Do the Shareholders Really Care about Corporate Social Responsibility?*

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Abstract

The purpose of the study is to investigate possible effects of the ownership structure of the firms in their Corporate Social Responsibility Reporting. The CSR reporting practices and social disclosure of the firms are explained by stakeholder power, strategy and economic performance of the firms according to Ullmann's framework. This approach is tested by multiple regression models on firms listed in Istanbul Stock Exchange operating in three sectors (food, chemicals petroleum and rubber products, fabricated metal products machinery and equipment). The results obtained confirm that the influence exerted by certain stakeholders (government and creditors) have an important effect on the publication of a CSR report. On the contrary, economic performance has no effect on this process. Financial institutions, investors and dispersed shareholders seem to be only interested in the financial performance of the firm, but not in its sustainable strategies or activities.

Keywords: corporate social responsibility reporting; csr; ownership structure; corporate governance

Introduction

Since 1990's the increase in global environmental awareness and the campaign for sustainable economic development is redirecting the attention of firms towards environmental sensitivity. Especially, the dramatic economic events in recent years emphasized the role of Corporate Social Responsibility (CSR) in defining the future of our society. While businesses are mainly responsible for creating wealth and driving progress, they are guided by governments and regulations, society pressure groups and green consumer pressure. Accordingly, the balance between societal needs and economic progress attracts the corporate attention to strategic and competitive role of environmental responsibility to corporate survival. Because, firms have to perform well and realize CSR projects that help distributing the economic, social and political benefits to the groups from which they derive their power (Shocker and Sethi, 1973). Certainly, as the socially, environmentally and ethically responsible behavior by corporations is recognized by key stakeholders (Zadek, Pruzan, Evans, 1997), the role of corporate social reporting takes on increasing importance as a mechanism to undertake such duties of accountability (Gray, Owen, Adams, 1996). CSR and firms social disclosure have become relevant in today's business as an element of strategy, Ullmann (1985) proposed a framework to explain this using stakeholder theory based on stakeholder power, strategy and economic performance.

Although, Roberts (1992) validated this model, the shareholders interests are sometimes incompatible with socially responsible practices, their disclosure and accordingly with other stakeholders interests (Lee, 2005). Due to presence of nonaligned interests (Jensen and Meckling, 1976) and entrenchment (Fama and Jensen, 1983; Morck, Shleifer, Vishny, 1988) between majority and minority shareholders, agency costs occur (Shleifer and Vishny, 1997; Bebchuk, Kraakman, Triantis, 2000). Majority shareholders target the long-term survival of the firm and maintaining their own reputation which means maximizing the firm's economic, social and environmental behavior and an appropriate communication of corporate behavior to the market to increase their reputation (Anderson, Mansi, Reeb, 2003). The institutional investors also intervene in the CSR decisions using corporate governance mechanism (Solomon, 2006). So, in this work, the effect that shareholder power and dispersed ownership structure have on the decision to disclose corporate social responsibility (CSR) information will be tested. It must be emphasized that shareholders, financial institutions and majority shareholders have different interests in CSR. The content of CSR reports (economic, social and environmental), the report format, and its compliance with the Global Reporting Initiative (GRI) will be taken into account using the stakeholder theory approach in our analysis.

CSR Reporting from the Stakeholder Perspective

However in a contardictory view, when making a decision just only taking into account the satisfaction of the shareholders' interests, whether or not it causes any obstacles to the stakeholders would not respond to the social responsibility of the corporation.

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Thus, this is the basic perception of the stakeholder perspective developed in 1984 by Freeman (1984). There are many definitions of stakeholder in the literature (Donaldson and Preston 1995, Freeman 1984), in a common view, it refers to all groups who may have an interest with the firm' objectives and include shareholders, managers, lenders, workers, suppliers, customers, government and even the environment. Using the CSR reports or social disclosures, firms communicate their social performance to the stakeholders (Roberts, 1992). Surely, this communication tends to be more detailed and complex (Gray et al., 2001) as the expectations of the stakeholders increases in time, especially after environmental or social crises (Hopwood, 1987; Loft, 1988). Although, the increase and amount of disclosed information is confirmed in many countries such as UK (Guthrie and Parker, 1990), Australia (Deegan and Gordon, 1996), New Zealand (Hackston and Milne, 1996), Spain (Gallego, 2006), Greece (Bichta, 2003), Italy (Secchi, 2006), Canada (Nitkin and Brooks, 1998) and Western Europe (Adams, Hill, Roberts, 1998), the basis, the factors used to explain the social and environmental disclosures are still discussed (Hackston and Milne, 1996; Adams et al., 1998; Gray et al., 2001; Hossain and Reaz, 2007; García-Sánchez, 2008).

