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THE EFFECT OF FOREIGN EQUITY OWNERSHIP ON CORPORATE SOCIAL RESPONSIBILITY: EMPIRICAL EVIDENCE FROM POLAND

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Abstract

In the literature on corporate social responsibility (CSR) the origin of the equity is seen as one the drivers of CSR. There is evidence of multinational corporations stimulating diffusion of CSR practices in a few emerging economies. There are no similar studies focusing on the Polish economy. Since CSR practices are country-specific it is important to investigate if and how capital flows foster corporate social responsibility among firms established and operating in Poland. The method applied in the study is a statistical analysis of the ownership structure of firm whose socially responsible practices are highly ranked by the independent think-tanks compared to the ownership structure of their most relevant competitors. The results allow for a more comprehensive understanding of CSR drivers in Poland as well as the role of foreign capital in reshaping economic structures in Poland.

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Introduction

The topic of CSR is receiving growing attention in academic literature as the role that CSR plays in business has grown. Corporate social responsibility (CSR) is increasingly seen as a feature of new societal governance expressed in new ways of business engagement with society and the natural environment. CSR is predicated upon the idea that business does not have a sole financial purpose, but a set of three core imperatives - economic, social and environmental. By addressing environmental issues, ethics, rights and responsibilities as well as poverty and inclusion, socially responsible firms contribute to the reorientation towards sustainable development (Kolk, 2016), which is being articulated as a desired long-term goal for global, national and local communities.

In the past decade most research has focused on investigating factors urging corporations to engage in corporate social responsibility. Knowing the motives behind firms' engagement in CSR is necessary for understanding and forecasting firm behavior as well as for making suggestions on how public policies for CSR should be adapted to reach sustainability goals. Academics have tended to focus on identifying the link between financial and social performance of companies. The prevalent importance of 'shareholder value' in economic decisions is believed to be one of the phenomena falling under the broad concept of "financialisation" (Orhangazi, 2008) featured in contemporary business practices. A widespread use of mergers and acquisitions is seen as another characteristic of financially-oriented firms (Salento, Masino & Berdicchia, 2013). The question asked in the paper is if this process helps to promote CSR in Poland. Extant international management literature dealing with multinational control and coordination issues has consistently reported that multinational enterprises (MNEs) are motivated to increase their awareness of CSR and improve related practices of their affiliates/subsidiaries (Chapple & Moon, 2005; Park & Ghauri, 2015). This holds true especially for western MNEs, because their home-country institutional voids (expressed for example in ethical consumerism and socially responsible investment) create legitimacy challenges for these companies worldwide. Therefore, foreign equity ownership may be considered a factor influencing diffusion of CSR practices in countries which are targets for foreign investment. There is evidence of multinational corporations stimulating diffusion of CSR practices in a few emerging economies (Oh, Chang & Martynov, 2011). However, there are no similar studies focusing on the Polish economy. A decade ago Lewicka-Strzalecka (2006) argued that the main opportunities for CSR development in Poland stem from relations with foreign partners. This assumption has never been empirically tested. The aim of the paper is to determine if foreign ownership of equity enhances CSR practices among firms established and operating in Poland. Achieving this aim will help to understand CSR drivers in Poland as well as the role of foreign capital in reshaping the economic structures of Poland, still being a market in transition. The method applied in the study is the statistical analysis (correlation analysis and non-parametric tests) of the equity ownership structure of firms whose socially responsible practices are highly ranked by the independent think-tanks compared to the equity ownership structure of thier most important competitors.

Corporate Social Responsibility in Poland

This section gives an overview of how the role of CSR in the modern economy is understood. It also briefly describes the evolution and current state of attitudes and practices of CSR in Poland.

Corporate social responsibility is an ambiguous and complex umbrella term of contested meaning (Matten & Moon, 2008). Various definitions of CSR are based on implicit models of the firm and its responsibilities towards society. Dahlsrud (2008) concludes in a review of 37 CSR definitions that the concept can be described along five dimensions: stakeholders, social, economic, environmental and voluntariness. For the purpose of our study, CSR is defined as the core behaviour of companies and the responsibility for their total impact on the societies in which they operate - a socially responsible corporation is one that runs a profitable business that takes account of all the positive and negative environmental, social and economic effects it has on society (Marsden, 2001).

