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Corporate Governance PRACTICES, Corporate Social Responsibility (CSR) and Firm Performance: Evidence from French Stock Exchange

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ABSTRACT

The purpose of this study is investigating the effects of corporate governance practices on the choice of corporate social responsibility (CSR) engagement and the firm performance applying the CSR. We use in this research a sample of SBF 120 firms during the subprime crisis 2006-2010. In the first step, we find that CSR implication is positively associated with corporate governance practices, as functioning of board of directors, audit process and remuneration policy, after controlling for various firm characteristics. We observe also the insignificance of ownership structure and shareholders' rights and information to explain the engagement of firms to CSR activities. In the second step, our results of the study conclude that corporate social performance (CSR) has no effect on financial performance during the subprime crisis, while the audit process plays an important role in enhancing firm performance. However, if our findings show that return on equity, or return on asset, or shareholders' rights and information are negatively associated with firm performance, these findings also prove that board functioning, remuneration policy and ownership structure would be without any effect on the firm performance.

Keywords: Governance Practices**,** Corporate Social Responsibility and Firm Performance.

1. Introduction

It is probably true to say that the view of governance which prevails in the present is a top down process decided by those in power and passed to society at large. Although there has been a noteworthy discussion among scholars and practitioners on the pivotal role of good governance practices codes to put an end to the increasing problems and worries about the mode of corporate management, control and accuracy of financial reports and accounting figures. The recent financial crises and the collapse of many firms have highlighted the importance of performing the duties of social responsibility that are being considered as most important goal for companies. While a large literature has showed that effective corporate governance curtails managerial self-interest and protects shareholder interests, few of studies have posited that corporate governance manages the interests of multiple stakeholders and resolves the conflicts of interest between shareholders and non-investing stakeholders.

Under the recent social and environmental challenges, the emerging of CSR as an extension of firms' efforts to foster effective corporate governance, ensuring firms' sustainability via sound business practices that promote accountability and transparency is essential. Many definitions are available in order to characterise the CSR (Jo and Harjeto 2011). Friedman (1970) defines in the first the CSR as an extension of firms' efforts to maximize shareholders' wealth but also conformed to the basic rules of society. McWilliams and Siegel

(2001) define CSR as actions that appear to further some social good beyond financial goals and that are required by law. Hill and al (2007) define CSR as the economic, legal, moral, and philanthropic actions of firms that influence the quality of life of relevant stakeholders. In general, CSR is a process with the objective to embrace responsibility for the firm's actions and promote a positive impact through its activities on the environment, stakeholders and all other members.

This paper contributes to the literature on CSR and corporate governance in two distinct ways. First, we conduct a full analysis of the determinants of CSR engagement and provide insights into how corporate governance practices influences firms' choice to engage in CSR. Second, we consider more extensive governance and monitoring practices to investigate the relationship between CSR and firms' value. The article proceeds as follows. Section 2 reviews the literature on the interaction between CSR, corporate governance practices and firm performance. Our research method is described in Section 3. Section 4 is devoted to empirical findings. Finally, we provide concluding remarks.

2. Literature Review

2.1. Importance of CSR to firms

The reasons for which companies integrate social and environmental concerns in their business activities and in their interaction with their stakeholders have been the subject of several studies (Goel and Thakor's 2008; Whetten and al 2002; Harjoto and Jo 2011, and Sherere and al 2006; Rahimi and al 2012). The majority of these studies who explain why companies are engaging in CSR initiatives focused on the following benefits. The CSR strategy offers clear business benefits to firms and helps a firm make a positive contribution to society. The sustainable business success and shareholder value cannot be achieved solely through maximizing short term profits, but instead through market-oriented yet responsible behaviour. Furthermore, CSR activities provide companies with the opportunity to show their human side. CSR engagement opens dialogue and constructive partnerships with governments, intergovernmental organizations, non-governmental organizations, and other elements of civil society. In recent years many human resource analysts noticed that the most competent and skilled employees would want to be associated with firms that have good relationship with environment.

