

Corporate board diversity and its impact on the social performance of companies from emerging economies

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Abstract

Gender diversity, and to a lesser extent cultural diversity, have become a focus of interest as predictors of corporate social performance. Based on a sample of 6150 observations from 1230 companies in 18 emerging economies, this article examines the influence of board cultural and gender diversity on three measures of corporate social performance: workforce, community, and product responsibility. Using structural equation modeling, it shows that the existence of board cultural and gender diversity positively affects the workforce, community, and product responsibility performance of companies. Concerning gender diversity, the results largely support other empirical studies. Our findings also contribute to the under-researched area of cultural diversity. This study adds value to the existing literature on corporate board diversity, and can be used as a guide for companies in their pursuit of diversity.

KEYWORDS

cultural diversity, emerging economies, gender diversity, non-financial performance, social performance

1 | INTRODUCTION

Corporate boards are a resource for the decision-making bodies of organizations, and their constitution is of paramount importance. Hillman and Dalziel (2003) assert that boards can provide four primary benefits to an organization: “the provision of advice and counsel, creating legitimacy and a good reputation for the company they control, creating channels for communicating information between external organizations and the firm, and finally, getting preferential access to commitments or support from important elements outside the firm such as political bodies or other important groups” (pp. 387–388). With these four benefits, a gender and culturally diverse board may have a positive impact on social performance, primarily by contributing to effective and inclusive decision-making.

Boards have an essential role in the process of establishing organizational vision, mission, values, formulating

strategies, as well as determining strategic options that are geared towards the enhancement of a company’s performance (Kagzi & Guha, 2018a). Boards composed of members with a variety of backgrounds are important mechanisms that help to reach the goals set by the company they represent. From this perspective, the diversity of board members increases the reflection of different views that may help positively shape and operate the company they represent. Thus, board diversity is a valuable attribute of corporate governance, and plays a complementary role in the company’s social performance (Fatemi et al., 2017; Luo et al., 2015).

A diverse board is defined as a group of people with differing cultures, ideas, opportunities, experience, expertise, ideologies, and educational backgrounds. These diversity categories, if maintained and used well, can positively assist the achievement of organizational goals. With the important role boards play in making corporate decisions, it is not surprising that many pieces of research exist which

look at the compositional backgrounds of board members and how this affects both the production levels of the company and the board itself. These diversity characteristics include: age, gender, ethnicity, nationality, race, experience, education, and tenure, (e.g., Adams & Ferreira, 2009; Al-Musali & Ismail, 2015; Anderson et al., 2011; Ferreira, 2010; Harjoto et al., 2019; Harjoto & Rossi, 2019; Tarus & Aime, 2014) culture, (Frijns et al., 2016; Nederveen Pieterse et al., 2013) and political ideology (Kim et al., 2013).

Watson et al. (1993) postulated that a non-diverse board can be beneficial in the short-term but, when it comes to attaining sustainable corporate goals, a diverse board is better in the long-term. Carter et al. (2003), indicate the importance of asking the question: 'Does having different types of diversity in a corporate board affect both the financial and non-financial performance of that firm, or is it just a campaign to create an equitable environment?.' Our research seeks to answer this question by looking at the relationship between board diversity and social performance, which is a non-financial performance indicator and the subject of this study.

In this article, social performance will refer to a firm's workforce performance, its contribution to the community, as well as its product responsibility performance. Research findings on the relationship between board diversity and firms' performance are divided.

Some researchers believe that diversity has a proportional relationship with a firm's performance, as it seems to create an environment that attracts highly qualified and experienced employees whose contribution to attaining organizational goals is greater than the contribution within non-diverse environments (Fakoya & Nakeng, 2019; Gupta et al., 2015; Kagzi & Guha, 2018b; Kyaw et al., 2017; Li & Chen, 2018; Siciliano, 1996; Velte, 2016; Zhang, 2012). However, others believe that board diversity creates an environment that is less efficient for the integration of new members and member cooperation, which is an operational requirement for an effective board (Gupta et al., 2015).

Although there are many studies examining the relationship between the diversity of a firm's corporate board and its financial performance, few studies have focused on board diversity and non-financial performance, using CSR (corporate social responsibility) or ESG (environmental, social and governance) to set a general factor or rating score (Adams & Ferreira, 2009; Coffey & Wang, 1998; Fakoya & Nakeng, 2019; Harjoto et al., 2019; Kyaw et al., 2017; Sanan, 2016; Siciliano, 1996; Zhang, 2012).

Thompson Reuters has created thirteen score categories to cover non-financial performance: environmental (resource use, emission, innovation), social (workforce, human rights, community, and product responsibility), governance (management, shareholders, and CSR strategy), ESG score, and the ESG controversy and ESG com-

bined score (Reuters, 2019). To the author's knowledge, there are no studies that look at the relationships between board diversity and these new score categories.

The objective of this study is therefore to explore the relationship between board diversity – specifically board gender and cultural diversity—and social performance scores—specifically workforce performance, community performance, and product responsibility performance. As explained below, this will take place in the context of companies from emerging economies.

There are several studies that show how a firm can use board diversity as a resource to create a competitive advantage. However, until now, there are no studies that specify how a diversified board, in terms of culture and gender, affect the social performance of the firm with respect to workforce performance, community performance, and product responsibility performance. Studying these three scores, and not the others, should provide clarity on how board diversity affects those involved in the day-to-day internal and external operations of companies. Additionally, this article looks at the relationship between cultural diversity and social performance, which is rarely covered in existing literature due to the complex nature of culture. This article is the second of its kind after Frijns et al. (2016), which looked at cultural diversity and its positive impact on a firm's performance, and treats board diversity as a key resource in enhancing social performance, as it uses the resource-based view (Barney, 1991) as its theoretical foundation.

