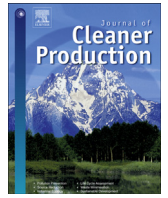




Contents lists available at ScienceDirect

Journal of Cleaner Production

journal homepage: www.elsevier.com/locate/jclepro

Who should be on a board corporate social responsibility committee?

Edina Eberhardt-Toth

CEREFIGE-ICN Business School, Nancy-Metz, France

ARTICLE INFO

Article history:

Received 31 August 2015

Received in revised form

26 May 2016

Accepted 24 August 2016

Available online xxx

Keywords:

CSR committee

Board effectiveness

Corporate social performance

Stakeholder theory

ABSTRACT

The focus of this empirical study is to design the composition of a board corporate social responsibility (CSR) committee in order to positively impact corporate social performance. There has been little publication on this board sub-committee, in particular on its demographical composition. In this study, corporate social performance includes social, environmental and economic performances. Binary logistic regression analyses were conducted on firm-level data of year 2012 from the Bloomberg World Index of 177 non-financial companies having created a board CSR committee. The influence on corporate social performance of demographical components of this board sub-committee specialized in CSR issues is investigated. Dow Jones Sustainability World Index membership of companies is used as a proxy for corporate social performance. A board CSR committee composition effectiveness model is proposed. Furthermore, evidence was found for higher corporate social performance being more likely in companies having the following characteristics within the board CSR committee: larger proportion of independent directors, non-membership of the chief executive officer, higher average age of directors, female chair, and smaller size. For companies who intend to create a board CSR committee, or wish to improve the effectiveness of their existing board CSR committee, the results of this study are useful to decide who should be part of this committee.

© 2016 Elsevier Ltd. All rights reserved.

1. Introduction

The creation of board sub-committees has been strongly advised for a better board effectiveness by delegating some tasks to fewer decision makers (Spira and Bender, 2004). Board sub-committees have a strategic position in corporate legitimacy, accountability, and strategy formulation (Harrison, 1987). Since the 1960s, more and more board sub-committees have appeared and corporate social responsibility (CSR) committees within the board have been created in the 1970s (Harrison, 1987). In this paper a board CSR committee is a CSR committee within the board of directors. A CSR committee can also be named as an ethics, sustainable development, environment, health and safety, or a public responsibility committee. In this study they are only considered when they are a committee within the board of directors, therefore situated at a strategic level of corporations.

Boards of directors have an increasing role in the management of corporate social responsibility (Nelson et al., 2001; Elkington, 2006; Tonello et al., 2011). The topic of the CSR performance effects of the

board of directors is well studied, however, much less of board sub-committees, especially of board CSR committees. In this study CSR is considered as the responsibility of companies for a sustainable development of the planet and the Brundtland Commission (1987) definition is used to define sustainable development to enhance the necessity for a long-term perspective of current decisions. Companies with a high sustainability culture tend to create board CSR committees (Eccles et al., 2011). These committees are also positively associated with community performance (Mallin and Michelon, 2011). Companies that decide to create a board CSR committee signal their concern for social issues and tend to be more transparent in the field of CSR (Cowen et al., 1987; Adams, 2002). Yet very few studies have been carried out concerning the composition of these CSR committees, apart from Lovdal et al. (1977) and, more recently, Danvila del Valle et al. (2013).

Firms are expected to achieve social change (Aguilera et al., 2007). “The question is not whether companies should make strategic change toward sustainability, but how quickly and how well companies can make such change and find new opportunities from the market environment” argue Wu et al. (2012: 244). Therefore, organizational creativity for CSR in the boardroom is a necessity. Creativity is indeed needed to be able to “design for sustainability” (Spangenberg et al., 2010: 1488). In this paper the

Abbreviations: CEO, Chief executive officer; CSR, Corporate social responsibility; ESG, Environmental social and governance; CB, Industry classification benchmark.

<http://dx.doi.org/10.1016/j.jclepro.2016.08.127>

0959-6526/© 2016 Elsevier Ltd. All rights reserved.

goal is to understand how to design effective board CSR committees in terms of corporate social performance. Corporate social performance includes social, environmental and economic performances based on the triple bottom line concept of [Elkington \(1998\)](#). The main research question of this paper is: how the composition of a board CSR committee is related to corporate social performance? First the hypotheses will be developed, and then the data and method will be presented, followed by the results and their discussion.

2. Hypotheses development

The stakeholder theory is used here in this work for the hypothesis development. The stakeholder theory implies the creation of governance structures ([Donaldson and Preston, 1995](#)). Boards of directors are necessary to be able to answer stakeholder needs ([Luoma and Goodstein, 1999](#)). Furthermore, [Hung \(2011\)](#) uses a stakeholder perspective for the social responsibility of board directors and emphasizes their “direction-setting role” related to corporate performance. In a stakeholder theory perspective, the concerns of all stakeholders should be taken into consideration. An effective board sub-committee composition should be associated with positive corporate social performance.

