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The Effect of Pay Schemes and Long-Term Orientation on Managers' CSR Overinvestment Ethical Judgments

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ABSTRACT

This study aims to shed light on the role pay schemes and individual factors (i.e. long-term orientation) play in influencing managers' ethical judgments on corporate social responsibility (CSR) overinvestment. Built on an egocentric concept, the study predicts that managers employed under different pay schemes and with different levels of long-term orientation will make different ethical judgments on such overinvestment. It employs an experimental approach, in which the pay scheme variable is divided into two types: an overinvestment-inducing one, and an overinvestment-hindering one. In measuring managers' long-term orientation, the study adopts Bearden et al.'s (2006) measurement. It finds evidence that managers on an overinvestment-hindering pay scheme are more likely to consider overinvestment in CSR to be more unethical than those employed on an overinvestment-inducing scheme. Moreover, managers who have higher long-term orientation are more likely to judge overinvestment in CSR to be unethical. However, the study finds no evidence of the interaction effect of pay schemes and long-term orientation in affecting managers' ethical judgment on overinvestment in corporate social responsibility.

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INTRODUCTION

The development of social responsibility practices is characterised by the increasing levels of company resources allocated to social responsibility activities (Barnea and Rubin, 2010). Spending on social responsibility activities is now seen by companies as an investment that can bring them economic benefits in the long term. This is consistent with the notion that CSR activities lead to strategic, and not altruistic, practices (Marx, 1998; Saiia et al., 2003; Waddock and Boyle, 1995; Werbel and Wortman, 2000).

Some researchers have found that managers have made excessive investments (overinvestment) in social responsibility programs (Barnea and Rubin, 2010; Kao et al., 2014; Martin and Moser, 2012). In the finance literature, managers' decisions to undertake overinvestment are often shown to be opportunistic; i.e., to bring personal benefits for the managers themselves (e.g. Baxamusa, 2012; Hemingway and Maclagan, 2004; Kao et al., 2014; Lei et al., 2014; McWilliams and Siegel, 2006; Petrovits, 2006; Prior et al., 2008). In the context of social responsibility, Kao et al. (2014) established the existence of managers' motivation to improve their reputation by overinvesting in social responsibility programs.

The phenomenon of overinvestment has been studied widely in the finance and behavioural finance literature. To the best of our knowledge, however, there are no studies that examine managers' ethical judgments on overinvestment in the context of social responsibility. While previous studies (Aggarwal et al., 2012; Bass et al., 1998; Sobral and Islam, 2013) have examined managers' ethical judgments on various business issues, very few have examined such judgments on social responsibility. These have generally explored the ethical judgment of consumers (e.g. Arli and Tjiptono, 2014; Deng, 2012; Reed II et al., 2007) and of employees (e.g. Hollingwort and Valentine, 2015), but not the ethical judgments of managers, as decision makers. Additionally, studies on overinvestment in social responsibility have to date been made from the economic perspective (e.g. Barnea and Rubin, 2010; Kao et al., 2014; Martin and Moser, 2012) but not framed as an ethical issue. Different to previous studies, this study examines managers' ethical judgments related to overinvestment in social responsibility, as such overinvestment may be detrimental to shareholder interests, and therefore be deemed as unethical by utilitarianists. The study aims to examine whether a particular organisational factor (the type of pay scheme) and individual factor (managers' long-term orientation) affect managers' ethical judgments on overinvestment in social responsibility.

Researchers in finance and behavioural finance have provided empirical evidence that pay schemes can motivate managers to make overinvestment (e.g. Baxamusa, 2012; Malmendier, 2015; Malmendier and Tate, 2005a; 2005b). However, the role of pay schemes in influencing managers' ethical judgments has not been widely studied. To the best of our knowledge, Hobson et al.'s (2011) study is the only one which has examined the role of a pay scheme in the ethical judgment of subordinates, but in the context of budget slack. This study examines the pay scheme, as a factor that could potentially lead to managers' egocentric behaviour. We predict that managers involved in, or having the opportunity to perform, unethical actions that will bring them personal benefits will judge these actions as being reasonable and fair, so they will judge their actions to be more ethical.

