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The Effects of Board Characteristics on Corporate Social Performance: Resource Dependence and Agency Perspectives

Jee-Hyun Park(First author)
Sogang University
(*jhpark80@sogang.ac.kr*)
Yangmin Kim(Corresponding author)
Sogang University
(*ymkim@sogang.ac.kr*)

The existing literature on the board-Corporate Social Performance(CSP) linkage has been challenged with regard to the incomplete theoretical modeling for the board of directors' roles as well as Western-dominant research context. In order to fill these gaps, we not only offer a comprehensive view of theoretical approaches (agency and resource dependence theory), but also introduce the institutional context of Korea under which boards influence a similar and/or idiosyncratic pattern of decisions for CSP, the Western firms. Analyzing a pooled cross sectional sample of 1,277 firm-year observations during 2003-2007, we found that board size and average education level of board members are positively associated with CSP, whereas inside directors' ownership is negatively associated with CSP in Korea. Theoretical contributions and practical implications are discussed.

Key words: Resource Dependence Theory, Agency Theory, Corporate Social Responsibility, Board of Directors, Corporate Social Performance

Ⅰ. Introduction

In a global economy, corporations have been increasingly asked to promote corporate social responsibility(CSR). CSR refers to corporations' responsibilities to serve their stakeholders in all aspects of business operations. The responsibilities include the economic and legal responsibilities as well as the ethical and philanthropic ones which are beyond what society used to expect of organizations(Carroll, 1979). Many successful organizations have begun to shift their paradigm of business goals and objectives from solely focusing on making a profit to more on proactive social participations(Epstein, 2008). For instance, although it accounts for relatively small proportion of overall corporate giving expenditure, U.S. corporations' spending on CSR-related marketing have nearly sixtupled from $125 million in 1990 to $828 million in 2002(Porter

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and Kramer, 2002).

Given the strategic implication of CSR (McWilliams and Siegel, 2001), previous literature has suggested that board characteristics have a significant impact on Coporate Social Performance(CSP) or CSR activities (Arora and Dharwadkar, 2011; Freeman, 1984; Johnson and Greening, 1999). When it comes to the roles of board of directors in relation to CSP, however, most of existing works have outlined the incomplete theoretical models, drawing from just one side of theories for the board's roles: either monitoring self-serving managers(based on agency theory) or providing resources and advices to help firms achieve strategic goals(based on resource dependence theory). As a result, relatively few studies have examined the relationship between board characteristics and CSR with a more comprehensive look. For a more complete understanding, we offer a comprehensive view for the board-CSR linkage by taking board's multiple roles into account simultaneously. Although such an integrative approach has been echoed by previous studies(Daily, Dalton, and Cannella, 2003; Hillman and Dalziel, 2003; Zahra and Pearce, 1989), to our knowledge, this study is one of the first attempts that capture multiple functions of board for "CSR" with a holistic stance.

In addition, as most of management research has been undertaken in the West, particularly in the U.S. context(Boyacigiller and Adler, 1991), there is relatively few research on CSR in non-Western contexts(Chapple and Moon, 2005; Oh, Chang, and Martynov, 2011; Welford, 2005). However, literature has increasingly recognized that the institutional/cross-cultural effects that have on strategic decisions are critical(Hofstede, 1991; Peng, 2003; Whitley, 1999). In particular, the paucity of research which tackles *Asian* contexts is surprising given the fact that Asian countries have contributed to nearly half of the worldwide market in global transactions(APEC CEO Summit in 2009), and two-thirds of human population live in that region.

Therefore, the purpose of our study is twofold. First, we try to offer more comprehensive theoretical perspectives(*agency theory* and *resource dependence theory*). Second, we examine whether such propositions are supported in non-Western contexts, specifically in South Korea(here after "Korea"). To this end, we analyze over 7,000 directors' profiles in a pooled cross sectional sample of 1,277 firm-year observations of Korean public firms. This effort advances the current understanding of whether and how board characteristics affect the firms' CSR decision.

Ⅱ. Literature review

2.1 Board of directors and CSR: A comprehensive approach

A comprehensive understanding of board's functions has been documented in the previous literature. Korn/Ferry(1999, p. 388) noted that board of directors engage in "identifying possible threats to or opportunities for the future of the company and shaping long-term strategy, monitoring and evaluating strategy implementation, planning for management succession, building external relations to strengthen the company, bolstering the company's image in the community, evaluating and rewarding the performance of senior management, and advising during major decisions such as mergers and acquisitions". Hillman and Dalziel(2003) also combined two important functions of board of directors, articulating both monitoring managers on the behalf of shareholders and providing critical resources for management. Thus, this line of literature suggests that the function of board of directors is not limited to *either* monitoring *or* providing resources, but the combination of *both*.

Such a comprehensive approach is not new, yet still noteworthy to consider. Scholars have often called into question of the dominancy of agency theory rationale in corporate governance literature(Hillman, Cannella, and Paetzold, 2000). For example, board independence is one of the concepts that have been heavily used. According to this view, directors who are "loaded with insiders and friends of the founder CEO," or "rife with potential conflicts of interest" are considered to be ineffective. Despite the wide usage of agency theory, many previous studies failed to support for the positive relationship between board independence and firm performance; results are mixed or even non-significant(see Dalton et al.'s [1999] meta-analysis). This may suggest that agency theory alone is not sufficient to explain how board affects corporate performances.

