**OWNERSHIP STRUCTURE AND CORPORATE GOVERNANCE MATTER FOR CORPORATE SOCIAL RESPONSIBILITY: EVIDENCE FROM BRAZIL**

## 1 INTRODUCTION

Firm stakeholders are requiring firms to be committed to Corporate Social Responsibility (CSR) and pursue an ethical conduct (Chan, Watson, & Woodliff, 2014; Harrison, Bosse, & Phillips, 2010). In this scenario, the firm is also appraised by means of the way it interacts with its ample set of stakeholders and how it deals with environmental issues. It means that the way the firm interacts with its distinct stakeholders tends to become more prominent as predicted by the Stakeholder Theory (Freeman, Rusconi, Signori, & Strudler, 2012).

Stakeholder Theory proposes that the firm must be committed to social and environmental concerns, worrying not only with value creation to shareholders but also with all stakeholders welfare, becoming a stakeholder oriented entity, much more than only a profit oriented firm (Freeman, 1998). Under this theoretical framework, the firm is called to integrate ethics in its business and this integration is able to boost competitive advantages and firm value (Freeman et al., 2012). This theoretical proposal has fostered the development of research on the value creation capacity of CSR as well as on its determinants. Research on CSR value creation capacity does not have conclusive results (Q. Wang, Dou, & Jia, 2016). In parallel, a growing body of research has also been devoted to search CSR determinants. In parallel, Agency Theory, initially dealing with conflicts among shareholders and managers (Jensen & Meckling, 1976), which has stimulated the advancement of corporate governance practices, supplies, in a certain way, theoretical support to the rationale on firm relation with all stakeholders given the possible conflicts of interests that arise from any of these relations as articulated under the Stakeholder Theory. Addressing conflicts with all stakeholders seems to have been done through the firm CSR policy which tries to enable the firm to impart social change and improve firm relation with its stakeholders and the environment (Aguilera, Rupp, Williams, & Ganapathi, 2007). The intentions that may lead firms to engage in CSR initiatives have been studied under the rationale on CSR determinants taking into account Agency and Stakeholder theoretical arguments (Aguilera et al., 2007). The importance of research on CSR determinants has been highlighted, with special attention to emerging markets where CSR seems to be less integrated in firm strategy and more centered in philanthropy (Dam & Scholtens, 2012; Jamali & Karam, 2008). Important firm attributes have emerged as relevant for CSR. More recently, this is the case of ownership structure and corporate governance, under the rationale that agency conflicts may influence CSR policy. The proposal is that shareholders' interests may matter for firm commitment to social and environmental issues.

This study aims to analyze the influence of shareholding control, ownership concentration and corporate governance on CSR of the Brazilian firm. This research contributes to the literature in two ways. First, it provides additional evidence on the effect of ownership structure and corporate governance on the Brazilian firm CSR. The study discusses the importance of shareholding control configuration (dominant, shared, dispersed), an interesting ownership attribute that was recently used in a study on Brazilian firm reputation (Crisóstomo et al., 2022). As far as we are aware, no research has assessed its effect on firm CSR policy. Although the discussion on ownership structure and CSR has been the focus of a number of empirical studies, results are still inconclusive (Buertey, 2021). Second, the work provides evidence on the positive effect of corporate governance on CSR policy using an index that encompasses a set of corporate governance practices, which represents an advance given that most previous studies assessed the effect of governance on CSR by taking into account some individual corporate governance practices (Dodd, Frijns, & Garel, 2022). It also worth mentioning the assessment of the government regulatory action in some Brazilian industries which do not stablish rules on firm CSR but seems to be able to boost firm CSR policy.

## 2 LITERATURE REVIEW AND HYPOTHESES

Corporate Social Responsibility is a topic of growing interest in corporate agendas and in business research (Aguilera, Desender, Bednar, & Lee, 2015). After the financial corporate scandals that took place in the early 2000s, CSR has been considered an extension of firms' efforts to promote the importance of a robust corporate governance system, through the establishment of sustainable strategies that promote accountability and transparency (Hussain, Rigoni, & Orij, 2018). The Stakeholder Theory proposes the existence of a virtuous cycle between firm CSR and firm financial performance. Under this perspective firm CSR policy is able to generate positive returns for the firm in the medium and long term (Freeman et al., 2008). Besides financial benefits, gains in terms of firm image and reputation may sometimes be even more interesting to shareholders, as was pointed out for family blockholders. It has been suggested that the firm may also use CSR for legitimacy purposes looking for positive visibility and better reputation (Brammer & Pavelin, 2004; Calza, Profumo, & Tutore, 2016).