In addition to the pay scheme, managers' long-term orientation is also expected to affect their ethical judgments on overinvestment in social responsibility. This is because managers with high levels of long-term orientation will appreciate values such as honesty and fairness, and long-term thinking, and consider the impact of their actions on others (Bearden et al., 2006; Moon and Franke, 2000; Nevins et al., 2007), as opposed to managers with low levels of long-term orientation.

This study is, to the best of our knowledge, the first to examine how managers make ethical judgments related to overinvestment in social responsibility. The results of the study will provide a theoretical contribution, in the form of an explanation of how the pay scheme and long-term orientation of managers can influence their ethical judgment on overinvestment in social responsibility. The study also provides a practical contribution in the form of feedback to companies about the importance of designing appropriate pay schemes to direct managers' ethical judgment, and of taking into account individual factors, one of which is long-term orientation, in the managerial selection process.

The remainder of the paper is organized as follows. The following section comprises a review of the literature and the development of our hypotheses. This is followed by a discussion of the methods used in the study, and the presentation of the research results. The paper ends with a discussion and the conclusions drawn.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Overinvestment in CSR as an Ethical Issue

Overinvestment occurs when managers decide to invest in projects that are less profitable (Lei et al., 2014). This can occur because of information asymmetry; the availability of free cash flows in their company (Jensen, 1986; Lei et al., 2014; Lucian and Stole, 1993; Zwiebel, 1996); misalignment between the interests of the managers and shareholders (Jensen and Meckling, 1976; Myers and Majluf, 1984); and managers' motivation to pursue personal interests (Nielsen, 1987; Maclagan, 2003).

Defining overinvestment in CSR is not easy, as quantifying accurately the amount of a company's investment in it is difficult. Rather than reporting their CSR investments in special CSR accounts, most companies report them in their regular accounts, such as their research and development account (Barnea and Rubin, 2010). As a result, researchers tend to show a downward biased measure of a company's CSR investments (McWilliams and Siegel, 2000). While most studies use information on CSR ratings as a measure of CSR investment (i.e. a higher rating indicates overinvestment in CSR), this study uses industry averages for CSR investment as a measure of a company's overinvestment. Therefore, overinvestment in this study is defined as the amount of a company's CSR investment that exceeds the industry average.

There are some conditions which indicate that overinvestment in social responsibility can be seen as an ethical issue. First, social responsibility is a process which involves the moral values of individuals (Maclagan, 2012), especially managers (Maclagan and Campbell, 2011), in making ethical decisions related to social responsibility. Second, decisions on investment in social responsibility may carry a moral dilemma; namely, the obligation of managers to boost financial performance and to improve the social performance of their companies (Maclagan, 2012; Stark, 1993). Moreover, managers have personal interests and do not want to lose their job or career, so this often influences their decisions. Selfishness may lead to an ethical dilemma for a manager (Maclagan, 2003; Nielsen, 1987). All the above points provide a compelling argument for this research to frame the phenomenon of overinvestment in social responsibility as an ethical issue, especially from the utilitarian perspective (Velasquez, 2014).

Barnea and Rubin (2010) argue that the relationship between the level of CSR investment and firm value is not linear. Small investments in CSR may be expected to affect shareholders' wealth positively. However, after a certain point any additional investment will decrease their wealth, as there is no limit to the amount of money that a company can invest in its CSR program.This argument implies that companies which make an investment in CSR face the risk of only seeing an insignificant increase in their value. Therefore, managers who attempt to make a value-maximising decision should be careful in choosing their level of investment in CSR.

The Egocentric Perspective and Ethical Judgment

Egocentric bias is the tendency of individuals to be more inclined to take into account everything that is favourable to them (Leung et al., 2004), so those with an egocentric bias have the tendency to make decisions that could bring them personal benefits, displaying a self-serving and self-favouring approach to interpersonal interactions. This egocentricity would make their interpretation of fairness biased, which would then influence their ethical judgments. Although equity theory suggests that every contribution made by individuals to their organisation should be rewarded appropriately in order to give satisfaction to the contributors, from the perspective of egocentricity managers tend to be egocentric and always want a larger reward for themselves (Diekmann, et al., 1997; Leung and Bond, 1984), and assume that their desires are reasonable and fair (Diekmann, et al., 1997). In other words, individuals' perception of fairness shows their tendency to be egocentric.

