



Boards, Gender and Corporate Social Responsibility (CSR)

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A thesis submitted in fulfilment of the requirements for the
degree of Doctor of Philosophy in Business

Flinders Business School
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February 2016

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Summary

Corporate Social Responsibility (CSR) is an important concept for 21st Century businesses, but Australian firms are still lagging behind other countries in terms of CSR reporting. Examining corporate governance mechanisms, particularly boards of directors, who are largely considered to be responsible for developing CSR policies, is therefore of importance, not only for advancing knowledge, but also for policy development in Australia. Since CSR is voluntary and often considered to have long term benefits which are not necessarily quantifiable, decisions regarding CSR seem to be less certain and complex. In this sense, the alternative perspectives and in-depth discussion facilitated by diversity may be more beneficial when it comes to making CSR decisions at board level. This in turn could improve firms' CSR outcomes.

Further, within the board diversity literature, the issue of gender (the term 'gender', throughout of this thesis is considered as the proportion of women directors) has been extensively studied, with the majority of research indicating that women directors not only bring different perceptions to the board, but are also more sensitive towards communities and pay more attention to the welfare of stakeholders, suggesting that their presence could promote the company's CSR. Notwithstanding this, there has been no research linking board diversity, including gender diversity, with CSR decision making processes; most research has only considered the board-CSR relationship using quantitative analysis of diversity variables. This thesis thereby aims to fill this knowledge gap and shed light on whether, and how, board diversity influences CSR reporting.

Regression analysis using panel data is initially used to analyse the potential association between CSR disclosure and five important board diversity measures, specifically independence, tenure, gender, multiple directorships and an overall diversity measure. This is followed by a qualitative study where eight semi-structured interviews were conducted with board members of Australian profit sector companies to shed light on the relationship between board diversity, CSR and CSR reporting, so as to enhance the understanding of the link between the constructs.

The findings show some evidence that there is a relationship between board diversity and CSR reporting. The modelling shows that three of the board diversity attributes (gender/proportion of women directors, tenure and multiple directorships) and the overall diversity measure seem to have the potential to influence CSR reporting. The relationship between independent/non-executive directors and CSR disclosure, however, is not clear. The results also indicate the existence of some possible interaction effects between gender and multiple directorships. Further, the interview data show that CSR is considered to be part of the normal business of boards, but highlights some important issues regarding how decisions about CSR issues are made. These include the relationship between board members and management, and how CSR activity is translated to reporting. Finally, and importantly, gender diversity appears to have the potential to influence CSR decisions at board level, but the interviews identified some of the potential barriers to women directors in making significant contributions.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Doctor Philosophy at Flinders University. To the best of my knowledge and belief, this thesis has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorization and consent to carry out this research.

Kathyayini Rao

February 2016

Acknowledgements

There are a number of people who have helped me finish this thesis and I would like to express my deep appreciation and thank them for their contribution and support. My deepest gratitude is to my primary supervisor, Professor Carol Tilt, for her continued encouragement, guidance and support from the initial to the final level.

I would like to thank my other supervisors, Associate Professor Pi-Shen Seet and Dr Maria Xydias-Lobo for their advice and guidance whilst undertaking this research. I would also like to acknowledge and thank Dr Laurence Lester for providing me with the statistical assistance as well as thanking Flinders University for providing me with the financial support through an Australian Postgraduate Award. My thanks to all eight participants of semi structured interviews for their willingness to share their time, knowledge and experience.

My special thanks to the staff at the School of Business, Flinders University who always kept their doors open for me. My warmest thanks to all my friends for their support and encouragement whilst working on this PhD.

In closing, I would like to thank my parents, and my entire family, for their unwavering love, care and support for all these years. More importantly, I thank my mother who provided me with the emotional support I needed throughout this journey. To my kids, Agasthy and Abhidyu, for being patient and understanding in this journey – thank you. To my husband, Shridhar, I can never really express the thanks you deserve. Without your constant support, emotionally and practically, I do not think I would have made it to this stage.

List of publications and conferences

(Associated with this thesis)

Publications:

- 2015 ***Journal Article***
Rao, K. & Tilt C.A. (2016, forthcoming) "Board Diversity and CSR Reporting: An Australian Study", *Meditari Accountancy Research*
- 2015 ***Journal Article***
Rao K & Tilt C.A. (2015), "Board Composition and Corporate Social Responsibility: The Role of Diversity, Gender, Strategy and Decision Making", *Journal of Business Ethics* (DOI 10.1007/s10551-015-2613-5).
<http://link.springer.com/article/10.1007/s10551-015-2613-5#page-1>

Conferences and Seminars:

- 2015 ***ACSEAR 2015 Conference, Sydney***
The research paper, "Board Diversity and CSR Reporting: Australian Evidence" was presented at the 13th *Australasian Conference on Social and Environmental Accounting Research* (ACSEAR), 10-11 December 2015, Sydney, Australia.
- 2014 ***Personal Finance and Investment Symposium, Adelaide***
The research paper, "Board Diversity and CSRR: A Preliminary Evidence" has been presented at the 3rd Annual *Personal Finance and Investment Symposium* (PFIS) which was held 11th November 2014 in Adelaide, South Australia.
- 2013 ***APIRA Conference, 2013, Kobe, Japan***
The research paper, "Corporate Governance and Corporate Social Responsibility: A Critical Review" was presented at the 7th *Asia Pacific Interdisciplinary Research in Accounting* (APIRA) Conference, 26-28 July 2013, Kobe, Japan.
- 2011 ***ACSEAR 2011 Conference, Launceston***
PhD Presented at the Doctoral Colloquium at the 10th *Australasian Conference on Social and Environmental Accounting Research* (ACSEAR), 5-7 December 2011, University of Tasmania.

Chapter 1:

Introduction

This thesis examines the relationship between board diversity and corporate social responsibility (CSR) reporting, with a particular focus on gender (the term ‘gender’, throughout of this thesis is considered as the proportion of women directors) as one of the most important aspects of a diverse board. This introductory chapter provides the background and motivation for the study, sets out the research problem, research questions and objectives, outlines the research approach, and indicates the significance and contribution of the thesis.

1.1 Background

In recent years CSR and CSR reporting have been given substantial attention by both policy makers and in the academic field. Under the social responsibility concept, corporations have a broader responsibility towards society which requires them to consider and address the social and environmental impact of their operations (and not just the economic aspects). CSR reporting as such contributes towards reducing information asymmetry between stakeholders and management (Jizi et al. 2014) as well as making corporations and their insiders, directors and managers, more accountable. Possibly through disclosing information on CSR issues, companies themselves may be able to see their strengths and weaknesses in relation to the social and environmental aspect of business. It further enables the companies to assess the impact of their operations on society and the environment and thereby provides them with an opportunity to reduce the negative impacts, which could ultimately contribute towards sustainable development.

Even though CSR is becoming increasingly significant, research still shows that CSR performance and CSR reporting by Australian companies is limited compared to other countries (Golob and Bartlett 2007, Truscott et al. 2009). In many countries, including Australia, CSR reporting is voluntary (Galbreath 2010) and hence there seems to be less motivation for companies to disclose CSR information to their

stakeholders. Control mechanisms, in particular corporate governance mechanisms, therefore become crucial in making sure that companies, or those people responsible for making decisions about CSR, effectively discharge their accountability. In fact, various theories, including agency theory and stakeholder theory, as well as corporate guidelines, indicate that corporate governance enhances transparency and accountability and thereby has the potential to enhance corporate disclosure generally. In this sense governance is an important and influential aspect of improving information disclosure in annual reports (Htay et al. 2012).

A critical point to be considered when discussing corporate governance is the role played by the board of directors, as board members are considered to be among the most important players governing a company (Shivdasani 1993, Fama and Jensen 1983). Although traditionally governance guidelines have been limited to a board's responsibility and accountability to shareholders, that accountability now extends to wider group of stakeholders. Boards' extended responsibility to stakeholders is becoming a more accepted view in the literature (Kolk and Pinkse 2010, Jamali et al. 2008) and this leads many authors to suggest that corporate governance, in particular boards of directors, plays an important role in ensuring that companies meet CSR objectives (Mackenzie 2007). Moreover, evidence exists suggesting that board composition likely to have a positive influence on CSR performance (Zhang 2012, Webb 2004, Chang et al. 2015) and CSR reporting (Haniffa and Cooke 2005, Khan 2010, Prado-Lorenzo and Garcia-Sanchez 2010, Jizi et al. 2014, Michelon and Parbonetti 2010, Muttakin et al. 2015).

The majority of research on board composition undertaken to date has focused on its effect on corporate financial performance with much less attention being given to how specific board attributes influence CSR and CSR reporting. One particular board attribute, diversity, is an emerging issue in the corporate governance literature and has been rapidly gaining attention from both academics and practitioners (Catanzariti and Lo 2011). It is argued that diversity among board members has the potential to influence firm performance and reporting (Carter et al. 2003, Rose 2007), however a very limited number of studies has been undertaken to examine whether

this also applies to non-financial performance and reporting (in this case, CSR decisions and CSR reporting). Some studies do attempt to link corporations' responsibility (i.e. CSR) and board diversity (Bear et al. 2010, Post et al. 2011, Wang and Coffey 1992, Williams 2003), and these indicate that diversity can have a positive effect on some aspects of CSR. Specifically, these studies are based on the view that a diverse board is likely to possess different values, knowledge, opinions and perspectives which ultimately can have a positive influence on board level outcomes, including those related to CSR. Moreover, diversity of board members is assumed to bring broad and heterogeneous perspectives to the decision making process which is critical to voluntary and complex decisions like those regarding CSR.

Unlike previous research which has relied on the assumption that board attributes directly influence CSR reporting, the research conducted in this thesis is based on the assumption that CSR is a strategy and boards of directors, being strategic decision makers, through their decision making processes influence CSR reporting. Such an assumption is based on the fact that boards of directors, being the major strategic decision making body (Golden and Zajac 2001, Jensen and Zajac 2004, Westphal and Fredrickson 2001), are likely to be responsible for the development of sustainable business strategies (Post et al. 2011), and it is at this level that there is the potential to influence decisions in relations to a firm's CSR policies (Kakabadse 2007, Kassinis and Vafeas 2002). This thesis therefore fills a gap in the literature by focusing on the effect of board diversity on both CSR decisions and reporting.

Further, one particular board diversity characteristic, gender, has been the focus of debate and there is a growing amount of literature highlighting the importance of gender diversity in boardroom decisions. It is widely considered that women bring unique skills and capabilities (Carter et al. 2007), different (non-traditional) professional and educational experiences (Hillman et al. 2002, Singh et al. 2008), fresh mind sets for complex issues (Campbell and Mínguez-Vera 2008, Francoeur et al. 2008) and that participation of women in top management has a positive impact on firm performance (Carter et al. 2003, Carter et al. 2007, Francoeur et al. 2008,

Joecks et al. 2013, Campbell and Vera 2010). In addition to unique skills and experience, the studies on gender stereotypes have widely claimed in the literature that, compared to men, women often possess traits such as empathy, caring and greater concern for others (Eagly and Karau 1991), communal behaviours (Eagly et al. 2003), and consider the needs of a wider range of stakeholders (Konrad and Kramer 2006), indicating that women can be more sensitive to social and environmental issues (Burgess and Tharenou 2002, Boulouta 2013) than their male counterparts. In this sense women directors' attributes, both in terms of their skills (professional experience, educational background and unique skills) as well as their values (empathy, care and greater concern for others), are dissimilar to male board members (Hafsi and Turgut 2013) and this can lead to more diverse perspectives, encourage open in-depth discussions and can ultimately enable the board to address CSR issues in a more effective manner (Bear et al. 2010).

Nowadays the importance of gender diversity is increasingly recognised by policy makers and regulators all over the world. A recent McKinsey Global Institute (MGI) report indicated that women's equality has the potential to increase the global GDP to \$12 trillion by 2025, clearly suggesting the importance of closing the gender gaps in work and society (McKinsey Global Institute Report 2015). Moreover, several countries have started adopting various measures (either mandatory, quota systems or voluntary measures) to increase representation of women in top level positions. In Australia, the Australian Stock Exchange (ASX) has recently introduced a policy regarding gender diversity supporting more representation of women in the boardroom.

Notwithstanding this, there has been virtually no research linking board diversity, including gender diversity, with the CSR decision making process; with most research only considering the board-CSR relationship using quantitative analysis of diversity variables. Moreover, given the prominence of gender issues for both scholars and policy makers recently, this thesis examines gender as a specific diversity variable, and provides important insights into the potential impact of gender on CSR in Australian profit sector companies.

As mentioned above, the underlying assumption of this study is that there is a relationship between corporate governance, in particular board diversity, and decision making processes and their subsequent influence on CSR/CSR reporting. This is presented diagrammatically in Figure 1.1 below, providing the basis for the theoretical framework which will be expanded upon in Chapter 3.

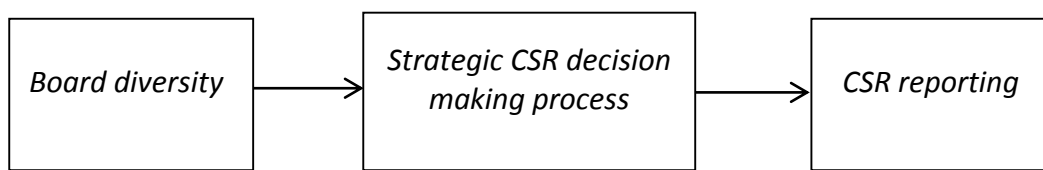


Figure 1.1

Board Diversity, CSR Decision Making Process - Subsequent Influence on CSR Reporting

1.2 Research problem

The rising importance of CSR in evaluating firms (Kakabadse 2007) has been observed all over the world. In Australia CSR is becoming increasingly significant (Truscott et al. 2009) but research still shows that CSR reporting by Australian companies is limited (Truscott et al. 2009, Golob and Bartlett 2007). A recent survey by KPMG on CSR (KPMG 2013) indicated that although Australian companies are performing well in international comparisons both in quality and quantity of corporate responsibility reporting, there is still room for improvement. There could be many reasons for this and one such possibility that has been gaining attention in the governance and board composition literature is that a lack of diversity among the major players in companies' governance systems (notably boards of directors) restricts their decisions to a narrow and homogeneous view.

As mentioned earlier, CSR reporting is a voluntary process and companies are less likely to be motivated to disclose non-mandatory CSR information. In addition, there are potential conflicts of interest between shareholders, other stakeholders and the public at large (Jizi et al. 2014). Further, the benefits of CSR reports are not easily quantifiable in dollar figures and often not seen in the short term. Since senior level managers often look mainly for short term benefits (particularly in dollar terms) it is unlikely that CSR issues will be given a high priority at management level. These decisions are more likely to be led at a strategic level, such as by the Board of directors who are likely to take a more inclusive stance on the competing needs of stakeholders.

Moreover, unlike financial reporting, there is no particular standard for CSR reporting. CSR and CSR reporting decisions, as such, become complex. Diversity among the board members is more likely to bring broader and heterogeneous perspectives to the decision making process which could be more critical to voluntary and complex decisions like those around CSR. In particular, personal values, perceptions, attitudes towards CSR, demographic background and professional background, could all influence CSR decisions. Even though many prior studies exist on board diversity, the majority of them link various diversity characteristics to financial performance and a very limited number of studies have been done linking diversity characteristics with CSR in a single study, especially in Australia. Furthermore, existing evidence is limited to a potential association between diversity and reporting; there is a gap in the literature on the relationship specifically regarding CSR reporting and, most significantly, on the role of board decision making in this relationship.

This thesis therefore provides a preliminary snapshot of the potential association between board diversity and CSR reporting in large profit sector Australian firms, through the presentation of panel data regression analysis of a sample of listed companies over a three-year period of 2009 to 2011. These results are further supported by qualitative study in order to obtain in-depth understanding of the

association between the two. The thesis uses the lenses of upper echelon theory, stakeholder theory and resource dependency theory, to frame the investigation.

The study is therefore conducted in two parts. First the study examines the effectiveness of board diversity characteristics, including independence, tenure, multiple directorships and gender, as well as overall diversity, on CSR reporting. The second part of the study specifically aims to investigate whether women directors have any influence on CSR decision making processes, and whether CSR reporting is the result of such processes. The purpose of the qualitative study is to shed light on the relationship between board diversity and CSR reporting so as to enhance the understanding of the link between two constructs.

This analysis is guided by a series of research questions, and these are presented in the next section.

1.3 Objectives and research questions

As mentioned, the underlying assumption of the research in this thesis is that board diversity may impact on CSR decisions and thereby influence CSR reporting. The main aim of this thesis is to examine the influence of board diversity characteristics on CSR decisions as well as on CSR reporting in Australian profit sector companies. Thus, the primary objectives of the study are:

- To examine whether various board diversity characteristics, specifically independence, tenure, gender and multiple directorships (independently), as well as overall diversity (collectively), influence CSR decisions and to what extent CSR decisions are reflected in CSR reporting (in general).
- To examine how women directors influence the decision making process of CSR (specifically).

Specifically, the second objective is aimed at providing further insight into the results obtained from the first objective. The study particularly focuses on profit sector firms listed on the Australian stock exchange (ASX). It is important to understand the link between corporate governance, in particular board attributes, and CSR reporting in

the case of listed large companies because of their significant social and environmental impacts on society.

In order to achieve above objectives, the study addresses the following research questions (RQ):

RQ1. What is the relationship, if any, between board diversity and corporate social responsibility (CSR) reporting? Do women directors have an impact on CSR reporting?

RQ2. Is CSR a strategy and, if so, to what extent does board diversity influence decisions regarding CSR?

RQ3. What role do women directors play in a board's strategy or decision making processes regarding CSR?

RQ4. What is the relationship between board strategy or decision making related to CSR, and CSR reporting?

1.4 Significance of the study

This study contributes to the literature in several ways. First, the majority of empirical papers focus on examining the effect of board diversity on corporate financial performance and there has been limited research done linking board diversity characteristics to CSR decisions or CSR reporting. By extending the research to examine board diversity, this study contributes to filling gaps in both the corporate governance and CSR literature. Moreover, the results of the study are of relevance to the interests of both academics and practitioners by providing more in-depth understanding of the importance of background, values and perceptions of board members. Second, since CSR is widely perceived as a strategy (Kujala et al. 2013, Setó-Pamies 2015), it is crucial to explore how board processes, in particular decision making processes, with regard to CSR or CSR reporting are taking place in an organisation. In fact, many calls have been made in recent years suggesting that it is important to look at board processes or intermediate variables in understanding the board and performance relationship. However, studies examining board processes particularly in the CSR field of research are rare. By examining boards' role in the decision making process, and its effect on CSR reporting, the study not only provides

more insight into whether and how boards are involved in these processes, but also responds to the calls for more research in this area and thereby attempts to fill a gap in field of corporate governance. Further, this research is enriched by qualitative data in the form of semi-structured interviews with board members to obtain insights into their perceptions on the effect of diversity on CSR. Despite several studies linking CSR and boards, most studies have utilized quantitative approaches (Haniffa and Cooke 2005). Therefore, conducting a qualitative study reduces the gap in the research and adds to the body of the knowledge by demonstrating the value of using a qualitative methodology in corporate governance research. Moreover, by having both quantitative and qualitative results a more comprehensive understanding of the phenomena can be obtained. Overall, the study is significant; it contributes to the emerging interest in board diversity by examining board diversity characteristics of board members and contributes to knowledge that aids the development of an effective board for CSR decisions.

1.5 Research framework and approach

Consistent with the underlying assumptions of the study mentioned earlier, the research framework depicted in Figure 1.2 below indicates that four diversity characteristics (independent variables), gender, proportion of independent directors, proportion of directors with multiple directorships and board tenure, as well as overall diversity (measured by the Blau Index), are likely to influence the CSR decision making process and thereby CSR reporting (dependent variable). Overall diversity and its relationship with CSR reporting is examined using content analysis and panel data regression, while gender diversity (women directors) and its relationship with the decision making process is examined through interviews with both men and women directors.

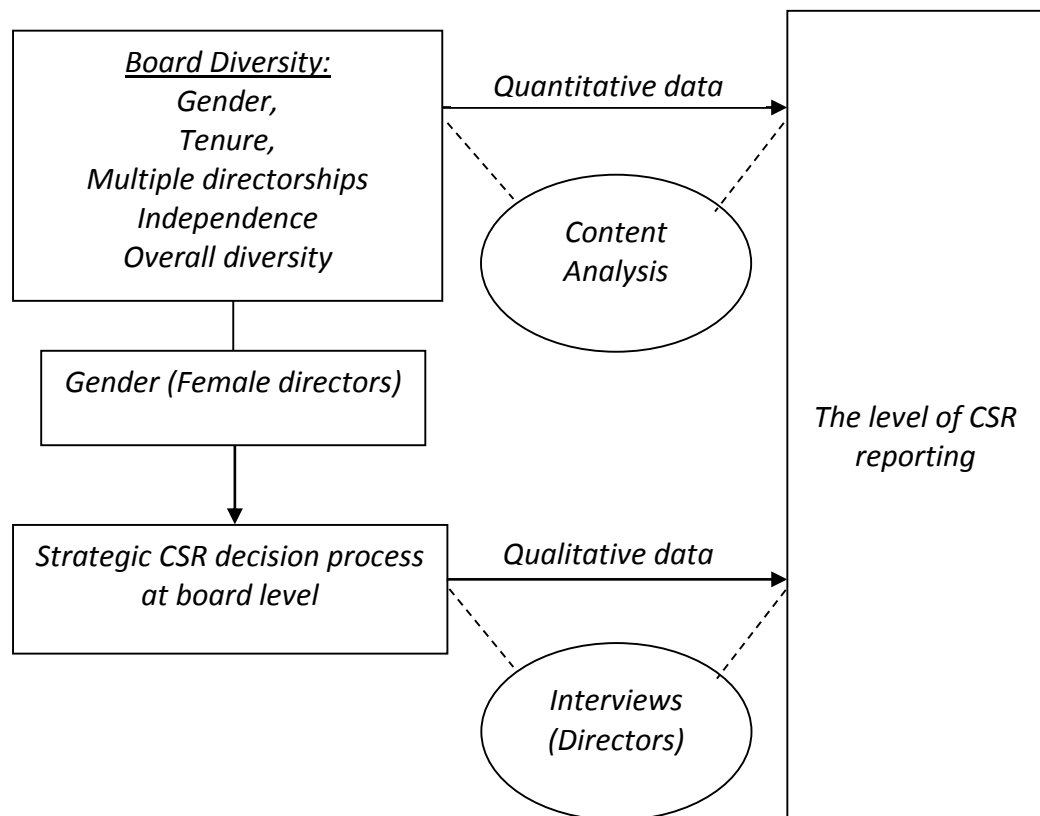


Figure 1.2

Research Framework - Board Diversity and CSR Reporting

As can be seen in Figure 1.2, this study adopts an explanatory mixed method design where the qualitative inquiry following the quantitative method is aimed at providing enhancement and better explanation for the quantitative results. Although a quantitative approach provides understanding (Bryman 2006) in terms of whether the existence of diversity increases or decreases the level of reporting, it alone is unable to provide any further explanation or evidence. Therefore, in order to gain more in-depth explanations and evidence, as well as to better understand the quantitative

results, a qualitative method is also required. Combining both methods can provide greater understanding of a phenomenon than just using one method (Bryman 2008). Moreover, adopting both quantitative and qualitative methods to collect and analyse the data enhances credibility, avoids social bias and allows for stronger results (Johnson and Onwuegbuzie 2004).

The quantitative analysis involves a longitudinal study where content analysis is undertaken to analyse the extent of CSR reporting in annual reports and the results are then linked with various board diversity characteristics, using a regression model, to see whether board diversity has any influence on quantity of CSR reporting. The content analysis aims to reveal the emphasis that Australian listed profit sector companies place on social and environmental disclosures. Secondary data, in particular annual reports, are examined to identify levels of social disclosure during the three-year period of examination. Secondary data are useful for this study because they help in providing a broader picture of the association between board attributes and CSR reporting. In line with previous research in the mainstream CSR literature (Gray et al. 1995, Hackston and Milne 1996, Haniffa and Cooke 2005, Williams 1999, Campbell 2000), a CSR reporting measure is developed based on the content of six major categories (Environmental; Human Resources/ Employee issues; Community Involvement; Corporate governance; Customers/Product and other/general). The results of the content analysis are then compared with a qualitative analysis of interviews with board members from Australian companies. In employing a qualitative approach, this study employs eight semi-structured interviews with various board members to examine whether, and how, women board members are involved in CSR-related decision making processes and whether CSR reporting is an outcome of such decisions. The statistical software STATA was utilised to analyse the quantitative data using a panel regression model, and thematic analysis using NVIVO was employed to analyse the interview results. More information regarding the quantitative and qualitative approach used is provided in the methodology chapter (Chapter 4).

1.6 Outline of thesis

The Thesis is structured as seven chapters:

Chapter 1 - Introduction: This chapter introduces background of the study and explains its purpose, objectives, and general research problem and research questions. A summary of the research approach used is provided. The significance of the study in terms of its contribution to the literature is emphasised. Finally, an outline of thesis is described and presented diagrammatically.

Chapter 2 - Literature Review: This chapter reviews the previous studies relevant to CSR reporting and board diversity in order to determine the major gaps in the relevant literature. The literature is further reviewed to determine boards' involvement in strategic decision processes and to highlight the importance of examining CSR decision processes at board level.

Chapter 3 - Theoretical Framework: Chapter three discusses the theoretical basis for this study based on the literature review and previous studies identified in chapter two. Numerous theories linking various disclosures and board attributes are reviewed and finally the theoretical framework of the study is presented. Board diversity attributes in terms of gender, independence, multiple directorships, tenure as well as overall diversity is reviewed in order to develop hypotheses.

Chapter 4 - Research Methodology: Chapter four sets out the methodological perspectives and the methods used in the study. The methodological approach, namely the use of mixed methods, is described and justified. In addition, explanations of content analysis, panel modelling, and semi-structured interviews are provided.

Chapters 5 and 6 - Results: The results of this study's data gathering and analysis are summarized in chapters five and six. Chapter five presents the analysis from the data collected from the quantitative analysis and Chapter six presents the interview results.

Chapter 7- Findings and Discussions: This chapter discusses in detail the findings that were summarized in chapters five and six. Drawing on both the quantitative and qualitative aspects of the study, the chapter provides discussion of on major findings relating to each research question.

Chapter 8 – Conclusions and Implications: The final chapter of the thesis provides conclusions and describes the contributions of the study to literature, theory and methodology. Possible explanations and implications for Australian profit sector companies, as well as for policy makers, are considered. Finally, the chapter presents some limitations and makes suggestions for future research.

1.7 Chapter summary

This chapter laid the foundations for the study by introducing the importance of examining the influence of board diversity attributes and their potential effect on CSR decisions and reporting. The chapter also describes the research problem, objectives, research questions and research approach, and finally summarises the significance of the study through its contribution to the current literature as well as to practice. The organisation of the thesis is provided in the last section of the chapter to present an overview of the content which follows. The next chapter presents a review of the literature relevant to understanding the relationship between board diversity, CSR decisions and CSR reporting.

Chapter 2:

Literature Review

2.1 Introduction

This chapter reviews the literature on Corporate Social Responsibility (CSR) reporting and corporate governance. Initially the chapter provides background information about CSR reporting, including definitions, standards, motivational aspects, and various factors and theories explaining CSR reporting. In addition, Section 2.2 of the chapter presents information about studies on CSR reporting in Australia and identifies the importance of examining the effect of governance on CSR reporting. This is followed, in Sections 2.3 to 2.4, by an overview of corporate governance and boards of directors and particularly board diversity and their role in CSR reporting. In providing this overview, this chapter reviews the previous empirical studies that have examined the link between board diversity and CSR/CSR reporting. Based on this review¹, hypotheses are then developed in the next chapter (Chapter 3).

2.2 CSR and CSR reporting

CSR issues are increasingly gaining attention all over the world. Gradual changes in the global economy, such as the rise in social activism, the emergence of new expectations, globalisation, international trade, increased expectations of transparency, and corporate citizenship now increasingly require corporations worldwide to perform well in every aspect of business (economic, social and environmental) (Jamali et al. 2008: s39). As such, modern companies are under a huge amount of pressure to discharge their wider responsibility towards society which is largely considered as Corporate Social Responsibility (CSR). The CSR agenda encompasses various social and environmental concepts such as environmental concerns, employee welfare, corporate philanthropy, human resource management, community relations and so on. CSR in this sense seems to be a

¹ The substantive parts of this review are published in a review article Rao, K. & Tilt, C. 2015. 'Board composition and corporate social responsibility: The role of diversity, gender, strategy and decision making.' *Journal of Business Ethics*, DOI: 10.1007/s10551-015-2613-5, 1-21.

complex, multidimensional concept and hence researchers are finding it difficult to reach a consensus on the definition itself. Matten and Moon (2008: 3), while explaining the difficulty of defining CSR, argue that CSR is "... an essentially contested concept because it is appraisive; internally complex; and their rules of application are relatively open". In addition, organisations use a variety of terms for CSR including corporate responsibility, sustainable development, corporate citizenship, global citizenship, and natural capitalism. Such lack of consistency in the use of the term CSR has further contributed to the complexity in understanding and defining it (McElhaney 2009). Therefore, it is very common to find various definitions of CSR in the literature. One of the most popular definitions is Carroll's (1979: 500) four part characterisation of CSR that the "social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time". The European Commission's definition of CSR on the other hand concentrates on social and environmental aspects of business and defines it as a "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Commission 2001: 366). Even though various definitions are provided one thing they have in common is that they all suggest that organisations have a wider responsibility towards society, and stakeholders, and should take into account the social and environmental impact of corporate activity when making decisions (Adams and Zutshi 2004). For example, organisations' decisions may include using environmentally-friendly technologies in manufacturing processes (customers), promoting employee empowerment (employees), reducing emissions through recycling and pollution abatement (environmental performance), and working closely with communities (community) (McWilliams et al. 2006). By taking decisions and initiatives that incorporate such a broader responsibility, organisations can recognise their social and environmental impact on society which then allows them to maintain or improve activities as well as help them to identify and minimise negative impacts, all of which contribute towards saving and preserving the planet.

Several theoretical perspectives have been used to explain the reasons for organisations' initiatives towards CSR. For instance, Friedman (2007) argued from an agency perspective asserting that CSR of business is to increase profits and is a tool used by managers as a means to enhance their own social, political or career agendas at the expense of shareholders. CSR from an agency perspective is considered to be "primarily the responsibility of the government" (Nielsen and Thomsen 2007: 28) and a "misuse of corporate resources that would be better spent on value-added internal projects or returned to shareholders" (McWilliams et al. 2006: 5). Freeman's (1984) stakeholder theory, on the other hand, presents a more positive perspective on how managers view CSR. Stakeholder theory asserts that managers need to focus on fulfilling the demands of various stakeholders such as customers, employees, suppliers, and local communities who have the potential to influence or be influenced by corporations' activities. Under this approach the companies are considered to be responsible to society in general (Nielsen and Thomsen 2007) and that firms, in order to survive and to gain support from stakeholders/society, need to engage in CSR activities. Some even argue on the basis of resources. The resource based view presumes that "firms are bundles of heterogeneous resources and capabilities that are imperfectly mobile across firms" (McWilliams et al. 2006: 6). In this sense firms seem to perceive CSR as a resource which helps them to achieve a sustainable competitive advantage (Hart 1995, McWilliams et al. 2002). The majority of these theories, while explaining the reasons or motivations for organisations to engage in CSR, provide an explanation that in addition to benefiting society and the planet, firms themselves receive many benefits from engaging in, and reporting on, CSR activities to the wider society. For example, a study by Krüger (2009) indicated that firms, through demonstrating social responsibility, are able to attract better employees and a new breed of green consumers and investors. In Australia, Galbreath (2010) found a similar result suggesting that firms which engage in CSR activities are able to reduce employee turnover (due to exhibiting fairness), are likely to increase customer satisfaction (by meeting the justice needs of customers) and are able to create an avenue to increase overall firm reputation (by providing signals to stakeholders about the positive characteristics of firms). In addition to these, various other benefits have been

claimed in the literature, some of which are to maintain the license to operate, risk reduction, efficiency gains, and tax advantages (Weber 2008). Benefits from CSR clearly indicate that through CSR initiatives organisations not only meet their social and environmental obligations but also can achieve advantages for themselves.

2.2.1 CSR reporting

As stated in the definition outlined above, CSR, and in particular social and environmental aspects of CSR, is a voluntary process, hence, just behaving in a socially responsible manner is not enough. Organisations are expected to voluntarily communicate their actions or initiatives towards CSR to their broad range of stakeholders (Golob and Bartlett 2007) and this is broadly known as CSR reporting. The definition of CSR reporting is provided by Gray et al. (1996) as the:

Process of communicating the social and environmental effects of organisations economic actions to particular interest groups within society and to society at large. As such it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders (Gray et al. 1996: 3).

Thus, the definition of CSR reporting assumes that reporting reflects organisations' CSR activities. Such relationships between CSR and CSR reporting have been established in previous studies. In fact CSR reporting is largely considered as one of the major approaches companies use to make the public aware of their corporate social responsibility activities (Said et al. 2009) and provide accounts of companies' social performance (Jackson and Bundgard 2002). CSR is the action carried out by the firm in order to fulfil their social responsibility, and reporting activity "... is to account for what has been done by the organisation and in which way, through a specific document of an internal and/or external nature" (Zambon and Del Bello 2005: 132). Overall, the CSR information or reporting reflects CSR activities that a company has performed (Othman et al. 2011). CSR and CSR reporting therefore go

hand in hand and, based on this view, prior studies have often used CSR reporting or disclosure as a proxy for CSR or corporate social performance (Hackston and Milne 1996, Haniffa and Cooke 2005, Manasseh 2004, Gray et al. 2001). Notwithstanding the usefulness of CSR reporting as a measure of CSR performance, this is not without limitations, and studies have found reporting to be partial (Gray and Bebbington 2001) and often presents only ‘good news’ (Deegan & Rankin, 1996).

However, reporting on CSR issues is very often considered as an important communication tool and can have several benefits to both organisations and society. Information asymmetries can cause problems for both society and business, and disclosures usually help to minimise such asymmetry between corporate insiders and parties external to the firm (Cotter et al. 2011: 88). It can ensure greater corporate accountability and transparency and enable better engagement with multiple stakeholders (Hess 2008, Golob and Bartlett 2007), make corporations more responsible, lead to greater stakeholder democracy, and ultimately ensure corporate practices which are more consistent with sustainable development (Hess 2008). CSR reporting can also help organisations to strengthen their internal systems and decision making, and improve their external relationships with stakeholders. Further, CSR reports help companies in attracting stakeholders who favour socially responsible business and have the power to reward it (Waddock and Bodwell 2004). Moreover, by serving as a vital source of information for internal decision making, it enables the company to identify strengths and weaknesses across the whole corporate responsibility spectrum (Perrini 2006) and ultimately has the potential to improve the company’s overall social performance (Hess 2008).

Despite its importance, in most western countries, the majority of CSR reporting have been voluntary (Campbell et al. 2003), including in Australia. In response to the lack of a unified system of CSR reporting standards, various CSR reporting and accountability standards have been established, some of which are AccountAbility’s AA1000 standard, the UN Global Compact, John Elkington’s Triple Bottom Line (TBL) reporting, Social Accountability International’s SA8000 standard, the ISO 14000 environmental management standard and the Global Reporting Initiative

(GRI) (Golob and Bartlett 2007, Chen and Bouvain 2009). These guidelines are formed based on the assumption of the usefulness of having a set of universal values that can be applied to all businesses worldwide (Chen and Bouvain 2009). Of these, the GRI guideline is the global standard and one of the most widely used sustainability reporting frameworks (GRI, 2008), and probably one of the best known voluntary CSR reporting frameworks worldwide (Porter and Kramer 2007, Brown et al. 2009). The GRI was formed by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environmental Program in 1997 and became an independent body in 2002 (Adams and Frost 2007). The main mission of the GRI is to “develop and disseminate globally applicable sustainability reporting guidelines” (GRI 2002: 1) and to assist all organisations in reporting on the economic, social and environmental perspectives of their operations (Adams and Frost 2007: 3). Over the years the number of companies using the GRI has been increasing. Ten years ago (March 2005), approximately 630 organisations in 51 different countries used the GRI (GRI 2005), whereas in 2007 this had increased to 831 organisations that developed a report in line with the GRI (Farneti and Guthrie 2009). As of 2015, nearly 7500 organisations worldwide use GRI for the sustainability reports (SustainIt 2015). The most recent KPMG survey of corporate responsibility reporting found that sustainability reporting is becoming a mainstream area. The survey indicated that out of 4100 companies surveyed (the largest 100 companies in 41 countries worldwide, including Australia) producing corporate responsibility reports, almost 80% referred to, or used, the GRI guidelines (GRI 2013). Even though CSR reporting frameworks/guidelines are becoming popular, it is important to note that most CSR reporting standards are still voluntary and non-legally binding agreements. As such there is much latitude for companies to choose the issues to be included in their reports (Yongvanich and Guthrie 2006) which gives them an opportunity to “cherry pick” what they will or will not adopt from within these frameworks and guidelines (Van Der Laan 2009).

2.2.2 Motivations and factors affecting CSR reporting

Due to the voluntary nature of CSR reporting, prior research has increasingly examined the determinants of, and motivations for, these disclosures. Prior studies have identified various motivations behind CSR reporting such as greater transparency (Roberts 1991, Trotman and Bradley 1981); increased customer loyalty; more supportive communities; recruitment and retention of more talented employees; improved quality and productivity; avoidance of reputation risk which may arise from environmental incidents (Idowu and Towler 2004); economic & moral reasons (Graafland and van de Ven 2006); response to the competitive environment and stakeholders' demands (McWilliams and Siegel 2000), improvement and management of corporate image (Hemingway and MacLagan 2004, Brammer et al. 2006), management of powerful stakeholder groups (Belal and Owen 2007); and accountability to wider society (O'Dwyer 2002).

Moreover, the literature is, to some extent, inconsistent in terms of a consensus about the motives for CSR reporting. The most commonly cited reason is that they are produced for legitimacy purposes (O'Dwyer 2002, Murthy and Abeysekera 2008, Branco and Rodrigues 2006, Ratanajongkol et al. 2006), including using reporting as a strategy to legitimise corporate activities (Patten 1992, O'Dwyer 2002, Deegan and Rankin 1996, Kotonen 2009, Hooghiemstra 2000), and as a response to isomorphic pressures, (i.e. companies copy others, are pressurised to adopt similar reporting practices, and are influenced through the professionalisation of CSR reporting) (de Villiers and Alexander 2010).

In addition to corporate/management motives for CSR reporting, literature has also identified that there are various external and internal factors which could influence the extent and nature of what is reported. While highlighting the importance of studies examining factors influencing reporting, Adams (2002: 224) states that "Accountability leads to better performance, but much of current reporting practice does not represent a genuine attempt to be accountable. An understanding of the factors which influence disclosure is necessary in order to improve accountability".

Adams classified the factors which have been examined in the prior literature into three categories:

- (1) *General contextual factors (including country of origin, time, specific events, media pressure, stakeholders and social, political, cultural and economic context);*
- (2) *Corporate characteristics (including size, industry group, financial/economic performance and share trading volume, price and risk); and*
- (3) *The internal context (including identity of company chair and existence of social reporting committee).*

(Adams 2002: 224)

As suggested by Adams (2002), there seems to be sufficient evidence with regard to the first two categories: general contextual factors and corporate factors, and their influence on CSR reporting. For instance, general contextual factors such as country (Hackston and Milne 1996, Hope 2003, Gray et al. 1996, Newson and Deegan 2002, Arthaud-Day 2005), national, political, social, civil systems and culture (Williams 1999, Kotonen 2009, Ho and Wong 2001), specific events (Patten 1992), media pressures (Brown and Deegan 1998), stakeholder power (Roberts 1992), operation at multinational vs home country level (Newson and Deegan 2002, Golob and Bartlett 2007), and isomorphic pressures (de Villiers and Alexander 2010) have been found to have some influence on CSR reporting. With regard to corporate characteristics, size, industry group, profitability (Hackston and Milne 1996, Brammer and Pavelin 2004, Kotonen 2009, Menassa 2010, Cowen et al. 1987), and corporate age (Roberts 1992) have been studied extensively and also found to have significant influence on CSR reporting.

Even though these external and corporate factors have been studied extensively, there has been lack of research into internal contextual factors (Adams 2002) which may influence reporting practices. Adams' (2002) study specifically indicated that existing studies, and in particular theories about why and how companies report, have been developed largely without reference to internal corporate variables (Adams 2002). Moreover, in her study, while focusing on the internal context, she

found that internal contextual variables such as reporting processes and attitudes of the key players in reporting can impact on the extensiveness, quality and completeness of reporting (Adams 2002). Adams further stated that “whilst many of these internal contextual variables themselves influenced by general contextual variables, the strength of their influence justifies them having separate attention” (Adams 2002: 224). This gap in the literature was also noted by Maignan and Ralston (2002) who, while identifying the importance of internal factors, suggested that further inquiry into internal dynamics and characteristics is essential to better understand why socially responsible corporate behaviour appears to vary in firms.

Moreover, since Adams’ paper in 2002, some evidence has begun to emerge suggesting that internal factors do have an effect on what social and environmental information is disclosed. For instance, Farneti and Guthrie (2009) examined the factors driving sustainability reporting practices within Australian public sector organisations. They particularly explored the preparers’ motivation and attitudes towards the voluntary reporting of sustainability information. Many of the preparers interviewed identified that reporting is internally motivated by key individuals being responsible for promoting the project (e.g. the Chief executive, CEO, and managing directors). Notwithstanding this evidence, there is still only a limited amount of research that investigates internal factors.

This thesis contributes to filling the gap in the research on internal factors’ influence on CSR Reporting by considering the role of boards and governance on internal decision making processes related to CSR.

2.2.3 Theories of CSR reporting

As outlined above, a number of theoretical perspectives have been employed to explain both CSR initiatives and CSR reporting. The major two theories most often proposed to explain reporting are legitimacy theory and stakeholder theory. Legitimacy theory is one of the most widely used explanatory frameworks for social and environmental disclosure practices (Patten 1992, Brown and Deegan 1998, O’Donovan 2002, Deegan 2002, Deegan et al. 2002). It is widely suggested that a

concern over threats to organisational legitimacy is one of the major factors driving the reporting process, rather than corporations' desire to be transparent or socially accountable (Belal and Owen 2007). Legitimacy theory assumes that there is a social contact between the organisation and society and that organisations need to operate within the norms and standards of society (Cotter et al. 2011: 86). In order to maintain legitimacy, firms try to disclose social and environmental information to several types of stakeholders emphasizing that they are conforming to their expectations, and persuading them about their performance (Cotter et al. 2011). Evidence exists suggesting that legitimacy threats trigger a communication strategy which ultimately increases disclosure (Patten 1992, Deegan and Rankin 1996, Neu et al. 1998).

Stakeholder theory on the other hand is based on the premise that “corporations have stakeholders, that is, groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions” (Freeman, 2001: 59). As such, stakeholder theory assumes that organisations' management decisions cannot be made in the absence of consideration of stakeholders' interests (Cotter et al. 2011: 86). Stakeholder theory therefore offers an explanation of corporations' accountability or disclosure to its stakeholders. Since both legitimacy and stakeholder theory extend organisations' accountability to stakeholders they become valuable explanations for CSR reporting. Moreover, both these theories are perceived as providing “two overlapping perspectives on the issue which are set within a framework of assumptions about political economy” (Gray et al. 1995: 82).

In addition to these two popular theories, other theories have also been used to explain the CSR reporting behaviour of corporations. For example, some researchers argue from a political cost theory perspective (Gamerschlag et al. 2011, Ghazali 2007) which suggests that managers are concerned with political considerations, including preventing explicit or implicit taxes or other regulatory actions (Healy and Palepu 2001) or to avoid more rigorous mandated disclosures. Accordingly, managers disclose CSR activities in order to reduce such political cost factors. Overall, a corporation, anticipating demands and constraints imposed by external

factors (legislatures, regulatory agencies, public interest groups, or the media), attempts to ease those pressures by strengthening the voluntary side of corporate activities through CSR reporting (Greening and Gray 1994). From an Institutional theory viewpoint it is expected that existing institutional systems (culture, political system, cultural factors, political factors etc.) pressure companies to report on their CSR activities (Chen and Bouvain 2009). The resource dependency viewpoint, suggests that firms depend on external resources from stakeholders and legitimacy is essential to maintain their support (Pfeffer and Salancik 1978).

There have also been new theories emerging to explain CSR reporting. One such emerging explanation is that CSR reporting could be a part of reputation risk management (RRM) processes (Bebbington et al. 2008, Unerman 2008), a perspective which provides a finer level of resolution to legitimacy and stakeholder arguments. “Where RRM is a motive underlying CSR reporting, it seems likely that corporations will be seeking to use CSR reporting to build or maintain the social and environmental dimensions of their reputation by demonstrating how their corporate actions meet the social and environmental expectations of key stakeholders” (Unerman 2008: 363).

It is clear that there is no single theory which can explain the CSR reporting behaviour of corporations. This is not surprising given that no single motive or factor(s) (discussed earlier) has been identified that fully explains corporations’ disclosure behaviour either. This issue was highlighted by Gray et al. (1995) who suggest that corporate social disclosure cannot fully be explained by a single theoretical perspective or from a single level of resolution. “Theories are abstractions of reality and hence particular theories cannot be expected to provide a full account or description of particular behaviour” (Deegan 2000: 250). Further, “Any theory, mental framework or way of visualising the world is.....temporary, conditional and debatable” (Gray et al. 1996: 32). Since there is no single motivation or factor determining CSR or CSR reporting, many theories could be considered adequate as explanations for disclosure, as extant research suggests. In addition to supporting several theories, scholars in the CSR reporting field also encourage new

and emerging theories which they believe to be a substantial contribution to the literature. In this sense Unerman (2008) argues that:

... in many social science fields, broad theories which provide innovative perspectives in embryonic fields of study become progressively less insightful as the field develops and as many more studies are based on the same broad theoretical perspectives. In these circumstances, narrower and more refined theories are needed to help researchers delve deeper and thereby continue making substantive contributions. ...[and provide] ...a refined, nuanced, theoretical perspective which may help future studies make innovative and significant contributions (Unerman 2008: 363).

The theoretical framework utilised in this thesis responds to this call to delve deeper by considering the role of corporate governance, strategy and key decision makers, as well as incorporating stakeholder and resource dependency issues. The framework is presented in detail in Chapter Three, but a discussion of the notion of CSR as a strategy is discussed next, before turning to a review of the literature on corporate governance more generally.

2.2.4 CSR and CSR reporting as a strategy

The various factors, motivational aspects and theories identified in the literature clearly indicate that in most cases both CSR and CSR reporting activities are undertaken by firms either to legitimise, to meet wider stakeholder expectations, or to gain benefits for themselves. CSR and CSR reporting as such are therefore widely accepted as strategies or strategic tools that companies often use in order to achieve their strategic goals. In fact, McElhaney (2009) defined CSR as strategic CSR: “a business strategy that is integrated with core business objectives and core competencies of the firm, and at the outset is designed to create business value and positive social change, and is embedded in day-to-day business culture and operations” (McElhaney 2009: 31). Further, while arguing for CSR from a strategic perspective, Ullmann (1985) suggested that social performance is “viewed as the result of a strategy for dealing with stakeholder demands. ... It is either a supporting strategy connected with social performance or an alternative strategy for managing

stakeholder relations, a perspective closely related to the boundary spanning concept” (Ullmann 1985: 552). Ullmann provided a three dimensional model (stakeholder power, strategic posture and economic performance) and suggested that a firm will use either performance or social disclosure, or both techniques simultaneously, to manage its relationship with its stakeholders (Ullmann 1985). Overall, Ullmann’s model describes social performance and disclosure as means to manage dependence relationships. He concluded that while studying social performance and disclosure, a strategic viewpoint may be able to provide more convincing and consistent results and that corporate strategy needs to be taken into consideration (Ullmann 1985). Moreover, a majority of the theories of CSR discussed in earlier sections point out that organisations pursue CSR related activities for various strategic reasons, such as to ensure that they can meet stakeholder demands (stakeholder theory), legitimise (legitimacy theory), and to access resources (resource based view). In addition, many prior studies have identified disclosure, including CSR reporting, as a particular strategy which companies adopt in order to reach their goals (Van der Laan Smith et al. 2005, Dhaliwal et al. 2011, Ullmann 1985). For example, Spero (1979) found that voluntary financial disclosure is a strategy adopted by a firm in order to reach goals, such as obtaining additional financial resources or securing access to financial markets. Particularly with regard to CSR reporting, it is considered to be part of firms’ long term development and sustainable performance strategy (Dhaliwal et al. 2011: 61) that companies use to respond to the expectations of society (Guthrie and Parker 1989, Gray et al. 1995). Moreover, it is part of the portfolio of strategies undertaken by either by accountants or managers in order to bring legitimacy to, or maintain the legitimacy of, their respective organisations (Deegan and Rankin 1996, Wilmshurst and Frost 2000, O’Donovan 2002).

Given that CSR and CSR reporting is an established a firm strategy (Kujala et al. 2013, McElhaney 2009, Dhaliwal et al. 2011), it would clearly be useful for understanding of motivations to examine how the internal strategic decision making process with regard to CSR and CSR reporting takes place, and how CSR decisions translate into CSR reporting. However, to date the majority of research has

concentrated on why corporations get involved in CSR or why they engage in CSR reporting, rather than how CSR decisions are made or how the process of CSR reporting takes place. In particular, although there is a plethora of research on social and environmental reporting in Australia, little research has been done on Australian companies' internal factors and processes. The research that has been undertaken in the Australian context, is reviewed next.

2.2.5 CSR reporting in Australia

In Australia, as in many other countries, CSR activities and reporting practices are largely voluntary apart from minimal regulation pertaining to compliance with environmental laws (McGraw and Dabski 2010). The main legislative requirement with regard to CSR reporting is s.299(1)(f) of the Corporations Act 2001, which addresses in broad terms the general need to disclose performance in the directors' report in relation to environmental regulations at Commonwealth, State or Territory levels, but with no specific requirements for disclosure about any particular social or environmental theme (Dong and Burritt 2010). Apart from this, the Corporations law, accounting standards and ASX listing requirements are fairly silent on requiring mandatory social and environmental disclosure (Deegan et al. 2006).

Despite the lack of mandatory requirements, there is growing evidence that companies in Australia are providing an increasing volume of information on social and environmental issues in annual reports, stand-alone reports and on websites (Adams and Zutshi 2004, Adams and Frost 2007). It seems that growing institutional pressure drives Australian firms to demonstrate socially responsible business practices (Parliamentary Joint Committee on Corporations and Financial Services, 2006). Particularly, pressure from the government, NGOs, community groups, and consumers, among others, calls for firms to take a more active role in demonstrating CSR (Parliamentary Joint Committee on Corporations and Financial Services, 2006). The evidence of pressure from external parties has also been demonstrated in the most recent survey by KPMG which indicates that, in order to enhance credibility and to build more confidence in the reports by their external stakeholders, many companies in Australia are seeking external assurance (KPMG 2013). Despite this,

evidence from several studies examining reporting levels in Australia (either comparing it to other countries or analysing a particular sector/group) suggests that many firms in Australia are still lacking in demonstrating CSR at a comparable level (Galbreath 2010). The survey by KPMG also highlighted that although Australian companies performed very well in international comparisons, both in quality and quantity of reporting, there is much room for improvement in many areas of reporting (KPMG 2013). Concerns still remain that reporting on performance and management processes is selective, with considerable information, particularly on adverse impacts, being undisclosed (Adams and Frost 2007: 4). For example, Tilt (2001) analysed the annual reports of 40 Australian companies against their corporate environmental policy. She found a lack of reporting against targets. Similarly, a study by Adams (2004) of one company's reporting in two separate years observed a 'reporting performance' portrayal gap, largely due to a lack of completeness. Portrayal of the company's performance and impact in its own reports was considerably more positive than in sources external to the company, bringing into question the company's own portrayal of its performance. Another study of 25 Australian companies that issued discrete sustainability reports found considerable gaps in the information being disclosed (Frost et al. 2005). Using 40 indicators from the GRI as a benchmark, the analysis found that on average 11.44 of the indicators were reported against in the primary reporting mediums adopted (annual report, website and discrete report) (Frost et al. 2005).

Evidence also exists indicating that even the substantial reporting practices undertaken by a small number of Australian companies, those organisations that have made a greater commitment to reporting than many of their peers still had considerable scope for improved reporting (Adams and Frost 2007). The study by Adams and Frost (2007) showed that current reporting on social and environmental performance by a broader sample of Australian companies was very low and significantly lower than for equivalent British companies (Adams and Frost 2007). Moreover, when compared with other developed countries, Australian companies' CSR reporting levels also seem to be low. In a comparative study of Australia and Slovenia, Golob and Bartlett (2007) found that in Australia most reporting was

limited and that only 25 companies out of 500 issued CSR reports in 2005, and they suggested that incentives were needed to increase reporting. Accordingly, Chen and Bouvain (2009) compared CSR reporting in the UK, US, Australia and Germany using company website searches and also found the reporting to be low and that only a limited number of companies provide CSR reports on their websites.

In addition, despite the creation of various frameworks, Australian companies do not appear to be using any established reporting framework (McGraw and Dabski 2010). Previous studies have, in particular, examined the use of the GRI framework by Australian companies (Antoni and Hurt 2006, Chen and Bouvain 2009, Gjølborg 2009, McGraw and Dabski 2010, Katsouras and McGraw 2010) where the majority found the extent to which the GRI is used by these organisations to be very limited. For example, Frost et al. (2005) noted that the level of sustainability reporting by Australian companies as benchmarked against the GRI is low. Further, the analysis of 25 companies that provided separate discrete reports on sustainability suggests inconsistencies and gaps in the reporting (Frost et al. 2005). Recently a comprehensive and comparable study was conducted by McGraw and Dabski (2010), who examined CSR reporting in the largest private sector companies using data from 2007 company reports. Their evidence for ASX 100 companies shows a relatively low average of reporting using the GRI (12.64 out of possible 40 indicators) with none of the companies reporting on all core GRI indicators (McGraw and Dabski 2010).

It is largely evident that most of the disclosure by Australian companies is done in order to legitimise or to satisfy mandatory requirements. In its review, CPA in 2005 noted that CSR information was reported in the most favourable light possible and focused on issues that were mandatory (McGraw and Dabski 2010). This finding was further reinforced in the study by Golob and Bartlett (2007) which noted financial issues were the key issues influencing Australian reporting. Recently some studies have found that companies tend to report CSR practices which were the subject of stakeholder sensitivities, directly related to their operations, important 'license to operate' issues or those mandated by law (McGraw and Dabski 2010). McGraw and

Dabski's (2010) study overall concluded that CSR reporting is an established concept in many of the top 100 Australian companies but has a long way to go before it is accepted across the board. In the same year, another study by Katsouras and McGraw (2010) also revealed that reporting levels are generally low, are highest for the economic indicators, and most rigorously and systematically reported in the materials and industrials sectors. Further, a study by Dong and Burritt (2010) examined the current status of environmental and social reporting practices by oil and gas companies in Australia in comparison with a 2006 benchmark comprising common elements for disclosure and industry-specific elements. The results indicated that the volume and quality of disclosures was relatively poor, it covers fewer desired categories and the majority of environmental disclosures are declarative and positive (Dong and Burritt 2010). Overall, this pattern of results suggests that despite the increasing popularity of CSR, most reporting in Australia is still concentrated in areas that are either mandatory or seen as important in establishing legitimacy for continued, profitable operations (Katsouras and McGraw 2010).

Given this low level of reporting, it is important to identify the factors influencing CSR reporting to understand why disclosure levels are not higher. As mentioned earlier, research has significantly focused on external and corporate factors influencing CSR reporting and there is lack of research examining the internal contextual factors. This gap in the literature was clearly identified by Adams (2002) who particularly made calls for studies aimed at identifying one important internal contextual factor, that is, aspects of governance structures and their influence on CSR reporting practices. In response to this call, a few studies have been conducted that examine the effect of governance, and specifically board structures, on CSR reporting, however they have generally yielded inconclusive results (see, for example, (Haniffa and Cooke 2005, Khan 2010, Jizi et al. 2014, Giannarakis et al. 2014). Moreover, the studies linking board structure to CSR reporting is rare in the Australian context. Therefore, this thesis examines one such internal contextual factor, corporate governance, in particular, board diversity, and its influence on CSR

reporting. The concept of corporate governance, and boards of directors' role in CSR reporting, is therefore discussed in the following sections.

2.3 Corporate governance

It is only since the late 1980s that the words corporate governance have started to become familiar in Australia (Kiel and Nicholson 2003). The 1987 stock market crash is considered to be the major reason behind this where investors not only lost their money but also Australian companies' reputation was under threat (Kiel and Nicholson 2003). Even though the first corporate governance codes came into existence in the US in 1978 (followed by Hong Kong, Ireland, UK and Canada), Australia adopted its first code only in 1995 (Aguilera and Cuervo-Cazurra 2009). Later in 2002, the Australian Stock Exchange (ASX) established a Corporate Governance Council (CGC) with the aim to develop agreed corporate governance requirements and establish best practice recommendations for Australian companies (Gibson and O'Donovan 2007). The major aim was to “develop and deliver an industry wide, supportable and supported framework for corporate governance which could provide a practical guide to listed companies, their investors, the wider market and the Australian community” (ASX Corporate Governance Council 2006: 3). This step was taken in order to restore public confidence in corporations which had been lost due to collapses of organisations such as HIH, One.Tel, Harris Scarfe, Ansett and AMP in Australia (Fleming 2003, Bonn et al. 2004), whereas a legislative approach was adopted by the US, that is, the Sarbanes-Oxley Act 2002 was enacted (Cortese 2009). It has been widely identified in the literature that an inadequate corporate governance system is one of the major reasons for these corporate collapses (Cortese 2009, Bonn et al. 2004). Even though corporate governance principles are not the panacea for preventing corporate collapses, they are broadly recognised as an important element in improving governance quality, helping to prevent scandals and abuse (PanAsian et al. 2003), monitoring managerial behaviour (Tricker 1994), ensuring accountability to both shareholders and stakeholders (Ingley 2008); facilitating effective leadership/strategic management processes (Kendall 1999, Jamali et al. 2008) and enhancing corporate performance (Bhagat and Bolton 2008, Grove et al. 2011, Filatotchev et al. 2005).

The underlying concept of corporate governance is based on the view that there should be separation of ownership and management in large corporations and this was first identified by Berle and Means (1932). For this reason, Berle and Means are widely acknowledged as the “fathers of contemporary thinking about corporate governance” (Chau 2011: 7) and their hypothesis is considered as one of the “fundamental building blocks of corporate governance” (Kiel and Nicholson 2003: 29). Berle and Means basically explored the “structural and strategic implications of the separation of ownership and control” (Clarke 2004: 154). Specifically, their hypothesis proposes that in large corporations the existence of separation of ownership and control often leads a firm’s top managers to pursue their personal welfare rather than the welfare of the firm’s shareholders (Berle and Means 1991) and such a situation often causes them to expropriate shareholder value, leading to conflict with the shareholders (Kaymak and Bektas 2008).

Later, separation of ownership and control gave rise to the concept of principal-agent conflict. In 1976 Jensen and Meckling introduced agency theory which suggests that self-interested individuals (agents) are ‘opportunistic’ (Aguilera 2005: s41) hence less likely to protect the interests of principals (owners) and more likely to act in their own interests through means such as empire building, the consumption of corporate resources as perquisites, the avoidance of optimal risk investments, and manipulating financial figures to optimise compensation (Dey 2008). In order to resolve such agency dilemmas corporate governance mechanisms have evolved (Clarke 2004) where shareholders use a range of governance mechanisms to ensure that agents act in the best interests of principals.

These governance mechanisms are usually structured for investor protection and better corporate control (Filatotchev and Wright 2011), and can be internal or external. Some of the internal mechanisms include composition and functioning of the board (Dey 2008), monitoring by boards of directors (Fama and Jensen 1983) and large outside shareholders (Demsetz and Lehn 1985), structure and functioning of an audit committee including monitoring by independent auditors, and executive compensation (Dey 2008) and equity-based managerial incentives that align the

interests of agents and principals (Jensen and Meckling 1976, Dey 2008). External mechanisms on the other hand include threat of takeover, product competition, and managerial labour markets that may constrain managerial opportunism (Shleifer and Vishny 1997). Under these control mechanisms (internal and external), managers are either watched (monitored) or rewarded, or even threatened (takeover threat), which either motivates, or in some circumstances forces, them to act in the best interest of the principals/shareholders.