The relevance of the CSR information to investors, the relation between social disclosures and social performance and the factors affecting firms' decisions to disclose corporate social information are the most used perspectives to explain the CSR reporting and disclosures. Surely, the factors affecting firms' decisions to disclose corporate social information seems to be the most relevant perspective for this study. Adams (2002) classifies these factors in three groups including firm characteristics, general contextual factors and internal context. Studies using the framework proposed by Ullmann (1985) such as Roberts (1992), Van der Laan Smith, Adhikari, Tondkar (2005) adopt generally the three dimensions in order to explain corporate social reporting. In this work, we will focus on the effect of shareholder power on the disclosure of CSR information, while controlling for the rest of the dimensions proposed by Ullmann (1985).

This study, therefore, focuses on analyzing the effect of shareholder power among the stakeholders on the disclosure of corporate social information, while controlling for the rest of the dimensions which are the stakeholder power, the strategy and the economic performance. Stakeholder power, coming from the control over the resources critical to the organization, is crucial for the firm and the stakeholders must be satisfied at optimum levels to have a long term and mutually fruitful relationship. The strategy is the attitude of key decision makers towards the demands of the stakeholders and finally the economic performance of the firm is determinant for the social expectations of the stakeholders and permits to undertake larger social programs.

Ownership Structure and CSR Reporting

Concerning the stockholders among the stakeholders, La Porta, López and Shleifer (1999), show that in many countries, the ownership structure is characterized by a strong presence of financial institutions and a physical person as dominant shareholder. The main reason for these financial investors is the expected financial performance of the firm but they also are looking forward to successful social and environmental strategies and activities, sustainable development (Solomon, Solomon, Suto, 2004) and especially they want to avoid any environmental or social damage because they want to preserve their reputation and it is not easy to move out of this investment damage without affecting share price (Qu, 2007). Thus, it is expected to have a positive impact of these investors on the contents and quality of the CSR reports. The presence of a shareholder that owns the majority of the stocks is naturally affecting the management mode and organizational objectives. In this case, the main shareholder can decide without any other shareholder being able to intervene (Bianco and Casanova, 1999; Destefanis and Sena, 2007).

Concerning the disclosures, Fan and Wong (2002) affirm that the information disclosed will mainly reflect the interests of the dominant stockholder as opposed to the reflection of the firm's economic situation. Anderson et al. (2003) add that this type of shareholder in order to maintain their own reputation will be more likely to adopt strategies that refine the firm's economic, social and environmental image in the long term. Thus, they will also seek for an appropriate communication of corporate behavior to the market. On the other hand, in case of dispersed ownership structure, many studies suggested that the firms tend to disclose more information (Keim, 1978; Christopher and Hassan, 1996; Frost, 1999; Craswell and Taylor, 1992). The directors/board members of the firm are more independent and accordingly they want to show their compliance with regulations, the socially responsible behavior of the company and the protection of minority shareholders' interests (Zahra and Stanton, 1988; Fama and Jensen, 1983). Consequently, these three types of ownership can have an affect on the content and format of the CSR report and according to the literature it can be expected that the presence of financial institutions or a dispersed ownership will affect it positively and dominant stockholder can be neutral.

