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HUMAN CAPITAL OF WOMEN ON BOARD OF DIRECTORS AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE:

EVIDENCE FROM RUSSIAN COMPANIES

Master’s Thesis by the 2nd year student:

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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ

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**АННОТАЦИЯ**

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| Ключевые слова | Человеческий капитал, совет директоров, раскрытие информации о корпоративной социальной ответственности, женщины в совете директоров |

**ABSTRACT**

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| Master Student’s Name | Daria V. Grinchak |
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| Description of the goal, tasks and main results | The goal of this study is *to define the relationship between human capital of female directors and corporate social responsibility disclosure practices*. In order to achieve this aim we have set the following objectives:  -To identify the main theoretical concepts concerning human capital of a board, gender issue on a board, corporate social responsibility disclosure practices, and their linkage based on literature review;  -To develop hypotheses about the relationship between human capital of female directors and corporate social responsibility disclosure practices;  -To test empirically hypotheses on the sample of Russian companies and make managerial implication of the results obtained.  The result of this study is following: there is a positive relationship between period of being a board member of female directors and extent of corporate social responsibility disclosure; there is positive relationship between industry working experience of female directors and quality of corporate social responsibility disclosure. |
| Keywords | Human capital, board of directors, corporate social responsibility disclosure, women on board |

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## 

## **INTRODUCTION**

Nowadays we can observe a very interesting growing trend which is related to the fact that companies tend to go beyond gender stereotypes and include more and more women on a board. It happens not only in global perspective but also in Russia. However, the exact figures are very low in Russia: just about 8% of all directors were female in 2014. But in the majority of European countries as well as USA and Australia this proportion is much bigger. For example, in Norway the share of female directors is more than 35%, in Sweden – 28,8%, in France – 29,7%[[1]](#footnote-1). Why there is so big difference? The main reason is that the countries with greater numbers understood the value which a woman can bring to managing a company. In order to increase the proportion corporate laws related to quotas of female directors were established (for example, 40% in Norway[[2]](#footnote-2)).

So, why a woman should be a valuable asset for a company? There are several reasons and huge number of studies which have proven that such positive effects exist:

* Increase in performance indicators

Mainly because of risk-aversion and prioritizing long-term projects the boards with female members show better performance, not just financial one (despite the fact the majority of studies are devoted to this) but social performance as well, as female directors are more stakeholder-orientated, have higher level of compliance and strive to support Corporate Social Responsibility (CSR) projects.

* The bigger talent and knowledge pool

To be more precise not just the proportion of female directors and their features lead to better performance but the level of diversity makes sense. It happens because different points of view and attitudes to things help to better decision-making processes. Diverse boards lead to much higher level of understanding needs of different stakeholders. Finally, they have access to greater variety of resources including knowledge, experience, financing, social bonds.

* Higher level of corporate governance

From one point of view, female directors’ effect is very often considered to be similar to presence of independent board members in terms of better implementation of controlling and monitoring functions. From another, more gender-balanced board should come to the decisions faster and have better communications avoiding conflicts. Moreover, women are regarded as more assertive in important governance problems like evaluation of board’ performance or control of top-managers.

So, it is obvious now that companies should strive to include more female directors on a board to benefit from gender diversity and another attitude to several business issues provided by female directors. However, nowadays there is no study which could explain what exact women should be kept on a board. Undoubtedly, different level of knowledge, experience, skills standing for human capital of female directors should be explored to gain insight into what particular features should a woman has to be included into board.

Unlike the majority of studies related to similar issues we will not discuss the effect of human capital of board members on financial results in a deep way, it is obvious and a big number of researches are devoted to this part. Instead we will focus on corporate social responsibility (CSR) disclosure practices, as nowadays it is also a very topical issue for both foreign and Russian companies. Moreover, there is growing trend for Global Reporting Initiative (GRI) standards, ISO and others, more and more Russian companies understand the importance of transparent CSR policy and strive to increase both the extent and quality of CSR disclosure practices.

It was already emphasized that female directors are more stakeholder-orientated, more tend to support communities and implement CSR projects, so it would be useful to gain insight into what exact elements of human capital of female directors could lead to higher level of transparency. So, the main aim of this study is *to define the relationship between human capital of female directors and corporate social responsibility disclosure practices*. In order to achieve this aim we have set the following objectives:

1. To identify the main theoretical concepts concerning human capital of a board, gender issue on a board, corporate social responsibility disclosure practices, and their linkage based on literature review;
2. To develop hypotheses about the relationship between human capital of female directors and corporate social responsibility disclosure practices;
3. To test empirically hypotheses on the sample of Russian companies and make managerial implication of the results obtained.

The proposed finding of this research is identification of relationships between particular elements of human capital of female directors and CSR disclosure practices and understanding how the level of gender diversity can affect the level of a company’s transparency. During collection of information SKRIN, SPARK, Eikon databases as well as annual reports of companies were used. While investigating data, content analysis, descriptive statistics, statistical tests for understanding reliability of qualitative data, identification of extreme values, evaluating significance of a model, building multiple regression model based on panel data will be applied. All statistical analysis will be made with the help of Excel and Stata.

During theoretical research in the field of intellectual capital the works of the following authors will be used: Stewart, Nahapiet, Ghoshal, Castanias, Helfat, Bontis, Nicholson, Kiel and others. The main theoretical concepts of CSR disclosure practices will be analyzed with the help of works of Freeman, Anas, Wiseman, Nik Ahmad, Haniffa, Cooke and others. The issue of woman on a board will be raising thanks to investigations of Beate Elstad, Joecks, Bear, Adams and others.

The research consists from two chapters. In the first part, in the beginning the main corporate governance and intellectual capital concepts and definitions are introduced. Then, the main classifications of CSR reports elements are discussed. After that, the problem of women on a board and level of gender diversification is analyzed. Finally, how female directors can influence the extent and quality of CSR disclosure is investigated basing on existing researches and concepts.

Second part is devoted to empirical analysis. Firstly, we will suggest hypotheses on the basis on studies discussed in theoretical part. Secondly, the main assumptions and frameworks used in content analysis of annual reports will be described. Thirdly, we will elaborate on descriptive statistics and some preliminary results. Finally, the multiple regression model with lag on panel data will be built and the results discussed.

Thus, the multiple panel lagged regression model including main and control variables was developed. Eventually, two from eight hypotheses were not rejected. The results of econometric analysis were explained and reflected in final results presented in the conclusion.

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# **CHAPTER 1 THEORETICAL CONCEPTS OF HUMAN CAPITAL OF WOMEN ON BOARD AND CORPORATE SOCIAL RESPONSIBILITY**

# 1.1 Functions of Board of Directors

Corporate governance is «the system of relationships between managers and owners in terms of achieving effectiveness of company’s work and defending the interests of stakeholders» (esp. shareholders)[[3]](#footnote-3), this definition was given by Federal Service on Financial Markets in Russia. The main relationships related to corporate governance inside company could be described by corporate governance triangle (Figure 1). The vertexes, which are management, shareholders, and board of directors, should be regarded as people, who play the most important role in company’s activities.



Figure 1. Corporate governance triangle

However, the most important decisions must be taken by board of directors, that’s why there are so many researches in the field of how different attributes of board can affect their behavior, fulfilling the functions, and, eventually, company’s performance. Huge efforts were made in order to describe Board of directors’ features and how they can influence company’s performance. Also huge attention was delivered to intellectual capital of a board and its impact on accomplishing the duties.

While speaking about effective corporate governance, the crucial thing is the set of roles played by the board. As the main aim of the board of directors is to accomplish its duties for the benefit of the firm, effective corporate governance should be related to deep understanding what value the board can bring to the firm. However, the researchers who investigate corporate governance are focusing mainly on separated particular activities rather than on holistic picture.

So, there are the main functions of board of directors [Nicholson and Kiel, 2003]:

* Controlling the company (including minimizing agency costs, monitoring management, and identifying appropriate strategy for the company);
* Giving advice to management;
* Ensuring access to resources (including finance, power, and information).

Researches have analyzed both the direct impact of board attributes on firm performance [e.g., Dalton et al., 1998] and indirect effects. Indirect effects have been investigated by considering particular board actions and behaviors (ex. adoption of poison pills – make shares of an acquirer very unattractive in order to prevent hostile takeover) [Brickley et al., 1994] rather than direct performance measures.

The trend in these researches underlines that board functions have changed over time. The traditional view of boards as mainly formal bodies [Mace, 1971] was replaced by largely active body considered to be in charge of company’s performance [Cohan, 2002].

The holistic strength of board functions identifies the necessary capabilities to run the company effectively. However, these functions may be a little bit different in companies, and can be modified because the company grows, and changes are required [Johnson, 1997]. The companies can have various governance needs. Thus, if firms have extra monitoring strengths that can control agency costs (for example, concentration of ownership), it would be more reasonable to focus more on board’s role of giving advice to management and access to limited resources [Pfeffer, 1972].

It’s necessary to mention that on the markets, which are complicated significantly and develop very rapidly, the board need to be much more effective in fulfilling its function of controlling the company. So, the effective corporate governance implies mixture of roles that are linked to each other in high extent. At the same time, some companies need to have highly specialized board of directors. For example, in regulated fields boards need to possess key government contracts. Other industries, where there is strong competition, require implementation of bigger array of functions [Pfeffer, 1972].

All these three roles are necessary to take place in the company because they identify effective governance and strategic direction of organization in different ways by they are complementary to each other. For example, ensuring access to such resources as power, capital, unique production facilities, and information gives the company opportunity to pursue the strategy which other firms may not have chance to follow. At the same time, while giving appropriate and useful advice to managers the board can help to identify new approach to existing strategy [Westphal, 1999].

