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Social Performance Disclosed by European Companies: The Role of the Board Attributes and the Country's Legal System

Albertina Paula Monteiro [1,*], Catarina Cepêda [2,3], Cláudia Pereira [1] and Amélia Silva [1]

[1] CEOS.PP/ISCAP/Polytechnic of Porto, 4465-004 Matosinhos, Portugal
[2] ISCAP/Polytechnic of Porto, 4465-004 Matosinhos, Portugal
[3] UTAD, 5000-801 Vila Real, Portugal
* Correspondence: amonteiro@iscap.ipp.pt

Abstract: This paper aims to analyze factors that influence social performance-related information disclosure in European countries. Specifically, the objective is to investigate the Board's attributes (Diversity, Inclusion, People Development and Controversies). To achieve the goal, an empirical analysis was conducted with 2494 listed companies in Europe as support for the economic year 2021. To measure a possible link between the variables under study, a regression analysis was performed. Our results show that Board Diversity, Inclusion and People Development contribute positively to social performance disclosure, whereas Board Controversies negatively affect the dependent variable. Furthermore, the study results reveal that the country's legal system is relevant to the company's transparency. The model variables determine 62% of the social performance reporting variance. Our Results are useful for all non-financial information users, governments and organizations in developing sustainability reporting standards.

Keywords: ESG performance; social performance disclosure; corporate governance; diversity; inclusion; people development; controversies

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1. Introduction

Over the last decades, corporate reporting has undergone a significant evolution. Currently, besides the financial dimension, corporate reporting also integrates Environmental, Social, and Governance (ESG) initiatives. Growing recognition of the Anthropocene era has led to a chorus of calls for many positive ESG initiatives (Albert 2020).

The increasing pressure exerted by stakeholders for companies to disclose non-financial information has driven the development of various sustainability accounting frameworks to effectively improve the quality of information and the standardization of ESG disclosure (Bose 2020).

Several global organizations have been issuing guidelines and regulations to support more comprehensive and sustainable reporting (Cepêda et al. 2021). In this regard, we highlight the United Nations, the Global Reporting Initiative (GRI), the International Organization for Standardization (ISO) and the International Integrated Reporting Council (IIRC).

Accounting plays a critical role in sustainability/Corporate Social Responsibility (CSR) reporting. According to Gray (2010), "*the emergence of sustainable development as the complex notion through which social and environmental issues must be addressed–whether at policy, personal, or organizational levels-has had a growing influence in the accounting literature*" (Gray 2010). The author also points out that accounting, through reports, including non-financial reporting, exposes more complete information about companies to the public.

In recent years, the corporate sustainability information disclosed has increased. In fact, several studies on this subject here are of interest to academics, practitioners, governments, organizations in developing sustainability reporting standards and other stakeholders of financial and non-financial information.

The literature suggests that the level of information disclosure on ESG-related issues depends on many factors, including the company's longevity (Davies and Crane 2010), the legal country of origin (Smith et al. 2005), the company's size (Gray et al. 1995), its performance/profitability (Jahmane and Gaies 2020; Mia and Mamun 2011), the presence of a female on the board (Velte 2016), the board size, the women's ratio on the board (Gurol and Lagasio 2023), the independent directors' ratio (Tamimi and Sebastianelli 2017), the stakeholder engagement (Romero et al. 2019), the presence of a multidisciplinary CSR committee (Baraibar-Diez and Odriozola 2019), among others.

According to Sachs and Maurer (2009), Stakeholder Theory can be analyzed from the management perception, the stakeholder, or both. Stakeholder Theory is also derived from political economy theory, but rather than considering society as a whole, it considers the impacts that particular groups (stakeholders) have on organizational behavior (Deegan and Blomquist 2006).

The literature relates Stakeholder Theory and ESG performance (Lee and Isa 2020; Omodero 2015) and ESG or non-financial reporting (Monteiro et al. 2022a; Velte 2017).

Amran and Haniffa (2011) find that the primary motive for the companies' adoption of ESG reporting is to use it as a public relations strategy. Balluchi et al. (2020) refer that ESG reporting is fundamental in providing transparent and reliable non-financial information, stimulating sustainability initiatives.

Venturelli et al. (2017) state that "over the years, the literature on non-financial reporting has focused on the possibility of attributing a mandatory and/or voluntary character to these reporting processes". Non-financial reporting is a growing topic. EU Directive 2014/95/EU on non-financial information increased the reporting and usefulness of CSR-related information (Raucci and Tarquinio 2020). According to Directive 2014/95/EU on non-financial information disclosure from 2017 onwards, large companies (exceeding 500 employees) headquartered in Member States will be required to provide a series of social, environmental, and governance statements (Venturelli et al. 2017).

