Does Board Gender Composition affect Corporate Social Responsibility Reporting? [1]

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Abstract

The purpose of this paper is to investigate the effect of board gender composition, among other variables, on Corporate social responsability (CSR) reporting. We use data from a survey conducted by KPMG, and the Women on Boards Report from Governance Metrics International, to test for the differences in CSR disclosure, based on the gender composition of the Board of Directors. We find that boards with three or more women are determinants for CSR disclosure, produce less integrated reports, inform more on CSR strategy and include Assurance statements. The study also finds that the inclusion of women in boards mediates and moderates the effect of cultural characteristics on CSR reporting. The conclusions are useful to asses the consequences in the CSR context, of exclusding women from the boards. The paper has a multidimensional perspective, combining data from different but complementary sources, giving an original focus to this area of research.

Keywords: Corporate social responsibiity, gender board composition, cross-cultural studies, CSR reporting, CSR disclosure.

Introduction

KPMG International conducts a survey every three years "to gain insight into CSR reporting and to contribute to the evolving global dialog on transparency and accountability" (2008, p. 2). Every survey shows an increase in the percentage of companies reporting. For example, in 2008 they find an increase from 50% to 80% (KPMG, 2008). The report shows that the level of disclosure changes along countries and industries as well. These differences might be originated by regulation, since in some countries like Australia, Japan and UK, there are rules requiring disclosure, while in others, companies report on a voluntary basis. Besides regulation, the level of adoption of the rules depends on the role of enforcement (Ioannou and Serafeim, 2011). Companies in a country with low levels of enforcement will be slower in adopting a rule than companies in more punitive countries.

Another variables found to affect disclosure are cultural characteristics and industry. The first one affects the behaviour of their constituents including their understanding of CSR (Orij, 2010; Scholtens and Dam, 2007; Steurer *et al*., 2005; Vachon, 2010). The second is produced because some industries considered riskier to the environment like oil or chemicals, disclose more than companies in other industries (Alali and Romero, 2011; Broberg, 2010; Fernandez-Fejjoo *et al*., 2011; Lattemann *et al*., 2009; Monteiro and Aibar-Guzman, 2010; Perrini *et al*., 2007).

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Within the CSR disclosure framework, the companies' boards play a very important role because they decide the entrepreneurial strategy, including CSR policies. Gender composition is not indifferent in the board's decision, as found in previous research (Wang and Coffey, 1992; Johnson and Greening, 1999; Hillman *et al*., 2002; Fielden and Davidson, 2005; Singh *et al*., 2008; Terjesen *et al*., 2009; Bear *et al*., 2010). However, the "glass ceiling" is a nearly impossible-to-pass barrier for a great majority of women. After decades of legislation towards equality, figures continue to show that management is a male's field (European Commission, 2006; Equal Opportunities Commission, 2006; Singh and Vinnicombe, 2006). Bellar *et al*. (2004) asses that the evolution of entrepreneurial women power has evolved glacially slow. It can be concluded that soft legislation is not enough (Joy, 2008; Ross-Smith and Bridge, 2008; Shilton *et al*, 2010).

Only in countries that legislate compulsory women quotas (e.g. Spain or Norway), the long range goal of board equality is close (De Anca, 2008; Mateos de Cabo *et al*., 2010; Seierstad and Opsahl, 2011). Nevertheless, Hovden et al. (2011) highlight that although in the political Norwegian arena men and women are equally represented, and participation of women in working life is very high, this representation does not exist in business top positions. Vinnicombe (2011) express optimism about the increasing number of countries that advance in equality, since Australia, New Zealand, Finland, France and UK are joining the two countries before mentioned. The purpose of this paper is to determine how the gender composition of the Board of Directors affects the framework defined in the 2008 KPMG report. We extend the existing literature on CSR by looking at differences in reporting produced by including women in the Board of Directors.