In this paper is sought what characteristics of a board CSR committee composition can lead to higher corporate social performance and, therefore, to higher board CSR committee effectiveness. This study is built on the conceptual framework of [Brower and Mahajan \(2013\)](#) that provides a stakeholder perspective on three drivers of corporate social performance: sensitivity to stakeholder demands, exposure to stakeholder scrutiny or risk of stakeholder action, and diversity of stakeholder demands. [Brower and Mahajan \(2013\)](#) combine stakeholder theory and [Ackerman \(1975\)](#) insights into the problems of managerial implementation of a corporate social policy. As the role of a board CSR committee is to assess and monitor stakeholder needs at a strategic level of the firm by controlling firm's management ([Ioannou and Serafeim, 2011](#); [Mallin and Michelin, 2011](#); [Danvila del Valle et al., 2013](#)), the characteristics of the composition of a board CSR committee related to the three drivers of corporate social performance as identified by [Brower and Mahajan \(2013\)](#) are investigated in this study. Our goal is to build a board CSR committee composition effectiveness model. Effectiveness meaning the reach of results compared to objectives, a form of result considered for the company is corporate social performance. If the reason of creating a board CSR committee is to reach the result of a higher corporate social performance in order to satisfy more stakeholders of the company, then the model of [Brower and Mahajan \(2013\)](#) is useful to guide the decision on who should be on this board sub-committee.

2.1. Board CSR committee composition related to the sensitivity to stakeholder demands

Sensitivity to stakeholder demands is the first driver of corporate social performance as identified by [Brower and Mahajan \(2013\)](#) which is used in this paper to identify an ideal composition of the board CSR committee. Sensitivity to stakeholder demands corresponds to concern about CSR issues. Independent board CSR committee directors may be more sensitive to stakeholder demands than non-independent board directors as they have an outsider view on the firm. Also, board CSR committee directors' social skills – that is knowledge in management of CSR issues – are likely to contribute positively to their sensitivity to stakeholder demands. Therefore, these two board CSR committee components related to the sensitivity to stakeholder demands are further investigated: the board CSR committee independence and skills. The following

hypotheses are developed concerning their link with corporate social performance.

2.1.1. Board CSR committee independence hypotheses

Proxies chosen for board CSR committee independence are the proportion of independent directors on the board CSR committee and the chief executive officer (CEO) membership of the board CSR committee. [Danvila del Valle et al. \(2013\)](#) provide empirical evidence that when composed of independent board directors, these CSR committees are effective for CSR. [Lovdal et al. \(1977\)](#) argue that, although one out of five directors should be inside directors to provide enough knowledge on problems that can be encountered within the company by implementing social policies, they suggest that 80% of the directors on the CSR committee be independent for a critical view on management. Furthermore, for boards to be able to challenge strategy more constructively there is a need for more energetic debates within the board ([Sonnenfeld et al., 2013](#)). The CEO would be more difficult to challenge on CSR issues if he or she was part of the board CSR committee. It is therefore predicted that CEO membership of a CSR committee is negatively related to corporate social performance. Consequently, the proposed board CSR committee independence hypotheses are the following:

Hypothesis 1. *Higher corporate social performance is more likely in companies having a larger proportion of independent directors on the board corporate social responsibility committee.*

Hypothesis 2. *Higher corporate social performance is more likely in companies where the chief executive officer is not member of the board corporate social responsibility committee.*

2.1.2. Board CSR committee social skills hypothesis

The proxy chosen for board CSR committee social skills is the average age of directors on the board CSR committee. Companies with younger top managers are more likely to undergo changes in the strategy of their firm ([Wiersema and Bantel, 1992](#)). Also, younger individuals have more knowledge of environmental issues than older individuals ([Diamantopoulos et al., 2003](#)). However, when examining each dimension of the quad model of effective board monitoring of [Hambrick et al. \(2015\)](#) – composed of independence, expertise, bandwidth and motivation of board directors – it is expected to have a positive link between the average age of board directors and corporate social performance. First, older board directors are more independent from any pressure. They have accumulated during their life enough financial capital to make decisions independently. Second, they have expertise in how companies function. They can therefore provide ideas to change successfully corporate processes in order to meet CSR challenges. Third, older board directors have in general more bandwidth – that is time allocation – than younger board directors. Time is, indeed, an essential element for designing new processes for CSR. Fourth, older board directors can be more motivated to contribute for future generations to survive as they can feel that their time is counted and need to be turned towards continuation of life through generations. Thus, the proposed board CSR committee social skills hypothesis is:

Hypothesis 3. *Higher corporate social performance is more likely in companies with a higher average age of directors in the board corporate social responsibility committee.*

2.2. Board CSR committee composition related to the exposure to stakeholder scrutiny

Exposure to stakeholder scrutiny is the second driver of

Download English Version:

<https://daneshyari.com/en/article/5481447>

Download Persian Version:

<https://daneshyari.com/article/5481447>

[Daneshyari.com](https://daneshyari.com)