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THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY DISCLOSURES AND CORPORATE GOVERNANCE CHARACTERISTICS

EVIDENCE FROM BANKS OPERATING IN ESTONIA

Master's Thesis

International Business Administration

Supervisor: Wolfgang Dieter Gerstlberger, PhD

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I hereby declare that I have compiled the thesis 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 13 243 words from the introduction to the end of conclusion.

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ABSTRACT

Current research aims to identify the relationship between Corporate Social Responsibility (CSR) disclosures and corporate governance characteristics in banks operating in Estonia. Particularly, Board Size, Board Independence, Board Meetings, Bank Age, Presence of Female on Board, CSR Committee and Audit Committee were selected to measure the effect of corporate governance characteristics on the levels of CSR disclosures in Estonian banking sector. To reach the aim, thematic analysis was conducted for CSR disclosures index construction, data on corporate governance variables was collected and, lastly, correlation coefficients were calculated to identify the relationship.

For many years, scholars tried to establish the relationship between CSR disclosures and corporate governance characteristics. However, the results were often conflicting and did not allow to reach the common understanding. It is especially visible in studies which aimed to identify the relationship in banking industries of different countries. The conclusions were usually dependent on the variables selection and the specifics of the banking sectors. For this reason, author of current research attempted to bring more clarity on this topic by identifying the interrelations in one of the strongest and most efficient banking industries in the region.

The results of the analysis have shown that only two continuous variables proved to be positively associated with the levels of CSR disclosures. Board Size showed strong-to-moderate positive relationship and Presence of Female on Board demonstrated moderate positive relationship. The remaining continuous variables (Board Meetings, Bank Age and Board Independence) have shown very weak relations and were not statistically significant. Similarly, CSR Committee and Audit Committee did not allow to draw any conclusions. Considering a relatively small sample set, which is also one of the greatest limitations of current study, the outcome of the analysis is very insightful and can serve as the basis for future studies which would analyze the relationship between CSR disclosures and corporate governance characteristics in banking industries of neighboring countries.

Keywords: Corporate Social Responsibility, Corporate Governance, Estonian Banking Sector

INTRODUCTION

Corporate Social Responsibility (CSR) has become one of the most significant focus areas of business management in last years. It plays a crucial role in organizations' smooth functioning. Moreover, including the social obligation into the firm's strategy allows to increase awareness as well as create value and meet the expectations of all the stakeholders. One of the global studies conducted in 2015 revealed that 91 percent of all global consumers expect companies to act in a responsible manner and address the environmental issues. Almost the equivalent number of people (90 percent) claimed that they would refuse from purchasing any goods or services from a company with irresponsible and deceptive activities. (Communications/Ebiquity, 2015) Despite CSR being extremely important, the disclosures of CSR related activities have always been inconsistent and volatile. One of the reasons to it is the CSR disclosures being voluntary up until 2018 when the European Commission introduced a directive which obliged large organizations to address their CSR activities either in their annual reports or in stand-alone sustainability reports (Directive 2014/95EU … 2014). Nevertheless, the companies tend to have huge variations in the quantity and quality of information they publish.

The increased attention towards CSR disclosures is especially visible in the banking sector. Banks are a crucial part of the economy as they provide vital services for individuals and businesses. In addition, they stimulate economic growth and development, provide opportunities and financial education, and promote more sustainable future transition. Although, at first sight, banks seem to have less environmental and societal impact, in fact, they bear huge responsibility for lending money to the firms which cause pollution, violate human rights, have unsustainable production cycle, or are involved in corruption activities. (Castelo, 2013)

Current thesis examines the relationship between CSR disclosures and corporate governance characteristics in banks operating in Estonia. The topic choice arose from author's own interest in the abovementioned field of study as well as the direct connection to Estonian banking industry. Despite Estonian banking sector's relatively small size, it is believed to be one of the most competitive in the region. Therefore, the results of this thesis could yield benefits to the banking industries of the neighboring countries as well as all the other interested parties.

The main aim of the study is to identify how corporate governance characteristics influence CSR disclosures in banks operating in Estonia. In particular, Board Size, Board Independence, Audit Committee, Women on Board, Bank Age, CSR Committee and Board Meetings were selected to measure the effect of corporate governance on CSR disclosures. Thus, author has formulated the following central research question: how do corporate governance characteristics affect CSR dislosures in banks operating in Estonia? The more detailed research questions examine the effect of the selected corporate governance characteristics on CSR disclosures (see Page 30).

Numerous studies have analyzed the relationship between CSR disclosures and corporate governance variables; however, the results tend to vary a lot. Scholars have not yet found the common ground since the conclusions were often dissimilar and depended on the field of research and the selection of corporate governance variables. The conflicting results are also present in the studies which researched the relationship between CSR disclosures and corporate governance characteristics in banking sectors of different countries. (Poudel, 2015) The discordant results and the absence of studies with the focus on Estonian banking sector stimulated the research topic choice. The identification of the relationship on the basis of Estonian banking sector would bring more clarity and improved knowledge.

Current thesis is divided into three chapters. Chapter one presents the theoretical overview of CSR, CSR disclosures and corporate governance. It also provides the information of Estonian banking sector structure and discusses the largest European money-laundering scandal which happened through the bank operating in Estonia. Chapter two describes the research design as well as introduces the research methods. It presents the constructed CSRD Index along with corporate governance variables and, in general, acts as the opening stage for the whole analysis. Chapter three serves for the statistical results presentation as well as correlation coefficient calculation. It contains research results that help to either reject or accept the stated hypotheses and which are accompanied by the illustrative graphs. The third chapter ends with conclusion and discussion parts.

Pearson's correlation technique was selected for this research to analyze the relationship between CSR disclosures and corporate governance characteristics. Additionally, author conducted a thematic analysis to compile the CSR disclosures Index which identifies the level of CSR disclosures in the selected banks. Current research is based on the secondary data which was mainly taken from the banks' annual reports, sustainability reports, corporate governance reports and websites. By the end of the thesis, a reader will have an understanding of the relationship between CSR disclosures and corporate governance characteristics in banks operating in Estonia. In addition to the representatives of CSR related activities in banks, this thesis might be of an interest to other scholars who will be studying similar topic.

1. CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE IN ESTONIAN BANKING INDUSTRY

This chapter presents a theoretical framework for Corporate Social Responsibility, Corporate Social Responsibility Disclosures and Corporate Governance. Additionally, it gives an overview of Estonian Banking system including the description of its structure, most crucial developments, and scandals. Prior most reliable studies and their results are analysed and presented. Author suggests that the first chapter should serve as the basis for the empirical part of the research as it contains in-depth fundamentals of the theory.

1.1. Corporate Social Responsibility

The concept of Corporate Social Responsibility (CSR) has a long and interesting history. The term itself started to evolve in 1950s and one of the first widely accepted definitions was brought up by Keith Davis saying that "Corporate Social Responsibility refers to businesses' decision and actions taken for a reason at least partially beyond the firm's direct economic or technical interest" (Carroll, 1999). Later on, there were other different interpretations of CSR introduced by such academics as Walton, Johnson, the Ced, Steiner etc. At the same time, a huge emphasis was on the empirical part which included the CSR measurement and alternative thematic frameworks.

Various definitions were born and then slowly became obsoleted up until the "Pyramid of Corporate Social Responsibility" was introduced by Archie B Carroll in July of 1991 as it gained huge popularity. Carroll has divided CSRs in four categories: economic, legal, ethical, and philanthropic responsibilities (see Figure 1) with the last two not being largely considered before. In addition to the four main categories, Carroll also actively discussed moral management and stakeholder's role in CSR. His theory suggested that CSR requires being profitable (which serves as the foundation for all the other segments), obeying the law and playing the honest game, being ethical and fair without causing any harm and, finally, being a good corporate citizen and improving the quality of life. By introducing his theory, Carroll highlighted that the Pyramid of CSR can never be built if there is at least one component missing from it. (Carroll, 1991)

Figure 1. Carroll's CSR Pyramid
Source: (Carroll, Carroll's Pyramid of CSR: Taking Another Look, 2016)

Despite Carroll's theory being extremely popular and influential, it cannot be stilled taken as "perfect". Scholars state that in the 21st century the conceptions of the business responsibilities' importance are highly different from the ones which Carroll presented in 1991. The latest studies suggest reconsidering and rearranging the sequence of the pyramid's components with the ethical component being taken up to the highest priority followed by legal, economic, and philanthropic. By doing so, the social welfare is not going to be sacrificed for any of the economic gains. (Baden, 2016) In addition to aforementioned, another concept similar to CSR has been gaining huge popularity recently. Particularly, Environmental Social Governance (ESG) is a set of indicators that external parties consider while evaluating the company. In comparison with CSR which is more of a qualitative way of assessing the performance, ESG acts as a tangible measurement of sustainability related activities (Hung, 2021). In 2019, Global Reporting Initiative has stated that more than 90% of the world's biggest organizations are already disclosing their ESG performance. Experts prognose that ESG will eventually substitute CSR in the nearest future, however at the current moment the framework is still in the development mode. (Spellman, 2019)

Another theory which has been identified as a major influencer in the CSR development is named “Stakeholder’s Theory”. In the context of this theory, stakeholders are all individuals who somehow get influenced by the corporations’ actions – whether in a positive or in a negative manner. The stakeholder theory suggests that while trying to obtain the balance in CSR management and its impact on society, an organization should inevitably meet the expectations of its stakeholders and act in their interests. It includes disclosing financial and non-financial information with a goal of attaining good relationship with those stakeholders whose interests are most important and relevant to the company interests. The major difference the stakeholder theory brings in is that the variety of interests matter more than any sets of contractual obligations. (Mohammed, 2020)

With the stakeholder’s theory being important, the ultimate goal of every organization is the maximization of their profits for shareholders’ benefit. For this reason, many companies follow the idea of Enlightened Shareholder Value (ESV) where shareholders’ and stakeholders’ interests are viewed as highly interconnected and mutually influential. Even though current approach considers shareholders interests as preliminary, the interests of other groups as well as long-term sustainability are being taken into account. In all, ESV allows to reach better financial performance by recognizing social, environmental, and economical responsibilities. (Ward & O'Connell, 2020)

Despite numerous attempts to formulate a straightforward and unbiased definition for CSR, the academia, businesses and society have not yet come up with one single interpretation. The definition of CSR is complicated and complex at the same time because of the essence and nature of the issues. CSR is involved in economic system, society and ecology which are complex dynamic systems in their own right. The gap in common understanding of CSR leads to confusion among corporations which are highly required to meet the societal norms. Common standards help to identify the clear path which will be later followed as well as allow to better defend against unjustified accusations. (Sheehy, 2015) CSR can sometimes be also called corporate social opportunity, corporate citizenship, responsible business, and corporate responsibility depending on the publishing office. This fact carries in additional miscommunication and confusion. (Kapoor, 2017) Thereby, there are several interpretations on how to define the term. One of the latest and most accurate ones was brought up in 2000 by The World Business Council for Sustainable Development which stays that “Corporate Social

Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". Similarly, many researchers agree that "Corporate Social Responsibility is a business system that enables the production and distribution of wealth for the betterment of its stakeholders through the implementation and integration of ethical systems and sustainable management practices" (Smith, 2011).

