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## Article

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# The impact of corporate social responsibility disclosure and board characteristics on corporate performance

Hosam Alden Riyadh<sup>1,2\*</sup>, Eko Ganis Sukoharsono<sup>3</sup> and Salsabila Aisyah Alfaiza<sup>3</sup>

**Abstract:** The study aims to investigate the impacts of corporate social responsibility disclosure and board characteristics such as (board independence, the board size, and gender diversity) on corporate performance. In order to find out the impact, this study employed a quantitative method using secondary data collection and analysed data using smart partial least squares (PLS). The population for this study is the global energy corporations which are the top two hundred fifty corporations in the world for a year period, 2016, 2017, and 2018. This study showed that the impact of corporate social responsibility disclosure on corporate performance is not significant, and board independence. Accordingly, the board size and gender diversity have a significant impact on corporate performance.

**Subjects:** Environmental Economics; Finance; Business, Management and Accounting

**Keywords:** corporate Governance; corporate social responsibility; financial accounting



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### PUBLIC INTEREST STATEMENT

This paper examines the impacts of corporate social responsibility disclosure and board characteristics such as (board independence, the board size, and gender diversity) on corporate performance. Basically, the literature exposed that during the after scandals period in global energy corporations, the managers work to palliate the impact of the financial crisis on firm's economic financial performance in order to raise up the shareholders' confidence in the firm's economic performance. Indeed, several organizations worldwide continuously work to improve their performance through various techniques. Thus, corporate social responsibility disclosure and board characteristics are one of the techniques examined in this study. This study showed that the impact of corporate social responsibility disclosure on corporate performance is not significant, and board independence. Accordingly, the board size and gender diversity have a significant impact on corporate performance.

## 1. Introduction

Good corporate performance is a basic driving force behind any powerful nation and the phenomenon of corporate performance has become an essential concern for managers of all organizations and shareholders (Acer & Acer, 2014; Pimentel & Major, 2014), consequently, The literature exposed that during the after scandals period in global energy corporations, for instance, (Texaco in 1987, Bre-X in 1997, Pacific Gas and Electric Company in 2001, Enron in 2001, and Dynegy in 2012), the managers works to palliate the impact of the financial crisis on firm's economic financial performance in order to raise up the shareholders' confidence in the firm's economic performance. Indeed, several organizations worldwide continuously work to improve their performance through various techniques. The ability of the top management to set appropriate organizational activities and strategies will determine the strength of an organization in maintaining its performance over the long term (Neely, Mills, Platts, Gregory, & Richards, 1994). More specifically, companies are located in economic, legal and political contexts where the behaviours they promote to gain the support of their stakeholders are paid special attention. The aim of these behaviours is mainly to guarantee resource sustainability not only for the current society but for the coming one too. Barnett's (2007) research stimulates debate about the real aim of these sustainable practices, because this author states that managers promoting sustainable actions could be using CSR practices as discretionary activities aiming to go beyond their own benefit and welfare: their final goal would be rebuilding the trust and support of stakeholders by stopping their activism and observations while improving corporate reputation (Adams & Ferreira, 2009). This opens the door to a sceptical climate regarding the impact of Corporate Social Responsibility (CSR) on corporate performance. The result of most researchers conducted on Corporate Social Responsibility (CSR) and financial performance are either inconclusive or contradictory, reporting positive or sometimes negative results. On the other hand, There is enough evidence existed to prove that a priori weak business culture and poor corporate governance are capable of creating incentives for the appointment of wrong and dubious people into companies' boards and that could be led to financial disasters (Sanda, Garba, & Mikailu, 2008). Whether or not a board composition comprising such people enhances corporate performance has remained an issue of empirical and theoretical debates. It is widely accepted that the composition of the corporate board could play a vital role in determining firm performance. Essentially, results of previous studies confirm that the presence of suspicious individuals on a board can exacerbate governance problems facing the firm; Bad corporate governance mechanism is capable of negatively influencing corporate performance and shareholders' value (Carter, D'Souza, Simkins, & Simpson, 2010).

Moreover, these financial accounting scandals are a consequence of managers' discretionary decision-making. They act for their own benefit, regardless of causing negative effects on shareholders or stakeholders. In other words, managers manipulate financial statements. Specifically, they manipulate profits in order to hide their discretionary behaviours. Hence The Global Corporations represent a good situation for exploring the board that constituted under beyond control subjective circumstances serve or might fail to serve the firm's interests and whether such transmits to the overall prosperity of shareholders, especially literature reveals that during the after crisis period, managers may have an incentive to manage earnings to mitigate the impact of the financial crisis on firm's economic financial performance in order to increase the shareholders' confidence in the firm's economic performance (Rolland & Dirigé, 2013). Thus, since 2008 is considered as the year when the 64 global financial crises started, one might expect that Earnings management is more prevalent in a period of uncertainty during and after the global financial crisis in 2008 particularly in The Global Corporations.

