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The Moderating Effects of Corporate Social Responsibility on Corporate Financial Performance: Evidence from OECD Countries

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Abstract: This study aims to investigate the nature and intensity of the changes in corporate financial performance due to the corporate social responsibility (CSR) disclosures as a result of certain relationships between corporate governance and company performance in the non-financial sector. This study selected 625 non-financial companies across six organizations for economic cooperations (OECD) countries' stock markets for the period of 10 years (2012–2021). For this qualitative study, corporate governance, financial performance, and corporate social responsibility score data were collected from the DataStream, a reliable database for examining the research on OECD countries' listed companies. For the data analysis we applied various statistical tools such as regression analysis and moderation analysis. The findings of the study show that all attributes of the corporate governance mechanism, except for audit board attendance, have significant positive impacts on financial performance indicators for all the selected OECD economies except the country France. France's code of corporate governance has a significant negative impact on return on asset (ROA) and return on equity (ROE) due to differences in cultural and operational norms of the country. The audit board attendance has no significant impact on ROA. Moreover, all the attributes except board size (BSIZ) have significant positive impacts on the earnings per share (EPS) in Spain, The United Kingdom (UK) and Belgium. The values obtained from the moderation effect show that Corporate social responsibility is the key factor in motivating corporate governance practices which eventually improves corporate financial performance. However, this study advocated the implications, Investors and stakeholders should consider both corporate governance and CSR disclosures when making investment decisions. Companies that prioritize both governance and CSR tend to have better financial performance and are more likely to mitigate risks. Moreover, the policy makers can improve the code of corporate governance in order to attain sustainable development in the stock market.

Keywords: corporate governance; financial performance; corporate social responsibility; OECD economies

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1. Introduction

The origin of corporate governance can be traced back to 1932 when it was initially introduced on a global scale. Since then, academics have developed a mature system covering different aspects such as board characteristics and auditors' characteristics. The first perspective of corporate governance, focusing on board and auditor characteristics, is based on the popular agency theory. This theory addresses the misunderstandings and conflicts that arise between owners and management due to the division of roles within the organization [1]. A corporate governance mechanism is essential in mitigating the conflict of interest between managers and shareholders, with the aim of fostering a strong relationship between them [2]. The significance of the corporate governance mechanism lies in considering the interests of both shareholders (such as owners) and stakeholders (such as employees, government, customers, suppliers, the general public, and others). Corporate governance practices vary widely across different countries and regions [3], influenced by differences in legal systems, cultural norms, and business practices.

Previous studies have explored key attributes of corporate governance, such as board monitoring and independence, which play a vital role in corporate financial performance [4]. Companies with strong corporate governance practices tend to have higher profitability, enabling them to implement efficient management strategies [5]. Despite the rich potential available for understanding the broader role of the corporate governance mechanism, there are unresolved doubts [6,7]. Corporate social responsibility (CSR) disclosure is not only important for shareholders and management but also crucial in the eyes of employees, customers, investors, agents, creditors, the environment, society, and other stakeholders when making business decisions [8,9]. Compliance with CSR policies is considered a key driver for enhancing corporate performance and gaining investor significance [10].

However, there is a scarcity of research examining the combined relationship between corporate governance and different attributes on corporate financial performance, particularly in the context of 6 OECD stock market-listed companies [11]. This research limitation provides an opportunity for further investigation into the combined effect. Additionally, the moderation effect of CSR disclosure in these selected OECD countries' listed companies remains understudied, creating another gap for exploration in the current study. Underpinning theories such as agency theory, stewardship theory, stakeholder theory, and resource dependence theory highlight the major role of corporate governance in resolving conflicts between management and shareholders, aligning management objectives with investor interests, and maximizing corporate financial performance [6,12].

This study aims to achieve three main objectives. First, it investigates the relationship between different attributes of corporate governance and corporate financial performance, using measures such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS). The second objective is to explore the relationship between corporate governance and corporate financial performance in different country setups, particularly in selected OECD countries. Lastly, the study examines the moderating impact of CSR disclosure on the relationship between corporate governance and corporate financial performance.

The findings of the study demonstrate that all attributes of the corporate governance mechanism, except the audit board committee, have a significant positive impact on ROA for all selected OECD economies except France. France's code of corporate governance has a significant negative impact on ROA due to cultural and operational norm differences. The attendance of the audit board does not yield significant results on ROA. Similarly, all attributes of corporate governance have a significant positive impact on ROE, except in France where corporate governance practices have a significant negative impact on return on equity. Moreover, all attributes, except board size (BSIZ), have a significant positive impact on earnings per share in Spain, the UK, and Belgium.

This study is innovative and contributes to several dimensions, particularly by addressing the gaps left by previous researchers. First, it contributes by including 625 top large, listed companies across six OECD stock markets, thus considering a substantial sample size. In contrast, previous studies [13,14] have focused on limited samples from a single country. Secondly, previous studies [15,16] have called for further research to better understand the ambiguous role of corporate governance attributes in financial performance. This study aims to fill that gap by exploring more authentic dimensions of corporate governance mechanisms. Third, while previous studies [17] have focused on limited time frames, this study covers a ten-year period, providing a more comprehensive sample. Fourth, while previous studies [13,15] have focused on a single country, this study examines companies from six different OECD countries. Fifth, previous studies [15] have utilized simple techniques, whereas this study employs advanced econometric analysis, including a composite effect. Additionally, the study investigates the effects on individual countries through dummy analysis. Finally, to obtain more accurate results, CSR disclosure is used as a moderator, intensifying the relationship between corporate governance practices and corporate financial performance.

The rest of the article is organized as follows: Part 2 provides an overview of recent literature and theoretical background, proposing several hypotheses that can be tested to elucidate the relationship between variables. Part 3 outlines the conceptual framework, research design, and methods employed. Part 4 presents the study's findings, while Part 5 includes the conclusion, suggestions for further research, limitations, and practical implications.

2. Literature Review and Theoretical Framework

Underpinning Theories of the Study

Every research study is based on underlying theories. This study draws on agency theory and stakeholder theory [18–20]. According to agency theory, corporate governance plays a crucial role in resolving conflicts between management and shareholders, aligning management objectives with investor interests, and maximizing corporate financial performance [6,12]. Agency theory also suggests that adhering to corporate governance codes, including board characteristics and auditor characteristics, can enhance organizational financial performance [21]. Additionally, agency theory argues that larger board sizes facilitate decision-making through brainstorming, leading to improved organizational performance [22]. Effective board attendance in meetings creates a conducive environment for decision-making, which positively impacts corporate performance [23]. The presence of a corporate social responsibility committee ensures transparency in the disclosure of social factors, enhances organizational reputation, and contributes to improved performance [24].

