DEMOCRATIC DIVERSITY IN THE BOARDROOM: DOES GENDER AFFECT CORPORATE SOCIAL RESPONSIBILITY AND FIRM REPUTATION IN KENYA

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ABSTRACT

Board of directors is the decision-making organ in the organization that faces complex tasks pertaining to strategic-issue processing. It comprises of directors from various backgrounds hence face interaction difficulties that can prevent them from fulfilling their tasks. This study, will investigate whether the board diversity influences CSR and firm reputation in Kenya. This will capture the boards' monitoring and resource provision abilities; and it will be in line with Agency and resource dependency theories. The general objective to the study is to establish whether board diversity influences firm’s CSR and corporate reputation in Kenya. There have been studies on how board diversity on firm performance and CSR but no paper has been published looking at the corporate reputation and more over concerning gender diversity on boards in developing countries. The number of women in the board has a significant impact on corporate social responsibility and corporate reputation. Women bring a number of strengths to the board including an increased sensitivity to CSR and participative decision-making styles and these benefits contribute to enhanced corporate responsibility strength ratings. This study makes a theoretical contribution to the corporate governance literature by analysing board diversity within the framework of two major theories Agency and Resource. This study also makes a theoretical contribution to the diversity and governance literature by providing a better understanding of the relationships between board gender, professional and experience diversity and firm’s CSR and reputation. This study will be beneficial to the management of corporations and top management in decision making especially on the issue of SCR and the firm’s reputation. It will also lay ground for more studies to be conducted in Kenya and other developing nations.

Key Words: Board, Board diversity, Gender, CSR, Reputation

Introduction

Corporate reputation refers to “publics’ cumulative judgment of firms over time” (Fombrun and Shanley, 1990). Research has demonstrated a broad range of benefits associated with a positive reputation. A
good reputation enhances a firm’s ability to attract job applicants (Gatewood et al., 1993). Reputation affects employee retention as employees who feel their company is well regarded by external groups have higher job satisfaction and a lower intention to leave their organizations.
A positive reputation also enhances corporate branding; enabling a company to use its brand equity to launch new products and enter new markets (Dowling, 2006). Reputation can positively affect financial performance, institutional investment, and share price.

The board of directors is a key governance function that links the organization to its institutional context, boards transcend and span organizational boundaries by providing access to external resources, information, and demands (Hillman & Dalziel, 2003; Walls & Hoffman, 2012).

The role of women in board positions is getting increased attention (Daily et al., 2000; Vinnicombe et al., 2008; Terjesen et al., 2009). Many proposals for governance reform explicitly stress the importance of gender diversity in the boardroom.

In the UK, the Higgs (2003) report, commissioned by the British Department of Trade and Industry, argues that diversity could enhance board effectiveness and specifically recommends that firms draw more actively from professional groups in which women are better represented. In Kenya even formal laws requiring female representation on corporate boards have been introduced. Most of these legislative initiatives are based on the view that the presence of women on boards could affect the governance of companies in significant ways. One argument is that boards could enhance their effectiveness by tapping broader talent pools for their directors. However, research has failed to establish a convincing case for the presence of women on corporate boards of directors. As a result, more studies are needed on the effects of women directors on board decision-making and effectiveness. Another argument is that, because they do not belong to the “old boys club,” female directors could more closely correspond to the concept of the independent director emphasized in theory.

In this article, we propose to explore how on boards of directors the diversity of board resources and the number of women on boards affect firms’ corporate social responsibility (CSR) ratings, and how, in turn, CSR influences corporate reputation. With the increased public scrutiny around boardsand corporate governance, one expects board composition to affect corporate reputation, especially when it comes to characteristics such as the diversity of board resources and board gender composition. However, whether and how diversity of board resources (e.g., professional backgrounds of directors) affects corporate reputation is an understudied question that we propose to address here.