In the same phenomena of the corporation's search for the ways to improve the financial performance and determining the best way to thoroughly integrate these improvements into all parts of the organization still face some challenges. These challenges are due issues of "implementing Corporate Social Responsibility (CSR) is fundamentally different than implementing other strategies in the organization it is only through the identification, measurement, and management

of sustainability impacts on financial performance can be improved and value created” While Corporate Social Responsibility (CSR) is defined as the voluntary activities undertaken by a firm to operate in an economic, social and environmentally sustainable manner. There is still a slight understanding of the time horizon over which improved the Social Responsibility reports which lead to improved financial performance. Furthermore, It is an accepted fact that most companies the world over are embracing Reporting practices. According to the Global Reporting Initiative ‘thousands of organizations worldwide now produce Social Responsibility. KPMG research shows that in 2008 nearly 80% of the largest 250 companies worldwide issued Social Responsibility reports, up from around 50 % in 2005’. Similarly, KPMG International Survey of 2011 which covers 34 countries indicates that 95 % of the 250 largest global corporations now report on corporate responsibility activities. In addition, corporate responsibility reporting has gained ground within the Top 100 companies in each of the 34 countries (KPMG, 2008, p. 4–9). This is in response to the demand for organizations to be more transparent in how they treat their economic, social and environmental activities as they affect their stakeholders. Social Responsibility is therefore seen as impacting substantially on the performance of corporate organizations it should be noted that business leaders and most academic literature on Social Responsibility Reporting widely recognise that this reporting system is beneficial (Hubbard, 2008, p. 2).

This study sets to exploring the relationship which is examining the impact of corporate social responsibility disclosures and board characteristics include the board independence, board size, and board diversity on corporate performance. The board independence refers to ‘the degree to which board members are following the current CEO or corporation, who have a certain relationship personal and/or professional with the firm other than board membership is the proportion of independent non-executive directors on the board is viewed as a strong factor effect on financial performance in especially Independent non-executive directors. The reason of focus on board independence because it is grounded in the agency theory and complemented by the stakeholder perspective as representatives of stakeholders, independent nonexecutive directors are perceived as an instrument for monitoring management behaviour resulting in more transparency and information disclosure, while the size of the board indicate to the total number of directors who serve on the board, as an important corporate governance mechanism has been a subject of theoretical debate and argumentation. According to the fundamental assumption of agency theory, a huge board has greater and better monitoring capacities, thus, it is regarded as an effective governance factor in monitoring management’s performance. On the other hand, the large boards are expected to be more likely to have a greater representation of experienced independent directors on the firm. (Welford, 2007) and, hence the resulting are more likely to reduce management opportunism behaviour by diverting attention to firm performance (Sun, Salama, Hussainey, & Habbash, 2010). This ultimately though resulted in a greater way to transparency and more information disclosure. Boards are conventionally composed of only male gender members. The presence of women on the board will lead to gender diversity. It is widely accepted that female gender board members are more independent because they are not part of the “old boys” network (Carter et al., 2010). According to Ryan and Haslam (2005), women are more likely to be placed in positions of leadership in the board with circumstances of the downturn. The implication is that the presence of women on the board could be perceived by shareholders that radical change is on the way, and making them more trusted and confident in the firm success, which results in the raise up in the share price. Generally, the diversity is considered as promote and improve the organizational value as well the firm performance as it provides new insights and perspectives and provides for representation of various stakeholders for equity and fairness.

Consequently, this study intends to fill the gaps that were identified in the following areas: a) a relationship between Corporate Social Responsibility Disclosure and Board Characteristics on Financial Performance in global corporation context that is not yet to be empirically established. There are limited works of literature, even worldwide. For example, the CSR study for Hang Seng Constituent Companies for Hong Kong in (2009), and another for Indonesian companies (Fauzi &

Idris, 2009), in UK (Singh, 2004), as well as in Malaysia (Ahamed, Almsafir, & Al-Smadi, 2014). Hence, there is also no definitive statement that can affirm a positive, negative or inexistent relationship between Corporate Social Responsibility Disclosure and Financial performance for this relationship; b) this study utilised other variables named, Board Characteristics (Board independence, Board size, and Gender Diversity) to combine efficient mechanism corporate governance, such as Board independence, Board size, Gender Diversity, to investigate whether these factors lead to reductions or increase corporate financial performance, thus up to now, there is no crucial statement that can assert a reduction or increase the corporate performance. (c); a number of studies also focused on specific industries but with an involvement using only small sample size and one listed corporations in one country; (d) a number of global studies on Corporate Social Responsibility Disclosure in the post-global financial crisis period are fairly limited. (e): Furthermore, on the issue of gender sensitivity, there is clear evidence that some group of companies or sectors are more gender sensitive. Most of these empirical researchers studied the entire listed companies in their respective countries. This may not capture the real impact of women in the boardroom. However, taking a particular domain that almost has a similar business and gender sensitivity can provide a real result. That is also another reason for restricting our research to global corporations to see the influence of gender sensitivity on corporate financial performance in that particular sector. Based on the above, this study intends to investigate the extent of the impact of Corporate Social Responsibility Disclosure amongst global energy corporations.

In light of these aspects, this study is set to find out the impact of corporate social responsibility disclosures and board characteristics on corporate performance. In addition this study expect to contribute to extending corporate social responsibility disclosure and board characteristics literature by providing a new theoretical framework that helps explain a poor of corporate governance mechanism utilisation, it will provide the insight view to developing scientific model by providing financially based suggestions about the board characteristics can be better impacts as well the theoretical contributions of this study try to fill the gap of literature which can be seen through delivering a comprehensive framework that links the corporate social responsibility and board characteristics to be better governance on corporate performance in the context of the global corporations. This is especially valuable since there is a lack of research in this field which is absolutely up to now there is no study links the corporate social responsibility and board characteristics on corporate performance.

