The Impact of Ownership Structure and Board Characteristics on Corporate Social Responsibility Disclosed by Palestinian Companies

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ABSTRACT

The purpose of this study is to investigate the extent and nature of Corporate Social Responsibility Disclosure (CSRD) of the companies listed on the Palestine Exchange (PEX). The study is also set to examine the impact of ownership structure and board characteristics on the level of CSRD. Relevant data was collected from a sample of 44 companies' annual reports for the period from 2013 to 2017. CSRD is measured by constructing and applying a disclosure index, including 30 items of social responsibility information. It was found that a company discloses on average 43.7% of the items included in the index. A significant positive relationship was found between board independence, gender diversity, audit committee, firm size, auditor type and CSRD. In contrast, a significant negative relationship was found between board size, CEO duality and CSRD. This study is expected to contribute to the literature on accounting by providing an understanding of the relationship between ownership structure and board characteristics on one hand and CSRD on the other hand. It also provides evidence on the adequacy of board's guidelines in the corporate governance practices in Palestine (Corporate Governance Code, 2009). The findings of this study should assist Palestinian regulators in revising and improving regulations and practices related to CG and CSR disclosure.

Keywords: Ownership structure, Board characteristics, Corporate governance, Corporate social responsibility disclosure, Palestine.

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أثر هيكل الملكية وخصائص مجلس الإدارة على الإفصاح عن المسؤولية الاجتماعية للشركات الفلسطينية

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ملخص

هدف الدراسة هو استكشاف مدى وطبيعة الإفصاح عن المسؤولية الاجتماعية للشركات المساهمة العامة المدرجة في بورصة فلسطين وكيفية تأثر مستوى هذا الإفصاح بكل من هيكل الملكية وخصائص مجلس الإدارة. لقد تم الحصول على البيانات اللازمة من التقارير المالية الخاصة بِ 44 شركة خلال الفترة الممتدة من 2013 إلى 2017. تم قياس الإفصاح عن المسؤولية الاجتماعية بالاعتماد على مؤشر إفصاح مكون من 30 بنداً من بنود المسؤولية الاجتماعية تم تطويره لهذا الغرض. وأشارت النتائج إلى أن متوسط إفصاح الشركات يبلغ 43.7% من المعلومات المحتواة في المؤشر. كما بينت النتائج وجود علاقة طردية مهمة بين كل من استقلالية مجلس الإدارة، والتنوع الجنسي، ولجنة التدقيق، وحجم مكتب التدقيق، ونوع مكتب التدقيق من جهة، ومستوى الإفصاح عن المسؤولية الاجتماعية من جهة أخرى. بالمقابل، هناك علاقة سلبية بين كل من حجم مجلس الإدارة، والازدواجية للمدير التنفيذي من جهة، ومستوى الإفصاح من جهة أخرى. إن هذه الدراسة تضيف إلى الأدب المحاسبي من خلال مساعدتها في فهم العلاقة بين مستوى الإفصاح عن المسؤولية الاجتماعية وكل من هيكل الملكية وخصائص مجلس الإدارة. كما تقدم الدراسة دليلاً على مدى كفاية تعليمات ممارسات الحوكمة المرتبطة بمجلس الإدارة، الأمر الذي من شأنه مساعدة الجهات ذات العلاقة في مراجعة وتحسين التعليمات المتعلقة بحوكمة الشركات والإفصاح عن المسؤولية الاجتماعية.

الكلمات الدالة: هيكل رأس المال، خصائص مجلس الإدارة، حوكمة الشركات، الإفصاح عن المسؤولية الاجتماعية، فلسطين.

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1. INTRODUCTION

Corporate Social Responsibility (CSR) has become a common debate among researchers, organizations and standard setters. Even stakeholders are increasingly becoming more aware of its importance, particularly in terms of its role in ensuring a proper balance in the long run between the commercial viability of a firm and its loyalty to society. The voluntary actions carried out by firms that enhance the conditions of their host society, environment, employees and customers are considered to be the criteria used to classify a company to be socially responsible.

Though the concept of CSR has a long history, it is considered a product of the twentieth century; its roots were mainly found in the Western world (Carroll, 2008). Early, Carroll (1979) defined CSR as conducting business in a way that is economically viable (i.e., profitable operations), legally commendable, ethically mindful and socially allegeable. On the other hand, Corporate Governance (CG) is defined as the way in which firms are controlled (Cadbury, 1992). Thus, CSR and CG are suggested to help companies obtain balance among profitable operation and ethical practice, including social activities (Haniffa and Cooke, 2005). Each of them asserts that firms perform their tasks and responsibility toward many and diverse stakeholders (Sundarasen et al., 2016). Furthermore, they concentrate on the importance of achieving long-term value (economic viability), which will help in supporting companies' continued acceptance and existence (Esa and Ghazali, 2012). Therefore, companies not only meet the trust of the investors, but also show an involvement toward social and environmental responsibility (allegiances to society). Thus, CSR and CG cannot be isolated, but are a portion of a business system that imposes on commercial organizations the duty and commitment to adopt policies and achieve goals suitable with the popular content of the current era (Sundarasen et al., 2016).

While CSRD research is well established in developed countries (Post et al., 2011; Garcia-Sanchez and Martinez-Ferrero,2018), there is a dearth of studies in developing countries. Investigating the impact of ownership structure and board characteristics on CSRD is significant for Palestine and other developing countries. The Palestinian market is small and imperfect (Barakat et al., 2015), thus agency problem and the asymmetries of information issues are predicted to be severe (Abdeljawad & Abed-Rabu, 2019). Since the majority of Palestinian corporations are family-owned (Alkababji, 2014), agency cost between owners and managers of Palestinian listed companies is expected to be limited. However, it is likely that a significant agency problem exists between majority shareholders (high ownership concentration) and minority shareholders. Transparency through better CSRD may help in mitigating the effect of these problems. An in-depth review of the studies conducted in Palestine reveals that they mainly address the perceptions of Palestinian companies' decision-makers toward CSR, the extent of CSR disclosure, types of CSR information disclosed and the effect of individual firm and board characteristics on CSR disclosure (Alsenawi and Banat, 2014; Alkababji, 2014; Barakat et al., 2015; Migdad, 2017; Zaid et al., 2019). The majority of these studies have used content analysis to investigate the extent of CSRD. A study by Alkababji (2014) showed that the level of CSRD disclosure of Palestinian listed companies is relatively low and significantly affected by firm size. Barakat et al. (2015) found a significant positive relationship between the legal system, audit committee, external auditors, board size and CSRD. Moreover, Migdad (2017) concluded that Palestinian Islamic banks have a high level of CSR practice though with small and marginal effects on the community's socio-economic development. On the same line, Zaid et al., (2019) reported a significant positive relationship between board size, board independence and CSRD. In contrast, they indicate a significant negative relationship between CEO duality and the level of CSRD.