Furthermore, the mechanisms through which diversity of board resources and gender composition affect reputation have received limited attention. Studies that evaluate a direct relationship between board gender composition and firm’s outcomes (e.g., reputation) usually assume that board gender composition acts as a signal (e.g., the value firms place on hiring, retaining, and advancing women) which directly influences outside evaluators (e.g., investors, influential business magazines). However, it is also likely that gender composition and diversity of board resources affect firms’ social performance, which, in turn, bolsters their reputation.

Building on the study of Mattingly and
Berman (2006), we view CSR in terms of institutional strength and technical strength.

**CSR in Kenya**

Kenya faces unique economic, cultural, social, and environmental challenges that influence CSR practices (Muthuri & Gilbert, 2011). The idea that business is a part of society, and therefore has community and national responsibilities, is an established art of Kenya's culture and traditions. It is anchored in the premise that business cannot thrive in an environment where a community is languishing in problems; that is to say, business survives by ensuring that the community thrives.

In Kenya, the causes that receive the highest attention are: health and medical provision; donations directed to education and training; HIV/AIDS; agriculture and food security (Forstater et al., 2010) as well as sports.

Environmental concern is gaining momentum in Kenya, however, owing to increased international attention. So, companies in Kenya are engaging in environmental CSR (Tarus, 2015). For instance, Safaricom organizes Lewa international marathon annually, and collects money towards forest conservation. There are no strong institutions to guide CSR engagement in Kenya (Muthuri & Gilbert, 2011) this is because of inadequate government regulation and a lack of commitment to the enforcement of regulations. Similarly, Kenya has fairly vibrant civil societies that have pushed the CSR agenda in corporate organizations. For example, Opondo (2013) argues that civil society groups have (in collaboration with media, non-governmental, and international organizations) spearheaded a campaign against poor working conditions in the cut-flower industry. This agitation has generated concern about the reputation of the industry in European markets, which has compelled export cut flower firms to adopt international codes of conduct, in order to export to these countries. Thus, civil society has taken advantage of such repercussions, ensuring that responsible corporate citizenship is adhered to. Indeed, most cut flower firms in Kenya have embraced codes of labor practice, such as the Ethical Trading Initiative (ETI), in order to supply their products to European market. Companies in Kenya have taken up CSR with gusto in the last five years: this has led to improving the welfare of staff and the working environment, implementing community development programs, and engaging in environmental conservation. However, it is community CSR that is most highly visible to the majority of people and which gives companies a much sought improvement in their public image. For example, companies sponsor national and international competitions to improve the skills of young Kenyans. During the last few years, East Africa Breweries has sponsored a popular Tusker Project Fame to train singers in an academy for eight weeks: the winner obtains a one-year recording contract with leading music recording companies, in addition to other prizes. Similarly, companies engage in tree planting and recycling, as well as in waste reduction initiatives. Although companies in Kenya engage in CSR, the need remains to study how CSR engagements affect the firm's bottom line.

**Problem statement**

The board of directors is a key governance function that links the organization to its institutional context, boards transcend and span organizational boundaries by providing access to external resources, information, and demands (Hillman & Dalziel, 2003; Walls & Hoffman, 2012).
Despite the importance of gender diversity in the policy debate, relatively little research links diversity and corporate governance. Adams and Ferreira (2009) note that the contribution that women make in the boardroom and their influence on board decisions and processes remains under researched (Nielsen and Huse, 2010). In Kenya research has been limited to governance in firms and their performance, yet governance and its outcome on CSR and corporate reputation has been overlooked since there was no publication. This paper therefore will look at the role of female directors on CSR and corporate reputation.

In this paper, we provide new evidence that is relevant to this debate by investigating the hypothesis that gender diversity in the boardroom affects CSR and corporate reputation.

**Major Objective**

To determine the relationship between board diversity and corporate reputation and CSR of Kenyan firms.

**Specific objective**

1. To assess the relationship between gender diversity to institutional strength of CSR
2. To establish the relationship between gender diversity technical strength of CSR

**Significance**

This study will contribute to theory and literature on corporate governance by analyzing how women directors improve board effectiveness within the theoretical frameworks: Gender differences (Eagly & Johannesen-Schmidt, 2001; Eagly & Johnson, 1990) and Group effectiveness theories and (e.g., Cohen & Bailey, 1997; Gladstein, 1984; Hackman, 1987; Pelled, 1996; Williams & O’Reilly, 1998).