## 2. Literature review and hypothesis development

Stakeholders Theory, According to Freeman, Wicks, and Parmar (2004), the stakeholder theory starts with the assumption that values are essentially and explicitly a side of doing business. It asks managers to articulate the shared sense of the value they build, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, particularly, what kinds of relationships they want and needs to create with their stakeholders to deliver on their objective or purpose. Thus, the implementation of stakeholder theory it could assist to heighten the grasp of firm' sustainability report activities, Because of its strong concentration on the social aspects of sustainability, stakeholder theory has been extremely used in CSR studies, and because sustainability report and other disclosures are a two-way communication between the firm and its basic stakeholders (Gray et al., 1995). Stakeholder theory expected that environmentally sensitive industries have higher ratios of reporting (Nikolaeva & Bicho, 2011). Also, larger firms would be more likely to start and focus on sustainability activities and sustainability report as they possess more (diverse and powerful) stakeholders (Gallo & Christensen, 2011). Accordingly " ... we can expect the extent of sustainability report to be related to the level of societal (stakeholder) pressure on companies to disclose information on their social and financial performance". thus firms with the most powerful stakeholders will have to do to their needs comparatively more than firms with less powerful stakeholders (Gray et al., 1995). The theory confirmed the basic role of stakeholders as a necessary determinant of sustainability activities and disclosure (Roberts, 1992). Primary stakeholders were found to be careful about the extent to which disclosure or non-disclosure leads to some effect on the financial returns either in the form of an increase in

reputation or by gaining a competitive advantage. However, secondary stakeholders were found to place greater importance on sustainability reporting and want it to be transparent and are concerned with society and the environment (Tilt, 2007). The theory summarised that there is a positive association between corporate social responsibility reports and financial performance commonly supports stakeholder theory, furthermore supported when stakeholders see firms compensate with a strategy where they as new issues arise up report less on formerly mentioned issues that previously had been deemed important (Gray et al., 1995). Moreover, Crittenden, Crittenden, Ferrell, and Pinney (2011) found that even though firms are subjected to differing degrees and kinds of pressures from heterogeneous stakeholder groups, they will not engage in a great number of response activities rather, their actions are likely going to be those that can satisfy the requirements of the group deemed the most influential and important. These findings are in line with the opportunistic and strategic approach to stakeholder theory, as the true needs of stakeholders are not addressed, but they are included only as a mean to achieve profitability.

Continuously, Agency theory is the essential premise of the theory is that the managers' act out of self-interest and are self-centred, herewith, giving less attention to shareholder interests. For instance, the managers may be more interested in consuming perquisites like company cars, luxurious offices, and other benefits, since the cost is borne in mind the owners. The managers who take possession of excellent knowledge and expertise about the firm are in a position to pursue self-interests rather than shareholders (owners) interests (Fama & Jensen, 1983). This pursuit of self-benefits increasing up the costs to the firm, which may contain the costs of structuring the contracts, costs of supervision and controlling the behaviour of the agents, and loss incurred consequent of sub-optimal decisions being taken by the agents. The ways of mitigating agency conflict through the use of contracts, scholars have been proposed several governance mechanisms address the agency dilemma. Agency theory thus provides a basis for firm governance through the use of mechanisms which are internal and external (Roberts, McNulty, & Stiles, 2005). These the governance mechanisms are proposed to "save shareholder interests, minimise agency costs and make sure agent-principal interest alignment" (Davis, Schoorman, & Donaldson, 1997, p. 23). Thus, for this purpose two remarkable governance mechanisms used which are a board of directors and compensation schemes to align the interests of both the agent and the principal. There a believe that board a low-cost mechanism of management compared to other alternatives tool such as takeovers. The literature on board, as a governance team, is mainly focused on issues such as board size, inside versus outside directors (also common as executive versus non-executive directors), separation of CEO and Chair positions, etc (Daily, Dalton, & Canella, 2003) with an objective to improve the effectiveness of oversight. Executive compensation concentrates on the degree to which managers are compensated in ways that align their interests with those of shareholders (Davis et al., 1997; Silva Monteiro & Aibar-Guzmán, 2010). Such incentivised compensation schemes are particularly desirable when the agents have a significant informational advantage and monitoring is difficult. Many scholars have relied upon agency theory to examine the role of boards and other related governance aspects in affecting firm performance (King, 2002). Thus, the corporations are governed by the boards of directors which typically have two roles: an advisory role towards management and a monitoring/controlling role. Importantly, whereas agency theory emphasises the importance of the monitoring/controlling role (Daily et al., 2003), The agency theory assumed that certain characteristics of boards surely influence their ability to monitor and advise and affect firm performance such as first Board independence refers to "the degree to which board members are dependent on the current CEO or organization. Independent nonexclusive directors are outside directors as opposed to either insider, who are managers or employees of the firm directors or dependent non-executive directors, who have personal and/or professional relationships with the firm other than board membership is the proportion of independent non-executive directors on the board is viewed as a major factor influencing financial performance in particular Independent non-executive directors. The focus on board independence is grounded in the agency theory and complemented by the stakeholder perspective. As representatives of stakeholders, independent nonexecutive directors are perceived as a tool for monitoring management behaviour resulting in more information disclosure. Second,

