Does board diversity affect Corporate Social Responsibility in Sri Lanka?

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Abstract

paper aims to examine the impact of board diversity on corporate social responsibility (CSR) in Sri Lanka. This study uses quantitative techniques to assess the board diversity and CSR of Sri Lankan firms. A 100-firms sample, randomly drawn from the Colombo Stock Exchange (CSE)-listed firms. Secondary data for the financial year 2017/18 are obtained from the CSE databases and are used to calculate the board diversity and CSR for the sampled firms. It is found that the diversity of board resources positively affects CSR. Diversity of board may encourage companies to invest in CSR, which will enhance the image of their companies. The study also proves a positive effect of women directors on CSR disclosure, which indicates that women on a board may improve CSR; board changes may provide necessary signals to investors indicating the potential for an improved firm image.

Keywords: board diversity, corporate governance and corporate social responsibility

Introduction

Boards have long been the subject of management research, and the attention paid to corporate boards has increased substantially in recent years (Daily, Dalton & Cannella, 2003). The board diversity is how to constitute the board composition; its emphasis on different types of directors working under the board of the directors of the firms (Bear, Rahman & Post, 2010). These board diversity factors may decide organisations' success/failure as all decision-making processes may depend on this vary type of board of director's perspectives (Rao & Tilt, 2016). In recent years, Corporate Social Responsibility (CSR) has become an essential aspect among policymakers and the academic field (Bear, Rahman & Post, 2010; Rao, 2016). While, CSR has become an important aspect in business practices (Servaes & Tamayo, 2013). During this period, the research documented that there is relatively little research that examines the relationship between board diversity and CSR. A few studies have explored what makes boards function well as groups, and the role that directors play in influencing and running the organization in general (Daily et al., 2003), and this study seeks to contribute to this line of research. This study evaluates whether the attributes of board diversity influences and the effect of CSR in Sri Lanka. Sri Lanka has an emerging economy. It is still considered less developed and has received much attention in the financial literature during recent years. Especially, after the conclusion of the domestic ethnic wars from 1970 to 2009, Sri Lanka has entered a post-war recovery phase where reform of the financial system has become pivotal in accelerating economic growth. Sri Lanka has recently started adopting several economic reforms, namely, infrastructure development, deregulation processes, and fostering international integration. As a result, CSR investment has increased significantly.

Literature Review

Two organisation theories, resource dependence theory, and agency theory provide the broad theoretical underpinnings for how board diversity and composition influence CSR ratings and how, in turn, CSR influences corporate reputation. These theories were utilized because they represent two critical functions of the board (Hillman & Dalziel, 2003). CSR is an area of corporate concern and helps organisations build corporate strategy and corporate reputation (Galbreath, 2006). Whereas, board diversity handles conflicts of interests between internal stakeholders and external stakeholders on creating value by a company; nonetheless, these conflicts of interests cannot be effectively resolved by contracting (Pergola & Joseph, 2011). Board diversity plays a vital role in this process.

Methodology

This study uses quantitative techniques to assess the board diversity and CSR of Sri Lankan firms. A 100-firms sample, randomly drawn from the Colombo stock exchange (CSE)-listed firms. Secondary data for 2017/18 are obtained from the CSE databases and are used to calculate the board diversity and CSR for the sampled firms. The diversity of director resources and the number of women on the board are used to measure board diversity. CSR – a 22-item instrument adapted from Aupperle, Carroll and Hatfield (1985), and Maignan (2001) was utilised to measure CSR dimensions. This synthesis leads to the following hypothesis in this study.

H_1: There is a significant impact on the diversity of director resources on corporate social responsibility.

H_2: There is a significant impact on the women board members on corporate social responsibility.

Results and Discussions

The average diversity of board resources is 0.623, and its standard deviation is 0.112, suggesting that the firms in the sample may be somewhat consistent in the variety of resources that directors bring to the board. The average number of women on these boards was 1.265, with a standard deviation of 1.001, and a range of 0–4. The coefficients for board resources and CSR diversity were positive and statistically significant ($p < 0.01$), offering support for this hypothesis. The number of women board members' coefficient was positive and statistically significant for CSR ($p < 0.01$). Accordingly, this hypothesis was supported.

Conclusions and Recommendations

It is found that the diversity of board resources positively effects on CSR. Diversity of board may encourage companies to invest in CSR, which will enhance the image of their companies. The study also proves a positive effect of women directors on CSR disclosure, which indicates that women on a board may improve CSR; board changes may provide necessary signals to investors indicating the potential for an improved firm image.

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