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**THE FINANCE-INNOVATION
NEXUS: IMPLICATIONS
FOR SOCIO-ECONOMIC
DEVELOPMENT**

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INTRODUCTION

The chapters published in this volume were presented at the SIBR 2023 Tokyo Conference on Interdisciplinary Business and Economic Research organised by the Society of Interdisciplinary Business Research on January 5th–6th January 2023 in Tokyo, Japan. This volume aims to address contemporary issues pertinent to the interplay of financial technologies and social development in Emerging Economies. The authors utilised a large variety of data sources and methods for their research. Topics covered by this volume include, but are not limited to: CEO characteristics and CSR (Chapter 1); women’s decision-making capability at the household level (Chapter 2); inventory management strategies and operational performance (Chapter 3); the effects of internal and external learning on manufacturing capability (Chapter 4); green finance and investment in emerging economies (Chapters 5 and 17); behavioural finance (Chapter 6); service quality and customer satisfaction (Chapters 7 and 16); employees’ performance outcome (Chapter 8); intellectual capital, MIS and financial performance (Chapters 9, 18 and 20); online media and customer behaviour (Chapters 10 and 15); capital structure during COVID-19 (Chapter 11); and the online search volume index, working capital, stock return, and banks’ risk-taking (Chapters 12, 13, 14 and 19). This volume aims to stimulate cross-disciplinary interest in financial technologies and social development in emerging economies. The emergence and development of the above interdisciplinary finance and social issues are well celebrated throughout this volume.

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CHAPTER 1

THE RELATIONSHIP BETWEEN CEO CHARACTERISTICS AND CORPORATE SOCIAL RESPONSIBILITY: EVIDENCE FROM CHINA

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ABSTRACT

The study examines the relationship between CEO characteristics and corporate social responsibility (CSR) in China. Previous studies showed that good CSR behaviour could enhance the firm's financial performance. CEOs are responsible for major decision-making, including CSR policies. This chapter uses all A-share listed firms in China from 2011 to 2020. The authors find that CEO's gender, age, educational background, and career experience have positive relationships with CSR. This chapter enriches the current literature on the effects of CEO characteristics and highlights the important roles of CEO characteristics in CSR activities.

Keywords: CEO; corporate social responsibility; firm performance; upper echelon theory; China

JEL Classifications: G30; G32; G39

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1. INTRODUCTION

This chapter focuses on the relationship between CEO characteristics and corporate social responsibility (CSR). The previous study utilised the upper echelon theory to show the impact of CEO characteristics on CSR (Manner, 2010). The previous relevant studies focus more on the narrow part of the relationship between firm performance and one of the CEO characteristics, such as gender, age, and the CEO's multiple identities (Rahman & Fang, 2019). On the other hand, some researchers studied the relationship between firm performance and CSR activity (Kim & Kim, 2020). Few studies have analysed the relationship between CEO characteristics and CSR activity, impacting firm performance.

We choose the Chinese financial market over the last decade to analyse this relationship. This chapter's objective is to test whether a CEO with specific characteristics related to professional experience and personal background can be conducive to a firm's growth. We formulate independent variables of the CEO by contributing the CEO's background and the related career, financial and overseas experiences. Secondly, this chapter proposes two hypotheses: CEO's educational background and gender affect the firm's CSR activities. Thirdly, this chapter contemplates the impact of CEO characteristics on CSR activities through a linear regression model. Fourthly, this chapter adds control variables such as return on assets, firm size, and Tobin's Q to assess their roles in both CEO characteristics and CSR activity. Finally, this chapter performs robustness checks using control variables to confirm two hypotheses.

Our research enriches the prevailing literature on CSR in several ways. Firstly, we broaden the scope of CSR literature by incorporating an executive-level perspective. Existing scholarship contends that external factors and corporate governance collectively influence a company's propensity for CSR engagement (Flammer, 2015; Hendratama & Huang, 2022; Kemper et al., 2013; Kuo et al., 2022). Our investigation uncovers a notable association between CEO characteristics and CSR performance in Chinese listed companies. Secondly, although previous research has explored the impact of executive attributes on CSR initiatives, the influence of CEO gender remains ambiguous due to conflicting evidence (Adams & Ferreira, 2009; Galbreath, 2011; Zou et al., 2018). By analysing a sample of Chinese listed companies, we discover that organisations led by female CEOs demonstrate superior CSR performance. Thirdly, our study offers empirical insights into CSR research within the context of emerging markets. Most CSR literature has focused on developed markets like the United States and Europe. Our research investigates Chinese firms and reveals that those employing female CEOs and CEOs with advanced educational backgrounds, particularly MBA degrees, exhibit enhanced CSR performance. We also find that firms with older CEOs and CEOs with international and financial backgrounds perform better in CSR.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Research into CSR has been a subject of study for many decades and has encompassed a diverse range of topics. The literature suggests that ownership structure,

laws and regulations, project design methods, and board diversity can influence a company's CSR activities (Cook & Glass, 2018; Hendratama & Huang, 2022; Kuo et al., 2022; Shibuya et al., 2023).