The role set necessary for effective work of the board is a function of three factors: *characteristics of the firm, the industry, the economy*. In other words, specific board behavior which could be beneficial for one type of company could be ineffective and even detrimental for another [Heracleous, 2001].

The key components of these three elements under question are shown in Figure 2.

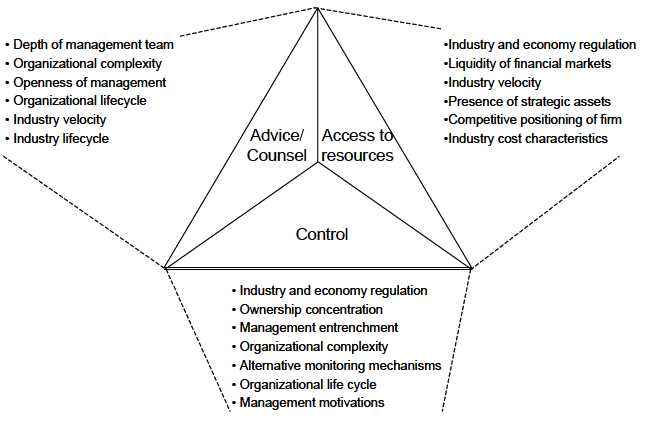


Figure 2. The factors influencing board functions requirements

Source: [Nicholson and Kiel, 2003].

Economic and industry factors can be regarded as pretty stable but change throughout time thanks to economic and industrial evolution [Porter, 1985]. By contrast, company’s determinants can be modified very rapidly and significantly. Any change in them leads to shifts in overall strength of function set, so these factors should be considered to be the most influential from corporate governance perspective.

If the three board roles and the factors influencing them were just the function of external trends, the effective corporate governance would stand for choosing appropriate directors and reflecting these trends in strategy better and sooner than competitors. However, the essence of corporate governance in every firm is changed throughout the time [Johnson, 1997].

The majority of boards don’t use skills of directors in the most effective way. For instance, the board of well-known company “Enron” contained past Stanford accounting professor, late chief executive officer of insurance firm, a hedge fund executive, the former president of an international bank. Although the board contained so many talented, knowledgeable, and experienced people, it didn’t manage to give necessary advice or control the firm, as it turned, they didn’t understand the great financial risks of the company [Sonnenfeld, 2002].

Furthermore, a company taking into accounts its main activities and strategy directions will identify functions required of a board. For example, as a firm is developing in complexity, the ability of the board of directors to give valuable operational advice may decrease. Or if a firm begins to implement foreign exchange hedging, the controlling function should be modified significantly in take into account this area. So, the corporate governance of a company should be linked to firm’s requirements in order to be successful.

Companies also modify their governance approaches to reflect shifts in external environment. However, changes in corporate governance’s structures should be regarded as a double-edged sword, as it can lead to improvement and positive impact on company’s activities, but also it can effect negatively some other governance outcomes. For example, introducing bigger board independence is considered to improve the control and monitoring function [Fama and Jensen, 1983]. At the same time, more independent directors can negatively influence the board’s ability to help or give advice to CEO of a company [Westphal, 1999].

Moreover, a director who has access to particular resources, especially finance or power, can have reciprocal favors in providing these resources. For example, in the company which suffers from financial problems, it’s in common to require place on the board for the lending organizations [Richardson, 1987]. Thus, while there is improved access to resources, the ability to manage strategy and service role of the board could be diminished.

It’s interesting to mention that leading companies’ actions have the greatest impact on the business environment. This happens because so many firms try to derive some lessons from leaders’ actions [Porter, 1985]. However, in the area of corporate governance there is lack of new approaches and ideas, and we need to go back to traditional principles of integrity and board independence. But it’s necessary to underline that a board’s role set will change and that board characteristics need to be appropriate for this role set.

As Figure 2 says it is necessary to apply contingency approach where different elements of company’s environment can influence governance requirements. In any specific firm not all factors will be equally important, and some elements can change over time. Every company has its own peculiarities as well as corporate governance requirements. The governance framework described on Figure 2 allows a board to look at complexity and identify the factors that are crucial for success under these conditions, as well as to gain insight into innovations that may contribute to improving corporate governance and profitability.

# **1.2 The intellectual capital of a board of directors**

The next question to which corporate governance researchers try to find answer is the board’s ability to implement successfully the functions set required of it. The match between the role set and board’s characteristics will identify the effectives of corporate governance in a company. An organization, which is able to link skills, knowledge, and competences of the board, the roles required of the board, and its governance system, will have effective corporate governance even if it doesn’t follow recommendations for the best practice. Also the board of directors, which is focusing on meeting normative guidelines but not considering its required role set and operating environment, will pursue ineffective corporate governance strategy.

The first thing that should be analyzed while evaluating the ability of the board to fulfill its functions is intellectual capital. Hillman and Dalziel [2003] suggested the following definition - “The intellectual resources such as experience, knowledge, expertise, reputation, skills, network of relationships that can be used by a board to create value”. However, earlier Nahapiet and Ghoshal [1998] also included in this definition “procedures and routines” inside a board.

The definition gives a huge array of board characteristics that influence effective corporate governance system. They fall within three main segments:

* Human capital;
* Social capital;
* Structural capital.

***Human capital*** should be regarded as one of the most important resources for the company which helps it to achieve success in economic and productive activities [Nahapiet and Ghoshal, 1998].

In the management theories human capital is considered to be “inborn and learned skills, experience, and knowledge” of directors [Castanias and Helfat, 2001] and the “tacit knowledge of executives” [Bontis, 1999].

Human capital is often regarded as the base for the whole intellectual capital, because the internal intelligence of directors is exogenous to the board [Bassi and Van Buren, 1999], and so stands for the basis of the ability for directors to act. The majority of boards need to implement the huge arrange of different tasks, and a common concern described in governance literature links to board’s structure as well as its human capital requirements [Charan, 1998].

When existence of human capital doesn’t mean the effective use of that capital, the capability of the board to give advice to managers and to monitor them depends on members’ experience and ability to fully understand a company’s problems and opportunities [Castanias and Helfat, 2001].

In spite of the fact that human capital is considered to be a key resource of the board, there is quite little empirical analysis of the impact of board human capital on company’s performance. Instead, researches have attempted to use human capital theory while investigating CEO [Castanias and Helfat 2001] and top managers’ performance [Harvey, 2000]. We need to agree that there is huge overlap between top managers and board directors, even in Russia where according to “Federal Law On Joint-Stock Companies” (p. 66.3)[[4]](#footnote-4) this is impossible to be CEO and chairman of the board at the same time. However, it’s necessary to mention that characteristics of the board of directors [Forbes and Milliken, 1999] as well as nature of board tasks are unique and requires significant attention.

This approach is supported by one of few studies about “knowledge structures” where Carpenter and Westphal [2001] identified that differences in board experiences were in relationship with differences in director’s involvement in decision-making in strategic activities.

In addition, human capital has potential positive feature of differentiating a company. As skills differ between board members in the types of skills possessing by individuals and the extent of skillfulness [Castanias and Helfat, 1991], there is heterogeneity in the set of skills of the decision-making body inside the company. In his work analyzing resource-based view of the organization, Barney [1991] confirmed that differences on mobility as well as variety in some other factors are important sources for unique competitive advantage and obtaining profit. So, boards of directors because of their exceptional combination of knowledge, skills, and experience should be regarded as a possible source of advantage in comparison with competitors for the companies they govern.

Preliminary analysis of human capital of directors was based on an array of different types of skills [Castanias and Helfat, 2001]:

* generic,
* firm-specific (culture, history, peculiar strengths and weaknesses),
* related-industry (could be transferred among industries),
* industry-specific (for particular product or industry).

Also Forbes and Milliken [1999] added to this traditional definition some extra categories: functional skills, knowledge, and experience (such as marketing, finance, human resource management and etc.); the fields related to company’s interaction with external environment (such as law, political, economic knowledge and etc.).

Intellectual capital, in addition to abilities, experience, knowledge and skills of board members, includes ***social capital (social relationships)*** which directors bring to the company, and from which it can benefit.

There are so many definitions of social capital. Narayan and Pritchett [1999] argued that “Social capital, while not all things to all people, is many things to many people”. Adler and Kwon [2002] confirm, however, that social capital is definitely a valid item, and it is linked to parts of social structure forming a source for action in a society. The widest and the most frequently used definition of social capital was developed by Leenders and Gabbay [1999] – “The implicit and tangible set of resources available to help a corporate player in goal achievement with all relevant social relationships available to members of the company”.

Throughout the past decade an array of different researchers including political scientists, sociologists, and economists have started to use the definition of social capital in order to gain insight into huge number of questions [Adler and Kwon, 2002]. This is thanks to the fact that the concept under question is related to so many dimensions of social life. The papers analyzed the following elements: the individual, groups and business units, inter-unit resource exchange, the firm, inter-firm learning.

As there is a necessary condition (but not sufficient) of social capital, which stands for relationships between individuals, these empirical researches underline the fact social capital is accumulated at some different levels in a company. Therefore, as social structures appear between groups, within groups, and between the company and external environment, they can be divided into three categories [Nicholson and Kiel, 2003]:

* Board-management relationships (especially between the board of directors and the CEO and managers);
* Intra-board relationships;
* Extra-organizational relationships.

In addition to the source of social capital it is also necessary to mention that this element of intellectual capital itself is multi-dimensional [Adler and Kwon, 2002]. This happens because of dependence of social capital on individual connection and its nature [Granovetter, 1992]. Therefore, every useful social capital measure must take into account two following items:

1. The network relationships between members, as well as structure of these ties [Krackhardt, 1992];
2. The nature of these relationships [Nahapiet and Ghoshal, 1998] including

* norms and sanctions,
* trust and trustworthiness,
* identity and identification,
* obligations and expectations.

