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Corporate social performance, ownership structure, and corporate governance in France

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ABSTRACT

Empirical evidence of the influence of shareholders and governance practices on corporate social responsibility (CSR) policies is mixed, and most studies have been conducted in the United States. This study of the French market and its unique characteristics reveals the forms of shareholding and CSR implementations, thereby shedding new light on the influence of shareholders on corporate social performance (CSP). Specifically, with a sample of French listed companies, the authors investigate how ownership concentration, ownership type, and governance practices relate to CSP. The geography of capital is relevant, but little evidence arises of the importance of shareholders' identity. That is, neither family nor institutional shareholders influence CSP, and large shareholders seem to place less emphasis on CSR, suggesting that they are reluctant to invest in it. Finally, the results related to good governance practices are mixed, but board independence provides a foundation for good CSR.

1. Introduction

The reasons that only some firms act in socially responsible manners are not entirely clear. This paper proposes to study the influence of ownership and governance practices on corporate social

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responsibility (CSR) policies. Many studies have sought to elucidate the influence of ownership structure on firms' strategic decisions and value (Demsetz and Villalonga, 2001; Kapopoulos and Lazaretou, 2007). For example, according to agency theory, concentrated ownership facilitates managerial control, thus improving financial performance, but it can also leads to majority–minority conflicts. For social practices, this theoretical framework might help reveal the impact of the different forms of ownership and governance practices on corporate social performance (CSP).

This influence has not been extensively researched; studies that do address it focus nearly exclusively on the U.S. market. Therefore, this article considers the French market and sheds new light in several respects. First, ownership tends to be concentrated in France, marked by family shareholders, even of large, public firms (Sraer and Thesmar, 2007). Faccio and Lang (2002) show that less than 14% of French firms are widely held, compared with 37% in Europe in general; moreover, 64.82% of French firms are controlled by a single family, versus 44.29% in Europe. According to Johnson et al. (2010), France differs from other European countries in that it features two financial systems, "family centered" and "bank based," though the former predominates. The legal context is also unique: France is a civil law society, with relatively poor protection of minority shareholders, a weak market for corporate control, and very few hostile takeovers (La Porta et al., 1999).

Second, questions about firms' social performance, relationships among stakeholders, links to performance, and new applications related to business ethics have fueled CSR theory and practice. In Europe, the academic debate remains relatively recent, with scarce integration into management education (Matten and Moon, 2004), the development of CSR tools, or philanthropic donations targeting education, the environment, or society (Brammer and Pavelin, 2005). As previous studies note, research is too frequently descriptive when it comes to national-level behavioral specificities, with very little effort devoted to analyzing national environments. For example, the explicit CSR developed in the United States tend to be organized by companies, including programs, policies, and practices; European CSR practices instead mainly result from political processes (Maignan and Ralston, 2002; Matten and Moon, 2008).

Antal and Sobczak (2007) characterize the current CSR approach in France as a mix of national traditions and change factors that appear in most industrialized democracies. However, they also note two specificities: the role of the French State and the focus on labor issues. Maignan and Ralston (2002) show that companies in different countries hold substantially different perspectives on the importance of being perceived as socially responsible, as well as about which CSR issues are most important, such that they find significant differences among France, the Netherlands, the United Kingdom, and the United States. Finally, CSR rating agencies and thus access to homogenous French data are relatively recent in France.

Our objective is to identify the links among the CSR strategies pursued, compliance with the rules of good governance, and ownership in France. To the best of our knowledge, this is the first such study undertaken in France. Does company ownership influence the CSR practices of French firms? How do family businesses in France behave? Do certain corporate governance mechanisms compel managers to act in favor of the shareholders, to such an extent that it enhances social performance? What influence do institutional investors or members of the board of directors have? To answer these questions, we test a sample of listed companies to determine the influence of ownership composition—including both the structure (concentration/dispersion) and the type of shareholders—and of governance on CSP, as measured by a rating agency.

In the next section, we present a survey of theoretical and empirical literature. After we detail our data and methodology, we discuss our results, then offer some implications and directions for further research.

2. Literature survey and hypotheses

2.1. Shareholders' role

What advantages can shareholders gain from CSR? According to a neoclassical, liberal economic view, CSR has a negative relationship with financial performance, and the sole goal of executives should be benefiting shareholders (Friedman, 1970). Social commitments or expenditures are not