In view of the increasing pressure to raise the number of women directors as well as the changing demographics of the workplace in general, the results of this study may have important implications for both corporate boards as well as for policymakers.

**Literature review**

**Theoretical framework**

To analyze the impact of governance mechanisms on environmental performance, the researcher will adopt the lens of the Agency theory (Jensen and Meckling, 1973) and resource dependence theory (Pfeffer et al., 2003; Hillman et al., 2009). Board of Directors (BODs) has an important role in the management of organizations. Since, BODs are considered to be one of the important governance mechanisms, these groups are increasingly being held responsible for the organizational performance. The performance of the organizations is dependent on the realization of the roles of BODs. This study will follow the study by Hillman and Dalziel (2003) framework that boards have two functions, namely, to monitor (agency theory based) and to increase access to resources (resource dependence theory based). Monitoring and service are the two main board functions under the agency theory. Strategy planning is the most important board task under the strategic choice model, while acquisition/provision of resources is of prime concern in the resource dependency theory.
Agency Theory
In agency theory, management initiates and implements, whereas directors monitor (Jensen & Meckling, 1976; Deutsch et. al., 2007). The monitoring function refers directly to the responsibility of directors to monitor and control of managers (including hiring and firing of the CEO) on behalf of shareholders (Hillman and Dalziel, 2003; Brennan, 2006). The primary driver of each of the monitoring functions of the board is the obligation to ensure that management operates in the interests of shareholders—an obligation that is met by scrutiny, evaluation, and regulation of the actions of top management by the board (Hillman and Dalziel, 2003). The board of directors is charged with oversight of management on behalf of shareholders. It is assumed that board performance of its monitoring duties is influenced by the effectiveness of the board, which in turn is influenced by actors such as board composition and quality, size of boards, duality of CEO/Chairman positions, board diversity, information asymmetries and board culture (Brennan, 2006). Board activities that are critical to the fulfillment of the control task include decisions regarding the hiring, compensation, and replacement of the firm’s most senior managers, as well as the approval of major initiatives proposed by management (Forbes and Milliken, 1999).

Resource Dependency Theory
Pfeffer and Salancik (1978) argue that boards serve to link the corporation to other external organizations in order to address environmental dependencies. Pfeffer and Salancik (1978) suggest four primary benefits for the external linkages: (1) provision of resources such as information and expertise; (2) creation of channels of communication with constituents of importance to the firm; (3) provision of commitments of support from important organizations or groups in the external environment; and (4) creation of legitimacy for the firm in the external environment. Directors are viewed to be actively involved and positively influence strategy and programs (Hillman & Dalziel, 2003) and boards can provide the management of a firm with important advice and may contribute to the strategic decision making (Finkelstein & Mooney, 2003). The board resources of the corporation support in understanding and responding to its environment (Hillman et. al., 2003). This suggests that resource-rich directors will be better placed to provide environmental resources, thereby influencing corporate environmental performance. Specific activities that correspond to the fulfillment of the service task include providing expert and detailed insight during major events, such as an acquisition or restructuring, as well as more informal and ongoing activities, such as generating and analyzing strategic alternatives during board meetings (Forbes and Milliken, 1999). Therefore boards of directors may reinforce the top management team’s competencies and experiences by providing feedback or refining their strategic proposals (Westphal, 1999). Furthermore, boards can help managers solve critical strategic issues (Fiegener, 2005) or explore new market opportunities (Zahra et al., 2000). In their study Nielsen & Huse (2010) conclude that a board with a certain
composition may be better at performing one task than the other as the two distinct sets of board tasks require different skills for their effective performance.

