Board Diversity and Corporate Social Responsibility: Evidence from Iranian Firms

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ABSTRACT

According to agency theory, board of directors plays an important monitoring role in reducing information asymmetry and increasing the transparency of financial statements and social responsibility. This research is concerned with examining board diversity and social responsibility of the firms listed on the Tehran Stock Exchange during the years 2011-2015. To do so, a sample of 98 firms was selected using systematic random sampling method. The results indicate that board gender diversity is not significantly associated with corporate social responsibility disclosure at 5% level of significance, whereas the proportion of outside directors is significantly correlated with corporate social responsibility disclosure.

Keywords:

board diversity, board independence, social responsibility.

1. Introduction

Today's business world is encountering increasing global concerns about the role of firms in the presence of information asymmetry. Corporate Social Responsibility (CSR) is one of the essential factors in reducing information asymmetry (Darus et al, 2009). Put it differently, CSR is an important issue affecting investors and shareholders' decisions (Saleh et al, 2011). Generally speaking, investors tend to invest in those firms which disclose their CSR transparently since CSR can improve firms' financial performance and access to capital, reduce their operational costs and increase their credit and customers loyalty (Saeid et al, 2009).

In fact, CSR is a kind of continuity and unity among organizational values and activities that reflects the benefits of all stakeholders like shareholders, customers, staff, investors and the public in the policies and performance of an organization (Foroghi et al, 2006). It is noteworthy that firms with high CSR are more likely to disclose their social activities, which in turn reduces their agency problems (Serafeim et al, 2012). The association between shareholders and directors usually develops conflicting interests which result from the separation of ownership from management, different aims and information asymmetry between managers and shareholders. This will in turn motivate directors to act opportunistically at the expense of shareholders' benefits. Therefore, their decisions and performance will not necessarily maximize owners' wealth and well-being. In fact, agency theory seeks to protect shareholders' interests through monitoring managerial behaviors. The effective monitoring role of board of directors can significantly mitigate inappropriate allocation of financial resources, and thereby improving stock value (Sepasi and Abdoli, 2016).

Board of directors plays a fundamental role in promoting CSR via balancing the interests of shareholders and other stakeholders in society (Ibrahim and Hanefah, 2016). Board of directors cannot reduce agency conflicts, but its characteristics including size and composition are important factors to determine its efficacy (Anvar and Abdulrashid, 2015). That is to say that board diversity can lead to improved CSR. It can also increase the efficacy of CSR disclosure (Erhardt et al., 2003; Carter et al., 2007) and persuade firms to participate actively in charities (Walt and Ingley, 2003; Carter et al., 2003; Ayuso and Argandona, 2007; Ruigrok et al., 2007; Ness et al., 2010), improve their performance towards the environment (Coffey and Wang, 1998; Williams 2003) and finally promote their economic performance (Ayuso and Argandona, 2007; Khan, 2010; Bear et al. 2010, Post et al., 2011).

2. Literature Review

Ibrahim and Hanefah (2016) investigated the relation between board diversity and CSR disclosure in Jordan. They sought to reveal whether gender, age, nationality and dependence or independence of directors is correlated with CSR disclosure. They reported that board's characteristics are significantly related to CSR, yet board gender diversity, i.e. the presence of women in board composition plays an important role in high quality CSR disclosure. Servaes and Tamayo (2015) examined the effect of CSR on firm value and documented that CSR in firms with highly informed customers has a significant and positive association with firm value, whereas it has a negative and weak relation with firm value in firms with customers with low level of information and knowledge. Also, the results of their study revealed that awareness has a negative effect on the relation between CSR and value of the firms with weak reputation. Frenz and Prakshan (2015) examined the development of CSR reporting on the East-European and North-American firms. They documented that European firms show higher CSR than their North-American counterparts. In Eastern Europe, the quality of CSR is different from country to country. Baharmoghadam et al (2013) considered the effect of some corporate governance mechanisms on CSR disclosure. They studied 93 firms over the period 2006-2010 and concluded that some corporate governance mechanisms like board independence, institutional concentration and audit committee are significantly correlated with CSR disclosure.

