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How Board Structure Influences the Corporate Social Responsibility Strategy of the Firm? Pakistan's Perspective

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Abstract- The aim of this working paper is to identify the board structure types and variables that affect the corporate social responsibility strategy of the organizations. The main and core four types of board structures and determinants of corporate social responsibility strategy of the organizations have been identified in this working paper after studying and examining 35 research articles written by eminent scholars. These four types of board structure are: (1) having female directors on the board of directors greatly affects the corporate social responsibility strategy of the firms and such types of firms are appeared to be more philanthropic. (2) Outside or independent directors on board of directors also a major component in determining the organization's corporate social responsibility strategy. (3) Tenure of directors also has positive effects on determination of corporate social responsibility strategy of the organizations and (4) Board size also plays an important role in planning and development of organization's corporate social responsibility strategy.

Keywords: *corporate social responsibility, board structure, csr strategy.*

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How Board Structure Influences the Corporate Social Responsibility Strategy of the Firm? Pakistan's Perspective

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Abstract- The aim of this working paper is to identify the board structure types and variables that affect the corporate social responsibility strategy of the organizations. The main and core four types of board structures and determinants of corporate social responsibility strategy of the organizations have been identified in this working paper after studying and examining 35 research articles written by eminent scholars. These four types of board structure are: (1) having female directors on the board of directors greatly affects the corporate social responsibility strategy of the firms and such types of firms are appeared to be more philanthropic. (2) Outside or independent directors on board of directors also a major component in determining the organization's corporate social responsibility strategy. (3) Tenure of directors also has positive effects on determination of corporate social responsibility strategy of the organizations and (4) Board size also plays an important role in planning and development of organization's corporate social responsibility strategy. The other small variables and components of board structure also identified by the scholars but the main four are mentioned above. Substantial research gap exists for examining the affects of board composition and board structure in determining the corporate social responsibility strategy in the private and pubic sector organizations of Pakistan.

Keywords: corporate social responsibility, board structure, csr strategy.

I. Introduction

Corporate social responsibility (CSR) has great significance place in making the strategies of the organizations in the recent market bazaar of competitors. (Quinn et al., 1987; McGuire et al., 1988) elaborated the function of corporate social responsibility among the corporate management and highlighted the vital role of CSR in the decision making strategies of the organizations. By adopting social responsibility strategies and actions organizations build their reputation within the society and among its competitors / community. The organizations do some portion of their actions for the welfare of the public, also increase the moral of their employees and enhance the productivity of the employees. In this way the organizations create goodwill among stockholders in terms of showing managerial skills using them for decreasing internal and external risks (Owen & Scherer 1993). At least 80% of Fortune 500 organizations are adopting clear and open corporate social responsibility strategies for gaining good reputation within community and general all over the world (Kotler & Lee, 2005).

For the understanding of relationship between corporate social responsibility actions and board of directors of the organizations, this working paper will examine the relationship of these two dimensions. There are many definitions of corporate social responsibility in the present literature and it seems very nebulous idea.

As defined by the European Commission, Corporate social responsibility is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

For the reduction of the exterior expenses, the organizations adopt the corporate social responsibility as business measures which will ultimately benefiting the organizations for creating goodwill and developing a social image of the organization in the community (Heal, 2005). The organizations also use corporate social responsibility strategies to deal with environmental problems and corporate social responsibility leads the organizational actions towards the betterment of the society. Corporate social responsibility is also very helpful in developing soft image of the organization among its employees and the purpose of which is to do something for the interest of the employees.

Measuring corporate social responsibility is resides very difficult in the perspective of methodology. In this regard there are no legal rules and regulations exist to implement the corporate responsibility ethics in the organizations in most of the countries in the world. For the measurement of corporate social responsibility actions which affect the wellbeing of its stakeholders does not have any significance and existence. In that way the organization's preferences for the implementation of corporate social responsibility actions could not be monitored and measured. Keeping in view the foregoing it is difficult to establish the valid variable constructs for the measurement of welfare actions of the organizations.

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II. Literature Review

a) Structure of Board

Board structure is determined on the account of number of directors have an organizations on its board of directors. In the recent years the organization's performance has been measured keeping in view the board size of the organization and it is very famous phenomena which leads scholars to study the performance of an organization on the basis of its board size (O'Connell and Cramer, 2010). Having a suitable board structure which affects the welfare and corporate social responsibility actions of the organization has gain an enduring discussion familiarity now-a-days. (Hermalin and Weisbach, 2003; Eisenberg et al., 1998; Zahra & Pearce, 1989; Kiel and Nicholson, 2003).