However, over the years the definition of governance has evolved and become much broader. Corporate governance therefore is not easy to define and it varies depending on one's view of the world (Shahin and Zairi 2007). Hence, it is very common to find various definitions of corporate governance in the literature; they do, however, fall into two major categories. Some view corporate governance as a mechanism to protect the interests of owners/shareholders, that is, the narrow perspective; whereas others view it as a mechanism to protect the interests of a broader range of stakeholders, that is, the broader perspective. The narrow definition focuses on return on investment to those who supply finance (primarily owners/shareholders) to the corporations (Shleifer and Vishny 1997) in which socio-environmental considerations are almost neglected (Saravanamuthu 2004); whereas the broader perspective focuses on wider stakeholders (including shareholders) who provide the firm with the necessary resources for its survival, competitiveness, and success (MacMillan et al. 2004). Under the broader perspective of corporate governance, companies are expected to demonstrate "... good corporate citizenship, being accountable not only to shareholders, but also to other stakeholders and to the wider community within which they exist" (Ingley 2008: 18). These stakeholders may be employees, suppliers, customers, and communities whose investments in the company are equally significant in other important respects (Jamali et al. 2008). Such a stakeholder-oriented view of corporate governance has resulted in redefining corporate governance in much broader terms than in the early literature. Within this broader view, Donnelly and Mulcahy (2008: 416) define corporate governance as "... a set of control mechanisms that is specifically designed to monitor and ratify managerial decisions, and to ensure the efficient operation of a corporation on behalf

of its stakeholders”. Solomon’s (2007) definition of corporate governance particularly incorporates both responsibility and accountability to broader stakeholders: “...the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity” (Solomon 2007: 14).

The development of the concept of corporate governance, that is, a shift from the traditional shareholder-centric approach to a stakeholder oriented approach, has been recently acknowledged and supported by many scholars (Brennan and Solomon 2008, Solomon 2007, Adams 2004, Letza et al. 2004). For example, Adams (2004) highlighted the importance of stakeholder oriented corporate governance and stated that “corporate governance structures are currently designed to protect shareholders, but this must change radically to give equal prominence to other stakeholder groups if companies are to reflect the aspirations of their stakeholders and survive in the long term” (Adams 2004: 750). Moreover, stakeholder theory and enlightened shareholder theories have been recently used increasingly to offer a more inclusive approach to corporate governance (Solomon 2007, Hill and Jones 1992).

Even though the concept of governance and stakeholder accountability has been acknowledged recently, the link between governance and financial disclosure, particularly to shareholders (the traditional approach), has existed for a long time. This link between corporate governance and reporting emerges from the (1976) agency theory framework under which it is assumed that management can exploit information asymmetry to act in a manner that is contrary to the interests of shareholders. One way of mitigating such an agency problem is to reduce that information asymmetry (Donnelly and Mulcahy 2008), and this is possible through one of the important qualities of governance, that is, transparency or accountability (Hermalin and Weisbach 2007). In this sense disclosure is expected to reduce information asymmetry thus protecting shareholders’ interests (Michelon and Parbonetti 2010: 3). Consistent with this view, Htay et al. (2012) suggest that disclosure of information, as an integral part of corporate governance not only

clarifies the conflicts of interests between shareholders and management but also makes corporate insiders accountable. A good governance structure as such goes hand in hand with increased disclosure (Mallin 2002). However, as mentioned earlier, recently researchers in corporate governance have been moving away from this traditional approach of shareholder accountability and have started extending corporate governance research to include the dimension of stakeholder accountability. In a comprehensive review, Brennan and Solomon (2008) encourage broader approaches to corporate governance and accountability research beyond consideration of only the traditional approaches. In an example of this, Collier (2008) adopted a stakeholder-agency approach focusing on the accountability of organisations to multiple stakeholders. Collier's paper particularly emphasised the role of governance, the importance of structure and process, and the culture or ethos of boards in which multiple stakeholders may have compatible rather than competing interests. Accordingly, Sikka (2008), while considering stakeholder accountability in corporate governance research, suggested that accountability to stakeholders is an essential role of corporate governance. Sikka's paper notably argued for stakeholder related social responsibility issues such as equitable distribution of income and wealth for workers, and the importance of corporate governance mechanisms and processes in achieving it. The paper further provides the suggestion that corporate governance practices together with disclosures could give visibility to income and wealth inequalities (Sikka 2008). Roberts et al. (2005) also challenged the traditional theoretical approaches of corporate governance. While questioning the dominant agency theory they made calls for theoretical pluralism and greater understanding of one of the important elements of corporate governance, that is, board processes and dynamics in the boardroom (Roberts et al. 2005).

In summary, the broader perspective, in particular a stakeholder oriented approach to corporate governance, extends corporations' responsibility and accountability to wider stakeholders and society. As such, effective governance mechanisms are assumed to have a positive influence on CSR reporting as well as overall disclosure, and are also likely to have an impact on CSR initiatives. Therefore, the relationship

between corporate governance, CSR and CSR reporting is discussed in the next section.

2.3.1 Corporate governance, boards and CSR

It is commonly argued that ‘companies are part of society’ (Nielsen and Thomsen 2007: 28) and hence are expected to be responsible to society in general. The broader concept of corporate governance described in the previous section further highlights that good corporate governance ensures that companies discharge their wider responsibilities towards society. Indeed most of the attributes of corporate governance, such as leadership, direction and control, (Huse 2005, Lenssen et al. 2005, Van den Berghe and Louche 2005) ethics, fairness, transparency, and accountability (Jamali et al. 2008) are essential to achieve CSR objectives. Moreover, the relationship between corporate governance and CSR has been identified by many previous studies. For example, Jamali et al. (2008), in their in-depth interviews with the top managers of eight corporations operating in Lebanon, found that the majority of managers perceive corporate governance as a necessary pillar for sustainable CSR. Similarly Shahin and Zairi (2007) offered several suggestions about corporate governance’s role in driving excellence in CSR. Although corporate governance generally is considered to be an essential element of promoting CSR, one specific element of governance has been given particular attention in the literature. That is, researchers have begun to explore the effect of boards of directors, including the impact of board composition, on CSR.

Boards of directors are widely considered to be important players in corporate governance (Shivdasani 1993, Fama and Jensen 1983, Jamali et al. 2008). They are “one of the centrepieces of corporate governance reform” (Aguilera 2005) and “corporate governance institutions” (Van Ees et al. 2009: 308). A majority of the studies undertaken on boards used agency theory to explain the board’s role in corporate governance and highlight the importance of the role of the board of directors in protecting the interests of shareholders. However, a board’s responsibility when considering the broader perspective of corporate governance is not limited to consideration of shareholders and monitoring management. While

challenging the dominant agency theory perspective, Van Ees et al. (2009) argue that boards have the capacity to reduce complexity, create accountability, and facilitate cooperation and coordination between stakeholders. Further, the board is responsible for formulating various strategies, including long term strategies of the organisation (Hung 2011). Overall, "...the board bears ultimate responsibility for the company it governs" (Van Ees et al. 2009). Nowadays boards are increasingly seen as responsible for matters relating to CSR and sustainability (Ingley 2008) which is reflected in a growing number of studies (Elkington 2006, Mahoney and Thorne 2005, Mackenzie 2007, Jamali et al. 2008). In fact, a study by Jamali et al. (2008) found that corporate governance is what drives managers and executives to set goals and objectives in relation to CSR, and the board is key in meeting and promoting these CSR objectives. Similarly a survey of 220 directors of US companies revealed that boards of directors' role in corporate responsibility and sustainability is increasing (Deloitte 2009). CSR in this sense is becoming a critical item on boards' agenda (Kakabadse 2007) and the board has a major responsibility in achieving CSR objectives (Elkington 2006). However, evidence still indicates that boards give lower priority to issues related to CSR. For example, Ingley (2008) considered the perceptions of directors in New Zealand companies and investigated the responses by boards to socially related aspects of their governance role. The majority of respondents (95%) regarded the board's involvement in strategy as very important. However, reviewing of CSR tasks was considered to be a lower priority compared to other board tasks (Ingley 2008). Similarly, Rose (2007) examined ethics and social responsibility at the top level of the corporate ladder, corporate directors, but her study revealed that corporate leaders' decisions are driven by existing law rather than ethics or social responsibility. This evidence clearly indicates that a board of directors' role in CSR needs further investigation in order to identify ways through which board involvement in CSR could be improved.

Table 2.1 contains a summary of various conceptual, theoretical and review studies that examine the link between overall corporate governance structure and CSR, including details about their aim, method and findings. As can be seen from the table, while results are mixed, there appears to predominantly be a positive

relationship between governance and CSR, suggesting that corporate governance and boards do play an important role in CSR. These studies focus mainly on CSR activities, attitudes and perceptions but not CSR reporting, therefore, studies that include reporting in their investigation are reviewed next.

Table 2.1

Studies on the link between Corporate Governance / boards of directors and Corporate Social Responsibility (CSR)

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Corporate governance variables The various corporate governance/board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Jamali et al. 2008)	Interrelationships between corporate governance and CSR (Lebanon)	Qualitative (Interviews)	Corporate governance	+ ve (Corporate governance- necessary pillar for CSR)
(Ingle 2008)	Board's attitude towards CSR (New Zealand)	Qualitative + Quantitative (Focus groups, discussion sessions and survey)	Board's attitude to CSR	- ve
(Rose 2007)	Personal ethics and CSR at board level (US)	Experimental study	Directors' decisions: Shareholder value/ law Personal ethics / CSR	+ ve - ve
(Wise and Mahboob Ali 2008)	Link between corporate governance and ethical business processes (CSR) (Bangladesh)	Qualitative (Case studies)	Overall corporate governance	+ ve
(Shahin and Zairi 2007)	Role of corporate governance in CSR	Theoretical study	Corporate governance	+ ve (Corporate governance drive excellence in CSR)
(Hung 2011)	Directors' roles in CSR (Hong Kong)	Quantitative (Regression)	Directors' concern for stakeholders	+ ve
(Kemp 2011)	Boards' role in CSR (Australia)	Qualitative (Interviews)	Board	+ ve (Board is major player in CSR)
(Ayuso and Argandoña 2007)	Whether diverse stakeholders on board will promote CSR activities within the firm	Review paper	Diverse stakeholder on board	+ ve

Table 2.1 Contd ...

Table 2.1 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Corporate governance variables The various corporate governance /board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(De Graaf and Herkströter 2007)	How CSP (Corporate Social Performance) institutionalised within the governance structure (Netherlands)	Theoretical paper	Corporate governance	+ ve (Corporate governance influences CSP)
(Ricart et al. 2005)	How corporate governance integrates sustainable development thinking into them (DJSI)	Qualitative (Case study)	Corporate governance	+ ve Corporate governance plays major role in sustainable development
(Kakabadse 2007)	How boards around the world view CSR	Theoretical paper	board's view	+ ve CSR is becoming board's agenda
(Wang and Dewhirst 1992)	Examined boards of directors' stakeholder orientation (US: South-West States)	Quantitative (Mail Survey - questionnaire)	Board's stakeholder orientation	+ ve
(Hemingway and Maclagan 2004)	Whether personal values drive CSR	Theoretical paper	Personal values	+ ve (Managers personal values drive CSR)
(Jo and Harjoto 2012)	Causal effect of corporate governance on CSR	Quantitative (Regression)	Corporate governance	+ ve (Corporate governance causes CSR)

2.3.2 Corporate governance, boards and CSR reporting

In addition to the governance-CSR link, the stakeholder oriented approach to corporate governance discussed in the earlier section provides an explanation for the relationship between governance and stakeholder accountability, including CSR reporting. Since accountability or transparency is an essential part of corporate governance (Donnelly and Mulcahy 2008, Gaa 2009), boards of directors are ultimately responsible for CSR reporting. As such, researchers have linked board composition to various disclosures such as mandatory reporting (mainly financial reporting) as well as non-mandatory (voluntary) disclosure, including CSR reporting.

Kent and Monem (2008) argue that “the board of directors as the highest committee in the company is likely to influence reporting and disclosure decisions by directly making decisions within the board and indirectly through the audit committee, and environmental and/or sustainable development committee, the external auditor and internal auditors” (p.301). In their study, they proposed that companies with good governance structures adopt Triple Bottom Line (TBL) reporting in Australia based on the view that with a weak corporate governance structure, management is more likely to withhold information from stakeholders (Kent and Monem 2008). Their results indicated a positive relationship between TBL reporting and various corporate governance mechanisms (such as audit committee meetings and the existence of a social and environmental committee).

However, the empirical evidence indicating the link between board composition and disclosure is mixed (Haniffa and Cooke 2005, Eng and Mak 2003, Chen and Jaggi 2001). For instance, Chen and Jaggi (2001) found a positive association between a firm’s mandatory financial disclosures and the proportion of independent non-executive directors on the board. Similarly, Cheng and Courtenay (2006), while examining the effect of board composition on voluntary disclosure, found that boards with a majority of independent directors are likely to have significantly higher levels of voluntary disclosure than firms with balanced boards. Contrary to this, Eng and Mak (2003) found that non-mandatory disclosure in Singapore was significantly and negatively associated with the percentage of independent directors, and Gul and Leung (2004) document negative results as well. Ho and Wong (2001) on the other hand, using a direct measure of voluntary disclosure based on analyst perception, were unable to confirm a significant relationship between the level of voluntary disclosure and board independence. Prior evidence linking board composition with disclosure thus appears to be inconsistent. In addition, while the effects of corporate governance on financial disclosure have received considerable attention (Mallin 2002, Klein 2003, Beekes et al. 2004, Anderson et al. 2004), very limited research has been done linking board composition with CSR reporting (Haniffa and Cooke 2005), and directors’ attributes such as values, perceptions and motives are given much less importance in the CSR literature.

Notwithstanding the limited attention, individuals' values, perceptions and motives can influence board processes. As an active participant in boards, Huse (1998: 223) found that trust and emotion (such as irritation, friendship, love or hatred, sympathy and antipathy, exhaustion and fatigue, frustration and uncertainty) can play a major role in board activities. With regard to CSR and individuals' values, Hemingway and Maclagan (2004) argue that in order to establish CSR in organisations, the values motives and choices of those involved in policy formulation becomes an important factor. Their research was based on the basic assumption that the "...commercial imperative is not the sole driver of CSR decision making ... even if it is the obvious one" (Hemingway and Maclagan 2004: 35) indicating that personal values is one of the drivers of CSR. They further argue that strategic commercial interest (such as image and reputation management, the manipulation of stakeholders and the integrating of the organisation into its host community) may be the thing which partly drives CSR, but individuals' moral values can also influence specific projects and can make a difference in an organisation. They concluded that CSR, rather than being indicative of policy, may be the result of individual values and action and the word 'corporate' in CSR should be reconsidered. Similarly, Hung (2011) found that directors' concern for stakeholders plays an important role in direction setting. He identified two types of director role in CSR (organisation centred and society centred). Based on a study of 120 corporate directors, he observed that those directors who have more concern for stakeholders are more likely to perceive the need to perform their director role in CSR more effectively (Hung 2011). Moreover, CSR, as mentioned earlier, is widely considered as organisational strategy and since "... the strategic decision making process is by its very nature ambiguous, complex and unstructured, the perceptions and interpretations of a top management team's members critically influence strategic decisions" (Wiersema and Bantel 1992: 92). Therefore, it is likely that directors' values, perceptions and motives can influence CSR decisions and thereby ultimately influence CSR related outcomes, including reporting. Evidence exists suggesting that board composition and, particularly, the diversity of personal characteristics of board members, can play a significant role in the actions of the board (Raheja 2005, Adams and Ferreira 2009, Fischer et al. 2009). Further, a few studies have also demonstrated that strategic decision making will

differ in boards with different characteristics (Coles et al. 2008, Westphal and Fredrickson 2001).

Based on the view that CSR is a strategy and that an individual's values, perceptions and attitudes are likely to influence strategic decisions, this thesis aims to examine one of the emerging concepts in corporate governance, that is, board diversity and its influence on CSR reporting. Therefore, board diversity and its link with CSR and CSR reporting are further discussed in the following sections.

2.4 Board diversity

Diversity in general refers to heterogeneity among board members and has an infinite number of dimensions ranging from age to nationality, from religious background to functional background, from task skills to relational skills, and from political preference to sexual preference (Van Knippenberg et al. 2004). It can be either visible/observable (such as race, ethnic background, nationality, gender and age) or less visible (e.g. educational, functional and occupational background, industry experience and organisational membership) (Kang et al. 2007).

Diversity is largely considered as a “double-edged sword” (Hambrick et al. 1996: 668), hence, debate on homogeneity vs. heterogeneity (diversity) is common in the diversity literature where several arguments have been put forward both in favour of, and against, diversity on boards. The basic argument in favour of diversity is that heterogeneity results in a broader perspective overall, and allows groups to be involved in in-depth conversations and generate different alternatives when making decisions (Watson et al. 1998). This is possible because diverse team members perceive problems from a variety of perspectives and such views are discussed, which results in a wide range of solutions and a wide range of consequences for each option under consideration (Robinson and Dechant 1997). The resulting range of alternatives generated by having a more diverse set of perspectives is likely to lead to better solutions (Hillman 2015). Further, in order to reconcile different or conflicting opinions groups are forced to thoroughly process task-relevant information and this

may prevent the group from opting too easily for a course of action on which there seems to be consensus (Van Knippenberg et al. 2004).

Diversity however may have a negative or null effect on group processes or decision making. It may divide the group into two sub categories, that is, the ‘in-group’ (majority) and ‘out-group’ (minority) (Westphal and Milton 2000). The in-group members may tend to favour those who are similar to them and oppose the dissimilar ones and as such dismiss or devalue the contributions of out-group members (Nielsen 2010b). Group members who differ from the majority tend to have lower group loyalty (Randøy et al. 2006), lower levels of psychological commitment and higher levels of turnover intent and absenteeism (Marimuthu and Kolandaisamy 2009). In addition, scholars in diversity research have recently suggested that diversity can have a negative effect if the individuals do not value or believe in their diverse work groups (van Knippenberg and Schippers 2007, van Knippenberg and Haslam 2003). Finally, diversity may be seen as negative because in order to come to any kind of consensus the diverse groups inevitably experience challenges, conflicts and dissatisfaction which further slows down the group process.

Although there appears little doubt that diversity can have both positive and negative effects on various group processes and performance, more recently scholars of diversity research have noted that other factors may play a moderating role. One promising and recurrent theme is that of diversity beliefs (van Knippenberg and Haslam 2003, Ely and Thomas 2001, van Knippenberg et al. 2007, Homan et al. 2007). Diversity beliefs is defined as individual beliefs about the value of diversity to work group functioning (van Knippenberg and Haslam 2003, Ely and Thomas 2001, van Knippenberg et al. 2007, Homan et al. 2007), that is, “the extent to which individuals perceive diversity to be beneficial for or detrimental to the group’s functioning” (van Dick et al. 2008: 8). Further, these diversity beliefs are not general beliefs about overall diversity, rather they are specific to dimensions of diversity and task contexts (van Dick et al. 2008). For instance, an individual who perceives gender diversity as beneficial may perceive ethnic diversity to be detrimental to group functioning (van Dick et al. 2008). Differences in individual beliefs about

diversity as such can make them respond more favourably or less favourably towards their diverse work group which ultimately can have a positive or negative effect on group processes or performance (Van Knippenberg et al. 2004, Homan et al. 2007).

In this respect several studies have recently demonstrated that diversity beliefs can moderate the relationship between diversity and group performance. For example, van Knippenberg and Haslam (2003) indicated that when differences are seen as valuable to group functioning, group members may respond more positively to diverse groups than to more homogeneous groups. In a similar vein, using a survey and a laboratory experiment, van Knippenberg et al. (2007) demonstrated that the relationship between diversity and group members' identification with their work group was moderated by their diversity beliefs. The study particularly indicated that diversity tends to be positively related to group identification when team members believe in the value of diversity, whereas it is negatively related when they believe in the value of similarity (van Knippenberg et al. 2007). Homan et al. (2007) similarly showed that groups are more likely to effectively use their informational resources when group members hold pro-diversity beliefs rather than pro-similarity beliefs. van Dick et al. (2008) further confirmed that individuals' diversity beliefs moderate the relationship between diversity and team performance. Using the diversity beliefs perspective, they found that the value placed on ethnic diversity moderates the extent to which ethnic diversity leads to positive or negative responses to diversity (van Dick et al. 2008). The evidence to date clearly indicates that diversity has the potential to result in positive as well as negative team performance and that diversity beliefs play a moderating role in these effects.

Despite these positive and negative claims, the majority of studies indicate that diversity within a group has the potential to outperform those that exhibit homogeneity. For instance, Hambrick et al.'s (1996) study indicates that the benefits of diversity (broad gathering of information, decision creativity and boldness) are more than enough to compensate for some of the major drawbacks of diversity (in-group/out-group bias, conflicts, slowness in decision making and action). In summary, even though diversity may lead to conflicts and misunderstanding within

groups, it also brings a variety of perspectives and alternative solutions, and thus generally leads to higher quality problem-solving and ultimately better performance.

Although various benefits of diversity have been identified, progress towards boardroom diversity is very slow. Due to its broad nature researchers still have not agreed upon a common definition (Rose 2007). However, it has been broadly defined as "...variety in the composition of the BOD (Board of Directors)" (Kang et al. 2007: 195), which can be either visible or non-visible. More specifically, with regard to corporate governance, diversity is concerned with "board composition and the varied combination of attributes, characteristics and expertise contributed by individual board members in relation to board process and decision making" (Walt and Ingley 2003: 219). Walt and Ingley's definition of board diversity seems to be more applicable because board diversity is not just variation among its members but rather how those differences in individual board members' attributes, values and perceptions contribute towards various board process and outcomes. Board diversity is becoming an important factor in the modern world. Modern society is multicultural, gender sensitive, and exhibits diverse backgrounds and in order to deal with such a challenge "...boards need to examine how they can build the links that reflect democracy and civil society in its diversity, within their governance role as this relates to the organisations they serve and the wider community within which they exist" (Walt and Ingley 2003: 219). In addition, boards generally work in a group and "... variation in group composition leads to an increase in the skills, abilities, knowledge and information of the team as a whole" (Nielsen and Huse 2010b: 17) which enhances group performance and discussion (Van Knippenberg et al. 2004, Watson et al. 1993). Moreover, homogeneity at the senior level in particular results in "... a more myopic perspective" (Robinson and Dechant 1997: 27). Homogeneous boards usually think alike and are more likely to have similar perspectives and opinions and such a high level of cohesion or unity among them tends to increase pressure towards conformity (Miller and del Carmen Triana 2009). Due to their lack of diverse perspectives, such boards may not be able to challenge the thinking of management which ultimately weakens the quality and variety of boardroom debate (Grady 1999).

Based on the positive arguments favouring board diversity, a growing amount of contemporary research on boards suggests that diversity among board members has the potential to increase board effectiveness and thereby performance (Carter et al. 2003, Erhardt et al. 2003, Bonn et al. 2004). These studies focus on traditional financial performance however, not CSR performance. For example, Carter et al. (2003) examined how the proportion of women and those of different ethnic origin influences performance. They argue that board diversity enhances independence, and that the difference in cultural background, gender and ethnicity may induce the diverse board to ask questions whereas it is less likely that such questions would be raised from directors with traditional backgrounds (Carter et al. 2003). Based on data from the fortune 1000, they find that there is a significant positive relationship between board diversity (specifically women and minorities on the board) and firm value. Similarly, Erhardt et al. (2003) conducted a study based on US data and found that a higher degree of board diversity is associated with superior performance. While suggesting that board diversity enhances creativity, innovation and quality decision making at both individual and group levels, they found a significant positive relationship between board diversity and accounting profit measured by return on invested capital, and return on assets (Erhardt et al. 2003). Contrary to this positive evidence, however, diversity has also been found to have a negative effect on performance. For example, Bøhren and Strøm (2010) examined the relationship between firm value and various board diversity attributes including use of employee directors, board independence, directors with multiple seats, and gender diversity. Their evidence shows that the firm creates more value for its owners when the board has no employee directors, when its directors have strong links to other boards, and when gender diversity is low. They concluded that value-creating board characteristics support neither popular opinion nor the current politics of corporate governance (Bøhren and Strøm 2010) but, again, their measure of value is limited to traditional, financial performance.

Evidence also exists suggesting that diversity may have no effect on board level outcomes or performance, either positive or negative. For example, Carter et al. (2010), while investigating the relationship between board diversity and financial

performance, found no significant relationship between the gender or ethnic diversity of the board or important board committees and financial performance for a sample of major US corporations. They concluded that the valuable resources provided by the women and ethnic minority directors may have been offset by socio-psychological dynamics of the board such as exclusion or conflict. They do speculate, however, that effects of having women and ethnic minority directors may be different under different circumstances and at different times. Similarly, Randøy et al. (2006) while investigating the 500 largest companies from Denmark, Norway, and Sweden, found no significant diversity effect of gender, age and nationality on stock market performance or on return on assets. They conclude that increasing diversity may be attractive or may be political preference but does not affect performance (Randøy et al. 2006).

2.4.1 Board diversity and CSR

With regard to board diversity and CSR, even though limited, research still suggests that board diversity to a certain extent can influence social and environmental aspects of the business (Bear et al. 2010, Coffey and Wang 1998, Ibrahim and Angelidis 2011, Post et al. 2011, Ibrahim and Angelidis 1995, Hafsi and Turgut 2013, Krüger 2009). While some of these studies have focused on examining the board diversity effect on overall CSR, others have focused on specific component(s) of CSR (for example: environment, philanthropy or donations).

While board diversity has the potential to influence the level of CSR initiatives a company becomes involved in, it may also be a reflection of the company's commitment to CSR. The firms who are committed to CSR issues in order to achieve their goals may choose to appoint directors with diverse values, background and experience. Recently, Webb (2004), while investigating the board structure of socially responsible firms and non-socially responsible firms, found that the boards of socially responsible firms tend to have fewer insiders (23%) and more outsiders (71%) compared to non-socially responsible firms (31% and 61% respectively). Further, having demographically diverse boards can send signals to the public about firms' commitment to social justice (Bilimoria 2000, Miller and del Carmen Triana

2009); their norm adherence and positive working conditions (Miller and del Carmen Triana 2009); their particular strategy for improving the oversight of corporations (Galbreath 2011) and an indication of firms' attention to women and minorities, and thus be considered to be socially responsible (Bear et al. 2010).

Notwithstanding this, the literature does suggest that diverse boards are positively associated with higher CSR performance. Previous research has identified that unless there is a 'critical mass' (three or more) of women on a board however, individual influence will be minimal (Konrad et al. 2008). Consistent with this, Williams (2003) found that boards with a higher number of women engage in charitable giving to a larger extent than boards with fewer women. Similarly, Bear et al. (2010) found that firms' CSR ratings increase with the increase in the number of women directors and that the contributions women bring to the board are more likely to be considered by the board when the group diversity dynamics move away from tokenism to normality (Erkut et al. 2008).

Table 2.2 provides a summary of the relevant studies on board diversity and CSR. The table specifically highlights the various empirical studies examining the effects of board attributes and board diversity (including gender diversity) on CSR. It is important to note that the studies however are predominantly quantitative, and the results are mixed and inconclusive, suggesting a need for more in-depth analysis of these attributes.

Table 2.2

Empirical studies on the effects of board attributes and board diversity (including gender diversity) on Corporate Social Responsibility (CSR)

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Post et al. 2011)	Relationship between environmental CSR and Board composition(US)	Quantitative (Regression) (Disclosure – proxy)	Outside directors Gender diversity Age Cultural background Educational attainment	+ ve + ve Not sig + ve Not sig
(Krüger 2009)	Relationship between CSR and board characteristics (US)	Quantitative (Regression)	Women director Inside director Director experience Director tenure	+ ve + ve + ve + ve
(Bear et al. 2010)	How diversity of board resources and female directors affect CSR ratings (Fortune companies)	Quantitative (Regression)	Gender diversity Resource diversity	+ ve Not sig
(Webb 2004)	Structure of the board in socially responsible firms (US)	Quantitative (Regression)	Outside director Women director CEO duality	+ ve + ve - ve
(Arora and Dharwadkar 2011)	Association between corporate governance mechanisms and CSR (US)	Quantitative (Regression)	Concentrated ownership Managerial ownership Independence	Both + ve and -ve depending on slack and attainment discrepancy
(Huang 2010)	Whether corporate governance model impacts on Corporate Social Performance (CSP) (Taiwan)	Quantitative (Regression) (CSR reporting- proxy)	Independence Ownership structure	+ ve + ve
(Jo and Harjoto 2011)	The corporate governance effect on choice of CSR (US)	Quantitative (Regression)	Board leadership Independence	+ ve + ve

Table 2.2 Contd ...

Table 2.2 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(De Villiers et al. 2009)	The relationship between environmental performance and board characteristics (US)	Quantitative (Regression)	Board diversity Board size Independence Legal experts Active CEO CEO duality	+ ve + ve + ve + ve + ve - ve
(Sahin et al. 2011)	Role of board independence in CSR performance (Turkey)	Quantitative (Regression)	Independence	+ ve
(Ibrahim and Angelidis 1995)	Inside and outside board members' attitude towards Philanthropy	Quantitative (Survey - questionnaire)	Outside directors	+ ve
(Johnson and Greening 1999)	Effects of outside directors on CSP (KLD database)	Quantitative	Outside directors	+ ve
(Dunn and Sainty 2009)	Relationship between board independence and CSP (Canada)	Quantitative (Regression)	Board independence	+ ve
(McGuire et al. 2003)	Relationship between CEO incentives and CSP (KLD database)	Quantitative (Regression)	CEO incentives	Not sig
(Melo 2012)	Influence of board tenure on CSP (KLD database) (US)	Quantitative (Regression)	Board tenure	+ ve
(Siciliano 1996)	Influence of board member's gender and occupational diversity on social performance (YMCA organisations)	Survey (Questionnaire)	Board - Occupational diversity Gender diversity	+ ve + ve
(Bernardi and Threadgill 2010)	Whether companies with a higher proportion of women on boards are more socially responsible?	Quantitative (Regression)	Women directors	+ ve

Table 2.2 Contd ...

Table 2.2 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Ibrahim and Angelidis 1991)	Effects of board gender diversity on Philanthropy	Quantitative (Questionnaire)	Female directors	+ ve
(Coffey and Wang 1998)	Link between board diversity and corporate Philanthropy (98 fortune companies)	Quantitative (Regression)	Independence Women directors	Not sig Not sig
(Williams 2003)	Women directors' influence on corporate Philanthropy (Fortune 500 firms)	Quantitative (Regression)	Women directors	+ ve
(Hafsi and Turgut 2013)	Effect of boardroom diversity on CSP (S&P500 firms)	Quantitative	Director Age Women directors Director ethnicity Director experience Director tenure Director independence CEO duality Director ownership	+ve +ve Not sig Not sig Not sig Not sig Not sig Not sig
(Oh et al. 2011)	Effect of board ownership structure on CSR (Korea)	Quantitative (Regression)	Outside director - share ownership	Not sig
(Chin et al. 2013)	Influence of executives' values on CSR (KLD database) (Standard & Poor's 1500 firms)	Quantitative (GEE Analysis)	CEOs values / power	+ ve
(Boulouta 2013)	Whether and how female directors may affect CSP (KLD database) (S&P 500)	Quantitative (Regression)	Female directors	+ ve
(Zhang 2012)	Link between board demographic diversity and CSP (KLD database) (Fortune 500)	Quantitative (Regression)	Women directors Race Outside directors	+ ve + ve - ve

Table 2.2 Contd ...

Table 2.2 continued

(Knudsen et al. 2013)	Boards' mindset, competencies and compensation effect on CSR (Denmark)	Quantitative And Qualitative (Interviews)	Board mindset Board competencies Compensation structure	- ve - ve - ve
(Setó-Pamies 2015)	Relationship between women directors and CSR (Global 100)	Quantitative	Women directors	+ ve
(Mallin and Michelon 2011)	Board attributes and corporate social performance (US)	Quantitative	Board independence Female directors CEO duality Multiple directorship held by community influential	+ ve + ve - ve - ve

2.4.2 Board diversity and CSR reporting

With regard to board diversity (including gender diversity), research is rare linking it with CSR reporting (Barako and Brown 2008, Haniffa and Cooke 2005, Khan 2010, Fernandez-Feijoo et al. 2012), but what results exist seem to confirm a positive relationship. For example, Haniffa and Cooke (2005) found that Malay dominated boards are positively related to CSR reporting where a majority of respondents identified ethnic background of board members as a determinant of corporate social disclosure in Malaysia. In addition to being the government's favoured ethnic group, boards had the feminine cultural values of the Malays which is considered to be partly the reason for such a positive relationship (Haniffa and Cooke 2005). Similarly, Post et al. (2011) found that firms with boards composed of three or more women directors received higher KLD² strengths scores; and boards whose directors average closer to 56 years in age, and those with a higher proportion of Western European directors, are more likely to implement environmental governance structures or processes. Fernandez-Feijoo et al. (2012) specifically investigated the board gender effect on CSR reporting. Using the data from a survey conducted by KPMG, and the Women on Boards Report from Governance Metrics International,

² Kinder, Lydenberg and Domini (KLD) Research and Analytics Inc's database: The database contains about 80 binary negative and positive indicators (Concerns and Strengths) belonging to seven different issue areas (community, employee relations, environment, product, human rights, diversity, and corporate governance).

they found that boards with three or more women are determinants for CSR reporting, produce less integrated reports, inform more about CSR strategy and include assurance statements. The study also found that the inclusion of women on boards mediates and moderates the effect of cultural characteristics on CSR reporting.

Even though only a limited number of studies examine board diversity and CSR reporting by firms, a majority of these still indicate that directors' values, perceptions and attitudes and, in particular, various board diversity characteristics have the potential to influence the level of CSR reporting. In addition, empirical results show that, under high environmental uncertainty, heterogeneous top management teams achieve better performance, whereas less heterogeneous teams will be more successful in stable contexts (Hambrick et al. 1996, Nielsen 2010b). Given the current economic climate, increasing debates about social issues such as climate change, and the sensitive nature of many major industries, the operating environment in Australia, the context for this thesis, is more likely to be on the uncertain end of the spectrum.

Moreover, due to its generally voluntary nature, decisions with regard to CSR, as mentioned in Chapter 1, become complex and consideration of various alternatives and in-depth discussion and debate facilitated by diversity, will result in high quality board level decisions with regard to CSR, which should ultimately be reflected in the level of CSR reporting.

Table 2.3 presents a summary of relevant empirical studies which examine the effects of board attributes on various types of disclosure, including CSR reporting. One of the drawbacks in these studies linking board diversity and CSR reporting is that the majority of them assume a direct relationship between the two. However, the relationship between board diversity and CSR reporting is more complex than the type of examination conducted implies. CSR reporting, as mentioned in the previous section (section 2.2.4), is widely considered as a strategy (Haniffa and Cooke 2005), and hence likely to be the outcome of strategic decision making processes. However,

investigation of this has been neglected in previous studies. Therefore, this thesis aims to contribute to filling this gap by examining the board diversity effect on CSR decision making processes and its ultimate effect on CSR reporting.

Table 2.3

Empirical studies on the effects of board attributes on various types of disclosure, including Corporate Social Responsibility Reporting (CSR reporting)

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Haniffa and Cooke 2005)	Impact of culture and governance on corporate social disclosure (Malaysia)	Quantitative (Regression)	Non-executive Chair with multiple directorships Foreign ownership	- ve + ve + ve
(Barako and Brown 2008)	Influence of board representation on CSR reporting (Kenya)	Quantitative (Regression)	Women directors Independence Foreign nationals	+ ve + ve Not sig
(Htay et al. 2012)	Governance effect on Social and environmental disclosure (Malaysia)	Quantitative (Regression)	Board size Independence Board ownership Institutional ownership	- ve + ve + ve - ve
(Lorenzo et al. 2009)	Link between characteristics of the board and CSR reporting	Quantitative (Regression)	Independence Diversity Board activity Chair reputation	+ ve + ve Not sig Not sig
(Said et al. 2009)	Relationship between corporate governance characteristics and CSR disclosure (Malaysia)	Quantitative (Regression)	Board size Audit committee Board independence Government ownership CEO duality	Not sig + ve Not sig + ve Not sig
(Khan 2010)	Potential effects of corporate governance elements on CSR disclosure (Bangladesh)	Quantitative (Regression)	Women directors Non-executives Foreign nationals	Not sig + ve + ve
(Ghazali 2007)	Influence of ownership structure on CSR reporting (Malaysia)	Quantitative	Director share ownership	- ve
(Fernandez-Feijoo et al. 2012)	Effect of board gender composition on CSR reporting (22 countries included in KPMG report)	Quantitative	Gender composition	+ve

Table 2.3 Contd ...

Table 2.3 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Chen and Van Staden 2010)	Relationship between corporate governance and the environmental information disclosure quality (China)	Quantitative (Regression)	Frequency of director meeting Board independence	+ ve + ve
(Rao et al. 2012)	Relationship between corporate governance attributes and environmental reporting (Australia)	Quantitative (Regression)	Independent director Institutional ownership Women directors Board size	+ ve + ve + ve + ve
(Prado-Lorenzo and Garcia-Sanchez 2010)	Role of the board in disseminating greenhouse gas information disclosure (Global)	Quantitative	Board independence Board diversity	Not sig Not sig
(Kent and Monem 2008)	Explanation for companies adopting TBL (Triple Bottom Line) reporting (Australia)	Quantitative (Regression)	Audit committee meeting Environmental and sustainability committee	+ ve + ve
(Donnelly and Mulcahy 2008)	Relationship between corporate governance and voluntary disclosure (Ireland)	Quantitative	Non-executive Non-exec Chair Ownership	+ ve + ve Not Sig
(Eng and Mak 2003)	Impact of board composition on voluntary disclosure (Singapore)	Quantitative (Regression)	Board Independence Board share ownership	- ve - ve
(Ho and Wong 2001)	Relationship between corporate governance structure and the extent of voluntary disclosure (Hong Kong)	Quantitative (Regression)	Independence Audit committee CEO duality Family board member	Not sig + ve Not sig - ve
(Chau and Gray 2010)	Relationship between corporate governance and the extent of voluntary disclosure (Hong Kong)	Quantitative (Regression)	Family ownership Independent Chair	+ ve + ve

Table 2.3 Contd ...

Table 2.3 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Cheng and Courtenay 2006)	Association between board attributes and level of voluntary disclosure (Singapore)	Quantitative (regression)	Board size CEO duality Independence	Not sig Not sig + ve
(Huafang and Jianguo 2007)	Effect of board composition on voluntary disclosure (China)	Quantitative (Regression)	Ownership Independence CEO duality	+ ve + ve - ve
(Amran et al. 2013)	Role of the board in sustainability reporting quality (Asia Pacific Region)	Quantitative (Regression)	Board size Independence Women directors	Not sig Not sig Not sig
(Jizi et al. 2014)	Role of the board on the quality of CSR disclosure (US)	Quantitative (Regression)	Board size Independence CEO duality	+ ve + ve + ve
(Liao et al. 2014)	Impact of board's characteristics on voluntary disclosure of greenhouse gas emission (UK)	Quantitative (Regression)	Women directors Independence	+ ve + ve
(Rupley et al. 2012)	Impact of board attributes on quality of environmental disclosure	Quantitative (Regression)	Independence Multiple directorships Gender diversity CEO duality Board-level CSR committee	+ ve + ve + ve Not sig Not sig
(Darus et al. 2014)	Influence of Institutional Pressure and Ownership Structure on Corporate Social Responsibility Disclosure (Malaysia)	Quantitative (Regression)	Board interlock/multiple directorships	Not sig
(Giannarakis 2014)	Corporate governance and financial characteristic effects on the extent of corporate social responsibility disclosure (US)	Quantitative (Regression)	Independence CEO duality Women directors Age	Not sig Not sig Not sig Not sig

As can be seen from the tables above (Table 2.2 and Table 2.3), among the various board diversity characteristics most commonly studied, gender diversity is one of the

most significant and an issue of interest to most modern corporations (Carter et al. 2003). Various qualities of women such as increased sensitivity (Williams 2003); participative decision making styles (Konrad et al. 2008) and high concern towards the welfare of the community or firms' natural stakeholders (Krüger 2009, Galbreath 2011), has been considered to improve firms' performance specifically in the social and environmental aspects of the business (Coffey and Wang 1998, Ibrahim and Angelidis 2011, Ibrahim and Angelidis 1991, Bear et al. 2010, Galbreath 2011, Boulouta 2013, Fernandez-Feijoo et al. 2012, Krüger 2009). As gender is a particular focus in this thesis, a more detailed review is provided in Section 2.5.

Another widely tested diversity characteristic in the literature is board independence. The majority of previous studies confirm the existence of a positive relationship between the presence of non-executive/independent board members and various types of performance, including CSR (Post et al. 2011, Jo and Harjoto 2012, Sahin et al. 2011, Dunn and Sainy 2009) and CSR reporting (Barako and Brown 2008, Prado-Lorenzo and Garcia-Sanchez 2010). These studies indicate that independent directors possess superior monitoring ability, unbiased interest, high concern for their reputation and unique experience and expertise, and ultimately can have a positive influence on CSR aspects of corporations. However, it is worth noting that some evidence exists suggesting that independence can have a negative or insignificant relationship with CSR and CSR reporting (Hafsi and Turgut 2013, Coffey and Wang 1998, Zhang 2012, Prado-Lorenzo and Garcia-Sanchez 2010, Said et al. 2009).

In addition to gender and independence, age, tenure and multiple directorships are the other diversity attributes which have been attracting a reasonable level of interest by scholars recently. Concerning age and CSR, even though limited, research indicates that age diversity among board members tends to influence CSR (Post et al. 2011, Hafsi and Turgut 2013). It is quite plausible that a group with different aged people will have different attitudes, values and perspectives and opinions, but there seems to be no solid argument favouring one age group when it comes to CSR. Both the experience of older managers and energy and alertness of younger managers are considered as important in the decision making process as well as having an impact

on performance. For example, younger managers, who are likely to have received their education more recently (Bantel and Jackson 1989) are considered to express more concern with, as well as to have more knowledge of, environmental issues (Diamantopoulos et al. 2003). On the other hand, older aged managers not only have more experience but also may prefer to have both financial security and career security (Hambrick and Mason 1984) and as such are less likely to ignore stakeholders' interests which may become a threat to the survival of the company.

Studies linking directors' tenure with CSR issues mainly argue in favour of having a balanced board in terms of tenure, however results are again mixed (Hafsi and Turgut 2013, Krüger 2009). The major argument is that longer tenured directors are likely to possess more knowledge and experience about the company and are more likely to be have high commitment towards the company, hence, are more likely to support CSR decisions which are consistent with long term outcomes (Krüger 2009). However, the downside of long tenure is that there is a possibility that longer tenured directors may become too friendly with management and this may compel them to echo or support management's view, which is often focussed on the short term, and this may ultimately be detrimental to CSR.

Finally, multiple directorships, refers to the "appointment of (a) director, either executive or independent non-executive director, on multiple boards" (Darus et al. 2009: 128), and are also known as cross directorships or 'interlocking directors' (Hashim and Abdul Rahman 2011: 5). Directors sitting on multiple boards offer valuable insights based on their experience of being on the board of another company (Dahya et al. 1996) and this then allows the focal company to imitate or adopt specific and/or multiple policies of other companies (Westphal et al. 2001, Brandes et al. 2006). However, it is possible that a director who sits on multiple boards is likely to become busy or overcommitted (high workload). Based on these positive and negative arguments, a few studies have examined the link between multiple directorship and CSR, however results are inconclusive some showing positive relationships (Rupley et al. 2012), others negative (Mallin and Michelon 2011), and some showing insignificant results (Darus et al. 2009).

Even though rare, various other diversity characteristics such as directors' level of education, race/ethnicity, nationality/foreign national and functional background have also been identified as having some influence on various group processes and performance. However, the studies linking it with CSR are very rare as shown in Table 2.1 and Table 2.2. This is likely due to difficulties in obtaining data on these attributes. Executives' educational level represents their knowledge and skill base (Hambrick and Mason 1984) and thereby represents their cognitive values and preferences (Hitt and Tyler 1991). The level of education board members attain as such may well have some influence on their ability to collect information as well as undertake careful analysis of the information (Goll and Rasheed 2005); that is, their levels of tolerance for ambiguity, capacity for information processing, ability to identify and analyse alternative solutions and openness to changes in corporate strategy (Wiersema and Bantel 1992) may be greater. Moreover, evidence exists suggesting that educational level positively affects performance, including financial reporting (Balta et al. 2010), but there is insufficient research linking it to CSR (Post et al. 2011).

Similar to education, diversity in functional background or professional background may also influence board level outcomes. Boards of directors usually have experience in multiple functions. The diversity literature defines such multiple experiences of top management teams as functional diversity (Hitt and Tyler 1991) which can enhance team innovation through the generation of alternative solutions and innovation (Bantel and Jackson 1989, Joshi and Roh 2009). Different functional backgrounds or professional backgrounds leads to an increase in information sharing (Bunderson and Sutcliffe 2002), as well as different attitudes, knowledge and perspectives, and therefore different strategic choices (Balta et al. 2010, Talke et al. 2011). Of particular relevance is the study by Ibrahim et al. (2003) who found that directors' occupational background has the potential to influence corporate social performance. Their study highlighted that government officials and physicians on a board have different values, perspectives and backgrounds towards social performance and those values and perspectives again vary in for-profit versus not-

for-profit organisations. Similarly, Siciliano (1996) found that the greater the occupational diversity at board level, the greater the level of fundraising and social performance. Their interview results suggested that a variety of viewpoints from different occupational backgrounds compel the board to consider all aspects of the decision.

Similar to functional background, ethnic diversity among board members, even though studied rarely, is gaining interest among diversity scholars. It is argued that “minority directors’ differing insights, and information flow, from sources not easily accessible to an ethno-centred board, and their sensitivities may lead to innovative behaviour and enhanced performance” (Hafsi and Turgut 2013: 467). Empirical studies analysing the effects of the ethnicity characteristics of board members have produced mixed results however. While a few studies found a significant positive link between percentage of ethnic minorities and firm performance (Carter et al. 2003, Erhardt et al. 2003), others found a negative relationship (Zahra and Stanton 1988) or no significant relationship (Carter et al. 2010). Specifically, a few studies exist linking ethnic diversity with CSR issues suggesting that it has the potential to influence CSR (Zhang 2012, Haniffa and Cooke 2005). Similar to ethnicity, nationality or presence of foreign directors is another diversity characteristic that, although essential for global companies, is rarely studied. Again, the few studies which have examined the link between nationality and CSR showed inconclusive findings (Khan 2010).

From this review, it is clear that board diversity attributes can influence various outcomes including CSR and CSR reporting. Although the various board diversity characteristics identified are seen to have an effect on CSR and CSR reporting, it is not within the scope of this thesis to examine all the diversity variables in a single study as a complete set of data on some of the variables, such as ethnicity, education, functional background, nationality and age of the board members was not available. Therefore, four diversity variables: gender, independence, tenure and multiple directorships were included in the analysis. These four variables were chosen based on the extensive review of the literature and because reliable data are available and

accessible. Further, an overall diversity index was constructed using these four individual dimensions of diversity to examine the combined diversity effect on CSR reporting. These four variables as well as the overall diversity index are discussed in more detail in Chapter 3, when the theoretical framework is outlined and hypotheses are developed.

As discussed above, the evidence on board diversity and performance suggests that diversity attributes may influence CSR performance and reporting but results are inconclusive. The next section therefore provides a review of the literature on diversity and decision making and how this may shed more light on the relationship with CSR.

2.4.3 Boards' role in strategy and decision making processes, and CSR

In response to the inconclusive results of studies of board diversity and performance, many papers have suggested that it is important to examine intermediate variables rather than examining direct relationships. For example, Roberts et al. (2005) highlighted that corporate governance research lacks understanding of behavioural processes and there remains very limited understanding of the working processes and effects of boards of directors (Daily and Dalton 2003, Hermalin and Weisbach 2001). They state that “better understanding of the inner workings of boards is necessary both to advance management research and to promote its relevance to corporate governance practice and reform” (Roberts et al. 2005: s5). Moreover, research aimed at examining board processes rather than the direct impact on corporate performance has resulted in more promising results. For instance, Gulati and Westphal (1999) documented that a board's engagement in the strategic decision making process encourages multiple directorships (also known as interlocking directorates) and that the strategic context of social network ties between directors, rather than multiple directorships (number of interlocks), is an important influence on corporate governance (Carpenter and Westphal 2001).

Nicholson and Kiel (2007) while reviewing both traditional board-performance and recent board behaviour studies, suggest that it is necessary to understand and unravel the processes that link board attributes to firm performance. Their study was a direct response to the calls for more process-oriented approaches to governance research (Pettigrew 1992, Forbes and Milliken 1999). They used three theories – agency, stewardship and resource dependency theory – to explain board roles. From an agency perspective their argument is that high levels of outsiders on the board are associated with high monitoring of management, which is associated with low agency costs and consequently high corporate performance. Stewardship theory on the other hand focuses on the importance of inside directorships which enables high access to information and leads to high quality decision making and consequently high corporate performance. Finally, from a resource dependency viewpoint their argument is that a high level of links to the external environment is associated with high access to resources and consequently high corporate performance. Overall their results indicate that various board processes, such as monitoring of management, agency costs, access to information, quality of decisions and high access to resources, are the processes through which boards are expected to impact on corporate performance (Nicholson and Kiel 2007). With such importance attached to board processes, it is necessary to investigate board processes, rather than a direct link between board attributes and performance, in order to increase understanding of how board decisions translate to outcomes.

Further, CSR and CSR reporting are a part of a firm's strategy and the board's role in CSR is considered as a "... stream of board-level decisions that induce an integrated set of activities intended to produce social outcome favourable to the firm's alignment of its interest with that of society" (Hung 2011: 388). Since boards of directors are responsible for formulating strategies, the board process relevant to CSR is the boards of directors' strategic decision making process. Both the corporate governance and strategic management literature indicate that a director's role in strategy is the most complex and crucial one which requires thorough investigation. Strategy is regarded as "... a set of decisions that a) guide the organisation according to the environment, b) affect the internal structure and

processes and c) consequently, its performance” (Balta et al. 2010: 58). The board’s role in strategy and decision making processes has been highlighted in many previous studies (Adams and Ferreira 2007, Deegan 1999, Elkington 1999, Kent and Monem 2008, Ricart et al. 2005, Walt and Ingley 2003, Wiersema and Bantel 1992, Zahra and Pearce II 1989, Pugliese et al. 2009, Deloitte 2011, Golden and Zajac 2001, Westphal and Fredrickson 2001) suggesting that boards’ involvement is significant. The board, being the “apex of the firm’s decision control system”, (Fama and Jensen 1983: 311), has a role that “... involves making critical decisions particularly in relation to strategic change, so the organisation can adapt to environmental changes” (Walt and Ingley 2003: 229). Accordingly, Stiles (2001), while examining 51 directors and 121 company secretaries of UK public companies, found that strategic actions of corporations are influenced by directors (Hung 2011). Zahra and Pearce II (1989) identified that boards are responsible for 3 major roles: strategy, control and service. In their strategy role boards are responsible for formulating and disseminating corporate goals and policies as well as the allocation of resources necessary to implement the board’s strategies. In their corporate control role, they monitor and reward executive action and performance. Finally, in their service role, boards need to represent the organisation’s interest in society, linking the firm with the external environment and securing critical resources. Thus, CSR is part of all of the board’s roles, but particularly in their strategy and service roles where they must set CSR goals and policies, and link with the external environment, including wider stakeholders.

In summary, the literature on board process suggests that board diversity attributes do have the potential to influence strategy. Therefore, while this thesis considers board diversity generally by investigating its influence on CSR reporting in the first phase of analysis, it also investigates the influence of board diversity on CSR strategy. In addition, as mentioned earlier, one of the most debated board diversity characteristics is that of gender, with some evidence suggesting that women significantly influence strategy and decision-processes. Therefore, in order to delve more deeply into the analysis of diversity, one specific diversity characteristic, that of gender, and its influence on CSR decisions and CSR reporting, is considered in

phase two of the analysis presented in this thesis. The link between gender diversity and CSR decisions is therefore reviewed next.

2.5 Gender diversity and CSR decisions

The relationship between board diversity and decisions with regard to CSR, even though evidence is limited, is still well supported. For example, (Krüger 2009: 7) states that the:

Board of directors will have a substantial influence on the decision to support local communities or the extent to which a firm chooses to provide non-monetary and/or monetary benefits to its workforce (e.g. child-care, elder care, fitness canters and other work/life benefits). Likewise, it seems plausible that director characteristics such as experience or expertise will impact the ability of a company to manage its (social) risks effectively (e.g. avoiding environmental contamination and workforce safety violations, managing its pension and retirement liabilities responsibly, etc.).

Within the literature on board diversity, gender composition is considered to be an important aspect when considering boards' decisions (Bear et al. 2010, Bilimoria 2000, Fielden and Davidson 2005, Hillman et al. 2002, Johnson and Greening 1999, Peterson and Philpot 2007, Singh et al. 2008, Terjesen et al. 2009, Wang and Coffey 1992, Williams 2003). Women directors tend to bring different perspectives to the board and can influence various board level outcomes including the decision making process. Such unique perspectives could be due to their different experiences of the workplace, marketplace, public services and community, which are likely to provide different points of view in the decision making process (Daily and Dalton 2003, Zelechowski and Bilimoria 2004). Supporting the presence of women on boards, Walt and Ingley (2003) suggest that quality decision making requires a balance between skills and attributes among the board members which could be achieved by appointing more women directors. Some authors even argue that women directors are more likely to be objective and independent (Fondas 2000), tend to ask questions more freely than male directors (Bilimoria and Wheeler 2000) and spend more time considering decisions which enables them to foresee negative consequences (Hillman

2015). Their presence therefore enhances board information, perspectives, debate and decision making (Burke 2000). Nielson and Huse (2010b), based on survey data from multiple respondents in 120 Norwegian firms, confirm that women directors do contribute towards board decision-making processes and thereby influence board strategy. They examined the effect women board members have on board operational control and board strategic control. They find the ratio of women directors to have a positive direct relationship with board strategic control. In addition, they also find women directors reduce the level of conflict, which is detrimental to board strategic control. They concluded that “... it is not the gender per se, but the different values and professional experiences that women may possess that enable them to make a difference to actual board work and influence board decision-making” (Nielsen and Huse 2010b: 17). Despite the evidence suggesting gender composition is likely to influence decisions, including decisions related to stakeholders, research linking gender with CSR-related decision making is rare and in need of more in-depth consideration.

Table 2.4 provides a summary of relevant studies undertaken on the effect of board attributes on strategy and decision making processes. The majority of the studies in the table indicate that board attributes/diversity has the potential to influence various strategic outcomes. However, the board diversity effect on CSR strategies and decisions is an understudied area, in particular there are very few studies conducted in recent times.

Table 2.4

Studies on the effect of various board attributes (including Top Management Team -TMT) on strategy/decision making processes

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Balta et al. 2010)	Influence of board characteristics on strategic decision making process (Greece)	Quantitative (General Linear Model)	Educational level Educational background Functional background	+ ve Not sig + ve
(Machold et al. 2011)	Association between board leadership and strategy involvement in small firms (Norway)	Quantitative (Regression)	Board leadership	+ ve
(Carpenter and Westphal 2001)	Impact of board external network ties in strategic decision making process (US)	Quantitative (Regression)	Board network ties	+ ve
(Nielsen and Huse 2010b)	Influence of women directors on decision making/strategic involvement (Norway)	Quantitative (Least Square Analysis)	Women directors	+ ve
(Ruigrok et al. 2006)	Relationship between board characteristics and strategic decision making (Switzerland)	Quantitative (Regression)	Board size Outside director CEO duality Interlock ties	Not sig Not sig - ve - ve
(Goodstein et al. 1994)	Effect of diversity on strategic change (US)	Quantitative (Pooled time series analysis)	Board diversity Outside director	- ve Not sig
(Rose 2007)	Whether directors' personal values affect board decisions (US)	Quantitative / Qualitative (Survey and Interview)	Personal values	- ve
(Ogbechie et al. 2009)	Relationship between board characteristics and strategic decision making (Nigeria)	Quantitative (Survey)	Board size Independence CEO duality	Not sig Not sig Not sig

Table 2.4 Contd ...

Table 2.4 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Judge and Zeithaml 1992)	Boards' involvement in strategic decisions (US)	Quantitative / Qualitative (Interviews)	Board size Insider representation Organisational age	- ve - ve + ve
(Pugliese and Wenstøp 2007)	Board members' contribution to strategic decision making (Norway)	Quantitative (Regression)	Board working style (establishment of board evaluation, number and length of board meetings) Board quality attributes (knowledge, diversity and motivation)	+ ve + ve
(Maharaj 2009)	Objectives that are required for board decision making (Canada)	Quantitative Qualitative (Interviews)	Values Groupthink Knowledge	+ ve + ve + ve
(Jensen and Zajac 2004)	How characteristics of corporate elites affect corporate strategy (US)	Quantitative (Regression)	Board functional background CEO functional background	Not sig + ve
(Haynes and Hillman 2010)	Effect of board capital on strategic change (S & P 500)	Quantitative (Regression)	Board capital breadth (occupational, functional, interlock heterogeneity) Board capital depth (industry occupation and industry interlocks)	+ ve - ve
(Westphal and Fredrickson 2001)	Boards' effect on strategic change (US)	Quantitative (Event History Analysis)	Board experience / CEO experience	+ ve

Table 2.4 Contd ...

Table 2.4 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(Wiersema and Bantel 1992)	Relationship between the TMT demography and corporate strategic change (US)	Quantitative (Regression)	Top management team (TMT): Age Organisational tenure Team tenure Educational level Education-specialisation Training	- ve - ve + ve + ve + ve + ve
(Talke et al. 2011)	How TMT characteristics affect firm's innovation strategy (Europe and North America)	Quantitative (Structural Equation Model)	Top Management team (TMT): Educational Functional Industry background	+ ve + ve + ve
(Terjesen et al. 2009)	How gender diversity on boards influences corporate governance outcomes (board level decisions)	Review paper	Women directors	+ ve
(Nielsen and Huse 2010a)	Contribution of women directors to board strategic control (Norway)	Quantitative (Regression)	Women directors	+ ve
(Triana et al. 2013)	How board gender diversity, firm performance and the power of women directors interact to influence the amount of strategic change (Fortune 500 firms)	Quantitative (Regression)	Women directors	+ve / -ve (depending on firm performance and power of women directors)
(Adams et al. 2011)	How values may affect Directors' strategic decisions in shareholder/ stakeholder dilemmas (Sweden)	Quantitative (Regression)	Directors' personal values and roles	+ ve/ - ve (depending on personal values)
(Rindova 1999)	Directors' contribution to strategic decisions	Theoretical paper	Directors' problem-solving expertise and cognitive contribution	+ ve

Table 2.4 Contd ...

Table 2.4 continued

Author	Aim The major aim of the study was to investigate:	Method Indicates whether the study is quantitative or qualitative	Board Variables The various board attributes included in the study	Findings Indicates whether the relationship is positive (+ve), negative (-ve) or not significant (Not sig)
(O'Shannassy 2010)	Interplay of board and CEO in strategy – making (Australia)	Qualitative (Interviews)	Board and CEO's personal power, specialist knowledge, personality attributes and political and influencing skills	Significant

2.6 Chapter summary

This chapter provided a broad overview of the critical literature related to corporate governance, board diversity, board strategy and decision making, and their effect on CSR and CSR reporting. The chapter further presented comprehensive tables of results of prior studies linking board diversity with CSR and CSR reporting. Finally, the chapter outlined the research on gender diversity and CSR which provides the background and context for the analysis conducted in this thesis. The theoretical framework that guides the research design and analysis, and the hypotheses development in relation to diversity attributes used on the study, are presented in the next chapter (Chapter 3).

Chapter 3:

Theoretical Framework and Hypotheses Development

3.1 Introduction

This chapter presents the broad theoretical perspective of corporate governance used in the thesis, provides a review of theories explaining the link between boards, diversity and CSR decisions, including CSR reporting, and presents the theoretical model that informs this thesis.

Upper echelon theory, discussed in Section 3.2, is used to frame the overall relationship between boards, CSR decision making processes and CSR reporting. Stakeholder theory and resource dependency theory are then used to explain the direct relationship between board diversity and CSR reporting in Section 3.3. Finally, in Section 3.4, the development of the hypotheses that test associations between specific board diversity variables and CSR reporting is presented.

3.2 Upper Echelon Theory

As discussed in Chapter 2, the board of directors is the key decision making body of companies, and their primary function is to define strategy for the firm. The theory of upper echelons (Hambrick and Mason 1984) suggests that top executives or powerful actors in the organisation, that is, senior management teams, matter in determining strategic outcomes. Much of the research on top executives' influence on strategy has been undertaken using Hambrick and Mason's (1984) upper echelon theory and suggests that "organisational outcomes, both strategies and effectiveness - are viewed as reflections of the values and cognitive bases of powerful actors in the organisation" (Hambrick and Mason 1984: 193). The basic foundation of the upper echelon perspective lies in the behavioural theory of the firm (Cyert and March 1963), which is based on the view that:

... managerial choices are not always following rational motives but are to a large extent influenced by the natural limitations of managers as human beings. Behavioural factors, such as bounded rationality, multiple and

conflicting goals, various aspiration levels, etc., are believed to influence strategic choices made by top executives, which in turn determine firm performance (Nielsen 2010b: 303).

