Impact of Managerial Entrenchment on Corporate Social Responsibility: The Moderating Role of Political Embeddedness and Board Independence

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ABSTRACT

Manuscript type: Research paper
Research aims: This paper aims to examine how the political effectiveness and board independence moderate the effect of managerial entrenchment on corporate social responsibility (CSR).
Design/Methodology/Approach: Data of non-financial firms from the BRICS countries for the period of 2010-2018 were obtained from Thomson Reuters (asset 4) and financial reports. Panel regression model was employed to analyse the data.
Research findings: The results show that there is a positive relationship between managerial entrenchment and CSR. Political embeddedness was found to strengthen the positive relationship between managerial entrenchment and CSR. Independent directors was reported to weaken the relationship between managerial entrenchment and CSR.
Theoretical contribution/Originality: Theoretically, this study contributes to the literature on agency theory. The finding provides novel insights into how managerial entrenchment affects CSR activities. It also expands the body of knowledge on corporate governance and CSR by focusing on manager's self-interest to shareholder's interest.

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Practitioner/Policy implication: Practically, this study provides valuable information to stakeholders, regulatory authorities and investors who wish to assess various antecedents of CSR.
Research limitation/Implications: Future study should consider comparing the developed and developing countries. Other aspects of CSR should also be considered for better understanding. This study sheds light on the relevance of promoting the social and environmental awareness mechanisms surrounding companies in addition to developing CSR policies focused on corporations of BRICS countries.

Keywords: Corporate Social Responsibility, Managerial Entrenchment, Political Embeddedness, Board Independence, Agency Theory
JEL Classification: : G11

1. Introduction

The growing concerns on the environmental issues such as climate change and resource scarcity have prompted corporate actions in corporate social responsibility (CSR) activities. The interest in CSR was highlighted by the Governance and Accountability Institute in 2018, whereby an increase of 60 per cent CSR disclosure was reported (Governance and Accountability Institute, 2020). A corporate's CSR strategies are linked with their sustainable growth plan, whereby they help in promoting long-term profits, fostering a positive relationship with society and investors' trusts, enabling firms to survive. Thus, it is not surprising that CSR has become a major concern for corporates and other interested parties such as investors, policymakers and scholars. While CSR has received great interest, some literature (Barnett et al., 2020; Jumde, 2021) highlights concern whether the CSR performance is the outcome of well-governed managerial decisions, or it emerges when managers are acting in their own interests. Against this background, this study investigates the presence of an entrenchment mechanism grounded in CSR strategies as its antecedent.

Managerial entrenchment is considered one of the priciest agency conflict expressions (Jensen & Ruback, 1983). Firms' executives enjoy significant benefits as they are part of the control and able to change various entrenchment strategies to remain on the board of the firm, even when they perform poorly (Tashman et al. 2019: Shleifer & Vishny, 1989). Firms' executives may employ different entrenchment activities such as supermajority amendments, so-called golden parachutes, anti-takeover devices, or poison pills (Shleifer & Vishny, 1989: Chaney et al.,

2011). Keeping such managers in the firm leads to inefficient utilisation of resources (Shleifer & Vishny, 1997). Contrary to that, prior studies have also documented that sometimes management entrenchment may also lead to favourable consequences or, at the least, may not have unfavourable consequences (Sundaramurthy, 2000; Chaney et al., 2011; Huson et al., 2001). Management entrenchment creates long term bond which enable managers to feel much stronger and powerful while taking certain strategic decisions whose positive results remain for a long time (Surroca & Tribó, 2008). CSR strategies merely buttress the harmful facets of managerial entrenchment, and therefore, are considered as central slice of management entrenchment activity (Surroca & Tribó, 2008). Keeping in consideration all of the above discussed different standpoints, this study investigates the association between managerial entrenchment and CSR.

In addition to managerial entrenchment, prior studies have documented that political connections are useful to business organisations (Faccio, 2006; Goldman et al., 2009). Political actors use their sources to smooth resources for the businesses of their families, friends and relatives. Accounting quality standards adoption and managerial monitoring mechanism is lower in political affiliated firms as compared to their counterparts (Chaney et al., 2011). Political ties of CEOs have a damaging negative influence on their performance monitoring. According to Wang and Qian (2011), managers with political ties are more likely to practise CSR, suggesting demand from the government side. Moreover, politically connected managers are more prone to engage in ethical activities to reduce the risk of their adverse actions such as corruption and use of power and other privileges for their personal benefits (Milne, 2002). Keeping the above-mentioned arguments, this study hypothesises that politically affiliated managers have more longevity on the firm, are less likely to be penalised for their inefficiencies, and face less chances of forced turnover, thus enjoying more discretion and power in the strategic decision and pursuing more entrenchment strategies like CSR.