To sum up, there are three levels where social capital lay. The intra-board one could be considered as “bonding” form of social capital between board members. The extra-organizational level stands for “bridging” type of social capital between the board and external firms. Finally, at the board-management level there is features of both “bridging” and “bonding” social capital [Adler and Kwon, 2002]. Moreover, at each level it is crucial to understand “the multidimensional essence of the social capital”. In other words, we need to identify network structure, physical tie and gain insight into the character of that tie.

As social capital contributes to use of resources through relationships at three levels, there are three main conclusions from this part. The first one stands for extra-organizational social capital, this means that the board of directors is able to derive external resources for the benefit of organization. This would directly influence the resources function and provide information for implementation of functions. So, we can conclude that extra-organizational board social capital contributes to the successful fulfilling the board functions.

In contrast to extra organizational social capital, board-management as well as intra-board social capitals are more concerned with the allocation of resources within the organization. There is no direct relationship between implementation of functions and intra-board social capital, unlikely to extra–organizational social capital, intra-board one moderates the linkage between board functions and board human capital. This is because of structure of social relationships that influence how effectively the board of directors uses individual director human capital [Nicholson and Kiel, 2003].

In the same way board-management social capital is linked to the extent how well management team uses board’s human capital. In other words, social capital moderates the linkage between implementation of board roles and human capital [Nicholson and Kiel, 2003].

In addition to human and social capital, it is necessary to mention the fact that ***Board Structural Capital*** (internal procedures and routines) also makes sense in companies [Pearce and Zahra, 1991]. This happens because a board’s policies, routines and processes are, eventually, a set of knowledge that is able to create unique competitive advantage [Bontis, 1999]. This knowledge can be divided into two categories: explicit (could be transferred into figures and letters) and tacit (when people try to codify it, some parts will be actually loosed).

This knowledge under question should be regarded as structural capital [Bontis, 1998] or processes, procedures, routines, and policies contributing to effective use of social and human capital.

When the main elements of human capital and social capital are based on particular characteristics of the individual [Castanias and Helfat, 2001], structural capital depends on behavior of the group, in the case under consideration – the board of directors.

Board structural capital relates to the corporate governance routines of a company [Bontis 199]. Basing on definition provided by the Oxford Thesaurus “routine” is a synonym for “schedule, procedure, system, practice, ways, pattern, regime, method, order, customs, habits” [Nicholson and Kiel, 2003]. As Bontis confirms [1999] “construct deals with the mechanisms and structures of the organization” that can “turn individual know-how into group property”. Therefore, while speaking about board of directors, the concept of routines stands for the shared tacit and explicit knowledge of the group aiming at contribution to successful implementation of board set of roles [Bontis, 1999].

Understanding possible significance of structural capital to a board performance has very long historical development. Especially, so many researches were focused on the influence of different committees [Klein, 1998]. The highest attention required the following ones: remuneration, audit, nominating committees.

The studies proved the link between board performance and existence of board committees. In addition, some other important elements of structural capital of the board were analyzed. For example, lots of attention was paid to the board agenda to gain insight into work of the board [Inglis and Weaver, 2000]. Also some researches were focused on how operational performance of a company influence board activity [Vafeas, 1999]. Additionally, there was revealed linkage between the decision-making style and corporate performance [Peace and Zahra, 1991].

It is interesting to note that structural capital has not only academic investigation but also normative insight on this topic. The existence of “codes of best practice” underlines the importance of some characteristics of the board of directors which would be valuable for practice. Usually, there are written by the following organizations:

* Institutional investors;
* National regulatory authorities;
* Stock market regulations (for example the requirement for an audit committee or independence of directors under New York Stock Exchange listing rules);
* Global institutional guidelines.

Therefore, it is necessary to underline that inclusion of structural capital in the analysis is very important in order to stress essential considerations in this field. In particular, structural capital should moderate the linkage between human capital and fulfilling the board functions [Nicholson and Kiel, 2003].

The model which describes all relationships and moderators which were discussed is presented on the Figure 3.

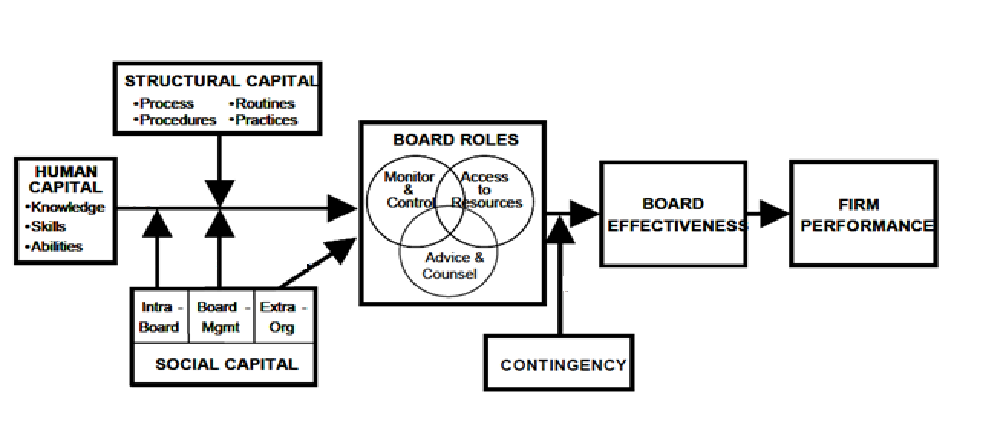


Figure 3. Intellectual Capital of Board of Directors framework

Source: [Nicholson and Kiel, 2003].

As the board of directors is the most important body which takes decisions, this should be essential and useful to gain insight into how its members may influence corporate performance of the company. However, although there was over 30 years of research, there is still gap in theoretical and empirical understanding of how this really happens. This was stressed by Stiles and Taylor [2001] who underlined that there is lack of sufficient descriptive data on the problem of how the boards implement their roles and in what directions and extents they can have impact on the company’s performance.

The framework described on the Figure 3 unite all existing research on this topic in order to contribute to understanding how board’s resources, skills and other characteristics could be valuable for fulfilling the functions.

Nicholson and Kiel [2003] confirm that this is essential stage in analyzing these elusive relationships between board of directors and corporate performance. The intellectual capital classification and contingency basis provided by this framework could be very valuable in understanding these linkages.

In terms of research questions this frameworks could be very useful and applicable in some directions:

1. It underlines the essential contingent factors which require additional attention from corporate governance study.

For example, it’s necessary to take into account differences in economic, firm, and industry characteristics. If there are not common for overall sample in the study, usually, role set as well as its influence on performance cannot be the same.

1. It stresses some potential interactions in board features that need attention of researcher as well.

For instance, if the analysis is focused on board independence it is also necessary to gain insight into associated characteristic such as less opportunity for providing valuable and useful advice [Westphal, 1999]

1. It highlights essential implication of potential interaction between corporate performance and management effectiveness.

The framework helps to analyze possible challenges and provides the measurement system, but at the same time there is huge range of fields for future investigation. It is possible to look at specific contingency condition or specific function. Moreover, there is also lack of research in the direction of examination of relationship between particular part of intellectual capital and implementation of specific role of board. It is also important to look at social processes in work of the board.

Speaking about practice, understanding different characteristics of the board that influence the effective board performance could improve company’s results significantly. The framework forms the base for particular governance needs of the company and helps boards to hire individuals with appropriate skills and knowledge. In can also contribute to development and assessment of existing directors.

The intellectual capital model should be regarded as an essential stage in corporate governance research. It adds some new ideas in procedure-oriented analysis into governance and enables further development of this research [Nicholson and Kiel, 2003].

All things considered, human capital is the most important part of intellectual capital of board of directors. Obviously, it should have influence on the level of board effectiveness and, eventually, company’s performance thorough effect of successful implementation of its functions. However, we will argue that it has impact not only on financial results but also on social disclosure practices.

# **1.3 Corporate social responsibility disclosure: theoretical concepts**

Speaking about corporate social responsibility (CSR) disclosure, there are two main theories in the research: Stakeholder theory and Legitimacy theory.

1. *Stakeholders theory*

Freeman [1984] has identified what stakeholder theory stands for. Stakeholders are considered to be the group of people or individual who can influence or be influenced by the company’s activities or operations. The main idea of this theory is that the company goes beyond financial gains to influence more groups of stakeholders and meet their needs. The most commonly used categories are workplace, marketplace, environment, and involvement in communities.

1. *Legitimacy theory*

It is based on existence of social contracts between the society and the company [Deegan, 2002]. The company needs to show to stakeholders that the operations and activities taking place inside go with acceptance of social norms in order to avoid “legitimacy gap”. The company can use CSR disclosure to achieve this aim. One approach is to obtain CSR awards, as the firm with some special prizes will be regarded as more transparent.

Basing in the theories discussed CSR disclosure could be divided into following categories [Anas et al., 2015]:

Table 1

Elements of CSR disclosure

|  |  |
| --- | --- |
| Category | CSR disclosure elements |
| Environment | How efficiently the energy is used |
|  | How to decrease negative impact on the climate |
|  | Biofuels problem |
|  | Necessary measures for protection of nature |
| Community | Supporting children |
|  | Supporting development of young people |
|  | Supporting underprivileged people |
|  | Contribution to employee involvement in the problems of community |
|  | Contribution to education |
| Workplace | Safety and health of employees |
|  | Problems of human rights |
|  | Problems of equal employment |
|  | Work environment |
| Marketplace | Green products |
|  | Ecologically-friendly procurement |
|  | Contributions to development of supplies |
|  | Corporate governance practices |

Source: [Anas et al., 2015]

Then the coefficients meaning extent or quality of CSR information disclosed are calculated using the following approaches:

1. Dummy variable (1-information present, 0 – no information);
2. If the information is present, it is ranked on 3 - scores scale (1 – just general information, 2 – specific information, 3 – specific information with quantitative data).