Society demands corporate social responsibility as an alternative response to market failures. As market failures coupled with government failures are becoming more prominent, corporations are increasingly looked towards to fill the gap and by this way enhance sustainability. The legitimization challenge is evolving towards expectations

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comprising economic, social and environmental performance. The business world answer to this is a dramatic increase in CSR investment and the massive issuance of CSR reports informing stakeholders on how corporations perform in the area of finance, governance, natural environemnt protection and equality promotion.

There is considerable debate as to whether firms' socially responsible behavior is consistent with the wealth-maximizing interests of stockholders. Some argue that engaging in CSR may impair value created for shareholders. However, uptil now the extant literature has largely acknowledged the value-driving role of CSR. In order to assess the value-driving role of CSR Malik (2015) reviewed and synthesized contemporary business literature that focuses on the role of CSR in enhancing firm value. Malik (2015) concluded that CSR plays a significant role in enhancing firm value by promoting employee productivity, ensuring better operating performance, expanding the product market, improving capital market benefits, building a corporate reputation, and strengthening a firm's relationship with society, regulators and other stakeholders. These CSR outcomes help in building competitive advantage (Garriga & Melé, 2004) and in this way help to achieve satisfactory financial results. Similar conclusions are drawn by Saeidi et al. (2015). Consequently CSR may result in improved economic structures – caring about the environment and social equality can be coupled with satisfactory financial performance.

In many studies scholars have argued that the tendency toward socially responsible corporate behavior varies across countries and that much more research is required to understand why (Maignan & Ralston, 2002). Differences exist between developed countries, like the USA, UK and Western Europe countries (Thijssens, Bollen & Hassink, 2015), between east and west (Kaplan & Montiel, 2016) and between Eastern and Western Europe (Steurer & Konrad, 2009).

Poland entered a mixed-economy path at the beginning of the 1990s, when the system based on private property and individual entrepreneurship, market competition, coordinating the role of prices and the regulatory role of law were introduced. Presently Poland is still a catching-up economy trying to replicate solutions which lead to the desired economic, social and environmental outcomes. CSR is believed to be one of such solutions. The CSR development in Poland has been conditioned by the low level of social capital, poverty, striving for improved living standards, widespread belief that financial performance is a single objective of private companies, as well as misleading conotations of CSR with abandoned socialistic concepts (Potocki, 2015). These factors all together caused the acceptance and promotion of CSR to increase significantly later than in Western countries. It's been observed that since the 1990s attitudes towards business social responsibility as well as CSR practices on the Polish market have evolved noticeably (Hys & Hawrysz, 2013; Kuzior & Knosala, 2015). Many important stakeholders have engaged in promotion of CSR (Dyczkowska, Krasodomska & Michalak, 2016). Nevertheless, CSR – in terms of both acceptance and practical application of the concept – remains at an early-stage in Poland, particularly when compared to CSR benchmarks used in the developed world. Managers' attitudes towards CSR has become mostly positive, however CSR practices are immature (Żychlewicz, 2017). Consequently it can be confirmed that presently there is still a considerable "CSR-gap" between Western Europe, where CSR has become so popular that no major company can afford to ignore its societal relations, and Poland, where the concept is generally not so well known and managed. Considering local and global challenges, CSR in Poland should be seen as an integral part of the general development agenda and also as an appropriate tool to strengthen social cohesion and community awareness. Therefore it is important to discover factors determining CSR dynamics in Poland.

A decade ago Lewicka-Strzalecka (2006) argued that the main opportunities for CSR development in Poland stem from relations with foreign partners. In the past decade these relations have intensified due to European integration and globalisation. Much foreign capital, especially from Western Europe, has been invested in Poland. Many originally Polish companies were acquired by foreign firms and many new firms were estabished in Poland by foreign corporations. The value of foreign direct investment (FDI) in Poland at the end of 2015 increased to PLN 712,1 billion, which is equal to 39,6% of Polish GDP. German investors provided the biggest share of FDI - at the end of 2015 their share in total FDI value was 19,1 %. Germany was followed by the USA (10,9%), France (10,8%), the UK (6,2%) and Italy (5,7%). Most of the total FDI came from EU countries (72%), over half of which were from the eurozone. Therefore, one may ask if the capital connections with companies located in Western countries

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may help in closing the CSR gap. Answering the question requires first of all finding out whether there are any factors which stimulate multinational enterprises (MNEs) to improve CSR practices of their affiliates/subsidiaries.