Finally, due to their inherent diversity in terms of economy, policies, and culture—which are key metrics to support the hypothesis that board diversity positively affects a company's social performance—this research will take place in the context of emerging economies. Emerging economies will account for most of the global economic growth in the 21st Century, and are evolving at an unprecedented speed, scale, and scope. These economies have been growing rapidly for several years at a rate of 6% or more (Chandy & Narasimhan, 2015; Kearney, 2012). Hosting most of the world's population, companies within emerging economies are culturally diverse, and are excellent examples of the type of fast growth entities that are the focus of this paper (Kearney, 2012; Sudhir et al., 2015). Here, we define emerging economies as low income but rapid-growth economies that use market liberalization as the catalyst for rapid economic growth and development (Hoskisson et al., 2000).

The remainder of this article is arranged as follows: section two contains the literature review and hypotheses development; this is followed by section three which includes the methodology and data analysis; section four which presents the results and their interpretation; and section five, which outlines the contributions of the research. Finally, section six discusses the implications

of the work, outlines the limitations, and identifies some directions for future research.

2 | LITERATURE AND HYPOTHESES DEVELOPMENT

2.1 | Theoretical background

This article adopts the resource-based view of the firm (Barney, 1991) as its theoretical perspective. It examines how board gender and cultural diversity are among the key sources of a firm's non-financial performance, and how the improvement of the firm's workforce performance, community performance, and product responsibility performance is dependent on a diversified board.

Penrose (1959), and Rubin (1973), focused on immobile resources, skills resources, technologies, and common knowledge to explain how a firm can obtain a sustainable competitive advantage. Firm's resources vary and may include common knowledge, characteristic features, information and knowledge, processes, and capabilities that enhance a firm's efficiency and effectiveness, which are obtained by execution of firm strategies (Huse, 2007). Additionally, resources can also be the human resource department of an organization or a comprehensive library with books and training materials (Barney, 1991). Thus, in some successful companies in emerging economies, resources that can bring competitive advantage could come from members of a diversified corporate board, directly through their knowledge and experience.

Human capital is a potential resource a firm can use to enhance both its financial and non-financial performance, and a key part of human capital must include diverse board members (Richard, 2000). Barney (1991), argued that resources should be hard to duplicate, imitate, and should be non-substitutable. Board diversity, categorized as a human capital resource, can be used to enhance the performance of the workforce, community as well as product responsibility. Board diversity as a resource creates a positive mixture of knowledge, experience, creativity, skills, decision-making ability, and talents that when coordinated well creates value to a firm (Richard, 2000).

This article focuses on corporate board diversity as a human capital resource by considering the relationship that a board has with managers and other employees, and focuses on how a gender and culturally diverse board uses its intelligence, experience, education, and judgments to make positively impactful decisions that enhance the non-financial performance of a firm. Barney (1991), noted that "organizational capital resources include a firm's formal reporting structure, its formal and informal planning, controlling and coordination systems, as well as informal relations among groups within a firm and between a firm and

those in its environment" (p. 3). From this statement, this study believes that a diversified board acts as a camera and a complementary resource to monitor other company resources. The board does this by electing company leaders, establishing values and policies, and monitoring the performance of every formal and informal activity done by the firm to improve performance.

The resource-based view of a firm provides an understanding of how it can use its resources to achieve a sustainable competitive advantage (Barney, 1991; Penrose, 1959; Prahalad & Hamel, 1990; Schumpeter, 1934; Teece et al., 1997; Wernerfelt, 1984). These resources are heterogeneous (Penrose, 1959), and are assumed to be valuable, rare, inimitable, and non-substitutable (Barney, 1991). When these resources are complemented with a firm's activities, systems, and processes, they enhance its sustainable competitive advantage (Porter, 1996). When treated as a firm resource, board diversity can be utilized to make decisions that improve a firm's workforce capability, and to gain community awareness and respect for the business's presence, as well as the development of quality products which benefit that community.

In 1959, Penrose argued that the resources of the firm are key to the firm's growth both internally and externally as well as to its competitiveness (Penrose, 1959). In addition, the financial and non-financial performance of the firm can be affected directly by the performance of the products or services it creates, and indirectly affected by the resources that are used for the overall production of the firm's products or services (Newbert, 2007; Wan et al., 2011). The composition of the board of a firm can be seen as an example of an indirect effect of its performance.

A firm's board does not undertake production, marketing, sales, or accounting activities, but makes decisions, establishes policies, issues dividends, approves budgets, appoints, supports, and assesses the Chief Executive Officer, and reviews the firm's activities that will ultimately affect its financial and non-financial performance. Due to its instrumental, background decision-making nature, and the responsibilities of the board, board members are seen as an extremely important asset and human resource that can be used in achieving a firm's success.

2.2 | Board gender diversity

The 21st century has witnessed many gender-related marketing campaigns associated with ideas such as gender equality, gender parity, gender equity, and gender diversity. These campaigns, one could suggest, have led to an increased interest in board gender diversity in corporate governance. It is therefore not surprising to see research papers support the importance of involving women in corporate governance by appointing them as board members.

