CEO Social Capital and Strategic Corporate Social Responsibility of the Firm: Bonding and Bridging Effects

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Abstract

A considerable body of upper echelons theory research demonstrate the role that various facets of CEOs’ individual characteristics play in shaping firm’s strategies and behaviors. With the increasing debate concerning the different drivers and determinants of CSR, we complement these two lines of inquiries by theorizing and proposing a CEO-social capital perspective on CSR. Furthermore, we discuss the various types of social capital ties and how they could lead to different CSR strategies depending on the density and the quality of the social capital ties. More specifically, we discuss two types of social capital: bridging and bonding ties. We propose that bridging ties lead to greater emphasis on CSR actions that are directed towards external stakeholders while bonding ties within the organizational members lead to greater emphasis on internal CSR. Lastly, we propose that the balance between internal and external CSR will be influenced by the density, intensity, and quality of the ties.

Key words: CEO social capital, Internal CSR, Bridging Ties.

Introduction

Corporate social responsibility, henceforth CSR, has been a hotly argued topic among the business scholars’ community. Firm’s decision to invest in socially responsible activities and to engage in society-oriented activities has become one of critical importance to organizational success and growth (Al-Shammari et al., 2021; Mellahi et al., 2016). Allocating firm’s important resources for CSR-related activities is not an easy decision to make, however, most organizational decisions are made by the CEOs of those organizations. According to (Cyert et al., 1959), CEOs bring three givens to their organizations when making decisions: their personal values, their experiences, and their personal expectations for the decisions being made. The last decade has seen an unprecedented scholarly interest in the CSR topic. Most research can be classified into three categories: the determinants of CSR, the process of CSR, and the consequences of CSR for the initiators and targeted audiences. In this research, we focus on the first area. That is, we focus on an important determinant of the firm’s CSR strategies. Given the well-established arguments and the cumulative empirical evidence of the important role that CEO characteristics play in shaping firm’s strategies (Hambrick, 2007), we make an effort to
complement the growing literature on the internal determinants of CSR strategies, that is, the within-firm variables that determine the type, level, and direction of CSR investments.

The increasing interest in studying CSR and its organizational consequences have contributed to an intensive amount of work done to understand and analyze why do firms vary in their stances towards CSR. This has led to a growing number of studies examining the impact of different firm-level and CEO-level variables on firm’s CSR strategies (Jamali et al., 2008; Yang & Rivers, 2009). Recent studies for example have shown that CEO personality traits can significantly influence the firm’s position on CSR (Al-Shammari et al., 2019; Petrenko et al., 2016; Tang et al., 2015). For instance, (Petrenko et al., 2016) found that CEO narcissism is positively related to CSR and that narcissist CEOs seeks to garner attention and admiration through CSR investments that may not necessarily reflect the firm’s best interest. CEO age, tenure, and experiences have been extensively examined as predictors of important organizational strategies such as risk taking, acquisition, and strategic alliances (Hambrick & Fukutomi, 1991; Serfling, 2014). These studies demonstrated the importance of considering the impact of different characteristics of the decision makers on important firm’s decisions and CSR should be no exception. Despite the internal and external constraints to their behavior, CEOs are still considered the most influential decision makers in nearly all organizations, and their personal values, preferences, experiences, and other characteristics largely influence their firms’ strategic behaviors (Hambrick & Mason, 1984).

The extant literature on social capital asserts that CEO social capital can significantly shape important firm’s strategies (Cao et al., 2015; Lin et al., 2021; Oh et al., 2018). Social capital, has recently received a considerable and increasing attention from management scholars. The increasing importance of social capital as a critical variable within the organizational theory and strategy literature stems from its far-reaching implications for firms and their members, as well as the dynamics and interactions of this construct with other factors within and beyond the firm boundaries. As the key decision makers, the social capital of CEOs can play a significant role in determining their strategic orientations and shaping therefore their firms’ strategies.

