

# Managerial Myopia and Corporate Social Responsibility Activities

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**Abstract:** Listed companies are the pillar strength of China's economy, whose CSR performance is of great significance. From the perspective of sustainable development of enterprises, this paper finds that managerial myopia will inhibit enterprises from fulfilling their social responsibilities. Using the employment opportunity indicator as an instrumental variable, the result of 2SLS regression remains significantly negative. In order to realize the sustainable development of economy, we must strengthen the supervision and restriction to enterprise managers.

**Keywords:** Managerial myopia, Instrumental variable, CSR.

## 1. Introduction

The 19th National Congress of the Communist Party of China pointed out that China's economic development has shifted from a stage of high-speed growth to a stage of high-quality development. The economic pressure brought by COVID-19 has not yet been resolved, while the sustainability facing increasing challenges caused by climate change. The sustainable development of the global economy requires enterprises to think more about how to use the advantages of products, services and brands to realize the social value of enterprises with the target pursuing profit maximization. As excellent representatives of Chinese enterprises, listed companies are the backbone of China's economy and must hold corresponding social responsibility.

The traditional view of finance holds that managers are agents of shareholders and therefore should strive to maximize the value of the company. Managers need to think about how to treat stakeholders such as employees, consumers and investors when formulating corporate strategies. Some shocking examples are the sudden death of ByteDance employees, Melamine poisoned milk powder incident, and DiDi Chuxing collected users' information illegally. All of which are about CSR. Assuming that managers are completely rational and can take comprehensive consideration when making decisions, they can reasonably evaluate the harm caused by these events to the sustainable development of enterprises. For example, the melamine incident harms the whole domestic milk industry. But why managers still make such decisions? Within the framework of sustainable development, enterprises fail to fulfill CSR is related with managerial myopia.

The possible marginal contributions of this paper are as follows: (1) Instrumental variable is used to identify the causal relationship between managerial myopia and CSR; (2) The CSR performance of listed companies in China is based on long-term strategic motivation has been proved.

## 2. Literature Review and Hypothesis Presentation

### 2.1. Managerial Myopia

Managerial myopia refers to managers giving up long-term interests and focus on earnings and stock prices during the

reporting period. From the perspective of managers, some literatures explore how managerial myopia comes into being. Both personal experience and demographic characteristics have an impact on it (Cottle,1976; Bergadaa,1990). Managerial myopia stems from bounded rationality and learning disabilities. The existence of stakeholders and acquisition pressure (Wahaler & McConnell, 2000) also affect the CSR performance of listed companies. For example, the behavior of myopic investors can lead to managerial myopia (Shleifer and Vishny, 1990).

Managerial myopia is an unobservable trait of managers, how to measure it has been developed by many scholars, and most of them construct myopia indicators around the causes of managerial myopia. They can be summarized into the following three categories: first, the myopia of shareholders is used to measure the myopia of managers, specifically, using short-term investment, real earnings management and stock Turnover; Second, considering the myopia of managers is out of their own interests, using the expected tenure of managers to measure managerial myopia, namely, the average age and existing tenure of managers adjusted by the industry (Antia et al., 2010; Hongli Gao et al., 2021; Honglin Yu, 2022), whether the manager is the shareholder or founder of the company (Honglin Yu, 2022); Third, new technical methods were introduced to measure the myopia of managers. For example, some studies used the Lexicon methods and Text analysis methods to count words related to "time horizon" in American conference calls (Brochet et al.,2015). Based on the statistics of the words related to "time horizon" in the MD&A section of the annual reports of Chinese listed companies, the Myopia index of managers was constructed by Nan Hu et al. (2021). It is unilateral to measure managerial myopia either from the perspective of shareholders or managers. In this paper, managerial myopia index constructed by Hu Nan et al. (2021) was used to depict the managerial myopia.

About economic consequences caused by managerial myopia, some researches conclude that managers will reduce enterprise long-term investment (Hu Nan et al., 2021), inhibit enterprises' digital transformation (Xinguang Wang, 2022), lead to the enterprise financialization (Honglin Yu, 2022). There is no literature focusing on the impact of managerial myopia on corporate social responsibility activities.

