



OWNERSHIP STRUCTURE AND CORPORATE SOCIAL RESPONSIBILITY (CSR): AN EMPIRICAL STUDY OF THE LISTED COMPANIES IN EGYPT

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ABSTRACT

Relatively little research has examined the effects of ownership on the firms' corporate social responsibility (CSR). In addition, prior research suggests that ownership structure is associated to corporate social responsibility (CSR) in developed countries. The purpose of this paper is to empirically investigate the impact of ownership structure on Corporate Social Responsibility (CSR) in Egypt as one of developing countries. Using a sample of 42 more active Egyptian firms covering the three year period 2007-2009, we hypothesize that different types of shareholders will have distinct motivations toward the firm's CSR engagement. We break down ownership into different groups of shareholders: institutional, managerial, and foreign ownerships. Results indicate a significant, positive relationship between CSR ratings and ownership by institutions and foreign investors. In contrast, shareholding by top managers is negatively associated with firm's CSR rating. We conclude that different owners have differential impacts on the firm's CSR engagement.

Keywords: Ownership structure, Corporate social responsibility, Egypt.

1. Introduction

Corporate social responsibility (CSR) has received a significant amount of attention from both academic researchers and business practitioners. Heightened interest in CSR in recent years has stemmed from the advent of globalization and international trade, which have reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship (Jamalia et al., 2008). Moreover, while governments have traditionally assumed sole responsibility for the improvement of the living conditions of the population, society's needs have exceeded the capabilities of governments to fulfill them (Jamali, 2006). In this context, the spotlight is turning to focus on the role of business in society, and companies are seeking to differentiate themselves through engagement in what is referred to as CSR.

CSR is defined as corporate integrated responsibilities encompassing the economic, legal, ethical, and discretionary (or philanthropic) expectations that the society has of organizations (Carroll, 1979). However, relatively few researchers (e.g. Barnea and Rubin 2010; and Johnson and Greening, 1999) have assessed the extent to which the ownership structure explains the firm's social performance. In particular, since different owners may have different objectives and decision-making horizons, it is worthwhile to study the relationships between the different types of owners and the firm's social performance (Hoskisson et al., 2002). In this study, we break down owners into three separate categories: managerial, institutional, and foreign ownerships. We use this classification of owners because (1) institutional investors are traditionally large and may hold a substantial amount of a firm's shares; (2) managers are best informed about the firm's



situation and often have the most significant influence on the firm's strategy and investments; (3) foreign investors are likely to be distinct from domestic investors in their preferences, time horizons, and the extent of the information asymmetry problem (Won et al., 2011). Given these differences, we expect different owners to have different preferences regarding the firms' social investments.

Egypt is chosen as the country for study because of the rapid growth of the Egyptian economy compared with other emerging economies (Dahawy and Samaha, 2010; and Elsayed and Hoque, 2010). Samaha and Dahawy (2010) argue that Egypt has taken major strides in economic reform, improving investment climate and attracting local, regional and foreign direct investments. In addition, Abdel Shahid (2003) argues that the Egyptian stock exchange is prepared for the globalisation. Therefore, Egyptian listed companies are more likely to learn from international experience and start reporting CSR information in their annual reports to attract more foreign investors.

The paper is divided into five sections. Section 2 analyzes previous research about the link between firms' ownership structure and CSR; and formulates our hypotheses. Section 3 describes the sample and variables and explains the empirical method. Section 4 shows the empirical results and assesses the degree to which the initial hypotheses are verified. In the final section, we draw some conclusions from the most outstanding results and suggest some directions for future research.