Our sources: The KPMG survey and The Woman on Boards report

The last KPMG survey was conducted in 2008, and it examines CSR reporting practices of the global fortune 250 (G250) plus the 100 largest companies (N100) by revenue in 22 countries (around 2,400 companies). It includes only information available in the public domain at the country and industry levels. In this study we only consider those variables for which country data is included, since our purpose is to evaluate the effect of feminine boards on the countries' changes in reporting. Those variables are:

- **Disclosure of CSR strategy**. The survey assess if reporting by leading companies is linked or not to broader corporate strategies and management approaches. The level of reporting is high since around 75% of the Global 250 companies disclose their sustainability strategy and issue a sustainability report.
- **Existence of stand-alone reports**. The report states "the potential of regulation, along with the tendency of economic stakeholders (investors, customers) to demand greater social and environmental information, could stimulate widespread integration of corporate responsibility information into annual reports." (p. 16). However, most of the companies provide stand-alone reports.
- **Reporting of supply-chain risks.** This area involves reporting not only on the company's risk, but also on the risks of its supply chain. The report finds that 63 percent of the companies report on this topic (p. 46).
- **Reporting on carbon footprint.** UK is the leader in this area of disclosure. The report finds that although nearly half of the G250 companies report on carbon emission, 62% of N100 do not. The survey also finds that most companies are working on the reduction of their carbon footprint.
- **Reporting on business opportunities and financial value of CSR**. The report finds that "54 percent of the G250 have disclosed business opportunities and or the financial value of corporate responsibility" (p. 25). The report also states that criticism to CSR is diminishing since "implementing and committing to a corporate responsibility strategy appears to be paying off." (p. 27).
- **Inclusion of Assurance Statement (AS).** The report finds that only a minority of the companies include AS in their Sustainability Reports.

The Women on Boards report is released by Governance Metrics International (GMI). The last one (GMI, 2011), includes data from the surveys published since March 2009 to 2011 (2008-2010 data). We collect data from the first study due to its time proximity to the KPMG survey date (2008). The GMI report finds that the number of women on boards has increased very little in the last year, reporting countries like Italy, where two thirds of the companies interviewed have no women in the Board. The report classifies countries in industrialized and emerging, and includes data from 23 countries in the first group and 22 in the second. It reports the average number of women in the Board of Directors in each of those 45 countries, as well as the percentage of companies in each country with at least one and at least 3 women in the Board. Additionally, it disaggregates the data by super sector and by sector, and reports the percentage of companies in each country with a female chair.

The average percentage of companies that had a female chair in 2008 in the industrialized economies is 5.3%, while in the emerging economies it was 2.53%.

Literature review and hypotheses development

There are differences in the companies' Board of Director's decisions due to its gender composition, as found in literature (e.g. Williams, 2003). It seems that female directors are viewed positively since Campbell and Minguez Vera (2010) found a positive market reaction in the short term to the announcement of female board appointments. Furthermore, Bernardi *et al*. (2006), and Brammer *et al*. (2009) find that having more women on boards enhances reputation. However, although most of the companies have at least one woman in their board, none of them has a majority of female directors (GMI, 2011). Previous research found that when there is only one woman in a group of men, they do not feel free to give their opinions, but in boards with at least 3 women (critical mass), gender is no longer a barrier and women are free to raise issues and be active (Konrad *et al*., 2008). Williams (2003) finds that boards with higher number of women engage in charitable giving to a larger extent than boards with less number of women. Bear *et al*. (2010) find that the number of women board members is positively associated with CSR strength ratings, and Hersby *et al*. (2009) conclude that women are more inclined to make decisions with a networking focus.

Finally, Sealy and Singh (2010) define higher levels of symbolic values (increased optimism, commitment to stay, reduced stereotyping, higher self-ratings, job/career satisfaction) and behavioural values (work identity development construction, provisional selves) in working women, even in societies with prevalent masculine values and behaviours (Kimmel, 2004; Broadbridge and Hearn, 2008). Hovden et al. (2011, 415) state that "symbolic values associated to gender are (re)produced in a hierarchical system through social practices". Hence, we expect that in countries with higher proportion of companies with 3 or more women in the board, the levels of CSR reporting will be different from those of countries with lower proportion of companies with at least 3 female directors. We measure the levels of the CSR reports using the KPMG variables defined previously. The first of these variables refers to the disclosure on CSR strategy. Given the higher commitment of women on CSR, we expect that boards with more women will disclose more about their CSR strategy. H1 is stated as follows:

H1: The proportion of companies with at least 3 women in the board of directors will determine (positively) the level of disclose on CSR strategy in the country.