Majority of scholars usually focus on the synergies the CSR creates between the economic and social performances, but there are limited number of researches which discuss CSR's limitations and its actual measurement. One of the imperfections' examples is the inequality between the large and medium sized enterprises, where first ones get more pressure from public to implement CSR practises due to their higher visibility. Similar issue can be observed in public sector where agencies and governmental organizations are under higher control of meeting CSR requirements. (Corporate Social Responsibility … 2021) Another limitation which has been actively discussed is the actual measurement of CSR impact and its value. The most used approach so far has been presented by John Elkington in 1994 who suggested reconsidering the "bottom line" of businesses. In particular, he invented a "true bottom line" which considers societal and environmental consequences of enterprises' actions in addition to economical ones. All three components are highly interrelated with society and environment representing the externalities of operations. When revenue, growth and cost are clear representatives of economical results, then land use, carbon footprint and waste fall under the environmental consequences. Social results, in turn, include employees' well-being, fair trade and community stakeholder. (Byars & Stanberry, 2018)

Even though numerous international studies have confirmed that CSR has a positive impact on business's success, the intentions of implementing CSR are often not very dignified. It was revealed that the most common reason for adopting CSR is the improved brand image and increased attractiveness. Other benefits of following CSR requirements can be gaining a competitive advantage, efficient partnership, decreasing costs of risk management etc. Nevertheless, there are many corporations who act responsibly without having the purpose of commercial gain in mind. They meet the expectations of different stakeholders and behave in environmentally friendly manner while generating solid profit. (Krizanova, 2016)

1.2. Corporate Social Responsibility Disclosures in Banking Industry

Every corporation, similarly to an individual, is tightly related to the community and can never exist as an isolatable element. It is very crucial to build a strong corporate identity to present the brand as the trustworthy expert in the business sector. (Balmer *et al.* 2007) Many studies have confirmed that CSR activities result in better corporate reputation, thus help constructing powerful corporate identity. This fact brings in additional motivation for the top managers to invest in CSR activities as well as wisely broadcast them to the wider audiences. (Sontaite-Petkeviciene, 2015) That is one of the main reasons why CSR disclosures have been so actively discussed recently.

The generally accepted understanding of CSR disclosure is that it communicates the information on what the enterprise has done for the well-being of the community. It also addresses its current practices and discusses the plans for the future which consider the interests and needs of society. The common practice of presenting the aforementioned information to the public is the release of social responsibility report which is published either on company's website or included into its annual report. For some countries, like Malaysia, it is a rule for all the companies to publish their CSR disclosures within the annual report. Even though some of the countries have set mandatory procedures of disclosing the CSR activities, as for today, for the larger number of countries it still mainly remains voluntary. (Kamaliah, 2020)

While discussing the CSR disclosures, the key documentation that requires extra attention is the Directive 2014/95EU (also named the Non-Financial Reporting Directive (NFRD)) which sets up the rules on disclosing the information of how certain large companies should address societal and environmental disputes. The companies that must comply with the NFRD need to have the following characteristics: they are public-interest companies whose minimum number of employees equals to 500. Currently, there are about twelve thousand companies within the European Union who fall under the abovementioned requirements. The list of companies includes insurance companies, listed companies and, the subject of research – banks. According to the Directive 2014/95EU companies must present the information on environmental and societal topics, employees' treatment, anti-corruption and bribery, respect for human rights and the characteristics of company boards (including gender, age, ethnicity, educational background, and work experience). (Directive 2014/95EU … 2014) The Directive stimulates these enterprises to construct and develop a sustainable and responsible approach to their businesses.

In 2017, the European Commission published the guidelines to help companies in disclosing the environmental and societal activities. Additionally, in 2019, the instruction on reporting climate-related actions was presented which serves as a supplement to the primary guidelines. They are, however, not mandatory to follow and exist for illustrational purpose. (Corporate Sustainability Reporting, 2022) Moreover, in April 2021 the European Commission has made a proposal to adopt the Corporate Sustainability Reporting Directive (SDRD) which would alter the existing reporting requirements presented in NFRD. The major changes will include providing the audit of reported information, urging all listed companies (except micro-enterprise) to present the report as well as requesting more detailed information. It is estimated that the first version of standards will come live in October 2022. (Financial Stability… 2021)

Other guidelines that help companies to take responsibility for activities and their impact on society and environment are developed by the Global Reporting Initiative (GRI) which acts as a private network-based organization. Numerous companies from EU and US have signed up on GRI forum on reporting the CSRs. The republic of Estonia has a similar non-profit organization called *the Responsible Business Forum Estonia*. Its main goal is to be the centre of CSRs communication by highlighting its importance to Estonian society and supporting the furtherment of CSRs. The aid is provided to various sectors including banks. (The Responsible Business … 2022)

Since many investors, stakeholders and interested parties often base their decisions on the information found in the social responsibility report, it is extremely important for the companies to think through the materials before making them available for the public. It is always the quality of the information that matters rather than its quantity. A thought that summarizes the importance of the CSR disclosures sounds as following: “Community can survive without the business, but the business itself cannot exist without community”. (Importance of … 2021)

Various studies have been conducted to determine the motivation to voluntary disclose the insights on societal and environmental activities held in the company. The most significant determinants, based on the empirical evidence, is the reduction of political costs as well as increased visibility and profitability. (Gamerschlag *et al.* 2011) In addition, some scholars argue that a lot of companies are not aligned with what they present in CSR disclosures. These companies undertake CSR disclosures as a great marketing tool to improve the relations with the stakeholders and often seek to seem more responsible that they are in reality.

As for the banking industry, the CSR disclosures are extremely important since banks have always been a subject to increased public interest because of their direct and indirect impact on society. Reporting CSRs has become especially important after the financial crisis in 2008 which has resulted in banks failure. (Laugel & Laszlo, 2009) For this reason, people tend to have an expectation of banks being extra transparent and responsible. A study by Stankeviciene and Nikonorova indicates that maintaining sustainable economic performance is one of the most crucial activities conducted by banks. The Figure 2 represents *the Conceptual Model of Sustainability* which should be taken as the foundation while setting the overall strategy. The main idea that stands behind the model is that the banks should understand that their economic, societal, environmental activities as well as combinations of these can both enhance the profitability and serve for the betterment of society. (Stankeviciene & Nikonorova, 2013)

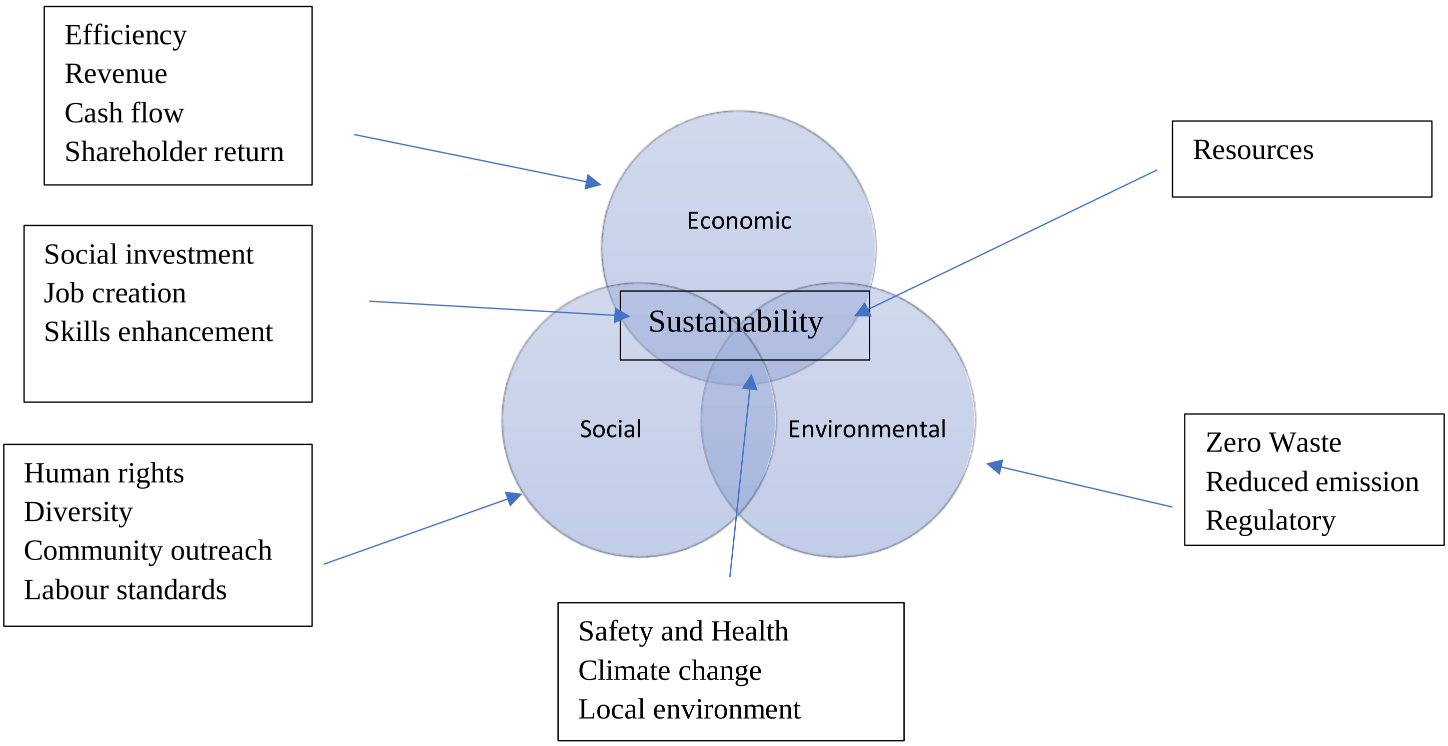

Figure 2. The Conceptual Model of Sustainability
Source: Created by the author

Banking industry is one of the key players in the whole economy as it is actively linked with all the economy's participants: government, other businesses, and consumers. Together all the members of European Banking Federation account for a total of combined assets three times the total EU GDP. (Corporate Social Responsibility, 2022) Furthermore, banks are the primary institutions which provide financial education and stimulate the society towards more sustainable future transition. Therefore, CSR disclosures where the ethical behaviour of banks is being broadcasted to public can serve as an ideal tool to reach the long-term success and sustainable growth.

1.3. Corporate Governance

The history of corporate governance is as long and interesting as the evolution of CSR. The concept of *corporate governance* has existed for centuries dating back to 1600-1700 when the very first big corporations were formed. The term itself, however, started to appear in late 1970s and was widely used only in USA for the first time. (Moon, 2019) Similarly to CSR, various authorities have tried to come up with the most accurate definition of corporate governance. Since corporate governance relates to a huge number of economic, social, and financial aspects, it is difficult to come up with one single definition which would capture all these aspects. The Organization for Economic Cooperation and Development (OECD) states that "Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined". (OECD, 2015)

Another common interpretation of corporate governance was brought up by the International Chamber of Commerce (ICC) which says that "Corporate governance is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations". (Nalina & Panchanatham, 2016)

What numerous scholars have agreed on, however, are the seven characteristics of a good corporate governance. These include discipline, transparency, fairness, accountability, independence, responsibility and, separately, social responsibility. (The King Report … 2009) Even though several characteristics of a good corporate governance may sound similar to a simple *management*, these terms should be never mixed up. Management is a common practice of running daily operations and taking control over them, whereas corporate governance operates on a higher level by taking care of rules and regulations which could ensure responsible and accountable attitude. Corporate governance can sometimes be named as the management of management which, to some extent, is true.

