



Board Social Capital and Corporate Social Responsibility Reporting: A panel Study from Listed Kenyan Firms

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Abstract

The primary objective of this study is to examine the impact of board relations on CSR reporting as a critical component of board social capital. This research also takes into account board size, firm size, firm age, and firm profitability as controls. The sample consists of Kenyan listed firms on the Nairobi Securities Exchange from 2009 to 2020. A panel data model with fixed effect regression is used. Based on a resource dependence perspective, show a significant positive relationship between board relations and the level of CSR reporting. These findings contribute to academic discourse about the social capital of board members. The authors, in particular, emphasize the significance of board relationships and their implications for decision making regarding CSR reporting. This evidence may be useful to firms when forming boards of directors, as well as regulators and professional organizations when reassessing legislation and guidelines.

Keywords: Board Capital, Board Social Capital, Board Relations, CSR Reporting, Firm Age, Firm Profitability, Board Size, Firm Size

INTRODUCTION

Following a rise in shareholder demand for information on firms' social and environmental impacts (Saleh *et al.*, 2011; Michelon & Rodrigue, 2015), companies have used Corporate Social Responsibility (CSR) disclosure, to improve corporate transparency by reporting not only financial information, but also their social and environmental activities to stakeholders and society (Velte, 2019; Alonso-Almeida *et al.*, 2015). CSR disclosure refers to information furnished by companies about their policies, goals, and activities toward the community, customers, the environment, and employees (Gray *et al.*, 1995) and is a tool that may allow firms to develop and enhance their corporate image and to provide useful information for investment (Ioannou and Serafeim, 2015) and non-investment decisions (Deegan and Blomquist, 2006, Arayssi *et al.*, 2016).

One of the key roles of the board of directors is the provision of external resources that are critical for the firm's success (Hendry and Kiel, 2004; Pfeffer and Salancik, 1978). Part of this role entails providing useful advice to management on critical issues confronting the firm (Haynes and Hillman, 2010). Since disclosure policies emanate from boards of directors who have the responsibility to set up policies and manage disclosure information in annual reports, the boards' ability to execute these roles will determine how successful they are in governing the firm resulting in better outcomes such as CSR disclosure. Hence, companies whose boards support CSR reporting will be more socially oriented and will tend to engage better with stakeholders and society by responding to their needs and demands for social and environmental information (Michelon and Parbonetti (2012). Because the board plays this important role, their decisions require a greater cooperation among team members

to enable them to apply their various perspectives and knowledge and to function effectively. One of the ways that boards achieve this is by building on their social capital through members working together as a team over an extended period of time (Forbes and Milliken, 1999). Social capital is defined as relationships with others through whom you receive opportunities to use your financial and human capital (Burt, 1992) and is created when the relations among persons change in ways to facilitate action (Coleman, 1990) and improve the efficiency of society by facilitating coordinating actions (Putnam, 1993).

Most of the research into boards of directors has often focused mainly on identifying board composition and structure to explain CSR disclosure (Rao and Tilt, 2016; Velte, 2017; Rouf and Hossan, 2020) and ignored the role of board capital. Some of the most common variables described in the literature are insider/outsider ratios, board size, gender and board size. Board capital is however an interesting concept because research indicates that it could improve board effectiveness in decision making and policy formulation (Muttakin *et al.*, 2018). Some studies for example have documented a positive impact of board capital on firm outcomes such as firm performance (Muttakin *et al.*, 2018), while a few have reported a positive relationship between board capital and CSR disclosure (Ramon Llorens *et al.*, 2019). Even fewer studies have looked at the impact of board social capital on CSR disclosure and those that have made an attempt have focused on aspects of multiple directorships (Reguera-Alvarado and Bravo-Urquiza, 2021).

