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EMPIRICAL ANALYSIS OF OWNERSHIP STRUCTURE IMPACT ON CORPORATE SOCIAL RESPONSIBILITY

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Abstract

The study aims to conceptualize scientific knowledge concerning relationship between ownership structure and corporate social responsibility in the opaque Russian market. The effect of state, foreign, and majority ownership on socially responsible behaviour is investigated. In addition, hypothesis considering influence of leverage, company size and age are tested. The sample contains 106 Russian nonfinancial public companies. The study is based on regression analysis. A proprietary ranking system is employed to compose the Corporate Social Responsibility (CSR) index. The results show that notwithstanding the relatively low significance of the model as a whole, all the main hypotheses are confirmed at different significance levels. According to our findings, state ownership has rather strong influence on CSR, meaning government to be very interested in fulfilling its social obligations using its share in businesses. Foreign ownership is of high significance as well, confirming the idea of foreign investors being interested in introducing their business practices to new markets. Majority ownership is proven to be of negative influence on CSR, which is consistent with our expectations that major shareholders in an opaque market would follow primarily their own interests and not those of other stakeholders. In addition, hypotheses related to control variables of leverage and company size were not proven within the research, while company age is concluded to be a CSR determinant.

Keywords: Family business, foreign ownership, institutional investors, major shareholders, social performance

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1. Introduction

Over the last decades corporate social responsibility (CSR) has been gaining growing popularity both in academic and managerial circles. Among the areas of special interest are the factors influencing socially responsible behaviour and the degree of relevant information disclosure. There is a number of academic studies analysing determinants of CSR, such as firm size, age, economy sector, financial performance, leverage, etc. Ownership structure is among the factors that have been proven to affect CSR, mostly for the developed markets (Calza et al., 2016; Dimson et al., 2015), though probably this relation is still not fully investigated, especially when it comes to the developing markets. There are several main types of ownership: institutional, family, management, government, and foreign (Villalonga, 2018), and it may be presumed that different goals and interests are followed by different owners.

Institutional companies are usually presented by pension funds, banks, insurance companies, investment funds, etc. In some cases they own sufficient company share. Hence, for institutional owners it appears to be quite challenging to sell their financial assets quickly enough (Bushee, 1998). Furthermore, strategic decisions are made with thorough consideration and extra caution. This group can be concluded to have the most significant influence on organizational decision-making process. It may be presumed that companies with sufficient institutional ownership tend to be socially responsible, since such companies as pension funds, insurance companies, banks, etc. are interested in signaling to be reliable, which is usually assumed for socially responsible companies (Dyck et al., 2019; Eding & Scholtens, 2017). However, not all of the institutional funds are long-term investors (Hoskisson et al., 2002; McCahery et al., 2016). For example, mutual funds and investment companies tend to have rather short investment horizons (Bushee, 1998; Johnson, & Greening, 1999). CSR is a policy direction that is mostly attractive to the first group of companies, since additional financial effectiveness gained by socially responsible behavior may only materialize in a quite long run.

Manager or director owners are those who own (part of) the company they manage. Their main advantage is that they have fair information on what is the current state of the business. It is reasonable to assume that CSR will only be considered when it is expected to increase the company value (Barnea & Rubin, 2010). According to latter authors, corporate social ranking is negatively affected by managerial ownership. When managers do not own company share, they are mostly interested in prestige enhancement, thus they tend to overspend on CSR. In the opposite case the main goal of the manager-owner is to increase company value, thus extra expenses that decrease the latter are considered to be unnecessary and CSR is financed by that amount that is only expected to positively affect shareholder value. The next factor to be singled out is state ownership. In the case state shareholding social problem solving may be as essential as profit maximization (Calza et al., 2016). This kind of companies tend to widely disclose CSR, since for the government it is vital to signal their 'good deeds'.

Foreign investors' preferences and horizons tend to differ from those of the national ones. Moreover, foreign participants often influence the markets they invest in (Jeon et al., 2011). For example, when operating in Asian markets, Western companies tend to implement parent country managerial practices including CSR policy. Social responsibility level of Asian companies is empirically proven to be growing due to globalization (Chapple & Moon, 2005). Family businesses generally tend to pay special attention to the company reputation (Miller et al., 2015). It should be noted that this kind of business refers to a company

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owned by a limited number of owners. However foreign scientists usually use this term since it is the most common one for their markets. It should also be noted that it is essential to this kind of owners to stick to family assets. However, when compared to the institutional investors the pressure to follow CSR guidelines by the owners is not that strong. Thus, majority ownership, including family business, negatively affects CSR (Calza et al., 2016; Rees & Rodionova, 2015).