CSR debate varied across and within the aforementioned streams of research. Within the CSR stream of research, scholars have addressed, discussed, examined, and elaborated upon a wide variety of topics such as the various types of CSR activities (e.g., environment-related, society related, customer-related), the quality and societal impact of such actions, the perceived credibility of the actions, the dynamics (design, plan, and implementations) of CSR strategies. This stream of research has seen less tension and somewhat acceptable consensus among the CSR researchers. Within the third stream of research however, there has been a continued debate regarding whether or not CSR leads to improved financial performance. While a moderately large body of research has reported a positive relationship between CSR and firm performance, some studies have reported negative or neutral relationship. Within the first stream of research which is the interest of our paper, prior studies have mostly considered external motives for CSR such as legal mandates, institutional norms, external stakeholders’ activism, and macro-level factors such as the public increased awareness and attention to firm’s societal contributions and impact. Recently however, scholars have begun exploring internal determinants of CSR. that is, factors related to the internal environment of the firm such as firm size, slack resources, firm’s
visibility, firm’s age, governance mechanisms, board characteristics. Moreover, a particular line of inquiry has been initiated to examine the impact of CEO characteristics on CSR.

This line of inquiry is experiencing a mounting momentum, not only within the firm characteristics-CSR research, but also in other areas where scholars are looking at many organizational strategies and outcomes as reflections of their decision makers’ personal values, preferences, and experiences. Despite the large number of studies that have examined the many possible organizational effects of social capital, and despite the well-established evidence regarding its impact on shaping firm’s important decisions such as entrepreneurial orientation, M&As, and strategic alliances, the impact of CEO social ties, social capital, and different affiliations on the firm’s CSR strategies has not been explored.

We depart from the recent trends that focused on examining the linkages between CEO demographical and personality traits and CSR by looking at the possible effects the CEO social capital might have on the firm’s CSR strategies. We use the two well-known types of social capital as predictors of the firm’s CSR. Because we consider social capital as an important conceptual foundation, we look at the differential effects of two important types of social capital, bridging social capital and bonding social capital.

Therefore, we develop a new framework that focuses on the social capital-CSR linkage by delving into the social capital theories and incorporating important concepts from social identity, relational research, upper echelons research and CSR research. We propose the following.

**Theory and Propositions**

Despite the growing literature concerning the various dynamics of corporate social responsibility as a major non-market strategy of the firm and its short- and long-term effects on the organization, there is still a debate regarding the three major CSR-related topics: its antecedents, process, and outcomes. While the latter two topics are of paramount importance, we focus on the former (antecedents) as the subject of our paper. Several studies have recently pointed out that the variance in CSR performance effects as well as the disagreement regarding the best practices of CSR (the process) might be partly attributed to our limited and sometimes biased understanding of what motivated firms to engage in CSR actions in the first place.

The extant literature on CSR offers a wealth of insights regarding the various drivers and determinants of the firm’s CSR type and level of CSR engagements. While prior literature has largely focused on external drivers of CSR such as the industry characteristics, institutional environment, competition, and legal environment as well as culture, recent studies have shifted towards the internal aspects of the firm that might affect the firm’s CSR involvement.

**The drivers of CSR**

As CSR determinants have stirred scholarly curiosity, a stream of research highlights senior executives’ impact on CSR, focusing, in particular, on the CEO’s individual characteristics. This stream of research has intensified recently. Several studies have started to look at CSR as reflections of the CEO characteristics. This stream largely builds on the upper-echelons perspective of the firm, with the premise that executives’ major decisions and their interpretations of the various phenomena related to their firms are a function of executives’
personal and professional experiences, values, and personalities (Hambrick & Mason, 1984; Hambrick, 2007).

CEOs are the most influential individuals in nearly every organization. Despite the fact that they work under external and internal constraints such as governance mechanisms and limited resources as well as shareholders’ activism and stakeholders’ activism, they are still able to instill their personal views and influence the organizational strategies via different mechanisms that originate from their positions as the chief decision maker of the firm (ingratiation and persuasion).

Within this stream of research, scholars have examined the impact of CEO tenure, education, functional background, age, and other demographic variables on the firm’s CSR. Most recently, a wave of studies took a step further and examined the effects of important and key personality traits on the firm’s CSR.

Even though this line of inquiry provides a wealth of insights into how CEO characteristics can shape CSR, to our knowledge prior research has not directly studied CEO social capital or “who CEOs know” in explaining firm CSR.

The emerging evidence from the recent stream of research that focuses on the linkages between CEO individual characteristics and key firm’s strategies suggest that despite the various internal and external constraints facing the CEO, they are still able to shape and influence the firm’s key strategies and decisions (Cao et al., 2015; Fralich & Fan, 2015; Wang et al., 2016).

