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CORPORATE GOVERNANCE EFFECTS ON CSR DISCLOSURES IN THE EUROPEAN PASSENGER AIRLINE INDUSTRY

Master's Thesis

International Business Administration

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Tallinn 2018

I declare that I have compiled the paper independently and all works, important standpoints and data by other authors have been properly referenced and the same paper has not been previously presented for grading.

The document length is 11,304 words from the introduction to the end of conclusions.

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ABSTRACT

This thesis studies corporate governance effects on Corporate Social Responsibility (CSR) disclosures. The aim is to study how corporate governance affects CSR disclosures in the European passenger airline industry. Pearson's correlation coefficients are calculated in order to find relations between corporate governance and CSR disclosures.

Scholars have not agreed on how corporate governance affects CSR disclosures; prior studies are conflicting and results vary. The findings of this thesis show that Company Age is positively correlated and significant at a 1 % level and Ownership Structure and Company Size are positively correlated and significant at a 10 % level. Other corporate governance variables (Board Size, Board Independence, Women on Board, Board Age, CSR Committee and Audit Committee) are not statistically significant. It is concluded that company's age, size and ownership structure have positive effects on CSR disclosures in the European passenger airline industry.

Keywords: Corporate Social Responsibility, CSR Disclosures, Corporate Governance, Passenger Airline Industry, Pearson's Correlation Coefficient.

INTRODUCTION

Corporate Social Responsibility (CSR) has been a timely topic for the past years due to increased consumer awareness of corporate responsibility and social, environmental and economic issues (Carroll 2008). Public needs reliable information on organizations' CSR practices and organizations can address issues and enlighten their policies with CSR disclosures (Balmer *et al.* 2007); this makes CSR disclosures highly relevant. Disclosing CSR information has generally been voluntary for organizations in the European Union, though from 2018 onwards large companies are obligated to disclose CSR related information (European Commission 2018). Due to the voluntary nature of CSR disclosures, a lot of variation can be seen in the reports.

The increased awareness of CSR can be seen especially in the passenger airline industry, as the industry has struggled particularly with environmental issues (Hooper, Greenall 2005). Studies indicate that CSR disclosures vary among airline companies (e.g. Coles et *al*. 2014; Cowper-Smith, de Grosbois 2011); CSR disclosures are often lacking in details, are selective on the provided information (Coles *et al.* 2014), and the disclosures are heavily focused on environmental issues, rather than on all aspects of CSR (environmental, economic and social) (Cowper-Smith, de Grosbois 2011).

This thesis studies corporate governance effects on CSR disclosures, as many studies suggest that there is a relationship between CSR disclosures and corporate governance. Even though studies indicate some relations exist, studies and literature are lacking and conflicting and need more studying. Most of the relevant studies have concentrated only on some countries or on specific corporate governance factors and many of them show inconsistent results, and none of the prior studies have researched effects especially in the passenger airline industry.

The aim of this thesis is to study how corporate governance affects CSR disclosures in the European passenger airline industry. In more detail, the effects of Board Size, Board

Independence, Women on Board, Board Age, Audit Committee, CSR Committee, Ownership Structure, Company Size and Company Age on CSR disclosures will be studied. Pearson's correlation coefficients are calculated in order to identify relations between variables. A CSR Disclosure Index will be compiled to measure the levels of CSR disclosures, and secondary data will be used for both CSR Disclosure Index and corporate governance variables; most of the data is provided by the sample companies, but some will be obtained from third party sources.

Theoretical background and literature review will be presented in the first chapter. Definitions for CSR and corporate governance are given, as both of the terms are vague and need clarification. Studies on this topic will be presented, mostly from academic journals; studies from the last decade are emphasized, but also older studies are presented for the theoretical background. The second chapter will introduce a research objective, hypotheses, sampling and data collection methods. Later, the CSR Disclosure Index will be presented as well as corporate governance variables for the sample companies. The aim of the second chapter is to provide all necessary information needed for the research in the third chapter. The last chapter then presents descriptive statistics and Pearson's correlation coefficients for the variables. The results are interpreted and hypotheses either rejected or accepted. Conclusive remarks will be given and limitations of the study notified.

By the end of the thesis, a reader will have a sufficient understanding of corporate governance effects on CSR disclosures in the European passenger airline industry. Results will be interesting especially for passenger airline companies, their shareholders and other stakeholders such as consumers and governmental parties. The results are somewhat conflicting with prior findings, but successfully give an insight of corporate governance effects on CSR disclosures in the passenger airline industry.

1. CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE IN THE PASSENGER AIRLINE INDUSTRY

This chapter gives an overview of Corporate Social Responsibility (CSR) and corporate governance, with an emphasis on a passenger airline industry. Prior studies on the relationship between CSR disclosures and corporate governance are presented and an article about corporate governance effects on social responsibility disclosures is introduced as it provides guidelines for this thesis. This chapter builds a foundation for the research by offering comprehensive theoretical backgrounds and literature reviews.

1.1. Definition of Corporate Social Responsibility

CSR is a wide concept that refers to an integration of social and environmental concerns in business operations in order to support sustainable growth (Knopf *et al.* 2011, 9). CSR as a term has been developing since the 1950s, but its importance has grown and meaning further developed during the 21st century; CSR has become a global phenomenon as the interest around it has grown rapidly. (Carroll 2008) Nowadays, CSR is often generally perceived as the relationship between corporations and their stakeholders, but yet it still remains without a specific definition that would be applicable. This chapter briefly introduces a few common theories about CSR and aims to further explain the concept of CSR.

One of the most relevant theories of CSR was introduced in 1991 by Archie Carroll, who then presented a Pyramid of Corporate Social Responsibility. Carroll divided CSR into four major components: economic, legal, ethical and philanthropic, each containing certain responsibilities. Economic responsibilities meant being profitable and acted as a foundation of all, legal responsibilities meant obeying laws and playing by the rules, ethical responsibilities meant being ethical and avoiding any harm, and philanthropic responsibilities meant being a good corporate citizen and improving the quality of life. (Carroll 1991) Scholars today still use Carroll's pyramid as a basis for CSR, but it still has limitations. The pyramid successfully divides social responsibilities into levels, but is not able to address responsibilities that are in conflicts. For example, an organization may be economically responsible by remaining efficient and profitable but fail being ethically responsible by not securing jobs. (Crane, Matten 2016, 52)

Another generally accepted approach to CSR is a stakeholder theory which suggests that stakeholder needs are always met at some level if companies are able to meet shareholder needs; even if companies aim to satisfy only shareholder needs, also stakeholders are affected by these actions. (Foster and Jonker 2005; Hawkins 2006 referenced in Jamali 2008, 217). Freeman *et al.* (2010) describe that stakeholder theory is about ethics and morality in the process of value creation of how companies create both financial and social value and that companies adapting stakeholder approach tend to be more sustainable in a long run. Jamali (2008) then further suggests that the stakeholder approach to CSR is more understandable as managers tend to define obligations towards traditional stakeholders.

The European Commission (EC) (2011a) has defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission 2011a, 3). This shall act as a guideline of CSR for the purposes of this thesis. Furthermore, EC describes CSR as multidimensional that covers factors such as human rights, employment practices, environmental issues and corruption. (European Commission 2011a)

There has been some debate whether socially responsible actions are used just for brand image and reputation or whether it has an actual impact on business performance (Chernev, Blair 2015); some scandals of the early 2000s made CSR a tool for saving reputation, but in addition it increased CSR awareness (Carroll 2015). Current attitudes towards CSR are conflicting in nature. It has been studied that managers generally view CSR activities as reputation enhancers but do not think that those would reflect into performance results, but consumers are influenced by the knowledge of CSR activities so that their perceptions on products are actually influenced. This can be directly seen in improved performance results; a recent study indicated that consumers who knew about business' CSR activities evaluated products better than those who did not know about their CSR activities. (Chernev, Blair 2015) This means that CSR activities can positively affect consumers' perceptions and should therefore also be conducted.

Theories in general suggest that there are both business and moral reasons for engaging CSR activities. Crane and Matten (2016, 49) list that CSR enhances revenues, reduces costs, manages risk and uncertainty, and maintains the social license to operate. Moral reasons can be such as dealing with inevitable externalities like pollution and community problems, using power and resources in a responsible way, and considering also stakeholders' interests rather than just shareholders' as organizations need to rely on many stakeholders in societies, like consumers and local communities (Crane, Matten 2016, 50). Also Garriga & Melé (2004, 65) concluded that there are four dimensions where CSR theories are focused; long-term profits, responsible use of power, social demand integration and contribution to society by acting ethically.

As for organizations, there are currently two broad options for CSR: traditional and contemporary. In traditional CSR, organizations do not consider societal expectations during profit generation, but only after profits have been generated the organization distributes some of it back to the society. Traditional CSR then focuses on reducing risks and on improving brand image. Contemporary CSR in contrary to traditional CSR implements responsible behavior into the process of generating profits. Organizations implementing contemporary CSR live up to the expectations of society rather than giving profits back later. (Crane, Matten 2016) It can further be concluded that CSR is an integration of social, economic and environmental concerns into operations in order to satisfy business and moral reasons.

The author sees the lack of a clear definition of CSR as a problematic issue and emphasizes that there should be a common definition instead of vague and incoherent definitions. Taking into consideration all the previously introduced factors the author recommends that CSR can be defined as an integration of socially responsible actions, which cover all social, economic and environmental concerns, into operations in order to act morally and to satisfy stakeholders' expectations. The author also emphasizes that CSR should be more than just a brand image polisher for organizations and should preferably be implemented already during the process of generating profits.

1.2. Corporate Social Responsibility Disclosures

Many studies suggest that CSR is an important factor when building up corporate identity (Bravo *et al.* 2011; Balmer *et al.* 2007). CSR can help organizations to find their ethical identities, and stakeholders may identify organizations' ethics by their openness and responsiveness (Balmer *et al.* 2007, 7), making CSR disclosures relevant. Organizations may transparently address their behavior towards society's expectations and promote their responsible activities to stakeholders (Bravo *et al.* 2011).