MNEs' role in diffusion of CSR in host countries

Multinational enterprises are those large firms which are incorporated in one country but which own, control or manage production and distribution facilities in several countries. Today, multinational corporations have become very powerful economic and social agents - they undoubtedly have an influence on patterns of world trade and industry movements. Their development has been fostered by liberalization of trade and of capital investment. Cross-border mergers and acquisitions (M&As) are the dominant form of foreign direct investment (FDI) and among one of the most widely executed strategic decisions in pursuit of international diversification (Stiebale & Reize, 2011).

Generally the opinion about MNE social and environmental impact is negative. Scholars have listed the following negative impacts: MNE activities are often too vitalized and excessive; foreign firms attempt to dominate the market they enter and they present a challenge to national sovereignty; aggravation of local competition impairs locally grown enterprises, which results in a deterioration of employment; and finally, MNEs re-invest only a fraction of their revenues in local economies and drain positive effects from both capital injections and the balance of payments (Park, Chidlow & Choi, 2014). Simultaneously, MNEs are more likely to be publicly traded, highly visible to 'activists' and non-governmental organizations (NGOs), and therefore, vulnerable to pressure (Rodriguez, Siegel, Hillman, & Eden, 2006). For these reasons MNEs have been constantly facing serious legitimacy issues. Great impact on the rise of social-economic consciousness of MNEs was made by the bulk of problems caused by the negative consequences of their activities which gave rise to boycotts by consumers and other stakeholders. This resulted in the decrease of enterprise credibility, damage to their reputation, and failure in competitiveness (Petrović-Ranđelović, Stevanović & Ivanović-Đukić, 2015).

Simultanously MNEs' role in global governance is perceived to be relevant. It is noticed that they may fill the governance gap caused by national government shortcomings (Scherer & Palazzo, 2011). Many MNEs face increased public and stakeholder expectations to take a larger role in addressing troubling social, economic, and environmental issues (Googins & Mirvis, 2006; Porter & Kramer, 2011).

Campbell, Eden and Miller (2012) suggested that MNEs' commitment to CSR can be viewed as a non-market coping mechanism for MNE subsidiaries to obtain legitimacy when operating within host countries where stakeholders are unfamiliar with the firm. The firms may attempt to obtain local legitimacy and stakeholder recognition by adopting CSR structures and practices in accordance with their respective environment (Reimann, Ehrgott, Kaufmann & Carter, 2012). In fact with an increasing footprint by multinationals in developing markets, multinationals have begun emphasizing CSR in their business strategies in developing markets. In the literature there are studies confirming Campbell's assumption about seeking legitimacy through CSR (Rathert, 2016; Beddewela & Fairbrass, 2016). Based on analysis of 540 Western European multinationals Rathert (2016) provides evidence that MNEs manage the legitimacy of their global operations by adopting CSR policies fitting distinct institutional contexts. Beddewela and Fairbrass (2016) obtained similar results studying MNEs' CSR strategies in Sri Lanka.

MNE's commitment to CSR in developing countries is sometimes explained as an adoption of CSR standards developed by MNE headquarters operating in well-developed countries, where expectations concerning a firm's social performance are higher. The logic behind this explanation is that the headquarter/subsidiary relationship is central to the strategies of multinational enterprises. Predominantly MNE decision-making and practices are repeated and developed into routines over time in overseas markets, which generates common values and beliefs in organizations (Park et al., 2014). This is a globally observed phenomena. Due to this, multinational companies (MNCs) in many countries have been engines of expertise spillover, technological transfer, business standards, values and principles, codes of conduct and corporate culture transfer (Abebe & Begum, 2016). CSR started and expanded first in well-developed countries. It has propagated western business attitudes and practices. There is potential for transferring CSR guidelines and a sustainable way of thinking from the MNEs to host