Elif Gönencer in her research on development of corporate governance in EU stated that the effect of corporate governance can be measured on two different levels – country and company. Relying on a large number of empirical studies, she created a list of positive effects which, in turn, have been split into two. Country-level impacts included increase in foreign capital investment, sustainable development, overcoming crises with less damage and improvement of a country's image. These impacts have especial importance when it comes to emerging countries as well as countries in transition process. The list of positive effects on a company level included increase in credibility, financial capabilities and liquidity, high level of shareholders protection and mitigation of risks such as fraud and corruption. (Gönencer, 2008)

Despite corporate governance's evident impacts on the country it is operating in as well as the company itself, the measurement of its quality is still relatively a new concept. The most popular studies focus on board structure, shareholders rights, transparency and disclosure of information while measuring the effectiveness of corporate governance. Yet, the characteristics (variables) strongly vary from one author to another depending on the field of activity, business values and culture. (Tipuric *et al.* 2020) Many scholars consider board independence, board size and its leadership to be equally important variables to measure corporate governance performance. (Rodrigues *et al.* 2017)

As for the banking sector, effective corporate governance is crucial for the functioning of banks. The corporate governance of banks differs a lot from the ordinary companies because of the complex structure of banks organization, its nature of business, the need for increased protection and extra attention to risks (including fraud and corruption). (Corporate Governance of Banks, 2013) The incompetent corporate governance of banks can result in transmission of problems not only across the banking industry but the economy as a whole. Based on the Committee of Banking Supervision, the major goal of corporate governance is the protection of stakeholder's interest on a sustainable basis aligned with public interest. The global financial crisis has encouraged many authorities to review the corporate governance performance. The review on risk governance issued by the Financial Stability Board (FSB) has shown that a lot of measures have been taken to improve the corporate governance and its risk management, although there is still much work to be done. A well-performing corporate governance should protect long-term interests of the bank, predict the development, establish corporate values and culture, establish risk appetite along with other important responsibilities. (Basel Committee … 2015) Similarly to the non-banking entities, corporate governance always gains much attention. However, the requirements on banks' corporate governance quality, composition and responsibilities are much stricter. One of the main reasons to it are the high risks, which, in turn, require more control in a more detailed manner. The same logic applies on transparency and disclosure requirements. (Hopt, 2021)

When it comes to the corporate governance in banking sector, *the fourth Capital Requirement Directive* (CRD) and *the Capital Requirements Regulation* (CRR) cannot be left unmentioned. The CRD was adopted in 2013 and its primary goal is to strengthen the resilience of European banking industry so it will be better prepared for economic shocks and continue to grow and finance economic activities. CRD together with CRR address capital requirements, leverage ratios and buffers. Additionally, they set the new regulations for corporate governance to accumulate the excessive risks. The changes include increased board's diversity, transparency of the activities and effective risk monitoring by risk supervisors. (The Fourth Capital Requirements Directive (CRD), 2013)

Socio-political changes during the past decades have stimulated the necessity of good corporate governance existence. While the worldwide competition has been increasing, it has become essential to have a corporate governance which is capable of promoting trustworthy, ethical, honest, and responsible means to stay in the market and achieve corporate's goals. Especially in developed countries, the focus of corporate governance goes far beyond the traditional aspects as it also captures CSRs. Companies which have high standards of their corporate governance seek to apply social, economic, and environmental principles into all important decision systems. (Mohamad & Muhamad Sori, 2011)

1.4. The Relationship between Corporate Social Responsibility and Corporate Governance

Corporate governance and CSR are two related and interlinked concepts which are integrated into nowadays business processes. These concepts are similar in a sense that both focus on ethical behaviour in the businesses as well as responsible attitude towards the stakeholders and the surrounding environment. In addition, CSR and corporate governance result in improved brand image and reputation while having a direct impact on organizations performance. (Verma & Kumar, 2012) As both corporate governance and CSR evolve rapidly, the overlap in their responsibilities, influence areas become more evident and extensive.

Studies on corporate governance and CSR analysed separately are available in large quantities and can be considered as well-researched areas, however a little attention has been paid on finding the relationship between these two concepts (Muttakin *et al.* 2013). As a general rule, the relationship between corporate governance and CSR is analysed by applying two different theories – Stakeholder's Theory or Agency Theory. The first theory, as discussed in previous subchapters, implies the ethical behavior from the managers which is broadcasted to the public with the aim of attaining major stakeholders' interests. It was found out that when CSR and corporate governance are working together, it usually results in strengthening the relations between stakeholders and avoiding agency conflicts. If this happens, the implementation of CSR is positively interconnected with mechanisms of corporate governance. (Aguilera *et al.* 2007) Based on the Agency theory, the scholars look at the relationship between CSR and corporate governance in the same way the relationship between managers (agents) and shareholders functions. Majority agree that investment in CSR is related with an increase in firm's value. On the other hand, scholars state that unneeded sums of money can be spent on CSRs by the managers for their own private benefit. (Furtado & Araujo, 2014) Additionally to the previous theories, the Resource Dependence Theory (RDT) plays equally crucial role in CSR and corporate governance relationship. The theory itself suggests that external resources of organizations have an effect on their behavior (Hillman & Collins, 2009). Recently, the RDT has been widely used to describe the role of corporate governance on CSR related activities implementation. According to the theory, board members act in a role of resource which monitors and controls environmental threats. Therefore, they help building corporate strategy and smooth relationship with stakeholders, reach necessary resources as well as provide expertise and advice which, in turn, enhance CSR activities. All the described theories are connected and assume that society and organizations are highly interrelated. Society has got the desired resources and in order to acquire them, companies need to meet society's expectations. (Helfaya & Moussa, 2017)

Jo and Harjoto in their study claim that CSR is a part of company's efforts to boost efficient corporate governance which ensures sustainability, accountability, and transparency. Their empirical evidence demonstrates that CSR engagement is positively related to several corporate governance characteristics such as board leadership, board independence and institutional ownership. (Jo & Harjoto, 2011) However, it is worth mentioning that corporate governance characteristics are often dependent on the researched area and might highly differ if dissimilar sample set was selected.

Research conducted in 2017 by Dias, Lima Rodrigues and Craig reveals that CSR is positively affected by two variables only – board size and CEO duality. Their results, however, were largely dependent on company's size and industry type meaning that the aforementioned conclusion is applicable to the larger companies who have very tight interaction with their consumers. Additionally, it was concluded that a good corporate governance stimulates executives to set goals and key objectives relating to CSR. It is suggested that corporate governance and CSR are a part of a communication between company and its stakeholders, and their main aim is the increased engagement. (Rodrigues *et al.* 2017) Another research by Mak and Eng which focused on revealing the relationship between CSR and corporate governance highlighted that larger firms are more eager to disclose their CSR activities. Results show that the ownership structure as well as board composition strongly affect the CSR disclosures. At the same time, researchers state that the presence of outside directors reduces CSR activities and their disclosures. (Mak & Eng, 2003)

The difficulty in identifying the relationship between CSR and corporate governance lays in differences between applied methods, used variables, analyzed companies and, consequently, in the obtained results. Usually, scholars consider a few variables when establishing the relationship between CSR and corporate governance, thus the unified framework is missing. The most considered factors of corporate governance based on previous studies are board size, board independence and board diversity. Recently, more emphasis has been put on corporate culture and the presence of women on board. (Li, 2018)

When it comes to the banking industry, the similar inconsistent results are noticed. The selection of corporate governance characteristics is determined according to the bank type and the country it is operating in. To illustrate, a research conducted in 2015 with the focus on Nepalese commercial banks identified that board size, board committee, audit committee, boards meetings and directors' remuneration are positively related to CSR disclosures. However, as the author states, the selection of different banks and other countries could have led to opposite conclusion. (Poudel, 2015)

1.5. Banking Sector in Estonia

1.5.1. Estonian Banking Sector Overview

Estonia regained its independence after the Soviet Union collapse in 1991 and since then developed a strong commercial banking industry in a very short time. This fact has allowed Estonia to become one of the most competitive in the region despite its relatively small size. The very first commercial bank in Estonia was established in 1988 followed by financial crisis and instability. Nevertheless, Estonian banking industry managed to evolve, reach high levels and even offer paper-free services. A key role in this success played a wise regulatory approach instituted by the Central Bank and Bank of Estonia. (Krishnan *et al.* 2012) The list of responsibilities of the Central Bank is well-known: it contributes to the safety of the banking systems, monitors the inflation, develops financial infrastructure, and ensures financial stability. (European Central Bank , 2022) Bank of Estonia (also called Eesti Pank), in turn, is the central bank for the republic of Estonia. In addition to its main responsibilities, Eesti Pank contributes to maintaining the price stability in Eurozone. (Estonian Banking Sector) It plays a crucial role in achieving country's economic policy goals as well as participates in currency circulation management, arranges, and controls money transactions, provides different kind of financial statistics. (Eesti Pank)

The Estonian banking sector is relatively small and consists of fifteen banks. They, in turn, are divided into two categories: licensed credit institutions (9) and operating branches of foreign credit institutions (6). The Estonian banking sector assets account for €30 billion which equals to 110% of Estonian GDP. The analysed sector is dominated by four largest commercial banks:

Swedbank, SEB Bank, LHV Bank and Luminor Bank. They are serving nearly two million private customers and 300 000 corporate clients. Estonia is one of the very few countries who's branches of foreign-owned banks play an essential role in retail banking. All the dominating banks in Estonia act as universal banks meaning the providence of wide list of services and coverage of majority of market segments. (Estonia: Review of the Financial System, 2011)

The main funding for Estonian banking sector mainly comes from resident clients' deposits, although the financial support from parent companies as well as equity market is equally important. Despite of its small size, the profitability of Estonian banking sector is one of the strongest in European Union which is aided by smaller loan losses and cost-efficiency. (Estonia's Banking Sector: Facts & Figures, 2021) One of the key objectives for Estonian banks is the constant sustainable growth. The focus is on the responsible banking and the transition to the green economy. Essential is to raise awareness, trustworthiness, and compassion. (Strategic Objectives of the Estonian Banking Association for 2020-2022)

Among the brightest characteristics of Estonian Banking today is the increased digitalization and automation which results in high technology usage. It includes electronic banking which holds more than 95% of all transactions. Inter alia the avoidance of paper-oriented banking has helped the Estonian Banking industry to overcome the financial crisis in 2007-2009 relatively well, although it still experienced some heavy losses. In addition, presence of permanent market-oriented policies allowed the well-performing banks to succeed and progress. Overall, sound credit management, constant implementation of advanced technologies and introduction of innovative product lines are the elements which brought success to Estonian Banking industry. (Krishnan *et al.* 2012)

