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경영학석사학위논문

**THE RELATIONSHIP BETWEEN
ORGANIZATIONAL SLACK AND
CORPORATE SOCIAL RESPONSIBILITY:**
The moderating effect of CEO-duality

조직 슬랙이 기업의 사회적 책임 활동에 미치는 영향에
관한 실증연구: CEO 겸직을 조절변수로 하여

2014 년 02 월

서울대학교 대학원
경영학과 국제경영 전공

BATBOLD KHISHIGJARGAL

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The moderating effect of CEO-duality

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이 논문을 경영학석사학위논문으로 제출함

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ABSTRACT

Over the last 3 decades, the pressure on firms' engagement in corporate social responsibility (CSR) has increased globally in both developed and developing countries. Considering the existing research and current situation in Mongolia, research regarding Mongolian companies' social responsibility behavior is missing and there is a necessity to conduct empirical research why CSR is beneficial and what factor influence to CSR investment. Therefore, this study examines the potential impact of organizational slack on the firm's engagement in corporate social responsibility (CSR) in the context of 154 sample companies listed on the Mongolian Stock Exchange at the year of 2012. Also I investigate the CEO-duality, applying the perspectives of agency theory and stewardship theory, as a moderator of this relationship. As I predicted, I have found that organizational unabsorbed slack; measured by debt-to-equity ratio, will have positive impact on CSR, but statistically insignificant. The study indicates that in the Mongolian context, mining companies engage more in CSR activities and 25% of total sample companies have CEO-duality. Furthermore, in consistence with the stewardship theory proposes, CEO-duality moderates the relationship between organizational unabsorbed slack and CSR positively. Therefore, from this study, it can be concluded that the models that are proposed from developed countries could work in the developing countries, such as Mongolia.

Keywords : Agency theory; CEO-duality; Corporate Social Responsibility; Mongolia; Organizational slack; Stewardship theory.

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I. INTRODUCTION

Organizations around the world, and their stakeholders, are becoming increasingly aware of the need for and benefits of socially responsible behavior and its performance in relation to the society in which it operates and to its impacts on the environment have become a critical part of measuring its overall performance and its ability to continue operating effectively¹. The objective of social responsibility is to contribute to sustainable development. In the latest UN Global Compact – Accenture CEO Study 2013, ninety-three percent (93%) of the 1000 participant CEOs from all over the world, regard sustainability as a key to succeed, and eighty-four percent (84%) stated that sustainability issues are now fully embedded into the strategy and operations of their organizations. While definitions of CSR vary, the term generally refers to actions taken by firms with respect to their employees, communities, and the environment that goes beyond what is legally required of a firm (McWilliams et al., 2006).

Since there is the increasing pressures from government and society on firms to engage in corporate social responsibility, management researchers have reported a huge amount of studies related to socially responsible behavior. Existing literatures have mainly concerned on conceptualizing it and the impact of corporate social responsibility on the firm profitability (Aupperle et.al, 1985, Abratt and Sacks 1988, Waddock and Graves 1997) with the result of positive, negative, and neutral. In addition, the empirical evidence suggests that corporate social responsibility could have other benefits to a firm. For instance, Smith (1996) found that 88 percent of consumers in the study are more likely to buy from a company that is socially responsible, as well as Maignan et al (1999) reported that corporate social responsibility could have positive effects in helping companies to attract more talented and committed employees.

Previous studies have also found the external factors such as industry (Hackston and Milne 1996), customers (Vogel 2005), activist groups (den Hond and de Bakker 2007), regulation/law (Dawkins and Lewis 2003), and communities (Boehm 2005) affect organizations` decisions about CSR participation. Other studies have emphasized the role of internal factors such as firm size (Fombrun and Shanley 1990), board structure (Johnson

¹ http://www.iso.org/iso/home/news_index/news_archive/news.htm?refid=Ref1558

and Greening 1999), ownership structure (Barnea and Rubin 2010), and top managers' moral principles (Davis et al., 1997) and so on.

Compared with a large number of studies on the nature of and consequences of corporate social responsibility, however, the issue of the impact of organizational slack resources on the engagement of socially responsible behavior has received relatively limited attention. Some noticeable exceptions are Waddock and Graves (1997) and McGuire, et al (1988) examined the relationship between corporate social responsibility and corporate financial performance evaluated in terms of organizational slack, using a sample of 469 companies in the USA. A key finding of them is that if slack resources are available, then better social performance would result from the allocation of these resources into the social domains. In addition, there is a limited knowledge on how corporate social responsibility is perceived and implemented in developing countries and majority of journal articles commonly analyzed countries like China, India, Malaysia, Pakistan, and Thailand. More specifically, research regarding Mongolian companies' social responsible behavior is missing. Therefore, this study continues along this line of inquiry. And in addition to examining the influence of organizational unabsorbed slack on corporate social responsibility, I consider the moderating effect of CEO duality whether CEO serves also as a chair of the board on the relationship. By conducting this study, I will fill the gap that is missing in the Mongolian context by asking: *Does the organizational slack influence on corporate social responsibility engagement? And how does this relationship can be moderated by the CEO duality?*