a larger board has greater monitoring capacities and, thus, is regarded as an effective governance tool in monitoring management's performance. Large boards are more likely to have greater representation of experienced independent directors, could be perceived by shareholders that significant change is on the way, and making them more confident in the company's success, suggests that the board of directors fulfils a crucial role in monitoring and controlling managers (Fama & Jensen, 1983), as well as in solving agency problems. Third, the board gender diversity on firm performance, from the agency theory viewpoint, gender diversity is one of the most important governed mechanisms for companies. On the other hand; agency theory focuses on the relationship between the shareholder and manager relationship. The theory suggests that higher gender diversity creates a better control mechanism between the boards and management via enhancing independence and better monitoring system this is because gender diversity increases creativity and innovation in firms which is considered as valuable. Besides, female directors are able to improve firms' performance quality through the reduction of opportunistic earnings management, because women directors are said to be less tolerant of opportunistic behaviour, hence reduce the conflict between the boards and the managers According to agency theory, a larger board has greater monitoring capacities and, thus, is regarded as an effective governance tool in monitoring management's performance. Large boards are more likely to have greater representation of experienced independent directors According to (Arun, Almahrog, & Ali-Aribi, 2015; Kreder, 2016) and, hence, are more likely to reduce management opportunism by diverting attention to corporate social and environmental responsibilities (Sun et al., 2010). From a stakeholder perspective, however, it is argued that larger boards increase the diversity of board composition. A larger board size enhances a company's ability to understand and address the diversity of various stakeholders' interests (Welford, 2007), which ultimately leads to greater transparency and more information disclosure as well. Hence, understanding the impact of boards' characteristics such as board independence, the board size, and gender diversity on firm performance is essential for implementing effective corporate management and public regulatory policies. Thus the authors in this study using this theory because the principles of agency theory became the dominant lens through which corporate is viewed in terms of monitoring.

### **2.1. The impact of corporate social responsibility on corporate performance**

Earlier CSR describing by Carroll (1999) stated that firms obligate to CSR since they're required to be more ethical and more socially supportive, which is means handling CSR practices isn't just to makes profits or abide by the regulations, still perhaps the most commonly expected advantages from CSR practices are doing better financial performance for the next. Nevertheless (Cavaco & Crifo, 2014; Orlitzky, Schmidt, & Rynes, 2003) after many years of researches and investigations it still doesn't seem to be a unanimous view on whether CSR actually improves or worsens financial firms performance there are two points of views, for instance first by Cavaco and Crifo (2014) find a consensus for this relationship by conducting a panel study of 300 biggest European listed firms. Their results illustrated that complementary human resource and business behaviour actions are positively correlated with financial performance, additionally found that substitutable environmental and business behaviour has a positive association with financial performance. Consequently, Companies can be both socially responsible and profitable, used correctly sustainability can bring new business opportunities, cost savings and increase customer satisfaction. Moreover, de Bussy and Suprawan (2012) claimed that companies with good stakeholder relations; particularly with employees are significantly more gainful in the average term compared to competitors. While, (Lioui & Sharma, 2012) state that CSR can also be seen simply as costs and penalties by some investors, which might lead to decreased returns. This second opinion is a view as an example that is why CSR might also lead to reduced future financial performance.

On the one hand, Ghelli (2013) investigated the extent of the relationship between CSR disclosure and financial performance. The finding confirmed that CSR has a positive and significant impact on ROA, ROS. In the same way along with the literature, the relationship between CSR and financial performance has been argued numerous periods. According to Orlitzky et al. (2003) reported there are no generalisations or unanimous results; most of the research of this relation

supports the positive effect of economic, social and environmental practices on the firm's performance, and specifically, the existence of a synergistic relationship. Likewise, Sitepu (2009) stated that economic and environmental performance disclosures have a significant positive relationship with financial performance (measured by ROA), while social performance disclosure does not appear any relationship. In retrospect, Oeyono, Samy, and Bampton (2011) were found to be positive in the top 50 firms in Indonesia. In contrast, Murray, Sinclair, Power, and Gray (2006), concluded that there was no statistical relation between CSR and stock return over a ten year period (1988–1997). Similarly, with, Fiori, Dinato, and Izzo (2007) investigated the relationship between the CSR and firm stock price and their results based on using a sample of twenty-five listed firms in Italy from the years 2004 to 2006, it clarified that the CSR and stock price was neutral.

Therefore, the earlier empirical studies on the impact of CSR indicate that the results of most of these researchers are either inconclusive or contradictory with some stated positive and others negative impact of CSR on financial performance hence the gap this research intends to cover. Into the normative term of stakeholder theory, all stakeholders have a minimum right that must not be tampered with or even violated. It could also be inferred that this perspective can be extended to a notion that all stakeholders one thing more they have a right to be provided with information about how the company is impacting on them. CSR provides a huge framework to create value for all stakeholders which translates to satisfying the interest of a diverse group of stakeholders. In line with previous research (Choi & Pae, 2001), firms with a high level of CSR activities have more levels of financial performance. These arguments lead to the following hypothesis:

*H1: The corporate social responsibility disclosure has a significant impact on the increase of corporate performance.*

### **2.2. The impact of board independence on corporate performance**

According to the study of Faisal and Azlinda (2011) found an insignificant relationship between board independence and financial distress among Malaysian listed companies which indicates that the independence of directors may not be enough to act as an effective monitoring mechanism in order to avoid companies from becoming financially distressed. Consequently, Capezio, Shields, and O'Donnell (2011) also found no support for the proposition that the proportion of non-executive directors on the board moderates the association between CEO pay and firm performance in such a way that the association is stronger where the proportion of non-executive directors is higher. On the other hand, Ibrahim and Samad (2011) provided an interesting perspective. They find from the evidence of Malaysian listed firms that the representation of independent directors in family firms does not improve firm performance and basic family values like altruism, trust and paternalism can deliver a commitment towards future success. Conversely, non-family ownership needs more independent directors to counsel and monitor the company and improve the firm's value by bringing in their expertise and contacts to the firm.