Agency theory also explains the relationship between CSR disclosure and financial performance. It suggests that companies that disclose information about corporate social responsibility enhance their reputation and financial performance [25]. The selected underlying theories in this study emphasize the management's focus on both shareholder and stakeholder interests. Thus, stakeholder theory justifies prioritizing stakeholders' rights and long-term value creation through effective corporate governance practices and CSR disclosures. Stakeholder theory argues that board characteristics can influence the proper implementation of organizational policies, leading to improved organizational performance [26].

Furthermore, agency theory provides guidance on the separation of ownership and control, promoting governance practices within countries and potentially boosting organizational financial performance [27]. Moreover, agency theory supports this study by addressing the conflict of interest between principals and agents, which can negatively affect financial performance through increased costs [28]. It also highlights the role of CSR disclosure in mitigating the negative effects of agency costs, enhancing company value, and improving organizational reputation, thereby positively impacting financial performance [29]. Stakeholder theory contends that insights into CSR disclosure initiatives can enhance a company's reputation, brand value, customer loyalty, and access to capital, ultimately increasing profitability [30].

Corporate governance has been found to significantly impact company performance. Good corporate governance practices can help companies mitigate risks, increase efficiency, and make better decisions, ultimately leading to improved financial performance [31]. Effective corporate governance practices, such as board independence and audit committee effectiveness, are associated with better company performance in terms of profitability, return on equity, and return on assets [32]. Some studies, including [33], have reported a negative relationship between board and audit committee meetings and organizational performance. The COVID-19 pandemic has also affected organizational performance, as noted by [34], due to business activity disruptions.

Furthermore, [35] examines the impact of corporate governance on company performance during the COVID-19 pandemic, suggesting that companies with good corporate governance practices, such as board independence and CEO-chair separation, were better able to navigate the pandemic and maintain their financial performance. [36] investigates the relationship between corporate governance and company performance in China during the COVID-19 pandemic, finding that good corporate governance practices, such as board independence and audit committee effectiveness, are associated with better company performance. The board of directors plays a crucial role in corporate governance. An independent and competent board can effectively oversee management, ensuring that strategic decisions align with the company's best interests and those of its shareholders. A well-functioning board can prevent fraud, mismanagement, and unethical practices that can negatively impact financial performance [37]. Sound corporate governance practices prioritize effective risk management, enabling companies to identify, assess, and mitigate financial, operational, legal, and reputational risks [38]. A robust risk management approach can prevent potential financial losses and protect company assets, safeguarding financial performance [39]. Moreover, corporate governance practices that prioritize long-term sustainability and value creation over short-term gains contribute to improved financial performance [40]. According to [41], larger firm size and the experienced firms lead to increase the organization performance. Such practices encourage companies to invest in research and development, innovation and strategic planning to ensure long-term success, rather than focusing solely on short-term financial results. This long-term orientation can foster a culture of innovation and strategic decision-making, which can positively impact a company's financial performance in the long run.

Hypothesis 1 (H1). *Corporate governance practices have a significant impact on corporate financial performance.*

Corporate governance and corporate social responsibility (CSR) disclosures have been extensively studied in the literature, recognizing the notion that effective corporate governance practices can facilitate CSR disclosures. A study by [42] investigates the impact of corporate governance and media exposure on CSR disclosures in China. The findings suggest that companies with better corporate governance practices are more inclined to disclose CSR information, and media exposure can enhance the positive relationship between corporate governance and CSR disclosure. Similarly, [43] examines the relationship between corporate governance and CSR disclosure in Chinese state-owned enterprises (SOEs). The results indicate that good corporate governance practices, such as board independence and audit committee effectiveness, are positively associated with CSR disclosures in SOEs.

In another study conducted in Bangladesh, [44] explores the relationship between corporate governance and CSR disclosure reporting. The findings suggest that companies with stronger corporate governance practices are more likely to disclose CSR information. Additionally, [45] investigates the impact of corporate governance on CSR disclosure in Jordan and suggests that good corporate governance practices, including board independence and CEO duality, are positively related to CSR disclosures. Moreover, [46] suggests that corporate social responsibility disclosure has a positive impact on organizational performance, while [47] argues that organizations are positively affected by corporate social responsibility disclosures. Furthermore, [48] demonstrates the strong correlations between corporate governance mechanisms and corporate social responsibility.

Furthermore, good corporate governance practices serve as a motivating factor for CSR disclosure committees in various countries, including emerging markets. Companies that implement sound corporate governance practices and disclose their CSR initiatives are more likely to gain the trust and confidence of stakeholders, such as investors, customers, employees, and communities [6]. Transparency in CSR disclosure efforts and a commitment to responsible business practices contribute to stakeholders perceiving the company as ethical and trustworthy. This, in turn, leads to increased stakeholder loyalty, positive brand perception, and ultimately, improved financial performance [49]. Investors and financial institutions are increasingly considering environmental, social, and governance (ESG) factors, including CSR disclosure, in their investment decisions [50,51]. Consequently, companies with strong corporate governance practices and robust CSR disclosure are often regarded as less risky and more attractive to investors, resulting in improved access to capital [52]. This improved access to capital leads to a lower cost of capital, better credit ratings, and increased investment opportunities, all of which can positively impact a company's financial performance.

Moreover, CSR disclosure can assist companies in identifying, assessing, and mitigating ESG risks, such as environmental liabilities, labor issues, and supply chain disruptions [53]. The combination of good corporate governance practices and CSR disclosure allows companies to proactively manage these risks, reducing potential financial losses and reputational damage. Ultimately, this safeguards the company's assets and protects its long-term sustainability, leading to improved financial performance [54]. Based on the discussion on the key variables of this study, which include corporate governance, CSR, and financial performance of six OECD-listed companies, the following hypothesis has been developed:

Hypothesis 2 (H2). *Corporate governance practices can improve corporate financial performance via corporate social responsibility disclosure.*

3. Research Design

3.1. Sample and Data Collection

To fulfill the objectives of this study, data from 625 companies in six different countries of the Organization for Economic Cooperation and Development (OECD) were utilized. The data covers the period from 2012 to 2021, collected on an annual basis. The selection of these six countries from the OECD region was based on their prominence as market leaders in terms of corporate social responsibility disclosures and the adoption of corporate governance mechanisms.

The chosen time frame of 2012–2021 was selected due to significant changes related to corporate social responsibility disclosure enacted by these economies during this period. These changes aimed to protect the environment and ensure proper accountability for social responsibility practices. Non-financial companies were selected for the study to account for the differences in social, cultural, and regulatory settings in comparison to the financial sector, where a more consistent culture and regulatory environment is observed.