Board gender diversity refers to the proportion of women on the board of an organization (Perrault, 2015); it is effectively the ratio of female board members to board size (Şener & Karaye, 2014). Hassan et al. (2016) and Adams and Ferreira (2009) postulated that the larger the gender diversity on boards, or the greater the ratio of women to men, the greater the performance of a firm. In short, involving women at the board level as board members may improve firm performance (Adams & Ferreira, 2009; Hassan et al., 2016; Nguyen et al., 2015). Lückerath-Rovers and De Bos (2011), established that firms in The Netherlands that had women on their boards had a better overall performance than firms that did not. A lot of research has identified a positive relationship between board gender diversity and firm performance.

A gender-diverse board may enhance the social, environmental, and corporate governmental performance of a firm (Fakoya & Nakeng, 2019; Gupta et al., 2015; Kagzi & Guha, 2018a; Kyaw et al., 2017; Li & Chen, 2018; Siciliano, 1996; Velte, 2016). Zhang (2012), hypothesized that board gender diversity leads to an increase of institutional, technical, and corporate social performance. Women are seen as easy-going, understanding, as well as good administrators, which leads to a low level of emotional volatility on boards they serve (Bernile et al., 2018). A gender-diverse board is also one that is typically involved in corporate social responsibility performances (Gupta et al., 2015) and charitable donations (Lin et al., 2018). A gender-diverse board means a better performing firm (Harris, 2014).

There is a misconception that in Muslim-dominated countries, women are not often involved in the day-to-day running of firms. However, Hassan and Marimuthu (2018), found that both Muslim and non-Muslim women serving on boards contribute positively to the performance of the firms they represent. However, despite all the positive research on gender diversity on firm performance, Sanan (2016), in his paper on Indian firms, could not find a positive relationship between board gender diversity and a firms' financial and social performance.

This article continues the tradition of looking at the positive relationship between board gender diversity and non-financial firm performance. It is focused on examining if board gender diversity has a positive relationship with the firm's workforce, community, and product responsibility performance and hypothesizes the following:

- HIa: Board gender diversity has a positive and significant relationship with workforce performance.
- HIb: Board gender diversity has a positive and significant relationship with community performance.
- HIc: Board gender diversity has a positive and significant relationship with product responsibility performance.

2.3 | Board cultural diversity

Culture is a set of values and beliefs that guide how people select or evaluate actions, policies, events, or other people (Frijns et al., 2016). According to Hofstede (2001), "culture is the collective programming of the mind distinguishing the members of one group or category of people from others" (p. 525). It is important to examine culture since it epitomizes one of the bases for decision-making, and this includes decisions taken by boards. Boards use their cultural background in perceiving and interpreting information, and interacting with people from various backgrounds (Maznevski, 1994; Schneider & De Meyer, 1991). However, it was not until the research done by Hofstede, that the study and cultivation of culture became an essential part of maintaining a successful corporation. Hofstede wrote about culture and its various dimensions, and how important they were in management practice; an issue that has started to take center-stage in contemporary academic research (Hofstede, 2001).

There exists only sparse research and literature on the relationship between a board's cultural diversity and the overall performance of a firm (Frijns et al., 2016; Gupta et al., 2015) hence, the reason for our concentration on board cultural diversity. Cultural diversity in corporate governance can be considered as a measure of cultural differences that exist within groups or organizations and, in the context of corporate boards, can be seen as representing the cultural distance between board members. Thus, board cultural diversity can be viewed as the proportion of board members in an organization that have a different cultural background from the dominant culture, e.g., at the corporate headquarters (Frijns et al., 2016).

Cultural diversity, like many issues in the management literature, can be seen as a 'double-edged sword' (Miliken & Martins, 1996), with both its advantages and disadvantages. As a positive force, cultural diversity creates teams with people from various backgrounds in terms of education, expertise, experiences, and strategic thinking, which can help an organization achieve larger, more strenuous, goals (Maznevski, 1994; Nederveen Pieterse et al., 2013). A culturally diverse board means board members have different cultural values from which they can tap a range of knowledge and experiences to benefit the organizations they represent. Cultural diversity can be a rich source of varying ideas, plans, and natural talents that can be used in creating policies for organizations that lead to the satisfaction of all involved parties (Frijns et al., 2016).

From a negative viewpoint, cultural diversity can create tensions in a team of people who have different ways of life, and different basis of thinking. In highly diverse workplaces, a lack of common understanding can lead to poor teamwork which can negatively affect productivity.

Employing people from different cultural backgrounds that work within the same environment, but do not compromise with one another, can create more conflict, confusion, lack of empathy, and lower productivity (Anderson et al., 2011; Doney et al., 1998). According to Bjørnskov (2008), cultural diversity can lead to lower levels of intragroup trust due to the difference in their norms and values. Frijns et al. (2016), lamented that researchers sometimes romanticize the existence of a positive relationship between cultural diversity and outcomes, and that this resulted in theorizing that the negative outcomes of cultural diversity outweigh the positive outcomes.

Despite the various negative citations on cultural workplace diversity, the authors believe that a positive and significant relationship exists between corporate board cultural diversity and a firm's performance, and, based on this, we outline the following hypotheses:

- H2a: Board cultural diversity has a positive and significant relationship with workforce performance.
- H2b: Board cultural diversity has a positive and significant relationship with community performance.
- H2c: Board cultural diversity has a positive and significant relationship with product responsibility performance.

Based on a comprehensive and detailed literature review, summarized in Exhibit 1, we derived the conceptual framework represented in Exhibit 2. The independent variables are board gender diversity, and cultural diversity. The dependent variables are workforce, community, and product responsibility performance. The relationship between the independent and dependent variables is indicated by hypotheses H1a, H1b, and H1c, and H2a, H2b, and H2c.