In their study Adams and Ferreira (2009) observed that overall, gender-diverse boards have increased levels of boardroom involvement and corporate oversight and allocate more effort on monitoring, and also boards with a greater female presence have higher levels of meeting attendance. The primary way in which boards operate and conduct business is through meetings and thus, attendance is a crucial factor of a successful board (Adams and Ferreira, 2009). These authors note that women were less likely to have attendance problems and that having females on boards results in better attendance by male directors. Clearly, the female influence in this area is quite important; increasing attendance should result to better boardroom discussion and higher levels of effectiveness.

Women bring specific advantages to board decision-making when it comes to board strategic tasks (Nielsen and Huse, 2010), that gender diverse boards have less conflict and are associated with more strategic control and board development activities. Female directors are more likely than male directors to have expert backgrounds outside of business and bring different perspectives to the board (Hillman et al., 2002). Therefore, having more female directors may sensitize boards to environmental initiatives and provides perspectives that can be helpful in addressing issues of environment. Increasing board gender diversity (which, for all practical purposes, means increasing the number of women on boards) can enhance decision making, as a wider variety of perspectives and issues are considered and a broader range of outcomes is assessed (Daily and Dalton, 2003).

**CSR and Corporate Reputation.**

Barnett (2007) defined CSR as "a discretionary allocation of corporate resources toward improving social welfare that serves as a means of enhancing relationships with key stakeholders." There are two constructs of CSR; Institutional strength and technical strength these constructs reflect programs that enhance corporate reputation with key stakeholders. Gardberg and Fombrun (2006) liken these CSR or citizenship programs to investments in R&D which create “intangible assets” that build reputation and help companies grow their global businesses. Actions that demonstrate CSR can bolster corporate reputation. Branco and Rodrigues (2006) have argued that CSR enables firms to improve reputation with a broad range of stakeholders including customers, suppliers, competitors, bankers, and investors. Fombrun and Shanley (1990) found that corporations that had a foundation and that gave more to charity had more positive reputations. These actions served as signals for responsiveness to social concerns and built reputation among stakeholders. Importantly, when CSR programs are communicated to the public they build corporate reputation and credibility (Pfau et al., 2008). Russo and Fouts (1997) found a positive association between pro-environment reputation and return on assets. Donker et al., (2008) examined the codes of ethics of major
Canadian companies and stakeholders value a positive image for CSR because it serves to mitigate risk. Fombrun and Gardberg (2000) argue that CSR can be a safety net by reducing reputational damage. A positive reputation for CSR can reduce the damage from negative publicity during a crisis (Vanhamme and Grobben, 2009).

**Diversity of Director Resources**

An effective board provides resources to the corporation including advice and counsel and links to other organizations (Hillman and Dalziel, 2003). Diversity refers to policies and practices that seek to include people who are considered some way different from traditional members (Herring 2009). Traditional members are people from the same background in terms of race or gender. In their study of understanding the effects of diversity in organizational groups Milliken & Martins (1996) categorized diversity into observable demographic and non-observable cognitive dimensions.

The board’s human capital resources are based on the collective experience and expertise of board members. Research has shown that lack of diversity within the boardroom results in a manila mindset to solving corporate problems (Burgess and Tharenou, 2002) this leads to group think issues as well as lack of achievement within the company. Over the past decade, homogenous boards have been a contributing factor to spectacular failures and overall poor governance (Brown et al., 2002). A more diverse board results in an increased representation of moral and ethical viewpoints in the discussions prior to making decisions (Arfken et al., 2004).

These linkages can provide channels for communication with, and access to support from external organizations (Pfeffer and Salancik, 1978). Hence, board resources can help the firm manage business challenges (Boyd, 1990) and enable it to deal more effectively with external organizations (Pfeffer, 1972). The board’s human capital resources are based on the collective experience and expertise of board members. This expertise includes insiders with knowledge of company strategy and operations, business experts with knowledge of corporate strategy, support specialist with knowledge of legal and regulatory affairs, community influential with knowledge and relationships with external stakeholders including the government and local communities (Hillman et al., 2000). Diversity of experience is an important asset as studies with management teams have shown that functional diversity can enhance team innovation through the generation of alternative solutions and innovation (Bantel and Jackson, 1989; Joshi and Roh, 2009).