For the provision of good management and monitoring strategies (Zahra & Pearce, 1989) recommended that big board size is a very useful strategy for the organizations to implement and exercise organization's corporate social responsibility actions. Since the large board size have more experience, expertise, awareness, information and great contacts with other organizations so in that way the organization face no problems in developing its operation strategies (Goodstein et al.. 1994; Kiel & Nicholson, 2003). To the contrary to the above arguments, (Hermalin & Weisbach, 2003; Eisenberg et al., 1998) suggested that having small size of board increases the performance of the organizations and having large board size may lead to conflicts among board members and communication and coordination problems begins to arise which will not be in the favor of the organization. They concluded that smaller board size lead to increased performance and big board size lead to decreased organizational performance.

Having female members on the board of directors of an organization have concrete effects on the corporate social responsibility strategy of the organization (Richard A. Bernardi, Veronica H. Threadgill (2010). This notion is very similar to the studies already done by eminent scholars on the topic. The organizations which have large ratio of women directors on its board will tend to have positive and strong relationship with corporate social responsibility with respect to employee's welfare actions, charitable sharing and donations and overall development efforts for the entire community. The existence of number of female members in board structure also have effects towards elimination of environmental problems occurred due to organizations.

After examining the data it is observed that the number of female board directors determines the social responsibility of the organization towards its employees. Rosener (2003) also found a positive correlation between female board members and increment in advancement opportunities for female employees. The organizations have female board members showed the benefits and soft corner policies for female employees. The foregoing research outcomes also exhibited by Dolliver (2004) which revealed a positive correlation between friendly policies benefits for employees and female board members. In similar to the present study Bernardi et al. (2009) also found a positive correlation between female board members and community participation by the organizations. In this the researcher also revealed that companies having female board members exert more efforts towards social responsibility instead of financial benefits and performance.

Bernardi et al. (2009) also revealed that female board members have positive association with donation giving and charitable behavior of the organizations. They found that organizations having female board directors tend to show more sympathy towards social responsibility actions such as donation, charity and participation in social ceremonies of the community. The organizations want to expand their corporate social responsibility dimensions take female board members on their board so that a soft image of the organization could be developed in the community which will ultimately benefit the organization by other means. In a research study done by (O'Neill et al., 1989; Ibrahim & Angelidis, 1995; Coffey and Wang, 1998) found that having large proportion of independent and outside directors on board lead the organizations to expand its corporate social responsibility strategy. Independent and outside directors have more links with other organizations which also resolve the issues regarding resource dependence of the organizations.

b) Corporate Social Responsibility

Having complex and many components containing topic, corporate social responsibility is moving forward and backward with other business strategies of the organizations. It is an emergent topic being studied in the world because it relates to wellbeing of humanity and all other creatures on the earth (Angelidis & Ibrahim 1993; Zenisek, 1979). In many developed countries of the world the organizations are adopting corporate social responsibility strategies. There have been issues and objections of the stake-holders regarding expansion of social responsibility strategies the management of organizations is reluctant to extend it to its other stake-holders. Corporate social responsibility is perceived to be a reflection of charity and benevolence strategic of an organization which expresses the actions of supportive behavior for the wellbeing of the community and humanity (Birch & Batten 2001; Cusack 2000). In the developed countries it is expected by the society that multinational organizations should adopt the strategies which must contain a process of value addition for the societies and environment not just for gaining financial benefits. The organizations are

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adopting social responsibility approach for actively participation in the welfare programs and adding this approach to their long term strategies (Clemenger 1998).

For the understanding of relationship between corporate social responsibility actions and board of directors of the organizations, this working paper will examine the relationship of these two dimensions. There are many definitions of corporate social responsibility in the present literature and it seems very nebulous idea. As defined by the European Commission, Corporate social responsibility is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

For the reduction of the exterior expenses, the organizations adopt the corporate social responsibility as business measures which will ultimately benefiting the organizations for creating goodwill and developing a social image of the organization in the community (Heal, 2005). The organizations also use corporate social responsibility strategies to deal with environmental problems and corporate social responsibility leads the organizational actions towards the betterment of the society. Corporate social responsibility is also very helpful in developing soft image of the organization among its employees and the purpose of which is to do something for the interest of the employees. Measuring corporate social responsibility is resides very difficult in the perspective of methodology. In this regard there are no legal rules and regulations exist to implement the corporate responsibility ethics in the organizations in most of the countries in the world. For the measurement of corporate social responsibility actions which affect the wellbeing of its stakeholders does not have any significance and existence. In that way the organization's preferences for the implementation of corporate social responsibility actions could not be monitored and measured. Keeping in view the foregoing it is difficult to establish the valid variable constructs for the measurement of welfare actions of the organizations.