Directive 2014/95/EU Regulations were a step forward since they will facilitate standardizing the rules of ESG reporting and will increase their transparency and usefulness (Krištofík et al. 2016). The EU Directive 2022/2464/EU on sustainability information: extends the scope of application of non-financial reporting requirements; specifies in more detail the information that companies must provide; clarifies the principle of dual materiality set out in EU Directive 2014/95/EU; requires verification of sustainability information disclosed by companies; abolishes the possibility of reporting in a separate report; and a digital, machine-readable format for disclosing information. In addition, most studies on the directive focus on Stakeholder Theory (e.g., Monteiro et al. 2022a).

Sustainable development in accounting requires focusing on a problem issue enmeshed in a broader ecological, social and economic context (Bebbington et al. 2017). Noteworthy is that sustainability is currently one of the world's most focal issues (Samosir et al. 2020). This framework leads to the ESG report, which Bektur and Arzova (2022) characterize as a company's strategy summary, which exposes the performance and expectations of an organization in its main objective, which is value creation. In this sense, ESG scores are the main tool for asset managers in designing and implementing ESG investment strategies (Ehlers et al. 2022).

In turn, ESG scores measure the sustainability performance disclosed by companies regarding three pillars (Environmental, Social, and Governance) (Sahin et al. 2022). These complementary non-financial ESG scores are associated with information disclosure about companies' ESG performance and Governance risks (Sahin et al. 2022). Relevant researchers have focused on the link between ESG scores and firm financial performance and value (e.g., Friede et al. 2015; Cornett et al. 2016; Behl et al. 2021) or other *determinants* (Monteiro et al. 2022b).

In the literature, several studies focus on the Sustainability, CSR or ESG reporting determinants; however, there are fewer studies on social reporting (Monteiro et al. 2022b). In addition, existing studies do not analyze the relation of Board attributes, including the

Board's controversies and the legal system on social performance disclosure. For instance, Shaukat et al. (2016) created a conceptual framework that "*makes explicit the links between a firm's CSR-related board attributes, its board CSR strategy, and its environmental and social performance*". However, it is not clear in the literature how board attributes link with social disclosure. In this context, and to fill a gap in the literature, this research aims to analyze the influence of Board Diversity, Inclusion, People Development and Controversies, and the country's legal system on the social information disclosure level with lenses based on Stakeholder Theory. Regarding methodology, we collected data from this study's Thompson Reuters EIKON database. We select European companies listed with disclosure information on ESG Score in 2021. Then, we test our hypothesis using regression analysis.

Throughout this research, we will introduce the theme, then provide all the theoretical references through the literature review. After the methodology explanation, we will analyze and discuss the results and conclude the theme by exposing the main limitations and future research.

2. Literature Review

In recent years, the financial markets in the world have observed the ESG variables introduction as potential key factors for the investment decision-making process (Bianchi et al. 2010). ESG scores are an important tool for resources "*managers in designing and implementing ESG investment strategies*" (Ehlers et al. 2022). For Lindquist et al. (2022), "ESG scores have become the tool to quantify the social responsiveness of asset issuing entities".

Previous research found that ESG scores disclosure impacts company performance (e.g., Friede et al. 2015; Cornett et al. 2016; Behl et al. 2021). These complementary non-financial ESG scores should provide information about companies' ESG performance and ESG risks (Sahin et al. 2022). For instance, Ferrell et al. (2016) find that well-governed firms tend to have fewer agency issues and engage more in CSR.

Some scholars argue that social sustainability has been challenging to analyze, comprehend and define compared to the other dimensions (Lehtonen 2004; Littig and Griessler 2005). In its very broadest meaning, the "social" has to do with the entire relationship between society and nature, including economic, cultural, political and institutional structures and processes (Forest Stewardship Council and Boström 2010). Despite the increasing attention paid to social sustainability, there has been little research to date on how this dimension links to other sustainability dimensions (Forest Stewardship Council and Boström 2010).

According to Gaviglio et al. (2016), environmental assessment is more studied due to the increasing social sensitivity of the community to ecological issues. On the other hand, the assessment of economic and especially social sustainability suffers from a lack of accepted and well-founded frameworks (Chatzinikolaou and Manos 2012). Nevertheless, social sustainability is studied across four dimensions: labor, human rights, community and product responsibility (Amiri et al. 2022). Since the social pillar is highly relevant, identifying whether factors influence it became a research priority.

