

# Responsible Governance and CSR: How to Make Up the Board ?

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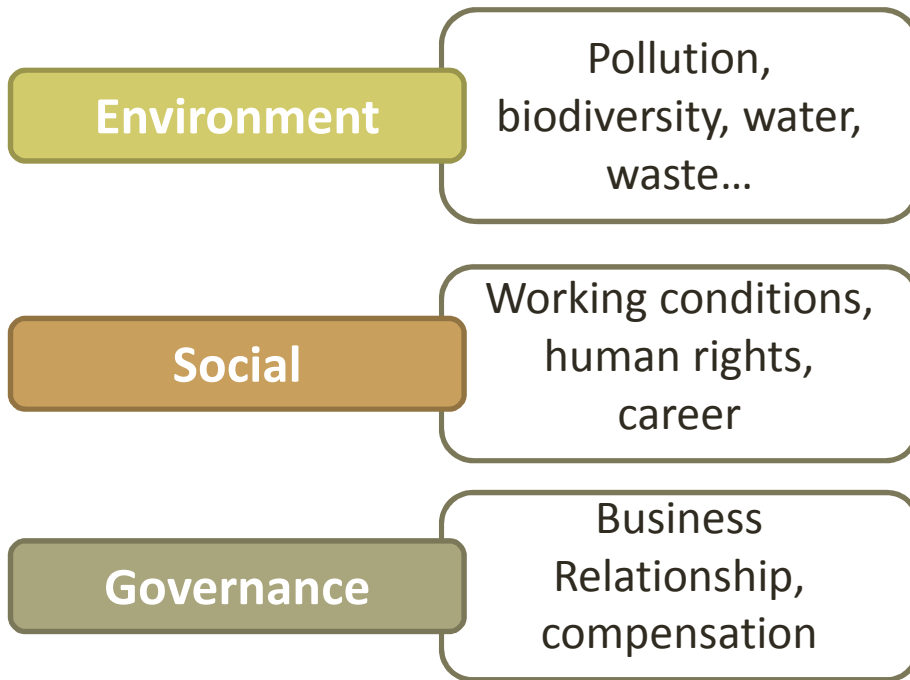
Groupe de travail « Gouvernance et Engagement Actionnarial »  
5<sup>ème</sup> Réunion



# 1-Introduction

# CSR-Governance nexus

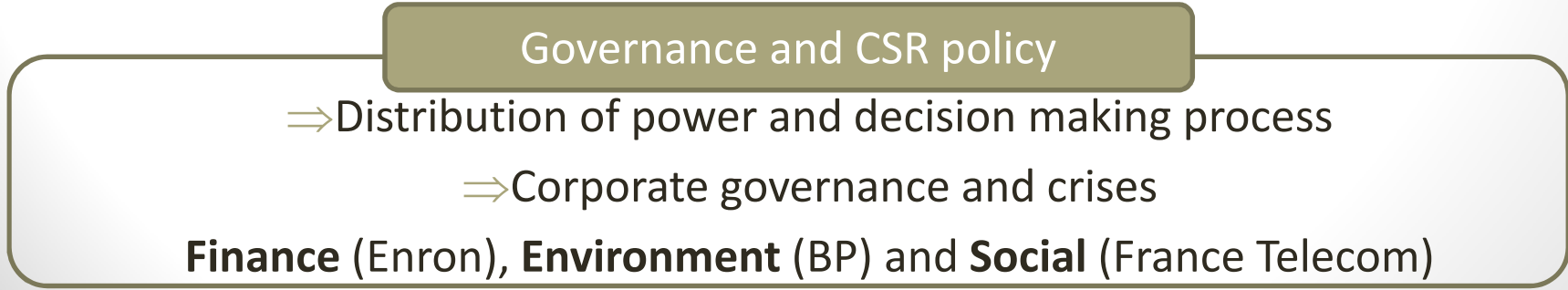
- **CSR as a voluntary approach beyond what the law requires** in order to integrate:



- **Why firms invest in CSR ?**  
(Crifo et Forget, 2013)



- Delegated responsibility of shareholders
- Delegated responsibility of employees
- **Delegated responsibility of managers**



# CSR and Board of directors

## Tasks

- Firm objectives and strategy definition
- Project selection
- Law compliance
- Risk management

## • Three Main Functions

### Agency Theory

(Demb and Neubauer, 1992)

Monitoring  
(CEO opportunism )

Advice  
(Project choice)