Upper echelon theory advocated by Hambrick and Mason is primarily built on the premise of earlier strategic choice literature (Child 1972). The basic argument is that the rational model is not the sole reason behind strategic decisions (Hambrick and Mason 1984), rather, strategic choices are the result of both the objective situation and the characteristics of upper echelons (executives) of the organisation. The characteristics of upper echelons, such as cognitive bases, values and observable background characteristics, affect managerial perception and therefore strategic choices (Hitt and Tyler 1991). Hambrick and Mason (1984) further argue that when decision makers are exposed to an ongoing stream of potential stimuli, their cognitive bases and values filter and distort the decision maker's perception, and thereby affect strategic choice. However, top executives' characteristics such as cognitions, values, and perceptions are hard to measure, hence, observable demographic characteristics of top executives rather than psychological dimensions are used in the development of an upper echelons theory (Hambrick and Mason 1984). Supporting this, Wiersema and Bantel (1992: 112) claim that "demographic characteristics are an important way to measure individuals' cognitive bases; cognitive bases in turn come to create certain team abilities and tendencies, resulting in patterns in decision outcomes". Observable characteristics therefore are often considered as reasonable proxies for underlying differences in cognitions, values and perceptions (Hambrick and Mason 1984, Carpenter et al. 2004, Wiersema and Bantel 1992).

Another important factor to be noted in the literature on the upper echelon perspective is the definition of upper echelons, which has been questioned in many prior studies. Hambrick and Mason refer to them as Top Management Teams (TMTs) whom they believed to be the 'dominant coalition' of powerful actors in the organisations. The definition of TMTs however varies considerably in previous studies where several definitions and explanations have been used. Some researchers

call them managerial elites who “occupy formally defined positions of authority, those at the head of, or who could be said to be in strategic positions” (Pettigrew 1992: 163). Wiersema and Bantel (1992) similarly define TMT members as the very highest level of management including the Chair, chief executive officer, president and chief operating officer, but also include the next highest tier. A few studies have used the top five highest paid executives, including the CEO (Carpenter et al. 2001, Carpenter et al. 2003), whereas others used all executives above vice president level (Hambrick et al. 1996, Geletkanycz and Hambrick 1997).

Importantly, researchers recently have extended the arguments to the board of directors and started viewing boards of directors in the same context as top management teams (Marimuthu and Kolandaisamy 2009, Hoffman et al. 1997, Finkelstein and Hambrick 1990, Jensen and Zajac 2004). Moreover, some studies even argue that the TMT definition should be based on the particular outcome in question (Bantel and Jackson 1989). Similarly, Pettigrew asserted that “rather than assuming titles and positions as indicators of involvement, the first task...is to identify which players are involved and why” (1992: 178). Many papers even asked CEOs to identify the top management team members in order to identify relevant top management teams who are most likely to be involved in the strategic decisions (Carpenter et al. 2004).

The upper echelon model as such consists of a number of important features. Carpenter et al. (2004: 751-752) identifies three central tenets of the upper echelon perspective:

- (1) *Strategic choices made in firms are reflections of the values and cognitive bases of powerful actors,*
- (2) *The values and cognitive bases of such actors are a function of their observable characteristics like education or work experience, and as a result*
- (3) *Significant organisational outcomes will be associated with the observable characteristics of those actors. These three central tenets frame the upper echelon proposition that an organisation and its performance will be a reflection of its top managers and provide a basis for studying underlying team dynamics by demographic proxy.*

The characteristics of top management teams or top executives and their impact on strategy and firm performance have been studied quite extensively in the strategy literature. The majority of the evidence suggests that composition and heterogeneity of the TMT affects various strategies and firm performance outcomes (Bantel and Jackson 1989, Hambrick 2007). For example, Hambrick and Mason (1984) proposed several personal characteristics of upper echelon executives, including age, functional track, career experience, education, socioeconomic roots, financial position and group characteristics, that are likely to affect strategic choices. Papadakis and Barwise (2002), using the upper echelon perspective, explored the influence of both CEO and top management team characteristics on strategic decision making processes among firms in Greece. They found that the characteristics of both the TMT and the CEO influence the strategic decision making process. Wiersema and Bantel (1992) examined the relationship between the top management team's demographics and corporate strategic change, particularly changes in diversification level, within a sample of 500 companies. The study found that the firms' top management team, which consisted of lower average age, shorter organisational tenure, higher team tenure, higher educational level, higher educational specialisation heterogeneity and higher academic training in the sciences, was likely to achieve changes in corporate strategy (Wiersema and Bantel 1992). The results of these studies all support the upper echelon perspective that top managers' cognitive perspectives, as reflected in a team's demographic characteristics, are linked to the teams' propensity to impact on corporate strategy (Wiersema and Bantel 1992), and affect performance related outcomes (Bantel and Jackson 1989, Murray 1989, Goll and Rasheed 2005).

Personal characteristics of top executives have also been found to have an influence on the strategic decision making process (Hitt and Tyler (1991). Hitt and Tyler (1991) suggest that executive influence does matter above and beyond rational analytical processes and industry characteristics; that is, strategic decisions are likely to be affected by both the firm's industry as well as executives' own personal characteristics (Hitt and Tyler 1991). Similarly, Talke et al. (2011), building on an upper echelon perspective, investigated how top management team characteristics

affect a firm's strategic innovation orientation, and how this relates to innovation outcomes and performance. Overall, their results indicate that top management team diversity, measured as heterogeneity in educational, functional, industry and organisational background, has a strong positive effect on firms' innovation orientation emphasising the importance of top management team characteristics as antecedents for innovation strategy and innovation outcomes (Talke et al. 2011). The results of these studies provide support for the assertion that top management demographic characteristics influence decision making.

Moreover with regard to boards, the evidence suggests that directors' strategic preferences are influenced by their beliefs and prior experiences with corporate strategy (Westphal and Fredrickson 2001). Jensen and Zajac (2004) used both agency and the upper echelon model to explain the board's role in strategy and their results indicated that both position and demography are important factors in influencing strategy. In contrast, Marimuthu and Kolandaisamy (2009) also examined the demographic diversity of the board and their influence on decision making processes; however their study failed to draw any conclusions about the relevance of heterogeneity among board members.

Overall, upper echelon theory suggests that both objective situations and characteristics of the upper echelons, such as psychological cognitive bases, values, and perceptions, influence the strategic choice process and impact organisational performance. Moreover, diversity on boards is grounded in the strategy literature (Hafsi and Turgut 2013) and is typically related to studies of executive and strategic leadership which is often linked to the upper echelons view of the firm (Hambrick and Mason 1984).

Since this thesis is focused on diversity within boards of directors and its impact on strategy and performance, upper echelon theory is believed to contribute to the understanding of board diversity's effect on strategic decision making on CSR and the subsequent outcome of CSR reporting. The original upper echelon model provided by Hambrick and Mason is presented in Figure 3.1. Figure 3.2 then

provides an adaptation of the original model for this thesis, which examines the effect of board diversity attributes on one of the rarely examined strategic decisions – the decision to engage in CSR related activities and reporting.

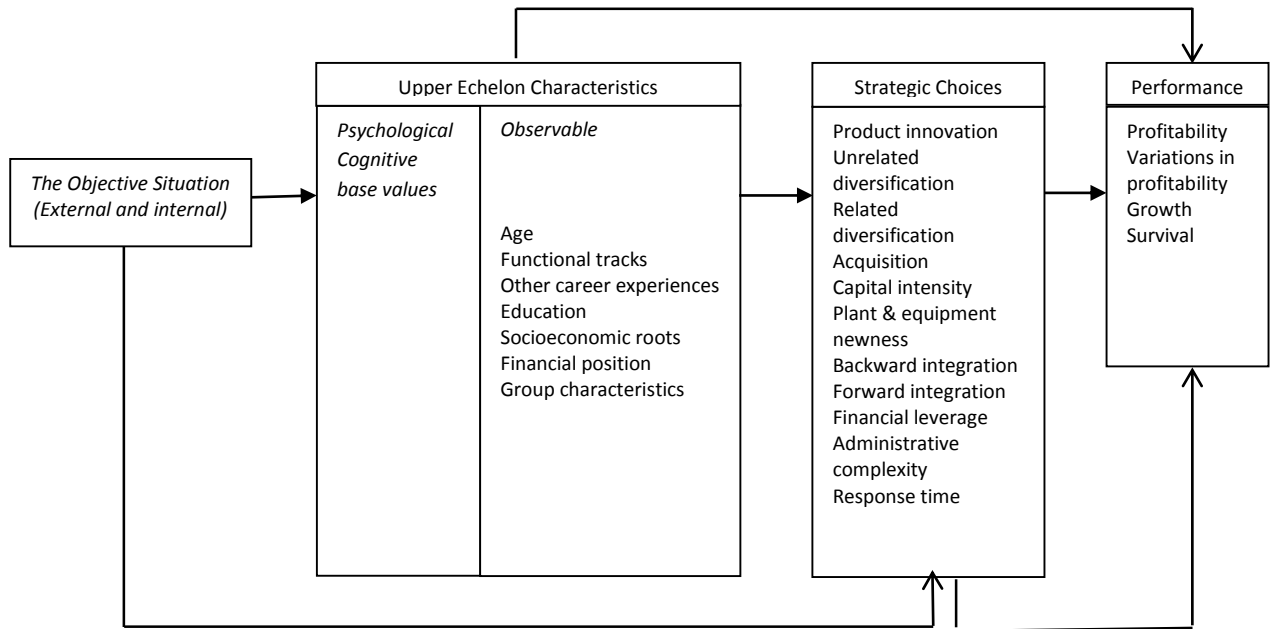


Figure 3.1

Hambrick and Mason's (1984) Upper Echelons Perspective

Source: Hambrick and Mason (1984: 198)

In Figure 3.2, several modifications are made to the original model. First, the original model considers the upper echelon characteristics for the entire Top Management Team (TMT). This thesis considers only boards of directors as they have been identified as those who are responsible for strategy formulation, decision making and policy making. Therefore, for the purposes of this study, TMTs are defined as the boards of directors, including executive, non-executive, CEO and Chair who have an influence on the strategic decision making process. Further, CSR is part of a firm's strategy and, since boards are the one who are widely considered to be involved in strategy, boards of directors seem to be the more relevant top management teams that can potentially influence the CSR strategic decision making process specifically. Second, an important point to be considered is that this study focuses on diversity characteristics rather than demographic characteristics. Therefore, the term 'upper echelon characteristics' (from the original model) is

replaced with ‘board diversity characteristics’ in the adapted model. Third, the demographic variables in the original model have been replaced with board diversity variables relevant to study, including independence, age, tenure/length of experience, multiple directorships and gender, all of which are reflected in the board diversity characteristics column of the adapted model. Fourth, since the focus is on decision making processes with regard to CSR at board level, the CSR decision making process is included as the main strategic choice in the adapted model. Finally, CSR reporting is largely considered as a strategic tool and hence decisions regarding the nature and extent of reporting is part of the strategic decision making process. Based on this assumption the level of CSR reporting is assumed to be an outcome of the CSR decision making process and therefore CSR reporting is included in the performance column.

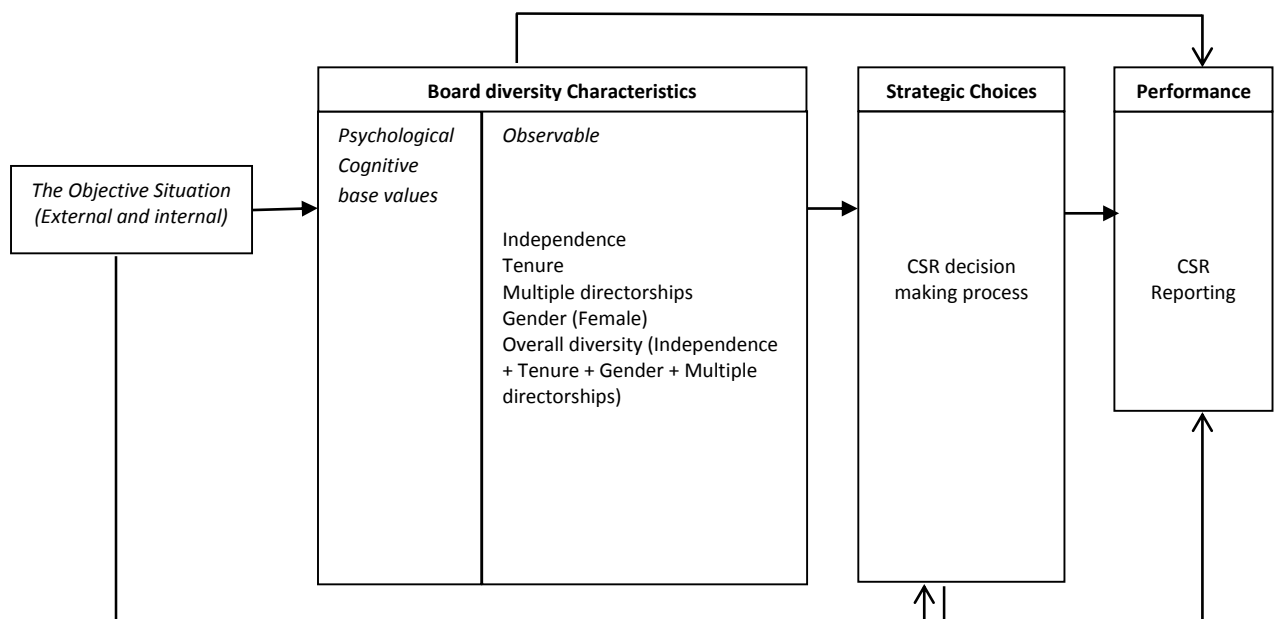


Figure 3.2
Research Framework Based on Hambrick and Mason’s (1984)
Upper Echelon Theory

Although this model provides the general theoretical framework for the thesis, the CSR decision making process is a complex strategic choice, and warrants further explication. Therefore, the theories identified in the literature to explain the link

between boards, decision making and performance (including disclosure) are reviewed in the next section.

3.3 Stakeholder Theory and Resource Dependency Theory

Due to the complexity of corporate governance, in particular, the structure, role and impact of the board, a number of competing theories about boards and performance have emerged from various disciplines such as law, economics, finance, sociology, strategic management and organisation studies (Nicholson and Kiel 2004). Agency theory, stewardship theory, resource dependency theory and stakeholder theory are some of the dominant theoretical perspectives among them. These theories usually attempt to explain a link between various characteristics of boards and corporate performance (Nicholson and Kiel 2004) as well as disclosure. For instance, agency theory provides the rationale for the board's critical function of monitoring management on behalf of the shareholders (Fama and Jensen 1983) indicating that effective control mechanisms are required to monitor management's actions (one such key mechanism is board independence). However, agency theory was challenged by an alternative theory, 'stewardship theory' (Donaldson 1990, Donaldson and Davis 1991) in 1990. Stewardship theory proposes that managers are essentially trustworthy individuals or good stewards of the resources entrusted to them. From this point of view board monitoring of management or board independence is not relevant.

Resource dependency theory (Pfeffer and Salancik 1978) on the other hand is based on the view that in order to survive, firms usually depend on external units through which they can exchange and acquire certain resources and, from a corporate governance perspective, firms seek to structure membership of the corporate board on this basis (Terjesen et al. 2009). In this sense, the board of directors is the linkage mechanism that provides critical resources to the firm, including legitimacy, advice and counsel (Hillman and Dalziel 2003).

Finally, an extension to agency theory is stakeholder theory which suggests that "companies and society are interdependent" (Kiel and Nicholson 2003: 31) and

corporations, in order to survive, should consider the interests of broader stakeholders. Therefore “the implication of stakeholder theory for corporate governance is that the board of directors should be able to judge whether the interests of all stakeholders are being justly balanced” (Kiel and Nicholson 2003: 31).

Even though previous literature has used various theories to explain corporate governance, agency and resource dependence theory are used most widely to theorise diversity in both the management and corporate governance literature (Bear et al. 2010, Walt and Ingley 2003, Carter et al. 2003). Using agency theory, Carter et al. (2003) found a positive relationship between the percentage of women or minorities on the board (of fortune 1000 US firms) and firm value. They argued that diversity enhances board independence as different people with different backgrounds, gender, or ethnicity may ask questions which may not come from a homogeneous group (Carter et al. 2003). Walt and Ingley (2003) used both agency and resource dependency theory suggesting that independent directors are better able to monitor management actions (minimise agency costs) and a broader range of backgrounds among external directors provides pooled resources. Similarly, Bear et al. (2010) used both agency and resource dependency theory – from an agency perspective, they argued that an appropriate mix of experience and capabilities of board members is essential not only in monitoring or evaluating management but also to assess business strategies and their impact on CSR (Bear et al. 2010). From the resource dependency view, the arguments are that board resource diversity enhances understanding, problem solving skills and network connections and thereby helps the corporation in understanding and responding to its environment (Bear et al. 2010). Even though their results did not support a relationship between overall board diversity and CSR, the influence of gender diversity on CSR was found to be significant.

Though both agency and resource dependency theories suggest that diversity has the potential to enhance board effectiveness (enhancing independence and providing more pooled resources among board members), neither of these theories explains the effect that board diversity could have on strategy, decision making processes or

performance. This has been highlighted by Walt and Ingley (2003) who suggest that in addition to an agency and resource dependency role, boards are expected to perform another two key aspects of governance, that is, providing advice to the CEO and management, and contributing to strategy. These two roles of the board, even though they are central to the rationale for diversity in the boardroom, have not been addressed by either agency or resource dependency theory. This thesis therefore contributes to this literature by using resource dependency theory with the addition of stakeholder theory to explain the board diversity and CSR reporting relationship.

As discussed above, stakeholder theory, extends agency theory, but notes that companies are part of, and interdependent on, society (Kiel and Nicholson 2003) and therefore must consider the interests of broader stakeholders. Stakeholder theory thus explains that boards of directors, being major control mechanisms in the corporation, are both responsible and accountable to that wider group of stakeholders. Therefore, “stakeholder theory posits that an entity strives to harmonise its activities with stakeholder expectations through the communicative channel of CS [corporate social] reporting” (Barako and Brown 2008: 311). Stakeholder theory thus provides a framework linking corporate governance and CSR reporting (Driver and Thompson 2002, Huse and Rindova 2001, Michelon and Parbonetti 2010).

Even though stakeholder theory explains the board-CSR reporting relationship, it does not consider the aspect of board diversity. Therefore, in this thesis, stakeholder theory is used in combination with resource dependency theory. As discussed above, resource dependency theory (Pfeffer and Salancik 1978) suggests that firms depend on external units for resources (Terjesen et al. 2009) and that increased resource diversity in the boardroom helps the corporation in understanding and responding to its environment (Bear et al. 2010). In this sense, the diverse board has the potential to enhance board effectiveness, as there will be more pooled resources, and thereby influence performance, in this case, CSR reporting.

Figure 3.3 provides a diagrammatic overview of the detailed link between boards, diversity, CSR decisions and CSR reporting, through a stakeholder and resource dependency lens. The combined effect of a more diverse, and therefore more effective, board (resource dependency theory), and the responsibility for responding to stakeholder needs (stakeholder theory), is likely to lead to better reporting on CSR matters. Diversity on the board may also be likely to lead to more awareness of stakeholder needs as the different members bring different perspectives and experience. For this reason, the two boxes for stakeholder and resource dependency theories in Figure 3.3 are joined to indicate a reinforcing relationship.

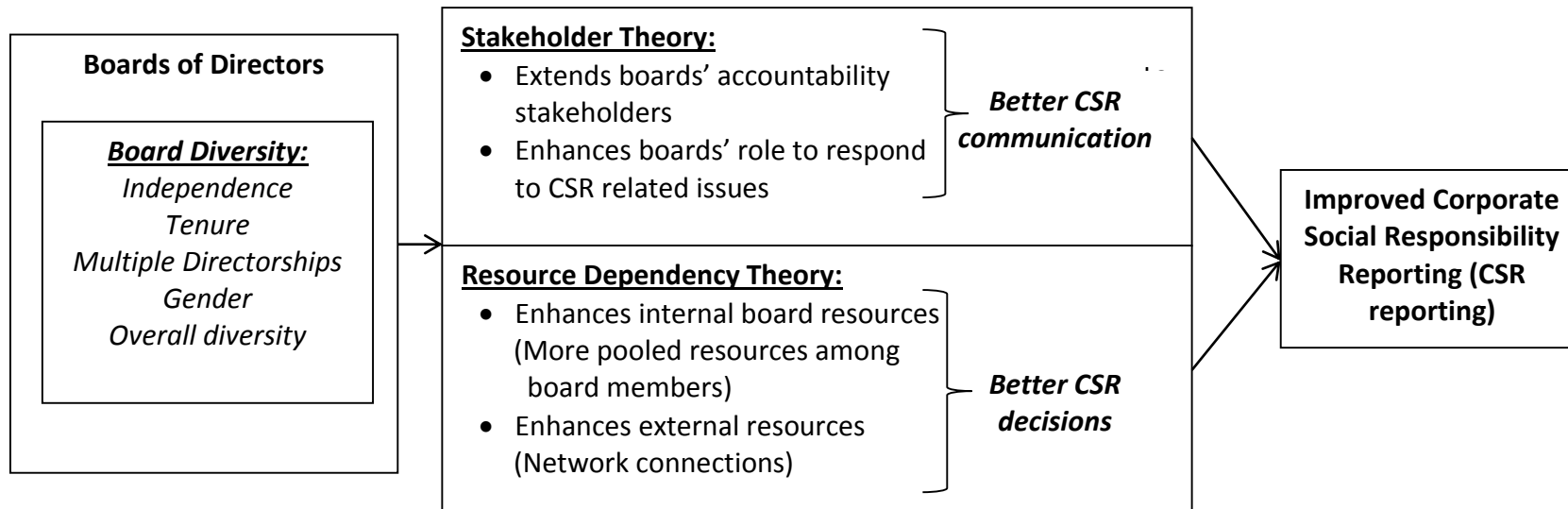


Figure 3.3

Theoretical Framework: Diversity in the Boardroom and CSR Reporting

The board diversity characteristics examined in this study, and identified in Figure 3.3, were discussed in Chapter 2 but are considered in more detail in the next section, providing justification for their inclusion and developing a hypothesis for each.

3.4 Hypothesis development

In order to test the relationship between board diversity characteristics and CSR reporting, hypotheses are developed for four diversity characteristics, namely independence, tenure, multiple directorships and gender. In addition, an overall diversity index, combining the four individual diversity variables is also constructed to test the effect of overall diversity on CSR reporting. These variables are used to operationalise the resource dependency view that a diverse board provides a greater set of pooled internal and external resources for the board to draw upon. As mentioned in Chapter 2, the four diversity dimensions were chosen based on both the extensive literature review as well as availability of data (section 2.4.2). A number of control variables are also included in the study, a discussion of which is provided in Chapter 4.

3.4.1 Board independence

Board independence is one aspect of board composition which has been a major focus of academic research (Fields and Keys 2003). Board related studies often consider dependent directors as those who “have past or present business or family relationships to the firm” (Bøhren and Strøm 2010: 1284). In this respect an independent director is one who exercises independent judgement and is not affiliated to the firm either directly or indirectly. Due to the various definitions used by companies, as well as various terms used to represent independence (e.g. outside director, non-executive director, independent director), previous studies have found it very difficult to compare one company’s definition of director independence to that of other companies (Kang et al. 2007). For Australian companies though, the ASX definition of independence seems to be most relevant and defines independence of directors as:

a director who is free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before

the board and to act in the best interests of the entity and its security holders generally (ASX 2014: 37).

In this study all the three terms (Independent director, outside director and non-executive director) are considered to have the same meaning as board independence.

Generally speaking, dependent (inside) and independent (outside) directors have different values, interests, and time horizons (Post et al. 2011). "...Inside directors are conflicted, but well informed. Independent directors are not conflicted, but are relatively ignorant about the company" (Bhagat and Black 1999: 264). In this sense both inside directors and outside directors have the potential to positively contribute towards board processes. However, it is widely accepted that the ideal board should have a large proportion of outside directors (Bonn et al. 2004, Kang et al. 2007). Independence enhances monitoring quality, provides better advice to the CEO (Coles et al. 2008) and brings valuable experience and expertise to the board (Hermalin and Weisbach 1988). Compared to inside directors, independent directors are less likely to have material or biased interests. Hence, they not only provide unbiased opinions but are also likely to question, argue or even oppose an inside director's opinions if they believe that it is not in the interest of the company. As such, one could argue that a balance of power in the 'upper echelons' (Hambrick and Mason 1984) of organizations could be achieved through independence which is less likely if a board is made of just inside directors (Bonn et al. 2004). Consistent with this argument, studies have shown that outside directors can effectively monitor managerial behaviour if they have sufficient influence over management (Bonn et al. 2004). However, there is no guarantee that board independence will always result in a superior outcome. In fact, "... outsiders may merely serve a symbolic purpose, be passive in decision making, or be handpicked for agreeability" (Coffey and Wang 1998: 1598) and as such can have no effect on board level outcomes. Accordingly, Bøhren and Strøm (2010) found no relationship between firm performance and independence in their study of firm value. In addition, high independence can even result in a negative effect on board level outcomes because the value of both monitoring and advice may decrease as independence grows, as the CEO may respond to increased board independence by providing less information (Adams and

Ferreira 2007). This results in poor decisions at board level because, being outsiders, independent directors themselves lack firm specific information and management and, by not receiving not enough information from the CEO, it makes it more difficult for the board to make effective decisions. However, the majority of studies still consider that board independence can enhance performance. Notably in Australia, Bonn et al. (2004) found that outside directors of Australian firms have a significant impact on firm performance suggesting that the independence of directors is an important indicator of board effectiveness.

With regard to the link between board independence and CSR, two major arguments have been provided. First, that outside directors tend to be more sensitive to society's needs (Ibrahim and Angelidis 1995), and are more concerned with the ethical aspects of the corporation, than inside directors (Ibrahim et al. 2003). The second argument is that independent board members are more interested in compliance with regulations and responsible behaviour by the entity (Zahra and Stanton 1988). Further, complying with regulation and acting in a responsible way will enhance reputation and such reputation and image of the company is important to independent directors as it provides them with greater chance of being selected for other boards (Lorenzo et al. 2009). It is therefore expected that outsiders are more likely to put forward opinions related to CSR issues and more likely to actively participate in discussions related to CSR.

The majority of studies linking board independence and CSR seem to confirm a positive relationship between them. Ibrahim and Angelidis (1995) found that outside directors exhibit greater concern towards discretionary aspects of CSR and weaker orientation towards economic performance. They believe that outside directors are unlikely to support just financial aspects of the business and do not become "... 'creatures of the CEO', rather, they tend to be more sensitive to society's needs" (Ibrahim and Angelidis 1995: 406). Similarly Dunn and Sainty (2009) also found a positive relationship suggesting that independent directors provide greater oversight on management and provide diverse inputs into strategic decision-making to promote a broader stakeholder orientation. Independent directors as such are in a better

position than insiders to protect the interests beyond the shareholders. Further, Webb (2004) found the boards of socially responsible firms tend to have fewer insiders, and the outside directors appear to be more concerned with the ethical aspects of the corporation (Ibrahim et al. 2003). There is also a lower possibility of fraud in the presentation of financial statements when there are higher levels of outside directors (Beasley 1996).

In addition to the evidence on board independence and CSR, previous studies also confirm the existence of a positive relationship between the presence of non-executive board members and disclosure generally, including financial disclosure (Willekens et al. 2005, Chen and Jaggi 2001), voluntary disclosure (Cheng and Courtenay 2006), and specific CSR reporting (Barako and Brown 2008, Prado-Lorenzo et al. 2009).

As mentioned earlier, company image is important for independent directors and in order to protect the reputation of the firm from being damaged, independent directors are generally considered less likely to oppose the dissemination of negative information (Adams and Ferreira 2007). Contrary to this however, the proportion of independent directors on the board has also been found to have negative or no impact on CSR and CSR reporting (Coffey and Wang 1998, Johnson and Greening 1999, Wang and Coffey 1992, Kassinis and Vafeas 2002, Haniffa and Cooke 2005). For example, Haniffa and Cooke (2005), contrary to their expectation, found a negative relationship between the composition of non-executive directors and corporate social disclosure. Their result further confirmed that the relative lack of experience and knowledge of non-executive directors and indifference towards societal concerns are some of the reasons for a negative association. Similarly Coffey and Wang (1998) examined the relationship between outsider representation on corporate boards and corporate philanthropy (which is part of corporate social performance). They expected a positive relationship between the two based on four major assumptions, that: “a) Charitable donations are altruistic/unselfish; b) Insiders are preoccupied with short-term economic outcomes; c) Philanthropic giving is consistent with long-term economic outcomes, and, d) Board diversity will increase decision-making

effectiveness” (p.1596). Contrary to their expectation the results indicated that as the number of insiders increases so will the philanthropic behaviour of the firm (Coffey and Wang 1998).

Even though some studies have shown contradictory results, a large number of studies still indicate a positive link between the high proportion of outside directors and performance. Moreover, independent directors, due to their superior monitoring ability, unbiased interest, high concern for their reputation and unique experience and expertise, will have the potential to positively influence CSR decisions at board level which may have positive influence on CSR reporting. Therefore, the following hypothesis is developed for this study:

H1: There is a positive association between the proportion of independent directors on the board and the level of CSR Reporting

3.4.2 Tenure/ length of experience

In addition to independence, another widely examined board diversity characteristic is board tenure. The tenure or length of experience of board members is expected to influence strategic decisions and performance in various ways. Experienced directors who have been serving long term, usually have high levels of commitment (Hambrick et al. 1996) to the company when compared to a less experienced director (Hambrick et al. 1996). In general, experience correlates with age and as directors get older they are more concerned about both career and financial security. They are hence more likely to avoid any decisions which jeopardise the company’s survival whether short term or long term. Supporting this Krüger (2009) suggests that in order to protect their own wealth, highly tenured board members care more about the success of the company. The decision process also seems to differ between experienced and non-experienced managers (Fredrickson 1985), which can be extrapolated to apply to boards. Experienced managers not only have the benefit of knowledge about past decisions and outcomes of multiple past decisions (Fredrickson 1985), but are also likely to have better understanding of organisational policies and procedures (Kanter 1977). Being together for longer periods, experienced managers tend to develop interactional mechanisms to deal with and

reduce intra-group conflicts (Goll and Rasheed 2005), which further assist them in their decision process. Furthermore, “experience allows managers to test and fine-tune a cognitive model that produces more successful decisions” (Hitt and Tyler 1991: 333). Consistent with these arguments, Hitt and Tyler (1991) found that the amount of experience is positively associated with strategic decision models in their study of strategic evaluation of acquisition candidates. Similarly, Goll and Rasheed (2005) study found a significant positive relationship between rational decision making and the tenure of top management teams.

However, a high level of experience could also negatively affect strategic decisions and outcomes. Executives with long tenure in one particular organisation can be assumed to have a relatively limited perspective and thus may be negatively related to strategic choice (Hambrick and Mason 1984). According to Wiersema and Bantel (1992) long tenured teams tend to show greater resistance to change in strategic direction. Consistent with their argument, they found that firms of top management teams with short organisational tenure (6 and 10 years) tend to support significant strategic change. Moreover, as tenure increases independence decreases (Carter et al. 2010) and there is a possibility that long tenured directors end up making poor decisions. For instance, a study by Berberich and Niu (2011) indicates that long serving directors are more likely to be associated with governance problems supporting arguments for limiting a board member’s term of service. Their results suggest that a long term relationship between directors and executives shifts the directors’ allegiance from shareholders to the executives, which results in increased agency problems and decreased monitoring ability. This is also known as the ‘management friendly hypothesis’ (Krüger 2009). Similarly, McIntyre et al. (2007) examined board tenure and performance and their data showed that, although board members need time to make effective contribution to board, their contribution tends to diminish with longer levels of tenure. Such a situation may arise because these longer tenured board members are more likely to develop friendly relations with each other, and are hence more likely to agree with each other’s opinions in order to maintain that friendship.

Only a few studies have linked directors' experience with CSR issues specifically and mainly argue in favour of having a balanced board in terms of tenure as this is a proxy for experience. However, the results are mixed and inconclusive. For example, Hafsi and Turgut (2013) argue that as their tenure increases directors become familiar with company strategy and management practice, but at the same time can become the captive of management. Their results suggest that longer tenured directors may be too close to managers and avoid any controversy in decision making processes whereas shorter tenured board members are too shy to speak up. Such a situation may lead board members to follow rather than lead when it comes to dealing with social responsiveness and responsibility issues (Hafsi and Turgut 2013).

Similarly, Krüger (2009) examined the issue from both a management friendliness hypothesis (that longer tenured board members support management and short term rather than long term outcomes) and an experience hypothesis (longer tenure enhances experience, skills and expertise, and longer tenured board members are more willing to confront the CEO). While from the experience hypothesis he argued that "seasoned/experienced directors use their know-how to reduce the risk of incidents with negative implications for stakeholder welfare (e.g. accidents)" (p. 9); from the management friendliness hypothesis his argument was that directors having more experience in the same company tend to become friendlier with management and the CEO. This then results in them echoing the CEO and/or management, thus experienced directors may negatively influence long term CSR decisions. His results support the experience hypothesis as he found that companies with substantial tenure of board members show lower incidence of negative social outcomes. He provided the explanation that neglecting CSR issues is risky and hence experienced directors, whether due to commitment to the company or due to self-protection of their career, are more likely to support decisions which are consistent with long term outcomes. With regard to CSR reporting, Handajani et al. (2014) found that boards with longer tenure tend to produce lower amounts of corporate social disclosure. They expected that boards with longer tenured directors would possess more experience, be better able to understand the business environment, and hence this would lead to better long

term strategy and policy for corporate sustainability (Handajani et al. 2014). Their findings were not as expected and the negative result suggests that even though longer tenure enhances the experience and better understanding of the corporate business environment, there is a possibility that a long term relationship with other board members and management might weaken their monitoring, supervisory and control over executives. The boards with a majority of longer tenured directors as such may not be able to serve optimally in directing strategy and policy for long term corporate sustainability (Handajani et al. 2014).

Since both longer tenured and shorter tenured directors can bring different attributes to the board process, it is expected that boards which consist of both longer tenured/more experienced, as well as shorter tenured directors, i.e. boards with more diversity in board tenure, are likely to have a positive influence on decisions with regard to CSR and thereby enhance the level of CSR reporting. However, as measuring diversity in tenure is problematic, and as overall diversity measure is added to the analysis, following the literature suggesting that tenure is a proxy for experience, the following hypothesis is proposed:

H2: There is a positive association between the length of directors' tenure and the level of CSR Reporting

3.4.3 Multiple directorships

Recently, the issue of multiple directorships has gained attention from both academics, practitioners and policy makers (Ahn et al. 2010). Multiple directorships refer to the situation where directors sit on more than one board (Razek 2014, Haniffa and Hudaib 2006). This aspect is often referred to in the literature as director interlocks (Razek 2014, Kiel and Nicholson 2006). The issue of multiple directorships has, however, been a controversial topic. The NACD (The National Association of Corporate Directors) guidelines recommend that senior corporate executives and CEOs should not exceed three outside directorships (Jiraporn et al. 2009). Likewise, the Council of Institutional Investors in the United States strictly criticised multiple directorships and argued that directors with full-time jobs should not serve on more than two other boards and that the CEOs should only serve on one

other board (Kiel and Nicholson 2006). In Australia, the Australian Shareholders' Association (ASA) suggests that any director who is on more than five boards is doing a disservice to the companies' shareholders (Kiel and Nicholson 2006, Hashim and Abdul Rahman 2011). Although the subject of multiple directorship has been given importance in the literature recently, the impact of multiple directorships on firm value is not clear and needs further investigation (Ahn et al. 2010).

The issue of multiple directorships is twofold and arguments about the costs and benefits of multiple directorships are still continuing among researchers. It is widely argued that director interlocks can benefit the company in a number of ways. First, interlocks function as a channel of information about business practices (Useem 1984, Razek 2014). Directors with multiple directorships can act as boundary spanners (Zahra and Pearce II 1989) who can provide channels for communicating information to or from the external environment (Pfeffer and Salancik 1978). Obviously by holding directorship in other companies, a director will be able to see and understand how various companies are dealing with an issue (Lorsch and MacIver 1989) and it may even help them make comparisons based on knowledge of the best board practices gained from other firms (Haniffa and Cooke 2002). Further, while sitting on other firms' boards, directors are able to establish networks and contacts with other firms (Loderer and Peyer 2002, Ahn et al. 2010), which helps firms to control their external environment and give them access to vital resources (Means 1939). For example, financiers supplying funds to the firm due to the reputation of directors, or directors using their contacts to open new markets for the firm, or using their contacts to assist in securing new technology (Kiel and Nicholson 2006). Another important benefit identified in the literature is that through multiple directorships executives are able to develop and extend knowledge, experience and expertise. While serving on many boards, an executive learns about different management styles or strategies used in other firms (Carpenter and Westphal 2001, Perry and Peyer 2005), interacts with other board members, and is likely to be exposed to a variety of firm practices and knowledge (Rupley et al. 2012). That is, it provides them with a greater diversity of experience (Ferris et al. 2003). In fact, the demand for executives to serve on multiple boards can serve as a certification or

signal a director's ability to be competent and have expertise because individuals holding multiple board seats are high-quality directors with more experience and knowledge (Ahn et al. 2010). Jiraporn et al. (2009) suggest that "competent executives with outstanding expertise are highly sought-after and are expected to hold many outside board seats" (Jiraporn et al. 2009: 820). That is, "board members serving on multiple boards are likely to have reputations as being "value-add" type members" (Rupley et al. 2012: 11). Many prior studies note that directors holding multiple board seats are concerned about protecting or enhancing their reputation and loss of current and future board seats. This is usually explained as the 'reputation hypothesis' (Fich and Shivdasani 2006, Jiraporn et al. 2009), which suggests that directors who hold significant roles in other firms have more reputational capital and hence can be more vigilant in performing their duties (Vafeas 2005, Ahn et al. 2010, Waithaka et al. 2013). Reputational effects as such can be an important incentive for outside directors (Fama and Jensen 1983) and serve as strong motivation for directors to work hard and be conscientious in making decisions (Ahn et al. 2010), or to challenge management (Sharma and Iselin 2012).

There are, of course, many researchers who criticise firms for appointing directors with multiple directorships (Fich and Shivdasani 2006). Given the number of boards they sit on, and the attendance requirements, directors with many board seats are likely to become busy (Ferris et al. 2003, Harris and Shimizu 2004, Jiraporn et al. 2009) with a heavy workload. This may limit the time they need to carry out their controlling, counselling, monitoring and strategic duties (Lipton and Lorsch 1992, Fich and Shivdasani 2006). Ferris et al. (2003) explain this in terms of the 'busyness' hypothesis where individuals holding more outside board seats are considered to have less time to spend serving on board committees (Ferris et al. 2003), are likely to become too busy to adequately monitor firm management performance (Waithaka et al. 2013) and therefore seen to be incapable of effectively monitoring the management (Shivdasani and Yermack 1999). Further, serving on multiple boards threatens available preparation time for board meetings thus limits directors' ability to provide useful advice (Harris and Shimizu 2004, Hashim and Abdul Rahman 2011). Supporting this, Ahn et al. (2010: 8) suggest that "a director's

time is finite and thus holding too many outside board seats may make the executive so “busy” to the point where his or her ability to monitor management is compromised, resulting in less effective managerial oversight”.

The results of empirical studies examining the relationship between multiple directorships and performance have been quite ambiguous. Some scholars document positive relationships, others negative and some found no relationship between the two. For example, Boyd (1990) indicates that firms with higher environmental uncertainty exhibit superior performance when there are a greater number of multiple directorships. Similarly, Westphal (1999) found that directors with ties to strategically related firms are likely to provide better advice and counsel, which is positively related to firm performance. Recently, Hashim and Abdul Rahman (2011), while examining the relationship between interlocking directorates and financial reporting quality, document that an increase in the presence of interlocked directors on a board provides an incentive for diligent monitoring as they have the knowledge, expertise, skill and incentive to actively monitor the actions of management and improve the quality of financial reporting from their experience on other boards. Their results further indicate that when a firm adds a multiple director for the first time it receives a positive stock market return (Hashim and Abdul Rahman 2011). These findings are consistent with Ferris et al. (2003), Harris and Shimizu (2004) and Stuart and Yim (2010) who all indicate the importance of experience and expert advice by reputable directors on boards.

The empirical evidence which indicates a negative relationship between multiple directorships and performance has mainly provided an explanation based on the busyness hypotheses. For example, while examining the link between multiple directorships on mergers and acquisition decisions, Ahn et al. (2010) support the notion that multiple directorships overstretch directors’ time, resulting in busy directors, who are less effective monitoring of managers, and that are more likely to pursue unwise acquisitions that reduce firm value. Fich and Shivdasani (2006) specifically found that firms with boards with a majority holding three or more directorships become distracted and suffer monitoring intensity, display patterns

associated with weaker corporate governance, and have lower market-to-book ratios, weaker profitability and lower intensity of CEO turnover to firm performance. They conclude that directors should not be selected primarily based on the number of other boards they sit on, since this may lead to an overcommitted board (Fich and Shivdasani 2006). Similarly, Haniffa and Hudaib (2006) report a negative significant relationship between multiple directorships and market performance and suggest that the market perceives multiple directorships as unhealthy and that they do not add value to corporate performance in Malaysia. More recently, Sharma and Iselin (2012) examined the association between multiple-directorships and tenure of independent audit committee members, and financial misstatements in the pre- and post-Sarbanes-Oxley (SOX) reform environment. Their results suggest that independent audit committee members serving on multiple boards may be stretched too thinly to effectively perform their monitoring responsibilities (Sharma and Iselin 2012).

Some research finds that multiple directorships have no effect on firm performance (Ferris and Jagannathan 2001, Ferris et al. 2003, Harris and Shimizu 2004). For example, Kiel and Nicholson (2006) found no relationship between multiple directorships and firm performance and that the incidence of multiple directorships is the exception, rather than the rule in Australia (Kiel and Nicholson 2006). Their results further revealed that the directors who held five or more positions usually held them in related entities and as such were likely to have less workload than that associated with directorships held in unrelated entities. López Iturriaga and Morrós Rodríguez (2014) found that, initially, a reputation effect dominates because sitting on more boards increases a director's skills but after a certain threshold (approximately four boards of listed companies), a dedication effect prevails which reduces the director's ability to adequately perform their duties due to too many obligations.

Finally, with regard to CSR or CSR reporting, studies linking it with multiple directorship issues are limited and inconclusive. For example, (Hashim and Abdul Rahman 2011) argue that gross directorships have an important positive implication

for CSR practice as they are able to obtain greater access to information in more than one company. Haniffa and Cooke (2005) on the other hand specifically examined the link between corporate social disclosure and board Chairs with multiple directorships. They found a positive relationship between the level of CSR reporting provided in a company's annual report and the number of directorships held by the chair of its board. The interview respondents in their study revealed that a chair's expressions in favour of disclosing social and environmental issues are sometimes due to the knowledge of events in other companies in which he or she is a director or can simply be to ensure congruence between organisations' actions and societal concerns to enhance his or her prestige and honour in society (Haniffa and Cooke 2005). Similarly, Rupley et al. (2012), while examining the multiple directorship effect in the context of environmental disclosure, argue that board members serving on multiple boards are usually exposed to different environmental reporting issues which will lead to higher voluntary environmental disclosure quality. One of the strongest results in their study pertains to multiple directorships and environmental disclosure quality (Rupley et al. 2012). Elsakit and Worthington (2014), while supporting multiple directorships, suggest that "social and environmental disclosure has recently become a hot topic, the participation of the chairman in discussions regarding such disclosure in different firms (which he is also a member in their board), is expected to add to his knowledge and experience, and to have a positive impact on his participation in similar discussions, in the firm which he is the chairman of its board" (Elsakit and Worthington 2014: 8).

Based on the predominance of positive arguments and evidence on multiple directorships, it is expected that boards with a majority of directors with multiple directorships are likely to have a positive effect on the level of CSR reporting. This is presented as the following hypothesis:

H3: There is a positive association between the number of multiple directorships on a board and the level of CSR Reporting

3.4.4 Gender diversity

Among the various board diversity characteristics, gender diversity is one of the most significant issues faced by modern corporations (Carter et al. 2003). It has been recently perceived as an issue of interest not only in the diversity literature but also in politics and in other general societal situations (Kang et al. 2007). Even though there are a number of women directors occupying top level positions, particularly on corporate boards (Vinnicombe 2009), the pressure to enhance the presence of women directors seems to be an ongoing global issue. Several countries have started adopting either legislative or voluntary initiatives to promote representation of women on corporate boards. This includes, for example, Norway (40% gender quota for women directors or face dissolution), Sweden (25% voluntary reserve for women directors or threat to make it a legal requirement), Spain (comply-or-explain type law requiring companies to reach up to 40% women 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 are women by 2015) (Arguden 2012). In addition to European countries, many developing countries such as India, China, and Middle Eastern countries are also recognising the importance of women board members' talent (Singh et al. 2008). Finally, in Australia the Stock Exchange, in its recent changes to its 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). Yet, the author of the latest Boardroom Diversity index concludes that although Australian Stock Exchange (ASX) companies show a positive trend in terms of women board members, numbers are still low with five ASX companies having no women at all (Rose 2015). This is notwithstanding changes to the corporate governance code of the ASX in 2009 which requires listed companies to provide more information about their governance and particularly about diversity policies. Specifically, within their diversity policy, listed entities are required, on an "if not, why not?" basis, to disclose in their annual report (ASX 2015):

- their achievement against the gender objectives set by their board; and
- the number of women employees in the whole organisation, in senior management and on the board.

Alongside the recommendations, the guidance commentary:

- encourages nomination committees of listed entities to include in their charters a requirement to continuously review the proportion of women at all levels in the company; and
- requires that the performance review of the board include consideration of diversity criteria in addition to skills.

The majority of the literature on gender differences argues that there are significant differences in values, perceptions and beliefs between men and women in general (Powell 1990, Eagly et al. 2003, Eagly et al. 1995, Croson and Gneezy 2009, Feingold 1994). Such differences are likely to be reflected in their various leadership roles including their board role. While differentiating leadership qualities of men and women, Eagly et al. (2003) suggest that agentic (i.e. related to agency) characteristics, such as being assertive, ambitious, aggressive, independent, self-confident, daring, and competitive are usually recognized in men, whereas communal characteristics, such as a concern with the welfare of other people and being affectionate, helpful, kind, sympathetic, interpersonally sensitive, nurturing, and gentle, are identified in women. Their research has further established that women leaders, compared to men, are less hierarchical, more cooperative and collaborative, and more oriented towards enhancing others' self-worth (Eagly et al. 2003).

The presence of women directors in top level positions has been linked to various outcomes resulting in mixed evidence. For example, some find a positive relationship between gender and financial performance (Carter et al. 2003, Erhardt et al. 2003, Joecks et al. 2013, Post and Byron 2014, Campbell and Vera 2010), while others find no significant or even a negative relationships (Adams and Ferreira 2009, Rose 2007, Shrader et al. 1997, Smith et al. 2006, Carter et al. 2010, Chapple and Humphrey 2014). Although still relatively small in number, a few studies also suggest that having women on boards does exert some influence on non-financial

performance and, in particular, on CSR (Stanwick and Stanwick 1998, Wang and Coffey 1992, Williams 2003, Ibrahim and Angelidis 1991, Bernardi and Threadgill 2010, Smith et al. 2001, Siciliano 1996, Ben-Amar et al. 2015, Setó-Pamies 2015). While assessing the effect of board members' gender on corporate social responsiveness orientation, Ibrahim and Angelidis (1991) found that, unlike men, women directors are less concerned about economic performance and rather more concerned about discretionary aspects of corporate responsibility. Further, women usually hold positions in 'soft' managerial areas such as human resources, corporate social responsibility, marketing, advertising, etc. (Zelechowski and Bilimoria 2006), indicating that women on boards are more likely to have in-depth knowledge of soft managerial issues. This evidence further indicates that women directors may perceive community or stakeholders' interests, including CSR issues, differently than male directors. A recent study by Bear et al. (2010) found a positive relationship between CSR and the number of women directors on the board. They identified that two major strengths, increased sensitivity (Williams 2003) and participative decision making styles (Konrad et al. 2008), brought by the women to the board, are found to be the key reasons for corporate responsibility strength ratings (Bear et al. 2010). The study further suggests that by contributing to a firm's CSR, women play a role in enhancing corporate reputation and hence representation of women should move away from tokenism to normality (Bear et al. 2010). Similarly, Krüger (2009) found that companies with a higher level of women board representation have higher incidence of positive social responsibility. More specifically, the study indicates that companies with a higher fraction of women directors tend to be more generous towards communities and pay more attention to the welfare of a firm's natural stakeholders (e.g. communities, employees or the environment) indicating that stronger presence of board members with altruistic preferences does indeed translate into more pro-social corporate behaviour (Krüger 2009). Another study by Braun (2010) concentrated on one aspect of CSR (Environmental commitment) and found that women had stronger environmental attitudes and commitment to a green entrepreneurship program than males, suggesting that women entrepreneurs may be more engaged in green issues than their male counterparts. More recently, while carrying out an empirical study on gender effect on CSR of a firms from a variety of

countries, Setó-Pamies (2015) found that firms with a higher percentage of women on the board are more socially responsible and noted that their talent can play a strategic role in allowing firms to manage their social responsibility practices more effectively. In Australia, a study by Galbreath (2011) confirmed that due to their relational abilities, women are more able to engage with multiple stakeholders and to respond to their needs, indicating CSR achievement. Various other evidence also exists which indicates that women directors influence different aspects of CSR, such as charitable giving (Wang and Coffey 1992, Williams 2003) and higher levels of environmental CSR (Post et al. 2011). Finally, Fernandez-Feijoo et al. (2012) found that boards with three or more women are determinants for CSR reporting and, in particular, that the disclosure includes more on CSR strategy and an assurance statement.

While the evidence and arguments discussed so far indicate that women directors are more likely to have a positive influence on CSR outcomes, their influence might be limited. One major barrier which has been widely identified in the literature is that women in top level positions often 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). For example, in interviews with Australian board members, male directors stated that they tend to welcome women directors' input on so called 'soft issues' (such as human resources, occupational health & safety, corporate donations and ethics), but usually discount input on technical issues (such as engineering) (EOWA 2008). Recently, Galbreath (2011) further indicated that sex based biases or stereotyping by male directors can limit women directors' influence on decision making and thereby on sustainable outcomes. In addition to the stereotype barrier, it is also often questioned whether gender differences actually apply to leadership or managerial positions. Women who pursue management careers often reject feminine stereotypes and may be more likely to have needs, values and leadership styles similar to men (Powell 1990) hence tend to behave in a masculine manner, and thus less responsive to CSR issues. Consistent with this, Eagly et al. (1995) found no overall differences in the effectiveness of male

and female managers and concluded that gender per se is unlikely to be a predictor of leadership effectiveness.

However, the majority of studies examining gender diversity's effect on CSR and stakeholder related issues suggests that women directors are more likely to influence issues related to broader stakeholders and, in particular, CSR. Therefore, it is predicted that gender diversity, that is, boards with more women directors, is likely to result in high levels of CSR reporting. This leads to the following hypothesis:

H4: There is a positive association between the proportion of women on a board and the level of CSR Reporting

3.4.5 Overall diversity and CSR reporting

Although individual diversity measures may provide an explanation for CSR reporting levels to a certain extent, it is important to examine the effect of overall diversity (i.e. an aggregate measure of diversity), which may provide a better picture about how diverse boards collectively influence CSR decisions and CSR reporting. This is important since board outcomes are the result of collective discussion, therefore, an overall diversity measure may be better able to capture the combined effect of diversity on CSR related issues. In fact, some authors have argued that the proportion of board members with particular attributes is not an appropriate measure of diversity (Campbell and Mínguez-Vera 2008) and that individual diversity dimensions within a team may not influence team dynamics and performance independently from each other (Jackson and Joshi 2004). Further, Nielsen (2010b), in her recent review of top management team diversity, pointed out that there is a limited number of studies that have attempted to examine the combined effect of diversity through aggregate measures of top management team heterogeneity. In this sense it is important to examine both individual as well as combined effects of diversity. A few studies have examined the combined effect of diversity through an aggregate measure or index (Ferrier 2001, Darmadi 2011, Ararat et al. 2010, Randøy et al. 2006) and these studies examined both individual as well as the combination effect. For example, while examining the association between diversity of board members and financial performance, Darmadi (2011) used both an individual and an

aggregate measure of diversity to examine the combined effect of gender, nationality and age. Similarly, Randøy et al. (2006) examined both individual measures as well as an overall diversity index to see whether diversity had an effect on financial performance. They constructed a diversity index combining three individual diversity variables (gender, foreign nationals & age) to analyse the determinants of overall variations in diversity. Another study by Ararat et al. (2010) proposed that studying the composite measure of diversity would better portray the cognitive diversity in boards rather than looking at each diversity measure by itself. While examining the relationship between board diversity, board monitoring intensity and firm performance, they found that the board diversity index showed a greater impact on performance (Ararat et al. 2010). Similarly, in a study by Nielsen (2010a), top management team (TMT) internationalisation was measured as a composite index of the two measures: TMT nationality diversity and TMT international experience. The results suggest that the construct has strong validity and supported its relationship to foreign market entry and ultimately to corporate performance (Nielsen 2010a). Based on previous studies, it can be assumed that, in addition to individual effects, the combined effect of diversity, that is, overall board diversity, is likely to influence CSR decisions including those about CSR reporting. Therefore, it is expected that:

H5: There is a positive association between overall diversity on a board and the level of CSR Reporting

The relationships between the variables, as depicted in the hypotheses, are shown in Figure 3.2. It should be noted that several control variables are also considered to measure the strength and the direction of the relationship between the independent and dependent variables. These control variables are discussed in Chapter 4, which outlines the research approach and methods used in the thesis.

3.5 Chapter summary

This chapter presented the theoretical framework used to conceptualise the link between board diversity, CSR decisions and CSR reporting. Upper echelon theory is used as general underlying theory to explain the importance of the board and the potential effect of board diversity on CSR decisions and performance, including

reporting. Stakeholder theory and resource dependency theory are used to further explain the association between diversity among board members and CSR reporting. Moreover, in order to examine the relationship between specific board diversity characteristics and CSR reporting, five hypotheses are developed. The next chapter presents the research methodology and discusses both the quantitative and qualitative approaches and methods employed to examine the research questions and hypotheses.

Chapter 4:

Research Design, Methodology and Methods

4.1 Introduction

This chapter provides a detailed description of the research design and methodology used in this study. As outlined in Chapter 1, the purpose of this study is to explore and understand the nature of the relationship between board diversity, CSR decisions, and CSR reporting in Australian profit sector companies. The study adopts both quantitative and qualitative techniques in a mixed method research design. Content analysis and subsequent statistical modelling are used to measure and quantify CSR reporting and examine the relationship between board attributes and CSR reporting. In-depth interviews are used to clarify and comprehend the nature of the relationship between board attributes and CSR reporting. Moreover, qualitative data analysis and interpretation are also used in this study to support the results of quantitative analysis.

The chapter is organised as follows. Sections 4.2 and 4.3 restate the objectives and research questions; section 4.4 defines the research philosophy; section 4.5 discusses the research design, section 4.6 discusses the quantitative research, which includes the content analysis and the quantitative data analysis. Section 4.7 explains the qualitative research, which consists of interviews and qualitative data analysis. The final section provides a summary.

4.2 Research objectives

The main aim of this research is to examine the influence of board diversity characteristics on CSR decisions, as well as on CSR reporting, by Australian profit sector companies. Thus, as stated in Chapter 1, the primary objectives of the study are:

- To examine whether various board diversity characteristics such as independence, tenure, gender and multiple directorships (independently), as

well as an overall diversity (collectively), influence CSR decisions and to what extent CSR decisions are reflected in CSR reporting (in general).

- To examine how women directors influence the decision making process of CSR (specifically).

Specifically, the second objective is aimed at shedding further insight on the results obtained from the first objective. The study only focuses on for-profit firms listed on Australian stock exchange (ASX).

4.3 General research problem and research questions

As discussed in Chapter 1, CSR is becoming increasingly significant both globally and in Australia (Truscott et al. 2009) but research still shows that CSR reporting by Australian companies is limited (Truscott et al. 2009, Golob and Bartlett 2007) and there is still a lot of room for improvement in reporting (KPMG 2013). Recently it has been noted that although sustainability reporting has progressed among a few high-impact industries in Australia, its progress is particularly slow in low-impact industries (Higgins et al. 2014). Possible reasons include a lack of governance mechanisms, in particular, a lack of diversity among the important players in the governance system in these companies. Therefore, CSR issues are potentially not being prioritised in decision making by the leaders of these firms.

There is inherent complexity involved in CSR related decisions and since CSR is voluntary, there also seems to be a conflict of interest in protecting the interest of shareholders versus stakeholders. Further, CSR benefits are usually observed in the long term, and are not easily quantifiable. Since management often looks for short term benefits it is less likely that CSR issues will be given priority by management, but may be seen as strategically important at board level. These issues make CSR related decisions more complex as they involve this inherent conflict.

In addition, unlike financial reporting, there are no standards for CSR reporting and hence various other attributes of the players involved, such as their values or perceptions, attitudes towards CSR, demographic or professional background, are

likely to have some influence on CSR decisions. In this sense a diverse board compared to a homogeneous board is likely to have a different effect on CSR decisions. In other words, diverse membership on a board of directors is more likely to bring broader and heterogeneous perspectives to the decision making process which could be more critical to voluntary and complex decisions like those around CSR. Even though many prior studies exist on board diversity, the majority of them link various diversity characteristics to financial performance and only a very limited number of studies have been done linking diversity characteristics with CSR in a single study, especially in Australia.

Following from the theoretical framework and review of prior studies presented in the preceding chapters, this study addresses four research questions (RQ) as summarised in Chapter 1:

RQ1. What is the relationship, if any, between board diversity and corporate social responsibility (CSR) reporting? Do women directors have an impact on CSR reporting?

RQ2. Is CSR a strategy and, if so, to what extent does board diversity influence decisions regarding CSR?

RQ3. What role do women directors play in a board's strategy or decision making processes regarding CSR?

RQ4. What is the relationship between board strategy or decision making related to CSR, and CSR reporting?

In terms of methodological approach, it is clear that RQ1 requires a quantitative approach since it seeks to discover if a relationship exists between board diversity and CSR reporting. RQ2, RQ3 and RQ4 require a more qualitative inquiry because they consider the perceptions of board members and involve interpretations of those perceptions. Details of the methods employed in each of these approaches are provided in sections 4.6 and 4.7, but the overall research philosophy and design of the study are presented next.

4.4. Research philosophy

This section details the philosophical assumptions that guided the study and also looks at the research philosophy that supports the methods used in this study. According to Burrell and Morgan (1979), there are four sets of philosophical assumptions in social science: ontology, epistemology, human nature and methodology. Essentially ontological assumptions relate to “reality” while epistemology is the relationship between the reality and the researcher (Burrell and Morgan 1979; Sobh and Perry 2006). The third set of assumption is considered to be conceptually different from ontological and epistemological ones and, rather, are related to ‘human nature’ (Burrell and Morgan 1979). The three sets of assumptions are often used by researchers to discover the reality and this becomes the methodological position of the researcher (Burrell and Morgan 1979). Burrell and Morgan (1979) further argue that these philosophical assumptions of a researcher can be classified under two broad spectrums: 1) those relating to the nature of social science and 2) those relating to the nature of society.

Choosing suitable ontological and epistemological assumptions and associated methodology for a study is necessary in order to answer the research questions. A 'middle-range' approach (Laughlin 1995) uses both quantitative and qualitative methods to explore the main research questions. According to Laughlin (1995), at different levels different sets of these assumptions exists and he argues for a mid-point on each of the three continua, rather than approaching all research problems from the extreme ends. Such a methodological position as suggested by Laughlin (1995) therefore suggests the need for a system of inquiry which allows the use of diverse research methods to flesh out the skeletal results with empirical detail to make a meaningful, though partial, understanding of reality (Laughlin 1995). The study therefore takes a predominantly middle range approach and uses both qualitative and quantitative methodologies. The justification for this is the researcher's philosophical view of ontology, epistemology, and the human nature of society, discussed below. The thesis also investigates perceptions, which are also influenced by the participants' ontological view of reality. These assumptions guided the researcher to explore and understand the research question through the use of a

mixed method approach (both qualitative and quantitative) which is discussed in the next section (section 4.5).

A research philosophy is a researcher's "personal view of what constitutes acceptable knowledge and the process by which this is developed" (Saunders and Tosey 2012: 58). Therefore, each researcher, based on his/her research aim/outcome, will choose certain strategies, methodological choices and design the way in which research should be conducted. Research philosophy thus has implications for overall research design including data collection and analysis techniques. Research philosophy is often broadly divided into three categories: positivism, interpretivism and realism (Saunders and Tosey 2012).

