Differences in the Impact of Corporate Social Responsibility on the Compensation of Ceos in Family Business

Kai Chen, Minghua Fu
Business School of Nanjing Normal University, Nanjing, Jiangsu, China
1064944237@qq.com

Keywords: Corporate social responsibility, Family CEO compensation, Non-family CEO compensation, Family ownership

Abstract: Based on social emotional wealth theory and management power theory, this paper takes 2010-2017 A-share listed family companies as a research sample, and analyzes the relationship between corporate social responsibility and family company CEO compensation, and on this basis, adjusts family ownership Empirical research. The study found that:(1) Corporate social responsibility is significantly negatively correlated with the compensation of the family CEO and positively correlated with the compensation of the non-family CEO. (2) With the concentration of family ownership, the salaries of non-family CEOs and family CEOs have also increased. Therefore, family companies need to consider the role of the CEO in the family when designing executive compensation, and give full play to the advantages of corporate social responsibility and compensation incentives in the governance of family companies.

1. Introduction

The Fourth Plenary Session of the 19th CPC Central Committee voted to pass the “Decision of the Central Committee of the Communist Party of China on Upholding and Improving the Socialist System with Chinese Characteristics, and Promoting the Modernization of the National Governance System and Governance Capability”. It points out that we should attach importance to the third distribution role, develop charity and other social public welfare undertakings, regulate excessive income, and clean up and standardize hidden income. The importance of social responsibility, charitable donations and other third distribution methods to compensation distribution is raised to a strategic height. From the occurrence of social responsibility events such as precise poverty alleviation, garbage classification, mandatory letter posting, and epidemic prevention and control donations, corporate social responsibility behavior has attracted widespread attention from all walks of life. Corporate social responsibility has become an indispensable part of an enterprise's development strategy.

With the introduction of non-family professional managers by family companies, family companies face the problem of “dual three-tier” agency. The first is the agency problem of family large shareholders and external scattered shareholders, and the second is the agency problem of family owners and family CEOs and non-family CEOs. So, under the special organizational background of family business, as a non-financial performance indicator, what role do corporate social responsibilities play in the two types of family company CEO compensation contracts? The difference in the impact on family company CEO compensation is worth further discussion.

2. Theoretical Framework and Hyhotheses

2.1 Corporate Social Responsibility and Compensation of Family CEO and Non-Family CEO

First of all, according to the theory of social emotional wealth, there are target differences between family CEOs, non-family CEOs and family companies. Corporate social responsibility occupies a higher weight in the non-family CEO compensation index system, and realizes the incentive and supervision for non-family CEOs to reasonably perform corporate social
responsibilities. Secondly, the family CEO plays the role of corporate steward and family member who fulfills family obligations. The family CEO enjoys higher security in employment than the non-family CEO. The family CEO exchanges lower income for higher job security, and further alleviates potential conflicts of interest between the family and other stakeholders, and improves the fairness of wealth distribution issues. However, non-family CEOs in family businesses have limited opportunities for promotion. Family companies will provide better compensation than non-family companies to attract high-quality non-family CEOs to offset the opportunity for lower future income within the company. To sum up, we propose the first hypothesis:

H1a: Corporate social responsibility is a non-financial performance compensation indicator for family CEOs. The higher the level of corporate social responsibility, the lower the family CEO compensation.

H1b: Corporate social responsibility is a non-family CEO non-financial performance compensation indicator. The higher the level of corporate social responsibility, the higher the non-family CEO compensation level.

2.2 Moderating Effect of Family Ownership Ratio

The more family ownership is concentrated in the hands of the family, the more important the family centered non-economic goals become, and the goal gap between family owners and non-family CEOs widens. The more family companies will protect family CEOs, the higher the risk exposure of non-family CEOs, and the promotion opportunities and tenure may be further squeezed by family members. Finally, the effect of “family handcuffs” on non-family CEOs is more obvious. Non family CEOs tend to overinvest in corporate social responsibility to build their reputation to improve their external opportunities and bargaining power. However, for the family CEOs, the decision-making discretion of the family CEO in the business operation will be increased. The owner of the family business may use CEO compensation as a way to encroach on the wealth of small and medium shareholders and increase family wealth. Negative effects such as “altruistic behavior” and “nepotism” brought about by family relations surpassed the positive effects of a type of agency cost reduction caused by the CEO of a family business, showing the “dark side” of family ownership concentration. To sum up, we posit the following hypothesis: To sum up, we posit the following hypothesis:

H2a: With the proportional concentration of ownership in family businesses, it will increase the positive impact of corporate social responsibility on the compensation of non-family CEOs.

H2b: With the proportional concentration of ownership in family businesses, corporate social responsibility will increase the compensation of family CEOs.

3. Methods

3.1 Sample and Data Collection

This article uses the 2010-2017 Shanghai and Shenzhen A-share listed family companies as a research sample, and includes listed companies that meet the following conditions into the family business sample: (1) the ultimate controller can trace a natural person or a family; (2) directly or indirectly The ultimate controller of the holding company is the largest shareholder of the invested listed company; (3) The natural person has actual control over the family or listed company.

After the above three conditions are met, the sample is screened as follows: (1) excluding financial and insurance companies; (2) excluding special treatment (ST) or particular transfer (PT) firms; (3) excluding those that cannot be judged by the nature of the actual controller and the company whose ultimate controller changes during the observation period; (4) Remove missing data samples.

3.2 Defining Variables

(1) CEO compensation

The CEO compensation in this paper is only monetary compensation, using the total compensation shown in the database, taking the” log of the general manager's annual compensation
(LnPay)” as the evaluation index.