Data was collected from the DataStream database, while GDP data for the corresponding years was extracted from the World Bank Data Portal. The dataset comprises non-financial companies from the six OECD economies. Table 1 provides details regarding the sample sizes from each economy. Convenience sampling was employed, with samples selected from companies with higher market capitalization and significant contributions to the market. The conceptual framework are presented in the figure (Figure 1). Moreover, the operational definitions of the variables are also given in table (Table 2).

Table 1. Sample size and distribution.

Name of the Country	Non-Financial Companies Sample	Name of the Country	Non-Financial Companies Sample
Belgium	46	Germany	96
France	127	Italy	80
Spain	61	UK	215

3.2. Variables and Measurement

3.2.1. Dependent Variable

Corporate financial performance serves as the dependent variable in this study and is measured using various indicators, including return on assets (ROA), return on equity (ROE), and earnings per share (EPS). In the field of finance, ROA is a commonly employed measure for assessing corporate financial performance. It is calculated by dividing the company's net profit by its total assets, representing the degree of asset utilization in achieving maximum output. ROA is considered a fundamental indicator that reflects the organization's performance and serves as a key aspect for investors and shareholders [55].

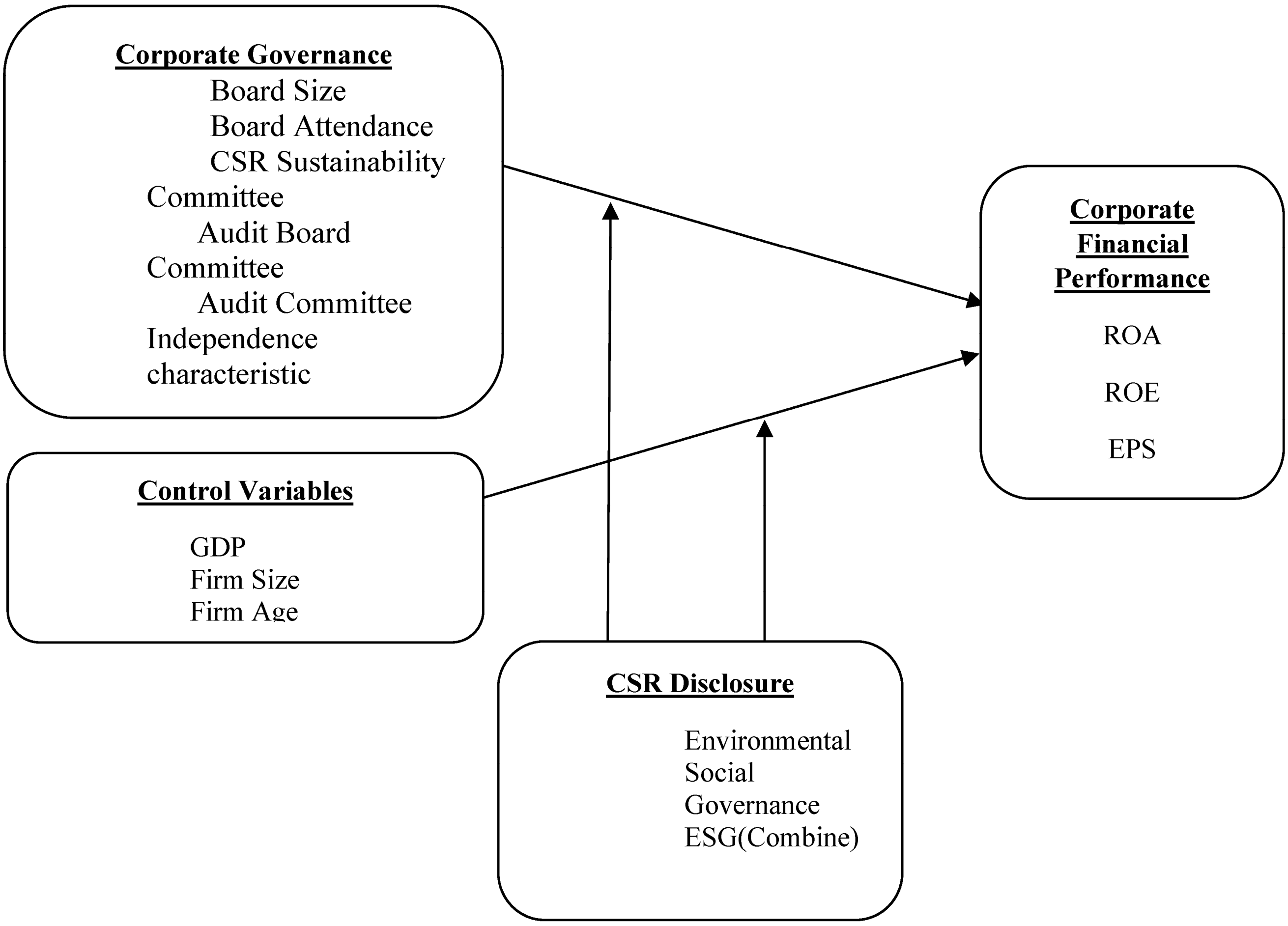

Figure 1. Conceptual framework of study.

Additionally, ROE is another frequently used measure to evaluate corporate financial performance. It is calculated by dividing the net income by the total equity of the shareholders, illustrating the extent to which the owner's equity is utilized to generate profitability. The utilization of equity for the purpose of earning plays a crucial role in determining corporate financial performance [56].

Moreover, earnings per share (EPS) is a third proxy commonly employed to assess financial performance. Profitability is also widely utilized as an indicator to measure the financial performance of corporations. EPS is calculated by dividing the net income by the total number of shares outstanding, representing the earnings of the company in the given financial year [57].

3.2.2. Explanatory Variables

The independent variable in this study is corporate governance practices, which has been assessed using various attributes, including board characteristics and auditor characteristics. In this study, board size, board attendance, and the presence of board CSR disclosure suitability committees are utilized as board characteristics. Auditor-related characteristics encompass the audit board committee, auditor independence, and audit committee expertise.

Table 2. Operational definitions of the variables of the study.

Variable	Abbreviation	Operational Definitions
Board Size	BS	The total number of members of the boards of directors in total board composition of the organization.
Board Attendance	BA	An average number of directors attend meetings of the boards in one financial year.
CSR sustainability committee	CSC	CSR sustainability committee exists in the organization.
Audit board committee	ABC	The existence of audit committees for conducting the audit within the organization.
Audit committee independence characteristic	ACI	The independence of the audit committee.
Audit Committee Expertise	ACE	Audit Committee Expertise Score
DGP	GDP	Gross domestic product of the country
Company Size	FS	Total assets of the company
Company Age	FA	Age of the companies form the incorporation
Environmental	ENV	Environmental pillar score
Social	SC	Social pillar score
Governance	GOV	Governance pillar score
ESG (Combine)	ESG	ESG total score
Return on Asset	ROA	Measured EBIT divided by total asset
Return on Equity	ROE	EBIT divided by total equity
Earnings per share	EPS	Total earnings divided by total number of shares outstanding of common stock.