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country companies. MNE expansion is therefore expected to be a channel for CSR diffusion among their subsidiaries/affiliates in developing countries. Morand and Rayman-Bacchus (2006) conducted a study on how CSR policies are being implemented in MNE structures. Their findings show that the initiative to launch a CSR policy is taken and enacted exclusively by the headquarters, mainly as an answer to the financial and legal pressure felt to accompany the present widespread interest in CSR (Morand & Rayman-Bacchus, 2006). Bondy and Starkey (2014) investigated the extent to which foreign national culture and related local issues are incorporated into the CSR policy of multinational corporations. This research suggests that integrated internationalization strategies do not resolve global and local CSR issues. In fact, they reinforce outcomes similar to global strategies, where core issues identified by headquarters are legitimated.

The literature provides not only explanation of motives driving MNEs to promote CSR in host countries. It also shows the type of CSR adopted by MNEs worldwide. Bondy, Moon and Matten (2012) used interviews with 38 CSR professionals in 37 different MNEs based in the UK. The finding of the study is that by increasingly focusing on strategic forms of CSR activity, MNEs are moving away from a societal understanding of CSR back to activities that support traditional business imperatives. In other words their practices are turning CSR into a business innovation used to support profit generation (Bondy et al., 2012).

MNEs enter developing markets in many ways, including acquisitions. Up to now there have been few studies examining the relationship between capital origin and CSR practices. Chapelle and Moon (2005) found that in Asia increased CSR is a function of internationalisation of business. Haniffa and Cooke (2005) find a positive significant relationship between foreign ownership and CSR disclosures in Malaysia. Khan, Muttakin and Siddiqui (2013) document that foreign ownership (including presence of foreign nationals in the board) has positive impacts on the extent of CSR disclosures in Bangladesh. Lim and Tsutsui (2011) document how foreign economic penetration encourages CSR adoption, however, they find that in developing countries, short-term trade relations exert greater influence on corporate CSR behavior than do long-term investment transactions. For Korea, Oh et al. (2011) document that there is a significant positive relationship between CSR ratings and ownership by foreign investors.

The influence of foreign investment on CSR diffusion in Poland is not well examined. The narrow study of Szczepański, Geisler and Śliz (2009) focusing on solely one region in Poland (and Upper Silesia), showed that few examined companies practicing CSR are enterprises with significant foreign capital, which suggests that CSR is a new kind of idea and consciousness coming into Poland from abroad (Szczepański et al., 2009). However, a Poland-wide study hasn't been done before.

Study design and methodology

For the purpose of the study the foreign equity ownership patterns of socially responsible companies were compared to the foreign equity ownership patterns of their most relevant competitors. This required identification of socially responsible firms as well as their most relevant competitors which were not being perceived as responsible companies in order to build samples.

In the Polish literature on CSR socially responsible firms are usually defined as those which are indexed at WIG Respect. WIG Respect is a Polish stock exchange index including only carefully selected firms which socially significantly outperform other listed companies. Nevertheless presently there are only 22 companies indexed at WIG Respect. Additionally many of the companies indexed at WIG Respect are very large state-owned companies where foreign capital is simply prohibited. Therefore indexing at WIG Respect wasn't an appropriate criterion for examining foreign capital ownership of socially resposnible firms in Poland. Some Polish authors define socially responsible firms as those companies which publish CSR reports. Such a method, however, is questionable, since social performance can be appropriately reported in annual reports or in integrated reports. Additionally, reporting on CSR is not a sufficient proxy for a firm's social performance. Therefore, this criterion was rejected too. In Poland there are a few important think-thanks promoting CSR in business and academia. The oldest and most prominent – Forum Odpowidzialnego Biznesu (FOB), issues reports on the best CSR practices in Poland. The last report – from 2015 – provides a ranking of the 65 companies with noticeable achievements in terms of CSR. The ranking is prepared based on a number of criteria representing the most relevant facets of social responsibility.