To discuss the argument, the paper proceeds as follow. Section 2 analyzes existing researches about the means of corporate social responsibility and organizational slack, and their relationship. Then I discuss how the dual role of CEO and chairman can moderate the link, formulating the hypotheses. Section 3 is followed by the description of the methodology of this study. Section 4 shows the empirical results and assesses the degree to which the hypotheses are verified. In the final section, I draw some conclusions from the most outstanding results and suggest some directions for future research.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Defining Corporate Social Responsibility

Corporate social responsibility (CSR) is a growing term that still does not have a standard definition. According to Carroll (1979), CSR is a multi-dimensional construct defined as having four components: economic, legal, ethical, and discretionary responsibilities. Economic responsibilities include the obligations for businesses to maintain economic wealth and to meet consumption needs. Legal responsibilities imply that businesses must fulfill their economic mission within the framework of legal requirements. Ethical responsibilities require that businesses abide by the moral rules defining appropriate behaviors in society. Discretionary responsibilities are tantamount to philanthropic responsibilities and reflect society's desire to see business get actively involved in the betterment of society. In this study, CSR will be understood as a definition of Commission of the European Communities (2001) that "a concept whereby companies integrate social and environmental concerns in the business operations and in their interactions with their stakeholders on a voluntary basis".

Since there is the increasing pressures from government and society on firms to engage in CSR, management researchers have reported a huge amount of studies related to socially responsible behavior. Existing literatures have mainly concerned on conceptualizing it and the impact of CSR on the firm profitability (Aupperle et.al, 1985, Abratt and Sacks 1988, Waddock and Graves 1997). However, the results of empirical studies of this relationship have been inconclusive, reporting positive (Abratt and Sacks 1988, Waddock and Graves 1997), negative (Vance 1975), and neutral (Aupperle et al, 1985) results. In addition, the empirical evidence suggests that CSR could have other benefits to a firm. For instance, Smith (1996) found that 88 percent of consumers in the study are more likely to buy from a company that is socially responsible, suggesting that CSR could be an effective marketing tool in the future. It is also reported that CSR could have positive effects in helping companies to attract more talented and committed employees (Maignan et al 1999).

Previous studies have found that external factors such as industry (Hackston and Milne 1996), customers (Vogel 2005), activist groups (Hond and de Bakker 2007), regulation/law (Dawkins and Lewis 2003), and communities (Boehm 2005) affect organizations` decisions about CSR participation. Other studies have emphasized the role of internal factors such as firm size (Fombrun and Shanley 1990), board structure (Johnson and Greening 1999), ownership structure (Barnea ad Rubin 2010), and top managers` moral principles (Davis et al., 1997) and so on. Many studies such as Aguilera et al. (2006) and Barnea and Rubin (2010) consider the structure of corporate governance as the determinant of CSR. Empirically, governance structure is defined as concentration of shareholding or ownership of foreign, managerial, and other specific shareholders. For example, Roberts (1992) suggests that high level of managerial ownership discourages CSR disclosure while dispersion of ownership encourages CSR disclosure. Similarly, Reverte (2009) shows that companies with concentrated ownership result in lower CSR ratings. Johnson and Greening (1999) define governance structure as ownership by investment management funds and public pension funds, top management equity, and outside director representation, while Prado-Lorenzo et al. (2009) define as ownership by financial institutions and dominant shareholder, government power, and creditor`s power.

2.2. Defining organizational slack

Organizational slack is defined as “the difference between total resources and total necessary payments” and results from good performance (Cyert and March, 1963). This definition was followed by Bourgeois (1981) who defined that “slack is the cushion of actual or potential resources that allows an organization to successfully adapt to change, by providing the means for adapting strategies to the external environment”. Based on Bourgeois` definition, Sharfman et al (1988) emphasized two characteristics of slack resources. One is that slack resources must be visible to the manager and employable in the future; the other characteristic is that different types of slack resources give managers dissimilar degrees of discretion in attempting to protect their firms from internal and external pressures. In addition, Nohria and Gulati (1996) defined slack resources as “the pool of resources in an organization that is in excess of the minimum necessary to produce a given level of organizational output”. Most recently, George (2005) defined slack as “potentially utilizable resources that can be diverted or redeployed for the achievement of

organizational goals''. Based on the all above definitions, in this study, organizational slack will be defined as the resources available for an organization that are excess of the minimum necessary to produce a given level of organizational output.

Organizational slack is divided into two broad categories: unabsorbed and absorbed (Singh 1986) slacks. It is also referred to as high-discretion and low-discretion slack respectively. Unabsorbed (high-discretion) slack refers to currently uncommitted resources. Because they are uncommitted, these resources are easy to redeploy to other places in the organization. On the other hand, absorbed (low-discretion) slack refers to excess costs found in organizations. Redeployment of absorbed slack to other uses is more difficult because it involves cutting costs in one area to move resources to other areas.