Diversity in the boardroom allows members to make better decisions as a more complete picture of the issues at hand are typically discussed (Adams and Flynn, 2005)

Accordingly, the greater the diversity of board resources, the greater the potential for understanding and problem solving that can enable the board to effectively address the business environment and encourage positive ratings for CSR. Board resource diversity may also enhance network ties (Beckman and Haunschild, 2002). Insiders offer strong internal network connections. Business experts may offer connections to their focal firms and to suppliers,
customers, and other boards. Support specialists have connections with their focal firms, customer networks, and professional associations. Therefore the diversity of board resources also affects the board’s critical function of monitoring management.

The relationship between the shareholders and the management of a corporation is an agency relationship subject to principal and agent conflict (Jensen and Meckling, 1976) and to different perceptions of risk (Eisenhardt, 1989). In order to address these issues, shareholders appoint a board of directors to monitor management. The board’s role in monitoring includes functions ranging from strategy implementation to rewarding the CEO and top managers of the firm (Hillman and Dalziel, 2003). In order to effectively monitor management, the board needs the right “skills, experience, expertise and knowledge” (Hillman and Dalziel, 2003). Diversity of director resources can help provide these skills. Carpenter and Westphal (2001) studied the impact of board ties and found that the board’s ability to monitor and advise management is related to expertise demonstrating that the background and experience of board members were crucial for effective monitoring. Diverse director resources can provide insider knowledge, line management skills, support specialist skills (legal, banking, and insurance), and experience working with the community (Hillman et al., 2000). The heterogeneity of demographic traits can lead to greater diversity of information sources and perspectives, as well as to more creative or innovative discussion (Tuggle et al., 2010).

As per upper echelons perspective greater heterogeneity in demographic traits can lead to greater diversity of information sources and perspectives, as well as to more creative or innovative discussion (Tuggle et al., 2010). A diverse board that resemble environment and society in which they operate may place companies in a better position to compete. A value of director diversity is that the variations in background and business experience will enhance board understanding of the firms’ external environment and support effective decision making (Bear 2010). Therefore diversity of director resources will provide network connections and enhance legitimacy with external audiences.

**Board Gender Diversity**

In addition to director resource diversity, gender composition (i.e., the number of women on the board) is expected to have a positive impact on social capital and CSR. On boards, women are more than twice as likely as men to hold a doctoral degree (Hillman et al., 2002). Women directors are generally younger than their male counterparts in terms of age by approximately four to five years (Simpson et al., 2010) implying that women not only influence board diversity in terms of gender but also in terms of age, therefore contributing to diversity view of the board. Female directors are more likely than male directors to have expert backgrounds outside of business and to bring different perspectives to the board (Hillman et al., 2002). In addition, women on boards are more likely than men to be support specialists and community influential (Hillman et al., 2002). Therefore, having
more female directors may sensitize boards to CSR initiatives, and provide perspectives that can be helpful in addressing issues of CSR. Research already suggests that firms with a higher percentage of female board members do in fact have a higher level of charitable giving (Wang and Coffey, 1992; Williams, 2003), more favorable work environments (Bernardi et al., 2006; Johnson and Greening, 1999), and higher levels of Environmental CSR (Post et al., 2011).

Increasing board gender diversity (which, for all practical purposes, means increasing the number of women on boards) can enhance decision making, as a wider variety of perspectives and issues are considered and a broader range of outcomes is assessed (Daily and Dalton, 2003). The presence of more female directors may stimulate more participative communication among board members, if one assumes that gender differences in leadership styles, as evidenced in some studies, also exist at board director levels. If female directors are more participative (Eagly et al., 2003), democratic (Eagly and Johnson, 1990), and communal than men (Rudman and Glick, 2001), then having more women on a board could encourage more open conversations among members of the board. A broader perspective may enable the board to better assess the needs of diverse stakeholders. The result may enhance the board’s ability to effectively address CSR.