The study also investigates the moderating role of independent directors on the relationship between managerial entrenchment and CSR. The independent directors guarantee the quality, value and relevance of corporate disclosed information (Prado-Lorenzo & García-Sánchez, 2010). CSR strategy is a firm's strategic decision taken by board of directors. Therefore, characteristics of the board such as independent directors are responsible for aligning the CSR strategy with the share-

holder's wealth maximisation (Huang, 2010). The presence of outside independent directors on the board is a main corporate governance tool used to reduce agency conflict between management and owners (Knyazeva et al., 2013). Independent directors monitor and improve the quality of information disclosed by the firm on various organisational strategies like corporate social and environmental performance (Khan & Vieito, 2013). By monitoring reliable CSR activities, independent directors guard the interest of various corporate stakeholders as well as shareholders, while mitigating the use of CSR strategies that do not show the real position, hence harming the corporate legitimacy (García-Sánchez & Martínez-Ferrero, 2017). This study hypothesises that board independence weakens the existing relationship between managerial entrenchment and corporate social responsibility.

Various literature has examined the relationship between CSR activities and different aspects of the corporates, mostly in advanced countries, with limited evidence from developing countries. A number of studies have been carried out on exploring CSR from a risk management viewpoint. Sassen et al. (2016) in their work found a strong negative effect of CSR on total and idiosyncratic risk by investigating the impact of environmental, social and governance (ESG) factors on firms' riskiness. Contrary wise, Becchetti et al. (2015) investigated a sample of listed US firms in the time period of 1992-2010, and reported a positive relationship between CSR and idiosyncratic risk. As the environment of the emerging countries is characterised by weak institutions and regulation, CSR may be viewed as green washing and deceptive strategy (Riaz & Saeed, 2020). In this present study, we address the research gap in the literature by evaluating the issue in Brazil, Russia, India, China, and South Africa (BRICS) market. BRICS countries are home to more than 3 billion people. From last decade, the contribution of BRICS countries in economic growth has reached to 50 per cent, making them main players globally (Bhatia & Makkar, 2019). The rapid growth of BRICS countries has expanded participation of firms from the region in the global marketplace. In order to survive globally, they are attempting to meet the international legislation by ensuring their business is in line with ESG, through adopting CSR initiatives. In addition, these countries also have had deep ethical issues in the past few decades (Wu et al., 2017). Having approximately 40 per cent overall contribution in the world population and 30 per cent of land in the globe, these countries are facing various resource consumption and ethical issues generated from quick expansion of urbanisation and globalisation (Yang et al.,

2017; Wiedmann et al., 2015). This phenomenon makes the BRICS countries particularly interesting for our evaluations.

This study makes a threefold contribution to the existing corporate governance and CSR literature. First, this study investigates how managerial entrenchment reflect the firm's policies by examining the impact of managerial entrenchment on CSR activities by using generalised method of moments (GMM) approach. Second, we examine the moderating effect of two corporate governance variables (political embeddedness and board independence) that may enhance the relationship between managerial entrenchment and CSR. This study considers these variables as an important contribution because CSR strategies by firms have been theorised as being dependent on various organisational characteristics (Saeed et al., 2016). Third, BRICS countries' non-financial firms' data have been used as references to analyse the relationship because of their higher contribution in the global economy. The findings of this study provide empirical evidence to support the relationship between managerial entrenchment and CSR. Political embeddedness was found to strengthen the positive relationship between managerial entrenchment and CSR, while board Independence weaken the relationship.

The remaining study is organised as follows: Section 2 provides the reviews of empirical assessments and hypotheses. Section 3 presents the data and the adopted methodologies. Section 4 describes the empirical results and Section 5 concludes.

2. Literature Review and Theoretical Framework

2.1 Agency Theory

Empirically, the finance literature related to corporate governance has been dominated by the agency theory. The main concern of agency theory is to differentiate between the firm's control and ownership which can be the cause of exploitation at any end and thus create agency problem between owners and managers (Li et al. 2016; Shleifer & Vishny, 1986; Jensen & Meckling, 1976). The considerable difficulties that can occur in agency relationship are adverse selection and moral hazard; and both issues are initiated by asymmetric information, specifically when one party has an advantage over the other in terms of having better information (Fama, 1980; Jensen & Meckling, 1976). Concentrating on the actions of managers which can damage the interest of internal and external shareholders, the costliest sign among all, based on their

actions is considered as managerial entrenchment (Surroca & Tribó, 2008; Cornett & Vetsuypens, 1989).

While firms have a responsibility to undertake CSR exercise to take care of stakeholders, entrenched managers can use this as a masking tool to preserve their job position. Shleifer and Vishny (1997) argued that managers use such strategies to overcome the pressure created by the outside business control mechanism. Managers who perform poorly may use the CSR exercise to defend themselves and gain stakeholders' support. Engaging in various CSR activities help them to build a good rapport and thus avoid from a chance of dismissal or replacement. They channel the firms' resources to gain stakeholders' support and use this for their own advantage. To reduce the agency problem associated with managerial actions, outside business control and internal control mechanisms are used (Shleifer & Vishny, 1997; Anderson & Reeb, 2004; Frattaroli, 2020). Thus, managers who are facing strict internal corporate control mechanism adopt other initiatives such as CSR to strengthen their entrenchment strategy.