2. Theoretical Background and Hypotheses

2.1. Corporate Social Responsibility (CSR) In Egypt

Rizk, et al. (2008) suggest that, due to the growing and global awareness of the role of the companies in the society, however, some

Egyptian listed companies report CSR information in their annual reports, but the levels of this information is lower than expected. Empirical studies concerned with the CSR disclosure by Egyptian companies mainly include Hanafi (2006), Rizk et al., (2008), and Salama (2009). Hanafi (2006) investigates the CSR in the annual reports of 82 non-financial Egyptian listed companies for the period 1998-2001. She compares the general patterns of CSR between Egypt and the UK, and finds that although the CSR was lower in Egyptian companies, the patterns of reporting were similar. Both countries had a dominance of employee-related information, subsequently came the environmental and community information, followed by consumer information which ranked last. She also conducts 12 semi-structured interviews with Egyptian managers and finds that although management retains its own culture, it is affected by Western capitalism. Rizk et al., (2008) used content analysis approach for analyzing the CSR information disclosed in annual reports of Egyptian listed companies published in 2002. They use a disclosure index of 34 items covering environmental, energy, human resources, customer and community related issues. They find that CSR disclosure levels are relatively low. Moreover, they find that there are significant differences in reporting practices among the members of Egyptian industry sectors. Furthermore, Salama (2009) uses the content analysis approach to measure and explore corporate social responsibility practice of the largest Egyptian companies. He claims that although there are good examples of CSR practice in many Egyptian listed companies working in the communication and construction industries, disclosure levels in other industries are still lower than expected.

In general, prior research on the CSR in Egypt is descriptive. There is no attempt, to date, to examine the potential factors affecting CSR disclosure practice by Egyptian companies. This



study is motivated primarily by such an apparent gap in prior research. Therefore, we examine the relationship between ownership structure (managerial ownership; institutional ownership; and foreign ownership) and CSR disclosure practice by Egyptian companies.

2.2. Ownership Structure and CSR

In recent years, there has been growing awareness of the role of corporations in society in an international setting. Among the unresolved issues that deserve attention, Aguilera et al. (2007) postulate that an important question in corporate social responsibility (CSR) requiring further attention is "what catalyzes organizations to engage in increasingly robust CSR initiatives." Prior research studies (Chapple and Moon, 2005; Graves and Waddock, 1994; Johnson and Greening, 1999; Roberts, 1992; and Stanwick and Stanwick, 1998) document a link among CSR and firm size, profitability, corporate governance, leverage, employees, industry, and environmental pressures, e.g., shareholder demands, regulation, or media pressure. Among those studies, Graves and Waddock (1994) and Johnson and Greening (1999) document a relationship between firm ownership structure and CSR. Given the difference in people's ethical reasoning and decisions between developed and emerging countries (Ge and Thomas, 2007), does ownership structure also affect CSR in emerging markets such as Egypt? Do the factors that have been previously documented to drive CSR in Anglo-American countries (the USA and the UK) also determine CSR in emerging markets? In order to answer those questions, our study focuses on examining how a firm's ownership structure affects CSR in the emerging market, namely, Egypt. In this study, based on the literature review, three ownership structures have been identified for testing their association with CSR disclosure in annual reports. In each case an expectation is formed based on prior literature.

The Role of Managerial Ownership on CSR disclosure

Agency theory (Eisenhardt, 1989; and Jensen and Meckling 1976) suggests that top managers have the power to allocate resources among a broad range of stakeholders in a way that assures support from them. However, the theory also suggests that providing stock to managers is an effective way to mitigate agency problems by aligning the interests of the managers with those of the owners. If the managers own significant equity, they are more likely to make decisions maximizing the shareholders' value (McConnell and Servaes 1990; and Denis et al., 1997). If socially responsible actions increase the firm's value, as good management theory implies, stock ownership might increase the managers' incentives to engage in CSR. Empirical findings also support the positive relationship between ownership by managers and CSR engagement. For example, Johnson and Greening (1999) found a positive relationship between top management equity and social performance in terms of environment and product quality.

On the other hand, owner managed companies may not invest heavily in socially responsible activities because the costs of investing in these activities may far outweigh its potential benefits. Hence less amount of CSR information can be expected in owner managed companies (Ghazali, 2007). Also, Won et al. (2011) suggests that, financial markets in developing countries may not value social investments as highly as in developed economies. If this is true, it would mean that stock-owning managers may not reap the benefits of social investments. As a result, the company's CSR rating may suffer. Overall, we predict that the effect of managerial holdings on CSR ratings will be negative. Therefore, we hypothesize:

H1. Managerial ownership is significant negative associated with the CSR rating of a firm.