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In the study it was assumed that firms included in the FOB ranking can be perceived as socially responsible companies. Firms from the financial sector were excluded from the study due to the sector specificity. Therefore, 60 non-financial companies included in the FOB ranking constituted the sample of socially responsible firms.

The study design required identification of the most important competitors of the socially responsible firms. The EMIS database provides information on top competitors for all companies included in the database. The EMIS database was researched to find at least 4 -5 top competitors for every socially responsible firm included in the study. Competitors indicated by the EMIS database which were found to be also included in the FOB ranking were excluded from the sample of competitors. In this way an exclusive sample of 215 companies being "neutral" with respect to social responsibility competing with socially responsible firms was obtained. In total 275 observations were made (60 observations of socially responsible companies and 215 observations of "neutral" companies).

The EMIS database informs us about the equity ownership which was tracked for every company inluded in the samples of socially responsible companies or in the sample of neutral companies. All companies whose 75-100% of equity was Polish-owned, by individuals, firms (if not owned by foreign companies) or the state were assumed to be companies where Polish capital has a strong majority (dominating Polsih capital). All companies whose 75-100% of equity was owned by foreign companies or individuals were assumed to be firms where foreign capital has a strong majority (dominating foreign capital). All companies where 50-75% of equity was owed by foreign/Polish individuals/companies were assumed to be companies where foreign/Polish capital has a weak majority.

Since the origin of the capital may not have a direct impact on a firm's decision regarding engagement in socially responsible strategy, the corporate governance issues related to capital origin were examined too. The following variables representing corporate governance mechanisms were included: nationality of CEO (1), presence of foreign members in a firm's board and management team (2) and the majority of foreign members in a firm's board and management team (3). Previous research demonstrated that firm size is often significantly correlated with social performance (eg. Baumann-Pauly, Wickert, Spence & Scherer, 2013). For this reason firm size was adopted as an additional variable conditioning results. Some research shows that the industry may have an important impact on companies' social performance (Short et al., 2016). However, since presently there are no clear-cuts between industries and small or medium firms specialized in one area succesfully competing with large umbrella corporations, the industry effect was not examined in the study.

Results

The data were analysed using statistical software (Statistica and XLstat). Variables included in analysing the influence of foreign ownership on social performance of Polish companies inlcuded: social responsibility, presence of foreign individuals in a firm's board, majority of foreign individuals in a firm's board, foreign CEO, dominating foreign capital (majority of foreign capital in the ownership structure) and total assets. The chosen variables are interrelated. The correlation matrix is presented in Table 1.

Analysis of the correlations demonstrates that corporate social responsibility is positively correlated with the following variables: "foreigners in board and management team", "foreign CEO", "dominating foreign capital" and "total assets", where correlation is strongest between "corporate social responsibility" and "total assets". Variables connected with foreign presence in governance structures are – not suprisingy – strongly and positively correlated with foreign ownership expressed by a dominating share of foreign caital in equity ownership structure. Foreign ownership and foreign presence in governance structures are negatively correlated with firm size. This means that the variable "total assets" is not a mediator for "dominant foreign capital" in correlation with "corporate social responsibility" and due to that the impact of foreign equity ownership on corporate social responsibility can be seen as not being conditioned by firm size.

A non-parametric test (U Mann-Whitney test) was performed for variables correlated with social responsibility. The results of the non-parametric test (U Mann Whitney test) used to compare socially responsible and neutral companies are presented in Table 2.

P-value below 0,05 is acknowledged to represent significant differences between samples. P-value below

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Table 1: Correlation matrix between variables

Variables	Social responsibility	Majority of foreigners on board	Foreigners on board and management team	Foreign CEO	Dominant foreign capital	Total assets
Social responsibility	1	0,061	0,156*	0,140*	0,137*	0,262*
Majority of foreigners on board	0,061	1	0,498*	0,498*	0,395*	-0,059
Foreigners on board and management team	0,156*	0,498*	1	0,632*	0,784*	-0,159*
Foreign CEO	0,140*	0,498*	0,632*	1	0,538*	-0,093
Dominant foreign capital	0,137*	0,395*	0,784*	0,538*	1	-0,139*
Total assets	0,262*	-0,059	-0,159*	-0,093*	-0,139*	1