Researchers have shown that egocentric bias can be found in various interpersonal interactions (e.g. Paese and Yonker, 2001; Leung et al., 2004) and that this can influence individuals' perception of fairness. Fairness is something that is often taken into consideration when deciding what is regarded as ethical (see Schweitzer and Gibson (2008)). In addition, egocentric bias may also make an individual's interpretation of ethicality biased. Specifically, individuals who have the opportunity to engage in unethical behaviour tend to regard such behaviour as less unethical (Blanthorne and Kaplan, 2008).

Hypothesis Development

O'Fallon and Butterfield (2005) show that individual ethical decisions are influenced by individual and organisational factors. Their review shows that the number of studies linking rewards and penalties with ethical decisions are relatively few, compared with studies that examine other organisational factors, such as codes of ethics and the ethical climate. Most of the studies that have evaluated the effects of rewards and penalties on ethical decision making provide evidence that individuals who have benefitted from their unethical behaviour will be increasingly likely to undertake similar actions (Hegarty and Sims, 1978; Trevino and Youngblood, 1990).

Rewards and penalties, as a mechanism which may influence ethical decisions, can be created through pay schemes. In the literature on finance, any pay scheme which directly links the performance of a company with the economic benefits to be gained by the manager may lead to the entrenchment effect (e.g. Aggarwal and Samwick, 2006; Baxamusa, 2012; Hadlock, 1998), or the alignment effect (e.g. Baxamusa, 2012; Broussard et al., 2004; Lei et al., 2014). The entrenchment effect encourages managers to perform unethical behaviour, which is not in line with the interests of the shareholders, while the alignment effect may cause managers to perform actions in line with the expectations of shareholders.

Based on the egocentric arguments, the pay scheme employed may lead to egocentric judgments. Therefore, managers with overinvestment-inducing pay schemes and those with overinvestment-hindering ones will make different ethical judgments on overinvestment in social responsibility. This occurs because managers with overinvestment-inducing schemes, whose performance is measured through the achievement of profit targets, and those with overinvestment-hindering ones, whose performance is not directly linked to the achievement of any profit targets, have different exchange relationships with their companies. These different exchange relationships may affect ethical judgments on overinvestment in social responsibility.

We expect that managers with overinvestment-hindering pay schemes will have a lower incentive to commit to overinvestment in social responsibility than those with an overinvestment-inducing scheme, and thus they will be more likely to judge overinvestment in social responsibility as unethical. Therefore, the first hypothesis of the study is formulated as follows.

H1: Managers with an overinvestment-hindering pay scheme will judge overinvestment in social responsibility as more unethical compared to managers with an overinvestment-inducing pay scheme.

In addition to the organisational factors, this study takes into account individual factors. Various models of ethical decision making state that individual ethical judgments are influenced by individual factors (Hunt and Vitell, 1986; Jones, 1991). O'Fallon and Butterfield (2005) suggest the importance of investigating the individual factors which affect ethical decisions, other than those already mentioned in their review. This study includes long-term orientation, which according to Arli and Tjiptono (2014) has yet to be extensively examined, as a factor that influences ethical decisions at the individual level.

Long-term orientation is a cultural value which considers time holistically (Bearden et al., 2006). Individuals with high long-term orientations are not only able to take into account the short-term effects of an action, but will also to take into account the long-term effects. Wang and Bansal (2012) provide empirical evidence of the role of long-term orientation in strengthening the relationship between the social responsibility and financial performance of new ventures. According to Wang and Bansal (2012), a company that has a long-term orientation tends to recognise the benefits of social responsibility better. This can occur because: (1) long-term orientation will broaden the views of companies to recognise the potential benefits of social responsibility; (2) long-term orientation encourages the development of strategic resources - companies with long-term orientation better appreciate the implicit values of their relationship with their stakeholders through social responsibility activities; (3) a company with a long-term orientation tends to consider more information when making decisions, therefore making it easier to recognise the benefits of social responsibility; and (4) a company with a long-term orientation can reduce managerial constraints related to social responsibility by aligning the interests of the various stakeholders.

