Religiosity, female directors, and corporate social responsibility for Italian listed companies

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ABSTRACT

Italy is strongly associated with the Catholic Social Teaching (CST) that represents the central principles (doctrine) of the Roman Catholic Church. Using the frequency of words in the papal encyclicals and other writings related to religiosity and gender diversity along with regional demographic and socioeconomic characteristics as instrumental variables for local religiosity and female representation on the board, this study finds positive relationships between religiosity and CSR and between the presence of female directors and CSR for 156 Italian listed companies during the 2002–2014 period. This study also finds that both the top managers' (CEOs') personal religiosity and social pressure from local religiosity play significant roles in firms' CSR performance.

1. Introduction

Over the last two decades, corporate social responsibility (CSR) has received considerable attention from regulators, managers, academics, and society. Recent literature investigates the links between religiosity and firm CSR performance (Brammer, Williams, & Zinkin, 2007; Chatjuthamard-Kitsabunnarat, Jiraport, & Tong, 2014; Longenecker, McKinney, & Moore, 2004; Wu, Lin, & Liu, 2016) and between board diversity and CSR performance (e.g., Byron & Post, 2016; Harjoto, Laksmana, & Lee, 2015). Literature has also considered social norms and values (i.e., religion) as determinants of corporate behavior and CSR (e.g., La Porta, López-de-Silanes, & Shleifer, 2008; Liang & Renneboog, 2017). However, most studies focus on firms in the United States and other common law countries (e.g., UK). Matten and Moon (2008) indicate that CSR intensities (i.e., how and why it changes and its consequences) vary across different culture and institutional settings.

Our study focuses on Italy, one of the French civil law countries in the European Union that is considered to have relatively weaker investor protections (La Porta, López-de-Silanes, & Shleifer, 1999; La Porta, López-de-Silanes, Shleifer, & Vishny, 1998) where firms have suffered both corporate governance and ethical issues (Melis, 2005). Italy is also one of the European countries with the richest religious heritage as well as being the nexus of authority for the Roman Catholic Church. Since the Italian population is predominantly associated with the Roman Catholic religion, our study delves into the role of local religiosity, specifically Catholicism, in shaping firms' CSR performance. Following the previous literature that has explored the relationship between religiosity and firm CSR performance (e.g., Cui, Jo, & Na, 2017; Mazereeuw-van der Duijn Schouten, Graafland, & Kaptein, 2014), we examine the relationship between local religiosity, CEO personal religiosity, and CSR performance in Italian firms.

The concept of a business as a provider of a common good is derived from the tradition of Catholic Social Teaching (CST), which itself dates back to the encyclical *De Rerum Novarum* by Pope Leo XIII in 1891, which lays out the influences of CST on CSR. The *Centesimus Annus* (CA) issued by Pope John Paul II, the encyclical *Caritas in Veritate* by Pope Benedict XVI and recent writings by Pope Francis, including *Evangelii Gaudium* and *Laudato Si* all contain suggestions and ideas relating to CSR and how CSR can be seen as an ethical responsibility of the firm (Rousseau, 2017). However, the existing literature focuses on the narratives from a few encyclicals or other writings of a single papacy (e.g., Goodpaster, 2011; Grassl & Habisch, 2011; Vaccaro & Sison, 2011) without conducting textual (word frequencies) analysis on religiosity and female representation across different papacies.

Our study contributes to the existing literature in three ways. First, we examine the influence of papacy through word frequency analysis on terms related to religiosity and gender diversity in the encyclicals

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and other writings issued by three different papacies: John Paul II, Benedict XVI, and Francis, between 2002 and 2014. Second, we explore the variation in demographic and socioeconomic characteristics of fourteen different regions in Italy in which firm headquarters are located to examine the influence of local religiosity on firms' CSR performance. Finally, consistent with upper echelon theory (Hambrick, 2007; Hambrick & Mason, 1984), we also investigate the extent to which Italian firms' CSR performance is linked to the personal (individual) religiosity of both the CEO and the local community.

2. Literature review and hypothesis development

2.1. Religiosity and corporate social responsibility

The concept of corporate social responsibility (CSR) in Italy can be traced back to the writings of Adriano Olivetti (1940–1960), who argued that companies perform functions of "common good" and are responsible for multiple actions that affect the individual and direct interests of workers (including supporting the economic, spiritual, and social needs of workers). The link between CSR and Catholic Social Teaching (CST) is rooted in the common good principle that takes into account human dignity and solidarity. For instance, Costa and Ramus (2012) argue that the purpose of a firm (corporation) is to maximize community wealth, by which they mean that a business should be considered a community of workers who share a common goal and goods for the betterment of society, drawing on the ideas of Pope John Paul II.[1]

Corporate social responsibility (CSR) can be seen as originating, in part, from the doctrine of the Catholic Church. The spirit of CSR in CST is often described as coming from *De Rerum Novarum*, issued by Pope Leo XIII in 1891 (Abela, 2001). In this encyclical, Pope Leo XIII points out the importance of private property rights and the role of the state (government) in enforcing private property rights, but he also emphasizes that the state is responsible for balancing individual and social objectives.[2] Nearly seventy years later, Pope John XXIII wrote that the alignment between wages and profits must take into account the demands of the common good; every effort must be made to ensure that the enterprise is indeed a true human community, concerned about the needs, activities, and standing of each of its members (*Mater et Magistra*, 1961).[3]

