# BOARD DIVERSITY AND SOCIAL RESPONSIBILITY: THE CASE OF JORDANIAN COMMERCIAL BANKS

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## Abstract

This paper examines the impact of the board diversity on firms' corporate social responsibility (CSR) performance. Using a sample of 13 Jordanian commercial banks listed at Amman Stock Exchange (ASE) during the period 2005-2014, the study finds that board diversity measures, namely: board size, gender, age, education; nationality and independence are positively associated with CSR performance. At the same time, the existence of institutions' representatives was found to be negatively affecting the social participation of banks. This paper provides a substantial contribution to the existing research studies that tackle CSR not only in Jordan but also in the region by introducing female directors, as it suggests that the quotas for women participation should be increased. The results are considered important to policymakers, government regulators, potential investors and CSR agencies.

**Keywords:** Board Diversity, Corporate Social Responsibility, Corporate Governance, Board of Directors, Board Gender, Commercial Bank, Jordan

## 1. INTRODUCTION

During recent years there has been increasing recognition of Corporate Social Responsibility (CSR) across a range of disciplines. Corporate social responsibility (CSR) is a general business technique which is involved with the sustainable development and stabilization of the economy, environment and social domains (Rao & Tilt, 2016). In other words, it refers to firms taking responsibility for their impact on the society (Gray et al., 1987).

In recent years, demand by firms regarding corporate responsibility values, principles and practices has increased. For example, many international standards have been developed towards promoting firms to reveal their strategies and activities in this regard such as the United Nations Global Compact and the Global Reporting Initiative (GRI). A report conducted by Mercer (a global consulting leader) showed that about 46% of investors take into consideration the social, environmental and corporate governance when making investment decisions. In addition, a report prepared by McKinsey declared that investors are willing to pay a premium of up to 14 percent for well-governed firms (Fombrun, 2006).

In the Banking sector, corporate responsibility has become more intensely examined since the beginning of the 2007/2008 credit crunch (Matten, 2006; Money and Scheper, 2007; Gill 2008 and Grove et al., 2011). Since then, the awareness for corporate social responsibility (CSR) under the umbrella of corporate governance has become increasingly popular among banks, as it allowed them to manage their operational risk and enhance the public confidence in the financial system.

However, despite the large body of research examining the composition of the board of directors within literature, the impact of board diversity on banks' social responsibility performance remains a relatively under-researched area. Previous studies had discussed corporate governance and corporate social responsibility separately. The reason for this is because there were unrelated accountability models, reporting standards and guidelines (Bhimani and Soonawalla, 2005). However, recent research papers suggest that CSR reporting is actually related to corporate governance and that CSR has a positive impact on investors' insight not only in terms of firm's performance but also in terms of increasing firm's value and mitigating firm's risk. Accordingly, CSR was found to be significantly affecting the profitability and share price of firms and earning per share (Simpson & Kohers 2002; Scholtens 2008; Godfrey et al., 2009; Ghoul et al., 2011; Salama et al., 2011 and Lourenco et al., 2012).

In addition, the wide-ranging CSR reporting could reduce the information asymmetry among investors and managers, and support the supervision and control of directors. Therefore, the effectiveness of the board of directors is anticipated to encourage corporate social responsibility reporting (Jamali et al., 2008). In addition, the holdings of large owners have a positively significant relationship with leverage (Yaseen, 2015) and increase the dividend yields (Al Amarneh, 2014).

This paper adopts a qualitative research methodology in order to examine the likely effect of board diversity on corporate social responsibility CSR of commercial banks in Jordan. The significant contribution of this paper is driven from the importance of banking sector itself since the financial sector in Jordan is considered as one of the largest sectors and a key pillar that influences economic growth and the overall development process, not only economically but also socially. As a matter of fact, the financial sector in Jordan represents nearly 44% of the market capitalization and 80% of total assets in 2016. In addition, through their traditional functions banks play a significant role by linking the other numerous sectors in order to promote economic activities.

The remainder of this paper is organized as follows. Section 2 discusses previous literature related to the problem. Section 3 introduces the proposed methodology and variables; the data, results, and discussion are presented in Section 4 and 5 and finally, Section 6 concludes the paper.

