The Corporate Social Responsiveness Orientation of Board Members: Are there Differences between Inside and OutsideDirectors?

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ABSTRACT. Differences and similarities between inside and outside board members with regard to their attitudes toward corporate social responsibility are examined. The results indicate that outside directors exhibit greater concern about the discretionary component of corporate responsibility and a weaker orientation toward economic performance. No significant differences between the two groups were observed with respect to the legal and ethical dimensions of corporate social responsibility. Some explanations as well as limited generalizations and implications are developed.

Recently, researchers in business strategy have urged the study of the profiles of corporate upper echelons in order to understand an organization's strategic processes. For example, Hambrick and Mason (1984) have proposed a number of hypotheses for testing the relationship between organizational outcomes and certain demographic characteristics of senior managers. They contend that strategic decisions reflect the background of an organization's most powerful managers and what the organization does could be explained in part, at least, by the profile of its upper-echelon. Consistent with this view, a relatively small body of literature has focused on one important segment of the organization – its board of directors.

As the stockholders' formal representatives, directors are ultimately responsible for supervising management's performance and ensuring that corporate decisions are designed to maximize the value of the firm (Rechner and Dalton, 1991). They are expected to help shape corporate strategic management by providing impartial, sound, and experienced advice (Andrews, 1980; Jones and Goldberg, 1982; Vance, 1983).

There is ample evidence that corporations have in recent years increased the proportion of outside directors on their boards (Kesner and Johnson, 1990; Kesner, 1988; National Association of Corporate Directors, 1982). This has been partly in reaction to increased interest in the corporate social responsiveness of business organizations and suggestions that the board of directors could play a unique role in this area (Andrews, 1984; Nader, 1984). Despite this trend and increased interest in the inside-outside dichotomy, to date very little is known regarding the corporate social responsiveness orientation (CSRO) of corporate directors.

The present study was designed to address this issue. Specifically, this article seeks to determine whether a relationship exists between a board member's directorial type (inside/outside) and level of CSRO.

Corporate social responsiveness orientation (CSRO)

One area of corporate performance of particular interest to both scholars and practitioners of strategic management is corporate social responsibility. The notion that organizations should be attentive to the

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needs of constituents other than shareholders has been investigated and vigorously debated for over two decades. This has provoked an especially rich and diverse literature investigating the relationship between business and society.

There have been several streams of research and theory in this area. One line of research has attempted to develop various conceptual models for analyzing the relationship between business and its larger environment (Angelidis and Ibrahim, 1991; Carroll, 1979; Freeman, 1984; McMahon, 1986). A separate line of research has focused on the relationship between a firm's social responsibility and its financial performance (Aupperle and Hatfield, 1985; McGuire, *et al.*, 1988; Ullman, 1985; Vance, 1983).

A third stream has examined the attitudes of corporate upper echelons toward corporate social responsibility. An examination of this research reveals that, among corporate upper echelons, many feel that they have certain responsibilities to make some desirable contribution to maintaining or enhancing societal welfare (Ford and McLaughlin, 1980; Fredrick, 1983; Holmes, 1976).

Finally, a fourth line of research concerns the effects of board members demographic and non-demographic characteristics on their individual corporate social responsiveness orientation (Ibrahim and Angelidis, 1991; Kelley and Whatley, 1987).

Type of director

Criticism of the role and functions of corporate boards has increased dramatically in recent years. Revelations about outbreaks of ethical failings and questionable practices by corporate executives, including the improper use of insider information, hazardous consumer products and the Savings and Loan scandal have prompted fresh concern over the societal impact of corporate activities.

One outcome of these developments has been greater concern with the board's ethical and social responsibilities in corporate governance. For example, Harold Geneen (the former CEO and Board Chairman of ITT) wrote, "Among the boards of directors of Fortune 500 companies, I estimate that 95% are not fully doing what they are legally, morally, and ethically supposed to do" (Geneen, 1984, p. 28).

In response, scholars, governmental regulators, and practitioners have argued that organizations should appoint to their boards members of groups who traditionally were not adequately represented (Firstenberg and Malkiel, 1980; Geneen, 1984; Securities and Exchange Commission, 1980). The expectation is that, in their role as overseers of a firm's strategic decisions, members of such groups would actively support greater corporate responsiveness to society's needs. Because of this broader diversity of backgrounds, they are less likely to be viewed as "creatures of the CEO" whose main function is to legitimize top management's decisions. According to this view, these outside board members are more likely than inside directors to oppose a narrow definition of organizational performance which focuses primarily on financial measures and will tend to be more sensitive to society's needs. They are assumed to be in a better position than insiders to protect and further and interests of more than just stockholders and the entrenched executives.