Board size is measured by the total number of directors in the board composition. It is important to note that the criteria for maximum and minimum board members in the board composition vary across countries due to differences in corporate governance codes [58,59]. Meanwhile, board attendance is evaluated based on the average number of directors who attend board meetings [60]. The presence of a board CSR suitability committee is measured using a dummy variable, with a value of 1 indicating its existence and 0 indicating otherwise.

In addition, the audit board committee is assessed through a dummy variable, where 1 signifies its existence and 0 represents its absence. The audit committee expertise is measured using an expertise score, which is derived from relevant literature [61,62].

3.2.3. Control Variables

This study considers the control variables such as GDP, company size (FSIZ) and company age (AGE). The company size is measured through the total assets [63], it considers the key factors that are influencing the company's performance. GDP is the gross domestic production produced within the economy that also has influence on the financial performance of the companies working in the country [64]. Firm age measures the age of the company operating in the stock market since its formation [65] that indicates the maturity of the company in total market capitalization.

3.2.4. Moderator

The corporate social responsibility disclosure is used as the moderator variable in this study. The CSR disclosure is measured through four different proxies. The first proxy that is used for measuring CSR disclosure is [66]. While another proxy used for CSR disclosure is social (SC) that is measured through social pillar score [66]. The third proxy is governance (GOV), it is measured through the governance pillar score. The ESG combine is another proxy used for CSR disclosure that is measured through ESG pillar score [67].

3.2.5. Econometric Model

This study empirically tested the effect of the corporate governance on the company performance in the listed companies belonging to six different economies of the OECD region for the period of 10 years. Based on the relevant literature, this study adopted the regression method.

$$FP_{it} = \alpha_0 + \beta_1 BS_{it} + \beta_2 BA_{it} + \beta_3 CSC_{it} + \beta_4 ABC_{it} + \beta_5 ACI_{it} + \beta_6 ACE_{it} + \beta_7 GDP_{it} + \beta_8 FS_{it} + \beta_9 FA_{it} + \beta_{10} FL_{it} + \beta_{11} ENV_{it} + \beta_{12} SC_{it} + \beta_{13} GOV_{it} + \beta_{14} ESG_{it} + \varepsilon_{it}$$

For moderation

$$FP_{it} = \alpha_0 + \beta_1 (CG)_{it} + \beta_2 (CG) * CSR_{it} + \varepsilon_{it}$$

Regression analysis is a widely employed method for analyzing the relationship between financial variables. It involves estimating the association between a dependent variable and one or more independent variables. In the field of finance, the dependent variable often represents a measure of financial performance, such as return on assets or stock price, while the independent variables encompass factors that may influence the dependent variable, such as interest rates, inflation, or company-specific variables like size or leverage. Regression analysis is a commonly used statistical technique in finance and economics for examining the relationships between variables.

For instance, [68] utilizes regression analysis to examine the impact of environmental risks on corporate financing decisions in China. Similarly, [69] investigates the relationship between exchange rate volatility, oil prices, and US bank stock returns by employing a regression analysis with time-varying coefficients. In another study, [70] employs regression analysis to examine the risk-taking behavior of Islamic banks in Indonesia in the presence of systemic risk. Furthermore, [71] explores the impact of corporate social responsibility on financial performance in the US lodging industry using regression analysis.

4. Results and Findings

4.1. Descriptive Statistics

Table 3 performs descriptive statistics of the variables. The return on assets (ROA) has an average of 32.29%. This means that the selected companies, on average, earn about 32.29% on their assets. The return on equity (ROE) is five times higher, on average, for the selected companies. The earnings per share (EPS) have a mean value of 1.126, indicating a positive sign for the companies' earnings over the last 10 years. The environment score of the CSR disclosure index has a mean value of 48.61, with a maximum of 99 and a minimum of 0 for the selected companies in the OECD economies. The combined ESG score has an average of 50.08. The governance score has an average of 44.097, while the social score has a mean of 53.73. Approximately 51% of the companies have an audit committee. The average age of the companies at the time of incorporation is 16 years. About 44% of companies have board attendance during board meetings. The average board size is 11 members. In the OECD economy data, 66% of the companies have a CSR committee.

Table 4 shows the results of correlation coefficients. The results present that there is no correlation between variables exceeding the limit of 0.80. If the correlation between variables is greater than 0.80, it indicates a violation of the regression assumption. By ensuring that our findings meet this criterion, we can proceed with the analysis. There is a correlation between ROA and ROE, which are both dependent variables. However, since only one measure of financial performance is utilized, it is unlikely to significantly impact the overall results of the regression.

4.2. Regression Analysis

The impact of corporate governance on proxies of corporate financial performance is presented in Tables 5 and 6, representing the combined effect and separate country effect, respectively. The R-squared values of 0.7410, 0.7982, and 0.4210 in the combined effect suggest a substantial variation in the dependent variables: ROA, ROE, and EPS. This variation is attributed to the explanatory variables, including board-related characteristics and audit-related characteristics, and is statistically significant at the 1%, 5%, and 10% levels of significance. Additionally, the F-statistic indicates a favorable value, indicating a good fit for the model.

Table 3. Descriptive statistics of the samples.

	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
ROA	0.329289	0.060498	616.2005	−2.09801	11.18331	6250
ROE	5.835202	0.174851	16171.28	−157.949	291.4828	6250
EPS	1.126177	0	193.812	−12.3707	6.697428	6250
ENV	48.6053	51.69901	99.21987	0	30.69524	6250
ESG	50.08553	55.13873	97.71318	0	26.74154	6250
GOV	44.09760	53.5125	87.09878	0	43.07340	6250
SC	53.76340	58.32477	90.532109	0	40.670986	6250
ABC	0.845406	1	1	0	0.361547	6250
AC	51.47334	70.93458	100	0	32.32618	6250
ACI	67.00093	80	100	0	37.15858	6250
AGE	15.98995	11	120	1	14.96679	6250
BA	0.446281	0	1	0	0.497146	6250
BS	11	10	19	7	7.0897	6250
CSC	0.659861	1	1	0	0.473794	6250

Table 4. Correlation Matrix.