III. Board of Directors and Corporate Social Responsibility

For the understanding of relationship between corporate social responsibility actions and board of directors of the organizations, this working paper will examine the relationship of these two dimensions. There are many definitions of corporate social responsibility in the present literature and it seems very nebulous idea.

Director role in producing and developing organization's public actions for the inclusion of policy in the strategy of the organization which lead it towards obtaining favorable outcomes for survival and fiscal success (Keim and Baysinger, 1988; Hillman and Hitt, 1999). Role of board of directors is to obtain access to other resources and business which will ultimately regulate informational exchanges among organizations (Middleton, 1987).

For the identification of role played by governing board, Zahra and Pearce (1989) identified three sets of inter-related dimensions which are strategy role, control role and service role. For the dissemination and formulation of corporate actions, policies and goals in addition to resource allocation for the implementation of strategies of corporate board the strategy role is very important in nature. For the rewarding and monitoring of performance and actions taken by the management the corporate control role is very essential. Governing board's institutional function is to securing the interest of the organization which contains developing philanthropic image of organization in the society and balancing this strategy with external environment and ensuring availability of vital resources. (Zahra & Pearce, 1989).

In the early stages of an organization evolving, the board of directors plays very important role which includes manipulation of strategic changes and keep the organization in a pace to face any crisis situation and meet the prevailing challenges (Fennell & Alexander, 1987; Aguilera & Jackson, 2003;).

(Forbes and Milliken, 1999) described that the governing board's objective is to play its role as sustainable and justifiable for the proper planning of organizations strategy which leads the organization towards its development heights

The role of corporate board must be focused by researchers and managers which is an attention taking dimension because the boards take decisions and develop strategies for the future of the organizations (Kassinis & Vafeas, 2002; Hung, 1998).

By using social actions the organizations try to respond the external environment and the directors on corporate board plays an important role developing social activities and are very helpful in taking proper social responsibility measures (Carter, 1990; Hrebiniak & William, 1985; Boddewyn, 1988).

Corporate social responsibility roles of the board director is to take such measures for social actions and make public policy which leads the organization in gaining favorable reputation among its stake-holders (Keim & Baysinger, 1988; Hillman & Hitt, 1999;).

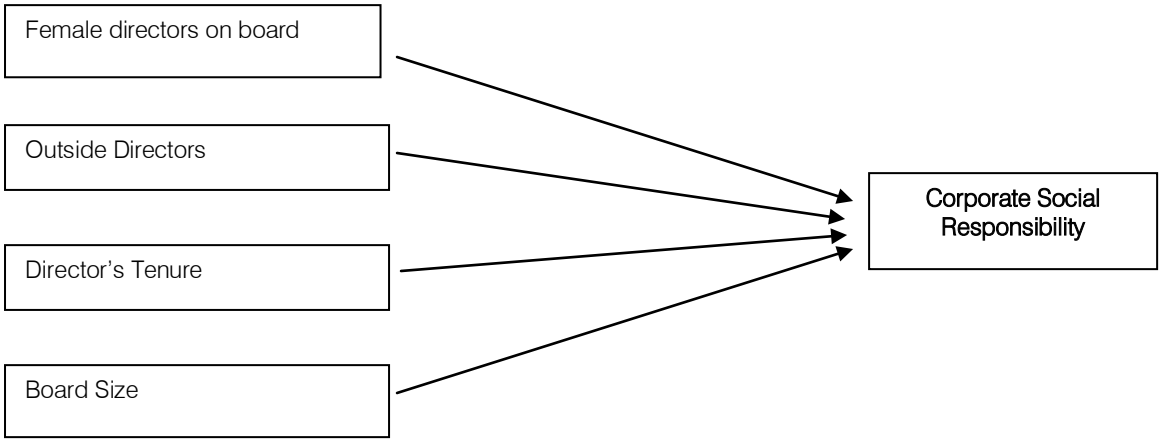
The board of director's decisions are very important because the organization will be in a position to align its strategy with the external environment keeping in view the interest of the organization (Keim & Baysinger, 1988; Hillman et al., 1999).