Social capital has been widely acknowledged as a key determinant of individual and group’s success and growth potential (Burt, 2004; Granovetter, 1983; Nahapiet & Ghoshal, 1998).

**The literature on CEO social capital**

CEO social capital has been at the core of scholarly inquiry in the recent years. Following the seminal work of (Granovetter, 1983), scholars have explored the various dynamics of social capital within and beyond the organization.

A well-documented argument in strategic management research is that the chief executives play a central role in articulating firm strategy (Hambrick, Geletkanycz, & Fredrickson, 1993; Hambrick, 2004; Westphal & Fredrickson, 2001). Upper echelons theory (Chatterjee & Hambrick, 2007; Hambrick & Mason, 1984; Sanders, Geletkanycz, & Carpenter, 2004) argues that strategic decisions of the firm can be viewed as reflections of the personal values, experiences, and psychological characteristics of managers. The upper echelons perspective has been built mainly on the work of behavioral theorists who emphasized the behavioral aspects of decision-making process and on how decision makers’ behavior can have significant impact on their organizations’ strategic decisions (Cyert & March, 1963).

While the CEO of the organization works under certain limitations that include external constraints and internal constraints, they can still be considered the most influential decision makers in the organization, a notion that is supported by a wealth of empirical evidence (Arijit & Donald, 2011; Graf-Vlachy et al., 2020; Gupta et al., 2017; Quigley & Hambrick, 2015).

CEOs foster and grow social capital through a diverse set of ties from within and beyond their own organizations (Cao, Maruping, & Takeuchi, 2006; Collins & Clark, 2003; Fralich & Fan,
CEOs cultivate and grow these ties as it represents an important asset that they use to obtain and maintain a status through access to information, elites, and resources (Ferris, Javakhadze, & Rajkovic, 2017). Social capital entails two types of relationships and ties, bridging ties and bonding ties (Adler & Kwon, 2002; Kwon, Heflin, & Ruef, 2013; Kwon & Adler, 2014). These ties were categorized under two types of ties: internal ties which corresponds to the bonding ties whereas the external ties correspond to the bridging ties according to (Adler & Kwon, 2002).

We adopt (Cao et al., 2015) definition of both bonding and bridging social capital. A CEO’s bonding social capital refers to “his or her social ties with organizational members across various departments or functional units within the firm” (Cao et al., 2015. 1960). Such intrafirm ties build an integrated organizational community (Coleman, 1990) and support the formal structure of the organization in securing an alternative channel of communication for the CEO and other top management members or other managerial levels to reach organizational members in different departments (Cao et al., 2006; Cao et al., 2015). A CEO’s bridging social capital refers to “his or her social connections with individuals from a diverse set of external organizational stakeholder groups, such as customers, suppliers, competitors, partners, financial agencies, industrial authorities, and government agencies” (Cao et al., 2015. 1960). These ties can serve as diverse information sources for the CEO and the firm regarding the opportunities and changes in the competitive environment, access to external resources, valuable linkages to critical entities such as government organizations and NGOs, and also the different stakeholders of the firm (Geletkanycz & Hambrick, 1997; Keeves et al., 2017).

In this paper, we present a model that posits that a CEO’s bonding and bridging social capital shape the firm’s CSR respectively and that the influence of CEO social capital is contingent on the expected returns of the CEO internal CSR and external CSR emphasis. Furthermore, our model suggests that the relationship between the CEO bonding ties and the firm’s internal CSR has inverted U shape relationship and that this relationship is moderated by the expected returns to the CEO. Whereas the effects of CEO bridging ties on the firm’s external CSR is contingent on the expected returns to the CEO. We define the expected returns in terms of the

Because CSR is an umbrella construct, our hypothesis development focuses on direct and concrete mechanisms that tie each type of CEO social capital to the core facets of CSR- External and Internal CSR.