Research conclusions in the field of sustainability are heterogeneous because it is focused on different countries in which the concern for sustainability or corporate social responsibility seems particularly dependent on socio-political objectives proposed by policymakers (Littig and Griessler 2005; Gaviglio et al. 2016). For instance, Nobes and Parker (2010) argue that accounting regulation in Civil-law countries is more detailed, and accountants have less influence than in Common-law countries. Common-law countries are associated with greater flexibility, while Civil countries are related to more restrictive rules (La Porta and Lopez-de-Silanes 1998). In addition, in Common-law countries, e.g., the United Kingdom (UK), the primary stakeholders are the capital market participants. By contrast, other stakeholders are more relevant than owners in Civil-law countries, namely France and Germany. In the same vein, Fearnley and Gray (2015) argue that countries that defend more investors' rights tend to be more transparent.

Furthermore, Castillo-Merino and Gonzalo (2021) find evidence that ESG performance is higher in Civil-law countries than in Common-law countries. Similarly, Baldini et al.

(2018) provide evidence that country-level characteristics, such as legal framework and labor system (e.g., labor protection and unemployment rate, and cultural system, namely social cohesion and equal opportunities), have a significant impact on ESG disclosure practices. However, their impact on disclosure levels can be positive or negative. More recently, Sahin et al. (2022) found that information disclosed on ESG changes with sectors and geographical regions.

Thus, we expect that companies located in countries with the legal origin of Civil law are the ones that have the best levels of disclosure of ESG-related information, given the several initiatives and regulations oriented to Europe regarding the disclosure of non-financial or sustainability information. As there are no studies that analyze this link across Europe and with a special focus on social reporting, the first research hypothesis is formulated as follows:

H1. *Companies located in countries with a legal system origin of Civil law are positively related to social performance disclosure.*

According to Marsat and Williams (2014), social expenditures are a plus. Social spending thus proves to be a social investment, creating value for both social actors and shareholders (Marsat and Williams 2014).

Regarding corporate governance attributes, Arayakarnkul et al. (2022) refer that the board gender diversity (proportion of women directors) is positively associated with companies' social commitment to human rights, product responsibility, and their community and workforce, highlighting the contribution of women directors to the sustainability of companies. Corporate governance defines the function, structure and role of a board of directors recognizing how companies are organized (Campbell 2007).

Therefore, the board of directors' composition influences firms' sustainability performance (Naciti 2019).

Bernile et al. (2018) developed an index of Board Diversity based on six dimensions, namely, gender, age, ethnicity, educational background, financial expertise and breadth of board experience. These authors find evidence that more board diversity exhibits lower risk and better performance because firms invest more in research and development and are more efficient and innovative. Additionally, Nerantzidis et al. (2022) argue that board diversity, such as gender, race, age, nationality, family relationships and education, can provide superior value to firms and society.

Velte's (2016) study shows that ESG performance is influenced by female board members. Still, both CSR expertise and implementing a CSR committee do not significantly impact ESG performance. Birindelli et al. (2018) found evidence that gender-balanced boards are positively related to a bank's sustainability performance in the financial industry. Arayssi et al. (2020) verify that "*higher board independence and female board participation facilitate the transmission of a firm's positive image by improving social responsibility*". Ismail and Latiff's (2019) results show that board diversity traits (age, board capabilities and board reputation) have a positive relation with ESG reporting, whereas the relation is negative for women board and independent board members. Additionally, about governance factors, Tamimi and Sebastianelli (2017, p. 1160) found that "*S&P 500 firms with larger boards of directors, with boards that are more gender diverse, that allow CEO duality, and that link executive compensation to ESG score*".

The study by Amiri et al. (2022) suggests that gender diversity is positively related to all four social sustainability dimensions (labor, human rights, community and product responsibility). Nevertheless, in his study, cultural diversity has shown an insignificant and negative relationship with the human rights dimension. Consistent with the positive relations of Diversity and Inclusion on ESG, Castillo-Merino and Gonzalo (2021) argue that banks with gender and ethnic diversity on their Board of Directors tend to present higher reporting scores.

Due to the above, we formulate the second research hypothesis:

H2. *Board diversity is positively related to social performance disclosure.*

There is no single definition of social inclusion, yet it is commonly perceived to involve the elimination of barriers blocking people from being able to participate effectively in society. Therefore, social inclusion is a key component of social policy. The European Commission defines social exclusion as a process by which specific individuals are pushed to the edge of society and prevented from participating fully because of their poverty, or lack of basic skills and lifelong learning opportunities, or as a result of discrimination (Giambona and Vassallo 2014). The European Union Sustainable Development Strategy (EU SDS) sets out a vision for sustainable development and defines a set of priority actions for the EU to take. Inclusion is one of the critical challenges of the EU SDS, as it is necessary to ensure that all citizens can participate in and benefit from sustainable development. Following Bernstein and Bilimoria (2013), "*the full inclusion of racial/ethnic minority group members on boards of trustees remains an elusive goal for many nonprofit organizations*". This picture is even worse when it comes to for-profit companies. Nonetheless, the investigation on Board Inclusion and corporate responsibility is in its early stages, so there is little quantitative data available. Moreover, the inclusion literature is still under development in the organizational field (Shore et al. 2011).