In the context of ethics, Moon and Franke (2000) compared the effects of the long- and short-term orientation of top management on unethical practices. Their results show that top management with a long-term-oriented culture tended to be less interested in unethical practices, compared with those who had a short-term-

oriented culture. Arli and Tjiptono (2014) also found that a long-term orientation affected most dimensions of consumer ethical beliefs. In general, researchers have concluded that companies and individuals with a high long-term orientation will demonstrate high ethical values (Moon and Franke, 2000; Nevins et al., 2007; Arli and Tjiptono, 2014).

This study argues that managers who have a high level of long-term orientation will support the company's involvement in social responsibility activities. This can occur because managers with a high level of long-term orientation believe that social responsibility can reduce managerial issues related to conflicts of interest among the stakeholders (Wang and Bansal, 2012). However, in relation to overinvestment in social responsibility, managers with a high level of long-term orientation will tend to judge such actions as unethical, because such overinvestment will sacrifice the interests of shareholders. Therefore, the second hypothesis is:

H2: Managers with a high level of long-term orientation are more likely to judge overinvestment in social responsibility as more unethical than managers with a low level of long-term orientation.

Long-term orientation has been increasingly recognised as an important factor driving individual (eg. Lin and Li, 2015) and organisational behaviour (eg. Wang and Bansal, 2012). High long-term orientation may be helpful in enabling managers to make decisions that would contribute to long-term performance. Based on the literature review by O'Fallon and Butterfield (2005), managers' ethical decisions are more likely to be influenced by individual and organisational factors simultaneously. Long-term orientation, as an individual factor, together with the pay scheme, as an organisational factor, may affect managers' ethical decisions.

As discussed, we believe that managers with an overinvestment-hindering pay scheme will be strongly motivated to judge overinvestment in social responsibility as unethical, as they may not benefit personally from such overinvestment. From the perspective of egocentricity, in such a situation managers will have a lower incentive to overinvest in social responsibility and will consider such action to be unethical. Furthermore, when managers with an overinvestment hindering pay scheme have a high level of long-term orientation, they will be more likely to judge overinvestment in social responsibility as unethical. Taking these arguments together, the third hypothesis proposed is as follows:

H3: There is an interaction effect of pay schemes and long-term orientation on managers' ethical judgment.Managers with an overinvestment-hindering pay scheme and a high level of long-term orientation are more likely to judge overinvestment in social responsibility as unethical than those with different circumstances.

RESEARCH DESIGN

To test the hypotheses we conducted a laboratory experiment, in which a total of 110 students participated. Three students did not pass the manipulation check and one failed to answer the demographic questions completely. Furthermore, during the process of grouping the participants into high and low levels of long-term orientation, seven observations were discarded because they had scores equal to the median value. Therefore, the final sample analyzed was 99. The participants were studying for Master's degrees in Accounting or Management at the Faculty of Economics and Business, University Jenderal Soedirman, Purwokerto, Indonesia. All had work experience in business-related fields. The use of students as participants is acceptable, given that according to Reiss and Mitra (1998), students' decision making and behaviour may reflect the future behaviour of professionals, such as managers.

Additionally, the assignment in the experiment required the cognitive effort of the participants to make ethical decisions related to the scenario given to them. The task could be completed by students as it was on ethical judgment, the second level of ethical decision making (see, for example, Velasquez, 2014). The students were considered to be capable of performing the tasks in the experiment. According to Trinugroho and Sembel (2011), the use of students as participants in an experiment will provide benefits for researchers, because students have natural characteristics that can be manipulated more easily through the treatment given in the experiment. Additionally, Liyanarachchi and Milne (2005) provide evidence that students could be surrogates for practitioners in decision-making tasks. The use of students as subjects is also found in previous studies which have tested managers' decisions, both in the context of ethical decision-making in business (e.g. Davidson and

Stevens, 2013; Hobson et al., 2011), investment decisions and business (e.g. Trinugroho and Sembel, 2011; Rutledge and Karim, 1999), as well as managers' decisions related to issues of social responsibility (e.g. Madein and Sholihin, 2015).