1.5.2. Money Laundering Conflict

Estonian banking sector has been involved in a serious money-laundering conflict in recent years (2017-2018). Money laundering inherently is the process of creating an image that money generated from the criminal acts comes from a legitimate source. Danske, one of the biggest banks in Nordics, handled thousands of millions of euros in very questionable and suspicious transactions from the Russian Federation and ex-Soviet states in the period of 2005 till 2017 through Estonian branch non-resident portfolios. (Bjerregaard & Kirchmaier, 2019) One of the strongest banks operating in Estonia has betrayed its vision of being a trusted partner, its goal of helping individuals and, finally, the purpose of financial sector – to assist people in managing their finances (Logan, 2019). It has been announced as possibly the largest money laundering scandal in the European Union. A huge investigation took place, and it was discovered that Swedbank could be also involved in doubtful transfers. As a result of thorough investigation, ten former employees from the Danske Bank's Estonian branch were taken under arrest in December 2018. Additionally, and most importantly, Estonian government obliged Danske Bank to stop any operations in Estonian branch and finally close it. (Kauranen & Ahlander, 2019) After some period of time, Danske Bank independently has decided to stop operating in Latvia, Lithuania and Russia and concentrate on its Nordic core market. The money laundering crisis which arose right after the news were published has worsened the image of Nordic banks and their Estonian branches which, in turn, had to regain people's trust. (Pohjanpalo *et al.* 2019) Money laundering and financing terrorists has been a very relevant topic for many decades, but due to the aforementioned scandal, it has gained even larger attention and importance. There are several organizations involved in anti-money laundering in Estonia such as Estonian Financial Intelligence unit (FIU), the Prosecutor's Office, courts in Estonia, Governmental Committee and Financial Supervision Authority. The list of their responsibilities includes analysis and verification of information about suspicions of money laundering and terrorists financing, the financial sector's stability, transparency and reliability provision, the rise of entrepreneurs' awareness and involvement in legislation development. The Money Laundering and Terrorist Financing Prevention Act which took effect in 2008 contains the set of regulations for the same purpose.

The first chapter has now provided the theoretical framework of corporate governance, corporate social responsibility, and corporate social responsibility disclosures. The literature review on the relationship between corporate governance and CSR was presented and clearly demonstrated inconsistencies in the existing studies. Moreover, the overview of Estonian banking sector was given with the emphasis on its structure, key institutions, and most recent developments. In addition, the money laundering scandal was described as it has played an essential role on Estonian banking sector's functioning. In the second chapter of the study the research methods and data collection techniques will be described. Also, author will present the hypotheses and main objectives. Finally, the selection of variables will be presented and justified.

2. RESEARCH METHOD AND DATA COLLECTION

The second chapter introduces the main aim of the thesis and hypotheses stated by the author. Moreover, it describes the research design as well as the used methods. The focus is also put on the sample set formation and the techniques used to collect the necessary data. In addition, this chapter presents the Corporate Social Responsibility Index which will be used later in the third chapter to establish the relationships between variables. Lastly, current chapter illustrates Corporate Governance variables for the selected banks and explains in which way they will be measured. In general, the second chapter serves as the opening stage for the whole analysis which will be continued in the following chapter.

2.1. Research Aim and Hypotheses

The main research aim is to identify the relationship between corporate governance characteristics and the levels of CSR disclosures in the Estonian banking industry by calculating correlation coefficients for the chosen variables. To reach the aim, author has stated seven hypotheses claiming that either positive or negative relationship exists between certain corporate governance characteristics and Corporate Social Responsibility Disclosures (CSRD). The selection of corporate governance variables is based on the previous studies which analyzed the interconnections in the banking industries of other countries. The Pearson's correlation analysis is selected for this research as it is the most common method to implement for finding the linear relationship between numerical variables. (Nettleton, 2014) The correlation analysis is perfect tool to identify presence or absence of correlation between two variables and determine the exact extent to which they are correlated. (Suresha, 2021) The description of the selected method fits the aim of the thesis, thus will be applied similarly to numerous other studies.

Taking into consideration the absence of studies with the focus on establishing the relationship between CSRD and corporate governance variables in banks operating in Estonia particularly, author has developed the following hypotheses. The hypotheses will be either accepted or rejected in the third chapter of the research.

H1: *There is a positive relationship between Board Size and CSRD.* Numerous studies have observed that larger boards are positively associated with CSRD. Large boards contribute to the improved company's reputation that has a great mixture of professional knowledge and reliable interests that enhance CSR demand and provide transparency (Masud *et al* 2018). However, more recent studies have not found any association between Board Size and CSRD. This fact brings in additional importance to examine above stated hypothesis.

H2: *There is a positive relationship between Board Independence and CSRD.* Board Independence is proved to be one of the most important corporate governance characteristics as it addresses not only the interests of the shareholders, but the interests of all stakeholders. The higher the number of independent directors on the board, the higher CSRD is. (Zaid & Abuhijleh, 2019) Although, similarly to the H1, contradictory studies exist which claim that no relationship between CSRD and Board Independence was observed. Thus, it becomes crucial to examine the hypothesis.

H3: *There is a positive relationship between Women Directors on the Board and CSRD.* Recent studies show that women are more engaged into social practices than men. On top of that, the presence of women on board was identified as one of the dominant factors which lead to the increased CSRD. (Liao *et al.* 2018) Thus, it becomes essential to identify whether the similar relationship exists in Estonian banking industry.

H4: *There is a positive relationship between Bank Age and CSRD.* The results of numerous studies show that Bank Age is positively associated with the level of CSRD. Mature banks usually generate higher income and have more capabilities to invest in CSR activities. (Sun, 2021) Young banks, in turn, often lack financial resources, experience and reputation (D'Amato & Falivena, 2019; Zaid & Abuhijleh, 2019). On the other hand, less mature enterprises are believed to be more flexible and adopt CSR activities diligently. Therefore, it becomes essential to test this hypothesis.

H5: *There is a positive relationship between Audit Committee and CSRD.* The presence of Audit Committee is reported to have a strong effect on the quality and frequency of CSRD

(Shammari & Sultan, 2010). It improves the monitoring and disclosure practices. Author considered important to find out whether the similar relationship exists in banks operating in Estonia.

H6: *There is a positive relationship between CSR Committee and CSRD.* The presence of CSR Committee (might be also called Business Ethics Committee or Responsibility Committee) gives formal recognition that the environmental and social impacts are kept under consideration (Ulman, 1985). A CSR Committee is considered to be efficient in monitoring the quality of CSRD. (Michelon & Parbonetti, 2012). Thus, CSR Committee became the sixth corporate governance variable for current research.

H7: *There is a positive relationship between Board Meetings and CSRD.* Many studies have revealed that frequent Board Meetings are efficient and have a positive effect on reporting of CSRD. However, some scholars argue that common resource-rich meetings of board directors do not influence the CSRD. (Gow & Rashid, 2017) Current research aims to find out the relationship between the variables in banks operating in Estonia.

2.2. Sample Set Construction and Data Collection

The sample set for this research consists of 15 banks of which nine are licensed credit institutions in Estonia and six are the branches of foreign credit institutions operating in Estonia. The existing structure of banking sector developed at the beginning of 2000s when a large number of banks stopped their operations due to the Asian and Russian crises. The entrance of big Nordic banking groups into the Estonian banking market also negatively influenced the quantity of banks. From that time and until now, the Estonian banking sector is mainly owned by foreign banking groups that have established their subsidiaries and branches here. (The Structure of … 2017) Table 1 presents the list of banks operating in Estonia as for the beginning of 2022.

Table 1. Estonian banking sector

Estonian banking sector	
Licensed credit institutions	Branches of foreign credit institutions
1. AS Inbank	1. AS Citadele Bank
2. AS SEB Bank	2. Nordea Bank Abp
3. AS TBB Bank	3. OP Corporate Bank plc
4. Bigbank AS	4. PayEx Sverige AB
5. Coop Bank AS	5. TF Bank AB
6. Holm Bank AS	6. Folkefinants AS
7. Luminor Bank AS	
8. Swedbank AS	
9. AS LHV Bank	

Source: Estonian Financial Supervision and Resolution Authority, 2022

The list of banks operating in Estonia as for the beginning of 2022 was taken from the website of Estonian Financial Supervision and Resolution Authority. (Banking and Credit, 2022) During the data collection process, one foreign credit institution – PayEx Sverige AB was excluded from the sample set to avoid possible conflicting results. The reason for it is that starting from 2017 PayEx operates as a wholly owned subsidiary of Swedbank AB. Thus, the final sample set consists of 14 banks which actively operate in Estonia.

Secondary data was used to conduct the analysis. For constructing the CSRD Index the latest Sustainability Reports were used. For larger number of analyzed banks, the Sustainability Reports were part of the Annual Reports, however a few credit institutions had their stand-alone reports which focused on CSR. The name of these reports hugely varied from CSR Reports to Sustainability or Responsibility Reports. For some of the banks the information on CSR activities was presented on banks' websites either under the *Sustainability* section or in some other reports and was also taken into account if it met the required timeframe and measuring techniques. Since most of the analyzed banks have not yet presented their Annual Reports for the year 2021 at the time of the research, the Annual Reports for the year 2020 were selected. Similarly to the CSRD Index, the data for elaborating the corporate governance variables was taken from banks' Annual Reports and websites. The majority of banks had a

Corporate Governance Report as a part of their Annual Report which provided the necessary information on chosen corporate governance characteristics.

2.3. Corporate Social Responsibility Disclosure Index

The thematic analysis method was applied to identify the levels of CSR elements. It is a practical method for analyzing qualitative data that involves researching the data set to identify, examine and report repeated patterns. Scholars state that the thematic analysis can serve as the foundational method as it can be applied to a wide range of research designs, sample sizes and is very flexible on its own right. The chosen analysis method matches the objective of SCRD index construction which is the search for common data points across numerous reports. (Varpio & Kiger, 2020)

The list of CSR indicators was prepared to measure the volumes of CSR related information reported by the banks operating in Estonia. The selection of CSR elements was based on the Core Option of GRI Standards and resulted in 19 different CSR indicators as some of the elements, which did not fit the researched industry, were removed. Recently, GRI has implemented the program for sector standards development, and those with the highest impact have already received their unique reporting standards such as oil and gas sector. Banking sector standards are currently in the pipeline; thus, the general reporting standards were used. Additionally, as suggested by GRI, CSR elements were split into four categories, namely – general, economic, environmental, and social. It allows to obtain better understanding to what extent different categories are addressed.

In the process of accessing the data, there were two possible scores given. The score depended on the accuracy of the information when reporting the CSR activities. If the bank has stated the information according to the GRI minimum standards, a score of 1 was given. Otherwise, if the indicator was not mentioned or reported inappropriately, a score of 0 was given. Table 2 presents the CSRD index by stating the name of CSR indicator, its explanation, number of occurrences and percentage of total reporting. The table illustrates that the most addressed categories in Estonian banking sector were general and social with equal 76% of total reporting.