When it comes to the board-CSR relationship, it is of particular importance to draw a holistic picture. From a strategic standpoint, CSR can be best characterized by "social investment"(McWilliams and Siegel, 2001) or "stakeholder management"(Clarkson, 1995). On the one hand, since CSR is a type of investment(McWilliams and Siegel, 2001), typical firms are motivated to recoup the outlay of investments. In order to make profits or realize returns from investments, board of directors are expected to make *every* effort on what they are supposed to do, including monitoring top managers' self-serving decisions that may hamper social investment as well as bringing their own expertise, experience, and skills to advice top managers.

On the other hand, CSR is a vehicle for the effective stakeholder management(Clarkson, 1995). While agency theory logic may work for the "stakeholder" framework, resource dependence rationale could also be applicable. Agency theorists suggest that the primary functions of the boards are monitoring managers' decisions on behalf of shareholders and aligning managers' interests with those of shareholders(Fama and Jensen, 1983). However, even if top managers' incentives are aligned with the shareholders' interest, it is more likely that managers are reluctant to support their firm's active pursuit of *stakeholders'* values above and beyond shareholders' wealth. Further, since the boundary of stakeholders is often ambiguous and their interests are much more complex, it is very difficult for top managers to handle them effectively without external professional supports. In order to deal with various stakeholders' interests, firms need to communicate effectively with stakeholders in each and every aspect. Board of directors can serve to communicate with external stakeholders effectively(Hillman and Dalziel, 2003; Hillman, Zardkoohi, and Bierman, 1999) due to their various backgrounds and experiences. This implies that board's resource provision role is paramount for organizations to manage stakeholders effectively. Taken together, it is necessary to bring two functions of board of directors together in order to better explain how board characteristics are related to CSR.

2.2 CSR in Korean context

Prior studies have explored the relationships between board characteristics and CSR mostly within the US-based context(Matten and Moon, 2008), but very limited works have been done for Asian firms(e.g., Chapple and Moon, 2005; Oh et al., 2011). We presume that existing findings from the sample of Western firms may not be universally applicable for non-Western contexts. As such, without a deep understanding of the institutional context, any inductive or deductive reasoning toward the research question could be misled.

Of many Asian countries, Korea offers an interesting setting for examining the effects of board characteristics on CSR. Korean government has institutionalized the strong formal and informal state regulation of markets, and more actively engaged in economic and social areas beyond political and legislative ones(Whitley, 1999). As a result, Korean firms have been under the influence of powerful governmental regulations, and often subject to coercive isomorphism(Kim, 2007) which restricts the discretion for corporate practices and activities. Also, many Korean firms are embedded in a network of a relatively small number of large investors, which include founders, families, or other affiliated firms (Kang, 1997). In particular, Korean business groups, termed *Chaebol*(e.g., Samsung, Hyundai, etc.), have control over affiliated firms through a number of masking schemes(e.g., tunneling, cross-holdings, etc.), even though these affiliates are legally independent firms(Chang and Choi, 1988; Chang and Hong, 2000). For last decades, *Chaebols* have been denounced because of 'little or no separation of ownership and control'(Kim, 2007), which cause the lack of transparency and irresponsible behaviors toward other stakeholders.

In order to overcome the drawbacks from underdeveloped corporate governance systems, Korean firms have begun to adopt the Western-style management practices, especially since the Asian financial crisis in late 1990s. In particular, Korean firms have been paying keen attention to their stakeholder-oriented practices such as CSR participation (Chang et al., 2012; Oh et al., 2011). Previous studies found that Korea is one of the few Asian countries that focus on the firms' social responsibility(Chapple and Moon, 2005).

Furthermore, Korean society has been embedded in a strong collectivisitic orientation which highlights the tight connection and exclusiveness of in-group members against outsiders. In addition, harmony and unity rather than competition and variation are seens as more socially desirable. Under the collectivism culture, corporations tend to try to integrate different voices into a united one, and often regulate even positive deviances(Kim and Markus, 1999).

All things considered, it is possible that the relationships between board characteristics and CSR for Korean firms should be patterned *distinctively* from those of the U.S. firms in certain ways. Considering the unique national context of Korea, we develop two sets of hypotheses below based on agency theory and resource dependence theory.

Ⅲ. Theory and hypotheses

3.1 Resource dependence theory and CSR

While agency theory suggests that monitoring by independent board as well as incentive alignment by granting ownership are beneficial for organizations, resource dependence theory pays more attention to the other functions of corporate board: provision of resource, advice and information(Hillman et al., 2000; Hillman and Dalziel, 2003). Resource dependence theorists asserted that "board is an integral component of the effective firm"(Boyd, 1990, 419), since corporate board can provide access to valuable resources and information as well as offer advices and counseling(Pfeffer and Salancik, 1978). In particular, in the context of CSR, the roles of corporate board as resource provider and adviser are very important because CSR is the result of firm's relationship management for *a wide variety of* stakeholders(Clarkson, 1995; Freeman, 1984). In this sense, prior research in the West(e.g. Siciliano, 1996) has assumed that board with greater capability(i.e. better understanding of stakeholder's interest) will lead to higher CSP.