Experimental Procedure and Tasks

In the experiment, all the participants were asked to act as new managers of a company. They were asked to study information about the former manager's decision related to the allocation of funds for corporate social responsibility activities in the past year. This information was used as an input for the participants in making decisions related to the allocation of social responsibility funding for the following year. The participants were given a scenario depicting the former manager's decision to overinvest in social responsibility activities. This informed them that the former manager invested 5 per cent of company profits, which was considered as an overinvestment because the industry average is 2 per cent. We used the benchmark of 2 per cent because we believe that on average companies in Indonesia allocate this amount to social responsibility activities. The 2 per cent average of funds allocated from net profits for CSR practice is a government requirement, imposed, for instance, in the Law on State-Owned-Enterprise 2003. Additionally, according to a panel of CSR experts which consisted of practitioners and faculty members with whom we consulted, a 5 per cent allocation of net profits for CSR purposes was considered as material and large in Indonesia.

It could be argued that companies with higher CSR expenditure are more ethical because they have higher awareness of CSR, and that CSR expenditure above 2 per cent is not necessarily unethical. However, we argue that spending 5 per cent on CSR is more unethical than 2 per cent for the following reasons. First, it is possible that managers who spend 5 per cent are motivated to improve their own reputation (see for example Kao et al., 2014) by sacrificing the right of shareholders, as such an action can reduce their profit allocation. This goes against the acceptable perspective of ethics and may lead to a conflict among stakeholders (Barnea and Rubin, 2010), which will be worsened when the decision to overinvest in CSR involves an incentive to gain private benefits (managers' reputation). Second, spending 5 per cent on CSR could be seen to reduce the value-maximizing objective of the company in order to pursue managers' personal benefits. We argue that such a decision can be considered as unethical, as it could be unfair for shareholders. In the ethics literature, fairness is often taken into account when deciding what is regarded as ethical (Schweitzer and Gibson, 2008). Finally, overinvestment in social responsibility, in our case at 5 per cent, may be detrimental to shareholder interests and be deemed as unethical from a utilitarian perspective, as it reduces the utility of shareholders (Velasquez, 2014).

The participants were grouped at random into either an overinvestment-inducing pay scheme or an overinvestment-hindering one. Through the given scenario, the participants were informed about the pay scheme which they received from the company. They were then asked to judge the ethicality of the decision made by the previous manager, who had made an overinvestment in social responsibility. The participants provided their ethical judgments in responding to the statement "To have overinvested in CSR would have been unethical," using a 5-point scale (from 1: Strongly disagree to 5: Strongly agree). Measurements of this type for ethical judgments are similar to those used by previous ethics researchers (e.g. Chung and Monroe, 2003; Hobson et al., 2011; Kaplan, 2001). In addition, the participants were also required to respond to two statements for a manipulation check.

The independent variable in the research was the pay scheme and the managers' long-term orientation. The pay scheme variable was divided into two types: an overinvestment-inducing pay scheme and an overinvestment-hindering one. The participants on the overinvestment-inducing pay scheme received performance-based pay, which was directly linked to the company's profits for their economic benefit (compensation). Under this pay scheme, managers' compensation was made up of a basic salary and a bonus. This bonus was awarded when the manager passed the profit target that had been set. The participants in the overinvestment-hindering pay scheme were compensated by a process which did not directly relate company performance to the economic benefits of the manager. The participants in this pay scheme were given a basic salary and allowances, in accordance with their position or office.

A manipulation check was carried out by providing a statement for the participants to respond to, using a five-point scale (from 1: Strongly disagree to 5: Strongly agree). They were asked to respond to the statement "The amount of funds allocated for social responsibility will affect the amount of compensation that you will

receive." This manipulation check was to ensure that the participants understood the treatment and to check whether they were participating seriously in the experiment.

The long-term orientation variable was measured using a scale developed by Bearden et al. (2006). In this scale, long-term orientation is measured using eight questions also on a five-point scale (from 1: Strongly disagree to 5: Strongly agree), with a Cronbach's alpha of 0.902. According to Nunnally (1967), a value for Cronbach's alpha of 0.902 indicates that the long-term orientation variable had fairly high reliability.