## 2. LITERATURE REVIEW

Corporate Social Responsibility (CSR) has become a central corporate governance issue in the last three decades. For instance, CSR is examined largely in the context of developed countries such as the European Union, United States and Australia (i.e., Ernst and Ernst, 1978; Guthrie and Parker, 1990; Mathews, 1997; Gray et al., 1995; Adams et al., 1998). Many studies have examined the CSR in the developed countries. For example, Harjoto and Jo (2011) found that companies use corporate governance mechanism and CSR, to diminish the conflict of interests between directors and stakeholders by using a wide sample of companies within Russell 2000, S&P 500 and Domini 400 indices during the period from 1993 to 2004. They conclude that the choice of CSR is positively correlated with corporate governance features such as board’s freedom and institutional ownership and that the CSR positively affects firm's operating performance besides firm's value. These results are in the line with the conflicts resolution hypothesis.

Another academic review of CSR yields the same results, Dias at el., (2017) used the stakeholder theory to discover how corporate governance affects CSR during the financial crisis; they used data for 51 Portuguese listed firms. They document that CSR is influenced positively by industry type and the firm's size. Moreover, they conclude that the board size and the CEO duality have a positive and strong impact in CSR. Furthermore, the researcher reveals that the effect of corporate on CSR is more pronounced in closely held firms.

The relationship between corporate governance and CSR is also confirmed on other data set. Eding and Scholtens (2017) examined how CSR relates to firms, investors and shareholders proposals, they used data for 250 US Fortune during 2011-2014, and they investigated the effect of shareholders proposals on social, governance and environmental issues. They indicated that the possibility of getting a shareholder's proposals is positively related to CSR. However, there is no evidence revealed that the outperformance of SCR would affect the possibility of shareholder filing proposals.

The context of corporate governance in emerging markets is radically different from developed markets. Unlike in developed economies, corporate governance in emerging markets can be characterized as having weak shareholder protection. In other words, emerging markets are experienced a relatively large separation of control rights and cash flow rights by insiders and weak legal protection of outside shareholders. For example, Khan et al. (2013) examined the association between corporate governance CSR disclosures by using a data for Bangladeshi firms. They adopted a legitimacy theory structure in order to recognize to what extent that corporate governance features might affect CSR, the study revealed that CSR disclosure has negative effect on managerial ownership, but also, they found that foreign and public proprietorship, board independency besides the existence of auditing committee have a positive and significant impact on CSR disclosure. On the other hand, there is no significant impact of CEO duality.

Another researcher such as Belal and Cooper (2011) also documented that Bangladeshi firms mostly stay away from captivating corporate social responsibility actions like poverty reduction, child labor and equals opportunity. In Jordan Ghabayen et al. (2016) studied the effect of board characteristics on corporate social responsibility by using a sample of 14 Jordanian banks during the period 2004-2013, they indicated that Jordanian banks have low levels of disclosures, they also found a correlation between the board's size and high level of disclosure. Moreover, they discovered that the gender factor does matter in the above-mentioned relationship and that female directors have a negative impact on the levels of disclosures.

## 3. RESEARCH METHODOLOGY

The aim of this study is to examine the influence of board diversity on the corporate social responsibility (CSR) by using a sample of 13 Jordanian commercial banks listed in Amman Stock Exchange (ASE) during the period 2005-2014, the data were gathered from bank's annual reports. Accordingly, we conclude up with 130 observations for each variable. The gathered data consisting of the main characteristics of bank's board of directors alongside the data that related to the payment for corporate social responsibility initiatives.

We developed our model based on the previous research literature that had examined the relation between CSR and board structures and features including the board size, independency, nationality, gender, level of education and the level of age (Bukair & Abdul Rahman, 2015; Lepton & Lorsch, 1992; Jensen, 1993; Soares at al., 2009; Williams, 2003; Bernadi et al., 2006; Schipper, 1981; Bradbury, 1991; Haniffa and Cooke, 2005; Nollet, 2016; Fernandez, 2016).

We, therefore, proposed the following set of research testable hypotheses:

*H1:* Board size significantly affects the CSR participation.

*H2:* Gender diversity significantly affects the CSR participation

*H3:* Age diversity significantly affects the CSR participation

*H4:* Nationality diversity significantly affects the CSR participation

*H5:* Education diversity significantly affects the CSR participation

*H6:* Board independency significantly affects the CSR participation

*H7:* Member type diversity significantly affects the CSR participation

*H8:* Bank size, bank profitability, and liquidity significantly affect the CSR participation.

## 3.1. Variables definitions and measurements

### 3.1.1. Dependent variable

*Corporate Social Responsibility (CSR).* A considerable number of papers explored occurrence and nature of the disclosure of CSR, in terms of the overall its relationship to firm's size, performance, and profitability. Gray, et al. (2001) delivers a general review of the previous studies that investigated the relationship between environmental and social disclosure and the firm's features, he ended that the significant literature stated that environmental and social disclosure is very imperative phenomenon that used through firms for several determinations. CSR commonly measured by constructing a checklist tackling different dimensions such as; employees, community, customer relations and environmental dimension (Weber, 1990).