Following prior studies, we propose board members with greater level of capability are positively associated with CSP. Therefore, we hypothesize the positive effects of board size and board educational level on CSR. Hypotheses for each characteristic will be spelled out below.

3.1.1 Board size

Pfeffer(1972) defined the corporate board as an instrument to deal with organization's environment, thus the effectiveness of board depends on how well the board meets environmental requirements. Board composed of more number of directors is likely to have greater access to resources and diverse expertise to deal with those requirements. In other words, resource dependence theory implies that nominating greater number of directors helps to secure better resource pool (Goodstein, Gautam, and Boeker, 1994; Pfeffer, 1972). A large board can bring more expertise and knowledge(Dalton et al., 1999) and it may even include more prestigious members (Certo, 2003). The positive effects of board size on organizational outcome are well documented by previous findings. For instance, a number of studies found the positive relationship between board size and firm performance(Belkhir, 2009; Dalton et al., 1999; Provan, 1980). Other studies(Gales and Kesner, 1994; Filatotchev and Toms, 2003) also found that boards with large number of directors are less likely to experience organizational failure such as a bankruptcy filing.

In collectivism culture, the relationship with various stakeholders in organization's environment is more critical than individualism culture(Xin and Pearce, 1996). Even though Korea has experienced significant institutional transitions from relationship-based economy to market-based one(Peng, 2003) after Asian Financial Crisis, the effective relationship management with key stakeholders is a still critical issue. Corporate board composed of greater number of directors may be better for dealing with various stakeholders' interests in Korea. Thus, we predict that greater board size, as a proxy for board's resource pool for the effective stakeholder management, can lead to higher CSP.

Hypothesis 1: Board size is positively associated with the firm's CSP in Korea.

3.1.2 Education level of board members

The educational background of board members has been a subject of numerous studies. Prior research on corporate board(Carpenter and Westphal, 2001) argued that the educational backgrounds of directors can make differences in their contribution to strategic decision-making. Advanced education level can provide cognitive flexibility and knowledge pertinent to strategic decision-making(Hitt and Tyler, 1991; Wally and Baum, 1994), which enables directors to obtain broad perspective and to absorb new ideas. Following this line of reasoning, literature(Dalziel, Gentry, and Bowerman, 2011) has recognized that the education level of directors is an important human capital of board. Cognitive flexibility derived from advanced educations will enhance director's ability to understand and respond to a wide variety of stakeholders' various interests. Such enhanced director's cognitive ability will increase board's overall effectiveness with respect to resource provision and advice for firm's social responsibility.

In particular, education in Korea has been regarded as an important indication for social capital(Kim, 2005). Yoo and Lee(2009) reported that higher level of education can facilitate personal relationships, functioning as an idiosyncratic form of social capital. Specifically, they argued that social network based on the higher level of education can be an alternative form of 'high-trust social capital' in Korea. In this sense, the education level can be a proxy for both human capital(Dalziel et al., 2011) and social capital(Yoo and Lee, 2009) of directors in Korea. Thus, we predict that average education level of directors will have a positive impact on CSP.

Hypothesis 2: Average education level of board of directors is positively associated with the firm's CSP in Korea.

3.2 Agency theory and CSR

Agency theory is probably one of the most controversial theories in social science. Agency theory(Eisenhardt, 1989) argues that corporate board should act for the interests for shareholders. However, the separation of ownership and control(Berle and Means, 1932) cause the potential problems that shareholders' long-term interests may not be aligned with those of the firm's executives. Several mechanisms can be implemented to enhance the corporate board's effectiveness: *independent monitoring* and *incentive alignment*(Eisenhardt, 1989; Walsh and Seward, 1990). First, effective monitoring to prevent manages' value destroying decisions can be obtained by independent board composition. Nominating outside directors can align the interests of managers with those of the shareholders through higher quality monitoring. Second, incentive alignment such as directors' equity ownership may be implemented in order to align directors' interests with those of the shareholders.

Then, is high CSP beneficial to general shareholders of Korean firms? Some scholars have argued that CSP positively affects firm performance in the long run thereby being beneficial for shareholders, because CSP could enhance a firm's image and reputation(e.g., Waddock and Graves, 1997; Schnietz and Epstein, 2005). On the other hand, some other scholars have argued that CSR activities negatively impact firm performance thereby being harmful to shareholders because investment in CSR is inconsistent with a firm's theoretical(and practical) goal of maximizing profits(e.g., Wright and Ferris, 1997; Vance, 1975).