RESULTS

Descriptive Statistics

The participants were 52.5 per cent male and 47.5 per cent female. Table 1 shows the number of participants, and the mean and standard deviation of ethical judgment for each group. Based on table 1, the mean of ethical judgment (standard deviation) for each group are 2.36 (SD = 0.98) for the overinvestment-inducing pay scheme group; 3.06 (SD = 1.21) for the overinvestment-hindering pay scheme group; 3.04 (SD = 1.21) for the high level of long-term orientation group; and 2.33 (SD = 0.98) for the low level of long-term orientation group.

Table 1 Descriptive Statistics

Long-term Orientation (LTO)	Pay Scheme		Total
	Overinvestment-inducing	*Overinvestment hindering*	
High	Group 1 n=27 $\bar{Y} = 2.67$ $\sigma_Y = 1.11$	Group 3 n=26 $\bar{Y} = 3.42$ $\sigma_Y = 1.21$	High LTO Group n=53 $\bar{Y} = 3.04$ $\sigma_Y = 1.21$
Low	Group 2 n=23 $\bar{Y} = 2.00$ $\sigma_Y = 0.67$	Group 4 n=23 $\bar{Y} = 2.65$ $\sigma_Y = 1.11$	Low LTO Group n=46 $\bar{Y} = 2.33$ $\sigma_Y = 0.98$
Total	Overinvestment- Inducing Group n=50 $\bar{Y} = 2.36$ $\sigma_Y = 0.98$	Overinvestment- Hindering Group n=49 $\bar{Y} = 3.06$ $\sigma_Y = 1.21$	

Hypothesis Testing

Table 2 shows the results of the testing of the hypotheses. A significant difference between the ethical judgment of the different groups of participants under different pay schemes (F value of 10.991; p=0.001) can be observed. We can also see that the participants with a high level of long-term orientation are significantly different from those with a low level when judging the ethicality of overinvestment in social responsibility (F value of 11.448; p=0.001). Based on table 1, compared to the participants who are on the overinvestment-inducing pay scheme (mean=2.36; SD=0.98), those with the overinvestment-hindering pay scheme (mean=3.06; SD=1.21) tend to judge overinvestment in social responsibility as more unethical. Furthermore, participants with a high level of long-term orientation (mean=3.04; SD=1.21) judge overinvestment in social responsibility as more unethical than those with a low level. However, the results fail to demonstrate the interaction effect of pay scheme and long-term orientation on ethical judgment (F value of 0.060; P=0.807).

Table 2 ANOVA results

	Sum of Squares	Df	Mean Square	F
Corrected Model	24.942	3	8.314	7.482
Intercept	710.281	1	710.281	639.205
Pay Scheme	12.213	1	12.213	10.991*
Long-term Orientation	12.721	1	12.721	11.448*
Pay Scheme * Longterm Orientation	.067	1	.067	.060
Error	105.564	95	1.111	
Total	856.000	99		
Corrected Total	130.505	98		

Note: * indicates statistically significant at 5%

Sensitivity Analysis

Previous studies have found that women are less tolerant of unethical actions (e.g. Ameen et al., 1996) and that they tend to act more ethically (e.g. Cohen et al., 2001) than men. The empirical results of the review by O'Fallon and Butterfield (2005) on the effect of gender on ethical judgments, intentions and behaviours are inconclusive. Therefore, the sensitivity analysis in this study is intended to examine the possibility that gender has affected the results.

Table 3 ANCOVA results with gender as a covariate

	Sum of Squares	Df	Mean Square	F
Corrected Model	25.161	3	8.368	7.543
Intercept	323.452	1	323.672	291.736
Pay Scheme	12.021	1	12.187	10.985*
Long-term Orientation	11.800	1	11.776	10.614*
Pay Scheme * Longterm Orientation	.055	1	.055	.049
Gender	.219	1	.231	.208
Error	105.344	94	1.121	
Total	856.000	99		
Corrected Total	130.505	98		

Note: * indicates statistically significant at 5%

Table 3 shows that the hypotheses are still supported after controlling for gender; men and women did not differ in their ethical judgments on overinvestment in social responsibility.

