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Corporate social responsibility disclosure and market value: Family versus nonfamily firms

Mehdi Nekhili[a,b,*], Haithem Nagati[b], Tawhid Chtioui[c], Claudia Rebolledo[d]

[a] University of Maine (GAINS-ARGUMANS), University of Maine Avenue Olivier Messiaen, 72085 Le Mans, France
[b] ICD International Business School, 12 rue Alexandre Parodi, 75010 Paris, France
[c] Emlyon Business School, Campus Casablanca, La Marina Tour Cristal 1, Casablanca, Morocco
[d] HEC Montréal, 3000, chemin de la Côte-Sainte-Catherine, Montréal, Québec H3T 2A7, Canada

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ABSTRACT

We investigate the moderating role of family involvement in the relationship between corporate social responsibility (CSR) reporting and firm market value using a longitudinal archival data set in the French context. Our empirical results show that family firms report less information on their CSR duties than do nonfamily firms. However, market-based financial performance, as measured by Tobin's q, is positively related to CSR disclosure for family firms and negatively related to CSR disclosure for nonfamily firms. Family firms would benefit greatly from communicating commitment to CSR; specifically, they could obtain shareholders' endorsement more easily than nonfamily firms could.

1. Introduction

The public's growing awareness of CSR-related issues is putting increasing pressure on firms to communicate their CSR efforts through non-mandatory and mandatory disclosure to ensure that stakeholders are aware of the appropriateness of their actions taken on social and environmental issues (Gray, Kouhy, & Lavers, 1995). Many companies have allocated resources and efforts to disclose extensive information about CSR issues in their annual report or standalone sustainability report. Such disclosure conveys information that is useful to address the needs of multiple stakeholder groups, especially financial ones such as shareholders (Jamali, 2008; Wang & Li, 2015). The question of the potential value of CSR disclosure for shareholders has attracted growing interest in academic research. Many studies examine the usefulness of CSR disclosure for shareholders by analyzing the impact of voluntary CSR disclosure on firm market value. Although CSR disclosure conveys value-relevant information to various capital market participants (shareholders, investors, potential shareholders and financial analysts), CSR disclosure and its appreciation by capital market participants are still incomplete and questionable (Cahan, De Villiers, Jeter, Naiker, & Van Staden, 2016). From an agency perspective, CSR reporting may represent an opportunistic maneuver by managers, and may thus reduce shareholders' wealth (Friedman, 1970). Indeed, managers enjoy full discretion over what to report on CSR issues. As a result, CSR information disclosed may not reflect firms' CSR performance (Luo, Lan, & Tang, 2012). In these settings, shareholders need to apply filters to assess the credibility of voluntary CSR information (Cho, Guidry, Hageman, & Patten, 2012).

In this study, we examine whether family status of firms matters in the relevance of voluntary CSR reporting. Moving beyond agency theory, we build our argument on the fact that family firms have some characteristics that can be considered relevant when shareholders assign value to CSR information. Stakeholder groups place great value on ownership identity when making market valuation decisions (Granata & Chirico, 2010; Anderson & Reeb, 2003). Indeed, family firms are characterized by their favorable reputation, which is shaped by firms' actions toward stakeholders (Dyer & Whetten, 2006), along with higher levels of corporate social performance and ethical behavior (McGuire, Dow, & Ibrahim, 2012), and strong social and stakeholder orientation posture (Cennamo, Berrone, Cruz, & Gomez-Mejia, 2012). These particularities seem to positively influence stakeholders' response to family firms' CSR claims. Family firms may capitalize on their stakeholders' positive perception, relative to that of nonfamily firms, because these firms are seen as trustworthy and are perceived to have high source credibility (Stanley & McDowell, 2014; Tagiuri & Davis, 1996). Family firms differ from nonfamily firms in the nature of their relationship with external stakeholders. They are more attentive to addressing external stakeholders' expectations and less inclined to act in ways that would violate a business partner's trust (Cennamo et al., 2012). This in turn favors a high level of confidence in the family firm

* Corresponding author at: University of Maine (GAINS-ARGUMANS), University of Maine Avenue Olivier Messiaen, 72085 Le Mans, France.
E-mail addresses: mehdi.nekhili@univ-lemans.fr (M. Nekhili), hnagati@groupe-igs.fr (H. Nagati), chtioui@em-lyon.com (T. Chtioui), claudia.rebolledo@hec.ca (C. Rebolledo).

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and probably has a positive impact on the effects of their CSR communication.

Our study focuses on the French context. Exploring the challenges of CSR voluntary disclosure in the French context by comparing family and nonfamily firms provides an interesting institutional setting for empirical analysis, for at least three reasons. First, the usefulness of CSR reporting may vary across countries depending on the country-specific context (e.g., Cahan et al., 2016; Cormier & Magnan, 2007). Hence, our results provide evidence of a new institutional context, given that the present literature is based specifically on Anglo-American countries (Reverte, 2009). Second, the French stock market is dominated by the presence of family-controlled firms; the proportion of family listed firms is one of the highest in the world, at more than 70% (Nekhili, Chakroun, & Chtioui, 2016). Third, France is one of the few countries to have enacted legislation requiring the disclosure of social and environmental information (Chauvey, Giordano-Spring, Cho, & Patten, 2015). Our analysis starts in 2001, the year of the implementation of the New Economic Regulations (NER) Act. Article 116 of the NER Act establishes that listed French companies in a regulated market must submit data on the environmental and social consequences of their activities in their management report (Chelli, Durocher, & Richard, 2014). In addition, our study was conducted prior to the Grenelle II Act, which took effect in 2012. This act extended the non-financial reporting system introduced by the NER Act, which required listed companies to mention key indicators of non-financial performance relating to social, environmental and sustainability activities in their reports. Neither law imposes penalties for non-compliance (Chelli et al., 2014). To measure CSR reporting, we developed a content analysis index based on items as defined by the French Grenelle II Act in accordance with the Global Reporting Initiative (GRI) guidelines. Disclosure by French companies in accordance with the GRI guidelines between 2001 and 2011 was done on a totally voluntary basis (Chelli, Durocher, & Fortin, 2016). Further, analyzing the period following the first compulsory provides much richer and more extensive information on CSR duties than does the preceding period (Reverte, 2009).