Several studies have emphasized the importance of the encyclicals issued by the Popes on CSR.[4] These studies offer a holistic framework to examine the link between the encyclicals issued by various papacies and business ethics (CSR). Sethi and Steidlmeier (1993) examine *Centesimus Annus*, the encyclical issued by Pope John Paul II, and emphasize the importance of CST and the role of the Church as a moral compass for businesses. Similarly, Abela (2001) points out that *Centesimus Annus* emphasizes the importance of profit as one aspect of business and explicitly states that the Catholic Church acknowledges the legitimate role of business is to balance between profit and social needs. Other studies have examined the meaning and roles of the virtuous cycle between religiosity, businesses (economics), and social responsibility laid out in *Caritas in Veritate* (issued by Pope Benedict XVI), and its effects on how CST is both conceptualized and applied in businesses' ethical conduct (Grassl & Habisch, 2011; Goodpaster, 2011; Vaccaro & Sison, 2011). Finally, Rousseau (2017) examines how the encyclical *Laudato Si* by Pope Francis brings a strong message for businesses that they must care about our environment and seek a sustainable and strategic triple bottom line which is consistent with a natural resource-based view. Our study extends this strand of literature by examining the narratives (through textual analysis)[5] of encyclicals and other writings on religiosity during three papacies (John Paul II, Benedict XVI, and Francis) and examines their impact on firms' CSR behavior.

Based on the strong association of Italy with Catholic Social Teaching (CST) and the existing theoretical arguments that have established a positive link between CST and CSR, we form our first hypothesis as the following:

Hypothesis 1. There is a positive relation between the intensity of local religiosity and corporate social responsibility (CSR) for Italian listed firms.

2.2. Female directors and corporate social responsibility

Gender socialization theory suggests that women and men tend to view morality and ethical behavior differently (Chodorow, 1974; Mason & Mudrack, 1996). It can be argued, as Gilligan (1982) does in her *ethics of care*, that women, more than men, tend to gravitate toward caring and ethical behavior. The ethics of care recognizes that human beings are dependent on their parents (mostly their mothers) at least in their early years and a woman learns through her role as a mother that there are critical moral aspects underpinning development of the caring relationships that allow human beings to live and progress. Ethics of care theory also indicates that women's moral development makes them better able to meet the needs of others than men (Held, 2006).

Existing empirical studies find a positive relationship between female board representation and firm CSR performance (Hillman, Cannella, & Harris, 2002; Wang & Coffey, 1998). Harjoto et al. (2015) empirically showed that the number of women directors is positively related to a firm's CSR rating. More importantly, a recent meta-analysis study demonstrates that female representation in the boardroom is positively related to higher CSR performance (Byron & Post, 2016). Based on both existing theory, particularly gender socialization and the ethics of care literature, as well as numerous empirical findings, our second hypothesis is the following:

Hypothesis 2. There is a positive relation between female representation on the board of directors and corporate social responsibility (CSR) for Italian listed firms.

3. Sample and methodology

We utilize a sample of 156 Italian companies listed in *Borsa Italiana*, observed during the 2002–2014 period (2028 firm-year observations), to test our two hypotheses. We excluded all financial firms (SIC codes from 6000 to 6999) and regulated utilities (SIC codes from 4900 to 4999) because these two industries face more regulatory requirements and greater social pressure from customers and the community than other industries (e.g., Mio, 2010). We hand-collected the data from the companies' corporate disclosure and financial statements, Standard Ethics, PricewaterhouseCoopers, *Bloomberg terminal*, *Calepino dell'Azionista* (Mediobanca, 2015), *Borsa Italiana*, the Consob website, and the

[1] Pope John Paul II encyclical letter on 'Laborem Excercens,' available at https://w2.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_14091981_laborem-exercens.html.

[2] The Encyclical *De Rerum Novarum* is available at http://w2.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html.

[3] *Mater et Magistra* (1961) is available at http://w2.vatican.va/content/john-xxiii/en/encyclicals/documents/hf_j-xxiii_enc_15051961_mater.html.

[4] Encyclicals are formal circular letters concerning Catholic doctrine and apostolic exhortation, sent by the Pope and usually addressed to patriarchs, primates, archbishops, and bishops (http://www.papalencyclicals.net/encyclical).

[5] Textual analysis has become increasingly important in accounting and finance studies as a way to examine financial reporting readability and transparency (e.g., Li, 2008), managerial tone (e.g., Loughran & McDonald, 2011), and impression management (e.g., Merkl-Davis & Brennan, 2007).

Report on Corporate Governance of the individual companies. We also collected demographic and regional socioeconomic data from the *National Institute of Statistics* (ISTAT).

3.1. Main variables measures

Vezzoni and Biolcati-Rinaldi (2015) indicate that weekly church attendance is considered the most significant expression of religiosity. Therefore, we use the percentage of population six years or older who regularly attend church at least once week over the last twelve months in the region in which the firm's headquarters are located (RELIGIOSITY) as our measure of local religiosity. This measure of local religiosity also represents the extrinsic or social religiosity, which has been found to be strongly related to a firm's broader CSR activities (Allport, 1963; Jamali & Sdiani, 2013). We also conducted a textual analysis by manually hand-counting the number of words in the encyclicals and other writings that are related to "religiosity" (e.g., religion, religiosity, church attendance, congregation, Christianity, etc.) which were issued during three different papacies (John Paul II, Benedict XVI, and Francis). We use the number of words in the encyclicals and other writings that are related to "religiosity" (ENCY_REL) as the main instrumental variable for religiosity.

We use the percentage of women on the board of directors to measure female representation in the boardroom (%WOB). However, to overcome the tokenism effect (e.g., Fernandez-Feijoo, Romero, & Ruiz-Blanco, 2014; Konrad, Kramer, & Erkut, 2008; Rossi, Hu, & Foley, 2017), we also use a dummy variable that takes on a value of one if there are more than two women on the board of directors (WBOARD) as another measure of board diversity. We also conducted a textual analysis using manually-hand-counted words relating to "gender diversity" (e.g., role of women, female participation, gender equality, gender diversity, etc.) in the encyclicals and other writings for each year during the three different papacies noted above. We use the number of words in these documents that are related to gender diversity (ENCY_WOM) as the instrumental main variable for female representation on the board of directors.