The existing literature provides two contrasting views about whether organizational slack facilitate or inhibits organizational performance. Organizational theory argues that slack resources buffers a firm's technical core from environmental turbulence, and thus enhances its performance; in contrast, agency theory suggests that slack resources is a source of agency problems, which breeds inefficiency, inhibits risk-taking, and hurts performance (Cyert and March 1963; Jensen, 1986).

On the one side, a positive relationship (Cyert and March, 1963) envision slack as a very useful for organizations since 1) it buffers the organizational core from the random fluctuations in the environment, 2) it allows the firms to take advantage of the opportunities presented by the environment, 3) it can be a facilitator of strategic behavior, which allows the firm to experiment with new strategies such as introducing new products and entering new markets, 4) it acts as an inducement for members of organizational coalition to stick together, and 5) it is useful in conflict resolution since it enables the firms to provide funds for all sorts of projects (Cyert & March 1963; Bourgeois 1981).

On the other side, a negative relationship (Jensen, 1986; March and Simon, 1958) suggests that idle resources make inefficiencies. This "slack as inefficiency" perspective posits that slack can encourage satisficing, politics, or self-serving managerial behaviors that hurt performance. For instance, in a situation with available slack, managers may allocate resources to uses that they find personally satisfying but which have no or very little positive impact on the economic performance of the firm (Jensen, 1986). Traditional

agency theory deals with the responsibilities of managers to act as trustworthy agents for shareholders (Jensen and Meckling 1976). Managers, as agents for shareholders, have a moral obligation to behave in shareholders' best interests, but sometimes they do not. When this happens, an agency problem will exist (Fama and Jensen 1983). Numerous scholars have argued for or found evidence that high slack is evidence of an agency problem (Davis and Stout 1992). Managers prefer slack because it provides them with a buffer against poor performance and an opportunity to spend resources on perquisites such as jets and low-return pet projects, to engage in excessive diversification and empire building, or to participate in on-the-job shirking (Jensen 1986). However, low slack is more attractive from a shareholder perspective because it can prevent managers from engaging in these types of behaviors (Jensen and Meckling 1976).

2.3. The relationship between organizational slack and CSR

Organizational slack is significant to strategic decision making of a firm since it allows the firm to experiment with new postures in relation to a changing environment (Bourgeois 1981). If an organization has slack, like excess profits or extra resources, it helps organization to support special projects (Cyert and March 1963; McGuire, et al 1988) such as the investment for the socially responsible behavior. If CSR activities require a substantial costs, the more slack the organization has, the more it is capable bearing the costs and more willing to engage in the activities (Ullmann 1985). Therefore, I argue that organizational slack will be positively related to organization's CSR engagement.

Hypothesis 1. Organizational unabsorbed slack is positively related to CSR engagement.

2.4. CEO-duality as a moderator

CEO duality, the practice of one person serving as both the CEO and chairman of the board, has been at the center of great interest to both academic researchers and practitioners for the last two decades (Peng et al., 2007). Among ten commercial giants that were confronted with corporate scandals in 2000, eight of them had the CEO duality. Due to this scandal, researchers and regulators have paid considerable attention to the choice of dual leadership structure. A large proportion of US corporations have chosen to combine the role of CEO and chairman of board. For example, according to the survey of McKinsey

& Co., 75% of S&P 500 companies had CEO duality for their corporate governance structure in 2002. CEO duality mainly arises from Anglo-American context as the corporate boards in these countries are one-tier board (Afzalur Rashid 2013).

In corporate governance, CEO duality is a double-edged sword (Finkelstein & D'Aveni, 1994). On the one hand, those advocating non-duality on agency theory argue that the separation of the roles of CEO and chairman positions would provide greater transparency and accountability on firm decisions, which aims to improve shareholder trust and ultimately generate better corporate performance (Finkelstein & D'Aveni 1994). On the other hand, advocates of CEO duality rely on stewardship theory to argue that authoritative decision making under the leadership of a single individual leads to higher firm performance (Donaldson & Davis, 1991).

In this section, I argue that CEO duality may moderate the organizational slack and CSR relationship, because CEO duality would influence how the CEO uses and deploys organizational slack since the owner is the key decision maker in the organization and in turn it may affect organization`s social activities.

2.4.1. Agency theory perspective

Agency theory regards firms as systems of complex written and unwritten contracts among divergent individuals (Fama and Jensen, 1983). A firm's owner is characterized as the principal, and its managers, namely CEO, described as the agent. Fama (1980) proves that separation of firm owner and managers can be solved as an efficient form of economic group within the “set of contracts” view and argues that duality promotes CEO entrenchment by reducing board monitoring effectiveness. Li et al. (2008) argue that separation of the roles of chairman and CEO may enhance monitoring quality in critical decisions about stakeholder responsiveness. According to the theory, CEO has primary responsibility for initiation and implementation of strategic decisions, while the board is responsible for ratifying and monitoring decisions by the CEO.

Through behaving also as a chairman, CEO may obtain a broader authority and control (Hambrick and Finkelstein 1987; Patton & Baker 1987), and then acquires ample influential power to secure more personal advantages (Finkelstein and D`Aveni, 1994).