The least addressed category was environmental with 54% of total reporting. As the result of thematic analysis, the total CSRD index accounted for 69%.

Table 2. Frequency of CSR elements

Category	Indicators	n	%
General			**76**
Organizational Profile	Name, activities, profile, location, ownership, products	14	100
Strategy	Statement, opportunities, and threats	14	100
Stakeholder Engagement	List of stakeholders group, core themes and issues	4	29
Ethics and Integrity	Values, principles, mission, concerns about ethics	13	93
Governance	Governance structure, delegating authority, conflicts of interest	10	71
Reporting Practice	List of reporting topics and period, Global Reporting Index context	9	64
Economic			**68**
Economic Performance	Economic value, taxes, retained earnings	14	100
Anti-corruption	Operations assessed for risks related to corruption	12	86
Market Presence	Policy and practices of spending on locally based suppliers	6	43
Indirect Impacts	Infrastructure investments and services provided for public benefit	6	43
Environmental			**54**
Emissions	Total emissions	7	50
Water	Total water withdrawal	4	29
Energy	Total energy consumption	10	71
Waste	Waste by type and method of disposal	9	64

Category	Indicators	n	%
Social			**76**
Employment	Total workforce by employment type and contract	14	100
Training and Education	Employee training and education	11	79
Human Rights	Operations that required human rights review or impact assessment	8	57
Diversity and Inclusion	Diversity of governance members and employees	10	71
Local Communities	Operations to implement local community engagement and development programs	10	71
Total CSRD Index			**69**

Source: Author's calculations based on the data from Appendix 1

The results show huge difference among various CSR elements. The information on Organizational Profile (general), Strategy (general), Economic Performance (economic) and Employment (social) was present in all the analyzed banks. The least addressed elements were Stakeholder Engagement (general) and Water (environmental) which were reported only by four banks out of 14. In most instances, banks highlighted the importance of stakeholder's relationships and sensible use of water but have not gone in details with these CSR elements. In general, the disclosure of CSR activities varied a lot among the banks operating in Estonia. Although the total CSRD Index is relatively high, several banks showed low level of CSR reporting and presented limited amount of information in their annual reports. Appendix 1 gives more detailed information on each CSR indicator for all the banks. It demonstrates that Swedbank, LHV, SEB and Luminor, which are the dominants of Estonian banking sector, tended to address the CSR activities and disclose them more accurately and precisely than other banks. On an equal basis with the key commercial banks of Estonia, Nordea Abp has been very efficient in disclosing CSR activities.

2.4. Corporate Governance Characteristics

The selection of corporate governance variables is based on the previous studies which analysed the relationship between CSRD and corporate governance in different countries' banking sectors. (Zaid & Abuhijleh, 2019; Tran & Lam, 2020) It is worth mentioning that the choice of variables still varied depending on the country and scholars' preferences. Thus, author of this research did a thorough literature review in order to make the reasonable and functional choice which would be the most applicable to Estonian banking sector taking into consideration its evolution, size, ownership and peculiarities. The selected variables are: Board Size, Board Independence, Audit Committee, Women on Board, Bank Age, Board Meetings and CSR Committee. They are explained and measured as follows:

1. Board Size (BSIZE). The total number of directors on the board. It includes outside directors, executive directors and non-executive directors (Shakir, 2007).
2. Board Independence (INDEP). Proportion of independent directors on the board to the total number of directors on the board (Sarkar & Sarkar, 2004).
3. Audit Committee (AUDIT). An Audit Committee is made of members of the board and its main task is to oversee the financial statements and report them. A dummy variable with the value of 1 if a bank has an audit committee, otherwise 0. (Ridwan & Mayapada, 2020)
4. Women on Board (FEMALE). Proportion of women board directors to the total number of directors on the board (Haryono *et al.* 2020).
5. Bank Age (BAGE). Age of a bank in years for the time of data collection (March 2022) (Kieschnick & Moussawi, 2018).
6. CSR Committee (CSRCOM). Often called Sustainability Committee. A dummy variable with the value 1 if bank has a CSR Committee, otherwise 0 (Rodrigues *et al.* 2017).
7. Board Meetings (BMEET). Number of board meetings held during certain period of time. In context of current research, the amount of board meetings for 1 year time (2020) will be analyzed. (Ajward & Manawaduge, 2019)

Table 3 presents the Corporate Governance variables in the measurements presented above. The majority of Corporate Governance characteristics were taken either from banks' annual reports, separate Corporate Governance reports or banks' websites. The values presented in the Table 3 will be used for the analysis in the following chapter.

Table 3. Corporate Governance Variables

	Corporate Governance Variables						
Bank name	Board Size	Board Independence	Audit Committee	Women on Board	Bank Age	CSR Committee	Board Meetings
Swedbank	10	0,8	1	0,4	25	1	23
SEB	9	0,67	1	0,44	50	1	21
Luminor	10	-	1	0,3	5	0	26
LHV	7	0,42	1	0,14	23	0	11
Inbank	5	0,4	1	0,2	11	0	17
TBB Bank	5	0,8	1	0	31	0	-
Coop Bank	6	0,5	1	0	30	0	11
Holm Bank	5	0,8	1	0,2	27	0	-
Bigbank	5	0,6	1	0	30	0	5
Citadele	9	-	1	0,33	12	0	5
Nordea Abp	10	0,9	1	0,4	27	1	16
OP Corporate Bank plc	5	-	1	0	13	0	15
TF Bank AB	7	0,71	1	0,42	35	0	16
Folkefinants	6	-	1	0	16	0	12

Source: Author's calculations, secondary data from banks' annual and corporate governance reports

In general, the larger amount of information on specific corporate governance characteristics was easily accesible as the banks provided very thorough overview on their boards structure and members. The analysed banks varied a lot in terms of the age with the youngest one being just 5 years old and the oldest – 50. In addition, Table 3 demonstrates that women are less likely to become directors on the board in the banks operating in Estonia. The highest proportion of female reached 0,44 (at SEB) while the board of directors in 5 banks consisted of male only as for the time of the research. Despite the fact that the majority of banks claimed that they highly address the CSR issues, only 3 banks have established their own CSR committees. The Audit Committee was present in all 14 banks.

Some datapoints are missing from the Table 3 and are marked with "-" accordingly. To bring an example, Luminor has stated in its Corporate Governance report that the sufficient number of independent members needs to be present on board to ensure that the interests of both – internal and external stakeholders are taken into consideration, however it does not specify the concrete number or proportion of them. Information on Board Independence was also missing from Citadele, Folkefinants and OP Corporate Bank. Another corporate governance characteristic that was not present in all fourteen banks was Board Meetings. TBB Bank and Holm Bank described in their reports the outcomes of General Annual Meeting, however no specific number was given in regards to the quanitity of Board Meetings.

The second chapter has now provided the data which will be later used for establishing the relationship between CSR disclosures and corporate governance characteristics in banks operating in Estonia. In particular, in chapter two author has stated seven hypotheses which will be tested in the following chapter. Current chapter also identified the sample set for the research where the names of the banks were mentioned for the first time as well as described the methods that will be used. Corporate Social Responsibility Disclosure Index as well as Corporate Governance variables were calculated and presented. Appendix 1 was also given to show the calculations on the chosen CSR indicators for all 14 banks.

3. RESULTS AND DISCUSSION

This chapter presents the statistical results which are based on the data provided in the second chapter. The descriptive statistics as well as correlation coefficients are calculated and presented. The results are provided and accompanied by the illustrative graphs for better visibility. The third chapter ends up with the discussion and conclusion parts. Additionally, author presents the limitations of the research which would help to better identify the focus areas for future studies.

3.1. Descriptive Statistics

Table 4 provides the descriptive statistics of CSRD Index and corporate governance variables. Presence of descriptive statistics is very important as it enables to visualize the data and provide the meaning to it. It also leads to a simpler interpretation of the collected data. Usually, descriptive statistics allows to notice the potential relationship between variables which can be later approved or rejected by more thorough analysis. (Allen, 2017) Descriptive statistics in Table 4 includes total number of observations, mean, median, mode, maximum, minimum, standard deviation, coefficient of variation and presence of outliers. Based on the results, the CSRD Index in the analysed dataset varies a lot with a minimum number of 4 and a maximum number of 14 observations. The median of CSRD Index, which is equal to 10, also acts as one of the modes in the observed banks. The Board Size has a maximum number of 10 and a minimum number of 5 people. Although the most frequently occurring number of people on board equals to 5, the mean is higher (7,1). During the data collection process, it was revealed that only 10 banks provided the information on their Board Independence in the reports. The range of Board Independence was between 0,4 and 0,9 with an average of 0,66. Descriptive statistics show that Bank Age was a variable with the highest range (45) as the years of establishment for banks varied a lot with the youngest one being just 5 years old and the oldest one – 50. It is worth mentioning that the Bank Age was calculated starting from the year when the bank has registered its official and functional for the time of research name (and finished the process of merging with other financial institutions). Women on Board ranged between 0 and 0,44 with an average of 20% of the whole board size. Finally, the information on the number of Board Meetings was present in twelve banks. Descriptive statistics demonstrate that the range was huge with the minimum of 5 and maximum of 26 board meetings per year. All analyzed variables have a relatively low coefficient of variation which is a signal of small extent of variability in relation to the mean. Importantly, there are no outliers in the current dataset which supports the choice of Pearson's correlation analysis since it is very sensitive to the outliers which might lead to misleading conclusions.

Table 4 demonstrates two categorical variables which were selected for the current study, namely CSR Committee and Audit Committee. Based on the collected data, Audit Committee was present in all of banks. The presence of CSR Committee was only seen in three (21,4%) banks.

Table 4. Descriptive statistics

Continuous variables									
Variable	N	Mean	Median	Mode	Maximum	Minimum	Standard deviation	Coefficient of variation	Outliers
CSRD Index	14	9,7	10	10 / 14	14	4	3,29	0,34	none
BSIZE	14	7,1	6,5	5	10	5	2,09	0,29	none
INDEP	10	0,66	0,69	0,8	0,9	0,4	0,17	0,26	none
BAGE	14	23,92	26	30 / 27	50	5	11,75	0,49	none
FEMALE	14	0,2	0,2	0	0,44	0	0,18	0,88	none
BMEET	12	14,8	15,5	11/5/16	26	5	6,52	0,43	none

Categorical variables				
Variable	N	Dummy	Frequency	Percentage
CSRCOM	14	1 – Yes	3	21,4%
		0 - No	11	78,6%
AUDIT	14	1 – Yes	14	100%
		0 - No	0	0%

Source: Author's calculations based on data from Appendix 1 and Table 3

3.2. Correlation Coefficients

Pearson's correlation coefficient was introduced in 1844 by Karl Pearson and is known as one of the most popular techniques to establish the linear relationship between two variables. Pearson's correlation, also often called as Pearson's r or the Pearson product-moment correlation, aims to draw a line of the best fit through the collected data of two variables and the correlation coefficient itself (r) identifies how far the data points are from this line. Pearson's correlation coefficient always results in a value between -1 and 1, where minus one indicates a strong negative relationship and plus one shows a strong positive relationship. The result of 0 indicates that no relationship exists in analyzed dataset. (Thakur, 2022) In more details, the magnitude of (+/-) 0.9 – 1.0 shows very strong correlation, (+/-) 0.7 – 0.89 shows strong correlation, (+/-) 0.5 – 0.69 shows moderate correlation, (+/-) 0.3 – 0.49 shows weak correlation and, finally, (+/-) 0 – 0.29 shows negligible correlation. (Schwarte *et al.* 2018)

Table 5 demonstrates correlation coefficients that have been calculated by using the following formula:

$$r_{xy} = \frac{\sum x_i y_i - n\overline{xy}}{(n-1)s_x s_y}$$, where

r_{xy} – Pearson's correlation coefficient

n – number of observations

$\bar{x}$ – arithmetic mean of all x_i

$\bar{y}$ – arithmetic mean of all y_i

s_x – standard deviation for all x_i

s_y – standard deviation for all y_i.