We measure firm CSR performance using those non-financial disclosures of each firm that are specifically related to the Standard Ethics Rating (SER) issued by Standard Ethics (www.standardethics.eu). Since Standard Ethics constructs the SER based on the intensity of a company's non-financial disclosures from both solicited and unsolicited information, we consider our CSR measures as a proxy for our firms' non-financial disclosures. Our first measure of firm CSR performance is derived directly from the firms' SER ratings. We convert the SER ratings into an ordinal equivalent of CSR values (ORDINAL_ETHICS); the conversion is as follows: EEE = 9, EE*E*− = 8; EE + =7; EE = 6; EE− = 5; E + =4; E = 3; E− = 2; F = 1. (Those firms listed in the Standard Ethics with no rating are assigned a zero.) Our second measure of firm CSR performance is a dummy variable that takes on a value of one if the firm's SER ratings are EE or better (EE, EE+, etc.) or zero otherwise (HIGH_ETHICS).

3.2. Control variables

We also include several control variables that represent firm characteristics. We chose all control variables from previous studies (e.g., Ferrell, Hao, & Renneboog, 2016; Roberts, 1992; Servaes & Tamayo, 2013; Waddock & Graves, 1998). First, we control for the size of the board (BOARDSIZE) as a measure of board effectiveness. Jensen (1993) and Lipton and Lorsch (1992) argue that larger board size tends to be less effective than smaller boards since a larger board is harder to coordinate and it suffers from the free rider problem. Consistent with Harjoto and Jo (2011), we use the natural log of the number of analysts following (ANALYST) as a measure of the degree of external monitoring that influence firm CSR.

Larger firms tend to have more resources to conduct CSR. Therefore, we use the natural log of total assets (*SIZE*) as a measure of firm size. We use FIRMAGE, which is the number of years since the company was founded (expressed in logarithmic form), to represent firms' reputational capital (Godfrey, 2005). Previous literature suggests that board ownership influences firm CSR performance (e.g., Ferrell et al., 2016; Jo & Harjoto, 2011, 2012; Roberts, 1992). Following Harjoto and Jo (2011), Harjoto and Laksmana (2016), and Ferrell et al. (2016), this study also includes the percentage of shares held by a firm's board of directors (BOWN) as a measure of ownership structure. We use the ratio of firms' cash and cash equivalents to total assets (CASH) and dividend payout ratio (PAYOUT) as proxies for firms' excess cash flows. We use LEVERAGE, which is measured as total debt scaled by total assets, to control for firms' financial leverage. All of our models control for *REGION* fixed effects based on fourteen different regions in Italy at which the firms' headquarters are located, *INDUSTRY* fixed effects based on nine different sectors and *PAPACY* (John Paul II, Benedict XVI, and Francis) fixed effects to control for differences in papacies and intertemporal effects. Appendices A and B provide the definitions for the variables that are used for our empirical estimations.

To test our hypotheses, we employ the following baseline regression equation of our empirical model specification:

$$CSR_{i,t} = Intercept + \alpha_1 \%WOB_{i,t} + \alpha_2 \text{RELIGIOSITY}_{i,t} + \alpha_3 \text{CONTROL\_VARIABLES}_{i,t} + \varepsilon_{i,t} \quad (1)$$

where $CSR_{i,t}$ is the dependent variable, which is measured by firms' CSR performance measures (ORDINAL_ETHICS or HIGH_ETHICS). Following Fernandez-Feijoo et al. (2014), we also estimate model (1) by replacing the percentage of female directors (%WOB) with an indicator variable that takes on a value of one if there are more than two females in the firms' board of directors or zero otherwise (WBOARD). We estimate Eq. (1) using an instrumental variable regression (IV) with region dummies, industry dummies, and papacy dummies with firm-level clustered standard errors.

3.3. Descriptive statistics

Table 1 provides descriptive statistics of the variables we use in our study, based on our sample. We find that 12% of firms in our sample have a SER issued by the Standard Ethics and the average of ordinal ethics ratings (ORDINAL_ETHICS) is 0.517. We find 4.4% of our sample firms have a relatively high SER rating (i.e., EE rating or above). The average local (regional) religiosity (RELIGIOSITY) is 29.55% with a median of 30.6%. This is far less than reported by the Institute for Political, Social, and Economic Studies (EURISPES) report in 2014, which indicate that 75% of Italian population identified themselves as Roman Catholic.[6] The difference between these two values is related to fact that most of population in Italy may have Roman Catholic faith but they do not necessarily attend church regularly.

On average, the percentage of women in board of director seats (% WOB) is 8.6% with a median of 5%. We find that 19.8% of our sample firms has more than two women on their board of directors (WBOARD). The average board size (BOARDSIZE) in our sample firms is eight with a median of nine board members. The average number of analysts following a firm (in the natural log) is 1.645 (five analysts) with a median of 1.351 (four analysts), which is significantly less than the U.S. firms (e.g., Jo & Harjoto, 2011). On average, the size (total assets) of firms in our sample is €2.97 billion, with a median of €299 million, indicating that we have a few very large firms that skew the mean of firms' total assets to the right. Therefore, we utilize the natural logarithm of total assets (SIZE) as our measure of firm size in our regression analysis. Similarly, we find the average firm age is 37 years with a median of 26 years indicating that there are some older firms in our sample and

[6] See http://www.eurispes.eu/content/eurispes-rapporto-italia-2014.