Although the investigation of the link between the board's social capital and CSR disclosure is pertinent especially in a world with many corporate scandals and social and environmental violations (Jain and Jamali, 2016), the few studies that have looked at board capital have focused mainly on board human capital (Ramon-Llorens, 2019, Muttakin *et al.*, 2018), while those that have made an attempt on board social capital have been on external aspects of social capital such as multiple directorships (Reguero-Alvarado and Bravo-Urquiza, 2021). Due to the complex nature of the decisions taken by the board which require agreement on decision taken, this study looks at the internal social capital of the board members attained through co-working experience.

Contextual considerations also come into play when looking at how board social capital is likely to affect CSR disclosure (Johnson *et al.*, 2013). Our study analyses data derived from the annual reports of 56 listed Kenyan firms in the Nairobi Securities Exchange over the period 2009 to 2021 by looking at the bio- data of all the directors of these firms. Kenya is an interesting contextual case being a developing economy with a changing governance landscape in its corporate sector.

The Kenyan Context

Kenya is East Africa's largest economy with a GDP estimated at \$106.04 billion in 2021, with an annual growth rate of 5% and a thriving and vibrant stock exchange (Waweru *et al.*, 2019), the Nairobi Securities Exchange (NSE) regulated by the Capital Markets Authority (CMA). To enforce compliance, NSE works with CMA and the Central Bank of Kenya to ensure that they comply with the Code of Corporate Governance Practices for Issuers of Securities to the Public (2015). The code emphasized the role of the board and the formation of board committees, ownership-related issues, their rights, and top management. Kenya's notable attempts at CSR-related legislation include the Kenya National Environment Action Plan, CSR guidelines issued by the Kenya Bureau of Standards (KEBS), and legislation focusing on employee-related CSR issues. The Companies Act of 2015 expects companies to disclose their social activities, environmental, occupational health and safety and workforce management policies and practices to stakeholders in their annual reports. As a result, most Kenyan listed companies have recognized the importance of CSR, particularly the publication of this information in annual reports.

Theory and Hypothesis Development

According to the resource dependence theory, boards of directors are viewed not just as monitors of management but as suppliers of resources to the firm (Bryant and Davis, 2012). The theory proposes that directors' social capital has the potential to supply resources to boards (Pfeffer and Salancik, 1978), and emphasizes the idea that relationships within boards allow them to gain access to resources that are critical to achieving competitive advantage (Adler and Kwon, 2002). Board social capital facilitates the flow of information and resources within the board by exchanging knowledge and other capabilities, resulting in superior access to information and equipping the firm to deal with societal and stakeholder challenges (Johnson *et al.*, 2013; Ramon-Llorens *et al.*, 2019). Specifically, co-working experience of board members is likely to provide valuable resources for a board to improve CSR disclosure.

Social capital theory refers to investment in social relations as to generate returns (Lin, 2001) and attributes social capital to goodwill that others have toward the focal person (Adler and Kwon (2002). It has also been defined as an individual's ability to access resources through a network of relationships (Chen, 2014). Ties within the board that represent members' social capital (Maman, 2001) support this social capital perspective on influence that emphasizes connections with others on the board as important factors in the group dynamics of board decision making (Stevens and Radin (2009). Because boards are primarily decision-making bodies with board members as the primary actors, their social capital is created through relationships with others (Coleman, 1990), which necessitates a high level of cooperation, communication, and shared understanding among board members in order to build trust, collaboration, and cohesiveness, all of which are essential if they are to be effective in their role. This is made even more relevant by the fact that most boards are made up of independent directors who, unlike internal directors, have never worked together before. This means that internal ties must first be strengthened in order to break down the barriers and increase the levels of trust between directors (Stevenson and Radin, 2009) and commitment necessary for consensus. Even if the board consists of highly qualified and experienced directors with high levels of human capital and other productive forms of external social capital (Ramon-Llorens *et al.*, 2019), we believe that they still require this critical internal social capital to push the deployment and utilization of these available resources in order to make useful strategic decisions.