The results of analysis show that the correlation for Board Size (r = 0,69075) can be evaluated as moderate-to-strong as the calculation is located at the intersection of strong and moderate correlation ranges. The size of correlation for Women on Board (r = 0,57531) and CSR Committee (r = 0,65339) is moderate. However, due to CSR Committee's presence only in three banks out of 14 (21,4%) the reliability and trustworthiness of the result is questionable.

Meanwhile, Board Meetings (r = 0,42222) and Bank Age (r = 0,44567) have shown weak correlation. Finally, negligible correlation was found for Board Independence (r = 0,19063).

Table 5. Pearson's Correlation Coefficients

	BSIZE	BIDEP	FEMALE	BAGE	CSRCOM	BMEET
CSRD Index	0,69075*	0,19063	0,57531**	0,44567	0,65339	0,42222
Organizational Profile	-	-	-	-	-	-
Strategy	-	-	-	-	-	-
Stakeholder Engagement	0,3696	-0,0494	0,5422	0,5203	0,4403	0,3303
Ethics and Integrity	0,2849	-0,2822	0,3251	-0,1731	0,1448	-
Governance	0,2576	0,1814	0,0720	0,4146	0,3302	0,3236
Reporting Practice	0,2481	0,3175	0,0524	0,4295	0,3892	0,2481
Economic Performance	-	-	-	-	-	-
Anti-corruption	0,4193	-0,1209	0,4784	-0,2368	0,2132	0,4749
Market Presence	0,3987	0,4197	0,6587	0,5532	0,6030	0,3474
Indirect Impacts	0,4703	0,5684	0,4411	0,2602	0,6030	0,4557
Emissions	0,6021	0,2419	0,5673	0,1324	0,5222	0,6543
Water	0,6048	0,0131	0,4321	0,1295	0,4403	0,4153
Energy	0,5712	-0,0263	0,3745	0,1495	0,3302	0,0238
Waste	0,6917	-0,0263	0,5278	0,2847	0,3892	0,0154
Employment	-	-	-	-	-	-
Training and Education	0,4501	-0,2822	0,4102	0,2425	0,2727	0,0955
Human Rights	0,2454	0,0493	0,1530	0,3512	0,4522	0,1793
Diversity and Inclusion	0,2576	0,1814	0,0720	0,4146	0,3302	0,3236
Local Communities	0,4144	0,3175	0,1728	0,2890	0,3302	-0,0188

Source: Author's calculations based on Appendix 1 and Table 3. * - Significant at 1% level, ** - Significant at 5% level

The significance of the correlation coefficients can be confirmed after the critical value have been stated and evaluated. The first step of determining whether the obtained correlation coefficients are significant is the identification of *Degrees of Freedom (df)*. Degrees of freedom are applied to identify the maximum number of independent variables which have "freedom" to vary in the analyzed dataset. The formula of *df* equals to the total number of observations minus two. As *df* = 14 - 2 = 12, the critical values for current dataset are: -0,661 and 0,661 for significance level of 99%, -0,532 and 0,532 for significance level of 95%, -0,458 and 0,458 for significance level of 90%. As some of the corporate governance variables were not present in all of 14 banks, separate degrees of freedom should be calculated. Thus, *df* = 10 for BMEET variable as n equals to 12. For BMEET, the critical values are: -0,708 and 0,708 for significance level of 99%, -0,576 and 0,576 for significance level of 95%, -0,497 and 0,497 for significance level of 90%. Lastly, INDEP (n = 10) variable's *df* = 8. The critical values for it are: -0,765 and 0,765 at 99% significance level, -0,632 and 0,632 at 95% significance level, -0,549 and 0,549 at 90% significance level. (Zach, 2019) If *r* is not in the range of negative and positive critical values, then the correlation coefficient is considered to be significant. In other words, if *r* < negative critical value or *r* > positive critical value, the correlation is significant. (Testing the Significance … 2021)

Considering the degrees of freedom and corresponding critical values, BSIZE (0,69075 > 0,661) is significant at the level of 1%. FEMALE (0,57531 > 0,532) is significant at the level of 5%. BAGE (0,44567 < 0,458) falls shortly behind the level of 10%. The remaining variables: BMEET (0,42222 < 0,497) and INDEP (0,19063 < 0,549) are not statistically significant as none of them exceed the level of 90% significance.

3.3. Results

Current sub-chapter aims to discuss and graphically support the results of Pearson correlation analysis by presenting the scatter plot diagrams. Scatter plot diagrams are used to visualize the obtained results as they can easily highlight the correlation while maintaining the data values and sample size. Moreover, scatter plot diagrams show both – positive and negative types of correlation. Every variable will be investigated on an individual level and, afterwards, the corresponding hypothesis will be either accepted or rejected.

H1: *There is a positive relationship between Board Size and CSRD.*

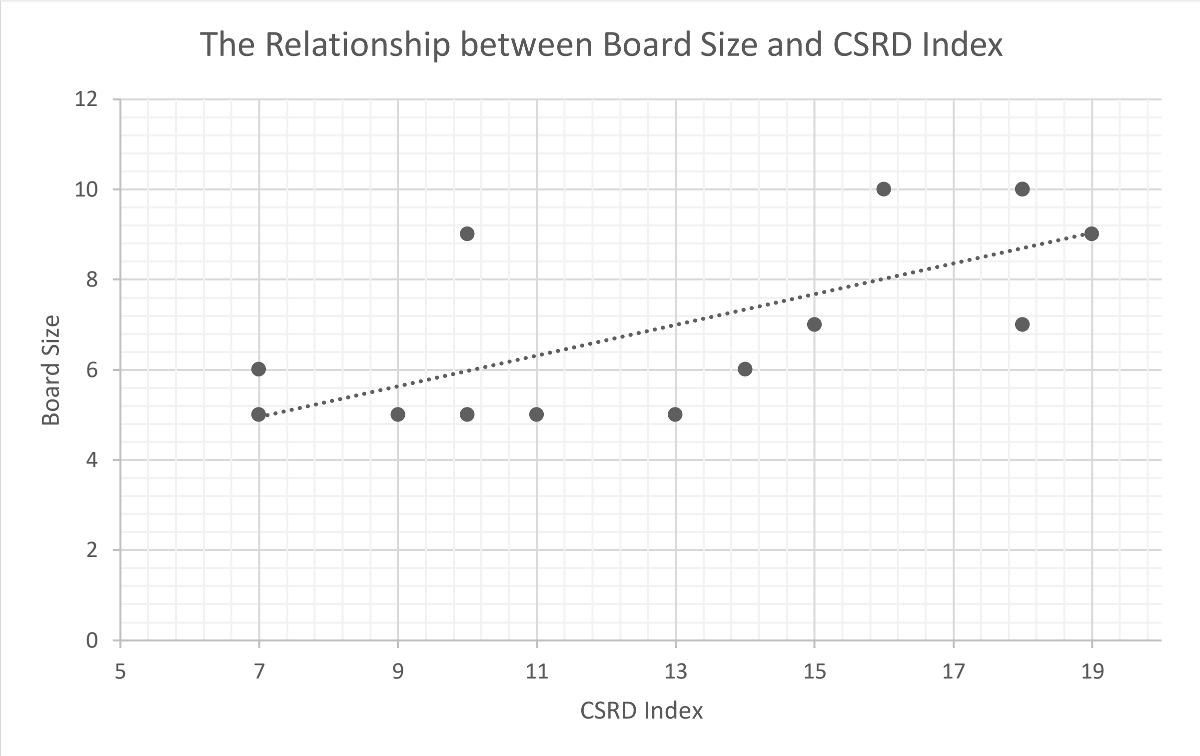

Figure 3. Scatter Plot Diagram representing the Relationship between Board Size and CSRD Index
Source: Author's calculations based on Appendix 1 and Table 3

The coefficient of Pearson correlation for Board Size and CSRD was equal to 0,69075. It means that the relationship between the variables can be described as moderate-to-strong (since r is located at the intersection of two ranges) and positive. The result supports previous numerous studies which found out that larger boards enhance CSR disclosures and ensure transparency of companies' actions. Similarly, the above presented diagram (see Figure 3) acts as a good representation of the relationship between Board Size and CSRD showing a strong correlation. Therefore, the hypothesis stating that a positive relationship between Board Size and CSRD is accepted within the current research.

H2: *There is a positive relationship between Board Independence and CSRD.*

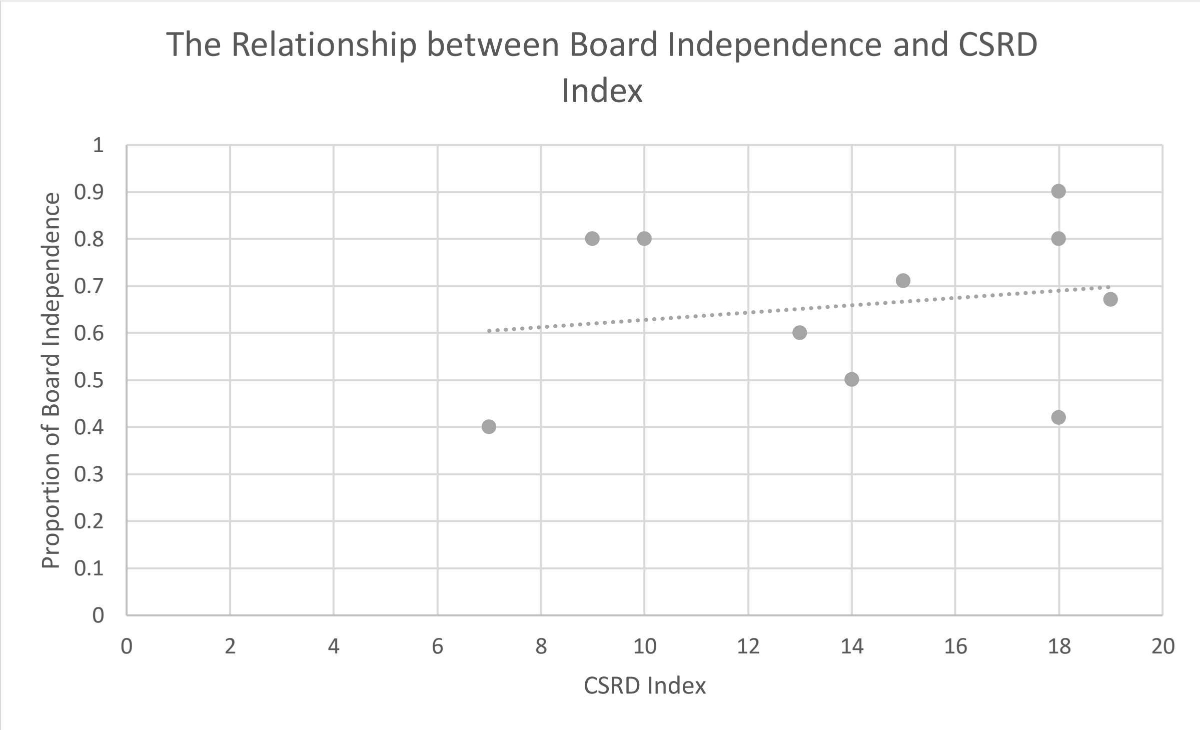

Figure 4. Scatter Plot Diagram representing the Relationship between Board Independence and CSRD Index
Source: Author's calculations based on Appendix 1 and Table 3