Table 1
Variables descriptive statistics.

Panel A. Dependent and independent variables

Variables	Obs	Mean	Median	Std. Dev.
ORDINALETHICS	2028	0.517	0	1.506
HIGH_ETHICS	2028	0.044	0	0.206
RELIGIOSITY	2028	29.550	30.6	5.995
%WOB	2028	0.086	0.05	0.105
WBOARD	2028	0.198	0	0.398
BOARDSIZE	2028	8.315	9	4.134
ANALYST	2028	1.645	1.351	0.844
TOTAL ASSET	2028	2971	299	12,441
FIRM AGE	2028	37	26	33.16
BOWN	2028	0.278	0.12	0.297
CASH	2028	0.103	0.072	0.107
PAYOUT	2028	0.444	0	3.801
LEVERAGE	2028	0.278	0.282	0.194
Oil and gas	2028	0.032	0	0.176
Chemistry and raw materials	2028	0.019	0	0.137
Industrial	2028	0.314	0	0.464
Consumer goods	2028	0.244	0	0.429
Health	2028	0.045	0	0.207
Consumer services	2028	0.173	0	0.378
Telecommunications	2028	0.026	0	0.158
Public services	2028	0.019	0	0.137
Technology	2028	0.128	0	0.334

Panel B. Instrumental variables

Variable	Obs	Mean	Median	Std. Dev.
ENCY_REL	2028	1.462	1	1.693
ENCY_WOM	2028	2.538	1	5.431
CEO_REL	2028	0.242	0	0.428
%COL	2028	10.211	10.12	1.438
%PWOM	2028	48.490	48.5	0.342
GDP	2028	203.701	166.646	106.997
%UNEMP	2028	10.6	9.4	4.869
JOHNPAUL	2028	0.231	0	0.421
BENEDICT	2028	0.615	1	0.487
FRANCIS	2028	0.154	0	0.361
NORTH	2028	0.962	1	0.192
SOUTH	2028	0.038	0	0.192

therefore we take the natural log of our firms' age (FIRMAGE). On average, board stock ownership (BOWN) is 27.8% with a median of 12% indicating a high ownership concentration by the board members compared to U.S. firms (e.g., Jo & Harjoto, 2011).

The average cash and cash equivalent (marketable securities) to total assets (CASH) is 0.103, with a median of 0.072, indicating that, on average, our firms hold 10.3% (median 7.2%) of their assets as cash and cash equivalent. On average, the dividend payout (PAYOUT) is 44.4% with a median of zero indicating that a few firms in our sample have higher dividend payout ratios while the majority do not pay cash dividends. The average of total debt to total assets ratio as a measure of the firms' financial leverage (LEVERAGE) is 27.8% with a median of 28.2%, which is slightly higher than the average financial leverage of U.S. firms (Jo & Harjoto, 2011). Based on the descriptive statistics across nine industries (sectors), our sample is composed mostly of manufacturing firms, consumer goods, and consumer services companies. Public services and chemistry and raw materials are the least-represented sectors in our sample.

Panel B of Table 1 presents the descriptive statistics for the instrumental variables used in our empirical analyses. Respectively, there are 1.46 words per year and 2.54 words per year in the encyclicals and other writings that are associated with religiosity (ENCY_REL) and female representation (ENCY_WOM). We find that 24.2% of our sample is guided by CEOs that are considered religious (affiliated with religious institutions or activities or CEO_REL). On average, firms in our sample have headquarters in regions where 10.21% of population have a college degree or higher education and 48.49% of the population are women. The average gross domestic product (GDP) and unemployment rate where the sample firm headquarters are located are 203.7 billion Euro and 10.6%, respectively. Approximately 23% of our firm-year observations were during the papacy of John Paul II, 62% during the papacy of Benedict XVI, and 15% during the papacy of Francis. We find only 3.8% of our sample firms have their headquarters in the southern region of Italy.

Table 2 provides the descriptive statistics for our firms' headquarter locations and religiosity across fourteen different regions in Italy. There are four regions out of the fourteen that are considered the southern area of Italy (Campania, Molise, Puglia, and Sardegna). We find that most of our sample firms are located in the Lombardia region (e.g., Milan), which has a local religiosity rate of 33.7%. The Lombardia region also has the highest average GDP. Molise, Puglia, and Umbria are the regions with the fewest firms. The Campania region has the highest local religiosity (38.81%) while Toscana (Tuscany) is the region with the lowest local religiosity (22.09%). The Lazio region (e.g., Rome) has a percentage of religiosity of 26.51% and it is the third largest region after Lombardia and Emilia-Romagna where our sample firms' headquarters are located. The Sardegna region has the lowest GDP and the smallest percentage of people with college degrees or higher education; it also has the greatest percentage of women in the population. Overall, we find variations of religiosity, level of education, GDP, percentage of unemployment and percentage women in the population, around the regions in which the firms' headquarters are located. Therefore, we need to take into account the demographic and socioeconomic differences (i.e., education level, percentage of women in the population, GDP, unemployment, and southern versus northern regions) across different regions where the firm headquarters are located.

Table 2
Descriptive statistics across regions.