Despite the wide spectrum of approaches to CSR, there is a large consensus on at least two alternative explanations regarding its existence. First, Barnea and Rubin (2010) developed their ideas based on agency theory, and advocated that CSR engagement as a principal-agent relation between managers and shareholders. The affiliated insiders have an interest in overinvesting in CSR so as to obtain private benefits of building reputation as good social citizens, possibly at a cost to shareholders. The improvement in reputation will allow top management to enjoy better outside career opportunities, and to have greater negotiation power and overconfidence. The theoretical model by Goel and Thakor (2008) shows that overconfident managers sometimes make value destroying investments. An overconfident manager, who sometimes makes value-destroying investments, has a higher likelihood than a rational manager of being deliberately promoted to CEO under "value-maximizing" corporate governance. If overconfident CEOs tend to over-invest so as to develop their reputations as good social citizens without controlling, we expect an inverse between controlling and CSR engagement because the higher internal and external controlling through several corporate governance practices should reduce the insiders' incentive for CSR over-investment.

Second, based on Edward Freeman's (1981) stakeholder theory, Calton and Payne (2003), Harjoto and Jo (2011) and Sherere and al (2006) consider CSR as an engagement to business ethics that addresses morals and values in managing a firm in order to satisfy all related stakeholders and reduce the conflicts between them. According to the conflict-resolution hypothesis, to the extent that managers use effective corporate governance practices together with CSR engagement to resolve conflicts among stakeholders, CSR engagement should be positively linked to effective corporate governance practices. Companies with good governance practices have clear advantages to engaging in strong CSR programs. Investors should prefer companies with effective corporate governance and good CSR activities. Then, if several corporate governance mechanisms consider the company's CSR engagement as an effort of potential conflict resolution among various stakeholders, we would expect a positive association between corporate governance practices and CSR engagement.

Hypothesis 1a: The corporate governance practices are negatively related to compliance to CSR activities

Hypothesis 1b: The corporate governance practices are positively related to compliance to CSR activities

2.2. Interactions between CSR, corporate governance, and firm performance

There exists a growing literature that investigates the relationship between CSR and firm performance (Jo and Harjoto 2011; Coles and al 2008 and Margolis and Walsh 2003; Aras and Crowther 2009). Especially, most studies tests the evidence supporting the view that firms do "well" by doing "good." The majority of researches find a positive relationship between CSR and different measures of financial performance, though many researches find no association, or even negative association. For example, the empirical evidence conducted by Margolis and Walsh (2003) indicates a generally positive correlation between investing in socially responsible activities and financial performance. Aras and Crowther (2009) argue that there are stages of growth as far as CSR is concerned which become reflected in corporate behaviour. These can be seen as increasing levels of maturity. Although generally speaking, the assumption may be that the first goal is to get financial performance in the company, after it the next step will be to comply with other socially responsible policies. However, these results could be inconclusive. It is well known that correlation does not mean causation, and critics of the literature point to endogenous problem: Does CSR improve financial performance, or does better financial performance free up resources for firms to engage in CSR? Another challenge facing research in this area is related to the measurement of the degree of compliance of a company with social policies which is really difficult.

The question of the impact of CSR engagement on firm value was also the subject of some studies. According to the overinvestment view, Barnea and Rubin, (2010) argue that insiders such as the CEO and the board have a natural motivation to over-invest in CSR businesses if doing in order to improve their reputation building process. Subsequently, the value of firm will be negatively affected by the CSR engagement.

Contrary to this view, the conflict-resolution hypothesis advocates that if managers use effective corporate governance mechanisms in connexion with CSR engagement to resolve conflicts among stakeholders, then firm value could be positively related to CSR compliance and effective governance mechanisms through reduced conflict of- interests among various stakeholders. In this context, Jo and Harjoto (2011) suppose that there should be some effective monitoring mechanism out of all considered internal and external governance mechanisms for the checking and balancing of CSR investments since there is no clear monitoring mechanism to prevent firms from over-investing in various CSR activities.