In the European Union (EU), large companies must include non-financial statements in their annual reports from 2018 onwards according to the Directive 2014/95/EU. Companies must publish reports on their environmental protection, social responsibility, respect for human rights, anti-corruption and bribery and company board diversity. For small and medium size companies with less than 500 employees, non-financial reporting stays voluntary (European Commission 2018). Even though EU does not require all companies to publish their CSR reports, some countries have their own regulations regarding CSR reporting; for example Ireland requires companies of some specific sectors, such as financial sector, to issue CSR reports. (Knopf *et al.* 2011, 29) The tightening regulations in addition to growing CSR awareness have increased the number of companies conducting CSR reporting (Gray *et al.* 2001, 328). Also, a study by Hąbek and Wolniak (2016) indicates that legal obligations towards CSR data disclosures affect the quality of CSR disclosures positively, so an increase in quality may be expected due to the new Directive.

As CSR itself is a vague term, CSR disclosures lack common guidelines and disclosures vary among companies. Due to the quality differences among companies, readers may not find wanted data or comparing different companies becomes more difficult. (Hąbek, Wolniak 2016) In general, CSR disclosures are often thought as information about organization's activities, aspirations and image related to environmental, labor, community and consumer issues. In more detail, CSR disclosures may contain information about things like energy usage, equality, corporate governance, fair trade and such related issues. (Gray *et al.* 2001) Though, a study published in 2014 studied the main principles included in the most common social reports in

Estonia, finding out that philanthropic, economic and ethical aspects were given only little attention (Rihma 2014).

Global Reporting Initiative (GRI) is one of the most known institutions offering guidelines for sustainability reporting; GRI offers guidelines for environmental, social and economic reporting. As the EU Directive on the disclosure of non-financial and diversity information is in force as of 2018, following guidelines such as GRI Standards is needed, in author's opinion. This will improve transparency and accountability in the EU (Sustainability… Global Reporting Initiative), and make it easier for stakeholders and other interested parties to follow CSR practices of larger companies. Also by having some sort of standards, it makes comparisons of companies more easy and comprehensive. (Tschopp, Nastanski 2014)

While a majority of CSR reporting happens through annual reports, other media may also be utilized (Gray *et al.* 2001, 329). CSR reports can be found for example as stand-alone reports, in financial statements, in annual reports or on organizations' websites, as can be seen from recent CSR related studies (e.g. Kolk, Pinkse 2010).

As for passenger airline industry, CSR reporting is important due to the industry's significant environmental impacts. The industry in general struggles with noise issues, emissions, water quality issues and waste; aircraft causes disturbance by generating noise, creates air pollution with aircraft engines, ground transportation and re-fueling, and generates solid waste from different operational activities. These issues have made the airline industry a center of sustainability debate, increasing the number and improving the quality of CSR reports. (Hooper, Greenall 2005)

Studies have shown (e.g. Coles et *al*. 2014; Cowper-Smith, de Grosbois 2011) that CSR reporting varies among airline companies. They often lack details and are selective on the information provided and in some cases unreliable due to the selective nature. It has been suggested that some activities are rather kept hidden due to the fear of public opinions. One of the main issues with CSR reporting in the airline industry is then the partial insights into activities. (Coles *et al.* 2014) Cowper-Smith and de Grosbois (2011) also found that most of the CSR reports have had a heavy focus on environmental issues, rather than on social and economic matters. This is consistent with the findings by Rihma (2014) that reports about philanthropic, economic and ethical dimensions have been given only little attention. Environmental issues, such as emissions, have been widely reported due to emissions being one of the most challenging areas for airline companies (Cowper-Smith, de Grosbois 2011, 72).

Another issue with CSR reporting in the airline industry was found by Cowper-Smith and de Grosbois (2011); even when companies reported on efforts they would undertake for better sustainability, only few actually reported any initiatives to achieve the goals. This supports the findings by Coles et *al.* (2014) that CSR reports can be unreliable; airline companies report about their commitments to CSR goals but cannot actually demonstrate their commitment. (Cowper-Smith, de Grosbois 2011)

Can be concluded that CSR disclosures are versatile reports used to address CSR related concerns and passenger airline companies have been studied to be somewhat lacking in their corresponding reporting activities. The author considers CSR disclosures as an important source for CSR related information; organizations should offer comprehensive and systematic CSR information, so that interested parties could evaluate them and compare different organizations. The author reckons that clear guidelines for CSR disclosures are needed especially for passenger airline companies.

1.3. Definition of Corporate Governance

This sub-chapter will introduce common theories about corporate governance and aims to further explain corporate governance issues because like CSR, corporate governance lacks a specific, common definition. Many corporate governance databases are compiled according to shareholders and board directors' choices, so corporate governance lacks clarity (Brown *et al.* 2011).

EC (2011b) defines corporate governance as "the system by which companies are directed and controlled and as a set of relationships between a company's management, its board, its shareholders and its other stakeholders" (European Commission 2011b, 2). EC further explains that the board of directors, shareholders, and a "comply or explain" approach are key elements of good corporate governance. The board of directors refers to a board that challenges executive management with diverse views, skills and experience. Shareholders should engage with companies and hold management accountable, though many shareholders are passive and after short-term profits; good corporate governance should encourage shareholders to look for long-term performance rather than short-term. Companies should also be able to publish explanations with informative quality regarding its corporate governance, referring to the “comply or explain” approach. (European Commission 2011b)

In a broader sense corporate governance is said to emphasize shareholder value maximization; owners’ interests and desires should be the primary concern. During the recent years this shareholder view of corporate governance has widened to concern both shareholders and stakeholders due to the increased interaction between society and organizations. The concentration is still on value maximization for shareholders, but effective corporate governance recognizes stakeholder interests as well. (Wu, Patel 2015)

Mitton (2002) describes corporate governance as “the means by which minority shareholders are protected from expropriation by managers or controlling shareholders” (Mitton 2002, 216) and that disclosure quality, corporate diversification and ownership structure are significant elements of good corporate governance. Many scholars (e.g. Mitton 2002; Ferrero-Ferrero *et al.* 2015) indeed agree that the board of directors is a key element of corporate governance, and that can be improved most commonly by increasing board diversity.

Corporate governance has to deal with an agency problem; managers should act according to shareholders’ interests and by providing return on investments. Agency problem here means the usage of investor funds. Investors want returns on their funds, but investors cannot know for sure whether managers are going to use their funds productively or if the managers will sink their funds. (Shleifer, Vishny 1997) Chen *et al.* (2012) also argue that corporate governance reduces agency problem and is an important factor when maximizing shareholder value. Shleifer and Vishny (1997) specify that legal protection of investor rights in a key element of good corporate governance.

As corporate governance lacks a specific definition, different scholars have used different variables for measuring it; as corporate governance does not have an agreed theory, it is only natural there is no guide for which variables to choose and how to weight them. (Brown *et al.* 2011) Some factors can be seen regularly in studies though, and for example board size in terms of the number of directors on the board is a common variable for corporate governance. Directors’ average age is a common variable as well as committees in terms of either the number of committees established or the presence of a specific committee. Board independence as in proportion of independent, non-executive directors and ownership structure as in capital held by either major shareholders or by executive officers are often seen in studies. (e.g. Lu *et al.* 2012; Dias *et al.* 2017) The earlier mentioned board diversity can be measured by for example as the number of women on board (Jo, Harjoto 2012).

Corporate governance in the aviation industry, let alone in the passenger airline industry, has rarely been studied (Lu *et al.* 2012). Many of the existing studies (e.g. Wang *et al.* 2011; Lu *et al.* 2012) concentrate on the relationship between airline performance and corporate governance, rather than on corporate governance itself. These studies argue that corporate governance is significantly related to operating performance within the airline sector, but does not distinguish common outlines of airline corporate governance factors. Lu *et al.* (2012) do however suggest that airlines can modify their corporate governance in order to strengthen performance, but they do not provide concrete measures on how to modify corporate governance.

Some of the related studies (e.g. Lehn 2002; Kole, Lehn 1999) are concentrated on the evolution of corporate governance in the US after deregulation took place in 1978. This shaped airlines' corporate governance into more concentrated ownership structures, higher CEO compensations, both monetary and stock-based, and smaller boards of directors, indicating that these characteristics are common and most efficient for airline companies (Lehn 2002). Furthermore, Alves and Barbot (2007) conducted a research on the differences between low-cost carriers' and full service carriers' corporate governance models. They found out that in order to achieve lower costs and faster decision-making processes, low-cost carriers organize their boards differently by lighter structures. Low-cost carriers also tend to offer higher incentives to managers and by that way minimize agency problems. Alves and Barbot (2007) also found out that full service carriers have more board monitoring committees.

Carney and Dostaler (2006) suggest that there are three main governance processes for airline companies; managerial, entrepreneurial and stakeholder. They have categorized companies according to ownership structures and characterized advantages and disadvantages for each group. Managerial governance has the advantages of professional management and easy access to equity markets, entrepreneurial governance has the advantage of concentrated authority, and stakeholder governance has the advantage of operational stability. Carney and Dostaler (2006) also suggest that for example low-cost carriers practice entrepreneurial governance and that overall governance is widely affected by the ownership type of the company.

The author emphasizes the lack of studies on the passenger airline industry and further considers the lack of a common definition of corporate governance problematic mainly due to the measurement difficulties; prior studies have not always been comparable and different corporate governance variables can cause confusion. The author considers board and company characteristics as the most important corporate governance indicators, but emphasizes that scholars should agree on a corporate governance theory to ease future studies.

1.4. The Relationship between Corporate Governance and Corporate Social Responsibility

Corporate governance is an essential factor of CSR, taking into consideration that corporate governance deals with companies' relations with all stakeholders, which is why CSR can be approached from a corporate governance perspective. (Freeman *et al.* 2010) Most studies agree that corporate governance and CSR are related and that efficient corporate governance leads to more disclosure. Corporate governance has an influence on the quality of voluntary disclosures (Eng, Mak 2003); efficient governance can lead into more transparency. (Cormier *et al.* 2009) There has been a debate though on the level of the relationship, and related studies show differing results.

Aras and Crowther (2008) notify that there have been multiple studies on the relationship between the characteristics of a company and its disclosures and also on the benefits of CSR, but only little work has been conducted on the relationship between corporate governance and CSR. They conducted a qualitative research on corporate governance and CSR disclosures, coming into a conclusion that when a company has a sufficient understanding of both corporate governance and sustainability, they will address CSR and corporate governance more completely; and therefore linking corporate governance and CSR disclosures.

