Is CSR Reporting Always Favorable?

A Macroeconomic Analysis

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Purpose: In addition to their profit maximization objective, firms are currently challenged to meet environmental and social demands. The purpose of this paper is to test whether a firm's macroeconomic environment moderates the efficiency of social and environmental disclosures.

Design/methodology/approach: The study uses the Bloomberg database to collect data on the FTSE 350 listed firms for the years 2007-2012. The sample is split into crisis and post-crisis periods to study the investor reaction to social disclosures during different economic conditions

Findings: Results suggest that the effect of CSR disclosure on future firm performance depends on the surrounding macroeconomic environment. During tight economic situations, market participants become more self-centered and penalize firms diverting scarce resources towards non-profitable societal engagements. Moreover, findings indicate that firms with a high participation of outside directors and low accounting profit experience negative future performance when engaging in social disclosures at times of crisis.

Practical implications: Corporate governance is a system of interconnected practices that is affected by various firm and environmental characteristics. Our results are in line with the ideology that, depending on macroeconomic changes and specific firm attributes, CSR reporting may have dissimilar implications across different situations and conditions. Social disclosures and engagements are not always favorable and should only be utilized in non-recessionary periods by firms possessing certain characteristics in terms of their board composition and accounting profitability.

Originality/value: This study identifies key moderating variables which present additional obstacles for firms engaging in CSR during adverse economic conditions. Outsiders' inferiority in terms of lacking firm-specific expertise along with the firm's poor accounting performance present additional financial constraints for firms engaging in CSR activities during economic downturns.

Keywords: Financial crisis, Firm performance, Outside directors, Social and environmental disclosure.

Introduction

Companies are facing increasing pressure from investors and governments to meet the expectations of their relative societies. Barnett and Salomon (2006) argue that investors do not only focus on monitoring a firm's financial performance but they also actively monitor the manner in which a company achieves its goals. Therefore, in setting strategies to maximize shareholders' wealth, boards tend to increase firms' environmental and social activities and reporting to appease stakeholders (Jizi, 2017). Consequently, firms voluntarily disclose information on their engagement in environmental, social, and governance activities. However, for shareholders as well as managers, the question remains: Will good ethics drive good business performance?

Supporters of CSR embrace the good citizenship image of engaging in social and environmental activities and propose that firms should be "doing well by doing good" (Freeman, 1984). Moreover, engaging in CSR activities provides a positive signal regarding a firm's future cash flows and financial strength leading to a positive impact on the firm's well-being (Tamayo and Servaes, 2012). On the other hand, Friedman (1970) suggests that a firm's sole social responsibility is to increase shareholder wealth. Managers are appointed to act on behalf of shareholders and, thus, should always have shareholder wealth as their top priority (Jensen, 2002).

Research addressing the relationship between social engagements and firm performance generally does not take into consideration macroeconomic changes and their impact on the behavior of both firms and investors. Serwer (2009) describes the first decade of the 2000's millennium as the "Decade from Hell" due to the catastrophic financial crisis that took place between 2007 and 2009.[1] Barnor (2009) argues that the 2007-2009 period is the first recession where CSR is a mainstream business practice, which opens up opportunities to study the relationship between the two. Our research investigates the effect of the macroeconomic environment on the association between social disclosures and shareholders' wealth. Specifically, we focus on firms' future performance since CSR activities and their expected benefits are long-term in nature (De Villiers et al., 2011; Veronica et al., 2010).

A financial crisis weakens a firm's financial position and, thus, tightens its already scarce resources. Accordingly, firms may face higher levels of scrutiny from their shareholders regarding the efficiency of their resource allocation and spending on various company projects. During tight economic situations, people may become more self-centered as they are increasingly concerned about losing their job and life savings and, thus, would rather have a firm focus on value enhancing activities rather than spending limited resources on engaging and disclosing on social and environmental activities. Therefore, it is interesting to investigate the differences in investors' perceptions, if any, towards social disclosures during normal and adverse macroeconomic conditions. Will the presence of a crisis trigger investors to think more about their own well-being rather than the welfare of the society?