2.2 *Hypotheses Development*

2.2.1 Managerial Entrenchment and CSR

Empirical research have been conducted to gain insights on the factors that induce firms to engage in CSR activities. After the occurrence of the global financial crisis of 2007–2008, the global world and local societies have increased their demand for CSR which indicate its importance (Laidroo & Sokolova, 2015; Lauesen, 2013; Kemper & Martin, 2010). Hopkins (2001) highlighted the importance of mechanism of corporate governance to be used together with CSR engagement, as a means to reduce conflicts of interests between managers and non-investing stakeholders. Over time, various studies have been conducted to explore the impact of such mechanisms on CSR, yet the relationship remains inconclusive due to mixed findings. Although the presence and extent of CSR activities remained important research topics for decades (Sassen et al., 2016; Fijałkowska et al. 2018; Whetten et al., 2002; Bowen & Johnson, 1953), there is no consensus reached on the motivation of CSR commitments. There are also studies that highlighted the different internal and external activities adopted by firms as a response towards society (e.g. Hawn & Ioannou 2016). Barnea and Rubin (2010) found that upper echelons are more inclined towards CSR activities, and they

often overspend the resources to show that they are good corporate citizens and to improve relations with stakeholders (principal–agent relationship). Cespa and Cestone (2007) highlighted that in the case of effective internal control mechanism, both managers and stakeholders typically become natural allies and work together for the betterment of the firm. Yet, this situation is different in the case of emerging countries, where the presence of institutional voids, such as underdeveloped capital and financial market, inefficient corporate governance system, lack of monitoring, power hunger and struggle between managers and owners, and inefficient institutional protection can weaken the relationship between managers and stakeholders (Ding et al., 2018; Marquis & Raynard, 2015; Zhao et al., 2014). Thus, managers need a strategy to ensure their managerial entrenchment should not hurt their relationship with stakeholders.

In earlier studies, Hellwig (1998) argued that entrenched managers can build a good relationship with stakeholders, for instance judiciary, media, labour, and political system by using shareholders' resources for CSR exercises. Yet, firms face higher cost when they over adopt social responsibility measures (Goss & Roberts, 2011). Pagano and Volpin (2005) highlighted that in order to build long-term commitments to enhance philanthropic and environmental situations, firms have to maintain long-lasting social expenditures. Though these concerns are not incorporated in firms' stock price, having such relations with stakeholders however can help them to create organisational resources that result in improved financial performance (Berman et al., 1999). Thus, asymmetric information which is more prevalent in the context of emerging economies, inefficient capital market fails to predict whether a firm uses CSR to seek improved financial performance or managers adopt it as an entrenchment strategy to gain stakeholders support.

Powerful entrenched CEOs may inhibit boards monitoring ability and influence boards' strategic decisions like an investment in CSR (Muttakin et al., 2018). The CSR engagement becomes part of their plan only if it helps them to gain economic benefits. Correspondingly, executive CEOs adopt CSR strategically to gain support from environmental and social activists to ensure that their powers remain intact (Harjoto & Jo, 2011; Cespa & Cestone 2007). Managers improve their reputation by engaging in CSR arrangements at the cost of shareholders (Goel & Thakor 2008). Similarly, Pagano and Volpin (2005) found that to overcome the threat of takeovers, managers intend to invest in CSR in order to gain internal and external support and use CSR as a strategic

measure. Therefore, based on these arguments, this study expects that in the context of emerging markets, high managerial entrenchment leads to increased CSR activities. Managers adopt CSR initiative to minimise the entrenchment cost and support stakeholder activism by reducing the social pressure from internal and external stakeholders. Therefore, this study hypothesises that:

H_1: Managerial entrenchment is positively related to CSR.

2.2.2 Moderating Impact of Political Embeddedness

The growing empirical research related to the role and impact of political embeddedness on corporate outcomes point to its presence in both private and state-owned firms (Muttakin et al., 2018; Zhang et al., 2016; Li & Zhang, 2010). State-owned firms have built in political power while private firms adopt political embeddedness strategically (Dai & Si, 2018). Empirical studies highlight that political embeddedness offers privately owned firms a protection from external stakeholders and helps firms to gain access to scarce resources (Dai & Si, 2018; Cao et al., 2011). Similarly, Li et al. (2008) argued that political embeddedness helps firms in reducing their financial constraint and thus improves their performance (Baloch et al., 2018). Thus, firms adopt political embeddedness in terms of having politically connected CEOs as a strategy to gain access to resources and improve corporate outcomes and get relief by avoiding institutional burden (Faccio, 2010). Subsequently, entrenched managers tend to have politically connected executives on board due to its associated benefits in order to ensure their power is intact (Cao et al., 2011).

Empirical research related to the relationship between political embeddedness and CSR activities is nascent and there exists a research paucity related to the rationale behind using CSR by politically connected corporate boards in the context of emerging markets. Visser (2008) stated the possible reason for this scenario is the lack of understanding on the CSR mechanism in emerging markets. Recent studies have shown the focus of the research in this regard is on the developed countries such as Europe and US (Liedong et al., 2015; Margolis et al., 2007). Nevertheless, when studying the context of emerging BRICS countries, it is interesting to explore the impact of political embeddedness on the relationship between managerial entrenchment and CSR and understand its implications.