CEO duality would consequently gain much dominion “to advance their concerns rather than the benefits of owners (Weisbach 1988). In this sense, I argue that since the dual CEO is the primary strategic player and central decision maker in the organization with the greater power, he/she will use the organizational slack for their personal interest or need, not for the stakeholder and society, and which follows to the less CSR investment.

Hypothesis 2a. CEO duality negatively moderates the relationship between organizational unabsorbed slack and CSR.

2.4.2. Stewardship theory perspective

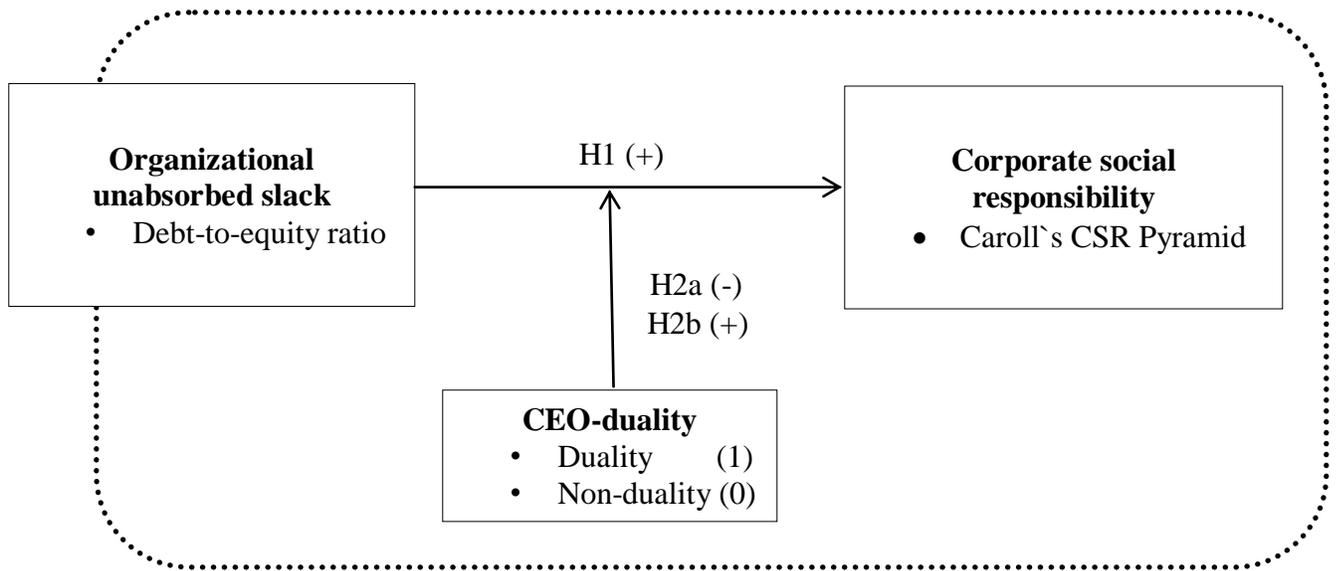
Donaldson (1990) argues against the agency theory’s perception of CEO duality and introduced the alternative approach to corporate governance of stewardship theory proposing a CEO who, “*far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets*” (Doanldson and Davis 1991). Stewardship theory is a theory that managers will indeed act as responsible stewards of the assets they control and suggests that the power of the executives and best stewardship role can only be exercised when the role of the CEO and chair of the board is combined (Donaldson and Davis 1991). With one individual serving the role of CEO and chair, decision making is simplified, leadership is unambiguous, and actions are facilitated (Braun & Sharma 2007).

Contrast to agency theory, stewardship theory defines that managers do not motivated for themselves, but behave as stewards for the entire benefits of the organization (Davis et al., 1997). In other words, managers do not emphasize on self-interest, but voluntarily focus maximizing organizational interest. When debating the agency theorists’ insistence on non-duality, stewardship theorists argue that separating the roles of CEO and chair hinders the executive’s autonomy to shape and execute the organization’s strategy (Davis et al., 1997). And the theory further suggests that the CEO duality fosters strong and unified leadership, and it will provide for an additional benefit for the organization from the unity of command. Therefore, in accordance with this argument, I hypothesize that the possibility of CEO, who doubles as the board chair, using organizational slack for his/her own personal benefits at the expense of firm performance is low. Since CEO duality fosters

strong and unified leadership with the aspiration for organizational development, he/she will invest more in social responsible behavior utilizing the organizational slack resources.

Hypothesis 2b. CEO duality positively moderates the relationship between organizational unabsorbed slack and CSR.

Figure 1. Research Model



2.5. Background information about Mongolia

2.5.1. Mongolia in brief

Mongolia is a landlocked country in Central Asia with a land area of 1.5 million sq.km bordered by Russia and China with a relatively small population of about 3 million people. Gross domestic product (GDP) has risen steadily since 2002 at an approximate rate of 7.5 percent per year, rising to 12.3 percent in 2012 and Mongolia is classified as one of the fastest developing countries in the world. Since 1990, Mongolia has experienced a rapid economic and political transition from being an authoritarian socialist regime with a centrally planned economy to a democracy with a market based economy. The Mongolian Constitution (1992) created a semi parliamentary system with a unicameral parliament and

a prime minister led government cabinet, while the president has a symbolic status and plays an advisory role over legislation. Fundamental economic reforms have been undertaken by the Government in the areas of prices liberalization, privatization of state owned entities and the establishment of market institutions. The State Great Khural (the Mongolian Parliament) has passed many laws, acts and codes, mainly influenced by the Romano Germanic legal system (Odgerel. Ts & Battsetseg. G, 2006), which established the fundamental legal system for the new political and economic situation.