The Pearson correlation coefficient (r = 0,19063) signifies of a negligible positive correlation between Board Independence and CSRD. For Board Independence variable, the correlation coefficient did not reach the 90% level of significance. Similarly, the scatter plot diagram (see Figure 4) demonstrates the absence of any significant relations between CSRD and Board Independence. Thus, a hypothesis stating that a positive relationship between Board Independence and CSRD cannot be accepted. Although, majority of scholars claim that Board Independence usually acts as one of the main corporate governance characteristics to enhance CSR disclosures, current research with the focus on banks operating in Estonia did not discover any strong relations between these variables. It is worth mentioning that information on Board Independence was only present in ten banks and the expansion of the sample set could have shown different and more insightful results.

H3: *There is a positive relationship between Women Directors on the Board and CSRD.*

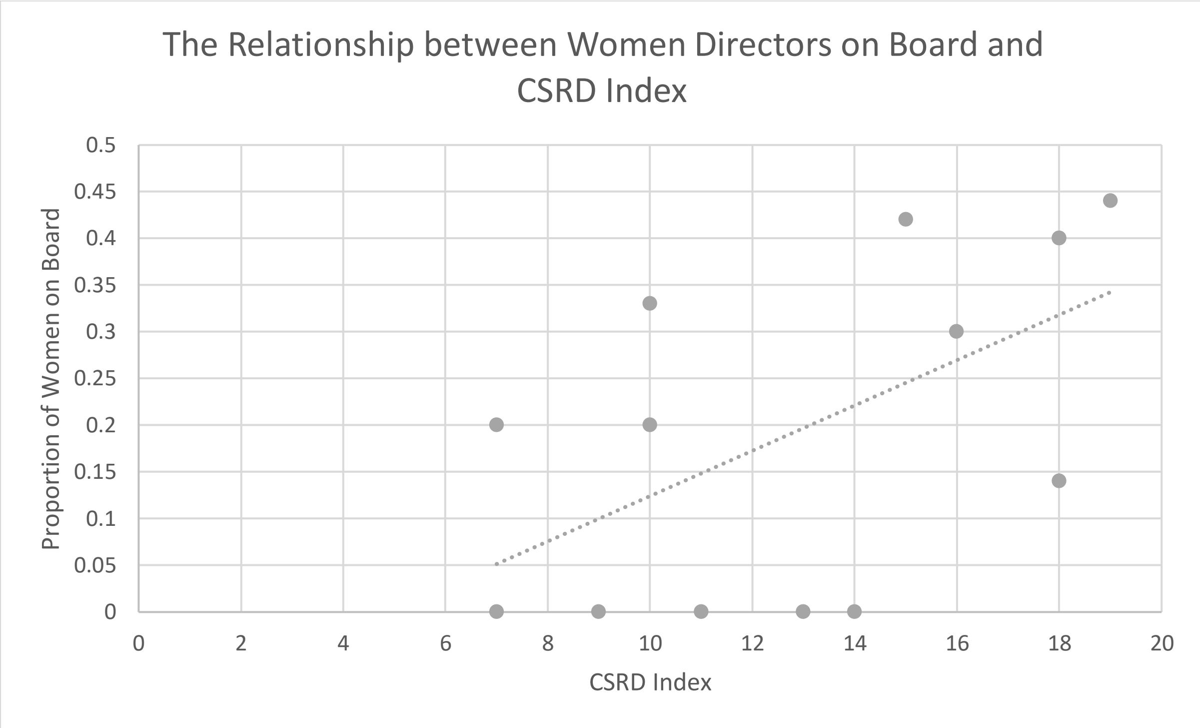

Figure 5. Scatter Plot Diagram representing the Relationship between Women Directors on Board and CSRD Index
Source: Author's calculations based on Appendix 1 and Table 3

The relationship between Women on Board and CSR disclosures in banks operating in Estonia is moderate positive as the Pearson correlation coefficient is equal to 0,57531. The result is significant at the level of 5%. From the scatter plot diagram (see Figure 5), it can also be seen that a positive correlation exists. Hence, the hypothesis is accepted. The result of current research supports the findings of recent studies which claim that women are more likely to be engaged into social practices and their presence on board often leads to higher CSR disclosures. Thus, the outcome of current analysis can be evaluated as positive since Women on Board is a relatively new characteristic of corporate governance and is still highly understudied.

H4: *There is a positive relationship between Bank Age and CSRD.*

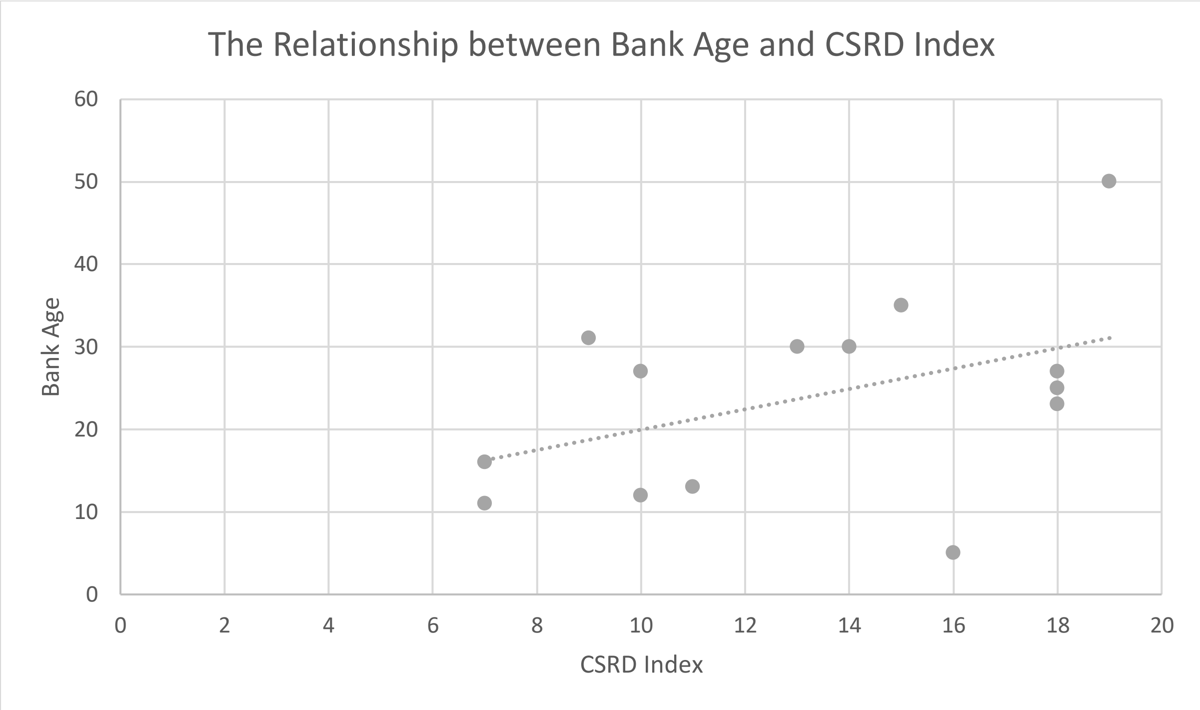

Figure 6. Scatter Plot Diagram representing the Relationship between Bank Age and CSRD Index
Source: Author's calculations based on Appendix 1 and Table 3

The Pearson correlation coefficient for Bank Age and CSRD was equal to 0,44567. Although the result itself suggests a positive weak correlation, it is not statistically significant. Moreover, scatter plot diagram (see Figure 6) illustrates that no clear relations can be observed between Bank Age and CSRD. Even though more mature banks usually have more capabilities to invest in CSR related activities and have more expertise to report them, current research is not able to state whether the similar practise exists in banks operating in Estonia. Thus, the hypothesis on whether a positive relationship between Bank Age and CSRD is present in Estonian banking industry should be rejected. It adds additional value to further study the relationship between Bank Age and CSR disclosures since current research was not able to clarify conflicting findings of previous studies.

H7: *There is a positive relationship between Board Meetings and CSRD.*

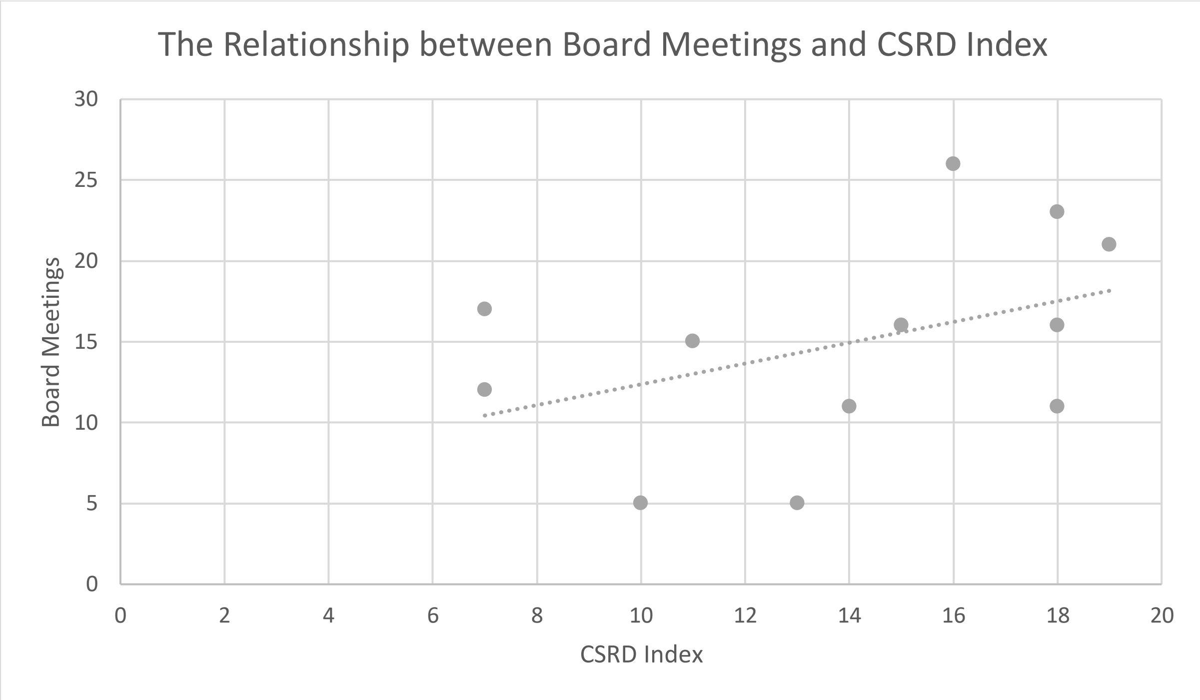

Figure 7. Scatter Plot Diagram representing the Relationship between Board Meetings and CSRD Index.
Source: Author's calculations based on Appendix 1 and Table 3

The Pearson correlation coefficient (r = 0,42222) for Board Meetings and CSRD Index indicates that there is weak positive relationship between them. The examination of critical values, however, revealed that it is not statistically significant since the 90% significance level was not reached. Scatter plot diagram (see Figure 7) similarly does not demonstrate any clear results nor evident relations. For this reason, the hypothesis should be rejected in this research even though numerous studies have claimed that more frequent board meetings lead to higher CSR disclosures. However, it should be noted that the number of Board Meetings was significantly influenced by the outbreak of Covid-19. Many banks have mentioned in their annual reports that due to the unexpected spread of virus numerous planned meetings were either cancelled or postponed. Thus, author finds it important to test the same hypothesis after the pandemic ends or society adapts to it.