Empirical studies that have examined the rationale behind the usage of political embeddedness by firms and its impact on CSR

activities yield mixed findings. Ma and Parish (2006) argued that firms with no political embeddedness are more likely to adopt CSR in order to attain political support and stakeholders' satisfaction. Zhang et al. (2016) suggested that as political connection offers buffer from institutional pressure, firms try to increase their CSR initiatives to further extend the political support. Political connections provide social status and political recognition to firms which can result in both positive and negative effects for the firms (Swanson, 1999). Li and Liang (2015) highlighted its positive effect in terms of corporate boards with political embeddedness can have with more information and better understanding of government concerns and thus are more aware of CSR. While Marquis and Qian (2014) found that firms have to bear a higher reputational cost when they have political connection as they need to meet government expectations. This study uses the theoretical stance of CSR-based political strategy and anticipates that in the case of emerging economies, politically embedded CEOs are more likely to adopt CSR activities to gain legitimacy as firms with political connections have more access to resources. Therefore, the following, hypothesis is formed.

H_2: Political embeddedness strengthens the positive relationship between managerial entrenchment and CSR.

2.2.3 Moderating Impact of Board Independence

For firms, CSR is the trending strategic issue and it depends upon management decision making. To increase firms' performance, boards are called out to present strategic orientations and bring reforms which focus on stakeholders' value maximisation (Vafaei et al., 2015; Hoang et al., 2018). Board of directors is considered to be the most significant element of corporate governance as it is liable to design the policies and set the directions of firms and evaluate the performance of management (Wheeler, 2012). Jensen (1993) highlighted the importance of corporate boards as an internal control mechanism. These corporate boards should contain many committees and members with various characteristics in order to improve the efficiency of boards (Fama & Jensen, 1983). Perhaps, a corporate board with independent directors reflect good governance as it assures the compliance of stakeholders' interest with the managerial interest. Fama and Jensen (1983) considered independent directors as decision control experts and can monitor managers efficiently. Forker (1992) stated that independent directors are more transparent in reporting managerial activities and thus improve firms'

reputation in the eyes of stakeholders. Hence, independent directors protect the interest of stakeholders and monitor managers effectively and therefore are able to control managerial entrenchment (Tricker & Tricker, 2015).

Sánchez et al. (2011) argued the importance of independent directors in promoting CSR strategically. Considered as the custodian of stakeholders' interest, Prado-Lorenzo and García-Sánchez (2010) highlighted that corporate board is liable to supervise and control the activities of individual directors, hence with the existence of an independent board, adopting CSR is considered to be aligning with the interest of stakeholders (principal). This consequently help in reducing the agency cost. In another study, Fuente et al. (2017) argued that independent directors are not obliged to firms and thus their decisions can be resistant and considered to be an intrusion. Likewise, reputation of external directors is directly allied with that of firms, so these independent directors closely monitor the managers' decisions and try to ensure that they should adopt CSR in true manners and as firms' moral policy rather than protecting their entrenchment (García-Sánchez et al., 2014). Therefore, by protecting the interest of stakeholders these independent directors safeguard the stakeholders' interest and thus avoid the adoption of CSR which do not comply with firms' actual policy, i.e. to gain legitimacy (García-Sánchez & Martínez-Ferrero, 2017). In a recent study, Jouber (2021) argued that independent directors can meet the social concerns of external stakeholders in a better way as compared to managers who have a tendency to use it to promote their personal interest. Based on these arguments, this study hypothesises that:

H_3: Board independence weaken the relationship between managerial entrenchment and CSR.

Based on the literature review and hypotheses developed, the following research model (Figure 1) is formed.

3. Methodology

3.1 Sample

This study collected the required data of non-financial firms of the BRICS countries – Brazil, Russia, India, China and South Africa for the period of 2010-2018 from Thomson Reuters. The initial search resulted in more than 300 non-financial firms. This study however excluded firms with highest missing information as data availability varies greatly

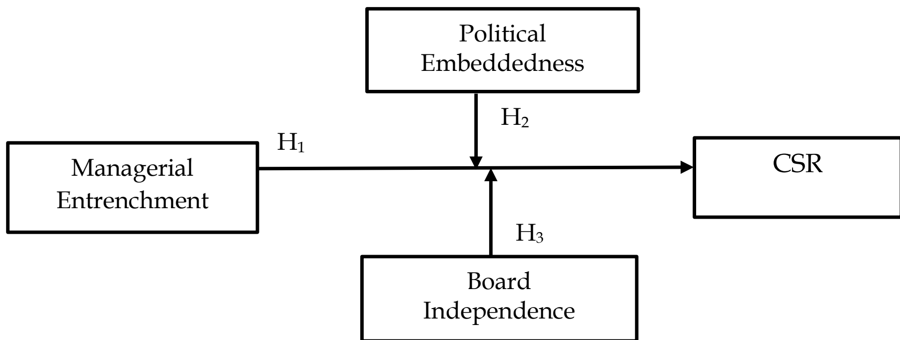

Figure 1: Research Model

across emerging firms and countries in Thomson Reuter's database. We also selected those which have largest market capitalisation in their respective stock markets and contain the key required firm level information for at least 4 years. The final data comprise of 140 non-financial firms from each country, resulting in a final sample of 560 emerging firms from BRICS countries. This sample size is comparatively small for single cross-section country level analysis; yet relatively and collectively, it is sufficient for cross-country analysis. This is in line with Saeed et al. (2016) and Al-Najjar (2013). This study collected the data of CSR and other financial and corporate governance variables from ASSET 4 of Thomson Reuters and financial reports of the companies.