	ROA	ROE	EPS	ENV	ESG	GOV	SC	ABC
ROA	1							
ROE	0.99666	1						
EPS	−0.0033	−0.00324	1					
ENV	−0.02666	−0.02748	0.08499	1				
ESG	−0.0356	−0.03419	0.088109	0.739296	1			
GOV	−0.00138	−0.00099	−0.00502	0.035498	0.069258	1		
SC	−0.00065	−0.0005	−0.00289	0.016855	0.013372	−0.00128	1	
ABC	−0.0392	−0.04145	0.060618	0.586623	0.581659	0.018639	0.010891	1
AC	−0.02787	−0.02844	−0.02876	0.432175	0.450064	0.028831	0.016273	0.64306
ACI	−0.02944	−0.03189	−0.05739	0.469664	0.451949	0.020657	−0.00307	0.65549
AGE	−0.00393	−0.00503	−0.01755	−0.04977	−0.08571	−0.00995	0.030693	−0.03533
BA	−0.01183	−0.01473	0.022624	0.170572	0.267276	0.047322	0.002797	0.354148
BS	−0.00122	−0.00087	−0.00741	−0.00366	−0.02039	−0.00221	−0.00112	0.018851
CSC	−0.03135	−0.02719	0.014355	0.65482	0.588025	0.031578	0.018285	0.536002
GDP	−0.0139	−0.01072	0.033131	0.184731	0.259353	0.027437	−0.04884	0.20857
FS	−0.0027	−0.00215	0.037281	0.136749	0.099034	0.099348	−0.00438	0.008083
	AC	ACI	AGE	BA	BS	CSC	GDP	FS
ROA								
ROE								
EPS								
ENV								
ESG								
GOV								
SC								
ABC								
AC	1							
ACI	0.554558	1						
AGE	−0.02274	−0.05444	1					
BA	0.353826	0.444412	−0.00504	1				
BS	−0.02149	0.020933	−0.0147	0.026015	1			
CSC	0.422738	0.470175	−0.07216	0.237901	−0.06139	1		
GDP	0.11916	0.114399	−0.35818	0.082916	−0.08241	0.226826	1	
FS	0.007093	−0.00497	0.021562	−0.03487	−0.00449	0.053087	0.019169	1

Table 5. Results of Regressions (Combined effects of all OECD listed companies).

Variable	ROA Coefficient	ROA Prob.	ROE Coefficient	ROE Prob.	EPS Coefficient	EPS Prob.
ABC	0.766	0.233	23.781	0.055 **	2.921	0.000 ***
ACE	0.001	0.017 **	0.001	0.097 *	0.020	0.000 ***
ACI	0.002	0.018 **	0.070	0.009 ***	0.033	0.000 ***
AGE	0.007	0.090 *	0.178	0.006 ***	0.009	0.155
BA	0.167	0.001 ***	2.441	0.076 *	−0.868	0.000 ***
BS	0.000	0.834	0.001	0.025 **	0.000	0.302
CSC	0.297	0.083 *	2.013	0.055 **	−0.934	0.000 ***
ENV	0.006	0.025 **	0.097	0.035 **	0.021	0.000 ***
ESG	0.010	0.001 ***	0.214	0.033 **	0.017	0.001 ***
FS	−0.001	0.008 ***	0.013	0.044 **	0.008	0.071 *
GDP	0.000	0.667	0.001	0.017 **	0.000	0.919
GOV	0.000	0.965	0.001	0.054 **	0.000	0.299
SC	0.001	0.001 ***	0.001	0.097 **	0.000	0.717
C	1.775	0.003 ***	42.572	0.007 ***	0.358	0.307
R-squared	0.20410		0.0982		0.4210	
Adjusted R-squared	0.20301		0.0871		0.4014	
Prob(F-statistic)	0.0000		0.0000		0.0000	
Durbin-Watson stat	2.0104		2.1701		2.1214	

Note. ***, ** and * represent significance at 1%, 5% and 10% level of significance.

Table 6. Result of Regressions (Each Country separate effect).

Variable	ROA Coefficient	ROA Prob.	ROE Coefficient	ROE Prob.	EPS Coefficient	EPS Prob.
ABC	0.470	0.0814 *	−16.026	0.0574 *	2.329	0.0000 ***
AC	0.001	0.0102 **	0.042	0.0959 *	0.019	0.0000 ***
ACI	0.006	0.0590 **	−0.174	0.0921 *	0.024	0.0000 ***
AGE	0.004	0.0055 **	−0.100	0.0109 **	0.014	0.0212 **
BA	0.126	0.0192 **	0.867	0.0244 **	0.915	0.0000 ***
BS	0.000	0.0698 *	0.000	0.0454 **	0.000	0.128
CSC	0.336	0.0282 **	−3.083	0.0803 *	0.841	0.0007 ***
ENV	0.006	0.0695 *	0.092	0.0581 *	0.021	0.0000 ***
ESG	−0.010	0.0480 **	−0.210	0.0437 **	0.016	0.0012 ***
FS	−0.002	0.0186 **	−0.034	0.858	0.007	0.129
GDP	0.000	0.0779 *	0.000	0.0580 *	0.000	0.0421 **
GOV	0.000	0.0402 **	0.000	0.0353 **	0.000	0.312
SC	0.000	0.0528 *	0.000	0.0435 **	0.000	0.572
BELGIUM	1.503	0.0885 *	39.355	0.0865 *	3.976	0.0017 ***
FRANCE	−0.241	0.0263 **	−7.218	0.0760 *	0.117	0.686
GERMANY	2.059	0.0224 **	29.746	0.0697 *	0.351	0.559
ITALY	0.808	0.580	48.882	0.0376 **	0.475	0.365
SPAIN	2.059	0.0224 **	19.755	0.604	3.976	0.0437 **
UK	1.071	0.0160 **	48.882	0.0496 *	2.696	0.0015 ***
C	−0.771	0.767	−21.566	0.751	−3.112	0.040
R-squared	0.42609		0.5019		0.4813	
Adjusted R-squared	0.40420		0.4318		0.4519	
Prob. (F-statistic)	0.0000		0.0000		0.0000	
Durbin-Watson stat	2.1071		1.9810		2.0018	

Note. ***, ** and * represents significance at 1%, 5% and 10% level of significance.

In the separate country effect, the R-squared values are 0.40609, 0.5019, and 0.4813, respectively, indicating significant changes in the criterion variable due to the explanatory variables. Similar to the combined effect, the F-statistic is also favorable, suggesting a well-fitting model that appropriately explains the results.