In Korean settings, we believe that the benefits of high CSP for general shareholders outweigh the costs of them for following two rationales: First, previous literature found the positive associations between CSP and firm accounting performance(Kim and Wee, 2011); and between CSP and Tobin's Q(Park and Kim, 2014) with Korean data, which are similar to what we use in this study. Second, unlike many of its western counterparts, most Korean Chaebol companies have large controlling shareholders, most of whom are members of the founding families. In many cases, these family shareholders have weaker incentive to engage in stock value-maximizing strategies than general shareholders(Kim, 2009). Given that governance performance is one of main components of CSP(Ioannou and Serafeim, 2012), high CSP could be regarded as an indicator of good corporate governance, thereby increasing the shareholders' value. Thus, our next two hypotheses are based on the assumption that high CSP is beneficial to general shareholders among Korean firms.

3.2.1 Ownership by inside directors

Agency theory(Eisenhardt, 1989) suggests that providing equity ownership to inside directors, who also serve as managers, is an effective way to align their interests with those of the owners. If inside directors have significant shareholdings, they are likely to act upon the sake of shareholders' long-term wealth (Denis, Denis, and Sarin, 1997). However, the empirical evidence indicates that the relationships between director ownership and organizational outcomes are more complex. For example, Morck, Shleifer, and Vishny (1988) found a curvilinear relationship between director ownership and Tobin's Q, such that firm performance was high at low and high levels of ownership, with moderate ownership leading to lower performance. McClelland, Barker, and Oh(2012) also noted that managers' ownership might not be always beneficial due to accompanying power that comes with high ownership. These findings indicate that the effects of ownership by inside director on CSR might be contingent on a number of factors such as ownership level, strategic context, and institutional environment.

Also, it should be noted that various ownership constituencies of a modern corporation have neither clear nor homogeneous interests and needs(Kim, 2009). Different types of owners often have their own distinct and potentially conflicting preferences for corporate strategies and different priorities for their goals(Hoskisson, Hitt, Johnson, and Grossman, 2002). Thus, when we apply agency perspectives in Korean CSR context, we should consider that some particular group of shareholders' interests are different from those of general shareholders. For example, as previously noted, most Korean Chaebol companies have large controlling shareholders, many of whom are members of the founding families. These family shareholders may have different preferences or goals regarding CSR from those of general shareholders. Their prior goal may not be increasing CSP thereby maximizing shareholders' value. As previously noted, governance performance is one of main components of CSP (Ioannou & Serafeim, 2012) and high CSP could be regarded as an indicator of good corporate governance. Powerful inside directors (i.e., powerful top managers) may not prefer governance transparency. For example, Liu and Jiraporn(2010) found that credit ratings are lower and yield spreads higher for firms whose CEOs have more power. In other words, CEO power can have positive effects on agency costs of debt and negative impacts on transparency. One of the sources of CEO power comes from ownership(Finkelstein, 1992).

Given the fact that Asian firms are characterized by high family ownership and the lack of transparency(Cheung et al., 2010), we assume that the relationship between insider ownership and CSR is not necessarily positive. Specifically, previous literature(Oh et al., 2011) found the negative association between the managerial ownership and CSR in Korea with one year data. Large Korean firms such as *Chaebol* have been criticized for the lack of separation between ownership and control(Kim, 2007) and socially irresponsible actions(Albrecht et al., 2010; Moon, 2006). With a sample of 419 *Chaebol* affiliates firms, Chang(2003) also found that significant shareholders who are also managers expropriate value from other shareholders. Thus, inside directors with substantial ownership, who might be from or related to the founding family of *Chaebol*, are likely to make decisions primarily for enriching the family or relatives of *Chaebol* even at the expense of other non-affiliated stakeholders, in turn, reducing the firm's social responsibility. Given this description, we predict that the effect of inside director ownership on CSP will be negative.

Hypothesis 3: Ownership level by inside directors is negatively associated with the firm's CSP in Korea.

3.2.2 Ownership by outside directors

Stock ownership can be used to affect not only inside directors' decision makings, but also outside directors' ones. Equity ownership increases the personal stakes of outside directors more with shareholders' wealth, leading to decisions that increase the firm's long-term value(Dalton et al., 2003; Jensen and Warner, 1988; Schepker and Oh, 2013). Empirical evidence suggests that outside directors' stock ownership is positively associated with financial performance(Hambrick and Jackson, 2000). Outside directors with significant shareholdings may be more motivated in monitoring managerial decisions since their own economic wealth is at stake. On the contrary, when outside directors do not have significant ownership, they are less effective governance mechanism because their incentive to monitor is also low(Gedajlovic and Shapiro, 1998).

This logic implies the positive relationship between outside director ownership and firm's socially responsible decisions, and Oh et al.(2011) analyzed the relationship between outside director ownership and CSP with one year Korean CSR data. While Oh et al.(2011) did not find any significant relationship between outside director ownership and CSR ratings, we believe it is worthwhile to test the hypothesis with more extensive, longitudinal data. As we discussed earlier, CSR may increase the shareholders' long-term value (Waddock and Graves, 1997), so outside directors owning substantial amount of stock may be more inclined to support socially responsible actions. Since many of large Korean firms are still tightly controlled by founding families and relatives with significant ownership, the room for outside director ownership might be restricted. However, given that empowering outside directors by the issue of stock is an effective way to deal with agency problem in Korea(Cho and Kim, 2007), we hypothesize that outside directors with significant shareholdings will be more committed to enhancing the firm's CSP.