***Hypothesis 1:*** *Ownership concentration positively influences the Brazilian firm Corporate Social Responsibility.*

The possible value creation capacity of CSR predicted by the Stakeholder Theory is also, a priori, for the mid and long-term, although it is still uncertain. However, firms seem to use CSR policy, not only for undertaking effective actions, but to signal firm persistent commitment to social and environmental concerns (Mahoney, Thorne, Cecil, & LaGore, 2013). Controlling blockholders, which are present in firms with dominant or shared control configuration, have interest and power to use the controlling position to favor their own interests, which are usually linked to the medium and long-term perspective. This long-term perspective of controlling blockholders tend to make them more worried about firm image and reputation which may benefit from CSR policy (Garas & ElMassah, 2018). In parallel, minority shareholders, who prevail in dispersed control, tend to have a short-term perspective and may be more resistant to uncertain long-term investment as is the case of CSR (Feng, Chen, & Tang, 2018; Li & Zhang, 2010). Interests of controlling blockholders may prevail over minority shareholders' interests under the principal-principal agency model which is the picture in Brazil. Thus, it is suggested that the type of shareholding control can influence the CSR policy contingent on shareholders' interests:

***Hypothesis 2:*** *The type of shareholding control configuration matters for the Corporate Social Responsibility of the Brazilian firm.*

From an agency theoretical perspective, the distinct purposes and interests of managers and shareholders may raise the possibility that managers pursue their own interests even at the expense of shareholders and other stakeholders (Jensen & Meckling, 1976). Shareholders have focused on strengthening firm corporate governance in order to protect themselves from malicious management behavior. Under this perspective, the corporate governance system was originally planned to comprise a set of governance practices able to avoid inappropriate management behavior, thus aligning managers and shareholders' interests. More recently, corporate governance evolved and started to also encompass commitment to business ethics, human rights, corruption and the environment, i.e., commitment to non-shareholders stakeholders' interests, to a certain extent, due to external pressure from stakeholders (Aguilera et al., 2015). Under this rationale, given the emphasis the in firm ethical behavior and firm commitment to respect all stakeholders and the environment, and taking into account previous evidence on some governance attributes, it is feasible to suggest that firm corporate governance as a whole is able to boost CSR, as summarized in the following hypothesis for the Brazilian market:

***Hypothesis 3****: The Corporate Governance system positively influences the Corporate Social Responsibility of the Brazilian firm.*

## 3 METHODOLOGY

The research sample includes all firms listed on the Brazilian stock exchange (B3 S.A. – *Brasil, Bolsa, Balcão*) that have disclosed information about their ownership structure and, specifically, the shareholding control configuration, in the Reference Form available on the website of the Brazilian Securities and Exchange Commission (CVM), and that also have information about corporate governance in the Refinitiv Eikon database, as well as Corporate Social Responsibility (CSR) data in the CSRHub Consensus ESG Ratings database. The analysis covers the period 2010-2022, resulting in an unbalanced panel data set composed of 796 firm-year observations from 76 firms.

To analyze the influence of ownership structure and corporate governance on corporate social responsibility, models based on Equation (1) were estimated for distinct aspects of ownership structure (OWNSTR): type of shareholding control configuration and ownership concentration. Statistical tests were conducted, through the Cumby-Huizinga test for the presence of serial autocorrelation, and Breusch-Pagan test for heteroscedasticity of the residuals. These problems were detect and are able to compromise estimates using the Ordinary Least Squares (Wooldridge, 2002). Therefore, Equation 1 and its variations were estimated using Feasible Generalized Least Squares (FGLS) for panel data, which corrects problems of heteroscedasticity and autocorrelation of residuals (Wooldridge, 2002). Furthermore, to mitigate potential issues associated with outliers, some variables were “winsorized” at the 1st and 99th percentiles.

$$CSR_{i,t} = \beta_0 + \beta_1 OWNSTR_{i,t} + \beta_2 CG_{i,t} + \beta_3 REG\_SEC_{i,t} + \beta_4 ROA_{i,t} + \beta_5 GOPP_{i,t} + [\beta_6 DEBT_{i,t}] + \beta_7 SIZE_{i,t} + \beta_{8:20} YEAR_i + \varepsilon_{i,t} \qquad (1)$$

*Corporate Social Responsibility (CSR)*

The study uses the metric for firm Corporate Social Responsibility (CSR) provided by CSRHub. Considering that the study aims to analyze the influence of ownership structure and corporate governance on the corporate social responsibility of Brazilian firm, this work computes an index for CSR that stands for the average of three CSR dimensions: community, employees and environment. In addition, the metric scale is transformed to the scale that ranges from 0 to 1.