Summing up the abovementioned discussion, the following characteristics of different types of owners can be singled out:

- investment horizons;
- objectives:

a. institutional investors are aimed at wealth maximization;

b. family businesses are concerned with corporate socio-emotional wellbeing maintenance;

c. government owners' main goal is to increase social wellbeing;

- risk level (e.g. family business is a subject to higher unsystematic risk level than institutional owners as a result of poor portfolio diversification).

2. Problem Statement

Generally, CSR is not as unconditional part of business for imperfect markets as it is to those that are close to be perfect. Even when ompanies conduct socially responsible behavior, they do it from ethical point of view and they fail to have a strategy that will lead to higher financial performance. Hence, it seems to be reasonable to suggest that it is relatively new phenomenon both for Russian economy and science. Although there is a considerable number of Russian publications discussing the CSR-related issues, empirical studies of CSR determinants are not that common. In the following sections the results of empirical study of relation between different types of ownership structure and CSR are presented. In addition, hypothesis considering influence of leverage, company size and age are tested. These factors are usually associated with the CSR level the most.

3. Research Questions

In line with the reviewed literature the following hypotheses have been developed for the Russian market.

H1: State ownership is positively related to CSR level.

Since government is supposed to be responsible for environmental safety and social wellbeing, the state as a business owner can be assumed to pay special attention to the socially-related issues.

H2: Foreign ownership is positively related to CSR level.

Foreign shareholders tend to implement their own business practices when operating in new markets. Hence, it seems to be fair to assume that they tend to introduce wider CSR practices to the market.

H3: Concentrated ownership is negatively related to CSR level.

Majority shareholders tend to primarily follow their own goals and not those of other stakeholders. Thus, costly CSR projects may appear not to be attractive to the shareholders owning major shares in the

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company. Being able to influence operational decision-making they will try to minimize that kind of expenses.

H4: Financial leverage is positively associated with CSR level.

High leverage stimulates companies to decrease risk perception by the outsiders. CSR and its disclosure is often considered to be one of the effective ways to achieve this goal.

H5: Company size is positively related to CSR level.

Large companies are assumed to accumulate sufficient resources. Since they can afford it, it is often expected of them to be involved in CSR activities to maintain their high reputation.

H6: Company age has positive correlation with CSR level.

Since reputation of the company is usually formed over the long time period, it is reasonable to presume that following CSR policy is considered to be one of the methods to build a positive company image.

4. Purpose of the Study

The main objective of the study is to examine relation between different types of ownership structure and CSR for an imperfect, opaque market. One of the main characteristics of the opaque markets is informational inefficiency, which manifests itself in an unpredictable reaction towards certain events. Hence, it is likely for companies in imperfect markets to get less attention to their socially responsible behaviour, that for once that operate in perfect markets. While a certain kind of behaviour can be expected from developed economic systems, developing ones can demonstrate a completely different reactions in same situation. Different types of owners may differently react to the potential 'extra' costs of company to implement CSR policy within the company. Influence of state, foreign, and concentrated ownership on social responsibility is to be investigated. This adds to the practical significance of and empirical investigation of the Russian market.

5. Research Methods

The research is based on statistical analysis of the sample containing data on 106 Russian nonfinancial public companies for the year of 2017. Sector affiliation is taken into account: companies included into the sample represent electric power generation (27.26%), oil and gas industry (24.5%), metallurgy (14.15%), telecommunications (9.43%), machinebuilding (8.49%), food industry (6.60%), transport (6.60%), and mineral extraction (2.8%). For the purposes of empirical analysis, we use a proprietary CSR rating which is comprised of 27 indicators reflecting the degree of disclosure of information on social activities and projects, according to information provided by the companies in their annual reports and official websites.

Within the scope of current research CSR is considered from a number of different perspectives, including personnel training, social expenditures, expenditures on industrial safety, environmental policy projects, environmental activities, etc. To test the main hypotheses government (H_1), foreign (H_2), and majority ownership (H_3) variables are used as independent ones. Additionally, to avoid the estimate bias a number of control variables were also included into the model, accounting for financial leverage (H_4), company size (H_5), and age (H_6). Description of variables is presented in Table 1.