2.5.2. Corporate governance and CSR in Mongolia

Mongolia is a country with open market economy led by private sector that enjoys significant and sustainable growth. More than 80% (eighty percent) of the economy is now in private hands, up from almost zero in 1990. There are approximately 50,000 independent businesses in Mongolia, of which 37,000 are thought to be active. Mongolian company law allows for general and limited partnerships, cooperatives, limited liability companies, and joint stock companies. The Financial Regulatory Commission (FRC) approved the Mongolia Corporate Governance Code (MCGC) taking into account internationally recognized OECD principles of corporate governance for publicly listed companies in 2007. Currently, 328 joint-stock companies are listed on Mongolian Stock Exchange, of which 23 or 7.1 percent are fully state-owned, 30 or 9.1 percent partly owned by the state, and the remaining 275 or 83.8 percent fully in private ownership. However, of the 2.5 billion shares listed on MSE, 1.9 billion or 74.5 percent were owned by the state and 636 million shares or 25.5% owned by private individuals. Indeed, most privately-owned companies are considered relatively small. Market participants estimate that the ownership structure of those companies that are majority privately owned is highly concentrated, with approximately 70 percent of common shares held by one to three individuals. According to statistics of MSE, only 140 companies are regularly releasing their reports; means that these companies are operating actively. Corporate governance is generally considered weak, in part due to lack of disclosure and transparency of corporate information and protection of minority shareholders. Many of the listed companies do not publish annual reports or hold shareholders' meetings.

Mongolia follows a one-tiered board model, with both executive and non-executive directors jointly serving on the board. In practice, most boards are composed of company

insiders, i.e. majority shareholders, their representatives, and executives. Companies are required to have a board consisting of at least nine directors, which might be excessive considering the relatively small size of most companies. Most boards meet the requisite four times per year, however, a number are not thought to meet at all. The position of chief executive and chairman of the board has to be separated, however, in practice, most boards are composed of insiders, both in private companies (with executives and owners) and SOEs (government officials, who are nominated by ministers and rotate in and out on an *ad hoc* basis).

In line with the worldwide acknowledgement that the basis for the sustainable economic and business development are the corporate governance, and CSR, Mongolian National Chamber of Commerce and Industry (MNCCI) has paid specific attention to the advancement of the CSR in Mongolian companies and started to make national ranking list of top 100 companies, by awarding top 5 companies as “Excellence in CSR” in 2006. And MNCCI has established the CSR Council on November 2007 with the objective to support, develop, promote, and provide a leadership in the CSR practices of the Mongolian industries, business enterprises and organizations. MNCCI has announced that the year of 2008 as the “Year of developing CSR in Mongolia”. Further, MNCCI organized the first National Forum of CSR in June 2008. During the forum, leading corporations and other organizations including MNCCI discussed the current CSR situation, and at last they affirmed the National Code of Business Ethics first time in the two-decade history of private sector of Mongolia.

A research (CSR Index, MNCCI, 2008) among more than 140 companies shows that 36.5 percent of the respondent companies answered that the knowledge of CSR among business organization is just starting, 12.2 percent responded that companies do not really know what CSR is, 26.8 percent responded that they do not know that at what stage of development CSR is in Mongolia, while only 2.4 percent responded that Mongolian business sector is aware of CSR. Considering this information, the understanding of the socially responsible behavior is still poor in Mongolian societies, and society perceive responsibility as the charity or donation to benefit the poor by giving money, clothes, homes, food, and by helping orphans or any other appropriate help. And managerial staff is not concerned intensely on every single CSR activities, essentially environment protection

(Oyungerel, et.al. 2011). But the attention from companies towards CSR has been increasing and larger companies are more likely to implement CSR on a voluntary basis since MNCCI encourages Mongolian companies to implement CSR activities.

III. METHODOLOGY

3.1. Data and sample selection

The sample of this study was drawn from Mongolian listed companies in the Mongolian Stock Exchange (MSE) for the year of 2012. Financial data were collected by 2012 financial annual reports published in the MSE website and databases published by MSE. And the companies CSR engagement level and background information were collected from the each company`s website manually and statistical year book published by Mongolian National Statistical Office (NSO).

There are totally 328 firms listed on the MSE as the year of 2012. Among them, I excluded listed companies that are not functioning in the stock exchange due to temporary reasons, as well as firms which are fully and partly state-owned firms. A sample of 195 listed companies which actively perform in the MSE in the referred financial year was selected. Furthermore, I also deleted 41 firm entries that have not submitted annual reports in the given period of time and have lack of enough information relevant to this study; therefore, final sample were 154 firms in 5 industry groups.