Hypothesis 4: Ownership level by outside directors is positively associated with the firm's CSP in Korea.

Ⅳ. Method

We used a sample of large, public Korean firms to test our hypotheses. Previous literature(see Chapple and Moon [2005] for details) noted that Korea is one of the few Asian countries that pay significant attention to firms' social responsibility. For example, a number of Korean firms have been included in the Dow Jones Sustain ability Index, the first global index tracking the financial performance of leading sustain ability-committed companies worldwide. Notably, among many Asian countries, only Korea and Japan successfully had launched their stand-alone social indices(e.g., KEJI index, Dow Jones Sustain ability Index (DJSI) Korea). Furthermore, as discussed earlier, the Korean government has strongly encouraged most of large public firms to reform their corporate governance structures in a way to promote transparency and accountability since late 1990s(Cho and Kim, 2007). Therefore, the board structure and characteristics are regarded as important concerns for Korean government, media and public. In this sense, we believe that Korea offers an interesting setting for examining the links between board characteristics and CSR.

4.1 Sample and data

All sample firms are Korean firms listed on Korean Stock Exchanges(KSE) in years of 2003-2007. We collected CSR information from *Korea Economic Justice Institute*(*KEJI*), a leading Korean institution for the CSR assessment. *KEJI* has evaluated CSP for over 300 publically traded Korean firms and announces "Top-200 Best Corporate Citizens" in an annual basis. The CSP are officially labeled as *KEJI Index*; and it has been used in previous literature(Chang et al., 2012; Oh et al., 2011). The reliability of the *KEJI Index* is endorsed by historical records of publication. Upon our request, *KEJI* provided CSR information of approximately 350 firms for years 2003-2007 for our study.

In order to match CSP with board characteristics and other relevant firm information, we collected data through directory of corporate board in the *Korea Listed Companies Association*(i.e. see Kim, 2005, 2007) and *KIS VALUE,* an electronic data base for the financial information of Korean firms. Due to the lack of full data availability, our final sample size is reduced to 1,277 firm-year observations from 293 firms over five years. In total, over 7,000 directors' profiles were analyzed.

4.2 Variables

4.2.1 Dependent variables

KEJI Index is composed of multiple data sources, including information from a wide variety of companies' investor relations, Korean government, non-government organizations, and media coverage. Seventeen analysts – six *KEJI*'s senior analysts and eleven high – profile university faculty members with doctoral degrees in business and economics – are involved in constructing the *KEJI Index*. For quality assurance, the *KEJI* auditing committee, composed of multiple certified public accountants, performs a quality review of every company profile, updating for content and ratings accuracy. Firms are evaluated in terms of seven major domains: *Environment, Community, Corporate Governance, Corporate Integrity, Customer Satisfaction with Product Quality* *and Safety, Employee Relations,* and *Economic Contribution to Society.* These domain-specifics are quite comparable to Kinder, Lydenberg, Domini Research and Analytics(KLD) ratings in the U.S. A full score of *KEJI Index* is 75. We used *KEJI Index* from five consecutive years of 2003-2007.

4.2.2 Independent variables

Most of our independent variables were drawn from the Profiles of Manager and Directors on Korean Public Companies(http://www.klca.or.kr). This archival source has been recognized as a reliable independent rating source regarding corporate board information, and used frequently by previous corporate governance research(Kim, 2005, 2007). The feature of data provision is similar to *Who's Who in Finance and Business*(formerly *Who's Who in Finance and Industry*) in the U.S. All board characteristics(time T) were lagged by one year over CSP(time T+1).

Inside Director Ownership represented the percentage of total shares held by top managers including CEOs, who serve on the board. *Outside Director Ownership* was measured as the percentage of total outstanding stocks held by outside directors. *Board size* was measured as the total number of active directors on the firm's board. *Average Education Level of Board* was calculated by the average value of four-point scale measure reflecting the directors' highest level of education degree(1 = high school, 2 = bachelor's degree, 3 = master's degree, 4 = doctoral degree), which reflected the level of knowledge and skills acquired through formal education system(Barker and Mueller, 2002).

4.2.3 Control variables

We controlled for company age, firm size, previous studies found that company age is positively(Roberts, 1992; Moore, 2001) or negatively(Cochran and Wood, 1984) associated with CSR. For this study, *Company Age* was calculated by the number of years since a firm's foundation. Literature also suggests that *Firm Size* is associated with CSR (Fombrun and Shanley, 1990). Since larger firms are exposed to more intense public scrutiny because of its visibility(Stanwick and Stanwick, 1998), they are more likely to engage in CSR than smaller firms. *Firm Size* was measured by the scale of sales originally; and then it was transformed logarithmically due to positively skewed distribution.