The role of institutional investors on CSR disclosure

Institutional investors can catalyze greater engagement in CSR on the part of corporations through two different routes, either i) through more intimate involvement in their decision making processes or ii) through investing only in those companies that take social responsibility into account in their operations (Li et al., 2006). Although some Institutional investors e.g. mutual funds look for short-term returns, most of them seek stable returns on their investments in the long run in order to deliver their promises (Aguilera et al., 2006; and Denis and Mcconnell, 2003). Therefore, they are interested in long-term profitability of the companies in their portfolios and hence have the incentive to get engaged in corporate strategic management rather than switching. Given the increasingly documented positive correlations between long run health of companies and their social behaviour, institutional investors have an incentive- because they look for long term cash flows- to take the social responsibility of companies into account.

Nevertheless, Aguilera et al. (2006) suggested that institutional investors often enhance CSR actions for two different reasons. First, some instrumental motives exist because good social corporate reputation is an indicator of competent managerial behaviour. Second, relational and moral motives exist as a consequence of the social laws in a number of European industries and in the acts of many European investors. Despite these appealing reasons, Aguilera et al.'s assertions are not supported by any empirical evidence. Furthermore, Barnea and Rubin (2006) did not find significant empirical evidence to relate the power of institutional investors with CSR.

On the other hand, previous studies also support the positive relationship between

institutional holdings and CSR. For example, Sethi (2005) argued that public pension funds tend to consider the firm's long-term effects on the environment, sustainability, and good corporate citizenship when they make an investment decision. Teoh and Shiu (1990) empirically showed that institutional investors look favorably at firms actively engaging in CSR. Graves and Waddock (1994) also noted that institutions invest more heavily in firms with better corporate social performance, finding evidence of a positive relationship between the number of institutions holding the shares of a firm and its CSR rating. Given this description, we predict that institutional ownership will be positively associated with the firm's engagement in CSR.

H2. Institutional ownership is significant positive associated with the CSR rating of a firm.

The role of Foreign Ownership on CSR disclosure

It is assumed that higher levels of investment from abroad might indicate a greater influence of foreign practices (Jeon et al., 2011; and Yoshikawa et al., 2010). As an example, the current trends of CSR implementation in many developing countries have been largely affected by Western-style management practices, which we assume to have higher levels of social engagement. Empirical findings also support this argument. For instance, Chapple and Moon (2005) noted that globalization enhances firms' CSR engagement in Asian countries. Brancato (1997) also argued that U.S. shareholders have pressured firms to address social responsibility issues for more than 60 years. A potential caveat of that argument, however, can be found in oversimplifying the attributes of foreign investors and overlooking the variability of their profiles. For example, one may argue that all foreign investors are not always in favor of social investments. Many U.S. and European investment companies have often been involved in antisocial behaviors (e.g., Yoshikawa et al.,



2010). Hence, in order to assert the positive influence of foreign ownership on CSR, it is necessary to identify the foreign owners' profiles that may indicate their investment orientations and preferences.

Another line of argument relies on the idea of uncertainty reduction that CSR investments may bring. Investing in a foreign country is risky and uncertain due to increased information asymmetries (Gehrig, 1993). In this case, investing in socially responsible companies is a way to reduce risk for the institutional investor as well as a way to show its clients that the institutional investor itself is highly reputable. Given this line of reasoning, it is rational for foreign investors, especially institutional investors, to invest in socially responsible companies. This line of reasoning does not preclude active participation of foreign investors in decision making. Once the significant investment has been made, the foreign investor will be likely to pressure managers to make socially responsible decisions so as not to lose its investment due to bankruptcy or regulatory/legal sanction. Given the discussions above, we expect that foreign ownership will be associated with higher levels of firms' CSR ratings.

H3 Foreign ownership is significant positive associated with the CSR rating of a firm.

3. Methodology

3.1: Sample selection

We selected the Egyptian companies from amongst the top 50 most active-traded companies listed in the Egyptian Stock Exchange over the period 2007-2009. The banking and insurance sectors are not included in this study as the characteristics of these firms are different from the firms in other industrial sectors in terms of financial statement profitability measures and liquidity assessment. Also, they were specialized in nature and were subject to different regulations, tax and accounting rules

(Zeitun and Tian, 2007). This gave us a sample of 42 firms.