Fama and Jensen (1983) support that outside directors are more independent and better placed to control the behavior of top management managers than the inside directors. Nevertheless, other researches turn toward an opposite, insignificant, or negative correlation between governance quality assessed by the percentage of outside directors on the board, and firm value. In fact, Jensen (1993) deals with the insufficiency of internal controls systems, as managerial incentives and boards of directors mechanisms for ensuring corporate transparency and the self-monitoring of firm behavior. The external monitoring systems are necessary to motivate managers to maximize firm value instead of pursuing managerial objectives. Institutional investors and large blockholders as external corporate mechanisms have strong incentive to monitor managers (Allen and al 2001; Demsetz and Lehn1985; Shleifer and Vishny 1986). After several financial crises, a particular interest is allocated for better assessment of a company's corporate governance quality. The good governance practices codes serve the interests of the company's financial stakeholders and put an end to the increasing problems and worries about the mode of corporate management (Grant 2009; Campos and al 2002; Bebchuk and al 2009). This existing literature shows that levels in corporate governance scores are contemporaneously related with firm performance.

So, to the extent that external monitoring systems and good governance practices provide effective and better monitoring regarding the information transparency of CSR engagement, the CSR activities will have positive influence on firm performance. Combined together, from the above discussions, we can draw the following hypothesis.

Hypothesis 2a: The validity of over-investment hypothesis led us to suppose that financial performance is negatively associated with choice of CSR engagement or investing in CSR activities

Hypothesis 2b: The validity of conflict-resolution hypothesis led us to suppose that financial performance is positively associated with choice of CSR engagement or investing in CSR activities

3. Research method

3.1. Data and measurement

The statistical population in this study includes the listed firms in French Stock Exchange (SBF 120) during the subprime crisis of 2006-2010. The measurement of the degree of compliance of a firm with social norms is really difficult and this difficulty is due to the ownership concept. All companies in all activities have to bear in mind their social responsibility. Every person in firm must be a teacher: ethics, code of conducts, human values, friendship with the environment, respect to the minorities (what should not be understood as a dictatorship of the minorities) and so on, are values that have to be borne in mind and included in the social responsibility concept. CSR_{it} is a dummy variable equal to one if firm i has CSR engagement in year t, and 0 otherwise. To measure firm performance, I use stock returns for every year from 2006 through 2010. The returns are dividend inclusive and are expressed in local currencies adjusted for local price index changes.

The methodology for calculating the GGS, based on the Louizi's study (2007) was developed by relying on:

- OECD principles of Corporate Governance (1999)
- Good Governance Codes
- Rating Methodologies

Five key components of governance have been identified in the study: board functioning, internal audit process, ownership structure, remuneration policy and shareholders' rights. Panels A and B of Table 1, Appendices A and B identify the main proposals for each component of CG as well as the measures adopted.

Table 1: List of CG proposals

Panel A: Criteria for Board Functioning, Shareholders' Rights and Information

BOARD FUNCTIONING CRITERIA	**SHAREHOLDERS' RIGHTS AND INFORMATION CRITERIA**
Board composition	One-share one-vote rule
Leadership structure	Shareholders power
Existence of independent directors	Cumulative voting
Number of independent directors	Proxy voting
Number of meetings of board	Voting by mail
Nomination committee	Double voting rights
Number of independent directors on nomination Committee	Anti-takeover
Number of meetings of nomination committee	Information about the firm's debt policy
Definition of independent directors	Information about the firm's strategic orientation
Mandate of directors	Board charter
Existence of foreign directors on board	Information about the officers' remuneration
Number of Foreign Directors on board	General meeting
Average age of directors	Shareholder proposals in general meetings
Directors' training	Publication dates of results
	Number of stock markets
	American listing
	Application of Social Responsibility Index (SRI)

Panel A lists the 14 criteria for functioning of board and the 17 criteria for shareholders' rights and information.

Panel B: Criteria for internal audit, remuneration policy and ownership structure

INTERNAL AUDIT PROCESS CRITERIA	REMUNERATION POLICY CRITERIA	OWNERSHIP STRUCTURE CRITERIA
Audit committee	Remuneration committee	Ownership structure
Audit Size	Committee size	Fraction held by officers
Number of independent directors	Number of independent directors	Fraction held by institutional investors
Number of meetings of audit committee	Number of meetings	Fraction held by employees
Missions of audit committee	Variable part	Fraction held by directors
	Composition of variable part	
	Directors' fees	
	Stocks options	
	Missions of remuneration committee	

Panel B lists 5 criteria for Internal Audit Process, 9 criteria for remuneration policy and 5 criteria for ownership structure

The measure for each criterion is detailed in Appendices A and B.