Methodology

The population of the study is the manufacturing industry firms corresponding to 169 firms quoted in the Istanbul Stock Exchange. As we take into consideration the size and benchmarking possibilities of firms and the data available in the annual reports or the CSR reports. The final number of the firms used in our analyses reached 92. In order to have firms with similar size and according to previous studies (Guthrie and Parker, 1990; Hackston and Milne, 1996; Collett and Hrasky, 2005), 3 sectors from the manufacturing industry index are chosen the food industry, the chemical industry and metal machine and tool manufacturing industry. In this way, the sample is constituted by listed, 92 industrial firms.The CSR reports are obtained from the web pages of the firms previously identified or within their annual reports. Then, their contents are transferred into the most widespread international model, the GRI, which is a framework for corporate reporting on the social and environmental performance of businesses (Dentchev, 2004).

Variables

The CSR activities of the firms are generally included in analysis as dependent variable by classifying them according to preceding bibliography after a content analysis and expressed numerically according to units such as number of pages, number of sentences (Hackston and Milne, 1996; Milne and Adler, 1999), and number of words (Neu et al., 1998). Another way to add this variable is to construct a dichotomous variable where the score '1' is assigned to firms that report on a specific item, and '0' otherwise. In this way, the chosen items can be subjective. So, to overcome this, the obtained CSR reports are classified by checking first the presence of any disclosure on economic, social and environmental aspects, second, the format of the report and finally the verification or auditing of the document. Consideration of the verification or auditing of the document is a consequence of the great importance given to the process by the firm managers and it guarantees its accuracy and credibility.According to these three points, five dummy dependent variables (1.Social information, 2.Environmental information, 3.Informal format, 4. GRI adaption, 5.Verified or audited report) that take the value of '1' and '0' in order to identify the content and quality of CSR reporting, are chosen but to test the adequacy of the sample Kaiser-Meyer-Olkin (0,511) and Bartlett's sphericity test (sig. 0) are run then the principal components analysis with Varimax rotation of these dependent variables reduced our variables to three components with respective loadings (Table1).

Table 1: *Principal components analysis (after Varimax rotation)*

Variables	Components		
	1	2	3
Economic, Social and Environmental disclosure	0.09	0.79	0.24
Informal report	-0.11	0.81	-0.16
Formal report	-0.02	-0.04	0.94
GRI style report	0.89	-0.13	-0.25
GRI and verified report	0.72	0.21	0.31
Total variance explained: 81.90 %			

Table 1

The loadings gives us three components where first one is a CSR report in GRI format and verified by an independent entity, the second one brings out the reports with economic, social and environmental information but in an informal format and the third component gives the reports in a formal format.Concerning the independent variables, two dummy variables revealing the ownership of the firm are used. Financial institutions and a person holding the majority of the shares are designated by these two variables. A third variable representing the percentage of independent board members is also added to the analysis.

The chosen firms are selected from three sectors in order to have comparable firms. Thus, following the sector classification established by the ISE, food, chemicals petroleum and rubber products, fabricated metal products machinery and equipment sectors are considered for the analysis. Moreover, firms operating in the same sector will suffer from the same government regulations and they will need to disclose same amount of social and environmental information in order to minimize government sanctions (Cowen et al., 1987; Freedman and Jaggi, 1988; Adams, Hill, Roberts, 1995, 1998; Hackston and Milne, 1996; Deegan and Gordon, 1996). The fact that firms are from the same sector will also avoid the other possible correlations with other corporate characteristics and will be a good proxy measuring the political exposure. At this point, Hackston and Milne (1996), Gray et al. (2001) have detected a positive direct relationship between the contents of the CSR report and the size of the firm.

The debt-to-equity ratio is used as a control variable as creditors can have an effect on management. The strategy of the firm towards social demands can be effective in the CSR activities so to add this dimension to our analysis, the ISO14001: Environmental Management Systems certificate of the firms are used as this certificate ensures that the firm is environmentally and socially compliant. Thus this is significant in the strategic posture of the firms. Finally, Return on Assets, is used to test the impact of economic performance on the company's social disclosures.

Results and Discussion

Table 2 gives the results for the tested model. The overall fit of the models (R^2) are sufficiently high. When analyzing the three independent variables in the models, it's clear that they do not affect any of the characteristics determined for the firms' social disclosure practices. According to these results, the ownership structure of firms has no effect on the CSR reports.