### Stakeholder Theory

(Post et al, 2002)

Management  
(Conflict resolution)

## • Board efficiency, Composition and Regulation

- **Independence and Expertise:** Sarbanes-Oxley law (2002), European directives (2006)
- **Parity and Diversity:** Zimmerman-Copé law (2010)
- **Employees' representative:** Law for employment reassurance (2013)

# Litterature

Theory	Why does board invest in CSR ?	How does board affect CSR performances?	Testable hypothesis regarding CSR performances	References
Agency	Entrenchment and Reputation	Over-investment in order to get Stakeholders' protection	Insiders	Barnea and Rubin (2010) Cespa and Cestone (2008)
	Strategy and Risk Management	Monitoring in order to reduce CEO opportunistic behavior	Monitoring ability (independence)	Post et al (2011) De Villers et al (2011)
		Advising the CEO to improve risk knowledge and management	Advice ability (expertise)	Kruger (2010)
Stakeholder	Stakeholders management	Investment regarding strakeholders' interests in order to reduce conflicts	Stakeholders' representation	Hillman et al (2002) Harjoto and Jo (2011)

# The Paper

⇒ **How is board composition correlated with extra-financial performances ?**

## Originality

- ✓ **French Data**
  - SBF120
  - 2006-2011
  - Firm and director level
- ✓ **Multi-dimensionality of CSR practises**
  - Business
  - Environment
  - Social
- ✓ **Board proxies:** Sector related expertise, employees' representative

## Results

- ✓ Negative correlation between proportion of insiders and CSR performances (especially global, and social one)
- ✓ Positive correlations between board monitoring (ENV and C&S) or advice abilities and CSR performances
- ✓ Sector advice ability seems to be the most important trigger for CSR performances
- ✓ CSR dimensions differently correlated with stakeholders' representation

# 2-Data

# Board data (Ethics&Boards)

- **Ethics&Boards: International Watching Agency**

- SBF120 (2006-2011)

- **Director level:** 1619 directors

- Age and gender

- Professional background: Firms name and positions

⇒ **Sector Expertise:** Past or current experiences in the sector

*Ex: Agriculture, Energy, Industry, Building, Retail, Hostel and Restaurant, Transport, Services, Health, Media*

- **Status:** Independent, intern, employee, grey



# Board composition

- Size and type (one or two tier board –supervisory board-)
- **Monitoring ability:** proportions of independent, intern, employee, grey directors + duality chairman and CEO positions
- **Advice ability:** proportions of sector experts, and independent sector experts
- **Stakeholders' representation** (cf. Hillman et al, 2002)

Directors/Stakeholders	Status	Expertise
Shareholder	Non independent	None
Insider	Executive	Sector
Employee	Employee	Sector
Business (Cust. and Sup.)	Non independent	Sector
Support (Banks)	Outsider	Financial (only)
External	Independant	Non financial