## 2.2. Corporate Social Responsibility Activities

Topics about CSR include CSR reporting agenda, CSR disclosure and CSR activities. This paper focuses on corporate social responsibility activities. A series of behaviors and characteristics of enterprises are closely related to social responsibility activities. Among the factors involved, corporate social responsibility exists as both independent and dependent variables. There are two different views on the motivation for enterprises to undertake social responsibility activities. The positive view holds that enterprises take social responsibility activities for strategic purposes, while the negative view holds that managers and controlling shareholders use the wealth of shareholders to carry out social responsibility activities to satisfy their own interests. In addition, corporate social responsibility performance will also be affected by some objective factors. From the institutional perspective, the government will promulgate a series of laws and regulations to regulate the behavior of enterprises; from the industry level, the normative standards of different industries will also affect the CSR performance of listing companies and there also exists group effect.

About how to measure CSR performance, enterprise charitable giving (Jianjun Zhang, 2013)、targeted poverty alleviation activities (Du et al., 2019) and CSR scores issued by HeXun (Yonghai Wang and Xiaomin He, 2022) and RKS (Chen, et al., 2018) were used by scholars.

## 2.3. Managerial Myopia and Corporate Social Responsibility Activities

According to time-oriented theory, time orientation refers to whether people's perception of time is oriented to the past, present or future. The time orientation of managers will directly affect the strategic choice of enterprises. Myopic managers focus on instant profit and ignore the future benefit, while enterprises engage in social responsibility activities based on its long-term development. Upper echelons theory emphasizes the influence of executive characters on the organization, and it can be reasonably speculated that shortsighted managers have an impact on enterprises' strategic decisions.

Driven by bounded rationality, myopic managers pay attention to short-term earnings and stock prices during the reporting period, which directly leads to the undervaluation of long-term project. Shortsighted managers pursue the maximization of stock price during the reporting period. Investing in financial assets can increase short-term returns. More myopic the managers are, more funds will be invested to financial assets (Honglin Yu, 2022). The allocation of financial assets of enterprises squeezes out the funds for social responsibility activities.

Hypothesis 1: Managerial myopia will reduce corporate social responsibility activities.

## 3. Models and Variables

### 3.1. Econometric Model

According to the research of Nan Hu et al. (2021) and Ghoul et al. (2019), the benchmark regression model of this paper is constructed as follows:

$$CSR_{it} = \alpha_0 + \alpha_1 Myopia_{it} + \alpha_2 X_{it} + \sum Year + \sum Industry + \varepsilon_{it} \quad (1)$$

Among them, CSR refers to the performance of corporate social responsibility, measured by the social responsibility score of Hexun; Myopia represents managerial myopia, being the core explanatory variable in this paper; X represents other control variables, including enterprise size (Size), which is measured by the logarithm of the total assets; financial leverage (Lev), this paper uses the asset-liability ratio of enterprises to measure; the growth of an enterprise (Growth), the growth rate of the total revenue of the listed companies is used; property right (Soe), this paper uses whether the actual controller of the enterprise is State-owned enterprises, public institutions and so on to construct a dummy variable; the age of the manager (Mage) is measured by the age of the chairman of a listed company; tenure (Tenure), expressed by the number of years the chairman of a listed company has served; managers' compensation (Salary): the logarithm of the total salary of top three executives; degree of managers (Degree), expressed by the degree of the chairman; ownership concentration (Cent1), expressed by the shareholding ratio of the largest shareholder multiplies 100; regional economic development level (Lngdp) is expressed by logarithm of provincial GDP. Finally, this paper also controls the influence of the change of Year and Industry characteristics on CSR.

### 3.2. Selection of Main Variables and Data Description

#### 3.2.1. Explained Variable

This paper uses the social responsibility score published by HeXun, which, systematically, evaluates corporate social responsibility from five aspects: shareholder responsibility; employee responsibility; supplier、customer and consumer responsibility; environmental responsibility and public responsibility. In addition, this paper also uses the social responsibility score published by RSK for robustness test.

#### 3.2.2. Explanatory Variable

According to the research of Nan Hu et al. (2021), Text analysis and Machine learning method were used to construct indicators of managerial myopia.