Beyond its empirical value, this research makes several important contributions to the literature. First, our study attempts to provide insight into how CSR disclosure affects firm value. Despite the strategic importance of CSR disclosure to external stakeholders, it is not yet clear what real value market participants (such as investors and shareholders) attribute to CSR information disclosed by firms. The inconclusiveness of empirical evidence in this area suggests the need to determine the conditions under which shareholders assign value relevance to CSR information. Given the importance of CSR activities and CSR reporting in market valuations, this study seeks to investigate whether shareholders consider the family status of firms when assessing the value relevance of CSR disclosure. Second, the present study also contributes to the family business literature by extending and enriching our current knowledge of CSR and its disclosure in family firms. Prior empirical research provides evidence of several differences between family and nonfamily firms in CSR behavior and its disclosure (Campopiano & De Massis, 2015; Cuadrado-Ballesteros, Rodríguez-Ariza, & García-Sánchez, 2015; Iyer & Lulseged, 2013). However, despite the predominance of family businesses across all world economies, no studies have investigated how shareholders consider the family status of firms when assessing the relevance of CSR reporting. Third, given that it takes a longer time for the effects of superior CSR performance and its disclosure to translate into higher market value (Cahan et al., 2016), our paper adopts a long-term study period of 10 years, from 2001 to 2010, allowing us to improve the robustness of the empirical results. Finally, as recommended by Adams, Hill, and Roberts (1998) and Jo and Harjoto (2012), we solve the endogeneity problem of CSR disclosure in our estimation procedure. Moreover, Roberts (1992) argues that CSR reporting is related mainly to past CSR activities. Subsequently, to take the dynamic nature of the relationship between CSR reporting and firm performance into account, we apply system GMM estimation by considering past reporting as a reliable instrument. Following the study by Cahan et al. (2016), we use Tobin's q to capture the market's assessment of a firm's future cash flows and the perceived riskiness associated with its expected cash flows. Indeed, CSR disclosure potentially provides critical information for shareholders that can have cash flow implications. The moderating role of family involvement is then investigated by comparing the value relevance of CSR disclosure between family and nonfamily firms.

Based on a sample of French companies listed on the SBF 120 index from 2001 to 2011, our empirical results confirm that the family involvement in ownership and governance exerts a moderating effect on the relationship between CSR disclosure and firm market value. The system GMM regression indicates that the level of CSR reporting is positively and significantly associated with firm market performance as measured by Tobin's q for family firms. In contrast, our results suggest a negative and significant relationship between CSR reporting and Tobin's q for nonfamily firms. Our study emphasizes the importance of family involvement in ownership and governance in boosting the credibility of CSR messages and overcoming stakeholders' skepticism.

Our paper is structured as follows. We first present our theoretical background, which covers the relevant literature on CSR reporting and family firms. We also state the hypothesis to be tested. Second, we specify the data and method used to test our hypothesis, and explain and discuss the empirical results. We conclude by considering our contributions to the literature on family firms and CSR disclosure and by suggesting some research avenues.

2. Conceptual framework and hypothesis development

2.1. The challenges of CSR disclosure

Awareness of CSR activities is a precondition of benefits related to CSR (Du, Bhattacharya, & Sen, 2010). Organizations are facing increasing pressure from stakeholders to engage in social responsibility and are expected to communicate their CSR efforts (Grougiou, Dedoulis, & Leventis, 2016; Perks, Farache, Shukla, & Berry, 2013). Firms communicate CSR-related information to stakeholders through a diverse range of channels. These include social, environmental, and sustainability annual reports, corporate websites, media releases, and CSR advertising (Perks et al., 2013). Among these channels, CSR reports have become the primary means used to address stakeholders' informational needs concerning firms' environmental and social performance (Gray, Bebbington, & Collison, 2006). CSR reporting is defined as the "process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large" (Gray, Owen, & Adams, 1996, p. 3). The annual report may be used to reinforce the community's perceptions of the organization's responsiveness to specific CSR issues, or to divert attention from adverse situations (Deegan, 2002). The disclosures are selective, unveiling specific information that is expected to contribute to shaping the way stakeholders perceive the organization (Neu, Warsame, & Pedwell, 1998).

Several studies show that there are doubts concerning the level of trustworthiness of CSR information that firms convey in their annual reports. The lack of standards for CSR reporting, particularly regarding the quantity and type of information disclosed in firms' annual reports to shareholders, make CSR disclosure practices highly diverse and incomparable (Cerin, 2002). The lack of consensus on what should be included (or excluded) in CSR investments leads to confusion in interpretation of the reports' contents (Margolis & Walsh, 2003). Further, CSR-related information reported by firms is generally positive and narrative or "self-laudatory" (Deegan & Gordon, 1996). Accordingly, CSR disclosures tend to avoid negative or potentially harmful information, and few incentives exist to disclose in areas where the firm has a poor track record (Cormier & Gordon, 2001; Aerts, Cormier, & Magnan, 2008). Many firms that engage in CSR reporting

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