Region	Number firms	% Firms	% RELIGIOSITY	South region	% COL	GDP € Bil	% UNEMP	% PWOM
Campania	2	1.28%	38.81	Yes	10.11	95.95	28.15	48.58
Emilia-Romagna	25	16.03%	23.56	No	10.21	135.12	8.07	48.49
Friuli-Venezia Giulia	3	1.92%	24.01	No	10.21	133.95	9.09	48.32
Lazio	22	14.10%	26.51	No	10.24	176.47	15.25	48.01
Liguria	3	1.92%	23.85	No	10.05	145.70	11.84	47.37
Lombardia	61	39.10%	33.70	No	10.30	308.33	8.55	48.72
Marche	4	2.56%	35.52	No	10.18	138.62	11.03	48.57
Molise	1	0.64%	35.02	Yes	10.09	62.22	18.99	48.71
Piemonte	13	8.33%	28.34	No	10.20	122.35	11.51	48.41
Puglia	1	0.64%	38.53	Yes	10.01	67.61	25.96	48.52
Sardegna	2	1.28%	26.75	Yes	10.00	31.63	24.05	49.01
Toscana	10	6.41%	22.09	No	10.20	101.92	10.61	48.15
Umbria	1	0.64%	26.58	No	10.32	112.16	12.18	48.21
Veneto	8	5.13%	34.47	No	10.21	141.02	8.81	48.88

4. Multivariate regression analyses

Extant literature has shown that local religiosity and female representation on the board are not completely exogenous (e.g., Ferrell et al., 2016; Harjoto & Jo, 2011). Ahern and Dittmar (2012) and Terjesen and Singh (2008) indicate that female representation on the board is also endogenously determined by regional characteristics. Therefore, we use the instrumental variable (IV) approach to estimate our multivariate regression for Eq. (1). We utilize ENCY_REL and ENCY_WOM as our main instrumental variables for religiosity and female representation on the board. We also include the percentage of population with college degree or higher education (%COL), percentage of female population (%PWOM), local gross domestic product (GDP), and unemployment rate (%UNEMP) across 14 different regions where the firms' headquarters are located as other instrumental variables for both religiosity and female representation on the board. Recent findings also indicate that there are significant differences between the "south" and "north" regions in Italy (Catania, 2015; Vezzoni & Biolcati-Rinaldi, 2015). Thus, we also include an instrumental variable (SOUTH) to measure the impact of the southern area of Italy on both religiosity and female representation.

The results of the IV estimation are presented in Table 3. We find that an increase of 1% in local religiosity is associated with approximately a 0.0367 higher ordinal CSR measure and a 0.0147 higher probability of having a high CSR rating. Given the ordinal rating and high ethics averages of 0.517 and 0.044, these slope coefficients for religiosity represent approximately 7.1% and 33.4% of the means, respectively. Thus, we find support to our first hypothesis (H1) that there is a positive relation between local religiosity and firm CSR performance.

We find the percentage of female board (%WOB) is not significantly related to our CSR measures. This may be due to the tokenism effect where just a few women in the boardroom may have no influence in board decision-making (Konrad et al., 2008). Thus, we re-estimate the Eq. (1) using an indicator variable for the presence of more than two female board representations or critical mass (WBOARD) and the results are presented in the third and fourth column of Table 3. We find that the presence of more than two female board members (WBOARD) is associated with 0.6123 higher ordinal CSR and 0.8225 higher probability of having a high CSR rating. Overall, we find evidence to support our second hypothesis (H2) that greater female representation in the boardroom, measured by the presence of more than two female directors, is positively related with firms' CSR performance.

Examining the impacts of the control variables on firm CSR performance, we find that companies with a greater number of board seats (BOARDSIZE) and with more analyst followings (ANALYST) tend to have higher CSR performance. Overall, the impact of the control variables on firms' CSR performance is consistent with the empirical findings from the extant literature (e.g., Jo & Harjoto, 2011). We find no systematic or significant shift in firm CSR during the Pope Benedict XVI (BENEDICT) and Pope Francis (FRANCIS) periods, compared to during John Paul II's papacy.

Table 3
Instrumental variable regression for local religiosity and female representation on firm CSR.

	ORDINALETHICS	HIGH_ETHICS	ORDINALETHICS	HIGH_ETHICS
RELIGIOSITY	0.0367	0.0147	0.0384	0.0168
	(4.09)***	(3.49)***	(4.44)***	(3.99)***
%WOB	0.6555	0.5137		
	(0.83)	(1.01)		
WBOARD			0.6123	0.8225
			(2.60)***	(2.89)***
BODSIZE	1.0451	0.2541	0.8763	0.2184
	(1.79)*	(1.96)*	(1.83)*	(2.04)**
SIZE	0.1028	0.0282	0.0543	0.0154
	(1.25)	(1.49)	(0.99)	(1.22)
FIRMAGE	0.2483	0.0020	−0.4738	−0.0755
	(0.40)	(0.01)	(0.59)	(0.42)
BOWN	−0.0930	−0.0336	−0.3174	−0.1022
	(0.28)	(0.44)	(0.87)	(1.18)
CASH	0.5131	0.0392	0.3315	−0.0154
	(0.80)	(0.27)	(0.58)	(0.13)
PAYOUT	0.0037	−0.0007	0.0037	−0.0005
	(0.97)	(0.75)	(0.75)	(0.48)
ANALYST	0.8629	0.2088	0.8352	0.2031
	(3.13)***	(3.72)***	(3.22)***	(4.00)***
LEVERAGE	−0.3789	−0.1152	−0.1350	−0.0537
	(0.74)	(0.95)	(0.36)	(0.61)
BENEDICT	−0.0168	−0.0069	−0.0495	−0.0014
	(0.12)	(0.22)	(0.43)	(0.05)
FRANCIS	−0.5308	−0.2212	−0.0087	−0.3261
	(1.51)	(0.93)	(0.50)	(0.94)
Intercept	0.2358	0.0895	0.0176	0.0235
	(0.76)	(1.18)	(0.05)	(0.70)
Hansen J statistic	2.16	1.25	2.63	1.19
[p-value]	[0.27]	[0.19]	[0.29]	[0.59]
Endogeneity test	1.80	0.49	1.45	1.61
[p-value]	[0.40]	[0.18]	[0.35]	[0.37]
F-statistics	3.85	3.73	3.65	3.86
[p-value]	[0.00]***	[0.00]***	[0.00]***	[0.00]***
Obs	2028	2028	2028	2028
R-squared	0.298	0.285	0.273	0.287
Region dummies	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes

RELIGIOSITY variable is instrumented by ENCYL_REL, %COL, %PWOM, LOGGDP, %UNEMP, and a SOUTH regional dummy variable. %WOB and WBOARD variables are instrumented by ENCYL_WOM, %COL, %PWOM, LOG(GDP), %UNEMP, and a SOUTH regional dummy variable. T-statistic is reported in parentheses. ***, **, and * correspond to 1%, 5%, and 10% level of significance.