# Board Statistics (average)

## Composition

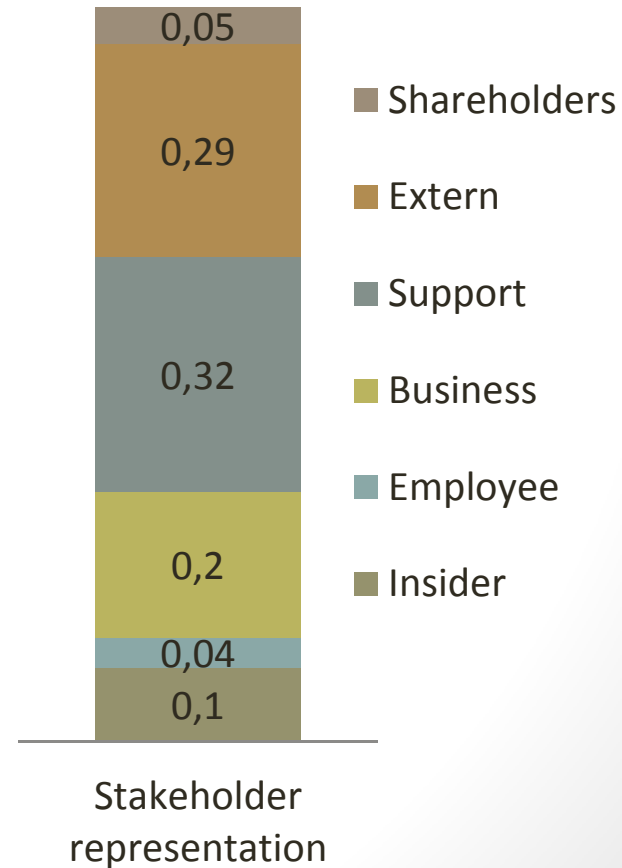
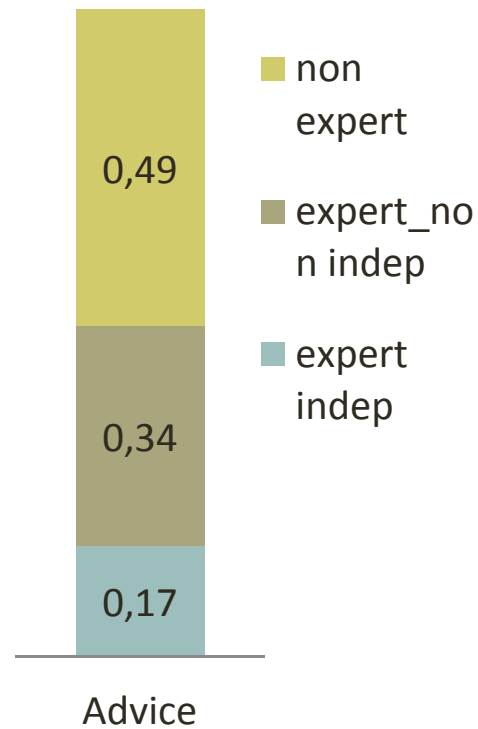
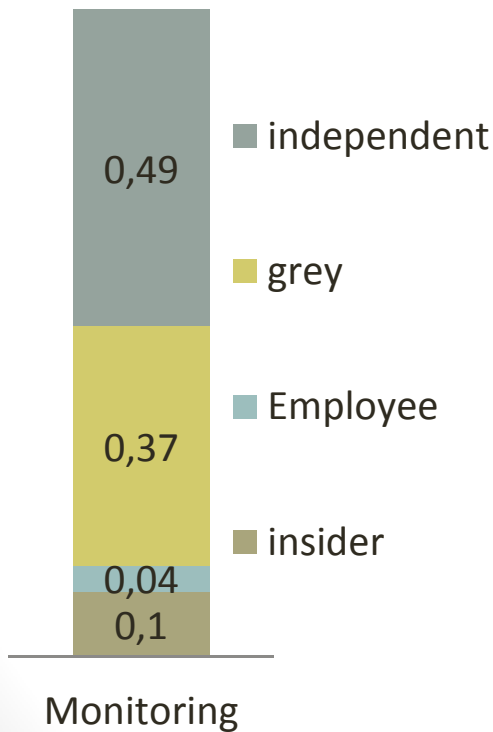
Size : 12 directors

Women: 11%  
Foreigners: 23%

## Structure

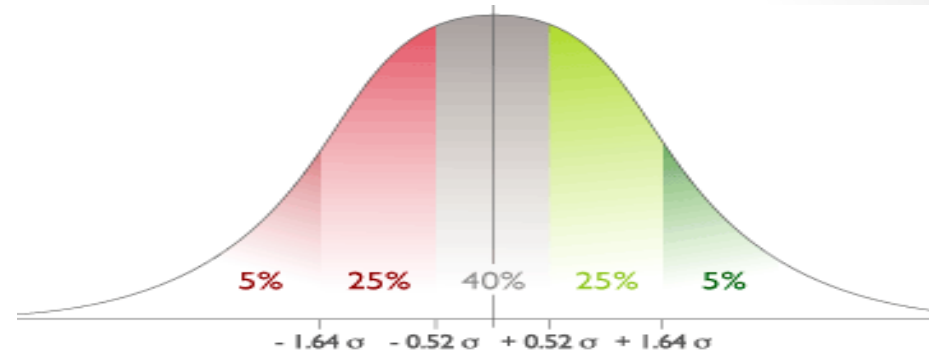
Supervisory board: 21%

Duality Chairman/CEO: 54%



# CSR Performances (Vigéo)

- ESG Rating: 5 levels (--/-/=/+/++)
- ⇒ Sector-adjusted performances



- 3 dimensions:
  - Customers & Suppliers (BB)
  - Environment (ENV)
  - Human Resources (HR)