The second variable refers to the issuans of stand alone reports. The KPMG report expects a decrease in the number of stand alone reports due to increased regulation and the integration requirements of the stakeholders. It is expected that integrated reports will be more explanatory of the general strategy and success of the company, which will increase transparency. Having more women in boards might increase integration and reduce the number of stand alone reports because of their commitment to CSR and the value they assign to social issues. H2 is stated as follows:

H2: The proportion of companies with at least 3 women in the board of directors will determine (negatively) the proportion of companies issuing stand-alone reports in the country.

Similarly to H1, the following two hypotheses relate to variables measuring the amount of information disclosed. We expect that boards with more women will disclose more to strengthen their position in CSR and social issues. The hypotheses are stated as follows:

H3: The proportion of companies with at least 3 women in the board of directors will determine (positively) the level of disclose on supply chain risk in the country (mrre disclosure in the supply chain risk).

H4: The proportion of companies with at least 3 women in the board of directors will determine (positively) the levels of disclose on footprints in the country (more disclosure on footprints).

The disclosure of business opportunities and the financial value of CSR as described by KPMG, has a double perspective in opposite direction, which may compensate the effect of including women on boards. On one hand, boards with higher number of women are more commited to CSR and more transparent; therefore, they will disclose business opportunities under a CSR strategy more than male boards. On the other hand, given that boards with higher number of women show more CSR strength, they may believe that CR strategies pay off, and will not need to justify their doings by disclosing the financial value of CSR. Under this double perspective, the hypothesis is stated as follows;

H5: The proportion of companies with at least 3 women in the board of directors will not determine the level of disclosure on business opportunities and financial value of CSR in the country

Finally, we expect companies with at least 3 women in the board to be more transparent, since they were found to have enhanced reputation, and provide more Assurance Statements. Hence, the last hypothesis is stated as follows:

H6: The proportion of companies with at least 3 women in the board of directors will determine (positively) the level of assurance of the sustainability reports in the country (more AS).

Methodology

Our study is empirical. We collect data about CSR disclosure per country and industry from the KPMG 2008 report, and test for the differences in disclosure based on the gender composition of the Board of Directors. The data about the number of women in the board in each of the KPMG countries is extracted from the Women on Boards Report produced by GMI (2011) referred to 2008. We control for other factors affecting disclosure like country culture, enforcement, economic wealth and the existence of mandatory rules (Sanyal, 2005).

Variable definition

1. **Dependent variables**

   The dependent variables are defined in the KPMG report. They include:
   a. Existence of stand-alone reports.
   b. Disclosure of CSR strategy.
   c. Reporting of supply chain risks.
   d. Reporting on carbon footprint.
   e. Reporting on business opportunities and financial value of CSR.
   f. Inclusion of Assurance Statement.
2. **Independent variables**

- **Gender composition of the Board of Directors**

Konrad et al. *(2008) discuss that when boards have at least 3 women they feel more comfortable being themselves, they feel freer to raise issues, and are more active. Hence, we collect the percentage of companies with more than 3 women in the Board of Directors per country, from the 2009 Women on Board's Report, issued by Governance Metrics International.*

- **Industry variables**

The industry variables are discussed and selected from Fernandez-Feijoo and Romero (2011). Given the limited number of observations in the KPMG report, the number of industries is reduced with factor analysis. Five components explain more than 70% of the variance, and all the attributes have communalities higher than 68%. The first component, labeled "Other" includes utilities, retail, communications, construction, transport and finance. The second one includes food and pharmaceuticals and is labeled as Health industries, the third one includes oil companies, the fourth one forestry, and the last one chemical companies. These factors identify those sectors that are usually more scrutinized by the society.

Insert Table 1 about here

- **Mandatory CSR reporting**

To control for the effect of regulation on disclosure, this variable adopts a value of 1 if the country had rules requiring mandatory disclosures at the time of the report (2008), 0 otherwise. We include as having regulation only those countries requiring mandatory disclosure of non-accounting information, like disclosures related to non-discrimination or emissions.