Notwithstanding, our study investigates the extent and nature of CSR disclosed by the Palestinian companies. In Palestine, to the best knowledge of the researchers, only two studies address the relationship between CG and CSRD (Barakat et al., 2015; Zaid et al., 2019). Barakat et al. (2015) compared the disclosure of CSR in Palestine with its counterpart in Jordan for the year 2011. However, the study did not include some dimensions (e.g. ownership structure, board gender diversity and CEO duality). On the other hand, Zaid et al. (2019) investigated the relationship between some board characteristics (board independence, board size, gender diversity and CEO duality) and CSRD. However, they focused only on non-financial companies listed on PEX from 2013 to 2016. This study uses a more recent period extending from 2013 to 2017; it also includes all companies listed on PEX (44 companies). This study becomes the first in Palestine to focus on the relationship between the ownership structure (ownership concentration and director ownership) and CSRD.

This study contributes to the literature in different ways: First, it offers new directions and insights for future research by providing empirical results on the impact of corporate governance practices on CSRD (including board size, board independence, gender diversity, CEO duality, audit committee, ownership concentration and director ownership). Furthermore, it adds to the other few studies related to corporate governance and CSR which were conducted in politically unstable countries like Palestine (see, for example, Barakat et al., 2015; Zaid et al., 2019). Second, the study investigates the extent and nature of CSR disclosure in the annual reports of Palestinian companies listed on Palestine Exchange (PEX). Third, it is expected to be useful not only for researchers, but also for policymakers and professionals, as it provides evidence on the adequacy of board's guidelines in the corporate governance practices, such as board size, gender diversity, CEO duality and audit committee (Code of Corporate Governance, 2009) in Palestine. Moreover, the results of this study may assist Palestinian regulators and policymakers in revising and improving regulations and practices related to CG and CSR disclosure.

2. CG and CSR in Palestine

The legal and regulatory reporting requirements for publicly listed companies on Palestine Exchange (PEX) are expressed by two sources: Securities Law No. (12) of the year 2004 and Capital Market Authority Law No. (13) of the year 2004. According to the Capital Market Authority Law 13 (2004), the publicly listed company is required to prepare and publish an annual report that includes, among other things, balance sheet, profit and loss account and cash flow statement with comparative figures and explanatory notes. These statements should be prepared under the International Financial Reporting Standards (IFRS) and should be audited by an independent qualified auditor. However, there is no mention in the Companies' Act regarding the disclosure of social responsibility information that companies must make in their annual reports or the explanatory notes accompanying the financial statements (PEX, 2018).

Corporate Governance Code in Palestine includes three different types of rules: The first includes the rules that are based on explicit legislative texts. In this type, the application by the companies is mandatory and is under penalty of social responsibility. The rules of the Code have been formulated using terminology in the imperative mood, such as must, may not entitle to, committed and prohibited. The second type includes the rules that are in compliance with international practices in the field of Corporate Governance; they do not conflict with any of the clear legislative text or, at least, any of the possibilities allowed by any legislative text. So, the application will be voluntary by the companies according to the quotation "Compliance and Non-compliance". So, this code has been formulated using permissible advice and application terminology, such as favored, recommended and may. Third: The rules that comply with the international practices in the field of Corporate Governance, but are at variance with the plain legislative texts. In this case, a recommendation has been bluntly given requesting the necessity for the amendment of the existing legislation to conform to the practices and rules (Code of Corporate Governance, 2009: 8).

Based on the Code of Corporate Governance in Palestine, a publicly listed company is required to disclose, among other things, certain information that fall in the scope of CSR in its annual report. It is mentioned that disclosures should include the firm's social responsibility policies and safety regulations followed by the company. These policies should be prominent and could be attained in the long run; they also should be in line with the Palestinian regulations and laws. The social responsibility items should assist the firm to enhance its reputation and its association to related parties and should be based on integrity and mutual interest with third parties. The firm should also disclose all essential materials to the researchers (Code of Corporate Governance, 2009). Although these disclosure requirements of social responsibility information are essential, they are limited and expressed in general terms when compared to the dimensions and components of CSR.

Ghanim (2006) argued that, rather than being a concept, CSR has a historic root in Palestine in terms of practice. It arises as a response to political and social crises and catastrophes encountered by the area. Methods and tools of CSR in Palestine have been based on internal ethics, values and religious codes of conduct. The study adds that financial output is of high priority to local corporations.

3. Literature Review and Development of Hypotheses

CSR is designed to allow the approval and recognition of the public for long-term sustainability by giving adequate and balanced focus to the economic, social and environmental responsibilities; called triple-bottom-line reporting (Patten, 1992; Hackston and Milne, 1996). Thus, it is widely accepted that societies currently prefer triple-bottomline reporting to a single bottom-line reporting. The general logic behind societies' adopting triple-bottom-line reporting is the belief that a society's well-offenses would be best served. Several researchers have different views about various dimensions related to responsibilities involved in triple-bottom-line reporting. That makes running various activities in a sustainable style by a corporation possible. In turn, that allows a corporation to be culturally sustainable (e.g. Carroll, 1991; Schwartz and Carroll, 2003; Urip, 2010).

Companies have several reasons for CSR disclosures. They seek to enhance their image and reputation (Williams and Pei, 1999; Siregar and Bachtiar, 2010), strengthen the relation with clients, society and government (Williams and Pei, 1999), legitimize their business (Branco and Rodrigues, 2006) and minimize information asymmetries among the company's managers and its stakeholders (Cormier et al., 2011). These reasons ensure economic viability in the long run. Besides, CSR is essential to decision-making, since it helps managers measure the value of long-term relationships and assets by recognizing strengths and weaknesses through corporate responsibility vision (Perrini et al., 2011).