Jo and Harjoto (2012) also studied the effects of corporate governance on CSR in the context of corporate financial performance. Despite the limitations of the study, they concluded that their quantitative research provides evidence on the causal effect of corporate governance on CSR. All of their corporate governance variables are significant when explaining CSR engagement, suggesting that monitoring by board leadership, independent boards, institutional investors and security analysts are related to CSR activities. Though, the study concentrates on the effects of corporate governance on actual CSR activities rather than on CSR disclosures.

Regarding corporate governance characteristics and CSR, Ferrero-Ferrero *et al.* (2015) suggest that board diversity, as in generational diversity, enhances information resources and positively affects CSR performance. Dias *et al.* (2017) suggest that CSR disclosures are positively affected by board size, CEO duality, company size and industry type, establishing a stronger connection between corporate governance and CSR disclosures.

Whereas multiple studies have been conducted on the topic of corporate governance effects on CSR disclosures, variables, methods and therefore conclusions seem to differ. Most of the studies have concentrated on either one or few corporate governance factors or on issues like board diversity, and so literature lacks unifying studies. Some studies are also relatively old, as the recent trend has concentrated on things like board diversity. This chapter now gives an overview of literature explaining corporate governance factors related to CSR disclosures.

Webb (2004) studied that socially responsible boards have a higher percentage of outside directors than less responsible boards. Also studies of many other scholars, such as Harjoto *et al.* (2015) and Post *et al.* (2011), agree with Webb's findings. It has been suggested that outside directors are more concerned about sustainability issues and may be the key demanders of environmental disclosures. Also, it has been found out that outside directors are related to environmental issues' committees, indicating that companies may establish committees more easily when more outside directors are on board. (Post *et al.* 2011)

Multiple scholars suggest that a relationship between ownership structure and CSR disclosures might exist. Saleh *et al.* (2010) suggest that there is a positive relationship between CSR disclosures and institutional ownership, as institutional owners tend to select investments also based on the social performance of companies. Though, they gathered evidence from 200 companies only in Malaysia, making the results not directly applicable worldwide. In contrary, Harjoto e*t al.* (2015) suggest that institutional ownership does not have a significant impact on CSR, as it tends to reduce both CSR strengths and concerns. Their study is more applicable, as the data consisted of 1489 companies; though, all of them were in the United States. Overall, studies about ownership structure and CSR disclosures range from positive relationship to negative relationship and to no significant relationship (Rao, Tilt 2016).

The role of women on boards has been widely studied recently. Byron and Post (2016) studied that companies with more women on board engage more in CSR activities and have better social reputations, and Webb (2004) studied that there are more women on socially responsible boards. Though, these studies did not distinguish whether the positive relationship was due to women affecting CSR or if companies with proper CSR attract more female directors. Post *et al.* (2011) suggest that environmental CSR is higher for companies with three or more women on board, but their sample did not completely represent the whole population. On contrary, Kahrer *et al.* (2014) studied the effects of gender differences on CSR, coming into a conclusion that there was no significant difference between women and men in the CSR activities. On the other hand, a research conducted by Muttakin *et al.* (2015) suggests that women on boards report lower levels of CSR disclosures in Bangladesh; they reckon it may be due to lack of education and expertise as many female directors are appointed based on family ties.

Scholars have provided conflicting findings for the relationship between board age and CSR. Post *et al.* (2011) studied that the optimal board age would be 56 years for efficient environmental CSR. Handajani *et al.* (2014) suggest that board age is positively related to CSR disclosures, saying that older directors tend to make better long-term social and environmental decisions. Ferrero-Ferrero *et al.* (2015) studied that generational board diversity has a positive effect on CSR performance, as generational diversity increases knowledge and experiences.

Previous studies do not show consistent results for the importance of board size in relation to CSR disclosures. Liao *et al.* (2016) suggest that board size is significantly associated with CSR disclosures, whereas Dienes and Velte (2016) conducted a research in Germany, coming into a conclusion that board size does not have an effect on CSR disclosures. Naseem *et al.* (2017) suggest that board size and CSR disclosures are positively related.

Scholars have studied the impact of company’s size on the levels of CSR disclosures, many suggesting that company’s size has a positive relationship with CSR disclosures (e.g. Naseem *et al.* 2017; Lu *et al.* 2015; Jo, Harjoto 2012). Larger and more profitable companies disclose more CSR information (Jo, Harjoto 2012), Patten (2002) describing the size of a company highly significant in relation to environmental disclosures. Some studies have also found a positive relationship between company's age and the level of CSR disclosures (e.g. Al-Gamrh, AL-Dhamari 2016). Al-Gamrh and AL-Dhamari (2016) studied companies listed in the Saudi Stock Exchange, and within that area older companies disclosed more CSR information.

Appuhami and Tashakor (2017) suggest that the presence of an Audit Committee improves the levels of CSR disclosures when sufficient characteristics are present. This is supported by Ika *et al.* (2017), who studied that there is a relationship between audit committees and CSR disclosures; they state that an effective audit committee may lead into better CSR disclosures, or an effective audit committee may encourage managers to disclose more in their annual reports, showing evidence from public listed companies in Indonesia.

As can be seen, literature is inconsistent. Many of the recent studies have concentrated only on some specific countries (e.g. Dienes, Velte 2016; Ika *et al.* 2017; Muttakin *et al.* 2015), establishing limitations for result interpretations. Some studies (e.g. Webb 2004; Byron, Post 2016) that show significant relations between variables are too narrow and do not take other affecting factors into consideration. The author emphasizes the inconsistence of related studies; scholars mostly do not seem to agree on how corporate governance affects CSR disclosures, even though they agree that efficient corporate governance leads to more disclosure. In author's opinion, it is important to study corporate governance effects on CSR disclosures as it can improve both the quality of CSR disclosures and the quality of corporate governance. The following chapter (1.5) introduces an article, which offers guidelines for this thesis.

1.5. Dias *et al.* on Corporate Governance Effects on Social Responsibility Disclosures

Australasian Accounting, Business and Finance Journal (2017) has published a research by Dias, Rodriguez and Craig researching corporate governance effects on social responsibility disclosures. Dias *et al.* (2017) conducted the research to study what kind of effects corporate governance characteristics have on CSR disclosures in the context of a global financial crisis.

Data for the research was gathered from Portuguese listed companies that had provided annual reporting information ending on 31 December 2011. They formulated the following hypotheses:

1) board size is related to the level of CSR disclosures;
2) CEO duality is related to the level of CSR disclosures;
3) the proportion of independent non-executive directors on a board is related to the level of CSR disclosures;
4) CSR disclosures are related positively to the presence of an Audit Committee;
5) CSR disclosures are related positively to the presence of a CSR Committee;
6) the level of ownership concentration is related to the level of CSR disclosures.

To measure CSR disclosures, a thematic content analysis was conducted by comprising 40 individual CSR variables, from which 5 were economic, 15 environmental, and 20 social variables. To measure corporate governance, the following independent variables were measured: 1) board size, 2) board independence, 3) CEO duality, 4) audit committee, 5) CSR committee, and 6) ownership structure. Industry type and company size acted as control variables.

To study their hypotheses, Dias *et al.* (2017) conducted an ordinary least square multiple regression analysis. Their main findings were as follows:

1) smaller companies with CEO as the board Chair disclose more CSR information;
2) otherwise, larger companies disclose more CSR information;
3) if CSR activities are included as a part of strategic management, more CSR information is disclosed;
4) companies from industries close to consumers disclose more CSR information;
5) board independence, ownership structure, audit committee and CSR committee are not statistically significant.

The research failed to confirm hypotheses 3-6 as previously listed.

Previous studies have provided contradictory information about the relationship between corporate governance and CSR disclosures (Dias *et al.* 2017), and Dias *et al.* partially provides successful results for further studies by a well-conducted analysis. Though, the study has some limitations as well. As all the data was gathered only from one country, the results are not fully applicable. Also, because the study concentrated on the context of global financial crisis, it could be beneficial to study companies under more stable circumstances. Some important corporate governance factors were also missing, such as women on board.

This thesis uses Dias' *et al.* study as a basis, but has taken into consideration some improvements. Geographically, this thesis is wider with companies from multiple European countries. CSR items are slightly modified, as will be shown in Table 1. Some corporate governance factors are added, such as women on board. Based on these, correlation analysis will be conducted, unlike Dias *et al.*, who conducted a regression analysis.

The first chapter has now provided a basis for this thesis; theoretical background has defined CSR and corporate governance in this context, literature review has presented prior studies on corporate governance effects on CSR and CSR disclosures and lastly the study by Dias *et al.* (2017) has provided guidelines for the research. The second chapter concentrates on research design, methods, objectives, sampling and data collection methods, and a CSR Disclosure Index and corporate governance variables are presented.

2. RESEARCH DESIGN AND METHODS

This chapter introduces research design and methods of this thesis; research objective and hypotheses are introduced and sampling methods and data sources explained. Corporate Social Responsibility Disclosure (CSRD) Index is compiled and presented; the index shall be used for analysis later. The indicators of the index are explained so that it becomes understandable how and by which criteria data was collected. Corporate governance variables for the selected companies are presented, which shall also be used for later analysis. It will also be explained how the corporate governance variables were measured.

2.1. Research Objective and Hypotheses

The objective of this research is to determine which corporate governance factors are related to the levels of CSR disclosures in the European passenger airline industry by calculating correlation coefficients for selected variables. Hypotheses are based on previous literature review, and the further aim of the research is to examine whether the same corporate governance factors, which studies have suggested are related to the levels of CSR disclosures, are related in this industry. In order to determine any possible relations, Pearson's correlation analysis will be conducted. Correlation analyses can be used to measure relationships between variables, as correlations can characterize and quantify relationships between different variables (Plonsky, Oswlad 2017).