4. Empirical results

4.1 Univariate analysis

Univariate tests for SBF 120 firms and bivariate correlations were respectively presented in Tables 2 and 3. We compare and contrast firms and governance practices so as to test the univariate difference between CSR firms and no-CSR firms. Therefore, we apply the Pearson test for relation between corporate governance practices, corporate social responsibility (CSR) and firm performance. Table 2 presents the means and medians of the control and governance practices variables. By examining the differences of the firm characteristics, we show that, CSR involvement is, on average, adopted by larger firms and less leveraged firms. CSR also is more common among firms with a higher return on asset and firms with a higher level of stock return. However, these observations are based on a simple comparison of means , which is of course, simple observations can not confirm or deny anything in our assumptions, especially, those differences are significatives for only firm size. The differences of governance scores between CSR firms and no-CSR firms are presented also in Table 2. CSR firms are, on average, associated with higher scores of functioning board, internal audit process and remuneration policy. These differences are significant at a higher significance level (1%). Furthermore, CSR engagement is adopted by firms with higher total ownership score and higher investor protection. Nevertheless, it is observed that the differences between CSR firms and no-CSR firms for these variables are not significant.

Table 3 presents the bivariate correlation matrix for the variables of our main interest discussed previously. Consistent with the positive association between CSR engagement status (CSR) and functioning board or audit process, or remuneration policy reported earlier, CSR is positively linked to FBD, AUP, or REMP scores. The correlation coefficients between CSR and these corporate governance scores are relatively high in positive numbers, ranging from 0.13 to 0.23. All of the above correlations are statistically significant (pvalues< 0.01). It is observed that Pearson test for ownership structure and shareholders' rights is not significant at any levels (1 and 5 percent). Thus, there is no significant relation between OWN and SHR, and Corporate social Responsibility (CSR). Stock return is positively related to the CSR variable (0.004), but this relation is not significant. It seems that managers might not have enough motivation attention to social responsibility.

Table 2: The determinants of CSR engagement

	Firms not engaging in CSR		Firms engaging in CSR		Difference Test	
	N	Mean	N	Mean	T-statistic	Sig
Firm Characteristics						
Firm Size	178	8.608	192	9.330	1.798	0.073
Debt Ratio	178	0.747	192	0.329	-1.534	0.127
Return on Equity	178	0.190	192	0.138	-0.630	0.527
Return on Asset	178	0.050	192	0.067	1.283	0.200
Firm Performance	178	0.00137	192	0.00146	0.081	0.935
Corporate Governance Scores						
Functioning board	178	1.053	192	1.265	2.583	0.010
Internal audit process	178	0.554	192	0.713	4.496	0.000
Remuneration policy	178	0.606	192	0.716	3.064	0.002
Ownership structure	178	0.548	192	0.557	0.255	0.798
Shareholders' rights and information	178	0.302	192	0.334	1.434	0.152

Table 3: Bivariate correlation matrix

	FSIZE	DEBT	ROE	ROA	CSR	FBD	AUP	REMP	OWNS	SHR	RETURN
FSIZE		0.060	0.0063	0.106*	0.0928	0.130*	0.184**	0.200**	0.100	0.108*	0.013
DEBT			-0.0001	-0.043	-0.0827	0.0717	0.0809	0.075	-0.0327	-0.0277	0.013
ROE				0.195**	-0.034	0.0587	0.0683	0.0335	-0.0727	-0.081	-0.165**
ROA					0.066	-0.0324	0.0981	-0.0297	0.0141	0.016	-0.071
CSR						0.133*	0.229**	0.158**	0.0133	0.074	0.004
FBD							0.514**	0.455**	0.195**	0.100	-0.19
AUP								0.491**	0.203**	0.149**	0.057
REMP									0.252**	0.200**	-0.135**
OWNS										0.420**	-0.021
SHR											-0.245**
RETURN											

* The correlation is significant at 0.05 level. ** The correlation is significant at 0.01 level.

4.2 The determinants of CSR engagement

To understand the differences between firms with and without CSR engagement, we adopt a logit analysis of the choice decision on the panel data, with the following model:

$$\Pr\left[CSR_{it}/Y_{it}\right] = \Phi\left[B'Y_{it}\right]$$

where CSR_{it} is a dummy variable equal to one if firm i has CSR involvement in year t, and 0 otherwise. Y_{it} is a vector of firm characteristics, or corporate governance scores at the time of firm i's choice of CSR engagement. B is a vector of coefficients.