In addition to the above analysed continuous corporate governance variables, two categorical variables were selected for the current research, namely – Audit Committee and CSR Committee. Since all 14 banks had Audit Committees present, no conclusions can be drawn and, consequently, the hypothesis stating that the positive relationship between Audit Committee and CSR disclosures exists – remains unanswered. The presence of CSR Committee (or a similar committee dealing with environmental, social, and economic problems) was discovered only in three banks out of 14. This number is insufficient to draw any valuable and trustworthy conclusions and, thus, the relationship between CSR Committee and CSR disclosures should be investigated in future studies. It should be still noted that based on the collected data (see Table 3 and Appendix 1) the more mature banks tended to establish their own CSR Committees and, therefore, addressed larger number of various CSR indicators. Author believes that this finding could serve as the basis for future studies.

According to the results of current sub-chapter, only two hypotheses were accepted, three were rejected and the remaining two remained unanswered either due to the specifics of the analyzed banks or the insignificance of the correlation coefficients. Nevertheless, author finds the obtained results to be very insightful and enlightening within the scope of analyzed industry. In general, current research was able to prove some of the findings of previous studies as well as highlight the credibility of the conflicting results for several corporate governance characteristics.

3.4. Findings and Limitations

The main aim of current research was to identify the relationship between corporate governance characteristics and the levels of CSR disclosures in the Estonian banking industry. To reach the aim, author, first, run the thematic analysis to construct CSR disclosures index. The thematic analysis was followed by the data collection for corporate governance characteristics which later allowed to calculate Pearson correlation coefficients for the chosen variables. According to the results of the analysis, the Board Size and the Presence of Female on Board proved to be positively associated with the levels of CSR disclosures. More precisely, Board Size and CSR disclosures have shown strong-to-moderate positive relationship at the 99% significance level. It signifies that the larger number of people on board result in higher level of CSR disclosures in the banks that operate in Estonia. The finding on the second variable (Women on Board) was rather surprising mainly due to this variable being relatively novel when testing the relationship between corporate governance characteristics and levels of CSR disclosures. Nevertheless, Women on Board and CSR disclosures have shown moderate positive relationship at the 95% significance level. This finding supports the belief that women are more likely to be involved in CSR related activities.

The remaining continuous variables have shown very weak relations and were not statistically significant. Namely, the relationship between CSR disclosures and Board Independence, Board Meetings as well as Bank Age remains under question since current research was not able to establish any clear relations. It should be noted that the information on Board Meetings was highly influenced by the outbreak of Covid-19 which resulted in a significant change in the number of planned meetings. Since the researched period overlapped with the start of the pandemic, author suggests it may have had influence on the obtained findings. When it comes to the Board Independence variable, then information on it turned to be the least occurring in the banks' annual reports. Therefore, the low number of observations may have played a key role in the current outcomes. Lastly, the inability to establish the relationship between Bank Age and CSR disclosures might have been caused by the fact that the Bank Age was calculated from the time an analysed bank has hold its current (and still functional) name and has completed all the merging activities with other financial institutions. Perhaps, a different approach to the construction of Bank Age variable might have led to opposite results.

The two categorical variables presented in current research did not allow to draw any conclusions. In particular, the relationship between CSR disclosures and Audit Committee as well as CSR Committee remains unanswered and further research is required. The aforementioned results occurred due to the fact that the Audit Committee was present in all of banks making it impossible to establish any relations. CSR Committee was present in three banks out of 14 which is insufficient to draw any valuable conclusions. However, the banks with CSR Committees had better addressed various CSR indicators. This fact highlights the certain degree of usefulness of CSR Committees.

Overall, the obtained findings prove the inconsistencies and conflicts in previous studies while establishing the relationship between CSR disclosures and corporate governance characteristics. The conclusions often depend on the analysed industry and its specifics as well as the selection of corporate governance variables. Despite valuable insights and interesting results, current research has several limitations. The most significant one is small sample set. Although, a small number of analysed banks is justified by the specifics of the Estonian banking industry (and its relatively small size), a larger number of observations should be considered in future studies for banking industries of other countries. In further research, scholars could address similar corporate governance characteristics on the example of other neighbouring countries (for instance, Latvia, Lithuania, Finland, and Sweden) and see if the results are somehow contradictory. In addition, the analysed period overlapped with the Covid-19 pandemic which had a strong influence on the banks' activities and priorities. The shift from environmental and social issues to safety and health issues was visible in annual reports of all the banks. Thus, the CSR activities took a secondary place for a time being. For this reason, author finds it especially important to run a similar analysis after the adaptation period ends and the pandemic fades away to see whether CSR disclosures have regained their primary importance.

CONCLUSION

Now more than ever before, organizations experience the growing importance of putting their focus on social responsibility. They are expected to implement CSR strategies which would strengthen the wellbeing of society, economy, and the environment. As a reward, socially responsible companies tend to create positive image for their customers and shareholders as well as increase loyalty, brand recognition and trust. With the increased attention to the CSR activities, the number of studies on this subject has rapidly grown.

Current research aimed to investigate the relationship between CSR disclosures and corporate governance characteristics in banks operating in Estonia. Even though numerous studies claim that corporate governance has an effect on CSR disclosures at least to some extent, the research methods and variables selection often differ. The inconsistencies in results are especially seen in banking sectors of different countries making it difficult to reach the common understanding. Additionally, there was no research conducted with the focus on Estonian banking industry which is considered to be one of the most efficient ones in the region despite its relatively small size.

Seven corporate governance variables were selected to establish the relationship between CSR disclosures and corporate governance characteristics in banks operating in Estonia. In particular, author of the research measured how Board Size, Board Independence, Proportion of Female on Board, Frequency of Board Meetings, Bank Age, Audit Committee and CSR Committee affect CSR disclosures. The thematic analysis was applied to construct the CSR disclosures (CSRD) indexes. The data for both corporate governance variables and CSRD indexes was mainly taken from banks' annual reports and stand-alone sustainability reports. The sample set consisted of 15 banks which is the total number of banks operating in Estonia for the time of the research (one bank was later excluded from the sample set). The relationship was identified by applying the Pearson correlation coefficients.

The results of the research indicated that only two corporate governance variables had a positive relationship with the CSR disclosures. The moderate-to-strong correlation at 99% significance level was established between Board Size and CSRD Index. This finding supports previous studies which stated that a larger number of board members results in higher CSR disclosures. A moderate positive relationship at 95% significance level was also discovered between the Proportion of Female on Board and CSRD Index which is an insightful outcome considering that current variable is relatively novel and highly understudied. The remaining corporate governance characteristics did not show statistically significant correlations: Board Independence, Bank Age, Board Meetings. For Audit Committee, it was not possible to calculate the correlation coefficients. Lastly, for CSR Committee, the number of observations was insufficient to draw any accurate conclusions. Therefore, within the Estonian banking industry, the larger board size and higher proportion of female on board result in better CSR disclosures. Considering the small sample size, the outcome of the research is very valuable.

For further research on this topic, author suggests the selection of banking industries with a larger number of banks operating in it since a small sample set is the greatest limitation of current study. It would be especially insightful to compare the relationships between CSR disclosures and corporate governance characteristics with the banking industries of Estonia's neighbouring countries. Also, it should be mentioned that the results of the research might have been influenced by the outbreak of pandemic which made the majority of banks shift their focus on security and health issues. Therefore, author advises conducting similar analysis after the termination of pandemic. Certainly, the results of current analysis would be interesting for individuals associated with the Estonian banking industry and CSR related activities specifically. Moreover, this research could serve as a basis for scholars who aim to investigate the relationship between corporate governance characteristics and CSR disclosures in banking industries of other countries.

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APPENDICES

Appendix 1. Corporate Social Responsibility Index

	Bank name														
CSR Indicator	Swedbank	SEB	Luminor	LHV	Inbank	TBB Bank	Coop Bank	Holm Bank	Bigbank	Citadele	Nordea Abp	OP Corporate Bank plc	TF Bank AB	Folkefinants	**Total**
Organizational Profile	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**14**
Strategy	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**14**
Stakeholder Engagement	1	1	0	1	0	0	0	0	0	0	0	0	1	0	**4**
Ethics and Integrity	1	1	1	1	1	0	1	1	1	1	1	1	1	1	**13**
Governance	1	1	1	1	0	1	1	0	1	0	1	1	1	0	**10**
Reporting Practice	1	1	1	1	0	1	1	1	1	0	1	0	0	0	**9**
Economic Performance	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**14**
Anti-corruption	1	1	1	1	1	0	1	1	0	1	1	1	1	1	**12**
Market Presence	1	1	0	1	0	0	0	1	0	0	1	0	1	0	**6**
Indirect Impacts	1	1	1	0	0	0	0	1	1	0	1	0	0	0	**6**
Emissions	1	1	1	1	0	0	0	0	0	0	1	1	1	0	**7**
Water	0	1	1	1	0	0	0	0	0	0	1	0	0	0	**4**
Energy	1	1	1	1	0	0	1	0	1	1	1	1	1	0	**10**
Waste	1	1	1	1	0	0	1	0	1	1	1	0	1	0	**9**
Employment	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**14**
Training and Education	1	1	1	1	1	1	1	0	1	1	1	0	1	0	**11**
Human Rights	1	1	0	1	0	0	1	0	0	0	1	1	1	1	**8**
Diversity and Inclusion	1	1	1	1	0	1	1	0	1	0	1	1	1	0	**10**
Local Communities	1	1	1	1	0	1	1	1	1	1	1	0	0	0	**10**
Total	18	19	16	18	7	9	14	10	13	10	18	11	15	7	

Source: Author's calculations, Bank's Annual & Sustainability Reports

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