Yet, the available evidence supports a positive relationship between Board Inclusion and corporate responsibility practices. The findings of Bernstein and Bilimoria (2013) indicated that Board Inclusion Behavior was highly associated with the inclusion experience of minority board members. In other words, when Boardroom Behavior was about respecting individuals, treating all Board members as equals, opening up leadership positions to all and refusing to accept people being less than decent to each other, minority Board members experienced inclusion.

Understanding social information disclosure as a corporate social practice (Haniffa and Cooke 2005), we formulate the third research hypothesis:

H3. *Board inclusion is positively related to social performance disclosure.*

Human capital development has been one of the key ESG investment points. Social investments can create a company's competitive advantage, creating intangible assets such as human capital and corporate reputation (Marsat and Williams 2014). Furthermore, according to Jones et al. (2014), companies paying more attention to their employees' needs are more likely to attract talented candidates. Moreover, employee satisfaction and productivity are also expected to be influenced by companies' level of ESG performance (Nekhili et al. 2021). For instance, Gao and Yang (2016) examine the impact of corporate philanthropy on employee productivity in Chinese companies and find that, as a form of CSR, it increases employee productivity.

Nekhili et al. (2021) examined the extent to which appointing the board directors' employees (which is part of board People Development) influences ESG market perceptions and found that investors react positively to ESG performance but negatively to the presence of board employees. In this sense, their results document a negative relationship between ESG performance and market value for companies with employee directors on the Board (Nekhili et al. 2021). A closer look at the ESG pillars shows that when employees are appointed to the Board, neither social nor environmental and Governance performance is financially rewarded by market participants (Nekhili et al. 2021); Noja et al. (2021) found that "*ESG diversity, inclusion and people development credentials have positive effects on firm outputs*".

In the literature, there is also a lack of studies that analyze the relationship between board People Development and social reporting; however, in this research, we hope to find favorable results for social disclosure. Given the above, we formulate the fourth research hypothesis:

H4. *Board people development is positively related to social performance disclosure.*

As Passas et al. (2022) indicate, ESG controversies are related to harmful practices of a firm business, e.g., its involvement in scandals or the manager's opportunistic behavior to the shareholder's detriment. The Controversies score allows us to examine the medium- and long-term effects of scandals on Corporate financial performance (Dorfleitner et al. 2020). According to Aouadi and Marsat (2018), news related to controversies "*raises doubts about the firm's future prospects, constitutes a risk for firm reputation and, may have an impact on the firm value*".

Melinda and Wardhani's (2020) study concludes that ESG-environmental, ESG-social and ESG-governance individually affect firm value. On the other hand, relative to ESG controversy, the score surprisingly indicates a positive relationship with firm value. The result implies that controversies provide a positive signal to the investor because they can signal to the public the companies' willingness to have transparency and accountability (Melinda and Wardhani 2020).

By contrast, Passas et al. (2022) argue that controversies can affect firms' financial performance and damage their reputation. Therefore, firms benefit from avoiding or reducing controversies by promoting business ethics and implementing CSR in business. These authors point out that gender diversity is strongly associated with ESG controversies. In addition, gender diversity on corporate boards can vary depending on compliance with the ESG pillars. Then, firms more committed to ESG have a higher demand for female executives. Indeed, these authors found that the greater the number of selected women, the fewer controversies because women are less aggressive and combative than men.

DasGupta (2022) found that while ESG controversies positively mediate the relationship between financial performance shortfalls and ESG performance, firms with high levels of such controversies tend to engage less in ESG practices. For this reason, in this study, Board Controversies are expected to be negatively related to social reporting.