Propositions

While the extant literature on CSR has focused on a wide variety of factors that exemplify the determining factors of CSR strategies of the firm; most prior literature has focused mostly on a set of external factors that influence the firm’s stances towards CSR (are largely reflecting the institutional, industry, and national culture variables that influence the extent to which firms commit to CSR and the types of CSR actions) (Petrenko et al., 2016). Recently however, more attention has been given to the internal drivers of CSR (Cormier, Lapointe-Antunes, & Magnan, 2016; Tang, Qian, Chen, & Shen, 2015). These internal drivers correspond to the firm-level characteristics and the various characteristics of its TMT, including the CEOs as the key decision makers of the organization. CSR in its very nature entails a various set of actions and initiatives that are directed towards different stakeholders, who have varying power and different levels of
involvements and activism, as well as differing and sometimes conflicting interests. While the prior literature has vastly treated CSR at the aggregate level, recent studies have criticized such approach and called for a decomposed measure that treats each dimension of CSR separately (Wang, Tong, Takeuchi, & George, 2016). Such calls were made as a result of the conflicting results concerning the financial impact of CSR for the firm (McWilliams & Siegel, 2002). Scholars have suggested that such conflicting results may in part be attributed to the use of aggregate measure, since each dimension of CSR may have a unique effect on firm performance that needs to be examined separately (Wang et al., 2016). Consequently, an increasing number of studies have recently examined the antecedents and outcomes of various CSR elements such as philanthropy contributions, community engagements, employee well-being programs, etc. A closer look at these activities results in a categorization of these sets into two major types of activities based upon the targeted group of stakeholders: internally oriented actions that are aimed at the internal constituents of the firm, externally oriented actions which are aimed at the external stakeholders and the society at large.

Using this conceptualization, the recent literature has examined a variety of antecedents and consequences of several elements of these two types of actions. For example,

**CEO Bonding Social Capital and Firm Internal CSR**

When a CEO develops social ties with more individuals from different organizational units, he or she is likely to have better access to information regarding the scope, nature, and potential of organizational resources (Cao et al., 2015; Collins & Clark, 2003). These social ties aid the CEO in their efforts to access the various perspectives embedded within the internal environment of their organizations and get more details on the specific functions within the organization and therefore they can have access to a smoother flow of information and vantage points (Cao et al., 2015). These resources, when obtained through mutually beneficial social ties, will help the CEO better manage their firms by enhancing their ability to identify the optimal combinative selections regarding the firm strategies among the various departments of the firm, thus enhancing the firm financial performance through higher levels of innovations, greater productivity, greater employee loyalties (Grant, 1996; Kogut & Zander, 1992; Nahapiet & Ghoshal, 1998). Additionally, a CEO with large and diverse internal networks within the firm (bonding ties) is better able to exert greater control over the flow of intrafirm knowledge and resources (Cao et al., 2006), which can aid the CEO direct those knowledge and resources in more efficient and effective ways that serves the purpose of improving the overall performance of their firms. Social bonding ties is seen as a form of informal power (Ibarra, 1993) that helps the CEO be more efficient and effective in resource allocation and prioritization tasks (Cao et al., 2015), without triggering negative reactions from the organizational members tasks. Thus, enabling the CEO to more productively and innovatively develop the proper course of actions, optimal resource combinations, and creative ways of how to achieve the organization’s ultimate goals (Cao et al., 2015; Katila & Ahuja, 2002; Smith, Collins, & Clark, 2005).

CEOs encounter various challenges in their efforts to improve their firm’s financial performance. A major challenge is risk assessment and strategic decisions that carry some considerable risks for the firm and therefore for the CEO reputation and career (Lee, Park, & Folta, 2018; Oh, Chang, & Cheng, 2016; Strike, Berrone, Sapp, & Congiu, 2015; Zhou & Wang, 2014). Therefore, the CEO ability to better assess the firm’s risk taking has been regarded as critical.
skill in the CEO managerial skills portfolio that helps firms better manage their firm’s risks and achieve a reasoned risk (Benischke, Martin, & Glaser, 2019; Carpenter, Pollock, & Leary, 2003; Simsek, 2007). These arguments necessitate that CEOs will seek all possible ways that would help them overcome this challenge. A CEO with greater bonding ties will get several benefits that would ultimately help them overcoming this challenge. First, when the CEO has larger social capital at the internal level of the organization, they are more likely to be in a better position to incorporate a diverse set of perspectives from the various departments within the organization so as to have a more precise assessment of the firm’s risky activities (Cao et al., 2015). Second, larger and diverse bonding ties with internal members lead to an improved ability of resource allocation, departmental coordination, and greater internal support and collaboration from within the firm, all likely to increase the accuracy of firm’s risk assessment. Third, greater bonding ties with internal members of the organization increases the support of those members, which gives more confidence to the CEO in risk assessment and risk taking; two necessary elements in improving the firm’s innovation endeavors and eventually the firm financial performance (Cao et al., 2015).