In our results the audit board committee (ABC) has no significant impact on the ROA due to not following the accepted criteria of probability value and in this case our null hypothesis is accepted. Moreover, the audit committee existence and audit committee independence have a 5% level of significance and have a positive impact on ROA. It means that 1 unit increase in the audit committee existence and audit committee independence leads to a rise in the ROA by 0.001 and 0.002, respectively. Similarly, all other attributes of corporate governance have significant and positive impact that indicates that good governance enhances the corporate financial performance towards ROA. However, Board attendance has a positive significant impact on the ROA, which means that increase in the board attendance leads to an increase of 0.167 in the ROA of the corporation.

Board size has no significance, indicating that board size does not matter to change in the ROA. The existence of the corporate social responsibility committees has a significant positive impact on the ROA, indicating the existence of CSR committees will cause a 0.297 increase in the ROA. Firm age also has a positive significant relationship with ROA, indicating the more experienced companies have more ROA. Environmental and Social score of the CSR disclosure has significant positive impact with ROA, indicating that the 1 unit increase in environmental and social score leads to an increase of 0.006 and 0.001 in the ROA, respectively but governance score has no significant findings. The total ESG score of the CSR disclosure has significant positive impact, but the firm size has significant negative impact on the ROA, which means that large firms have less ROA due to the lack of proper utilizations of the economics of the organizations to earn their income. Moreover, when taking each country's effect in the analysis separately, all countries' corporate governance practices have significant positive contributions toward increasing the financial performance, but France only has the significant negative impact of the corporate governance on the corporate financial performance. Moreover, the control variable Firm age (AGE) has a significant positive impact on the ROA. The gross domestic product has no significant relationship with ROA. The firm's size has a positive relationship with ROA.

In our results, all the corporate governance attributes including control factors are positive and significant relationship with ROE of the companies that shows the good governance in the company play a vital role in the development. The audit board committees have a positive significant relationship with ROE, which means that existence of the audit board committee leads to an increase of 23.78 in the ROE of the organization. The audit committee's independence and expertise have a positive significant relationship with ROE, indicating a rise of 1 unit in both leads to a rise of 0.001 and 0.007 in the ROE of the company. Board size and board attendance also have a significant positive relationship with the ROE. However, all the CSR disclosure attributes also have a significant positive relationship with the ROE, it means that if the organizations disclose their information related to environment and corporate social responsibility, it will lead to increase in the ROE of the companies. GDP also has a positive relationship with the ROE, it means that 1 unit increase in the GDP of the country leads to an increase of 0.001 in the ROE due to the positive change in the economic structure of the country. Moreover, for individual effect, France has significant and negative impact due to the cultural values or others. Moreover, the control variable Firm age (AGE) has a significant positive impact on the ROE. The gross domestic product has a significant positive relationship with ROE. The firm's size has a positive relationship with ROE.

Moreover, when using the EPS as the proxy for the financial performance of the organization, our results show that audit board committee, audit committee expertise and the audit committee independence have significant positive impact on the EPS of the companies, it means that 1 unit increase in these factors leads to rise in EPS by 2.921, 0.020 and 0.33, respectively. Similarly, board attendance and CSR committee existence have negative impact on EPS, indicating that these factors are the burden on the company's financial position, and board attendance creates the problem due to the large number of people disturbing the decision making of the board and wasting time and resources. The environmental and CSR disclosure, ESG total score has a significant positive relationship with EPS, which means that the disclosure of CSR disclosure reports increases the EPS by creating a good image of the organization in the mind of the investors which leads to increase in the investment within organizations. Basically, the effects can only be noted on Belgium, Spain and the UK if they are combined, but this relationship is missing if the selected countries are taken separately. The results are significant at 1%, 5% and 10% level of significance in this study. Finally, from our results we can identify that corporate governance practices have a significant impact on corporate financial performance. Moreover, firm age and firm size have significant positive impact on the ROA and ROE respectively.

4.3. Effect of the Moderator Variable

In the moderation of CSR disclosure results, the R-squared values are 0.40609, 0.5019, and 0.4813 for the dependent variables ROA, ROE, and EPS, respectively. These values indicate a significant change in the dependent variables caused by the explanatory variable of corporate governance, thus suggesting a good fit for the accuracy of the findings. The F-statistic values are also favorable in all estimated models, indicating the fitness of the estimations. Additionally, the Durbin-Watson values are within an acceptable range, close to 2.00, indicating favorable autocorrelation values for the estimated models.

In Table 7, the results of CSR disclosures, governance score, ESG score, and environmental score show a positive and significant impact at the 10% level of significance. This implies that companies with higher governance scores have greater profitability in terms of ROA. However, social scores have a negative and significant moderating impact on the relationship between corporate governance and financial performance, indicating a lack of strong implementation of social policies by the company. It is important to note that the relationship between social score of CSR and financial performance is complex and may vary depending on the specific context and industry. Some studies have found a positive relationship between social responsibility and financial performance, particularly in industries where CSR is highly valued by stakeholders.

Furthermore, companies that can effectively implement CSR initiatives and programs may be better positioned to manage risk, enhance their reputation, and attract and retain talent. It is crucial to understand that the relationship between social score of CSR and financial performance is not straightforward and may vary depending on various factors. Companies should carefully consider the potential benefits and risks of CSR initiatives and programs before implementing them, taking into account the specific context and industry in which they operate.

In the separate effects for each country, all contribute to a negative effect on company performance except for the UK. The data sample in the UK consists of the largest companies compared to other economies, primarily due to the availability of CSR disclosure data. Based on the results of this study, it appears that companies with higher governance scores tend to have greater profitability in terms of ROE. Additionally, the ESG combined score and environmental score also demonstrated a positive and significant impact on financial performance.

However, it is noteworthy that the social score has a negative moderating impact on the relationship between corporate governance and financial performance. This suggests that companies without strong social policies in place may not experience the same benefits from higher governance scores as companies that do. It is important to consider the implications of these findings for companies seeking to improve their financial performance through CSR initiatives. While focusing on improving governance and environmental practices may lead to positive financial outcomes, neglecting social policies could have a negative impact on overall performance. Therefore, companies should adopt a holistic approach to CSR that encompasses all aspects of ESG performance.

Table 7. Results of Moderation CSR disclosure between corporate governance and company performance.