3 | METHODOLOGY

The study employed a structural equation model to analyze the data. A structural equation model is the best model for this study as it analyzes and estimates multiple and interrelated relationships among independent variables (i.e., board gender diversity, and board cultural diversity), and dependent variables (i.e., workforce, community, and product responsibility performance). Additionally, the model will explain the relationship between the variables. The data were obtained from the Thompson Reuters dataset, and details of how they were compiled are explained below.

3.1 | Sample selection

The sample covers panel data for the 5 years from 2015 to 2019. The sample size aimed to cover 23 emerging economies from the International Monetary Fund's

emerging economies list. However, with the data available in the Thompson Reuters database, we were only able to cover 18 countries (Argentina, Brazil, Chile, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Thailand, and Turkey.) Complete data sets on the remaining countries (Bangladesh, Bulgaria, Venezuela, Romania, and Ukraine) were not available, so they were excluded from the sample in this study. The sample size comprises 6,150 observations from 1,230 companies. Exhibit 3 defines the characteristics of the sample.

3.2 | Variables

The data was obtained from the Thomson Reuters DataStream database for the 13 ESG scores and board diversity percentages. The three dependent variables, workforce performance, community performance, and product responsibility performance were chosen because these scores are related to the relationship between board diversity and non-financial performance. Many ESG articles only analyze the ESG score for one variable, but this article aims to narrow the study and dig deep into the components of the ESG score.

Thompson Reuters ESG scores are divided into three main categories (environment, social, and governance) and in each category, there are other subcategories. In the environmental category, there is resource use, emission, and innovation; in the social category, there is workforce, human rights, community, and product responsibility; and in the governance category, there is management, shareholders, and CSR strategy. All our dependent variables are in the social category. The independent variables are the percentage of board cultural diversity and the percentage of board gender diversity in a company. The definitions and measurements of all variables are given in Exhibit 4. The definitions and measurements of our variables are all according to the Thompson Reuters database.

4 | RESULTS

The study used descriptive statistics to describe the data, correlation analysis to check the relationship between variables, and later applied structural equation modeling. The structural equation model started with a confirmatory factor analysis, this is because the independent variables, as well as the dependent variables, were known. Then the testing of the measurement model for board diversity and firm performance was completed. After that we checked the interrelationship among board gender diversity (BGD), board cultural diversity (BCD), and social performance scores of the firm: workforce performance (WP), community performance (CP), and product responsibility performance (PRP).

EXHIBIT 1 Summary of articles on board diversity and non-financial performance

Article	Size of sample and method	Dependent variable(s)	Independent variable(s)	Findings
Adams and Ferreira (2009).	The sample consists of an unbalanced panel of director-level data for Standard & Poor's (S&P) 500, S&P MidCaps, and S&P SmallCap firms. A multivariate regression analysis was done.	Governance and corporate performance.	Gender diversity.	Female directors have a significant impact on board inputs and firm outcomes. Female directors have better attendance records than male directors, gender-diverse boards allocate more effort to monitoring.
Al-Musali & Ismail (2015).	The sample frame comprises all listed banks in the GCC countries during the period 2008 to 2010. The empirical data are drawn from banks' annual reports over the 3 years from 2008 to 2010.	Intellectual capital performance.	Board diversity (i.e., educational-level and nationality diversity) and the effectiveness of board meetings.	Results did not support the hypothesis that the effect of board diversity on intellectual capital performance is positive as the effectiveness of board meetings increases.
Bernile et al. (2018).	The sample comprises all non-financial, non-utility firms included in the intersection of the ExecuComp and Risk-Metrics databases for the years from 1996 to 2014.	Lower volatility and better performance	Diversity of directors sitting on the board.	Board diversity is positively related to lower volatility and better performance.
Coffey and Wang (1998).	The sample used in this study was comprised of 98 Fortune 500 companies. Data regarding corporate philanthropic behavior and board composition and managerial control were collected.	Corporate social performance.	Board composition, corporate philanthropy, board diversity measures, managerial control measures.	The ratio of insiders to outsiders on the board was positively related to charitable contributions. The percentage of stock owned by insiders was positively related to charitable giving.
Fakoya and Nakeng (2019).	The study sampled 28 banking and retail companies on the JSE SRI Index for 11 years (2007 to 2017). Multiple regression analysis was done.	Environmental sustainability performance.	Board composition, lack of knowledge, policies, and resources of companies.	Not all board characteristics influence companies' environmental performance. Having a considerable number of independent board members could have a positive impact on environmentally-related decisions.
Gupta et al. (2015).	The dataset comprises 1153 firms with complete information required to test the hypotheses. They used many databases related to their variables.	Financial and non-financial performance.	Gender diversity, ethnicity diversity.	Larger firms with diverse boards are more involved in corporate social responsibility.
Harjoto et al. (2019).	Sample of US firms from BoardEx for the period of 2000 to 2013. The study uses both univariate and multivariate analyses to empirically test the hypotheses.	Corporate social performance.	Board nationality diversity and educational background diversity.	Board nationality diversity and educational background diversity are positively associated with corporate social performance.