This study used the same mechanism by collecting data during the period 2005-2014 for commercial banks that operated in Jordan. We find that CSR of banks is categorized in two dimensions; humanitarian and disaster relief, education, environmental, health, sport, arts, cultures, and another category. The other dimensions are including the participation of banks in communities and environmental activities other than those listed in details. The amount of money paid for each category was collected and related to the net income of the bank for a specific year. A list of percentile figures for each category, for each bank, for each year was prepared (art & culture%, education%, national fund%, health%, humanities%, sport%, environment% and others%), beside the total amount paid for all community and environment dimensions as a percentage of net income (CSR participation).

### 3.1.2. Independent variables

Following the prior empirical studies that examined the effect of board diversity on corporate social responsibility CSR participation of the bank, this study used some characteristics variables to predict the diversity of the board, which is illustrated as follow:

*Board size (Board DSIZE),* similar to the literature, board size is measured as the total number of members in the boardroom. (Yermach, 1996; Kiel and Nicholson, 2003; Abdullah, 2004; Coles et al., 2008; Chen & Nowlland, 2010; Ghabayen 2012; Almatari, 2012). On the other hand, Cheng and Courtenay (2006) discovered that the board size has no influence, although Said et al. (2009) discovered weakly relation between CSR reporting and board's size.

*Gender diversity (FEMALE MEMBER),* the presence of female on boards becomes an integral and important issue in the preceding researchers, since they have suggested that the existence of female directors on boards will increase the levels of charitable giving as a mean to support the society especially during the crisis, and increase the concentration to CSR concerns (Coffey and Wang, 1998; Wang and Coffey, 1992; Williams, 2003; Ayuso and Argandona, 2007). Besides Al Amarneh (2017) presented the importance of increasing the level of female participations in boards. Following the literature gender diversity presented by giving a code of "1" for those board with at least one female on board at a given year (i) for a bank (j).

*Age diversity (YOUNG MEMBER),* the age of directors has not been used comprehensively in the studies, few papers had concerned this variable, and however, Post et al. (2011) found that environmental and social disclosures were high with boards including younger members. The findings are in line with Webb (2004). This paper presented the age by giving a code of "1" for those board with at least one member with age less than 50 years at a given year (i) for a bank (j).

*Nationality diversity (FOREIGN MEMBER),* furthermore, following Ruigrok et al. (2007), Ayuso, and Argandona (2007) that argued that foreign members in board offer more diversity in terms of views and perspectives, which in turn, improve the decision were making practices. While Barako & Brown (2008) affirmed that there is no relationship between nationality diversity and CSR. This paper presented nationality diversity by giving a code of "1" for those boards with at least one Non-Jordanian member in the board at a given year (i) for a bank (j).

*Education diversity (EDUCATED MEMBER),* the skill level of boards is essential for successful management since they are in charge of the implementation and determine the corporate strategy. Lybaert (1998) found that a positive relationship between firm's performance and board's level of education, while Power (1991) found a negative relationship. This paper is considering the level of education as it represents the different backgrounds of the members and considered the percentage of highly qualified members who has a postgraduate degree.

*Board independency (INDEPENDENT MEMBER),* board independency is anticipated to achieve a monitoring role guaranteeing that investor's benefits are considered once subject to board's decisions. On the other hand, the correlation between the CSR and board independency is unclear. (Cheng and Courtenay, 2006; Huafang and Jianguo, 2007; and Donnelly and Mulcany, 2008) found a significant and positive while (Eng and Mak, 2003; Barako et al., 2006) found a negative relationship. In this paper, this variable presented by the percentage of the independent member of the board estimated by capture the number of independent members then divided it by the total number of board members. In fact, independent directors are effective in reducing the conflicts of interests among parties; also independent directors are expected to perform at greatest benefits of investors and shareholders interest.

*Member type diversity (INSTITUTION MEMBER),* the structure of a firm's ownership has a vital role in influencing firm's performance. Krivogorsky (2006), found that a firm's capital structure would have a significant and positive impact on firm's performance. In our study, we represented member type by the existence of a representative (on or more) for a different type of institutions that hold a significant percentage of shares. Therefore, they have a substantial voting power which leads them to take an important role in the boardroom. Type diversity is presented by the percentage of institution's representative founded in the boardroom.

