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The Moderating Role of Board Monitoring Power in the Relationship between Environmental Conditions and Corporate Social Responsibility[1]

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Research Paper

INTRODUCTION

Building upon the resource dependence theory, Dess and Beard (1984) argue that questions such as the business environment or context have a critical influence on firms' strategic decisions. Research has shown that dynamic environmental conditions associated with the degree of market ambiguity, uncertainty and instability, and the abundance of industry resources, respectively can produce a level of freedom that managers may employ to take rational decisions and allocate available resources to profitable projects. Moreover, following the agency conflict theory, they could decide to invest in projects aimed at satisfying managerial interests, at the expense of the

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owner/principal who has delegated responsibilities to the manager or agent and thereafter has limited ability to control the decisions taken. These arguments could be extrapolated to the realm of strategic decisions concerning corporate social responsibility (CSR) because the same environmental conditions might be associated with a lower level of concern about the firm's competitiveness. In consequence, managers could (a) seek to improve the firm's social and environmental performance, allocating slack resources to CSR projects, and viewing them as growth. Moreover, in an agency setting, (b) these managers, if they are more resistant to stakeholders' demands, could reduce the firm's sustainability by redirecting funds to other projects that satisfy their interests. Previous evidence is not conclusive about the signs of the expected relationship. In this paper, we aim to shed light on the effects of environmental conditions on CSR. Moreover, we suggest that internal corporate governance mechanisms could moderate this relationship. Concretely, we focus on board monitoring power, represented by board independence and the non-duality of the CEO, as the main effective mechanisms are about CSR.

MATERIALS AND METHODS

Data were collected from companies listed on the Tehran stock exchange for a period of seven years (2014–2020). First, we use non-financial companies whose financial year ended on 19^{th} March, and their shares are exchanged at least every three months. Second, we remove observations without data. This process resulted in 130 companies. The firms operate in different industries. In this research, CSR performance was obtained from the Comprehensive ranking provided by Kinder, Lydenberg, and Domini (KLD), To assess the CSR performance, we create an indicator across companies as the non-weighted sum of 21 issues. The volatility of net sales in a firm's primary industry over 5 years is used as an indicator of dynamism Unstable environmental conditions, and as mentioned above, board monitoring power, represented by board independence and the non-duality of the CEO used as a moderating variable.

RESULTS AND DISCUSSION

The results showed that the environmental conditions in companies with low board independence; have a negative and significant impact on social responsibility; But for companies with high board independence; It has a positive and significant impact on social responsibility. Also, in companies with independent boards of directors, on average, environmental conditions have a positive and significant effect on the company's social responsibility. Therefore, it can be stated that the instability of environmental conditions, in all cases, has a significant effect on social responsibility. Moreover, the instability of environmental conditions in cases where companies have duality has reduced social responsibility. There is no significant relationship between the independence of the board of directors and the commitment to fulfill the social responsibility of companies

CONCLUSION

The results of this hypothesis are in line with the resource dependence theory, according to which, managers of companies that are in a dynamic environment; logically, they will allocate the available resources to profitable projects and work towards the company's strategies. In uncertain and dynamic environments, companies that receive legitimacy and support for their actions from various stakeholders; Use socially responsible behavior as a mechanism to reduce their uncertainty. Therefore, in very volatile environments, companies receive the support of shareholders, customers, employees, society, and many other stakeholders through corporate social responsibility strategies. Moreover, instability of environmental conditions in cases where companies have duality has reduced social responsibility; These results are in line with the prediction of representation theory; In such environments, the availability of more resources increases the agency conflict to a significant amount, and therefore, opportunistic managers will try to gain personal benefits and therefore will not follow the company's strategies such as social responsibility.

Keywords: Corporate Social Responsibility, Environmental Conditions, Board Independence, CEO Duality.
JEL Classification: M12, M14, J81.