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The role of independent directors at family firms in relation to corporate social responsibility disclosures

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ABSTRACT

In the last few decades, interest in family firms has increased. There are several analyses in relation to leadership, ownership and succession-related topics, but they omit issues related to stakeholders and corporate social responsibility (CSR). This study broadens empirical evidence in this respect. Using a sample composed of internationally listed companies for the period 2003–2009, we analyse CSR information disclosures in family businesses, as well as the fundamental role of the independence of the board in this regard. Our results show that, in general, the higher the proportion of independent directors, the higher the level of CSR information disclosures; but, in the concrete case of family firms, the "independence" of these directors disappeared, thereby reducing the positive association with information disclosure; this was because independent directors may be strongly influenced by family owners, and even by personal or familiar ties.

1. Introduction

Family business is the predominant form of business worldwide (Bammens, Voordeckers, & Van Gils, 2011). This has boosted studies of these companies' behaviours and characteristics. The main question for most scholars is whether family firms behave differently than non-family firms. Previous studies have focused on corporate governance, leadership, ownership and succession-related topics, but they overlook other topics such as information disclosures, stakeholders and corporate social responsibility (CSR) (Benavides-Velasco, Quintana-García, & Guzmán-Parra, 2013; Materne, Debicki, Kellermanns, & Chrisman, 2013). A few studies analyse CSR practices in family businesses, more concretely, the disclosures of such practices (Testera Fuertes & Cabeza García, 2013).

Nevertheless, gradual changes in the global economy (social activism, globalisation, transparency, etc.) have increased the requirements of companies beyond aspects of business, giving importance to economic, social and environmental issues (Jamali, Safieddine, & Rabbath, 2008). These three responsibilities (economic, social and environmental[1]) constitute the most used approach to CSR, known as the Triple Bottom Line or the three 'Ps', i.e. Profits, People and Planet. Under this approach, CSR achieves a threefold impact through the development of systems and policies to promote relationships with different stakeholders. Companies usually disclose information about their CSR practices

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[1] The economic dimension refers to the company's obligation to be productive, profitable, efficient and competitive (Schwartz & Carroll, 2003). The social dimension refers to the impact made by the company on the community in which it operates (Hubbard, 2009), including its philanthropic behaviour, the promotion of human and intellectual capital and enhancing social and economic welfare and human rights. The environmental dimension is related to the development of systems and policies to husband the use of natural resources and to monitor the direct and indirect effects of the company's activities on the environment, in areas such as waste, air emissions and chemical residues (Hubbard, 2009).

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in their CSR reports. This information may be useful for different stakeholders, since it is expected to contain information about a wide range of topics and practices related to suppliers, customers, employees, social contributions and public safety, health in the workplace and so on (Williams & Wern Pei, 1999).

The disclosure of sustainable information is the most frequently used way for companies to appear to be socially responsible to society (Archel, 2003), thereby improving relationships with stakeholders (Deegan & Rankin, 1996; Harte & Owen, 1992). Accordingly, the composition of the board in relation to the number of independent directors is a guarantee of greater corporate transparency, since these members are interested both in demonstrating compliance to the rules and in responsible behaviour (Zahra & Stanton, 1988) as a result of the effect of these factors on corporate reputation (Hasseldine, Salama, & Toms, 2005) and, consequently, on their own reputation (Fich & Shivdasani, 2007). Furthermore, because they usually tend to take into account the demands of other stakeholders, not only shareholders (Ibrahim & Angelidis, 1995), it is expected that they tend to defend CSR disclosures that are useful for a wide range of interest groups.

However, nominations in family firms are usually strongly influenced by personal friendships or family ties (Songini, Gnan, & Malmi, 2013); more concretely, outside directors often have close connections to family members (Corbetta & Tomaselli, 1996; Gabrielsson & Huse, 2005; Ward & Handy, 1988). Therefore, independent directors could be strongly influenced by the opinions and desires of family members (Chen & Jaggi, 2000). Thus, it could be expected that the independence of independent directors could be damaged in family firms and that they may just approve what family members (owner-managers) have already decided, being just family delegates.