### *3.1.3. Control variables*

In order to avert any model misspecification, control variables were added, which expected to have an impact on CSR disclosure, which defines as follows:

*Bank Size,* (SIZE), large firms are estimated to contribute further to CSR activities. Many kinds of literature found a significant and positive relation between firm' size and CSR disclosure (Johnson, 1999; Haniffa & Cooke, 2005; Ghazali, 2007; Said et al. 2009; Oh et al., 2011; Sharif &Rashid, 2013). This variable is estimated by calculating the natural logarithm of total assets.

*Profitability* (ROA) is the ability of firms to create earnings that would maintain its development over years. Belkaoui and Karpik (1989) argue that CSR is predicted to be highly profitable as they have the essential component of doing well. While other researchers argued that investing in CSR might raise firm's costs and reduce its profit (Balabanis et al., 1998). In addition, Campbell (2007) found that weak firm's performance is likely to experience losses and increase risks, Campbell's argued that directors have to engage largely in social activities among creating more opportunities that increase firm's profits and the financial situation.

*Liquidity* presented by the ratio of cash and investments to total deposits is used also as a control variable since, Subramanian et al. (2016) examined the relationship between the different types of block holdings, the levels CSR disclosures and liquidity, he found that while insiders block holding increase the trading and reduce liquidity. Ghabayen et al. (2016) examined the impact of board characteristics on the level of CSR disclosure by using a set of Jordanian banks, his results indicated a positive and significant correlation between the liquidity ratio proxied by capital adequacy ratio and CSR.

## 4. DATA AND SUMMARY STATISTICS

Data related to the board of director diversity and social responsibility participation extracted from the published annual reports by all commercial banks listed in Amman Stock Exchange (ASE) and the annual report prepared by the banks. Figure (1) presents the growth in total social responsibility performance during the period from 2005 to 2014. The figure shows that banks increase their awareness about their responsibility toward the society and the peak was in 2011. In fact, in Jordan the financial sector starts influenced by the 2008 world financial crisis obviously after 2010; as a result, the Central Bank of Jordan CBJ became aware of the social responsibilities and its role in mitigating the severe consequences of the crisis. Hence, the CSR of commercial banks increased substantially after 2010. Figures in Table 1 present the annual average social responsibility participation of Jordanian banks, total amount paid, represent on average 1.582% of the net income. On average, the maximum support was for humanities and disasters relief beside the others category. The maximum percentage of social responsibility paid was 23.26 % of the net income. As figures show, the largest assistant goes to the others group while sport, institutions received the lowest support from banks.

**Table 1.** Corporate Social Responsibility statistics

| | *NET INCOME (JD)* | *Percentage payment for* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *CSR %* | *Art & culture* | *Education* | *National fund* | *Health* | *Humanities* | *Environment* | *Sport* | *Others* |
| Mean | 44,984,994 | 1.582% | 0.041% | 0.204% | 0.185% | 0.052% | 0.366% | 0.055% | 0.033% | 0.645% |
| Median | 19,738,665 | 0.913% | 0.000% | 0.016% | 0.018% | 0.000% | 0.186% | 0.000% | 0.000% | 0.031% |
| Max | 360,174,000 | 23.26% | 0.58% | 2.84% | 2.28% | 1.03% | 4.97% | 4.99% | 0.70% | 23.26% |
| Min | 1,329,749 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Std. Dev. | 74401280.6 | 2.60% | 0.11% | 0.40% | 0.34% | 0.15% | 0.73% | 0.44% | 2.21% | 0.09% |
| Observations | 130 | 130 | 130 | 130 | 130 | 130 | 130 | 130 | 130 | 130 |

Concerning the Jordanian Banks' corporate social responsibility initiatives, panel (A) in Table 2 reveals that banks CSR participation on average was 1.58 % of net income with an average value of 1.0 million JD and the maximum value of 13.0 million JD. Panel (B) shows that board size has a minimum of 6 members and maximum of 13 members, indicating that Jordanian banks fully comply with Jordanian corporate governance code; the board size shall not be less than five members and not more than thirteen members. Women present on average 3 % of the board size with a maximum presentation of 25 % in some banks and only four banks have female members in the boardroom. The foreign members present on average 37.26 % of the total board size with the maximum presentation of 84.62 % indicating that; there are 3.6 non-Jordanian members from the average board size of (10) members. The percentage of young members - those with less than 50 years old - 33.32 % of this board, indicating that about 66% of board members have a long experience and proficiency and for each 10 members in the board there is 7.8 young members with age less than 50 years. Concerning the education level, about 42.57 % of board members have a postgraduate degree in different sciences with the maximum presentation of 66.67 % indicating that board members are highly qualified and capable and from the average board size of 10 members there are 4.8 members with a postgraduate degree.