A central assumption of the theory is that managers may pursue their own goals rather than seek to maximise shareholder wealth unless their discretion is kept in check by a vigilant, independent board (Daily, McDougall, Covin, & Dalton, 2002). By emphasising the potential for the divergence of interests between investors and managers, agency theory predicts that where the board of directors is more independent of management, company performance would be higher (Fama, 1980; Scott, 1983). Consequently, the hypotheses numbers (2) as following:

*H2: The Board of Independence has a significant impact on the increase of corporate performance*

### **2.3. The impact of board size on corporate performance**

In general, when the size of the board is increasing it is expected to reduce the discretionary accruals and improve the financial reporting quality due to the higher degree of inspection and monitoring by the board of directors. Fama and Jensen (1983) describe the board of directors as



the most important mechanism in the internal corporate governance structure of any firm. From an agency perspective, larger boards are more likely to be vigilant for agency problems because a substantial number of experienced directors can be deployed to monitor and review management actions (Kiel & Nicholson, 2003). The agency theory perspective also conceives that larger boards support effective monitoring by reducing CEO dominance within the board and they protect shareholders' interests (Singh & Harianto, 1989). They pointed out that larger boards improve the bargaining position of the board with regard to the CEO and thus larger boards are more effective in monitoring the management. Larger boards are viewed as having expert board members, especially those who are independent and can provide environmental links.

Contrary to a study executed by the study of (Ujunwa, 2012) investigated the impact of corporate board characteristics on the financial performance of Nigerian. it was found that board size were negatively linked with firm performance. Saad (2010) established that the financial performance of the company is improved when having a large number of directors on board because the company will have more expertise directors which can work and cooperate together to make a decision for a benefit of the company. According to Cheng (2008), find large number of board size is negatively associated with the company's performance. Cheng argued that a larger board will cause less effective discussion among them to reach any understanding of making a decision. Board size is mostly used as an indication of both the monitoring and advisory role. Empirical results on optimal board size are inconclusive. Large board size has been criticised for increased cost and boardroom squabbles, while it is also argued that a small board size might not effectively monitor powerful managers. The size of the board is also found to increase with firm size (Coles, Daniel, & Naveen, 2008). Consequently, hereby propose hypothesis number 3 to be the following:

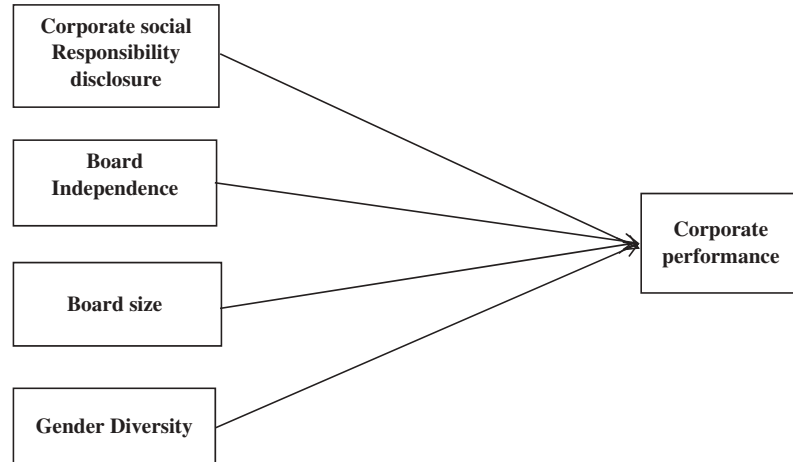
*H3: The Board size has a significant impact on the increase of corporate performance*

#### **2.4. The impact of gender diversity on corporate performance**

The most considerably debated characteristic of board diversity is gender. Gender composition on the board is an important dimension of CG, because women and men are traditional, culturally and socially different. For instance, the extant literature has shown that women differ from men in terms of personality, communication style, educational background, and career experience and expertise To corroborate this, arguments are used such as the rapid socialisation undergone by women, the role that being of this gender plays in their behaviour as women and mothers (Betz, O'Connell, & Shepard, 1989). Although some studies show that female directors may play an insignificant role in monitoring matters due to sex-based biases (Galbreath, 2011; Rodriguez-Dominguez, Gallego-Alvarez, & Garcia-Sanchez, 2009). Studies of the impact of gender diversity in Asian regions and in developing countries are relatively scant because of scepticism about including female directors in the corporate boardroom. Johl, Kaur, and Cooper (2015) have studied the impact of board characteristics and firm performance of 700 public listed firms in Malaysia for the year 2009. They found that women's participation is positively related to the return on assets. This is consistent with the work of Taghizadeh and Saremi (2013); their study examined 150 public listed firms in Malaysia using data from 2008. Similar results have been found by Fan (2012) for the firms listed on the main board of Singapore Exchange; Fan found that gender diversity increases the firm's value as measured by Tobin's Q. Nevertheless, Marimuthu and Kolandaisamy (2009) as well as found no relationship between gender diversity and firm performance.