Thus, two coefficients are calculated: CSD (corporate social disclosure) – sum of scores basing on first approach, and QCSD (quality corporate social disclosure) – sum of scores basing on second approach.

(1), where

CSD is corporate social disclosure for the company i;

R – score given to the company i in the disclosed element j.

(2), where

QCSD is quality corporate social disclosure for the company i;

S – score given to the company i in the disclosed element j.

In other words, CSD (1) stands just for the fact that some information was disclosed, no matter what exactly it was, it should just relate to the particular CSR category. QCSD (2) means the quality and specificity of information disclosed.

Usually in order to estimate the level of CSR disclosure content analysis of annual reports is applied. However, some researchers warn that it doesn’t give overall picture and it is necessary to look at social environmental reports, websites and other sources [Unerman, 2000]. But some companies do not publish other reports in exception of annual ones, the same story is with information on websites. Also according to previous analysis, there are three sectors in annual reports which should be investigated thoroughly: operations review, chairperson statement, and CSR section [Nik Ahmad et al., 2003]. In order to evaluate the extent and quality of the CSR information disclosed researches use content analysis of annual reports basing on different classifications of items.

# **1.4 Human capital measurement**

Nowadays there is no common approach to the measurement of human capital despite the fact that since 90th there have been so many studies devoted to this problem. Let us look at the main results of them.

Robert Kaplan and David Norton [1996] introduced the approach of assessing the level of human capital with Balanced Scorecard. They wanted to investigate how performance of individual employee influences the overall organizational effectiveness. In order to do this, they looked into four main dimensions:

* Financial;
* Customer;
* Internal business processes;
* Growth and learning (contribution to achievement of the goals set by a company).

Similar tools were also used in the researches of Brian Becker [2001], he applied HR Scorecard. Mark Huselid et al. [2005] used Workforce Scorecard to gain insight into not only HR managers point view, but also understand employees’ perspective in the following categories: achievement of goals, leadership, competencies, mindset, culture. Brian Becker [2009] integrated all three scorecards already discussed and suggested more universal approach to just look at characteristics which are crucial for company’s success but from both sides: HR managers and employees.

According to the research of Scholz et al. [2004] there are several ways to measure human capital taking into account company’s goals, availability of information, time frame, and other conditions:

- based on market value tools;

- based on accounting tools;

- based on performance indicators;

- based on value added methods;

- based on profit.

Obviously, there is no common approach to evaluate human capital, as it is a group of characteristics which are closely related to each other. The majority of studies (for example, Carpenter et al. [2003], Hillman and Dalziel [2003], Kor and Sundaramurthy [2009]) have empathized the following indicators:

* Work experience in the similar or the same industry;
* Level of education;
* International experience;
* Work experience in different industries;
* Involvement in structural deals;
* Independence;
* Tenure period as a board director

# **1.5 Women on a board**

The problem of gender stereotypes in companies has been already discussed during last decade and has attracted so much attention. In the majority of cases researches have led to controversial and mixed results do not giving sufficient practical recommendations to firms in the relation to gender policy. Let us discuss the most bright and influential studies.

The most popular question in such reaches was whether having more female directors improves financial results of a company [Catalyst, 2004; Tacheva and Huse, 2006; Rose, 2007]. However, the results are quite ambiguous. For instance, Browne et al. [2002] confirmed that firms with two or even more female directors have better level of corporate governance. The study provided by Credit Suisse [2014] showed that large firms (with more than $10 mln market capitalization) with at least one female director on a board outperformed others other by 5%.[[5]](#footnote-5)

The issue of women on a board is very closely related to concept of diverse boards which lead to more productive boardrooms, critical assessment of decisions from different points of view, and in general better governance [McInerney-Lacombe et al., 2008]. Furthermore, it was proven that a woman provides a board with extra relationships and resources which improves its performance [Hillman et al., 2002].

There is an array of studies which have proven that more women contribute to better corporate governance, and in particular quality of reflection [Clarke, 2005; Huse and Solberg, 2006; Burke and Vinnicombe, 2008]. Some researches were also devoted to the assumption that female directors have different behavior and preferences from male directors [Adams and Ferreira, 2008; Brown et al., 2002]. For example, it was proven that women are more risk-averse and prioritize long-term aims which also contribute to better financial results [Jianakoplos and Bernasek, 1998].

According to research provided by Carter et al. [2007] where Fortune-500 firms were investigated and ranked with the number of female directors, the companies in the highest quartile showed 42% bigger return on sales and 53% bigger return on equity than others.[[6]](#footnote-6) Women directors also gain deeper insight into the needs of employees, customers, shareholders, local communities. Obviously, they also better understand women’s needs which is very useful while developing new services and products.

Moreover, female directors are considered to be role models and help to improve female employees’ performance as well as improve overall company’s image, as gender diversity is regarded as a good indicator of company’s social responsibility; very often firms publish this statistics in CSR reports [Arguden, 2002].

However, minority can stand for one person or 49%, and it was proven that the minority issue decrease while the number of female directors increases. A lot of studies were devoted to just the number of women not proportion confirming that it is essential to achieve critical mass to influence boards decisions. Konrad, et al. [2008] has proven that this critical mass should be equal to three, since this moment women are not considered to be outgroup anymore, they are given legitimacy, and their suggestions are taken seriously. But these results were called in question among huge number of other researches. A little bit earlier, Zelechowski [2004] proved at the sample of FTSE-companies that share prices and operational performance are in positive relationships with the proportion of women on a board, and the critical mass is 20%.

One of the most essential contribution to the whole research in this field was the prove of the fact that demographic minorities on board usually experience social barriers to influence decisions taken by a board [Westphal and Milton, 2000]. Gender should be regarded as the most highly visible demographic characteristic which leads to creation of wrong assumptions and associations about hidden features of a person, for example, level of knowledge and particular skills [Anne S. Tsui and O'Reilly III, 1989]. Usually such assumptions and associations are based on prejudices and stereotypes which affect behavior [Walt and Ingley, 2003].

The barriers to having impact of women minority in masculine group were discussed by Kanter [1977] in the study of tokenism. She studied Fortune 500 companies where women were working in a male-dominated group and wanted to gain insight into how the proportion of women can influence decision-making process. She investigated skewed groups with male/female proportions 85%/15% while the members of majority group were named as Dominants, and others – Tokens. She observed the existence of contrast effect [Gustafson, 2008] which stands for the fact that Dominants recognize that they are different from one group and common with another. They appreciate this and in order to keep the situation the same they leave a token out from the group. Moreover, a token is very often associated with stereotypes, for example, “typical for woman behavior”.

According to social identity theory, such mechanisms should be named as in-group and out-groups behaviors [Ashforth and Mael, 1989]. So, the majority members develop confidence and coherence to improve self-perception and increase self-esteem. Moreover, they will be more favorable to communicate and exchange ideas inside group than with others. Interestingly, the members of majority group tend to evaluate the behavior of others in in-group more favorably in comparison with others [Singh and Vinnicombe, 2004]. Finally, the level of identification of out-group members to the whole group is very low, and the level of absenteeism is huge [Tsui et al., 1992].

So, persons from majority group have much more potential to have disproportionate level of influence on decisions taken by a group of people. Further studies provided some explanations how this affects individual impact. First of all, the fact that minority members are isolated contributes to barriers in transferring information, social distance, and access to discussion during meetings of a board [Van der Walt and Ingley, 2003]. Secondly, out-group members are usually considered to be less competent and qualified; women are also related to stereotypes which decreases the opportunity to be perceived as legitimate holder of opinion, eventually, their point of view can be much less weighted in comparison with others on board [Westphal and Milton, 2000].

One very interesting study based on this concept was conducted in Norway by Beate Elstad [2008]. The main reason to do this research was the new law taken in Norway for private listed companies (nearly 500) in 2003 – they should have at least 40% of women on a board until July 2005. Because of huge incompliance the it was decided to delay deadline to 2008 otherwise the government promised closures and financial fines. In 2009 they obtained almost the full compliance. And now because of this law Norway is a leader in proportion of women on a board (35,5% in 2014).[[7]](#footnote-7)

Beate Elstad [2008] has proven that individual influence and performance of a female director depend on the overall proportion of women on a board. The results were contradictory to critical mass theory which suggests that all barriers should disappear when there will be three women on a board. She concluded that proportion should be more important than absolute number.

Furthermore, in this study some mediating effects were proven. Firstly, information access should moderate the relationship between the proportion of women and individual influence. Secondly, networking with board members outside meetings is a very significant moderator for the relationship between women proportion and their influence. This represents very big challenge for female directors. Finally, conformity should be also regarded as a mediator. But according to research in order to avoid groupthink it is necessary to have cognitive conflict inside Janis [1972] as well as be creative and critically thinking [Ong and Wan, 2008]. McInerney-Lacombe et al.[2008] in their study confirmed that in numerous cases female directors were more ready to discuss “difficult issues” with other directors.

Later studies discussed this problem in more scrutinize way. Joecks et al. [2012] applied Blau Diversity Index [Blau, 1977] standing for the following:

(3), where

H is the level of diversity;

k is the number of categories (ex., k =2 in gender);

Sc – the fraction of directors with characteristic c.

In order to standardize it and make more convenient for giving conclusions the authors divided H by the maximum value of index which is standing for the following: 1-1/K, so in this case it will be 0,5. So, the maximum value will be 1 (complete heterogeneity), the minimum will be 0 (complete homogeneity) [Joecks et al.,2012].

The main results of the study you can see on the Figure 4.