Researchers adopting the philosophy of positivism are generally concerned with "observing and predicting outcomes ... [and], ... like a laboratory scientist, concerned with law-like generalisations such as cause and effect" (Saunders and Tosey 2012: 58). This kind of research is usually not influenced by the researcher but, rather, focuses on "description, explanation and uncovering facts" (Ticehurst 1999: 20) and is likely to utilise quantitative data that involve hypothesis testing (Neuman 1997). Quantitative methods are usually preferred by positivist researchers in examining cause and effect relationships.

The researcher adopting interpretivism on the other hand, is more concerned with gathering information about meaningful social action (Neuman 1997). "It focuses upon conducting research amongst people rather than upon objects, adopting an empathetic stance so as to understand their social world and the meaning they give to it from their point of view" (Saunders and Tosey 2012: 58), hence, the researcher becomes part of the research process (Ticehurst 1999). Qualitative research methods involving in-depth analysis on a small sample of data are usually adopted by interpretivist researchers.

The third approach, realism, "is a philosophical position associated with scientific enquiry" (Saunders and Tosey 2012: 58) in which reality is considered to be

independent of the mind (Saunders et al. 2011). It involves aspects from both the positivist and interpretivist positions. “The essence of realism is that what the senses show us as reality is the truth: that objects have an existence independent of the human mind” (Saunders et al. 2009: 114) The data collection techniques therefore could be either, or both, quantitative or qualitative.

This study includes both positivist and interpretivist philosophical assumptions, using data to observe direct impacts on reporting, but also examining perceptions and acknowledging that reality is constructed by both participant and researcher. The study therefore uses both quantitative and qualitative methods in a mixed method research design as discussed above. It is both explanatory, and therefore positivist, in identifying influences on CSR and CSR reporting, but is also exploratory, employing an interpretive approach, in understanding attitudes and perceptions of individuals involved in those decisions. The next section provides the details.

4.5 Research design and methodology – Mixed method

This study adopts a mixed method approach which is increasingly being utilised in current research practice. Mixed methods research is one of the three major research paradigms, or research approaches, namely quantitative research, qualitative research and mixed methods research. Combining both methods can provide better understanding of a phenomenon rather than just using one method (Bryman 2008). While the quantitative aspect of research will usually be able to answer the ‘what’ question, it is less likely to answer ‘whether’, ‘how’ or ‘why’ types of questions. Since some of the research questions in this study are seeking to explore whether, and if so how, board attributes influence CSR decision making processes and CSR reporting, quantitative methods alone are not adequate. Although a quantitative approach provides new understanding (Bryman 2006) in terms of whether the existence of diversity increases or decreases the level of reporting (RQ1), it alone is unable to provide any further explanation or evidence. Therefore, in order to gain that explanation and evidence, as well as to better understand the quantitative results, a qualitative method is also required. In the context of the current study questions regarding how and why any relationship exists, or does not exist, were able to be

answered by applying a qualitative approach. By doing so a better understanding of the link between strategy and CSR (RQ2), the presence of women in the boardroom and their influence on CSR decisions (RQ3), as well as the relationship between board level CSR decisions and CSR reporting (RQ4), can be gained.

While examining the mixed method designs published in the *Journal of Business Research*, Harrison (2013) highlighted four major mixed-method designs: exploratory, explanatory, embedded and convergent. These four designs are classified using categories associated with variants, timing, weighting and mix. As shown in Table 4.1, each design has multiple variants based on researchers' purpose and use of the major design. Exploratory designs involve collecting and analysing the qualitative data and building on it for quantitative follow-up in a sequential manner (Harrison 2013). The two common variants of this design type are the instrument design model and the theory development model. In instrument development design, qualitative findings are used to develop scale items for a quantitative survey instrument. In theory development design, qualitative results play a more primary role and are used to develop hypotheses or propositions, or taxonomies (Harrison 2013, Harrison and Reilly 2011). In explanatory designs, the first step is to collect and analyse quantitative data and then build on those findings using qualitative data, which seeks to provide a better understanding of the quantitative results. Two variants of explanatory designs are follow-up explanations and participant selection models (Creswell et al. 2003). In follow-up explanation models, specific qualitative results are used to explain or expand on quantitative results. In contrast, the qualitative phase has priority in the participant selection model, and the purpose of the quantitative phase is to identify and purposefully select participants (Harrison and Reilly 2011). Embedded designs involve the collection of both quantitative and qualitative data with either one or both forms of data playing a supporting role and this can be done concurrently or sequentially (Clark and Creswell 2011). While in two variants of embedded designs (experimental models and correlational models) the qualitative data may play a supporting role within an experiment or correlational study, in the third variant (embedded methodology) both qualitative and quantitative data may play a supportive role (Harrison 2013). Finally, convergent designs involve

collecting both quantitative and qualitative data simultaneously which are analysed separately, and then mixing the databases by merging the data (Clark and Creswell 2011). The quantitative and qualitative phases occur at the same time, and both the methods are usually given equal weighting. These four designs are further summarised in Table 4.1.

Table 4.1
Major Mixed Method Design Types

Design types	Variants of the approach	Timing of data collection	Weighting of quantitative versus qualitative	Mixing of data
Convergent	Parallel database	Concurrent	Usually equal	Merging the data during the interpretation or analysis
Embedded	Embedded experimental Embedded correlation Embedded methodology	Concurrent or sequential	Unequal	Embed one type of data within a larger design using the other type of data
Explanatory	Follow-up explanations Participant selection	Sequential: quantitative followed by qualitative	Usually quantitative	Connect the data between the two phases
Exploratory	Instrument development Theory development	Sequential: qualitative followed by a quantitative	Usually qualitative	Connect the data between the two phases

Adapted from Harrison (2013)

This thesis adopts the explanatory mixed method design where the qualitative inquiry follows the quantitative method and is aimed at providing enhancements and better explanations of the quantitative results. The quantitative analysis involves a longitudinal study where content analysis is undertaken to analyse the extent of CSR reporting in annual reports. The results are then linked with various board diversity characteristics to see whether board diversity has any influence on the quantity of CSR reporting.

In order to attain further understanding, qualitative data analysis is employed where eight semi-structured interviews are conducted with various board members to examine their views about diversity, and whether, and how, board members are involved in CSR-related decision making processes, including whether CSR reporting is an outcome of such decisions. In the context of the current study, by applying a qualitative approach the opinions of board members on exercising their role in CSR-related decision can be captured and understood. Additionally, the findings from the qualitative approach can also be utilised as a lens to contribute additional insight in examining further the findings previously obtained using a quantitative approach. At the sampling and data collection stages, and to answer the quantitative research questions, only listed firms and the annual reports of these firms are analysed. To undertake the qualitative inquiry, several women board members and Chairs from the sample were interviewed. Finally, the statistical tool STATA was utilised to analyse the quantitative data and thematic analysis using NVIVO was employed to analyse interview results. The overall design of the study, including both the quantitative and qualitative approaches employed, is presented in Figure 4.1.

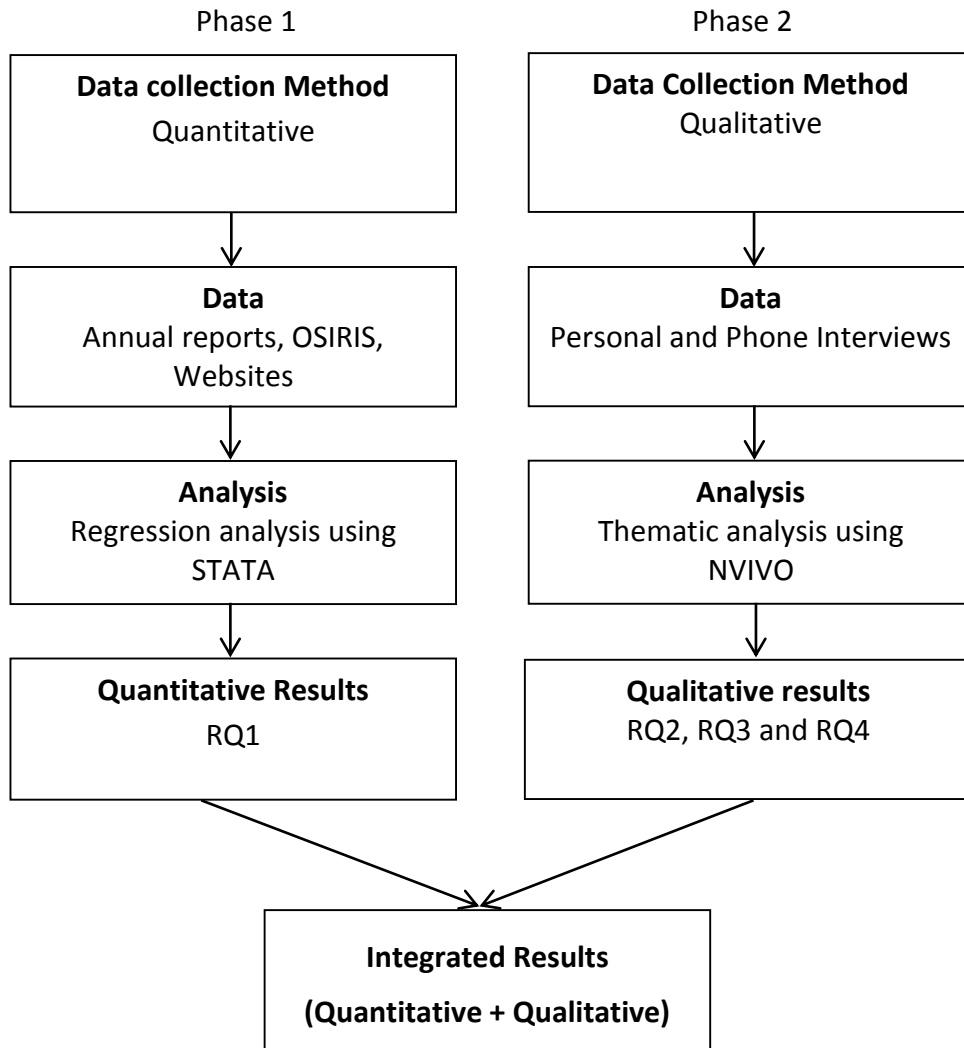


Figure 4.1

Research Design

The results of each method are presented in Chapters 5 and 6, and the overall findings are discussed in Chapter 7. The following sections provide a more detailed description of each research method used in this study, including an explanation of the various measures used to operationalise the diversity and CSR reporting variables.

4.6. Phase 1. Quantitative analysis

4.6.1 Sample selection

In order to test the hypotheses presented in Chapter 2, a sample of annual reports of the top 150 (based on market capitalisation) Australian profit sector firms listed on the Australian Stock Exchange (ASX) over three years (2009-2011) is examined for

various diversity characteristics, and then compared with the amount of their CSR reporting. The ASX top 150 companies were selected for following reasons:

- Corporate governance guidelines provided by the Australian stock exchange particularly applies to companies listed on the ASX.
- ASX principles (its second and third principle in particular) specifically suggest these listed companies must have an effective composition of their board which adds value to the overall performance of the company (e.g. a majority of independent directors, separation between chair and CEO, diversity among board members).
- Companies listed on the ASX are usually large in size and actively traded and are more visible in the public eye, and therefore can be expected to engage in some socially responsible activities (Trotman and Bradley 1981, Barnea and Rubin 2010). Further, sample selection based on large companies has been used in the majority of previous studies that examine the link between governance and reporting (Ghazali 2007). The results from the current study hence are comparable with previous studies.

Of the 150 companies that form the sampling frame, 35 companies were necessarily removed from the sample as a result of insufficient data availability for all three years. Therefore, the final sample for the study consists of 115 companies (Appendix 1).

The electronic database, Connect 4³, was used to obtain the annual reports for the years 2009, 2010 and 2011 for the selected sample companies in order to examine the extent of their CSR reporting. Connect 4 is an electronic database containing annual reports for the top 500 companies by market capitalisation listed on the ASX.

4.6.2 Content analysis

Content analysis is used to determine the extent of CSR reporting provided in the annual reports, which is the dependent variable for phase 1 of this study. Content analysis is one of the most widely used techniques in corporate social disclosure

³ Available at www.connect4.com.au

studies (Branco and Rodrigues 2006, Guthrie and Parker 1990, Hackston and Milne 1996, Hamid 2004). In its simplest form content analysis is a process of codifying the text into various categories depending on the chosen criteria (Abbott and Monsen 1979, Weber 1990). “Content analysis of annual reports is a technique for gathering data. It involves codifying qualitative and quantitative information into pre-defined categories in order to derive patterns in the presentation and reporting of information” (Guthrie and Abeysekera 2006: 120). Following coding, quantitative and qualitative scales are derived to permit further analysis.

The content analysis technique was chosen based on several reasons. First, content analysis assumes that the amount of information disclosed reflects the importance of the information attached by a reporting entity (Krippendorff 2004) and is considered as a reasonable measure of management’s willingness to provide social responsibility information in general (Branco and Rodrigues 2006). Second, content analysis has been commonly used in the social and environmental reporting literature to evaluate the extent of disclosure (Guthrie and Parker 1990, Hackston and Milne 1996). It helps identify reporting patterns of disclosure (quantity and quality) regarding information on social and environmental performance (Yongvanich and Guthrie 2006). Third, it is an unobtrusive method of analysis and, in contrast to surveys and interviews, cannot influence responses (McGraw and Katsouras 2010). Since one of the major objectives of the research in this study is to determine whether diversity within board members influences the quantity of CSR information contained in the annual reports, content analysis is an appropriate research method.

The simplest form of content analysis is to detect the presence and absence of social responsibility information (Patten 2002). However, in this form of content analysis the coded data is unlikely to reflect the emphasis that companies attach to each information item (Zeghal and Ahmed 1990). Thus, the analysis of CSR reporting in this study was made using the amount of disclosure assigned to social and environmental disclosure across various categories. The annual reports were thoroughly reviewed and any information dedicated to CSR reporting was pasted to a Microsoft Word document in order to measure the amount. Since CSR reporting is

voluntary, and there are very few mandatory reporting requirements, no distinction is made between mandatory reporting requirements and the voluntary disclosure in a firm's annual report (Deegan and Gordon 1996, Guthrie and Parker 1990, Hackston and Milne 1996, Raar 2002). The detail of what is reported can vary between firms, thus, the extent of reporting, even against general legislative requirements and guidelines such as section 299(1)(f) of the Corporations Act and the ASX Corporate Governance Code, provides useful information for the analysis.

Content analysis involves various steps including the selection of the document to be analysed, the determination of the selection criteria, the measurement unit, codification of the text and implementation of appropriate measures to enhance validity and reliability (Guthrie and Abeysekera 2006, Krippendorff 1980); all of which are discussed below.

(i) Selection of documents for analysis

One of the essential stages in any content analysis study is deciding which documents are to be analysed (Krippendorff 1980). It is widely acknowledged in previous studies that companies use various reporting mediums to communicate with their stakeholders, such as annual reports, stand-alone reports, special reports on Social and Environmental issues (e.g. sustainability report, social report, and environmental report), web pages and media releases. However, annual reports are still being extensively used to communicate with firms' stakeholders (Jizi et al. 2014, Htay et al. 2012). Consistent with prior research (Branco and Rodrigues 2006, Gray et al. 1995, Jizi et al. 2014, Haniffa and Cooke 2005, Khan 2010), this study uses the annual reports of Australian listed profit sector companies as the sole source of measurement of CSR reporting for a number of reasons. The first, and most significant, reason is that this study is examining boards of directors, and the annual report is the main document reflecting the decisions of the top management team of the company. It is claimed that:

...in preparing the annual report, a company's management makes choices about the issues and social relationships that they consider sufficiently important or problematic to address publicly. ...because annual reports are

regularly produced, they offer a snapshot of the management's mind-set in each period; before they have had too much time to reflect on or fully digest the events they are describing and/or trying to influence (Neimark 1992: 100-101).

Overall, top level management and directors seem to have more editorial control on the information contained in the annual report than information for the press or interest groups, and most CSR ratings agencies rely on annual report data (Barnea and Rubin 2010, Bear et al. 2010). In this sense disclosure of CSR-related information in annual reports may be a better indication of how boards of directors balance financial and social objectives (Gray et al. 1995) and hence becomes particularly important in answering the major objective of the paper, that is, boards' influence on CSR reporting.

Second, as suggested by Wilmshurst and Frost (2000), the annual report is a "... statutory report incorporating both statutory and voluntary disclosures, which is produced regularly, and one over which management exercises editorial control" (p.14) and often tends to be audited, which is less likely in other mediums (Pflugrath et al. 2011), suggesting greater reliability (Jizi et al. 2014). Third, it is unlikely that all the companies report separately (in stand-alone reports or on websites), and even if they do most of the information on social and environmental issues reported in these separate reports is "often cross-referenced to annual reports" (O'Donovan 2002: 352). Finally, annual reports are easily accessible (Wilmshurst and Frost 2000), have a high level of credibility (Guthrie and Parker 1989, Tilt and Symes 1999) and most of the prior research in social and environmental reporting considers it as one of the most important communication channels for CSR reporting, and this enables comparison with that prior research (Cowen et al. 1987). Moreover, "within the current operating context, stakeholders, including shareholders are interested in the economic and social and environmental performance of a company" (Yongvanich and Guthrie 2006) and hence it is likely that organisations disclose important information, including CSR information, in their annual reports.

However, it is accepted that exclusively focusing in the annual report may result in a somewhat incomplete picture of disclosure practices (Roberts 1991) and may underestimate the volume of CSR activities in which companies have engaged (Unerman 2000). Nevertheless, the current research assumes that CSR reporting reflects the top management's (including boards of directors') decisions on CSR issues. Hence, annual report disclosure is assumed to be representative of the overall responsiveness by corporate management (Wilmshurst and Frost 2000). "Annual reports are time consuming and costly to produce, and management must rationalise the competing demands for space" (Wilmshurst and Frost 2000: 14). Using the annual report therefore should be enough to identify the relationship between the various board attributes and reporting patterns on CSR issues.

(ii) Unit of Analysis

The unit of analysis is another important issue that must be considered in content analysis. "A unit is an identifiable component of a communication through which variables are measured" (Gamerschlag et al. 2011: 241). When examining the extent of disclosure, previous studies have used various measurement units such as word count (Deegan and Gordon 1996), sentences (Hackston and Milne 1996), pages and fraction of page count (Gray et al. 1995). Recently, studies have even started using advanced software packages (for example, Leximancer and CRA) to extract information from reports (Chen and Bouvain 2009, Tate et al. 2010). While there are number of units of analysis used in disclosure-based studies, the most appropriate measure of the extent of disclosure is still debatable. Unerman (2000), supporting the use of a proportion of page, suggested that "characters, word, sentence or paragraph counts ignore differences in typeface size which can be captured by measuring volume as the proportion of a page taken up by each disclosure" (p.667). According to Milne and Adler (1999), using sentences as a basis for coding and measurement provides more reliable and meaningful results compared to use of words or proportions of page. The use of sentences was further justified by Hackston and Milne (1996), Tilt and Symes (1999) and Raar (2002) on the basis that accuracy was more assigned to sentences than individual words, and used to provide the context of the words even when words are used as the unit of analysis.

This study employs word count as the main unit of analysis to quantify of CSR reporting provided in the sample annual reports but, following previous authors, uses sentences to provide the context of those words. This technique is used in many disclosure based studies (Deegan and Gordon 1996, van Staden and Hooks 2007, Al-Tuwaijri et al. 2004) as words are considered to be the smallest unit of measurement for analysis (Zeghal and Ahmed 1990) and can be expected to provide the maximum robustness to the study in assessing the quantity of disclosure (Wilmshurst and Frost 2000: 14). Further, searching for a specific term in the text is regarded as the most reliable form of content analysis: there is less likely to be subjective judgement by the coder about the meaning or importance of the subject matter and this can yield the same result in repeated trials (Abdolmohammadi 2005). Moreover, words are considered as the preferred measure when it is intended to measure the amount of total space devoted to a topic and to ascertain the importance of that topic (Krippendorff 1980). Therefore, the extent of CSR reporting in this study is measured by the number of words dedicated to CSR issues by each sample company in their annual report.

(iii) Coding Instrument and Categorisation

Appropriate categorisation of the disclosure is often considered one of the most important elements of content analysis (Weber, 1990). There are some existing instruments that could have been utilised but most of these are more detailed than needed for this analysis, and some, such as Clarkson et al. (2008), focus only on one area (environmental disclosure).

In order to establish the broad categories of social and environmental information found in annual reports for this study, a research instrument containing five major social and environmental categories and keywords was derived in line with several prior studies on CSR reporting (Gray et al. 1995, Hackston and Milne 1996, Haniffa and Cooke 2005, Williams 1999, Campbell 2000). As a result, a total of 53 keywords were developed as shown in Table 4.2. Generally, researchers have analysed social and environmental disclosure under the categories of environmental;

employee issues; ethical reporting; community involvement, and corporate governance related items. Thus, social and environmental disclosure in this study includes the disclosure in the following six categories: (1) Environmental; (2) Human Resources/Employee issues; (3) Community Involvement; (4) Corporate governance; (5) Customers/Product and (6) Other/general. It is worth noting that the majority of previous studies either separately examined governance disclosure or examined social and environmental disclosure which included all or some of the governance disclosure items. This is important given that there is a large overlap between governance disclosure and CSR reporting. In company reports, it is very common to find CSR information under the corporate governance section, and governance information in the CSR section. Moreover, CSR reporting is becoming more mainstream and governance disclosure is largely considered as part, or a subset, of CSR reporting by many authors (Nielsen and Thomsen 2007, Douglas et al. 2004, Kotonen 2009, Dhaliwal et al. 2011, Orij 2010, Lorenzo et al. 2009). Kotonen (2009), while adding additional disclosure themes in her analysis, including corporate governance, suggests that “it is important to remember that these dimensions are not totally separate but that they are closely linked together and thus the reporting of them should also be in balance” (p.182). In addition, researchers have specifically started examining the extent to which corporate governance is included in CSR reporting; for example, Kolk and Pinkse (2010) examined the integration of corporate governance into MNE’s CSR reporting practices. Their analysis of CSR reporting of fortune global 250 companies revealed that more than half of them (53%) have a separate corporate governance section in their CSR report and/or explicitly link corporate governance and CSR issues (Kolk and Pinkse 2010). Moreover, the KLD database, which is widely used in CSR research (Graves and Waddock 1994, Baron et al. 2009) ranks firms’ CSR performance in seven main categories, one of which is corporate governance. In line with these, in this study, all information on governance is considered as CSR reporting, but is categorised under a dedicated theme. The number of words dedicated to each item in the six broad themes of CSR are finally added together to compute the total volume of CSR reporting. A research instrument encompassing six broad premises of CSR reporting and associated keywords is presented in Table 4.2.

Table 4.2
Research Instrument

Main Themes	Examples	Keywords
Corporate Governance	<p>1. Remuneration report: Full remuneration report</p> <p>2. Governance statements: ASX Corporate governance compliance statement</p> <p>3. Board related governance disclosure (Directors/Board/ secretary): Board renewal/board changes/ directorship matters Board profile (including secretaries) Restrictions on directors' voting Director's power to issue securities Directors fees Retirement of director Loans by directors Directors' share ownership Directors' meetings Remuneration of directors/secretaries (other than remuneration report)</p> <p>4. Board diversity - Compliance with new ASX rule : board diversity, Disclosure on women on board, Disclosure on diversity on board or initiatives towards board diversity</p> <p>5. Other governance related disclosures: Overall governance structure of the company General ethical standards (company policies on bribery, gifts etc.)</p>	Remuneration report, Governance, Director, Board, Diversity, Women, Gender
Employee	<p>Employee Benefits Employee share ownership Employee training and development Employee profile Employee accidents and compensation Employee code of conduct Employee loan Employee pension/retirement benefits Employee relation with management Management personnel disclosures Human resource management</p>	Employee, Staff, Human resource, People, Safety, Health, Diversity, Human right, Labour right, Fair business, Minority, Women, Disable, Equal, injury, ethic

	<p>Disclosures on organisation's staff/people</p> <p>Employee health and safety</p> <p>Employee lost time injury</p> <p>Encouraging staff diversity</p> <p>Human rights/Labour Rights</p> <p>Fair business practice</p> <p>Equal opportunity</p> <p>Other employee related disclosures (employee numbers up or down, retaining employees, staff redundancy)</p>	
Environment	<p>Environmental pollution</p> <p>Environmental protection</p> <p>Environmental performance</p> <p>Environmental policy</p> <p>Environmental audit</p> <p>Environmental awards</p> <p>Prevention of environmental disaster/damage</p> <p>Effect on environment</p> <p>Health, safety and environment</p> <p>Energy efficiency</p> <p>Renewable energy</p> <p>Conservation of natural resources</p> <p>Biodiversity</p> <p>Waste management</p> <p>Recycling</p> <p>Rehabilitation</p> <p>Climate change</p> <p>Reduction of carbon emission/Carbon pricing/ Carbon tax</p> <p>Greenhouse gas emission</p> <p>Sustainability / sustainable development</p> <p>Other general environmental disclosures</p>	<p>Environment, Energy, Rehabilitation, Climate, Carbon tax, Emission, Biodiversity, Conservation, Pollution, Air, Water, Dust, Noise, Waste, Recycle, SH & E, green, CPRS</p>
Community/ Society	<p>Charitable donations / Philanthropy</p> <p>Social activity</p> <p>Sponsorship</p> <p>Scholarship</p> <p>Volunteer program</p> <p>Aiding medical research</p> <p>Support for education/housing</p> <p>Safe living environment for community people</p> <p>Summer vacation program</p> <p>Stakeholder engagement/consultation/stakeholder</p> <p>Corporate responsibility</p> <p>Licence to operate</p>	<p>Community, Charity, people, Donation, Philanthropy, Volunteer, Student, Scholarship, Education, Social, Sponsor, Society, stakeholder, Corporate responsibility, licence to</p>

	Other community involvement disclosures	
Product/Customers	Product/Service safety Product/Service improvement and development customer safety, customer service improvements, customer complaints, specific customer relation, customer privacy, provision for disabled, aged/difficult to reach customers, customer statements Other product/ customer related disclosures (Objective statements with regard to product, service or customers)	Product, Service, Customer, Client, Consumer, ISO
Other	General social responsibility statements: Corporate objectives/ mission statements /policies /Long term value creation (only with regard to CSR in general) General statements on multiple stakeholder consideration Any statements related to GRI	Social, environmental, long-term, GRI

(iv) Reliability of the instrument

The data gathered in this study was collected using a content analysis process that is often subject to criticism regarding its reliability (Krippendorff 2013). In order to draw valid inferences from such data, reliability of the data collected using that instrument needs to be demonstrated (Milne and Adler 1999). Reliability is described as “the extent to which measurements are repeatable when different persons perform the measurements, on different occasions, under different conditions, with supposedly alternative instruments which measure the same thing” (Drost 2011: 106). Krippendorff (2004) proposes three kinds of reliability: stability, reproducibility and accuracy. Stability refers to the extent to which the same researcher is able to code the data resulting in the same results over and over again. Reproducibility refers to the ability of multiple coders to produce the same results. The reliability measure under reproducibility involves the assessment of coding

errors between the various coders which is often described as inter-rater, or inter-coder, reliability (Weber 1990). The third type of reliability, accuracy, is concerned with assessing the coding performance of coders against a set of pre-determined standards (Milne and Adler 1999). Of these three kinds of reliability tests, stability is considered as the weakest form; and accuracy requires pre-determined standards to exist. This study ensures reliability through the use of a reproducibility test and comparison of these to existing inter-coder reliability standards. Milne and Adler (1999) assert that issues of reliability may be associated with coding instruments themselves and suggest the use of well-specified decision rules which may be useful in producing fewer discrepancies when used, even by inexperienced coders. Therefore, in addition to the research instrument and keywords, a well specified set of decision rules was also designed (the decision rules are included in Appendix 2).

The following procedure was undertaken in testing the reliability of the instrument for this study: An independent coder was assigned to pre-test the instrument along with the primary researcher. Classification schemes and a set of decision rules, including keywords, were established which allowed the independent coder to determine exactly 'what' and 'how' the coding was to be carried out on the data in the annual reports (Milne and Adler 1999). The researcher and independent coder discussed any uncertainty or grey areas in coding. Some suggestions were provided by the independent coder, which enabled improvement of the research instrument. Pre-testing was conducted on a sample of eight randomly selected large companies out of the 115 companies in the sample. Both the independent coder and the researcher followed the research instrument, keywords and decision rules which were established initially. It was found that there were only minor discrepancies in the results when comparing the two coders. The incongruities in the coding of quantity of disclosure were found to be due to various reasons, such as a lack of definition in disclosure categories, or mistakes or omission of some items in the instrument by either coder. Such inconsistencies were discussed and revisions were undertaken to both the decision rules and research instrument accordingly.

With regard to assessment of coding errors between the two coders (inter-coder reliability), there are various measures that exist, some of the most commonly used are: percent agreement, Holsti's method, Scott's pi, Chen's Kappa, and Krippendorff's Alpha (Hayes and Krippendorff 2007). However, Krippendorff's Alpha is considered as the most reliable measure (Krippendorff 2013, Lombard et al. 2010), and hence is used to test inter coder reliability in this study.

Table 4.3
Inter-coder Reliability Using Krippendorff's Alpha

Categories	Percentage of Agreement between two coders
Governance	0.94
Employee	0.98
Environment	0.97
Community	0.96
Product	0.96
Others	0.95

Krippendorff's Alpha was calculated using SPSS and SAS Macro respectively. It can compute reliability for all types of data, and the reliability results for the pre-testing produced coefficients that indicated a strong agreement between the two coders for all the disclosure categories and, hence, there was no need to conduct further pre-testing. Guthrie and Mathews (1985) suggest that 0.80 or above is an acceptable level of agreement, and Wimmer and Dominick (1991) suggest that 0.75 or above for Krippendorff's Alpha is an acceptable level for content analysis. Table 4.3 shows that coefficient values for all categories were above 0.90, which indicates the substantial agreement between the coders. The results therefore confirm the reliability of the instrument for the quantity of CSR reporting.

4.6.3 Independent variables

As mentioned earlier, the definition of top management team (TMT) members in the current study includes only boards of directors (independent, outside, executive and

non-executive directors, and the CEO). The independent variables used in this study include four board diversity measures: independence, tenure, gender, and multiple directorships as well as an overall diversity index. These were discussed in detail in Chapter 3, but the measurement of each is specified below.

The independent variables for the Australian companies in the sample were obtained from the OSIRIS database⁴ as well as directly from annual reports. Even though the OSIRIS database contains detailed information on a number of company corporate governance measures, including board demographic information and information on control variables, with regard to board demographic variables it provides only information for the current year. Hence, in order to obtain three years of data on both board and control variables, various other means, including annual reports and companies' websites, were used in conjunction with OSIRIS to collect this data.

(i) Proportion of independent directors: The proportion of independent directors is measured as the proportion of independent/non-executive/outside directors on the board to the total number of directors on the board. Many prior studies which examine the relationship between independent directors and disclosure have used this measure (Donnelly and Mulcahy 2008, Chen and Jaggi 2001, Eng and Mak 2003, Lakhali 2005).

(ii) Tenure: Tenure diversity is described as a board with both long standing and newer directors, and tenure is generally considered to be a proxy for experience. Tenure is defined as the number of years each board member has been employed as a director by their current company (Knight et al. 1999). In order for different levels of tenure to be more easily differentiated in the analysis, it is categorised into three categories: percentage of directors with less than 5 years, 5 to 10 years and greater than 10 years.

⁴ Available at www.osiris.bvdep.com

(iii) Percentage of women directors: The percentage of women directors is measured as the proportion of women directors on the board to the total number of directors on the board (Huse and Solberg 2006, Adams and Ferreira 2004).

(iv) Multiple directorships: Multiple directorships are measured as the proportion of directors serving on more than one board to the total number of directors on the board (Rupley et al. 2012).

(v) Overall diversity: As mentioned in Chapter 3, the Blau Index (Blau 1977) is used as a composite board diversity index to compute the variation in overall diversity, and is generated by adding together the standardised Blau indexes for each of the four board attributes mentioned above (gender, tenure, independence and multiple directorships). The Blau index is widely used in measuring diversity variables by applying the following formula (Harrison and Sin 2006).

$$\text{Blau index} = 1 - \sum_{i=1}^n P_i^2$$

Where P is the proportion of group members in the i^{th} category and n is the total number of board members.

The values of the Blau index can range from zero (minimum), which occurs when each object in the group has a similar category, to one (the maximum value), when equal portions of each category are present in a group. Therefore, in this study if the value is closer to one, it means that the diversity of the group is more diverse and if the value is nearer to zero, then the group is more likely to be homogeneous. Using the Blau index formula, the indexes are generated for all the four individual diversity variables and added together in order to generate a composite board diversity index as presented below.

$$\text{Overall diversity (Index)} = \text{Blau (independence)} + \text{Blau (gender)} + \text{Blau (tenure)} + \text{Blau (multiple directorships)}$$

As discussed in Chapter 3, both the Overall diversity index (Blau) and the four individual diversity variables are included in the model together to capture the effect of each. It may be argued that, for example, more women directors on a board will have an individual impact, but equally the ‘mix’ of gender, tenure and experience may have a different impact. The inclusion of both does, however, allow the potential for multicollinearity, so alternative specifications excluding the index or its component parts were run. The resulting coefficients were very similar for included variables, therefore it is unlikely that multicollinearity exists.

(vi) Interactions between variables: Three of the four variables used in the analysis are also hypothesised to interact; therefore, interaction terms are included in the modelling for women directors, independent directors and multiple directorships. That is, women directors are deliberately sought out now that the ASX corporate governance code requires reporting on gender objectives; this means that good quality women board members are more likely to hold multiple directorships and to be independent directors. “An interaction effect is said to exist when the effect of the independent variable on the dependent variable differs depending on the value of the third variable called the moderator variable” (Jaccard and Turrisi 2003: 3). Interaction terms, therefore, are often used to infer “how the effect of one independent variable on the dependent variable depends on the magnitude of another independent variable” (Norton et al. 2004: 154). Overall, an interaction variable would be able to explain variation in the dependent variable beyond the control and independent variables. This is particularly important in this study because diversity variables, when interacted with other independent diversity variables, have the potential to have a different effect on CSR reporting.

4.6.4 Control variables

This study considers firm size, profitability, industry, CEO duality and board size as control variables. The data on these five control variables was obtained from the OSIRIS database. The control variables were selected based on prior work (Haniffa and Cooke 2005, Liao et al. 2014, Halme and Huse 1997, Lorenzo et al. 2009, Michelon and Parbonetti 2010, Jizi et al. 2014), which generally suggests that these variables have a relationship with disclosure. By controlling for these variables, their

influence on the dependent variables is considered. An explanation for each of the control variables is provided below.

(i) Firm Size: Firm size has been considered as an important determinant in many disclosure studies, including those on CSR reporting (Haniffa and Cooke 2005, Gamerschlag et al. 2011, Huafang and Jianguo 2007, Khan 2010, Lorenzo et al. 2009). Larger firms are likely to be involved in diverse activities and are likely to have greater impact on society (Trotman and Bradley 1981, Barnea and Rubin 2010). In addition, larger firms are more visible to outsiders, and hence will be under greater scrutiny and greater pressure to disclose more on social activities to legitimise their business (Cowen et al. 1987). Consistent with this, Krüger (2009) argues that more visible companies, in order to attract green consumers or to attract more productive employees, are likely to implement socially responsible business strategies. Accordingly, his study found a strong relationship between firm size and the occurrence of social responsibility indicating that visibility has strong influence on a firm's socially responsible behaviour. Based on these arguments and findings it is expected that larger firms are more likely to disclose more CSR reporting.

Size of the firm has been measured in various ways: total assets, operating revenue, market capitalisation, sales and number of employees (Gul and Leung 2004, Donnelly and Mulcahy 2008, Eng and Mak 2003, De Villiers et al. 2009). This study uses two frequently adopted measures: total assets and market capitalisation, which have been identified in previous research as a robust proxy for size. Further, the natural logarithm is used to normalize the data. Firm size in this study is therefore measured as the natural logarithm of total assets and the natural logarithm of market capitalisation.

(ii) Profitability: The relationship between profitability and disclosure is also examined in many previous studies (Menassa 2010, Haniffa and Cooke 2005, Liao et al. 2014, Gul and Leung 2004, Scholtens 2008, Jizi et al. 2014), however these have resulted in inconclusive findings. It is argued that profitable companies can afford to spend more on disclosure activities (De Villiers et al. 2009), and it provides more

flexibility for managers to report on their CSR activities (Khan 2010). It is also possible that profitable companies want to show their concern for, and contribution to, society (Haniffa and Cooke 2005) and CSR reporting could be one of the strategies adopted to do this. Moreover, there is a cost associated with any kind of disclosure, which makes voluntary disclosure likely to be the lowest priority for less profitable companies. With regard to profitability and CSR reporting, Khan (2010) found that profitability is significantly associated with the level of CSR reporting. Similarly, Krüger (2009) found that economically stronger companies are likely to show a lower incidence of negative events with regard to CSR, suggesting that profitable firms show more concern towards social responsibility. However, it is worthy of note that profitability has shown contradictory results. Some studies found positive associations (De Villiers et al. 2009, Al-Tuwaijri et al. 2004, Menassa 2010, Khan 2010, Haniffa and Cooke 2005, Said et al. 2009), other studies found negative association (Laidroo 2009, Chen and Jaggi 2001), and some found no relationship (Eng and Mak 2003). The majority of disclosure studies linking profitability and CSR reporting recently, however, indicate a positive relationship (Jizi et al. 2014, Li et al. 2013, Menassa 2010). Therefore it is expected that there is a positive relationship between profitability and CSR reporting.

The profitability of firms in the current study is measured by Return on Equity (ROE). Profit was not used as a measure because of the effects of the time lag and volatility related to annually reported profit. The use of ROE is also consistent with other disclosure based research (Khan 2010, Haniffa and Cooke 2005, Said et al. 2009, Ho and Wong 2001).

(iii) Industry: Industry differences are likely to play an important role in disclosure. First, the type of disclosure itself may vary from one industry to another. For example, labour intensive industries may disclose more on employees, extractive and chemical industries may disclose more on environmental information to reflect sensitivity to their particular problems, whereas consumer-oriented firms may disclose to attract consumers and to increase sales (Haniffa and Cooke 2005). In addition, previous literature suggests that firms in environmentally sensitive

industries will disclose more environmental information in response to greater scrutiny by stakeholders (Deegan and Gordon 1996, Halme and Huse 1997). Halme and Huse (1997) found that industry appears to be the most important factor in explaining environmental disclosure in annual reports. With regard to CSR, Haniffa and Cooke (2005) found a positive relationship between CSR reporting and type of industry. Similarly, Post et al. (2011) found a large difference between the disclosure of ECSR (environmental CSR) between chemicals and electronics firms where chemical firms disclose more mechanisms of ECSR governance. The level of CSR reporting is therefore expected to be influenced by the type of industry within which a firm operates and needs to be controlled for in any study.

Companies listed on the ASX are classified into industries based on the Global Industry Classification code (GICS), which classifies companies into ten industry sectors (Energy, Materials, Industrial, Consumer discretionary, Consumer Staples, Health Care, Financials, Information technology, Telecommunication Services and Utilities – see Appendix 3). For this study these are reclassified into five categories (presented in Table 4.4) and a dummy variable is included for each category.

(iv) Board size: Many prior studies have related board size with disclosure (Rao et al. 2012, Lorenzo et al. 2009, Cheng and Courtenay 2006, Razek 2014). Both positive and negative arguments favouring larger and smaller sized boards are identified in prior research. Some argue that compared to larger sized boards, a smaller sized board can work well together with better communication and coordination which would make it easier for the board to come to unanimous decisions. On the other hand, others support larger sized boards suggesting a larger board with a greater amount of experience and skills is able to represent more richer and diverse values (Halme and Huse 1997, Dalton and Dalton 2005). The relationship between board size and disclosure therefore remains unclear with studies reporting positive, negative and no association. However, from a diversity perspective it is more likely that larger sized boards will exhibit greater diversity of members compared to smaller sized boards. A study by Handajani et al. (2014) found that larger boards possess more breadth of experience, knowledge and skills

which may help in making complex decisions like those related to CSR. Similarly Jizi et al. (2014) found board size positively affected CSR reporting by large US banks. Hence, it is expected that the companies with a larger sized board are more able to bring diverse opinions and effective discussions and this will result in a higher level of CSR reporting.

Board size was included in this study as a control variable for two reasons. First, it has a strong influence on the level of diversity or group dissimilarity (Wiersema and Bantel 1992). Second, board size can be directly linked to group processes, including decisions, and thereby affect disclosure. Board size in this study is measured as the total number of board members on the board (Donnelly and Mulcahy 2008, Jizi et al. 2014).

(v) CEO duality: CEO duality, that is, where the CEO is also the Chair of the board, may also influence the level of reporting (Haniffa and Cooke 2005, Gul and Leung 2004, Michelon and Parbonetti 2010). Similar to board size, empirical evidence with regard to the association between CEO duality and disclosure seems to be inconclusive with studies finding a negative association (Gul and Leung 2004, Donnelly and Mulcahy 2008, Chau and Gray 2002) or no association (Cheng and Courtenay 2006, Michelon and Parbonetti 2010, Ho and Wong 2001). However, the majority of studies argue against CEO duality. Where a firm's board has CEO duality, there is an absence of separation between decision control and decision management (Fama and Jensen 1983). The concentration of decision making power as such reduces the board's independence (Gul and Leung 2004). It could also be possible that in order to avoid confrontations with powerful CEOs and to retain their board seats, managers and directors may accept decisions against their better judgement (Dey 2008). Therefore, combining the role of CEO and chair "compromises the desired system of checks and balances and represents a conflict of interests thus reducing the level of accountability" (Michelon and Parbonetti 2010: 11), which can be detrimental to disclosure levels (Ho and Wong 2001). It is argued that CEOs who also act as Chairs can hide crucial information more easily from other, in particular non-executive, directors (Haniffa and Cooke 2005, Li et al. 2008).

Therefore, it is assumed that when the roles of CEO and Chair of the board of directors are performed by the same person, it will negatively impact the amount of CSR information. A dummy variable is used to measure CEO duality of a particular company where the value 1 is assigned if the chair and CEO is the same person; and 0 otherwise.

The measurement of dependent variables, independent variables and control variables are summarised in Table 4.4 below.

Table 4.4
Summary of Measurement of Variables

Variables	Measurement
Dependent Variables	
Total CSR reporting	Count of the total number of words dedicated to CSR issues in the annual report of listed companies.
Governance Disclosure	Count of the total number of words dedicated to corporate governance issues in the annual report of listed companies
SEA Disclosure	Count of the total number of words dedicated to Social and Environmental issues (excluding corporate governance) in the annual report of listed companies
Independent Variables	
Independent Directors	Proportion of independent directors to total directors on the board
Board Tenure	Proportion of directors with less than 5 years, 5 to 10 years and greater than 10 years of tenure (number of years of service as a board member in the current firm)
Multiple directorships	Proportion of directors with multiple directorships to total directors on the board
Women Directors	Proportion of women directors to total directors on the board
Overall diversity	Aggregate index of four diversity variables: Blau (independence) + Blau (gender) + Blau (tenure) + Blau (multiple directorships)
Control Variables	
Firm Size	Market capitalisation and Total assets
Industry	Industry Classification using Global Industry Classification code (GICS) 1 = Materials (Materials + Industrial) 2 = Energy (Energy) 3 = Finance (Finance) 4 = Consumer (Consumer discretionary + Consumer Staples + Health Care) 5 = IT_Utilities (IT + Telecommunication services + Utilities)
Profitability	Return on Equity (Net income divided by total equity)
Board size	Total number of directors
CEO duality	1 = CEO duality 0 = otherwise

4.6.5 Empirical model

This study used panel or longitudinal data. “A longitudinal, or panel, data set is one that follows a given sample of individuals over time and thus provides multiple observations on each individual in the sample” (Hsiao 2014: 1). Econometric panel models have become the dominant method of analysing longitudinal or panel data; the data set in which behaviour of entities is observed across time (Hsiao 2003). Panel data therefore allows observing and measuring the variables and changes over time across entities. There are many benefits in using panel data analysis. It provides a large number of data points, increasing the degree of freedom and reducing the collinearity among the explanatory variables, it improves the efficiency of econometric estimates, and allows analysis of various economic questions which are not detectable through the examination of cross sectional or time series data analysis (Hsiao 2003, Torres-Reyna 2007). Furthermore, panel data provides better predictions of individual (e.g. company) behaviour while failure to use panel models when appropriate is a model misspecification error (including omitted variable bias) potentially resulting in biased estimated coefficients and unreliable diagnostic statistics. Moreover, through the use of panel regression models, unobserved endogenous variables (e.g. other diversity variables) which might not have been observed in the data collection process (Singer and Willett 2003) can also be accounted for.

For continuous dependent variables the linear model is used. The (one-way) linear panel model can be represented as:

$$Y_{it} = \alpha + \beta_{1t} X_{1t} + \beta_{2t} X_{2t} + \dots + \beta_{kt} X_{kt} + u_i + v_{it}$$

where Y is the dependent variable, X s are the set of (k) explanatory variables, α is the common intercept, β s are the coefficients to be estimated, u_i are the individual (i.e. company) specific effects that vary across companies but are constant over time and v is the usual unobserved zero-mean constant variance, uncorrelated, random disturbance (representing the net effect of all other unobserved factors that may influence the outcome); i are individual companies ($i = 1, \dots, N$) and t is time ($t = 1, \dots, T$).

There are two major modelling techniques which could be used to analyse panel data: Fixed Effects (FE) and Random Effects (RE). FE explores the relationship between the predictors and outcome variable within an entity and the individual characteristics of the entity may or may not have any influence on the predictor variables (Torres-Reyna 2007). The impact of individual bias to the predictor or outcome is controlled because it is assumed that the correlation between an entity's errors exists. It does not make the assumption of zero correlation. In addition, when fixed effects are used it is assumed that the results are only applicable to the sample (Yaffee 2003). Under RE effects, the variation across entities is assumed to be random and uncorrelated with the predictor variables (Torres-Reyna 2007). The individual (i.e. company) heterogeneity is assumed to be independent of the explanatory variables, which is generally considered to be an unreasonable assumption but this can be overcome (see below). Moreover, RE allows time-invariant variables to play a role as explanatory variables, which is important in this study as it includes some categorical (dummy) variables (Torres-Reyna 2007). Random Effects results can also be used to reflect the larger population (Yaffee 2003). Further, RE uses information on all entities and all variables on each entity, even if they are constant over time (Bryman and Hardy 2004).

Since, in the context of this study, there are differences in the nature of samples which may affect the dependent variable, the Random Effects model is more appropriate. In addition, most of the independent (diversity) variables are time consistent. As Bryman and Hardy (2004) suggest, the Fixed Effects estimator is not that appropriate for examining time consistent causes of dependent variables as it is designed to analyse the causes of changes within an entity. The FE model excludes any time-invariant explanatory variables from the model (their collective impact is included in the intercept term). In addition, the FE model examines only variation within companies, but not between companies. Previous research has also utilized RE in analysing panel data to examine the link between diversity of boards and performance (Gallego-Álvarez et al. 2010, Gregoric et al. 2009).

Finally, for the purposes of this study an adjustment to the RE model was required. The Mundlak specification of the RE allows for potential correlation between the individual specific effects and explanatory variables (Mundlak 1978, Chamberlain 1982). In this version of the RE model the company means (i.e. across time) for each of the time-varying explanatory variables are included as additional explanatory variables, that is, the Mundlak “corrections”. Once the correction is made the RE panel estimator is unbiased, consistent and efficient. With Mundlak “corrections” the RE model is specified as:

$$Y_{it} = \alpha + \beta_{1t}X_{1t} + \beta_{2t}X_{2t} + \dots + \beta_{kt}X_{kt} + u_i + \lambda_{1t}\bar{Z}_{it} + \lambda_{2t}\bar{Z}_{2t} + \dots + \lambda_{ft}\bar{Z}_{ft} + u_i + v_{it}$$

Where \bar{Z} are the means of the time-variant explanatory variables included in the model and other symbols are as described above.

As discussed in Section 4.6.2, this study examines the effect of diversity on total CSR reporting (including governance disclosure). In addition, in order to consider the potential differing effects on governance aspects of CSR separately, two additional dependent variables are examined: social and environmental disclosure (excluding governance disclosure) and governance disclosure. Therefore, the following three research models were developed:

$$\begin{aligned} \mathbf{total_csrr_Ln} = & \alpha + \beta_{perc_femdir} + \beta_{perc_inndir} + \beta_{perc_multdir} + \\ & \beta_{tenperc_5to10} + \beta_{tenperc_over10} + \beta_{BlauIndex} + \beta_{mkt_cap_Ln} + \\ & \beta_{tot_asset_Ln} + \beta_{ret_equity_Ln} + \beta_{Energy} + \beta_{Consumer} + \beta_{Materials} + \\ & \beta_{Finance} + \beta_{ceo_duality} + \beta_{tot_dir_Ln} + \beta_{interact_fem_ind} + \\ & \beta_{interact_fem_MultiD} + \beta_{2010} + \beta_{2011} + \varepsilon \end{aligned}$$

$$\begin{aligned} \mathbf{gov_disc_Ln} = & \alpha + \beta_{perc_femdir} + \beta_{perc_inndir} + \beta_{perc_multdir} + \\ & \beta_{tenperc_5to10} + \beta_{tenperc_over10} + \beta_{BlauIndex} + \beta_{mkt_cap_Ln} + \\ & \beta_{tot_asset_Ln} + \beta_{ret_equity_Ln} + \beta_{Energy} + \beta_{Consumer} + \beta_{Materials} + \\ & \beta_{Finance} + \beta_{ceo_duality} + \beta_{tot_dir_Ln} + \beta_{interact_fem_ind} + \\ & \beta_{interact_fem_MultiD} + \beta_{2010} + \beta_{2011} + \varepsilon \end{aligned}$$

$$\begin{aligned} \mathbf{sea_disc_Ln} = & \alpha + \beta_{perc_femdir} + \beta_{perc_inndir} + \beta_{perc_multdir} + \\ & \beta_{tenperc_5to10} + \beta_{tenperc_over10} + \beta_{BlauIndex} + \beta_{mkt_cap_Ln} + \\ & \beta_{tot_asset_Ln} + \beta_{ret_equity_Ln} + \beta_{Energy} + \beta_{Consumer} + \beta_{Materials} + \\ & \beta_{Finance} + \beta_{ceo_duality} + \beta_{tot_dir_Ln} + \beta_{interact_fem_ind} + \\ & \beta_{interact_fem_MultiD} + \beta_{2010} + \beta_{2011} + \varepsilon \end{aligned}$$

Where:

total_csrr_Ln	natural log of total words dedicated to CSR information
gov_disc_Ln	natural log of number of words dedicated to corporate governance
sea_disc_Ln	natural log of total words dedicated to social and environmental information (excludes corporate governance information)
perc_femdir	percentage of women directors
perc_inddir	percentage of independent directors
perc_multidir	percentage of directors with multiple directorships
tenperc_5to10	percentage of directors with 5-10 years tenure
tenperc_over10	percentage of directors with tenure > 10 years
BlauIndex	overall diversity measure
mkt_cap_Ln	natural log of market capitalisation
tot_asset_Ln	natural log of total assets
ret_equity_Ln	natural log of return on equity (profitability)
Energy	industry dummy
Materials	industry dummy
Finance	industry dummy
Consumer	industry dummy
tot_dir_Ln	natural log of total directors (board size)
ceo_duality	CEO duality
interact_fem_ind	interaction effect between gender and independence
interact_fem_multiD	interaction effect between gender and multiple directorships
2010	year dummy
2011	year dummy
α	constant
β	regression coefficient
ε	error term

As noted above, percentages are used for some variables (percentage of women directors, percentage of independent directors, percentage of directors with multiple directorships, percentage of directors with 5-10 years' tenure, percentage of directors with tenure > 10 years) in the regression model in order to allow comparison, but the actual numbers are used in descriptive analysis as these also provide meaningful information for analysis.

4.6.6 Data analysis

SPSS (statistical package for the social sciences) is used to explore and analyse the data initially; specifically, descriptive statistics are used to explore, summarise and describe the data. In addition, correlation analysis is used to examine the relationship between two variables in a linear fashion. Panel data multiple regression analysis is

then employed to test the five hypotheses. Multiple regressions are a statistical analysis technique used to examine the relationship between several independent variables with a single dependent variable (Hair et al. 2006). The statistical software used to run the multiple regressions is STATA as it is able to analyse longitudinal panel data. Multicollinearity tests were also run to ensure that there were no correlation issues between the variables tested. Descriptive results, correlation analysis results, regression results and diagnostic tests are all described in the next chapter.

4.7 Phase 2: Qualitative analysis

4.7.1 Interviews

Since this study aims to gain insights from directors' personal perspectives on the effect of diversity on CSR, the qualitative approach used for this study is in-depth interviews. The use of interviews is very common in exploratory studies and is probably the most widely used method in qualitative research (Bryman and Bell 2011: 465). Interviews can explore and explain issues in depth (Denzin and Lincoln 2000) and help to gather "valid and reliable data that are relevant to the research questions and objectives" (Saunders et al. 2007: 310). "Essentially, where it is necessary for you to understand the reasons for the decisions that your research participants have taken, or to understand the reasons for their attitudes and opinions, it will be necessary for you to conduct a qualitative interview" (Saunders et al. 2007: 315). Interviews have been used in social and environmental research in order to explore motivations behind CSR practices (O'Dwyer 2002, O'Donovan 2002) and hence are chosen as an appropriate method for this study. In summary, interviews are useful when (Rowley 2012: 262):

- The research objectives centre on understanding experiences, opinions, attitudes, values, and processes.
- There is insufficient known about the subject to be able to draft a questionnaire.
- The potential interviewees might be more receptive to an interview than other data gathering approaches.

Various types of interviews can be used to gather data. They are often classified on the basis of their level of “structure” (Rowley 2012: 262). The literature (Saunders et al. 2007, Bryman and Bell 2011, Denzin and Lincoln 2000) categorises these interviews as: structured interviews, semi-structured interviews, unstructured or in-depth interviews. Structured interviews are where a pre-determined, standardised set of questions are asked in the same order with every interviewee in order to gather precise data. It is referred as “interviewer administered questionnaires” (Saunders et al. 2007: 312). “Structured interviews can be quite similar to questionnaires, except that instead of leaving the respondent to complete and return the questionnaire at their own leisure, the interviewee poses the questions; this is one way of increasing response rate when postal or online questionnaires do not elicit a sufficient response rate” (Rowley 2012: 262). This type of interview is often used to collect quantifiable data and is referred as “quantitative research interviews” (Saunders et al. 2007: 312).

Semi-structured interviews on the other hand are non-standardised where “the researcher has a list of questions on fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply” (Bryman and Bell 2011: 467). The interviewees are able to “express themselves without specific boundaries or restrictions... [and] allowed to speak freely” even though the interviewers steer the interviews to ensure that relevant interview topics are covered (Farneti and Guthrie 2009). The questions often are informal and the order of the questions may also vary from interview to interview where the researcher can add or omit questions in order to explore issues of interest. This type of interview usually falls between structured and unstructured interviews (Denzin and Lincoln 2000).

Unstructured interviews are informal with no pre-determined questions and are usually “used to explore in depth a general area” (Saunders et al. 2011: 312). Unstructured interviews in this sense are interviewee guided where it is the interviewees’ perceptions that guide the conduct of the interview with the “emphasis very much being on encouraging the respondent to talk around a theme; in addition,

the interviewer may adapt their questions and their order in accordance with what the interviewee says” (Bryman 2001).

Cooper and Schindler (2011) list some of the main differences between structured and semi structured or unstructured interviews and these are summarised in Table 4.5. Structured interviews are useful in describing and explaining rather than exploring a topic.

Table 4.5
Structured and Unstructured Interviews

	Structured	Semi-structured or Unstructured
Type of study	Exploratory or descriptive	Exploratory and explanatory (semi -structured)
Purpose	Providing valid and reliable measurements of theoretical concepts	Learning the respondent’s viewpoint regarding situations relevant to the broader research problem
Instrument	Questionnaire (i.e. specified set of predefined questions)	Memory list interview guide
Format	Fixed to the initial questionnaire	Flexible depending on the course of the conversation, follow-up and new questions raised

Source: Cooper and Schindler (2011: 265)

Interviews can also be classified based on the nature of interactions between the interviewee and the interviewer, that is, they are either conducted on a one-to-one basis or as group interviews. In addition, an interview can be conducted face to face or by telephone or electronically via the internet or the organisations’ intranet.

This study uses face-to-face, semi-structured interviews for the following reasons. They help “to conduct exploratory discussions not only to reveal and understand the ‘what’ and the ‘how’ but also to place more emphasis on exploring the ‘why’” (Saunders 2003: 248). They “allow people to answer more on their own terms than the standardised interview permits, [but] still provide a greater structure for comparability over the focussed interview” (May 2001: 123). Moreover, a semi-

structured interview “allows for flexibility, a characteristic that is important in elite interviews” (Whitehouse 2006: 284) and this study includes members and Chairs of boards of directors, who are experienced in the topic being investigated. Semi-structured and in-depth interviews also provide the opportunity to “probe answers, where you want your interviewees to explain, or build on their responses. The result should be that you are able to collect a rich and detailed set of data” (Saunders 2003: 316). Since the research questions in this study are concerned with gaining in-depth understanding of the board’s role in CSR-related decisions, semi structured interviews are a suitable method as they allow respondents time to speak freely, and provide an opportunity to probe and thus better understand the reasons behind such decisions. Moreover, within the ontological paradigm employed (i.e. the underlying philosophical assumptions of this study discussed earlier in section 4.4), the perspectives of boards of directors are investigated through interviewing two different groups, namely, Chairmen and women directors. The researcher does not start with concepts determined a priori but rather seeks to allow these to emerge from the interviewees. Perspectives of boards of directors are of primary importance as they are directly involved in CSR decision making process and so their perceptions are more likely to provide evidence on whether and how diversity among the board members influences the CSR decisions and reporting.

4.7.2 Interview procedures

The study adopts four major steps in the interview procedure (Creswell 1998):

- i) Selection of sample
- ii) Selection of interviewees
- iii) Gaining access and building a rapport
- iv) Interview session

(i) Selection of sample

Creswell (1998) asserts that the first step in the interview process is to find companies and participants for the study. As the aim of this study is to explore and obtain an understanding of how the board is involved in CSR-related decision making processes, companies are selected based on the quantitative sample

undertaken in the first phase of the study. That is, the top 115 Australian profit sector companies listed on the ASX, whose corporate annual reports were analysed in the first phase, were chosen as the sampling frame. As one of the main purposes of the qualitative aspect of the study is to examine women directors' involvement in particular, only the companies that had at least one woman director in all years of the sample period were considered for interviews. This ultimately resulted in an initial sample of 50 companies which had female director(s) in all three years. The interviews, however, were conducted with limited number of organisations with only three female directors and five chairmen agreeing to participate in the process which ultimately resulted in total of eight interviews. This is largely due to problems of access to companies, particularly large listed Australian companies. Further, several potential interviewees, in particular women directors indicated their inability to participate in the interview due to their busy schedule.

(ii) Selection of interviewees

The second step in the interview process is to choose a sample of participants who were most suited to the study. Although various sampling strategies for qualitative sampling decisions have been suggested (Creswell 1998), this study adopts only two types of sampling strategy: purposive sampling and snowball sampling. Purposive sampling was employed to enable the researcher to determine the participants who could offer an extensive understanding of the topics (Babbie 2001). In addition, to increase the sample, a snowball technique was used. This involved asking the respondents from the sample for possible contacts they knew who may be interested in participating in the study. Referrals (snowball sampling) were requested from interviewees at the conclusion of the interviews.

Since the qualitative aspect of the study focuses on investigating women directors' involvement in CSR decisions, it was necessary to interview women directors. Interviews were also conducted with a sample of Chairs of boards, based on the view that the Chair in the organisation is in a better position to see the whole picture about board processes (Brunzell and Liljebloom 2014) and would be able to reveal another perspective on whether and how women directors influence CSR decisions. More

precisely “through the setting of the agenda for board meetings, and in influencing board discussions, the chairman of the board regulates how the board functions” (Brunzell and Liljebloom 2014: 525). Interviewing Chairs is also likely to ensure that a male perspective is gained, as the majority of Board Chairs in the sample are male. The study is particularly concerned with an in-depth understanding of women directors’ involvement in decision making processes, however, gathering data only from women directors may bias the results. Moreover, including data from two groups increases the reliability and validity of the information provided by the interviewees.

With regard to sample size, there is no consensus in the literature (Creswell 2007). Qualitative research experts agree that sample size in qualitative research should not be based on it being large or small, but rather should be based on the scope and depth of the study (Creswell 2007); and should be judged based on content and purpose of the study (Patton 2002). In considering these factors, a targeted number of interviewees was not set because of the difficulties in gaining access to top level management to conduct the research. Interviews continued to be sought via referrals until sufficient data was obtained and it was expected that eight to ten would be sufficient based on the suggestions of qualitative research experts (Patton 2002, Creswell 2007). Following the selection of the company, participants to be studied were approached in order to elicit participation and arrange an interview session. In some cases interviews were conducted with more than one women director in a firm depending on the availability.