Variable	Obs	Mean	Std. Dev.	Min	Max
C&S	<b>274</b>	3.17	1	1	5
HR	<b>274</b>	3.72	0.96	1	5
ENV	<b>274</b>	3.36	0.91	1	5

**CSR dimension Performance= 1 if rating 4 (+) and 5 (++) and 0 otherwise**  
**CSR firm leader = ( $\sum rating > 15$ ) ie leader at least in one dimension**

# Control variables (Oddo + Infinancial)

- ✓ **External monitoring:** Ownership structure (see Harjoto and Jo 2011 )
- ✓ **Market visibility:** CAC40 index and firm size (Gamerschlag et al 2010 )
- ✓ **Financial performances:** Operational performance (ROA, ROE)
- ✓ **Financial Risks:** Leverage and volatility

Table 6: Descriptive statistics

Variable	Meaning	N Obs	Mean	Std. Dev.	Min	Max
family	Familial ownership	322	0.29	0.45	0	1
controled	Blockholder	322	0.32	0.47	0	1
Uncontroled	No significant blockholders	322	0.40	0.49	0	1
cac40	belongs to CAC40 index	322	0.41	0.49	0	1
effectif	Number of Employees	322	63755	83034	84	479072
RDonSales	R&D ratio (total R&D expenditures by total sales)	310	0.02	0.05	0	0.36
leverage	debt on equity	321	0.89	1.24	-6.03	9.07
ROA	Return on assets	321	0.05	0.11	-0.52	0.70
ROE	Return on equity	321	0.37	2.87	-29.511	18.764

# 3-Empirical strategy

# Probit Analysis

$$P(CSR_{i,t} = 1 | B_{i,t}, X_{i,t}, Y_{i,t}) \\ = a_0 + a_1 B_{i,t} + a_2 X_{i,t} + a_3 Y_{i,t} + \mu_i + \delta_t + \varepsilon_{i,t}$$

- $B_{i,t}$  : variables of interest
- $X_{i,t}$ : board control variables
- $Y_{i,t}$ : firm control variables
- $\mu_i$ : sector fixed effect (sector heterogeneity)
- $\delta_t$ : time fixed effect
- Clusters: firm level