(Continues)

EXHIBIT 1 (Continued)

Article	Size of sample and method	Dependent variable(s)	Independent variable(s)	Findings
Harris (2014).	The sample was 554 participating non-profit U.S. colleges and universities.	Non-profit performance.	Board diversity (females, minorities, and expertise).	Board member diversity and expertise are associated with better performing organizations.
Kagzi and Guha (2018b).	Panel data set of top knowledge-intensive firms in India that is listed in the national stock exchange's top-200 list for the period 2010 to 2014. (Panel data).	Firm performance.	Board demographic diversity (gender, age, tenure, and education).	Results indicate that there exists a positive linear relationship between the overall board demographic diversity index (board gender, age, tenure, and education) and firm performance. Board age diversity positively influences firm performance.
Kim et al. (2013).	The sample consists of 500 unique firms with 5576 directors (2611 firm-year and 23,391 director-year observations).	Firm performance.	Diversity in political ideology (Republican and Democrat).	Ideologically diverse boards are associated with better firm performance, lower agency costs, and fewer insiders' discretionary power over the firm's political action committee spending.
Kyaw et al. (2017).	Fixed-effect panel models are estimated using Europe-wide data from 2002 to 2013. 589 firms were used. Use of various databases.	Corporate social performance.	Board gender diversity.	Board gender diversity improves environmental and social performance and consequently the corporate social performance.
Li and Chen (2018).	Sample of 1201 firms in 21 industries and 2936 firm-year observations from 2007 to 2012. Used panel data from non-financial firms in China.	Firm performance.	Gender diversity.	Board diversity had a significant relationship with firm performance.
Lin et al. (2018).	2011 to 2013, data of 380 Taiwanese electronics companies were used. Linear regression analysis was done.	Charitable donations.	Ownership structure, board characteristics, and organization-specific factors.	Board gender diversity with the critical number of female directors was positively related to a charitable donation.
Sanan (2016).	The sample consists of 54 companies drawn from Economic Times ranking, spread over widely different industry segments, 38 of which belong to the private sector, and 16 to the public sector.	Financial and social performance.	Gender diversity.	No significant association between gender diversity of boards and a firm's financial and social performance.
Siciliano (1996).	Data obtained from 240 YMCA organizations. Partial correlations, descriptive statistics, and intercorrelations test were done).	Organizational performance (social performance, fiscal performance, level of donations available).	Occupation diversity, gender diversity, age diversity.	Higher levels of social performance and fundraising results when board members had greater occupational diversity. Gender diversity compared favorably to the organization's level of social performance.

(Continues)

EXHIBIT 1 (Continued)

Article	Size of sample and method	Dependent variable(s)	Independent variable(s)	Findings
Tarus and Aime (2014).	Secondary data derived from publicly listed firms in Kenya during 2002 to 2010 was used. A fixed-effects regression model was done to test the effect of board demographic and strategic change. Firm performance was used as a moderator.	Firm strategic change / organizational outcomes.	Board diversity (age, educational, tenure and functional background diversity).	Results partially supported the relation between board demographic diversity and strategic change. Results indicate that age diversity produces less strategic change, while functional diversity is associated with greater levels of strategic change.
Velte (2016).	Sample of 1019 firm years-observations (2010 to 2014). A correlation and regression analysis were conducted.	Environmental, social and governance performance.	Gender diversity.	Female members in the management board do have a positive impact on environmental, social and governance performance.
Wang and Oliver (2009).	Paper used 384 of the top 500 Australian companies as its data set (regression analysis).	Firm performance.	Board composition (percentages of affiliated, executive, and independent members on the board).	Blockholders (large groups of shareholders) have a positive impact on firm risk.
Zhang (2012).	Data were collected from various sources for a sample of 475 publicly traded Fortune 500 companies between the years 2007 and 2008.	Corporate social performance.	Board demographic diversity, board independence.	Board gender diversity was partially related to CSP strength ratings and negatively related to CSP weakness ratings. Board gender diversity was positively related to institutional and technical strength ratings while board racial diversity was positively related to institutional strength rating only.

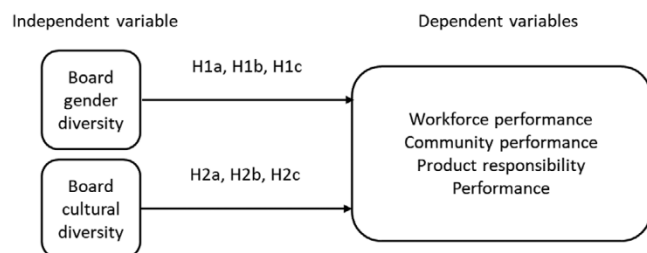


EXHIBIT 2 Conceptual framework

4.1 | Descriptive statistics

The results of descriptive statistics (Exhibit 5) show that on average emerging economies have more female directors on their boards in the years 2016 and 2017 compared to other years. In 2016 the percentage of female directors was 95.5% and in 2017 it was 95%. In 2015 the number of

females on boards was very low, with a score of only 0.18%.

The results of descriptive statistics by country in Exhibit 6 show that Hungary is the leading country in the percentage of board gender diversity with 97.4%, while in Chile the boards have only an average of 0.1% of female directors. Peru, Mexico, and Colombia are close to each other in the percentage of female directors on the board with scores of 77.7%, 79.5%, and 76.2% respectively. When it comes to the percentage of cultural diversity in boards, companies in Poland have 98.1% followed by Turkey 90.7% while India has 0.01% of cultural diversity in their company boards, and Colombia and Peru have 0%.

4.2 | Correlation matrix

Exhibit 7 shows the relationship between variables. According to the results, the highest correlation is between product responsibility performance and workforce

EXHIBIT 3 Characteristic of sample

	Number of companies	Number of observations
Period		
2015	1230	1230
2016	1230	1230
2017	1230	1230
2018	1230	1230
2019	1230	1230
Countries		
Argentina	35	175
Brazil	110	550
Chile	43	215
China	387	1935
Colombia	21	105
Hungry	4	20
India	116	580
Indonesia	41	205
Malaysia	61	305
Mexico	50	250
Pakistan	5	25
Peru	30	150
Philippines	27	135
Poland	34	170
Russia	43	215
South Africa	148	740
Thailand	44	220
Turkey	31	155
Total	1230	6150

performance. These correlations are 72.4% followed by 54.3% for workforce performance and community performance. The results also show that there is a positive and significant relationship between all variables.