Initially, letters were sent to all Chairs and women directors of the 50 firms identified as the sample. The potential participants’ names, designations, addresses and contact numbers were obtained from various sources such as company annual reports, websites, the ASX website, company directors, women on board institutions, etc. Their profiles were checked against company websites or the ASX website to ensure that the participants exist. It was also checked whether each participant held multiple directorships (whether participants are represented in more than one company), as

this could provide an opportunity for the participant to share their experience of serving on two or more boards and the differences in board processes.

In total, eight directors were interviewed, comprising five Chairs⁵ and three women directors. The small number of final participants was due to two reasons: first, the issues of difficulty and resource limitations in getting access to firms to conduct interviews with board members, and second, the small population of women on boards in Australia. However, the experiences of eight directors are believed to be representative enough to gather relevant data since their perceptions gathered during the interviews outlined all the substantive areas required. Moreover, the interview data from these eight directors provided rich data for analysis and it was considered that saturation was achieved. Finally, there was enough data to provide additional insight into the results of the quantitative analysis. When considering previous qualitative studies this sample size is comparable, for example, one study that interviewed directors of fortune 1000 firms, only managed to include six women directors (Dahlen Zelechowski and Bilimoria 2003). Similarly, Huse and Solberg (2006) interviewed only eight directors out of more than 100 firms.

(iii) Gaining access and building rapport

The third step of the interview process is to gain access to the company and establish rapport with its directors. In this step participants were contacted both formally and informally. Prior to contact, ethics approval was obtained from the Flinders University Social and Behavioural Research Ethics Committee to ensure that the rights and safety of the participants were preserved. Efforts were made to acquire informed agreement from the participants. Before the process of collecting data, an initial introductory letter and consent form were distributed to the targeted participants. As noted above, letters were sent to women directors and the Chairs of the selected 50 ASX profit sector companies in Australia. In the letters, the background to the study and the purpose of the study were provided. In addition, a separate, more detailed, information page about the study was prepared and attached

⁵ All Chairs interviewed were male.

to the letters sent to each participant [see Appendix 5 (Information Sheet), Appendix 6 (Consent Form) and Appendix 7 (Letter of Introduction) for copies].

As per ethics requirements, all the data in this study is kept confidential. The participants' individual information has only been accessed by the researcher and supervisors. The research did not use any information which might be disadvantageous to the participants and no personal or workplace identities are disclosed in the research. The names of the participants are not used in the research, instead terms such as participant, interviewees, respondents, women directors, Chair, etc., are used to make sure that participants' identities are kept confidential.

The participants who agreed to participate in the research after receiving the initial letter and information were requested to sign and return the consent form, including consent to audio-record the interview. On receipt of the consent form, suitable times and locations for interviews with the potential participants were arranged by email.

(iv) Interview session

Before initiating the interviews, an interview guide was prepared to cover the issues of interest as “writing an interview guide is an important part of qualitative interviewing” (Cooper and Schindler 2011: 266). Knowledge gathered from the content analysis and the review of literature contributed towards the design of the interview guide. As a result, four broad areas were established which are listed below:

- (i) Board members' perceptions and their role in the CSR decision making process
- (ii) Role of diversity in the CSR decision making process in general
- (iii) Role of gender in the CSR decision making process
- (iv) Boards' role in the CSR reporting processes and the link between CSR decisions and reporting

More specifically, the first two topics discussed above [(i) and (ii)], are linked to RQ2 which focuses on examining boards' perceptions on CSR as well as their role

(board diversity particularly) in the CSR decision making process. The third topic (iii) relates to RQ3 which specifically focuses on the role of gender in the CSR decision making process. The final topic (iv) relates to both RQ1 and RQ4 which examine the role of the board in CSR reporting and, in particular, aims to obtain further understanding of the link between boards' decisions on CSR and CSR reporting.

The list of interview questions is provided in Appendix 8. The interview guide was the major source document used while conducting the interviews. Since the interviews were audio taped, only brief notes of unusual comments or major key points were made during the interviews, along with notes about any relevant non-verbal behaviours that may indicate characteristics such as interest, enthusiasm or even negativity. Additional field notes were written up by the researcher at the conclusion of each interview.

The actual interview sessions lasted on average 45 to 60 minutes. At first a brief introduction of the study was explained to the participants. It was particularly stressed that all the information will be kept confidential. Since the interviews were recorded, the researcher could concentrate on the responses and probing questions were also able to be asked according to the participant's responses. Enough pauses were maintained in questions and answers so that respondents had enough time to think and answer. At the completion of each interview, the participants were asked whether they would like to provide any additional information which they thought may provide a useful contribution to the study, and this enabled the researcher to gain some additional insights. In addition, the directors were also asked to nominate any other potential participants who they thought may have interest in the research. Most of the interviewees were pleased to provide specific names.

4.7.3 Qualitative data analysis

There are various methods through which qualitative data can be analysed. In order to analyse the interview data, this study adopted the approach of using thematic analysis (Bryman 2008). Upon completion of the interviews, every interview was

transcribed verbatim using a third party professional transcription service to ensure that no data was lost. Transcriptions resulted in many pages of transcripts resulting in a rich set of data, including the researcher's own field notes. At first manual thematic analysis was conducted. The researcher became familiar with the data by re-examining the transcriptions multiple times. This allowed researcher to identify the major themes in the data. In addition, transcriptions were also analysed in more depth for sub-themes as well as differences and similarities in responses, and any omitted information. During this process, the researcher determined a series of categories/themes. The researcher then examined the transcriptions again based on these identified themes, edited the categories/themes, re-classified the themes and sub-themes, returned to the transcripts and repeated this process until a fixed series of themes and sub-themes were identified and classified (the final themes are presented in Table 4.6). Detailed discussion of these themes and sub themes is provided in Chapter 6, where they are also linked to the research questions.

Table 4.6
Major Themes and Sub Themes

Number	Themes and Sub Themes
1	Company approach to CSR <ul style="list-style-type: none"> • CSR- a company perspective • CSR - Embedded as a company strategy
2	Major players in CSR <ul style="list-style-type: none"> • Role of the board • Interaction between the board and management
3	Board diversity and CSR <ul style="list-style-type: none"> • Importance of board diversity in decisions • Board diversity characteristics • Board commitment towards CSR
4	Gender diversity and CSR <ul style="list-style-type: none"> • Gender effect on decisions in general • Increased gender diversity consideration at board level • Changes in board attitudes • Challenges for women directors • Gender's effect on CSR decisions
5	Link between CSR decision and CSR reporting <ul style="list-style-type: none"> • Board role in CSR reporting • The link between CSR decision and CSR reporting

A number of challenges were encountered in the process of analysing the data. Transcription output did not follow the guide and data were not in the same format for each interview. In addition, some probing questions were asked following interviewees' responses which were not included in the interview guide. Therefore, the data had to be rearranged to ensure that all information was consistently summarised and presented in an orderly manner for analysis. The resulting summary of the interview data was in a systematic format, and allowed the researcher to make comparisons between the interviews and draw valid conclusions.

Since there were only eight directors interviewed, the transcripts were able to be manually analysed. However, in addition to the manual analysis, and as an additional check that the analysis was robust, NVIVO software was also used to code the transcription results based on the occurrence of themes and categories. The transcribed individual interviews were uploaded as a source document into NVIVO which is a computer assisted qualitative data analysis software (CAQDAS) program. The data analysis done through CAQDAS has several benefits, including increased speed in analysing the data, a more consistent and rigorous approach, ease in linking data and ease in identifying recurring concepts and themes (Ritchie et al. 2013).

While conducting both manual and electronic analysis allowed for more valid and reliable interpretation of data, there were still some challenges in understanding the actual meaning of the discussion of certain issues which were hidden behind the respondent's words. In several interviews, interviewees only gave examples and did not describe their answers clearly or directly. In these situations active and critical thinking was required to clarify and deconstruct the interviewees' delivered answers.

4.8 Chapter summary

This chapter discussed the research methodology employed in this study. A mixed methods approach was chosen in order to obtain more comprehensive and robust results. A quantitative approach is applied in the first stage to statistically examine the direction of the relationship between diversity in the boardroom and its impact on CSR reporting. A qualitative study was employed in the second stage to understand further the results achieved from the quantitative approach and to make them more sensible and understandable. Semi-structured interviews were used as the medium for gathering this information. Findings from the quantitative phase are discussed in Chapter 5, while findings from the qualitative phase are discussed in Chapter 6. Finally, consideration of the two phases as a whole is presented and discussed in Chapter 7, and the thesis is concluded in Chapter 8.

Chapter 5:

Results and Discussion of Phase 1 - Quantitative Analysis

5.1 Introduction

This chapter presents the findings and discussion of the statistical analysis of the relationship between various board diversity characteristics and CSR reporting. The analysis includes the descriptive statistics and the presentation of panel data regression models. The panel modelling is used to test hypotheses and to examine the strength and the relationships between the dependent and independent variables. Results are presented in Sections 5.2 to 5.4 with only minimal discussion provided, then, all the results, including the acceptance or rejection of the hypotheses, are discussed and summarised in Section 5.5. Section 5.6 provides a summary of the chapter.

5.2 Descriptive statistics

As outlined in Chapter 4, the final sample analysed in this study consisted of the top 115 Australian profit sector firms listed on the ASX over three years (2009-2011). These companies were selected based on their market capitalisation and represent five major industry categories.

As shown in Table 5.1 below, firms in the sample are large with an average company size in terms of market capitalisation (*mkt_cap*) of over AUD\$8 million. In addition, the sample companies have a mean of total assets (*tot_asset*) of almost \$30 million which shows listed companies maintained a high level of net worth of their assets over the 3-year sample period. With regard to profitability, there is a large variation in return on equity (*ret_equity*) with a minimum of -255 and maximum of 100.

Table 5.1
Overview of Sample

	N*	Minimum	Maximum	Mean	Std. Deviation
mkt_cap	333	25,309	146,660,764	8,307,079	17,260,846
tot_asset	345	26,975	685,952,000	29,853,944	106,867,558
ret_equity	340	-255.3	100.9	11.5	29.8

* differences due to missing data

5.2.1 CSR Reporting

Content analysis of the annual reports was adopted in order to measure the level of CSR reporting for relevant years for each of the sample firms. As noted in the previous chapter, the quantitative dimension of the level CSR reporting was measured by the number of words dedicated to social, environmental and governance disclosure by each firm. Overall six major themes (Governance, Environmental, Employee, Community, Product and Others) were used and these were adapted from previous studies. Table 5.2 shows the disclosure in terms of total number of words devoted to social, environmental and governance issues for the entire sample period of three years. The results indicate that almost all the firms in the sample made some CSR reporting (total_csrr) ranging from 3,334 to 58,071 words.

Table 5.2
CSR Reporting for the Sample Period

	N	Minimum	Maximum	Mean	Std. Deviation
total_governance	345	3103	40724	15059.08	7320.96
employee	345	0	8538	751.12	1035.97
community	345	0	11653	472.50	875.93
environmental	345	0	11333	830.90	1123.04
product	345	0	5733	582.34	847.57
others	345	0	3276	171.66	327.84
total_csrr	345	3334	58071	17867.60	9495.70

It is also interesting to note that there is a large difference in the level of social and environmental disclosure compared to governance disclosure. As shown in Table 5.3, while on average 15,059 words are devoted to governance disclosure (total_govdis),

on average only about 2,808 words are devoted to social and environmental (total_sedisc) issues combined.

Table 5.3
Governance Disclosure and Social and Environmental Disclosure

	N	Minimum	Maximum	Mean	Std. Deviation
total_govdis	345	3103	40724	15059.08	7320.961
total_sedisc	345	13	26408	2808.52	3226.950
total_csrr	345	3334	58071	17867.60	9495.703

The table and graphs below show that disclosure with regard to CSR is increasing across all the themes except for environmental disclosure which is slightly lower in both 2010 and 2011 compared to 2009. Another important trend is that disclosure in the board diversity category rapidly increased from 2009 to 2011 following the changes to the ASX diversity recommendations. The results also indicate that companies' overall CSR reporting (total_csrr) is gradually increasing from one year to the next.

Table 5.4
Trend in CSR reporting (2009-2011)

Category	N	2009		2010		2011	
		Mean 2009	Std. Deviation	Mean 2010	Std. Deviation	Mean 2011	Std. Deviation
remuneration report	115	6,939.63	4,398.91	7,303.97	4525.16	8,147.42	4,521.50
Governance - general board (BOD)	115	4,816.43	2,389.89	5,146.32	2632.49	5,618.45	2,671.63
board diversity	115	2,310.61	1,408.77	2,331.10	1337.16	2,334.05	1,337.13
other governance	115	13.42	63.74	89.52	156.82	182.37	265.91
total_governance	115	14,114.00	7,050.06	14,869.37	7462.99	16,193.88	7,354.85
Employee	115	47.33	122.79	87.97	276.76	93.96	244.99
Environmental	115	707.06	1,135.34	757.13	1004.61	789.16	967.89
Community	115	864.28	1,365.77	797.12	981.61	831.30	987.25
Product	115	422.33	1,157.78	452.04	660.76	543.14	728.11
Others	115	513.26	743.36	591.08	758.20	642.67	1,015.74
total_sedisc	115	129.51	205.63	175.43	330.05	210.03	412.09
total_csrr	115	2636.443	3555.933	2772.809	2935.798	3016.296	3175.537
		16,750.44	9,384.35	17,642.17	9472.49	19,210.17	9,548.00

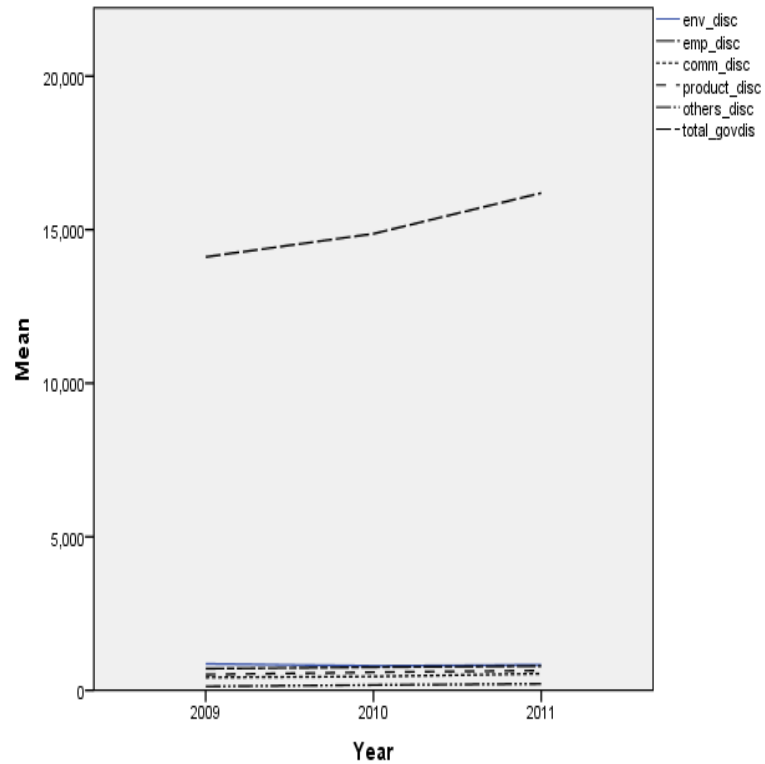


Figure 5.1
Trends in CSR reporting

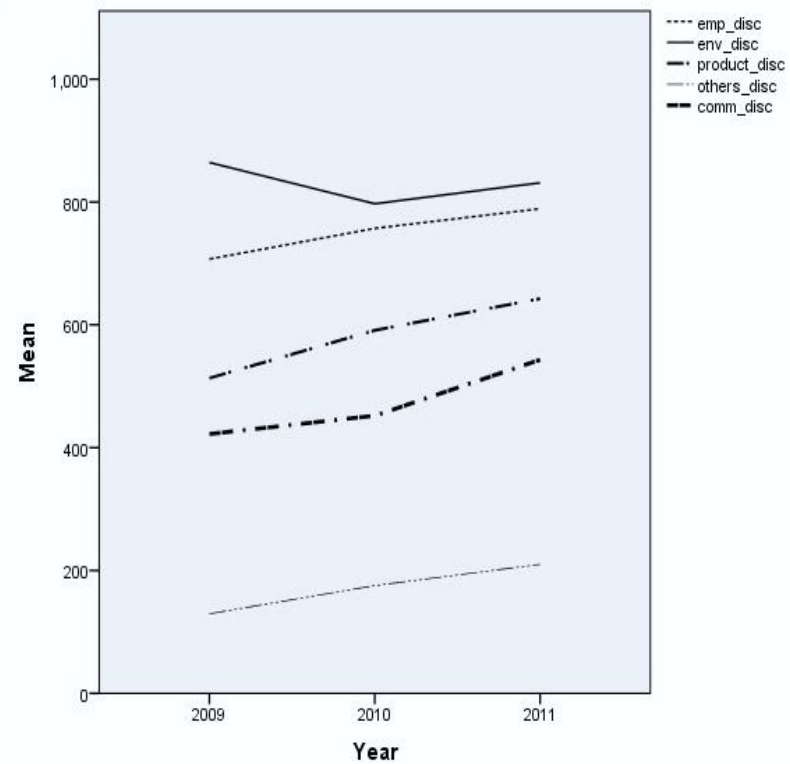


Figure 5.2
Trends in Environmental and Social Disclosure

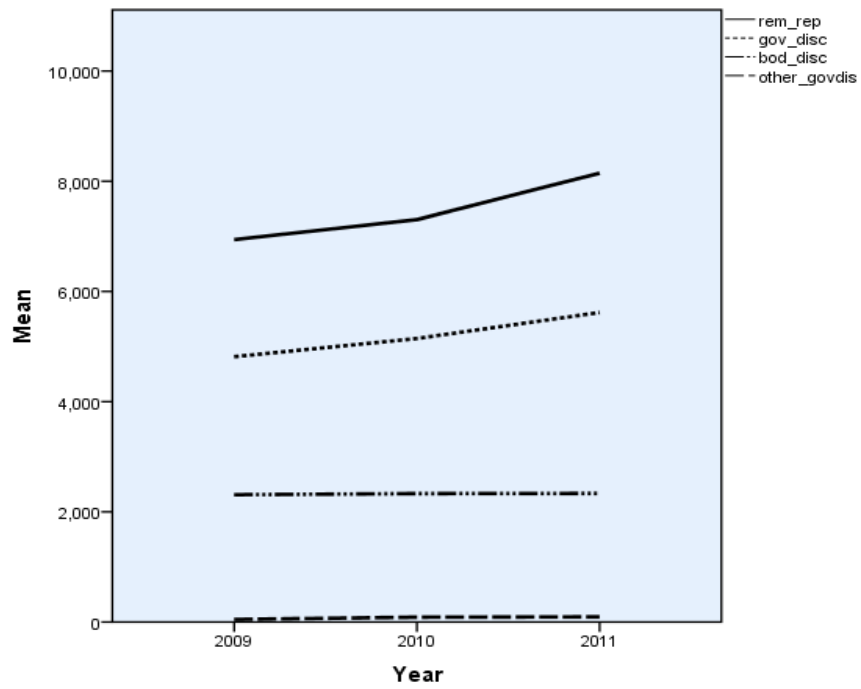


Figure 5.3
Trends in Governance Disclosure

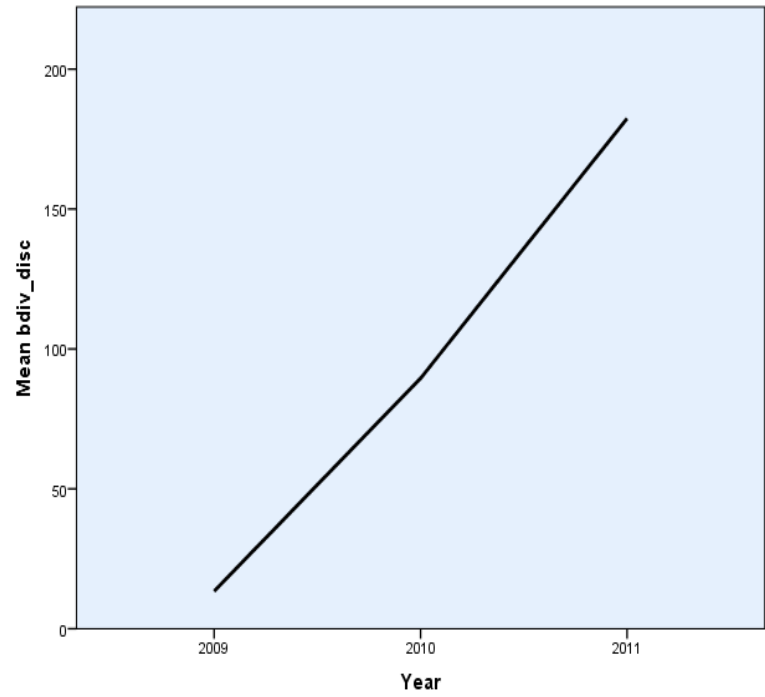


Figure 5.4
Trends in Board Diversity Disclosure

Figures 5.1 to 5.4 demonstrate the trends in CSR reporting across six different themes. As mentioned earlier, there is immense variation between governance disclosure (total_govdis) and social and environmental disclosure (total_sedisc) which can be seen in Figure 5.1. Therefore, governance disclosures and social and environmental disclosures are separately shown in Figures 5.2 and Figure 5.3. Finally, given the focus of this thesis is on board diversity, Figure 5.4 demonstrates the recent upward trend in board diversity disclosure.

When comparing the themes analysed, it is not surprising that information regarding total governance disclosure accounts for the highest volume of information within the remuneration report, governance statement and board of directors' information with a mean of 7,464, 5,194 and 2,325 words respectively. With regard to social and environmental issues, companies seem to disclose more on environment and employee issues with an average of 830 and 751 words. The lowest disclosure (other than the 'other' category) is seen in the product and community issues categories with an average of 531 and 472 words respectively. Finally, the other category, which is made up of general CSR information (which did not belong to any other category), resulted an average of 172 words suggesting that companies provide a significant amount of general CSR information in addition to the specific themes identified in previous literature.

It is important to consider these overall CSR reporting trends further, as they may be influenced by external factors. For example, as discussed in Chapter 4, the industry in which a firm operates has been shown to have an influence on disclosure in many previous studies. Figure 5.5 shows that the average volume of CSR reporting in this sample is highest in the finance industry sector (finance). This is followed by Materials (materials), Energy (energy), IT & Utility (it_utility), and Consumer Discretionary (consumer) respectively. Overall it suggests that volume of disclosure varies only slightly according to the industrial nature of the company, but the higher result for the finance industry is unusual. This is considered further in the modelling undertaken later in this chapter to determine whether the difference is significant.

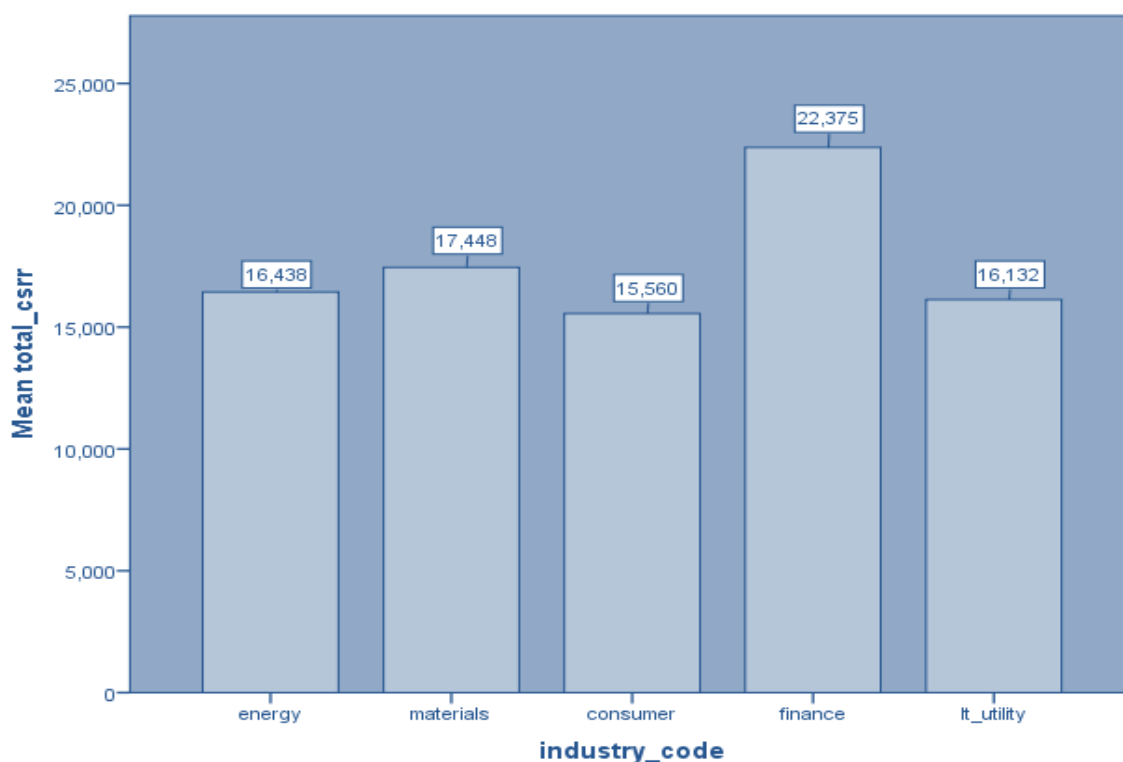


Figure 5.5

CSR Reporting by Industry

5.2.2 Board diversity characteristics

Table 5.5 illustrates the descriptive statistics for the board diversity characteristics considered in this study for the sample period of 2009-2011.

Table 5.5

Board Diversity for the Sample Period

Variable	Variable Name	N	Min	Max	Mean	Std. Deviation
No. women directors	no_femdir	345	0	3	0.77	0.83
% women directors	perc_femdir	344	0.00	42.86	9.31	10.08
No. independent directors	no_inddir	345	0	12	5.88	2.17
% of independent directors	perc_inddir	345	0.00	100.00	77.56	14.10
Total no. directors on board	tot_dir	345	1.00	15.00	7.47	2.24
CEO duality	ceo_duality	345	0.00	1.00	0.10	0.31
Tenure less than 5 years	ten_to5	345	0	11	4.02	2.34
Tenure 5-10 years	ten_5to10	345	0	8	2.22	1.79
Tenure over 10 years	ten_over10	344	0	7	1.10	1.60

(i) Tenure diversity: With regard to tenure, it seems that Australian board members serve only a few years on the same board. The results show that four directors on average have less than five years of experience (ten_to5), while two directors on average have five to ten years of experience (ten_5to10) and only one on average has more than ten years of experience (ten_over10). For ease of comparison across time and firms, these are converted to percentages in the statistical modelling in Section 5.4.

Figure 5.6 below shows the trend in tenure diversity from 2009 to 2011. The number of directors having one to five years of experience (ten_to5) has been decreasing over the years (from an average of 4.5 to 3.7), but on the other hand the number of directors having 5 to 10 years' experience (ten_5to10) has been increasing (from an average of 2 to 2.6). This result should be treated with caution however, as one possible explanation could be that directors who previously belonged to the 1 to 5 year experience age group, fell into the 5 to 10 years tenure category during the sample period.

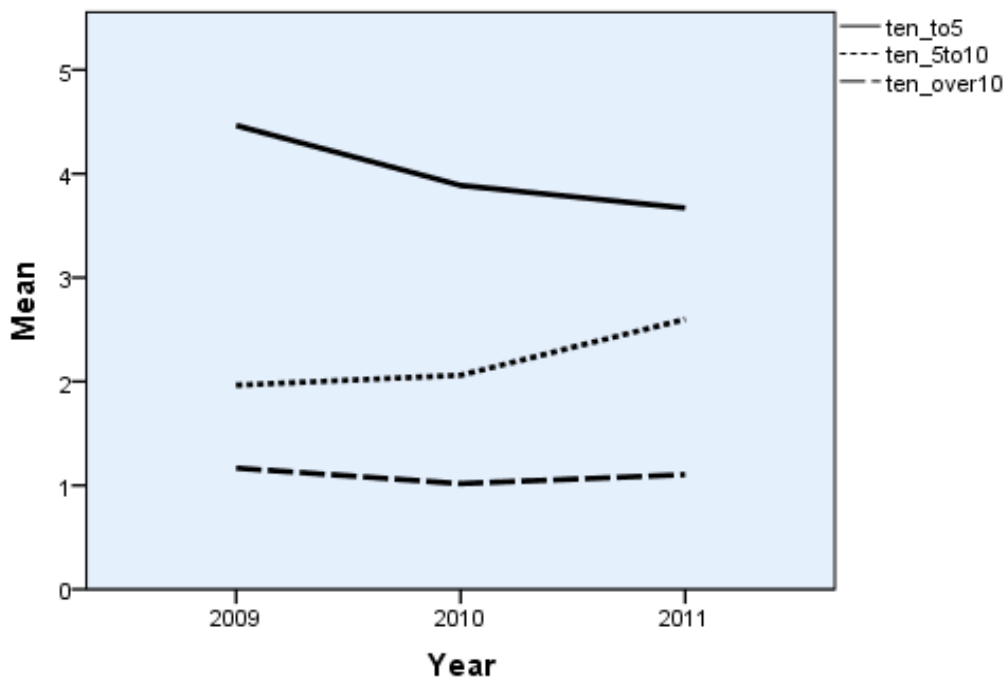


Figure 5.6

Variation in Tenure from 2009-2011

Tenure diversity and CSR reporting: With regard to tenure and CSR reporting, the preliminary analysis did not indicate any association between two variables. Hence, tenure diversity across industry category is compared with CSR reporting across industry category. Again, the figures did not indicate whether short or long tenured directors are more or less likely to be associated with CSR reporting in any particular industry with all industries showing a similar distribution and having a greater number of shorter tenured directors (Figure 5.7). When compared to CSR reporting by industry (Figure 5.8), there does not appear to be any notable difference in the finance sector where greater CSR reporting was noted earlier. Only a few studies have linked directors' tenure with CSR issues, and these resulted in contradictory findings. Hafsi and Turgut (2013) recently found board tenure to have no effect on CSR. They explain that less tenured (less experienced) directors may be too shy to speak up and more tenured or (more experienced) directors are too close to managers which prevents them from engaging in controversial discussion. In both situations board members are likely to follow rather than lead or question when dealing with CSR issues (Hafsi and Turgut 2013). Krüger (2009) on the other hand found that companies with more tenured (more experienced) directors show less social irresponsibility which may be due to high commitment to the organisation or may be that experience comes to play in dealing with CSR issues (Krüger 2009).

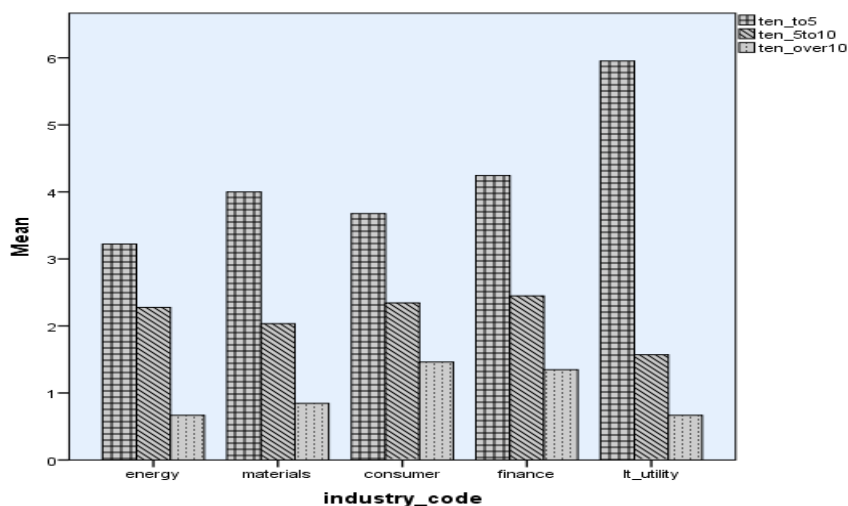


Figure 5.7

Tenure Based on Industry

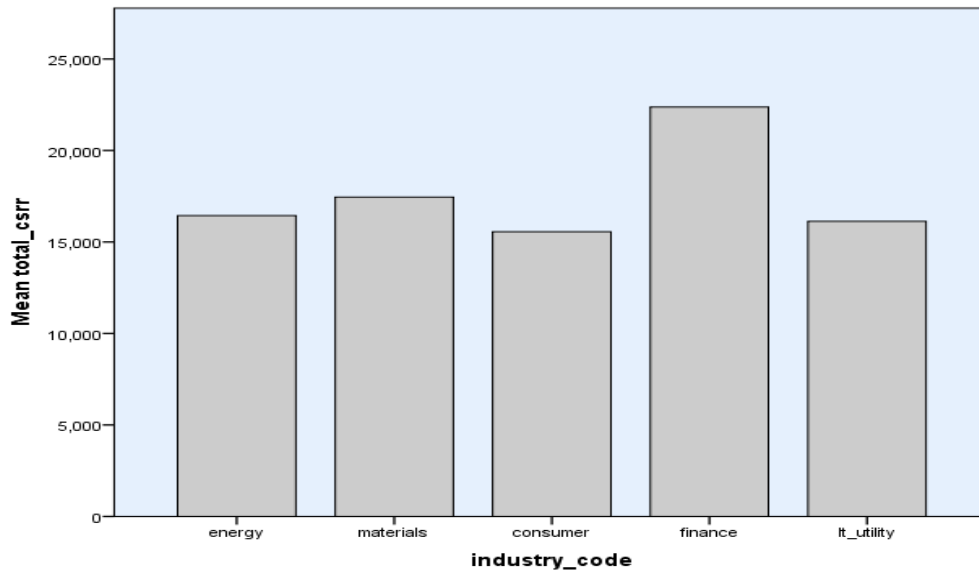


Figure 5.8

CSR Reporting Based on Industry

(ii) Non-executive/independent directors: In terms of independent directors, this study considers the extent to which directors in the sample Australian companies are independent, non-executive or outside the senior management of the company. Independence is measured by the proportion of independent/non-executive/outside directors to the total number of directors. The mean number of independent directors (no_inddir) is 5.88 with a range of 0 to 12 independent directors across the sample, indicating that the majority of directors on Australian boards are independent (i.e. average independent directors of 5.8 out of an average board size of 7.4). Most of the companies seem to follow the corporate governance principle 2.1 of the ASX CGC’s recommendations, that is, that the majority of the board members must be independent. Further, all the companies had at least one independent director with only a few companies having smaller numbers of independent directors. In summary, the level of board independence in Australia is encouraging; most companies seem to have a high level of independent directors.

Even though an upward trend can be seen from 2010 to 2011, there is a surprising decrease from 2009 to 2010 (Figure 5.9). In comparing the three years of data, there

is a notable decrement in the average number of independent directors (no_inddir) from 6.18 in 2009 to 5.40 in 2010.

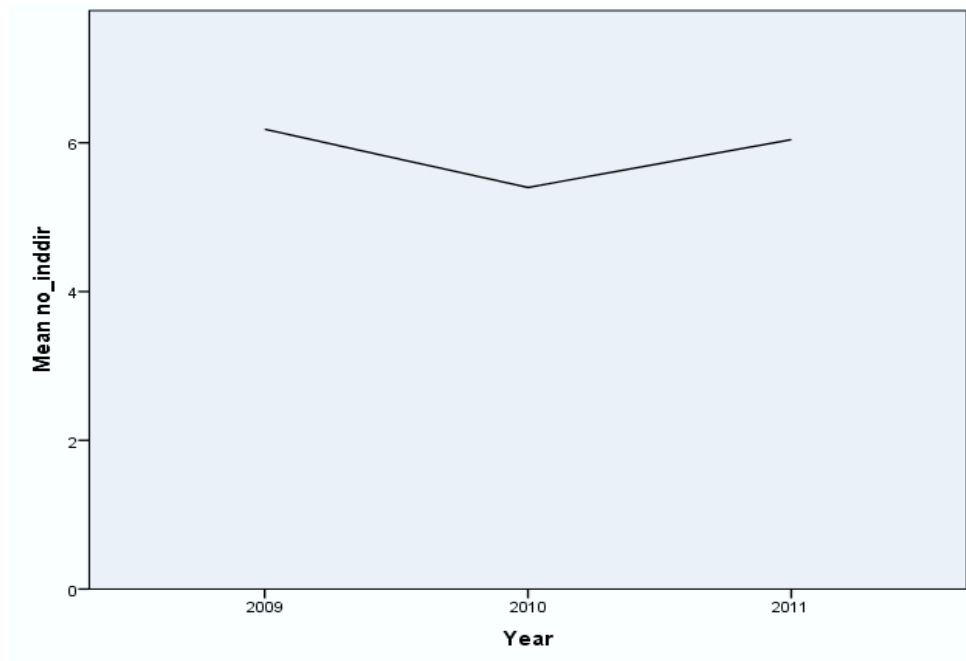


Figure 5.9

Variation in Board Independence

Independent directors and CSR reporting: Figure 5.10 and Table 5.6 below suggest that boards with a greater number of independent directors tend to have greater CSR reporting compared to boards with less independent directors. In addition, previous studies also confirm the existence of a positive relationship between the presence of non-executive board members and disclosure, including financial disclosure (Chen and Jaggi 2001, Willekens et al. 2005), voluntary disclosure (Cheng and Courtenay 2006), and specific CSR reporting (Barako and Brown 2008, Prado-Lorenzo et al. 2009, Khan 2010, Said et al. 2009, Jizi et al. 2014).

Table 5.6

Independence and CSR Reporting

no_ind_dir	total_csrr (Mean)
1	22,273.17
2	9,146.40
3	10,477.68
4	11,127.97
5	13,857.64
6	18,394.35
7	20,964.41
8	23,048.19
9	24,197.40
10	33,903.17
11	36,451.75
12	37,988.25

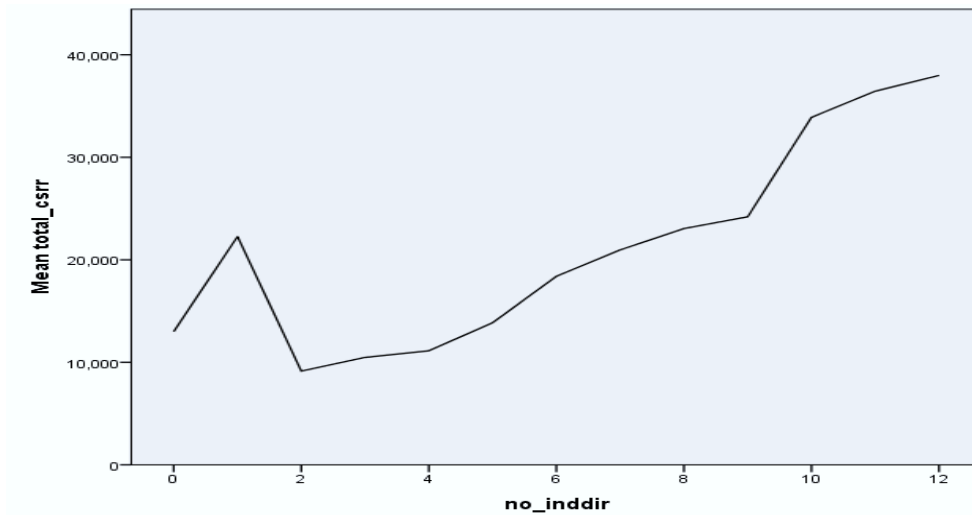


Figure 5.10

Independence and CSR Reporting

(iii) Gender: In terms of gender diversity, the descriptive statistics in Table 5.5 confirm that boards of directors in Australia are male dominated. It can be seen from the table that the percentage of women directors (perc_femdir) in Australia's top companies for the whole sample period is only 9.3%. In addition, on average, less

than one (mean of 0.77) woman director sits on the boards of the top ASX listed companies with a range from a minimum of 0 to a maximum of 3.

Table 5.7
Number of Companies with Women Directors

No. of women directors	2011	2010	2009
0	29	48	57
1	49	40	39
2	30	23	16
3	11	4	3
Total	115	115	115
Mean	1.23	0.85	0.70

Further, Table 5.7 indicates that, although the number of women directors on Australian boards is increasing, the most recent data (2011) still indicates that 29 companies out of 115 of the top ASX listed profit sector firms in Australia had no women directors on their board in 2011. Out of the remaining, the majority (i.e. 49 companies) had only one woman director while 30 companies had two, but only eleven companies had three women directors on their board.

Given the average board size of 7, an average of one woman director per company is obviously a very small percentage. This is not surprising given that similar patterns have been found in previous studies. Both Bonn et al. (2004) and Kang et al. (2007) indicated that top Australian companies have very low representation of women with an average of 4% and 10.37% respectively. Moreover, The Equal Opportunity for Women in the Workplace Agency (EOWA 2008) recently indicated that 50 percent of ASX companies had at least one woman director but only 11.5 percent had more than one. The census also reveals that the proportion of women to men on corporate boards has declined since 2006 and Australia is falling behind compared to other developed countries such as the USA, Canada, the UK and South Africa (EOWA 2008).

Of the three years' data collected in this study, 2011 has the highest percentage of women directors on their boards with about 10.17 percent compared to 2010 and 2009 with only 8.8 percent and 8.9 percent respectively. This indicates that recently more companies are taking the initiative to appoint women directors following the introduction of the new ASX diversity policy in 2010, which requires companies listed on the stock exchange to enhance gender diversity. Surprisingly however, the average number of women directors slightly decreased from 2009 to 2010. One possible explanation could be that there is a time lag as it takes time to source, recruit and appoint women directors. During the period of data collection, companies may have still been in the process of finding qualified women directors to join their boards.

Gender and CSR reporting: Table 5.8 and Figure 5.11 below present a preliminary indication that, as the number of women directors increases, CSR reporting increases. The mean value of CSR reporting when there is only one woman director (19,914) is less when compared to two and three women directors (24,509 and 27,666 respectively).

Table 5.8
Gender and CSR Reporting

No of Women Directors	total_csrr (Mean)
1	19914.17
2	24509.13
3	27666.44

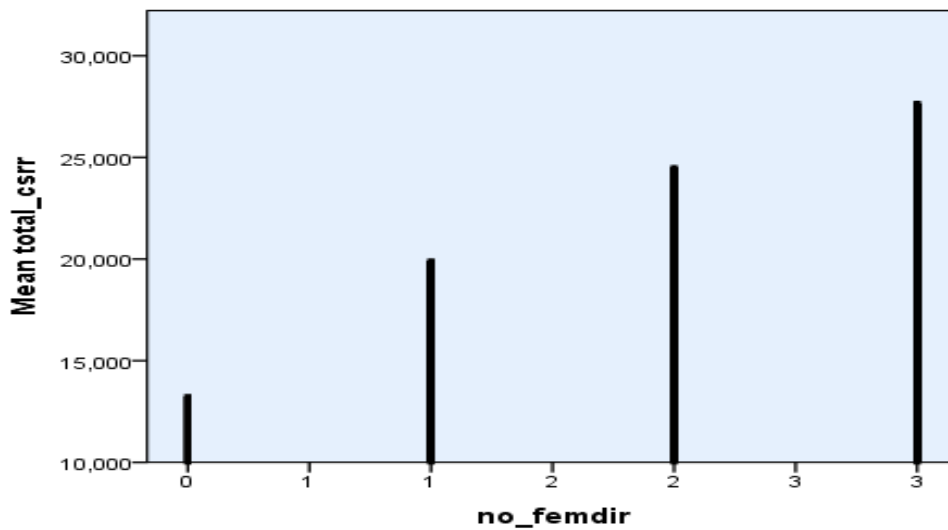


Figure 5.11

Gender and CSR Reporting

In addition, when CSR reporting is compared between those that have at least one woman director and those companies that had no women directors (Table 5.9); there is a marked difference in the mean disclosure.

Table 5.9

CSR Reporting (total_csrr)

	Mean	Std. Deviation
CSR reporting with women directors	21,820.93	9,919.30
CSR reporting with no women directors	13,242.94	6,417.81

Overall therefore, results indicate that gender diversity is likely to be positively associated with CSR reporting. This is considered further in the modelling analysis presented later in this chapter.

Only a few prior studies have examined women directors' role in CSR, but these studies still suggest that gender diversity (women directors) does influence some aspects of CSR such as CSR reporting (Barako and Brown 2008, Fernandez-Feijoo et al. 2012) greenhouse gas disclosure (Liao et al. 2014) and environmental disclosure (Rao et al. 2012).

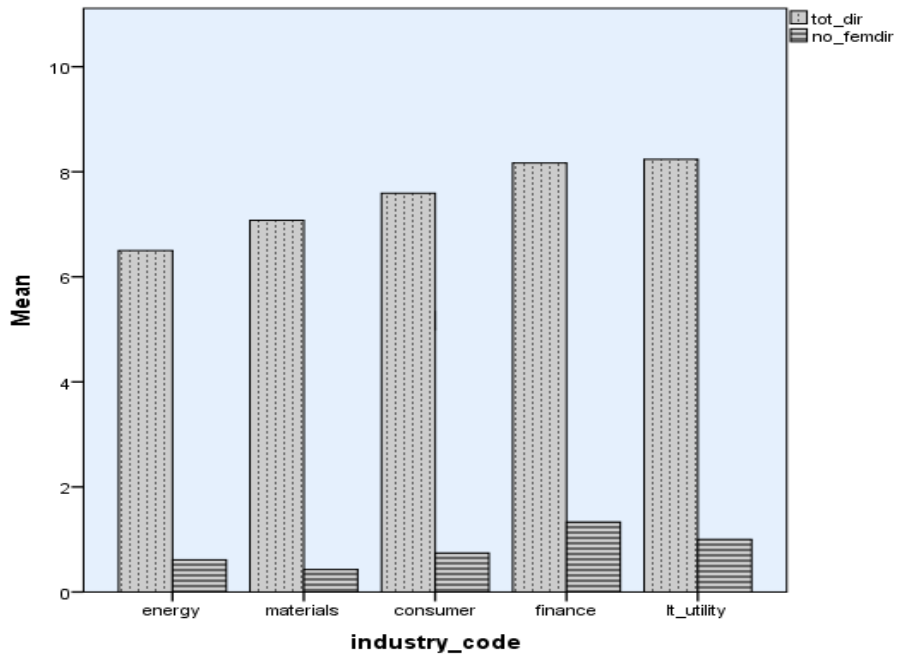


Figure 5.12
Gender Based on Industry

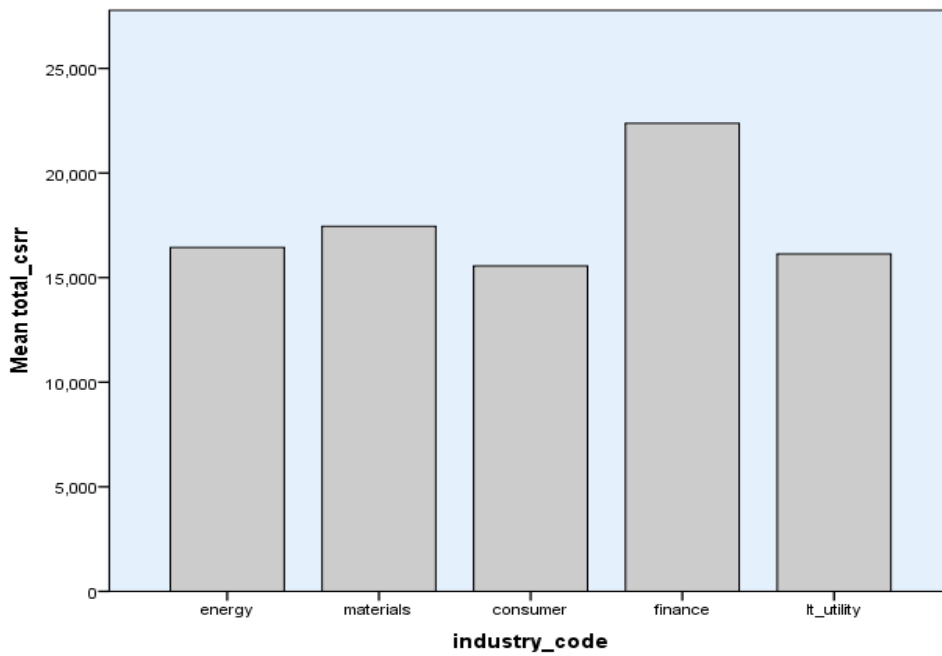


Figure 5.13
CSR Reporting Based on Industry

As noted previously, there is the possibility of an industry effect on the level of CSR reporting. A preliminary comparison of the number of women directors and CSR reporting on the basis of industry category (Figures 5.12 and 5.13), is inconclusive. Finance industries (finance) have a higher number of women directors and also more disclosure on CSR issues. Conversely, the utility industry (it_utility) also has more women directors on their boards but CSR reporting is much lower. Several interpretations could be drawn from this result. First it could be that a higher number of women directors is likely to result in higher CSR reporting. However, it could be due to the fact that an industry sector which is more sensitive to CSR issues discloses more on CSR and that materials (materials) and energy (energy) industries are under more public scrutiny and sensitive to social and environmental issues and hence provide more disclosure. Following this line of reasoning, regardless of the number of women directors, companies in certain industries may show a positive trend for CSR reporting. In addition, one could also argue that some industry sectors tend to hire more women directors and hence industry sector could influence gender diversity (as in finance and IT/utilities). This aspect has been highlighted in the EOWA (2008) census report which suggested that the lower representation of women in 2008 compared to 2006 could be due to the changes in industry mix of the ASX 200, which now has a higher representation of male-dominated industries (for example: mining, minerals, exploration and energy companies). Further analysis in this area, addressing these specific inter-relationships, is crucial in order to understand the gender-CSR reporting relationship.

(iv) Multiple directorships: With regard to multiple directorships, as shown in Table 5.10, all 115 companies in the sample had directors who held at least one other directorship in both 2010 and 2011 whereas in 2009, only six companies had directors with no other directorships. The results are consistent with the Kiel and Nicholson (2006) study which indicated that the majority of directors (about 94%) in Australia's top 100 profit sector companies hold multiple directorships

Table 5.10
Number of Companies with Multiple Directorships

Multiple Directorships	2011	2010	2009
Companies without multiple directorships	0	0	6
Companies with multiple directorships	115	115	109
Total	115	115	115

Even though the annual reports analysed contained information on the number of directorships held, there was inconsistency in the disclosure of such information across the sample companies, with some providing only listed company directorships, but others with both listed and private (including not-for profit organisations). Due to the difficulty in obtaining comparable data, this study only examines the existence, or not, of multiple directorships (i.e. a binary yes or no), as well as the percentage of directors that hold multiple directorships, rather than the number of directorship each director holds, in the statistical modelling presented later in this chapter.

Similar to independent directors, the mean average of number of directors holding multiple directorships (*dir_multdir*) notably decreased from 2009 (5.8) to 2010 (4.9).

Multiple directorships and CSR reporting: The companies that had more than 60% of directors with multiple directorships seem to provide more CSR reporting compared to those with a lower percentage of directors (10 to 50%) holding multiple directorships. Kiel and Nicholson (2006) indicated that 81% of directors in their sample held only one other directorship and 13% held 2 directorships resulting in an average of 1.8 directorships by each director. This may indicate that board members in Australia do not tend to sit on many boards, but having one or two additional directorships within a different environment or industry is enough for them to gain diverse experience which they can utilise for tackling complex issues like CSR. It may also indicate that one of the criticisms of multiple directorships, that is, the lack of director commitment due to a heavy workload, may not be an issue for Australian companies (although it may be a concern for women directors as will be discussed

later). Moreover, limited studies which have examined the association between multiple directorships and CSR reporting have found a positive association between the two. For instance, a recent study by Razek (2014) found a positive association between multiple directorships and CSR reporting in Egypt. Similarly Haniffa and Cooke (2005) indicated a significant positive relationship between CSR reporting and having a Chair with multiple directorships in their study undertaken in Malaysia.

5.2.3 Summary

An initial overview of the data indicates that Australian profit sector companies seem to have small boards with a majority of independent/non-executive directors and a majority hold more than one directorship. They are more likely to serve a fewer number of years on the same board and very few boards have substantial representation of women. The results are similar to those found in previous studies. For instance, Kang et al. (2007) indicated that the top Australian companies comprise a board with an average size of 8 directors with a majority (more than 80%) holding non-executive positions, and that very few are women (with a mean average of 10.37 per cent). In addition, they also found that a majority (89 companies) had an independent Chair and only 11 companies had an executive Chair. Another study by Bonn et al. (2004), using 1998 data, found that top Australian companies have a board size of an average of 7.36, women directors at a ratio of 4 per cent, and an outside director ratio of 75%. More recently, Chen et al. (2009) considered a sample of 101 Australian publicly listed firms and found that Australian companies' boards consist of a majority of independent directors (61%) and the average proportion of interlocking (multiple directorships) to the total number of directors is 51.5 per cent. However, the results are different compared to other developed countries such as the US and UK, where boards seem to consist of a large number of directors, a greater number of women directors and a greater number of board directorships (Kiel and Nicholson 2003, Carter et al. 2010, Carter et al. 2003).

Furthermore, the comparison of data from 2009 to 2011 highlights that there have been changes in both CSR reporting and board attributes over the three year sample period. The results indicate that although voluntary, CSR reporting is increasing

over the period. With regard to board variables it is interesting to note that there was a decreasing trend in some (independence, women directors, and multiple directorships) from 2009 to 2010. One explanation is that the overall size of boards was lower in 2010 compared to 2009 and 2011. Out of the three years in the sample, the mean board size of 7.75 in 2009 is the highest compared 2010 (7.10) and 2011 (7.57). Although it is not clear why the board variables dropped from 2009 to 2010, the reason for the upward trend in board variables from 2010 to 2011 can be partly explained by the fact that in 2010 the Australian Stock Exchange (ASX) made changes to its corporate governance principles and recommendations in relation to diversity, which now require listed companies to disclose in their annual reports a policy concerning diversity, including gender diversity, at board and senior management levels. It may be that the companies started appointing more directors, and particularly women, in order to comply with the ASX requirements, and this ultimately this might have increased the boards' size.

Specifically with regard to the association between board diversity and CSR reporting, preliminary results from the descriptive analysis demonstrate that most of the diversity variables: gender, non-executive directors, age, and percentage of multiple directorships, are associated with the level of CSR reporting in Australian profit sector firms. With regard to tenure however, a mix of old and new perspectives or varied length of experience did not seem to have any relationship with CSR reporting. The association between independent directors and women directors and CSR reporting is consistent with previous empirical evidence showing a positive relationship. While this descriptive analysis does not provide rigorous evidence that diversity has a positive effect on CSR reporting, it is a starting point for understanding the relationship. The results provide some preliminary insight, but further assessment of the effect of diversity on CSR reporting is essential in order to confirm this relationship, and therefore the results of the inferential statistical analysis and modelling is presented in the following sections.

5.3 Correlation analysis

Pearson's correlation coefficients are used to investigate the relationship between the levels of CSR reporting and four independent variables used in this study (board independence, board multiple directorships, board tenure and board gender diversity) as well as five control variables (size, industry, profitability, board size and CEO duality). Table 5.4 presents a preliminary indication that some independent and control variables are associated with CSR reporting.

An initial examination of the correlations, indicate that most of the results are consistent with the hypotheses. CSR reporting (total_csrr) is positively correlated with women directors (perc_femdir) ($r = 0.365$); multiple directorships (perc_multidir) ($r = 0.189$); board independence (perc_inddir) ($r = 0.207$) and negatively correlated with percentage of directors with higher tenure (tenperc_over10) ($r = -0.261$) respectively, at a significance level of 5%. This means that, in this sample, as percentage of women directors, percentage of directors with multiple directorships and percentage of independent directors increases, the level of CSR reporting increases. On the other hand, when there is an increase in the percentage of directors with high tenure, the level of CSR reporting decreases. With regard to control variables, again the majority of the results from the correlation analysis are consistent with previous studies. CSR reporting (total_csrr) is positively correlated with both the size measures; market capitalisation (mkt_cap) ($r = 0.619$) and total assets (tot_asset) ($r = 0.484$); and board size (tot_dir) ($r = 0.572$); and is negatively correlated with CEO duality (ceo_duality) ($r = -0.163$). However, profitability, measured by return on equity (ret_equity), is not correlated with CSR reporting ($r = 0.002$). With regard to industry category, only two industry categories seem to be significant. The consumer industry category (consumer) ($r = -0.148$) shows a negative correlation whereas finance category (finance) shows a positive correlation ($r = 0.257$), suggesting that industries in the consumer sector seem to disclose less CSR compared to industries in the finance sectors. There appears to be no correlation between the environmentally sensitive industry categories such as energy or materials to CSR reporting, which is against expectations. Finally, the table of correlations also shows that some independent variables are highly correlated with

each other, indicating that there may be evidence of multicollinearity among these variables, and this is addressed in section 5.4.

Overall the correlation results with regard to board variables seems to be consistent with many previous studies and not surprising since much previous literature shows positive correlations between the proportion of independent directors, women directors and the percentage of directors with multiple directorships and CSR reporting.

Since correlations only indicate a relationship, and alone are not sufficient to make inferences, these variables are tested using panel data analysis, as outlined in Chapter 4. The results of the panel data analysis are presented in section 5.4 below.

Table 5.11

Pearson's Correlation Coefficient (r) Matrix (N = 115)

	energy	materials	cons- umer	finance	utility	mkt_ cap	tot_ asset	ret_ equity	tot_dir	perc_ femdir	perc_ multdir	ceo_ duality	perc_ inddir	tenperc _to5	tenperc _5to10	tenperc _over10	total_ csrr
energy	1																
materials	-.245**	1															
consumer	-.207**	-.435**	1	-.													
finance	-.184**	-.387**	-.328**	1													
It_utility	-.087	-.182**	-.155**	-.138**	1												
mkt_cap	-.039	-.017	-.133**	.186**	.012	1											
tot_asset	-.078	-.141**	-.147**	.400**	-.048	.637**	1										
ret_equity	-.090	-.075	.142**	-.038	.066	.112*	.016	1									
tot_dir	-.151**	-.120**	.036	.162**	.081	.449**	.297**	.124**	1								
perc_femdir	-.106*	-.260**	.004	.326**	.073	.176**	.202**	.024	.310**	1							
perc_multdir	-.116*	.086	-.151**	.082	.116*	.075	.085	-.066	.163**	.144**	1						
ceo_duality	.140**	.001	.021	-.094*	-.055	-.077	-.075	.017	-.042	-.190**	-.189**	1					
perc_inddir	-.060	-.072	.000	.119*	.012	.146**	.116*	-.041	.206**	.228**	.138**	-.268**	1				
tenperc_to5	-.060	.126**	-.122**	-.042	.128**	.058	.040	-.172**	.031	.124**	.160**	-.086	.023	1			
tenperc_5to10	.112*	-.062	.038	-.007	-.078	.015	.062	.098*	-.001	.038	-.038	-.002	.011	-.649**	1		
tenperc_over10	-.044	-.094*	.108*	.065	-.070	-.084	-.118*	.107*	-.035	-.203**	-.153**	.110*	-.040	-.519**	-.309**	1	
total_csrr	-.051	-.032	-.148**	.257**	-.047	.619**	.484**	.002	.572**	.365**	.189**	-.163**	.207**	.236**	-.021	-.261**	1

5.4 Panel data analysis

The hypotheses developed in Chapter 3 are tested using longitudinal or panel data regression analysis produced with STATA, which is an integrated statistical software package. Before conducting the panel data analysis to test various hypotheses however, normality and multicollinearity tests were conducted and the results of these are presented below.

5.4.1 Test of normality

In order to ensure that the panel data results are robust, it is usual to run diagnostic tests. Standard tests such as Skewness, Kurtosis, Kolmogorov-Smirnov and Shapiro-Wilk tests as well as a P-P plot of the residuals, were produced to ensure that data meets the assumptions of normality. These are presented below in Tables 5.13 and 5.14, and Figure 5.2. Initial tests indicate that the dependent variable (*total_csrr*) is not normally distributed. In order to bring the variables closer to normality for the purpose of panel data analysis, the dependent variable (*total_csrr*) is transformed by taking the natural log and a new variable created (*total_csrr_Ln*). In addition, four of the control variables are transformed into the natural log form (*mkt_cap_Ln*, *ret_equity_Ln*, *tot_asset_Ln*, *totdir_Ln*). None of the independent board variables are transformed. As can be seen from Tables 5.13 and 5.14 the results of the normality tests and residuals for the transformed data are well within the requirements of representing normal distribution.

The standard tests for skewness and kurtosis for the dependent variable in Table 5.12 indicate that the overall disclosure variable (*total_csrr_Ln*) is approximately normally distributed. Both skewness and kurtosis coefficients are not significantly different from zero at the 0.01 level of significance ($p > 0.01$). In addition, the results from Table 5.13 show that the Kilmogorov-Smirnov and Shapiro-Wilk tests have a p-value of higher than 0.01, a further indication of approximate normal distribution.