Findings suggest that firms do not alter their CSR reporting strategies in response to macroeconomic changes. That is, financial limitations do not induce firms to direct resources away from societal activities towards more profitable projects. Furthermore, during 2007-2009, our preliminary tests suggest a negative relationship between social disclosure and future firm performance. However, further examination indicates that this negative relationship stands only for firms with high outsiders' participation on their boards. Outside directors' participation on corporate boards increases information asymmetry which is likely to be amplified during a recession. In other words, outsiders may lack the firm-specific information that is necessary to direct a company's scarce resources efficiently throughout a crisis.

In addition to the limitations presented by the crisis and outsiders participation, we now examine whether firms subject to yet an additional constraint, low accounting performance, are penalized more for their CSR disclosure. Accordingly, we split our sample into four subgroups based on both the percentage of outside directors and the level of accounting performance. Results indicate that, during a financial crisis, societal reporting has a converse effect on shareholders' welfare for firms with high percentage of outsiders and poor accounting performance. Low accounting performance presents an additional impediment for firms engaging in CSR, as market participants may view societal spending during crisis as unnecessary expense. Such firms are penalized more than others for spending their even more scarce resources on social disclosures and, thus, investors' perception of CSR reporting is more consistent with Milton Friedman's (1970) assessment.

Consistent with a "doing well by doing good" view, during normal economic conditions, CSR reporting promotes the firm's good citizenship image and has a favorable impact on shareholders' well-being for firms with high outsiders' participation and above average accounting performance. Firms operating in normal economic conditions and achieving above average accounting performance are less financially constrained and, thus, can better explain and promote their societal engagements. Consequently, the heightened monitoring efficacy achieved through the high participation of outside directors on corporate boards enhances the legitimacy and signaling power of social disclosure. In such a case, the monitoring benefits of outsiders outweigh their advising deficiencies.

The rest of the paper is organized as follows: section two reviews the literature and develops the hypotheses, section three presents the data and descriptive statistics, section four reports our empirical findings, and section five concludes.

Literature Review and Hypothesis Development

The debate on CSR engagements has been initiated by the works of Friedman (1970) and Freeman (1984). Friedman (1970) suggests that a firm's sole responsibility is to maximize shareholder wealth. Supporters of this theory believe that spending time and money on social activities is a waste of valuable firm resources. Jensen (2002) suggests that the stakeholder theory challenges the concept of maximizing shareholder wealth, which is the main objective of most modern corporations. The author adds that the main issue with the stakeholder theory is that it does not give managers a clear objective to aim for resulting in conflicts and inefficiencies. Friedman's (1970) argument is based on the fact that managers are employed on behalf of the shareholders in order to act in the shareholders' best interest. Thus, Heath and Norman (2004) claim that the stakeholder theory intensifies agency problems between managers and shareholders. Moreover, opponents of CSR claim that business managers are only equipped to handle operations and finance, and are not experts in addressing social problems (Davis, 1973). Additionally, management consideration to CSR issues in their strategies and daily operations dilutes the primary objective of a business and opens new endeavors.

On the other hand, Freeman (1984) was the first researcher to provide a complete framework for the stakeholder theory. In addition to shareholders, other interest groups such as customers, employees, suppliers and communities share a stake in the corporation and they expect to receive personal benefits in return. The author argues that a successful manager should be able to see a common path where the interests of all stakeholders go through without neglecting any group of stakeholders. Gössling and Vocht (2007) define CSR as the commitment of firms to be held responsible for their environmental and social activities that goes beyond financial activities.

Therefore, in regular economic conditions, where shareholders' interest in maximizing profits is met, firms are likely to encourage CSR activities to improve social well-being and manage stakeholder relations However, if firms are facing financial pressure, the scarcity of resources and the increased pressure of shareholders to safeguard their wealth might limit a firm's ability to engage and report on CSR activities. In such a case, investors are expected to think traditionally and to be inclined to Friedman (1970) argument that "the one and only one social responsibility of business – to increase its profit". Therefore, we hypothesize the following:

H1: In crisis period, firms report less on their environmental and social engagements.

CSR and firm performance

With all the increased attention on CSR and its importance to the society, Brown (1998, p. 271) suggests that for some investors the fundamental question remains "Social performance may be good for society, but does it pay?" Although several researchers suggest a positive association between social and financial performance, results in the literature have not been conclusive (Murray et al., 2006).