Table 4
Personal and community level of religiosity and female representation on firm CSR.

	ORDINALETHICS	HIGH_ETHICS	ORDINALETHICS	HIGH_ETHICS
CEO_REL	0.2050	0.0619	0.2001	0.0618
	(2.91)***	(4.03)***	(2.82)***	(4.03)***
C_RELIGIOSITY	0.0162	0.0039	0.0163	0.0039
	(2.59)***	(2.99)***	(2.60)***	(2.99)***
C_RELIGIOSITY × C_LOG(GDP)_SIZE	0.1789	0.0410	0.1669	0.0405
	(1.71)*	(1.68)*	(1.90)*	(1.66)*
%WOB	0.1369	0.0015		
	(0.47)	(0.03)		
WBOARD			0.2141	0.0109
			(1.99)**	(2.36)**
BODSIZE	0.4434	0.1287	0.4704	0.1297
	(4.00)***	(5.44)***	(4.33)***	(5.52)***
SIZE	0.1084	0.0296	0.1061	0.0296
	(4.10)***	(5.06)***	(4.02)***	(5.03)***
FIRMAGE	0.0584	−0.0262	0.0685	−0.0259
	(0.72)	(1.31)	(0.86)	(1.30)
BOWN	−0.1639	−0.1009	−0.1555	−0.1010
	(1.47)	(4.41)***	(1.35)	(4.39)***
CASH	−0.7203	−0.1952	−0.7274	−0.1956
	(2.66)***	(3.55)***	(2.68)***	(3.55)***
PAYOUT	0.0311	0.0071	0.0312	0.0071
	(3.15)***	(3.91)***	(3.17)***	(3.92)***
ANALYST	0.9130	0.1898	0.9042	0.1895
	(9.51)***	(9.21)***	(9.42)***	(9.28)***
LEVERAGE	−0.5338	−0.0788	−0.5452	−0.0794
	(3.27)***	(2.65)***	(3.31)***	(2.67)***
BENEDICT	0.0913	0.0169	0.1069	0.0172
	(0.67)	(0.57)	(0.78)	(0.58)
FRANCIS	0.0762	0.0096	0.1261	0.0114
	(0.55)	(0.32)	(0.90)	(0.38)
Intercept	0.7629	−0.0262	0.5499	−0.0371
	(1.96)*	(0.47)	(1.39)	(0.60)
F-stats	9.28	10.60	9.27	9.96
[p-value]	[0.00]***	[0.00]***	[0.00]***	[0.00]***
VIF for C_RELIGIOSITY	1.75	1.75	1.75	1.75
VIF for C_RELIGIOSITY × C_LOG(GDP_SIZE)	1.76	1.76	1.76	1.76
VIF for C_SIZE	2.60	2.60	2.60	2.60
VIF %WOB	1.33	1.33	–	–
VIF WBOARD	–	–	1.16	1.16
Observations	2028	2028	2028	2028
R-squared	0.2684	0.2742	0.2693	0.2743
Region dummies	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes

C_RELIGIOSITY is the centered value of RELIGIOSITY and C_RELIGIOSITY × C_LOG(GDP)_SIZE is the interaction term between C_RELIGIOSITY and centered natural logarithmic of local GDP divided by natural logarithmic of firms' total asset (C_LOG(GDP)_SIZE). T-statistic is reported in parentheses. ***, **, and * correspond to 1%, 5%, and 10% level of significance.

We also conduct the Hansen J-test to check the appropriateness of our instrumental variables and we fail to reject the null hypothesis, which implies that our instrumental variables are appropriate. We ran an endogeneity test and again fail to reject the null hypothesis indicating that endogenous regressors (RELIGIOSITY, %WOB, and WBOARD) can actually be treated as exogenous regressors.

As a robustness check, we also conduct a two-stage least squares (2SLS) regression. We assume that local religiosity is endogenously determined by the words in the encyclicals and other writings that are related to "religiosity" (ENCY_REL), percentage of population with college or higher education (%COL), percentage of female population (%WPOP), local gross domestic product (LOG(GDP)), unemployment rate (%UNEMP), and a dummy variable to represent the regions in the southern part of Italy. We also consider the female representation on the board (%WOB and WBOARD) as endogenously determined by the number of words in the encyclicals and other writings that are related to "gender diversity" (ENCY_WOM), percentage of population with college or higher education (%COL), percentage of female population (%WPOP), local gross domestic product (LOG(GDP)), unemployment rate (%UNEMP), and a dummy variable to measure the southern region effects, as the determinants of female representation in the boardroom. Then, we re-estimate Eq. (1) in the second stage regression. We find that the second stage regression results (untabulated) are qualitatively similar to findings obtained from the IV. Finally, we conduct the ordinary least squares (OLS) and the seemingly unrelated regression (SUR) that accounts for potential correlations between the error term of the Eq. (1) and the error terms of local religiosity and female board representation regressions. Our untabulated results from the OLS and the SUR are also qualitatively similar to the IV regression.