Table 2
Multiple Regression Models

	GRI+Verification				Informal Disclosure				Formal Report			
	M1	M2	M3	M4	M1	M2	M3	M4	M1	M2	M3	M4
Constant	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Size	0.011	0.013	0.024	0.027	-0.256	-0.244	-0.301	-0.259	0.181	0.199	0.144	0.008
Foodsec	0.035	0.054	0.066	0.087	0.0342	0.0442	0.0631	0.0554	0.0032	0.0765	0.0954	0.112
Metalsec	0.091	0.095	0.088	0.079	-0.004	-0.0211	-0.0436	-0.076	0.0323	0.0347	0.0361	0.0375
Chemsec	0.109	0.123	0.105	0.110	0.003	0.021	0.014	0.002	0.146	0.142	0.174	0.141
Debt	0.160	0.170	0.162	0.164	-0.027	-0.056	-0.041	-0.044	-0.345	-0.347	-0.349	-0.329
Roa	0.058	0.045	0.056	0.059	0.089	0.076	0.091	0.088	0.103	0.109	0.102	0.108
Iso14001	0.145	0.147	0.133	0.145	0.390	0.410	0.418	0.403	0.277	0.282	0.290	0.284
Fin.inv.		0.058				0.105				-0.011		
dom.share			-0.056				-0.074				0.221	
Dispersed				0.043				0.030				0.091
R2	0.440	0.410	0.418	0.405	0.311	0.326	0.341	0.315	0.355	0.357	0.341	0.339
F	5.324	5.033	5.655	5.234	3.011	3.154	3.422	3.106	5.713	5.324	5.451	4.994

Table 2

Regarding the control variables, the variable size is statistically significant in all the models estimated for Components 2 – Informal disclosure – and 3 – Formal report. To be exact, it has a negative effect at a 95% confidence level for Component 2 and a positive effect at a 90% confidence level for Component 3. The variables representing the sectors of activity are not significant. The debt variable has a positive and significant effect for the first component. The ROA variable, the numerical expression of economic performance, is statistically significant and shows a positive effect in all the models proposed. The variable relating to the presence/absence of ISO14001 certification has a positive but non-significant effect in all models. With respect to the interpretation of the results indicated, it can be affirmed that the effect of the stockholders' power is very limited in relation to corporate social reporting practices. Regarding this standardization of the information through the adoption of the GRI standard, the influence of other stakeholders, such as the Government and creditors, can be seen. Unfortunately, there is no difference among different sectors from the government.

Conclusion

CSR reporting is used as a mechanism through which companies provide information to stakeholders about environmental, community, employee, and consumer issues. The disclosure of this information has traditionally been measured through indicators of the volume of information published. But, this study, following the conceptual framework proposed by Ullmann (1985), considers CSR reporting from a different point where the contents, their format and compliance with the rules for preparation of the GRI model are taken into consideration. The results obtained confirm that the influence exerted by certain stakeholders (government and creditors) have an important effect on the publication of a CSR report and the economic performance also has an effect on this process. The influence of the stakeholders, particularly government power, shows that larger and therefore more politically visible firms, are the ones that disclose more information with a view to reducing political costs. In this sense, the results confirm that the government is one of the most important agents for change and has an impact on social responsibility disclosure practices.

This finding has significant implications for the government in the sense that it should strengthen regulations in relation to business aspects such as transparency in social and environmental behavior by defining the contents of CSR reporting, especially since the empirical analysis showed that creditors positively influence the contents of this type of information but are not interested in the veracity of these documents.

From the point of view of the shareholders, especially in an ownership structure defined by the presence of a main shareholder that exerts control over the firm, there is encouragement to adopt the GRI format as a CSR reporting model to be used by the firm for disclosing information. In contrast, financial institutions, investors that are unable to move funds quickly in and out without affecting share price, and dispersed shareholders seem to be only interested in the financial performance of the firm, but not in its sustainable strategies or activities. The increasing value that society is placing on the socially responsible behavior of organizations in economic, social and environmental terms and its reporting to society, have become essential factors leading firms to begin to disclose information on CSR that has been verified and can be compared internationally.

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