A stream of literature empirically relates CSR reporting to better financial performance (El Ghoul et al., 2011), lower risk levels (Salama et al., 2011), and enhanced reputation (Aguilera et al., 2006). Even in the cases where shares are purchased at a premium, a firm's reputation for corporate social performance positively influence stock prices (Brown 1998). On the other hand, Makni et al. (2009) find no causal relationship between CSR aggregated scores and a firms' financial performance. They also highlight a negative relationship between environmental engagement and firm performance. The absence of a relationship between CSR disclosure and firm performance is also documented by Murray et al. (2006) who examine a sample of U.K. firms between 1988 and 1997. They argue that stock participants think traditionally when building investment decisions and firm CSR profile in not considered in their equity valuation. Moreover, Hassel et al. (2005) find that environmental investments of listed Swedish firms are inversely related to a firm's market value. The authors suggest that environmental investments signify increased costs leading to lower earnings without having a positive effect on a firm's performance.

Carroll and Shabana (2010) argue that failing to account for situational contingencies and mediating factors led to the absence of a conclusive explanation to CSR-firm performance relationship. They encourage further research to understand these factors and their influence on CSR-firm performance link. In financial distress, market participants are expected to be more sensitive to financial decisions and fund allocation. The main obligation for management is fulfilling the economic responsibility of offering goods and services demanded by the society at a profit (Carroll, 1979). Solving social issues in not the responsibility of business units, but legislations and governments (Friedman, 1970). Therefore, reporting on firm's social activities might be perceived as reporting on activities motivated by self-interest which increases skepticism (Mohr et al., 2001). The concern of misusing a company's scarce resources during crisis and the lack of reliability in the disclosed CSR information are likely to question CSR validity and, thus, CSR disclosure may be perceived as window dressing (Cormier et al., 2011). Therefore, it is expected that, during a financial crisis, investors are likely to view social involvements as a waste of firms' scares resources and consequently disclosing on them negatively influences firm performance.

H2: During crisis, disclosing higher level of ESG disclosure has a negative effect on future firm performance.

Non-executive directors and firm performance

Scholars highlight the role of non-executive directors in promoting CSR activities and disclosing on them (Jamali et al., 2008). In line with agency theory, boards with a higher percentage of non-executive directors demonstrate a better ability of directing a firm's efforts towards long-term value maximizing activities with a higher degree of transparency (Jizi et al., 2014). In doing so non-executive directors aim at protecting their reputation through improving transparency (Li et al., 2008). An additional motive for non-executive directors for not focusing on short-term performance is their remuneration structure. The compensation of non-executive directors is not related to short-term financial performance; consequently, they are more inclined to engage in long-term social projects contrary to executive directors (Johnson and Greening, 1999) irrespective of the economic conditions. Executive directors focus more on short-term financial performance measures relative to non-executives (Ibrahim et al., 2003), which might be needed particularly in a crisis period to overcome the crisis spillover.

Previous research suggests that non-executive directors have limited industry knowledge and firm-specific information (Linck et al., 2008). This weakness elevates the information asymmetry cost and might impact the quality of decision making. The increased information asymmetry might outweigh the advantage of enhanced monitoring performed by the non-executive directors on the board. In that regard, Bhagat and Bolton (2008) report a negative association between board independence and firm value. Dah et al. (2014) point on the unexpected consequences of mandating governance regulations concerning independence level. Similarly, Erkens et al. (2012) find that firms with higher levels of board independence performed worse than firms with lower levels of board independence during the financial crisis. The authors suggest that, during the crisis, there was a positive relationship between the percentage of independent directors and raising equity capital, which caused to a wealth transfer from current shareholders to debtholders. Therefore, having a higher proportion of non-executive directors on a company's board might not be favorable in all situations, especially during times of crisis when information asymmetry is amplified.

Given the lack of firm-specific information and industry knowledge, non-executive directors are expected during crisis to keep on promoting high levels of CSR engagement and reporting to maintain their relationships with powerful public groups. Second hypothesis suggests that reporting on CSR during crisis may be perceived by stock participants as reporting on additional expenses, which could be cut or channeled to positive NPV investments to improve firms' profitability. Hence, the negative effect of CSR on short-term future performance during crisis is expected to be more pronounced for firms having a higher proportion of non-executive directors.