Several theories have addressed social responsibility disclosure. Signaling theory, for example, assumes that managers provide more disclosures to signal that they have favorable results (Hassanein and Hussainey, 2015). CSRD indicates that firms are actively involved in CSR activities, which will help them in building an excellent reputation. Legitimacy theory and stakeholder theory aim to demonstrate the practices of corporate social responsibility. The legitimacy theory suggests that CSRD helps legitimize the company's behavior by showing information that is expected to affect the perception of the society and the stakeholders (Hooghiemstra, 2000). Stakeholder theory and legitimacy theory are tightly linked. The increasing value of stakeholders has raised the need for CSRD. Firms could show social disclosures in their reports to improve the company's reputation and to meet societies' needs (Hassan and Marston, 2010). Agency theory suggests that companies provide CSRD to reduce agency problem by mitigating the agency cost and to show that they are accountable and responsible of using the companies' resources in the proper way for shareholders (Sun et al., 2010).

Board of directors is elected by a company's shareholders to control and manage its matters (Monks and Minow, 1995). As a basic corporate governance feature, board of directors has an important role in aligning management concerns with those of stakeholders (Harjoto et al., 2015). It also minimizes agency cost and the asymmetry of information (Patelli and Prencipe, 2007). Thus, board characteristics are expected to affect the level of CSRD. Board characteristics could be defined from a variety of perspectives, such as independence, nationality, gender, board size, experience,… etc. (Kang et al., 2007). In this study, board characteristics include board independent (non-executive) directors, board size, board gender, duality of CEO and chairman positions and audit committee. Along with board characteristics, ownership structure also may play an important role to reduce agency problem. Significant ownership provides the ability and incentive to supervise the managers' decisions and activities; it also has a significant influence on a firm's investments by suggesting and voting on strategic plans of the firm. CSR would have a prominent place in these plans and, accordingly, CSR could be an investment (McWilliam and Siegel, 2001). In our study, ownership structure includes board ownership and ownership concentration. These characteristics and their impacts on CSRD are discussed in the next section.

3.1 Development of Hypotheses

3.1.1 Board Independence

Board of directors plays a vital role in monitoring the creation and implementation of management's plans to meet the concerns of stakeholders (Cornell and Shapiro, 1987; Harjoto et al., 2015). The interest difference among stakeholders requires the moral engagement of the board of directors (Howton et al., 2008). Fama and Jensen (1983) argued that board independence would enhance the controlling and monitoring of the management's behavior. An agency view suggests that board independence is more capable of meeting stakeholders' interests (Jizi et al., 2014), as they do not have concerns about their positions in the company (Khan et al., 2013). Thus, an independent board would lead to more information disclosure, greater transparency and accountability, fewer information asymmetries and better corporation image (Fama and Jensen, 1983; Muttakin et al., 2015). In the Palestine context, it is preferable to have at least two independent directors in the board (Code of Corporate Governance, 2009). Zaid et al., (2019) investigated the impact of board independence on CSRD of non-financial Palestinian listed companies for the period 2013-2016. The results of their study indicated that companies with a higher percentage of outside directors (independent) will disclose more CSR information in their annual reports. Sweiti and Attayah (2013) reported a significant positive relationship between board independence (non-executive) and the level of voluntary disclosure of Palestinian companies listed on PEX. On the other hand, Barakat et al. (2015) found no relationship between board independence and CSRD.

A significant part of the existing literature shows a significant positive relationship between board independence and CSRD (Cucari et al., 2018; Mahmood et al., 2018; Helfaya and Moussa, 2017; Fuente et al., 2017; Muttakin et al., 2015; Jizi et al., 2014; Garcia-Sanchez et al., 2015; Khan et al., 2013). In contrast, Garcia-Sanchez and Martinez-Ferrero (2018), Majeed et al. (2015); and Sundarasen et al. (2016) found a significant negative relationship between the percentage of board independence and the level of CSRD. They argued that independent directors are more interested in corporate financials rather than in CSR (Majeed et al., 2015) or they may not have enough knowledge, skills and experience to enhance the level of CSRD (Sundarasen et al., 2016). However, many studies found no relationship between board independence and CSRD (e.g. Harjoto et al., 2015; Alotaibi and Hussainey, 2016; Sadou et al., 2017: Coffie et al., 2018). Therefore, the first hypothesis can be formulated as follows:

H1: There is a significant positive relationship between board independence and CSRD.

3.2 Board Size

According to Liao et al. (2018), board size affects the role of controlling and monitoring financial reporting. According to Jensen (1993), larger boards increase the conflict of interest. Therefore, smaller boards will often have a more beneficial supervising role than larger boards (Chaganti et al.,1985). However, Adam and Ferreira (2009) and Akhtaruddin et al. (2009) argued that a larger board would have a variety of knowledge and experiences, which will enhance the board ability to supervise and control the company`s disclosures.

In Palestine, the size of board of directors of a listed company must be between (5-11) members (Corporate Governance Code, 2009). Sweiti and Attayah (2013) reported a positive association between board size and the level of voluntary disclosure of Palestinian companies listed on PEX. In turn, Zaid et al., (2019) and Barakat et al. (2015) concluded that board size is positively associated with CSRD score. Several other studies (e.g. Buniamin et al., 2008; Handajani et al., 2014; Majumder et al., 2017; Sadou et al., 2017; Coffieet al., 2018) indicated a significant positive association between board size and CSRD. On the other hand, Al-Dah et al. (2018) found that board size negatively affects CSRD. Moreover, other studies (e.g. Amran et al., 2014; Ling and Sultana, 2015; Cucari et al., 2018) found an insignificant relationship between board size and the level of CSRD. So, the second hypothesis can be formulated as follows:

H2: There is a significant positive relationship between board size and CSRD.