Board Internal Social Capital

The most basic element of board processes is the social capital built by way of board members interacting with each other. Internal social capital consists of the links between the board directors, focusing on the internal characteristics that contribute to the cohesiveness that allows it to pursue its collective goals (Adler and Kwon (2002). All board processes rely on the social interactions among directors with the different board processes only occurring if and when two or more individuals interact with each other. Therefore, this concept represents the most appropriate approach for analyzing the board's ability to function as a unit and to perform its roles in such a way that positive firm outcomes, such as the decision to report its CSR activities, are achieved. It has been demonstrated that interactions are a key predictor of group performance (McGrath 1984), with benefits including improved problem solving, increased productivity and efficiency, and improved goal achievement (Tziner and Vardi 1983). Hence, higher levels of internal social capital within the board as a result of these number of relationships between board members, and the strength and nature of these relationships, may lead to not only improved communication and trust between its members but also the sharing of experience and knowledge of the others (Kim and Cannella, 2008). As a result, boards with high levels of internal social capital are expected to function effectively as a group. According to some researchers, the directors' experience of serving together on the board or on the same committee allows board members to become

acquainted with the other members and their skills and personal qualities (Kim, 2007; Valenti and Horner, 2010). Because decision-making on boards of directors requires a diverse set of directors to get the most out of each individual's resources, high levels of internal social capital may improve the board's ability to perform its various roles. The study therefore propose:

H₁. Board internal social capital is positively associated with CSR disclosure

METHODOLOGY

Sample and Data

The study considered all listed firms in Kenya from 2009 to 2021. The study period was deemed appropriate because the Nairobi Stock Exchange Limited changed to Nairobi Securities Exchange Limited in 2010 to support trading, clearing and settling of all types of securities, specifically allowing the listing of debt instruments. The sample was selected using inclusion and exclusion criteria; all the firms had board social capital data for all the years under study. Firms which had been delisted or suspended were not included in the study sample. After applying the inclusion/exclusion criteria, the final sample comprised of 56 listed firms yielding 639 firm-year observations. Data for this study were collected using the content analysis technique by scoring each firm's CSR disclosures in the audited annual reports for the study period.

Measurement of Variables

The study utilized several variables. The dependent variable CSR disclosure (CSR score) is measured by using a composite index of three CSR disclosure categories (environment and product quality, community development and human resource) consisting of a total of 34 items. We follow previous studies to construct this checklist (Haniffa and Cooke, 2005; Khan et al., 2012) comprised of environmental disclosure (11 items), community disclosure (11 items) and human resource disclosure (12 items). The CSR disclosure index (CSRDI) considers quantitative disclosure measured by the number of sentences with the targeted disclosure item. The measurements with the different categories are shown in Table 1.

Table 1: Dimensions and Categories of CSR

Dimension of CSR	Disclosure Category
Environment and Product Safety (11 Items)	Pollution control, Tree Plantation, Conservation of natural resources, Energy efficiency of products, Water discharge or management information, Solid waste disposal information, Recycling plant of waste products, Installation of biomass processing plants, Product Quality Disclosure and Product Safety.
Human Resource (12 Items)	Employee Diversity, Employment for the afflicted areas, Hiring Discrimination rights/Non HIV Screening etc., Employee health and safety, Employee training and education, Employee benefits, Employee/Staff, Welfare/Maternity etc./Funeral, Award program for employee or scholarship for child of workers, Employee Recreation/Teambuilding etc., Employee and management relation and Charity program.
Community Development (11 Items)	HIV/TB/COVID19 assistance related activities, Education facilities for needy areas/or related school programs, Support to organization working with physically challenged children/persons, Sponsor for Sport, Art & Cultural program, Cash donation program for disaster people by calamities such as floods, post-election violence, terror attack, pandemics, Beautification activities, Information pertaining to school fees programs for needy students, Information in establishment and management of, children's homes, Information pertaining to accommodation for the slum-dwellers, Disclosure relating to women's rights and anti FGM practices, Grants to Public Universities/other institutions.

