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## Does a CEO's Cultural Background Affect Community Related CSR Activities?

### Abstract

By using the large sample having the 9658 observations, this study investigates the impact of the CEO's cultural background on the community-related CSR activities. From the empirical analysis, it is found that different cultural dimensions affected differently. Individualistic and masculine CEOs are positively and significantly related to community-related CSR activities. It is also found that uncertainty avoidance is negatively and significantly related to community-related CSR activities. This study has used the data from the year 2002 to 2015 and employed a pooled regression technique to find the empirical results. This is the first study in its nature and provides a direction for future research.

**Key Words:** Chief Executive Officer, Corporate Social Responsibility, Culture

### Introduction and Literature Review

A very important question in the field of finance is who takes the business decisions at the firm level. A simple answer is top management, specifically the CEO. The importance of this study can be judged from real business settings as corporate executives often stress that corporate culture is a critical determinant of corporate decisions (Tedla, 2016). Among the CEO's characteristics, the cultural background is very important.

Hofstede (2001) defines culture as "the collective programming of the mind that distinguishes the members of one group or category of people from another" (p. 9). The importance of culture can be seen from several empirical studies. Recent literature related to the role of culture on CSR has proved quite influential (Cai et al., 2016). For example, Liang and Renneboog (2017) found that culture (masculinity) is positively and significantly related to CSR. This study advances the existing

literature that analyses culture's impact on different firm outcomes at the country level. However, this study is unique because it provides the impact of variation in the national culture at the firm level. Griffin et al. (2019) found that national culture affects CSR.

The factors that may affect community-related CSR activities are categorized into national and firm-level factors. The national factors include politics, education, labour, finance, and culture (Ioannou & Serafeim, 2012). At the firm level, financial and non-financial factors, such as the CEO's culture, are important in determining the CSR level. National culture is treated as a country-level factor, but this study considers the CEO's national culture as a firm-level factor that affects the firm's decisions, which, in our case, are CSR and financial performance. The treatment of the CEO's national culture as a firm-level factor is a significant contribution of this study.

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## CEOs' Culture and CSR

Among CEOs' characteristics (education, salary, gender, and job experience), CEOs' national culture is a new and influential factor, which is not well-studied in decision making. Most importantly, it is required to understand why CEOs' national culture is an important variable. The importance of CEOs' national culture is due to its traceability from their ancestors. It is the only factor that CEOs cannot control. All the other characteristics, for example, education, job experience, among other things, can be learned/acquired with time. However, a CEO's national culture is traditionally embedded in the personality and accordingly, it is reflected in the firm's policy and performance; for example, in CSR activities and the firm's financial performance.

Whatever decision firms make, CEOs play an essential role. Among other factors that affect CEOs' decision making, culture plays an important role. All the other factors, for example, experience and education, are the factors that can be obtained; culture is the only factor that one cannot control because, to some extent, the same cultural values remain unchanged from one generation to another (Guiso et al., 2006). Therefore, it is argued that the decision a CEO takes reflects their culture.

[Naeem and Khurram \(2020\)](#) found that CEOs who belong to individualistic societies have the propensity to pay more dividend. This study supports our argument and shows that

CEOs' national culture is very important, which needs to be analyzed in depth. Regardless of business size, organizational performance is critical for everyone concerned. Businesses are very concerned, especially in the arena where business dynamics are dramatically changing (for instance, CSR and value co-creation). CSR is one of the most important factors that affect the performance of business organizations.

## Methodology and Results & Discussions

This study obtained a list of the CEOs of the S&P 1500 firms from Institutional Shareholder Services (ISS) and searched for CEOs' origin, using their last names, on ancestry.com. After collecting data from the website on each last name, then it is estimated each CEO's cultural background. This study uses all of Hofstede's cultural dimensions to characterize each CEO's cultural background. The time period for this study is from 2002 to 2015. The CEOs' culture is measured using Hofstede's cultural dimensions. Control variables for this study are firm leverage, firm size, cash holdings (cash to total assets), growth in sales, and return on assets (ROA).

$$Comm_{it} = \beta_0 + \beta_1 CEO Culture_{it} + \beta_2 Controls_{it} + \epsilon_{it}$$

The above equation is used to analyze the impact of CEOs' cultural background and other control variables on community-related CSR activities. The control variables are firm size, sales growth, return on assets, leverage, and cash holdings.

## Descriptive Statistics

Table 1.