3.3 Board Gender Diversity

Board gender diversity is one of the most board characteristics studied by researchers. The participation of women in the board provides a broader experience and knowledge, which improves the decision-making process (Barako and Brown, 2008). Board diversity would increase corporate moral culture and decrease fraud and therefore reduce agency cost (Handajani et al., 2014). Huse and Solberg (2006) claimed that female directors would provide the right decision, because they are more concerned about board meetings than men. They also have superior attendance registration and are more likely to enroll in supervising committees. Therefore, it is expected that they would have a high impact on the input and output of the board (Adam and Ferriera, 2009). Furthermore, females are more sensitive about society, environment and ethics (Hafsi and Turgut, 2013; Liao et al., 2014); they pay more attention to charitable and philanthropic activities (Ibrahim and Hanefah, 2016). Thus, the existence of women in the board would enhance the level of CSR.

While several countries have legislative quotas for women existence in boards, such as France and Belgium (Liao et al., 2018), there is no legislation related to the percentage of women in the board in Palestine. Zaid et al. (2019) mentioned that in non-financial Palestinian listed companies for the period 2013-2016, it was almost 7%.

Previous studies provide empirical evidence that gender diversity increases the level of CSRD (Liao et al., 2018; Al-Dah et al., 2018; Helfaya and Moussa, 2017; Fuente et al., 2017; Dienes and Velte, 2016; Ibrahim and Hanefah, 2016; Sundarasen et al., 2016). While few studies (e.g. Cucari et al., 2018; Majeed et al., 2015; Handajani et al., 2014) found a significant negative association between the percentage of women in the board and CSRD, they argued that the percentage of women in developing countries is relatively small, as women do not have enough education and skills to affect the level of CSR. Therefore, our third hypothesis will be formulated as follows:

H3: There is a significant positive relationship between board gender diversity and CSRD.

3.4 Board Ownership

Agency theory suggests that the increasing portion of board ownership could be of interest to both stakeholders and managers. This is probably because companies with a higher level of board ownership would balance the interest of shareholders and managers and accordingly, agency cost would be lower (Jensen and Meckling, 1976). However, Mohd Ghazali (2007) claimed that when the entity is owner-managed, the interest of outsiders would be lower. Chau and Gray (2010) and Garas and El Massah (2018) indicated a significant positive association between board ownership and CSRD. In contrary, Rashid and Lodh (2008) found an insignificant negative relationship between board ownership and CSRD. Accordingly, the fourth hypothesis is developed as follows:

H4: There is a significant positive relationship between board ownership and CSRD.

3.5 Ownership Concentration

Ownership concentration exists when family members (or a few shareholders) can control and influence the management of a company. Shleifer and Vishny (1997) claimed that ownership concentration enhances control over managers. In turn, Heflin and Shaw (2000) indicated that monitoring by large shareholders helps in accessing valuable, private and relevant information. According to agency theory, agency problem would increase when the ownership is widely dispersed (Fama and Jensen, 1983). In Palestine, listed companies disclose information related to the largest ten shareholders in their annual reports (Dwekat et al., 2018). Therefore, widely held firms would be more accountable for the public and accordingly, they turn to disclose more social information. Previous research, such as Lu et al. (2015), found a negative relationship between ownership concentration and corporate social responsibility disclosure. In contrast, Sadou et al. (2017) and Garas and El Massah (2018) found a significant positive relationship. Consequently, we can develop the fifth hypothesis as follows:

H5: There is a significant negative relationship between ownership concentration and CSRD.

3.6 CEO Duality

CEO and chairman duality occurs when the same person holds both the CEO and the chairman of the board positions in a company at the same time. In this case, the board of directors' effectiveness in performing the governance function may be compromised due to the concentration of decision-making and control power in the hands of the same individual (Haniffa and Cooke, 2002). Therefore, such duality offers a greater decision-making power that enables CEO to make decisions that may not take into account the greater interests of a broader set of stakeholders. Consequently, the duality could impair the board's governance role over corporate initiatives and disclosure policy, including CSR initiatives and disclosures (Li et al., 2013). Sundarasen et al., (2016) pointed out that separation of chairman and CEO positions would improve supervising quality and independent execution of auditing and accordingly increase the transparency of information for the public. Therefore, corporate social responsibility disclosure is expected to improve. Based on Palestinian Corporate Governance Code (2009), it is recommended that the board chairman and members do not have any executive functions in the company.

Previous studies have reported inclusive results about the association between CEO duality and CSRD. Zaid et al. (2019) found that CEO duality negatively affects CSRD in non-financial Palestinian listed firms. Other studies (e.g. Ling and Sultana, 2015; Muttakin et al., 2015; Sundarasen et al., 2016) reported a significant negative relationship between CEO duality and the level of CSRD. On the contrary, few studies (e.g. Garas and El Massah, 2018; Jizi et al., 2014); found a significant positive relationship. Therefore, the sixth hypothesis can be formulated as follows:

H6: There is a significant negative relationship between CEO duality and CSRD.

3.7 Audit Committee

Audit committee consists of members of board of directors with main tasks, including monitoring the financial reporting and controlling the related disclosures (Anderson et al., 2004). Therefore, audit committee has a vital role in enhancing the quantity and quality of financial disclosure (Al-Janadi et al., 2013). Good governance practice codes promote the existence of an efficient audit committee as a control tool that would enhance disclosure and reduce agency cost. The existence of audit committee became obligatory in some countries (e.g. Spain in 2002, France in 2008 and China in 2009) after SOX act 2002. On the other hand, in Palestinian companies, the existence of an audit committee is not mandatory. Limited studies examined the relationship between audit committee and CSRD. According to the results of Sweiti and Attayah (2013), the existence of audit committee in Palestinian companies listed on PEX increases the level of voluntary disclosure. Similarly, Barakat et al. (2015) found a significant positive relationship between the existence of audit committee and the level of CSRD in Palestine and Jordan. Moreover, empirical evidence from developing countries (e.g. Said et al., 2009; Khan et al., 2013; Said et al., 2017) found a significant positive relationship between audit committee and CSRD. In contrast, the results of Dias et al. (2017) showed an insignificant relationship between the existence of audit committee and the level of CSRD in Portuguese listed companies. Therefore, the seventh hypothesis is developed as follows:

H7: There is a significant positive relationship between the existence of audit committee and CSRD.