H3: During crisis, CSR negatively influences firm performance for firms having higher proportion of non-executive directors

However, a firm's profitability level might moderate this relationship. In line with agency theory, a relatively higher level of profitability assists firms to manage agency problems as it enhances the investor's trust in the firm's strategic decisions and reflects the firm's ability to grow (Kochhar, 1996). Additionally, maintaining relatively high profitability facilitates dividend distribution, which helps in mitigating moral hazard (Fama and French, 2002). Within the same context, Berger and di Patti (2006) argue that firms maintaining high profitability are less likely to be impacted by crisis, as their profit efficiency improves expected return and reduces bankruptcy cost. In contrast, low profitable firms lack resistance to financial stress and are more sensitive to market shocks

(Baek et al., 2004). Similar to a high level of outside directors, a low level of profitability presents an additional obstacle for firms engaging in social activities. Hence, the news of higher CSR involvement could be considered by investors as bad news, particularly for firms with low profitability.

A high level of profitability facilitates the engagement in and reporting on a firm's social activities (Jizi, 2017). It also signals the balance between a firm's social involvement and maintaining a high return on assets (Li et al., 2008). Consequently, wider CSR disclosure, promoted by the presence of higher proportion of non-executive directors', in high profitable firms is expected to positively influence performance. In contrast, wider CSR disclosure in firms with a low profitability is likely to be considered as a waste of the firm's scarce resources and poor decision quality in terms of funds allocation. Therefore, such firms are expected to experience negative returns when disclosing their engagement in CSR activities. Hence we hypothesize the following:

H4: During crisis, the wider the CSR disclosure score the lower the firm performance of firms having a low profitability and a high level of non-executive directors

Data and Descriptive Statistics

The study utilizes the Bloomberg database to identify and collect data on the FTSE 350 listed firms for the years 2007-2012 inclusive. Bloomberg measures the level of firms' environmental, social, and governance (ESG) disclosure communicated through their annual reports. The developed weighted average ESG score ranges from 0 to 100 based on the availability of disclosed information on data points collected by Bloomberg.

Data on board composition and firms' attributes are also collected from Bloomberg. The crisis variable is a dummy variable that takes a value of 1 if the observation is in the crisis period and zero if the observation belongs to the period after the financial crisis. Prior literature refers to years 2007, 2008 and 2009 as the crisis period (Grove et al., 2011). The University of Exeter Business School's website is used to obtain data on market risk premium and daily stock prices to compute firms' performance and risk. Abnormal returns based on Fama and French (1993) 3-factor model (AR FF) are computed to proxy for firm performance. Therefore, the following model is employed to compute the abnormal return for a given firm i in a certain year t:

$$\mathbf{r_{id} - r_{fd} = \alpha_i + \beta(r_{Md} - r_{fd}) + sSMB_d + hHML_d + \varepsilon_{id}} \quad \mathbf{(1)}$$

where the intercept (α_i) is the company's abnormal return (**AR FF**), r_{id} is firm i's return in day d for a given year. r_{fd} denotes the daily T-bill rate. r_{Md}- r_{fd}, SMB_d, and HML_d represent the market risk premium, size factor, and book-to-market factor respectively. Data on the aforementioned daily factors, devised following Gregory (2013), is acquired through the University of Exeter Business School's website.[2]

[Table 1 about here]

Consistent with previous literature, we also include a set of control variables to control for their effect on a firm's future performance (El Ghoul et al., 2011; Makni et al., 2009). Table 2 presents descriptive statistics for the variables used in this study. The sample is split into two groups based on whether the observation lies in the crisis years (2007-2009) or in the post-crisis period (2010-2012). Comparing ESG disclosure in the crisis (30.56) and the post-crisis (31.18) periods, we observe that firms do not significantly alter their social disclosures based on the economic conditions. Table 2 also highlights that the percentage of outside directors is not considerably affected by the economic conditions (59.84 % in the crisis period compared to 61.21 % in the post-crisis period).

[Table 2 about here]

Figure 1 provides a descriptive representation of the relationship between ESG disclosure and future firm performance during different economic conditions. Consistent with our expectations, the level of disclosure is inversely related to future firm performance during crisis. On the other hand, during normal economic conditions, the level of disclosure seems to have a slightly positive impact on future firm performance. This indicates that in times of crisis, investors prioritize spending the firm's scarce resources on activities that maximize shareholder wealth and become less concerned with social activities.

