

THE LINK BETWEEN CSR AND THE BOARD'S ROLE: A THEORETICAL FRAMEWORK ON NON-FINANCIAL DISCLOSURE

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Abstract

This study aims to review the main organisational theories identifying the significant roles of the board of directors in order to analyse how the board composition influences both CSR activity and disclosure. We present a literature review of the main organisational theories in order to identify their implications for non-financial information disclosure and disclosure of diversity information. The non-financial information is a tool for organisations to discharge their accountability to various stakeholder groups, allowing the organisation to legitimise its performance and manage the perception of its stakeholders and thus preserving its image and the status of legitimacy in society. Moreover, it seems that disclosing the board composition has a positive effect on corporate performance by enhancing transparency, reducing information asymmetry, discharging accountability, signalling legitimacy, and achieving excellence. The main limitation of the study is that the

findings could be generalised by applying quantitative research methods, such as a multiple case study approach, which is useful to explore the dissemination of a new phenomenon. In order to define a theoretical framework, for each theory we highlighted its implications for non-financial information disclosure and disclosure of board diversity information. The study aims to contribute to the debate on CSR by providing insights for future research.

1. INTRODUCTION

According to Gray, Owen, and Adams (2010), 'theory is, at its simplest, a conception of the relationship between things. It refers to a mental state or framework and, as a result, determines, *inter alia*, how we look at things, how we perceive things, what things we see as being joined to other things and what we see as "good" and what we see as "bad" (p. 6). Specifically, regarding social accounting, it is necessary to have theories that help us to observe, organise, and explain a series of things, such as defining what is meant by social accounting, its effects, what problems the social accounting seeks to solve, and what makes a good or bad practice of social accounting (Gray et al., 2010).

Within corporate social responsibility (CSR) accounting, a series of theories was produced concerning the motivation of companies to disclose information about their CSR activities and the explanation of why an organisation tends to disclose IC7information (An, Davey, & Eggleton, 2011; Dumay & Guthrie, 2017). In other words, theories combine different approaches and use the same terminology with different meanings (Garriga & Melè, 2004).

Many of these theories are interrelated and are part of an integrated framework based on the premise that corporate disclosure has a positive effect on corporate performance by, for example, reducing information asymmetry, discharging accountability, signalling legitimacy, and achieving excellence (An et al., 2011). In this paper, we analyse the main organisational theories that have implications for non-financial information disclosure and disclosure of diversity information.

Social accounting is an essential aspect of CSR; in fact, it is considered as a mechanism aimed at enhancing corporate accountability and transparency to stakeholders, addressing the social, environmental, and ethical values. Moreover, the establishment of the mechanisms for monitoring and controlling a company's activities falls within the responsibility of the board of directors, which, therefore, is responsible for the accountability and transparency of a company through information disclosure (Dias, Lucia Lima, & Russell, 2017). Thus, based on the relation between the board decisions and the involvement in CSR practices and related disclosure, it may be interesting to analyse how the board composition influences the CSR activity and the CSR disclosure.

The remainder of the paper is organised as follows. The next section reviews the theoretical foundations of corporate governance and CSR, highlighting the board's capability to influence the disclosure of non-financial information. The third section analyses the main organisational

theories to identify their implications for non-financial information disclosure and disclosure of diversity information. Finally, the last section presents our discussion and conclusion.

2. LITERATURE REVIEW

According to Bear, Rahman, and Post (2010), corporate governance and corporate sustainability should not be considered independently of each other. Corporate governance planning requires the implementation of sustainable goals, which provides structural measures that have repercussions on the company's establishment. Therefore, it is important to redefine the governance system that is responsible for defining and implementing corporate sustainability strategies (Van Marrewijk, 2003). Specifically, the link between corporate governance and corporate sustainability is defined as a two-way relationship. It is important that corporate sustainability governance is part of the corporate leadership, so corporate governance needs to be reconfigured and corporate sustainability has to be integrated into a company's functions transversally involving all management processes (Naciti, 2019).