3.2 Operationalisation of Variables

3.2.1 Dependent Variable

In line with previous studies (e.g., Garcia et al., 2017), this study uses the ESG (environmental, social, and governance) Asset 4 data of Thomson Reuters to measure the corporate social responsibility of the firm. Asset 4 ESG scores are widely used by financial markets because they are available through Thomson Reuters, the leading financial data providers around the world. In examining the CSR, it is essential to employ standardised and uniformly comparable CSR information. Yet, there is a lack of consensus on this issue, since the conceptualisation of CSR itself is difficult to be clearly defined. In practice however, management consulting firms and investors typically use ESG as a proxy to understand a firm's overall performance on CSR. It essentially assesses a

firm's environmental, social and corporate governance practices (Yoon et al., 2018).

3.2.2 Independent Variable

The study employs a dummy variable to measure managerial entrenchment based on three criteria namely CEO longevity in firm, managerial ownership and entrenchment index proposed by Bebchuk et al. (2009). The use of these three criteria in combination will help reduce the noise resulting from using a sole dimension. Prior studies have reported that CEO tenure increases the entrenchment ability of the CEO because longevity in the firm equips CEO with more power and skills (e.g. Antounian et al., 2021). Therefore, this study constructed a dummy variable taking the value of 1 if the tenure of the CEO is more than three years, otherwise 0. In addition, the entrenchment index proposed by Bebchuk et al. (2009) based on six characteristics (i.e. limitation on amending the charter, supermajority to approve a merger, golden parachutes, poison pills, limitation on amending bylaws, and staggered boards), which ranges from 0 to 6 was employed. The higher value means the higher is the management entrenchment. The study used a dummy variable equal to 1 if the index value is greater than 3 otherwise 0. Moreover, prior studies (e.g., De Miguel et al., 2004) have stated that CEO ownership at intermediate level increases entrenchment. Values of CEO ownership that is below the lower bound implies that stakeholders are able to force the CEO to work in the interests of shareholders, while a higher value than the upper bond shows that it is more likely that managers' interest is aligned with shareholders' interest.

This study replicated the model proposed by De Miguel et al. (2004) by using the number of shares owned by CEOs through firms' compensation mechanisms, divided by the firms' number of common shares outstanding, which relate firm value to managerial ownership as a proxy for managerial ownership. Size, leverage and investments are used as control variables. The study than obtained the range of CEOs' ownership. Managerial ownership values within this range correspond to the entrenchment area. Thus, the study constructed a dummy variable that takes the value of 1 if the proportion of CEOs' shares over total shares of the firm falls into this range, and 0 otherwise. Finally, this study defined the variable managerial entrenchment as a dummy variable that takes the value of 1 if at least two of the three entrenchment proxies defined above are equal to 1, and 0 otherwise.

3.3.3 Moderating Variable

Political embeddedness of the managers was proxied by the number of board's members who are active in any of the political party or participated in an election or is a minister/head of the state/member of parliament or closely related to a government top official. A dummy variable that represents the value of 1 indicates that the board contains a member with political embeddedness, while 0 represents otherwise (Ding et al., 2018). The board independence was measured by the number of independent directors on the board divided by total number of directors, in line with Zhang et al. (2016). The required information was collected from firms' annual reports.

3.3.4 Control Variables

Following prior studies (Li et al., 2016; Kim et al., 2014; Chen et al., 2001; Harvey & Siddique, 2000), this study uses size measured by natural log of market equity value, leverage measured by debt to asset ratio, book-to-market ratio, firm age as the difference between current year and firm's founding year, and natural logarithmic of GDP as firm-level and country-level control variables.

3.4 Research Model

This study employs the hierarchical model in panel regression analysis to test the hypotheses developed earlier. The hierarchical model is used since there are moderators in the research model, and the study includes hypotheses that require testing the effect that occurs before and after the inclusion of moderators into the model. Stata software is used to perform the analysis. Specification of the model can be described in the following equation.

$$\mathrm{CSR}_{it} = \alpha_0 + \beta_1\mathrm{ME}_{i,t-1} + \beta_2\mathrm{PE}_{i,t-1} + \beta_3\mathrm{BI}_{i,t-1} + \beta_4\mathrm{ME}_{i,t-1} * \mathrm{PE}_{i,t-1} + \beta_5\mathrm{MEE}_{i,t-1} * \mathrm{BI}_{i,t-1} + \mathrm{SZ}_{i,t-1} + \mathrm{LEV}_{i,t-1} + \mathrm{GDP}_{i,t-1} + \mathrm{FA}_{i,t-1} + \varepsilon_{\mathrm{i}} \quad (1)$$

where

CSR_{it} = Corporate Social Responsibility
ME = Management Entrenchment
PE = Political Embeddedness
BI = Board Independence
SZ = Firm Size
LEV = Leverage
GDP = Gross Domestic Product

FA = Firm Age
ME*PE = interaction terms between management entrenchment and political embeddedness
ME*BI = interaction terms between management entrenchment and board independence
i = firms
t = time dimension in years
α_0 = constant
$\beta_1 - \beta_5$ = regression coefficient
ε = error term