**Table 2.** Descriptive statistics for all variables used during the period (2005-2014)

| *Variables* | *Mean* | *Median* | *Maximum* | *Minimum* | *Std. Dev.* |
|---|---|---|---|---|---|
| *A. Dependent Variable* | | | | | |
| CSR participation | 1.58% | 0.91% | 23.26% | 0.00% | 2.60% |
| *B. Independent Variables* | | | | | |
| Board DSIZE | 10.45385 | 11.0000 | 13.0000 | 6.0000 | 1.624004 |
| FEMAILMEMBER | 3.47% | 0.0000 | 25.0% | 0.0000 | 6.27% |
| FOREIGNMEMBER | 37.26% | 33.33% | 84.62% | 0.00% | 27.60% |
| YOUNGMEMBER | 33.32% | 30.77% | 76.92% | 0.00% | 18.02% |
| EDUCATEDMEMBER | 42.57% | 45.45% | 66.67% | 11.11% | 16.21% |
| INDEPENDENTMEMBER | 56.71% | 54.55% | 100.00% | 0.00% | 30.85% |
| INSTITUTIONMEMBER | 45.89% | 41.43% | 92.31% | 8.33% | 20.37% |
| *C. Control Variables* | | | | | |
| BANKSIZE | 21.15961 | 21.08223 | 23.97595 | 18.908 | 1.075402 |
| ROA | 1.510714 | 1.45842 | 4.965169 | -0.16592 | 0.681016 |
| Liquidity Ratio | 66.21631 | 64.83503 | 90.81007 | 47.39331 | 10.05902 |

The dependence of the board measured by the percentage of independent members, on average about 56.71 % of the members were independent and approximately six members of the average board size (10) were independent. Nevertheless, we have to mention that not all banks have an independent director, also some commercial banks have a board with dominant independent directors; the maximum percentage of independent directors was found to be 100%. The institutional directors represent 45.89 % of the board members, i.e. 4.8 members of 10 were representing an institutional director. The number of the representative depends on the ownership of the institution. Figures in Table 2 show that all Jordanian banks have at least 0.8 institutional directors in the boardroom where some banks have a dominant institutional director, a maximum of 92 %.

Regarding the control variables, the descriptive analysis in panel C shows that bank size measured by the log of the total assets has an average value of (3,270) million JD, with minimum and the maximum value of (163) million JD and (25,900) million JD. The standard deviation of 1.075 (5,780 million JD) indicates that there is a substantial difference between banks, so we have to control for the bank size. Bank profitability presented by return on total assets (ROA) was 1.5 % on average with a maximum value of 4.96 % annually. Liquidity of commercial banks on average was 66.2 % with a std. dev. of 10 %.

Table 3 presents the correlation matrix between variables in our study. The figures show that there is a positive relationship between corporate social responsibility participation and age diversity, education diversity, board independency and bank size, while a negative relationship predicted between the corporate social responsibility participation and board size, gender diversity, foreign directors, institutional directors, bank profitability (ROA) and liquidity. In addition, the correlation among other variables is not so high, so there is no concern of multicollinearity in our analysis.

**Table 3.** Correlation matrix for main variables

| | *CSR* | *BOARD SIZE* | *WOMEN DIR* | *YOUNG DIR* | *FOREIGN DIR* | *EDUCATE DIR* | *INDEPDIR* | *INSTITUDIR* | *LNTA* | *ROA* | *LIQUIDITY* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CSR | 1.000000 | | | | | | | | | | |
| BOARDSIZE | -0.26988* | 1.000000 | | | | | | | | | |
| WOMENDIR | -0.077601 | 0.062445 | 1.000000 | | | | | | | | |
| YOUNGDIR | 0.162142 | -0.146910 | 0.18535* | 1.000000 | | | | | | | |
| FOREIGNDIR | -0.41211* | 0.52613* | 0.225093* | -0.153716 | 1.00000 | | | | | | |
| EDUCATEDIR | 0.020336 | 0.45945* | 0.081419 | -0.302106 | 0.28460* | 1.00000 | | | | | |
| INDEPDIR | 0.24600* | -0.44227* | -0.31131* | -0.26475* | -0.3304* | -0.31453* | 1.000000 | | | | |
| INSTITUDIRD | -0.137441 | 0.43545* | -0.27247* | 0.24363* | 0.3146* | -0.26616* | -0.137390 | 1.000000 | | | |
| LNTA | 0.036176 | 0.47446* | -0.048698 | 0.23624* | 0.22276 | -0.00653 | -0.19838* | 0.46418* | 1.000 | | |
| ROA | -0.46516* | 0.005387 | -0.116682 | 0.023627 | 0.05639 | -0.45783* | -0.017692 | 0.24682* | 0.04206 | 1.000 | |
| LIQUIDITY | -0.27355* | 0.41857* | -0.024551 | -0.38301* | 0.41967* | 0.38075* | -0.30715* | 0.108940 | 0.057229 | -0.06299 | 1.000000 |