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Table 1. Variable description

Variable	Indication	Description	Mean	Deviation	Min	Max
State ownership	**State investor**	Dummy variable (1 – if yes, 0 – otherwise)	0.3491	0.4767	0	1
Foreign ownership	**Foreign investor**	Dummy variable (1 – if yes, 0 – otherwise)	0.5094	0.4999	0	1
Majority ownership	**Majority Owneship**	Share of the first three biggest shareholders	77.3911	20.3942	2.93	100
Financial leverage	**Lev**	Ratio of short-term and long-term debt to the total value of equity and debt capital	0.5234	0.6813	0	5.2342
Company size	**L*n*revenue**	Natural log of revenue	22.4612	3.6229	16.0887	29.2203
Company age	**Age**	Number of years since incorporation	17.7736	5.1712	3	28

Source: author.

According to the data provided in Table 1 all variables are characterized by significant volatility which may result from macro- and microeconomic instability.

The model is described by the following formula:

$$\mathrm{CSR} = \alpha + \beta_1 \times \mathrm{State\ investor} + \beta_2 \times \mathrm{Foreing\ investor} + \beta_3 \times \mathrm{Majority\ Owneship} + \beta_4 \times \mathrm{Lev} + \beta_5 \times \mathrm{L}n\mathrm{revenue} + \beta_1 \times \mathrm{Age} + \mathrm{v}.$$

6. Findings

Results of the regression analysis are presented in Table 2.

Table 2. Results of regression analysis

Variable	Regression coefficient	t-stat	P-value
State ownership	4.566439371	2.82587	0.005704451
Foreign ownership	2.428610867	1.538645	0.127081176
Majority ownership	-0.057035677	-1.53743	0.127377272
Company size	-0.091344154	-0.40157	0.688864505
Company age	0.476154694	3.090423	0.00259541
Financial leverage	0,454193353	0.402147	0.688442499
R^2=0.167			
F=3.3083			

Despite a rather low level of significance of the model as a whole, several variables demonstrate high enough significance level thus supporting respective hypotheses. Company age is found to have the highest level of coefficient significance (t=3.09). Hence, companies that operate longer, are most caring for their reputation and tend to invest in CSR. The second highest level of significance is observed for the state ownership variable (t=2.83). Thus, one of the main hypotheses is confirmed. The government, concerned with environmental issues and social safety, considers CSR of the companies under its control to be one of the ways to achieve its goals. Foreign ownership variable coefficient is found to be less significant (t=1.54). However, it makes it possible to conclude that it is still positively related to CSR. It is common for investors from developed countries to introduce business practices of their home countries, including CSR policies.

Majority ownership variable coefficient is of the same significance level as the previous indicator. However, its relation to CSR appears to be negative, as it has been hypothesized. Thus, major shareholders being primarily interested in their own goals tend to neglect the interests of other stakeholders, which makes company less socially responsible. The hypothesis of positive relation between CSR level and financial leverage is rejected. Apparently, companies with high level of debt are able to make only critically important expenditures.

Company size and CSR level, according to our findings, are also not related. Positive relation between the variables, usually observed for developed markets, appears not to hold in an imperfect Russian market. Hence, even if a large company has resources that could have been directed to CSR, it is by no means certain that the actual expenditures would be made. Probably, the general reason for the lack of relation between the company size and its CSR level is that the Russian market does not see CSR as a precondition for sound financial performance.

7. Conclusion

The main hypotheses of the research, i.e. those relating ownership structure and CSR, are confirmed. Thus, the purpose of the study is reached. According to the results, state and foreign ownership are of positive relation to CSR, whereas majority ownership is of negative one. However, some limitations to the research are to be mentioned. First of all, quite a big share of Russian companies does not find it necessary to disclose full information on CSR, preferring just to list the socially-oriented projects and activities without providing any numbers. Secondly, CSR is extremely complicated phenomenon and it is influenced by great number of factors. Thus, one of the reasons for quite low general significance of the model is the possible absence of some very important control variables. Thirdly, the specifics of CSR rating development process make it impossible to collect data for the previous periods; it was only possible to collect data for one year. To improve research significance panel data should be formed in the future, including years to follow, which will make it possible to perform more advanced analysis.

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