3.2: Definition of Variables

Dependent variable

Following Rizk, et al. (2008), the CSR index was used as the dependent variable in this study. Through the annual reports of the sample companies, scoring was based on the existence of the items as the study was focusing on the extent of disclosure. Additionally each item of disclosure is equally weighted as the study is not examining the importance or relevance of the items to any particular user-group (Elinda and Ghazali, 2012). This means that if an item in the checklist is disclosed, a score of 1 is awarded, if not a 0 will be recorded. The number of items disclosed was then divided by the maximum possible score to arrive at the CSR disclosure index. The index consists of most dimensions of CSR debated in the literature and may be able to capture the full picture of CSR. The decision to focus on the annual report is justified for a number of reasons (Hussainey, 2004). First, corporate annual report is a statutory document and it is required to be produced on an annual basis. Second, timing differences are minimised as most listed companies release their annual reports within three/four months after the financial year-end. Third, given their formalised structure, annual reports are more easily comparable among firms than other, less formal communication channels like press releases or direct contact with analysts. Fourth, the annual report is consistently ranked highly as a communication source by different groups of stakeholders (Aljifri and Hussainey, 2007).

Independent variables

In this study, we categorized ownership structure into managerial ownership, institutional ownership, and foreign ownership. First, with respect to managerial ownership (MO) this variable are calculated as the number of shares owned by top managers divided by the



total number of outstanding shares. Second, also with respect to institutional ownership (IO), we calculated as the number of shares owned by institutional investors divided by the total number of outstanding shares. Finally, we included foreign ownership (FO), which is the percentage of ownership by foreign investors.

Control Variables

We included several control variables in order to control for firm characteristics. Firm age, size, financial performance, and leverage were included in the analysis. First, previous research found that Firm Age may be positively (Roberts 1992; Moore 2001) or negatively (Cochran and Wood, 1984) associated with the firm's CSR engagement. Firm age (FA) was calculated by the number of years since its foundation. We also measured firm size (FS) by taking the natural logarithm of its total sales, which consider one of the most frequently used measures for firm size (Hillman et al., 2007). In addition, we controlled for firms' previous financial performance in order to avoid the alternative explanation by slack-resources theory (Waddock and Graves, 1997). Slack-resource theory suggests that because more profitable firms have more organizational slack, they are likely to be more committed to CSR participation. Therefore, we controlled for financial performance (FP) by including return on assets (ROA).

There are a number of companies that were in the top 50 most active-traded companies listed in the Egyptian Stock Exchange in 2007 that are not in 2009 raising concerns regarding the effect that non-surviving firms have on the results. To control the effect of non-survivorship firms on the results, a dummy variable (SU) is created which is equal to 1 if the firm is continuously present in all the years of the sampling period from 2007 to 2009, otherwise it is equal to 0.

3.3: Empirical Model

In this study, regression analysis was used to test the relationship between the various independent variables and the measures of overall CSR reporting. However, the underlying assumptions in the regression model were tested for multicollinearity based on the correlation matrix as well as the variance inflation factor (VIF). The logistic regression model for this study takes the form:

$$\text{CSR} = \beta_0 + \beta_1 \text{MO} + \beta_2 \text{IO} + \beta_3 \text{FO} + \beta_4 \text{FA} + \beta_5 \text{FS} + \beta_6 \text{FP} + \beta_7 \text{SU} + \varepsilon$$

where: CSR is the corporate social responsibility reporting index, MO is the managerial ownership, IO is the institutional ownership, FO is the foreign ownership, FA is the firm age size, FS is firm size, FP is firm performance, and SU is firm survival.

4. Results and Discussion

4.1: Descriptive Statistics

This section of the study is devoted to presenting the results of the analysis performed on the data collected to test the propositions made in the study and answer the research questions. Analyses were carried out with the aid of the Statistical Package for Social Sciences (SPSS). Table 1 provides the minimum, maximum, mean, and standard deviation of the variables in the study. The average CSR Index is approximately 37.45 with a standard deviation of 0.4679. Also, it appears from the Table regarding managerial ownership (MO) that the average is (24.81%) with a standard deviation of 0.1641. The data also shows that, nearly (52.43%) of the sample firms owned by institutional investors with a standard deviation of 0.1641. Finally, regarding the foreign ownership, the data shows that (24.31%) of the sample firms owned by foreign investors with a standard deviation of 0.2874.