In equation 1, the dependent variable is CSR (Corporate Social Responsibility). The main independent variable is managerial entrenchment, a dummy variable that takes the value of 1 if at least two of the three entrenchment proxies defined in operationalisation of variables section are equal to 1 and 0 otherwise. The two included moderators are political embeddedness and board independence. The control variables included are GDP, firm size as natural logarithmic of market equity value, financial leverage as debt to asset ratio, book-to-market ratio, and firm age. Model 1 is static in nature. This study employed a two-step system GMM due to possible existence of endogeneity and heteroskedasticity. GMM efficiently yield the robust standard errors and effectively take cares of econometric issues, such as serial correlation, endogeneity, and heteroskedasticity which are not captured by other panel estimation techniques e.g. OLS, fixed effect, etc. (Cuadrado-Ballesteros et al., 2017). Hence, the study applied diagnostic tests, for instance, LM test for heteroskedasticity and endogeneity tests for endogeneity detection (Wintoki et al., 2012). The results of these diagnostic tests are reported in Table 1.

Table 1: Diagnostic Tests

Panel A: Heteroskedasticity Test
Modified Wald test for groupwise heteroskedasticity chi2 (560) = 1.1e+06 Prob>chi2 = 0.0000
Panel B: Endogeneity Test
-endog- option: Endogeneity test of endogenous regressors: 1.2700 Chi-sq(1) P-val = 0.2597

The results reported in Table 1 indicate the existence of hetero-skedasticity in model 1 due to a large number of diverse firms. Since the probability of chi square is significant in Panel A, thus the null hypothesis of homoskedasticity was rejected. The inexistence of endogeneity, indicated by insignificant probability of chi square in Panel B, implies that this study failed to reject the null hypothesis, i.e. there exist no endogeneity. The two-step system GMM yields asymptotically efficient standard errors and provides robust results. Country dummies along with time fixed effect were also added in estimating model 1.

4. Results and Discussion

4.1 Descriptive and Correlation Analysis

Table 2 is provided to report the descriptive statistics in terms of mean, number of observations, maximum, standard deviation, and minimum values of main variables of interest of the sampled firms. The mean value of CSR was 0.061. The minimum and maximum values of firms' CSR were 0.0001 and 0.6105, respectively. These sampled firms had on average 0.39 managerial entrenchment. The mean value of political embeddedness was 0.58 while the mean value of board independence was 0.22. The minimum and maximum values of firms' board in-depen-

Table 2: Descriptive Statistics

Variable	Observation	Mean	Std. Dev.	Min	Max
CSR	5,040	0.0601	0.0630	0.0001	0.6105
ME	5,040	0.3950	0.4889	0.0000	1.0000
PE	5,040	0.5853	0.4927	0.0000	1.0000
BI	4,103	0.2219	0.1897	0.0005	0.9630
LEV	4,663	0.5960	0.2961	0.0027	6.3282
BMR	4,663	0.3448	1.1887	-7.8721	5.6393
Size	4,663	14.1251	1.8293	9.4502	19.7656
Age	4,663	25.6605	21.4489	3.0000	152.0000
GDP	4,663	8.6657	8.3014	6.9471	9.4369

Note: CSR = Corporate Social Responsibility, ME = Management Entrenchment, PE = Political Embeddedness, BI = Board Independence, LEV = Leverage, GDP = Gross Domestic Product.

dence were 0.0005 and 0.9630, respectively. The mean value of firms' financial leverage was 0.59. On average, sampled firms had 0.34 book to market ratio. The mean values of firms' size (*Size*) and age (*Age*) were 14.12 and 25.66, respectively. The minimum and maximum values of firms' age were 25 and 152 years, respectively. Both mean and standard deviation values were close to each other, representing that the main variables of interest were normalised and there exists no potential outlier in the sample data. Standard deviation values indicate the dispersion in data observations.

Table 3 indicates the correlation values of variables included in model 1 of this study. All variables had low correlation values which indicate that there exists no multicollinearity issue. Though there exists positive correlation among CSR and managerial entrenchment, the causation effect cannot be validated through correlation. Therefore, this study regressed the model 1 to determine the cause and effect.

Table 3: Correlation

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) CSR	1.000								
(2) ME	0.031	1.000							
(3) PE	0.080	0.026	1.000						
(4) BI	0.540	0.016	-0.063	1.000					
(5) LEV	-0.007	-0.005	0.025	-0.034	1.000				
(6) BMR	-0.021	0.007	-0.009	-0.021	-0.097	1.000			
(7) Size	0.028	0.035	0.003	0.012	0.076	-0.225	1.000		
(8) Age	-0.014	-0.030	-0.030	0.004	0.019	0.016	0.106	1.000	
(9) GDP	0.013	0.094	0.040	-0.008	-0.031	-0.109	0.023	0.003	1.000

4.2 Regression Results

Table 4 provides the regression result of the empirical model. The estimation technique used was the two-step system GMM which aims to determine the effect of managerial entrenchment on corporate social responsibility and measure the moderating effect of political embeddedness and board independence on the relationship between CSR and managerial entrenchment.