#### 3.2.3. Data Sources and Processing

Due to the availability of social responsibility data, the sample interval is from 2010 to 2020 and the sample concludes all Chinese A-share listed companies. The data of managerial myopic indicators are from other literatures (Hu Nan et al., 2021), the data of CSR are published by HeXun and RSK, the provincial level data is from China Statistical Yearbook and other financial data are from the CSMAR. Data processing steps are as follows: (1) Download other research data of all A-share listed companies from 2010 to 2020 from CSMAR; (2) To eliminate the financial class, ST and ST\* stocks; (3) Eliminate missing values. In the end, in order to avoid the influence of extreme values, all continuous variables in this paper were shrunk tail at 1%.

## 4. Empirical Results

### 4.1. Descriptive Statistics

Table 1 provides descriptive statistics for the main variables, the sample is composed by 22,661 observations from A-share listed companies in China. From the table, the minimum, maximum and average CSR scores respectively is -18.45, 90.87 and 21.94, indicating that CSR performance varies greatly. In terms of the Myopia Index, the minimum value of the myopia index is 0, and the maximum value is

0.86, which also shows a huge difference.

**Table 1.** Variable Descriptive Statistics Results

Variables	N	Min	p50	Max	Mean	SD
Csr_hx	22661	-18.45	21.94	90.87	23.84	15.16
Myopia	22661	0	0.070	0.860	0.080	0.080
Size	22661	17.64	21.84	28.64	22.03	1.290
Lev	22661	0.010	0.390	4.030	0.410	0.210
Growth	22661	-1.310	0.120	14883	0.930	98.95
Soe	22661	0	0	1	0.300	0.460
Mao	22661	0	2.220	100	16.28	21.49
Mage	22661	24	53	85	52.97	7.240
Tenure	22661	0	51	268	60.65	44.69
Salary	22661	11.04	14.40	18.29	14.43	0.710
Degree	22661	1	4	7	3.660	1.340
Cent1	22661	2.870	32.36	92.26	34.52	14.83
Lngdp	22661	6.230	10.54	11.62	10.50	0.740

## 4.2. Analysis of Empirical Results

### 4.2.1. Benchmark Regression Results

The baseline regression of this paper studies the impact of managerial myopia on CSR, the explained variable is CSR score (Csr\_hx), the core explanatory variable is managerial myopia (Myopia), the empirical regression results are shown in Table 2. The myopia of managers will inhibit enterprises from fulfilling their social responsibilities, which supports that the motivation of enterprises to engage in social responsibility activities is a long-term strategic choice. From (1) to (3) columns, adding year fixed effects, industry fixed effects and control variables into regressions successively, it can be seen that the regression coefficients of the core

explanatory variables are all significantly negative, indicating that the managerial myopia will inhibit enterprises from fulfilling social responsibility. In regression (3), the coefficient of the managerial myopia is -5.827, statistically significant at 1%. The more short-term-oriented words appear in MD&A part of annual report, the less the listed company will be engaged in social responsibility activities. An increase of one unit of managerial myopia index will reduce the CSR score published by HeXun about 5.827. The result also shows that the purpose of myopic managers to increase CSR investment is not for personal reputation or to resolve conflicts between managers and stakeholders, which refutes the theory of overinvestment and conflict resolution of CSR.

**Table 2.** The impact of managerial myopia on CSR: Benchmark regression

VARIABLES	(1) Csr_hx	(2) Csr_hx	(3) Csr_hx
Mvonia	-5.414** (-2.49)	-9.919*** (-4.66)	-5.827*** (-3.35)
Size			3.499*** (20.38)
Lev			-15.72*** (-17.30)
Growth			-0.000651*** (-7.79)
Soe			2.314*** (5.07)
Mao			0.0553*** (7.29)
Mage			0.0378* (1.78)
Tenure			0.00376 (1.14)
Salary			4.203*** (16.41)
Degree			0.0507 (0.45)
Cent1			0.0742*** (6.73)
Lngdp			0.221 (0.92)
cons	24.30*** (94.37)	24.68*** (97.51)	-115.9*** (-24.59)
Controls	NO	NO	YES
Industrv	NO	YES	YES
Year	YES	YES	YES
Observations	22661	22661	22661
Adj-R <sup>2</sup>	0.0840	0.130	0.274

Note: t statistics in parentheses; \*\*\* means  $p < 0.01$ , \*\* means  $p < 0.05$ , \* means  $p < 0.1$ .

