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Does a CEO's Cultural Background Affect Corporate Social Responsibility during the Financial Crises?

* Muhammad Naeem (Corresponding Author)

** Naeem Ullah

*** Syed Muhammad Ali Tirmizi

Abstract

This study has utilized a large dataset containing 10269 firm-year observations from 2001 to 2015. Interestingly, the first ever relationship between CEOs' cultural background and corporate social responsibility during the 2008-2009 financial crises has been reported. The empirical results suggest that the individualistic CEOs cultural background is positively and significantly related with the corporate social responsibility. This study reports the first ever evidence that during the financial crises, individualistic CEOs cultural background is negatively and significantly related with the corporate social responsibility. This study shows the importance of how the CEOs decisions varies during the financial crises. The pooled data methodology has been employed to generate econometric results where the empirical evidences opens-up new avenues for future research that could further evaluate the impact of CEOs cultural background on other firms' policies.

Keywords: CEOs Cultural Background, CSR, Financial Crises

Introduction

Corporate social responsibility (CSR) is a vital strategic component of conglomerates conducting businesses in a drastically changing dynamic world of today. In such a business environments, customer-firm relationship approach is harnessing innovative mechanisms of doing business by adopting novel concepts such as; value co-creation and CSR. The concept of value co-creation is a business strategy that encourage firm initiated interactive involvement of the customer in value creation process. The value co-creation process is beneficial for B2B and B2C active interactions by keeping in view the object of serving the society. As an example, literature elaborates that firms are actively taking measures to protect the environment, community and the stakeholders and it reciprocate mutual benefits. An ample empirical evidence is available in support of CSR as positive and significant business strategy that raise financial performance of a firm. It means that when a firm incur expenditure on CSR activities, the result is better financial performance in a fiscal year. Therefore, it is definitely worth acknowledging that financial resource allocation and investment on CSR is undoubtedly rewarding and compelling for a firm to perform CSR activities.

In perspective of Upper Echelons Theory (UET) organizational outcomes may be determine by the top management including the CEOs background characteristics. Therefore, this study focuses on the specific types of CEO characteristics which may facilitate in performing CSR activities. Literature has extensively tested CEOs education, experience, gender and salary as generic characteristics attached to CSR activities but limited investigated has been done relating cultural background as it is very important factor which influence any individual to build his/ her personality. Moreover, it is an inherited factor which has been transferred from one generation to another. Hence, the purpose to initiate this study is to report the impact of CEOs' cultural background as an important characteristic on CSR activities of the US firms.

Research objectives of the study:

1. To investigate the impact of CEOs cultural background on the corporate social responsibility.
2. To know the impact of CEOs individualistic cultural background on the corporate social responsibility.

* Faculty of Management Sciences, Foundation University Islamabad Email: m.naeem@fui.edu.pk
** Faculty of Management Sciences, Foundation University Islamabad Email: naeemullah@fui.edu.pk
*** Faculty of Management Sciences, Foundation University Islamabad Email: dr.alitirmizi@fui.edu.pk

3. To measure the impact of CEOs individualistic cultural background on the corporate social responsibility during the financial crises.

Research Questions of the study:

1. What is the relationship between CEOs cultural background and corporate social responsibility?
2. What is the relationship between individualistic CEOs cultural background and corporate social responsibility?
3. What is the relationship between individualistic CEOs cultural background and corporate social responsibility during the financial crises?

Literature Review:

The literature on CSR is exponentially increased over the last few years and thus become a center of research and practice for the disciplines including but not limited to; business, accounting, economics, management, sociology, anthropology, finance etc. The CSR literature available in the field of finance is not limited to meta-analysis rather second order meta-analysis is also available (Busch & Friede, 2018). The determinants of corporate social responsibility are required to be focus by the firms for effective and efficient implementation as a business strategy to gain competitive advantage in the market.

The CSR determinants may be categorized into three main factors. The study of Jackson and Deeg (2008) reported the effect of national culture on the CSR activities of the firm. Country factors are; political system, education, labor, financial, and cultural systems which certainly affect firms to perform their CSR activities. The second main factor is the firm factors and these factors definitely affect corporate social responsibility. This argument is supported by the evidence that a firm performing CSR activities eventually increase its financial performance (Wang et al., 2020). Literature also explain that firms which perform CSR activities incur less cost of equity capital (El Ghoul et al., 2011). Furthermore, when firms perform CSR activities, a noticeable reduction in information asymmetry is prevalent (Rodriguez et al., 2006). The third main important factor is the CEO characteristics. According to the UET theory top management background characteristics may determine the firm policies concerning CSR activities. For example Christensen et al. (2014) found that top management characteristics are important for firms because their characteristics affect CSR activities. Additionally, Carpenter et al. (2004) also found that CEOs characteristics are extremely important factors which may affect the firm CSR activities.