Extant studies highlight the importance of personal (individual) religiosity on ethical behavior (e.g., Brown, Vetterlein, & Roemer-Mahler, 2010). Weaver and Agle (2002) indicate that religiosity creates expectations based on self-identity and identity salience at the individual-level that lead to ethical behavior and any deviation from these expectations creates cognitive and emotional discomfort for the individual. Wood (1991) indicates that corporate managers are moral actors and they are obliged to exercise such discretion as is available to them, toward socially responsible outcomes. Recent studies indicate that the level of individual manager religiosity, measured by the personal religiosity of top executives within the firm, significantly influences firm CSR performance (e.g., Mazereeuw-van der Duijn Schouten et al., 2014).

The upper echelon theory (Hambrick, 2007; Hambrick & Mason, 1984) indicates that characteristics of the personal beliefs of top

management (CEO) can predict organizational characteristics. Therefore, we examine the role of personal religiosity of CEOs on firms' CSR. We manually collect information on CEO names from the Consob, *Calepino dell'azionista*, and firm annual reports. Based on the CEO names, we manually search Linkedin, *Marquis World Who's Who*, Facebook, Wikipedia, Bloomberg profile, firm annual reports, press releases, and local library resources (e.g., Credo, *Who's Who*) to identify whether the CEO of each firm in our sample was related to, or participated in, any religious institutions or religious social activities, was a supporter of religious events and activities or not. From this information, we create a dummy variable for CEO religiosity for each firm in each year (CEO_REL) to represent the CEO's personal religiosity as an additional independent variable in Eq. (1).

We also examine whether the degree of social pressure from local (community) religiosity matters. Because we expect that a larger local economy relative to a firm's size will create greater social pressure on the firm to act according to the community beliefs, we construct a ratio of the natural log of local gross domestic product (GDP) relative to the natural log of firm's total assets (LOG(GDP)/SIZE), where SIZE is LOG(total asset) as a measure of the size of the economy where the firm's headquarters is located relative to firm's size (LOG(GDP)_SIZE). Then, we interact this variable (LOG(GDP)_SIZE) with our local religiosity (RELIGIOSITY) or LOG(GDP)_SIZE × RELIGIOSITY. We use the centering by subtracting both LOG(GDP)_SIZE and RELIGIOSITY with their corresponding means to reduce the correlation (multicollinearity) between RELIGIOSITY and the interaction variable LOG(GDP)_SIZE × RELIGIOSITY (Rupert, 2004). Then, we replace RELIGIOSITY with the centered-religiosity (C_RELIGIOSITY) and add the interaction variable of centered-religiosity and centered-LOG(GDP)_SIZE (C_LOG(GDP)_SIZE × C_RELIGIOSITY) as an additional independent variable in Eq. (1).

The regression results are presented in Table 4. We find that having a religious CEO (CEO_REL) increases the ordinal CSR rating by 0.2 and increases the probability of having high ethical standards by 0.06. Given the average of ordinal rating and high ethics of 0.517 and 0.044, these slope coefficients on religiosity represent approximately 39% and 136% of the means, respectively. Thus, the economic impact of personal (individual) level CEO religiosity on a firm's CSR performance is quite significant. We also find that the interaction variable between centered RELIGIOSITY and centered LOG(GDP)_SIZE (C_RELIGIOSITY × C_LOG(GDP)_SIZE) is positive and statistically significant at the 10% level. This provides evidence that there is social pressure from local religiosity that positively affects the firm's CSR performance, especially where the size of the local economy is relatively larger than the firm's size. Overall, we find empirical evidence that both personal and community levels of religiosity play positive roles on firm CSR performance.

We also measure the variance inflation factors (VIFs) for the centered-religiosity (C_RELIGIOSITY), the interaction variable of centered-religiosity and centered-LOG(GDP)_SIZE (C_LOG(GDP)_SIZE × C_RELIGIOSITY), and female representation on the board (% WOB and WBOARD). The values presented at the bottom of Table 4 indicate that multicollinearity problems are not an issue for our analysis.

5. Conclusions

The extant literature has shown that Italy is one of the European civil law countries that has relatively weaker corporate governance and greater ownership concentration (La Porta et al., 1998; La Porta et al., 1999), which together creates opportunities for unethical behavior by controlling shareholders at the expense of non-controlling stakeholders (e.g., Faccio, Lang, & Young, 2010). However, Italy is also the center of authority for the Roman Catholic religion and the papacy. It is generally recognized as an iconic manifestation of the Catholic Social Teaching (Costa & Ramus, 2012) that is produced through encyclicals and other writings issued by the papacies. Indeed, supervisory authorities and Italian legislators have rigorously introduced regulatory efforts, through recommendations and legislative measures, to enhance corporate governance and corporate social responsibility (CSR) reporting by large Italian listed firms, in terms of both stakeholders and shareholder protections, as well as gender balance on boards of directors.

However, there are still only limited studies that examine the interrelationships between religiosity, board diversity, and firm CSR performance for Italian listed firms. Our study fills this gap. Using extensive balanced panel data of 156 firms during the 2002–2014 period, we find strong evidence to support our hypotheses that local religiosity and female representation among a firms' board directors are positively related to firm CSR performance. Our empirical findings are robust under different estimation methods (i.e., OLS, IV, 2SLS, and SUR). More importantly, we also find that both the personal religiosity of the CEO and local (community) religiosity have a positive impact on firm CSR performance.

Our study contributes to the existing literature by exploiting the unique religious characteristics of Italy by examining the influence of the papacy using word frequency analysis of religiosity and female representations from the encyclicals and other writings issued during three different papacies: John Paul II, Benedict XVI, and Francis. We investigate the variation of demographics and socioeconomics characteristics of fourteen different regions in Italy in which the firms' headquarters are located to examine the influence of local religiosity on firms' CSR performance. Finally, we also provide evidence that CEOs' personal level of religiosity and community-level religiosity through local church attendance have significant impact on firm CSR performance.