CSR can be defined as an activity of companies that look beyond profits and pay more attention to transparency, ethical values, relationships with employees, and respect for the law. In other words, CSR is the strategy with which a firm expresses its identity and the actions that allow applying this identity. Based on enlarged governance, CSR has effects on the internal organisation of the company and the external context with which it is active (Arora & Dharwadkar, 2011). Specifically, the internal dimension of the company includes the management of human resources, workers' rights, health and safety at work, and the management of natural resources and environmental effects. Among these aspects, the most important field for the application of social responsibility practices is the internal management of human resources. On the other side, the external dimension on which the CSR has effects is related to consumers, local communities, suppliers and customers, and environmental, social, and human rights issues.

Based on the CSR perspective, non-financial disclosure has become fundamental because it involves broader aspects than financial accounting for shareholders, such as the different dimensions related to the social, environmental, ethical, risk, and governance aspects, which may be of interest to all stakeholders (Manes-Rossi, Tiron-Tudor, Niccolò, & Zanellato, 2018). According to Aldrugi and Abdo (2014), the importance of CSR disclosure is highlighted by different aspects; in fact, it produces many benefits for both the society in which the entity operates and the reporting entity. Moreover, a comprehensive disclosure of the CSR activities and sustainability position of a firm represents its reporting quality (Abdo & Al-Drugi, 2012). Thus, the dissemination of the transparency culture allows recovering the effectiveness of economic and financial communication.

CSR reporting aims to respond to external pressures arising from different stakeholders; in fact, it is considered as a way of communication

between an enterprise and its stakeholders, providing information about an enterprise's strategy, social policies, and CSR performance (Dumay, 2016; Dumay, Frost, & Beck, 2015; Matuszak & Rózanska, 2017). In other words, disclosing CSR information means providing information about the social and environmental aspects of the company's operations. Therefore, according to Carini, Rocca, Veneziani, and Teodori (2017), non-financial information could help managers, and other stakeholders, to make decisions more consciously.

In addition to the relationship with corporate sustainability, corporate governance allows defining how companies are organised by specifying the function, structure, and role of the board of directors. The board of directors of a firm is the body that determines policies for corporate management and makes decisions on major company issues (Naciti, 2019), so it ensures close alignment between the interests of shareholders and managers. In other words, the board is the main vehicle by which corporate governance takes place, so based on the direction of the firm's operations and decision-making, it is responsible for protecting the specific interests of stakeholders of a firm. Therefore, according to Terjesen, Aguilera, & Lorenz (2014), strong corporate governance can mitigate agency problems and encourage managers to operate properly.

Recently, the composition of corporate boards and board diversity has been a growing research field (Cucari, De Falco, & Orlando, 2018; Huse, Nielsen, & Hagen, 2009; Nielsen & Huse, 2010; Seierstad, Warner-Søderholm, Torchia, & Huse, 2017; Solimene, Coluccia, & Fontana, 2017). Board diversity can be defined as variations in the composition of the board of directors, and it may affect the effectiveness of the corporate board in a different way because it is presented as both fiduciary and advisory (Hoang, Abeysekera, & Ma, 2016).

3. THE ROLES OF THE BOARD ACCORDING TO THE MAIN ORGANISATIONAL THEORIES

In the following sections, we analyse the main organisational theories in order to identify their implications for non-financial information disclosure and disclosure of diversity information. Specifically, these theories concern the motivation that leads a firm to disclose CSR information (An et al., 2011; Dumay & Guthrie, 2017). Based on the main organisational theories, we identified the significant roles of the board of directors and described how it should be structured to deal efficiently with the relationships with the main organisational actors. In addition, in order to define a theoretical framework, for each theory we highlighted its implications for non-financial information disclosure and disclosure of board diversity information.