Apparently all the factors which affect the CSR activities have been studied, but CEO cultural background is a factor that require more empirical evidence. Therefore, this study focus on the CEOs cultural background and report whether the CEO perform the CSR activities with respect to his/her cultural background or not? Precisely according to literature the individualistic culture perform CSR activities (Ioannou & Serafeim, 2012) however, keeping in view the extent literature, this study has been extended based-on an earlier research question stating that; whether the culture of the ancestors are being carried by their son or grandson in another country or not?

Subsequently, according to Guiso et al. (2006) the cultural values gradually develops and are not supposed to be changed in a very short span of time because cultural values do pass from generation to generation globally. Therefore, in this regard, when an individualistic cultured firm perform the CSR activities and culture transmit through one generation to another. Thus, it is expected that CEOs who have individualistic cultural background may perform CSR activities. But, during the financial crisis CEOs may protect the shareholder wealth and may not perform CSR activities.

Methodology of the Study:

This study has used S&P 1500 listed large US dataset of firms containing 10269 firm-year observations from 2001 to 2015. The variable of interest in this study is the CEOs cultural background. The Ancestry website that contains the New York passenger list has been utilized to extract and compile CEO cultural background data. Furthermore, after determining the CEOs cultural background, Hofstede cultural scores have been assigned to each name. Likewise, Naeem and Khurram (2020) employed similar methodology to calculate the empirical score of the CEO cultural background. The second important variable is the corporate social responsibility taken as dependent variable and it is calculated based-on the methodology developed by Deng et al., (2013).

The control variables used in this study are; firm size, firm leverage, cash holdings to total assets, return on assets, and sales growth. Control variables namely firm size, firm leverage, return on assets, and sales growth. These variables are measured by using the methodology developed by Boubakri et al., (2016). While cash holding to total assets is measured by using the methodology developed by Cai et al., (2016) where the econometric equation formulated represented CSR as dependent variable and CEOs culture as main variable of interest and the interaction term is a term which was used to measure whether individualistic CEOs perform CSR activities during 2008-2009 financial crises or not?

$$CSR_{it} = \beta_0 + \beta_1 CEO\ Culture_{it} + interaction\ term + \beta_2 Controls_{it} + \varepsilon_{it}$$

The econometric results have been obtained by testing the above equation based-on the Pooled OLS methodology estimated using STATA software.

Results and Discussions:

This section contains the descriptive statistics and regression results. Table 1 is about the descriptive statistics, table 2 discusses the correlation matrix and table 3 is about the regression results of the study.

Descriptive Statistics:

Table 1 reports the descriptive statistics of the regression analysis of the variables including; corporate social responsibility (CSR), individualistic CEOs (IDV), interaction term (IDV*Crises), firm size, return on assets (ROA), sales growth (SG), cash to total assets (CA/TA), and leverage (Lev). Furthermore, table 1 reports four descriptive measures including; mean, standard deviation, minimum value, and maximum values of the variables. Mean value depicts the average value of the variable for example the average value of CSR is -0.045 which means on average a firm has negative CSR. It further means that a firm on average has more concerns (weaknesses) than strengths. Similarly the mean value of individualistic CEO (IDV) is the 76.898. The interpretation of the value shows that on average a CEO belong to individualistic culture. Standard deviation is 11.33 which is not very high with respect to the mean where the minimum value of the said variable is 20 which means some CEOs may also belong to a culture where collectivism culture prevails.

Table 1: Descriptive Statistics

	Mean	SD	Min	Max
CSR	-0.045	0.6297288	-3.000	4.244
IDV	76.898	11.33627	20.000	97.509
IDV*Crises	14.244	30.24209	0.000	91.000
Firm Size	7.766	1.507179	3.955	13.221
ROA	0.143	0.083554	-0.086	0.423
SG	0.094	0.2027986	-0.425	0.963
Cash/TA	0.153	0.1614553	0.000	0.704
Lev	0.213	0.1671587	0.000	0.671

Additionally, the maximum value of another descriptive statistics used to describe that, what can be the maximum value of the variable. In this regard, the said variable (IDV) has the value of 97.509 which means some CEOs may belong to a country where highly individualistic culture is prevailing significantly. Rest of the variables may be interpreted in a similar ways.

Correlation Matrix:

Table 2 discuss the association among the regression variables and report the strength of association among the variables.