According to the slack resources perspective (Waddock and Graves, 1997), firm's high level of CSR might be driven by better financial conditions such as high profitability and low leverage. In order to control the alternative explanation by slack resources perspective, we also controlled for *Return on Asset(ROA)* and *Debt-to-Equity Ratio. Return on Asset*

(ROA) was calculated by net income divided by total assets; and *Debt-to-Equity Ratio* was measured by long-term debt divided by total equity. Following previous literature(Kim, 2005), we also included *Average Age of Board* in our analysis. Literature has documented that, since the pay-off CSR trends to be realized in the long run(Burke and Logsdon, 1996), older managers with shortened time horizon may not be in faver of CSR(Matta and Beamish, 2008; McClelland et al., 2012). Further, we controlled for *CEO Change* since it affects the firms' strategic decisions(Pitcher et al., 2000). We created a dummy variable which we coded as 1 if there was change of CEO during our study period(year from 2002 to 2006), or 0 otherwise.

Finally, we included industry dummy provided by KEJI to control for an industry-specific effect. Waddock and Graves(1997) noted the overall differences in CSR among industries because an industry may experience distinct issues or problems in a given social arena. KEJI provides four different industry classifications: electronics/IT industry, metal-steel/chemistry industry, food/textile/papers industry, and service/non-manufacturing industry. Following previous literature(Oh et al., 2011), we adopted this industry classification scheme in our analysis by creating dummy variables. We also included a year dummy to control for year-specific effects. All control variables, except industry and year dummies, were lagged by one year over CSP.

4.3 Analysis

Because our data include both cross-sectional and time series components, the ordinary least square(OLS) regression method is not appropriate due to the heteroscedasticity and autocorrelation issues. Therefore, random effects GLS regression analysis was used for our hypotheses testing. First, we conducted the Hausman specification test(Hausman, 1978) to determine the appropriate statistical methods. Since there was no significant systematic difference between fixed effects model and random effects model($p > .05$), random effects GLS regression was used in our study. Random effects GLS regression is known as a more efficient estimation method and less costly in terms of degrees of freedom(Greene, 2000).

We tested out hypotheses using separate hierarchical(i.e., step-wised manner) regression analyses. This is a conservative approach because all control variables are entered first into the statistical model before testing variables are included. Therefore, any spurious relationship between the dependent variable (CSP) and the testing variables(board characteristics) would be parceled out of the model. In order to test our hypotheses, all continuous variables were mean-centered.

V. Results

The means, standard deviations, and correlations for the sample firms except an industry dummy are reported in Table 1. The average *KEJI Index* is approximately 45.15 with a standard deviation of 3.58.

We performed random effects GLS regression analyses in four steps and the results are reported in Table 2. In the first step, Model 1 shows the effects of control variables on CSP. *Firm Size*($p < .001$) is positively associated with CSP, which is consistent with previous literature that larger firms tend to engage in CSR due to visibility(Stanwick and Stanwick, 1998) and the scale of impact(Cowen, Ferreri, and Parker, 1987). Not surprisingly, *Debt-to-Equity ratio*($p < .001$) has negative effects on CSP, which indicates that a high level of debt might discourage organizations from being committed to social responsibility due to financial resource restriction.

In order to evaluate the extent of multicollinearity among variables, we calculated variance inflation factors(VIFs) which ranged from 1.05 to 2.20(Tolerance ranging from 0.45 to 0.95). This range falls outside Allison's (1999) conservative criteria for multicollinearity concern(VIF $>$ 2.5; tolerance $<$ 0.4). Since our sample firms do not indicate any multicollinearity, we included variables for testing resource dependence theory hypotheses in Model 2, variables for testing agency theory hypotheses in Model 3, and put all variables into one model in Model 4. In order to check robustness, we also conducted a series of models that adding each variable in a separate model. However, alternative testing methods did not generate any different results.

In order to examine the resource dependence theory hypotheses, we included *Board Size and Average Education Level of Board* in Model 2. In terms of specific hypotheses, we found the support for Hypothesis 1 and Hypothesis 2. Both *Board Size*($p < .05$) and *Average Education Level of Board*($p < .01$) have positive effects on the firm's CSP.

As shown in Model 3, agency theory hypotheses explained a significant proportion of the variances in CSP, even after controlling for the firms' various characteristics as well as year and industry effects. Specifically, we found that Hypothesis 3, which proposed a negative effect of inside director ownership on CSP, is supported($p < .05$). This result indicates that high level of ownership by inside directors, who also serve as managers of the firm, has adverse effects on the firms' social responsibility. In Hypothesis 4, we proposed a positive effect of outside director ownership on CSP. The effect of shareholding by outside directors on CSP was not significant at the conventional statistical levels. Thus, Hypothesis 4 is not supported.