3.1. Agency theory

An agency relationship is defined by Jensen and Meckling (1976) 'as a contract under which one or more persons (the principal(s)) engage

another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent' (p. 308). The most commonly studied principal-agent relationships are between the shareholder and the management, the major and minor owners, and the creditor and shareholder (or management) of an organisation, categorised into three types of the agency problem (Fama & Jensen, 1983; Gilson & Gordon, 2003). Specifically, both the principal and the agent are utility maximisers, so they try to maximise their individual interests, and, consequently, their interests are not aligned; this can cause conflicts of interest, producing the agency problem, which can only be avoided if the parties fully share the same interests (Fama & Jensen, 1983; Jensen & Meckling, 1976).

According to Ness and Mirza (1991), in the agency theory field, managers tend to disclose information if it involves an increase of their benefits, which, in other words, occurs when the benefits deriving from disclosure are higher than the related costs. However, referring to the agency theory and CSR disclosure, non-financial disclosure reduces the information asymmetry between the principal and the agent, and also between shareholders and the management in the corporate context. As a result, it could eliminate agency problems and reduce opportunistic behaviour, offering to shareholders the opportunity to monitor the company (An et al., 2011).

Agency theory is among the most recognised in research on the contribution of boards (Huse, 2007). This approach provides the rationale for the board's critical function of monitoring management on behalf of the shareholders (Fama & Jensen, 1983); thus, the board needs the appropriate mix of experience and capabilities to evaluate management and assess business strategies and their impact on CSR (Bear et al., 2010).

According to agency theory, 'board contribution to organizational performance occurs by reducing agency cost arising from noncompliance of executives with established goals and procedures, by articulating shareholders' objectives and focusing the attention of key executives on company performance, and through strategic decision making and control' (Huse, 2007, p. 123). Concerning board diversity, agency theory suggests that diversity of the corporate board leads to the increase of board independence and a consequent improvement of the ability of the board to monitor management, with a positive impact on the firm's financial performance (Galbreath, 2018).

3.2. Shareholder theory

Shareholder theory treats the shareholders as the only group to which the organisation must be socially responsible because it assumes that the interests of management and shareholders are the same. According to Friedman (1970), a corporation is an artificial person, and so it may have artificial responsibilities because only people can have responsibilities, but 'business' as a whole cannot be said to have responsibilities, even in this vague sense.

From the shareholder perspective, in a private-property system with a free enterprise, a corporate executive is an employee of the owners of the business who has a direct responsibility to his or her employers to manage the business in line with their wishes. Thus, the corporate executive is an agent who serves the interests of his or her principal (Friedman, 1970) based on the deontological obligations deriving from the contract between managers and shareholders (Mansell, 2013). In other words, managers have a moral duty to maximise the value of the investment of their principals (shareholders).

Regarding non-financial disclosure, shareholders require companies to disclose information concerning their prospects for future performance and the sustainability of actual value-creation drivers. This involves effective communication about the risks that affect a firm's strategies and the actions aimed to reduce as much as possible the risk of failures and make the most of emerging opportunities (Antonelli, D'Alessio, & Cuomo, 2016). Therefore, based on stakeholder theory, an organisation pursues CSR practices in order to understand and satisfy its stakeholders.

3.3. Stewardship theory

According to Davis, Schoorman, and Donaldson (1997), 'stewardship theory defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals' (p. 21). In order to achieve collective goals, the steward tends to put in place collectivist and pro-organizational behaviours, trying to achieve the objectives of the organisation (Davis et al., 1997; Di Carlo, 2017).

According to stewardship theory, the behaviour of the executive is aligned with the interests of the principals, and consequently, there is a strong relationship between the principal's satisfaction and the success of the organisation (Davis et al., 1997; Donaldson & Davis, 1989, 1991). In fact, in maximising the shareholders' wealth, the steward also maximises his or her utility functions (Davis et al., 1997; Di Carlo, 2017). Specifically, 'the steward's opportunity set is constrained by the perception that the utility gained from pro-organizational behaviour is higher than the utility that can be gained through individualistic, self-serving behaviour' (Davis et al., 1997, p. 25).