Based on Jensen and Meckling (1976) agency theory, Barnea and Rubin (2010) suggest CSR engagement as a principal-agent relation between managers and shareholders. Dean (2003) also points out a discretionary allocation of corporate resources towards improving social welfare that enhances relationships with key stakeholders. Davis (1973) and Vogel (2005) agree that CSR activities bring benefits beyond legal requirements. In other words, enterprises increase their competitiveness through social activities that generate a sense of CSR. Therefore, CSR gradually becomes the primary concern of businesses worldwide (Javeed & Lefen, 2019).

As a pivotal figure, the CEO can orientate the firm towards adopting CSR measurements (Li et al., 2020). Additionally, the previous literature shows that CEO attributes strongly affect firm performance and CSR disclosure (García-Sánchez et al., 2019; Hegde & Mishra, 2019). Guo (2013) also supports that Chinese CEOs should be concerned about long-term corporate development.

Previous studies have examined the relationship between one of the CEO characteristics and CSR activity. Chatterjee and Hambrick (2007) suggest that CEO characteristics can be divided into the CEO's external conditions (age, gender, educational level, and tenure) and internal qualities (narcissism, overconfidence, humility, charisma, self-evaluation, and hubris). However, the executive's complex psychological and cognitive process types cannot be directly observed (Manner, 2010). Although internal qualities could be measured, this will not be attempted in the present study. We focus on the relationship between CEO's external characteristics and CSR activity. In addition, we combine the CEO's career, overseas, and finance experiences to test the relationship. Hence, this chapter summarises the above research and tests to what extent the characteristics of CEOs affect the degree of CSR.

Adams et al. (2007) find that the gender gap exists in executive compensation, with female executives earning 45% less than their male counterparts presumably because female CEOs mainly own small companies. Using the Wharton Research Data Service database, Rekker et al. (2014) examine all companies in one or more years between 1996 and 2010. They conclude that CSR increases the pay of female CEOs compared to male CEOs, indicating that the gender gap in compensation diminishes in high-CSR firms. Likewise, some studies suggest that the gender gap in compensation is narrowing over time (Loury, 1997; Stanley & Jarrell, 1998). The literature above suggests that the female CEO would be more likely to be responsible for CSR activities. We propose the first hypothesis based on CEO gender:

H1. A female CEO engages in more CSR activities.

Previous research shows that executives' decision-making is affected by their educational level. Tyler and Steensma (1998) argue that top executives with a technical education background place more weight on the opportunities the alliance provides than those with other types of education. Bertrand and Schoar (2003) find that CEOs with higher education backgrounds are more aggressive

in risk-taking, so their companies have higher liabilities than the counterparties. [Karagiannidis \(2012\)](#) concludes that CEOs graduating from business school have better performance and less risky portfolios than other CEOs.

We argue that CEOs with high education levels will be more cautious and risk-averse, while CEOs with lower education levels tend to be more aggressive. CEOs with higher education levels are more socially responsible and engage more in CSR activities than CEOs with lower education levels. We propose the second hypothesis.

H2. CEO's educational background positively impacts CSR activities.

3. DATA AND METHODOLOGY

3.1. Data

The initial sample consisted of all A-share listed firms on the Shenzhen and Shanghai stock exchanges. We collect data from the China Stock Market and Accounting Research (CSMAR) database from 2011 to 2020. After excluding some missing values, the final sample includes 25,971 firm-year observations.

CSR is the dependent variable. We retrieve CSR activities from the CSMAR database. We record fourteen CSR activities, as shown in [Table 1.1](#). CSR disclosure dummies are created.

The summation of dummies is normalised to measure the amount of CSR activities:

$$CSR_{i,t} = \frac{\sum_{i=1}^N Z_{pi,t}}{N} \quad (1)$$

Table 1.1. CSR Disclosure Index.

Attribute	Measurement
1. Whether an independent director	No=0;Yes=1
2. Whether to concurrently serve as chairman and CEO	No=0;Yes=1
3. Whether a supervisor or not	No=0;Yes=1
4. Whether to concurrently serve in the shareholder unit	No=0;Yes=1
5. Whether a member of the executive team	No=0;Yes=1
6. Whether to disclose environmental protection	No=0;Yes=1
7. Whether to disclose public relations	No=0;Yes=1
8. whether to disclose work safety	No=0;Yes=1
9. whether to disclose deficiency	No=0;Yes=1
10. whether to disclose mandatory disclose	No=0;Yes=1
11. whether the external audit comes from the big four	No=0;Yes=1
12. whether certified by the third party	No=0;Yes=1
13. Whether to refer to GRI	No=0;Yes=1
14. Whether a board member	No=0;Yes=1

where i denotes the sample firm and t denotes the year in the sample period. $Z_{pi,t}$ denotes different properties for firm i at time t . N equals 14 measures in this case.

