Long Term Orientation and Corporate Social Responsibility: Multi-layered Evidence from around the World[1]

Two opposing perspectives stand to explain the nexus between shareholders and corporate social responsibility (CSR). The first is based on agency theory (Jensen & Meckling, 1976) and views CSR as costly because its activities assist employees and other stakeholders at the expense of shareholders (Friedman, 1970; Surroca & Tribó, 2008). While Jensen (2010) acknowledged the need to consider the interests of all corporate stakeholders to maximize long-term firm value, calling for "enlightened value maximization", the observation has not been embedded in the agency theory framework. The second perspective is rather associated with stakeholder theory, which views CSR as an investment because it may lead to an increase in firm value in the long run (Freeman, Wicks, & Parmar, 2004). Additional support for this perspective comes from stewardship theory (Davis, Schoorman, & Donaldson, 1997), which suggests that corporate executives and or controlling investors do not necessarily seek personal gain but rather wish to be responsible stewards of their resources, disseminate their personal values, and/or enhance social legitimacy, which may help ensure the firm's long term survival (Meyer & Rowan, 1977).

The stakeholder literature suggests that a long term perspective increases a firm's proclivity to invest in stakeholder relationship (Flammer & Bansal, 2014). First, a long term perspective is critical to building intangible assets such as social capital, legitimacy, and reputation as it takes time to deploy and obtain payoff (Russo & Fouts, 1997; Wang & Bansal, 2012). Second, building relationships with stakeholders takes time as it requires new organizational capabilities (Teece, Pisano, & Shuen, 1997) and its gains accrue over the long term. Acquisition of such organizational capabilities, which may include dealing with employees, suppliers, customers or the community in a more sustainable manner, requires changes in organizational routines or structures, and may be difficult to achieve in the short term. Finally, to the extent that CSR activities are associated with stakeholder interests, the long term perspective is also related to corporate CSR strategies.

Deficiencies of myopic managers and investors are well recognized in scholarly (e.g., Porter, 1992; Shleifer & Vishney, 1990) as well as popular circles; the latter is explified by a statement made by Richard Lambert, the head of the Confederation of British Industry: "If you concentrate on maximizing value to shareholders over the short term, you put at risk the relationships that will determine your longer-term success." (The Economist, 2010). Various authors (Stein, 1989; Thakor, 1990; Bebchuk & Stole, 1993; Bushee, 2001) argue that myopic firms tend to pursue short-term results, manipulate quarterly earnings, and distort capital allocation, reducing long-term investments such as R&D. Narayanan (1996), Murphy (2003) and others attribute this short-termism to managerial incentives or compensation tied to short-term performance, or to institutional investors with a short-term horizon. Thus it is plausible that a firm's long term orientation can rectify the myopic behaviors of its managers, enabling it to pursue long term strategies such as R&D or CSR which may be desirable from a long-term perspective. This should hold regardless of the drivers for the firm's long-term orientation, such as managerial incentives, innate management values, pressure from controlling investors, or the national culture in which the firm and its managers are embedded.

---

[1] Earlier version of this paper has been nominated for the Best Paper Award at the International Management Division of the Academy of Management.

We undertake a multilayered study and examine the effects of time orientation on a firm's CSR activity at the national, firm, and controlling owner levels. At the country level, we expect CSR activity to vary with the national culture in which the firm is embedded, specifically, its time orientation, with long term orientation related to higher CSR activity. Ranking high on Long Term Orientation implies fostering pragmatic virtues oriented toward future rewards and delayed gratification rather than contemporary profits, whereas a low rank would indicate a tendency to focus on immediate gains. In the GLOBE project, high future orientation similarly suggests patience and working towards long term success, spiritual fulfillment along with material success, and flexible organizations (House, Hanges, Javidan, Dorfman, & Gupta, 2004).

At the firm level, we hypothesize and find that firms with long time orientation measured by R&D intensity or firm age may be more inclined to engage or invest in CSR activities. Since the fruits of CSR are to be garnered in the more distant future, it is more likely to be undertaken by long-term oriented firms. For the same reason, Graves and Waddock (1994) argue that CSR is incompatible with the behavior of short-term oriented firms.

At the controlling owner level, we examine the degree of long-term orientation of controlling equity shareholders in two ways. First, we use the investment time horizon measured by an inverse of the turnover rate of the personal investment portfolios of the largest controlling shareholders. A benefit of this measure is that it is unrelated and hence exogenous to the firm (or management) as well as to national culture. Second, we also use an indicator variable as to whether the largest controlling shareholder is institutional investor, the idea being that most financial institutions are short-term investors compared to public-oriented organizations such as pensions, sovereign wealth funds or government enterprises. We find that long-term oriented investors such as pension funds, insurance companies or public-oriented investors will be more likely to engage in CSR as compared to short-term or passive institutions such as hedge funds or private equity.

In this paper, we present multilayered evidence that CSR activities are higher when a country has a long-term orientation culture, the firm is concerned with future value creation, and the controlling owner is inclined towards the long-term. The multilayered approach regarding the effect of time orientation on CSR is conducted at three levels – the firm, controlling shareholders, and national culture - using firm-level and ownership data from 44 countries during a three-year time window from 2010 to 2012. Total firm-year observations for the sample are 67,734, broken down to 10,869 for positive CSR ratings and 56,865 for firms with no such entry. In a departure from extant work focusing on CSR firms alone, we address selection bias using the Heckman selection model, inquiring why some firms choose to engage in CSR (or have ratings in CSR database) while others refrain from doing so (or do not disclose it).

We seek to make several contributions to the literature on global corporate governance, international business, and CSR. First, to the best of our knowledge, this is the first paper to systematically examine the impact of time preference on CSR, and do so from a multilevel perspective, weaving financial, strategic, and international business approaches into an integrated whole. Second, we address selection bias inquiring why some firms choose to engage in CSR (or have ratings in CSR database) while others refrain from doing so (or do not disclose it). Third, we synthesize and apply agency, stakeholder and stewardship theories in a unified manner, simultaneously embedded in the cross-national knowledge base. In so doing, we are able to identify and treat various aspects of time orientation from a rich interdisciplinary and international perspective, in the process contributing to underlying theories such as agency and stakeholder. Finally, there has been a call for taking social welfare into account in research,

suggesting that the assumption of equating private shareholder wealth and social welfare should be discarded (Jones et al., 2016). We take a step in this direction and show that CSR is one mechanism in which firms can serve the interest of stakeholder or social welfare beyond shareholder values.