Hypotheses are set based on the literature review, and each of them will be tested later in Chapter 3. Hypotheses are built around corporate governance variables, which have been mentioned in previous studies. In case there are no consistent results for a variable shown in previous studies, hypothesis is set based on most common assumptions. The following hypotheses are set for the research:

1. Board Size is related to the level of CSR disclosure. Whereas results from previous studies seem to differ, hypothesis is based on studies by Naseem *et al.* (2017) and Liao *at al.* (2016).
2. Board Independence is related to the level of CSR disclosure. Scholars (e.g. Webb 2004) suggest that socially responsible boards have a higher percentage of outside directors than those with a lower percentage.
3. Proportion of Women on Board is related to the level of CSR disclosure. Webb (2004) studied that socially responsible boards have a higher proportion of women on board than those with fewer women on board.
4. Board Age is related to the level of CSR disclosure. Post *et al.* (2011) found an optimal board age for efficient environmental CSR, and Handajani *et al.* (2014) studied that board age is positively related to CSR disclosures, contributing to the hypothesis of a relationship between Board Age and the level of CSR disclosure.
5. The presence of an Audit Committee is related to the level of CSR disclosure. Studies mostly agree (e.g. Appuhami, Tashakor 2017; Ika *et al.* 2017) that the presence of an Audit Committee is positively related to the quality of CSR disclosures.
6. The presence of a CSR Committee is related to the level of CSR disclosure, as supported by Dias *et al.* (2017).
7. Ownership Structure is related to the level of CSR disclosure, being consistent with the hypothesis by Dias *et al.* (2017), even though they could not find a significant relationship.
8. The Size of a Company is related to the level of CSR disclosure. Scholars (e.g. Naseem *et al.* 2017; Lu *et al.* 2015; Jo, Harjoto 2012) mostly agree that the size of a company is positively related to the level of CSR disclosure, stating that larger companies disclose more information.
9. Company Age is related to the level of CSR disclosures. With lacking literature on the topic, shall be assumed that company’s age is related to the level of CSR disclosure as Al-Gamrh and AL-Dhamari (2016) suggest in their study.

2.2. Sample and Data

The sample of this thesis consists of 17 European passenger airline companies. As many previous studies on this topic have concentrated on specific countries, the results could be more applicable for studies with wider geographies. Reporting practices are somewhat similar for European companies, enabling the possibility of unbiased research for studying the relations between chosen variables.

The companies were selected based on passenger volumes of European airlines, based on information from an online source (Europe's… Centre for Aviation). Passenger volumes were measured in 2017, and 20 of the companies with highest volumes were selected. One company (International Airlines Group: IAG) was excluded, as the company owns four separate airlines and results could be conflicting; IAG has its own Board of Directors, but each airline company owned by it have their own Board of Directors and own CSR reporting methods. (Responsibility… International Airlines Group) Due to this, it would be out of this thesis' reach to distinguish which corporate governance factors are related to CSR reporting within these companies, especially considering that four out of nine corporate governance variables are directly board related.

To replace IAG, one company (Jet2.com) was added to the sample based on its recent aggressive growth rate (Europe's…Centre for Aviation). Later three companies were excluded from the research: Alitalia (because it has gone bankrupt), S7 Airlines (because they provided sufficient information only in Russian instead of English), and Air Europa (because they did not provide enough information as of the time of data collection in the beginning of 2018). Taking into account these circumstances, the final sample consists of 17 European passenger airline companies.

Secondary data was used to complete the research. For corporate governance variables, data was mostly gathered from the latest available annual reports, stand-alone reports or companies' web pages. For some variables, such as Ownership Structure and Company Size, it was necessary to use third party information, such as data from trading websites.

Data for CSR reporting was obtained mostly from companies' CSR reports; these reports were mostly reports within annual reports or alternatively stand-alone reports provided by the companies. Names for these reports varied from CSR reports to sustainability or responsibility reports, but the contents were similar despite differing names. In some cases information about CSR reporting was gathered from companies' websites, but only if there were not separate CSR reports available.

2.3. Corporate Social Responsibility Disclosure Index

According to the study by Dias *et al.* (2017), a thematic content analysis was used to measure the levels of CSR reporting. A checklist consisting of CSR indicators was constructed in order to get an understanding of selected companies' CSR reporting practices. The checklist consists of 18 different variables that are mostly consistent with the variables used by Dias *et al.* (2017, 12); some indicators were removed (such as Marketing Communication) and some were altered or added to fit the practices of the passenger airline industry (such as a separate indicator for Recycling to measure recycled materials and waste handling).

Each company could score either 1 or 0 based on their reporting of indicators. If the indicators were reported accurately, the company would get a score of 1, but if the indicators were not reported nor mentioned in an appropriate manner, a score of 0 was given.

Table 1 presents the indicators for CSRD Index, their explanations, numbers of occurrences and a percentage of total reporting. Variables were divided into three main groups: economic, environmental and social. Can be seen that social reporting was the most frequent with 57%, environmental the second most reported with 55% and economic the least reported with just 35% within the selected companies.

Table 1. Frequency of CSR items

Category	Indicators	n	%
Economic			**35**
Economic Performance	Economic value, revenues, retained earnings, taxes	6	35
Market Presence	Policy and practices of spending on locally-based suppliers	7	41
Indirect Impacts	Infrastructure investments and services provided for public benefit	5	29
Environmental			**55**
Recycling	Recycled materials, waste handling	11	65
Energy	Energy consumption	9	53
Water	Total water withdrawal	5	29
Biodiversity	Description of significant impacts on biodiversity	7	41
Emissions	Total emissions	12	71
Products & Services	Initiatives to mitigate environmental impacts	16	94
Compliance	Sanctions for noncompliance with environmental laws	6	35
Social			**57**
Employment	Total workforce by employment type or contract	8	47
Labor Relations	Employees covered by collective bargaining agreements	8	47
Occupational Health & Safety	Compliance with health and safety standards	15	88
Training & Education	Employee training	14	82
Non-discrimination	Incidents related to discrimination	2	12
Local Community	Operations to implement local community engagement and development programs	15	88
Customer Safety	Information on safety	13	76
Compliance	Fines for noncompliance with laws and regulations concerning provision and use of services	3	18
TOTAL CSRD Index			**53**

Sources: Dias *et al.* (2017, 12); author's calculations based on data from Appendix 1

CSR reporting among selected companies varied widely, with the lowest score for a company totaling 1 and the highest 16, as can be seen in Appendix 1. Due to variations in reporting, for some companies some indicators were unclear. For example, some companies reported emissions only per passengers instead of total emissions; this would not qualify for a score of 1. Also, if a company did not mention economic performance indicators in its CSR section, a score of 0 would be naturally given, but if the company mentioned the indicators or referred to a page on elsewhere on the same report for where to find that information (such as referrals to corporate governance reports in the same annual reports), a score of 1 was given. Finally, biodiversity was the vaguest indicator and interpreted as follows: impact on biodiversity needs to be clearly stated, the company needs to acknowledge its responsibility and impact and not vaguely blame the whole industry; actions for biodiversity need to be clearly stated.

The most frequently reported variables were Products and Services (16), Occupational Health and Safety (15), Local Community (15) and Training and Education (14). The least reported were Non-discrimination (2), as many companies only stated that they do not tolerate discrimination, and social Compliance (3).

2.4. Corporate Governance Variables

Corporate governance variables were chosen according to the literature review. Five of the variables were chosen from the study by Dias *et al.* (2017), and four were added based on relevance from different studies on this topic. The variables are Board Size; Board Independence; Women on Board; Board Age; Audit Committee; CSR Committee; Ownership Structure; Company Size; and Company Age, and are explained and measured as follows:

1. Board Size: Number of directors on board (Dias *et al.* 2017). If a company has both executive and supervisory board, the number of directors on the executive board shall be counted.
2. Board Independence: Proportion of independent non-executive directors to total number of directors (*Ibid)*.
3. Women on Board: Proportion of female board directors to total number of directors (Muttakin *et al.* 2015).
4. Board Age: The average age of board directors (Post *et al.* 2011). If only years are given and specific dates of births are not provided, it is assumed that the directors have not had birthdays in 2018 by the time of data collection (February 2018).
5. Audit Committee: A dummy variable with the value of 1 if the company has an audit committee, and 0 otherwise (Dias *et al.* 2017).
6. CSR Committee: A dummy variable with a value of 1 if the company has a CSR committee, and 0 otherwise (Dias *et al.* 2017). If company's CSR report contains information about a committee that specifically deals with CSR issues (such as specialized sustainability and corporate governance committee), a value of 1 is given.
7. Ownership Structure: Percentage of share capital held by the major shareholder (*Ibid*).

8. Company Size: Total revenues (Lu *et al.* 2015; Muttakin *et al.* 2015), measured in million euros. Foreign currencies are converted to euros using the conversion rate of 23rd of February 2018. To simplify the research for readers, real values are used instead of logarithms, even though some studies suggest logarithms should be used. The results were similar for real values and logarithms and therefore it is not necessary to use logarithms in this research.
9. Company Age: Age of a company in years (Al-Gamrh, AL-Dhamari 2016), as of data collection time in February 2018.

The following table (see Table 2) presents the values of corporate governance variables of this research based on the criteria above and which will be used for analysis in Chapter 3.

Table 2. Corporate Governance Variables

	Corporate Governance Variables								
Company	Board Size	Board Independence	Women on Board	Board Age	Audit Committee	CSR Committee	Ownership Structure, %	Company Size, mil. €	Company Age
Lufthansa Group	5	-	0,2	54	1	0	4,5	31660	65
Ryanair	13	0,92	0,23	63	1	0	5,32	6647,8	33
AF-KLM Group	19	0,74	0,37	60	1	0	12,3	24846	13
easyJet	8	0,75	0,25	58	1	0	11,7	5718,9	22
Turkish Airlines	9	0,33	0,11	51	1	0	49,1	29468	84
Aeroflot Group	11	0,45	0	49	1	0	51,2	6728,9	86
Norwegian	7	0,43	0,43	51	1	0	26,8	3200,9	25
SAS	11	0,64	0,45	59	1	0	14,8	4274,8	71
Wizz Air	9	0,56	0,11	62	1	0	20,8	1571,2	14
Pegasus	7	0,57	0,14	57	1	0	0,45	795,59	28
TUI Group	6	-	0,17	54	1	0	23	18535	94
Thomas Cook Group	11	0,73	0,36	59	1	1	17,8	10239	10
TAP Air Portugal	12	-	0,17	-	1	1	61	2289,6	72
Aegean	12	0,25	0	-	1	0	23,7	1020,3	30
Finnair	7	1	0,43	56	1	0	55,81	2568,4	94
Flybe	6	0,5	0,33	57	1	0	19,4	803,99	38
Jet2.com	4	0,25	0	-	1	0	37,89	1965,7	15

Source: Author's calculations; secondary sources

As can be seen from Table 2, some of the data was not available; such cases were marked as "-". Otherwise, no significant outliers can be identified; this supports the use of Pearson's correlation coefficients over Spearman's (Mukaka 2012). These indicators will be observed in more detail in Chapter 3.