4. Research Methodology

4.1 Data

The required data is collected from the sampled companies' annual reports available on the Palestine Exchange (PEX) website. The study population contains all Palestinian companies listed on PEX totaled forty-eight companies. Data for the period from 2013 to 2017 is employed to achieve the study objectives. The study sample includes all companies listed on PEX whose data is available for the study period. As presented in Table 1, forty-four companies compose the study sample with a total of 220 firm-year observations.

Table 1. Summary of the study sample

Sector	# of companies	%
Banks	6	13.6
Insurance	7	15.9
Industrial	13	29.5
Service	9	20.5
Investment	9	20.5
Total	**44**	**100%**

4.2 Variables Definition

4.2.1 The Dependent Variable (CSRD)

Following previous research (Gray et al., 1995; Haniffa and Cooke, 2005; Scholtens, 2008; Holder-Webb et al., 2009; Barakat et al., 2015; Abu Farha & Alkhalaileh, 2016; Sadou et al., 2017), we develop an index to measure CSRD in the Palestinian setting. Consistent with previous studies (e. g. Haniffa and Cooke, 2005; Giannarakis, 2014; Handajani et al., 2014; Barakat et al., 2015; Sundarasen et al., 2016), we use Gray et al. (1987) index because of its comprehensive coverage for all aspects of CSRD. This index considers the four categories of CSR: community involvement, environment, employees and product and customer service quality. However, these disclosure items are slightly modified based on recent studies (Haniffa and Cooke, 2005; Barkat et al., 2015; Alotaibi and Hussainey, 2016; Zaid et al., 2019) to reflect the existing cultural, social, economic and environmental characteristics. Moreover, and in line with Alotaibi and Hussainey (2016), a pilot study of ten annual reports (random selection) of Palestinian companies listed on PEX was conducted to select the corporate social responsibility items relevant to the Palestinian environment. As a result, the study uses an index of 30 relevant items (see Table 4). These items are selected with consideration of their relevance, reliability and validity.

It is worth to mention that the items in the CSR disclosure index are unweighted. Chow and Wong-Boren (1987) suggested that the unweighted index would avoid any inherent bias. Using the unweighted index approach became the norm in disclosure research due to its ability to reduce subjectivity (Ahmed and Courtis, 1999).

CSR categories are assessed based on the existence of information disclosed in each category. Each annual report is examined using content analysis to determine the presence or absence of the disclosure items. To compute the score of CSR disclosure for each annual report/company, it is measured as a dummy variable. So, if the company discloses the item, it would receive one. Otherwise, it would receive zero. The results in a disclosure score for each annual report/company are computed by dividing the number of items reported by the firm to the number of items included in the CSRD index. Therefore, the CSRD score for each firm is determined as a percentage that ranges from 0% if the firm does not disclose any items, to 100% if the firm discloses all the items in the index. The CSR disclosure score for each annual report in a given year is calculated as follows:

CSRDS = ∑ Points of (community, environment, employee and product)/ 30.

4.2.2 Independent and Control Variables

This study includes seven independent variables; namely, board independence, board size, board gender, board ownership, ownership concentration, CEO duality and audit committee. These variables represent board characteristics and ownership structure. Firm size, financial leverage, auditor type and firm performance are used as control variables consistent with Rouf (2011), Alotaibi and Hussainey (2016), Sundarasen et al. (2016) and Barakat et al. (2015). Table 2 provides the operational definitions of all dependent and independent variables of this study.

Table 2. The definitions and proxies of the dependent, independent and control variables

Variable	Label	Operational Definition
Corporate Social Responsibility	CSRDS	∑ Points of (community, environment, employee and product)/ 30
Board independence	BIND	Percentage of non-executive directors in the board
Board Size	BSIZE	Number of members of the board of directors
Board Gender Diversity	BGED	Percentage of female directors on the board
Board Ownership	BOWN	Measured by the percentage of ordinary shares owned by the directors
Ownership Concentration	OWNTEN	Shares owned by the ten largest shareholders
CEO Duality	CEOD	A dummy variable which equals one if the CEO is the chairman of the board or 0 otherwise
Audit Committee	AUCOM	A dummy variable which equal, one if the company audit committee exists or 0 otherwise
Auditor Type	AUDT	A dummy variable which equals 1, if the company audited by big four audit firm 0 otherwise
Firm Size	FSIZE	The natural log of total assets of the firm
Financial Leverage	FLEV	The total debt to total assets
Firm Performance	PERF	Return on assets (ROA): Net income / Total Assets

4.3 Regression Model

We developed a regression model to examine the impact of board characteristics and ownership structure on the level of CSR disclosure in the annual reports of Palestinian companies listed on PEX during the period 2013-2017.

$$\mathrm{CSRDS}_{t} = \beta 0 + \beta_1 \mathrm{BIND}_t + \beta_2 \mathrm{BSIZE}_t + \beta_3 \mathrm{BGED}_t + \beta_4 \mathrm{BOWN}_t + \beta_5 \mathrm{OWNTEN}_t + \beta_6 \mathrm{CEOD}_t + \beta_7 \mathrm{AUCOM}_t + \beta_8 \mathrm{AUDT} + \beta_9 \mathrm{FSIZE}_t + \beta_{10} \mathrm{FLEV}_t + \beta_{11} \mathrm{PERF}_t + \varepsilon$$

where dependent and independent variables are defined in Table 2, ε is the error term and β stands for the regression coefficients.

5. Result and Discussion

5.1 Application of CSR Disclosure Index

We evaluate the disclosure of social responsibility information by applying the CSR disclosure index to the 220 annual reports (44 firms for five years) constituting the sample of the study. Each annual report is evaluated based on the 30 items included in the disclosure index. The sampled annual reports were extensively examined to evaluate the disclosure of the index items.

Table 3 summarizes companies' disclosure scores over the period 2013-2017. The average score a company disclosed is 43.7% of the 30 items included in the CSR disclosure index. This result is consistent with the previous limited studies conducted in the context of Palestine. For example, Barakat et al. (2015) found that Palestinian companies listed on the PEX disclosed about 30% of the 48 items included in the CSR disclosure index used.