Thus, we formulate the fifth and final research hypothesis:

H5. *Board controversies are negatively related to social performance disclosure.*

The research hypotheses formulated above result in the theoretical model exhibited in Figure 1:

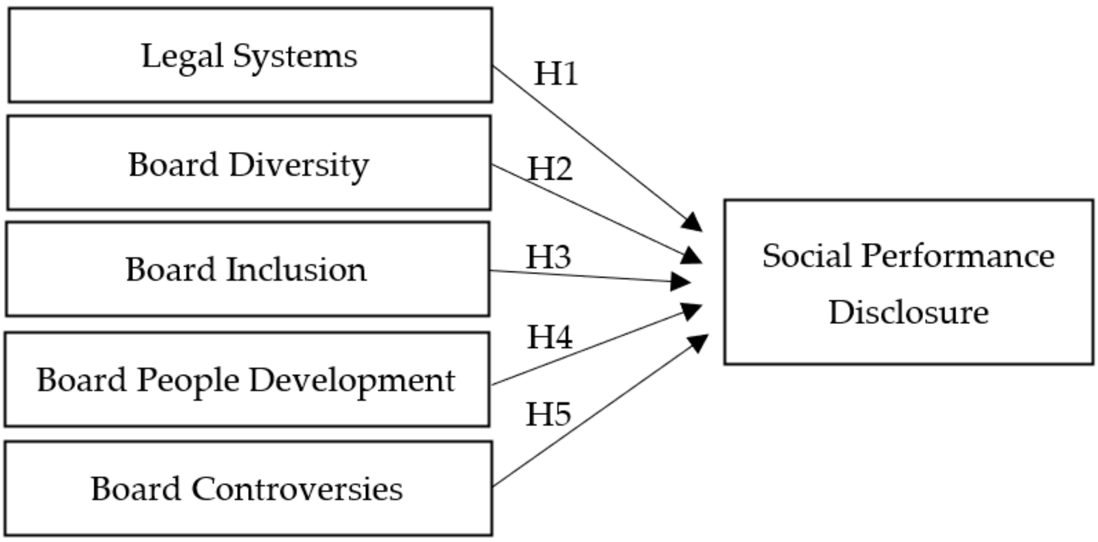

Figure 1. Theoretical Model.

3. Methodology

This study takes a quantitative focus, employing different statistical tests. By using descriptive linear regression, it is intended to analyze the association strength of board attributes (Diversity, Inclusion, People Development and controversies) and the legal system on the social pillar of sustainability reporting with Stakeholder Theory lenses. Studies on Stakeholder Theory indicate that a firm's stakeholder orientation improves ESG practices and disclosure (Monteiro et al. 2022a; Weber and Gladstone 2014; Wood and Jones

1995). The heterogeneity of stakeholders is of utmost relevance in the perceptual framework and disaggregated measures of assessing social performance (Van der Laan et al. 2008).

A target population of large listed multinational enterprises with available corporate information in the Thompson Reuters EIKON (now Refinitiv Eikon) database was used. Companies that disclose non-financial information on the social in a sustainability report, integrated report or any other format statement were identified (Monteiro et al. 2022b). Refinitiv Eikon is a crucial data provider whose data are used by many scholars and investors (e.g., Berg et al. 2021; Monteiro et al. 2022b). We work with this database and selected data of the European listed companies with disclosures made for 2021. This research resulted in a sample of 2581 companies across 35 countries. Observations with missing data were eliminated from the sample. The final sample is composed of 2494 companies across 23 countries (Appendix A).

This is an exploratory study. Although most studies are longitudinal, this study focuses on one year only, as it aims to explore relationships that are not yet clear in the literature (Budsaratragoon and Jitmaneeroj 2021; Pirtea et al. 2021).

With the Social Performance Disclosure, companies disclose information about their ability to generate trust and loyalty with their workforce, customers and society through their best management practices. This indicator reflects the company's reputation, which is critical in determining its ability to generate long-term shareholder value. The social performance disclosure indicator measures a company's ability to use the best of its management practices to generate trust and loyalty among customers, employees, and society, which are key factors determining its ability to generate long-term shareholder value. There are 60 indicators in the Thomson Reuters data set, which include information on product responsibility, community, human rights, diversity, employment quality, health and safety and training and development. In the independent variables, the scores range from 0% to 100%, where 0% means that the company does not disclose any information, and 100% means that the company discloses all information.

In this study, we consider a company to be associated with the country where its headquarters are located. Considering the sample countries and following La Porta and Lopez-de-Silanes (1998) and Nobes and Parker (2010), we assume that the United Kingdom, Cyprus, Gibraltar, Guernsey, Isle of Man and Jersey companies belong to Common-law Countries and the other European companies belong to Civil-law Countries (Appendix A). Then, we create a dummy variable set to 0 if the country belongs to the Common-law and 1 if Civil-law.