### 4.2.2. Robustness Test

#### 1. Replace variables

Dependent variable robustness: the CSR score issued by RSK is used as a surrogate variable for CSR. This score

comprehensively evaluates the implementation of social responsibility reflected in the CSR report in the form of an index. The higher the score is, the better the CSR performance of a company is.

Robustness of independent variable: As for how to measure the investment horizon of managers. Enterprise managers generally have a career duration, the older they are or the longer their tenure is, the shorter their expected tenure is, forming a short-sighted motivation. The industry average level is also an important basis for their expected tenure. Therefore, this paper adopts the industry-adjusted average age of managers and average tenure to measure managers' investment horizon (MH<sub>i,t</sub>) (Hongli Gao et al., 2021; Antia et al., 2010) as a way of robustness test. When the age and tenure of managers exceed the average level of the industry, the value of MH increases, indicating that the managers are more myopic.

$$MH_{i,t} = Age_{i,t} - Age_{ind,t} + Tenure_{i,t} - Tenure_{ind,t}$$

Age<sub>ind,t</sub> and Tenure<sub>ind,t</sub> respectively represent the average age and tenure of managers in the same industry.

After replacing variables, regression results are shown in table 4, the regression coefficients were significantly negative in the column (1) and (2), illustrating the benchmark regression results are of robustness.

**Table 3.** The impact of managerial myopia on corporate social responsibility: Robustness test

VARIABLES	(1) Csr rl	(2) Csr hx
Myopia	-4.098* (-1.69)	
MH		-0.0496** (-2.20)
_cons	-78.06*** (-7.13)	-122.4*** (-23.25)
Controls	YES	YES
Industry	YES	YES
Year	YES	YES
Observations	4430	22661
Adj-R2	0.396	0.274

#### 4.2.3. Endogeneity

Benchmark regression results have proved that managerial myopia may decrease social responsibility activities. In order to further identify the causality, endogeneity need to be dealt with. According to the time-oriented theory, short-termism of managers is a relatively stable characteristic, so this paper focuses on the endogenous problem caused by omitted variables.

When studying the impact of managerial myopia on CSR performance, there exists other managerial characteristics are related to managerial myopia. For example, consider that managerial myopia is highly relevant to their employment opportunities. If the effect of this variable on managerial myopia cannot be controlled in the regression model, the empirical results about CSR may be erroneously attributed to managerial myopia rather than the real cause, employment opportunities. Therefore, this paper constructs an instrumental variable manager employment opportunity according to the research of Antia et al. (2021). The specific method is to count the number of companies in the same industry whose total compensation is greater than their own according to the first-level industry classification of China Securities Regulatory Commission in 2012, calculate the ratio to the total number of companies in the industry. If there are better employment opportunities in the market, managers will have stronger willingness to leave, while the employment

opportunities in the industry have no direct impact on CSR. Therefore, it can be considered that the instrumental variables constructed in this paper only affect CSR by influencing managers' myopia. In conclusion, Job\_opportunity is selected as an instrumental variable.

The 2SLS regression result is showed in Table4, the F value in first stage is greater than 10 and Cragg-Donald Wald F value is greater than 16.38, showing that there is no weak instrumental variable problem. The result of the first stage regression is significant and the result of the second stage regression are significantly negative, indicating that the inhibitory effect of managerial myopia on CSR performance still holds.

**Table 4.** The Impact of managerial myopia on CSR: 2SLS

VARIABLES	(1) Myopia	(2) Csr hx
Job_opportunity	0.0160*** (3.34)	
Myopia		-163.6** (-2.23)
Controls	YES	YES
Industry	YES	YES
Year	YES	YES
Observations	22659	22659
First-Stage F Values		11.17
Cragg-Donald Wald F Values		25.695

## 5. Conclusions and recommendations

This paper explores the relationship between managerial myopia and CSR performance using the managerial myopia index constructed using Text analysis and Machine learning methods. The result shows that managerial myopia significantly reduces CSR activities and the conclusion still holds in 2SLS regression. Hence, enterprises should take corresponding measures to supervise the behavior of managers, encourage enterprises to engage in social responsibility activities, which is of great significance with the sustainable development of enterprises.

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