Table 3. Summary of companies' disclosure scores

Year	Number of Companies	Mean	Min.	Max.
2013	44	0.409	0.07	0.92
2014	44	0.428	0.09	0.92
2015	44	0.439	0.10	0.92
2016	44	0.451	0.10	0.95
2017	44	0.459	0.10	0.95
Overall	**220**	**0.437**		

It can be noticed that there have been no significant changes in companies' disclosure scores during the study period. Also, it is clear from the table that there is a great deal of variation in the disclosure of social responsibility information between companies. These results suggest that there is a considerable room for improvement in the disclosure of social responsibility information in the annual reports of Palestinian companies listed on the PEX. In other words, the results indicate that, on average, a company failed to disclose 56.3% of the items included in the index.

It is noticeable that the CSR disclosure levels vary significantly among Palestinian listed companies, as the minimum score is 7% and the maximum is 95%. This magnificent discrepancy implies that there are some Palestinian listed companies which are reluctant to disclose their CSR information.

5.2 Disclosure of Individual Items

Table 4 below shows the extent of disclosure of the individual items included in the CSR index. It represents the list of items included in the index classified into four categories of CSR information and the overall disclosure score. Four items were overwhelmingly disclosed by more than 80% of the sampled companies. These items are: number of employees, end of service benefits, charitable donations and grants, information about the quality of products and services provided to customers.

Table 4. The extent of disclosure of individual items

CSRD Index		
Environmental Information		
1	Environmental policy, including environmental protection and pollution control programs (air and water,… etc.)	15.0%
2	Activities and donations to promote environmental awareness	14.1%
3	Compliance with environmental laws and regulations and cooperation with environmental authorities and agencies	6.8%
4	ISO 14001 certification	7.3%
5	Recycling plant of waste products	10.5%
6	Water or electricity conservation	23.2%
7	Disposal of waste materials and industrial water in a proper manner	17.3%
8	Tree-planting and landscaping projects	20.0%
9	Pollution control in the conduct of business operations	21.8%
Human Resources		
10	Number of employees	81.4%
11	End of service benefits	90.9%
12	Disclosure the educational level of employees	72.3%
13	Employees' welfare programs (e.g. housing, transportation and meals)	23.2%
14	Minorities in the workforce	10.0%
15	Employees' health insurance	62.3%
16	Training programs	49.5%
17	Cooperation with labor unions	8.2%
18	Providing recreational activities and facilities for employees	35.0%
19	Safety in the workplace	36.8%
Community Involvement		
20	Charitable donations and grants	82.3%
21	Donations to educational programs and public educational institutions	60.9%
22	Donations to health programs and public-health institutions	48.6%
23	Offering training programs for students	55.9%
24	Sponsoring sports, arts, cultural and recreational activities	53.6%
25	Nationalism (donations to refugee camps and Gaza)	50.2%
Product and Customer Service Quality		
26	Information about the quality of products and services provided to customers (e.g. compliance with ISO quality standards)	97.3%
27	Research and development programs related to the company's products and services	77.3%
28	Customer service improvement	69.5%
29	Customer complaints or satisfaction	44.5%
30	Product safety	66.4%

5.3 Composite Analysis of CSR Disclosure

Composite analysis was used to evaluate the extent of disclosure of each of the four types of social responsibility information established earlier. Table provides the summary statistics for the disclosure of the different types of CSR information included in the index. The table shows that product and customer service quality was the most disclosed type (71%). One possible reason to explain this result is that firms usually focus on the quality of their products and services to gain customer satisfaction; therefore, firms disclose more information in this area.

The second most disclosed type is community involvement information (58.6%). This result can be explained by the noticeable inclination of companies to involve in charitable donation and education support. The case is more obvious in the Palestinian setting due to the high feeling of nationalism. Social responsibility has become a tool to show an involvement in the national duty to face the Israeli occupation (Barakat et al., 2015). This is reflected in the companies' annual reports for 2014 when the Israeli occupation forces attacked Gaza. Most of the companies disclosed their contributions (donations) to support refugee camps and Gaza (item 25 in Table 4). Furthermore, the percentage of community involvement information of (60%) in 2014 was the highest through the sampled years.

It should be noted that this ranking of the types of social responsibility information is in agreement with previous relevant studies conducted in the context of Palestine. For example, Barakat et al. (2015) found that product and customer service quality, followed by community involvement information are the most disclosed types of CSR information.

Human resources disclosure has a percentage of (47%). Firms attempt to enhance the working conditions of the employees, because they are concerned about intellectual capital, which is considered as an asset that can improve the business. Therefore, they disclose items about employees' benefit plans, training programs and safety in the workplace.

Notwithstanding, environmental information was the least disclosed type (16.2%). These results are consistent with previous research in the context of developing countries. It is found that they focus primarily on philanthropy and charity through donations and grants and give less attention to the environmental aspects (e.g. Jamali and Mirshak, 2006; Visser, 2008).

Table 5. Disclosure of different types of CSR information

Category	No. of Items	Mean Disclosure
Product and customer service quality	5	71.0%
Community involvement	6	58.6%
Human resources	10	47.0%
Environmental information	9	16.2%
Overall disclosure	**30**	**43.7%**

5.4 Descriptive Statistics

Tables 6 and 7 show the descriptive statistics of the study variables. According to Table 6, on average, the board of directors in Palestinian companies listed on the PEX has approximately nine members. The majority of those directors (91.6%) are independent; that is they do not hold any executive positions in their companies. Similarly, Table 7 shows an implicit independence of the companies' boards, since CEO and chairman positions are kept separated and held by different individuals in the majority (82%) of the sampled companies. On the other hand, female directors constitute, on average, (5.6%) of the total board members in the sampled companies, which is relatively low. Concerning the ownership structure variables, the results in Table 6 show that about (57%) of the sampled companies' shares are owned by members of the boards. Furthermore, almost (67%) of shares outstanding are held by shareholders that have more than 1%. As seen in Table 7, almost (76%) of the sampled companies are audited by a big four-audit firm. Also, (68%) of the sampled companies have audit committees.