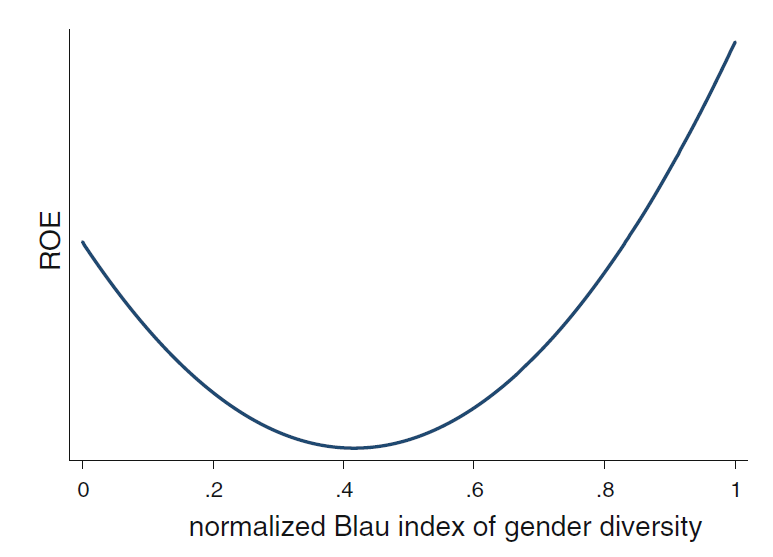


Figure 4. The relationship between ROE and normalized Blau index of gender diversity (3)

Source: [Joecks et al., 2012]

In this study it was proven that titled boards (with high percentage of gender diversity) should work more effectively then skewed ones (with low percentage of gender diversity). Gender diversity will lead to better performance only in the case when the proportion of women is not less than 10% and only for companies with the proportion bigger than critical level in 30% performance will be much greater in comparison with companies with male boards. If the proportion of women is less than 10%, increase in diversity is reducing financial performance.

# **1.6 Female directors and the quality of CSR disclosure**

The importance of quality of CSR reports have been already proven in the big array of studies. It was also discussed that the size of report doesn’t mean quality.

Assurance of CSR reports has been proven to be a signal of reliability and credibility and contributes to better reputation of a company [Simnett et al.,2009]. In order to make more transparent reports companies provide assurance given by auditing profession using, for example, GRI standards (General Reporting Initiative). Junior et al. [2014] have done historical analysis of CSR reporting and went to the conclusion that CSR reports contribute to better dialogue between a company and its stakeholders improving decision-making processes.

Gender diversity is considered to be a factor influencing the quality of CSR reporting because of a number of reasons.

Firstly, it influences decision-making processes because of different points of view and approaches to problems [Adams et al., 2015]. It helps also to better understanding environment as well as needs of different stakeholders [Miller and Triana, 2009]. Moreover, diverse boards lead to access to greater variety of resources including knowledge, experience, financing, legitimacy [Terjesen et al., 2009].

Secondly, female directors are not just tokens they have different attitudes to a big number of things. They have other features of leadership style [Bear et al., 2010] and tend to pay more attention to supporting communities and developing CSR projects [Hillman et al., 2002]. Manetti and Toccafondi [2012] have proven that presence of women on a board contributes to greater stakeholder engagement as well as level of transparence and credibility of reports. Women directors are also different from male colleagues speaking about personality features, skills both inborn and developed, career experience, education, communication approach. Adams [2015] looked at personal values of both female and male directors (Figure 5). The more far away bar from 0 to right, the more directors keep the value in high esteem. The more far away bar from 0 to left, the less directors respect the value. 0 bar corresponds to men, 1 bar corresponds to women.

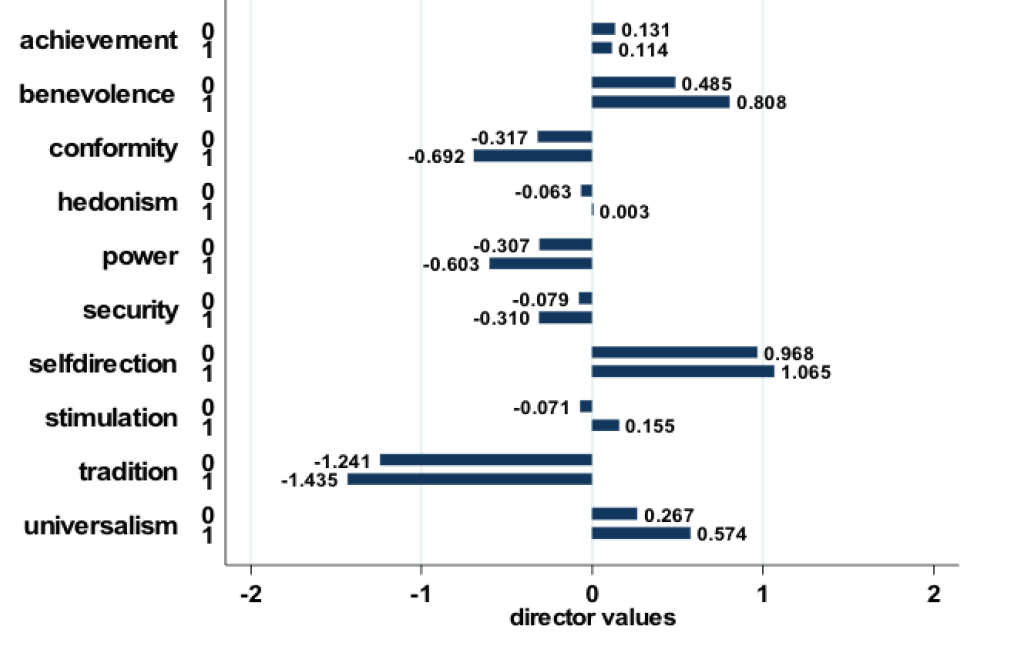


Figure 5. Comparison of values of male (0) and female directors (1)

Source: [Adams, 2015]

Thus, female directors appreciate more benevolence, self-direction, hedonism, universalism, and stimulation. But at the same time. they less keep in high esteem conformity, power, achievement, security, and tradition values in comparison with men.

Moreover, female directors are more risk-averse, usually they do not support reputation and litigation losses [Srinidhi et al., 2011] (Figure 6). Because of these differences female directors can influence the quality of CSR reports disclosure which is profoundly related to long-term and no-risky benefits.

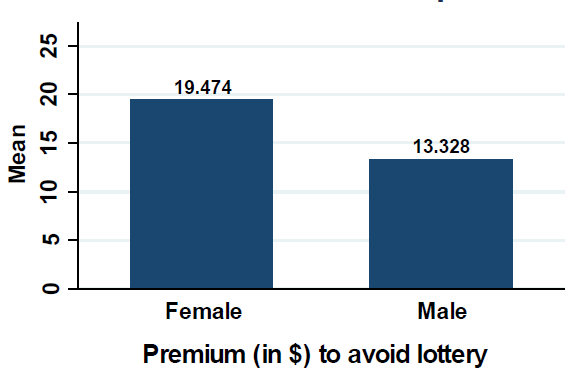


Figure 6. Mean levels of risk aversion by gender

Source: [Adams, 2015]

Thirdly, women are more stakeholder oriented and concerned about CSR practices and ethical behavior [Adams and Ferreira, 2009]. Gul et al. [2013] in their research have proven that female directors are more tend to build relationships based on trust, that is why they are more likely to reduce information asymmetry with stakeholders. Moreover, they are more sensitive to ethical and social issues [Isidro and Sobral, 2015], that is why the proportion of women on a board should lead to higher quality of CSR reporting.

These assumptions were proven in an array of empirical researches. Thus, Bear et al. [2010] have found that the increase in the proportion of women on a board is related to growth in CSR ratings. Liao et al. [2015] have proven that the proportion of female directors and disclosure of information about emissions have positive relationships.

Interestingly, some researchers wanted to draw linkage with corporate governance as well. Adams and Ferreira [2009] have observed that female directors have the same influence on the quality of CSR reporting like independent directors. But independent female directors can require even higher quality, this assumption was tested and supported in the work of Al-Shaer and Zaman [2016]. The researchers came to the conclusion that other corporate governance characteristics should subsume gender diversity speaking about effect on the quality of CSR disclosure practices [Srinidhi et al., 2011].

**The main conclusions to the first part**

We have identified three main roles of board of directors:

* Controlling and monitoring;
* Giving advice to managers;
* Ensuring access to resources.

Obviously, successful implementation of them leads to higher company’s performance, not only financial but also corporate social responsibility practices, as CSR projects should be closely related to strategy of a company, require actions of managers as well as resources both financial and non-financial ones.

Intellectual capital, mainly human part, standing for knowledge, skills, and experience, has big influence on successful implementation of board roles, and, eventually, on company’s performance.

However, as our study is aimed at focusing on female directors, we have discussed the problem of gender diversity on a board. Thus, we can conclude that women directors require bigger attention, as the problem of “dominants” and “tokens” make sense, as well as gender stereotypes. Moreover, female directors are different from men in their values, risk-aversion, behavior, as well as attitude to stakeholders and CSR projects, that is why we have emphasized them and are going to test hypotheses about influence of their human capital on corporate social responsibility disclosure.

### **CHAPTER 2. HYPOTHESES DEVELOPMENT AND EMPIRICAL ANALYSIS.**

# **1.1 Hypotheses development**

In the literature review we have already discussed that gender diversity obviously should lead to better financial results as well as quality of CSR disclosure. It was also proven that human capital of board directors should contribute to better performance. Moreover, researchers concluded that additional corporate governance and other features of female directors should increase the overall positive effect on the quality of CSR reports. The main purpose of this study is to understand what particular characteristics of female directors can lead to higher quality of reports, here the concept of human capital should be applied. Now let us look at every component of human capital in detail.