- **Enforcement**

Since it is expected that countries with higher levels of enforcement will adopt the rules more easily than those with lower levels, following Ioannou and Serafeim (2011), we classify the surveyed countries according to their levels of law enforcement. Ioannou and Serafeim (2011) form the groups based on Reynolds and Flores (1996), who organize the legal systems with European origins in four legal families. They discuss that the common law system originated in England and spread to other countries through colonialism. Hence, we include in this group (English) UK, US, Australia, Canada and South Africa.

The French code was adopted through occupation by other European countries like Italy, Spain and Portugal, and spread to Latin America. The German civil code influenced countries in the area (Switzerland, Netherlands, Hungary, and Czech Republic) as well as Japan and South Korea. Finally, we include the Scandinavian countries Denmark, Finland, Norway and Sweden.

- **Cultural factors**

Culture was found to affect the gender gap (Yeganeh and May, 2011), the composition and the leadership structure of the board of directors (Li and Harrison, 2008) and the levels of disclosure of CSR (Fernandez-Feijoo and Romero, 2011). To account for this variable we select Hofstede's model because it is extensively used in literature. Hofstede (1997) identifies four dimensions in the characteristics of countries:

- Power distance (PD): low levels of PD are characterized with more democratic systems while higher levels of PD are associated with autocratic societies.
- Individualism/Collectivism: Individualism is characterized by societies where participants look after themselves and their immediate family. In collectivistic societies, participants identify themselves to a group and work for the benefit of it.
- Masculinity/Femininity: Masculine societies are associated with risk and look of economic success, while feminine societies are associated with societies that take care of its members.
- Uncertainty avoidance (UA): the higher the level of UA, the higher the fear of the society to be exposed to risky situations or to have to face the unexpected.

- **Other control variables**

A connection between wealth and environmental protection was found in literature, with richer countries having higher demands for environmental policies (Vachon, 2010). To control for other correlated effects that might derive from stakeholders in richer countries requiring more CSR disclosures, we include the GDP per capita as a control variable for economic wealth. We also include a control variable "has_report" which records the proportion of companies reporting in each country.

Sample

We collect information about the 22 countries included in the KPMG report. The companies surveyed in those countries have different levels of disclosure, industry composition, etc. Regarding reporting disclosure format, 45.14% of the companies disclose in a stand-alone report. 43.36% of the companies include their CSR strategy. 30.68% include business opportunities and financial value of CSR. 38.27% report on the supply-chain risk, and 38.59% on the footprint. Finally, 37.95% include assurance statement to their sustainability reports. 63.64% of the countries in the sample have some sort of mandatory requirement of disclosure on CSR.

Test of hypotheses

Our model is stated as follows:

Disclosure = X_0 + X_1 BoardWithMore_3Women + X_2 FemaleChair + X_3 Other + X_4 Health + X_5 Oil + X_6 Forestry + X_7 Chemicals + X_8 Regulation + X_9 English + X_{10} French + X_{11} German + X_{12} Scandinavian + X_{13} PD + X_{14} Individualims + X_{15} Masculinity + X_{16} UA + X_{17} GDP + X_{18} Has_report + ε.

The dependent variable Disclosure assumes the values of the variables in the KPMG report: CSR strategy, CSR stand-alone report, financial value of CSR, footprint and existence of assurance statement.

Table 2 presents a summary of our findings.

Insert Table 2 about here

Consistent with hypothesis 1, the backward regression shows that when the proportion of companies with more than 3 women in the Board of Directors increases, the disclosure on CSR strategy (Table 3 – Hyp.1) in the country increases as well. Contrary to our expectations, when the proportion of companies with at least 3 women in the Board of Directors increases, the number of stand-alone reports in the country increases as well (Table 3 – Hyp.2). Hence, our H2 is not supported. The existence of integrated report is associated with higher levels of transparency therefore, issuing stand-alone reports is inconsistent with the image of transparency and disclosure women bring to the boards.

Consistent with hypotheses 3, having at least 3 women in the board of directors is determinant of disclosure on the supply chain risk in the country (Table 3 – Hyp.3).

Contrary to our expectations, the existence of at least 3 women in the board is not determinant of disclosure on footprints in the country. Hence, hypothesis 4 is not supported (Table 3 – Hyp.4).