Table 6. Descriptive statistics of the study variables

Variable	Min.	Max.	Mean	S.D.
CSRD %	3.3	90	43.7	0.216
Board Independence %	0	100	91.6	0.16
Board Size	5	15	8.82	2.137
Gender Diversity %	0	57	5.63	0.107
Board Ownership %	4.44	96.76	57.42	0.244
Ownership Concentration	11.25	96.72	66.8	0.208
Firm Size	14.01	22.31	17.62	1.787
Financial Leverage %	0.9	94.7	42.83	0.272
Firm Performance (ROA) %	-62	31.8	2.64	0.08

Table 7. Frequency of the categorical variables

Variables	Duality	Non-Duality	Total
CEO Duality			
Frequency	40	180	220
Percentage	18%	82%	100%
	Big4	**Non-big4**	**Total**
Auditor Type			
Frequency	168	52	220
Percentage	76%	24%	100%
	Existed	**Non-existed**	**Total**
Audit Committee			
Frequency	152	68	220
Percentage	68%	32%	100%

5.5 Regression Analysis Results

Regression analysis is essential to make sure that certain assumptions underlying its use are not significantly violated. One of the assumptions is that there is no multicollinearity between the independent variables. Multicollinearity occurs when two or more exogenous variables are highly correlated; then, it is difficult to determine the individual contribution of each variable to the prediction of the dependent variable (Barrow, 1988). During the multiple regression procedure, multicollinearity was assessed by the variance inflation factor (VIF). Gujarati (2003) suggests that if the VIF of a variable is greater than 10, then the variable is considered highly collinear. Table 8 shows that the VIF values for the variables investigated are below the accepted level suggested by Gujarati (2003). Since Durbin-Watson test indicates a positive autocorrelation, we apply Generalized Least Squares (GLS) to solve this issue as suggested by Gujarati (2003).

Table 8. Model summary

Variable	Coefficient	t-statistic	VIF	Sig.
Board Independence	0.11	2.76	1.32	0.006***
Board Size	-0.03	-7.79	1.54	0***
Gender Diversity	0.45	5.91	1.44	0***
Board Ownership	0.03	0.49	4.30	0.622
Ownership Concentration	-0.12	-1.94	4.66	0.054*
CEO Duality	-0.10	-7.17	1.73	0***
Audit Committee	0.09	5.44	1.80	0***
Auditor Type	0.09	4.30	1.87	0***
Firm Size	0.08	16.19	2.62	0***
Financial Leverage	0.00	-0.21	1.51	0.838
Firm Performance	0.09	2.28	1.09	0.024**
Adjusted R-squared	0.84			
F-statistic	103.04			
Prob. (F-statistic)	0.00			
***significant at 1%, ** significant at 5%, *significant at 10.				

The hypothesis is supported if the estimated direction of t-statistic is the same as the expected direction. If the value of Sig. ≤ 5%, then the support is significant. According to Table 8, the general model has an adjusted R^2 of 0.84. This means that the model explains 84% of the CSRD in Palestinian companies listed on PEX. Furthermore, the model is highly significant (F = 103.04, Sig. = 0.000).

Depending on Table 8, board independence, board size, gender diversity, CEO duality, audit committee, auditor type, firm size and firm performance have highly significant relationships with CSRD. Table 8 shows a highly significant positive relationship between board independence and CSRD in Palestinian companies listed on PEX (t-statistic = 2.76, Sig. = 0.006). Therefore, H1 is accepted. This means that there is a significant positive relationship between board independence and CSRD in Palestinian companies listed on PEX. Therefore, companies with higher board independence disclose more information about CSR. This result supports previous studies conducted in

Palestine (e.g. Zaid et al., 2019); they found that there is a significant positive relationship between board independence and the level of CSRD. It is also consistent with previous studies in other countries (Cucari et al., 2018; Mahmood et al., 2018; Helfaya and Moussa, 2017; Jizi et al., 2014; Garcia-Sanchez et al., 2015; Khan et al., 2013). According to Fama and Jensen (1983), board independence would enhance controlling and monitoring the management's behavior. It is also suggested that board independence is more capable of meeting stakeholders' interests (Jizi et al., 2014). Thus, the existence of an independent board would lead to more information disclosure, greater transparency and accountability, fewer information asymmetries and better corporation image (Fama and Jensen, 1983; Muttakin et al., 2015). In contrast, few studies (Majeed et al., 2015; Sundarasen et al., 2016) indicated a negative assosiation between board independence and CSRD. According to Majeed et al. (2015), independent directors are more interested in corporate financials rather than in CSR, or they may not have enough knowledge, skills and experience to enhance the level of CSRD (Sundarasen et al., 2016).

There is a highly significant (at 1% level) negative (t-statistic = -7.79) association between board size and the level of CSRD in Palestinian companies listed on PEX. Therefore, H2 is rejected. This means that companies with lower board size would disclose more information about CSR. This result could be explained with the argument that larger boards may increase the conflict of interest (Jensen, 1993) and are often managed with difficultly. Therefore, a smaller board will often have a role in supervising more than a larger board (Jizi et al., 2014). This result is in line with Al-Dah et al. (2018) and Yasser et al. (2017), who found a significant negative relationship between board size and CSRD.

H3 is accepted, since gender diversity has a highly significant (at 1% level) positive (t-statistic = 5.91) relationship with CSRD in Palestinian companies listed on PEX. This result is supported by several previous studies (e.g. Dienes and Velte, 2016; Ibrahim and Hanefah, 2016; Sundarasen et al., 2016; Helfaya and Moussa, 2017; Fuente et al., 2017; Liao et al., 2018; Al-Dah et al., 2018). They found that companies with high women percentages would disclose more CSR information. Women are more sensitive to society, environment and ethics (Hafsi and Turgut, 2013); they also pay more attention to charitable and philanthropic activities (Ibrahim and Hanefah, 2016). Besides, the participation of women in the board gives a broader experience and knowledge, which improves the decision-making process (Barako and Brown, 2008). Besides, they are more concerned about board meetings than men (Huse and Solberg, 2006). However, this result is not in line with other studies conducted in developing countries (Cucari et al., 2018; Majeed et al., 2015; Muttakin et al., 2015).

