

## **Does a CEO's National Culture Affect Corporate Social Responsibility?**

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### **Abstract**

*This study investigates the influence of CEO's national culture on corporate social responsibility. From the empirical analysis, it can be observed that CEO's cultural dimensions are positively correlated with CSR, except uncertainty avoidance index. It is also mentioned, CEO's cultural dimensions namely individualism and masculine are positively and significantly related with CSR. It is worth mentioning that including two new cultural dimensions i.e. long term orientation/short term orientation and indulgence/restraint enhances the contribution of the present study. These results support the stakeholder and legitimacy theories.*

**Keywords:** National Culture, CEOs, CSR

### **Introduction**

Stakeholders' awareness about corporate social responsibility creating the pressure on the firms to do their businesses by socially acceptable, which is supported by the legitimacy and stakeholder theories. For this purpose firms are using extensive resources to be legitimate and socially acceptable. Further strengthening business and society relationship firms also disclose information about CSR in their annual reports. KPMG (2017) reveals that reporting corporate activities it is now standard practice as, in 1999 it was only 35% but according to this recent survey 93% of the world's largest 250 companies report their CSR performance in one way or the other. This report also reveals that in year 2011, minority companies (44%), included Corporate Responsibilities (CR) data in their annual report but in year 2017, a remarkable change can be seen that 78% companies report CR data in their annual report because they believe sharing CR data is very important for their investors.

Despite providing the guidelines and suggestions by all the international organizations then why still different firms have different CSR ratings within the same industry/country? The answer to this question may be found in the different sources, such as firm characteristics, CEOs' characteristics, etc. Among CEOs' characteristics, CEOs' culture is the new and influential factor on business decisions,

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which is less studied. The question arises why culture is an important variable? The importance of CEOs culture is traced because it is the only factor from which CEOs cannot escape, all other CEOs' characteristics e.g. education, job experience etc. can be learned with the passage of time, but culture is traditionally embedded in the personality and accordingly it reflects in the daily financial decisions. Karolyi (2016) proposed that in finance related research culture is the omitted variable, one way or the other, it should be included in our financial analysis. Aggarwal and Goodell (2014) argue that softer factors (including culture) are the factors ignored in traditional finance studies and they find that adding these factor may explain the better business decisions. This way it is expected that one of the social institutions i.e. culture plays an important role in determining the CSR. Hofstede's (2001) definition of culture is that "the collective programming of the mind that distinguishes the members of one group or category of people from another". On the basis of the above definition it is expected that with different mind-set (culture) of CEOs, different economic decisions can be taken.

CSR in Pakistan is relatively a new concept as compared to some other developing countries, but it is a healthy sign that in Pakistan CSR activities are making a good progress. It is said in 11<sup>th</sup> international CSR summit and awards 2019 that under China Pakistan Economic Corridor (CPEC) businesses should be socially responsible investments. CSR summit and awards 2019, also proposed that SECP should review its guidelines and it should be aligned with Sustainable Development Goals (SDG) 2030 of the United Nations (UN).

### **Literature Review**

Over the past few decades, among other research areas, CSR grabs attention from every type of stakeholders, whether they are primary stakeholders or secondary. As some researchers argue that business just focuses on the primary responsibility to produce good profits for the shareholders (Friedman, 1970). Another school of thought proposes the idea that firms should consider all the key stakeholders while doing their business, like they take care of the environment, society etc. From the arguments of these two schools of thought, CSR debate has been started. Generally the firms are considered socially responsible, when they achieve their business objectives by being socially acceptable and considered legitimate when their business operations do not produce any harmful effect to the stakeholders. It is found that culture and CSR are related, as culture is the phenomenon from which one cannot escape. For example (Ringov & Zollo, 2007) find that Hofstede cultural dimensions

(PDI and MAS) negatively and significantly affect CSR. Ho, Wang and Vitell (2012) find Hofstede's culture dimensions (PDI, IDV, MAS and UAI) to have significant effect on CSR. IDV has negative significant effect on CSR, while others are positively related. Ioannou and Serafeim (2012) find positive and significant effect of IDV and PDI on CSR. Cai et al. (2016) find negative and significant effect of PDI on CSR while (Qamar et al., 2013; Halkos & Skouloudis, 2017) find that Hofstede cultural dimensions (LTO, IND) are positively and significantly related to CSR while UAI is negatively and statistically significant. PDI, IDV and MAS have negative coefficients signs.