Theoretical foundations and Hypotheses Development

Gender diversity is a part of a broader view of board diversity (Carter et al, 2003). The presence of women in board is a part of gender diversity. Some previous studies have indicated that the presence of women in board of directors can increase the level of generosity (Coffey and Wang, 1998; Williams, 2003) and attempts to disclose CSR (Aysuso and Argandona, 2007) since women are said to be more sensitive to social issues (Burgess and Tharenou, 2002) and morals (Luthar et al, 1997) than men. A long history of literature has confirmed the significance relation between the presence of women in board and CSR disclosure (Bear et al, 2010; Williams, 2003; Khan, 2010). Therefore, the first hypothesis is developed as follow:

H1: There is a significant association between board gender and CSR disclosure.

Outside directors play a significant role in monitoring managerial behavior (Fama and Jensen, 1983). Besides monitoring management performance, they are set to protect shareholders and investors' benefits against opportunistic behaviors (Anvar and Abdulrashid, 2015). Therefore, the presence of outside directors in boards can promote CSR disclosure and corporate performance (Rouf, 2011). In fact, outside directors improve board's decisions and provide firms with added value within social environment through providing necessary resources and information, and legitimizing the board (Hilman et al, 2000). As such, they identify shareholders' desires and needs of society to monitor board's performance (Ibrahim et al, 2003).

H2: There is a significant association between the proportion of outside directors in board and CSR disclosure.

3. Methodology

1) As an applied, quasi-experimental and expost-facto study, the current research uses multivariate regression method and econometrics models to test the hypotheses. The statistical population is composed of all firms listed on the Tehran Stock Exchange during the years 2011-2015. This sample needs to meet the following conditions:
2) They were listed on Tehran Stock Exchange prior to 31 March, 2011 and continue to 2015.
3) To increase comparability, their fiscal year ended in March
4) No changes in their fiscal year or activities happened during this period.
5) They are not included in financial intermediate and investment companies.
6) Their information on audit fee has been disclosed in their financial statements appendices.

After applying the above limitations, a sample of 98 firms were selected. The research data were drawn from Stock Exchange websites and Rahavard Novin software. The final data were analyzed using Eviews and Stata softwares.

Research variables

- **Independent variable**
  - **Board gender**

Board gender is a dummy variable which takes the value of 1 if women are present in the board, 0 otherwise.

  - **Board independence**

This variable is calculated by dividing the number of non-executive members of the board by the total number of audit committee.

- **Dependent variable**

CSR disclosure is the dependent variable of the current research, which, following Ibrahim and Hnefa, 2016; Abdolrazagh and Mostafa, 2013), is measured by a checklist of 20 items of CSR disclosure which are compatible with Iranian reporting environment. Having examined the financial statements, the explanatory notes and the reports of the sample firms' boards, each item of the checklist which is disclosed takes the value of 1, 0 otherwise. Finally, the sum of obtained values equals the value of CSR disclosure for the selected firms. The items of CSR disclosure checklist are represented in the appendix. Pourali and Hejami (2015) also used this method of calculation.

- **Control variables**
  - **Firm size**

The present research uses the log of corporate annual net sales to measure firm size.

  - **Financial leverage**

in line with Ibrahim and Hanefa (2016), financial leverage, which is measured via dividing total debt by total assets, is employed as the research control variable.

  - **Profitability**

consistent with Suvaydan et al (2004) and Ibrahim and Hanefa (2016), return on owner's equity is adopted as a profitability index which is calculated by dividing net income by the market value of owner's equity.

To test the research hypotheses, the following multivariate regression model is employed:

$$CSRD_{it} = \beta_0 + \beta_1 GEND_{it} + \beta_2 IND_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 ROE_{it} + \varepsilon_{it}$$

4. Results

- **Descriptive Statistics of the Research Variables**

Table 1 represents the descriptive statistics of the research variables. These statistics have been obtained analyzing 98 listed firms during the years 2012-2015. The results indicate that CSR disclosure has been reported 13 times in the board reports. Additionally, about 67% of the board members are non-executive directors, and almost 4% of the studied firms have at least 1 female member in their board compositions. Considering the financial leverage value, one can come up with this conclusion that about 62% of the assets of the sample firms was financed by debt. The net income of the sampled firms is about 10% of the market value of their owner's equity.