[Figure 1 about here]

Figures 2 and 3 provide descriptive figures for the disclosure-performance relationship based on the percentage of outsiders' presence on corporate boards. Figure 2 shows that, for firms with low levels of board outsiders, the level of social disclosure does not seem to have a significant effect on firm performance. The result is consistent during both the crisis and post-crisis period.

On the other hand, figure 3 suggests that, for firms with high levels of board outsiders, the macroeconomic conditions conversely affect the disclosure-performance relationship. For such firms, increasing social disclosures during the financial crisis seems to have a negative effect on firm performance. However, this relationship turns slightly positive during the post-crisis period. The next section presents regression analysis to test the significance of the findings of figures one, two and three. Our sample is divided into ten industries based on Bloomberg's FTSE 350 industry classifications. Thus, we include industry dummies in our regression analysis to account for industry-specific characteristics. We also apply robust standard errors to account for possible heteroskedasticity following White (1980).

[Figure 2 about here]

[Figure 3 about here]

Results discussion

We begin our regression analysis by examining whether firms deviate from their normal societal reporting in recessionary periods. In Table 3, a regression model is employed in which social disclosure is regressed on the crisis dummy variable and various control variables. The coefficient estimate of the crisis dummy variable is not significant. Hence, the null hypothesis that firms reduce their societal engagements during recessionary periods to divert resources towards profit maximizing projects is rejected.

We also focus in Table 3 on the outsiders-disclosure relationship to test whether the presence of outside directors enhances a firm's social reporting. Results indicate a positive relationship between the percentage of outside directors and a firm's social disclosures. This is consistent with Ibrahim et al. (2003) who suggest that the presence of non-executive directors on a company's board triggers a firm to engage in long-term CSR activities. Results also indicate that the presence of women on a company's board of directors is positively related to social disclosure. This is in line with Fernandez-Feijoo et al. (2014) who find that countries with more gender equality have a higher level of women representation on their boards leading to higher levels of CSR reporting. Smaller boards are also found to have a positive impact on a firm's disclosure. Directors on smaller boards have a higher personal responsibility towards monitoring a firm's reports and their related disclosures (Ahmed et al., 2006). Firm profitability is also shown to be positively related to CSR disclosures. Profitable firms have larger access to resources and are expected to engage in social activities as a sign of giving back to their societies (Jizi et al., 2014). On the other hand, firms with low levels of profitability are more constrained and do not have the luxury of engaging freely in social activities due to facing heightened demands from their creditors and shareholders.

[Table 3 about here]

Financial Crisis and ESG Disclosures

The presence of a financial crisis may change market participants' perceptions regarding a firm's actions and decisions. A Firm's social engagement and spending may be regarded as wasteful by its shareholders during economic downturns. Table 4 examines the effect of adverse macroeconomic conditions on the association between CSR reporting and future firm performance. The firm's future performance is regressed on social disclosures, crisis dummy variable, interaction variable between social disclosures and crisis dummy variable, and several control variables. Future firm performance is the abnormal return, in years t+1 and t+2, calculated following the Fama-French (1993) 3-factor model. The first column uses year t+1 abnormal returns as the dependent variable in our regressions while the second column uses year t+2 abnormal returns[3].

In column (1), the coefficient estimate on **Crisis** is positive and significant. This suggests that, during the crisis, firms with no CSR reporting experience an improvement in next year's performance.[4] The non-significant coefficient estimate of **ESG Disc** implies that CSR reporting doesn't impact a firm's future performance during normal economic conditions. The **Crisis - ESG Disc** interaction variable is negative and significant. Thus, an increase in social disclosures has a negative effect on future firm performance during economic downturns as opposed to normal economic periods. We obtain similar results when using t+2 abnormal returns to measure future performance in column (2).

Our findings propose that adverse macroeconomic conditions have a converse effect on market participants' perception of firms' societal engagements. Economic downturns amplify both shareholders and firms' financial constraints. As financial conditions tighten individuals tend to become more selfish and prioritize individual benefits over social and environmental benefits. Accordingly, shareholders increase their scrutiny of firms' financial decisions and demand a more efficient and effective allocation of resources towards profit maximizing projects. Market participants seem to penalize firms diverting scarce resources towards non-profitable social activities during a financial crisis. Hence, when facing adverse macroeconomic conditions, investors' perception of social disclosures is in conformance with Milton Friedman's assessment rather than a "doing well by doing good" view. Our results are consistent with Kruger (2015) who finds a negative market reaction to the announcement of positive CSR news for firms suffering from agency problems.