Control Variables

Several control variables are incorporated in the study based on previous studies. Various studies have indicated a positive link between firm size and CSR reporting (Nawaiseh, 2016; Bhatia and Tuli (2017), Ting 2021). Firm profitability has also been shown to have a positive association with CSR reporting (Sial 2018; Fahad, 2020). Firm profitability is measured as return on assets (ROA) which is the ratio of net operating income divided by total assets (Bhatia and Tuli, 2017). Some studies have also found that older firms are more likely to disclose CSR information than younger firms (Habbash, 2016) while others have found a negative impact (Fahad and Nidhesh, 2020) and a few have had inconclusive findings (Mahmood and Orazalin, 2017). Firm age in this study is measured as the ratio of the logarithm of the number of years since the firm was incorporated) (Fahad and Nidhesh, 2020). Board independence has also been found in some studies to influence CSR reporting (Fernandez-Gago and Cabeza-Garcia, 2018). Board Independence is measured in this study as the ratio of independent directors to total number of directors on the board (Mahmood and Orazalin, 2017). The final control variable considered for the study is board size. Some studies have showed that larger boards tend to disclose more information than smaller ones (Pucheta-Martinez, 2019). We measure board size by the total number of directors on the board.

Research Model

This study empirically tested the possible link between the board social capital and CSR reporting among listed firms in Kenya. In order to achieve this, the study employs multiple regression models to estimate the coefficients for the variables in the model. The coefficients are then used to test the suggested hypotheses. The research model is shown below:

$$CSR_{it} = \beta_0 + \beta_1 IS_{it} + \beta_2 FS_{it} + \beta_3 FP_{it} + \beta_4 BS_{it} + \beta_5 FA_{it} + \beta_6 BI_{it} + e_{it}$$

CSR_{it} is CSR reporting, BIS_{it} is the board internal social capital, BS_{it} is the board size, FA_{it} is the firm age, FS_{it} is the firm size, FP_{it} is the firm profitability, BI_{it} is board independence, e_{it} is the error term, β_0 is the intercept, β_1, \dots, β_n are the beta-coefficients, “i” is the cross-sections and “t” is the period (2009 to 2021).

RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 2 shows descriptive statistics. The CSR_{it} mean is 0.401, implying a relatively low level of CSR disclosure among listed firms in Kenya. However, the standard deviation of 0.209 shows that the divergence in reporting among firms is high. This is corroborated by the minimum value of 0.012 and the maximum value of 0.879. Board size has a mean of 8.540 and a standard deviation of 2.744 meaning that boards in Kenya have an average of about 8 members. The mean board independence is 0.767 and its standard deviation is 0.173; therefore, Kenya’s boards of listed firms can be considered generally independent. Firm size has a mean value of 7.105 and its standard deviation is 0.930. Firm age has a mean value of 3.078 and its standard deviation is 0.927 and ROA with a mean of 0.111 and a standard deviation of 0.173.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
CSR	639	0.401	0.209	0.012	0.879
Board Relations	639	2.419	3.232	0	22.009
Firm Age(ln)	639	3.078	0.927	0	4.234
ROA	639	0.111	0.173	-0.775	1.011
Firm Size	639	7.105	0.930	4.049	9.358
Board Size	639	8.540	2.744	3	16

Correlation analysis

The pairwise correlation matrix of the study variables is shown in Table 3. Board relations was found to be positively and significantly related to CSR reporting

The control variables of firm size and board size had a positive and significant correlation with CSR disclosure but firm age and firm profitability as measured by ROA, had no significant correlation with CSR reporting.