- **Testing the research hypotheses**

The results of analyzing the research hypotheses using software are illustrated in some tables to facilitate further analysis and comparison.
To test the research hypothesis, the following model is estimated:

$$CSRD_{it} = \beta_0 + \beta_1 GEND_{it} + \beta_2 IND_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 ROE_{it} + \varepsilon_{it}$$

The results of testing the research hypotheses based on the estimated model are presented in table (4-8):

Table 1- The Descriptive Statistics of the Research Variables

SD	Max.	Min.	Median	Mean	Variable
2/316	17/00	7/00	12/816	13/045	**CSRD**
0/202	1/00	0/000	0/000	0/042	**GEND**
0/174	1/00	0/000	0/666	0/673	**IND**
0/764	14/563	9/865	11/901	12/015	**SIZE**
0/216	1/565	0/091	0/621	0/621	**LEV**
0/218	1/329	-1/315	0/127	0/097	**ROE**

Table 2- The Statistical Results of Testing the Research Hypotheses

95%	**Sig**	**CSRD**			**Dependent variable: CSR**
N=98					**Period: 2012-2015**
Sig.	T-statistics	SD	Coefficient		**Variable**
0/001	3/336	0/486	1/622	C	**y-intercept**
0/264	1/119	0/082	0/092	GEND	**Board gender**
0/000	3/35	0/026	0/089	IND	**Outside directors**
0/020	2/333	0/027	0/065	Size	**Size**
0/447	0/76	0/003	0/002	Lev	**Financial leverage**
0/028	0/205	0/040	0/090	ROE	**Return on owner's equity**
0/434	SD of DV	7/825 (0/000)			**F-fisher statistics**
0/696	Mean of DV	0/531			**Adjusted R2**
1/933					**Durbin-Watson statistics**
490					**observations**

Considering f-statistics and 0.000 level of significance, one can conclude that the fitted regression model is significant at 5% level. Given the value of adjusted R^2, the researchers reached the conclusion that independent and control variables explain about 53 percent of changes in CSR disclosure. As indicated in the above table, the estimated coefficient and t-statistics of the variable of board gender are positive, yet not significant at 5% level. As such, H0 is accepted, but the first hypothesis is rejected at 5% level. As can be seen in table 2, the estimated coefficient and t-statistics of the variable of board independence are positive and significant at 5% level, which confirms the presence of a significant relation between board independence and CSR disclosure. As such, H0 is rejected, but the second hypothesis is accepted at 5% level.

5. Discussion and Conclusions

Although corporate governance and its association with CSR disclosure has long been discussed in the accounting literature, it still draws a lot of attention since corporate governance focuses on the monitoring role of directors so that their decisions can enhance agency problems or reduce information asymmetry. This study sought to investigate the key concepts of corporate governance and its role in more efficient CSR disclosure. The findings revealed that gender diversity shows no significant association with CSR. Although regression coefficient indicates a positive correlation between board gender diversity and CSR disclosure, it is not significant. In fact, gender diversity, as a part of broader view of board diversity, implies the presence of women in board of directors. Following Bear et al (2010), Williams (2003) and Khan (2010), the presence of women in boards of directors can improve firms' CSR and social performance since women give priority to ethical issues more than men. Accordingly, the results of previous studies are not consistent with the first hypothesis. Various factors like culture, social education, economic problems and issues, personality traits, etc. can exert significant effect that aid researchers uncover the hidden parts of social performance and factors affecting it. The results of testing the second hypothesis, however, revealed that board independence is significantly and positively associated with CSR disclosure. In fact, outside directors play a significant role in monitoring managerial behavior and firms' performance, and, due to sensitivity to agency costs, are committed to protect shareholders and investors' benefits against opportunistic behaviors. Therefore, the presence of outside directors in board composition can promote CSR disclosure and firms performance since they exert precise supervision, and hence preventing from the costs of CSR non-disclosure. In other words, outside directors improve board's decisions and provide firms with added value within social environment through providing necessary resources and information, and legitimizing the board. As such, they identify shareholders' desires and needs of society to monitor board's performance to disclose social issues appropriately. The results of this hypothesis are consistent with those obtained by Hilman et al (2000) and Ibrahim et al (2003).

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