[Table 4 about here]

Board Outsiders and ESG disclosures

The two main roles of a board of directors are monitoring and advising. The presence of outsiders on corporate boards is expected to provide firms with enhanced monitoring. However, monitoring is costly. The disadvantages of having outside board members are related to information asymmetry, coordination costs, and free riding problems. During a financial crisis, due to their inferiority with regards to firm specific information, outsiders' participation on corporate boards may present an additional challenge to firms. Moreover, at times of crisis, board members, as well as all firm employees, need to exert additional effort in order for the firm to cope with the additional financial constraints and limitations. Therefore, the converse effect of free riding on board efficiency and effectiveness may be more pronounced during economic downturns. Insiders, on the other hand, possess superior information and experience regarding firm specific attributes and, thus, are expected to be better decision makers. Consequently, we examine, during economic downturns, whether the advantages of having outsiders on corporate boards outweigh their disadvantages or vice versa.

We have already shown in Table 3 that an increase in the percentage of outside directors increases social disclosures. But is the positive relation between outsiders' presence and CSR reporting always favorable for firms? We now investigate whether the participation of outside directors impacts the CSR disclosure-firm performance relationship under dissimilar economic conditions. In table 5, we repeat the same regressions employed in Table 4 but we also divide firms into two sub-groups: (i) low outsiders firms (percentage of board outsiders is below average[5]); and (ii) high outsiders firms (percentage of board outsiders is above average). Column (1) shows that, for low outsiders firms, the coefficient estimates for **Crisis**, **ESG Disc,** and the **Crisis - ESG Disc** interaction term are all not significant. As for high outsiders firms, column (2) demonstrates a positively significant coefficient estimate for the crisis dummy variable. During bad economic conditions, firms with high levels of outsiders' participation and no CSR reporting witness an increase in the following year's abnormal returns. The coefficient estimate for **ESG Disc** is not significant. The negatively significant interaction variable implies that, for high outsiders firms, during adverse macroeconomic conditions, social reporting has a negative effect on year t+1 performance. Analogous findings are attained in columns (3) and (4) when employing the t+2 abnormal performance as the dependent variable. Table 5 proposes that the results highlighted in Table 4 are mainly driven by firms with a high participation of outside board members. Accordingly, whether it is free riding or information asymmetry, the disadvantages of outsiders in terms of their effect on the social disclosure – firm future performance association seem amplified when facing adverse financial conditions.

Shareholders seem to renounce societal activities, at times of crisis, more in firms with high outside directors' participation since these firms seem to lack the necessary expertise to alter their behavior, decisions, and resources allocation to cope with the challenges presented by the tightened financial conditions. In other words, the possibility of outsiders lacking the necessary firm specific experience to make crucial financial decisions may be especially detrimental when firms are already facing financial and economic constraints.

[Table 5 about here]

Accounting Performance and ESG Disclosures

Firms with poor accounting performance are expected to be more financially constrained than those achieving adequate accounting performance. The poor accounting performance deems the firm's already limited resources more scarce. These firms experience a heightened need to effectively and efficiently allocate their resources towards value-enhancing investments to improve performance and, thus, appease shareholders. Therefore, in addition to a financial crisis and boards dominated by, less firm-experienced, outsiders, poor accounting performance may present an additional obstacle facing firms.

The previous section suggests that, during adverse financial conditions, firms with high outsiders' participation on their corporate boards experience a negative association between social disclosures and firm future performance. We now employ a similar analysis in table 6 but we further divide firms into low and high accounting performance. Low (high) accounting performance firms are those firms with below (above) average ROA. That is, we now run regressions for the following four sub-groups: (i) low outsiders and low ROA firms; (ii) low outsiders and high ROA firms; (iii) high outsiders and low ROA firms; and (iv) high outsiders and high ROA firms.

Table 6 columns (1) and (2) demonstrate that for low outsiders firms, regardless whether ROA is low or high, CSR reporting has no significant impact on the firm's future performance during non-recessionary periods. Moreover, the interaction variable suggests that the crisis has no significant effect on the ESG disc.–future performance relationship. Thus, firms with a low participation of directors lacking firm specific knowledge do not experience an adverse effect of CSR reporting on shareholders' wealth. Even if a firm's current accounting performance is low, market participants may view the presence of a high percentage of insiders (low percentage of outsiders) as a positive signal that resources are allocated efficiently towards enhancing the firm's well-being. In such a case, investors will relate the poor accounting performance to the presence of a crisis rather than blaming it on the poor allocation of resources by outside directors. In other words, CSR disclosure is not viewed as an inexperienced and inappropriate allocation of resources in low outsiders' firms.