According to Ho and Wong (2001), control mechanisms, such as voluntary information disclosures (e.g. CSR information), are not necessary in family firms, since they are usually involved in the daily activities of the company and strongly monitor managers (Haalien & Huse, 2005). In addition, CSR actions show a risk in terms of long-term financial performance, implying that family members just assume that the risk in these practices enhances their reputation (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). As Déniz and Cabrera (2005) show, family firms tend to view CSR practices as a cost and not as an opportunity, and they tend to be more interested in profitability and financial performance than social and environmental issues (Burak & Morante, 2007). Thus, if they carry out CSR practices to a lesser extent, they will disclose less comparable information about such actions, with the aim of avoiding comparative disadvantages (Elliott & Jacobson, 1994).

According to these arguments, we hypothesise a moderating effect of the negative attitude of family members on CSR actions on the positive role of independent directors in relation to CSR disclosures, meaning that independent directors tend to reduce CSR disclosures in order to fulfil the desires of family members. This paper is the first attempt to determine the moderating role of family firms on directors' decision-making in relation to CSR transparency. We have found only the study of Chen and Jaggi (2000), who show similar results for financial information disclosures in Hong Kong, but no other previous study has considered CSR disclosures. Thus, it is necessary to add findings in this respect, since economic, legal, ethical, social and environmental aspects are usually involved in many of the decision-making processes of international businesses (Kolk & Van Tulder, 2010) and CSR disclosures are useful for a wide range of stakeholders.

The remainder of this paper is organised as follows. The following section analyses CSR disclosure in family firms and proposes the first hypothesis of this study. In Section 3, we discuss the impact of the presence of independent directors on the level of CSR disclosure, focusing on the case of family business, and propose the second and third hypotheses. Section 4 shows the methodological approach, describing the sample, variables and model used for the explanatory analysis. The results are shown and commented on in Section 5. Finally, we propose some concluding remarks in Section 6.

2. CSR disclosures in family firms

Family business is the predominant form of business worldwide (Bammens et al., 2011). Although there is no universal definition of family firms, one of the most accepted and used definitions is proposed by Chen, Chen, and Cheng (2008), who define a family firm as a business where family founders continue in top managerial positions, are present on the board or are able to act as blockholders. This means they have great power and hold fundamental positions that affect management and decision-making processes. Family members are also very involved in the daily activities of the company, accessing more information and controlling managers in a better way compared with non-family companies. This results in less information asymmetry (Chau & Gray, 2002; Chen et al., 2008; Christman, Chua, & Litz, 2004; Hu, Tam, & Tan, 2009; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008), in turn leading to less opportunistic behaviour (Bushman, Chen, Engel, & Smith, 2004). Therefore, control mechanisms such as voluntary information disclosures (e.g. CSR information) may not be necessary (Ho & Wong, 2001).

In addition, as they usually have large investments in their own firms, family owners are more interested in profitability than social and environmental issues (Burak & Morante, 2007). Most family businesses do not think that CSR practices generate competitive advantages, although some assume that they have the resources to carry them out; as such, they view these practices as a cost and not as an opportunity (Déniz & Cabrera, 2005). Therefore, family businesses tend to be less socially responsible than non-family firms, meaning they tend to disclose comparable information on CSR practices to a lesser extent in order to avoid costs from the use of this information by users (employees, competitors, etc.) that may damage the image of the company, generating important competitive disadvantages (Elliott & Jacobson, 1994).

On the other hand, family firms are usually characterised by non-financial aims such as identity, reputation, longevity and the preservation of a positive image in the public domain (Anderson & Reeb, 2003; Berrone, Cruz, Gómez Mejía, & Larraza Kintana, 2010; Sharma, Chrisman, & Chua, 1997). In order to create opportunities for future family generations to ensure the survival of the firm and gain a positive image in the market, family firms may carry out actions approved by society, with the aim of covering stakeholders' demands. However, these socially responsible actions pose a risk in relation to solid long-term financial performance, meaning that family firms will be willing to assume this risk from CSR actions when it enhances their reputation and welfare (Gómez-Mejía et al., 2007; Testera Fuertes & Cabeza García, 2013). In this respect, Burak and Morante (2007) and López-Iturriaga and Lopez-De-Foronda (2011) find a negative link between family ownership and CSR practices.

These arguments, together with a secrecy culture in family firms that reduces transparency and accountability (Eng & Mak, 2003; Ho & Wong, 2001; Nazli & Weetman, 2006), lead us to propose the following hypothesis:

H1. Family firms tend to disclose less comprehensive and lower quality CSR information than non-family firms.

3. The role of outside directors in relation to CSR practices

According to stakeholder–agency theory (Hill & Jones, 1992), managers are the only group of stakeholders (i) who can enter into