Information given in this chapter acts as a foundation for the analysis. It is important to note how corporate governance variables are measured in this context, as related studies use differing methods. Table 1 merely gives an overview of data collected for CSRD Index and it is therefore recommended to observe the values of Appendix 1 before continuing to the analysis, as data from Appendix 1 will be used for the calculations. The chosen CSRD Index variables should also be noted, as related studies use differing methods for measuring the levels of CSR reporting. Table 2 then presents the collected corporate governance values, and also for the first time introduces sample companies.

Chapter 3 presents an analysis, results and discussions based on information given in this chapter. As descriptive statistics are given in the following chapter it is not necessary to observe values of the tables in this chapter. Correlation coefficients will be calculated based on this data and illustrative graphs will be given to help the interpretation of the results. Findings are presented and summarized and conclusive remarks are given.

3. RESULTS AND DISCUSSION

This chapter shows statistical results based on the research design and methods presented in Chapter 2. Descriptive statistics are presented to simplify the data, Pearson's correlation coefficients are calculated and scatter plot diagrams are presented for each of the variables. These results will be analyzed, discussed and compared to prior literature. Limitations and further study suggestions will also be recognized.

3.1. Descriptive Statistics

Descriptive statistics for the variables of this research are presented in the following table (see Table 3). Can be seen that the range for CSR Disclosure Index (CSRDI) is wide with a minimum of 1 and a maximum of 16, when the actual range is from 0 to 18. Board Size (BSIZE) varied between 4 and 19, averaging at 9,24. Board Independence (BIND) was reported on only 14 occasions with an average of 0,58. The proportion of Women on Board (WOB) has a range of 0 to 0,45 with an average of 0,22. Board Age (BAGE) was reported on 14 occasions with an average of 56,37 years and a range from 49,09 to 63,46 years. Ownership Structure (OWNS) has a range of 0,45 to 61 % with an average of 25,62 %. Company Size (SIZE) varies between 795,59 and 31660 million euros with an average of 8961 million euros. Company Age (CAGE) varies between 10 and 94 years with an average of 46,71 years.

Audit Committee (ACOM) was reported in all of the selected companies with a frequency of 17. CSR Committee (CCOM), or a similar committee assigned for CSR issues, was reported in only two companies, meaning that 11,76 % of the companies had such a committee.

Table 3. Descriptive Statistics

Continuous variables						
Variable	**N**	**Mean**	**Median**	**Minimum**	**Maximum**	**St. Deviation**
CSRDI	17	9,53	10	1	16	4,58
BSIZE	17	9,24	9	4	19	3,68
BIND	14	0,58	0,56	0,25	1	0,23
WOB	17	0,22	0,20	0	0,45	0,15
BAGE	14	56,37	57,25	49,09	63,46	4,36
OWNS	17	25,62	20,80	0,45	61	18,77
SIZE	17	8961	4275	795,59	31660	10436
CAGE	17	46,71	33,00	10	94	31,13

Categorical variables				
Variable	**N**	**Dummy**	**Frequency**	**Percentage**
ACOM	17	1 (Yes)	17	100
		0 (No)	0	0
CCOM	17	1 (Yes)	2	11,76
		0 (No)	15	88,24

Source: Author's calculations.

The following sub-chapter presents correlation coefficients for variables presented above.

3.2. Correlation Coefficients

When data is continuous, Pearson's correlation coefficients may be calculated in order to find associations between continuous data with bivariate normal distribution (Artusi *et al.* 2002). As this thesis aims to distinguish linear relationships of selected variables, Pearson's correlation coefficients are used. Pearson's correlation coefficient can be said to be the geometrical mean of the slopes of two regression lines; a perfect positive slope has a value of 1 and a perfect negative slope has a value of -1, if there is no association a value of 0 is given (*Ibid*). It is assumed that none of the values are extreme, which supports the use of Pearson's correlation coefficient over Spearman's correlation coefficient (Mukaka 2012).

Appendix 2 shows Pearson's correlation coefficients. The first row, labelled "CSRDI", indicates the coefficients for CSR Disclosure Index. Pearson's correlation coefficients are calculated as follows:

$$r_{xy} = \frac{\sum x_i y_i - n\overline{x}\overline{y}}{(n-1)s_x s_y} \tag{1}$$

where
r_{xy} - Pearson's correlation coefficient,
n - number of observations,
$\overline{x}$ - arithmetic mean of all x_i,
$\overline{y}$ - arithmetic mean of all y_i,
s_x - standard deviation for all x_i,
s_y - standard deviation for all y_i.

For interpretation, very high correlation has values from (+/-) 0,90 to (+/-) 1,00; high correlation from (+/-) 0,70 to (+/-) 0,90; moderate correlation from (+/-) 0,50 to (+/-) 0,70; low correlation from (+/-) 0,30 to (+/-) 0,50 and negligible correlation from 0,00 to (+/-) 0,30 (Hinkle *et al.* 2003).

From the Appendix 2 it can be interpreted that the size of correlation is moderately positive only for Company Age (r=0,6073). Correlation is positively low for Company Size (r=0,4424), Ownership Structure (r=0,4814) and Board Size (r=0,3290), and negatively low for Board Age (r=-0,3083). No significant correlation is found for Board Independence (r=0,0398), Women on Board (r=0,0621) or CSR Committee (r=0,2028), though should be noted that as CSR Committee was present for only two of the sample companies, results for that are not applicable.

To determine significance of correlation coefficients, critical values should be examined. To determine critical values for Pearson's correlation coefficients, degrees of freedom (*df*) of 15 (*df*=n-2) should be used for those variables with n=17. As *df*=15, the critical values for this data are -0,606 and +0,606 at 99 % significance, -0,482 and +0,482 at 95 % significance and -0,412 and +0,412 at 90 % significance. For BIND and BAGE, *df*=12 is used, as some data was lacking and n=14. Critical values for BIND and BAGE are -0,661 and +0,661 at 99% significance, -0,532 and +0,532 at 95% significance and -0,458 and +0,458 at 90 % significance. If r < negative critical value or r > positive critical value, then r is significant. (Table… Statistics Solutions)

When correlation coefficients are observed, can be seen that CAGE (0,6073 > 0,606) is significant at a 1 % level, OWNS (0,4814 > 0,412) and SIZE (0,4424 > 0,412) at a 10 % level; OWNS falling just short from being significant at a 5 % level. Other indicators are not statistically significant, as BSIZE (0,3290 < 0,412), BIND (0,0398 < 0,458), WOB (0,0621 < 0,412), and BAGE (-0,3083 > -0,458) do not exceed the level of 90 % significance.

3.3. Corporate Governance Effects on Corporate Social Responsibility Disclosures in the European Passenger Airline Industry

The results of previous calculations will be graphically presented by scatter plot diagrams and further analyzed in this sub-chapter. Each corporate governance factor will be individually observed and previously set hypotheses either rejected or confirmed.

The relationship between Company Age and CSR Disclosure Index is presented on Figure 1.

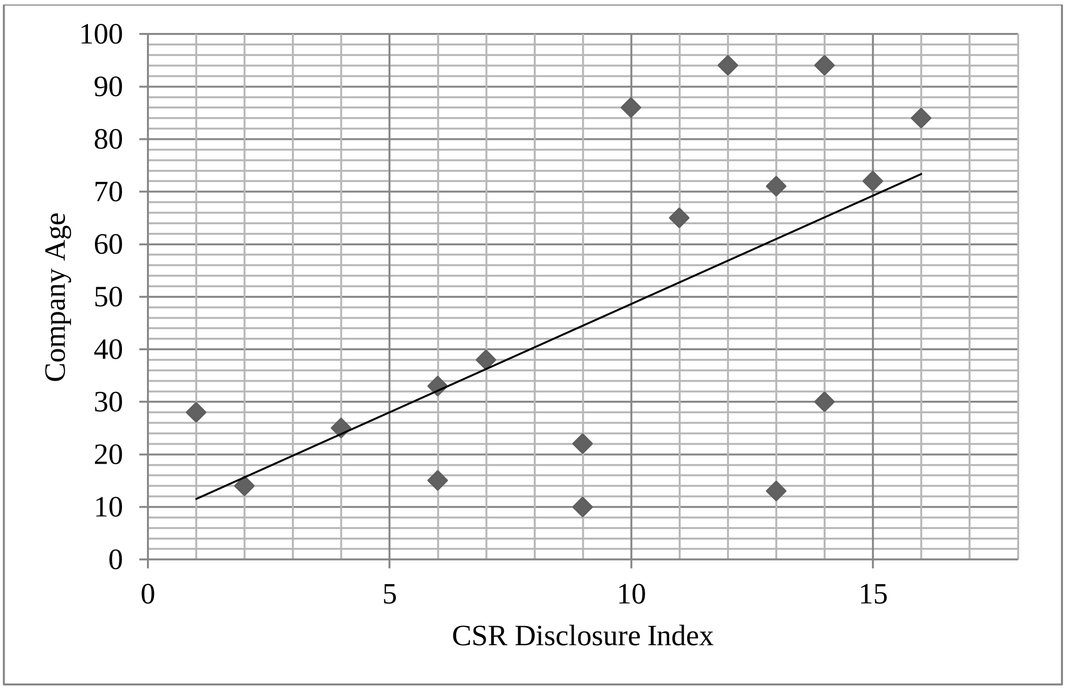

Figure 1. Scatter Plot Diagram for Company Age and CSR Disclosure Index
Source: Author's calculations based on data from Table 2 and Appendix 1

The Pearson's correlation coefficient (r=0,6073) suggests a moderate positive relationship, which supports the hypothesis that company's age is related to the level of CSR disclosure. This supports the findings of the study by Al-Gamrh and AL-Dhamari (2016) by recognizing the effects of company's age on the level of CSR disclosure. With lacking literature on the relationship between these variables, this finding is a positive outcome. As the correlation coefficient is significant at a 1% level, a relationship between Company Age and CSR Disclosure Index was found. Interestingly should be noted that especially older companies disclosed higher levels of CSR information, whereas younger companies disclosed both low and high levels of CSR information.