Table 2: Correlation Matrix:

	CSR	IDV	IDV*Crisis	Firm Size	ROA	SG	CA/TA	Lev
CSR12	1.00							
IDV	0.02	1.00						
IDV*Crisis	-0.09***	0.06***	1.00					
Firm Size	0.15***	0.05***	-0.02**	1.00				
ROA	0.08***	0.02	-0.04***	-0.03***	1.00			
SG	-0.05***	-0.02**	-0.22***	-0.05***	0.20***	1.00		
CA/TA	0.07***	-0.16***	-0.01	-0.33***	-0.02	0.06***	1.00	
Lev	-0.00	0.09***	-0.01	0.37***	-0.15***	-0.06***	-0.41***	1.00

*** means variables are significant at the 1% level.

Table 2 report results of correlation matrix and the association among the variables. The results show that there is no highly association between the independent variables which may cause the problem of multicollinearity. Some values interpret that the interaction term is negatively and significantly related with CSR. Other control variables including; firm size, return on assets, and cash to total assets are positively and significantly associated with the CSR, whereas sales growth is negatively associated with the CSR.

Regression Results:

Table 3 discuss the regression analysis results. In these results we are only interested to know the impact of individualistic cultural background (IDV) on corporate social responsibility (CSR). Thus more emphasis on whether CEOs are performing CSR activities during the 2008-2009 financial crises or not. The results are reported and interpreted below,

Table 3: Regression Results

	Coefficients	T-value	P-value
IDV	0.002**	2.41	P value < 0.05
IDV*Crises	-0.002***	-11.14	P value < 0.01
Firm SIZE	0.103***	8.67	P value < 0.01
ROA	0.743***	5.68	P value < 0.01
SG	-0.239***	-7.20	P value < 0.01
CASH/TA	0.311***	4.48	P value < 0.01
LEV	0.007	0.10	P value > 0.10
Constant	-1.575	-10.94	P value < 0.01
Industry Fixed Effects	Yes	Yes	Yes

******* shows significant under the 1%, N = 10269, Adjusted $R^2 = 0.151$

Three asterisks means variables are significant under the 1% level of significant. These results are obtained with 10269 observations and because of large dataset adjusted R square is 0.151. The above results show that interested variables are significantly related with corporate social responsibility. Individualistic CEOs are positively and significantly related with CSR. The results of this study are supported from the literature (Ioannou & Serafeim, 2012, Naeem and Khurram, 2019, Naeem et al., 2021). Ioannou and Serafeim (2012) is published among the top journals, they found that there is positive relationship between individualistic culture and corporate social responsibility. It is argued that individualistic culture show positive relationship with the CSR because in the individualistic society stakeholders expect that wealthy businessmen and corporation will give back to the society (Matten & Moon, 2008).

The second main interested variable is the interaction term. The interaction term is included in the regression analysis to know that whether the CEOs who belong to individualistic culture decide to perform CSR activities during the crisis or not. The intuitive approach suggest that CEOs will not perform the corporate social responsibility activities during the financial crises because, it is the responsibility of the CEOs to protect the shareholders wealth. Therefore, wealth protection approach also suggest that CEOs will not perform CSR activities during the financial crises. The results of this study show that during the financial crises (2008-2009) individualistic CEOs did not perform CSR activities. As this is the first ever study which tested the relationship between individualistic CEOs and CSR during the financial crises, therefore, no relevant study is available to support or against the result of the findings of this study. But according to the wealth protection point of view CEOs will not spend the shareholders money during the financial crises on the CSR activities and will protect their money.

The results relating to the variables including; firm size, return on assets, and cash to total assets are positively and significantly related with the CSR. These results are in-accordance with the theory that is, the large firms are more visible, and therefore the stakeholders expect from them that they will perform some CSR activities. Secondly, if the firm will have more cash with respect to total asset then they may perform some CSR activities and also if firm's financial performance is better, the firm may also perform the CSR activities.

Conclusions:

This study concludes that CEOs cultural background has impacted corporate social responsibility and it is also found that individualistic CEOs as well as corporate social responsibility have positive relationship. It is also pertinent to mention that in the times of financial crises individualistic CEOs show a negative relationship with corporate social responsibility. These results show that CEOs are performing CSR activities in the best interest of the companies. In this study pooled OLS techniques have been applied and the results the generated are based-on a large dataset consisting of 10269 firm year observations for the period 2001 to 2015.

Policy implications and future research direction:

There may be the numerous policy implication of this study but most important implication of this study is that, firm should hire those CEOs who work in the best interest of the shareholders. For this purpose the results of this study shows that individualistic CEOs perform CSR activities in the best interest of Shareholders e.g. when there is a financial crises CEOs protect their money and not spend the funds for the CSR activities.

This research also opens up the new avenues for the future research. For example what is the impact of CEOs cultural background on the investment, capital structure, cash management etc.

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