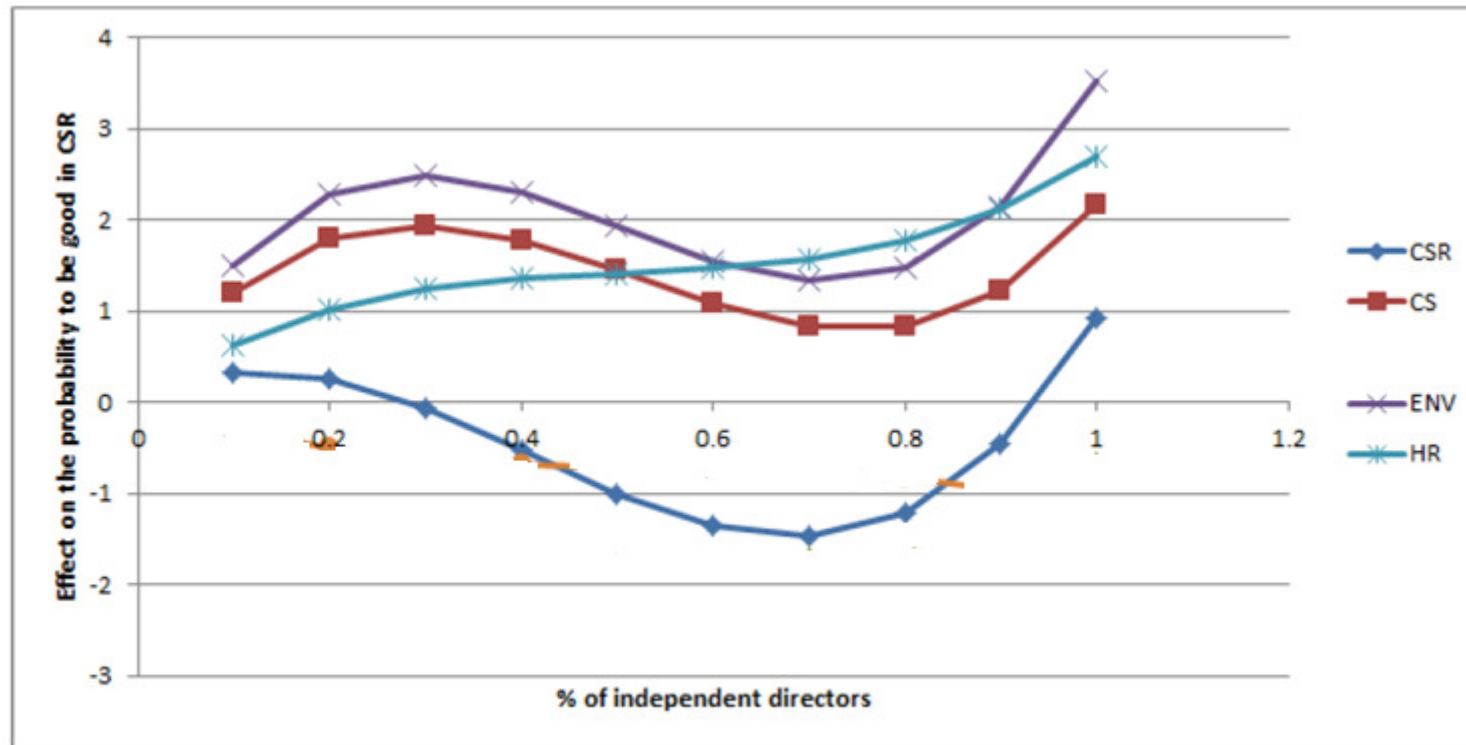
# 4- Results

# 4.1 Entrenchment vs Strategic CSR

VARIABLES	(1) CSR	(2) CSR	(9) HR	(10) HR	(3) C&S	(4) C&S	(7) ENV	(8) ENV
pct_independant	-2.139 (1.505)	5.596 (7.302)	1.682 (1.377)	7.481 (7.340)	-1.269 (1.028)	<b>15.394**</b> (7.283)	-0.946 (1.094)	<b>19.436**</b> (8.518)
pct_indep2		-25.694 (16.711)		-13.815 (14.198)		<b>-36.807**</b> (14.775)		<b>-46.338***</b> (17.779)
pct_indep3		21.017* (11.826)		9.035 (8.615)		<b>23.581**</b> (9.180)		<b>30.434***</b> (11.097)
pct_insider	<b>-6.772***</b> (2.018)	<b>-6.905***</b> (2.192)	<b>-6.444***</b> (1.818)	<b>-5.809***</b> (1.927)	-2.129 (1.447)	-2.117 (1.473)	0.293 (1.598)	-0.027 (1.648)
pct_employee	<b>15.905***</b> (3.962)	<b>16.381***</b> (4.117)	<b>6.454*</b> (3.682)	<b>7.269*</b> (3.737)	1.048 (2.816)	0.970 (2.747)	<b>5.949*</b> (3.360)	<b>6.582**</b> (3.056)
pct_expert_sect	-0.191 (1.051)	<b>-18.194**</b> (8.567)	0.480 (0.975)	<b>-14.499***</b> (5.503)	0.232 (0.925)	<b>-13.264**</b> (5.964)	0.166 (0.974)	<b>-21.423***</b> (8.194)
pct_expert_sect2		<b>33.491**</b> (16.750)		<b>23.840**</b> (11.087)		<b>31.969**</b> (12.997)		<b>38.898**</b> (16.640)
pct_expert_sect3		<b>-17.903*</b> (10.048)		-10.950 (7.028)		<b>-21.287**</b> (8.418)		<b>-19.553*</b> (10.333)
pct_ESect_ind	1.540 (1.710)	<b>8.792**</b> (4.440)	0.073 (1.476)	<b>8.656**</b> (3.473)	1.666 (1.219)	4.342 (2.673)	-0.529 (1.385)	2.438 (3.156)
pct_ESect_ind2		<b>-12.088**</b> (5.953)		<b>-13.559***</b> (4.598)		-5.464 (3.770)		-6.588 (4.836)
Observations	274	274	265	265	274	274	274	274
N_Groupe	93	93	89	89	93	93	93	93
R2	0.560	0.591	0.438	0.465	0.379	0.432	0.213	0.253
chi2	747.9	1122	229.9	340.5	125.4	197.7	120.2	197.5
p	0	0	0	0	9.38e-10	0	5.43e-09	0