Table 5.12
Skewness and Kurtosis Statistics

	Statistic	Std. Error
Skewness	-.269	.131
Kurtosis	.063	.262

Table 5.13
Tests of Normality

Kolmogorov-Smirnov			Shapiro-Wilk		
Statistic	Df	Sig.	Statistic	Df	Sig.
.054	345	.016	.990	345	.024

In addition to the two tests of normality, P-P and Q-Q residual plots are also produced which visually further demonstrate that the data is approximately normally distributed (Figure 5.14 and Figure 5.15).

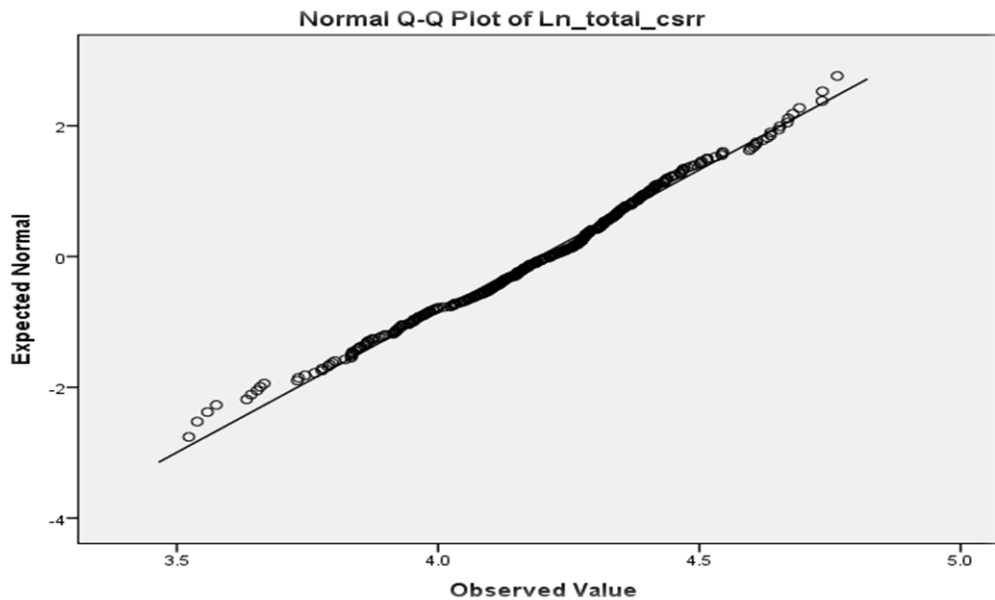


Figure 5.14
Normal Q-Q Residual Plot

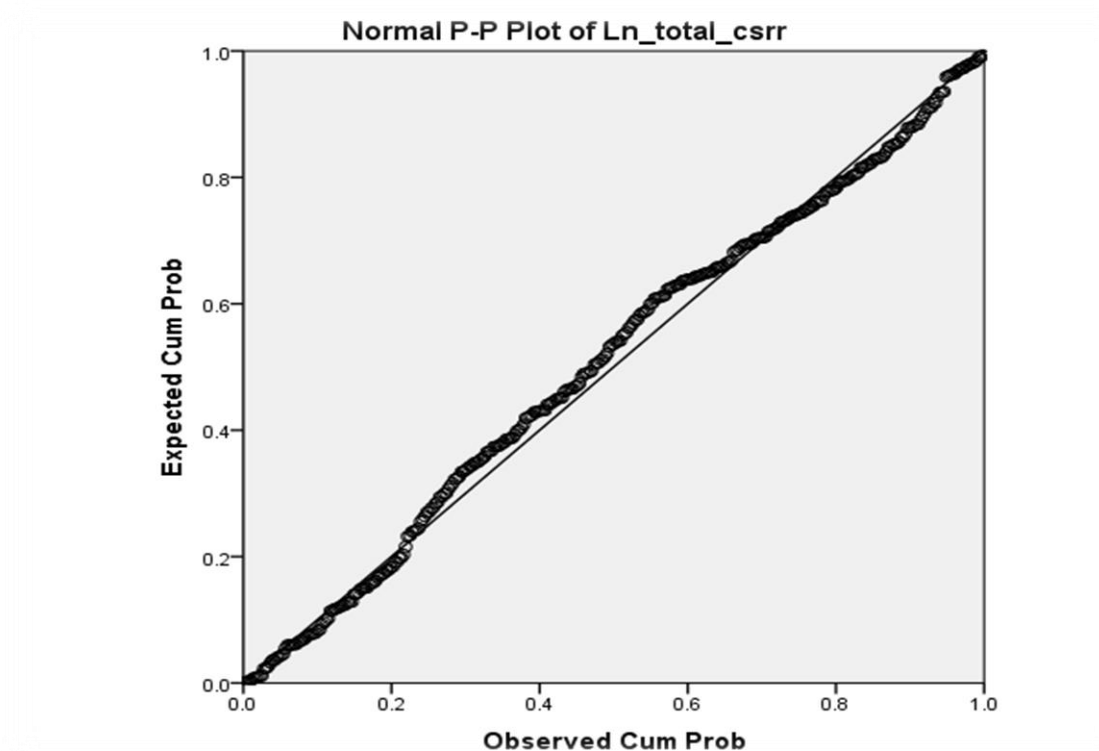


Figure 5.15
Normal P-P Residual Plot

Overall the results of the normality tests show that the assumptions of panel data analysis were not violated.

5.4.2 Multicollinearity

In addition to the tests for normality described above, the collinearity statistics in Table 5.14 are used to check for multicollinearity. If the coefficients of correlation between continuous independent variables exceed 0.80, that is indicative of serious collinearity (Gujarati 1995, Gujarati 2003). The correlation matrix shows that the correlations between the continuous independent variables are low, suggesting that the problem of multicollinearity is minimal. A certain degree of multicollinearity can still exist even when none of the bivariate correlation coefficients are very large, since one independent variable may be an approximate linear function of a set of several independent variables (Ho and Wong 2001). As discussed in Chapter 4, multicollinearity can also be tested by considering the Variance Inflation Factor

(VIF), which indicates multicollinearity if it is larger than 5 (Kutner et al. 2004). As can be seen from Table 5.14, the VIF is below 5 for all variables indicating there is no serious problem with multicollinearity in the sample. Therefore, the results of the panel data analysis can be interpreted with a greater degree of confidence.

Table 5.14
Collinearity Statistics

	Tolerance	VIF
energy	.358	2.793
materials	.207	4.821
consumer	.225	4.448
finance	.235	4.249
mkt_cap	.451	2.217
tot_asset	.451	2.218
ret_equity	.901	1.110
tot_dir	.696	1.436
perc_femdir	.693	1.442
perc_multdir	.904	1.106
perc_inddir	.883	1.133
ceo_duality	.891	1.122
tenperc_5to10	.803	1.246
tenperc_over10	.708	1.413

5.5 Results of hypothesis testing

As mentioned earlier, panel data analysis is used to test the relationship between board diversity and CSR reporting in the annual reports from 2008 to 2011. The five hypotheses were developed and outlined in Chapter 3 to answer the first research question (RQ1) in this study. These hypotheses are reproduced below, for ease of reference.

Hypotheses:

H1: There is a positive association between the proportion of independent directors on the board and the level of CSR reporting

H2: There is a positive association between the length of directors' tenure and the level of CSR reporting

H3: There is a positive association between the number of multiple directorships on a board and the level of CSR reporting

H4: There is a positive association between the proportion of women on a board and the level of CSR reporting

H5: There is a positive association between overall diversity on a board and the level of CSR reporting

In order to test the hypotheses, a model was developed which regresses the four independent variables discussed in Chapter 4 and Section 5.3 above, plus an overall measure of diversity (Blau index), and the five control variables, against three measures of disclosure: Total CSR reporting (total_csrr_Ln), Governance Disclosure (gov_disc_Ln) and social and environmental disclosure (SEA) (sea_disc_Ln). In addition, as discussed in Chapter 4, two interaction terms (Interact_fem_multid & Interact_fem_ind) were added in order to test the possible interaction effects between women directors, multiple directorships and CSR reporting.

As mentioned previously, there is some overlap between governance and CSR reporting. Even though researchers are acknowledging that governance disclosures are part of overall CSR reporting (total_csrr_Ln), studies on CSR reporting themes in the majority of extant studies contain either only some elements of governance, or exclude it completely. In addition, the results from the descriptive statistics (Table 5.3) already indicate the dominance of governance disclosure when compared to social and environmental disclosure. This is not surprising as some previous research has identified that governance disclosure is one of the highest disclosure categories compared to other CSR themes (Douglas et al. 2004).

Therefore, in addition to analysing the board diversity effect on overall CSR reporting (Model 1), this study also analyses the effect of board diversity on governance disclosure (Model 2) and on SEA disclosure (Model 3) separately. SEA is defined 'pure' social and environmental information, removing some of the social

issues included in many other studies, such as directors' remuneration, and diversity reporting, which are better classified as governance disclosure.

In summary, the same model was run with three alternative dependent variables as explained in Chapter 4. These are reproduced below for ease of reference:

$$\text{total_csrr_Ln} = \alpha + \beta_{\text{perc_femdir}} + \beta_{\text{perc_inndir}} + \beta_{\text{perc_multdir}} + \beta_{\text{tenperc_5to10}} + \beta_{\text{tenperc_over10}} + \beta_{\text{BlauIndex}} + \beta_{\text{mkt_cap_Ln}} + \beta_{\text{tot_asset_Ln}} + \beta_{\text{ret_equity_Ln}} + \beta_{\text{Energy}} + \beta_{\text{Consumer}} + \beta_{\text{Materials}} + \beta_{\text{Finance}} + \beta_{\text{ceo_duality}} + \beta_{\text{tot_dir_Ln}} + \beta_{\text{interact_fem_ind}} + \beta_{\text{interact_fem_MultiD}} + \beta_{2010} + \beta_{2011} + \varepsilon$$

$$\text{gov_disc_Ln} = \alpha + \beta_{\text{perc_femdir}} + \beta_{\text{perc_inndir}} + \beta_{\text{perc_multdir}} + \beta_{\text{tenperc_5to10}} + \beta_{\text{tenperc_over10}} + \beta_{\text{BlauIndex}} + \beta_{\text{mkt_cap_Ln}} + \beta_{\text{tot_asset_Ln}} + \beta_{\text{ret_equity_Ln}} + \beta_{\text{Energy}} + \beta_{\text{Consumer}} + \beta_{\text{Materials}} + \beta_{\text{Finance}} + \beta_{\text{ceo_duality}} + \beta_{\text{tot_dir_Ln}} + \beta_{\text{interact_fem_ind}} + \beta_{\text{interact_fem_MultiD}} + \beta_{2010} + \beta_{2011} + \varepsilon$$

$$\text{sea_disc_Ln} = \alpha + \beta_{\text{perc_femdir}} + \beta_{\text{perc_inndir}} + \beta_{\text{perc_multdir}} + \beta_{\text{tenperc_5to10}} + \beta_{\text{tenperc_over10}} + \beta_{\text{BlauIndex}} + \beta_{\text{mkt_cap_Ln}} + \beta_{\text{tot_asset_Ln}} + \beta_{\text{ret_equity_Ln}} + \beta_{\text{Energy}} + \beta_{\text{Consumer}} + \beta_{\text{Materials}} + \beta_{\text{Finance}} + \beta_{\text{ceo_duality}} + \beta_{\text{tot_dir_Ln}} + \beta_{\text{interact_fem_ind}} + \beta_{\text{interact_fem_MultiD}} + \beta_{2010} + \beta_{2011} + \varepsilon$$

Where:

total_csrr_Ln	natural log of total words dedicated to CSR information
gov_disc_Ln	natural log of number of words dedicated to corporate governance
sea_disc_Ln	natural log of total words dedicated to social and environmental information (excludes corporate governance information)
perc_femdir	percentage of women directors
perc_inndir	percentage of independent directors
perc_multdir	percentage of directors with multiple directorships
tenperc_5to10	percentage of directors with 5-10 years tenure
tenperc_over10	percentage of directors with tenure > 10 years
BlauIndex	overall diversity measure
mkt_cap_Ln	natural log of market capitalisation
tot_asset_Ln	natural log of total assets
ret_equity_Ln	natural log of return on equity (profitability)
Energy	industry dummy
Materials	industry dummy
Finance	industry dummy
Consumer	industry dummy
tot_dir_Ln	natural log of total directors (board size)

ceo_duality	CEO duality
interact_fem_ind	interaction effect between gender and independence
interact_fem_multiD	interaction effect between gender and multiple directorships
2010	year dummy
2011	year dummy
α	constant
β	regression coefficient
ε	error term

A summary of the panel data results⁶ for all three models is presented in Table 5.15 with all three models alongside each other to allow for better comparison of the results with some of the results of previous studies. The full model statistics can be found in Appendix 4.

Alternative specifications were run where control variables were lagged for one year based on the assumption that in order to have any impact on CSR, boards should be in their role for a certain period of time (Bear et al., 2010) and, particularly in relation to financial variables, decisions about the use of resources are usually made in the period following. However, little difference was observed.

Table 5.15

Panel Data Results: CSR reporting, Governance Disclosure and Social and Environmental Disclosure

Variable	Model 1 total_csrr_Ln	Model 2 gov_dis_Ln	Model 3 sea_disc_Ln
1.Explanatory variables			
perc_femdir	0.0134*	0.0081	0.0255
perc_inddir	-0.0003	-0.0014	0.0049
perc_multidir	0.0020**	0.0013*	0.0044
tenperc_5to10	-0.0006	-0.0004	-0.0032
tenperc_over10	-0.0041***	-0.0023**	-0.0196***
2.Index and Interaction Variables			
BlauIndex	0.3036*	0.3963***	-0.1296
interact_fem_ind	-0.0017	0.0008	0.0007
interact_fem_multid	-0.0141**	-0.0086*	-0.0397*
3.Control Variables			
mkt_cap_Ln	-0.0285	-0.0094	-0.2019*
tot_asset_Ln	0.1451***	0.1186***	0.4936***
ret_equity_Ln	-0.0257	-0.0257	-0.0272
energy	0.2574*	0.2737*	0.0195
consumer	0.2271*	0.2795**	-0.2026
finance	0.0763	0.1299	-0.7901*
materials	0.2186	0.2122*	0.1036
totdir_Ln	-0.1192	-0.0472	-0.3872
ceo_duality	-0.1588**	-0.1770***	-0.0016
year_2010	0.0512**	0.0460**	0.084
year_2011	0.1517***	0.1346***	0.1762*
_cons	5.6606***	6.0381***	-1.1689
N (No. of observations)	331	331	331
R2-Overall	0.6731	0.6670	0.4169
R2-Within	0.2905	0.3607	0.0673
R2-Between	0.7002	0.6860	0.4600

* $p < .1$ (significant at the 10% level); ** $p < .05$ (Significant at the 5% level); *** $p < .01$ (Significant at the 1% level)

For panel models, the interpretation of R^2 is the “squared correlation between the actual and fitted values of the dependent variable” (Cameron and Trivedi 2005: 258). There is no unanimous agreement on which R^2 to report in panel modelling, but the statistical package used (STATA) follows the suggestion that three measures should be reported (within, between and overall R^2). These three are then compared and if, for example, within and overall are close, this is evidence for individual (between) effects being not so important, etc. In the model above, overall and between are close, signifying that the within-firm differences across time in this sample are not important, or that the companies are relatively consistent.

Even though governance disclosure dominated the overall CSR reporting, the results in Table 5.15 show that the majority of the findings with respect to the association between board diversity variables and governance disclosure (`total_govdis_Ln`) are similar to those found for total CSR reporting (`total_csrr_Ln`). However, there are some interesting results to be noted. Gender diversity (`perc_femdir`) is not found to be significantly related to governance disclosure (`total_govdis_Ln`). In addition, comparing the results of CSR reporting (`total_csrr_Ln`) with governance disclosure (`total_govdis_Ln`), the Blau index and CEO duality show stronger results for governance than for CSR reporting. As can be seen from the table the relationship between governance disclosure (`total_govdis_Ln`) and the Blau Index (`BlauIndex`) is strong and positive ($p = <0.01$), whereas between CSR reporting (`total_csrr_Ln`) and the Blau Index (`BlauIndex`) there is only a weak positive relationship ($p = <0.1$). This indicates that Governance disclosure may have overwhelmed the results of CSR reporting, supporting the decision to split the sample.

Similarly, the association between CEO duality (`ceo_duality`) and governance disclosure is significant at the 1% level, whereas the association between CEO duality and CSR reporting is significant at the 5% level, both indicating that governance disclosure results might have overwhelmed some of the results of overall CSR reporting.

Finally, analysing the separate effect of board diversity on social and environmental disclosure shows that, except for tenure (*tenperc_over10*), no other board variables are significant. This is somewhat surprising as many prior researchers have indicated the positive effect of board diversity on social and environmental disclosure, and this may be an indication that previous studies that include governance-related disclosures as part of CSR may be reporting skewed results.

Results of the hypothesis testing show that board directorships and gender significantly positively affect CSR reporting while board tenure shows a negative effect and board independence is insignificant. The findings indicate that four of the predicted hypotheses (H2, H3, H4 and H5) are supported while one hypothesis (H1) is not supported. The following sections discuss these findings in terms of the relationship between each of the board diversity characteristics and CSR reporting.

5.5.1 Independence and CSR reporting

The first hypothesis (H1) predicted that there is a positive association between the percentage of independent, non-executive directors on the board and CSR reporting by Australian listed companies. However, the results in Table 5.15 indicate that the percentage of non-executive/independent directors (*perc_inddir*) is not significantly associated with CSR reporting (*total_csrr_Ln*) and the result does not change when considering governance or SEA reporting separately. Thus, H1 is not supported. The insignificant relationship is contradictory to the majority of previous studies which have found a positive link between board independence and disclosure, including mandatory disclosure (Chen and Jaggi 2001, Willekens et al. 2005, Karamanou and Vafeas 2005) voluntary disclosure (Cheng and Courtenay 2006) and specific CSR related disclosure (Haniffa and Cooke 2002, Barako and Brown 2008, Rao et al. 2012). These studies argue that independent directors usually possess superior monitoring ability, unbiased interest, high concern for their reputation and unique experience and expertise, and hence have the potential to positively influence CSR decisions at board level, which can then influence the level of CSR reporting. The result is also contrary to the studies that found a negative relationship between board independence and CSR reporting. For example, Haniffa and Cooke (2005) found

that the composition of non-executive directors is negatively related to corporate social disclosure suggesting that boards dominated by non-executive directors play a limited role in influencing corporate social disclosure policy and practice. Even though limited, the result seems to be consistent with a few studies which have recently provided evidence that board independence does not have any effect on CSR reporting (Handajani et al. 2014, Said et al. 2009, Lorenzo et al. 2009). For example, a study by Handajani et al. (2014) found that the presence of a majority of independent directors on a board is not effective in ensuring management discloses social information to its stakeholders in Indonesian public firms. They speculated that the presence of a majority of independent directors in these firms may be driven by regulatory pressures and to meet capital market requirements and thus are more in line with shareholder's interest rather than stakeholder's interests. A similar result is highlighted in another recent study by Hafsi and Turgut (2013), who also found insignificant results for this variable. They suggest that the requirement from regulatory authorities, including the stock exchange requiring listed companies to have a majority of independent directors, results in most companies in the sample having a majority of independent directors on their board and this further makes it difficult to identify the proper effect of independence on CSR (Hafsi and Turgut 2013).

In summary, the findings indicate that increasing the percentage of independent, non-executive directors has little or no effect on CSR reporting indicating that the presence of independent directors may not matter in making decisions with regard to stakeholders or CSR. Hence it is unlikely to influence CSR reporting in the annual reports of Australian companies, despite the high proportion of independent non-executive directors on their boards. This result is a somewhat surprising and is considered further in the qualitative analysis, where the issue is discussed with a number of board members.

5.5.2 Tenure and CSR reporting

With regard to board tenure and CSR reporting (H2), the hypothesis posits that boards with more diversity in board tenure (i.e. a mix of both long and short tenured

directors) are likely to make higher quality decisions with regard to CSR, thereby resulting in a higher level of CSR reporting. This prediction is based on the argument that both longer tenured and shorter tenured directors bring different values to the board process which is essential in making quality decisions about complex issues like CSR. The results indicate that the firms with boards that have a majority of longer tenured directors (over ten years of tenure) (*tenperc_over10*) tend to produce a lower level of CSR reporting (*total_csrr_Ln*) compared to those with a majority of shorter tenured directors ($p = <0.001$). The significant result also appears for both governance and SEA disclosure. The results therefore partly support the hypothesis of the study suggesting that a mix of both longer tenured and shorter tenured directors may be more likely to make quality decisions with regard to CSR issues, but implies that too many long-tenured directors may be detrimental. It is important to note that tenure is included in the model as a dummy variable, so the result indicates a comparison to a base of tenure of less than five years, therefore mid-tenured directors are not more or less likely to be associated with CSR than short-tenured, hence the suggestion of partial support for the hypothesis.

The results are consistent with many studies which indicate that directors' contribution tends to diminish with longer levels of tenure (McIntyre et al. 2007), and has been associated with governance problems (Berberich and Niu 2011); the majority of studies suggesting that there is a need to limit terms of service. The result is also in line with the argument of the management friendly hypothesis (Vafeas 2003, Krüger 2009) where it is suggested that internal control mechanisms tend to be weaker as longer tenured directors are more likely to become friendly with management and thus are more likely to echo, and less likely to oppose, management's views. Specifically, the result is in line with the Australian study by Broom et al. (2013) who found that director tenure is negatively associated with listed investment companies' performance, and once the average directors' tenure reaches seven years, investment performance, measured as return to shareholders and net tangible asset percentage change, decreases for every additional year of tenure. While their study considered investment strategy, not CSR strategy, the similar result suggests that longer tenured directors may be less innovative or more conservative

when it comes to strategic decisions. Moreover, the result is consistent with a recent study by Handajani et al. (2014) who found that boards with long tenured directors tend to produce lower corporate social disclosure suggesting that, even though longer tenure enhances understanding of the corporate business environment, longer tenured directors may not be able to serve optimally in directing the strategy and policy for long term corporate sustainability (Handajani et al. 2014). The result does contradict some studies (Melo 2012, Krüger 2009) which found a positive association between board tenure and CSR, supporting the experience and commitment hypothesis, and the study by Hafsi and Turgut (2013) who found an insignificant relationship between tenure and corporate social performance.

In summary, although H2 could not be unambiguously supported, the results suggest that tenure is an important consideration when examining the relationship between boards and CSR reporting. Further research, using a more nuanced measure of tenure is important to shed light on this issue.

5.5.3 Multiple directorship and CSR reporting

The third hypothesis (H3) predicts that the percentage of directors with multiple directorships is positively associated with CSR reporting. Consistent with H3, the results show that a high proportion of directors with multiple directorships in Australian listed companies seem to have a significant positive effect on CSR reporting.

This is similar to many prior studies which argue that gross directorships have an important positive implication for CSR practice as: they are able to obtain greater access to information in more than one company (Hashim and Abdul Rahman 2011); are associated with firm transparency (Ho and Wong 2001); and are related to various disclosures, including CSR reporting (Rupley et al. 2012, Razek 2014). The result in this study confirms that directors with experience, knowledge and information gained by sitting on multiple boards may be better able to make decisions which benefit stakeholders and can potentially influence CSR reporting. This supports the suggestion provided by Haniffa and Cooke (2005) who, even

though they focused on multiple directorships only of the Chair, found that their interview respondents agreed that a Chair's desire to provide disclosure on certain issues is based on knowledge of events in other companies in which he or she is a director (Haniffa and Cooke 2005). It seems that by serving on many boards, directors are able to gain experience, knowledge and information (Fich and Shivdasani 2006, Ferris et al. 2003), and are usually exposed to different environmental and social reporting issues, which will lead to higher levels of CSR reporting.

The significant finding for total CSR reporting is mirrored for governance disclosure, but is not significant for SEA disclosure. This appears to contradict some disclosure based studies which found an association between multiple directorships and voluntary environmental disclosure quality (Rupley et al. 2012) as well as social and environmental disclosure quantity (Haniffa and Cooke 2005, Razeq 2014). However, as noted earlier, this is most likely due to differences in categorisation and coding rules used in these studies.

The results also contradict some previous findings primarily based on the busyness hypothesis (Ahn et al. 2010, Hashim and Abdul Rahman 2011), which contends that directors with multiple board seats become too busy and this diminishes their monitoring ability as well as lowering the level of performance. As noted in Table 5.10 however, over 95% of companies in the sample had interlocking directors suggesting that most directors in the sample held multiple positions and therefore the modelling could not differentiate between them.

In summary, the results indicate that multiple directorships are positively associated with CSR reporting, suggesting that directors who have experienced a variety of organisations are more likely to prioritise CSR issues and hence support increased CSR reporting.

5.5.4 Gender diversity and CSR reporting

With regard to the percentage of women on the board and CSR reporting (H4), the findings of this study support the hypothesis predicting that there is a positive relationship between gender diversity in the boardroom (*perc_femdir*), and CSR reporting (*total_csrr_Ln*). This was predicted based on the fact that women directors are said to be less concerned about economic performance and rather more concerned about discretionary aspects of corporate responsibility (Ibrahim and Angelidis 1991); usually hold positions in 'soft' managerial areas (Zelechowski and Bilimoria 2006); have increased sensitivity (Williams 2003); have more participative decision making styles (Konrad et al. 2008); tend to be more generous towards communities and pay more attention to the welfare of a firm's natural stakeholders; and ultimately have a more pro-social attitude to corporate behaviour (Krüger 2009). The results of the panel data analysis support the prediction indicating a significant positive relationship, even though only at the 10% level of significance, suggesting that board diversity, in terms of the inclusion of women, can enhance CSR reporting. The result is consistent with many earlier studies, discussed in Chapter 2, that document evidence that the presence of women directors is associated with CSR (Post et al. 2011, Bear et al. 2010, Ibrahim and Angelidis 1991, Webb 2004, Bernardi and Threadgill 2010, Krüger 2009); corporate social performance (Hafsi and Turgut 2013, Boulouta 2013, Zhang 2012, Siciliano 1996), as well as with higher levels of CSR reporting (Barako and Brown 2008, Liao et al. 2014, Fernandez-Feijoo et al. 2012, Rao et al. 2012). The findings seem to suggest that women and men differ in values when it comes to social responsibility (Post et al. 2011).

The findings are contrary to some previous studies which purport there is no evidence that having an additional woman on the board has any effect on CSR reporting (Khan 2010, Amran et al. 2013). These studies suggest that there needs to be a 'critical mass' of women on a board before any difference can be discerned, and this may be reflected in the fact that when the sample in this study was split (models 2 and 3), the significance disappeared.

In summary, the descriptive statistics of the study reveal that there is a very low representation of women on the boards of Australia's top 115 listed firms (an average of less than one woman director per company). However, despite this small percentage of women directors, having more women directors on Australian boards still appears to have a positive effect on CSR reporting. It is important to note that there could be the possible existence of simultaneity bias, or endogeneity. For example, women directors may perhaps seek board appointments in more socially responsible firms. However, since the examination of the diversity effect on CSR reporting in this study is conducted using panel data regression analysis and tests were conducted using lagged variables, the potential for an endogeneity problem is considered to be limited.

5.5.5 Overall diversity, interactions and CSR reporting

As mentioned in Chapter 4, in addition to studying each dimension of board diversity independently, an aggregate index measure, the Blau index (Blau 1977), is used to measure overall diversity of the board and included in the model to see its effect on the level of CSR reporting. The Blau index has been used to measure various diversity characteristics in the general diversity literature, however it is rarely used in board diversity literature and less so in the CSR literature (Bear et al. 2010, Miller and del Carmen Triana 2009, Talke et al. 2011). The results of those studies that do examine it in relation to boards are mixed and inconclusive. For example, Bear et al. (2010) used the Blau index to measure board resource diversity (variety in professional background, experience and network connections among the members of the board) and their result showed no significant association between board resource diversity and CSR strength ratings. Similarly, Miller and del Carmen Triana (2009) measured the degree of heterogeneity among board members with respect to race and gender using Blau's index and found both gender and racial diversity to be positively related to innovation.

The results from the panel data analysis in this study indicate that the relationship between the Blau index (BlauIndex) and CSR reporting (total_csrr_Ln) is significant and positive at the 10% level, and at the 1% level for governance disclosure. This

means that the more diverse the board of the firm (in terms of mixture of gender, multiple directorship, tenure and independence), the more effective their decision making regarding CSR may be, and thus they exhibit higher CSR reporting. Such a result further confirms the effect of the individual dimensions of diversity on CSR reporting discussed earlier. Even though the results from the individual dimensions of diversity produced mixed results (positive, negative and no effect), overall diversity among board members measured by the Blau index seems to have a positive effect on CSR reporting.

An alternative way of considering the interaction of diversity characteristics is to include interaction terms in the regression equation. It is reasonable to conceive that the women directors may also be independent, or they may hold multiple directorships, given that experienced, high quality women directors are scarce and, therefore, in demand. For this reason, two interaction terms were included, one for the interaction between women directors and independent directors (`interact_fem_ind`) and one for the interaction between women directors and multiple directorships (`interact_fem_multiD`).

Only the interaction between women directors and multiple directorships is significant at the 5% level, and the direction of the relationship is negative. The negative relationship appears contradictory to the positive association between the representation of women and CSR reporting, and directors with multiple directorships and CSR reporting, which were both positive when considered individually. The finding indicates that having women directors that also hold multiple directorships mediates the impact of the women directors on CSR reporting as shown by the graphs in Figures 5.16 and 5.17 below, in which the horizontal axis shows the percentage of multiple directorships and each line represents a different level of the percentage of directorships of women (in the sample the average is about 10%). The effect of women directors on CSR reporting is different if women directors hold more multiple directorships. In other words, the slope of the regression lines between the proportion of women directors and disclosures are

different for different proportions of directors with multiple directorships. This is explained in more detail below.

Figure 5.16 indicates that, as the percentage of women directors increases, there is an increase in the log of total CSR, that is, the five lines slope upwards.

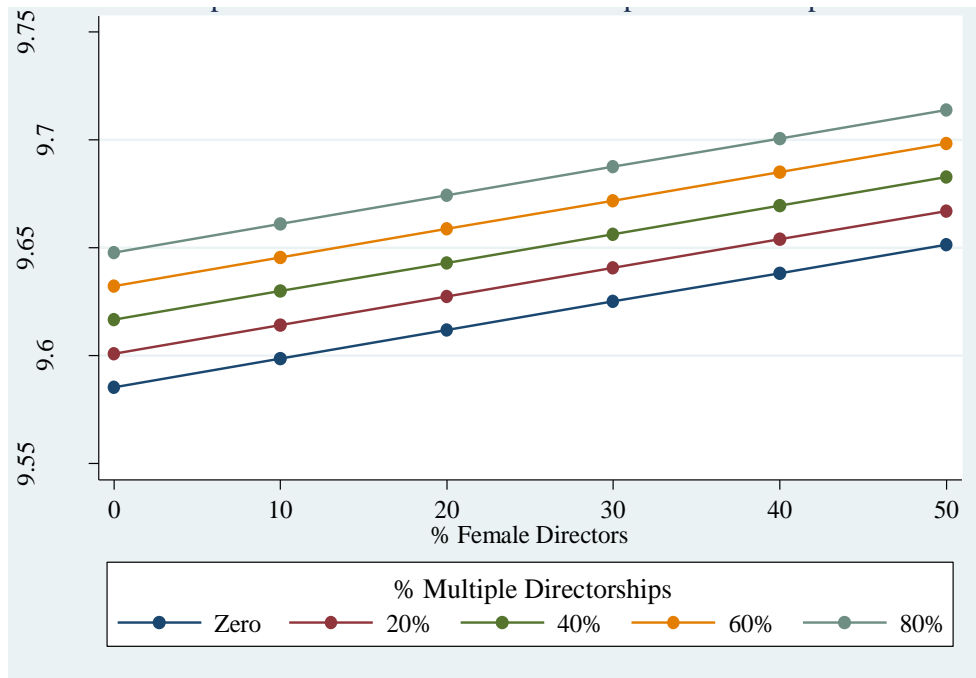


Figure 5.16
Impact of Women Directors (without interaction)

After including the interaction term, the lines in Figure 5.17 shift upwards but rotate downwards (because the interaction term is negative). For each level of percentage of multiple directorships, total CSR increases. Adding women directors increases total CSR (the lines shift upwards), but the interaction means that the increase in total CSR is smaller than it would be without the interaction.

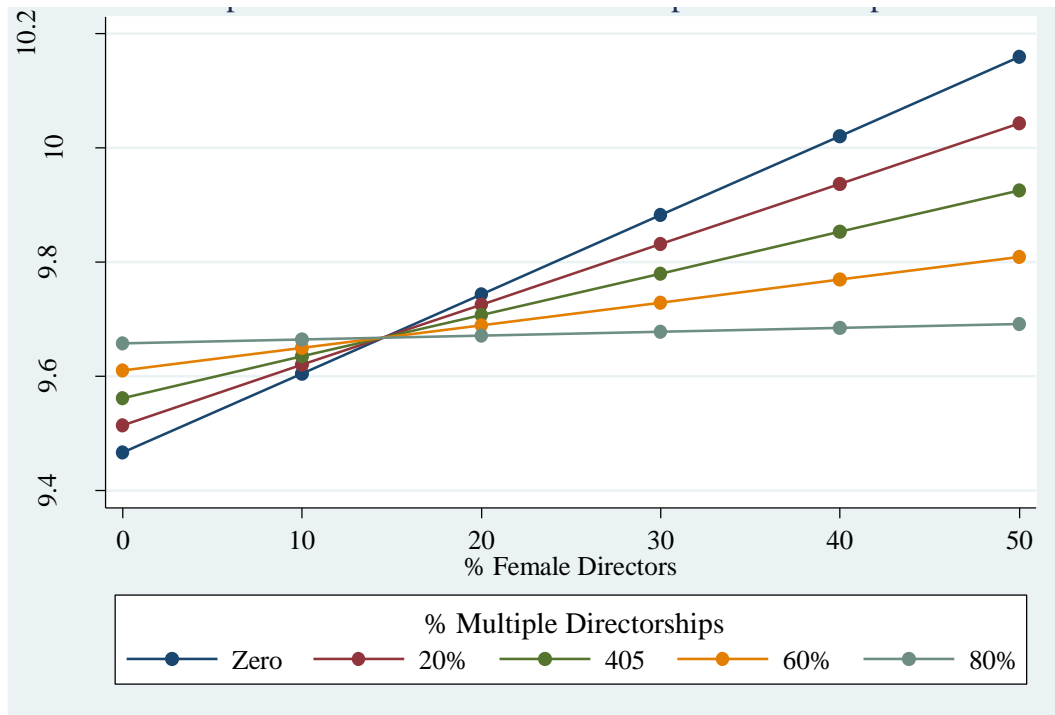


Figure 5.17
Impact of Women Directors (with interaction)

This finding may indicate that women with more experience are influenced by the corporate or boardroom environment, and thus their focus on social and environmental issues is reduced. It could also be possible that since there are few women directors on Australian boards, it is likely that they tend to sit on many boards which may lead to them becoming overcommitted (which supports the busyness hypothesis discussed earlier and in Chapter 3). It has been noted that for directors on Australian boards, although a majority hold multiple directorships, they usually only a few directorships (Kiel and Nicholson 2006). However, in the case of women directors, since there is a low number of women directors on any given board, it is far more likely that many of them will hold many directorships. Hence, since they are busy they are less likely to devote more time to strategic issues including those related to CSR.

In summary, there is evidence from the modelling that diversity variables interact to influence CSR reporting. Both the overall diversity of a board and having women board members could serve to increase CSR reporting; but having longer tenured

directors, and the fact that women directors are likely to be among the busiest, may influence CSR but in the opposite direction. In order to examine these competing influences further, greater understanding of board decision making is needed, and this is revisited when discussing the qualitative results of this study in Chapter 6.

5.6 Control variables

The five control variables included in the analysis were selected on the basis of prior disclosure based studies. As indicated in Chapter 4, data on the three control variables, firm size, profitability and industry, was obtained from the OSIRIS database and the other two variables, CEO duality and board size, were obtained from the sample companies' annual reports. Of these five control variables, firm size, industry and CEO duality were found to be significant whereas board size and profitability were not significant.

(i) Firm Size: With regard to firm size and disclosure, one of the size measures, total assets (*tot_asset*) is significant ($p = <0.01$), which is in line with the arguments that large firms are more likely to make more voluntary disclosures because of the greater visibility and demand for outside capital and for reasons of accountability (Cormier and Gordon 2001). The result is therefore consistent with the prediction that large firms disclose more voluntary information found in many previous studies (Gul and Leung 2004, Lakhali 2005, Eng and Mak 2003, Laidroo 2009, Donnelly and Mulcahy 2008, Ho and Wong 2001, Khan 2010, Haniffa and Cooke 2005). Results were particularly consistent with a few studies (Khan 2010, Haniffa and Cooke 2005) who found a positive association with CSR reporting where size was measured by total assets, as it was in this study.

(ii) Profitability: The results indicate no significant association between profitability and CSR reporting. The results hence indicate that firms with better financial performance do not necessarily seem to be more interested in investing in social activities. The results are consistent with a few studies (Ho and Wong 2001, Ghazali 2007, Hamid 2004, Chau and Gray 2002) that found no association. However, the finding contradicts the majority of previous studies which showed a positive

association (Haniffa and Cooke 2005, Johnson and Greening 1999, Gul and Leung 2004, Said et al. 2009, Li and Zhang 2010, Scholtens 2008, Jizi et al. 2014). One explanation for the insignificant result could be that there is less variation in terms of profitability among these top 150 companies used for this study which might be the reason why the regression analysis could not discern any effect.

(iii) Industry: Industry was included in the model as a dummy variable and hence the results only demonstrate a significant difference to a base case, which was utilities (It_utility) in this model. Energy and Consumer were found to be significant whereas materials and finance are not significant. The result hence partly supports the prediction that the industry sector within which companies operate is likely to influence CSR reporting. Particularly with regard to energy ($p = 0.1$), it is not an unexpected result and can be explained by the fact that energy industries are highly environmentally sensitive and therefore more scrutinised by regulators and the general public. Since energy supplying industries face more external pressure, they are compelled to disclose more on social and environmental issues. This result is consistent with many previous studies (Haniffa and Cooke 2005, Gamerschlag et al. 2011, Ho and Wong 2001) who found that firms which operate in environmentally sensitive industries disclose more environmental information. Similar to the energy industry category, the variable for consumer industries (consumer) ($p = 0.1$) was found to have a significant positive association. This is consistent with the argument that consumer industry companies tend to be exposed to public positions and have strong incentives to reduce political costs through CSR reporting (Gamerschlag et al. 2011). However, the materials sector is not found to be significant which is surprising given many environmentally sensitive companies were included in this category, but it is important to note that this result only provides evidence against the base case of utilities. Finally, notwithstanding the descriptive statistics appearing to indicate a higher level of CSR reporting in the Finance sector, the modelling indicates it is not significant, except for SEA disclosure where it is significant and negative. This is not surprising given that these firms have lower impact on the environment and hence are less scrutinised by regulators, stakeholders and the general public and, as such, there is less motivation or less pressure to disclose CSR

information. Overall the result is consistent with many previous studies which have identified that industry category has a relationship with various types of disclosures, but does not show any particularly notable findings regarding industry influence in this sample.

(iv) CEO Duality: The results support the notion that there is a negative association between CEO duality and CSR reporting among Australian listed companies. CEO duality (*ceo_duality*) is significant ($p = 0.05$) but negatively associated with CSR reporting, which is consistent with the prediction made in most prior studies (Huafang and Jianguo 2007, Gul and Leung 2004). These studies support the view that the position of chair and CEO should be separated. It seems that powerful CEOs who also hold the position as a chair may be more interested in protecting shareholders' interests and may not be motivated to disclose CSR information to their stakeholders. Moreover, CEO duality in this sample was very low, 10%, suggesting that the majority of listed companies were complying with the recommended best practice of corporate governance of CEO/chair role separation. Despite this, the finding demonstrates that CEO duality has a negative association with CSR. The findings clearly confirm that the adoption of the separation of chair and CEO roles does have a significant effect on CSR reporting in Australian listed companies, notwithstanding that results have been mixed in prior studies (Michelon and Parbonetti 2010, Said et al. 2009, Ho and Wong 2001, Cheng and Courtenay 2006).

(v) Board Size: The result for board size is inconsistent with the notion that larger sized boards are likely to influence CSR reporting. The result shows a non-significant relationship between board size (*totdir_Ln*) and CSR reporting suggesting that size of the board does not necessarily affect the CSR decision making process and hence, CSR reporting. This finding is not consistent with arguments made in previous studies that more board members can provide a greater amount of experience, knowledge and skills are able to represent more richer and diverse values (Halme and Huse 1997, Dalton and Dalton 2005), which may be helpful in making complex decisions like those around CSR. The result is contrary to the majority of

studies which found a positive association (Rao et al. 2012, de Villiers and Alexander 2010, Handajani et al. 2014, Donnelly and Mulcahy 2008, Lim et al. 2007, Jizi et al. 2014).

Particularly with regard to CSR reporting, the result is inconsistent with Jizi et al. (2014) and Handajani et al. (2014) who note a positive association suggesting that larger boards possess the necessary expertise to ensure strong CSR performance. Further, the finding is also in contrast to studies that found significant negative relationships between board size and both firm performance and disclosure (Kassinis and Vafeas 2002, O'Neal and Thomas 1996, Yermack 1996, Cheng 2008). The result is, however, in line with some studies that also found no significant association (Halme and Huse 1997, Cheng and Courtenay 2006, Lakhali 2005, Karamanou and Vafeas 2005) and specifically, with Razek (2014) and Said et al. (2009) who predicted a positive association between board size and CSR reporting but found it not to be significant. One possible explanation could be that the majority of the companies in the sample had approximately 8-10 members on their board. This indicates that there was not much variation in the size of the board within these top 115 companies. It is more likely that in a sample where the majority of companies consist of a similar number of total directors, the results would not highlight the influence of board size on CSR reporting.

Summary of control variables

In summary the overall results with regard to control variables indicate that firms that are larger in size, in environmentally sensitive industries and with no CEO duality, are likely to disclose more CSR information. The findings are as expected from examination of prior literature.

5.7 Chapter summary

This chapter presented the findings from the quantitative analysis. Five hypotheses were tested to examine the association between board independence (H1), board tenure (H2), multiple directorships (H3) board gender diversity (H4), and overall diversity (H5), with CSR reporting. Of the five, four hypotheses were found to have

a significant association with CSR reporting. In particular, the results reveal that gender diversity of board members and the percentage of directors with multiple directorships is positively associated with CSR reporting whereas board tenure is negatively associated. No significant association was found with the percentage of independent non-executive directors on the board.

The research results presented in this chapter provide preliminary evidence to answer the first research question about the relationship between board diversity, gender diversity, and CSR reporting. These results are further supported by the findings of the qualitative research undertaken and this is presented in the next chapter. This is followed by in-depth discussion of the findings and implications in Chapter 7.

Chapter 6:

Results and Discussion of Phase 2 - Qualitative Analysis

6.1 Introduction

The previous chapter presented the quantitative results of the panel data analysis on the relationship between CSR reporting and board diversity in profit sector companies in Australia. This chapter details the qualitative fieldwork data gathered through interviews with boards of directors from Australian companies whose annual reports were included in phase 1 of the analysis. The chapter provides deeper insights into the quantitative findings in order to contribute to answering research question 1, and to investigate the answers to research questions 2, 3 and 4. Five Chairs and three women directors were interviewed. The chapter focuses on the responses of both Chairs and women directors to the interview questions about board diversity generally, and gender diversity specifically, and its effect on CSR decision making processes as well as the link between those decisions and CSR reporting.

6.2 Interviews

The interviews were conducted in order to obtain in-depth information from a small sample of listed profit sector companies in Australia. As discussed in Chapter 4, the sample consisted of eight participants, five Chairs who also happened to be male directors, and three women directors. These eight participants belong to six companies, as two directors were interviewed from two companies. All the participants were independent, non-executive directors with varied experience in their current company and in previous positions. Further it is worth noting that all the women participants are from the finance industry which perhaps, as indicated in the descriptive results, is due to the existence of a higher number of women directors in the finance sectors (section 5.2.2). Further information on the company and demographic data of the interviewees is presented in Tables 6.1 and 6.2 below. Since the interviews were conducted in 2014, the data presented below are relevant to 2014. However, it is interesting to note that some of the data, particularly with

regard to the number of women directors, have changed more recently, with some companies that had only one women director, moving to two or three.

Table 6.1
Company Information

Company	1	2	3	4	5	6
Participants	Chair (1)	Chair (1)	Chair (1) and Women directors (1)	Chair (1)	Women directors (2)	Chair (1)
Industry	Materials	Consumer	Finance	Consumer	Finance	Energy
Board size	10	10	9	8	9	11
No. of women directors	3	2	2	3	2	2
Gender of the Chair	Male	Male	Male	Male	Male	Male
Existence of CSR related committees	No	No	No	Yes	Yes	No
Separate CSR report	Yes	Yes	No	Yes	Yes	No
Board multiple directorships (%)	70%	70%	90%	75%	80%	75%
Board independence (%)	80%	70%	90%	75%	90%	80%

Table 6.2
Demographic Information

Company (Participants)	1	2	3		4	5		6
	Chair	Chair	Chair	Woman director	Chair	Woman director	Woman director	Chair
Age	65	64	59	54	57	54	55	65
Qualification	LLB, FAICD	BSc (Hon), PhD	BA, LLM, MBA	B.Ec, G.Dip	LLB, FAICD, FCPA	BA, LLB, MBA, FAICD	B.Ec (Hon), FAICD	BSc, BEng(Hon)
Directorships	Multiple	Single	Multiple	Multiple	Multiple	Multiple	Multiple	Multiple
Committee membership (CSR)	-	-	-	-	Compliance & Social Res.	Corp. Res & Sust.	Corp. Res & Sust.	-
Board tenure (years)	7	8	8	9	17	3	6	12

The data analysis procedure is described in Chapter 4. The interviews were audio taped and then transcribed. The transcriptions were then summarised according to the categories identified using the NVIVO software. This was then used to identify the main concepts, themes and issues that arose from the interviews. The questions in the interview guide were designed to focus participants' answers on the areas of interest to the study, but some issues were raised by the respondents themselves during the interview. Overall the interview data resulted in five major themes, each of which has a further number of sub-themes. These major themes and issues identified were provided in Chapter 4 (Table 4.6) but are presented again in Table 6.3 below for convenience.

Table 6.3
Major Themes and Sub Themes

Number	Themes and Sub-themes
1	Company approach to CSR <ul style="list-style-type: none"> • CSR- a company perspective • CSR - Embedded as a company strategy
2	Major players in CSR <ul style="list-style-type: none"> • Role of the board • Interaction between the board and management
3	Board diversity and CSR <ul style="list-style-type: none"> • Importance of board diversity in decisions • Board diversity characteristics • Board commitment towards CSR
4	Gender diversity and CSR <ul style="list-style-type: none"> • Gender effect on decisions in general • Increased gender diversity consideration at board level • Changes in board attitudes • Challenges for women directors • Gender's effect on CSR decisions
5	Link between CSR decisions and CSR reporting <ul style="list-style-type: none"> • Board role in CSR reporting • The link between CSR decision and CSR reporting

The first two themes provide a background to the participant’s views on the topic under investigation, setting the context for interpretation and analysis of the themes related to the research questions. Themes 3 to 5 relate directly to research questions 2, 3 and 4. The detailed analysis of each of these five themes is presented below with participants’ direct quotations provided in italics with emphasis added in bold to demonstrate how the quote supports the interpretation made. The full list of interview questions is provided in Appendix 8.

6.2.1 Company approach to CSR

In this section, interview data regarding perceptions of the interviewees about CSR is presented. In order to obtain a deeper understanding of participants’ views on CSR, interviewees were asked about their personal opinion about the importance of CSR for their respective companies. All the interviewees confirmed that CSR activities are given extremely high importance by their firm. The interviews also revealed that CSR is becoming a mainstream activity; it is not considered as separate, or as a unique set of strategies, but rather is embedded in the fundamental business strategy of the company. These two issues or sub-themes, as summarised in Table 6.4, are further discussed below.

Table 6.4
Company Approach to CSR

(i)	CSR – a company perspective
(ii)	CSR – embedded as a business strategy

(i) CSR - A company perspective

The majority of the respondents believe that engaging in CSR activities benefits both the company as well as their stakeholders. It is also noted that there was a slightly different perspective taken on CSR depending on the companies’ major stakeholders. In one company from the Materials industry, there was more emphasis on local communities whereas in another company from the Banking industry, the view of CSR was talked about more in relation to customers. The majority of respondents agreed that CSR can benefit both the company as well as the stakeholders and hence

is a 'win-win' situation, conforming with the 'enlightened self-interest' view of CSR (Garriga and Melé 2013). For example:

*We see it as important as a value-add for the businesses and it's also important because I think people are attracted to work for companies that have a very good sustainability, credibility and reputation. So on two counts it works as a value add to the business because **it helps support the communities in which we operate and it is an attraction for good talent.***
(Woman director 3)

*I would see CSR as both a necessary situation for risk management, but also the other side that companies that are in the consumer field have to **win over their consumers and their staff** and the best way these days to do that is to have a quality product, in my opinion, properly and prudently marketed, so you've got to have CSR. (Chair 4)*

*We are trying to build a very long-term, sustainable business in partnership with communities and our whole objective is to **ensure that our customers are prosperous, because then we will be prosperous.*** (Chair 2)

Similar to the above view, one Chair mentioned that CSR is about companies complying with their social contract with society (Gray et al. 1988, Moir 2001). The respondent states:

*We have privileges of incorporation and we have privileges of licence and they are the privileges that are given to us by the society through laws and through parliament to let us do certain things. I suppose the way we like to think of it is that **part of the deal, part of the contract** is that what we do has got to take account of, and nurture, the good things about a society. (Chair 2)*

On the other hand, a few interviewees believe that CSR is more than a social contract, enlightened self-interest or a win-win situation (Garriga and Melé 2013). They felt that their companies do not consider it as a separate strategy or approach to

gain support from stakeholders, rather, it is imbued within the company's fundamental values and culture. This view is illustrated by the next quote from one of the respondents:

*My view is that, and I look at a company which lives and breathes corporate social responsibility **in the context of building sustainable communities, how we help innovate and design around built forms that and are actually going to be environmentally responsible and sustainable.** So for me, the whole idea about corporate social responsibility become at this stage imbued within the values and the corporate culture, it should not be a separate reporting stream and it should not be something we talk about that's distinct from the way we live and breathe our business. (Woman director 1)*

Another respondent supported this view by stating:

*Well I can give you platitudes and I can say it is very important and it's the essence of what we do, but I really have to give you some evidence for that. Six years ago when we had the Victorian bushfires, this is quarter to nine on Sunday morning, all the staff knew to go to work on Sunday morning, and they were having a meeting to work out how they could contact people in the communities that had been affected by the fires. They had already contacted most of the directors through the night and said, look there will be a lot of our customers, who will have lost everything, and therefore they won't have any proof of identification; **what can we do, so that when they come into the bank they can get money.** Well I can just tell you what they do; this is how important CSR is. (Woman director 2)*

The two quotes above from women directors indicate that CSR, according to them, is not just about ensuring a 'win-win' situation. Their expressions provide an indication of their 'empathic caring' (Boulouta 2013: 185) towards the community/society/customers which strongly appeals to women directors. When compared to the responses from Chairs (male directors), women directors' responses generally had a different focus, that is, stakeholders' welfare rather than the

company's commercial or mutual benefit. This issue is further reflected in the response from the Chair (male director) and the woman director who were from the same company – this is discussed in a later section (section 6.2.2 (i)). Moreover, it is noted that the women directors interviewed seem to not just perceive CSR from a different perspective but are also personally concerned about these issues. For example, while explaining the bushfire incident in the quote above, the participant further expressed her own concerns:

I was feeling very distressed. So I got up on Sunday morning and I waited until quarter to nine, and then I rang the state manager, and I said to him, "what are we doing about helping the people in our communities that have been affected by this fire?". (Woman director 2)

However, no such expressions were identified from the responses of male directors towards CSR issues. Similarly, none of the male directors mentioned specific stories, or used specific examples of this nature, to demonstrate the CSR activities of their companies. This is considered further later in the Chapter.

While talking about the importance of CSR some respondents mentioned that they choose companies to work for based on the company's values in terms of CSR. For example:

I now place a great deal of importance on CSR sustainability when I look at the sort of company I want to work and indeed the commodity that is being promoted and sold. I look for companies where I can see their values fit mine and my values fit them and CSR goes a very long way to telling me how this company behaves and it's very important. (Woman director 3)

As I say, the danger with this stuff is it's seen as a kind of badge that you add on, and maybe that's useful for some people, it draws their attention to it, I don't really want to work in a place like that. (Chair 2)

In general, the interview data indicates the importance of CSR for the sample companies. The results suggest that some companies get involved in CSR activities

for mutual benefit (benefit for the company and well as their respective stakeholders), whereas others view it as a fundamental responsibility of business towards society. Although respondents all believed that CSR is important, some differences were noted between male and women respondents. Almost all the male respondents highlighted that the companies' involvement in CSR activities is either to comply with the social contract or to gain support from stakeholders, which is consistent with the rationale of a 'win-win' situation or enlightened self-interest. However, the majority of women directors (two out of three) believed that companies are responsible for community welfare and, by engaging in CSR activities, they can make a difference to the community (i.e. they demonstrated a community / stakeholder focus).

(ii) CSR – embedded as a business strategy

In the review of the CSR literature (Section 2.2.4), numerous studies revealed that both CSR and CSR reporting are considered to be strategies and that organisations are involved in such activities to reach particular strategic goals. However, a number of interviewees indicated that CSR issues nowadays are not adopted by business in order to reach a particular goal or to meet a specific strategy, but rather are embedded in the underlying business operations. This view is reflected in the following quotes:

*Definitely, it is a part of our **overall business strategy**. (Chair 1)*

*It's a culture which permeates all of our thinking and decision making at some level. **I don't know that it really in itself is a big separate strategic sort of initiative** that we would embark on but whenever we think about new big initiatives or major developments or different things we're going to do there is always a question in there about what would be the CSR sort of effect of this and things. (Chair 1)*

*It **underpins all the strategies** that we do talk about so it becomes part of business, to run your business in a sustainable manner. So we don't want to maximise profit today at the expense of the longer term. We don't want to*

use the excess energy ourselves or we don't want to build developments using excess energy because that's not sustainable. (Woman director 3)

*If you talk of it as a strategy, you'd think it's something you choose to do to achieve a particular end. I would say that it is **more than a strategy**, it's actually **fundamental to the whole nature** of what it is we are. (Chair 2)*

*It is actually imbued in our overall strategy, it is part of our strategic planning, and it is **not a separate part** of what we do. (Woman director1)*

Thus, the results overall indicate that the respondents believe that CSR issues are considered in every business decisions and are becoming a part of business generally.

It is interesting to note that majority of the male respondents, while talking about the importance of CSR (see section 6.2.1 (i)), specified that companies get involved in CSR in order to gain support from customers, staff and the community and in many cases it is seen as a win-win strategy. However, when specifically asked about this from a strategic perspective, the same respondents did not want to acknowledge CSR as a specific strategy, which in essence contradicts their earlier response. On the other hand, the majority of women directors' responses were consistent with their earlier response where they suggested that consideration is given to CSR issues in all business decisions. One of the women directors even stressed the importance of understanding the underlying reason for CSR strategy. She states that:

*I think it has become a strategy, but I also think **some of us do have a moral compass** and there's a right way to do things, and there's a wrong way to do things, and if you want to make your business sustainable you have got to do it the right way. What is the basis of that strategy? Is it because you want to have a good public relation image, or is it because **you genuinely, deep down really do care and do want to do the right thing**, whether it is by people, by the environment, by whatever? (Woman director 2)*

This further highlights the women directors' concern about stakeholder related issues. Their views about the importance of CSR (Section 6.2.1 (i)) and the strategic view of CSR, discussed in this section, are consistent. Moreover, they view their companies' involvement in CSR as being due to their genuine interest in the welfare of the community and stakeholders.

In summary, the interviews indicate that CSR is viewed as an essential, embedded element in business activities, rather than a specific strategy. The perception about the motivation for this may, however, vary between board members who see it either as a 'win-win' business decision, or as an obligation to 'do the right thing'.

6.2.2 Major players in CSR decisions

There have been some inconsistent findings in previous research about the major decision makers with regard to CSR. Some argue that boards of directors are the people who are predominantly involved in strategic decisions like CSR (Kakabadse 2007, Webb 2004), whereas others point to it being the senior management of the firm (McWilliams and Siegel 2001, McWilliams et al. 2006, Mahoney and Thorn 2006, McGuire et al. 2003). Based on the inconclusive evidence to date, respondents were asked about who they see as the important players in CSR in their firm, and this led to two further sub-themes being identified, which are summarised in Table 6.5 and discussed below.

Table 6.5

Major Players in CSR Decisions

(i)	Role of the Board
(ii)	Board and management interaction

(i) Role of the board

Numerous studies have indicated that boards of directors have a major role in CSR related activities (see Section 2.3.1). Consistent with this, there seems to be general agreement among the respondents about the role of the board in relation to CSR

being one of direction setting, oversight and approval. The following quotes reflect this.

I suppose the board has in a sense checked the agenda of making sure CSR is important. Management have embraced it and it's moved down through the company in that sense. (Chair 3)

The general policy on where we want to be in the CSR framework, that is a decision made by the board, on advice from its own committee. The actual decision on what that means, so you have decided you're going to be the best, what do you have to do to get that, is an executive decision. (Chair 4)

*Board has a major role because one of its main functions is helping create strategy and putting a stamp on the **strategic direction** of the company. It's absolutely crucial that the board be aware of what those, if you like, social drivers are for success. (Woman director 2)*

Supporting this, some respondents provided a few examples of the board's decisions related to CSR:

*I don't think management really make decisions about CSR and I think CSR is an organic thing that is part of all decisions that are made. So we will make decisions about how we interact with communities around our plants. **We will make decisions about standards** that we apply and building plants - environmental standards in our building and operation. We will make decisions about countries in which we will choose to operate and countries in which we will not choose to operate because we are not satisfied with governance practices. (Chair 1)*

I was on the governance and HR committee and we said, well should we have a separate report and call it out, and we had quite a big debate about whether or not to do that. And we decided not to, because we said, well hang on a minute, I mean I am not trying to take the moral high ground here

*but we think we work very hard and take our corporate social responsibilities very seriously, and it is embedded in everything we do. **We made that decision to just leave it as it was.** (Woman director 2)*

Furthermore, it appears that in some companies the board members get involved personally in CSR activities. The respondents provided various examples of this, such as board members visiting sites, being involved in volunteering activities, and providing financial support out of their own pocket rather than the company's profit. One such example is:

*This year, a couple of kids who have enrolled in university who told me they wouldn't have gone to university but for the \$5,000 support we gave them. But... that there were people in the community where those kids come from who now say well, I know that if I do banking with [xx] Bank, they'll continue to do these sort of things, it's a virtuous circle. We can only do it because those communities do the banking with us. **So we get more business out of it, but there are also kids going to university out of it. I mean it's a business thing, even if it's done for that reason.** (Chair 2)*

Further, a woman director from the same company mentioned that:

*Some of the directors of our banks are volunteers, they don't get paid. Volunteering is incredibly powerful, and you cannot doubt the motivations of the people that volunteer and we've had a look at it and they volunteer between five and seven hours a week. **They do it because they care about their communities. It is not just about banking it is about making a difference in the community.** (Woman director 2)*

Although both the respondents raised the same issue suggesting that boards are personally involved in CSR, the reason seems to be different (one is strategic and the other is focused on stakeholders' welfare). Hence, the underlying reason for directors' personal involvement in CSR could be due to their genuine interest in the community or to gain advantage for the business, or both. Further, it is identified that these underlying reasons were different between men and women participants.

The Chair pointed out that it is a business decision, whereas the women directors highlighted ‘making a difference’. Women directors seem to perceive that boards are personally involved in CSR due to their genuine interest in the community or the environment. There was little discussion by the women directors of business benefits.