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IV. Theoretical Framework

On the basis prevailing literature the following theoretical and working model has been developed:

a) Board of Directors



In the prevailing literature could be hypothesized that:

- Female directors in board have positive effects on organization's social responsibility strategy.
- Outside directors in board have positive effects on organization's social responsibility strategy.
- Tenure of the Directors has positive effects on organization's social responsibility strategy.
- Board size also has positive effects on organization's social responsibility strategy.

b) Female Directors on Board

Having female members on the board of directors of an organization have concrete effects on the corporate social responsibility strategy of the organization (Richard A. Bernardi, Veronica H. Threadgill (2010). This notion is very similar to the studies already done by eminent scholars on the topic. The organizations which have large ratio of women directors on its board will tend to have positive and strong relationship with corporate social responsibility with respect to employee's welfare actions, charitable sharing and donations and overall development efforts for the entire community. The existence of number of female members in board structure also have effects towards elimination of environmental problems occurred due to organizations.

In a study conducted by Williams (2003) revealed that organizations having higher proportion of female board members engaged in more philanthropic actions and charity donation giving as compared to organization having lower number of female in boards. Bear et al. (2010) in his study found the proportion of female board members is positively related to corporate social responsibility vigorously.

c) Outside/Independent Directors

The large the proportion of independent or outside board members will have positive effects on better performance of corporate social responsibility of the organization. Outside board members are well aware of the external environmental dynamics so that they keep themselves more alert of surrounding environment. By doing so, the board members ensure the protection of the interest of all stakeholders of the organization (Coffey & Wang, 1998).

As per finding of (Ibrahim & Angelidis, 1995; Ibrahim et al., 2003), the outside board members are very much concerned regarding philanthropic dimensions of corporate social responsibility. In a study conducted by (Johnson & Greening, 1999; Zahra et al., 1993) found a positive relationship between corporate social performance of the firms and outside director representation in the board of directors.

d) Board Size

Most of the studies concluded that having large board size will lead to bad coordination and communication behaviors and attitudes. Kader Sahin et al., (2011) explored the relationship between board structures and characteristics and corporate social responsibility behavior of the organizations in Turkey. Having an appropriate board size not only lead to elimination of problems but also to protect stakeholder's interests and have a better corporate social responsibility performance. This notion also supported by different authors in their research e.g. (Louma & Goodstein, 1999; Said et al., 2009; Dunn & Sainty, 2009).

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e) Director's Tenure

Director's tenure on the board of directors of an organization has significant effects on corporate social responsibility strategy of the firm. Some finding showed that having highly tenured board members lead to irresponsible social behavior of the firm. In a study conducted by Philipp Kruger (2010) found a little support that corporate social responsibility is higher in organizations in which the board of directors is likely to be more friendly towards the management of the company.

Humphry Hung, (2011) in a research paper analyzed that the director must focus on adoption of new modern strategies to maintain the pace according to latest developments. The directors need to fully participate in controlling and managing the social responsibility strategies and must play the positive role for the development of strategic leadership in the organizations. Ogden & Watson, 1999) emphasized that the ways of selection and evaluation of board members needs to be upgraded in line with emerging globalization.

V. Concluding Remarks

Hence there is large amount of research data is available on the topic of board composition and its impact on firm's Corporate Social Responsibility strategy. However, after reviewing above mentioned articles it is analyzed that firms having more female members on board of directors are more conscious about CSR of the firm. Having female board members, the firm is more involved in philanthropic activities. It is also analyzed that having independent board members also lead to better CSR of the firms. Having a larger board size may not be supportive in CSR strategy of the firm. It is further investigated by researchers that having more inside board members leads toward better CSR of the firm.

Increasing part of independent director on board of directors is an essential finding of this examination which led us in determination of corporate social responsibility strategy and performance of the organizations. The resource dependence theory also supports these findings because it increases the corporate image of the organization and guarantees the protection of interest of shareholders (O'Neill et al., 1989; Ibrahim and Angelidis, 1995; Coffey and Wang, 1998). Agency theory also support that having large board size negatively affects the coordination and communication system of the organization and reduces the efficiency of the management.

Ibrahim & Angelidis (1994) - Female directors displayed a stronger orientation toward the discretionary component of corporate social responsibility than male directors, while male directors focused more on the economic performance of the firm than female directors. Stephenson (2004) - More women on the board results in a major increase in the use of non-financial performance measures, such as innovation and social and community responsibility. Williams (2003) stated that having women on boards of directors was positively related to firms' corporate philanthropy.

Substantial research gap exists for examining the affects of board of director's composition and board structure in determining the corporate social responsibility strategy in the private and public sector organizations of Pakistan.

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