Yet much of what we know about the relationship between directorial type and corporate social responsibility is either speculative or anecdotal. Of the few empirical investigations that have been conducted, two recent studies reported mixed results. Zahra and Stanton (1988) found a positive relationship between the proportion of outside board members and measures of corporate social responsibility. However, when the commission of illegal acts by the firm was used as a proxy measure for corporate social responsibility, Kesner, *et al.* (1986) reported that outsider domination does not lead to improved social performance. In addition to their inconsistent findings, these studies did not directly measure board members' CSRO. To date, the only such investigation was conducted by O'Neill, *et al.* (1989). They reported that outsiders have a higher level of CSRO than their inside counterparts. However, their study did not consider the effects of the several components of CSRO. Rather, a single overall measure of the construct was employed.

Methods

Sample

Data were collected as part of a larger cross-national study of corporate social responsibility. The Standard and Poor's *Register of Corporations, Directors and Executives* formed the pool from which board members were identified. A first mailing and two follow-up mailings of 1400 questionnaires generated 429 (30.6%) usable responses. Because the response rate compares favorably with similar studies of upper echelons (Aupperle, *et al.*, 1985; Ungson, *et al.*, 1984), we did not consider tests of nonresponse bias necessary. The sample comprised 270 (62.9%) outside directors and 159 (37.1%) inside directors.

Measures

A questionnaire was developed to measure the variables of interest. Respondents were asked to indicate whether they were inside or outside directors and CSRO was measured with an instrument developed by Aupperle, *et al.* (1985). It is based on the four-part construct proposed by Carroll (1979). The instrument adopts a forced-choice format to minimize the social desirability of responses.

Respondents are asked to allocate up to 10 points among four statements in each of several sets of statements. Each of the four statements in a set represents a different underlying dimension of Carroll's four components – economic, legal, ethical, and discretionary responsibilities. The first component, economic responsibility, requires the firm to produce goods and services of value to society. Legal responsibility dictates that the business operate within the legal framework. To be ethical, decision makers should follow the generally held beliefs about how one should act in a society. Finally, discretionary responsibilities are the purely voluntary obligations a corporation assumes. They are guided by a firm's attempt to make some desirable contribution to maintaining or improving the welfare of society.

The instrument used in this study contained 20 such statements. The mean of each respondent's scores on each of the four dimensions was calculated to arrive at a respondent's orientation toward each of the four components.

Analysis and results

The analysis of the data was conducted in three stages. First, zero-order intercorrelations and reliabilities were calculated. There are reported in Table I. Cronbach alpha coefficients are in the diagonal cells.

TABLE I
Intercorrelations and reliabilities[a]

Variables	1	2	3	4
Economic	0.86[b]			
Legal	−0.44**	0.91		
Ethical	−0.68**	0.15*	0.81	
Discretionary	−0.51**	0.30**	−0.43*	0.87

[a] N = 429.
[b] Values on the diagonal are Cronbach alphas.
* $p < 0.05$.
** $p < 0.001$.

Consistent with the study results of Aupperle, *et al.* (1985) and Smith and Blackburn (1988), the strongest correlation ($r = -0.68$, < 0.001) was between the economic and ethical dimensions. Also, similar to this study, both previous studies found a significant negative correlation between the economic component and all three of its counterparts, as well as a significant positive relationship between the legal dimension and both the ethical and discretionary components. The negative correlation between the ethical and discretionary dimensions supports the Smith and Blackburn results but contradicts Aupperle, *et al.*'s findings.

Next, a MANOVA procedure was deemed to be the most appropriate analytic technique for exploring differences between the two groups. This procedure compensates for variable intercorrelation and provides an omnibus test of any multivariate effect. As Table II shows, the MANOVA revealed significant differences between the two groups ($F_{4,424} = 27.31$, $p < 0.001$). That is, the CSRO of inside board members was significantly different from that of outsiders.