Gender diversity can also affect the board’s critical function of monitoring management. Having more women on the board enhances the board’s expertise by increasing the range of professional experience and augmenting the number of board members with advanced degrees (Hillman et al., 2002). These added qualities brought in by female board members enable the board to more effectively monitor management (Hillman and Dalziel, 2003). Women also increase the demographic diversity of the board, helping to ensure the board’s demographic difference from management. Westphal and Zajac (1995) found that CEOs attempt to select board members who are demographically similar to them to secure support, and that this support led to higher compensation. Consequently, gender diversity on the board can help ensure demographic differences from the CEO needed for effective monitoring.

The effectiveness of women on boards may increase with the addition of female directors. While a single female director may have a positive impact on firm’s reputation, she may also face challenges. Groups with a single minority member (e.g., a female director) may consider that minority member to be a token; they may perceive the minority individual as less competent and of lower status. Consequently, the group may fail to take the token’s opinions or contributions seriously (Brewer and Kramer, 1985; Kanter, 1977a; Lord and Saenz, 1985). Furthermore, research suggests that minority voices are not easily expressed or heard in groups (Nemeth, 1986) because social pressures encourage conformity with the majority’s opinion (Asch, 1955). However, when a group is faced with consistent opinions from multiple minority members, it is more likely to consider and learn from the minority voice (Asch, 1955). Empirical evidence suggests that these processes may also be at play on boards. For example,
when a critical mass of women (i.e., at least three) is represented on a board, female directors are able to ask challenging questions and work together to demonstrate collaboration in decision making (Konrad et al., 2008; Kramer et al., 2006). It may be possible that there could be too many women on the board. Just as all male directors lack diversity and reduce board effectiveness, all female directors would lack diversity and reduce effectiveness.

**Methodology**

This study will employ documentary analysis design and the data was collected from the journals, periodicals. This measured ratio of board directors in the firm boards in listed firms in Kenya.

**Study Area**

The area of study will be Kenya.

**Discussion and conclusions**

The motivation for this study was to examine how the salient (gender composition) and underlying (professional backgrounds) diversity among board directors affect corporate reputation both directly, and, through improved CSR. The study extends current theory by demonstrating that the number of women on the board has a positive relationship with the strength ratings for CSR. Women bring a number of strengths to the board including an increased sensitivity to CSR (Williams, 2003) and participative decision-making styles (Konrad et al., 2008), and these benefits may contribute to enhanced corporate responsibility strength ratings. As the number of women on a board increases, communication barriers come down and the minority voice becomes more assertive (Konrad et al., 2008; Kramer et al., 2006) while, at the same time, the majority is more likely to heed attention to it (Asch, 1955). Our findings indicate that as the number of female director’s increases, so does the firm’s CSR, suggesting that the contributions women bring to the board in this area are more likely to be considered by the board when the group diversity dynamics move away from tokenism to normality (Erkut et al., 2008).

Institutional strength reflects the firm’s ability to meet expectations of the community and diversity stakeholders through philanthropy, community support, and hiring practices. Technical strength reflects positive exchanges with consumers, stockholders, and employees through product quality, good governance, and employee compensation and benefits. Stakeholders value these strengths as firm’s assets because enhancing overall reputation in these areas translates to a reservoir of goodwill that can be a tool to partially offset the negative impact of bad publicity during a crisis (Gardberg and Fombrun, 2006; Vanhamme and Grobben, 2009).

A final contribution of the study is that women board members provide a broad range of contributions to boards. This study suggests that they play a role in enhancing corporate reputation by contributing to the firm’s CSR.

**Managerial and Applied Implications**

The findings of this research have important implications for boards and investors. For boards, the positive impact of gender diversification is significant as having more female directors can enhance critical board processes including analysis and decision.
making. This positive impact of women on boards can improve ratings for CSR which can, in turn, enhance corporate reputation and positively impact financial performance, institutional investment, and share price (Fombrun, 2006). This research provides investors an extra tool when assessing potential investments. Because an increase in the number of women on a board may improve CSR, board changes may provide important signals to investors indicating the potential for improved reputation and financial performance.

FUTURE RESEARCH
A provocative area for future research is how board processes change as the number of women increases.

References

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