and type of industry with leverage. The results correspondingly show that the type of industry negatively correlates with firm age. Meanwhile, the correlation matrix reveals that all correlation coefficients between the variables are below 80%, indicating the absence of significant linear overlap among the study variables.

Regression Analysis Models

Table 5 shows that BOD independence has a statistically positive and significant relationship with CSRD at ($p < 5\%$), with a coefficient value of 0.164 and a corresponding t-statistic value of 2.01. Therefore, (H1) is accepted. This means that companies with higher board independence disclose more information about CSR in Palestinian companies listed on Palestine Exchange (PEX). This result supports previous studies conducted in Palestine (Alia & Barham, 2020; Alia & Mardawi, 2021; Zaid et al., 2019) discovered a significant positive relationship between board independence and the level of CSRD. It is also consistent with previous studies in other countries (Adnan et al., 2018; Javaid Lone et al., 2016; Jizi et al., 2014). These findings are also consistent with the assertion of the agency theory, which suggests that the presence of independent directors is the mechanism to reduce agency costs and independent members have a strategic vision for long-term economic performance, environmental and social concerns and play an important role in promoting long-term SCR (Post et al., 2011).

Table 5: Fixed effect model regression

| CSR | Coef. | St.Err. | t-value | P-value | Sig |
|--------------------------|--------------|----------------|----------------|----------------|------------|
| BOD Independence | .164 | .082 | 2.01 | 0.04 | ** |
| Logarithm of total sales | .102 | .017 | 6.07 | 0.00 | *** |
| Leverage | .386 | .139 | 2.77 | 0.00 | *** |
| Firm age | .009 | .003 | 3.50 | 0.00 | *** |
| Type of industry | -.092 | .075 | -1.24 | 0.21 | |
| Constant | -3.111 | .324 | -4.59 | 0.00 | *** |
| R-squared | | | 0.278 | | |
| Number of obs | | | 310.000 | | |
| Prob > chi2 | | | 0.000*** | | |
| Mean VIF | | | 1.12 | | |
| BPLM | | | 555.08*** | | |
| Hausman Test | | | 97.08*** | | |

Note: *, **, *** represent significance at the 10, 5, and 1 percent levels, respectively

CONCLUSIONS AND RECOMMENDATIONS

The results suggest that the CSR in Palestine is somewhat low in comparison to other countries. The absence of pertinent legal obligations and the lack of legislation mandating Palestinian enterprises to contribute a portion of their financial resources towards social responsibility may account for this phenomenon. Furthermore, the results indicate that BOD independence positively and significantly affects CSR in Palestinian companies listed on PEX. The aforementioned findings align with the agency theory, which suggests that the independent members have a strategic vision for long-term economic performance, environmental and social concerns and play an important role in promoting long-term SCR. This study proposes that policymakers and regulators can improve the extent of CSR disclosure by extending the minimum regulatory requirements concerning CSR reporting in Palestine. Furthermore, policymakers and regulators can develop a local CSR index for disclosing the social responsibility of Palestinian companies, as is the case in many developed countries, that can be used to evaluate CSR practice and disclosure among Palestinian companies and reward the most committed ones for enhancing competition among them and encouraging them to adopt and disclose social responsibility activities.

In addition, this study categorically recommends the necessity of amending the current PCCG by obligating companies to have a greater number of independent members within the BOD because of its important role in increasing CSR disclosure and clarifying some characteristics such as experience in managing companies and the need to determine the scientific level of the independent members.

While this study has several strengths, it also has several limitations. First, this research was limited in terms of the nature of firms as the data are from firms belonging to three sectors (services, industry, and investment). Therefore, further research is suggested to examine this issue in banks and insurance sectors in order to determine whether there are differences in CSR practices among different sectors. Second, the sample of this study was limited to firms listed at PEX. Further research is suggested to expand the study by checking different stock exchange markets or by considering regional exchange markets to determine whether geographical areas impacted the firm decision to engage in CSR.

Finally, this study has only focused on the BOD independence to test the extent of CSR. There are other factors that could influence CSR and financial performance, such as internal auditors, foreign directors, the experience of the board members, and their educational level. Future studies can be expanded to include these factors.

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