Finally, to understand the underlying contributions of the variables to the significant multivariate effect, we proceeded to test each independent variable using one-way ANOVAs with the two groups representing two levels of the independent variable. Specifically, the mean scores on the economic com-

TABLE II
MANOVA and ANOVAs for differences between inside and outside board members

Dependent variables	Group means[a]		
	Outsiders (n = 270)	Insiders (n = 159)	F
Economic	3.77 (0.92)	3.28 (0.78)	31.70*
Legal	2.50 (0.83)	2.62 (1.06)	1.70
Ethical	2.08 (0.89)	2.21 (0.98)	1.96
Philanthropic	1.31 (0.78)	1.83 (0.66)	49.70*
Multivariate Tests			
Wilks' Lambda		0.4906	
Pillai's Trace		0.4033	
Hotteling-Lawley Trace		0.7670	

[a] Figures in parentheses are standard deviations.
* $p < 0.001$.

ponent were 3.28 for the inside directors and 3.77 for the outsiders. Mean scores on the legal dimension were 2.62 for the insiders and 2.50 for the outsiders. On the ethical dimension, the scores were 2.21 and 2.08, respectively. Finally, the insiders' mean score on the discretionary component was 1.83 while the outsiders' mean score was 1.31.

From the univariate ANOVAs, we see that important differences exist between the groups with respect to the economic ($F_{1,427} = 31.70$, $p < 0.001$) and discretionary ($F_{1,427} = 49.70$, $p < 0.001$) components. Compared to their outside counterparts, inside directors exhibit greater concern about corporate economic responsibilities and a weaker orientation toward the discretionary responsibilities. No significant differences between the two groups were observed with respect to the legal and ethical dimensions.

Discussion and conclusion

An effective board of directors is one of the firm's major competitive or strategic tools. Although boards of directors have been examined quite extensively, few studies have investigated the board's internal role. The purpose of our study was to extend available research on boards by examining the relationship between directorial type and corporate social responsiveness orientation.

Considerable concern has been expressed in recent years regarding the effectiveness with which board members are discharging their responsibilities. While an active board can be a valuable asset which can contribute to better corporate strategic decision making, we know little about what makes them effective or ineffective.

An interesting aspect of the present study is that it analyzed separately the four components of CSRO. Although previous research (Ibrahim and Angelidis, 1991) on boards of directors showed that women are less economically driven and more philanthropically oriented than men, this study showed similar differences between inside and outside directors. Specifically, the results reported here reveal that, among board members, outsiders were less economically oriented and more sensitive to philanthropic endeavors than insiders.

Various explanations could be advanced for these results. With respect to the similarities between the two groups, this finding is not surprising given current trends in American society. Numerous laws and extensive government regulation affect virtually every aspect of business activities (1989). In addition, both the popular business press (*Barron's*, 1986; Galen, 1992) and the academic literature (Samuelson, 1990; Whitehill, 1989) have suggested that organizations face an increasingly litigious environment. Indeed, legal actions have driven otherwise financially sound corporations such as Texaco (Sherman, 1987) into bankruptcy. Also, the recent takeover battles involving some of the largest corporations have resulted in a growing concern over risks of personal liability among corporate directors (Janjigian and Bolster, 1990; Kesner and Johnson, 1990). The results concerning the ethical orientations of both groups are in line with previous research findings suggesting that, in response to pressures from the public, many boards of directors have established a committee concerned with ethical behavior (The Center for Business Ethics, 1986). In addition, not only are certain ethical standards mandated by law (Steiner and Miner, 1986), but a great majority of organizations have codes of ethics and are conducting training programs in this area (Berenbeim, 1988). It is not surprising, then, that there is general agreement among both inside and outside directors that the firm should behave in an ethical manner and operate within the legal framework.

Finally, with respect to the economic and discretionary dimensions, it is possible that outside directors are more likely to be found in firms that are more economically successful and therefore can afford the luxury of being sensitive to philanthropic needs. This possibility can never be ruled out but seems implausible. The most plausible explanation is that outside directors exhibit greater responsiveness to such needs merely because they are outsiders. This view would be consistent with assertions that outsiders tend to have a broader range of experience and interests (Vance, 1983; Williams and Shapiro, 1978) and with Zahra and Stanton's (1988) findings that boards dominated by outsiders show greater social responsiveness. This would also be in line with previous research findings regarding differences in perceptions of business' obligations toward society. Sonnenfeld (1981) suggests that those who are distant from the pressures of the market place, such as outsiders, see a close link between a decision maker's personal views and support for socially responsible behavior. However, insiders – who by definition are corporate executives and therefore tend to be closely involved in day-to-day corporate decisions – would attribute questionable corporate practices to competitive pressures. It is not surprising, then, that insiders were found to be more sensitive to the organization's economic needs.

In conclusion, the findings and implications of this study are a reminder to the business community, scholars, and regulatory agencies that major differences do exist between outside and inside board members. The results reported here clearly demonstrate that, by having outsiders on the board of directors, a corporation is more likely to engage in socially responsible activities. This offers proponents of changes in board composition – particularly regarding the inclusion of more outside and directors – support for their normative suggestions.

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