*Note: * Significant at 1% ** significant at 5% ***significant at 10%*

## 5. RESULTS AND DISCUSSION

We test hypotheses H1 to H5 using variance analysis methods (t- test and ANOVA test) while the remaining hypothesis *H6* to *H9* tested using ordinary least square regression model.

To test the first hypothesis, we use ANOVA test to predict the significance of differences between means for each category of board size. Table 4 classifies the corporate social responsibility participation of the bank according to the board size.

**Table 4.** Classification of Corporate Social Responsibility performance

| *BOARD SIZE* | *Average CSR%* | *BOARD SIZE* | *Average CSR%* |
|---|---|---|---|
| 6 | 1.50% | 10 | 1.19% |
| 7 | 5.78% | 11 | 1.46% |
| 8 | 0.35% | 12 | 1.29% |
| 9 | 0.45% | 13 | 1.71% |

Figures show that as the board size increased to seven members, banks increased their participation in the social activity, but start to decrease their CSR participation as increasing the control and monitoring activity from a large number of directors in the boardroom.

Figures in Table 5 indicate that all methods used to analyze the differences in CSR participation lead to the insignificant positive effect of board size on CSR participation of the bank because of differences in board size.

**Table 5.** Analysis of variance to test the effect of board size *(H1)*

| *Method* | *df* | *Value* | *Probability* |
|---|---|---|---|
| t-test | 128 | -0.470726 | 0.6386 |
| Satterthwaite-Welch t-test* | 112.2347 | -0.601823 | 0.5485 |
| Anova F-test | (1, 128) | 0.221583 | 0.6386 |
| Welch F-test* | (1, 112.235) | 0.362191 | 0.5485 |

*Note: *Test allows for unequal cell variances*

Most of the prior studies found that female directors improve the CSR practices, quality of environmental reporting and the level of CSR disclosure, indicating that; having women in boards make the firm more socially responsible and ensure the citizenship of the firm. Figures in Table 6 shows that Jordanian banks with female directors serving on the board have a higher level of CSR performance (1.76%) and show a higher level of philanthropy and charitable giving. While those boards with only male members have a lower level of CSR performance (1.51%).

**Table 6.** Classification of Corporate Social responsibility participation based on gender diversity

| *Board Members* | *Mean* | *Std. Dev.* | *Obs.* |
|---|---|---|---|
| No Women | 0.015148 | 0.029033 | 94 |
| With Women | 0.017557 | 0.015942 | 36 |
| All | 0.015815 | 0.026035 | 130 |

The variance analysis results in Table 7 indicate that this difference in CSR participation because of gender diversity is positive and insignificant.

**Table 7.** Analysis of Variance to test the effect of gender diversity *(H2)*

| *Method* | *df* | *Value* | *Probability* |
|---|---|---|---|
| t-test | 128 | -0.470726 | 0.6386 |
| Satterthwaite-Welch t-test* | 112.2347 | -0.601823 | 0.5485 |
| Anova F-test | (1, 128) | 0.221583 | 0.6386 |
| Welch F-test* | (1, 112.235) | 0.362191 | 0.5485 |

*Note: *Test allows for unequal cell variances*

Generally, it is assumed that business experience can be only a result of age. This is not always true, and the obvious example involves the technology literacy gap. In the same manner, we can say that young directors can bring a new perspective to the table and ensure the citizenship of the firm, as the corporate social responsibility is necessary for all business nowadays. Table 8 classifies the CSR participation based on age diversity. Boards with member older than 50 years old have an average CSR participation of 0.21 % of net income while boards with younger members (less than 50 years old) participate on average with 1.78 % of their income for social activities.

**Table 8.** Classification of Corporate Social Responsibility performance based on age diversity

| *Board Members* | *Mean* | *Std. Dev.* | *Obs.* |
|---|---|---|---|
| Older than 50 years | 0.002164 | 0.002714 | 17 |
| Younger than 50Years | 0.017869 | 0.027333 | 113 |
| All | 0.015815 | 0.026035 | 130 |

Moreover, the variance analysis results presented in Table 9 reveal that young boards make the bank more socially responsible and encourage the management to involve more in social activities.