The relationship between Ownership Structure and CSR Disclosure Index is presented on Figure 2.

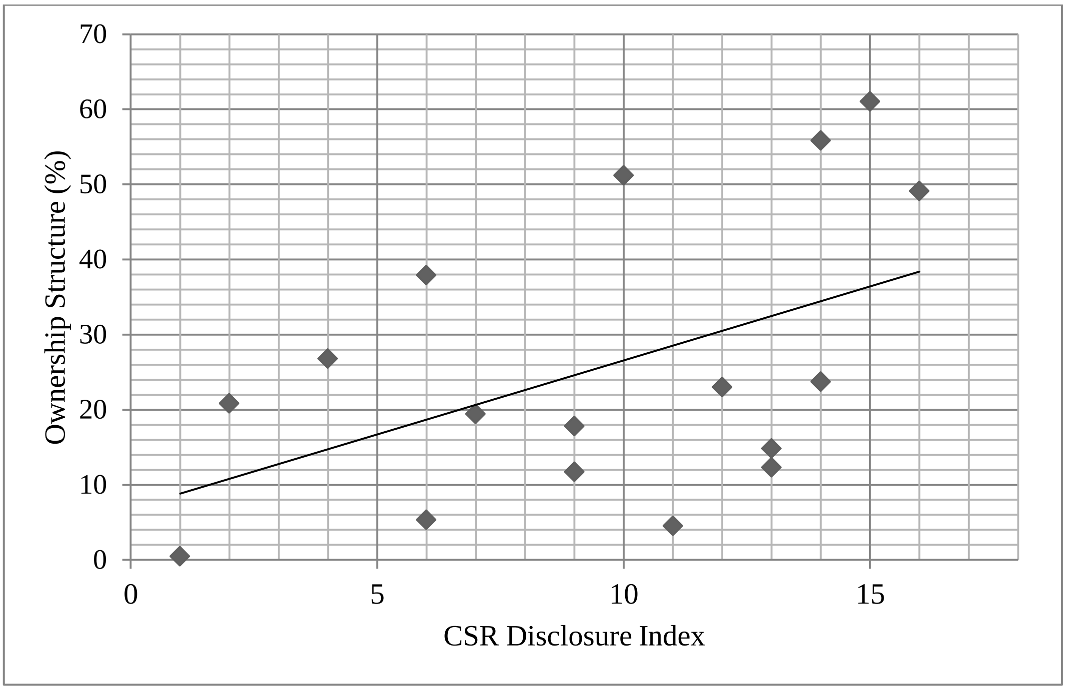

Figure 2. Scatter Plot Diagram for Ownership Structure and CSR Disclosure Index
Source: Author's calculations based on data from Table 2 and Appendix 1

The Pearson's correlation coefficient (r=0,4814) suggests a low positive correlation between the variables, this being significant at a 10 % level. Even though literature is conflicting and lacking, it can be stated that there is a positive relationship between Ownership Structure and the level of CSR disclosure. Interestingly, whereas companies with low levels of ownership structure disclosed both low and high levels of CSR information, companies with high levels of ownership structure disclosed more CSR information.

The relationship between Company Size and CSR Disclosure Index is presented on Figure 3.

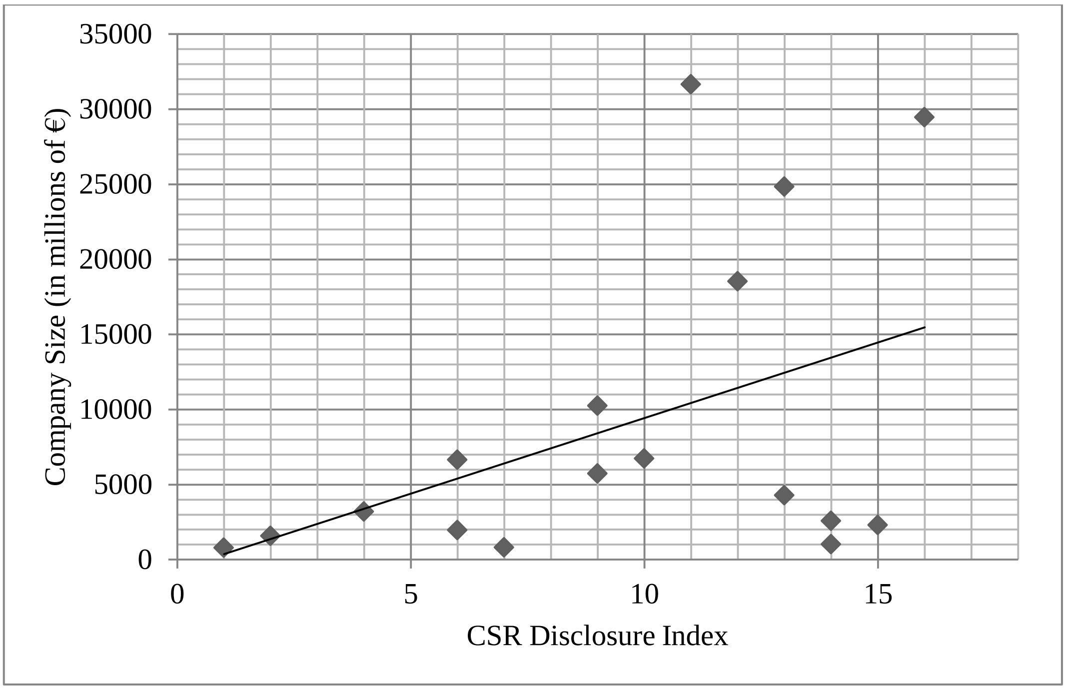

Figure 3. Scatter Plot Diagram for Company Size and CSR Disclosure Index
Source: Author's calculations based on data from Table 2 and Appendix 1

Pearson's correlation coefficient (r=0,4424) suggests a low positive correlation, this being significant at a 10 % level. This finding supports the hypothesis and studies by Naseem *et al.* (2017), Lu *et al.* (2015) and Jo and Harjoto (2012) that bigger companies disclose more CSR information. As the scatter plot diagram (see Figure 3) illustrates, can be seen that whereas smaller companies disclosed both high and low levels of CSR information, bigger companies disclosed only relatively high levels of CSR information. Therefore it can be stated that company's size is related to the level of CSR disclosure; size may have a positive effect when a company is large, but for the levels of CSR disclosures the size is irrelevant if a company is small.

The relationship between Board Size and CSR Disclosure Index is illustrated on Figure 4.

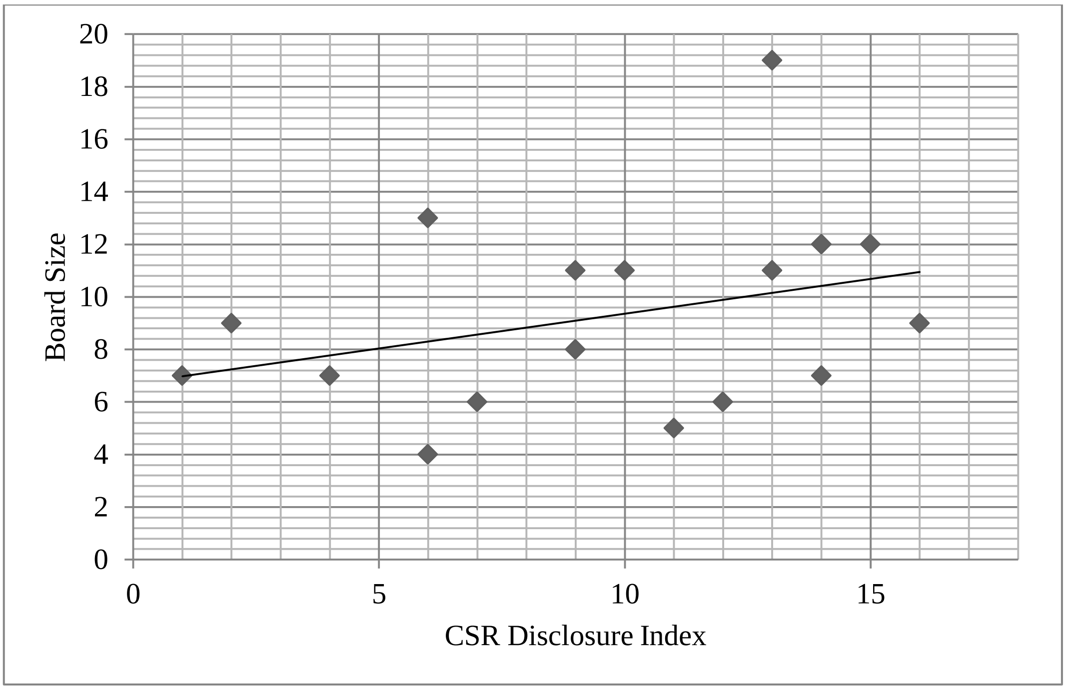

Figure 4. Scatter Plot Diagram for Board Size and CSR Disclosure Index
Source: Author's calculations based on data from Table 2 and Appendix 1

The Pearson's correlation coefficient (r=0,3290) suggests a low positive relationship between the variables. With coefficient being that low, the correlation coefficient not reaching the level of 90 % significance, and scatter plot diagram visibly showing no strong relations, the hypothesis of a relationship between Board Size and CSR disclosures cannot be proven correct. With the literature showing conflicting results as well, the question whether board sizes affect the levels of CSR disclosures in the European passenger airline industry remains unanswered.

The relationship between Board Age and CSR Disclosure Index is illustrated on Figure 5, presented on the next page.