Diversity and Inclusion (D&I) ratings powered by Refinitiv Eikon data are designed to measure the relative performance of companies transparently and objectively against factors that define diverse and inclusive workplaces. It is designed on the hypothesis that companies tracking, reporting and achieving measures of Diversity, Inclusion and People Development will, collectively and over time, offer diversification away from portfolios constructed using different selection criteria such as market capitalization alone (Refinitiv 2020). In this study, we used Board Diversity, Inclusion and People Development. The scores range from 0% to 100%, where 0% means that the company does not disclose any information, and 100% means that the company discloses all information.

Board Controversies refer to negative events reflected in the global media related to senior executives or the Board of Directors. The score goes for this variable from 0 to 100 percent, where 0% means there are a lot of controversies, and 100% means no controversy.

To test the hypotheses formulated in the theoretical model, we applied the multiple linear regression technique. We used the analysis of variance (ANOVA) and multicollinearity analysis to define the significant variables for social performance disclosure.

The models set out in Equation (1) were designed to test the proposed hypotheses. Equation (1) is planned to identify the dependent variable effect, Social Reporting (*SocialPerformnace_Discl*), on the independent variables, that is, the Legal System (*Country_LegalSystem*), Board Diversity (*Board_Diversity*); Board Inclusion (*Board_Inclusion*); Board People Development (*Board_PeopleDevelopment*); Board Controversies (*ESG_Controversies*).

In addition, we follow a cross-sectional regression, which is a type of regression where the explained and explanatory variables are all associated with the same single period or point in time. This analysis allows us to compare firms without the influence of time change. Statistical modeling was performed using SPSS software version 28. Appendix B presents the descriptive statistics of the variables used.

$$\text{SocialPerformance\_Discl} = \beta + \beta_1 \text{ Country\_LegalSystem} + \beta_2 \text{ Board\_Diversity} + \beta_3 \text{ Board\_ Inclusion} + \beta_4 \text{ Board\_ PeopleDevelopment} + \beta_5 \text{ ESG\_Controversies} \quad (1)$$

where,

The Board Diversity variable considers Board Gender Diversity (percentage of women on the Board) (Fernandes et al. 2022) and Board Member Cultural Diversity (percentage). In turn, Board Diversity measures a company's engagement and effectiveness in maintaining a gender-diverse workforce and board member cultural diversity (Cillo et al. 2022; Refinitiv 2023). For example, an increase in the number of women on the Board of Directors is positively related to Social Performance Disclosure.

Board Inclusion measures a company's engagement and effectiveness toward establishing an effective life-work balance, a family-friendly environment and disability inclusion (Cillo et al. 2022; Refinitiv 2023). This, in turn, means that when Board Inclusion increases, the Social Performance Disclosure also increases.

The Board People Development variable measures a company's engagement and effectiveness in providing training and development (education) for its workforce (Cillo et al. 2022; Refinitiv 2023). Then, for higher levels of Board People Development, the Social Performance Disclosure is expected to be higher.

Finally, Board Controversies variable measures a company's exposure to controversies and negative events reflected in global media linked to high executives on Board. The score goes for this variable from 0 to 100 percent, where 0% means there are a lot of controversies, and 100% means no controversy. When Board Controversies increase, Social Performance Disclosure decreases.

All Corporate Governance attribute variables are measured in percentage.

Statistical modeling was performed using SPSS software version 28. Appendix B presents the descriptive statistics of the variables used.

4. Results

The study's results show that the Adjusted R-squared (R^2) value obtained in linear regression equals 62%, which means that the explanatory variables explain 62% of the Social Performance Disclosure variance. As the Durbin-Watson test presents a value close to 2, we can indicate that the model errors are not autocorrelated (Table 1).

Table 1. Regression model summary.

Model Summary [b]					
Model	**R**	**R Square**	**Adjusted R-Squared**	**Estimate Standard Error**	**Durbin-Watson**
1	0.788 [a]	0.620	0.619	13.174200	0.620

[a] Preditors: (Constant), *Country_LegalSystem*, *Board_Diversity*; *Board_Inclusion*; *Board_PeopleDevelopment*; *Board_Controversies*. [b] Dependent variable: *SocialPerformance_Discl*.

ANOVA analysis was performed to check the suitability of the regression analysis ($p < 0.01$, to significance level < 0.01) (Table 2).

Table 2. ANOVA analysis.

ANOVA [a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**Z**	**Sig.**
1	Regression	704,850.846	5	140,970.169	812.539	0.000 [b]
	Residue	431,651.545	2488	173.493		
	Total	1,136,502.391	2493			

[a] Dependent variable: *SocialPerformance_Discl*; [b] Independent Variables: *Country_LegalSystem*, *Board_Diversity*; *Board_Inclusion*; *Board_PeopleDevelopment*; *Board_Controversies*.