Having a large and diverse bonding ties with the internal members of the organization will also result in an advanced managerial schema, avoid inertia, and keep their knowledge current regarding the market demands, changing industry conditions, new technologies, which all helps identifying new opportunities (Burgelman, 2002), develop creative solutions and courses of actions to arising problems and needs (Venkatraman, 1989), and foster proper responses to changes in the internal and external environment of the firm (Miller & Toulouse, 1986; Miller & Shamsie, 2001).

In sum, the aforementioned arguments provide a clear evidence that CEO bonding ties with internal members of the organization are crucial in aiding the CEO to better manage the firm, efficiently allocate resources, effectively coordinate activities, and creatively respond to changing conditions. Together, they suggest that bonding ties will have positive effect on the CEO orientation towards internal CSR practices as the expected benefits of such practices are particularly important for the CEO.

**Proposition 1:** The greater the bonding ties of the CEO, the greater the firm’s emphases on internal CSR investments.

**The Declining Gains and Tenure as a Moderator**

Nevertheless, over time, and as the CEO tenure increases within the firm, we would expect these advantages and benefits obtained through the bonding social capital to reach a limit and their positive effects are likely to wither and regress to negative. In other words, as the CEO tenure increases, the expected gains from the established bonding ties is likely to weaken for several reasons. First, (Burt, Ronald S., 1992; Cao et al., 2015) argued that bonding ties with people who share similar knowledge, backgrounds, and function within the same environment may bring redundant information and resources. In fact, information redundancy and shared mental framework can hurt the organization as they lead to an increased levels of inertia (Hannan & Freeman, 1984; Rider, 2012). Additionally, the continued flows of knowledge across the organizational departments as driven by the CEO bonding social capital will lead to shared mental framework (Cao et al., 2015; Simsek, Lubatkin, & Floyd, 2003). Such shared mental
frameworks will reduce the creativity of solutions to organizational problems, increases homogeneous thinking, and hinder the organizational striving for entrepreneurial approaches and innovative responses to changing conditions as well as limit the organizational ability to be proactive in their respective industry (Janis, 1982; Katz, 1982). Under this condition, the integrative potential of intrafirm knowledge and resources for innovation will decrease and the search for innovative solutions will become myopic (Cyert & March, 1963). Moreover, risks associated with entrepreneurial initiatives will be assessed only narrowly and with a firm-centric bias. Finally, convergence of viewpoints will inhibit the discovery of novel opportunities (Smith & Cao, 2007), which prevents the firm from taking groundbreaking competitive actions. These arguments together suggest that the CEO tenure will likely negatively affects the relationship between bonding ties and internal CSR. Thus,

**Proposition 2:** CEO career horizon negatively moderates the positive relationship between bonding ties of the CEO and the firm’s internal CSR.

**Discussion and Future Research Directions.**

CEO social capital has been an important topic of interest for business scholars. More recently, scholars have begun to explore whether such capital can influence the firm’s strategies in the market domain (Cao et al., 2015; Wadhwa et al., 2017). However, the effects of CEO social capital on the firm’s non-market strategy remain a largely underexplored area. In this short paper, our goal was to explore the theoretical foundations and arguments that link the CEO social capital to the firm’s CSR. Particularly, we aimed at presenting the theoretical grounds that would show how the bonding ties of the CEO can affect the firm’s CSR focus. Additionally, we proposed an important contingency that may affect this relationship, namely the CEO career horizon. The CEO bonding ties as we proposed increases the chances that the CEO would focus on the internal CSR actions. More importantly, as CEO career horizon shortens, their interests and benefits from their organizational internal social capital decreases, which negatively affects their interest in internal CSR practices. In this paper, we only focused on the bonding ties of the CEO which is one form of the CEO social capital. Future studies could explore how an increase in the CEO bridging ties (ties with external stakeholders) can affect the focus and the balance of the CSR actions of the firm directed towards internal vs external stakeholders. Moreover, other governance contingencies may also affect the magnitude of the effect of the CEO social capital on the firm’s CSR focus, which future studies could further explore.

**References**