According to stewardship theory, the main board tasks are service tasks and, specifically, collaborating strategy involvement, including mentorship. The role of boards is guiding management in achieving the missions and objectives of the enterprise (Huse, 2007). Therefore, like the agency theory, for stewardship theory, the organisation is an instrument used by the shareholder to maximise the return of his or her investment (Di Carlo, 2017). Moreover, as suggested by the agency theory, the stewardship theory explains the practice of voluntary disclosure that inspires the corporate disclosure policy regarding sustainability at the corporate level because the proportion of financial and non-financial information can reduce the information problem.

3.4. Resource dependence theory

According to Pfeffer and Salancik (1978), resource dependence theory states that the organisation is an open system, and its behaviour is influenced by external factors. It is based on the assumptions that the resources in the environment are necessary for the survival of an organisation, but the procurement process of these resources is uncertain because they are rare, valuable, and inimitable.

The acquisition of external resources needed for the organisation causes a modification of the organisation's power relations with other organisations. In fact, it leads to a decrease of the organisation's dependence on others and/or to an increase of others' dependence on it.

Moreover, resource dependence theory is based on the concept of the power that is central because it allows controlling vital resources. Organisational success is achieved when organisations maximise their power. In other words, much of the operation and structure of an organisation depend on the nature of the power relations between more organisations (Ulrich & Barney, 1984).

In recent years, numerous studies devoted to CSR adopting a vision based on resources have been conducted (Branco & Rodrigues, 2006). Specifically, 'the resources dependence perspective can be extended to consider the role of social responsibility disclosure as a signal of improved social and environmental conduct and hence reputation in those fields because disclosure influences the external perception of reputation' (Branco & Rodrigues, 2006, p. 125).

Regarding board diversity, resource dependence theory identifies critical resources that the board's function can provide to companies, including legitimacy, advice, and counsel (Pfeffer & Salancik, 1978). According to this theory, thanks to these board resources, the company is able to understand and respond to its environment, which can help it better manage CSR issues. In this perspective, cooperation and connection are two benefits for companies (Huse, 2007). Thus, directors are also valuable resources for companies' management because they help companies manage environmental interdependencies thanks to their connections with stakeholders.

Regarding the disclosure of board diversity, resource dependence theory suggests that it allows an organisation to develop its ability to obtain critical resources to cover stakeholders' claims. In this sense, board diversity can improve the disclosure of value-relevant information, enhancing strategic decisions in relation to external stakeholders (Bravo, 2018). In other words, according to resource dependence theory, diversity among directors is a fundamental resource for a firm because it allows the organisation to adopt relevant disclosure practices to stakeholders, addressing corporate social disclosure issues (Hoang et al., 2016).

In general terms, resource dependence theory recognises that the board contributions have a direct impact on a firm's CSR, such as enhancing the legitimacy and image of the firm, facilitating access to key resources, or linking the firm to important stakeholders.

3.5. Stakeholder theory

Stakeholder theory expects that managers must identify and apply processes aimed at exclusively meeting the groups that have an interest in the business of a company (Freeman, 1984). In fact, the main goal of this approach is to manage and integrate the relationships and interests of different kinds of stakeholders, such as shareholders, customers, employees, communities, and suppliers, in order to ensure the long-term success of the company (Freeman & McVea, 2001). Freeman (1984, p. 260) states that stakeholder theory enters in the CSR debate by suggesting that the managers of the corporations have a responsibility not simply to serve the general interests of society, but rather to serve the interests of the corporation's stakeholders. In conclusion, 'stakeholder theory can be used to help define the social account, first of all by informing the process of stakeholder identification, and then breaking down the general stakeholder categories into their constituent' (Freeman, 1984, p. 253).