CEO characteristics are the independent variables. Previous research shows that CEO characteristics affect CSR activities (Manner, 2010; Li et al., 2020). Besides, prior studies commonly highlight CEO's age, gender, and educational background (Manner, 2010; Li et al., 2020; Rahman & Fang, 2019). In addition to these CEO's background independent variables, this study adds CEO's multiple identities, finance experience, career experience, and overseas experience as explanatory variables.

For the CEO's background, we selected listed companies in China from 2011 to 2020, which matches the previous CSR observations. We create a gender dummy for the CEO: zero represents a male, and one represents a female. Besides, we express CEO's multiple identities following Equation (2). Six aspects in Table 1.2 measure the CEO's multiple identities.

$$\text{CEO's Multiple Identities}_{i,t} = \frac{\sum_{i=1}^N Z_{mi,t}}{N} \quad (2)$$

where $Z_{mi,t}$ denotes CEO's multiple identities for firm i at time t . N equals six measurements in Table 1.2.

Moreover, we add CEO's educational background, overseas background, finance experience, and career experience as other explanatory variables. For educational background, the number one to five represents the educational degree from lower than junior college to Ph.D. degree. However, MBA is singled out as a separate dummy because it is practitioner-oriented. For overseas and finance experiences, dummy variables equal one for related experience and zero otherwise. We describe career experience using three dummy variables: shareholder, general, and stakeholder dummies. The dummy equals one if the CEO has this career type's function in the past and zero otherwise. Table 1.3 gives a more detailed explanation of independent variables.

Following previous studies on CEO characteristics and CSR (Jian & Lee, 2015; Wei et al., 2018), we choose the control variables, including ROA (net profit divided by average asset), leverage (total liability/total asset), Tobin's Q (market

Table 1.2. CEO's Multiple Identities.

Attribute	Measurement
1. Whether an independent director	No=0;Yes=1
2. Whether to concurrently serve as chairman and CEO	No=0;Yes=1
3. Whether a supervisor or not	No=0;Yes=1
4. Whether to concurrently serve in the shareholder unit	No=0;Yes=1
5. Whether a member of the executive team	No=0;Yes=1
6. Whether a board member	No=0;Yes=1

Table 1.3. Variable Definitions.

Variable	Symbolic Representation	Evaluation Method and Score Basis
CSR Disclose Index	CSRR	CSR ratio through calculating related formula
Age	Age	CEO's age
Gender	Gender	1 represents female 0 represents male
Educational Degree	Degree	0 represents unknown CEO's educational degree 1 represents under junior college degree 2 represents a junior college degree 3 represents a bachelor's degree 4 represents a master's degree 5 represent Ph.D. degree
MBA	MBA	1 represents MBA degree, otherwise give 0
Career experience – Shareholder function	Shareholder	1 represents related shareholder's career experience, Otherwise, give 0
Career experience – General	General	Include CEO/ President, general manager, law career experiences 1 represents related general career experience; otherwise, give 0
Career experience – Stakeholder	Stakeholder	Include marketing/sales, operations, R&D, HR, public relations, medical/education/govService 1 represents related stakeholders' career experience. Otherwise, it gives 0
Oversea background	Overseaback	1 represents the related overseas background; otherwise, gives 0
Finance background	Finback	1 represents related finance background; otherwise, it gives 0
CEO's Multiple Identity	CEO's Multiple Identity	CEO's duality ratio through calculating related formula
Return on Assets	ROA	Net profit/average assets
Asset Liability Ratio	Leverage	Total liability/total assets
Tobin's Q	Tobin's Q	Market value divided by total assets
Firm size	Firmsize	The natural log of total sales
Executive Compensation	Compensation	Total executive compensation is divided by the number of executives. Take the natural logarithm of the average executive compensation.

value divided by total asset), executive compensation (the natural logarithm of the total executive compensation divided by the number of the executive). In addition, the firm size is usually measured as the natural log of total sales in CSR studies.

Table 1.4 reports the descriptive statistics for all variables. The number of observations is almost identical, but some variables have fewer observations due

Table 1.4. Descriptive Statistics.