4.2.1 Robustness tests

Before the interpretation of logit results, it is interesting to begin with the evaluation of robustness tests (Tables 4 and 5). The model is estimated using the Maximum Likelihood Principle. The obtained results prove overall model significance (Chi-Square Goodness of Fit Test) and its quality in terms of explanatory power (Pseudo R-squared) and predictive power (Percentage of Correct Classification) in crisis period. The Chi-Square test is significant at the 1% level. However, interpreting coefficients of determination Cox & Snell R Square and Nagelkerke R Square for respectively values of 0.081 and 0.108 is a bit harder.

Table 4: Results of Model Specification

Tests	Values
Chi-Square	32.168
Sig	0.000
Cox & Snell R Square	0.081
Nagelkerke R Square	0.109

We also performed a prediction evaluation test to assess the Goodness of Fit for logit model. The percentage correct prediction statistic assumes the event is expected to occur, when the estimated probability is greater than or equal to 0.5 (the cut off value). Table 5 presents the results for the prediction evaluation by examining the classification analysis for the CSR engagement. We find that 59.7% of cases are classified correctly. The estimated model correctly predicts 68.8% of the CSR engaged firms and 50.0% of the not engaged firms.

Table 5: Classification Results

	2006-2010		
Observed	Predicted		
	CSR Engagement		Percentage Correct
	Not engage CSR	Engage CSR	
CSR Engagement			
Not engage CSR	89	89	50.0
Engage CSR	60	132	68.8
Overall Percentage			59.7

The cut value is 0.5

4.2.2 Logit results

We hypothesize that governance practices should be related to the choice of CSR engagement. Thus, we include various corporate governance scores, as board functioning, or internal audit process, or ownership structure, or remuneration policy, or and shareholders' rights. Firm characteristics are used as control variables including firm size measured by the natural log of total assets (FSIZE), the book value of total debt divided by the book value of total assets (DEBT) and the return on Asset (ROA). In Table 6, we estimate the choice of CSR engagement using a logit function. We estimate six models with different sets of explanatory variables to compare and contrast the various impacts of control variables and corporate governance scores. The first five columns analyze the effect of each corporate governance score. The last column takes into consideration the combined effect of all variables.

Consistent with prior literature, we can observe for models 1, 2 and 3 that some corporate governance practices are highly significant to explain the likelihood of implication CSR. Model 1 suggests that the coefficients on FBD is significantly positive at 1% significance level, implying that firms with a good functioning of board of directors are more likely to implicate in CSR engagement. This finding supports the conflict-resolution hypothesis (H1b). It confirms the empirical evidence of Harjoto and Jo (2011) which finds that internal governance measured by board leadership and independent boards are positively linked to CSR engagement. In Model 2, we report the positive and significant impact of AUP at 1% significance level. A higher score of audit process practice is associated with a higher probability to choose CSR engagement. We corroborate also H1b in the sense that investors should prefer companies with a good internal audit process and good CSR activities. The result of Model 3 highlights the significant relationship between remuneration policy and CSR implication. The coefficient on REMP is 0.963. This indicates that each increase of 10% in remuneration policy score is associated with a higher implication of firms to CSR financial of 9.630%. H1b is also confirmed. The remuneration policy as an effective corporate governance practice is an extension of firms' efforts to foster the internal social environment.
However, referring to Models 4 and 5, we can see the insignificance of OWNS and SHR to explain the engagement of firms to CSR activities. We find that an ownership structure is positively related to the choice of CSR engagement, but this effect is not significant. This result contradicts the empirical finding by Harjoto and Jo (2011) who show that firms with a higher proportion of institutional investors are more likely to choose CSR engagement. Furthermore, the score of shareholders' rights and information score has a positive impact on CSR implication, but this impact is not significant. Our result is consistent with Rahimi and al (2012), who conclude in their empirical research that minority shareholders don't have enough motivations to responsibility, because supervision needs knowledge, expense and professionalism and minority shareholders don't have powers to do such activities, either undertaking charges is not cost benefit. Our result disproves the empirical research by Hsiang-Lin Chih and al (2008). This evidence shows that financial transparency and investor protection are vital to CSR. Financial transparency and investor protection are important not only for shareholders but also for employees, customers, suppliers, and for whole society, which are fast becoming directives of CSR that could reduce the extent to which insiders abuse their information advantage over outsiders.