In Model 4, we included all the testing variables

〈Table 1〉 Descriptive statistics and correlations

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Corporate Social Responsibility	45.15	3.58	1										
2. Company Age	35.65	13.96	.09	1									
3. Firm Size	26.24	1.45	.43	.09	1								
4. Return on Assets (%)	5.16	6.07	.22	-.02	.10	1							
5. Debt-to-Equity Ratio (%)	97.45	89.56	-.18	-.04	.26	-.24	1						
6. Average Age of Board	56.02	4.56	.12	.19	.20	.01	.01	1					
7. CEO Change	0.11	0.32	.05	-.04	.08	.00	.05	-.08	1				
8. Inside Director Ownership (%)	3.21	7.45	-.15	.01	-.13	-.04	-.06	.07	-.07	1			
9. Outside Director Ownership (%)	0.03	0.25	-.04	.01	-.06	.03	.00	.03	.01	.01	1		
10. Board Size	5.84	2.32	.34	.15	.55	.10	.05	.11	-.03	.02	.07	1	
11. Average Education Level of Board	2.47	0.39	.33	.14	.30	.02	-.04	-.05	.06	-.14	-.09	.17	1

Note:
Correlations (absolute value) greater than .08 are significant at $p < .01$, those greater than .05 are significant at $p < .05$.
Two-tailed coefficient test.

〈Table 2〉 Random effects GLS a regression analysis on corporate social responsibility

Variable	Model 1	Model 2	Model 3	Model 4
Constant	45.23*** (.29)	45.30*** (.28)	45.21*** (.29)	45.28*** (.28)
Control Variables				
Company Age	0.01 (.01)	0.00 (.01)	0.01 (.01)	0.00 (.01)
Firm Size	1.03*** (.18)	0.88*** (.19)	1.02*** (.17)	0.87*** (.18)
Return on Assets (ROA)	0.02 (.02)	0.02 (.01)	0.02 (.01)	0.02 (.01)
Debt-to-Equity Ratio	-0.01*** (.00)	-0.01*** (.00)	-0.01*** (.00)	-0.01*** (.00)
Average Age of Board	0.02 (.03)	0.03 (.03)	0.02 (.03)	0.03 (.03)
CEO Change	0.08 (.17)	0.10 (.17)	0.05 (.17)	0.07 (.17)
Year Dummies	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included
Board Characteristics				
(Resource Dependence Theory Hypothesis)				
Board Size		0.13* (.06)		0.14* (.06)
Average Education Level of Board		0.75** (.30)		0.72* (.29)
(Agency Theory Hypothesis)				
Inside Director Ownership (%)			-0.02* (.01)	-0.03* (.01)
Outside Director Ownership (%)			-0.30 (.39)	-0.27 (.37)
Wald Chi Square	145.04(13)***	213.97(15)***	173.33(15)***	234.91(17)***
Probability that all variables have coefficients equaling zero	$p < 0.001$	$p < 0.001$	$p < 0.001$	$p < 0.001$

Notes:
1. * $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$, Two-tailed coefficient test based on 1,277 firm-year observations.
2. Individual year and industry dummy variables are not reported for the sake of brevity.

in one model for a more rigorous test. All our findings in Model 2 and Model 3 were confirmed. Overall, our results suggest that both agency theory-based variables and resource dependence theory-based variables are significant in accounting for the variances of CSP in Korea.

Ⅵ. Discussion

The existing literature on the board-CSR linkage has been challenged with regard to the incomplete theorizing for the board's roles as well as Western-dominant research stream. In order to fill these gaps, we not only offer a comprehensive view by integrating two different theoretical approaches(agency theory and resource dependence theory) into one model, but also introduce the institutional context of Korea under which boards influence strategic decisions for CSR.

The most notable findings of our study are: (a) higher inside director ownership leads to lower CSP, and (b) corporate boards with large size and higher educational levels lead to higher CSP. Overall, our findings suggest that corporate board plays a significant role in promoting and/or preventing the firm's social responsibility by both monitoring the self-serving behaviors of top managers(agency theory) and providing resources and advices for them(resource dependence theory). These findings are consistent with previous corporate governance literature that emphasizes the "dual" roles of corporate board(Daily et al., 2003; Hillman and Dalziel, 2003; Oh et al., 2011; Zahra and Pearce, 1989).

Our findings also indicate that institutional and cultural environment should be considered to better understand the ways in which organizations make strategic decisions for CSR. Research has recognized that institutional and cultural environment influence managerial values that play a critical role in organizational decision process(Ralston et al., 1993). To date, the firm's social initiatives have been a predominately Western agenda. Our findings suggest that Western-based decision-making models for CSR should not be universally applied to other national contexts. Specifically, we failed to find the positive effects of outside director ownership. In addition, the negative effects of insider ownership on CSR are significant, in contrast to prior Western studies. There are some possible explanations for these idiosyncratic findings as follows.

First, we did not find a significant relationship between outside director ownership and CSP. In our sample, the average outside director ownership level is only 0.03%, whereas the average inside director ownership level is 3.21%. Thus, the power of outside directors in the boardroom is considerably limited, compared to that of inside directors. Previous literature using Korean sample(Cho and Kim,

2007) also reported that the roles of outside directors are still relatively restricted in Korea, especially given their small amount of ownership. Consistent with our findings, Oh et al.,(2011) also reported no significant effect of outsider director ownership on CSP in their Korean sample. Our finding may imply that empowering outside director by stock ownership is necessary for Korean firms to better perform in the areas of CSR.

