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THE RELATIONSHIP BETWEEN GENDER DIVERSITY AND CORPORATE SOCIAL RESPONSIBILITY

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ABSTRACT

A couple of decades have passed since Corporate social responsibility and sustainability has become an integral element of the business plans of many corporations. There has been a growing attention to corporate social responsibility (CSR). Nowadays companies have come to realize the risks of ignoring CSR as well as the importance of being environmentally responsible. Yet little is done when it comes to a balanced gender profile at board level. This paper reviews the existing literature on corporate social responsibility, in particular gender diversity in board. It explores how board diversity and the number of women on boards affect firms' corporate social responsibility performance and reputation. The aim of the study is to analyze the relationship between gender diversity and corporate responsibility stressing the role that women directors play in the development of CSR in organizations, and contribute to sustainable development. The analysis confirms a positive link between board gender diversity and corporate social responsibility. The presence of women on corporate boards increase board effectiveness through reducing corruption, ensuring better financial performance, enhancing philanthropy and quality of communication. Firms with a higher percentage of women on the board of directors are more socially responsible and have better corporate reputation.
Keywords: Corporate social responsibility, Gender diversity, Women directors, Sustainable development, Corporate reputation

INTRODUCTION

A couple of decades have passed since environmental sustainability has become an integral element of the business plans of many corporations. There has been a growing attention to corporate social responsibility (CSR). Nowadays companies have come to realize the risks of ignoring CSR as well as the importance of being environmentally responsible. Yet little is done when it comes to women's empowerment and gender equality. Companies make a commitment in gender mainstreaming and enabling women across the world. However, they seem to forget that this should start within the company itself by diversifying the board and having more number of women at board position. Companies rarely see board diversity as a crucial part of corporate sustainability initiatives. Although they recognize the significance of gender equality, they do not really practise it as one part of their business. Companies' involvement in women empowerment is mostly in the form of short programs or initiatives which usually last for a short period of time. We see them raising awareness in the community about gender equality and the role of women but they fail to give the opportunity to women in board position in their own company. Unless women empowerment starts at the grassroots level within the company it is hard to say that a company is doing corporate social responsibility.

BOARD DIVERSITY AND CSR

Diversity on boards is essential for a sustainable performance of a company. Broadening the composition of the board certainly increases the size of the candidate pool and, more importantly, helps expand perspectives at the top. While most CEOs recognise the importance of appointing directors of different ages and with different kinds of educational backgrounds and functional expertise, they tend to underestimate the benefits of gender diversity. (*Arguden,* 2012)

In 2011 data was gathered by the joint research of Catalyst and researchers from Harvard Business. It was examined how corporate leadership and organizational structure influence CSR, by utilizing in the research the so called, 'most visible form of CSR' in the United States, i.e. corporate philanthropy. Focusing specifically on how women leaders might impact CSR, the research suggests that, examined through the lens of corporate philanthropy, gender-inclusive leadership and CSR are linked. The main findings indicate three major results. First, it was found that companies with gender-inclusive leadership teams, compared to companies without women executive leaders, contributed to, on average, more charitable funds. Second, the key factors that might influence total donations were controlled. It was found that the presence of women leaders in Fortune 500 companies still had a significant, positive effect: more women leaders correlated with higher levels of philanthropy. Accordingly, gender-inclusive leadership has a positive impact on CSR in general. In line with increased philanthropy, increases in other CSR areas, e.g. environmental CSR, were observed. Third, gender-inclusive leadership likely affects either the level or quantity of philanthropic investment corporations make in CSR, and the quality of CSR initiatives. However, the meaning of "quality of CSR initiatives" remains relatively negotiable, as proposed examples do not refer to any features or criteria for defining 'qualitative' CSR initiatives. *Catalyst* (2011) summing up, the general proposition given in the research points out that "gender- inclusive leadership is good for business and society"

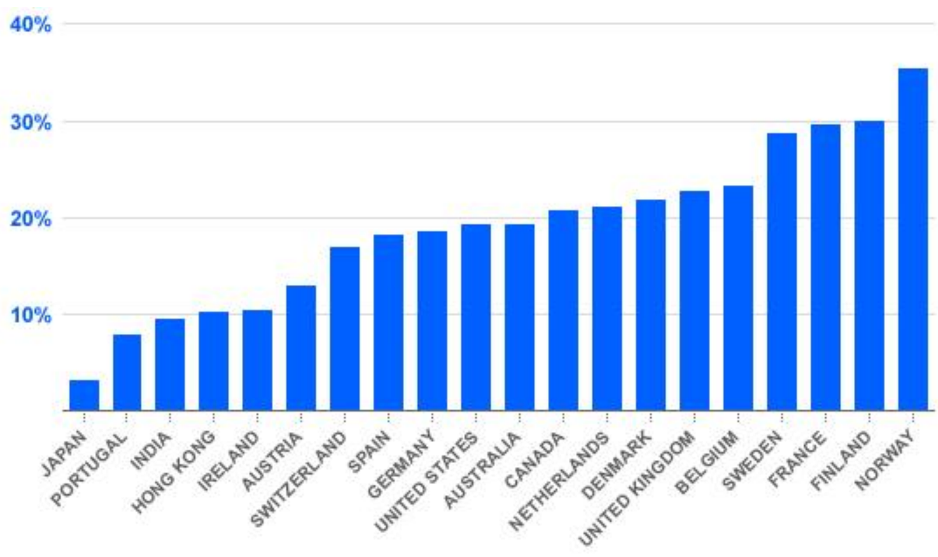
Another study by *Kruger* (2009) indicates that higher level of women representation in board produces positive inclination towards CSR. Furthermore, companies with high board diversity have higher attention towards the welfare of stakeholders indicating that board members with altruistic preferences have pro-social corporate behaviour. As we can understand from the above findings, the more women representation is on boards, the stronger the corporate social responsibility records and improved integration into communication are which help to ensure long term- sustainability.