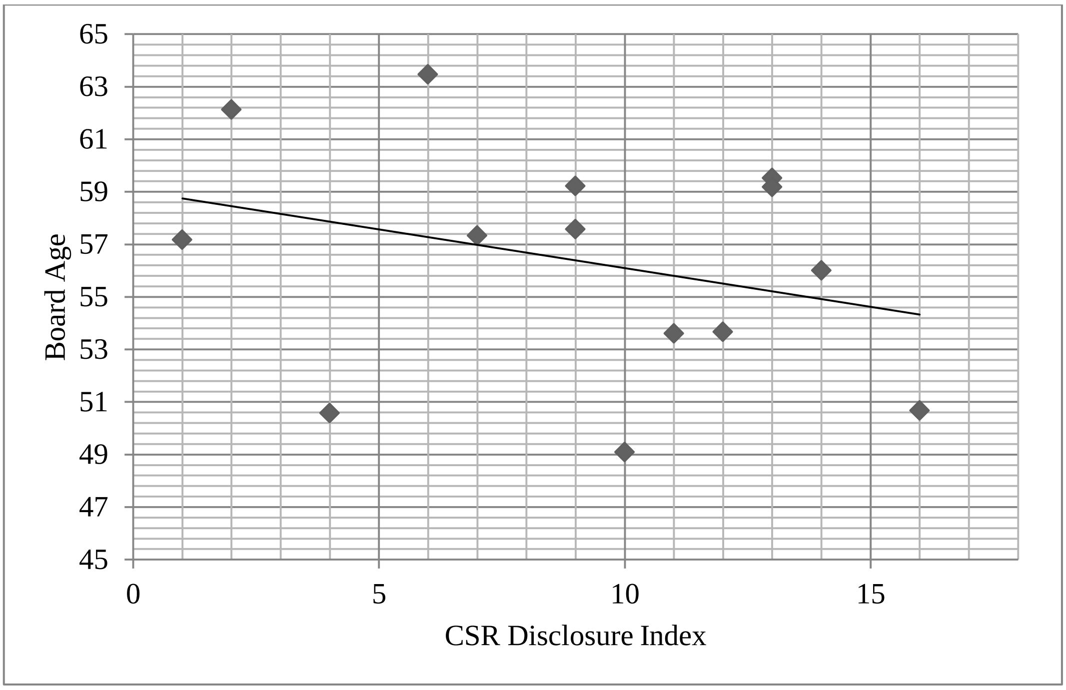

Figure 5. Scatter Plot Diagram for Board Age and CSR Disclosure Index
Source: Author's calculations based on data from Table 2 and Appendix 1

The Pearson's correlation coefficient (r=-0,3083) suggests a low negative correlation between the variables, meaning that younger boards would disclose more CSR information. Because the correlation coefficient is that low and statistically not significant, and because the scatter plot diagram (see Figure 5) does not illustrate clear results, the question whether board ages affect the levels of CSR disclosures in the European passenger airline industry remains unanswered. While many studies (e.g. Handajani *et al.* 2014) suggest that board age is positively related to CSR disclosures, findings from this thesis indicate that younger boards could disclose more CSR information. In author's opinion this is an interesting finding, even though statistically not significant, and should be studied in the future.

The relationship between Women on Board and CSR Disclosure Index is illustrated on Figure 6, presented on the next page.

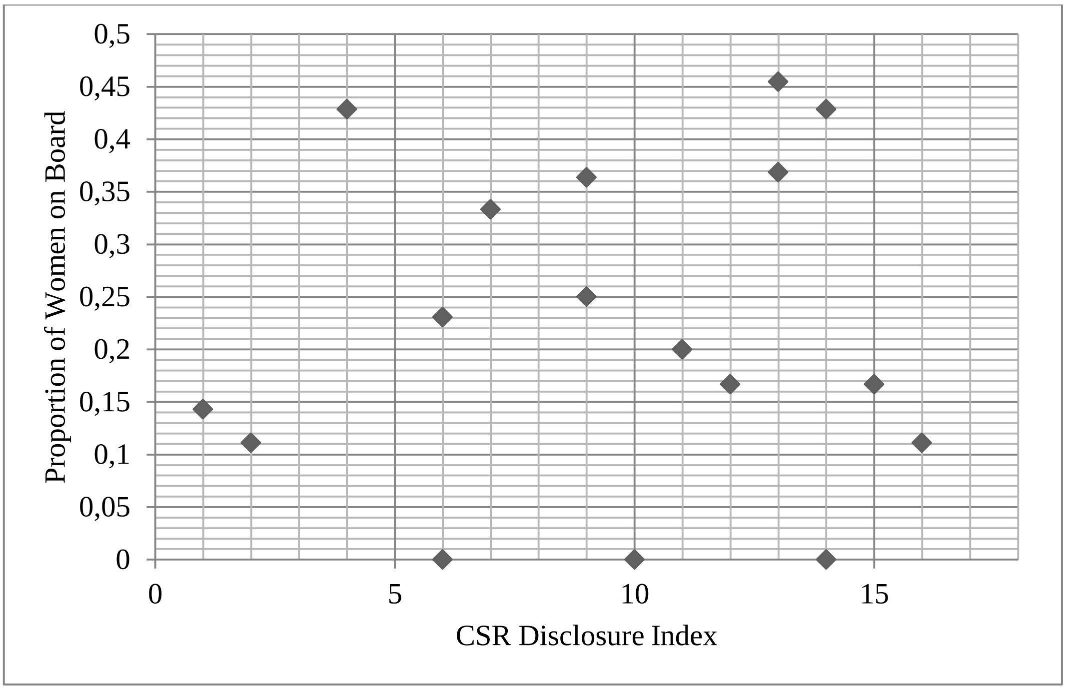

Figure 6. Scatter Plot Diagram for the Proportion of Women on Board and CSR Disclosure Index
Source: Author’s calculations based on data from Table 2 and Appendix 1

No relationship between the Proportion of Women on Board and CSR disclosures could be found. This may be due to the small sample size or due to the industry characteristics. Based on the conflicting literature on this topic and on the findings of this thesis, it can be stated that the proportions of women on boards do not affect the levels of CSR disclosures in the European passenger airline industry.

The relationship between Board Independence and CSR Disclosure Index is illustrated on Figure 7. As the correlation coefficients and scatter plot diagram suggest, no relationship between the two variables was found; this may be due to the small sample size or industry characteristics. These findings are conflicting with prior studies; Post *et al.* (2011), Webb (2004) and Harjoto *et al.* (2015) all suggest that boards with more independent directors would disclose more CSR information. Even though the results are conflicting, must be concluded that Board Independence does not have an effect on the level of CSR disclosure for a company in the European passenger airline industry.

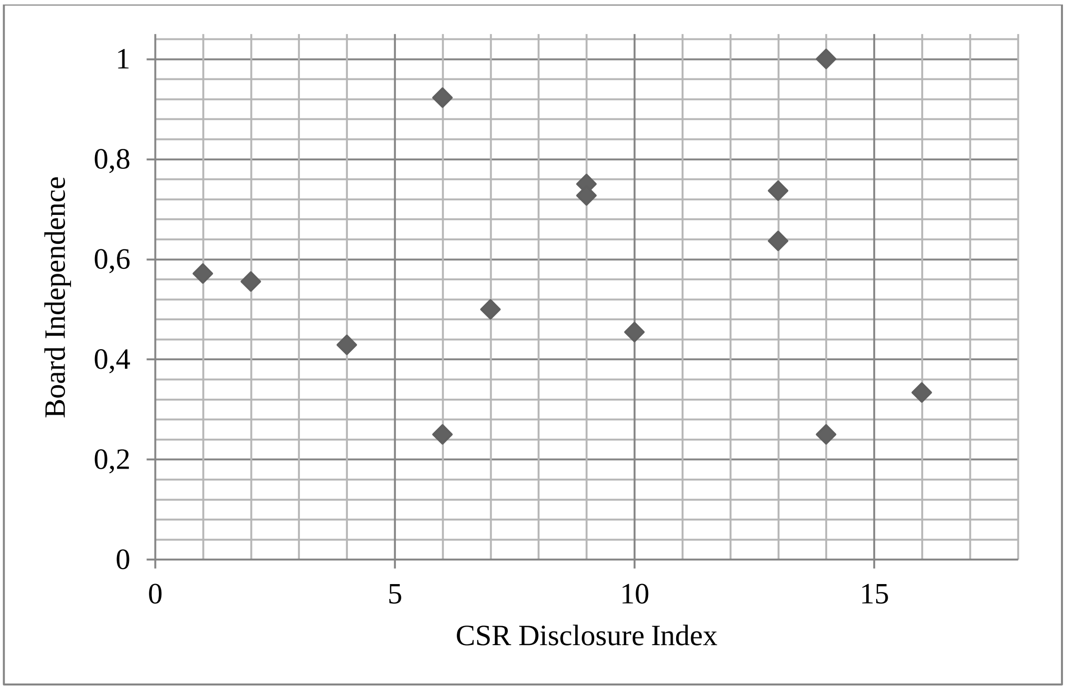

Figure 7. Scatter Plot Diagram for Board Independence and CSR Disclosure Index
Source: Author's calculations based on data from Table 2 and Appendix 1

As all of the companies had Audit Committees, no conclusions can be drawn from that data. Also, because only two companies reported to have CSR Committees or something alike, no conclusions can be drawn from that data. Due to this, the questions whether Audit Committees and CSR Committees are related to the levels of CSR disclosures in the European passenger airline industry remain unanswered. Though should be noted that having a CSR Committee could indicate higher levels of CSR reporting, as the companies with such committees had average or above average scores for CSR disclosures with an average score being 9,5, and the companies with CSR committees scoring 15 and 9. This does not yet prove that there would be a relationship between CSR disclosures and CSR Committees but this suggests that the relationship should be further studied by for example increasing the sample size.

Should be noted that all the corporate governance variables correlated with CSR disclosures, namely Company Age, Ownership Structure and Company Size, are company characteristics and none of the board characteristics were significantly correlated. This is highly conflicting with prior studies and hypotheses set for this research, which assume that boards would affect CSR reporting. This is one of the most important findings of this research as these findings challenge prior studies on this topic.

The results provide insightful information for this field of study. This study does not consider other overlapping reasons for the relationships between studied variables, but still proves that some corporate governance factors are related to the levels of CSR disclosures within studied industry, either directly or as a secondary consequence.