The Model 6 which takes into consideration the combined effect of all corporate governance practices shows the persistence of significance of board functioning and audit process at 1% significance level, except the significance of REMP disappears. The ownership structure and shareholders' rights and information still remain not significant to explain the CSR implication. Our results corroborate in part the research findings conducted by Rahimi and al (2012) on Tehran Stock Exchange. They show that there is no significant relationship between the elements of corporate governance (i.e. Percent of independent outside directors on the board, free float, auditor type, institutional ownership and ownership concentration) and the social responsibility of companies. According to them, managers might not have enough motivation to attention to social responsibility. Therefore, they consider social investment as an expense not as a long-term investment. Further, throughout Model (1) to Model (6), we find that larger firms and less leveraged firms are more likely to choose CSR engagement. These models show that DEBT is negatively related to CSR engagement. The debt as a corporate governance mechanism has negative impact on the choice of CSR engagement. We confirm the over-investment hypothesis H1a in the sense which managers and the debt have a natural motivation to over-invest in CSR business without controlling.

Table 6: Propensity to engage in CSR activities

	Models					
	Model (1)	**Model (2)**	**Model (3)**	**Model (4)**	**Model (5)**	**Model (6)**
	Coefficient (stat-Z)	**Coefficient (stat-Z)**	**Coefficient (stat-Z)**	**Coefficient (stat-Z)**	**Coefficient (stat-Z)**	**Coefficient (stat-Z)**
FBD	0.681 [a] (3.294)					0.270 [a] (3.135)
AUP		1.773 [a] (4.538)				1.462 [a] (3.067)
REMP			0.963 [b] (2.524)			0.015 (0.033)
OWNS				0.084 (0.231)		-0.291 (-0.704)
SHR					0.468 (0.818)	0.393 (0.622)
ROA	1.151 (0.241)	0.857 (0.848)	1.269 (1.295)	1.102 (1.124)	1.114 (1.133)	0.983 (0.960)
FSIZE	0.093 [b] (2.412)	0.091 [b] (2.227)	0.084 [b] (2.149)	0.084 [b] (2.176)	0.085 [b] (2.189)	0.094 [b] (2.297)
DEBT	-0.827 [c] (-1.933)	-0.744 [c] (-1.728)	-0.657 [c] (-1.567)	-0.689 [c] (-1.647)	-0.694 [c] (-1.662)	-0.788 [c] (-1.808)
Intercept	-1.147 [b] (-2.379)	1.773 [a] (4.538)	-0.999 [b] (-2.013)	-0.355 (-0.768)	-0.470 (-1.032)	-1.606 [a] (-2.754)
McFadden R-squared	0.061	0.084	0.011	0.031	0.032	0.088

4.3 Stock Firm Performance with CSR implication

This study is investigating also the direct effect of CSR implication on financial performance using variables of company ROA, ROE, size and financial leverage. Financial performance is measured by stock returns (SRE). The returns are dividend inclusive and are expressed in local currencies adjusted for local price index changes. Model 1 analyzes the effect of CSR engagement and control variables. Model 2 takes into consideration the combined effect of CSR engagement and corporate governance practices. The results of robustness tests (R-squared and F-Statistic) show a higher quality of Model 2 than Model 1.

It is obvious from the results of Models 1 and 2 that magnitude of CSR implication is marginal and has no relationship with stock firm performance. We invalidate both over-investment hypothesis (H2a) and conflict-resolution hypothesis (H2b). Our finding is not surprising. Overall, current studies concerning the effects of CSR on corporate financial performance are ambiguous (Iqbal and al 2012, Arx and Ziegler 2009, Guenster and al 2006, Waddock and Graves 1997). The insignificance of CSR activities to explain the stock performance could be interpreted by the limitations of the reporting period. Our reporting period is a period of subprime crisis. The consideration of CSR parameters by each industry or sector for this period is more concerned with the wealth maximization goal of the firm rather than the profitability objective of the firm. In this respect, McWilliams and al (2006) show within a model with two firms which produce identical products except that one firm adds an additional social attribute or feature to the product which is valued by the market that in equilibrium the overall effect of CSR is neutral (see MacKey and al 2007).