*Ownership structure (OWNSTR)*

Different aspects of ownership structure (OWNSTR) are used: ownership concentration and the type of shareholding control configuration. Five proxies for ownership concentration are considered: voting shareholding concentration held by the largest shareholder (OWNC1), by the two largest shareholders (OWNC2), and so forth until the proportion of voting shares held by the five largest shareholders (OWNC5). Additionally, the Herfindahl-Hirschman Concentration Index (HI_VOT5) was used for each firm-year observation, being calculated by the sum of squares of the proportion of voting shares in hands of each of the five largest voting stockholders (Dam & Scholtens, 2013). As previously mentioned, the study takes into account three types of shareholding control configuration (Brandão & Crisóstomo, 2023): dominant control, shared control, and dispersed control. There is a dummy variable for each shareholding control configuration.

*Corporate Governance (CG)*

The metric for Corporate Governance (CG) calculated by Refinitiv is used to proxy for the quality of firm corporate governance (REFINITIV, 2021). The corporate governance pillar of Refinitiv encompasses 56 variables grouped into three main categories: CSR strategy, management, and shareholders. In this research, the metric for corporate governance takes into account only the dimensions management and shareholders. Therefore, this approach encompasses a broad spectrum of corporate governance practices, with scores ranging from 0 to 100. For the research, the metric scale was also transformed to a scale from 0 to 1, following the same scale established for the corporate social responsibility metric.

*Other firm attributes*

The model also integrates other firm attributes pointed out by the literature as able to influence CSR: regulated sector, profitability, growth opportunities and firm size.

## 4 ANALYSIS OF RESULTS AND DISCUSSION

Results show that corporate social responsibility of Brazilian firms benefits from higher levels of ownership concentration as proposed (Hypothesis 1) (Table 1, Models 1 to 6). This finding is robust to different proxies for ownership concentration (OWNC1, OWNC2, OWNC3, OWNC4, OWNC5, HI_VOT5). In fact, large controlling shareholders have power, incentive and expertise to influence firm policies. In an environment where high firm ownership concentration is the typical picture, the principal-principal agency theoretical model prevails and this typical picture may raise the influence of controlling shareholders on the shaping of firm policies that meet these controlling shareholders' interests. The finding that ownership concentration is directly correlated to firm CSR indicates that large shareholders have interest and incentive to undertake a more intense CSR policy (Garas & ElMassah, 2018). Therefore, it seems, as suggested, that large blockholders believe that CSR is capable of improving firm image and reputation, in addition to providing positive visibility even in the short term (Brammer & Pavelin, 2004; Calza et al., 2016).

Regarding shareholding control configuration, it can be seen that this element is indeed important for the CSR performance of Brazilian firms, as depicted in the results (Table 1, Models 7 to 9), giving support to Hypothesis 2. The results indeed show the suggested positive effect of the presence of dominant control on the CSR performance of firms (Table 1, Model 7). On the other hand, the negative influence of dispersed control on the CSR of the Brazilian firm, as proposed, is observed (Table 1, Model 9). By its turn, shared control does not seem to influence CSR performance, contrary to the expectation. Therefore, it seems that, in fact, one dominant shareholder considers CSR actions as capable of improving firm image and reputation as well as future benefits. Thus, one dominant shareholder can use their power to influence firm strategy to integrate actions related to CSR, aiming for the firm long-term survival (Javeed et al., 2022). In contrast, in dispersed control, shareholders indeed tend to have short-term perspectives, which can harm the firm investment in CSR practices, since the financial returns from this type of investment are generally long-term. Minority shareholders may view investment in CSR initiatives as potentially detrimental to financial returns.

The results also provide evidence about the influence of corporate governance (CG) on the CSR of Brazilian firms (Table 1, Models 1 to 9) as hypothesized (Hypothesis 3). The results suggest that the better firm corporate governance standard the higher is the firm engagement in CSR policies. In this sense, by contributing to the firm greater involvement with CSR practices, a well-structured corporate governance system helps to reduce conflicts of interests between firm and all stakeholders, with possible positive contribution for the proposed virtuous circle between firm and stakeholders which predicts benefits to financial performance (Jamali, Safieddine, & Rabbath, 2008). It means that indeed the corporate governance system has widened firm focus from only management monitoring and financial performance to firm relationship with an ample set of stakeholders who have legitimate interests in the firm.