Variable	Obs.	Mean	Std. Dev.	Min	Max
<i>CSRR</i>	32,666	0.383	0.256	0	1
<i>Gender</i>	32,666	0.065	0.247	0	1
<i>Age</i>	32,661	49.629	6.663	24	81
<i>Degree</i>	26,062	3.16	1.241	0	5
<i>MBA</i>	26,062	0.072	0.258	0	1
<i>Shareholder</i>	32,627	0.207	0.405	0	1
<i>General</i>	32,627	0.011	0.102	0	1
<i>Stakeholder</i>	32,627	0.998	0.048	0	1
<i>OveseaBack</i>	32,628	0.085	0.279	0	1
<i>FinBack</i>	32,666	0.072	0.259	0	1
<i>CEO's Multiple Identity</i>	32,666	0.577	0.135	0.333	0.833
<i>ROA</i>	32,666	0.035	0.729	-48.316	108.366
<i>Leverage</i>	32,666	0.441	1.11	-0.195	178.345
<i>Tobin's Q</i>	31,475	0.63	0.248	0.001	1.484
<i>Firmsize</i>	32,652	9.273	0.684	3.928	12.472
<i>Compensation</i>	32,537	5.694	0.313	3.931	7.303

to missing values. CSRR is normalised between zero and one. The average CSRR value is 0.383, and the standard deviation of CSRR is 0.256. The average Gender value is 0.065 and close to zero, indicating that most CEOs are male. The average CEO age is about 49.6 years old.

Table 1.5 shows the correlation matrix among all variables. Many control variables and CEO characteristics correlate highly with the CSR disclosure index. More specifically, a significant correlation exists between CSRR and CEO characteristics, such as the CEO's gender, age, degree, and overseas background. The preliminary correlation analysis supports two hypotheses.

3.2. Methodology

We use pooled panel data to investigate the impact of CEO characteristics and firm performance on CSR activities to run multivariate ordinary least square (OLS) regressions.

$$\begin{aligned}
 CSRR_{it} = & \beta_0 + \beta_1 Gender_{it} + \beta_2 Age_{it} + \beta_3 Degree_{it} + \beta_4 MBA_{it} + \\
 & \beta_5 CareeExp_{it} + \beta_6 OverseaBack_{it} + \beta_7 FinBack_{it} + \\
 & \beta_8 CEOMulti_{it} + \beta_9 FirmPerf_{it} + \beta_{10} Firmsize_{it} + \\
 & \beta_{11} Compensation_{it} + \varepsilon_{it}
 \end{aligned} \tag{3}$$

where i denotes the sample firm and t denotes the year in the sample period.

Table 1.5. Correlations of Variables.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) CSRR	1.000															
(2) Gender	-0.018*	1.000														
(3) Age	0.101*	-0.042*	1.000													
(4) Degree	0.081*	-0.020*	-0.004	1.000												
(5) MBA	-0.016*	0.004	-0.051*	-0.709*	1.000											
(6) Shareholder	0.062*	0.066*	-0.036*	0.077*	-0.040*	1.000										
(7) General	0.013*	0.010	-0.016*	0.025*	-0.019*	0.050*	1.000									
(8) Stakeholder	0.006	-0.016*	0.009	0.005	-0.002	-0.004	-0.007	1.000								
(9) OverseaBack	0.035*	0.017*	-0.022*	0.142*	-0.016*	0.004	0.017*	-0.024*	1.000							
(10) FinBack	0.087*	0.018*	-0.013*	0.077*	-0.033*	0.503*	0.021*	-0.004	0.017*	1.000						
(11) CEO's Multiple Identity	-0.011*	-0.021*	0.164*	-0.062*	0.059*	-0.034*	-0.037*	-0.027*	0.050*	0.000	1.000					
(12) ROA	0.001	0.000	0.021*	-0.006	0.000	-0.019*	-0.005	0.001	0.001	-0.018*	0.018*	1.000				
(13) Leverage	0.009	-0.007	-0.005	0.022*	-0.009	0.042*	0.013*	-0.001	-0.016*	0.047*	-0.032*	-0.358*	1.000			
(14) Tobin's Q	0.154*	-0.027*	0.047*	0.030*	-0.016*	0.047*	0.004	0.027*	-0.046*	0.072*	-0.052*	-0.009	0.040*	1.000		
(15) Firm size	0.397*	-0.053*	0.106*	0.106*	-0.017*	0.058*	0.005	0.025*	-0.011*	0.061*	-0.065*	0.005	0.051*	0.498*	1.000	
(16) Compensation	0.227*	-0.017*	0.081*	0.108*	-0.013*	0.054*	-0.001	0.000	0.063*	0.091*	0.009	0.007	0.034*	0.080*	0.307*	1.000

Notes: This table reports pairwise correlations of all variables. * represents statistical significance at the 5% level.