Table1: Descriptive Statistics

Variable	Label	Min	Max	Mean	Std. Deviation
Corporate Social Responsibility	CSR	0.19	0.765	0.3745	0.46790
Managerial Ownership	MO	0.00	0.510	0.2481	0.16412
Institutional Ownership	IO	0.10	0.950	0.5243	0.30141
foreign ownership	FO	0.05	0.432	0.2431	0.28742
Firm Age	FA	5.00	30.00	13.080	0.16412
Firm Size	FS	8.96	17.82	12.420	2.50082
Firm performance	FP	0.376	17.82	0.1249	0.14089
Firm Survival	SU	0.00	1.00	0.3095	0.46790

4.2: Results of Regression Model

After descriptive statistics, correlation analysis has been performed to check the relationship between independent and dependent variables and amongst independent as well so that problem of multicollinearity can be checked. The Pearson’s correlation matrix shows that the degree of correlation between the independent variables is either low or moderate, which suggests the absence of multicollinearity between independent variables. As suggested by Bryman and Cramer (1997), the Pearson’s R between each pair of independent variables should not exceed 0.80; otherwise, independent

variables with a coefficient in excess of 0.80 may be suspected of exhibiting multicollinearity. The highest correlation as disclosed in table 2 is between CSR and firm size (FS) with the amount of 0.778. This confirms that there is no multicollinearity among the variables. Also, the data in table 2 shows that CSR levels are positively related with institutional ownership (IO), foreign ownership (FO), firm age (FA), firm size (FS), and firm performance (FP). Meanwhile, CSR levels show negative relationship with CSR level and Managerial ownership (MO). These results are consistent with the previous literature.

Table 2. Correlation coefficients Matrix of the variables used in the study:

	CSR	MO	IO	FO	FA	FS	FP	SU
CSR	1							
MO	-0.349	1						
IO	0.520	0.237	1					
FO	0.254	0.442	0.524	1				
FA	0.507	0.026	0.678	0.640	1			
FS	0.778	-0.223	-.424	.123	.391	1		
FP	0.428	-.607	0.555	0.291	.528	.384	1	
SU	0.345	.129	.308	.036	-.145	-.429	-.472	1

where: CSR is the corporate social responsibility reporting index, MO is the managerial ownership, IO is the institutional ownership, FO is the foreign ownership, FA is the firm age size, FS is firm size, FP is firm performance, and SU is firm survival.

Table 3 shows the results of the regression analysis. The results show the explanatory power of the model as measured by the R Square and adjusted R Square. The later, the adjusted R Square provides a better estimation

of the true population value, especially with a small sample (Tabachnick and Fidell, 1996). The value of the adjusted R Square in the current study is 0.589. Therefore, the model adequately describes the data.



Consistent with the first hypothesis that states there is a significant negative relationship between CSR rating and the proportion of managerial ownership, the result in Table 2, 3 indicates that there is a negative and significant relationship (coefficient = -0.349 and $p < 0.05$) which enables us to accept our H1. The negative relationship between managerial ownership and CSR could be understood in the Egyptian

context. Egyptian large firms have been characterized by little separation of ownership and control (Salama, 2009). It indicates that family members and relatives, who also own significant amount of shares, frequently serve as managers of the firm or exert significant influence on managers. This finding is consistent with the finding of (Ghazali, 2007; and Won et al., 2011).

Table 3. The regression results of the variables used in the study:

Model	Unstandardized Coefficients		Standardized Coefficients	t.	Sig.
	B	Std. Error			
Constant	8.675	17.55		.347	0.0121
CSR	0.345	.279	0.089	1.415	0.026
MO	-5.705	1.127	-3.960	4.115	0.020
IO	0.291	.093	-.184	-.504	0.042
FO	7.976	1.727	4.808	5.124	0.037
FA	0.719	.134	.755	5.390	0.005
FS	0.214	.045	1.182	-5.363	0.043
FP	5.497	.733	-1.755	-7.497	0.000
SU	-1.962	.381	-1.298	-5.154	0.127
R square	0.674				
Adjusted R Square	0.589				
F	11.75				
Significant	.000				

Dependent variable: CSR

where: CSR is the corporate social responsibility reporting index, MO is the managerial ownership, IO is the institutional ownership, FO is the foreign ownership, FA is the firm age size, FS is firm size, FP is firm performance, and SU is firm survival.