**Table 1 – Panel data model estimates for the whole sample**

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|---|---|---|---|---|---|---|---|---|
| OWNC1 | 0.0235* | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0.0127) | | | | | | | | |
| OWNC2 | | 0.0277** | | | | | | | |
| | | (0.0118) | | | | | | | |
| OWNC3 | | | 0.0253** | | | | | | |
| | | | (0.0121) | | | | | | |
| OWNC4 | | | | 0.0243* | | | | | |
| | | | | (0.0125) | | | | | |
| OWNC5 | | | | | 0.0239* | | | | |
| | | | | | (0.0128) | | | | |
| HI_VOT5 | | | | | | 0.0220* | | | |
| | | | | | | (0.0128) | | | |
| DOMINANT | | | | | | | 0.0107** | | |
| | | | | | | | (0.0054) | | |
| SHARED | | | | | | | | 0.0073 | |
| | | | | | | | | (0.0055) | |
| DISPERSED | | | | | | | | | -0.0272*** |
| | | | | | | | | | (0.0066) |
| CG | 0.0610*** | 0.0603*** | 0.0585*** | 0.0575*** | 0.0570*** | 0.0577*** | 0.0578*** | 0.0485*** | 0.0649*** |
| | (0.0125) | (0.0119) | (0.0118) | (0.0117) | (0.0117) | (0.0119) | (0.0117) | (0.0111) | (0.0115) |
| REG_SEC | 0.0190*** | 0.0180*** | 0.0184*** | 0.0186*** | 0.0189*** | 0.0191*** | 0.0200*** | 0.0207*** | 0.0212*** |
| | (0.0053) | (0.0053) | (0.0053) | (0.0053) | (0.0053) | (0.0053) | (0.0052) | (0.0052) | (0.0052) |
| ROA | 0.0301 | 0.0255 | 0.0263 | 0.0269 | 0.0273 | 0.0296 | 0.0277 | 0.0364 | 0.0252 |
| | (0.0278) | (0.0279) | (0.0279) | (0.0279) | (0.0279) | (0.0278) | (0.0279) | (0.0277) | (0.0275) |
| GOPP | -0.0015 | -0.0009 | -0.0010 | -0.0011 | -0.0012 | -0.0014 | -0.0010 | -0.0030 | -0.0023 |
| | (0.0025) | (0.0025) | (0.0025) | (0.0025) | (0.0025) | (0.0025) | (0.0025) | (0.0025) | (0.0024) |
| SIZE | 0.0048*** | 0.0045** | 0.0046** | 0.0046** | 0.0046** | 0.0049*** | 0.0047*** | 0.0050*** | 0.0034* |
| | (0.0018) | (0.0018) | (0.0018) | (0.0018) | (0.0018) | (0.0018) | (0.0018) | (0.0018) | (0.0019) |
| INTERCEPT | 0.3689*** | 0.3678*** | 0.3681*** | 0.3680*** | 0.3683*** | 0.3735*** | 0.3751*** | 0.3808*** | 0.4025*** |
| | (0.0352) | (0.0351) | (0.0352) | (0.0352) | (0.0353) | (0.0349) | (0.0348) | (0.0348) | (0.0350) |
| N. Obs. | 796/76 | 796/76 | 796/76 | 796/76 | 796/76 | 796/76 | 796/76 | 796/76 | 796/76 |
| Wald ($\chi^2$) | 139.0537 | 141.4809 | 140.1094 | 139.4424 | 139.1399 | 138.4970 | 139.6917 | 137.1073 | 154.8203 |
| p-value | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10

## 5 CONCLUSION

The study investigates the influence of ownership structure and corporate governance on the corporate social responsibility of Brazilian firm under the Agency and Stakeholder theoretical frameworks. The results show that indeed, the favorable effect of ownership concentration and dominant control on firm CSR may be due to the fact that large controlling shareholders tend to have a long-term perspective on their shareholding position in the firm, usually occupying positions on the board or top management team, or directly interfering in the nomination of firm managers and directors.

A influência positiva da governança corporativa na RSC da empresa no Brasil é uma descoberta relevante. Esse efeito favorável significa que a adesão a um sistema de governança corporativa robusto parece ser capaz de aumentar a sensibilidade da empresa a questões sociais e ambientais. Isso significa que o sistema de governança corporativa é capaz de melhorar a comunicação da empresa e o relacionamento, não apenas com os acionistas, conforme previsto pela abordagem teórica da agência, mas também com um conjunto mais amplo de stakeholders que foram apontados como relevantes para o comportamento da empresa pela Teoria dos Stakeholders.

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