Variables	Mean	Q1	Median	Q3	SD
COMM	0.013	0.000	0.000	0.000	0.200
IDV	76.870	70.4	79.37	86.250	11.355
PDI	39.198	35.115	36.527	39.738	8.750
MAS	60.066	58.541	63.583	65.066	9.975
UAI	51.329	38.457	45.426	63.561	15.006
LTO	48.163	40.226	44.728	56.763	12.962
IND	55.621	44.103	64.323	67.384	14.736
SIZE	7.748	6.629	7.607	8.717	1.514

ROA	0.144	0.093	0.135	0.186	0.082
SALES.G	0.096	0.001	0.079	0.170	0.198
CASH/TA	0.153	0.032	0.094	0.226	0.160
LEV	0.210	0.056	0.203	0.321	0.166

In the above table, descriptive statistics of the variables used in the analysis are presented. There are five descriptive statistics, which are mean, first quartile (Q1), median (Q2), third quartile (Q3), and standard deviation. Mean measures the average values of the data, and the quartile divides the data into four equal parts. The lower quartile is (Q1), which represents the first quarter of the data, and the third quartile (Q3), known as the upper quartile, represents three-quarters of the data. The median value shows the middle value, separating the upper half from the lower half of the data. The median is equal to (Q2). Finally, the standard deviation shows the dispersion of the data around the mean.

The above table provides the descriptive statistics of community, CEO cultural background, and other control variables. Community is measured by following the [Deng et al. \(2013\)](#) methodology. The mean value of community is 0.013, and its median value is 0. Another important descriptive statistic is the standard deviation, which has a value of 0.20, showing that the data have substantial dispersion around the mean. Positive mean value shows that strengths are more than concerns.

CEOs' cultural background is calculated based on Hofstede's cultural dimensions: individualism/collectivism, power distance index, masculinity/femininity, uncertainty avoidance index, long term orientation/short term orientation, and indulgence/restraint. It is found that the CEOs' individualism means the value is 76.780, which shows that, on average, CEOs belong to individualistic societies. This cultural dimension's median value is 79.37, which shows that the mean and median are almost the same and that there is no substantial difference between the two. The standard

deviation of this CEO cultural dimension, i.e. individualism, is 11.35, which is not very high.

It can also be seen from the above table that a majority of CEOs belong to cultures where PDI scores are low. The mean value of the PDI score is 39.198, and the median is 36.527, which show that the mean and the median values are less than 50. The standard deviation is 8.750. The mean value of MAS is 60.066, and the median is 65.583, which means that the majority of the CEOs belong to masculine cultures rather than feminine cultures. The standard deviation is 9.975, which shows that, on average, there is sufficient variation in the MAS score. The mean value of UAI is 51.329, and the median is 45.426, which shows that, on average, the CEOs belong to a culture where uncertainty is not too high. The standard deviation is also very high, which is 15.006. High standard deviation implies that, on average, some CEOs may belong to less uncertain avoidance countries and others from more uncertain avoidance countries.

The average value of LTO is 48.163, the median value is 44.728, and the standard deviation is 12.962. These values show that, on average, the CEOs belong to countries where the short-term oriented culture dominates. LTO's standard deviation is also very high, which means that some CEOs may belong to a long-term oriented culture. The mean value of the most recent cultural dimension, i.e. indulgence, is 55.621, and the median is 64.323. These values show that a majority of the CEOs, on average, belong to indulgent cultures. The standard deviation of LTO is 14.736, which shows a higher variation in the LTO score.

The control variables used in this study are cash to total assets, leverage, sales growth, and return on assets, and firm size. All the control variables have positive mean values and have high standard deviation values except the return

on assets, which has a relatively low standard deviation. For example, leverage has a mean value of 0.22, and the standard deviation is 0.165, which tells us there is a huge variation in the leverage among the firms.

Correlation tells us the association between two variables. The above table reports the correlation matrix of the variables used in the analysis. The main variables of our interest are the CEOs' cultural background, i.e. IDV, PDI, MAS, UAI, LTO, and IND. Individualism is negatively related to PDI, and the correlation coefficient between the two is -0.499. Similarly, UAI is negatively related to IDV, with a correlation coefficient of -0.652.

The correlation coefficient between IND and IDV is 0.77, which shows that these two variables also have a negative association. On the other hand, PDI and UAI are positively related, and their correlation coefficient is 0.505. Similarly, UAI and LTO are also positively related (0.558 correlation coefficient), whereas UAI is negatively related with IND, with a correlation coefficient of -0.824. LTO is negatively related to IND, with a correlation coefficient of -0.565. The relationship between the two independent variables cannot adversely affect the regression results because including all the variables in one regression result in spurious regression.

### Correlation Analysis

Table 2.

	Comm	IDV	PDI	MAS	UAI	LTO	IND	SIZE	ROA	SALES.G	CA/TA	LEV
Comm	1											
ADV	0.017	1										
PDI	-0.016	-0.499	1									
MAS	0.042	0.266	-0.01	1								
UAI	-0.015	-0.652	0.505	-0.112	1							
LTO	-0.014	-0.455	0.321	-0.03	0.558	1						
IND	-0.002	0.770	-0.420	0.067	-0.824	-0.565	1					
SIZE	0.025	0.053	-0.04	0.017	-0.034	-0.047	0.068	1				
ROA	0.062	0.017	-0.051	-0.013	-0.017	-0.023	0.017	-0.032	1			
SALES.G	-0.033	-0.027	0.012	-0.031	0.020	0.001	-0.025	-0.052	0.209	1		
CA/TA	0.056	-0.162	0.142	-0.033	0.076	0.079	-0.123	-0.326	0.005	0.059	1	
LEV	-0.023	0.095	-0.082	0.057	-0.052	-0.043	0.075	0.368	-0.151	-0.082	-0.41	1