Regarding our second hypothesis that states there is a significant positive relationship between CSR rating and the proportion of institutional ownership, the result in Table 2, 3 indicates that there is a positive and significant relationship (coefficient = 0.520 and $p < 0.05$) which enables us to accept our H2. This finding is in line with the previous findings of some studies conducted outside the Anglo-American countries. For example, Sethi (2005) argued that public pension funds tend to consider the firm's long-term effects on the environment, sustainability, and good corporate citizenship when they make an investment decision. Teoh and Shiu (1990) empirically showed that

institutional investors look favorably at firms actively engaging in CSR. Graves and Waddock (1994) also noted that institutions invest more heavily in firms with better corporate social performance, finding evidence of a positive relationship between the number of institutions holding the shares of a firm and its CSR rating.

Consistent with the third hypothesis that states there is a significant positive relationship between CSR rating and the proportion of foreign ownership, the results in Table 3, 4 indicate also, that there is a positive and significant relationship (coefficient = 0.254 and $p < 0.05$) which enables us to accept our H3.



Chapple and Moon (2005) argued that, the higher the level of investment into a country from abroad, the higher the likely influence of foreign practices on domestic companies. Since the current trends in CSR are influenced by Western practices, the level of Western investments is assumed to be related to CSR engagement.

Table 3, 4 also, show results from control variables. Consistent with the findings of prior research (Chapple and Moon, 2005; and Stanwick and Stanwick, 1998), control variables of firm's characteristics are significant with expected signs. Firm age (FA) is significant positive associated with CSR rating (coefficient = 0.507 and $p < 0.05$). Also, firm size (FS) is significant positive associated with CSR rating (coefficient = 0.778 and $p < 0.05$). These findings are consistent with existing theoretical frameworks. For example, the institution-legitimacy perspective (e.g. Stanwick and Stanwick, 1998) indicates that institutional pressures often drive larger firms to engage in CSR activities more actively than smaller firms. The result in Table 2, 3 indicates that there is a positive and significant relationship between firm profitability and CSR rating (coefficient = 0.428 and $p < 0.05$). These findings are consistent with Smith (1993) and Barnea and Rubin (2010) they found some statistically significant evidence of a positive association between CSR disclosure and profitability.

5. Conclusion

The purpose of this paper is to empirically investigate the impact of ownership structure on Corporate Social Responsibility (CSR) in Egypt as one of developing countries. Using a sample of 42 more active firms, we hypothesize that different types of shareholders will have distinct motivations toward the firm's CSR engagement. We found that ownership structure has significant effects on the firm's CSR engagement. This study makes at least two significant contributions. First of all, there have

been relatively few studies on the relationship between ownership structure and CSR in development countries such as Egypt. Our study reconfirms the argument of previous studies that ownership structure affects strategic decisions of the firm by showing that investors have different attitudes toward CSR engagement. In particular, we categorize owners into three separate groups: management, institutional, and foreign owners. We found that top managers in Egypt tend to be less interested in improving their firms' CSR ratings than institutional investors and foreign owners. The results enhance our understanding of the relationship between ownership structure and CSR.

The findings reported in this paper have three important practical implications. First, investors may find this study useful as it provides analysis of the relationship between the levels of CSR company disclosure practices and ownership structure within a developing country context. Second, the subject firms (Egyptian listed companies) may use the findings of the study to improve their accounting disclosure systems. Finally, the Capital Market Authority in Egypt and other emerging countries in that region can use the findings of the study to improve their CSR disclosure regulations and practices.

Limitation of the study is that this study is using a small sample of 40 companies. This sample may be small in size and, by construction, composed of the most active Egyptian listed companies and thus may not be representative of the population of Egyptian firms, consequently, caution should be considered in evaluating the results. Thus, it might have been better to look at companies from a wider range.

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