A collinearity test for each model was completed and it appeared that there is no sign of multicollinearity since the variance inflation factors are all less than 3, as shown in Exhibit 8. The results of our analysis indicate a variance inflation factor of 1.005 for all the variables. This suggests there is no problem with multicollinearity since the variance inflation factors for independent variables are not more than 10 (Gopal, 2017; Kline, 2005). Additionally, the relationship between variables is not more than 0.75 which according to Hair et al. (2006), indicates that there is no collinearity problem.

4.3 | Confirmatory factor analysis

The measurement model was tested whereby all standardized regression weight coefficients, z-test, p-value standard error, and confidence interval are seen in Exhibit 9. The exhibit shows that all the regression weights for all the vari-

EXHIBIT 4 Definition and measurement of variables

Variable	Definition	Measurement
Product responsibility performance.	Product responsibility score reflects a company's capacity to produce quality goods and services, incorporating the customer's health and safety, integrity, and data privacy.	The country of headquarters is used as the benchmark.
Workforce performance.	Workforce score measures a company's effectiveness towards job satisfaction, a healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce.	Thomson Reuters Business Classification is used as the benchmark.
Community performance.	Community score measures the company's commitment to being a good citizen, protecting public health, and respecting business ethics.	Thomson Reuters Business Classification is used as the benchmark.
Gender diversity percent.	Number of females on the board out of the total number of board members.	Percentage of female on the board.
Cultural diversity percent.	Percentage of board members that have a cultural background different from the location of the corporate headquarters.	Percentage of board members that have a cultural background different from the location of the corporate headquarters.

ables are significant at the level 0.000 which means all the p-values are less than 0.05 as required by the rule of thumb. The chi-square value is also significant.

Exhibit 10 shows the overall model. According to the results, the model shows a good fit with a comparative fit index of 1.000 which is greater than 0.9, Tucker-Lewis Index of 1.000 which is also greater than 0.9, P-close of 1.000, and all these values indicate a perfect fit. Additionally, the root mean square error of approximation is less than 0.05 and the standard root mean square

EXHIBIT 5 Descriptive statistics by year

	BGD	BCD	WP	CP	PRP
2015	6.018	5.263	30.956	30.465	28.815
2016	6.955	4.164	33.91	32.439	31.207
2017	7.95	4.955	37.635	34.593	35.172
2018	9.269	4.467	43.557	38.557	41.813
2019	12.466	4.412	54.077	49.407	51.02

BCD, board cultural diversity; BGD, board gender diversity; CP, community performance; PRP, product responsibility performance; WP, workforce performance.

EXHIBIT 6 Descriptive statistics by country

	BGD	BCD	WP	CP	PRP
Argentina	2.141	.141	10.62	18.42	14.867
Brazil	6.484	8.367	48.827	45.014	58.602
Chile	5.011	5.06	30.757	30.46	30.654
China	5.259	2.678	22.905	26.46	19.606
Colombia	9.762	0	37.655	34.286	46.423
Hungary	11.974	4.838	73.079	50	66.603
India	10.633	2.001	47.085	45.926	54.833
Indonesia	6.253	15.476	55.988	45.778	45.838
Malaysia	14.641	9.447	57.371	44.121	43.116
Mexico	4.795	3.056	33.988	40.078	42.596
Pakistan	1.68	.286	15.692	11.6	8.025
Peru	2.777	0	13.221	20.964	19.921
Philippines	8.619	6.471	48.379	47.335	35.753
Poland	14.454	2.981	40.091	47.004	40.373
Russia	6.218	15.765	52.147	47.659	40.55
South Africa	18.715	5.312	63.683	45.874	50.42
Thailand	10.589	1.478	60.054	42.568	55.083
Turkey	8.406	3.907	58.383	44.618	49.558

BCD, board cultural diversity; BGD, board gender diversity; CP, community performance; PRP, product responsibility performance; WP, workforce performance.

EXHIBIT 7 Correlation matrix

Variables	BGD	BCD	WP	CP	PRP
(1) BGD	1.000				
(2) BCD	0.070*	1.000			
(3) WP	0.430*	0.188*	1.000		
(4) CP	0.421*	0.213*	0.543*	1.000	
(5) PRP	0.373*	0.182*	0.724*	0.530*	1.000

BCD, board cultural diversity; BGD, board gender diversity; CP, community performance; PRP, product responsibility performance; WP, workforce performance.

*Shows significance at the .05 level

EXHIBIT 8 Variance inflation factor

	VIF	1/VIF
BCD	1.005	.995
BGD	1.005	.995
Mean VIF	1.005	

VIF, Variance inflation factor.

residual is less than 0.05 with a value of 1.000. These results show that the measurement model provides good support for the variables' predictions. Maximum likelihood was used to estimate the model parameter. After all these results were compiled, the path model (Exhibit 11) was then analyzed. Structural equation modeling, using STATA from StataCorp, was used to test the relationship between board diversity and a firm's social performance.

The path model results (Exhibit 11) and model fit shows that the relationship between board gender diversity and board cultural diversity are positive and significantly related to social performance, and thus the findings support all our hypotheses. These findings are also well supported by the findings of the earlier researchers, as shown in the discussion section.