	ROA		ROE		EPS	
Variable	**Coefficient**	**Prob.**	**Coefficient**	**Prob.**	**Coefficient**	**Prob.**
ABC*GOV	3.34×10^{-10}	0.0722 *	-6.86×10^{-09}	0.0781 *	-5.47×10^{-9}	0.0305 **
AC*GOV	3.48×10^{-12}	0.0787 *	6.94×10^{-11}	0.0037 ***	5.65×10^{-11}	0.0598 *
ACI*GOV	6.97×10^{-13}	0.0833 *	1.67×10^{-11}	0.0047 ***	1.31×10^{-11}	0.0021 **
BA*GOV	2.71×10^{-11}	0.0937 *	6.15×10^{-10}	0.0945 *	6.28×10^{-10}	0.0552 *
BS*GOV	3.66×10^{-12}	0.0823 *	8.05×10^{-11}	0.0985 *	5.20×10^{-11}	0.0911 *
ABC*ESG	0.012173	0.0209 **	−0.3536	0.0077 ***	0.052383	0.000 ***
AC*ESG	1.52×10^{-5}	0.0822 *	0.00143	0.0222 **	−0.00016	0.0749 *
ACI*ESG	6.97×10^{-7}	0.9943	0.004701	0.0452 **	−0.00047	0.0007 ***
BA*ESG	0.000727	0.0023 ***	−0.15976	0.0249 **	0.016558	0.1009 *
BS*ESG	4.22×10^{-10}	0.0047 ***	-3.09×10^{-8}	0.0977 *	-8.47×10^{-9}	0.0248 **
ABC*ENV	0.008299	0.0785 *	0.104272	0.0361 **	0.013393	0.0371 **
AC*ENV	9.53×10^{-06}	0.0227 **	0.002808	0.0432 **	−0.0001	0.0537 *
ACI*ENV	8.71×10^{-06}	0.0256 **	−0.00604	0.0051 ***	3.80×10^{-05}	0.0739 *
BA*ENV	0.001057	0.0095 ***	0.187015	0.0672 **	−0.00024	0.0811 *
BS*ENV	2.17×10^{-10}	0.0004 ***	2.63×10^{-8}	0.9748	5.07×10^{-9}	0.7865
BA*SC	-3.05×10^{-10}	0.0034 ***	8.40×10^{-8}	0.0933 *	6.38×10^{-14}	0.0348 **
AC*SC	-6.17×10^{-11}	0.0034 ***	-8.40×10^{-9}	0.0993 *	-1.20×10^{-13}	0.9128
BS*SC	-4.53×10^{-10}	0.0534 **	-8.40×10^{-9}	0.0913 *	5.07×10^{-9}	0.0248 **
BELGIUM	0.102701	0.0603 **	3.66599	0.0224 **	1.498601	0.000 ***
FRANCE	−0.037294	0.0249 **	1.16464	0.0205 **	0.198881	0.4476
GERMANY	−0.041361	0.0242 **	1.08954	0.0374 **	1.766636	0.000 ***
ITALY	1.794918	0.0001 ***	41.22528	0.003 ***	−0.05264	0.0655 *
SPAIN	−0.041361	0.0190 **	4.78801	0.7463	0.198881	0.0476 **
UK	0.095807	0.853	1.27528	0.009 ***	1.224233	0.0002 ***
R-squared	0.3391		0.4512		0.0231	
Adjusted R-squared	0.3518		0.4874		0.0237	
Prob(F-statistic)	0.0000		0.0000		0.0000	
Durbin-Watson stat	2.0912		2.1592		2.1741	

Note. ***, ** and * represents significant at 1%, 5% and 10% level of significance.

Similar to the previous findings, earnings per share (EPS) aligns with other measures of financial performance for the companies. In conclusion, the disclosure scores of CSR, including environmental, social, governance, and ESG combined, have a moderating effect on the relationship between corporate governance and financial performance in various economies. Moreover, the impact of each economy differs due to cultural changes and other social norms within the country.

5. Discussion

This research study was designed to examine the effect of corporate governance on the corporate financial performance via the CSR disclosures in the 625 listed companies belonging to six different economies of the OECD region for the time frame of 10 years (2012–2021). We used different proxies for measuring corporate governance, whereas, to measure the corporate financial performance we used the three proxies (ROA, ROE and EPS). Furthermore, we proposed four proxies for measuring the CSR disclosure (ESG, Environment, Social and Governance score). We further conducted regression analysis to explore the relationship between corporate governance and corporate financial performance. The results show that the audit board committee (ABC) does not have a significant impact on corporate performance, as the accepted criteria of probability value were not followed, and the null hypothesis was accepted. However, the independence of the audit committee has a significant positive impact on performance and our findings are similar to the previous findings of [72]. Additionally, all other attributes of corporate governance have a significant and positive impact, indicating that good governance can enhance financial performance. When considering the effect of different countries, it appears that only

France has a significant negative effect of corporate governance on company performance, while all other OECD economies show a positive effect that is consistent with the composite effect observed in the overall analysis. It is important to consider the implications of these findings for companies operating in different countries and seeking to improve their corporate governance practices. While good governance is generally associated with improved financial performance, it is important to take into account the specific country's context and potential variations in the impact of different governance practices [73]. In this way our findings are supported by the previous literature suggesting that good corporate governance can have a positive impact on corporate financial performance [74]. Some of the key attributes of corporate governance that have been found to be associated with improved performance include board independence, in this way our findings are consistent with the previous findings [75] that concluded that companies with independent boards tend to have better financial performance than those with less independent boards because independent directors are more likely to provide objective oversight and help to reduce conflicts of interest. Overall, our findings are in line with previous literature that suggested that good corporate governance practices can play an important role in improving corporate financial performance and companies that prioritize these practices are likely to be more successful over the long term [76]. In our results, CSR disclosure has a significant moderating impact between corporate governance and financial performance, in this way our findings are in line with [77] that investigated companies with high levels of CSR disclosure performance and disclosure had higher stock returns than those with low levels. The findings of this study robustness the existing results of the literature [78] that find the no moderating relationship of CSR disclosure. Moreover, we can conclude that the relationship between the governance score of CSR disclosure and financial performance is complex and may vary depending on the specific context and industry.

Moreover, the motives behind the research are based on some grounds and one of them is that the corporate social responsibility disclosures can have several benefits for companies [79] and CSR disclosure disclosures can help to enhance a company's reputation and brand image. When companies disclose information about their social and environmental practices, it can signal to stakeholders that the company is committed to responsible business practices and can help to build trust and credibility. CSR disclosure disclosures can also improve stakeholder engagement [80]. When companies provide information about their social and environmental practices, it can help stakeholders to better understand the company's impact on society and the environment and can provide a basis for dialogue and engagement. CSR disclosures can help companies to identify and mitigate social and environmental risks. By disclosing information about their practices, companies can identify areas of potential risk and take steps to address them, reducing the likelihood of negative impacts on the environment or society [81].