Table 8 shows a highly statistically significant (at 1% level) negative relationship between CEO duality and CSRD (t-statistic = 7.17). Thus, a significant negative relationship between CEO duality and CSRD exists in Palestinian companies listed on PEX and accordingly, H6 is accepted. This result is consistent with the empirical evidence reported by Ling and Sultana (2015), Sundarasen et al. (2016), Liao et al. (2018) and Zaid et al. (2019). They found that companies with CEO duality would disclose less information related to the CSR. According to Haniffa and Cooke (2002), CEO duality decreases the quality and quantity of the disclosure and would give rise to information asymmetry. Moreover, the separation of chairman and CEO positions would improve supervising quality and independent execution of auditing and accordingly increase the transparency of information for the public. Therefore, CSRD is expected to improve (Khan et al., 2013; Jizi et al., 2014; Sundarasen et al., 2016). However, based on Table 7, 18% of Palestinian listed companies still have duality between CEO and the chairman of the board. This result exists because the separation between the CEO and the chairman of the board is not mandatory for Palestinian listed companies (Corporate Governance Code, 2009). However, companies with CEO duality should disclose the reason of that following the rule “comply or explain”.

The regression results in Table 8 show a highly significant (at 1% level) positive statistical relationship between audit committee and CSRD with t-statistic equals 5.44, which means that H7 is accepted. It denotes that companies with audit committee would have a higher CSRD level. This result supports Barakat et al. (2015) study, who found a significant positive association between the existence of audit committee and the level of CSRD in the listed companies in Palestine and Jordan. Besides, it is in line with other studies in developing countries (e.g. Said et al., 2009; Khan et al., 2013; Said et al., 2017). Typically, audit committee has an important role in enhancing the quantity and quality of companies’ disclosure (Al-Janadi et al., 2013). Good governance codes promote the existence of an efficient audit committee as a control tool that would reduce the agency cost and improve disclosure (Khan et al., 2013). On the other hand, according to Table 7, 32% of Palestinian listed companies do not have audit committees. One possible reason is that, in Palestine, it is not mandatory for listed companies to have audit committee. However, companies with no audit committee should disclose the reason behind the absence of such committee following the rule “comply or explain” (Code of Corporate Governance, 2009). Concerning the rest of the independent variables, Table 8 shows an insignificant relationship between board ownership and ownership concentration on one side and CSRD on the other side. Accordingly, H4 and H5 are rejected.

Turning to the control variables, results show a highly significant (at 1% level) positive relationship between firm size and CSRD with (t-statistic = 16.19); this finding is consistent with Barakat et al. (2015). This result implies that larger firms disclose more information about CSR. Furthermore, there is a significant positive relationship between auditor type, firm performance and CSDR, which supports the results obtained by Sundarasen et al. (2016) and Alotaibi and Hussainey (2016).

6. Conclusion

This study investigates the extent and nature of CSR disclosure in the annual reports of Palestinian companies listed on PEX during the period 2013-2017. Moreover, it examines the impact of ownership structure and board characteristics on the level of CSR disclosure. Board characteristics is measured by board independent (non-executive) directors, board size, board gender, duality of CEO and chairman positions and audit committee. On the other hand, ownership structure includes board ownership and ownership concentration. A disclosure index, including 30 items is applied to the annual reports of 44 companies over five years. The findings indicate that a company disclosed on average 43.7% of the items included in the index. The analysis of the extent of disclosure of each of the four types of CSR reveals that product and customer service quality was the most disclosed type (71%), followed by community involvement information (58.6%) and Human resources information (47%). Environmental information is the least disclosed type (16.2%).

Moreover, the results indicate that a significant positive relationship holds between board independence, gender diversity, audit committee, firm size, auditor type and CSRD. In contrast, there is a significant negative relationship between board size, CEO duality and CSRD. The study has revealed that these factors are essential to help the Palestinian companies improve their CSRD.

Policymakers and regulators can improve the extent of CSR disclosure by extending the minimum regulatory requirements concerning CSR reporting in Palestine. Furthermore, policymakers and regulators are encouraged to establish an official Palestinian CSR index that can be used to evaluate and compare CSR practice and disclosure among Palestinian companies. Establishing such an index with an official CSR award for companies with best records in CSR practice and disclosure can enhance companies' awareness of social responsibility and motivate them to engage more in this area. Based on the results above, the majority of companies disclose more information related to some dimensions and ignore others, such as environmental activities. Thus, companies may understand that CSR is not only philanthropic activities.

Palestinian companies may incorporate more numerical information when disclosing CSR activities in their annual reports. After analyzing the sampled annual reports, it can be noticed that CSR disclosures are mostly narrative disclosures and lack numerical details. For example, many companies reported that they have offered donations to educational institutions and provided training programs for students, but they did not report the amount provided or the number of students engaged in such programs. Providing such numerical information enables us to trace the amount of work done. It enables us to measure and compare CSR achievements across companies and over time.

To improve CSR disclosure levels, Palestinian companies are encouraged to have smaller boards, as the results reveal that there is a significant negative relationship between board size and CSRD. On the other hand, the average number of board members of Palestinian listed companies is almost nine members (min. 5 members and max. 15 members). However, according to Corporate Governance Code (2009), the board size must be not less than five members and not more than 11. Thus, Palestine policymakers may pay more attention to the ideal board size in enacted laws. Unlike other countries, such as Spain and Germany, the percentage of women in boards of the Palestinian listed companies is very small (almost 6%). Thus, companies are also encouraged to increase the engagement of women in the board, as the results of the study showed a significant positive relationship between board gender diversity and CSRD. Also, there is a significant negative relationship between CEO duality and CSRD. However, 18% of the sampled companies have CEO duality; these companies may consider the separation between CEO and the chairman of the board in order to have a better CSRD level. Finally, the study's empirical findings show that the presence of audit committee is associated with higher levels of CSR disclosure. Therefore, companies with no audit committee which present 32% of the sampled companies may take the presence of audit committee into consideration.

However, this study has several limitations. First, there is no agreement on the specific nature or quantity of information to be included in the disclosure index. Therefore, the CSRD scored by each company is valid to the extent to which the applied CSRD index is appropriate. The second limitation is related to the use of a CSR disclosure index. The index ranks companies based on the quantity of CSR information disclosed rather than on the quality of the information itself. Therefore, future research may provide a qualitative analysis of disclosed CSR information to provide more in-depth understanding of CSR reporting. Also, further research may be needed to investigate the impacts of other potential explanatory variables, such as director's tenure, director's education and experience and family ownership, on CSR disclosure.

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