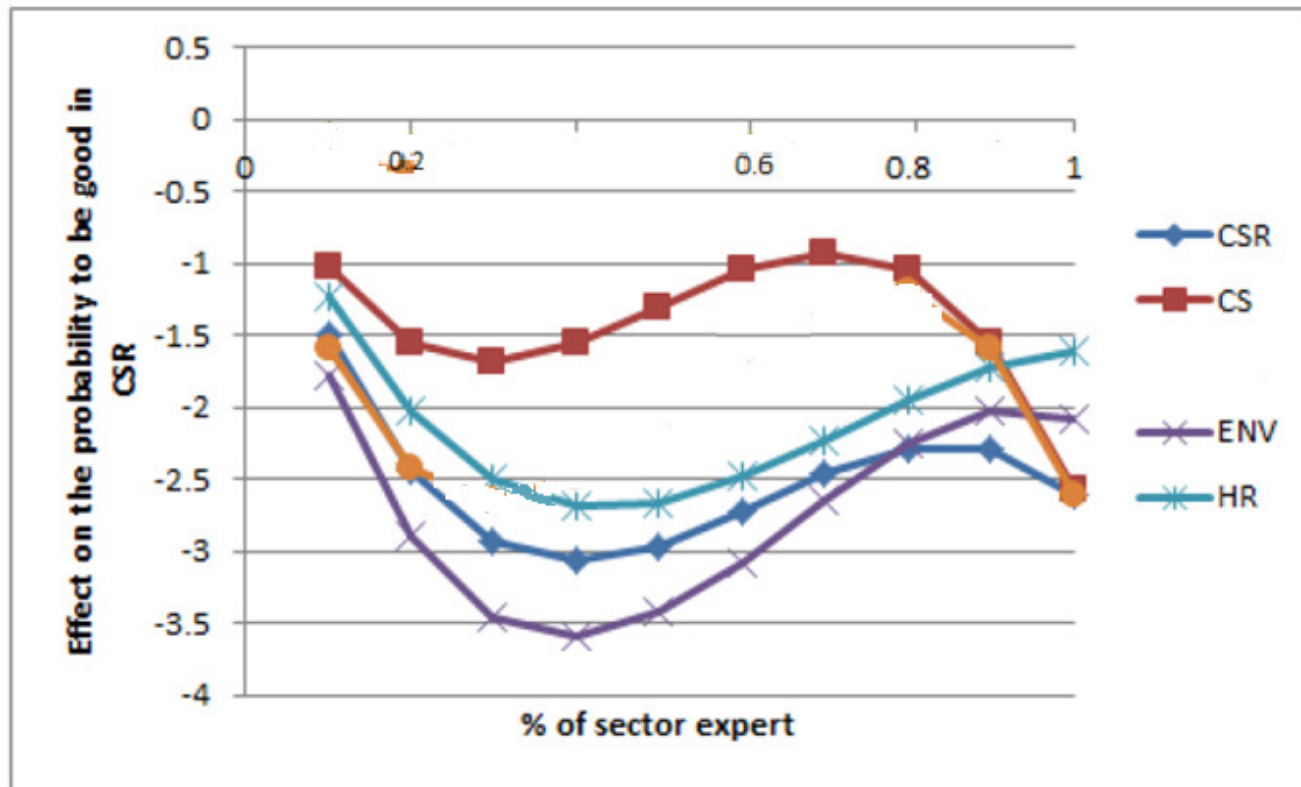


## 4.2 Strategic CSR / Monitoring hypothesis



- Positive correlation between business or environment performances and proportion of independent directors
- Non-linear behavior: Lower correlation for stronger monitoring ability
- No significant result for CSR and Social performances

## 4.3 Strategic CSR/Advice hypothesis



- Negative correlation between proportion of sector experts and CSR performances
- Increasing correlation from 40% to 90% of sector experts
- Importance of the interaction terms between expertise and status (see for CSR and Social dimension).

# 4.4 Entrenchment vs Strategic CSR

	Entrenchment	Strategic CSR		
		Monitoring	Advice	Monitoring x Advice
CSR	Rejected		Accepted	Accepted
Business		Accepted	Accepted	
Environment		Accepted	Accepted	
Social	Rejected		Accepted	Accepted

- Interaction between Independence and Expertise:
  - Positive interaction: Expertise fills the gap of information asymmetry  
⇒ Stronger monitoring ability
  - Negative interaction: trade-off between monitoring and advice functions  
⇒ Necessary weak monitoring ability to receive the benefit from board advice

# 4.5 Monitoring vs Advice

- **Complementarity and Substituability tests**

- **Complementarity** (synergies): The total is higher than the sum of the parts
- **Substituability** (trade-off): The total is lower than the sum of the parts