3.2. Variables and measures

3.2.1. Dependent variable

Carroll (1979) has conceptualized a multidimensional construct consisted of four distinct yet correlated dimensions and developed them as the pyramid of CSR in 1991, which includes 1) legal; 2) ethical; 3) philanthropic; and 4) economical. In accordance with this construct, to measure CSR in Mongolian firms, I have coded as 1 if the firm pursues its activities within the legal framework; do the obligations what is right, not harmful;

participates in voluntary and charitable activities in its society; and protects the environment from destruction and pollution, while otherwise it is 0.

3.2.2. Independent variable

Organizational unabsorbed slack is defined in this study as excess, uncommitted resources in organizations. Bourgeois (1981) proposes that changes in slack could be measured on financial data, including retained earnings, dividend payout, and debt to equity ratio. In this study, I use the debt-to-equity ratio to measure unabsorbed organizational slack. Debt-to-equity ratio has been extensively used in organizational slack literature. There are both theoretical and empirical supports for debt-to-equity ratio to measure excess, uncommitted resources (Daniel, Lohrke, Fornaciari, & Turner, 2004). Debt-to-equity is ability to raise loan capital for future investment. The lower the ratio, the higher the potential to generate loan capital for future flexibility. So there is a negative relationship between debt-to-equity ratio and unabsorbed organizational slack, means a decrease in the ratio indicates an increase in unabsorbed organizational slack. According to the literature on organizational slack, the smaller the ratio D/Et, the greater is the unabsorbed organizational slack.

$$\textit{Debt/Equity Ratio} = \frac{\textit{Total Liability}}{\textit{Shareholders Equity}}$$

3.2.3. Moderator variable

CEO duality is defined as an executive who serves concurrently as a chairman of the board. For the analytical purpose, CEO duality is coded as a binary variable. A firm in which the CEO also served as the chairman of the board is coded as 1. Otherwise, it is coded as 0 in accordance with Boyd, 1995, and data were collected from company proxy statements. Data was collected from corporate governance statements.

3.2.4. Control variables

Based on literature analysis, there are a number of factors that would affect CSR except organizational slack. In this study, four control variables are employed: 1) firm age; 2) firm size; 3) firm performance; and 4) industry in accordance with the previous studies. Data relevant to all control variables were collected from the referring company annual reports and publications in MSE and NSO in the financial year of 2012.

A number of studies have found a positive relationship between firm age and CSR and which is measured as the number of years from the establishment of the firm, helps to control for organization`s maturity. Older firms have to more time to learn and accumulate resources and knowledge to invest in CSR. Considering the pervasive influence of firm size on firm strategy, I will control the firm size by counting the number of employees working in the firm. The firm performance which is measured by the return on asset (ROA) is controlled. It is calculated by dividing net income by total assets. In consistent with the previous research, firms with higher performance are more likely to invest CSR. Finally, industry segments were controlled since characteristics of different industries have a considerable influence on firm strategic decision, such as level of CSR.

Table 1. Descriptive Information for Sample

Industry segments	No. of firms	Percentage
Manufacturing <i>(Beverage, food, textiles, etc.)</i>	42	27.3
Mining and quarrying <i>(Gold, coal, copper, etc.)</i>	18	11.7
Construction	25	16.2
Service <i>(Hotel, tourism, retail, transportation etc.)</i>	38	24.7
Primary <i>(Agriculture, farming, forestry, etc.)</i>	31	20.1
TOTAL	154	

Table 2. Variables and Definitions

Variable	Definition
CSR	The Pyramid of CSR by Carroll 1) Legal: if pursue its activities within the legal framework – 1 or not – 0 2) Ethical: if do obligations what is right – 1 or not – 0 3) Philanthropic: if participate in charitable activities – 1 or not – 0 4) Economic: if be as profitable as possible – 1 or not – 0
Organizational unabsorbed slack	Debt-to-equity ratio = Total liability / Shareholders equity
CEO-duality	Same person on the duty of CEO and chair of board – 1; or otherwise 0
Firm age	Number of years since incorporation of the firm
Firm size	Number of employees of the firm
Firm performance	ROA = Net income / Total asset
Industry	5 industry dummies (manufacturing; mining and quarrying; construction; service; primary)

3.3 Statistical analysis

I used the cross-sectional data to investigate the relationship of the variables. Hierarchical multiple regression analysis was applied to examine the hypotheses derived on the effect of organizational unabsorbed slack on firm`s socially responsible behavior with the moderating effect of whether one person serves as CEO and director of board concurrently. As the first step, control variables were entered to the hierarchical model. After entering control variables, the effect of organizational unabsorbed slack, which is the independent variable of the study, on CSR engagement was tested in the second model. Then moderating variable entered as third step. Finally the two way interaction was examined in the regression model 4.