Table 4: Managerial Entrenchment and CSR

	(1)	(2)	(3)	(4)	(5)
Variables	Model 1	Model 2	Model 3	Model 4	Model 5
ME	0.0473** (0.0197)	0.0083* (0.0042)	0.0138*** (0.0048)	0.0127* (0.00760)	0.0101*** (0.00374)
PE		0.0282* (0.0166)	0.0270 (0.0201)		0.0007 (0.0052)
BI		0.0862*** (0.0223)		0.0915*** (0.0115)	0.0670*** (0.0183)
ME*PE			0.0187** (0.00969)		0.0058** (0.0022)
ME*BI				-0.0346* (0.0182)	-0.0227* (0.0116)
LEV	0.0605* (0.0321)	-0.0024 (0.0218)	-0.0281 (0.0212)	0.00902 (0.0218)	0.0077 (0.0156)
BMR	-0.0048 (0.0034)	0.00209 (0.00252)	0.0078* (0.0041)	0.00249 (0.0036)	0.0036* (0.0022)
Size	-0.0023 (0.0040)	0.00654** (0.00323)	0.00911** (0.00371)	0.00522* (0.00311)	0.00516** (0.0021)
Age	-0.0001 (0.0002)	0.00002 (0.00043)	0.00019 (0.00053)	-0.00001 (0.00050)	0.0005* (0.0003)
GDP	-0.000002** (0.000001)	-0.000001 (0.000001)	-0.000003 (0.000001)	-0.000003 (0.000007)	-0.000002 (0.000005)
Country Effect	Yes	Yes	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes	Yes	Yes
Constant	0.0520 (0.0530)	-0.0641 (0.0429)	-0.0786 (0.0547)	-0.0232 (0.0508)	-0.0430* (0.0243)
Observations	4,663	4,103	4,663	4,103	4,103
Number of Firms	560	560	560	560	560
AR(2)	0.582	0.247	0.126	0.214	0.649
Hansen	0.760	0.990	0.980	0.993	0.995

Note: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 4 shows the regression results of model 1 in a hierarchical linear process. Column 1 indicates the results of the main independent variable, i.e. managerial entrenchment and control variables. Model 2 (column 2) depicts the results of individual moderators, i.e. political embeddedness and board independence along with independent and control variables. Model 3 (column 3) and model 4 (column 4) illustrate the results of two moderators respectively along with independent and control variables. Model 5 (column 5) presents the results of the full model. The insignificant probability of AR(2) test indicates that the null hypothesis of AR(2) test has failed to reject, indicating the inexistence of serial correlation among errors. The insignificant probability of Hansen test indicated that the null hypothesis of Hansen test has failed to reject, showing that there exists no over identification issue and used instruments are valid. Based on these tests, the regression estimates are robust.

In model 1, the management entrenchment was positively related to CSR ($\beta = 0.0473$, $p<0.05$), thus supporting the first hypothesis (H_1) of this study. The impact of managerial entrenchment on CSR was positive and significant in all five cases. This findings indicate the consistency of the managerial entrenchment effect on CSR. The results are in line with the study of Martínez-Ferrero et al. (2016). In model 2 (column 2), the individual terms of both moderators, i.e. political embeddedness and board independence were included. The relationships between political embeddedness ($\beta = 0.0282$, $p<0.1$) and board independence ($\beta = 0.0862$, $p<0.01$) with CSR were positive. In model 3 (column 3), the interactive term (*ME* × *PI*) for the impact of political embeddedness on the relationship between managerial entrenchment and CSR was included. The results showed that the relationship was positive ($\beta = 0.0187$, $p<0.05$), providing support for the second hypothesis (H_2). This finding implies that political embeddedness strengthens the positive relationship between managerial entrenchment and CSR. This finding is consistent with the studies of Cao et al. (2011) and Muttakin et al. (2018). This result remained consistent in column 5 as well. The finding showed that the relationship between the interaction term (*ME* × *BI*) in model 4 (column 4) was negative ($\beta = -0.0346$, $p<0.1$), providing support for the third hypothesis (H_3). The results indicated that independent directors weaken the relationship between managerial entrenchment and CSR. This result remained consistent in column 5 as well. This finding is consistent with the studies of Prado-Lorenzo & García-Sánchez (2010) and García-Sánchez & Martínez-Ferrero (2017).

The results of control variables were mixed. The results showed that financial leverage was positively significant with CSR in model 1 ($\beta = 0.0605$, $p<0.1$), while the book to market ratio was positively related with CSR in model 3 ($\beta = 0.0078$, $p<0.1$) and model 5 ($\beta = 0.0036$, $p<0.1$). The relationship between firm size and CSR was also significant in model 2 ($\beta = 0.00654$, $p<0.5$), model 3 ($\beta = 0.00911$, $p<0.5$), model 4 ($\beta = 0.00522$, $p<0.1$) and model 5 ($\beta = 0.00516$, $p<0.5$). Firm age however was only significantly related with CSR ($\beta = 0.0516$, $p<0.5$) in model 5 ($\beta =0.0005$, $p<0.1$), while GDP was only significant in model 1 ($\beta = -0.000002$, $p<0.5$). The included dummies for country effect and time fixed effect were significant in all five cases.