Concerning the financial aspect, many studies indicated that companies with the most women board directors, especially those with three or more women board directors, had better financial performance than those with the fewest women board directors. For example, *Catalyst* (2007) found that companies with more women board directors outperformed those with the least on three financial measures: return on equity (53 percent higher), return on sales (42 percent higher), and return on invested capital (66 percent higher). Another study by *Forbes*, (2010) examined companies with women CEOs or heads has experienced better financial performance. The study was carried on the stock performance of the 26 publicly traded companies headed by women on its "2010 Power Women 100" and it was found that, on average, companies in the group outperformed their industries by 15 percent and the overall market by 28 percent.

Several countries have started adopting either legislative or voluntary initiative to promote female representation on corporate boards. This includes, for example, Norway (40% gender quota for female directors or face dissolution), Sweden (25% voluntary reserve for female directors or threat to make it a legal requirement), Spain (comply-or-explain type law requiring companies to reach up to 40% female directors by 2015), France (law which requires 50% gender parity on the board of every public firm by 2015) (*Bøhren and Strøm*, 2010) and more recently Italy (law requiring listed and state-owned companies to ensure one-third of their board members to be female by 2015) (*Arguden*, 2012). In addition to European countries, many developing countries such as India, China, and Middle Eastern countries are also recognizing the importance of female board members' talent (*Singh et al.*, 2008). Finally, in Australia, the Stock Exchange (ASX) in its recent changes to corporate governance principles now requires listed companies to specifically report on gender diversity at board and senior management levels (*Kulik*, 2011). Most of these initiatives, whether voluntary or legislative, clearly indicate that the presence of women on boards could affect the governance of companies in significant ways (*Adams and Ferreira*, 2009).

Figure 1

Women's share of board seats at stock index companies

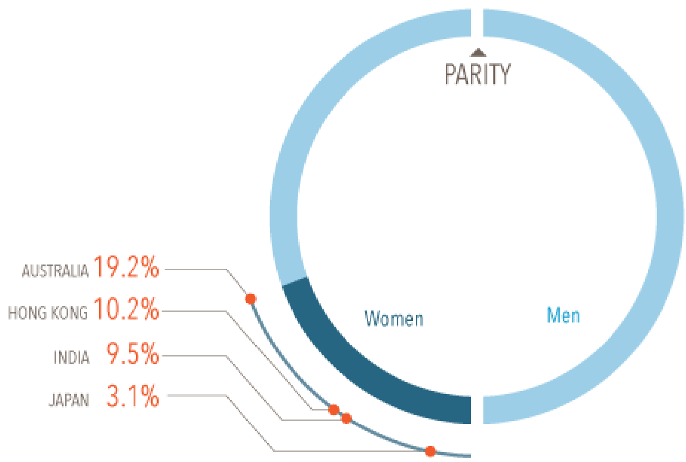


Source: *http://fortune.com/2015/01/13/catalyst-women-boards-countries-us/*

The Scandinavian countries are the ones with the highest gender parity, according to the World Economic Forum, and they are also the countries that generally have the most women on their boards. 35.5 percent of board seats at Norwegian companies are held by women (Norway, for example, was the first nation to mandate a quota for women on boards); 29.9 percent of Finnish board seats are held by women; and in France, women held 29.7 percent of board seats. (*Catalyst*, 2014)

Figure 2

Women's share of board seats at Asia- pacific stock index companies



Source: *http://www.catalyst.org/knowledge/2014-catalyst-census-women-board-directors*

GENDER BASED ETHICAL BEHAVIOUR

Increasing women leaders on board may result in positive ethical behaviors of organizations. Several pieces of evidence show the relationship between women and ethical behaviour. For example *Stedham et al.*, (2007) and *Stephenson* (2004) show that many women find business practices to be unethical and *Limerick and Field* (2003) and *Stedham et al.* (2007) indicate that women are more sensitive to unethical behaviour than men.

According to *Rao and Tilet* (2015) men and women are different in their orientation toward moral principle, largely because women have better internalized ethical and communal values through their social roles. Abundant support was found for this inference, depicting that females are more likely to have stronger moral standards and ethical stances than their counterpart.