⇒ Complementarity between Independence and Expertise for Global CSR and Business dimensions => Monitoring function

⇒ No other significant results => No specific trade-off

- **Relative weight between Monitoring and Advice**

⇒ Information and Knowledge (Expertise) seem to be more determinant than monitoring to achieve CSR performances

⇒ Relative trade-off between strong monitoring (negative correlation for CSR and Business) and sector expertise, except for board dominated by independents, sector and financial experts

# 4.6 Conflict resolution hypothesis

- Number of **Stakeholders** inside the boardroom:
  - Insider, employee, business, support and extern
  
- Diversity of Stakeholders (Blau's index):

$$Diversity = 1 - \sum pct\_stakeholder^2$$

ie index high= high diversity

	CSR	BB	ENV	HR
<b>Nb Stakeholders</b>	***	***	***	***
diversity	+	+	-	+

- ✓ Necessity to understand better the power of each stakeholder

# 4.7 Conflict resolution hypothesis

VARIABLES	(1) CSR	(2) C&S	(4) ENV	(5) HR
pct_extern	1.776 (3.401)	<b>-3.025</b> <b>(2.150)</b>	-2.776 (2.223)	<b>10.202***</b> <b>(2.838)</b>
pct_extern2	-1.331 (2.401)	<b>3.986**</b> <b>(1.946)</b>	-0.205 (1.947)	<b>-6.070***</b> <b>(1.741)</b>
pct_insider	-5.714 (4.108)	-3.054 (2.140)	-1.521 (2.351)	-1.182 (3.157)
pct_employee	<b>13.806**</b> (5.782)	0.262 (3.112)	4.385 (3.678)	<b>13.144**</b> (5.167)
pct_business	4.452 (3.727)	<b>9.244***</b> <b>(2.673)</b>	-2.022 (2.336)	<b>5.864*</b> <b>(3.280)</b>
pct_business2	-5.234 (3.978)	<b>-16.933***</b> <b>(4.495)</b>	2.446 (2.876)	<b>-2.333</b> <b>(3.384)</b>
pct_support	<b>-8.715*</b> <b>(5.260)</b>	-3.449 (2.680)	<b>-10.792***</b> <b>(3.926)</b>	<b>-1.754</b> <b>(4.244)</b>
pct_support2	<b>11.285***</b> <b>(4.138)</b>	2.892 (2.990)	<b>11.492***</b> <b>(3.978)</b>	<b>10.064***</b> <b>(3.267)</b>

- Stakeholders' representatives are differently correlated with each CSR dimension
- Quadratic correlation of the proportion of business, support and extern directors: optimal proportion of each stakeholder (cost of coordination,...)

# 4.8 Conflict resolution hypothesis

	CSR	BB	ENV	HR	BB& ENV	BB& HR	ENV &HR	Interpretation
Intern	-	-	-	-	-**	-	-	Constraints towards short-term economic performances
Employee	+++	+	+	+++	-	+	+	Working conditions and private benefits
Business	+	+++	-	+*	+++	+++	+	Direct benefit through the supply chain
Support	-*	-	-**	-	-**	-	-**	Short-term costs (cash flow)
Extern	+	-	-	+++	-**	+	+	Protection of various stakeholders

- Conflict Resolution and Primary business Stakeholders
- Conflict Exacerbation and Financial Stakeholders (Support)

BB/ BB & HR: Supply chain conflict resolution  
 HR/ (ENV & HR): Conflict resolution  
 ENV/ BB & ENV: Conflict exacerbation

# Discussion

- Vigeo data
  - Analyst evaluation regarding international standards
  - Criteria depending on the sector
  - Sensitive to available information and communication management
    - Example: Lack of anticipation in front of crises
- Panel data and endogeneity
  - Small exhaustive data on board composition and CSR performances
  - Non linear improvement through time
  - Link between board composition, CSR and financial performances
- French governance vs. Anglo-Saxon one
  - More stakeholder-oriented ?



# Conclusion

- New approach of CSR-governance nexus
  - Sector information may be an important trigger of CSR investments
  - Complementarity between board abilities
  - Evidence of conflict-resolution with various stakeholders
- Original data
  - French context and stakeholder-oriented governance
- Perspectives:
  - Synergies and trade-offs between Stakeholders' group
  - Performances measure to take into account time structure and improvement
  - Vigeo details: Leadership/Implementation/Results

Thank you for your attention !

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