Table 3 presents the linear regression results, which shows the standardized coefficients, t-value and significance for the relationships established and translated into research hypotheses. Results show an absence of multicollinearity of the exploratory variables (variance inflation factor (VIF) and tolerance).

Table 3. Linear regression analysis.

Coefficients [a]										
Model		**Hypothesis**	**Signal**	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
				B	**Error**	**Beta**			**Tolerance**	**VIF**
1	(Constant)			55.657	8.773		6.344	0.000	55.657	8.773
	Country_LegalSystem	H1	(+)	1.155	0.598	0.024	1.962	0.0493	1.155	0.598
	Board_Diversity	H2	(+)	0.607	0.021	0.434	28.871	0.000	0.607	0.021
	Board_Inclusion	H3	(+)	0.184	0.015	0.169	12.116	0.000	0.184	0.015
	Board_People Diversity	H4	(+)	0.330	0.014	0.350	23.403	0.000	0.330	0.014
	Board_Controversies	H5	(−)	−0.420	0.087	−0.060	−4.813	0.000	−0.420	0.087

[a] Dependent variable: *SocialPerformance_Discl*.

Empirical results (Table 3) indicate that the legal context of a country is positively related to the level of social performance disclosure (β = 1.155; $p < 0.05$), i.e., companies operating in a Common-law country tend to disclose more information. This evidence allows us to support Hypothesis 1 and is in line with the foundations of Castillo-Merino and Gonzalo (2021), Sahin et al. (2022) and Baldini et al. (2018). However, Baldini et al. (2018) state that their relationship may either reduce or enhance disclosure levels.

Board Diversity, Inclusion and People Development are variables that, when favored by companies, motivate them to disclose their social performance further [β = 0.607 ($p < 0.001$); β = 0.184 ($p < 0.001$); β = 0.330 ($p < 0.001$), respectively]. These results support Hypotheses 2–4, showing that companies that develop sustainable practices in Diversity and Inclusion tend to report higher levels of social performance. Empirical evidence shows that gender diversity positively affects social reporting in all four social sustainability dimensions (labor, human rights, community, and product responsibility) (Amiri et al. 2022; Monteiro et al. 2022b). However, cultural diversity has shown an insignificant and negative relationship with the human rights dimension (Amiri et al. 2022). In this sense, this study does not allow us to directly confront this variable because we do not analyze their impact on social disclosure. Castillo-Merino and Gonzalo's (2021) study also shows that gender and ethnic diversity on their Board of Directors tends to present higher disclosure scores. So given that diversity measures a company's commitment and effectiveness in maintaining a gender-diverse and culturally diverse workforce and board members (Refinitiv 2023), European companies with higher gender and cultural diversity of the board are likely to have good social performance disclosure (H2).

Regarding Board Inclusion, our results are in line with Bernstein and Bilimoria (2013), who indicated that Board Inclusion Behavior was highly associated with the inclusion experience of minority board members. Similarly, Buse et al. (2016) argue that behaviors related to including board members directly impact the performance of both internal and external governance practices. In this sense, given that Board Inclusion measures a company's commitment and effectiveness in establishing an effective work–life balance, a family-friendly environment and disability inclusion (Refinitiv 2023), we conclude that European companies with Board Inclusion practices have higher social performance reporting performance, making them more attractive to prospective investors (H3).

Regarding Board People Development, our results are in line with the research of Nekhili et al. (2021) that suggests that when employees are appointed to the Board, high ESG performance may indicate a possible alliance between managers and employees that counterbalance the dominance of shareholders on the Board, which is in line with the Stakeholder Theory. The People Development variable measures a company's commitment and effectiveness in providing board development training and education for its workforce (Refinitiv 2023); we conclude that European companies with board People Development practices have higher social performance disclosure (H4).

Finally, as expected, Board Controversies have a negative effect on social performance disclosure ($\beta = -0.420$; $p < 0.001$), which allows us to support the last hypothesis of this study (H5). This result is consistent with DasGupta (2022), who finds that while ESG controversies have a positive mediating relation on the relationship between financial performance shortfalls and ESG performance, i.e., when firms have high levels of such controversies, they tend to engage in higher ESG practices.

5. Discussion

In this approach, social performance disclosure, as a variable affected by different variables (Legal System, Board Diversity, Board Inclusion, Board People Development and Board Controversies), is seen as instrumental to firm effectiveness, based on the fundamental assumption that business success is somehow related to the extent to which the firm can deal with the different needs of its direct stakeholders and the broader social environment (Van der Laan et al. 2008).