*Correlation is statistically significant

Source: Own elaboration

Table 2: P-values for U-Mann Whitney test, when comparing socially responsible and neutral firms

Variables	p-value	Statistical significance
Majority of foreigners	0,311087	insignificant
Foreigners on firm's board and management team	0,008511	**significant**
Foreign CEO	0,020495	**significant**
Dominating foreign capital	0,027936	**significant**
Total assets	0,000431	**very significant**

Source: Own elaboration

0,005 is acknowledged to represent very significant differences between samples. U Mann Whitney test results demonstrate there is no significant difference between socially responsible firms and their competitors in terms of majority of foreigners on a firm's board and management team. The results show that there is a significant difference in foreign equity ownership pattern between socially responsible firms and their non- socially responsible competitors –socially responsible firms are much more often owned by foreign investors than neutral companies. This means that foreign equity ownership is a driver for CSR in Poland. However, the differences in terms of "Foreigners on firm's board and management team" and "Foreign CEO" are more significant. This suggests, that foreign equity ownership is a factor stimulating Polish firms' engagement in CSR. However, foreign capital is more powerful in stimulating CSR when it entails introducing foreign managers on a firm's management board or foreign manager as CEO. Assuming that CSR is a desired business practice it can be stated that the role of foreign capital in the Polish transition is positive.

From among the analysed variables "total assets" is most significantly different for companies which are socially responsible and those companies which are neutral in terms of CSR – socially responsible firms are usually noticeably bigger than neutral firms. This means, that firm size is an important driver of CSR in Poland. Simultaneously "total assets" are weakly negatively correlated with "dominant foreign capital" as well as with variables representing foreigners in governance structure. This means that the importance of foreign equity ownership for stimulating CSR isn't conditioned by firm size.

In the short discussion of results obtained under

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statistical analysis it should be stressed that the number of observations is relatively small which doesn't build a reliable model which could be used for forecasting CSR dynamics. Additionally the time-effect of past changes in capital ownership is not throughly examined in the study. One can say that small and medium-size (SME) Polish companies are also very often socially responsible however in a much more intuitive and not-formalised manner. Therefore they can be a sub-structure for Polish-specific CSR not dependent on any external CSR variables. This can be true, however lack of formalisation requires first a wide qualitative study of CSR among Polish SMEs.

Conclusions

Societies worldwide demand corporate social responsibility (CSR) as an alternative response to market failures. CSR in Poland is at an early development stage. However, it should be seen as an integral part of the general development agenda and also as an appropriate tool to strengthen social cohesion and community awareness. The question in the paper is if the observed intensive flow of foreign capital to Poland helps in promoting CSR in Poland. In many studies foreign investment is recognised as an effective conveyor of CSR practices to host countries. Therefore foreign equity ownership was here examined as to whether it stimulates adoption of CSR among companies launched and operating in Poland. The sample consisted of 275 enterprises (observations made for 2015), including 60 companies acknowledged as socially responsible and 215 companies being competitiors for socially responsible ones, acknowledged as neutral in terms of CSR. It was found that foreign equity ownership is significantly more often observed among socially responsible firms than among neutral companies. It means that foreign capital stimulates CSR development in Poland. It was also found that foreign capital's effect on adopting CSR is stronger if coupled with introducing foreign managers on a firm's board and management team and/or as CEOs for Polish companies. The most important factor determining CSR performance in the investigated sample is firm size. However, firm size is weakly negatively correlated with foreign ownership. Therefore the effect of foreign equity ownership on CSR adoption is independent of firm size. Consequently foreign equity ownership is a driver for CSR in Poland. This allows for a positive evaluation of foreign investment in Poland as it fosters Polish transition towards mature business practices. Nevertheless if international companies are key drivers for CSR in Poland, this entails the importation of foreign CSR issues and modes. MNEs typically adopt a strategic approach towards CSR where social responsibility is seen as an innovative value-driver. Consequenlty, environmental and social goals are contingent upon how they correspond with financial MNE goals. Reorientation towards sustainable development in Poland thus requires not only intense relations with foreign counterparts, but building an independent path for social entrepreneurship.

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