Further, the majority of the Chairs believe that CSR strategies are used in their companies either to manage risk (risk management strategy), or to meet society’s expectation and maintain the social contract (legitimacy), or to be perceived as favourable by others (impression management) (Hooghiemstra 2000). Two examples below are from Chairs when asked about who is involved in making CSR-related decisions. They suggest that it is management, rather than the board, who are involved but they also emphasise that this is primarily to address the risk and legitimacy aspects:

*The actual decision on what that means, so you’ve decided you’re going to be the best, what do you have to do to get that, is an **executive decision**. ...in our case we have a person who is in charge of that and they **scour the company to see opportunities** for us to do that. ...**risk manager** because this is a lot to do with **risk**, gives us advice on how we can reduce our watering tanks and so on (Chair 1)*

*Whole teams of people... **compliance** people, responding to regulatory requirements or governance requirements. Partly they’re responding to the demands of the shareholders ... partly we’re trying to **project ourselves** (Chair 2)*

Furthermore, while highlighting boards’ role in CSR, some respondents noted the importance of board committees, particularly CSR committees and risk committees. Participants pointed out that board committees can provide support and advice to the board on CSR matters, but suggest these are not necessarily widespread among all companies. For example, one respondent stated:

It is important to be involved in society so we established a committee of the board, and that's quite significant, which looks at these matters and we call it the corporate social responsibility committee. We have looked at it as part of risk and also to be blunt part of our consumerism. It's interesting on other boards I have sat, we haven't had that. We have a risk committee but not CSR committee. (Chair 4)

It is also worth noting that the majority of the respondents confirm that other than involvement in strategic decisions about CSR, boards have a limited role in CSR-related issues. They all agree that management is the group that is significantly involved in carrying out and implementing the CSR decisions made by the board, and therefore this is discussed further in the next section. Moreover, it was identified by a few respondents that management is the major driving force which is primarily responsible for CSR rather than the board. One respondent, while highlighting the management's role in CSR, comments:

*I think that it is **the chief executive and the management team that sow the seeds of this more primarily than board of directors.** If the board of directors is not supportive, it withers and dies but the initial driving force I believe very often comes from the chief executive and senior management and then the board monitors and measures management's performance against the agreed strategy. A really good board can lift the bar for management. (Woman director 3)*

These results indicate that board sets the broad agenda for CSR, which is then carried out by management, which is as expected. However, the interview data highlights that while management is significantly involved in carrying out CSR activities, it also suggests that CSR decisions of the board sometimes can be driven by the management itself. This is in some ways incongruent with the ASX corporate governance code which clearly requires CSR to be a board responsibility. The concern with this is that since management's focus is normally short-term profit oriented, they are likely to view CSR as a "misuse of corporate resources" (McWilliams et al. 2006: 5) which is in consistent with agency theory. If the board

relies on management's advice, or if the companies' CSR is driven by management, it may be less likely that such companies will adopt effective, long term, CSR.

In summary, two important issues arose from the analysis of the first sub-theme: the role of the board. First, the level of personal involvement by board members may influence attitudes to CSR. In addition, where board members do get personally involved, it may be either due to genuine interest to do the right thing or for strategic reasons, or for what they consider to be mutual benefit (benefit to both the company as well as the community). This is consistent with the literature which indicates that firms, by engaging in CSR activities, are able to gain several benefits: attract better employees, gain green consumers and investors (Krüger 2009); reduce employee turnover; increase customer satisfaction; and enhance firm reputation (Galbreath 2010).

Second, the nature of board involvement is at an extremely high level, with more involvement in CSR issues by management, possibly even being driven by management. This could mean that, in terms of Upper Echelon Theory, board members' values may not be those reflected in the CSR decisions being made, particularly if their role is only one of approval (or 'rubber stamping'). This relationship between the board and management, is therefore discussed next.

(b) Interaction between the board and management

In addition to discussing the board's role, the majority of the participants further highlighted that there is significant interaction between the board and management in relation to CSR. It appears that CSR decisions are not limited to the board making the decisions and management carrying them out, but rather it is an ongoing interaction between the two:

*I think the major player in everything is management. Board supports and challenges management. Then **there is an interaction between management and the board** and the board has, through board meetings and other mechanisms, has an opportunity to understand, to challenge and to support what management is doing. Usually **the management will come to the board** and say on CSR this is what we're thinking, this is what we're*

doing or it might be on diversity or on sustainability, so the board will have a continuous interaction with management. (Chair 1)

*Well definitely the Board of Directors have an input and I think its management too. **Moreover, it is a partnership.** If you've got the board setting a direction for management to then carry out that's not going to work. If you have management setting the strategic direction that the Board has no input into to, that's not going to work either. The fact is that the relationship between the board and management is very much a collaborative partnership and if it's not, it's dysfunctional. (Woman director 1)*

In order for a firm to function effectively, it would be expected that there would be significant interaction between the board and management, as shown in Figure 6.1, with ongoing feedback between the two.

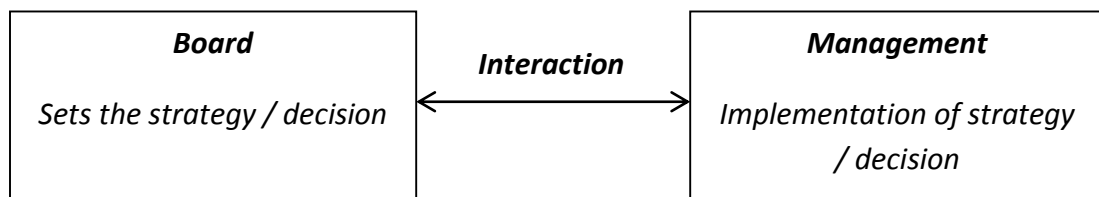


Figure 6.1

Major Players in CSR Decision-Making

However, the findings from the interviews were unclear about to what extent management is involved in CSR decisions. Notwithstanding that respondents talked about there being a partnership between the board and senior managers, as discussed above, there is some evidence that managers may actually drive the decisions, leaving boards as approval mechanisms. In particular, the women directors stressed the partnership aspect, whereas the Chairs suggest it is a partnership, but they also emphasise the role of management much more.

Even though the board and management are identified as the major players in CSR decisions, a few respondents identified that junior staff members' feedback is also considered, reinforcing the earlier comments about CSR being an embedded part of the business:

*It is no point the board just having an idea and talking in a hollow room and boards have limited ability to really instruct people about what to do. It might come up with good ideas but unless it's done, **unless people see it and want to embrace it**, you know, it just again, being stickers on the wall, or ticking boxes. (Chair 2)*

Another respondent supports this:

*We find it very important in the CSR area that the board and the senior executive and the management to articulate a strong culture of commitment to CSR and then encourage the more junior people to contribute to it. Now that's important for us, particularly because we're an international company with headquarters in Australia, but we have activities in 27 countries around the world. So I think all the board and management can do is to paint a picture for everyone in the company that we value CSR but we recognise what the activities will be a little different in **each country so junior staff members need to help us get it right**. (Chair 3)*

Overall, the respondents' remarks with regard to the major players in CSR is consistent with the literature suggesting that boards of directors are involved in making CSR decisions. In addition, ongoing interaction between the management and the boards is considered to be an important aspect of the CSR decision process. Some nuances appeared however, suggesting that the specific roles of board members and management needs further investigation; and some evidence appeared that women take a slightly different perspective on the process of interaction, supporting the notion that diversity on boards is important. As such, diversity is discussed next.

6.2.3 Board diversity and CSR

This section discusses the responses to questions about the effect of board diversity on CSR decisions. Although respondents were asked whether and how various diversity characteristics affect CSR, it was difficult to draw them out on CSR specifically. The major reason for this result is that, as highlighted in Section 6.2.1, the majority of the respondents considered CSR to be part of normal business activity and not as a separate set of decisions, and that diversity among the board members, according to them, is essential in every decision, including CSR. In this respect, the responses below mainly focus on the importance of diversity in overall business decisions as very few responses related it specifically to CSR aspects. Three further sub-issues have been identified in the analysis, and these are presented in Table 6.6 and discussed below.

Table 6.6
Board Diversity and CSR

(i)	Importance of board diversity in decisions
(ii)	Board diversity characteristics
(iii)	Board commitment towards CSR

(i) Importance of board diversity in decisions

The literature (refer to Chapter 2) suggests that diversity results in a broader perspective which allows groups to be involved in in-depth conversations and generate different alternatives (Watson et al. 1998) and a wide range of solutions (Robinson and Dechant 1997). The majority of the respondents interviewed for this study agreed that diversity among board members has the potential to influence decisions, believe that diversity allows for different perspectives and, as such, enhances debate and discussions within the group. Some indicative comments include:

Values and the background of each director are vital and that's what they are there for. The concept therefore of having everybody with the same

*values and same background is not good. **The best debates, the biggest forward steps from companies come from diversity.** (Chair 4)*

*If you are sitting around a table with people who all look alike, who have all come from the same background, you are **not going to get any discussion** about what the priorities need to be. If you are going to have people from very similar backgrounds and similar experiences who are all agreeing on what the priority should be without any discussion, I think that's not healthy and we won't get the best outcome. (Woman director 1)*

In addition, some participants specifically highlighted diversity's importance in decision making at board level:

*What you do want at a board level is obviously highly competent experienced intelligent people but you want them to come with a diversity of backgrounds and views because the decisions you make are often very complicated and often there is no right or wrong decision and you need input into it. If we all thought the same way, we would never do anything particularly. So **diversity is incredibly important to having input into decision making.** (Chair 3)*

*I reckon if everyone barracks for the same football team, you don't get very good decisions on a Monday morning if they've lost. With diversity, the **decisions will be more robust**, hopefully they will be more competitive. (Chair 2)*

Even though studies are scarce, the literature review also indicated that board diversity has the potential to influence issues related to CSR (Bear et al. 2010, Coffey and Wang 1998, Ibrahim and Angelidis 2011, Hafsi and Turgut 2013). Consistent with this, there was general consensus on that fact that board diversity is crucial for all decisions, including CSR decisions. Two respondents noted the importance for CSR decisions:

You need those different inputs, those different insights in order to create the best possible values, cultural and, social awareness for the company. (Woman director 1)

Clearly the CSR efforts of any company will always reflect the diversity of backgrounds and viewpoints on the board. At the board level obviously in a simple sense, diversity is very important because what I view as a good CSR activity might be very different from what a younger woman board member might think of, just because of our backgrounds. (Chair 3)

Prior research, however, has identified that when there is a range of opinions that need to be considered, diversity can result in negative consequences in group outcomes (Westphal and Milton 2000). This potential negative effect of diversity on decisions was not raised by any respondents during the interview except by one Chair, who states:

*I think **decisions can be harder to get to**, because you need to take account of more diverse and a bigger range of interests, but the decisions will be more robust. They may take longer, but they're stronger as a result. (Chair 2)*

In addition, scholars in diversity research have recently suggested that diversity can have a negative effect if the individuals do not value, or believe in, their diverse work groups (van Knippenberg and Schippers 2007, van Knippenberg and Haslam 2003). This issue was raised by two of the respondents who indicated that in order to gain the benefits of diversity board members must believe in, and respect, that diversity. For example:

There will of course always be particular individuals who have a greater or lesser commitment to things like CSR. I think it's very important at a board level that diversity is recognised and that it's not seen that, 'oh! This is just this person always wanting that sort of stuff'. It is something that overall the board embraces recognising that some people feel more strongly about it than others. That will always be the case. (Chair 3)

If a broad range of views are heard and a broad range of backgrounds are taken into account, it is all the better. (Chair 4)

Overall, the majority of the interview participants considered diversity at board level to be crucial. The results are consistent with the literature suggesting that diversity among board members can enable better debate, enrich discussion and has the potential to enhance the decision process (Coffey and Wang 1998, Carter et al. 2003, Erhardt et al. 2003). Even though the interview data supported having a diverse board, it was also recognised that diversity may slow down the decision process or may result in negative outcomes if group members do not believe in its value. The major issues identified by the participants in relation to diversity's effect on CSR decisions are further presented in Figure 6.2 below.

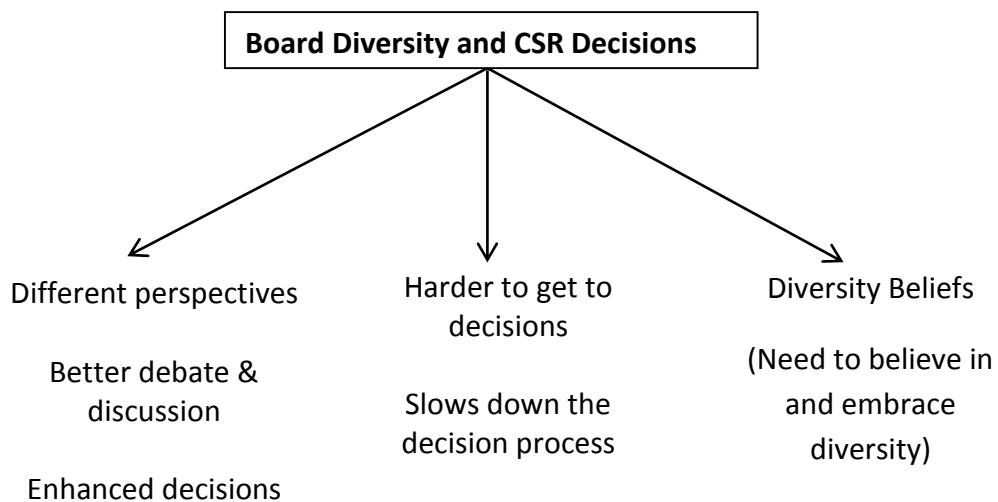


Figure 6.2

Board Diversity Factors Influencing Board Level CSR Decisions

As noted earlier, very few participants linked particular diversity characteristics to CSR decisions, rather, the majority explained the importance of diversity at board level for overall business decisions. The responses therefore highlight the broad issues such that diversity enhances, that is, debate and discussion, but also that it may slow down the decision making process (Figure 6.2).

It is also noted that no evidence or examples were provided by the respondents, and their explanations of the effect of diversity on CSR decisions were very general in nature. This again poses questions about the boards' level of involvement in CSR decisions, suggesting their knowledge is not detailed. This could be the reason why they could not identify how diversity specifically influences CSR aspects of their business operations.

(ii) Board diversity characteristics

Another important theme that was identified is the particular diversity characteristics that the participants believe are important. This section details those diversity characteristics identified and the views of the respondents about each.

- **Independent, non-executive directors**

A majority of the respondents agreed that independent or non-executive directors are important. They claim that non-executive directors are more objective, confident, keep management sharp and usually focus on the long term rather than having a short term focus. Some of these views are reflected in following quotes:

*Sometimes CSR compromises the short term profit and consequently the short term incentive payments and remuneration in the interest of the long term. You want to be able to take a **balanced view** at that. You want to be able to look across the **long term**. I think non-executive directors who are not reliant on the short term incentive or long term incentive payments that an executive director gets in the company can potentially be **more objective** about the view of what is right for this company in the long term. (Woman director 3)*

*The management is totally immersed in the business, whereas the non-executive directors are able to remove themselves from the day to day and have much **more of a helicopter view** of not only the environment, not only detail within which the organisations working, but also the more macro environment. It is also because we work across a whole lot of different*

*companies and a whole lot of different communities, we are able to give inputs from a **much broader perspective**. (Woman director 1)*

*I think that independent people are confident to make decisions, have independence to make decisions, are **not fearful of speaking out**. They have a degree of independence (Woman director 1)*

Another respondent, while supporting the appointment of non-executive directors, suggested that in order to retain their reputation, non-executives may have more concern for CSR related issues:

*The executive have to deliver a budget, the non-executives don't. I haven't noticed that in our company but it could happen, because you could put off till next year some sort of an extra less pollutant and it might balance your budget this year. To a non-executive director **one's reputation is probably stronger** than whether you get your results this year. (Chair 4)*

A few respondents felt that independent, non-executive directors can provide better monitoring of management. They commented:

*It is very important to have independent directors of the right expertise. Independent directors obviously bring the wisdom hopefully of years and experience to different areas but they importantly also **make sure that the executive management has to face hard questions**. (Chair 1)*

*I think the role of the independent directors and the non-executive directors act as both a sounding board and a testing ground sort of thing for **management to keep them sharp** and keep them on top. We are all very human in whatever we do in life often the experience to do it well but then you tend to get locked in to a certain way of doing things. However, it is very important that the independent director can ask 'why are you doing it that way, maybe there's a better way you know with my other experience that this works' and so they **bring that testing material to decisions of management**. (Chair 3)*

Despite several arguments in favour of independent, non-executive directors, there were three participants that felt the opposite. These were all Chairs, and they did not view independence at board level as an important factor in CSR decisions. The implication is that there may be no such thing as being truly independent. For example:

I don't know what independence means. Here our non-independent director is our CEO, who as far as I'm concerned is a woman, is as involved in CSR as any of us. So in general I don't think independence is important. (Chair 4)

- **Industry background and experience**

The industry background and experience of board members is another important diversity characteristic that was identified by a number of participants, but that there is a need for the diversity to be relevant to the role. For example:

I am of the opinion that a diversity of background, experience is very valuable. If we had two people, one from a Non-Australian background and one from Australian background with similar background experience you would take the one who offered you the additional diversity but I don't think diversity in itself without a diversity of background and experience is going to make a big difference. I have experienced this and I have experienced diversity across a number of areas that falls flat. It falls flat when the person brought on for a particular area of diversity and in this case was that an English professor on a financial sector board. It wouldn't have mattered what nationality or gender he/she was. His / Her background and experience were inappropriate. So I think that those two stand tall. (Woman director 3)

This is supported by two other participants who comment:

Look I think the two things you look for are intelligent people who have a lot of experience and a very diverse range of people from different

industries, and I think being able to draw on that diversity is good, just because you get quite different perspectives. (Woman director 2)

Diversity is crucial but say diversity at the board level in experience and background is important. (Chair 3)

As noted previously, however, these comments were directed more at general decisions, rather than specifically related to CSR.

- **Nationality**

In addition to the above two characteristics, a few participants acknowledged the importance of nationality at board level. The companies that are significantly operating at a global level appear to see international diversity on the board to be an important diversity characteristic:

We have been very deliberate about two dimensions. We want international diversity. That's a deliberate thing and we want gender diversity. That is a deliberate thing. The international diversity has not had its own headlines but it has been equally deliberate as we have made our judgements, we are known as a global company we can't have all Australians on the board. (Chair 1)

Another participant also acknowledged that nationality is important, however not as important as other diversity characteristics, supporting her earlier view that the diversity should be relevant to the position.

*My view is that **nationality diversity would be a bonus** but the other things of background, experience, gender are probably stand taller than the nationality piece. (Woman director 3)*

- **Gender diversity**

Another important diversity characteristic identified by almost all the respondents was gender diversity. Since the interview questions were particularly designed to

explore gender diversity's effect on CSR decisions, this characteristic is discussed in detail in a separate section (Section 6.2.4).

Table 6.7

Important Board Diversity Characteristics Identified by Respondents

- Non-executive / Independent directors
- Professional/ Industry background and experience
- Gender
- Nationality

In summary, four diversity characteristics, summarised in Table 6.7, were considered by the interview respondents to be important for board level decisions. With regard to independent/non-executive directors, although a majority agreed on the importance of having non-executive directors, the responses on the importance of board independence was mixed and inconclusive. Further, nationality seems to be gaining importance since the majority of companies have a global presence.

Overall the result with regard to board diversity's effect on CSR decision making is consistent with upper echelon theory, suggesting that top executives' characteristics, such as cognitions, values, and perceptions, measured in terms of demographic diversity do influence board level decisions (Hambrick and Mason 1984, Carpenter et al. 2004, Wiersema and Bantel 1992). This aspect is discussed further in Chapter 7.

Even though overall diversity is considered to be crucial, diversity characteristics such as, age, education, ethnicity, and multiple directorships were not mentioned. This does not mean that other diversity characteristics are not important for these companies, but perhaps there is low level of diversity in terms of age, ethnicity and education on Australian boards. Participants observed these four diversity characteristics as less important compared with others in their respective organisations.

(iii) Board commitment towards CSR

In addition to diversity characteristics, a few interviewees highlighted that a basic set of values or commitment towards CSR is also an important factor in the CSR-related decision making process. For example:

*In my experience a really good board comprises a majority of people who **believe in CSR**. (Woman director 3)*

Supporting this, another respondent said:

*A lot of it just starts with a basic set of values. I think just having a broad experience around, experience with people, with young people. **We have got a very diverse board, and a lot of people on our board have worked in regional areas, they understand issues of the country, rural communities.** In fact, having that knowledge of rural communities and the issues that rural community faces around isolation, lack of education, issues relating to water, issues relating to young people and aged care, they are just life experience or experiences that relate from their knowledge in rural communities. (Woman director 2)*

*At the board level obviously in a simple sense, yes, diversity is very important. But more important is just the commitment overall to recognise that you're not just there to make money that you do have these other very important responsibilities to the staff, to the community. Even those that are not particularly passionate about CSR will recognise that **this is an important thing for the success of the company** and in today's world it's something which you must do to be successful. (Chair 3)*

*I think they need to have a really grounded sense in **what makes a business work**. You need to have a really long view on these things. If you're just doing stuff to get through the day or reach a target or if it's done for sacrifice of the long term principles, it won't last. So you've got to have a long view, a long view on the business and realise your responsibilities for that. (Chair 2)*

Once again differences can be noted between men and women directors' responses. The first two quotes from women directors clearly reflect their genuine concern towards the community and society. They suggest that in addition to diversity, boards need to have personal experience in CSR related aspects (working in rural communities, issues related to water, young people). On the other hand, the Chair's quote, even though it includes terms such as 'long view', 'responsibility to staff, community', etc., it ultimately stresses business success.

In summary, the results linking board diversity and CSR decisions indicate that diversity is crucial to any board level decisions, including decisions about CSR. The results are consistent with the literature suggesting that a diverse board allows for different perspectives, in depth debate/discussion and ultimately results in better CSR decisions. In addition, the interview data revealed that some of the diversity characteristics (independence/non-executives, industry background and experience, nationality and gender) may be perceived as more important than others. The results further suggest that board members' basic set of values and commitment to CSR, and their personal knowledge and experience with CSR related issues, can positively influence the CSR decisions of a firm. Thus, a diverse board in terms of both demographic characteristics, and in terms of values and personal experiences, is important. As outlined in Chapter 2, some of the literature on gender suggests that women are more likely to display these kinds of values and, hence, gender diversity is discussed next.

6.2.4 Gender diversity and decisions

A number of previous studies indicate that gender diversity is an important aspect in the effectiveness of boards' decisions (Bear et al. 2010, Bilimoria and Wheeler 2000, Bilimoria 2000, Hillman et al. 2000, Peterson and Philpot 2007, Singh et al. 2008, Terjesen et al. 2009, Fielden and Davidson 2005, Williams 2003). Based on this, participants in this study were asked specific questions about the effect of gender on CSR decision making in their experience. Overall, the interviewees' responses were consistent with the literature suggesting that gender diversity is an important aspect in board decisions in general. However, the results are mixed in respect to CSR

decisions. Furthermore, while exploring the gender effect relating to CSR decisions, several issues were identified, and these are presented in Table 6.8 and discussed in detail next.

Table 6.8
Gender Diversity and Decisions

(i)	Gender effect on decisions in general
(ii)	Increased gender diversity consideration at board level
(iii)	Changes in board attitudes
(iv)	Challenges for women directors
(v)	Gender's effect on CSR decisions

(i) Gender effect on decisions in general

A majority of the interview participants agree that gender diversity in the boardroom brings different perspectives to the discussions being held and can often have a positive effect on decisions made. This was supported by both women directors and Chairs, for example:

*I think women always have a **slightly different perspective to men**, particularly those that have had children, raised children, and had those sorts of responsibilities. They've also had **different upbringings**, they were treated differently when they were younger, and they perhaps **are more conscious of things** like unconscious bias, so I think to that extent they bring different perspectives. I think that women can often have a **better connection with their emotions** and their emotional intelligence, and their ability to read people and read situations is not on the whole but it can be better and I think those sorts of insights are incredibly helpful. (Woman director 2)*

*The way the board behaves and the credibility gives the diverse opinions I think is different and is better, **is more wholesome, is more complete** on*

having gender diversity in there and certainly for us as a board with gender diversity, it's important for all those reasons. (Chair 3)

In addition, some participants acknowledged that different thinking brought by women directors contributes towards healthy debate:

*Apart from the very specific technical skills that a person brings then I think **a female brings a way of thinking that is different**. So if I have a lawyer or a scientist or this or that background, then it's irrelevant whether it's male or female but to have a mixture of people with the right technical backgrounds but also male and female just **adds a dimension to the thinking and the debate and the conduct of the board that is healthy**. (Chair 1)*

Furthermore, it is also acknowledged that women directors ask hard questions that can often change board discussion. This is consistent with the argument provided in the literature that women directors tend to be objective, independent (Fondas 2000) and likely to ask questions more freely than male directors (Bilimoria and Wheeler 2000). One respondent states:

*I have had enough men say to me over time “well you just changed the dynamic” or “you changed the board” or “you changed the discussion”. I think that comes from partly a different way of asking questions and this is very often fed back to me. People say “**you ask the hard questions in the most constructive way**”. So it is different and men can't quite do it. So it's a different dynamic, it's a different discussion. You come from a different perspective and I think increasingly men really like it. They get it, this has added value although it's very slow progress. (Woman director 3)*

This is further supported by another interviewee who felt that women do not hesitate to raise sensitive issues:

I can say that conversations are definitely more wide ranging and diverse when there are women around the table. In my experience women tend to be

the ones who raise the issue around gender diversity within an organisation and also around the board table. (Woman director 1)

On the other hand, a few participants perceive gender diversity to be no more important than other diversity characteristics, and consider that it is not gender *per se* that is important, but different approaches and thinking. Interestingly this perception was only pointed out by male directors, and is reflected in following quotes:

*I would be more inclined to say that **it isn't gender that's driving the difference**. Sometimes I see a director who takes quite a black and white scientific approach and another director might be more inclined to think about context more, and think about other influences more, but those two people aren't divided because of their gender. It's just the way they see things and you actually want people on your board who see things differently because the conversation that emerges between nine people stimulated by two people who see things differently in conversation. (Chair 1)*

*I think gender diversity is important, **I think there are diversity characteristics that are equally as important**. Sure, women have different perspectives on things, but so do people from one company have different perspectives to people from other company. I think women probably are generally more consultative, it sometimes can take a bit longer, but I know men like that too, so I don't think it's a particularly female attribute. It's not explicitly a female attribute. (Chair 2)*

The same (male) interviewee further claims that women directors seem to have different perspectives within themselves which is greater than the difference in perspectives between male and women directors. The respondent comments:

There are three women on the board, each of whom have different perspectives and bring different things. There is more difference in each of the three women from each other than there is on average between the three women and the five men. I mean, if I was doing one of those psychology

kinds of charts, I would put the three women, dah, dah, dah, and I would put five men, so there is more difference between them than there is on average between the men and the women. (Chair 2)

These responses identify some of the differences between male and women directors' perceptions about the importance of gender diversity. Even though a majority of male directors' responses indicate that there is a need for more gender diversity, the responses clearly demonstrate there is still some disagreement in relation to its importance at board level, with some suggestion that gender itself is not the source of diversity. Interestingly, no women directors raised these kinds of issues while responding to the questions.

Overall, the interview data indicates that women directors bring different perspectives to the discussion, ask hard questions, contribute towards healthy debate and ultimately influence board level decisions. However, results are mixed in terms of the importance of gender diversity when compared to other diversity characteristics. Although a majority were in favour of gender diversity, results further identified some dissatisfaction among the male directors about gender diversity being given such attention. It is also worth noting that all the women directors agreed that women can make a significant difference to board discussions in various ways. The majority of these aspects have been identified by previous research, although less so in relation to CSR which is discussed next.

On the other hand, male directors, although they acknowledge the women's contribution, provided very brief statements, and seem to be more interested in indicating or highlighting how different perspectives and views brought by different individuals (who may or may not be diverse in terms of gender, experience, nationality, etc.) can be beneficial, rather than promoting gender diversity. One explanation could be that male board members are more comfortable in the male dominated business environment and therefore this reflects resistance to change. This is an interesting area for future research into the impact of increasing the representation of women on boards.

(ii) Gender diversity and CSR decisions

Previous research has documented that the gender composition of a board is likely to influence strategic decisions (Nielsen and Huse 2010b). Specifically, the literature suggests that, compared to men, women are more socially oriented and can contribute positively towards CSR related decisions (Ibrahim and Angelidis 1995, Burgess and Tharenou 2002). As noted in the earlier sections of this Chapter, the majority of the directors interviewed agreed that gender diversity does influence decisions at the board level. However, the results with regard to gender influence on CSR decisions appear to be inconclusive. For instance, a few of the respondents felt that gender diversity does not make difference in CSR decisions:

*I think there is a great diversity of men and I am instantly thinking of one particular director at one of the company who was passionate about women. He has a daughter in the workforce. There are other directors who are male who are very passionate about sustainable financial business planning. There are others who are passionate about the environment. **The women are not always the most passionate.** (Woman director 3)*

*First of all, **I don't agree that women are more concerned about soft issues.** For example, at our company there is no doubt that the three women on the board will go straight for the hard issues, the financial issues. I am not saying they exclusively do that, but they are very clear about it, and they all have strong commercial and financial backgrounds. (Woman director 2)*

*I do not believe that we have seen any influence on the CSR decisions by the gender diversity of the board. It has been more the individual diversity as I said earlier. Some individuals whether they be men or women tend to be quite passionate about CSR and others recognise the importance of it but aren't as passionate about it and in my experience we have had both and it has not been gender related. There's been women on the board that aren't particularly interested in CSR there's been men that aren't particularly interested and there have been men that have been very interested and women that have been very interested so **I don't believe it's gender related in that case.** (Chair 3)*

In the same vein, a few other participants felt that it is difficult to see any difference:

*I have participated in decision making about CSR type matters. **I haven't noticed differences of opinion based on gender.** We may have a difference of opinion about a particular subject. I don't see it based on gender, but indirectly have we tuned ourselves better to environment or community because we have females in our discussions. **I can't say yes or no.** (Chair 1)*

***I don't think you can and I haven't really noticed any difference** between male and female directors when contributing towards CSR decisions. (Woman director 2)*

On the other hand, two of the participants were confident that gender diversity does influence CSR. For example:

***I think women are much more concerned about CSR than men.** In my experience I have always found, or have found over the last 10 or 15 years that **women not only understand it quicker but it matters more to them.** I think I would go further in saying that most men will do it because it's good for the company, most women insist upon it because it's good for the world. Now this is not a criticism of either men or women, it is a slight difference in view point and it ends with very good debate. (Chair 4)*

*I would say that we have two women on the board and **I would say that at the margin we give more encouragement.** We probably ask more **questions.** We probably try and lift the bar, however it is not a dramatic difference from the men but it is different. (Woman director 3)*

In general, the results with regard to the influence of gender diversity on CSR decisions seem to be mixed. There were different opinions among the participants. Some feel that there is a positive effect of gender on CSR decisions while others feel there is no effect, highlighting the difficulty in identifying a gender effect on one particular decision or aspect of the board's role. In fact, two out of three women

directors did not believe that they themselves can make a difference in the CSR decisions made. This may be due to the small number of women on boards, which will be discussed later. Another reason for difficulty in identifying a gender effect on CSR decisions could be that the majority of interviewees were men (five out of eight) and their male-oriented perceptions might have influenced the result.

The interviews were conducted with a particular aim to examine the gender diversity effect on CSR decisions. The interview data was therefore analysed to examine the differences in perceptions between men and women participants. The majority of previous literature identifies that there are significant differences in values, perceptions and beliefs between men and women, including about their board role (Eagly et al. 2003, Powell 1990, Oakley 2000). Compared to men, women seem to possess more communal characteristics, such as a concern with the welfare of other people and being affectionate, helpful, kind, sympathetic, interpersonally sensitive, nurturing, and gentle (Eagly et al. 2003). Moreover, the majority of the literature on gender and CSR (section 3.4.4 Chapter 3) has identified that women are likely to have a positive effect on CSR related issues (Stanwick and Stanwick 1998, Williams 2003, Bernardi and Threadgill 2010, Smith et al. 2001, Wang and Coffey 1992, Siciliano 1996). Given this, the initial mixed results on perceptions of gender's effect on CSR decisions is unexpected. However, as noted in the earlier sections of this Chapter, women directors' responses often reflected their genuine concern towards society or the community, suggesting that they are likely to have a positive effect on CSR related decisions as these issues would appeal to their personal interests.

Further, a majority of the respondents indicate that CSR is becoming an embedded strategy and businesses do not consider it as a separate set of decisions. Thus, it could be possible that the board members were unable to identify the separate effect of gender on CSR decisions. Further still, the sample companies' boards consisted of very few women directors (one to three on each board), hence it could be possible that this contributes to board members' difficulty in identifying specific effects of gender diversity on CSR decisions. This is consistent with a recent study which indicated that the presence of a minority of women on the board has an insignificant

effect on board performance. In a qualitative study involving 30 companies with women directors in the United Kingdom, the United States, and Ghana, the authors investigated how the relationship between gender in the boardroom and corporate governance operates. Their findings clearly indicate that the presence of a minority of women on the board has an insignificant effect on board performance (Kakabadse et al. 2015). Until boards appoint enough women to achieve ‘critical mass’ any gender effect that does exist may not be observable.

Finally, and of particular significance for this study, it is noted from the personal observations made by the researcher during the interviews that the women participants seem to take longer and give more consideration to their answers to the questions about their role in CSR or gender diversity issues. When responding they appeared to think deeply about their answers, and often spoke about their past experiences, present experiences, or their role as a director in a different company. Some male participants did this too, however, the majority of them were quick in providing their answers, and usually kept their answers very brief. This could be due to the fact that CSR issues (including issues related to gender diversity) are ‘soft’ issues and women directors are considered to be more associated with these than male directors, as identified in the literature. For example, research has associated women with traits such as empathy, caring, concern about community welfare and others (Fondas 1997, Boulouta 2013). In addition, it could also be possible that women are more prepared for the meetings and strategic decisions (Huse and Solberg 2006), and adopt a more participative leadership style than men (Eagly et al. 2003), which enables them to have more in-depth knowledge and therefore to better explain their experiences with CSR related issues.

Alternatively, the difference noted may simply be due to differences in how men and women express themselves, rather than their underlying values or experiences. Further research is essential to shed more light on this aspect of the findings. One such possible area of future research is to use software, such as Leximancer, and use a ‘sentiment lens’ (sentiment analysis approach) which provides “an understanding of the extent to which a concept is semantically proximate to sentiment words

generally, as well as the extent to which a concept is semantically proximate to positive versus negative words” (Bell et al. 2015: 5). Specifically, sentiment analysis, not only allows the identification of sentiments associated with a concept (Zaitseva et al. 2014), but also allows for the separation of the compound concept into two groups, those with positive and those with negative sentiments (Povey et al. 2013). Hence, using sentiment analysis in combination with other methods could be beneficial in further refining the analysis of the differences in the sentiments of men and women about CSR issues. This could in turn provide more robust results on gender differences in relation to CSR issues and decisions.

(iii) Increased gender diversity consideration

The majority of the participants felt that there is a need to increase gender diversity at board level. Apart from gender diversity resulting in better decisions, participants provided various other reasons to justify why gender diversity at board level should be considered. A few participants particularly emphasized the necessity of searching for talent in the whole population. For example:

*I would say is that we must **look at the whole of Australian population** for the best people. 49% of the Australian population are male. Why would I look for the best people in less than half the population, it's stupid. So practically you look at 100%. (Chair 4)*

*Firstly, I think in the formation of boards is **nonsense to somehow discount half of the population** – complete nonsense. In the search for talent you want the widest talent. However, we haven't had that and we are waking up now, moving from where we are to where we need to be isn't automatic; isn't quick and isn't easy. (Chair 1)*

We have three out of eight are women. Firstly, my biggest driving thing is to get a different view point. So we have had one woman to begin with, then we had two. I think one is tokenism, two is better, and three is best and after three it just develops. Ultimately there should be no difference, you

*should choose the best people whether it be male or female and **it should by rights end up 50/50, but that's ahead of us.** (Chair 4)*

*We have had a change in the fact that some board directors say “this board **should reflect the community that we serve where there are close to 50 percent of women and men**”. That's actually been quite a big driver. (Woman director 3)*

In addition, some participants felt that the board members who had had good experiences with women in the workforce seem to be pushing for more gender diversity. The following two quotes highlight this view:

*I notice that there have been some giant leaps with chief executives who **have daughters in the workforce** who want their board to reflect the community. So they've been some changes there. There have been changes where board of directors **have personal experience with women** in the workforce and they say “we have got to change this”. There are others who will buy the **diversity argument**, the better conversation, the more wide-ranging discussion. (Woman director 3)*

*There are many more women now than there were 20 years ago doing all those things. There are more boards prepared to go outside their own particular technical expertise and think about what are the broader requirements, and **they are finding that women can do it.** (Chair 2)*

However, while talking about increasing gender diversity; some participants also raised concern about a gender quota risk, reinforcing the view expressed earlier that it is more important to have the right experience and expertise:

If you are so anxious to get a female on your board and you do not bring an appropriate director on your board you set the female up to fail. Not only do you have an immediate problem but you set back the whole movement of gender diversity on the board. We don't want to bring any director onto a company in order to have that director fail. That's not the point of all of

this so as we can tick a box to say we have a female because it's not the point. (Chair 1)

*I think one of the challenges when you have an environment where you have a relatively restricted number of senior women available with board experience in an environment where all the major companies are being encouraged to increase gender diversity you have a bit of **an issue around very competent female board members who are over committed**. There is such demand that they end up being on too many boards. I think they can get into a position where they become an almost generic professional board member without enough time to devote to the specific industry or industry sector or company that they're involved in. (Chair 3)*

Although there is no indication of whether increasing gender diversity is essential specifically for CSR decisions, the results indicate that there is strong support for increasing gender diversity at the board level. In summary, various opinions were expressed by the participants providing justification for enhancing gender diversity but also that there is a risk of tokenism (Terjesen et al. 2009). These responses reflect a change in attitudes of board members about women representation, and this is discussed next.

(iv) Changes in the board attitudes

It has been identified in the previous literature that men's attitudes change when there are women on the board (Huse and Solberg 2006). However, in the interviews conducted no issues were raised with regard to gender's effect on changes in men's attitude in the boardroom. For example:

I think the behavioural change is a more broader one around diversity. If they were all males with diverse cultures such as Japanese, European, American, Indian and Chinese the behaviour of the board is more mature because of that diversity and certainly as opposed to if they were all Australian men. Certainly females add to that diversity, add to that

*completeness of the board and more productive board discussions **but it is not just the female diversity that changes the board behaviour.** (Chair 3)*

***It has made no difference.** The men we have had there have always been good people, good discussion, it is not a 'blokey' place; I am not a 'blokey' person, so there has not been an enormous change. What has happened is that there is an awareness around the table that there is a difference of thought and that makes people work harder. (Chair 4)*

One reason for participants not seeing changes in attitudes in men may be due to the fact that more and more male directors are, nowadays, working with women directors. Supporting this, a few respondents state:

***It so much depends on the quality of man on the board.** With a big global board where you have picked the *crème de la crème* around the world, **they're use to working with women, they have worked with women in the US, and they have worked with women in their banks.** They become very comfortable with the discussion and very professional and very able to cope with that. (Woman director 3)*

I think everyone on the board accepts the mix we now have is better for doing the job for the company than the mixes we have had in the past. (Chair 2)

A similar view was raised by another participant who felt that the board environment is changing; it is not the same male dominated environment that it was in the past:

***May be the environment was more male dominated in the past and was different.** But in the last ten years, I haven't noticed it. I think, the men who are my fellow directors are in that cohort, they are intelligent, they are well behaved, they are reflective, they are not of the same mould as men that I worked with twenty or thirty years ago. (Woman director 2)*

It appears that the existence of women directors on boards does not affect the behaviour of male directors as documented by some studies (Huse and Solberg 2006, Bilimoria and Wheeler 2000, Burke 1997, Singh 2008). The results rather reveal that the board environment is changing. It is no longer as male dominated an environment as it was in the past and men are much more used to working with women directors. This could be the reason why women directors also could not identify any changes or differences in male directors' attitudes when there is the existence of more women directors on the board. It seems that, compared to the past, male directors, through their working experience, are able to see the talent and capabilities of women directors. Moreover, they may be more likely to listen to women directors which perhaps could have some positive effects on CSR decisions at board level.

One related behaviour change that was identified, at least by one women director, is that men are beginning to appreciate the women directors' point of view more. As noted earlier, this respondent states:

I've had enough men say to me over time "Well you just changed the dynamic" or "you changed the board" or "you changed the discussion." ...I think increasingly men really like it. ...they get ... this has added value although it's very slow progress. (Woman director 3)

(v) Challenges for women

The literature review indicated that women directors are more likely to face challenges both while contributing towards discussion as well as in trying to get appointed to a board. Consistent with this argument, interview participants did identify some of these issues. In particular, prior research has claimed that unless there are three or more women on a board, individual influence will be minimal (Konrad et al. 2008). Some participants mentioned that making sure that their voice can be heard is one of the challenges they face and an additional voice definitely provides extra comfort. These views are reflected in following three quotes from the three women directors who were interviewed:

Well I definitely think that having a voice is potentially a challenge but it depends on the personalities. I wouldn't want to be the only woman on a

*Board, I think that is difficult even at my age and my stage of life and experience, notwithstanding that I've had enormous amount of experience of being the only woman in the room as most of my female colleagues have. I think it's very difficult to get a strong voice when you are the only woman. **If there are two women it's better and I'm told that three women, 30% is actually even more better**, well it becomes the norm. (Woman director 1)*

***If the executive team is very male dominated even if the board is not, it makes it hard to get your point across.** The executive team in answering the questions at the board can be very dismissive. So it is not just the board it's how the executive team is also important in allowing diversity to flourish. You could have four women on the board but if the executive team is male dominated and they are dismissive of female questions you are done. (Woman director 2)*

***There is a degree of additional comfort when there is another woman on the board** who's nodding at you when you're giving your opinion. In addition, I also get lots of nods from around the table when we talk about things. (Woman director 3)*

On the other hand, a few participants acknowledged that their voice being heard can be a challenge, but believe that women can make other board members listen to them through various ways. Interestingly, one notes the need to consider her appearance in order to be taken more seriously, and to de-emphasise her interest in 'soft' issues, which stands in contrast to earlier responses that there is little difference between men and women, and obviously has implications for discussion of CSR:

*So the **challenge is how do I get them to listen to me?** I have a view that I don't want them looking at me. I want them listening to me. The art for me has been to **dress appropriately to be very careful about what I want to say and make sure that it counts and not speak too often.** But they are challenges. The other thing is you cannot allow yourself to talk about women's issues or diversity more generally or the soft issues all the time.*

So if you really want to command respect, you have to be able to talk about the hard issues and the soft issues. (Woman director 3)

If you have got somebody who's strong in a chair role, who is not collegiate, then anybody is going to struggle. I have seen that. But you absolutely know that you have an opinion about something that your judgement tells you is correct and needs to be heard, so it's just a question of being able to articulate it in a way that picks up the technical nuances of the business you are in. I don't think there is anything in terms of inability to be heard. (Woman director 2)

The other major challenge identified by the participants is that of board appointment, as discussed earlier, and a range of opinions were expressed. For instance, some of the male directors had the opinion that not enough women directors have the required skills (i.e. there is a shortage of skilled women directors) and those that do are overcommitted:

We have to be careful that we don't just pick them because they're female because often they are so over committed. It is a consequence of the growing desire to have more gender diversity that there's a shortage of gender. But eventually that will settle out but right now that is a bit of a challenge. (Chair 3)

Women have a challenge particularly joining the board. Unfortunately the number of women working in this industry is very small. Legal or accounting side, it is easier to find women directors, technical experience and engineering is possible but more difficult. There is shortage of women with experience in these kinds of industries. (Chair 5)

On the other hand, some women participants had a different view on this. They felt that there are a number of talented meritorious women candidates available, but boards are reluctant to appoint them:

There is still a way to go in terms of almost looking past gender and saying we will just look at this person's background and what this person's likely to bring and then you'll get all the added benefits of being a female. (Woman director 3)

The participant further gives an example:

*We keep promising every year, by this time next year we'll have more female directors on our board, but it doesn't happen. **There's not a shortage of women. The fellows interview and if they don't like you that's it you are done.** We have these incredible CVs come to us with fabulous women and then they will have an interview. The director came back and said "I don't think she'd fit, she didn't want to have a glass of wine". I said "I wouldn't have wanted to have a glass of wine if I was being interviewed for a board appointment, that's totally inappropriate, you can't do that". So they miss the point sometimes. (Woman director 3)*

The results from the interview data are consistent with the literature suggesting that women directors face difficulties in both contributing to, as well as getting appointed to, corporate boards (Peterson and Philpot 2007, Burke 1997). The findings further suggest that there are different perceptions among the participants with regard to the challenges women directors face. Four major issues were raised by the respondents. First, it was highlighted that being a minority board member, women find it difficult, or sometimes may have to put extra effort, to make other board members to listen to them. Second, there was an opinion that women directors lack skills and experience in certain types of industries (e.g. engineering and mining) which makes it difficult for companies to appoint women on to their board. Third, a concern was raised about the high demand for women directors (shortage of supply) and women directors hence being overcommitted. Interestingly, no male directors raised the issues of women having difficulty with their voice being heard or the board's reluctance in appointing women to their board. Rather they all seem to agree on the fact that either there is a lack of skills and competence in the pool of women directors, or that they are overcommitted, which makes it harder for them to appoint women to their board.

Conversely, the majority of women directors clearly had the opinion that there is no shortage of skilled women directors. It appears that the assumption that women lack adequate competencies for board positions (Burke 2000, Terjesen et al. 2009) may still exist in Australian companies.

Male directors' perception of women directors being overcommitted and having inadequate competencies as such may have a negative effect on CSR decisions made at board level. For instance, the negative perception about women director's competencies may compel male directors to disregard or ignore their contribution to CSR issues which they perceive as 'soft'. This is again supported by women directors' responses indicating that they face the challenge of making their voices heard by other board members in a male dominated environment. Similarly, the issues raised about how women may be recruited suggest that those women that are appointed may be less likely than other women directors to show an interest in CSR.

In summary, the results indicate opposing views between men and women directors on this aspect. The major challenges for women directors from both men and women respondents' perspectives are summarised in Table 6.9.

Table 6.9
Challenges Faced by Women Directors

Chairs (Men directors)	Women directors
<ul style="list-style-type: none"> • Shortage of skills • Over commitment 	<ul style="list-style-type: none"> • Difficulty of voice being heard • Board reluctant to appoint women directors

As mentioned earlier, the majority of the interviewees were men (five out of eight), providing their perception of the influence of female directors on decision making. It is worth noting that the challenges for women highlighted by the male respondents indicate that majority of them view women directors as lacking both time and skills to make an effective contribution towards board decisions. For instance, the two major challenges for women which were identified by men are the shortage of skills and over commitment, both of which indicate that men directors are unlikely to

perceive women directors to be effective contributors to board decisions. Perhaps this could be one of the reasons for the inconclusive findings of the gender effect on CSR decisions (discussed earlier section 6.2.4 - (ii)).

These challenges all lead to the potential for the number of women directors to remain low. Given the findings, both in this study and in prior research, that gender diversity is important for CSR, this has implications for both the level and type of CSR activities undertaken by companies, and also the subsequent reporting on those activities. The link between these two issues is considered next.

6.2.5 CSR decisions and CSR reporting

It is documented in the literature (see Section 2.3) that the broader definition of corporate governance extends boards' accountability to stakeholders and, in this case, this is done through CSR reporting. Since boards are responsible for strategic decisions (Judge and Zeithaml 1992, Forbes and Milliken 1999, Ruigrok et al. 2006, Carpenter and Westphal 2001), it is expected that CSR reports will reflect those CSR decisions made by the board. This section discusses some of the major issues related to the relationship between CSR decisions and CSR reporting that arose in the interviews, as highlighted in Table 6.10.

Table 6.10

CSR Decision and CSR Reporting

(i)	Board's role in CSR reporting
(ii)	The link between CSR decision and CSR reporting

(i) Board's role in CSR reporting

It is claimed in the literature that boards of directors have the potential to influence reporting, including CSR reporting (Barako and Brown 2008, Haniffa and Cooke 2005, Khan 2010, Fernandez-Feijoo et al. 2012). However, a majority of the participants in this study believed that the board's role in CSR reporting is limited. They emphasised that management is the group who are most significantly involved

in drafting and preparing the reports, whereas boards review and amend the report which is prepared by management, emphasising their strategic role. This is reflected in following quotes:

Well, the management put to us a reporting framework. We as a board or our committee of the board firstly look at that to see if it covers our own needs. Second we also look to see whether in our opinion as shareholders it would suffice for them. So instigated by management but confirmed by the board. (Chair 4)

*The way it would work in all the companies I am on is that the **management team would come up with a sustainability report**. The board would read that or in the case I always get to read and I am on the sustainability committee. Those reports are absolutely read and commented on by the board but the board does not write it itself. However, it can add or it can say we don't like this you have got to add to this, that's not enough detail on that and typically those reports will go back and I will have written comments in the margin and hand it back and then they deal with it. (Woman director 3)*

***Management decides what is the most informative and relevant subject matter**, and management drafts a sustainability report and proposes that sustainability report to the board, and the board sees that in its draft form and then there will be a discussion about it might include any director saying have you thought about adding this or why are you talking about this?, is there anything else that's there? Is anybody hiding anything? That sort of discussion but the draft comes from management. (Chair 1)*

*The governance committee reviews it thoroughly in great detail, and then it goes to the board for final approval. I think that the governance and HR sub-committee of the board is over-sighting every bit of what we report annually and we are also intimately involved in the decisions. **I mean we***

are obviously aware of them because we make those decisions. (Woman director 2)

It also appears that the board has a lot of trust and confidence in management in this area:

*Well, it is management. I must say **the management within the organisations that I work, are very much like to talk about what they are doing within communities**, they really enjoy that and they like bringing the board along with that. So I don't think that there is any tension around that at all, from my experience. (Woman director 1)*

*The board decides in the final analysis but the **board really decides very much based upon the recommendations of the senior management** charged with CSR responsibilities. So we are very guided by what management recommends we report on as being important as they are the experts in the area. (Chair 3)*

*We don't draft it. We amend it, we see drafts and we have input, and we change it and we talk about them, and I talk about what we want to have in it. There is a lot of dialogue goes on. **It's just not hard when they do it out of their own experience and knowledge** of what's going on around the place, which hopefully is not too disconnected with what I see. (Chair 2)*

Overall the responses are as expected, and indicate that management is generally charged with drafting and preparing the CSR report. Moreover, there is a strong agreement among the respondents that CSR reporting decisions are completely the responsibility of the management, suggesting that boards have a very limited role in any aspect of CSR reporting, other than reviewing, amending and approving the report.

(ii) The link between CSR decisions and CSR reporting

With regard to the link between CSR decisions and CSR reporting, the majority of the respondents felt that CSR reports prepared by management are likely to reflect major CSR decisions made by the board:

*I am not sure that there is a framework that says these are the major decisions and these are reporting. The report that we produce each year tends to a product of history and **what you have built up and things change over time**. I think that the governance and HR sub-committee of the board is over-sighting every bit of what we report annually and we are also intimately involved in the decisions. (Woman director 2)*

Well the way it normally happens is that, there is a discussion of the board, an outcome is reached and then it's carried out by management and the reporting happens. (Woman director 1)

*By the time it gets to me, generally it's a well-developed draft but **hopefully they do, reflect the kinds of discussions we have about these things**. (Chair 2)*

However, the responses with regard to this link are not clear. The majority of the participants believe that the major CSR decisions they are involved in are likely to be reflected in CSR reports (drafted by management) and that they have further opportunity to review/amend and question management. Overall, it seems that board members assume that CSR reports prepared by management are likely to include the major CSR strategies and decisions made by them. However, such a result, that is, the boards' belief in management, is not enough to determine the existence of a positive relationship between CSR decisions and reporting. It could be possible that boards of directors simply rely on management regarding reporting decisions, including the quantity and quality of the information in the reports.

It is interesting that the interview respondents all interpreted this question as being about who writes or drafts any reports made on CSR issues, even though the question

asked about whether strategic CSR decisions are ‘reflected’ in CSR reporting. The operationalisation of the link between decisions the board makes which affect stakeholders, and the reporting to those stakeholders, was not really acknowledged.

Overall, the interviewee responses with regard to the link between the CSR decisions and reporting indicate that it involves the following four initial steps:

- First, high level decisions on CSR direction are made by the board which involves significant interaction with management, and sometimes these decisions may even be driven by management.
- Second, management carries out CSR initiatives / activities that meet the strategic direction set by the board.
- Third, reports are written and drafted by management which is assumed to reflect the major CSR decisions and direction set by the board or through the board’s interaction with the management.
- Finally, the board (or a sub-committee of the board) reviews, amends and approves the contents of the report which further involves interaction with management.

However, in depth analysis of interviewees’ perceptions clearly indicate that the CSR process, and particularly boards’ role in CSR and CSR reporting process, is much more complex than the aforementioned straightforward steps imply. In fact, board members appear to have a limited role in CSR, rather it is more often a management responsibility and ,may often even be initiated or driven by management. Some of these perceptions are reflected in the following selections from the quotes:

*I think the major player in everything is **management**. Board supports and challenges management. (Chair 1)*

*I think that it is the **chief executive and the management team** that sow the seeds of this more primarily than board of directors. (Woman director 3)*

*Well definitely the Board of Directors have an input and I think its **management too**. Moreover, it is a partnership. (Woman director 1)*

*Well, the **management put to us a reporting framework**. (Chair 4)*

***Management decides** what is the most informative and relevant subject matter. (Chair 1)*

*board really decides very much based upon the **recommendations of the senior management**. (Chair 3)*

*It's just not hard when they [**management**] do it out of their own experience and knowledge. (Chair 2)*

Overall, the responses on the board's role in CSR and CSR reporting indicate some concern about the level of board oversight of management with regard to CSR issues. In addition, many assumptions are made by board members that management will include all relevant information in the reports and that they are able to initiate projects and reports that fulfil strategic objectives of the firm. The results highlight the importance of further research that includes interviewing management which could provide more insight into board effectiveness in CSR-related issues. This aspect is further discussed in the discussion section in Chapter 7.

The link between CSR decision and reporting is presented diagrammatically in figure 6.3.

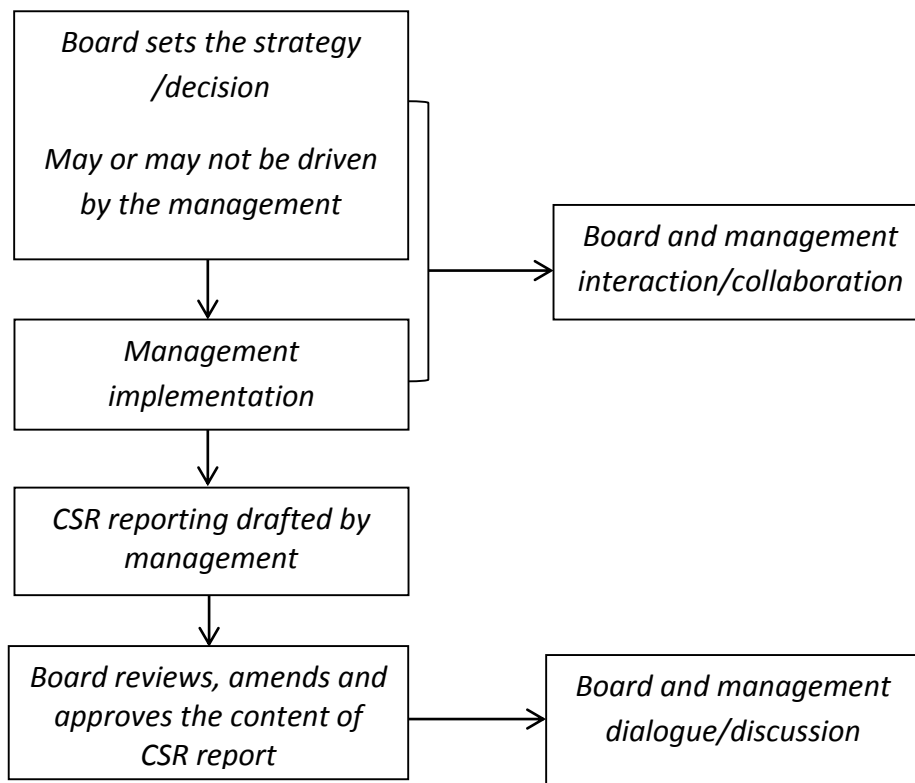


Figure 6.3

The Link between CSR Strategy/Decisions and CSR Reporting

While Figure 6.3 depicts a process that reflects the expectations of upper echelon theory, in that the board and senior management are the main actors in determining strategy and decisions, there is some question from the interviews on where the board sits in this process. Further research is required to unpick this relationship further, and the implications of this are discussed in the final chapter of the thesis.

6.3 Chapter summary

This chapter examined the perceptions, opinions and attitudes of directors towards issues related to CSR, board diversity, and specifically the gender diversity effect on CSR decisions, and the relationship between CSR strategy/decisions and CSR reporting. The extensive data obtained from the transcripts have been summarised and presented in a series of themes. First, the results indicate that boards of directors

in Australia do make strategic CSR decisions and that there is a significant interaction between the board and management that takes place in the decision making process. Second, the findings support the resource dependency argument in favour of board diversity, suggesting that diversity is crucial for effective board level decisions, including CSR decisions. Third, particularly with regard to the gender effect on CSR decisions, the results are somewhat inconclusive. Although respondents provided mixed opinions, women directors' overall responses compared to men identified that they are more likely to be concerned about CSR and stakeholder issues, hence supporting a stakeholder perspective on diversity. Finally, the findings are not clear about whether CSR reporting is the outcome of CSR strategic decision making. It seems that CSR reporting is almost completely the responsibility of management. Although the board assumes that the decisions they make are included in the reporting, it is not clear from the responses how this process occurs. Rather, it seems that boards may rely too much on management with regard to CSR reporting, leaving open the possibility of short-term, financial-success oriented issues being given priority. Further, only a few participants mentioned that they have the final say and that they thoroughly review and amend the reports. The combination of this and the view that CSR is not considered a separate strategy, suggests that CSR is not given a high priority by boards. Similarly, if management make the major decisions around reporting, there is little evidence to support the proposition that stakeholder theory is appropriate to explain the link between board diversity and reporting.

It is important to consider the results of the interviews in conjunction with the results of the phase 1 of the study in order to provide an overall picture of CSR reporting and board diversity. Therefore, the results of both phase 1 and phase 2 are discussed next in Chapter 7. Their implications and the conclusions drawn, are then presented in the final chapter of the thesis.

Chapter 7:

Findings and Discussion

7.1 Introduction

This chapter describes the combined results from both the quantitative and qualitative methods and brings together the findings outlined in Chapters 5 and 6 to present a discussion of how they address each of the research questions examined in this thesis. The next section, 7.2, discusses major findings relating to each research question, drawing on both the quantitative and qualitative aspects of the study. Section 7.3 provides a summary of the overall discussion.

7.2 Summary and discussion

Due to globalisation and technological advances, the nature of organisations and their relationship with stakeholders has been evolving and now requires boards of directors to "... move forward from the traditional role of controlling the management, toward a much more proactive role" (Hung 2011: 397). In other words, boards' roles and responsibilities have been extended from the traditional shareholder-centric ones to encompass various stakeholders, and this has been highlighted as an important part of the broader perspective of corporate governance.

Within this broader view, board composition is cited as a major factor that is assumed to have some influence on both CSR and CSR reporting. One of the emerging and rapidly growing areas of research is board diversity. Greater diversity among board member characteristics has been advocated as "a means of improving organisational performance by providing boards with new insights and perspectives" (Siciliano 1996: 1313). Even though a reasonable consensus exists in the literature suggesting that corporate governance, in particular, boards of directors, plays an important role in ensuring companies meet CSR objectives (Mackenzie 2007), limited research has actually examined whether diversity among board members has any influence on CSR and even less has considered CSR reporting. Based on this knowledge gap this thesis aimed to examine the characteristics of board members

and the importance of these attributes for the CSR reporting. To recap, the primary objectives of the study were:

- To examine whether various board diversity characteristics such as independence, tenure, gender and multiple directorships (independently), as well as overall diversity (collectively), influence CSR decisions and to what extent CSR decisions are reflected in CSR reporting (in general).
- To examine how women directors influence the decision making process of CSR (specifically).

As outlined in Chapter 2, the study assumes that boards of directors, being strategic decision makers, are responsible for CSR decisions and that CSR reporting is an outcome of these board level decision processes. In order to examine the general research objectives, the study adopted both quantitative and qualitative approaches. Specifically, the following research questions were investigated:

RQ1. What is the relationship, if any, between board diversity and corporate social responsibility (CSR) reporting? Do women directors have an impact on CSR reporting?

RQ2. Is CSR a strategy and, if so, to what extent does board diversity influence decisions regarding CSR?

RQ3. What role do women directors play in a board's strategy or decision making processes regarding CSR?

RQ4. What is the relationship between board strategy or decision making related to CSR, and CSR reporting?

The major findings of the overall investigation undertaken in this thesis are summarised and discussed next. The findings are specifically discussed in relation to the research questions underpinning this research.

7.2.1 Diversity and CSR reporting (RQ1)

The results from both the quantitative and qualitative analyses discussed in this section are predominantly related to first research question (RQ1) which is concerned with the relationship between board diversity and CSR reporting.

As noted in Chapter 5, Australian companies generally have small boards with a majority of independent, non-executive directors who hold multiple directorships. Directors' tenure is predominantly at the lower end, very few are women directors. The results show some similarities to those found in previous studies (Chen et al. 2009, Bonn et al. 2004, Kang et al. 2007) indicating that Australian companies' boards still seem to have lower level of diversity in their composition. Interestingly, the comparison of data over the period highlights that there have been changes in both CSR reporting and board attributes over the three years.