As for firms with high outsiders' participation and low ROA, column (3) shows that the crisis dummy variable is positive and significant highlighting that, during the crisis, firms with no social disclosures experience positive future performance. The association between social disclosure and future performance is not significant during normal economic conditions. The coefficient estimate on the interaction variable is negative and significant proposing that, relative to the non-crisis period, social disclosures have a converse effect on future performance during a financial crisis. Accordingly, the financial limitations, presented by the crisis and generating low accounting performance, seem to be specifically detrimental to CSR reporting when corporate boards are dominated by board members with limited firm specific expertise. In such a case, consistent with Milton Friedman's proposition, market participants deem the engagement in societal activities as a non-necessary wasteful utilization of the firm's resources.

Column (4) suggests that, for high outsiders and high ROA firms, the crisis dummy variable is positively correlated with future firm performance. The coefficient estimate on social disclosures is positively associated with future performance. During normal economic conditions, for firms with above average accounting performance and high outsiders' participation, CSR reporting is positively associated with future firm performance. Firms achieving above average accounting performance and operating in a favorable macroeconomic environment seem to encourage social welfare more and, thus, favor firms' engagement in social activities. For this sub-group of firms, societal engagements promoted by outsiders' dominated boards sends a positive signal regarding the firm's good citizenship image and financial strength and, thus, has a favorable impact on the firm's welfare. This is in conformance with a "Doing well by doing good" hypothesis.

[Table 6 about here]

Conclusion

Changes in the world economy have increased a firm's responsibilities beyond maximizing shareholder wealth, offering more attention to corporate social responsibilities. In recent years, research into firms' engagement in social, environmental, and governance activities examines their determinants and consequences on a firm's reputation, risk, and performance. However, results remain equivocal and lack homogeneity. Moreover, despite the growing literature on ESG disclosure-firm performance nexus, the literature on moderating factors and investor reaction to a firm's social practice during dissimilar economic conditions remains lacking.

We propose that a firm's macroeconomic environment moderates the efficiency of social disclosure. In the presence of a financial crisis, environmental and social disclosures have a negative effect on a firm's future performance. We also demonstrate that a high level of board outsiders and a low accounting profit present additional obstacles to firms engaging with CSR activities during recessions. Our findings indicate that firms with high outsider directors and low accounting profit experience negative returns when engaging with social disclosures during times of crisis. Outsiders seem to favor the engagement in societal activities irrespective of the financial and economic situation the firm is facing. However, during economic downturns, market participants experiencing financial distress are likely to prioritize their own welfare over the society's well-being. Similarly, a firm spending its scarce resources on social disclosures during recession and while having a low accounting profit is also penalized by investors. On the other hand, during normal economic conditions, firms with a high level of outside directors and high accounting profit experience positive future returns when disclosing their engagement in CSR activities.

Our results are of particular importance to managers and policy makers. While social disclosures and a high level of outside directors can be beneficial to firms in certain cases, they can also have a detrimental effect on firm performance during a crisis. Therefore, corporate governance should be thought of as a system of interconnected practices that can be effective in specific conditions based on various firm and environmental characteristics. Outsiders' inferiority with respect to having the firm specific expertise and information to cope with challenges facing firms outweighs the benefits of additional monitoring during a financial crisis.

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End Notes

[1] Such a crisis increases agency problems as managers tend to extract private benefits and act in opportunistic manners (Johnson et al., 2000). Dah (2016) finds that managerial entrenchment increases during economic recessions leading to a negative effect on firm performance.

[2] http://business-school.exeter.ac.uk/research/areas/centres/xfi/research/famafrench/files/

[3] Future firm performance is used since CSR activities and the benefits associated with them are long-term in nature (De Villiers et al., 2011; Veronica et al., 2010).

[4] This is expected since, relative to the crisis, future performance mostly pertains to the post-crisis period.

[5] Using the median instead of the mean as a cut-off point for low and high percentages of outsiders provides qualitatively similar results.