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Study on the Relationship between Executive Compensation and Corporate Social Responsibility

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Abstract. This paper is aimed to research the relationship between executive compensation and corporate social responsibility, and based on the public companies' financial information from 2011 to 2015. The conclusion is that the executive compensation is positive correlated to corporate social responsibility, as the improvement of executive compensation would improve the corporate social responsibility, and the corporate social responsibility in state-owned enterprises is better than in non-state-owned enterprises.

Introduction

Recent years, the public is increasingly paying attention to the condition that a corporate takes its social responsibility, and disclosure the information of corporate social responsibility taking is gradually becoming the *New Normal* [1]. In 2015, 707 companies disclosed the Social Responsibility, but there are only 471 companies disclosed Social Responsibility in 2010. This number increased 50.1% over these years.

In current economic environment, due to the departure of proprietorship and the right of management, one corporation taking social responsibility mostly depends on the executives. So, higher executive compensation and proper incentives could motivate managers to take the corporate social responsibility [2]. Most studies are about the relationship between executive compensation and the financial performance [3]，but it is possible that the executives could blend much personal benefits into the work and would overly pursue the better financial performance associated with their benefits[4], and therefore, could ignore the social responsibilities that the company could have taken[5].

This paper is going to investigate how the executive compensation affects the social responsibility taking. In addition, the paper would discuss the influence of different states of companies on social responsibility taking.

Research Questions and Hypothesis

Executive Compensation and Social Responsibility Taking. The managers are devoted to perform the corporate social responsibility to maintain a positive self-image and reach the expectation of the public about the corporate. In addition, many executives attach importance to the economic benefits gained by taking social responsibility, improve the financial performance through improved reputation obtained by fulfilling social responsibility, and further, increase their compensation [6]. The first hypothesis: The social responsibility taking is positive correlated to executive compensation.

Effect of Different State on the Relationship. State-owned enterprises (SOEs) and non-state-owned enterprises (NSOEs) are two groups of company form. In China, unlike the NSOEs, the SOEs operate not only for pursuit of financial benefits, but also shoulder the social responsibilities, such as motivating social stability [7]. However, the NSOEs mostly focus on the corporations' survival and development and aim to increase the corporation's value [8]. The NSOEs could set up a good appearance by taking social responsibility, and therefore gain the potential financial value, so the NSOEs

could control the social responsibility more freely. Also, the pay level of NSOEs mainly depends on market, yet the base of SOEs' pay level could involve non-market oriented factors which could influence the social responsibility. The second hypothesis: Executive compensation has greater influence on social responsibility taking in the SOEs than in the NSOEs.

Designs

Data Selection and Variables. 100 corporations were selected, and these companies' related financial data from 2011 to 2015 are as sample data. To improve the accurate of the result, the companies that were special handled like HK, ST companies, that financial information was unclearly or wrongly disclosed, that obtained qualified audit opinion were taken out. Eventually, the paper is based on 500 samples.

Table 1 Variables

	Independent variable	Symbol	Interpretation
Corporation Social Responsibility (CSR)	Payable tax	Ptax	Payable tax
	Total profit	Tp	Total profit
	Employment	Emp	Employment
	Interest expense	Le	Interest expense
Executive Compensation	Executive compensation	Pay	Log of the three largest Executive compensation
Control	State	State	SOEs as 1, NSOEs as 0
	Supervisors	Sups	Number of Supervisors
	Duality	Dul	Duality as 1, not duality as 0
	Size	Size	Log of total assets
	Leverage	Lev	Total liability / total assets
	Industry	Indu	Industry the company's in
	Year	Year	Data year
	Own	Own	The proportion of largest shareholding

Model establishment. Basing on the theoretical analysis and hypothesis, the paper establishes the regression model to investigate whether increasing the executive compensation could stimulate the social responsibility taking:

$$CSR=\alpha_1+\beta_1 PAY+\beta_2 STATE+\beta_3 Sups+\beta_4 Dul+\beta_5 Size+\beta_6 Lev+\beta_7 Ind+\beta_8 Year+\beta_9 Own+\varepsilon_1$$

Where α_1 is constant, β_1-β_9 are regression coefficient, and ε_1 is residual. When CSR is calculated, the following two formulas are used. In these formulas, four variables: payable tax, total profit, interest expense and employment expense are used. Those four variables represent four major factors of social responsibility [9].

SOEs: CSR=0.241Emp+0.515Ptax+0.496Tp-0.183Le

NSOEs: CSR=0.013Emp+0.751Ptax+0.573Tp-0.111Le

Regression Analysis

Executive Compensation and Social Responsibility. Before the regression analysis, correlation analysis has showed that executive compensation is strongly correlated with social responsibility taking. The result from PSS24.0 is shown in Table 2 ~4. It's apparent that the adjusted R square is 48.8%, so the degree of fitting is not perfect. But, because the adjusted R square in most related studies is below 50%, the 48.8% is acceptable. The sig. is 0.00, which means the regression equation reaches 1% significance level and has statistical significance. According to the table above, the regression model has a correlation coefficient of 0.228 and a level of confidence of 99%, which means the model passes the

validation of regression equation and executive compensation is positively related to social responsibility taking. Therefore, the first hypothesis is justified.

Table 2 Regression Analysis

Model	R	R square	Adjusted R square	F	sig.
1	.705	.497	.488	53.118	0.00

Table 3 Correlation Coefficient

	Beta	t	Sig.
Pay	.228 ***	3.218	.000
State	.138 ***	9.038	.000
Sups	.089 **	1.179	.031
Dul	.023	1.181	.478
Size	.702 ***	12.085	.000
Lev	-.026	-1.121	.263
Industry	-.142 ***	-.3665	.000
Year	-.022	-.704	.482
own	-.014	-1.545	.123

Table 4 Grouped Correlation Coefficient

	SOEs		NSOEs	
	Beta	Sig.	Beta	Sig.
Pay	.071 ***	.000	.181 ***	.001
Sups	.049 *	.099	.091 ***	.002
Dul	.026	.510	-.090 *	.098
Size	.703 ***	.000	.417 ***	.000
Lev	-.036	.462	.133	.056
Industry	-.111 **	.014	-.232 ***	.000
Year	-.031	.427	.016	.764
own	-.021	.124	-.069	.251

note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Effect of Different State on the Relationship. According to the result above, the adjusted R square of SOEs is 50.2%, and the adjusted R square of NSOEs is 58.1%. Both groups pass the validation of regression equation, reach the 1% significance level, and have positive correlation coefficient, which confirm the first hypothesis again. The correlation coefficient in the group SOEs is 0.071 that is lower than the 0.181 in group NSOEs, which indicates executive compensation of NSOEs is more related to social responsibility taking than that of SOEs. Therefore, the second hypothesis is justified.

Summary

From all the analysis above, two conclusions is soundly set up. One is that the social responsibility taking is positive correlated to executive compensation. With the increase in executive compensation, more social responsibility would be better performed. Once the executives obtain higher salaries, they would

have the motivations to consider the long-term development for the companies, and taking social responsibility is a good strategy for the long-term.

The second is that executive compensation has greater influence on social responsibility taking in the SOEs than in the NSOEs. This could be caused by the NSOEs' compensation condition better fitting the free market[10]. The NSOEs perform social responsibility due to willingness, rather than only political tasks. However, some SOEs take social responsibilities because of political duty which might have negative effect on their companies. Hence, executive compensation has greater influence on social responsibility taking in the SOEs than in the NSOEs.

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