Table 3: Pairwise Correlation

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) CSRI	1.000					
(2) Board_Relations	0.733 (0.000)	1.000				
(3) Firm_Age (ln)	-0.009 (0.818)	0.038 (0.335)	1.000			
(4) ROA	0.006 (0.883)	0.095 (0.016)	-0.029 (0.463)	1.000		
(5) Firm_Size	0.348 (0.000)	0.242 (0.000)	-0.129 (0.001)	0.039 (0.321)	1.000	
(6) Board_Size	0.507 (0.000)	0.446 (0.000)	-0.212 (0.000)	0.128 (0.001)	0.423 (0.000)	1.000

Diagnostic Results

Since we used regression analysis to test the effect of board social capital on the level of CSR disclosures it was necessary to test assumptions underlying the regression model for Multicollinearity, normality, autocorrelation, constancy of variance and panel Stationarity. From the results presented in Table3 and based on a correlation matrix and the variance inflation factor (VIF), none of the variables had a VIF value in excess of 10 (Neter *et al.*, 1983), implying that Multicollinearity is not a problem in interpreting the regression result. Normality, constancy of variance, autocorrelation and endogeneity tests all had p values greater than 0.05, meaning that the regression assumptions were not violated. Lastly, there was no evidence of non-Stationarity as indicated by the significant p value in the Dickey-Fuller unit-root test.

Table 3: Diagnostic Results

Test	Null hypothesis	Test statistic	Prob.	Remark
Jarque-Bera normality test	H ₀ : normality	4.69	0.096	Fail to reject H ₀
Breusch-Pagan / Cook-Weisberg test	H ₀ : Constant variance Variables	1.46	0.226	Fail to reject H ₀
Wooldridge test for autocorrelation	H ₀ : no first-order autocorrelation	27.67	0.952	Fail to reject H ₀
VIF for multicollinearity		1.27	VIF was less than 10 hence no presence of multicollinearity	
Durbin-Wu-Hausman	H ₀ : no endogeneity	0.02	0.8924	Fail to reject H ₀ hence no endogeneity problem
Fisher-type unit-root test Based on augmented Dickey-Fuller tests	H ₀ = panels contain a unit root	All p values less than 0.00		Reject H ₀

Regression Analysis

Table 4 sets out the results of the effect of hypothesized variables on the level of CSR disclosure using two data estimation models; the generalized method of moments (GMM) and the fixed effect (FE). The fixed effects model is preferred according to the results of the hausman test while GMM is used as it is robust to violations of regression assumptions unlike the random or fixed effects estimators and thus yields unbiased coefficients (Tunyi *et al.*, 2019). The results show that co-working experience has a positive and significant effect on CSR disclosure; this implies failure to reject H₁ consistent with the argument that the internal social capital of the board as measured by the interaction among directors is supported. The findings are consistent with previous studies (Ramon-Llorens and Garcia-Meca, 2018; Ruguera-Alvarado and Bravo-Urquiza, 2021; Maswadi and Amran, 2022).

With regard to the control variables, the study established that firm age was positively and significantly related to CSR reporting suggesting that older firms are more likely to disclose their CSR activities. The results are in agreement with (Andrew *et al.*, 1989, Al-Gamrh and Al-Dhamari, 2019) but conflict with the findings of Khairredine *et al.* (2020) who found a negative association and Hossain and Reaz (2007) who reported an insignificant relationship.

The findings indicate that firm performance has a significant although negative effect on CSR reporting which conflicts with the findings of Sial *et al.*, (2018) who found a negative effect. Firm size has a positive and significant influence on CSR reporting. The results agree with those of earlier studies (Siregar and Bachtiar, 2010; Khairredine *et al.*, 2020) but contradict those of Bayoud *et al.*, (2012) who found no association. This suggests that larger firms report their CSR more.

Table 4: Random Effects Regression

CSRI	Coef.	Std. Err.	t-value	p-value	[95% Conf. Interval]		Sig
Board Relations	.027	.002	16.35	0	.024	.03	***
Firm Age	.051	.009	5.43	0	.032	.069	***
ROA	-.108	.028	-3.91	0	-.162	-.054	***
Firm Size	.03	.007	4.15	0	.016	.045	***
Board Size	.008	.003	2.75	.006	.002	.013	***
Constant	-.09	.059	-1.54	.125	-.206	.025	
Mean CSRI		0.401		SD CSRI		0.209	
R-squared		0.464		Number of obs		639.000	
F-test		100.023		Prob > F		0.000	
Akaike crit. (AIC)		-1619.486		Bayesian crit. (BIC)		-1592.727	