DISCUSSION AND CONCLUSIONS

Previous research has revealed that managers overinvest in social responsibility (Barnea and Rubin, 2010; Kao et al., 2014; Martin and Moser, 2012). These overinvestments are often opportunistic, bringing personal benefits to the managers involved (Kao et al., 2014). None of these studies, however, has attempted to study how managers view overinvestment in social responsibility in terms of its ethicality. An understanding of this matter is very important, as managers' ethical awareness will drive their ethical behaviours.

Undertaking overinvestment in social responsibility may be considered to be unethical for two reasons. First, when it is undertaken opportunistically, and second, when doing so can harm shareholder wealth. This study attempts to explain how managers make ethical judgments about overinvestment in social responsibility by taking the perspective of egocentricity; that is, it proposes that managers tend to be egocentric in making such judgments. Specifically, when managers have a lower opportunity of gaining benefit from overinvestment in social responsibility, they are more likely to judge overinvestment to be unethical.

Pay schemes are considered to affect managers' ethical decisions on overinvestment in social responsibility and have been proven to have an impact on managers' behaviour (see Aggarwal and Samwick, 2006; Baxamusa, 2012; Broussard et al., 2004; Hadlock, 1998; Lei et al., 2014). Managers whose performance is measured through the achievement of profit targets, and those whose performance is not directly linked to the achievement of any such targets, will have different exchange relationships with their companies. These different relationships may affect ethical judgments on overinvestment in social responsibility.

In addition to pay schemes, this study has also incorporated long-term orientation as a factor that may drive managers' ethical decisions. We expected that managers with high long-term orientation would take into account the short- and long-term effects of any actions, so that these could contribute more to long-term performance, than those with a low level of long-term orientation. Therefore, managers with high long-term orientation are less likely to overinvest in social responsibility in order to pursue personal economic benefit at the expense of shareholder wealth.

As previously discussed, the egocentric perspective suggests that individuals with an egocentric bias have a tendency to make decisions that could bring them personal benefits. Based on this perspective, pay schemes and long-term orientation may drive management to make egocentric judgments. The results of this study provide support for the egocentric argument. They show that managers on overinvestment-inducing pay schemes are more likely to judge overinvestment in CSR to be less unethical. These results support the argument presented in

the study that pay schemes could create egocentric bias, which would affect managers' perception of ethicality, which would then influence their ethical judgement on overinvestment in CSR. A pay scheme that provides incentives for managers to invest excessively in social responsibility, and which may also bring economic benefits for them, will drive managers to think egocentrically. In other words, managers with overinvestment-inducing pay schemes tend to judge overinvestment in social responsibility as less unethical. In contrast, managers who do not have any incentive to make excessive investments in CSR will judge the actions of other managers who do do this as more unethical.

The study also provides evidence that managers with a high level of long-term orientation are more likely to judge overinvestment in CSR as more unethical, compared to those with a low level of long-term orientation. This result supports the ethical decision making theory, which suggests that those with different individual factors will make different ethical judgments (Jones, 1991). These results also provide support for previous studies which showed that individuals with a high level of long-term orientation will demonstrate high ethical values (Moon and Franke, 2000; Nevins et al., 2007; Arli and Tjiptono, 2014).

A sensitivity analysis was carried out to test the potential effect of gender in influencing the results of the study. The results of the analysis show that after controlling for gender, the same conclusions are reached. Overall, it can be concluded that pay schemes and the long-term orientation of managers play important roles in influencing their ethical judgment on excessive investment in CSR.

The implication of this research is that an appropriate pay scheme design is important for companies, as this could influence managers' investment decisions (Aggarwal and Samwick, 2006; Baxamusa, 2012) and ethical judgments (Hobson et al., 2011). The results also show the importance of individual factors, in particular long-term orientation, which need to be taken into account in the process of selecting managers. The study has several limitations that should be overcome in future research. First, overinvestment in this study refers to that which results from opportunistic managers' decisions, not that caused by regulations, as certain other industries, whose operations may have a greater impact on the environment, may be required to allocate funds for social responsibility at a level higher than 2 per cent. Therefore, readers should take this into consideration when interpreting the results and implications of this research. Second, to the best of our knowledge, this study is the first to examine the ethical judgment of managers on overinvestment in CSR. Therefore, more studies are needed to test whether the conclusions in this study hold in other similar ones.

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