The path model is explained by the following structural model equations. The numbers that appear in the path model are slightly different from those in the following equations because they are approximated. The following structural equations were generated from the path model.

Structural Model 1 : $WP = 27.04 + 1.31 BGD + 0.38 BCD$

Structural Model 2 : $PRP = 26.89 + 1.06 BGD + 0.36 BCD$

Structural Model 3 : $CP = 24.33 + 0.44 BGD + 1.26 BCD$

Where WP is workforce performance, PRP is product responsibility performance, CP is community performance, BGD is board gender diversity, and BCD is board cultural diversity.

Structural Model 1 shows that an increase of one unit in board gender diversity and cultural diversity, increases a company's effectiveness towards job satisfaction, a healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce, by 1.31 units of board gender diversity and 0.38 units of board cultural diversity.

Structural Model 2 shows that an increase in one unit of board gender diversity and cultural diversity increases a company's capacity to produce quality goods and services, incorporating the customer's health and safety as well as integrity and data privacy, by 1.06 of board gender diversity and 0.36 units of cultural board diversity respectively.

Structural Model 3, shows the increase in one unit of board gender diversity and cultural diversity increases a company's commitment to good citizenship, protecting public health, and respecting business ethics, by 0.44 units of board gender diversity and 1.25 units of cultural board diversity.

5 | THE CONTRIBUTION OF THE STUDY

The study analyzed 1230 companies from 18 emerging economies as categorized by the International Monetary

EXHIBIT 9 Regression weights

	Coef.	Std. Err.	Z	P > z	95% Confidence interval	
Structural equation model						
WP						
BGD	1.313	0.036	36.81	0	1.243	1.383
BCD	0.384	0.028	13.92	0	0.33	0.438
_cons	27.038	0.5	54.12	0	26.059	28.017
PRP						
BGD	1.062	0.034	30.96	0	0.995	1.129
BCD	0.356	0.027	13.4	0	0.304	0.408
_cons	26.888	0.481	55.95	0	25.946	27.83
CP						
BGD	1.256	0.035	35.91	0	1.187	1.325
BCD	0.44	0.027	16.23	0	0.387	0.493
_cons	24.331	0.49	49.65	0	23.371	25.291
Mean (BGD)	8.532	0.137	62.29	0	8.263	8.8
Mean (BCD)	4.652	0.177	26.3	0	4.305	4.999
Var (e.WP)	898.091	16.196			866.902	930.401
Var (e.PRP)	831.015	14.986			802.156	860.912
Var (e.CP)	863.887	15.579			833.886	894.967
Var (BGD)	115.381	2.081			111.374	119.532
Var (BCD)	192.469	3.471			185.785	199.394
Cov (e.WP, e.PRP)	572.771	13.217	43.33	0	546.865	598.676
Cov (e.WP, e.CP)	371.96	12.192	30.51	0	348.064	395.857
Cov (e.PRP, e.CP)	358.65	11.732	30.57	0	335.655	381.644
Cov (BGD, BCD)	10.484	1.905	5.5	0	6.75	14.217

BCD, board cultural diversity; BGD, board gender diversity; CP, community performance; PRP, product responsibility performance; WP, workforce performance.

EXHIBIT 10 Goodness of fit statistics

Model fit statistics		Value description
Likelihood ratio		
chi ² _ms (0)	0	model vs. saturated
p > chi ²		
Chi_bs (9)	9049.29	baseline vs. saturated
p > chi ²	0	
Population error		
RMSEA	0	Root mean squared error of approximation
90% CI, lower bound	0	
Upper bound	0	
P-close	1	Probability RMSEA <= 0.05
Information criteria		
AIC	268523.558	Akaike's information criterion
BIC	268658.042	Bayesian information criterion
Baseline comparison		
CFI	1	Comparative fit index
TLI	1	Tucker-Lewis index
Size of residuals		
SRMR	1	Standardized root mean squared residual
CD	0.275	Coefficient of determination

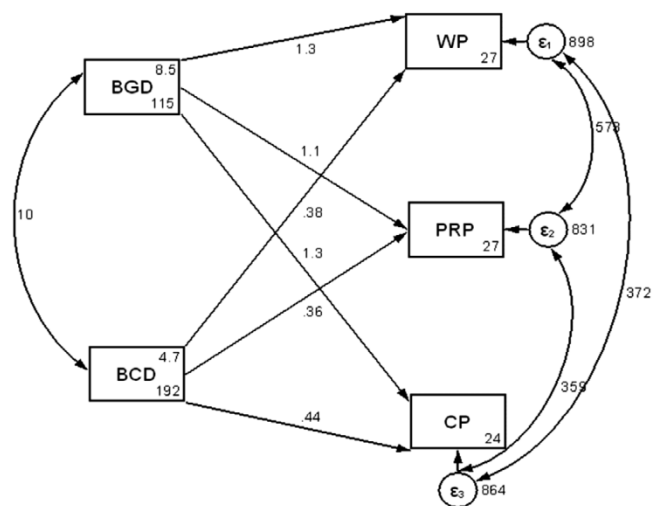


EXHIBIT 11 Path model

Fund. It supports and adds to the existing literature on corporate board diversity. In addition, it also supplements the scant literature on cultural diversity and non-financial performance. It found that there are positive and significant relationships between board gender and cultural diversity, and the social performance of firms (i.e., workforce performance, community performance, and product responsibility performance).