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 5: Fixed Effects Regression

CSRI	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]		Sig
Board Relations	.029	.002	18.27	0	.026	.032	***
Firm Age(ln)	.036	.008	4.36	0	.02	.052	***
ROA	-.107	.027	-3.97	0	-.16	-.054	***
Firm Size	.033	.007	4.79	0	.019	.046	***
Board Size	.011	.003	4.11	0	.006	.016	***
Constant	-.093	.057	-1.62	.105	-.205	.019	
Mean dependent var		0.401		SD dependent var		0.209	
Overall r-squared		0.561		Number of obs		639.000	
Chi-square		563.509		Prob > chi2		0.000	
R-squared within		0.460		R-squared between		0.587	

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 6: GMM Regression

CSRI	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
L.CSRI	.221	.141	1.57	.122	-.061	.503	
Board Relations	.011	.005	2.44	.018	.002	.021	**
Firm Age(ln)	-.006	.023	-0.24	.809	-.051	.04	
ROA	-.072	.048	-1.49	.142	-.168	.025	
Firm Size	.058	.026	2.18	.033	.005	.11	**
Board Size	.006	.008	0.78	.436	-.009	.021	
Year Dummies	yes	yes	yes	yes	yes	yes	
AR(1) :	p-value = 0.017						
AR(2) :	p-value = 0.667						
Hansen test :	p-value = 0.411						
Mean dependent variable	0.420		SD dependent var		0.208		
Number of observations	527.000		F-test		16.841		
Number of instruments	70						

*** $p < .01$, ** $p < .05$, * $p < .1$

CONCLUSION

This study contributes to the discussion on the relevance and impact of social capital as an explanatory variable. Since it widely accepted among scholars that social capital is a fundamental factor that can impact many outcomes the study results presented evidence suggesting that board relations have a substantial effect on CSR disclosure engagement. This is of particular significance with regard to the proposition that board members with particular information and knowledge that they gain through relationships is crucial in creating the necessary social capital to drive the CSR disclosure agenda of a firm. The results of the study are also consistent with the findings of Macus (2008) who contends that the interactions that occur within boards endow the group with task-solving potential which functions as an enabling factor for the potential of the board. It also agrees with the finding of psychological research that the availability of expertise in a group does not guarantee the use of that expertise but instead, the interactions that occur in the group determine to what extent a board's expertise is put to productive use (Jackson, 1992).

Finally, in line with social capital theory, this study proposed that board members develop intra-organizational social capital by interactions amongst each other. The argument in the study is that this can be tapped into as sources of strategic advantage for benefiting the CSR disclosure agenda. The results of this study are consistent with social capital theory (Adler & Kwon, 2002) which provides the conceptual backdrop for this argument, having established that given a certain board task or problem, the board's interactions determine to what extent its problem-solving potential inherent in board relations is realized. The study therefore confirms the notion that as boards learn how to address various simultaneous tasks that change in relative importance over time, they can develop the ability to configure their various board resources dynamically by adapting their patterns of interactions as a strategic resource to influence the firms CSR disclosure.

However, the study had some limitations. The use of our proxy CSR is one of the research's main limitations. Although we genuinely think this measure is dependable, we are concerned about the potential bias it may contain, because the final assessment is influenced by the person who processes the information. However, to the best of our knowledge, our proxy is the best alternative CSR proxy. The scope of the study should be expanded in future research to include the quality of CSR reports. Furthermore, while the study made every effort to categorize and extract CSR information from annual reports, determining their authenticity were beyond the scope of this study. Future researchers could also broaden the study sample by conducting a longitudinal study with non-publicly traded companies. There is also a need to investigate integrated reporting, which is a step ahead of CSR reporting. A study with the same variables but in different contexts is suggested.

Conflict of Interest

The authors declare no conflict of interest.

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