In European and Scandinavia countries, the relationship of gender diversity and various firm's performance measures (return on assets, return on equity, and Tobin's Q) are rather weak. Bianco, Ciavarella, and Signoretti (2011), Daunfeldt and Rudholm (2012), Marinova, Plantenga, and Remery (2010), Schwizer, Soana, and Cucinelli (2012) all failed to identify any significant relationship between gender diversity and a firm's performance measures. However, Ahern and Dittmar (2012) found that the stock prices of Norwegian firms decline with the appointment of women directors to fulfil the gender quota system. In summary, it can be argued that the presence of women directors leads to better board dynamics and improved firm

Figure 1. Research framework.



performance compared to firms in boards composed of solely one gender. Agency theory suggests that a more diverse board may provide better monitoring of management. Furthermore, the board of diverse gender may better avoid the practice of Earnings Management, hence, provides shareholders with more reliable financial reporting. Agency theory also supports the idea that corporate boards that diverse gender more increased capacity to effectively advise monitor and discipline management, and thereby enhancing corporate performance (Ntim & Soobaroyen, 2013). This leads to the following hypothesis:

*H4: gender diversity has a significant impact on the reduction of corporate performance*

Thus, the research framework of this study contented five variables as below in Figure 1.

### 3. Research method

This study employs a quantitative method of data collection and the data was analysed using smart partial least squares (PLS), Data analysis technique using PLS considered appropriate because the model in this research is structural form consisting of more than one dependent variable. PLS was developed in the 1960s, by Herman O.A Wold to examine the weak theory and the problem in normality assumption of data distribution. According to Wold, “Partial Least Square (PLS) quantitative data analysis is a powerful analysis because of not a lot assumption based”. PLS is an excellent tool because it can be applied at all scales of the data and not using some assumptions as in regression that requires classical test assumption such as data normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Based on that excellence characteristic the model selection techniques using PLS is the appropriate data analysis tools that are expected to show accurate data analysis, especially in the prediction function of the variable that is the focus of concerns in this research.

The population for this study is the Global energy corporation. The sample for this study is the top two hundred fifty in the world has been identified from references is Platts website <https://top250.platts.com>, for the period a year 2016, 2017 and 2018. The data for this research used secondary data, such as the firm’s annual reports, because annual reports are the acceptable and commonly used medium for social disclosure as well as to communicate information to stakeholders. This annual survey of global energy corporations by S&P Global Platts measures the company’s financial performance using four key metrics: asset worth, revenues, profits, and return on invested capital. In addition, all corporations on the list have assets greater than the USD

\$5 billion. The fundamental and market data comes from a database compiled and maintained by S&P Global Market Intelligence, the step to filtration the final samples are:

First, Utilities and financial industries are removed from the initial sample due to their unique characteristics and the specific regulations that may affect the results.

Second, the utility industry is excluded because they are motivated to adopt conservative accounting policies to defer income recognition since these industries are set on fixed accounting rates of return. Thereby, the task of detecting managers' opportunistic manipulation behaviour would be difficult.

Third, Mining firms are excluded because of the market values of these companies differ from other companies in that they include other factors such as the value of any real operational options (Brennan, 2006)

The main reason for chosen global energy corporations because it includes a broad range of industries and accounts for a significant portion of the economic output, which in turn ensures that the sample is large enough for the statistical procedures to be conducted. Second, the introduction of the Climate Change Act in 2008, demanded firms to include disclosures of greenhouse gas emissions in their annual and accounting reports. In addition, the amended Companies Act 2006 required firms to include disclosures regarding essential CSR issues such as greenhouse gas emissions, water, and energy within the business review or operational and financial review in their annual and accounting reports (The Companies Act 2006). Another reason to choose the global energy corporations because the large corporations undertake more activities and have a larger impact on the society since they are more visible and also large corporations are believed to have more information which allows them to engage more with corporate governance, social and environmental responsibility. Other than that, large corporations have published more information and also provide higher quality disclosure, the purposive sampling is used by global energy corporations as the specific types of the required information. The data for this study used secondary data, such as the firm's annual reports, and the firm's website if there is one generated from, financial statements, and CSR selected the total number is one hundred seven the global energy corporations for the year 2016, 2017, and 2018 because annual reports are the acceptable and commonly used medium for social disclosure as well as to communicate information to stakeholders. The data are drawn from various corporations including, electric, and consumable fuels, and oil and gas exploration corporations' existing in the world. This study gives a subjective measurement to the quality of the accessible information since the firm's actual corporate social responsibility disclosure performance data is not available for checking the quality of the self-reported information as well there is no a certain database website to extract all information which is needs, that is led to extract the data individually.

The definition research variables operationally in this study consists of five variables construct, which are namely:

1-Corporate Social Responsibility (CSR) (Independent variable): Consistent with Ho and Taylor (2007) and Clarkson, Li, Richardson, and Vasvari (2011), the CRSD score is calculated by adopting the GRI guidelines, version 2017. Using a well-established checklist of items to collect data such as the 2017 GRI indicators, enhance the reliability of this disclosure index. GRI 4G reporting guidelines contain 79 indicators that reflect the spirit of corporate social responsibility and sustainability reporting. These 79 indicators can be categorised into six themes: economic (9 indicators), environmental (30 indicators), labour practices (14 indicators), human rights (9 indicators), society (8 indicators) and product responsibility (9 indicators). The next stage is calculating the CSR index. Several techniques have been employed to develop a CSR index in previous studies. In this study, the unweighted disclosure index approach (Saleh, Zulkifli, & Muhamad, 2010) is employed to measure the degree of CSR disclosure as a dichotomous variable. If a company disclosed CSR

items in its annual report it will be scored '1', while companies that did not disclose an item will be scored '0'. The disclosure model scoring is additive, and unweight indexes are calculated as follows to sum the final CSR index (CSRI).

$$CSRI_j = \frac{\sum_{i=1}^{n_j} x_{ij}}{n_j}$$

Where,

$CSRI_j$  = Corporate social responsibility index of  $j^{\text{th}}$  firm,

$n_j$  = Total number of CSR items for  $j^{\text{th}}$  firm,  $n = 79$

$x_{ij} = 1$  if  $i^{\text{th}}$  item is disclosed,

0 if the  $i^{\text{th}}$  item is not disclosed

So that  $0 \leq CSRI_j \leq 1$

2-Board independence (BI) (Independent variable): The percentage of independent directors of the total number of directors on the board of a company (Fama & Jensen, 1983; Franks & Mayer, 2001).