Likewise *Ibrahim et al.* (2009) showed that female managers tend to exhibit more positive attitudes towards the adoption of the ethics code in their organization and hold more confidence that the ethics code will raise moral standards in their business operations. Together, this stream of research suggests that female leaders are more likely to have concerns for other stakeholder groups. As such it is reasonable to expect that female independent directors will embrace their company's CSR more strongly than male directors actively engaging in issues corresponding to the welfare of none – shareholding stakeholders. In addition, there is evidence that female independent directors are often more sensitive to the possibility of rule- violations and thus tend to be more intolerant up on signs of improprieties. For example, in China comparing firms that had no fraud with firms with regulation violations over a ten-year period, it was found that firms with higher proportions of women board directors and led by women chairs were less likely to commit fraud or violate security regulations. Violations include illegal share buybacks, inflated profits, assets fabrication, shareholder embezzlement, and price manipulation. (*Douglas*, 2012)

Based on the study of *Flynn and Adams* (2004), some shareholders even perceive that the boards of directors with most women provide greater guarantees that their investments are not in conflict with a criminal conversion and, at the same time, show stricter compliance with ethical conduct. In addition, according to *Ramirez* (2003), gender diversity can prevent corporate corruption and fraud, since women are more likely to challenge management with 'tough' questions. As we can understand from the findings, the number of women on board has a positive relationship with the ethical behaviour of a company by improving corporate social responsibility rate and corporate reputation.

Providing those evidences, the author would say women are best for corruption-free CSR benefiting the society at large. For instance, in Ethiopia, women are less involved in corruption for several reasons. One is that they do not want the risk of putting themselves and their family into trouble due to bribes because they care about their family especially their kids but men are less responsible for their family and have the gut to engage in corruptions. According to the author, caring starts from the family, if someone does not care enough for his/her family, how can he/she care for the society?

DIFFERENCE IN GENDER CHARACTERISTICS

While *Eagly et al.* (2003) suggest that characteristics such as assertive, ambitious, aggressive, independent, self-confident, daring and competitive are usually recognized in men, whereas communal characteristics such as a concern for the welfare of other people and being affectionate, helpful, kind, sympathetic, interpersonally sensitive, nurturing, and gentle are identified in women. *Galbreath* (2011) found that women were able to engage and respond well to multiple stakeholders because of their relation building ability, treating it as corporate social responsibility. *Kahreh et al.* (2013) state that women directors are more oriented and pay higher attention to social responsibility as compared to their male counterparts, it seems to me that the characteristics reflected in women go along with CSR. The author believes that women perform better from social aspects than men especially in developing countries. For example, in Ethiopia where the social bond is strong, the role of women in participating in social affairs is very high. They are always there for helping people in different ways. For example, during a funeral they are the ones who cook for the deceased family for the entire week, take care of everything including hosting visiting gusts. And when it comes to cleaning the environment, they are the main actors. They clean the streets in a group, undertake charity activities for children who lost their parents due to HIV AIDS, provide food for homeless people and who are in need. All these activities are voluntary which stems from caring for the society.

Further, women usually hold positions in 'soft' managerial areas such as human resources, CSR, marketing, advertising, etc., *Zelechowski and Bilimoria* (2006) indicating that female representatives on boards are more likely to have in-depth knowledge of soft managerial issues. This evidence further indicates that female directors may perceive community or stakeholders' interests, particularly CSR issues, differently than male directors. It is also worth mentioning that women provide a different insight into the decision process from that of men, which can help a company or business to make the most effective decisions. Adding women to boards can produce a diverse and dynamic leadership team which in turn will reduce monolithic thinking and bring about better decisions. (*Stephenson*, 2004). The evidence and outcomes discussed above so far indicate female directors are more likely to have a positive influence on Social Responsibility. One major barrier that has been pointed out widely identified in literature is that women in top-level positions face discrimination or a stereotyping challenge which restricts their ability to fully contribute to corporate strategy and oversight (*Arfken et al.*, 2004; *EOWA*, 2008; *Galbreath*, 2011). It was also pointed out by *Galbreath* (2011) that gender biases could influence strategic decision making there after the outcomes.

CONCLUSION

We have seen how the diversity of board and the number of women on boards affect firms' corporate social performance and the benefits of having more women leaders from different dimensions. Companies with both women and men leaders in the boardroom are likely to achieve higher sustainability for the company and society. Having women on board will positively enhance the social strategy of organizations due to the sensitivity of women towards Corporate Social Responsibility. Overall, increasing the percentage of women on a board of directors has been linked to improved financial performance, corporate social responsibility, less corruption and high ethical business. Board diversity or balanced gender in boards benefit companies from educational and professional backgrounds. It creates more participative and democratic decision-making process. Increasing heterogeneity among board and CEO provides better oversight of management activities, help ensure that more perspectives and issues are considered in the decision-making process leading the board to achieve a better decision. The presence and the number of women on boards may signal to stakeholders that the firm pays attention to women and is, therefore, socially responsible. However, a single woman director may not be sufficient as it is difficult for them to raise their voice for any issue and make their opinion be heard. In addition, more women can deal better with eradicating gender inequality, be an inspiration and a role model for other women, the increasing number of women in other high- level positions.

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