Our results provide valuable insights to corporate managers, investors, and regulators regarding the roles of religiosity and female representation on the board and highlight the impacts of messages from the papacies through their encyclicals and other writings on enhancing firms' CSR performance in Italy. Corporate managers, investors, and regulators should be more cognizant of the strong influence on local religiosity and female representation that Catholic Social Teaching has through these encyclicals and other writings. We believe future studies that incorporate the influence of papacies through encyclicals and other writings on other measures of corporate performance and risk, would bring valuable insights on how the Roman Catholic Church can shape activities by Italian companies.

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Appendix A

Dependent and independent variable definition.

Variables	Definitions
ORDINALETHICS	EEE = 9, EE*E*− = 8; EE + =7; EE = 6; EE− = 5; E + =4; E = 3; E− = 2; F = 1; no rating = 0. Source: www.standardethics.eu.
HIGH_ETHICS	Dummy = 1 if the firm has EE rating or higher (EE+, EEE− etc.); 0 otherwise. Source: www.standardethics.eu.
RELIGIOSITY	The percentage of population aged 6 years or older that attend church at least once a week in the last 12 months in the region where the firm has its headquarters. Source: *The National Institute of Statistics* (ISTAT) at https://www.istat.it/
%WOB	The percentage of women on the board of directors. Source: Annual reports, CONSOB, Mediobanca
WBOARD	Dummy = 1 if there are more than two women on the firm's board of directors; 0 otherwise. Source: Annual reports of firms, CONSOB, Mediobanca
BOARDSIZE	The number of members of the board of directors. BODSIZE is the natural log of BOARDSIZE. Source: Annual reports, CONSOB, Mediobanca
ANALYST	The natural log of the number of financial analysts that follow and provide forecasts of the firm's earnings. Source: *Borsa Italiana*.
SIZE	The natural log of total assets (€ million) of firms. Source: Annual reports, Bloomberg, Mediobanca
FIRMAGE	The natural log of firm's age (since the firm was established). Firm age is stated in number of years. Source: Firm websites and Mediobanca
BOWN	The percentage of shares owned by the board of directors. Source: Firms' Corporate Governance Reports and CONSOB.
CASH	Cash and marketable securities, scaled by total assets. Source: Bloomberg, annual reports, and Mediobanca
PAYOUT	The earnings paid out as dividends scaled by net income. Source: Mediobanca
LEVERAGE	Total debt scaled by total assets. Source: Bloomberg, Mediobanca, and annual reports.
INDUSTRY	We construct nine different industry dummy variables to represent nine sectors: oil and gas, chemistry and raw materials, industrial, consumer goods, health, consumer services, telecommunications, public services, and technology.

Appendix B

Instrumental variable definitions.

Variables	Definitions
ENCY_REL	Number of words in encyclicals and other writings that are related to religion, religiosity, church attendance, congregation, Christianity, God, etc., during each year. Sources: https://w2.vatican.va/content/john-paul-ii/en/encyclicals.index.html; http://www.papalencyclicals.net/jp02; https://w2.vatican.va/content/benedict-xvi/en/encyclicals.index.html; http://www.papalencyclicals.net/ben16; https://w2.vatican.va/content/francesco/en/encyclicals.index.html; http://www.papalencyclicals.net/franc.
ENCY_WOM	Number of words in encyclicals and other writings that are related to the role of women, female participation, gender equality, gender diversity, etc., during each year. Sources: The same as ENCY_REL.
CEO_REL	An indicator variable that is equal to one if CEO personal profile mentions religious affiliation, activities, or institution or zero otherwise. Source: *Marquis World Who's Who*, Linkedin, Facebook, Wikipedia, Bloomberg profile, annual reports of firms, and press releases.
%COL	Percentage of population with college degree or higher. Source: https://www.istat.it/
%PWOM	Percentage of women in the population for each region in each year. Source: https://www.istat.it/
GDP	Amount of Gross Domestic Product (in € billion) for each region in each year. Source: https://www.istat.it/
%UNEMP	Percentage of unemployed for each region in each year. Source: https://www.istat.it/
NORTH	An indicator variable that is equal to one if the firm's headquarters is in the regions that are not considered as the Southern Region. Source: EU Nomenclature for Territorial Unit for Statistics (NUTS) http://ec.europa.eu/eurostat/documents/345175/7451602/nuts-map-IT.pdf and https://www.istat.it/
SOUTH	An indicator variable that is equal to one if the firm's headquarters is in the regions that are considered as the Southern Region. Source: EU Nomenclature for Territorial Unit for Statistics (NUTS) http://ec.europa.eu/eurostat/documents/345175/7451602/nuts-map-IT.pdf and https://www.istat.it/
JOHNPAUL	An indicator variable that is equal to one during Pope John Paul II Papacy (2002 to 2004) or zero otherwise. Source: https://w2.vatican.va/content/john-paul-ii/en/encyclicals.index.html; http://www.papalencyclicals.net/jp02
BENEDICT	An indicator variable that is equal to one during Pope Benedict XVI Papacy (2005 to 2012) or zero otherwise. Source: https://w2.vatican.va/content/benedict-xvi/en/encyclicals.index.html; http://www.papalencyclicals.net/ben16
FRANCIS	An indicator variable that is equal to one during Pope Francs Papacy (2013 to 2014) or zero otherwise. Source: https://w2.vatican.va/content/francesco/en/encyclicals.index.html; http://www.papalencyclicals.net/franc

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