3- Board size (BS) (Independent variable): refers to the total number of directors on the board of each sample firm which is inclusive of the CEO and Chairman for each accounting year.

4- Board diversity (BD) (Independent variable): The ratio of the number of women to total board size is used as a measure of board gender. Boards are traditionally composed of only male members. The presence of women on the board leads to gender diversity.

5- Corporate Performance (CP) (dependent variable): Corporate Financial performance is determined by the following indicators accounting measure of performance return on asset (ROA), ROA is the Net Profit divided on the firm's total assets (Gatimbu & Wabwire, 2016).

## 4. Findings and discussion

### 4.1. Evaluation model

Tables 1–3 presented the Model evaluation in this stud with model predictions using partial least squares (PLS) to estimate parameters and predict relationships of causality, by evaluating the outer model and inner model.

Evaluation of the model is done with three stages, namely the testing of convergent validity, testing of discriminant validity, and the testing of reliability.

**Convergent Validity:** Based on the table above, it can be seen the value of AVE and Communality in each construct is more than 0.5. Similarly, the outer loading test results in the Table 2 Outer Loading 5.2 above, all indicators value is above 0.7. Thus, based on the processing results, it can be concluded that the convergent validity has been met. The next step after the authors measures the convergent validity; the author measures the discriminant validity. To measure the **Discriminant Validity**, the researcher must assess the Cross-Loading value. If the value of one particular variable or construct were more than 0.7, then it would be accepted. Based on the Cross-Loading Table 3 above, it is concluded that if the discriminant validity is met for each indicator in each variable over 0,7 despite the same conditions as the previous loading factor assessment, there is a value of less than 0,7 but still considered valid because the variable has value more than 0,5. **While** Reliability test can be done in two methods: Cronbach's Alpha value,

**Table 1. Table of algorithm**

Construct	AVE	Composite Reliability	R Square	Cronbach's Alpha	Communality
BI	0	0	0	0	1
BS	0	0	0	0	1
CSR	0	0	0	0	1
GD	0	0	0	0	1
CP	0	0	0.6764	0	1

**Table 2. Outer loading**

	BI	BS	CP	CSR	GD
BI	1				
BS		1			
CP			1		
CSR				1	
GD					1

**Table 3. Cross loading**

	BI	BS	CP	CSR	GD
BI	1	0.456	0.5808	0.2906	0.4981
BS	0.456	1	0.612	0.4735	0.2906
CP	0.5808	0.612	1	0.5687	0.5808
CSR	0.2906	0.4735	0.5687	1	0.456
GD	0.4981	0.5687	0.7104	0.456	1

whose value must be more than 0.6, and Composite Reliability value, that should be more than 0.7. According to algorithm Table 1, all variables have the value of Cronbach’s Alpha is more than 0.6 and Composite Reliability values are more than 0.7. Hence, it can be concluded that the data and the results of measurements are considered reliable.

**Goodness of Fit Model**

$$Q^2 = 1 - (1 - R^2)$$

$$Q^2 = 1 - (1 - 0.6764)$$

$$= 0.6764$$

$Q^2$  value is 0, 6764 it means that the variability of data research can be explained the model structure is 67.64% whereas another 32,36% will be influenced by another variable undescribed in this study. Based on this result, the structural model of this study has good goodness of fit.

**4.2. Hypotheses testing**

In Table 4 T-Test for direct impacts After a test of convergent validity, discriminant validity, and reliability testing, the next is hypothesis testing. Based on the data processing, the form of Total impacts is shown in Table 4. In hypothesis testing, if the coefficient path shown by the t-statistic is more than 1.96 or p-value < 5% (0,05), then the alternative hypothesis can be stated as supported. Nevertheless, if the statistical value of T-statistic is less than 1,96 or p-value >5% (0,05), then the alternative hypothesis is not supported.

**Table 4. T-Test for direct impacts**

Construct	Estimate value	t-test	p-Value	Note
CSR -> CP	0.0532	0.8748	0.362	Not Significant
BI -> CP	0.121	1.374	0.161	Not Significant
BS -> CP	0.173	2.923	0.040	Significant
GD -> CP	0.323	2.963	0.007	Significant