*Period of being a board member*

Obviously, a director should have necessary knowledge and skills to take appropriate for a company decisions but it is also crucial to be aware of internal tendencies and processes to be ready for rational and quick decisions. Thus, the tenure of been a board member should have positive impact on decision making regarding future company’s development.

There are a lot of discussions among researchers concerning this relationship. Vance [1983] has proven that long-term presence of a director in a board of a company is related to experience, commitment, interest, and competence because it goes from having necessary information regarding company’s peculiarities as well as knowledge about industry. Buchanan [1974] has found that tenure of being a director enhances person’s commitment to a company as well as desire to have significant influence on company’s performance and development. While spending some time on a board a director starts to know not only company’s peculiarities but also specifics of other board members which is very valuable in terms of making common decisions and working like a team [Fisher and Pollock, 2004].

Thus, we can conclude that period of being a board member should have positive influence on the extent and quality of CSR reports, as members are becoming more aware of internal company’ s processes and have more willingness to influence company’s decisions, including the ones related to CSR practices. Moreover, they gain better understanding of other directors which help them easier achieve consensus and avoid corporate governance conflicts.

So, we can come up with first hypothesis. In order to measure this variable, the average number of years spent on a board by every female director was applied.

H1a: Period of being a board member of a female director has a positive relationship with the extent of CSR disclosure

H1b: Period of being a board member of a female director has a positive relationship with the quality of CSR disclosure

*Industry working experience*

This variable is very often applied while evaluating human capital. The reason is that companies from the same industries meet very similar array of problems concerning regulation, legislation, market trends, consumer needs, labor market environment and so on [Kor and Misangyi, 2008]. Moreover, usually directors with greater experience in similar industries are more aware of potential consequences, that is why they prefer to take more long-term oriented decisions and pay attention to CSR projects. According to research of [Rajagopalan and Datta, 1996], if a director works in the industry for more than three years, he tends to evaluate information like an expert and correlate his knowledge with particular situation. Moreover, such directors are likely to show more expertise in consulting managers and evaluating quality of their decisions.

In order to measure this variable, we have applied the average number of years during which a female director worked in industry where the company operates. Moreover, we have used also the average number of female directors who had such experience.

H2a: Industry working experience of a female board director has a positive relationship with the extent of CSR disclosure

H2b: Industry working experience of a female board director has a positive relationship with the quality of CSR disclosure

*International work experience*

Nowadays we can observe that the process of globalization and doing business abroad are gathering pace. The majority of best practices Russian companies have taken abroad, that is why directors with international work experience are very valuable for a company and should be regarded as a source of knowledge about institutional and cultural peculiarities of international markets.

According to [Kaczmarek, 2009], heterogeneity of board of directors in terms of international experience helps a board to think globally going beyond national peculiarities and take more creative and appropriate strategic decisions. Moreover, [Dahlinet al., 2005] regarded human capital of board of directors with international experience as VRIS-resource (valuable, rare, hard to imitate and substitute).

Furthermore, speaking about global practices, the trend of CSR projects is much higher in comparison with Russian companies, that is why international experience of a director should lead to higher extent as well as quality of CSR disclosure practices. So, we can come up with the following hypothesis:

H3a: International work experience of a female board director has a positive relationship with the extent of CSR disclosure

H3b: International work experience of a female board director has a positive relationship with the quality of CSR disclosure

*Independent directors*

According to research, independent directors contribute to better implementation of control and monitoring functions of a board. In the research provided by Al-Shaer and Zaman [2016] it was proven that the level of diversification should lead to higher both quality as well as extent of the information disclosed. Moreover, it was proven that the proportion of independent female directors should increase this effect, as they have more chances to apply their human capital and be perceived in a right way. They do not have some links with a company at all, so, the possibility of opportunistic behavior is extremely low. Such directors should increase the overall level of control in the company, as well as defending rights of stakeholders. That is why they should encourage the company to disclose more information and with higher quality.

Arora and Dharwadkar [2011] in turn have confirmed that the bigger proportion of independent directors contributes to decreasing agency costs, growing legitimacy, and much higher interest in sustainability issues.

H4a: The percentage of independent female directors has a positive relationship with the extent of CSR disclosure

H4b: The percentage of independent female directors has a positive relationship with the quality of CSR disclosure

*Control variables*

In order to take into account other effects, we need to include into final regression models the following control variables:

1. Coefficient of gender diversity on a board

The linkage of gender diversity and the quality and extent of CSR information disclosed was proven in a big number of empirical researches. Female directors have different points of view and approaches to problems [Adams et al., 2015]. It helps also to better understanding environment as well as needs of different stakeholders [Miller and Triana, 2009]. Moreover, diverse boards lead to access to greater variety of resources including knowledge, experience, financing, legitimacy [Terjesen et al., 2009].

Manetti and Toccafondi [2012] have proven that presence of women on a board contributes to greater stakeholder engagement as well as level of transparence and credibility of reports. Furthermore, female directors are more risk-averse, usually they do not support reputation and litigation losses [Srinidhi et al., 2011]. Because of these differences female directors can influence the quality of CSR reports disclosure.

Finally, women are more stakeholder oriented and concerned about CSR practices and ethical behavior [Adams and Ferreira, 2009]. Gul et al. [2013] in their research have proven that female directors are more tend to build relationships based on trust, that is why they are more likely to reduce information asymmetry with stakeholders. Moreover, they are more sensitive to ethical and social issues [Isidro and Sobral, 2015], that is why gender diversity on a board should lead to higher quality of CSR reporting.

Thus, Bear et al. [2010] have found that the increase in the proportion of women on a board is related to growth in CSR ratings. Liao et al. [2015] have proven that the proportion of female directors and disclosure of information about emissions have positive relationships.

The majority of researches discussed used the number or proportion of female directors but recently it was proven that it is not right approach, as the main thing which should contribute to changes is the level of gender diversity. We used Blau Diversity Index [Blau, 1977] standing for the following:

(3), where

H is the level of diversity;

k is the number of categories (ex., k =2 in gender);

Sc – the fraction of directors with characteristic c.

However, like in the majority of studies we have normalized it dividing by 1-1/K, in our case 0.5 [Joecks et al.,2012].

1. Board size (how many directors present)

It was confirmed that the bigger the board is, the higher the quality and extent of the information disclosed are [Al-Shaer and Zaman, 2016]. Very likely, that here should be non-linear relationship. In order not to spoil the overall linkage we need to take into account this factor.

1. Reporting incentives (RI): natural log of Assets

We should expect higher level of quality and extent of CSR disclosure for bigger companies, as they have more opportunities as well as necessities to disclose CSR information of better quality and at higher extent [Al-Shaer and Zaman, 2016]. Natural log of assets is applied to avoid big differences and incomparability of data.

We take into account that some relationships could be non-linear, this will be checked during estimation of model.

# **1.2 Research methods and sample description**

The sample included 82 Russian trading companies from different industries (financial institutes as well as outliers were excluded from analysis). Preliminary there were all Russian trading companies but not all of them have women on board, and not all of them publish CSR information in annual reports. To collect data the following databases were used: SKRIN, SPARK, Eikon. To do statistical analysis Excel and Stata were applied.

The research had the following main parts:

1. Content analysis of annual reports to collect data about both extent and quality of CSR practices disclosure;
2. Descriptive statistics: index of gender diversity, CSR disclosure;
3. Multiple regression panel model with lag (2013-2014-2015).

*Content analysis*

Basing in the theories discussed we have applied the classification of [Anas et al., 2015]. However, taking into account peculiarities of Russian disclosure practices we have changed the original one to avoid biases of estimator. The final classification for the content analysis is the following:

Table 2

Elements of CSR disclosure adapted to Russian public companies

|  |  |
| --- | --- |
| Category | CSR disclosure elements |
| Environment | How efficiently the energy is used |
|  | How to decrease negative impact on the climate |
|  | Biofuels problem |
|  | Necessary measures for protection of nature, including flora and fauna |
| Community | Supporting children from communities (kindergartens, schools, events for children until 18 years) |
|  | Supporting children of employees |
|  | Supporting sick children |
|  | Supporting retired workers |
|  | Supporting development of young people |
|  | Supporting underprivileged people |
|  | Contribution to employee involvement in the problems of community |
|  | Contribution to education |
| Workplace | Safety and health of employees |
|  | Problems of human rights |
|  | Problems of equal employment |
|  | Work environment |
| Marketplace | Green products |
|  | Ecologically-friendly procurement |
|  | Contributions to development of supplies |
|  | Corporate governance practices – obligatory part |
|  | Corporate governance practices – specific part |

Source: Developed by the author based on [Anas et al., 2015]

This classification was used to do content analysis of annual reports of the companies under question. Each item was evaluated basing on the following procedure:

1. Dummy variable (1-information present, 0 – no information);
2. If the information is present, it is ranked on 3-scores scale (1 – just general information, 2 – specific information, 3 – specific information with quantitative data)

However, in some categories special assumptions were made taking into account peculiarities of Russian legislation for public companies and CSR elements which are valued in Russia most of all.

Thus, according to chapter 70 of Regulations on Information Disclosure for Issuers of Securities, the volumes of energy used should be shown by every public company. So, in the element “How efficiently the energy is used” only in case of description of specific measures made for decreasing usage or increasing effectiveness the company could obtain 2 points or 3 points if quantitative data is presented.[[8]](#footnote-8)

In the part “Community” the element “Supporting children” were divided into children from communities, children of employees, and sick children, as it is clear than they are completely different directions of CSR. Moreover, children of employees were one of the most popular items disclosed in annual reports of Russian public companies. The element “Retired workers” was also added because of the same reason.

“Development of young people” stands for sport events, programs for graduates and young talents. “Employee involvement” means volunteer programs and participation of employees in CSR events. In the element “Education” we emphasized help to universities and schools in the fields related to industry were a company operates, for example open doors, career fairs for students, internships.