3.4. Conclusions and Limitations

The aim of this thesis was to study how corporate governance affects CSR disclosures in the European passenger airline industry. A CSR Disclosure Index was compiled in order to distinguish the levels of CSR reporting and Pearson's correlation coefficients were calculated for chosen corporate governance variables. The most important finding was that three significant, positive relations were found, namely for Company Age, Ownership Structure and Company Size. Other variables were either not statistically significant or correlation coefficients did not show relations.

To conclude main findings, a positive correlation was found for the age of a company and it was also found that especially older companies disclosed more CSR information, whereas younger companies disclosed both high and low levels of CSR information. A low positive correlation was also found for ownership structure. It was found that companies with low levels of ownership structure disclosed both high and low levels of CSR information, but companies with high levels of ownership structure disclosed more CSR information. Similar findings could be identified for company's size, as low positive correlation was found; smaller companies disclosed both high and low levels of CSR information, but bigger companies disclosed only relatively high levels of CSR information.

A low positive correlation was found for Board Size and a low negative correlation was found for Board Age, but the results were found to be statistically not significant. Proportion of Women on Board and Board Independence were not related to the levels of CSR disclosures. There was not enough data to identify relations for Audit Committees and CSR Committees.

Taking into consideration all previously mentioned factors it can be stated that Company Age, Ownership Structure and Company Size affect CSR disclosures in the European passenger airline industry. Significant relations for Board Size, Board Independence, Women on Board,

Board Age, Audit Committee or CSR Committee could not be found. Should be noted that the findings indicate that board characteristics and committees do not affect CSR disclosures, whereas company characteristics do affect CSR disclosures.

These findings challenge prior studies on this topic, as some results are not consistent with prior findings. The findings of this thesis provide insightful information for European passenger airline companies, their boards, employees and shareholders, and other stakeholders such as governmental parties and consumers. These findings should encourage passenger airline companies' boards to improve their CSR disclosures' quality especially so that consumers would find it easier to compare companies.

Certain limitations should be considered for this research. Should be recognized that the sample is small (n=17). Also, some of the data for the quantitative analysis was obtained from third party sources, so complete accuracy of this data needs to be questioned. As the research is concentrated on European markets and while majority of the companies are from the European Union (EU), many of the companies operate under the same regulations that could also have an effect on the levels of CSR reporting. Other overlapping reasons for the levels of CSR disclosures were not considered, and this thesis did not consider other possible factors for the relations.

To further study the topic, the sample should be larger. Also other quantitative methods could be included to support correlation analysis, such as regression analysis, taking into consideration that correlation coefficients can give somewhat limited results. As there are only a limited number of European passenger airline companies, perhaps companies from other continents could be included. This would also widen the geographical scope, removing the possible effects of EU regulations. Taking into consideration that many studies in this field have researched companies either from one country or concentrated on just one or few corporate governance factors, results from this thesis prove that further studies on specific industries should be conducted, as the results are somewhat conflicting with studies from niche geographical samples.

CONCLUSION

The awareness of Corporate Social Responsibility (CSR) has increased enormously during the past decade and therefore also the number of related disclosures has increased. Many studies suggest that corporate governance affects CSR disclosures at least to some extent. As theories of both CSR and corporate governance have not been fully agreed on, measured variables and results vary; the relationship between corporate governance and CSR disclosures has not been fully established. Passenger airline industry has suffered from environmental issues, which has brought it to a center of CSR debate; the industry itself lacks studies on both CSR and corporate governance.

This thesis studied corporate governance effects on CSR disclosures; the aim of was to study how corporate governance affects CSR disclosures in the European passenger airline industry. More specifically, it was studied how board's size, independence, proportion of women and age, and company's ownership structure, size and age, and the presence of audit and CSR committees affect the levels of CSR reporting. The hypotheses were set based on findings from recent studies and the effects were studied by conducting Pearson's correlation analysis. The sample consisted of 17 European passenger airline companies and secondary data, such as annual reports, were used.

The results indicate that Company Age, Ownership Structure and Company Size are positively correlated with CSR disclosures. Company Age was found out to be statistically significant at a 1 % level (r=0,6073), and Ownership Structure (r=0,4814) and Company Size (r=0,4424) at a 10 % level. Board Size (r=0,3290), Board Age (r=-0,3083), Board Independence (r=0,0398), Women on Board (r=0,0621), CSR Committee (r=0,2028) and Audit Committee (coefficient could not be calculated) were not statistically significant.

The findings further indicate that especially bigger and older companies and companies with higher levels of ownership structure disclose more CSR information. It is then concluded that Company's Age, Ownership Structure and Company Size have positive effects on CSR disclosures in the European passenger airline industry. These findings contribute to prior studies that have been conflicting in nature by challenging common assumptions on corporate governance effects on CSR disclosures.

Even though some of the findings are statistically significant, should be noted that the sample is small (n=17) and that secondary data might not be completely accurate. Also, other possible overlapping reasons for the relations have not been considered, which sets limitations for the results. But even though some limitations occur, these findings contribute to studies in this field, as previous studies on the corporate governance effects on CSR disclosures in the passenger airline industry have not been studied. Also, previously corporate governance effects have been mostly studied in some specific countries rather than companies from the whole Europe.

In the future, it would be recommended to study the topic with a larger sample by including passenger airline companies from different continents as well. As the topic of CSR in this industry is extremely relevant, a larger and wider sample could verify the results of this thesis and be useful for passenger airline companies and also third parties. To further study corporate governance effects on CSR disclosures in general, not just in one specific industry, it is recommended to study companies from a wider geographic area. For the findings of this thesis to be completely applicable, it would be necessary to exclude underlying factors affecting CSR disclosures.

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APPENDICES

Appendix 1. Corporate Social Responsibility Index

	CSR Indicator																		
Company	Economic Performance	Market Presence	Indirect Impacts	Recycling	Energy	Water	Biodiversity	Emissions	Products & Services	Compliance	Employment	Labor Relations	Health & Safety	Training & Education	Non-discrimination	Local Community	Customer Safety	Compliance	**Total**
Lufthansa Group	1	1	0	1	1	0	0	1	1	0	1	0	1	1	0	1	1	0	11
Ryanair	0	0	0	0	0	0	0	0	1	0	0	1	1	1	0	1	1	0	6
AF-KLM Group	0	0	1	1	1	1	1	1	1	0	1	1	1	1	0	1	1	0	13
easyJet	0	0	1	1	0	0	0	1	1	0	1	0	1	1	0	1	1	0	9
Turkish Airlines	1	1	1	1	1	1	0	1	1	1	0	1	1	1	1	1	1	1	16
Aeroflot Group	0	0	0	1	1	1	0	1	1	1	0	0	1	1	1	1	0	0	10
Norwegian	0	0	0	0	0	0	0	0	1	0	0	1	1	0	0	1	0	0	4
SAS	1	0	1	1	1	1	1	1	1	1	0	1	1	1	0	0	1	0	13
Wizz Air	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	2
Pegasus	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
TUI Group	0	1	0	1	1	0	1	1	1	0	1	0	1	1	0	1	1	1	12
Thomas Cook Group	0	1	0	1	0	0	1	1	1	0	0	0	1	1	0	1	1	0	9
TAP Air Portugal	1	1	0	1	1	1	1	1	1	1	1	1	1	1	0	1	1	0	15
Aegean	1	1	1	1	1	0	1	1	1	0	1	1	1	1	0	1	1	0	14
Finnair	1	1	0	1	1	0	1	1	1	1	1	1	1	1	0	0	1	1	14
Flybe	0	0	0	0	0	0	0	1	1	0	1	0	1	1	0	1	1	0	7
Jet2.com	0	0	0	0	0	0	0	0	1	1	0	0	1	1	0	1	1	0	6
Total	6	7	5	11	9	5	7	12	16	6	8	8	15	14	2	15	13	3	

Sources: Author's calculations; secondary data

Appendix 2. Pearsons's Correlation Coefficients

	BSIZE	BIND	WOB	BAGE	OWNS	SIZE	CAGE	CCOM
CSRDI	0,3290	0,0398	0,0621	-0,3083	0,4814**	0,4424**	0,6073*	0,2028
Econ. Performance	0,0203	-0,0705	0,0290	-0,2272	0,3731	0,2130	0,5533	0,1124
Market Presence	-0,0885	-0,0060	-0,0880	-0,3088	0,3648	0,3902	0,4831	0,4364
Indirect Impacts	0,4633	-0,1285	0,0685	0,0552	-0,1171	0,2617	-0,0578	-0,2357
Recycling	0,3242	0,1618	0,0652	-0,3128	0,2912	0,4715	0,5186	0,2697
Energy	0,2930	-0,0438	-0,0731	-0,4377	0,4196	0,4743	0,7361	-0,0215
Water	0,5717	-0,1120	-0,0035	-0,2643	0,4275	0,2908	0,3953	0,1650
Biodiversity	0,4466	0,3017	0,3214	0,2040	0,1908	0,0124	0,2258	0,4364
Emissions	0,2232	0,1138	0,1655	-0,2954	0,2613	0,3905	0,5067	0,2357
Products & Services	0,1564	0,0104	0,1307	-0,0526	0,3457	0,2016	0,1548	0,0913
Compliance	-0,0486	-0,1501	-0,1358	-0,3971	0,7848	-0,0787	0,5778	0,1124
Employment	0,0369	0,2258	0,1152	-0,0180	0,0417	0,1834	0,2121	0,0215
Labor Relations	0,5316	0,1599	0,3321	0,0408	0,2839	0,0306	0,1887	0,0215
Health & Safety	0,1262	0,0298	0,2297	-0,3186	0,3008	0,2805	0,3108	0,1333
Training & Education	0,2032	0,1434	-0,0203	-0,0312	0,2442	0,3249	0,3736	0,1690
Non-discrimination	0,0781	-0,3401	-0,4042	-0,6314	0,4920	0,3296	0,4630	-0,1333
Local Community	0,0240	-0,4362	-0,5392	-0,1187	-0,1942	0,1998	-0,4328	0,1333
Customer Safety	0,1141	0,2190	0,1868	0,2459	0,0247	0,3225	0,1553	0,2025
Compliance	-0,2464	0,1590	0,0449	-0,3640	0,4326	0,3610	0,6738	-0,1690

Source: Authors calculations based on data from Table 2 and Appendix 1

Notes: *Significant at a 1% level. **Significant at a 10% level.