(2) Corporate social responsibility

Refer to Dyer and Whetten\[\text{\textsuperscript{1}}\] and Jia Xingping\[\text{\textsuperscript{1}}\] to use the data of rating results released by third-party rating agencies. This article selects third-party rating agencies HeXun. com to obtain social responsibility data of family business. Ensure the comprehensiveness and accuracy of the data.

(3) Family equity concentration

This paper refers to the measurement of Cheng Cuifeng\[\text{\textsuperscript{1}}\] and Wen Fang\[\text{\textsuperscript{1}}\], and selects equity concentration as the measurement index, Refers to the ratio of the company's largest shareholder to the second to fifth largest shareholder ratio. All of the variables are as defined in Table1.

<table>
<thead>
<tr>
<th>Variable Symbols</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>LnPay</td>
<td>The natural logarithm of the general manager's annual compensation</td>
</tr>
<tr>
<td>SCORE</td>
<td>Social responsibility report rating score/100</td>
</tr>
<tr>
<td>FI</td>
<td>The ratio of the largest shareholder to the second to fifth largest shareholder</td>
</tr>
<tr>
<td>SIZE</td>
<td>Natural logarithm of total assets of the company at the end of the period</td>
</tr>
<tr>
<td>LEV</td>
<td>Ratio of total liabilities to assets at the end of the period</td>
</tr>
<tr>
<td>ROA</td>
<td>Ratio of net profit to total assets at the end of the period</td>
</tr>
<tr>
<td>SEX</td>
<td>1 for male CEO and 0 for female CEO</td>
</tr>
<tr>
<td>IDSR</td>
<td>The ratio of the number of shares held by institutional investors to the total share capital</td>
</tr>
<tr>
<td>BOARD</td>
<td>Natural logarithm of total number of directors</td>
</tr>
<tr>
<td>OUT</td>
<td>Ratio of the number of independent directors to the total number of directors</td>
</tr>
<tr>
<td>DUAL</td>
<td>If the chairman and the general manager are in one position, it is 1; otherwise, it is 0</td>
</tr>
<tr>
<td>IND</td>
<td>Dummy variable</td>
</tr>
<tr>
<td>YEAR</td>
<td>Dummy variable</td>
</tr>
</tbody>
</table>

3.3 Empirical Model

Based on the assumptions H1a and H1b, this paper establishes a model 1 for family CEO compensation and non-family CEO compensation:

$$PAY_{i,t} = \alpha_0 + \alpha_1 \cdot SCORE_{i,t} + \Sigma CONTROL + \epsilon_{i,t}$$

According to the assumptions H2a and H2b, add equity concentration (FI) and introduce interaction terms to get model 2:

$$PAY_{i,t} = \beta_0 + \beta_1 \cdot SCORE_{i,t} + \beta_2 \cdot FI_{i,t} + \beta_3 \cdot SCORE_{i,t} \cdot FI_{i,t} + \Sigma CONTROL + \epsilon_{i,t}$$

4. Results

4.1 Descriptive Statistics and Correlation Analysis

As shown in Table 3, the correlation between social responsibility, executive compensation and family ownership and control variables is analyzed. The correlation coefficient between SCORE and LnPay is 0.186, and there is a significant positive correlation at 1% level. The correlation coefficient between FI and LnPay is 0.06, and there is a significant positive correlation at 1% level. There is no significant relationship between FI and SCORE. (The figure is omitted because of space limitation.)

It can be seen from Table 3 that the correlation coefficients between variables are all less than 0.5, indicating that there is no serious multicollinearity problem, and the model setting is reasonable and can be further analyzed. (The figure is omitted because of space limitation.)

4.2 Regression

(1) Corporate Social Responsibility and compensation of Family CEO and Non-Family CEO

According to Model 1, SCORE has a significant difference between family CEO compensation and non-family CEO compensation. In the model 1, in the grouping sample in which CEO is a family member, the coefficient of SCORE is -0.232, which is significantly negative at the level of 5%, the hypothesis H1a is verified. In the grouping sample in which CEO is a non-family member, the coefficient of SCORE is 0.507, which is significantly positive at 1% level, the hypothesis that H1b is
verified.
(2) Family ownership, corporate social responsibility and CEO compensation

This study further analyzes the regulatory effect of ownership concentration on corporate social responsibility, family CEO and non-family CEO compensation in the case of family business heterogeneity. Table 5 shows that in the sample in which CEO is a family member, the coefficient of cross-term between SCORE and FI is 0.165, which is significantly positively correlated at 1% level, that H2a is verified. In the sample where CEO is a non-family member, the coefficient of cross-term between SCORE and FI is 0.05, which is significantly positively correlated at 5% level, that H2b is verified. (The figure is omitted because of space limitation.)

4.3 Robustness Test

In this paper, the method of variable substitution is used to test the robustness, and the value of social contribution per share is used as the substitute variable of corporate social responsibility score. The result of robustness test is the same as that of the above regression analysis, indicating that the regression result is relatively robust. (The figure is omitted because of space limitation.)

5. Conclusion

(1) Different incentive methods are adopted according to the characteristics of family CEO and non-family CEO. Family CEO and non-family CEO have different effects on the emotion, attitude and behavior of family business. Different compensation incentive index systems should be implemented according to different incentive objects.

(2) Family enterprises should further draw the line between economic goals and non-economic goals, and establish a scientific and reasonable compensation system on the basis of comprehensive consideration of managers' business performance and social responsibility performance. Give full play to the role of the third distribution, such as corporate social responsibility, to prevent managers from taking excessive corporate social responsibility as an excuse for performance decline.

(3) Family enterprises should improve the internal supervision system. Establish and improve the information disclosure system of managers' compensation and improve the transparency of information. Reduce hidden income and short-sighted behavior, and promote the coordinated growth of manager compensation and enterprise performance.

References