The findings on board gender broadly reflect the findings of previous studies. Li and Chen (2018), Kagzi & Guha (2018b), Velte (2016), and Harris (2014) have shown that board gender diversity has a significant positive relationship with a firm's social performance. Similarly, Siciliano (1996) found higher levels of social performance when board members have higher levels of gender and occupation diversity. Findings such as these lead Coffey and Wang (1998) and Zhang (2012), to conclude that board diversity and management control have become the major predictors of corporate social performance.

A study by Bernile et al. (2018), found that high levels of investment in research and development, resulting in lower volatility and better performance, are a result of a diversified board. Gupta et al. (2015), noted that larger firms with diverse boards seem to be more involved in corporate social responsibility activities, which increase the firm's performance socially and environmentally, as well as in terms of corporate governance performance. Kyaw et al. (2017) argued that gender diversity will positively affect corporate social responsibility, especially in emerging economies where corporate social performance regulations are not clearly defined. Finally, our study supports Lin et al. (2018), who concluded, "female directors are more socially oriented than male directors, and have the potential to broaden the discussion on both strategic and CSR (Corporate Social Responsibilities) control issues" (p.669).

The literature on board cultural diversity however is minimal. In contrast to the results of Frijns et al. (2016), who found a negative relationship between board cultural diversity and firm performance, this study found a positive and significant relationship between board cultural diversity and social performance among firms from emerging economies. A summary of hypotheses and studies that supported them is shown in Exhibit 12.

6 | DISCUSSION AND IMPLICATIONS

Companies use ESG scores to measure the impact they have on society as well as how sustainable their investments are. These scores help companies to predict the future of their financial and non-financial performance. Board members of firms monitor and evaluate these scores to ensure and secure the right direction for the company. This study contributes to examining the effect of board gender and cultural diversity on social performance within emerging economies. Even though different performance measurements have been linked with diversity in previous studies, this study aimed to investigate the relationship between board diversity and a firm's social performance. Therefore, the purpose of testing the relationship between a corporate board's cultural and gender diversity, and a firm's social performance in terms of workforce, community, and product responsibility performance, was to see if these relationships were significant in the context of emerging economies.

The findings have implications for the management of firms, both as an indicator of a firm's performance, and for formulating diversity best-practices. The findings suggests that board culture and gender diversity are among the key strategic human capital resources that create value for the firm's workforce, product responsibility, and community. A cultural and gender diversified board reflects the value and quality of a firm, their productivity, effectiveness, and efficiency as well as the workforce and their commitment, ethics, faith, and trust that a community has toward the firm.

Companies in emerging economies may have different levels of non-financial performance, but the findings show a similar direction concerning the significance of having a culturally and gender diversified board. This implies that companies in emerging economies that have policies to create responsible products, follow ethics, and create a healthy workforce have a better chance at achieving their objectives, missions, and vision.

In fulfilling the aims of any company, there needs to be a strong workforce and good corporate governance. This increases the value of the company, both inside as well as outside. The resource-based theory of the firm can be used to explain the importance of board diver-

EXHIBIT 12 Summary of hypotheses, expected results, and actual results

Hypothesis	Variable name	Expected sign	Actual sign	Level of support
H1a: Board gender diversity has a positive and significant relationship with a community performance.	Board gender diversity	+	+	Supported
H1b: Board gender diversity has a positive and significant relationship with workforce performance.	Board gender diversity	+	+	Supported
H1c: Board gender diversity has a positive and significant relationship with product responsibility performance.	Board gender diversity	+	+	Supported
H2a: Board cultural diversity has a positive and significant relationship with a community performance.	Board cultural diversity	+/-	+	Supported
H2b: Board cultural diversity has a positive and significant relationship with workforce performance.	Board cultural diversity	+/-	+	Supported
H2c: Board cultural diversity has a positive and significant relationship with product responsibility performance.	Board cultural diversity	+/-	+	Supported

sity as a resource in a company. Viewed as a resource, board cultural and gender diversity, when complemented with other resources, create positive non-financial value. Concerning the importance and positive contributions of board diversity, the study implies that the performance of firms in emerging economies is associated with the presence of female directors and directors from different cultural backgrounds. Thus, the study can be used by company policymakers when designing policies and regulations to ensure the involvement of female board members, as well as attempts to create a multicultural board.

6.1 | Limitations and directions for future research

The study did not use all features of diversity such as education, age, etc. Thus, the model did not capture all variables of diversity. This gives a gap to future researchers to work on the remaining unexplained variables which are not covered in this study. Additionally, concerning the 13 ESG scores available on Thompson Reuters DataStream, this study employed only three out of the 13, which gives future researchers a chance to analyze the rest. Last but not least, this study was only focused on emerging economies. A comparative study could be done to compare the developing countries, emerging economies, and developed countries, which may provide different results to this study.

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CONFLICT OF INTEREST

There is no conflict of interest

AUTHOR CONTRIBUTIONS

Work design: Mustafa K. Yilmaz, Fatuma Abdallah Nantembelele and Samba Sowe. *Data collection:* Fatuma Abdallah Nantembelele and Samba Sowe. *Data analysis:* Mustafa K. Yilmaz, Umit Hacıoglu and Fatuma Abdallah Nantembelele. *Drafting the article:* Mustafa K. Yilmaz, Umit Hacıoglu, Fatuma Abdallah Nantembelele and Samba Sowe. *Revision of the article:* Mustafa K. Yilmaz, Umit Hacıoglu, Fatuma Abdallah Nantembelele and Samba Sowe.


DATA AVAILABILITY STATEMENT

The research data cannot be shared by the authors. The data used are under the restrictions of Thompson Reuter Database which can only be accessible by paying a subscription fee.

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