It appears that having diversity in multiple dimensions is likely to generate more alternative ideas, facilitate in-depth discussion and encourage various perspectives and views, which helps the board to come to more robust decisions particularly when confronted with complex decisions like CSR. Specifically with regard to the association between board diversity and CSR reporting, preliminary results from the regression analyses demonstrate that most diversity variables: gender, tenure and multiple directorships have some influence on the level of CSR reporting in large Australian listed profit sector firms. The fact that the overall diversity measure was highly significant suggests that diverse boards perform better on CSR reporting than less diverse boards. Hence, in relation to RQ1, there is evidence that diverse boards are positively related to CSR reporting.

More comprehensive explanations with regard to each individual diversity characteristic's effect on CSR reporting, including enriched information achieved from combining both methods to answer the first research question, is presented below.

(i) Gender

Of particular interest is the result for gender. The quantitative results indicate that there is a positive significant relationship between gender diversity in the board room which is consistent with some previous studies that found women directors to be associated with a higher levels of CSR reporting (Barako and Brown 2008, Liao et al. 2014, Fernandez-Feijoo et al. 2012, Rao et al. 2012).

Moreover, the results from the interviews clearly indicate that, compared to men, women board members are more likely to have different values and perceptions towards CSR issues and these values are generally more sensitive to community and stakeholders related issues. The results therefore suggest that more women directors should be appointed to boards because they can make a significant contribution to CSR aspects of firm. Although gender diversity showed a positive relationship with CSR reporting in the quantitative results, and, from the qualitative results gender seems to have positive influence on CSR decisions, the interviews did not suggest that higher representation of women on boards has a direct impact on disclosure. Even in the quantitative analysis, the gender effect on CSR reporting became insignificant once it was decoupled from general governance disclosures. Therefore, in relation to RQ1, there does not seem to be strong relationship between gender and CSR reporting, but there is some evidence that, in relation to RQ3, women may have a positive impact on CSR-related decisions made at board level (which is discussed in later section 7.2.2). Specifically, the difference in values and attitudes to social issues suggests a propensity to prioritise CSR by women directors. This suggests that increasing representation of women on boards may only indirectly impact on CSR reporting.

The fact that there is a less than clear relationship could have several explanations. First, this may be due to the current small number of women directors on boards in Australia (Rose 2015), thus impacting on the sample. It is clear from the descriptive statistics that there is a very low representation of women directors on Australian boards (an average of less than one woman director per company). Second, the reason could be that, as claimed in the literature, even though they are concerned

about CSR issues, due to their minority status their voices are not easily heard, an issue which was raised in the interviews by some of the women directors. Being on a board with only a few, or even no, other women may mean they find it difficult to express their opinion and may find it hard to be heard on these issues. In fact, previous research has found that when the boards consist of at least three women (reaching critical mass), they raise issues more freely and become more active (Konrad et al. 2008) compared to when there is only one woman in a group of men. Finally, as highlighted in the interviews, it could be that women directors hold too many directorships and this is restricting their ability to effectively contribute or devote enough time to strategic issues like CSR. This is further confirmed by the results of interaction effect between women directors and multiple directorships which showed a negative effect of gender on CSR reporting (see Chapter 5) when women directors hold multiple directorships.

(ii) Tenure

The length of board tenure showed a negative impact on CSR reporting. This result is in line with the argument posited by the management friendly hypothesis (Krüger 2009, Vafeas 2003) that suggests that longer tenured directors may not be able to serve optimally in directing strategy and policy for long term corporate sustainability (Handajani et al. 2014). Although longer tenured directors gain an in-depth understanding of the company, it seems that directors in Australian companies with higher tenure may become closer to management and hence be hesitant to oppose management's viewpoints. Therefore, the boards consisting of more directors with higher tenure tend to follow management rather than put forward alternative opinions and bring robustness to the decision making process (Hafsi and Turgut 2013). This is supported by the interview data, where it became clear that boards tend to follow management's lead when it comes to CSR reporting, notably expressed by the Chairs, who generally have longer tenure (see Table 6.1). This could also contribute to the reason for a lack of strong connection between CSR decisions and CSR reporting.

Another explanation could be that tenure is linked to age and as directors age they may not be comfortable with change, or able to easily change their attitudes. CSR

issues are being given more attention recently and older directors may find it more difficult to accept such changes compared to younger directors. This may be the case for Australian listed profit sector companies because boards in these companies are getting older (as shown in the descriptive statistics) and newer issues, such as CSR reporting, may therefore not be given as much prominence. As older members retire and younger board members are appointed it will be important to study whether this begins to change. Although the interviews provided some indication of the importance of experience (for which tenure is considered to be a proxy) as a diversity characteristic in decision-making, including CSR, further exploration of this aspect was out of the scope of this study. More qualitative studies, particularly focusing on tenure/experience, therefore could provide more insight into the relationship between board tenure and CSR reporting.

(iii) Independence

With regard to board independence, it seems that ASX recommendations and obligations have led to the acceptance of a large proportion of independent or outside directors on Australian boards. The result of this high level of independence conveys evidence of the changing nature of boards, with a move towards greater diversity and independence.

Surprisingly, with regard to the relationship between board independence and CSR reporting, the results showed an insignificant relationship. This result does not corroborate the majority of prior research (Ibrahim and Angelidis 1995, Webb 2004, Post et al. 2011); however, it is consistent with a few recent studies (Haniffa and Cooke 2005, Lorenzo et al. 2009) which have also shown insignificant results. It is worth noting that, unlike this study, prior studies have not combined all the three aspects of board independence (independence, non-executive and outside directors) but rather have considered independence or outside directors or non-executive directors separately, which may also explain the difference. Furthermore, being outsiders, independent directors themselves may lack firm specific information (Donaldson and Davis 1991) and therefore may not be able to effectively perform their role. Finally, it could be that there is less variance among the sample firms in

this study and the choice of outside directors in these firms may have been influenced by existing directors who are likely to want others who have beliefs and values similar to theirs (Hafsi and Turgut 2013). Interestingly the insignificant result from the quantitative analysis is also supported by the qualitative results which further provided mixed responses indicating both positive and negative arguments. A few respondents even raised some confusion around the definition of independence itself. It was suggested by a few interviewees that the existence of ‘non-executive’ directors may be more crucial for decisions rather than independence *per se*, which further confirms the importance of examining the separate effect of these characteristics (independence, non-executives and outside directors) on CSR reporting. Further research taking into account of these aspects would be beneficial.

(iv) Multiple directorships

Concerning multiple directorships, the results are consistent with some studies that claim a direct relationship between multiple directorships and CSR reporting (Rupley et al. 2012, Razek 2014). The significant results reported between multiple directorships and the extent of CSR reporting corroborate the notion that directors are more likely to promote higher CSR reporting due to experiencing this through their participation on other boards. This also relates to the common idea raised in the literature that directors sitting on multiple boards have more expertise and knowledge, and are likely to implement the experience and knowledge gained by sitting on those other boards (Haniffa and Cooke 2005), which in turn benefits stakeholders. This result is in line with the resource dependency view indicating that diverse boards bring knowledge, skills and networking which can become critical resources for decision making, and hence lead to more accountability to stakeholders.

Although the evidence presented here does not strongly support calls by corporate governance activists for limits on the number of directorships held by any one individual, it should be interpreted cautiously. Because board members in Australian profit sector companies held only a few directorships (Kiel and Nicholson 2006) it could be possible that directors with multiple directorships are still be able to devote enough time to each board they sit on, and are thus more likely to be committed to

their role and therefore issues related to CSR. This aspect was not directly raised in the interviews but a few interviewees, while responding to questions about the gender effect on CSR decisions, indicated that the high demand for women directors compels them to hold too many directorships which may become detrimental to board outcome. These findings, although they warrant further research, provide some indication that companies and policy makers (such as the ASX) should implement requirements for a maximum level of directorships.

(v) Firm characteristics

The study also documents the relationship between CSR reporting and a number of general firm characteristics. Firm size is consistently significant supporting the suggestion that larger companies have more accidents and other incidents (Krüger 2009) and have greater visibility and demand for outside capital (Cormier and Gordon 2001); evidence that is consistent with claims in prior research. Further, with regard to industry, the companies operating in the energy and consumer sectors were found to be significant whereas materials and finance are not, supporting the prediction that the industry sector within which companies operate is likely to influence CSR reporting. CEO duality on the other hand showed a negative association. Despite the low percentage of companies in the sample having CEO duality (10%), the result showing a negative relationship further encourages the separation of the roles of chair and CEO.

Overall with regard to RQ1, the quantitative analysis discussed above clearly indicates the existence of the potential for diversity to influence CSR reporting. Surprisingly the qualitative interviews did not directly support this result, but rather showed inconclusive findings. This aspect is discussed in detail in a later section of this Chapter (7.2.3) which discusses RQ4 examining the connection between board level CSR decisions and level of CSR reporting.

7.2.2 Diversity, gender and CSR decisions (RQ2 and RQ3)

As noted in Chapter 2, CSR reporting in this study is assumed to be an outcome of boards' decision processes. In order to explore this link and to have an in depth

understanding of these complex issues, the qualitative component of the study further considered the issues around board diversity (RQ2) and specifically gender diversity's effect on CSR decisions (RQ3). This section discusses the major findings related to these two research questions (RQ2 and RQ3).

Concerning board diversity, findings from the interviews clearly indicate that diversity among board members has the potential to influence decisions, including those related to CSR. This supports the assumptions of resource dependency theory, which suggests that board members' experience, knowledge and skills (expertise) are important resources that enhance board decision-making (Pfeffer and Salancik 1978, Hillman and Dalziel 2003, Fich and Shivdasani 2006). However, some interesting findings are worth noting. The interviewees mainly focused on the importance of diversity in overall business decisions and very few responses related it specifically to CSR aspects. One reason for such a result could be that, as noted by the interviewees, CSR is becoming mainstream and nowadays is most likely to be embedded in the core business decisions and interviewees hence could not identify a separate effect of diversity on specific CSR decisions. Another reason could be that, as highlighted by a majority of interviewees, CSR decisions involve significant influence of management. Interestingly the interview data highlighted that while management is specifically involved in carrying out CSR activities, CSR decisions of the board can sometimes even be driven by management. The interviewees thus might not have been able to confirm their specific role in the CSR decision process. This aspect should be of concern for Australian companies and may be a major obstacle in achieving their CSR objectives because management is often focused on short term profit and hence they are more likely to compromise CSR activities in order to gain short term benefit, unless there is a 'win-win' argument to be made. This perspective may be reinforced by boards, as most of the Chair interviewed stressed the importance of 'win-win' or business benefits from CSR. Such a result further suggests that both the theories used for the analysis in this study (resource based theory and upper echelon theory) are perhaps not entirely applicable to studies which examine the board diversity and CSR relationship. However, it was difficult to identify to what extent management is really involved in CSR decisions or to what

extent their interaction with the board influenced these decisions, so further research from a management perspective is warranted to complete the picture.

Another interesting concept that emerged is the role of diversity beliefs (Van Knippenberg et al. 2004, Homan et al. 2007) which is rarely discussed in the context of CSR literature. It has been extensively claimed by diversity scholars that diversity beliefs, that is, individual beliefs about the value of diversity, can have a positive or negative effect on group processes or performance (van Knippenberg and Haslam 2003, van Knippenberg et al. 2007). In line with this, a few interviewees recognised that diversity may slow down the decision process or may result in negative outcomes if group members do not believe in diversity, indicating the importance of future studies that examine diversity beliefs in the boardroom and its effect on CSR related issues.

Particularly with regard to gender diversity, although the findings could not identify a strong relationship with CSR reporting, results clearly support a positive effect of gender diversity on CSR decisions at board level. Specifically, women directors' responses often reflected their genuine concern towards society or the community, suggesting that they are likely to have a positive effect on CSR related decisions. This observation is consistent with previous literature that claims that women are more concerned about the needs of others (Nielsen and Huse 2010b), more responsive to society in crisis situations (Williams 2003), and have the ability to contribute strategically and generate more productive social responsibility activities (Bilimoria 2000). Moreover, women directors' values and perceptions of CSR issues appeared to be different from male directors, suggesting that values and perceptions of individuals do influence CSR decision making at senior levels, which is consistent with upper echelon theory (Hambrick and Mason 1984). However, as previous literature has identified, the qualitative results also identified some of the major challenges for women directors (such as tokenism, minority status, difficult to make their voices heard, etc.) and this is believed to hinder them in making effective contributions to board level discussions. Moreover, one woman director particularly mentioned that a board consisting of three women directors is ideal in allowing the women directors' contribution to the board to be recognised, supporting the critical

mass perspective (Konrad et al. 2008). This concept has been extensively highlighted in gender diversity studies. This may perhaps provide some explanation for the quantitative result which showed only a low relationship between gender and CSR reporting. As highlighted in previous studies (Bear et al. 2010), due to their minority status, women's contribution may not be as effective as that of male board members. Future research examining at least three or more women on a board and their effect on CSR decisions may be able to provide better understanding on this aspect.

Overall the analysis of the effect of diversity (including gender diversity) on CSR decisions, indicates that diversity, both in term of resources and values/perceptions, plays an important role in board discussions, which has the potential to influence CSR decisions.

In addition to examining the board diversity effect on CSR decisions, the interviews were also intended to identify whether, and to what extent, CSR decisions are reflected in CSR reports (RQ4). This relationship, between board diversity and CSR reporting (RQ1), although finding limited support in the quantitative analysis (as discussed in section 7.2.1), the results from the interviews focusing on examining the relationship between CSR decisions and CSR reporting (RQ4) was unclear (Chapter 6), and this is discussed further in next section.

7.2.3 CSR strategic decisions and CSR reporting (RQ4)

This section provides discussion on the final research question (RQ4) explaining the link between board's CSR decision processes and CSR reporting.

As noted earlier, with regard to the relationship between CSR decisions and CSR reporting the results seem to be inconclusive. Moreover, the board's role in CSR reporting seems to be limited which is inconsistent with recent claims in the literature that boards of directors have the potential to influence CSR reporting and are a major part of the governance of firms' accountability to stakeholders (Barako and Brown 2008, Haniffa and Cooke 2005, Khan 2010, Fernandez-Feijoo et al. 2012). Although a few interview respondents indicated that they thoroughly review and question

management on content of the CSR reports prepared by management, the majority seem to assume or believe that management is likely to include all major, or at least all relevant, decisions in their reporting (see Chapter 6). This suggests that boards in Australia play an oversight and approval role and perhaps excessively rely on management with regard to CSR reporting. As such, boards' strategic decisions are at an extremely high-level and hence not necessarily reflected in the reports. In addition, it was observed in the interviews that board members could not provide proper explanations about how their decisions are translated into reporting. Surprisingly, no participants acknowledged their accountability to stakeholders. Perhaps this is the reason that in the quantitative modelling, where separate analyses of diversity's effect on social and environmental reporting (excluding governance) were conducted, the result was insignificant for most of the board variables, including gender (Chapter 5). In this vein the result is in some ways incongruent with the ASX Corporate Governance Code which clearly requires CSR to be a board responsibility. Specifically, the ASX principles state that "in making ethical and responsible decisions, companies should not only comply with their legal obligations, but should also consider the reasonable expectations of their stakeholders including shareholders, employees, customers, suppliers, creditors, consumers and the broader community in which they operate" (ASX 2007: 21). Moreover, the result also implies that studies based on stakeholder theory, assuming that boards of directors are responsible and accountable to their wider group of stakeholders and hence to CSR reporting, need to be cautious in making such assumptions.

Overall, the results from both the quantitative and qualitative analyses, although providing reasonable support for the notion that board diversity has the potential to influence the CSR decision making process, were not clear in explaining whether (or to what extent) these decisions are reflected in CSR reporting. This is presented below in Figure 7.1 which shows only a dotted line between decision making and reporting. Perhaps future studies focusing on more qualitative research investigating how the CSR decision process occurs, how it translates into CSR reporting, and to

what extent boards review and amend the process, may provide a better picture about the link between boards' decisions and CSR reporting.

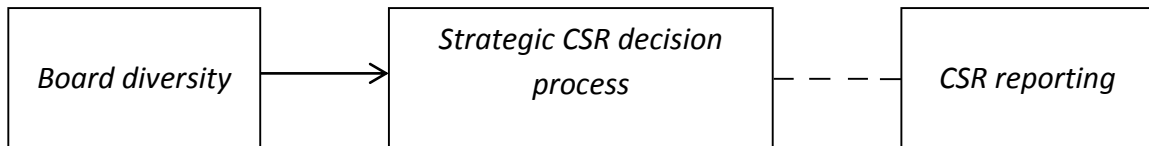


Figure 7.1

Board Diversity, CSR Decision Making Process and its subsequent influence on CSR Reporting

7.3 Chapter summary

As stated in Chapter 1, this thesis is one of the few studies that integrates both quantitative and qualitative methods in the corporate governance area, with a particular focus on understanding the effect of diversity in the boardroom on a firm's CSR reporting. This chapter presented a discussion of the overall results and explained the combined findings of both methods which provides further insight into the relationship between board diversity, CSR decision making and CSR reporting. It also highlighted some interesting and challenging issues which are recommended as the subject to further analysis. The next chapter concludes the thesis by presenting the key findings drawn from the study, including its contributions, practical implications, limitation and avenues for future research.

Chapter 8:

Conclusions and Implications

8.1 Introduction

This chapter provides the conclusions of the thesis and describes the contributions, implications, limitations and suggestions for future research. Section 8.2 gives an overview of the main findings of the study and this is followed by contributions of the thesis for the literature, theory and methodology. Practical implications are presented in section 8.4 and finally, in Section 8.5, limitations of the study and distinctive avenues for future research are provided.

8.2 Key findings

CSR and boardroom diversity are two extremely important issues on the agenda of publicly listed companies globally (Harjoto et al. 2015). The preceding chapters provide an in-depth analysis of the relationships between diversity in the boardroom, CSR decision making and CSR reporting for a sample of Australian listed profit sector companies. From this, four key findings provide the basis of the overall conclusion of this thesis, and these are as follows:

1. CSR is seen as an essential, embedded element in companies' core business activities, rather than as a specific strategy, but there is some indication that women directors and Chairs view it differently. In particular, the findings indicate that male directors perceive CSR as a 'win-win' business decision, whereas the women directors see CSR as an obligation to 'do the right thing'.
2. Board diversity is considered to be a crucial aspect of decision making, including decisions about CSR. Diversity in terms of gender and experience are perceived to be particularly important, but there is evidence of challenges to a diverse board. In particular, the interaction of women directors who hold multiple directorships (and this have more experience) showed the potential for the demands on them resulting in poorer attention to CSR-related issues.

3. There appears to be a significant level of management involvement in CSR decisions, and management is almost exclusively involved in CSR reporting. The evidence suggests there is some question over the level of the boards' role in CSR-related decisions. This has implications for the applicability of upper echelon theory and its relevance to boards. Perhaps boards are operating at such a high level that upper echelon theory does not apply and is only suited to examine management. Similarly, the result suggests that there is limited evidence to support stakeholder theory as appropriate to explain the link between board diversity and reporting. Overall the combination of this and the view that CSR is not considered a separate strategy, suggests that CSR may not be given much as importance at board level as expected.
4. Women directors' values and perceptions about CSR issues seem to differ from male directors. Notwithstanding point 3 above, this is in line with upper echelon theory suggesting that personal values and perceptions of top level management can influence decisions. However, further studies examining boards consisting of at least three women directors (i.e. where there is critical mass) would provide more robust results on the effect of gender on CSR decisions.

8.3 Contributions of the study

This study makes important contributions to the knowledge of the field in several ways. These include contributions to addressing gaps in the literature, additional insights for theory and some important methodological contributions.

8.3.1 Literature

The study contributes to a better understanding of corporate governance issues, particularly the role of board diversity, in Australian listed profit sector companies. First, this study extends the topic of prior studies regarding traditional board composition (Wang and Coffey 1992, Williams 2003, Bear et al. 2010) by examining board diversity and CSR. While previous studies have examined the effect of board attributes on financial performance, there has been limited research done linking various board diversity characteristics to CSR decisions or CSR reporting. The

results of this thesis hence not only contribute to the body of knowledge in the area of corporate governance, but also present important implications for corporate governance developments in Australia. Since there is still low level of diversity in Australian boards (as shown in this study), the ASX could consider tightening the guidance on its board diversity policy and encourage Australian profit sector companies to consider board diversity in their board appointments, which may be beneficial in promoting CSR and CSR reporting performance in Australia.

Second, unlike previous studies, the findings are not limited to individual diversity characteristics, but also include an overall diversity index to examine the combined effect of diversity variables on CSR reporting. This gives further strength to the evidence of the existence of a relationship between the two and provides a method for assessing the role of multidimensional diversity which could be pursued in further studies.

Finally, earlier studies on board composition ignore the impact of board processes on performance. Many scholars suggest that understanding the influence of board processes is crucial to understand a board's effect on performance (Pettigrew 1992, Pearce and Zahra 1992). Since CSR is widely perceived as a strategy, research should also explore how board processes, in particular decision making processes, are taking place in organisations as this is an important gap in the literature. Moreover, the decision making process is the one where boards collectively decide upon various CSR initiatives (e.g. whether to invest or not to invest in CSR activities) as well as reporting such CSR issues (e.g. whether to report or not to report certain positive or negative CSR issues to wider stakeholders). This thesis has therefore gone beyond the direct quantitative approach found in many earlier studies by investigating the effect of board attributes on decision processes using a qualitative approach. As a result, this thesis contributes to the advancement of knowledge on corporate governance and, in particular, the effect of board attributes on non-financial aspects of firm performance.

8.3.2 Theory

The extensive review in Chapter 3 outlines the existing theories relating to corporate governance and CSR reporting that have been used in previous work, as well as their link with CSR decision making and reporting. While popular theories, such as resource dependency theory and stakeholder theory, have been used to address the direct relationship between board attributes and firm performance, including CSR performance outcomes, the application of these theories in conjunction with upper echelon theory is limited. In addition, the results of this study suggest some question about the applicability of some of these theories to boards of directors.

First, the board's role in non-financial disclosure is extensively used in stakeholder theory (Michelon and Parbonetti 2010, Barako and Brown 2008, Driver and Thompson 2002, Ayuso and Argandoña 2009) suggesting that boards have extended accountability to stakeholders. However, although the quantitative results from this study, provided evidence of a relationship between board attributes and CSR reporting, the qualitative results did not fully support this, indicating that boards may not directly influence CSR reporting. This implies that in the context of Australian listed profit sector companies, stakeholder theory may not be able to fully explain the link between the two and future research needs to be cautious about making such an assumption. Boards have a responsibility to stakeholders under the ASX guidelines, but although reporting is the mechanism used to discharge accountability, the finding is that management make the major decisions about reporting. Hence, the interplay between boards and management, in terms of CSR, is identified as another gap in the literature that requires further investigation.

Second, both resource dependency theory and upper echelon theory provide greater insight into how various resources (experience, pool of information, skills and networking) as well as personal values and perceptions (e.g. women directors' perception towards stakeholders and CSR issues) both individually and collectively influence board level CSR decision processes. The findings support the resource dependency theory view that more diverse boards have more resources and hence make better CSR decisions, particularly if they are diverse in terms of gender. However, the results also indicate that as there is significant management

involvement in the CSR decision making process and that CSR reporting is mainly the responsibility of management as noted above. This has implications for resource dependency theory and upper echelon theory suggesting that the applicability of these theories may be more relevant to analysis at the level of management in organisations, rather than analysis of boards. This suggests an important area for further research is to examine the influence of internal organisational factors, including board level factors, on the extent and quality of CSR reporting.

8.3.3 Methodology

The study's methodological strength contributes to the existing literature, particularly in the field of corporate governance, filling a gap by undertaking in-depth interviews with board members. First, most previous board research studies are quantitative, examining a direct association between board diversity and CSR/CSR reporting, and this has resulted in contradictory findings. Many of these prior studies conducted focus on a 'black box' approach to considering the various board characteristics. That is, they identify potential influences and relationships, which they study using statistical tests and models, but do not include an in-depth examination through qualitative enquiry. Moreover, a number of calls have been made recommending the adoption of qualitative methods such as case studies, observation and interviews to gain in-depth understanding of board processes, and this was highlighted by a recent review paper by McNulty et al. (2013). While providing an overview of published qualitative research between 1986 and 2011, they suggest that more qualitative methods are essential in order to explore the array of interactions and processes involved in corporate governance. As much of the existing board effectiveness research reported in the literature has focused on quantitative studies, this thesis contributes significantly to the body of knowledge in two ways: first by providing evidence using primary data from Australian boards; and second by going beyond quantitative analysis that examines direct relationships, and responding to the calls for qualitative examination of board processes, which has been rare in previous research in CSR reporting.

In addition, most prior studies are cross-sectional in nature and hence were restricted from identifying potential causality between diversity and organisational performance. Prior cross-sectional research, in this sense failed to adequately address endogeneity issues, such as unobserved variable bias or simultaneity/reverse causality bias. By using a more sophisticated econometric analysis, such as panel data analysis, the current study attempted to minimise endogeneity problems. Overall, by adopting a longitudinal approach which involved examination of the sample companies' annual reports for several years, the study contributes to the methodological strength of the existing literature in the field of corporate governance, by allowing some causal inference to be made about CSR reporting and diversity.

Finally, the content analysis categorisation used in this study demonstrates the importance of categorisation in dealing with the problems associated with CSR reporting studies. Previous studies on CSR reporting have either included all governance related items, part of governance related disclosures, or completely ignored governance disclosure as part of their CSR reporting categorisation. By analysing the separate effect of board diversity on governance disclosure and on social and environmental (SEA) disclosure, the study has identified that governance disclosures might have skewed the results in previous studies, and indicates some major concern about the categorisation adopted in content analysis. It further suggests that comparison between studies is difficult since different studies use different categorisation and this perhaps may be one of the reasons for inconclusive results found in earlier disclosure based studies. The result, as such, has implications for future studies indicating that more care and attention to specific differences needs to be taken in content analysis categorisation as it can have significant impact on the final result. It further highlights the importance of qualitative studies in the field of board and CSR studies which may help in addressing the inconsistent results from quantitative, content analysis studies.

8.4 Practical implications

The findings of this thesis have implications for policy makers and particularly for corporate governance developments in Australian listed profit sector companies. The thesis also has implications for Australian companies and directors. The results indicate that an increase in women directors on the board increases the board's involvement in decisions related to CSR as well as possibly resulting in higher levels of CSR reporting. This implies that the representation and participation of women on boards of directors should be promoted and encouraged. However, caution should be exercised to ensure that these provisions are not abused through token appointments. In addition, the significance of the interaction between women directors and multiple directorships, something not considered in previous literature, is extremely important as it suggests that increased pressure on women directors to serve on more boards is likely to have a negative impact on CSR. This has implications for companies, and for professional associations, in providing training and incentives for more women to become involved in firm governance.

Further, regarding multiple directorships, the findings indicate that since the directors in Australian listed profit sector companies hold few directorships, the drawback of having too many directorships (such as not enough time to devote for each company, too much commitment/busyness, conflict of interest) does not seem to be of concern, at least for male directors, but should be borne in mind for women directors. For Australian profit sector companies this implies that proper monitoring is advisable for those responsible for board appointments to maintain the level of directorships held by directors, especially in ASX listed companies. Further, the findings also indicate that directors in Australian profit sector companies are getting older and are therefore perhaps less concerned about contemporary issues like CSR. This implies that there is a possibility that when older members retire and younger board members are appointed there may be some changes in firms' CSR performance.

Finally, the positive effect of board diversity on CSR reporting indicates that having a diverse board, and specifically having greater gender diversity, can bring different perspectives and enhance decision making processes about CSR issues and reporting.

Specifically, this study offers evidence that in order to achieve CSR objectives effectively, companies should consider, in their board selection processes, appointing board members with relevant backgrounds, suitable competencies and different characteristics and values. For instance, through the appointment of more women directors, their voice (currently a minority voice) could become more prominent and this could lead to less communication barriers and more ability to promote firms' CSR. Given that boards in Australian profit sector companies seem reluctant to appoint diverse board members, in particular women directors (Chapter 6), the results further provide some guidance to Australian boards that they being open to accepting greater diversity will result in improved board performance. Moreover, if policy makers were more cognisant of this barrier to achieving diverse boards they may be able to develop more effective policy and provide greater resources for companies to meet the ASX corporate governance goals.

8.5 Limitations and future research

Although this study has provided a multifaceted picture of the relationship between board diversity and CSR reporting, it has several limitations which potentially represent opportunities for further investigation.

First, the limitation which is very common in the CSR field of research is the lack of a standardised measure for voluntary reporting, including CSR reporting. The current study therefore relied on the information made available in annual reports which are considered a major means for corporations to disclose CSR information to various stakeholders. However, other media such as stand-alone CSR reports, sustainability reports, GRI reports, websites, etc., were beyond the scope of this study and their inclusion could provide further insights. Further, it is not within the scope of this study to measure the quality of the disclosures. Volume is commonly used as a proxy for quality, but more disclosure does not necessarily mean better quality disclosure. Future studies examining various other sources in addition to the annual report, as well as focusing on quality of the disclosure rather than quantity of disclosure, would greatly improve the robustness of these results.

Second, the study comprised a sample of large firms listed on the ASX and hence the results are generalisable only to the Australian market (particularly profit sector companies); these results may not apply to other locations, or to smaller/medium, or to not-for-profit sectors, or unlisted companies. ASX companies were chosen because the corporate governance principles and diversity principles are applied to ASX companies. The boards in these companies generally follow these guidelines, and thus this sample is expected to provide a better picture of the board diversity and CSR reporting relationship. Nevertheless, analysis of the governance effect on small and medium types of organisations is beyond the scope of the current thesis but warrants future research.

Third, due to resource limitations and the time frame to complete a PhD, only a limited number of diversity variables were considered. This may not be comprehensive enough to conclude that there is a significant influence of board diversity on CSR decisions and reporting. However, the findings provide a strong basis for future research by providing specific variables that can be explored further.

Fourth, due to the time constraints, in-depth examination of only one of the diversity characteristic, that is, gender diversity, was undertaken. However, this was warranted given that within the various board diversity characteristics, gender is one of the most debated and significant issues faced by modern corporations. Even though there is a growing amount of literature suggesting that women directors can influence various board decisions, the research examining gender and the CSR decision making processes is rare. This study suggests that women react differently to discussion of CSR issues, therefore future studies should consider examining whether gender diversity really matters in CSR or CSR reporting decisions and unpick how this manifests itself. This specifically lends itself to fieldwork and observation. Further, although the interview data indicated women directors' concern towards CSR, the participants (both men and women directors) themselves did not directly acknowledge that gender diversity influences CSR decisions at board level. This could be related to the existence of a low level of representation of women directors (only one or two on any one board) in these companies. Therefore,

another important future research area is to examine the board process when companies have three or more women directors which may provide more robust results.

Fifth, due to difficulty in accessing companies, this research used a small sample of directors where the participant pool was limited to eight interviewees. Although the sample is representative of the population, the differences in perceptions between participants is limited which may limit generalisability of the results. However, restricted access is a very common limitation when investigating companies' top level management. Thus, the data collected is considered adequate and the voices and perceptions of the eight board members (both men and women) captured during the interviews, are representative enough to support the quantitative results. Additionally, another limitation with regard to participant selection is that there was a potential bias due to all the women being from the finance industry. However, this reflects the population, as shown in Chapter 5 where section 5.2.2 demonstrates that there is a higher number of women directors in finance industries.

Finally, a qualitative research approach was chosen to supplement the quantitative analysis in order to ensure the richness of the data. Qualitative study explores issues which may not be possible through quantitative statistical research. However, there are biases common to such research. For example, the way a question is asked, or the interviewer's body language, may prompt the interviewee to respond in a certain way. Furthermore, there could be bias in the interpretation of the data. The summarising of the transcripts will have the researcher's preferences for certain expressions and words. Similarly, the selection of quotes to illustrate a particular viewpoint will also have a bias inherent to any text interpretations. In this study, every attempt was made to address these concerns. This includes efforts made to establish rapport between the researcher and the respondent which was further reinforced by ensuring confidentiality of the information provided and anonymity by not disclosing the names of the respondents.

Despite its limitations, the study provides important insights into the relationship between board diversity and CSR reporting. Through adopting a mixed methods approach, the study was able to gain an in-depth understanding of the relationship between the composition of boards, CSR related decisions and CSR reporting. Moreover, the study highlighted that there is a continuing need to go beyond quantitative research, which is yielding a mixture of results, to a more qualitative approach so as to attain a complete picture of boards' role in the entire CSR reporting process. In this regard, future research should consider various other qualitative methods including interviews, case studies, fieldwork and longitudinal studies which will enrich the knowledge of the complex interactions that take place on boards and in organisations.

8.6 Chapter summary

This chapter summarised the main findings and conclusions of the thesis. It also presented the contribution of the research to the literature, theory and methodology as well as implications for practice. Finally, several research limitations were discussed and various avenues for future research outlined.

Overall, the study conducted for this thesis examines decision making processes of boards with regard to CSR which is largely considered to be a board level responsibility as they are the major decision making group. More specifically, the thesis adds to the growing body of literature on the importance of having a diversity of board members and thereby provides evidence for the current debate on the characteristics of effective boards. While this thesis does provide some preliminary evidence that diversity has a positive effect on CSR reporting, the results should be considered as providing introductory or preliminary insight only, and further research is needed to assess in-depth how board diversity affects the decision making processes around CSR issues including CSR reporting. Expanding this current research into a wider study of board dynamics and decision making would be a start in developing a better understanding of corporate governance. Moreover, the study could be replicated by expanding the framework used in this study and testing more aspects that relate to the characteristics of members of boards of directors. From a practical perspective, the present study makes suggestions to regulators and policy-

makers on the need for guidelines that support effective diversity of boards. It also provides useful information, specifically to Australian listed profit sector firms, on the importance of having balanced boards in achieving CSR objectives.

Given that there is an increasing trend in the incidence of social and environmental concerns globally, such as, global warming, climate change and bio-diversity threats, it is extremely important for corporations who are the major resource consumers to take proper initiatives to resolve, or at least minimise, their social and environmental impact. Only through this can they ultimately contribute towards sustainability and help in preserving the planet. This thesis provides evidence for one element in the arsenal of tools needed to achieve that goal – that diversity, not homogeneity, must be a central component.

Appendices

Appendix 1: Companies Included in the Sample

No	Company Name
1	BHP BILLITON LIMITED
2	COMMONWEALTH BANK OF AUSTRALIA
3	WESTPAC BANKING CORPORATION
4	AUSTRALIA AND NEW ZEALAND BANKING GROUP
5	NATIONAL AUSTRALIA BANK LIMITED
6	TELSTRA CORPORATION LIMITED
7	WOOLWORTHS LIMITED
8	WESFARMERS LIMITED
9	NEWCREST MINING LIMITED
10	RIO TINTO LIMITED
11	WOODSIDE PETROLEUM LIMITED
12	FORTESCUE METAL GROUP LIMITED
13	WESTFIELD GROUP
14	CSL LIMITED
15	ORIGIN ENERGY LIMITED
16	QBE INSURANCE GROUP LIMITED
17	AMP LIMITED
18	SANTOS LTD
19	BRAMBLES LIMITED
20	SUNCORP GROUP LIMITED
21	MACQUARIE GROUP LTD
22	AMCOR LIMITED
23	COCA-COLA AMATIL LIMITED
24	ORICA LIMITED
25	STOCKLAND
26	TRANSURBAN GROUP
27	INSURANCE AUSTRALIA GROUP LTD

No	Company Name
28	WORLEYPARSONS LIMITED
29	AGL ENERGY LIMITED
30	CROWN LIMITED
31	ILUKA RESOURCES LIMITED
32	LEIGHTON HOLDINGS LIMITED
33	ASX LIMITED
34	INCITEC PIVOT LIMITED
35	LEND LEASE GROUP
36	SONIC HEALTHCARE LIMITED
37	COMPUTERSHARE LIMITED
38	ASCIANO LIMITED
39	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED
40	NEW HOPE CORPORATION LIMITED
41	MIRVAC GROUP (THE)
42	DEXUS PROPERTY GROUP
43	QANTAS AIRWAYS LIMITED
44	COCHLEAR LIMITED
45	RAMSAY HEALTH CARE LIMITED
46	SIMS METAL MANAGEMENT LIMITED
47	ARGO INVESTMENTS LIMITED
48	TOLL HOLDINGS LIMITED
49	LYNAS CORPORATION LIMITED
50	BORAL LIMITED
51	BENDIGO AND ADELAIDE BANK LIMITED
52	TATTS GROUP LIMITED
53	OZ MINERALS LIMITED
54	METCASH LIMITED
55	SP AUSNET

No	Company Name
56	WASHINGTON H SOUL PATTINSON & COMPANY LIMITED
57	ATLAS IRON LIMITED
58	ALUMINA LIMITED
59	AQUILA RESOURCES LIMITED
60	HARVEY NORMAN HOLDINGS LIMITED
61	MESOBLAST LIMITED
62	PLATINUM ASSET MANAGEMENT LTD
63	FAIRFAX MEDIA LIMITED
64	APA GROUP
65	TABCORP HOLDINGS LIMITED
66	BLUESCOPE STEEL LIMITED
67	CALTEX AUSTRALIA LIMITED
68	SEEK LIMITED
69	FLIGHT CENTRE LIMITED
70	REECE AUSTRALIA LIMITED
71	PALADIN ENERGY LTD.
72	MINERAL RESOURCES LIMITED
73	MILTON CORPORATION LIMITED
74	ANSELL LIMITED
75	SPARK INFRASTRUCTURE GROUP
76	PRIMARY HEALTH CARE LIMITED
77	BANK OF QUEENSLAND LIMITED
78	JB HI-FI LIMITED
79	MONADELPHOUS GROUP LIMITED
80	DOWNER EDI LIMITED
81	DAVID JONES LIMITED
82	REA GROUP LTD
83	BILLABONG INTERNATIONAL LIMITED
84	IOOF HOLDINGS LIMITED
85	NAVITAS LIMITED

No	Company Name
86	CONSOLIDATED MEDIA HOLDINGS LIMITED
87	GOODMAN FIELDER LIMITED
88	BRICKWORKS LIMITED
89	LINC ENERGY LTD
90	GRAINCORP LIMITED
91	AURORA OIL & GAS LIMITED
92	AUSTRALAND PROPERTY GROUP
93	BRADKEN LIMITED
94	BOART LONGYEAR LIMITED
95	MEDUSA MINING LIMITED
96	ARISTOCRAT LEISURE LIMITED
97	KAROON GAS AUSTRALIA LIMITED
98	INDEPENDENCE GROUP NL
99	NUFARM LTD
100	PERPETUAL LIMITED
101	PERSEUS MINING LIMITED
102	KINGSGATE CONSOLIDATED LIMITED
103	REGIS RESOURCES LIMITED
104	WESTERN AREAS NL
105	ENVESTRA LIMITED
106	BEACH ENERGY LIMITED
107	AUSDRILL LIMITED
108	WOTIF.COM HOLDINGS LIMITED
109	TEN NETWORK HOLDINGS LIMITED
110	SUNDANCE RESOURCES LIMITED
111	AMALGAMATED HOLDINGS LIMITED
112	CSR LIMITED
113	SUPER RETAIL GROUP LIMITED
114	ABACUS PROPERTY GROUP
115	PREMIER INVESTMENTS LIMITED

Appendix 2: Decision Rules

- Any disclosures (good/bad/neutral) on social and environmental activities are considered as CSR reporting.
- Both quantitative (monetary) and qualitative (non-monetary) statements should be considered. Each monetary item is considered as one word.
- The sentence which belongs to more than one possible classification should be coded into the category that is most emphasized in the sentence. If the most emphasized activity is not recognised, then it is considered as a general CSR statement and should be included in the 'other' category (e.g. "Our employees, contractors, customers, suppliers are vital for the business").
- If any section/paragraph of the disclosure contains two or more categories (and it is hard to identify or separate them individually), then the total disclosure in that section/paragraph is equally divided into the relevant categories. For example, for a 'Health & Safety, Community and Environment' paragraph – total disclosures are equally divided into all three categories.
- Tables (monetary and non-monetary) which contain information in the checklist should be interpreted in a similar way to other disclosures. Each word in the table is considered as one word and each monetary item is considered as one word (e.g. "\$1000" = 1 word).
- If the information in a table, or the caption to a table, belongs to any one of the CSR categories, then both the information in the table and associated caption is included.
- Any disclosure which is repeated shall be recorded as a CSR sentence each time it is disclosed.
- Photographs, charts, pictures or images related to social and environmental activities are not included. Captions are included except for text which is presented on the picture/images.
- Any mandatory social and environmental disclosures are included (e.g. Directors report: information about compliance with environmental regulation is required by the Corporations Act). However financial statements and notes to financial statements are excluded.
- Any disclosure on board diversity should be included under the corporate governance category.
- Any disclosures under the Employee category should only relate to organisations' employees. For example, disclosures on employee health, safety, and diversity are included, whereas product diversity or product safety

information should be excluded.

- Any information on sustainability or sustainability development is considered only if it contains information related to the environment or society. General statements on sustainability should be excluded. For example, “Sound strategy does create sustainable shareholder value”.
- Any information on energy is considered only if it is related to the environment. For example, energy efficiency in order to reduce organisation’s costs should be excluded.
- Disclosures on products are only considered if the disclosure contains any improvements, developments, safety, awards or quality (e.g., ISO) in product.
- Any long sentences (not specifically related to any of the categories) which include one or two keywords related to social and environmental issues are excluded. For example, “Other factors may affect the actual construction..., changes in environmental and other regulations...” (Long sentence of approximately 100 words with only 2-3 words related to environment, but the context of the sentence is not the environment).

Appendix 3: Industry Classifications Used in the Study

Industry Classification	Description
1. Energy	<p>The GICS <i>Energy Sector</i> comprises companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy related service and equipment, including seismic data collection.</p> <p>Companies engaged in the exploration, production, marketing, refining and/or transportation of oil and gas products.</p>
2. Materials/Industrials	<p>The GICS <i>Materials Sector</i> encompasses a wide range of commodity-related manufacturing industries. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, and metals, minerals and mining companies, including producers of steel.</p> <p>The GICS <i>Industrials Sector</i> includes companies whose businesses are dominated by one of the following activities: The manufacture and distribution of capital goods, including aerospace & defence, construction, engineering & building products, electrical equipment and industrial machinery. The provision of commercial services and supplies, including printing, employment, environmental and office services.</p> <p>The provision of transportation services, including airlines, couriers, marine, road & rail and transportation infrastructure.</p>

Continued...

Industry Classification	Description
3. Financials	<p>The GICS <i>Financial Sector</i> contains companies involved in activities such as banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investment, and real estate, including REITs.</p>
4. Consumer Discretionary / Consumer Staples / Health Care	<p>The GICS <i>Consumer Discretionary Sector</i> encompasses those industries that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles & apparel and leisure equipment. The services segment includes hotels, restaurants and other leisure facilities, media production and services and consumer retailing.</p> <p>The GICS <i>Consumer Staples Sector</i> comprises companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco and producers of non-durable household goods and personal products. It also includes food & drug retailing companies, as well as hypermarkets and consumer super-centers.</p> <p>The GICS <i>Health Care Sector</i> encompasses two main industry groups. The first includes companies who manufacture health care equipment and supplies or provide health care related services, including distributors of health care products, providers of basic health-care services, and owners and operators of health care facilities and organizations. The second regroups companies primarily involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.</p>

Continued...

Industry Classification	Description
5. Information Technology / Telecommunication Services / Utilities	<p>The GICS <i>Information Technology Sector</i> covers the following general areas: First, Technology Software & Services, including companies that primarily develop software in various fields such as the Internet, applications, systems, database management and/or home entertainment and companies that provide information technology consulting and services, as well as data processing and outsourced services; second, Technology Hardware & Equipment, including manufacturers and distributors of communications equipment, computers & peripherals, electronic equipment and related instruments, and third, Semiconductors and Semiconductor Equipment Manufacturers.</p> <p>The GICS <i>Telecommunications Services Sector</i> contains companies that provide communications services primarily through a fixed-line, cellular, wireless, high bandwidth and/or fibre optic cable network.</p> <p>The GICS <i>Utilities Sector</i> encompasses those companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power. This sector includes both nuclear and non-nuclear facilities.</p>

The industry sectors are largely based on the Standard & Poor's GSIC Sector Definitions

Source: www2.standardandpoors.com/spf/pdf/index/GICSDef.pdf

Appendix 4: Random-Effects GLS Regression

Model 1: Total CSR

CSR_Ln	Coef.	Std. Err.	z	P> z	[95% Conf.	Interval]
perc_femdir	0.0133949	0.0074345	1.8	0.072	-0.0011765	0.0279663
perc_inddir	-0.0002831	0.0011517	-0.25	0.806	-0.0025404	0.0019741
perc_multidir	0.0019523	0.0008247	2.37	0.018	0.000336	0.0035686
BlauIndex	0.3036407	0.1553788	1.95	0.051	-0.0008961	0.6081775
ceo_duality	-0.1587626	0.0710015	-2.24	0.025	-0.297923	-0.0196022
Interact_fem_ind	-0.001699	0.0074285	-0.23	0.819	-0.0162586	0.0128606
Interact_fem_multid	-0.0140546	0.0060541	-2.32	0.02	-0.0259204	-0.0021888
tenperc_5to10	-0.0006177	0.0006674	-0.93	0.355	-0.0019257	0.0006904
tenperc_over10	-0.0040898	0.0011194	-3.65	0	-0.0062837	-0.0018959
energy	0.2574037	0.1543638	1.67	0.095	-0.0451439	0.5599512
consumer	0.2270649	0.1363219	1.67	0.096	-0.0401212	0.4942509
finance	0.0762832	0.1398076	0.55	0.585	-0.1977347	0.3503011
materials	0.2185807	0.1338528	1.63	0.102	-0.0437659	0.4809274
mkt_cap_Ln	-0.0284618	0.0292891	-0.97	0.331	-0.0858674	0.0289438
ret_equity_Ln	-0.0257392	0.0188358	-1.37	0.172	-0.0626567	0.0111783
tot_asset_Ln	0.1450516	0.0484847	2.99	0.003	0.0500233	0.2400799
totdir_Ln	-0.1192192	0.0790866	-1.51	0.132	-0.2742261	0.0357877
mkt_cap_Lnmm	0.0735563	0.0562351	1.31	0.191	-0.0366625	0.1837751
tot_asset_Lnmm	-0.0010448	0.0621695	-0.02	0.987	-0.1228948	0.1208051
op_rev_Lnmm	-0.0039227	0.0060621	-0.65	0.518	-0.0158042	0.0079588
ret_equity_Lnmm	0.1162799	0.1202519	0.97	0.334	-0.1194095	0.3519694
ret_asset_Lnmm	-0.0748201	0.0483196	-1.55	0.122	-0.1695249	0.0198846
totdir_Lnmm	0.4466111	0.1737044	2.57	0.01	0.1061568	0.7870653
year						
2010	0.0512002	0.0218627	2.34	0.019	0.00835	0.0940504
2011	0.151711	0.0255249	5.94	0	0.1016832	0.2017388
_cons	5.660639	0.656213	8.63	0	4.374485	6.946793
sigma_u	0.28126027					
sigma_e	0.14090166					
rho	0.79938204	(fraction of variance due to u_i)				
Number of observations : 331						
Number of groups: 12						
R-square: Within = 0.2905; Between = 0.7002; Overall = 0.6731						

Model 2: Governance Disclosure

Govdis_Ln	Coef.	Std. Err.	z	P> z 	[95% Con	f. Interval]
perc_femdir	0.0081052	0.0063566	1.28	0.202	-0.0043534	0.0205639
perc_inddir	-0.0013672	0.0009816	-1.39	0.164	-0.0032911	0.0005566
perc_multdir	0.0013201	0.0007093	1.86	0.063	-0.0000701	0.0027103
BlauIndex	0.3962576	0.1485804	2.67	0.008	0.1050453	0.6874699
ceo_duality	-0.177003	0.0631669	-2.8	0.005	-0.3008079	-0.0531982
Interact_fem_ind	0.0007632	0.0063217	0.12	0.904	-0.0116271	0.0131535
Interact_fem_multitD	-0.0086107	0.005189	-1.66	0.097	-0.0187808	0.0015595
tenperc_5to10	-0.000425	0.0005753	-0.74	0.46	-0.0015527	0.0007027
tenperc_over10	-0.0023103	0.0009991	-2.31	0.021	-0.0042685	-0.0003521
energy	0.2737353	0.1483061	1.85	0.065	-0.0169394	0.5644099
consumer	0.2794636	0.1309854	2.13	0.033	0.0227369	0.5361903
finance	0.1298773	0.1342745	0.97	0.333	-0.1332959	0.3930505
materials	0.2122025	0.1286683	1.65	0.099	-0.0399827	0.4643876
mkt_cap_Ln	-0.0094351	0.024818	-0.38	0.704	-0.0580775	0.0392074
ret_equity_Ln	-0.0256787	0.0159663	-1.61	0.108	-0.056972	0.0056146
tot_asset_Ln	0.1186039	0.0410897	2.89	0.004	0.0380695	0.1991382
totdir_Ln	-0.0472398	0.0670687	-0.7	0.481	-0.1786921	0.0842125
mkt_cap_Lnmm	0.0444007	0.0523377	0.85	0.396	-0.0581794	0.1469807
tot_asset_Lnmm	0.0190095	0.0552693	0.34	0.731	-0.0893163	0.1273352
op_rev_Lnmm	-0.0058621	0.0051833	-1.13	0.258	-0.0160212	0.0042969
ret_equity_Lnmm	0.0593697	0.1136708	0.52	0.601	-0.163421	0.2821604
ret_asset_Lnmm	-0.074386	0.0417921	-1.78	0.075	-0.1562971	0.0075251
totdir_Lnmm	0.4214655	0.1624141	2.6	0.009	0.1031397	0.7397914
year						
2010	0.0459745	0.0185115	2.48	0.013	0.0096927	0.0822563
2011	0.134563	0.0216611	6.21	0	0.0921081	0.177018
_cons	6.038051	0.6289332	9.6	0	4.805365	7.270738
sigma_u	0.26998491					
sigma_e	0.11758635					
rho	0.84055807					(fraction of variance due to u_i)
Number of observations : 331						
Number of groups: 12						
R-square: Within = 0.3607; Between = 0.6860; Overall = 0.6670						

Model 3: Social and Environmental (SE) Disclosure

sedisc_Ln	Coef.	Std. Err.	z	P> z 	[95% Con	f. Interval]
perc_femdir	0.0255441	0.027874	0.92	0.359	-0.0290879	0.0801762
perc_inddir	0.0048735	0.0043379	1.12	0.261	-0.0036287	0.0133757
perc_multdir	0.0044481	0.0030609	1.45	0.146	-0.0015512	0.0104473
BlauIndex	-0.1296178	0.5049358	-0.26	0.797	-1.119274	0.8600382
ceo_duality	-0.0015507	0.2506389	-0.01	0.995	-0.4927939	0.4896925
Interact_fem_ind	0.000656	0.0280585	0.02	0.981	-0.0543376	0.0556497
Interact_fem_multid	-0.0397144	0.0226049	-1.76	0.079	-0.0840192	0.0045904
tenperc_5to10	-0.0031784	0.0024685	-1.29	0.198	-0.0080166	0.0016599
tenperc_over10	-0.0195523	0.003938	-4.97	0	-0.0272707	-0.011834
energy	0.0194839	0.4981561	0.04	0.969	-0.9568841	0.9958519
consumer	-0.202561	0.4398702	-0.46	0.645	-1.064691	0.6595688
finance	-0.7900958	0.4514721	-1.75	0.08	-1.674965	0.0947734
materials	0.1035812	0.4315978	0.24	0.81	-0.7423351	0.9494974
mkt_cap_Ln	-0.2019186	0.1114961	-1.81	0.07	-0.420447	0.0166098
ret_equity_Ln	-0.0272302	0.071658	-0.38	0.704	-0.1676773	0.1132168
tot_asset_Ln	0.4935625	0.1844437	2.68	0.007	0.1320595	0.8550654
totdir_Ln	-0.3871758	0.3005456	-1.29	0.198	-0.9762343	0.2018828
mkt_cap_Lnmm	0.3257378	0.1910334	1.71	0.088	-0.0486808	0.7001564
tot_asset_Lnmm	-0.2441397	0.2244843	-1.09	0.277	-0.6841209	0.1958416
op_rev_Lnmm	0.0124081	0.0227148	0.55	0.585	-0.0321121	0.0569283
ret_equity_Lnmm	0.6072587	0.3980592	1.53	0.127	-0.1729231	1.38744
ret_asset_Lnmm	-0.0266364	0.1776699	-0.15	0.881	-0.374863	0.3215901
totdir_Lnmm	0.1508445	0.5858981	0.26	0.797	-0.9974946	1.299184
year						
2010	0.084001	0.0833347	1.01	0.313	-0.0793321	0.2473341
2011	0.1762453	0.0969337	1.82	0.069	-0.0137413	0.3662318
_cons	-1.168871	2.126396	-0.55	0.583	-5.336532	2.998789
sigma_u	0.90613131					
sigma_e	0.54922634					
rho	0.73132337					(fraction of variance due to u_i)
Number of observations : 331						
Number of groups: 12						
R-square: Within = 0.0673; Between = 0.4600; Overall = 0.4169						

Appendix 5: Information Sheet Sent to the Potential Interviewees

INFORMATION SHEET

Title: ‘Boards, Gender and Corporate Social Responsibility (CSR)’

Description of the study:

This study is part of the project entitled ‘Boards, Gender and Corporate Social Responsibility’. This project will investigate whether boardroom diversity (women directors in particular) has any influence on CSR decision making processes, and whether CSR reporting is the result of such decision making processes. This project is supported by Flinders University Business School.

Purpose of the study:

The project aims are:

- To review the Corporate Social Responsibility (CSR) and Corporate Governance literature
- To develop a Corporate Governance Framework for CSR
- To examine whether various board diversity characteristics are associated with the decision to report on CSR issues and, if so, how board diversity affects the amount of CSR reporting (in general)
- To examine how women directors influence the decision making processes related to CSR and to what extent they can have an effect on the level of CSR reporting (specifically).

What will I be asked to do?

You are invited to participate in a semi-structured interview with a research student who will ask you a few questions about your views about what role board diversity have in CSR decision making processes. The interview will take between 45 and 60 minutes. With your permission the interview will be recorded using a digital voice recorder to help with looking at the results. Once recorded, the interview will be transcribed (typed-up) and stored as a computer file and then destroyed once the results have been finalised. This is voluntary.

The interview questions are around the following themes:

- What role do boards of directors have in CSR decision making processes?
- Whether and how boardroom diversity influences CSR decision making processes.
- How gender diversity (women directors) influences CSR decision making processes.
- Whether CSR reporting (CSRR) is an outcome of CSR decision making processes.

What benefit will I gain from being involved in this study?

The sharing of your experiences will contribute in helping Australian firms understand the influence board diversity may have on CSR which will help them with better board selection. The outcome of the research will also contribute to the policy and regulatory development in accounting and assist organisations in moving towards broader based business reporting.

Will I be identifiable by being involved in this study?

We cannot assure you that you will be anonymous. Since there is a small population pool from which participants will be drawn (boards of directors) these may be identifiable even without being named. However any identifying information will be removed and the typed-up file stored on a password protected computer that only the coordinator (Ms Kathyayini Rao) will have access to. Your comments will not be linked directly to you. Once the interview has been typed-up and saved as a file, the voice file will then be destroyed.

Are there any risks or discomforts if I am involved?

The investigator anticipates few risks from your involvement in this study. Other group members may be able to identify your contributions even though they will not be directly attributed to you. If you have any concerns regarding anticipated or actual risks or discomforts, please raise them with the investigator.

How do I agree to participate?

Participation is voluntary. You may answer 'no comment' or refuse to answer any questions and you are free to withdraw from the interview at any time without effect or consequences. A consent form accompanies this information sheet. If you agree to participate please read and sign the form and return it in the pre-paid envelope. A researcher will contact you by telephone or email to arrange an interview at a mutually convenient time.

How will I receive feedback?

A transcript of the interview will be forwarded to you before analysis and you will have the right to withdraw any/all of your responses. The research findings will form part of a PhD thesis 'Boards, Gender and Corporate Social Responsibility'. It is anticipated that the results of this research will form the basis of an article to be published in an academic journal in the Governance or Corporate Social Responsibility field.

Thank you for taking the time to read this information sheet and we hope that you will accept our invitation to be involved.

Appendix 6: Consent Form Sent to the Potential Interviewees

CONSENT FORM FOR PARTICIPATION IN RESEARCH

Boards, Gender and Corporate Social Responsibility (CSR)

I
being over the age of 18 years hereby consent to participate as requested in the
..... for the research project on

1. I have read the information provided.
2. Details of procedures and any risks have been explained to my satisfaction.
3. I agree to audio/video recording of my information and participation.
4. I am aware that I should retain a copy of the Information Sheet and Consent Form for future reference.
5. I understand that:
 - I may not directly benefit from taking part in this research.
 - I am free to withdraw from the project at any time and am free to decline to answer particular questions.
 - While the information gained in this study will be published as explained, I will not be individually identifiable and individual information will remain confidential. However I am aware that anonymity is not fully guaranteed. Due to small population pool from which participants will be drawn, my contributions may be identifiable even without being named.
 - Whether I participate or not, or withdraw after participating, will have no effect on any treatment or service that is being provided to me.
 - I may ask that the recording/observation be stopped at any time, and that I may withdraw at any time from the session or the research without disadvantage.

Participant's signature.....Date.....

I certify that I have explained the study to the volunteer and consider that she/he understands what is involved and freely consents to participation.

Researcher's signature.....Date.....

Appendix 7: Letter of Introduction Sent to the Potential Interviewees

LETTER OF INTRODUCTION

Dear Sir/Madam/Name

This letter is to introduce Ms Kathyayini Rao (Kathy), a PhD student in the Business School at Flinders University, who will produce her student card, with a photograph, as proof of identity.

She is undertaking research leading to the production of a thesis or other publications on the subject of 'Boards, Gender and Corporate Social Responsibility (CSR)'. The research aims to develop a deeper understanding of how board diversity influences CSR decision making processes and CSR reporting in Australia.

She would like to invite you to assist in this project, by granting a semi-structured interview which covers certain aspects of this topic. No more than one hour on one occasion would be required.

Be assured that any information provided will be treated in the strictest confidence and none of the participants will be individually identifiable in the resulting thesis, report or other publications. However we cannot assure you that you will be anonymous. Since there is a small population pool from which participants will be drawn (boards of directors) these may be identifiable even without being named. You are, of course, entirely free to discontinue your participation at any time or to decline to answer particular questions.

Since Kathy intends to make a tape recording of the interview, she will seek your consent, on the attached form, to record the interview, to use the recording or a transcription in preparing the thesis, report or other publications, on condition that your name or identity is not revealed, or that the recording will not be made available to any other person. It may be necessary to make the recording available to secretarial assistants (or a transcription service) for transcription, in which case you may be assured that such persons will be asked to sign a confidentiality agreement which outlines the requirement that your name or identity not be revealed and that the confidentiality of the material is respected and maintained.

Any enquiries you may have concerning this project should be directed to me at the address given above or by telephone on (8215 6854), mobile (0402 703 696) or e-mail (or carol.tilt@flinders.edu.au or carol.tilt@aib.edu.au)

Thank you for your attention and assistance.

Appendix 8: Interview Guide

Interview Questions	
Part 1	<p>CSR decision and board diversity:</p> <ol style="list-style-type: none"> 1. From your experience who do you think are the major players in making CSR decisions? Why do you think that? 2. What do you think makes an effective board in terms of decision making processes? What are some of the qualities you think are essential in decisions like CSR? 3. Do you think the backgrounds and values of a board member influence CSR decisions? What diversity characteristics do you think are important? Why do you think that?
Part 2	<p>Gender diversity and CSR decision making process:</p> <ol style="list-style-type: none"> 1. Gender diversity has been one of the most debated issues recently. Do you think that gender diversity at board level is an important factor in decision making processes in general? Why do you think that? 2. In what ways do you think values and perceptions significantly differ between male and female directors? 3. What perceptions of female directors do you think male directors hold, and how do you think they get these perceptions?

	<p>4. From your experience do you think that female directors' contribution towards CSR decisions is different than male directors? If so, what are those important differences/factors? How do you think those factors influence CSR decisions?</p> <p>5. Given the low number of female board members on the Australian companies' boards, what challenges, if any, do you think female board members face while contributing towards complex decisions like CSR?</p>
Part 3	<p>CSR decisions and CSRD:</p> <p>1. Who do you think decides about what to report and what not to report on CSR issues? On what basis such decisions are made?</p> <p>2. Do you think CSR decisions are associated with CSRR? (Is CSRR the outcome of CSR decisions?). To what extent do you think that CSR decisions are reflected in CSRR?</p>

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