In the part “Workplace” the elements “Safety and health of employees” and “Work environment” were very popular items disclosed very often with quantitative data. Here 2 scores were given if quantitative information is just total figures. 3 scores were obtained if concrete programs were corresponded with costs and the number of people participated in them. “Equal employment” was vice versa the least popular disclosed item, 1 score was given in case of very general information, 2 scores were obtained if general information was supported by proportions of women and men working. If there are several quantitative data, 3 scores should be got. Some specific measures in gender issue were not met in case of Russian companies.

“Supporting green products” stands for using ecologically-friendly materials, in this part we have decided to give 3 scores if concrete measures are very widely described even with absence of quantitative data, as detailed programs are more important in this case. “Ethical procurement” means supporting anti-corruption actions and responsibility of working with suppliers. 3 scores were given if concrete measures are explained with details (some documents, standards, resources, places to make tenders). In the case of “Help to suppliers” the same procedure was used: 3 scores if measures are corresponded with details.

Basing on chapter 70 of Regulations on Information Disclosure for Issuers of Securities[[9]](#footnote-9) “Corporate governance” was divided into required and specific parts. According to legislation, Russian public companies need to disclose information about the following:

* Board directors, short information about their bibliography, proportion of ownership in a company;
* Executive directors¸ short information about their bibliography, proportion of ownership in a company;
* Salary of directors;
* Report of following Corporate Governance Code including main practices, methodology, reasons why some guidelines are not followed, corporate governance mechanisms and tools, plan of actions to improve existing corporate governance system).[[10]](#footnote-10)

In “Required Corporate Governance” 1 score was given if required minimum is disclosed, 2 scores were obtained if some concrete measures were explained a little bit wider that it is required, 3 scores were given if some statistical information or peculiarities were described. In “Specific Corporate Governance” information about board meetings, people who participated there, what decisions were taken should be disclosed. Also information about Committees, Audit Commission can be published. Sometimes, extra statistical data about proportion of female directors, foreign board members and other also take place. 1 score was given if members of Committees and Audit Commission were described. 2 scores were obtained in case of data about board meetings, participants and decisions. 3 scores were given only if some statistical information takes place.

Using this procedure, we calculated two coefficients: CSD (corporate social disclosure) – sum of scores basing on first approach, and QCSD (quality corporate social disclosure) – sum of scores basing on second approach. They will be included into final models like dependent variables.

Where CSD is corporate social disclosure for the company i;

R – score given to the company i in the disclosed element j;

i = 1…82; j = 1…21.

Where QCSD is quality corporate social disclosure for the company i;

S – score given to the company i in the disclosed element j;

i = 1..82; j = 1…21.

*Descriptive statistics*

After collection of data in annual reports and databases we have calculated the normalized Blau index of diversity and compared descriptive statistics for 2013 and 2014. Looking at Figure 7 and Figure 8 we can observe that the majority of companies (64 companies: 78%) under question had the normalized coefficient of gender diversity less than 75%. At the same time 49% (40 companies) had this index accounted to less than 50%.

However, in 2014 the situation has changed completely despite the fact that we looked at the same firms. 60 companies from 82 discussed had the index equal or more than 90%, 33 firms had almost 99% diversity. At the same time, just 11 companies had less than 60% level of gender diversity.

Figure 7. Histogram of gender diversity index in boards in 2013

Figure 8. Histogram of gender diversity index in boards in 2014

If we look at mean values we can see the same trend: 57% for 2013 and 82% for 2014 eliminating outliers. That could happen because of overall crisis situation in Russia in 2013, in 2014 the economic growth has increased and companies could have more money and time to focus on new attitudes to business including increasing diversity on boards.

As to CSD there were no substantial differences in 2014 and 2015 in distribution (Figure 9 and Figure 10).

Figure 9. Histogram of the extent of CSR disclosure practices in 2014 (CSD)

Figure 10. Histogram of the extent of CSR disclosure practices in 2015 (CSD)

In 2014 the majority of companies under question (47 from 82) had CSD equal or more than 10 (21 is maximum). In 2015 the situation was the same.

The distribution of QCSD in 2014 and 2015 also almost didn’t change throughout the year (Figure 11 and Figure 12). 35% of companies had QCSD in 2014 less than 12 (maximum is 63). 55% had less than 23 scores. In 2015 35% had less or equal to 12, and 46% less or equal to 18.

Figure 11. Histogram of the extent of CSR disclosure practices in 2014 (QCSD)

Figure 12. Histogram of the extent of CSR disclosure practices in 2015 (QCSD)

These information supports the assumption that CSR practices are developing at very low pace in Russia.

Moreover, we wanted to look also at particular categories of CSR which are disclosed in annual reports by Russian companies.

Figure 13. The average ranks by CSR categories 2014

Figure 14. The average ranks by CSR categories 2015

Looking at Figure 13 and Figure 14 we can observe that the most highly-disclosed item in annual reports is Market mainly because of the fact that the information related to Corporate Governance and should be disclosed by all public companies is included in this part. The information regarding work and employees is on second place, especially work environment is kept in high esteem (2.078 – average score for both years). Communities are on third place in quality but have almost the same position like Work in extent of disclosed information. Here the help to retired workers (1.3) and children of employees (1.2) are the most popular disclosed items. Supporting environment is on the last position but the most influential element in this category is reducing emissions (1.628), however, other components have very small ranks, that is why Environment is on last place. Comparing 2014 and 2015 years the situation has stayed almost the same, significant changes were not presented.

*Multiple regression panel model with lag (2013-2014-2015)*

The final models are the following:

* CSDit = b0 + b1\*CGit-1 + b2\*CONTRBit-1 + b3\*CONTRFit + 𝜀i𝑡 (4), where

i = 1,…82;

t = 2 (2014 - 2015 years);

CSD – corporate social disclosure;

CG – vector which stands for human capital of female directors: industry experience, board tenure, international experience, independent directors;

CONTRB – vector which stands for control variables related to board: coefficient of gender diversity and size of the board;

CONTRF – vector which stands for control variable related to financial performance and size of a company: ln (Assets);

𝜀i𝑡 – error.

* QCSDit = b0 + b1\*CGit-1 + b2\*CONTRBit-1 + b3\*CONTRFit + 𝜀i𝑡 (5), where

i = 1,…82;

t = 2 (2014 - 2015 years);

QCSD – corporate social disclosure;

CG – vector which stands for human capital of female directors: industry experience, board tenure, international experience, independent directors;

CONTRB – vector which stands for control variables related to board: coefficient of gender diversity and size of the board;

CONTRF – vector which stands for control variable related to financial performance and size of a company: ln (Assets);

𝜀i𝑡 – error.

We applied lags for the characteristics of board because of several factors:

1. From managerial point of view, forming board of directors takes place in the middle of a year, from that moment they start to functionalize and elaborate on the budget and strategic decisions for future year, that is why we can observe the results of its work just in a year;
2. It is a good way to get rid of endogeneity (correlation of independent variable and error)

In Appendix 1 you can see how variables were measured.

The data was tested for the presence of outliers. However, because of the fact that panel data is used additional tests are required. So, the statistical tests of Hausman and Breusch and Pagan were applied to understand what type of model will be more adequate for our data. Thus, according to tests both models should be related to independently pooled panels. The results of estimation are presented in Table 2 and Table 3. For some variables square was applied because, as it turned, they have non-linear relationships with dependent variable.

Table 3

The results of regression analysis for dependent variable CSD

|  |  |  |
| --- | --- | --- |
| Dependent variable | CSD | |
| **Independent variables** | b | P-value |
| Industry experience (1) | 1.729 | 0.143 |
| Industry experience (2) | 0.073 | 0.245 |
| Period of being a board director (squired) | 0.022 | **0.046\*\*** |
| International experience | 0.019 | 0.598 |
| Independent directors | 0.25 | 0.561 |
| **Control variables** |  |  |
| Index of Gender diversity (squired) | 2.774 | 0.024\*\* |
| Size of a board | 0.77 | 0.000\*\*\* |
| ln (Assets) | 0.6 | 0.002\*\*\* |
| b0 | -11,767 | 0.009\*\*\* |
| P-value of the whole model | 0,000 | |
| R squared | 57,16 | |

\* - significant at the level of 0.1; \*\* - significant at the level of 0.05; \*\*\* - significant at the level of 0.01

Table 4

The results of regression analysis for dependent variable QCSD

|  |  |  |
| --- | --- | --- |
| Dependent variable | QCSD | |
| **Independent variables** | b | P-value |
| Industry experience (1) | 5.527 | **0.047\*\*** |
| Industry experience (2) | 0.45 | **0.014\*\*** |
| Period of being a board director | 0.413 | 0.158 |
| International experience | 0.457 | 0.794 |
| Independent directors | 1.168 | 0.501 |
| **Control variables** |  |  |
| Index of Gender diversity (squired) | 7.567 | 0.026\*\* |
| Size of a board | 2.48 | 0.000\*\*\* |
| ln (Assets) | 1.554 | 0.003\*\*\* |
| b0 | -18.296 | 0.02\*\*\* |
| P-value of the whole model | 0.000 | |
| R squared | 61.37 | |

\* - significant at the level of 0.1; \*\* - significant at the level of 0.05; \*\*\* - significant at the level of 0.01

Thus, from four hypotheses developed just two were not rejected at the level of significance 0.05:

H1a: Period of being a board member of a female director has a positive relationship with the extent of CSR disclosure

H2b: Industry working experience of a female board member has a positive relationship with the quality of CSR disclosure

The first one was related to the extent of CSR information disclosed, the second – to the quality of such information. The hypotheses about international work experience and the proportion of independent female directors were rejected in both models.