Consistant with hypothesis 5, the existence of at least 3 women in the board does not affect or determine the disclosure of business opportunities and financial value of CSR (Table 3 – Hyp.5).

Consistent with hypothesis 6, the existence of at least 3 women in the board of directors is determinant of the existence of Assurance Statement, which is consistent with a board more transparent and willing to disclose better quality CSR information (Table 3 – Hyp.6).

Insert Table 3 about here

Discussion

In this study we analyze how the inclusion of at least 3 women in the Board of Directors determines the levels of CSR disclosure. We base our analysis in the 2008 KPMG report of top 250 global companies plus top 100 local companies in 22 countries. We include in the analysis different variables to control for country characteristics, like cultural factors, existence of regulation on CSR disclosures, the level of enforcement of the country, and the GDP. Our results support that boards with at least 3 women are determinant of the quality of CSR reporting, by providing more information and also including assurance statements. Contrary to our hypothesis, boards with at least 3 women do not provide more integrated reports, which are linked to higher transparency.

It is interesting to observe that the inclusion of at least 3 women in the board of directors mediates the effect of PD on the proportion of companies issuing stand-alone reports. Fernandez-Feijoo and Romero (2011) find that countries with low PD produce less stand-alone reports. However this effect is meditated by the inclusion of at least 3 women on the board. This inclusion also moderates the effect of masculinity and individualism on the disclosure of CSR strategy and the inclusion of AS in the report. It seems that with more feminine boards, countries with masculine characteristics behave like those with feminine characteristics and individualistic more like collectivistic countries. Although there is no correlation in Hofstede's variables in terms of masculinity and individualism, there are some characteristics of collectivism that can be linked to characteristics of feminine countries, like caring for the group. The main limitation of this study is due to the number of observations, since we obtain data from the survey KPMG conducted in 2008 and it includes only 22 countries. Future research can be extended by surveying companies in a larger number of countries.

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Table 1 – Industries

			Component		
Industry	Other	Health	Oil	Forestry	Chemicals
Electronics	0.593	-0.196	0.698	0.076	-0.049
Forestry	0.011	-0.139	0.063	**0.891**	-0.113
Mining	-0.025	0.506	0.082	0.492	-0.52
Oil	0.047	0.247	**0.853**	0.031	0.223
Utilities	**0.743**	-0.005	0.179	0.312	-0.042
Food	0.28	**0.832**	0.205	0.079	0.09
Retail	**0.67**	0.366	0.366	0.006	-0.03
Communications	**0.848**	0.238	0.056	-0.032	-0.071
Manufacturing	0.502	0.636	0.407	-0.027	0.001
Construction	**0.604**	0.433	-0.007	-0.378	-0.272
Chemicals	0.018	0.108	0.157	-0.062	**0.886**
Services	0.477	0.403	-0.23	0.467	0.223
Transport	**0.792**	0.264	0.131	-0.083	0.172
Automotive	0.588	0.335	0.338	0.029	0.403
Finance	**0.857**	0.29	-0.007	-0.021	0.128
Pharma	0.355	**0.784**	-0.093	-0.329	0.111

Table 2 – Findings

Hypotheses	Predicted	Supported
1- CSR Strategy	+	**Yes**
2- Stand alone report	-	No
3- Supply chain risk	+	**Yes**
4- Footprint	+	No
5- Financial value of CSR	No effect	**Yes**
6- Assurance Statement	+	**Yes**

Table 3: Test of hypotheses

Variable	Hypotheses significance					
	Hyp. 1	Hyp. 2	Hyp. 3	Hyp. 4	Hyp. 5	Hyp.6
AtLeast3Women	++	++	+			++
FemaleChair	++		++			++
Other			++		++	++
Health	++					++
Oil		++	++			
Forestry	+	++	++			++
Chemicals	++	++			+	++
HasRegulation	++	+	++			++
English		++	++		+	++
French	++	+	++		+	++
German						
Scandinavian	+	+	++		+	++
PD	++		++			++
Individualism	++	++	++			++
Masculinity	++	+				++
UA	++	++	+			++
GDP	++	++	++			++
HasReport		++	++	++		+

++ significant at .01 level

+ significant at .05 level