**Table 9.** Analysis of variance to test the effect of age diversity *(H3)*

| *Method* | *df* | *Value* | *Probability* |
|---|---|---|---|
| t-test | 128 | -2.359459 | 0.0198 |
| Satterthwaite-Welch t-test* | 123.4469 | -5.916838 | 0.0000 |
| Anova F-test | (1, 128) | 5.567046 | 0.0198 |
| Welch F-test* | (1, 123.447) | 35.00897 | 0.0000 |

*Note: *Test allows for unequal cell variances*

Concerning the nationality of the board members, we classify the board members into Jordanian and non-Jordanian members. The non-Jordanian members have negatively affected the social responsibility initiatives of the banks. Table 10 presents the average CSR participation for banks with only Jordanian members was 3.8 % of net income, while boards with at least one foreign director have an average CSR participation of 1.26 %.

**Table 10.** Classification of Corporate Social Responsibility performance based on nationality

| *Board Members* | *Mean* | *Std. Dev.* | *Obs.* |
|---|---|---|---|
| Jordanian Only | 0.038359 | 0.057125 | 16 |
| With Foreign members | 0.012651 | 0.016079 | 114 |
| All | 0.015815 | 0.026035 | 130 |

The variance analysis results in Table 11 show that national diversity presented by the existence of foreign members in the boardroom has a positive and significant effect on the CSR participation.

**Table 11.** Analysis of variance to test the effect of nationality diversity *(H4)*

| *Method* | *df* | *Value* | *Probability* |
|---|---|---|---|
| t-test | 128 | 3.896892 | 0.0002 |
| Satterthwaite-Welch t-test* | 15.33521 | 1.790243 | 0.0932 |
| Anova F-test | (1, 128) | 15.18577 | 0.0002 |
| Welch F-test* | (1, 15.3352) | 3.204969 | 0.0932 |

*Note: *Test allows for unequal cell variances*

Concerning the education diversity, regression results in Table 12 show that adding more educated members to the boardroom enhances the social participation of the commercial banks since highly educated directors may be more aware of their contribution to the society thus ensure the citizenship of the bank.

**Table 12.** Regression analysis to test the effect of education diversity *(H5)*

| *Variable* | *Coefficient* | *Std. Error* | *t-Statistic* | *Prob.* |
|---|---|---|---|---|
| BOARDEDU | 0.062272 | 0.031223 | 1.994394 | 0.0499 |
| LNTA | 0.003834 | 0.010260 | 0.373644 | 0.7098 |
| ROA | -0.030282 | 0.010653 | -2.842681 | 0.0058 |
| LIQUIDITY | -0.000628 | 0.000232 | -2.709459 | 0.0084 |
| PERCENTVOLANTARY(-3) | -0.095626 | 0.292978 | -0.326393 | 0.7451 |
| C | -0.010376 | 0.228968 | -0.045318 | 0.9640 |
| *Variable* | *Coefficient* | | | |
| R-squared | 0.581292 | | | |
| Adjusted R-squared | 0.482430 | | | |
| Durbin-Watson stat | 2.383920 | | | |
| F-statistic | 5.879848 | | | |
| Prob(F-statistic) | 0.000000 | | | |

Independent directors in the board are promoting the role of the board as a shareholders' agent. So the existing of independent directors will be more effective in terms of monitoring. Our regression results in Table 13 assure that more independent directors on the board may lead to the improvement of corporate social performance and the CSR participation of Jordanian banks.

**Table 13.** Regression analysis to test the effect of board independence *(H6)*

| *Variable* | *Coefficient* | *Std. Error* | *t-Statistic* | *Prob.* |
|---|---|---|---|---|
| BOARDDEPEND | 0.015453 | 0.007386 | 2.092111 | 0.0403 |
| LNTA | 0.004017 | 0.002343 | 1.714410 | 0.0911 |
| ROA | -0.037570 | 0.015281 | -2.458533 | 0.0166 |
| LIQUIDITY | -0.000787 | 0.000306 | -2.575691 | 0.0123 |
| PERCENTVOLANTARY(-3) | -0.004704 | 0.057429 | -0.081918 | 0.9350 |
| C | 0.024080 | 0.067380 | 0.357369 | 0.7220 |
| *Variable* | *Coefficient* | | | |
| R-squared | 0.462824 | | | |
| Adjusted R-squared | 0.422129 | | | |
| Durbin-Watson stat | 1.907156 | | | |
| F-statistic | 11.37296 | | | |
| Prob(F-statistic) | 0.000000 | | | |

Since the outside-directors will motivate the top management to consider the social in their strategy and enhance the disclosure of social activities. Many studies have shown that board independence has a positive impact on CSR participation.