Our findings are consistent with prior studies that reported the dark sides of CSR policies such as executive perks (Ikram et al., 2019), excessive risk-taking (Dunbar et al., 2020), local level corruption (Ucar & Staer, 2020), and decoupling (Dahlin et al., 2020; Donia & Sirsly, 2016). Our findings are in line with the results of Cao et al. (2011), in which it was found that managers who have political connections easily bring benefits to firms and they retain their positions in the firms for a long time period. The political connection perspective chains the entrenchment premise, which state that political embeddedness might be used by management to promote and highlight themselves to turn out to be more influential and reputable (Card et al., 2010). Prior studies have also suggested that board independence may establish governance mechanism that hinders entrenchment practices by the management (Surroca & Tribó, 2008). Hence, in the existence of independent directors on the board, the agency conflict between managers and shareholders is reduced because independent directors monitor the managerial decision more closely and independently. The result of the study is consistent with Tricker and Tricker (2015) and Forker (1992), which highlighted that independent directors monitor managers effectively and thus are able to stop them from promoting entrenchment-based CSR. Our study extends the line of research such as Martínez-Ferrero et al. (2016) who investigated the use of CSR actions as entrenchment strategy without identifying the possible boundary conditions which modify this relationship.

5. Discussion, Conclusion and Implications

This study advances our understanding on the CSR issue from the perspective of emerging economies, specifically BRICS. We built on the agency theory to predict the relationship between the management

entrenchment and CSR of firms coming from BRICS nations. Building on a dataset of 560 firms, the empirical results have shown that entrench managers employ CSR with the purpose of dissuading stakeholders and owners from responding against their entrenchment activities. The findings imply that in BRICS countries, managers use CSR to legitimate themselves among various stakeholders with the motive to serve their self-interests. The results, thus support the possibility of the agency conflict (Type 1) between managers and shareholders, because managers can employ various policies with the purpose to safeguard personal gains (Shimizu, 2012).

Building on related CSR research (e.g. Martínez-Ferrero et al., 2016), we extend the classical relationship between management entrenchment and CSR by adding moderators, political embeddedness and board independence. The results of this study highlight that the interactions between management entrenchment and board independence is strengthen with the existence of political embeddedness. Political embeddedness allows the managers to use CSR strategies to meet political objectives and to camouflage negative use of resources and powers. This is expected, since in BRICS countries there is weak legislation; and in such contexts, social relations offer an alternative route for building trust, which eventually facilitate cooperation and reduce uncertainty (Haveman et al., 2017). In these countries, the government tend to exercise control through their involvement in corporate governance of firms in strategic industries. The ties with the government may have resulted in both benefits and costs to the firms. On one hand, it could serve as a source of legitimacy, provides opportunities for good communication with policy makers and facilitate access to resources controlled by the government. On the other hand, it could also lead to higher costs, since the government would use their rights as board members, for instance to influence the governance process and may promote strategies that are in the best interests of governments and not the shareholders (Yu & Chi, 2021). Hence, this means that in firms that have high political embeddedness, there is a tendency of entrenched managers to use CSR to camouflage the negative use of resources and powers.

The relationship between managerial entrenchment and CSR however is weaken with the existence of an independent board as it helps develop a monitoring mechanism and lessens discretion of managers. The results provide empirical evidence to support this contention and confirms the prediction of agency theory. The findings have shown that higher outsider representation as independent directors on corporate

boards may potentially help reduce the divergence interests between management and shareholders (Karim et al., 2020).

Besides the theoretical contributions, this research also provides practical guidance. While connections with the government, i.e. political embeddedness may provide firms with opportunities to receive some privileges, they have to be cautious on this, as the ties may lead to the intervention of the government into how the corporate resources and strategic goals are manoeuvred. Similarly, such practice may also promote entrenched managers to utilise socially responsible projects for their private benefits through developing political connections. In this circumstance, individual firms connected with the government need to be monitored carefully by independent board members to ensure that the corporate resources are optimised for CSR activities and not being misused for personal gains and benefits. They could constrain managerial entrenchment by improving requirements relating to transparency in organisational decisions, thus minimising discretion to use as entrenchment policy. Therefore, a proper board structure not only helps in protecting the shareholders' wellbeing in BRICS countries, yet, it also ensures a more efficient resource allocation for CSR activities. This research sheds light on the relevance of promoting the social and environmental awareness mechanisms surrounding companies in addition to developing CSR policies focused on corporations of Brazil, Russia, India and China. It is also possible that the stakeholders negatively value CSR because of the decoupling concerns, and green washing associated with it. To minimise this, a proper justification and announcements will lead to positive outcomes of CSR. Particularly, these justifications should be drafted with the objective to change the behaviour and thinking of stakeholders and managers towards CSR. In addition, firms should also introduce a CSR committee to look after and minimise the use of CSR as entrenchment strategy by the managers.

Despite the insights provided by this study, they are not without limitations. This study has examined CSR in the context of emerging markets, in the context of BRICS countries only. Therefore, this study cautions the generalisability of its findings in the global context. Future research could be conducted on developed countries. Furthermore, future research could try to investigate the different aspects of CSR, such as environmental CSR, charity and donations given to NGOs and governments, CSR permanency and others. Influence of the ownership pattern of the firms could be investigated with respect to managerial entrenchment–CSR relationship and how in return, it influences firm performance.

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