### Regression Analysis

	(1)	(2)	(3)	(4)	(5)	(6)
VAR.	COMM.	COMM.	COMM.	COMM.	COMM.	COMM.
IDV	0.001** (2.04)					
MAS		0.001** (2.34)				
PDI			-0.000 (-1.30)			
UAI				-0.000* (-1.72)		
LTO					-0.000 (-0.91)	

IND						0.000 (1.05)
Size	0.007* (1.85)	0.007* (1.86)	0.007* (1.85)	0.007* (1.84)	0.007* (1.81)	0.007* (1.82)
ROA	0.131*** (3.69)	0.134*** (3.78)	0.131*** (3.68)	0.131*** (3.68)	0.133*** (3.73)	0.132*** (3.70)
Sales.G	-0.052*** (-4.19)	-0.051*** (-4.18)	-0.053*** (-4.25)	-0.052*** (-4.22)	-0.053*** (-4.26)	-0.052*** (-4.21)
CA/TA	0.023 (1.18)	0.019 (0.97)	0.021 (1.04)	0.020 (1.02)	0.019 (0.96)	0.020 (1.00)
LEV	0.012 (0.54)	0.010 (0.49)	0.013 (0.59)	0.012 (0.58)	0.013 (0.62)	0.013 (0.60)
Constant	-0.042 (-0.53)	-0.048 (-0.62)	0.021 (0.28)	0.024 (0.31)	0.014 (0.19)	-0.007 (-0.09)
Observations	9,658	9,658	9,658	9,658	9,658	9,658
Adjusted R-squared	0.120	0.121	0.120	0.120	0.119	0.119

In the above table, Column 1 gives the regression results for the CEOs' individualism as the independent variable. The results show that there is a positive and significant (t-value 2.04) relationship between the CEOs' individualism and community-related CSR activities. It means that those companies that have CEOs who belong to individualistic cultural backgrounds will perform community-related CSR activities. The findings are based on the premise that CEOs need to take certain CSR initiatives to win the stakeholders' acceptability.

In the above table, column 2 gives the regression results for the CEOs' masculinity as the independent variable. The results show that there is a positive and significant (t-value 2.34) relationship between the CEOs' masculinity and community-related CSR activities. It means that those companies that have CEOs who belong to masculine cultural backgrounds will perform community-related CSR activities. The findings are based on the premise that CEOs need to take certain CSR initiatives to win the stakeholders' acceptability. [Ho et al. \(2012\)](#) found that masculinity is positively related to CSR activities. From this result, it can be inferred that the CEOs belonging to masculine cultures may also perform some community-related activities. In the above table, column 3, the results related to

PDI are reported. PDI is not significantly related to community-related CSR activities.

The above table, Column 4, shows the results where the independent variable is the CEOs who belong to uncertain avoidance cultures. The results show that UAI's coefficient sign is negative, which means that there is a negative relationship between the CEOs who belong to uncertain avoidance culture and community-related CSR activities. [Ringov and Zollo \(2007\)](#) also hypothesize that uncertainty avoiding societies show lower levels of social and environmental performance. A negative association between uncertainty avoidance-based culture and CSR is also found in the literature ([Halkos & Skouloudis, 2017](#)). The t-statistic of the UAI coefficient is -1.72, which means that it is important to consider it for analysis.

Column 5 of the above table reports the results where the main independent variable is LTO. The results show that LTO's sign is negative, which means that the CEOs who belong to long-term oriented societies are less likely to invest in community-related activities. The possible reason for not investing in community-related activities may be that CEOs are interested in safeguarding the shareholders' interest rather than those of the community. All other control

variables behave in the same way as in the previous models.

In the above table, column 6, the results for the CEOs' indulgence as the independent variable is reported. The results show that IND's coefficient sign is positive, which means that there is a positive relationship between the CEOs who belong to indulgence culture and community-related CSR activities. Although the variable is statistically insignificant, the positive sign shows that indulgent cultures promote community-related activities and the CEOs who belong to such cultures are more likely to perform some CSR activities.

### **Conclusion**

It is found in the literature that national culture is an important determinant of corporate outcomes. Therefore, this study focused on the impact of culture on the firms' policies, in our case,

corporate social responsibility. Mostly in the literature, culture is taken as a country-level factor, but this study provides a novel analysis by taking the mentioned variable as a form factor. This study particularly focused on the CEO cultural background and their impact on community-related CSR activities. It is found in the study that CEOs whose cultural background is individualistic and masculine tend to perform community-related CSR activities. It is also found that those CEOs who belong to a culture where uncertainty avoidance is high show a negative impact on the community-related CSR activities.

This study has implications for both academicians and practitioners and also opens new avenues for further research. For example, other studies can be done by including the CEO personal culture and national culture and their impact on the different firm's policies.

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