H1: CEO individualism is positively related with CSR activities

Another Hofstede's cultural dimension is masculinity/femininity. It can be argued that CEOs who belong to masculine culture may perform corporate social performance. The possible reason may be that CEOs want to be legitimate and enter into a long term relationship. Ho et al., (2012) find MAS is positively and significantly related with CSR. So Hypothesis can be stated like this,

H2: CEOs who belong to masculine culture, tend to perform higher CSR related activities

### Research Methodology and Results & Discussions

The researchers obtain a sample of CEOs for S&P 1500 firms from Institutional Shareholder Services (ISS). Each CEO's culture is searched from ancestry database to identify the country of origin. This study uses all of the Hofstede's cultural dimensions to characterize each CEO cultural background. Then the researcher matches the CEOs cultural variables to Compustat to obtain financial data and MSCI ESG STATS to obtain CSR data. The final sample is comprised of 12,218 firm-year observations between 1996 and 2015. Nguyen et al. (2018) who analyze the effect of CEOs national culture on the financial decision making.

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

#### CSR and CEO Culture

	(1)	(2)	(3)	(4)	(5)	(6)
IDV	0.001* (1.73)					
PDI		0.001 (0.91)				
MAS			0.002** (2.15)			
UAI				-0.000 (-0.52)		
LTO					0.000	

					(0.11)	
IND						0.001 (1.63)
SIZE	0.070*** (6.16)	0.070*** (6.13)	0.070*** (6.17)	0.070*** (6.14)	0.070*** (6.14)	0.070*** (6.13)
ROA	0.704*** (5.61)	0.713*** (5.67)	0.711*** (5.66)	0.706*** (5.61)	0.708*** (5.63)	0.702*** (5.58)
SALES_GR	-0.139*** (-4.72)	-0.141*** (-4.78)	-0.138*** (-4.71)	-0.140*** (-4.76)	-0.141*** (-4.78)	-0.139*** (-4.71)
CASH/TA	0.254*** (3.73)	0.239*** (3.49)	0.245*** (3.62)	0.245*** (3.60)	0.243*** (3.58)	0.251*** (3.67)
LEV	-0.033 (-0.46)	-0.029 (-0.42)	-0.035 (-0.50)	-0.030 (-0.44)	-0.030 (-0.43)	-0.032 (-0.46)
Constant	-1.221*** (-8.77)	-1.144*** (-9.51)	-1.219*** (-9.20)	-1.088*** (-9.25)	-1.110*** (-9.23)	-1.164*** (-9.70)
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
N	12,218	12,218	12,218	12,218	12,218	12,218
Adj R <sup>2</sup>	0.211	0.210	0.211	0.210	0.210	0.211

In the above table in column 1, regression results show CEOs' IDV is positively and significantly (10%) related with the CSR. It means that if the company's CEO belong to individualistic cultural background, he/she will perform CSR activities for the firm. Similar findings can be found from the literature. For example (Matten & Moon, 2008) argue that in high individualistic culture, firms perform voluntary CSR activities. In individualistic society individuals care for their own benefits or at most of their close relatives. Which means that an individual can use corporate resources for their personal benefits but on the other hand, stakeholders may put pressure on the CEOs that they must perform CSR activities to remain legitimate. As a result of performing CSR activities in individualistic culture, stakeholder may start realizing that the firms wants to build long term relationship with them. Therefore, having individualistic cultural background, CEOs will perform CSR activities. Peng et al. (2012) also came across the similar findings in their study that in a culture where individualistic society prevails, firms are engaged in CSR activities. It is also found by (Ioannou & Serafeim, 2012) that individualism is positively and significantly related with the CSR. In the third column it is found that CEOs masculinity is positively and significantly related with the CSR activities. The results are according to the hypothesis. Most importantly, CEOs who belong to masculine culture may perform CSR activities in order to be legitimate and socially acceptable. The results of this study are supported by the previous study by (Ho et al. 2012) where they found positively and statistically significant (5%) relationship between the masculine culture and CSR activities.

### Conclusion

The results support the hypotheses developed in the literature review section. All the cultural dimensions show positive coefficient signs, except UAI. It is worth mentioning that CEOs whose culture is masculine are positively and significantly related with CSR. In the same way CEO's who belong to individualistic society are positively and significantly related with CSR. This study also contributes by including long term orientation/short term orientation, and indulgence/restraint and find a positive relationship with CSR.

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