IV. RESULTS

Table 3 summarizes the descriptive statistics and correlations of variables. As shown in the table, the correlation coefficients are weak. The average organizational unabsorbed slack is one percent and it reflects an extremely high proportion positioning a 12.867% standard deviation. The Pearson correlation coefficients reveal that correlation of variables is very weak. The table shows that firm`s CEO duality, firm performance, and manufacturing and service industries are positively related to socially responsible behavior. And in relation to organizational unabsorbed slack and CSR, organizational slack reveals a positive relationship with CSR. 25% of the total sample recorded CEO duality with the standard deviation of 0.43 and the construction and primary industry sectors recorded more CEO duality. The result show that the highest degrees of correlations are between mining industries and firm size ($r = 0.44$), indicating that mining industries have many employees among other industries.

I tested the multicollinearity and normality of distribution. To test the multicollinearity, I examined the Variance Inflation Factor (VIF) for the independent variable. A coefficient greater than 10 indicates a strong presence of multicollinearity and value can be eliminated. However, the highest recorded multicollinearity was 1.82, which indicates that multicollinearity was unlikely to bias the regression coefficient. VIF were

ranges from 1.05 to 1.82. Therefore this suggests that multicollinearity is not a problem in the data set and the observations are normally distributed in the population.

Table 3. Descriptive Statistics and Correlation (N=154)

<i>Variables</i>	<i>Mean</i>	<i>St.Dev.</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>
1 CSR	2.00	.984	1										
2 Organizational slack	1.37	12.867	.119	1									
3 CEO-duality	.25	.433	.092	-.037	1								
4 Construction	.16	.370	.000	-.072	.238**	1							
5 Mining	.12	.322	-.103	.005	-.161*	-.160*	1						
6 Primary	.20	.402	.083	.123	.163*	-.221**	-.183*	1					
7 Manufacturing	.27	.447	-.030	-.132	-.114	-.270**	-.223**	-.307**	1				
8 Service	.25	.433	.031	.080	-.118	-.252**	-.208**	-.287**	.350**	1			
9 Firm age	1.39	.360	-.060	-.098	0.42	-.075	.084	.027	.124	-.152	1		
10 Firm size	2.18	.274	-0.73	-.136	-.093	.305**	.439**	-.476**	-.047	-.097	.142	1	
11 Firm performance	.00	.076	.082	-.048	.056	.023	.139	-.048	.032	-.113	.054	..173*	1

* Correlation is significant at the 0.05 level

** Correlation is significant at the 0.01 level

Table 4. Result of Hierarchical Regression Analysis (Dependent Variable CSR)

Variables	Model 1	Model 2	Model 3	Model 4
Constant	2.302* (.012)	2.177* (.018)	2.110* (.023)	2.088* (.024)
<i>Control</i>				
Construction	.034 (.900)	.021 (.936)	-.040 (.883)	-.006 (.984)
Mining	-.249 (.425)	-.291 (.353)	-.279 (.373)	-.268 (.394)
Primary	.205 (.418)	.169 (.507)	.113 (.604)	.148 (.568)
Manufacturing				
Service	.098 (.666)	.065 (.774)	.063 (.782)	.063 (.779)
Firm age	-.174 (.450)	-.149 (.516)	-.161 (.485)	-.142 (.541)
Firm size	-.046 (.908)	.001 (.997)	.027 (.945)	.021 (.957)
Firm performance	1.455 (.180)	1.473 (.173)	1.402 (.196)	1.352 (.215)
<i>Independent</i>				
Organizational unabsorbed slack (A)		.008 (.191)	.009 (.179)	.009 (.175)
<i>Moderating</i>				
CEO-duality (B)			.174 (.380)	.172 (.387)
<i>Interaction</i>				
A x B				.061 (.466)
Observations	154	154	154	154
R-squared	0.031	0.042	0.047	0.051
Adjusted R-squared	-0.016	-0.011	-0.012	-0.016
F statistic	0.660	0.796	0.793	0.765

* Correlation is significant at the 0.05 level

Table 4 reports the result of hierarchical regression analysis. Model 1 includes control variables, Model 2 includes the independent variables, Model 3 includes the moderating variable, CEO-duality and the last model includes the interaction effects. The results of model 1 show that construction, service, primary industries and firm performance, measured by ROA, has positive relationships with CSR but statistically insignificant. Model 2, includes an independent variable, the hypothesis 1 proposed whether organizational unabsorbed slack is positively related to CSR engagement. The result show in model 2 indicated that Organizational unabsorbed slack is insignificantly associated with firms' CSR. This supports for my hypothesis 1.

In terms of stewardship theory, hypothesis 2b expected that CEO-duality positively moderates the effect of organizational unabsorbed slack on CSR. As expected, coefficients for CSR show an insignificant positive association ($\beta=.174$, (0.380)). Therefore, for hypotheses 2, 2a is not supported while 2b is supported, indicating dual leaders invest more in CSR utilizing the slack resource since they fosters strong and unified leadership as stewardship theory proposes.