Through the lens of Stakeholder Theory, we find empirical evidence that when there is greater involvement of the entire stakeholder chain in terms of policies and measures related to gender and cultural diversity and inclusion and people development of directors, then better social practices tend to be disclosed by European Companies. In this sense, stakeholders play a crucial role in improvements in social practices which is consistent with the foundations of Weber and Gladstone (2014), Wood and Jones (1995) and Bhutta and Saeed (2011). Our results show that while Board Diversity, Board Inclusion and Board People enhance the social performance disclosure, Board Controversies have a negative relation on stakeholders' opinions, thus suggesting less business transparency. Furthermore,

Finally, we find that the legal origin is related to social performance disclosure as well. As expected, we find that Civil-law countries tend to have a positive relationship with social performance disclosure due to those countries appreciate uniformity and comparability of information.

6. Conclusions

Most companies rarely work on sustainable development, which includes ESG, and economic pillars (Jitmaneeroj 2016). To build sustainability, firms must have a strong social commitment to establish value-creating stakeholder relationships (Arayakarnkul et al. 2022).

This paper empirically tests whether Social Performance Disclosure is affected by a country's legal system and Corporate Governance attributes, such as Board Diversity, Inclusion, People Development and Controversies Scores.

Linear regression analysis determined a relationship between the company's legal system, Board Diversity, Board Inclusion, Board People Development and Board Controversies. Our results are in line with Castillo-Merino and Gonzalo (2021), Sahin et al. (2022) and Baldini et al. (2018) foundations, confirming our second hypothesis. Regarding Board Inclusion, our results are in line with Bernstein and Bilimoria (2013) and Buse et al. (2016). Board people also affect social reporting, and our results are in line with Nekhili et al. (2021) research. Finally, as expected, boardroom controversies have a negative effect on social reporting; our result is consistent with DasGupta (2022).

We point out that all these variables, often affected by the different decisions and pressures of different stakeholders, are of extreme relevance to ESG reporting, especially on the social side. Thus, through the lens of Stakeholder Theory, it is seen as instrumental to firm effectiveness, based on the fundamental assumption that business success is somehow related to the extent to which the firm can deal with the different needs of its direct stakeholders and the broader social environment (Van der Laan et al. 2008).

Therefore, in this study, we found that in European companies, when there is greater stakeholder chain involvement in terms of policies and measures related to gender and cultural Diversity, Inclusion and Board People Development, greater company transparency with social issues. Thus, stakeholders are crucial to improve sustainable development in the social dimension (Weber and Gladstone 2014; Wood and Jones 1995; Bhutta and Saeed 2011).

The paper's contribution to the literature is confirmed by the fact that our results offer an insight into the various factors related to the Board in disclosing information in one of the most relevant ESG pillars (social). Furthermore, the study also contributes to the literature focusing on the legal system's effect on social performance reporting, signaling different conclusions when the research scenario is different. However, this study had limitations. The most significant one is explained by the fact that the sample is limited to the year 2021, which limits the results to this year. At the level of future investigations, we suggest analyzing different years (for example, 2017, the year after the entry into force of the European Directive and years of the financial crisis) and comparing results between other countries inserted in identical or different economic contexts.

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Appendix A. Sample Composition–Companies per Country and National Legal Systems

Country	Frequency	Percentage	National Legal Systems
Austria	36	1.4	Civil law
Belgium	48	1.9	Civil law
Cyprus	13	0.5	Common law
Denmark	67	2.7	Civil law
Finland	81	3.2	Civil law
France	181	7.3	Civil law
Germany	272	10.9	Civil law
Greece	30	1.2	Civil law
Guernsey	27	1.1	Common law
Ireland	51	2.0	Civil law
Italy	134	5.4	Civil law
Jersey	11	0.4	Common law
Luxembourg	39	1.6	Civil law
Netherlands	71	2.8	Civil law
Norway	83	3.3	Civil law
Poland	42	1.7	Civil law
Portugal	14	0.6	Civil law
Russia	46	1.8	Civil law
Spain	75	3.0	Civil law
Sweden	325	13.0	Civil law
Switzerland	210	8.4	Civil law
Ukraine	1	0.0	Civil law
United Kingdom	637	25.5	Common law
Total	2494	100.0	

Appendix B. Descriptive Statistics

Descriptive Statistics							
		SocialPerformance _Discl	Country _LegalSystem	Board _ Diversity	Board _Inclusion	Board _PeopleDevelopment	Board _Controversies
N	Valid	2494	2494	2494	2494	2494	2494
Mean		51.1513	0.73	33.93	16.65	39.02	99.66
Minimum		1.7393	0	0	0	0	50
Maximum		95.6703	1	84	96	87	100

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