The important element in our results is that the DEBT has negative correlation with the stock performance but it is not significant. This negative relationship indicates that with an increase in debt financing by the firm, the external investors feels that the company is in subprime crisis and they try to withdraw their investment. This finding is supported by the negative and significant correlation of ROA and ROE with stock performance (respectively at 5% and 1% levels of significance). It may be inferred that, firms with high profitability will be perceived by external investors to worse perform in the market. When we add corporate governance practices to examine whether any corporate governance practices influence stock firm performance, our models report three main following results. First, the coefficient on AUP is significantly positive at 5% level of significance, suggesting that audit service provide an additional monitoring role, which is increase the stock performance. This evidence is consistent with Kirkpatrick and al (2009), who find that good audit service contribute to a better stock performance. Second, coefficient on SHR is significantly negative with a t-value of 5.328, indicating shareholders' rights and information score adversely affect stock firm performance. In particular, an inverse association between SHR and stock price performance implies that too much investor protection adversely affects stock firm performance, which is consistent with Bignon and Bretton (2006). According to them, the increased disclosure and higher investor protection can increase informational asymmetries in the market and leads to higher cost of external capital and worse performance firms. Third, with included CSR variable, our findings underestimate the role that should be played by board functioning, remuneration policy and ownership structure to explain the stock firm performance. Model 2 shows that FBD, REMU and OWN have negative correlation with the stock performance but it is not significant. These inverse relations confirm the adverse effects of managerial entrenchment through these corporate governance practices on stock firm performance during the subprime crisis.

Table 7: Stock return's regressions based on the Panel Data

	Models	
	Model (1)	**Model (2)**
	Coefficient (stat-t)	**Coefficient (stat-t)**

CSR	0.0006 (0.492)	0.000384 (0.311)
FBD		-0.0593 (-0.728)
AUP		0.029 [b] (1.754)
REMP		-0.02421 (-1.137)
OWNS		-0.08 (-0.440)
SHR		-0.015 [a] (-5.328)
ROA	-0.007 (-1.611)	-0.007 [b] (-1.757)
ROE	-0.0018 [b] (-2.455)	-0.0210 [a] (-3.050)
FSIZE	0.0031 [c] (1.720)	0.0032 [c] (1.727)
DEBT	3.66E-05 (0.169)	-9.40E-06 (-0.046)
R-squared	0.147	0.354
F-Statistic	2.779 [b]	4.938 [a]

5. Conclusion

With regard to social and environmental challenges, creation a pressing need for effective global governance has become more and more important. Firm is a key actor both in the creation and in the solution of social and environmental problems. The development of Corporate Social Responsibility (CSR) shows a shift in norms, one in which company increasingly accepts more responsibility for its social and environmental impact. So, the impact of corporate social responsibility and corporate governance on firm performance has become a great interest for shareholders, practitioners, and government regulators. This paper examines what the determinants of CSR engagement are, and whether CSR engagement along with corporate governance and monitoring mechanisms enhance firm performance. This study allows us to establish these main findings.

(1) We find that CSR implication is positively associated with corporate governance practices, as functioning of board of directors, audit process and remuneration policy, after controlling for various firm characteristics.
(2) We show that ownership structure and shareholders' rights and information fail to explain the engagement of firms to CSR activities.
(3) Our results prove that corporate social performance (CSR) has no effect on financial performance during the subprime crisis, while the audit process plays an important role in enhancing firm performance.
(4) If we show that return on equity, or return on asset, or shareholders' rights and information are negatively associated with firm performance, we also show that board functioning, remuneration policy and ownership structure would be without any effect on the firm performance.

Overall, our results are consistent with corporate governance practices and their influence on choice of corporate social responsibility (CSR) engagement, while there is no significant relationship between firm performance and the social responsibility of companies. The insignificance of CSR activities to explain the stock performance could be interpreted by the limitations of the reporting period. Our reporting period is a period of subprime crisis. The consideration of CSR parameters by each industry or sector for this period is more concerned with the wealth maximization goal of the firm rather than the profitability objective of the firm.

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