6. Conclusions

This study aims to investigate the nature and intensity of changes in corporate financial performance resulting from corporate social responsibility (CSR) disclosures and their relationship with corporate governance in non-financial companies within the Organization for Economic Cooperation and Development (OECD) economies. It is crucial for researchers to continue exploring the relationship between CSR and economic value creation while considering the various factors that can impact this relationship. Our study contributes to existing literature by suggesting that while social factors of CSR can enhance economic value, their impact may vary depending on the specific economic setup of an economy. It is important to take into account the cultural, social, and economic factors that can influence the relationship between CSR and economic value creation in different contexts. By emphasizing the significance of considering country-specific factors when examining the impact of CSR on economic value creation, this study offers valuable insights for policymakers, managers, and other stakeholders interested in promoting sustainable economic growth through CSR.

Implementing the findings of a corporate governance and CSR study can involve several practical steps for companies. First, companies can enhance their corporate governance practices by ensuring board members' independence, appropriate structuring of executive compensation, and protection of shareholder rights. Additionally, companies may consider adopting best practices for board composition and disclosure as outlined by industry associations or regulatory bodies. Developing a comprehensive CSR strategy that encompasses social, environmental, and governance aspects aligned with the company's business objectives and incorporating input from stakeholders, including employees, customers, and communities, is also crucial. Monitoring and measuring performance against CSR and corporate governance goals through key performance indicators such as carbon emissions, diversity metrics, and employee satisfaction is recommended.

Furthermore, engaging with stakeholders on CSR and corporate governance initiatives by seeking input during strategy development, providing regular updates on performance, and addressing stakeholder feedback and concerns is essential. Reporting on CSR and corporate governance performance to stakeholders, including investors, regulators, and the public, through annual sustainability reports or other disclosures that ensure transparency regarding the company's progress and challenges in these areas is recommended. Finally, implementing the findings of a corporate governance and CSR study requires a long-term commitment to continuous improvement and engagement with stakeholders. Companies that prioritize these efforts are likely to be better positioned to create long-term value for shareholders and other stakeholders. The findings of the control variables show that the firm age and the firm size has a significant positive relationship with the return on asset, return on equity and earnings per share of the organizations. It indicated that when the firms go to an age such as experience that they have techniques of handling the business problems and weaknesses easily which leads to rise in the profitability with the utilizations of the economic resources. In this way our findings are similar with the previous findings of [62] that also find similar results. Moreover, gross domestic product has a significant negative impact on the return on equity, indicating that during periods of economic downturn or low GDP growth, consumer spending tends to decline. This reduction in consumer demand affects businesses across various sectors, leading to lower sales and revenues for companies. As a result, firms may struggle to generate sufficient profits to maintain or improve their return on equity. However, a negative GDP impact on ROE can be observed in industries that are highly sensitive to economic cycles, such as manufacturing, construction, and retail. These industries experience significant fluctuations in demand and profitability based on overall economic conditions. Therefore, a downturn in GDP can directly translate into lower returns on equity for firms operating in these sectors.

This study gets much attention due to the wide range of benefits to the investors, policy makers, and the legislators. The corporate governance attributes such as the size of the board, board attendance, audit committee has significant positive impact on the corporate financial performance. The investor could make the investment decisions by using the findings and make the investment in the respected economies where all the codes of the corporate governance are being followed and the investors can attain the maximum return on their investment. This study's findings are important due to the portfolio managers investing in the portfolio of the respected countries where the code of the corporate governance is favorable for the organization's sustainability. Moreover, from CSR disclosures, the transparency of the economy increases that makes the corporate governance more effective in defining the organization performance. Investors and the policy maker can analyze the disclosure policy of the corporate social responsibility and make the investment in the respected economy for attaining required return.

6.1. Contribution

This empirical study makes a valuable contribution both theoretically and practically. The findings align with the agency theory and stakeholder theory, indicating that effective corporate governance practices improve financial performance by resolving conflicts between management and shareholders. These results are consistent with established theories and are supported by the study of listed companies in six countries belonging to the OECD region. However, our findings contradict one aspect of stakeholder theory, which suggests a potential conflict with the primary goal of maximizing profitability. In conclusion, this study highlights the importance of both corporate governance practices and CSR disclosure in enhancing corporate financial performance and creating long-term value for organizations [82].

Furthermore, this study contributes to the existing literature by providing fresh evidence on corporate governance practices, CSR disclosure policies, and corporate financial performance within the OECD economies. It adds to the empirical literature on the relationship between corporate governance practices, CSR policies, and corporate financial performance specifically in the context of the OECD economies. Each country in the region has its own unique culture, social values, and political settings that influence the business environment and the condition of entities. By considering these country-specific factors, this study expands our knowledge base. It is important to note that the corporate governance mechanisms and codes vary across the OECD economies due to regulatory frameworks. The quality of corporate governance and CSR codes plays a crucial role in maintaining regulatory standards and fostering organizational development.

6.2. Policy Implications

The study examining the impact of corporate governance on financial performance, taking into account the moderating role of CSR disclosures, holds several policy implications for corporations and policymakers. Corporations should give utmost priority to implementing sound corporate governance practices, recognizing their significant influence on financial performance. This entails establishing effective board structures, embracing transparent and ethical business practices, and implementing robust risk management policies. Policymakers, on the other hand, should actively encourage corporations to adopt and disclose CSR initiatives, as these initiatives can serve as positive moderating factors in the relationship between corporate governance and financial performance. This can be achieved through the implementation of regulations or the provision of incentives that incentivize corporations to prioritize corporate social responsibility and sustainability initiatives.

Investors and stakeholders should also consider both corporate governance and CSR disclosures when making informed investment decisions. Companies that prioritize and effectively implement both governance and corporate social responsibility practices tend to exhibit superior financial performance and are better equipped to mitigate risks.

The study underscores the paramount importance of transparency and accountability in corporate governance and CSR disclosures. Policymakers should take measures to promote regulations that mandate corporations to disclose their governance practices and CSR initiatives to stakeholders. Moreover, the study emphasizes the need for corporations to adopt an integrated approach to governance and CSR, recognizing that they are interdependent rather than distinct functions. Companies that successfully integrate CSR initiatives into their governance practices tend to demonstrate improved financial performance. However, the study highlights that both sound corporate governance practices and robust CSR initiatives are crucial for financial performance, and policymakers should strive to introduce regulations and incentives that encourage companies to prioritize and embrace both aspects.

6.3. Limitations and Suggestions

The research is an ongoing process, and not all studies cover all aspects of the area of interest. Therefore, this study has some limitations and provides a roadmap for future research. The sample size in this study is limited to 625 companies. Future research can be conducted to increase the number of companies by accessing additional data and selecting companies from different economies belonging to various regions. Furthermore, the CSR disclosure scores in emerging economies may differ from those in the OECD economies. Therefore, future research should focus on emerging economies and compare their corporate governance practices with those of developed economies. While this study focuses on non-financial companies, future research should include data from financial companies. Additionally, further research should explore the direct relationship between CSR disclosure and corporate financial performance.

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