V. CONCLUSION

5.1 Discussion

Over the last 3 decades, the pressure on firms to engage in corporate social responsibility (CSR) has increased in not only developed countries, but also in developing countries. Management researchers have responded to this by attempting to demonstrate the effect of firm's internal and external factors on the CSR investment mainly in Western countries. There is a limited knowledge on how corporate social responsibility is perceived and implemented in developing countries and majority of journal articles commonly analyzed countries like China, India, Malaysia, Pakistan, and Thailand. More specifically, research regarding Mongolian companies' social responsible behavior is missing. In line with this inquire; this study directly addresses this issue by investigating and hypothesizing that the organizational excess resource could have an influence on the CSR engagement and this relationship could be moderated by the position of whether one person serves as CEO and chair of the board concurrently in the context of Mongolia.

Using the sample of 154 listed Mongolian firms, the results of the study show that there is a positive relationship between organizational unabsorbed slack and CSR (p-value 0.008 (0.191)) as I predicted. So my hypothesis 1 was supported in the case of Mongolian firms, which is a developing country. My second conjecture that in terms of the stewardship theory the relationship between organizational unabsorbed slack and CSR will be positively moderated by the level of CEO-duality was supported. The result indicates that there is a positive but significant association, indicating dual leaders invest more in CSR utilizing the slack resource since they fosters strong and unified leadership as stewardship theory proposes. CEO-duality does not matter much in the Mongolian context, occurs only 25% of the total sample.

5.2 Limitations and future direction

This study has several limitations. First of all, my sample only considers Mongolian small and medium sized companies listed on the only MSE. However, in the future, the context could be conducted with the sample of the Mongolian largest companies that are listed on foreign stock exchanges, such as NASDAQ, NYSE, HKE, and so on. This line of inquiry could reveal better results that can be consistent with the developed countries cases since larger and internationally recognized firms have more socially responsible behaviors.

Secondly, Mongolia is attracting significant foreign investment since its abundant natural resources and foreign invested companies have been increasing. But, this study only focused on the Mongolian invested small and medium companies listed on the MSE. Therefore, careful studies comparing and contrasting how slack affect CSR engagement level among state-owned, private, and foreign owned firms will be necessary.

Thirdly, in accordance with the previous research, organizational slack can be divided into two categories, including absorbed and unabsorbed slack. But, I focus on only the organizational unabsorbed slacks. Therefore, it could be possibly interesting to study and compare the relationship between both of organizational absorbed and unabsorbed slacks and CSR. Furthermore, my result is based on the only one year basis. Future research can conduct a longitudinal study that can provide more reliable results.

Finally, CSR is measured using the pyramid of CSR by Caroll and although I believe it to be reliable and accurate, it may not be capturing the true underlying attributes of current situation of Mongolia. Therefore, the future studies can consider other proxies

for CSR measurement. Another important caveat is that I do not explore any related CEO's personal characteristics such as education, tenure, and etc. that might moderate the relationship between organizational slack and CSR. These might be fruitful avenues for the future research.

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THE LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
FRC	Financial Regulatory Commission
GDP	Gross Domestic Products
MCGC	Mongolia Corporate Governance Code
MNCCI	Mongolian National Chamber of Commerce and Industry
NSO	National Statistical Office
SOE	State Owned Enterprise
ROA	Return on Asset
UN	United Nations

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국문초록

조직 슬랙이 기업의 사회적 책임 활동에 미치는 영향에 관한 실증연구: CEO 겸직을 조절변수로 하여

서울대학교 대학원

경영학과 국제경영 전공

바트볼드 히식자르갈

지난 30년 간, 전세계적으로 기업의 사회적 책임(CSR) 이행에 대한 압박이 더욱 거세져 왔다. 기존의 연구들과 몽골의 현재 상황을 고려하였을 때, 몽골 기업들의 사회적 책임 이행에 관한 연구가 전무하며, CSR이 유익한 이유와 CSR 투자에 영향을 미치는 요소들에 관한 실증적 연구 이행의 필요성이 존재한다. 따라서, 본 연구는 2012년 당시 몽골증권거래소에 상장된 154개 표본 기업들을 대상으로 기업의 사회적 책임 이행에 대한 조직 슬랙의 잠재적 영향을 검토한다. 또한, 본인은 대리인 이론과 청지기 이론을 조절자로 적용함으로써 CEO 겸직(CEO-duality)을 검토하였다. 본인이 예측한 바와 같이, 부채비율을 통해 측정된 조직 비흡수 슬랙이 CSR에 긍정적인 영향을 미치지만, 통계적으로 미미하다는 것이 확인되었다. 몽골을 배경으로 한 본 연구는 광업 기업들이 CSR 활동에 더욱 활발히 참여하며 전체 표본 기업들의 25%가 CEO 겸직을 가진다는 것을 보여준다. 아울러, 청지기 이론이 시사하는 바와 같이, CEO 겸직은 조직 비흡수 슬랙과 CSR 간의 관계를 긍정적인 방향으로 중재한다. 따라서, 본 연구를 통해 선진국을 통해 도출된 모형이 몽골과 같은 개발도상국에도 적용될 수 있다는 결론을 얻을 수 있다.

◆ 주요어 : 기업 사회적 책임활동; 기업 조직 슬랙; 대리인 이론; 몽골; 청지기 이론; CEO 겸직.

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