It is interesting that board tenure, as it turned, has non-linear relationship but just with the extent of CSR disclosure. Having experience of work on the particular board is crucial to be aware of internal tendencies and processes to be ready for rational and quick decisions. This hypothesis was proven by Vance [1983], Buchanan [1974], [Fisher and Pollock, 2004]. The period of being a board member has positive influence on the extent of CSR reports, as members are becoming more aware of internal company’ s processes and have more willingness to influence company’s decisions, including the ones related to CSR practices. Moreover, they gain better understanding of other directors which help them easier achieve consensus and avoid corporate governance conflicts. So, female directors are becoming more committed to the company, more self-confident, and obtain more willingness and opportunities to make a company to disclose more. However, such variable doesn’t make influence on the quality of CSR information disclosed, in other words, making information more specific and detailed. Here other features of human capital of female directors should have sense.

In the second model with the quality of CSR disclosure practices as the dependent variable the hypothesis of industry working experience has found support which were developed in the works of [Rajagopalan and Datta, 1996], [Kor and Misangyi, 2008]. Thus, the companies from the same industries meet very similar array of problems concerning regulation, legislation, market trends, consumer needs, labor market environment and so on. Moreover, usually directors with greater experience in similar industries are more aware of potential consequences, that is why they prefer to take more long-term oriented decisions and pay attention to CSR projects. According to [Rajagopalan and Datta, 1996], if a director works in the industry for more than three years, he tends to evaluate information like an expert and correlate his knowledge with particular situation. However, we didn’t observe non-linear relationships on our sample.

We have applied two variables to find evidence for this hypothesis: the proportion of female directors who have work experience in the same market and the average number of years which they spent there; both variables were significant. So, the more experienced the female director is, the more she contributes to improving the level of quality of CSR information disclosed. It can be explained by the fact that experienced female directors tend not only to increase the overall number of CSR projects but develop them and make more useful for communities, ecology and nature, employees, market in the whole. Because of their knowledge of industry, they have deeper understanding what CSR events will be appropriate and bring benefit to a company.

The hypotheses about importance of international work experience developed by [Kaczmarek, 2009], [Dahlinet al., 2005] were rejected. Obviously, human capital of board of directors with international experience should be regarded as VRIS-resource and, speaking about global practices, the trend of CSR projects is much higher in comparison with Russian companies, that is why international experience of a director should lead to higher extent as well as quality of CSR disclosure practices.

However, the proportion of directors with such experience is quite low in Russian companies. In our sample just 12 companies from 82 had at least one female director with international experience in 2013 and just 13 companies – in 2014. Probably, because of this fact it is really difficult to find significant relationship. Moreover, corporate social responsibility is developing in Russia also, not at such extent like in Europe and with very low pace but it is growing in comparison with previous years. Furthermore, there are leading companies which correspond to the best international CSR practices. Thus, it is not necessary to have international experience of work to develop CSR projects in a company.

The hypotheses about independence of female directors developed in the works of Al-Shaer and Zaman [2016], Dharwadkar [2011] also didn’t find support. In former the influence of female directors on the level of CSR disclosure is described as similar to the effect of independent directors. Also, it was proven that if a director is a woman, and, at the same time, independent, there should be more significant relationship because such directors should increase the overall level of control in the company, as well as defending rights of stakeholders. That is why they should encourage the company to disclose more information and with higher quality. But in our case these assumptions didn’t work, probably because of the fact that in order to elaborate on CSR projects and contribute to higher level of extent and quality of the information disclosed, the big level of commitment of a director to a company is required which is actually not the case of independent directors, for whom this is part time work and who have no any other relationships with a company.

# **CONCLUSIONS AND MANAGERIAL IMPLICATIONS**

Today there is growing trend which is related to the fact that companies tend to go beyond gender stereotypes and include more and more women on a board. It happens not only globally but also in Russia. However, the actual figures are not very impressive. In 2014, just about 8% of all Russian board directors are female while in some European countries this ratio is more than 30%. The reason of this difference is the fact that such countries understand better the value which a female director can bring to a company. Thus, to control this in several countries quotas of female directors were applied.

So, why a woman should be a valuable asset for a company? There are several reasons and huge number of studies which have proven the benefits of including women on the board:

* Increase in performance indicators

Mainly because of risk-aversion and prioritizing long-term projects the boards with female members show better performance, not just financial one (despite the fact the majority of studies are devoted to this) but social performance as well, as female directors are more stakeholder-orientated, have higher level of compliance and strive to support Corporate Social Responsibility (CSR) projects.

* The bigger talent and knowledge pool

To be more precise not just the proportion of female directors and their features lead to better performance but the level of diversity makes sense. It happens because different points of view and attitudes to things help to better decision-making processes. Diverse boards lead to much higher level of understanding need of different stakeholders. Finally, they have access to greater variety of resources including knowledge, experience, financing, social bonds.

* Higher level of corporate governance

From one point of view, female directors’ effect is very often considered to be similar to presence of independent board members in terms of better implementation of controlling and monitoring functions. From another, more gender-balanced board should come to the decisions faster and have better communications avoiding conflicts. Moreover, women are regarded as more assertive in important governance problems like evaluation of board’ performance or control of top-managers.

So, it is obvious now that companies should strive to include more female directors on a board to benefit from gender diversity and another attitude to several business issues provided by female directors. However, nowadays there is no study which could explain what exact women should be kept on a board.

In order to understand this, we have applied the concept of human capital which stands for skills, experience, and knowledge of directors. According to existing studies human capital helps directors in implementation of their main functions, such controlling the company, giving advice to managers, and ensuring access to resources.

Unlike the majority of studies related to similar issues we didn’t discuss the effect of human capital of board members on financial results in a deep way, it is obvious and a big number of researches are devoted to this part. Instead we have focused on CSR disclosure practices, as nowadays it is also a very topical issue for both foreign and Russian companies. The number of social investments is increasing in Russia, even though it happens with a very low pace. There is one interesting observation that the companies-leaders in the proportion of female directors are also leaders in corporate social responsibility practices, because corporate governance is the part of CSR, and they are closely related to each other. So, there is need for such research which can gain insight whether in Russia such relationship also makes sense.

It was already emphasized that female directors are more stakeholder-orientated, more tend to support communities and implement CSR projects, so it is practically useful to understand what exact elements of human capital of female directors could lead to higher level of transparency. So, the main aim of this study was *to define the relationship between human capital of female directors and corporate social responsibility disclosure practices*.

Basing on literature review of existing researches in the field of intellectual capital, CSR disclosure practices, corporate governance, and issues of women on a board eight hypotheses were developed concerning board tenure, industry experience, international experience and independent directors.

However, only two of them were proven:

H1a: Period of being a board member of a female director has a positive relationship with the extent of CSR disclosure;

H2b: Industry working experience of a female board member has a positive relationship with the quality of CSR disclosure.

Thus, we can elaborate on managerial implications for shareholders: what features of female directors should focus on, if the company wants to improve the extent and quality of the disclosed information about CSR.

According to the survey of PWC[[11]](#footnote-11) which asked Russian board directors about what features are necessary to become a member of a board, industry experience is kept in first place, so we shall argue that this a totally right approach and it should lead to higher range projects as well as quality of information disclosed about them.

The companies should also pay attention to keeping female directors on a board, as the hypothesis about tenure of being a board member was proven. According to survey of PWC, there is necessity for additional education which a company should provide directors with. We shall argue that period of being a board member is important for female director, as she gains knowledge about the company, inside processes, the procedures of work on a particular board with particular directors. When she has enough knowledge and skills, she can contribute to improving CSR disclosure practices. The main recommendation is to strive to retain female directors which can stand for individual education and career development programs as well as improving labor conditions enabling women to find work-and-life balance.

Finally, it was also proven that the companies should pay attention to the proportion of female directors, as there is positive influence on both extent and quality of CSR disclosure practices. However, despite the fact that in Russia the proportion of female diplomate specialists in the field of business and management has increased, the proportion of women in top positions has changed slightly. It happens because of the fact that it is really difficult for a woman to climb a career ladder, as they need to find work-and-life balance and deal with gender stereotypes. The main steps for a company to retain women are the following:

* Mentorship managing by female leaders;
* Individual career and education programs;
* Events for creating professional bonds;
* Adequate labor conditions (enabling to find work-and-life balance).

These measures will contribute to higher level of gender diversity, higher level of human capital, especially experience and tenure of being a board member, and eventually will help a company to obtain better results in CSR practices and find the source of competitive advantage.

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## Appendix 1

Measures of variables

|  |  |
| --- | --- |
| Variable | Measure |
| Dependent variables | |
| CSD | Where CSD is corporate social disclosure for the company i;  R – score given to the company i in the disclosed element j\*;  i = 1…82; j = 1…21. |
| QCSD | Where QCSD is quality corporate social disclosure for the company i;  S – score given to the company i in the disclosed element j\*\*;  i = 1..82; j = 1…21. |
| Independent variables | |
| Industry experience (1) | the proportion of female directors with experience of work in the same (like company) market |
| Industry experience (2) | the average number of years of experience of work in the same (like company) market (among female directors) |
| Period of being a board director | average number of years of being a director |
| International experience | the proportion of female directors with international experience of work |
| Independent directors | the proportion of independent female directors |
| Control variables related to board | |
| Gender diversity | Normalized Blau index of gender diversity  Where H is the level of diversity;  k is the number of categories (ex., k =2 in gender);  Sc – the fraction of directors with characteristic c. |
| Size of a board | Number of directors |
| Control variables related to financial performance and size | |
| Ln Assets | Ln Assets |

\*Dummy variable (1-information present, 0 – no information)

\*\*If the information is present, it is ranked on 3 - scores scale (1 – just general information, 2 – specific information, 3 – specific information with quantitative data).

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