Second, we found a significant negative effect of inside directors' ownership on CSP, which is contrast to the prior research(Johnson and Greening, 1999) claiming that CSR can be enhanced by higher inside director's stock ownership. These results also confirm what Oh et al.(2011) found, with more extensive dataset than they used. Traditional view of agency theory suggests that interests of inside directors and shareholders may converge when directors becomes shareholders(Fama and Jensen, 1983). However, our finding shows the opposite pattern. In some Asian countries such as Korea and Japan, inside directors, who also serve as managers, frequently have strong ties to the founding family(Oh et al., 2011); thus they may have a strong self-serving orientation toward family owners for the organizational decisions. Inside directors tied to *Chaebol* may prefer decisions that benefit the founding family and its relatives even at the expense of the other stakeholders. Chang (2003) argued that this type of inside directors tend to advocate decisions that might expropriate value from other shareholders in order to increase the wealth of the founding family and its relatives. As a result, Korean firms with higher level of inside director shareholdings are likely to have lower CSP.

This study provides some theoretical contributions. First, we provided a comprehensive view based on two different theoretical approaches in explaining the dual roles of board with respect to CSR. Prior research based on either agency theory or resource dependence theory has examined one function of corporate board(*either* effective monitoring *or* resource provision), which leads to incomplete understanding of roles of corporate board and its effects on CSR. For this concern, substantial research has noted the board's dual roles as (a) the exercise of oversight and control and (b) the provision of resource and advice(Daily et al., 2003; Hillman and Dalziel, 2003; Zahra and Pearce, 1989). However, the research exploring the determinants on CSR using this integrative approach is relatively scarce(See de Villiers, Naiker, and van Staden, 2011). In this regard, we showed that comprehensive view of agency and resource dependence perspectives is necessary to fully understand the effects of board characteristics on CSR.

Second, we explained the determinants of CSR in Asian countries and extends studies of this field with more extensive dataset. The determinants of CSR in Asian countries have been rarely explored, especially regarding the effects of corporate board characteristics. Until recently, the investigation of CSR has been a predominately Western issue, especially Anglo American. Our findings suggest that the applicability of previous literature based on Western context to other institutional environment cannot be universally assumed (Bruton et al., 2003; Hickson and Pugh, 1995). Our study shows that such a universal assumption should be reconsidered to some extent. For example, we found that the level of inside director ownership is negatively associated with CSP. While Oh et al. (2011), using one year dataset of Korean CSR, also report a negative association between inside director ownership and CSR ratings, we confirm their results with 5 year dataset and extend their work by introducing additional determinants of CSR in a Korean context. Our findings clearly indicate that the institutional contexts should be carefully investigated in order to better understand the board-CSR linkage.

Despite the contributions, this study is not without limitations. First, our study was conducted in one institutional context(Korea), thus, generalization of our findings might be limited. Future research needs to extend the boundary of research to other countries. Second, our study used the *observable proxies* for corporate governance. For example, we assumed that greater proportion of outside directors reflects the higher level of board independence and effective monitoring. Future research can benefit from examining the "black box" of board characteristics that actually lead to better monitoring and resource provision in terms of firm's socially responsible actions.

In conclusion, the determinants of CSR have received significant attentions from both academic scholars and practitioners. In our study, we advance the current understanding by offering a comprehensive framework, based on both agency theory and resource dependence theory, in predicting CSR. We hope that these findings offer a meaningful contribution to the stream of research on the relationship between board characteristics and CSR, as well as serve as a catalyst for future comparative works.

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이사회의 특징이 기업의 사회적 책임성과(CSP)에 미치는 영향: 자원 의존 관점과 대리인 이론을 중심으로

박지현* · 김양민**

요 약

기업의 사회적 책임성과(CSP) 수행에 이사회가 미치는 영향에 관해서는 많은 서구의 실증논문들이 존재한다. 그러나 한국기업에서 이사회의 특징이 CSP에 미치는 영향에 관한 연구는 그 이론적 측면과 실증연구의 수량 면에서 아직 부족한 편이다. 본 논문은 대리인 이론과 자원 의존 이론을 이용하여 기업 이사회가 CSP 수행에 미치는 영향에 대한 가설을 도출하고 그 가설들을 국내의 기업을 대상으로 실증분석 하였다. 대리인 이론의 맥락에서는 사내이사와 사외이사의 지분율과 CSP와의 관계를 검증하였고, 자원의존 이론의 맥락에서는 이사회의 크기와 이사회 구성원의 교육 수준에 대하여 CSP와의 관계를 분석하였다. 2003년부터 2007년까지의 국내 상장기업을 대상으로 한 실증분석 결과 대리인 이론의 관점으로 본 사내이사의 지분율과 CSP는 부(-)의 유의미한 관계가 나타났다. 그리고 자원의존 이론 관점으로 본 이사회의 크기와 이사회 구성원의 교육 수준은 각각 CSP와 정(+)의 방향으로 유의미한 관계가 있음이 발견되었다. 본 연구는 이러한 결과를 바탕으로 그 의의에 대하여 논의하였다.

주제어: 대리인 이론, 자원 의존 이론, 기업의 사회적 책임성과, 기업 지배 구조

* 서강대학교 경영대학 강사, 주저자
** 서강대학교 경영대학 교수, 교신저자