CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE BOARD COMPOSITION: A VIEW FROM CHINA

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ABSTRACT

While the majority of CSR research has focused on the link between CSR and CFP in a Western context, we know little about the antecedents of CSR. Theoretical work posits that CSR is driven by firm size, diversification, R&D, advertising, consumer income, government sales, labor market conditions, and industry life cycle (McWilliams & Siegel, 2001). Other researchers have argued that intraorganizational factors, competitive dynamics, institutional investors, end-consumers, governmental regulators, and NGOs lead to CSR (Haigh & Jones, 2006). While theoretical models exist, empirical evidence examining antecedents of CSR has been limited with the exception of a few studies. One of the few studies on antecedents of CSR found a significant relationship between CEOs' international experience and firm corporate social performance lending preliminary support to the role of a firm's leaders in CSR efforts (Slater & Dixon-Fowler, 2009).

In China, firm leaders understand the increased pressure for accountability. Boards of directors, in particular, may be paying more attention to CSR related firm performance as the emphasis on CSR in China grows. This phenomenon has been seen in US firms where over 25% of *Fortune* 500 firms now have specialized board committees responsible for overseeing environmental and other public policy related issues while over a decade ago less than 5% of firms had such committees (Lublin, 2009, Aug. 11, *WSJ*). A few studies have found evidence suggesting that directors play an important role in corporate social performance (Dixon-Fowler, 2010, unpublished dissertation, Kassinis & Vafeas, 2002) although the influence of boards on CSR has been largely neglected.

Traditionally, directors are thought to serve in three primary roles: control, resource dependence, and service (see Johnson, Daily, & Ellstrand, 1996 for review). As such, directors bring expertise and experience to the organization and may monitor top management performance, secure important resources, provide expert advice, and oversee strategy development and implementation. Agency theory, the dominate perspective in governance research, asserts that managers are self-interested. Thus, directors act as agents of shareholders and thus play a monitoring or control role in ensuring that managers act in the best interest of firm shareholders by enhancing firm performance (Berle & Means, 1932; Fama & Jensen, 1983; Jensen & Meckling, 1976). The majority of research in the governance literature focuses on the need for separation of ownership and control and thus the general argument that inside directors are less able to fulfill their monitoring responsibilities compared to outside directors (Lorsch & MacIver, 1989).

One of the few studies of Chinese boards found that small boards were associated with higher EPS and EVA but lower ROA and that the number of board meetings did not appear to matter (Changqing &

Jianqing, 2004). Interestingly, and in contrast to Western-based governance theories, a negative association was found between the proportion of independent directors and firm performance and this relationship appeared to be strengthened by the adoption of regulation in 2001 by the Securities Regulatory Commission requiring listed companies to introduce independent directors (Changqing & Jianqing, 2004). This reform, in fact, was primarily influenced by the Western based governance model relying on assumptions regarding human behavior which may not be appropriate or well suited for the Chinese context (Tian & Lau, 2001). Indeed, when tested on a sample of Chinese companies, evidence of a stewardship role received stronger empirical support than the agency hypothesis (Tian & Lau, 2001). From this perspective, directors may be concerned with their firm's strategy and act in the best interest of shareholders because they view the firm's performance as a reflection of their own abilities and reputation (Fama, 1980; Johnson et al., 1996). Thus, by acting as a steward of the firm, directors essentially manage their own reputations (Johnson et al., 1996; Fama, 1980; Lane, Cannella, & Lubatkin, 1998). Another study found evidence for a stronger resource dependence role of Chinese boards and again the control role was less pronounced (Young, Ashlstrom, Bruton, & Chan, 2001). Overall, it appears that Chinese directors may be motivated to pursue CSR initiatives if they perceive that their own reputation is linked to that of their firm.

Private business enterprises in China also differ in important ways from Western counterparts (Weidenbaum, 1996). For example, there is often cross-ownership across multiple firms instead of a large unitary firm and succession patterns differ as well (Weidenbaum, 1996). Further, the characteristics of Chinese family enterprises may give them greater flexibility during periods of organizational challenges and change (Weidenbaum, 1996).

Board roles and characteristics vary not only across countries but also by company types within the same countries (Corbetta & Salvato, 2004). In China, private-owned enterprises are family owned and operated with large proportions of top management and board directors being made up of family members. The body of literature on family firms has largely failed to recognize potential differences (Corbetta & Salvato, 2004). Family firms board characteristics may reflect firm power, experience, and cultural makeup and governance theories and prescriptions should be adapted appropriately (Corbetta & Salvato, 2004). For example, the directors of private-owned firms may face fewer constraints enabling them to have a more direct influence on firm processes and outcomes (Dailey & Dalton, 1993). Family members serving on the board may have a more intimate understanding of firm goals, practices and procedures. Moreover, the social capital existing between family members along with a more centralized and concentrated leadership and decision-making structure on the board may result in greater effectiveness. Given that family members may share similar social networks, however, the resource dependence role of any individual director may be reduced.

In sum, in order to shed important insight on CSR in China, our exploratory aims to provide insight on two questions. First, what is the relationship between CSR and CFP in private-owned enterprises in China? Second, what is the role of the board of directors on the CSR of these companies? Whereas data on public firms in the U.S. and abroad is fairly accessible, data on private enterprises, particularly in China is rare. Our analysis will be applied to a dataset compiled through a combination of mail surveys, telephone interviews, and face-to-face interviews and obtained usable responses from 878 of 1150 companies for a response rate of 76.3%. While this study is exploratory in nature, future longitudinal studies would further enhance our understanding of CSR in Chinese firms. Traditionally, Chinese firms also tend to have much greater family member representation on boards of directors. However, perhaps as a result of seeking greater legitimacy in a global market there does appear to be an emerging trend toward less family control (Yeung, Wai-Chung, & Soh, 2000). A close examination of this trend may provide particularly interesting insights.

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