The last diversity dimension is the member type diversity that predicts the social responsibility behavior of board with representative members for large shareholdings institutions.

Regression results in Table 14 reveal that institution's representative members in the boardroom minimize the social responsibility participation of the bank.

**Table 14.** Regression analysis to test the effect of member type diversity *(H7)*

| *Variable* | *Coefficient* | *Std. Error* | *t-Statistic* | *Prob.* |
|---|---|---|---|---|
| INSTBOARD | -0.011465 | 0.008308 | -1.379953 | 0.1712 |
| LNTA | 0.005474 | 0.001644 | 3.329162 | 0.0013 |
| ROA | -0.034875 | 0.012008 | -2.904238 | 0.0047 |
| LIQUIDITY | -0.000807 | 0.000277 | -2.917584 | 0.0045 |
| PERCENTVOLANTARY(-3) | 0.059867 | 0.053164 | 1.126067 | 0.2633 |
| C | 0.004328 | 0.058776 | 0.073630 | 0.9415 |
| *Variable* | *Coefficient* | | | |
| R-squared | 0.445772 | | | |
| Adjusted R-squared | 0.413170 | | | |
| Durbin-Watson stat | 1.831013 | | | |
| F-statistic | 13.67329 | | | |
| Prob(F-statistic) | 0.000000 | | | |

Because Institutions hold a significant percentage of shares, so they have a great voting power leading them to play significant monitoring role to enhance the decision-making and protect their institutions' interest.

Concerning the control variables used in this study, multiple regression analysis in Table 15 show that bank size exerts a positive and significant effect on CSR participation indicating that large banks participate more in the socially responsible activity.

**Table 15.** Regression analysis to test the effect of control variables *(H8)*

| *Variable* | *Coefficient* | *Std. Error* | *t-Statistic* | *Prob.* |
|---|---|---|---|---|
| LNTA | 0.004925 | 0.002346 | 2.099212 | 0.0387 |
| ROA | -0.035645 | 0.004726 | -7.541705 | 0.0000 |
| LIQUIDITY | -0.000793 | 0.000240 | -3.299386 | 0.0014 |
| PERCENTVOLANTARY(-3) | 0.077790 | 0.085373 | 0.911178 | 0.3647 |
| C | 0.010590 | 0.049853 | 0.212414 | 0.8323 |
| *Variable* | *Coefficient* | | | |
| R-squared | 0.440269 | | | |
| Adjusted R-squared | 0.414235 | | | |
| Durbin-Watson stat | 1.831167 | | | |
| F-statistic | 16.91129 | | | |
| Prob(F-statistic) | 0.000000 | | | |

While bank profitability measured, by return on Assets (ROA) show a negative impact on CSR participation. Previous studies indicated an inconclusive association between profitability and CSR participation; many studies argued that socially responsible firms expected to be more profitable because they have the important constituents of a successful firm. In the other hand, some others argued that investing in CSR activity might increase the cost and thus decrease the profit. Finally, liquidity ratio has a negative significant effect on CSR participation, which contradicts Ghabayen et al. (2016) finding because of differences in measurements of liquidity ratio.

## 6. CONCLUSION

Social awareness is becoming an ever-increasing issue for the public, thus; this study contributes to the literature by providing evidence from an emerging economy of how commercial banks in Jordan is participating in social activities. This paper investigates the effect of board diversity on the corporate social responsibility participation by employing data from Jordanian commercial banks listed at Amman Stock Exchange. The results revealed that all diversity dimensions investigated in our study had a positive association with corporate social responsibility participation of banks, except for the existence of institution's representative in the boardroom. The results assure that women directors are linked to better CSR performance. Hence, the right mix of skills, background, and perspective may advance the CSR participation and enhance the citizenship of banks.

Regarding the estimation of control variables, the study used two control variables namely; bank size and profitability (ROA). Larger banks involved more in social activity, while profitability and liquidity negatively affecting the CSR, indicating that board of directors in Jordanian commercial banks believe that participation in social activity minimizes the profitability and liquidity. Our findings revealed that a well-diversified board of directors can contribute to safeguarding the interest of the shareholders and stakeholders, besides encouraging bank's participation in social initiatives. The results revealed in this paper is vital for many agencies such as government regulators, shareholders, potential investors, CSR agencies as it draws a picture of what the board of tomorrow will look like.

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