#### **4.3. The impact of corporate social responsibility disclosure on the corporate performance**

The result showed that the testing of the hypothesis (H1) which stated that the corporate social responsibility disclosure has not a significant impact on the increase of the corporate performance, the result hypotheses testing between corporate social responsibility disclosure and the corporate performance indicates the corporate social responsibility disclosure towards corporate performance result is not significant. Based on the results, it can be stated that Hypothesis 1 is not supported. This finding did not consist with the stakeholder theory, given that the CSRD positively impacts companies' financial performance, stakeholders seek assurances of high CSRD. Saleh et al. (2010) found that higher levels of CSRD help Malaysian companies improve their financial performance; managers also claim that CSRD may help improve financial performance. According to the accounting literature review, CSRD plays an important role in emerging economies and in some developed economies. This finding did not consistent with the stakeholder theory, due to the corporate social responsibility disclosure a vital issue in corporate governance and management is the influence of CSR on companies' performance, especially financial performance. The view in this finding holds that CSR is costly since being socially responsible incurs additional expenses. Examples of socially responsible actions include investments in pollution reduction, employee benefits packages, donations and sponsorships to the community, etc. The conventional view maintains that these expenses will deteriorate profitability and lead to "competitive disadvantage". This point of view is an example of why CSR can also lead to decreased future financial performance, that CSR can be merely seen as costs and penalties by some investors, which could lead to decreased returns. one thing more that there is no an ideal level of CSR, which can be determined by managers through a cost-benefit analysis, which would avoid incurring in high costs that subsequently do not generate revenue, and that would have a negative effect on performance. Specifically, the aim of CSR is to reduce the agency issue, because CSR is considered to be a means of reconciling business goals with social and ethical ends and of avoiding a conflict of interest among managers, shareholders and other stakeholders, thus this finding confirms that CSR in the company may be used as a means of anticipating and avoiding social pressure to enhancing the firm's image or reputation status.

#### **4.4. The impact of board independence on corporate performance**

The results of hypothesis testing (H2) stated that The Board Independence has not a significant impact on the increase of the corporate performance, the result of hypothesis testing between Board Independence and the corporate performance indicates the Board Independence towards corporate performance is not significant. Based on the results, it can be stated that Hypothesis 2 is not supported. This finding not consistent with Agency theory (Jensen & Meckling, 1976) suggested that the separation of ownership and control causes a potential problem of the shareholders' long-term interests not aligning with those of management. Because it is difficult to recoup the social investment in the short term, agency theory predicts that where the board of directors is more independent of management, company performance would be higher (Fama, 1980; Scott, 1983). the reasons of not support this hypothesis It should be noted that, because board independence may not influence firm performance in developed markets, good performing firms will not tend to attract more independent board members though poorly performing companies may tend to increase their number of independent board members in an effort to improve performance, There, are many reasons behind these findings. First, it is argued that insiders are the most effective directors because they have more information about the firm than outsiders and thus outside directors must rely on them to make decisions, As stated by Nicholson and Kiel (2007, p. 588): "inside directors live in the company they govern, they better understand the business than outside directors and so can make better decisions". Outside directors are also limited in their abilities to issue commands and instructions because they do not ordinarily have the formal authority to do so, second, new outside board members who are proposed by inside board members may also have relationships with them. Finally, many outside directors may not be competent to perform their assigned tasks as many of them are part-timers and lack of information about the firm (Brennan, 2006). This type of information

asymmetry may reduce the control role of the firm's outside directors. Outside directors often serve on more boards as they grow older due to the lack of service age limits which may also influence their monitoring ability.

#### **4.5. The impact of board size on corporate performance**

The results showed that the testing of the hypothesis (H3) which states that the Board size has a significant impact on the increase of the corporate performance, the result hypotheses testing between Board size and the corporate performance indicates the Board size toward corporate performance is significant. It concludes that Board size effect on corporate performance. Based on the results, it can be stated that Hypothesis 3 is supported and consistent with (Coles et al., 2008) as well this finding support agency theory, were agency theory assumed the size of the board measured by the number of directors is a very important indicator of its effectiveness. The board size increase is likely to improve the board's effectiveness in providing adequate support. It had been also assisting in reducing agency cost that results from the inefficient management of the corporation.

#### **4.6. The impact of gender diversity on corporate performance**

The results showed that the testing of the hypothesis (H4) which states that gender diversity has a significant impact on the reduction of corporate performance. The result hypothesis testing between Gender Diversity and corporate performance indicates the Gender Diversity toward corporate performance result is significant. It can be said that gender diversity effects on corporate performance, thus based on the result, it can be stated that Hypothesis 4 is supported and consistent with Johl et al. (2015), Taghizadeh and Saremi (2013) as well this finding support Agency theory assumption; Agency theory is one of the main theories used to explain the positive impact of board gender diversity on firm performance. From the agency theory viewpoint, gender diversity is one of the most important governed mechanisms for companies.

### **5. Conclusion**

This study concludes the researchers relied on the available literature, relevant theories to the study (stakeholder theory and agency theory) and empirical evidence to come up with four hypotheses. Based on the results the researchers come up to indicate that the impact of corporate social responsibility disclosure on corporate performance is not significant, and board independence. Accordingly, the board size and gender diversity have a significant impact on corporate performance. These findings may have several implications, as CSR information is publicly observable, the findings of this study may have Practical contributions provides suggestions that could assist organizations to embrace some ideal form of board characteristics, An overview of the previous literature has indicated a dearth of research status in global countries, and specifically in Global Corporations as notable that past studies with regards to the board characteristics on corporate performance, focused on a single relationship without link the corporate social responsibility, and lack of empirical impact of corporate performance, Therefore, this study contributes to the enhancement of understanding of the status and the impacts of corporate social responsibility and board characteristics on corporate performance such as Global energy corporations. This study may help to create or improves the awareness of the decision makers companies towards improving both the financial performance and achieving sustainable performance.

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#### **Correction**

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