According to Guthrie, Petty, & Ricceri (2006), 'stakeholder theory highlights organisational accountability beyond simple economic or financial performance. It suggests that organisations will elect to voluntarily disclose information about their intellectual, social, and environmental performance, over and above mandatory requirements, in order to meet real or perceived stakeholder expectations' (p. 256). Therefore, the stakeholder theory is a powerful means to explain, justify, and understand financial reporting and disclosure. In fact, management may use corporate disclosure as a tool for managing the information needs of most powerful stakeholders and manipulate them in order to obtain their support, which is necessary for their survival (Gray, Owen, & Adams, 1996). In other words, this perspective suggests that corporate governance and CSR disclosure should aim to enhance stakeholder engagement and organisational legitimacy. CSR disclosure is considered as a strategic response to society's expectations (Gray, Kouhy, & Lavers, 1995), so the development of a corporate reputation through performance and disclosure represents a strategic approach to managing stakeholder relationships (Dias et al., 2017).

3.6. Legitimacy theory

The legitimacy theory claims that the state of legitimacy is essential for the survival of an organisation because it is continually seeking to ensure that its activities respect the limits and norms of the societies in which it operates (Cuganesan, Ward, & Guthrie, 2007). Referring to the legitimacy theory, there is a 'social contract' that regulates the relation between a company and its society, with which the society expresses multiple expectations about how an organisation should conduct its operations.

According to Suchman (1995), legitimacy is defined as a generalised perception that the actions of an entity are desirable and appropriate within a social system of values, norms, and beliefs. In particular,

organisational legitimacy is not fixed but changes continuously, and thus organisations must necessarily adapt their activities to the requirements of legitimacy.

However, a legitimacy gap can threaten the legitimacy of an organisation, and it often arises when the perception of society regarding the way an organisation should act and the actions actually performed by the organisation diverge (An et al., 2011). In order to reduce the legitimacy gap, an organisation can adopt various strategies, such as informing its stakeholders on the actual change of its performance or changing the stakeholders' perceptions about its activities without changing its actual behaviour. Due to the disclosure of non-financial information, firms are able to legitimise their performance and manage the perception of their stakeholders (Cucari et al., 2018). Managers may have different perceptions of legitimacy, and so they may adopt different strategies to achieve the desired level of legitimacy. 'Organizations should voluntarily report on information that is expected by society since the compliance of societal expectations could result in continued inflows of capital, labour and customers' (An et al., 2011, p. 577).

Therefore, the public disclosure of the information would be an effective tool to apply these strategies. In this sense, 'legitimacy theory suggests that reporting is used as a communication mechanism to inform and/or manipulate the perceptions of the firm's actions' (Tilt, 2009, p. 15). CSR disclosure is able to enhance the effect of CSR on corporate reputation because it represents a signal of improved social and environmental conduct (Branco & Rodrigues, 2006). Through the legitimisation strategy, organisations try to disclose their CSR activities in order to communicate their legitimisation actions.

3.7. Signalling theory

Signalling theory deals with finding possible solutions to problems related to information asymmetry in social contexts and, consequently, reducing information asymmetry between two parties (Spence, 2002). The classic signalling model occurs in a market setting between the seller and the buyer, where the seller usually has an information advantage over the buyer about the characteristics of its services and products. Generally, buyers do not have much information about specific goods, but they may have general perceptions in purchasing that they will do. Consequently, the seller of high-quality products has an incentive to signal the quality of his or her products to the buyer for legitimising the highest selling price (An et al., 2011).

Applying the classic model in a company context, the management of a company generally has more information than investors with regard to the specific functioning of the company. Therefore, information asymmetry is created, and it does not allow investors to fully understand the quality of the company and, consequently, they cannot compare the quality of the various companies. Therefore, the high-quality company has an incentive to signal its advantages to the market, emphasising its superior quality in order to attract more investors (An et al., 2011).

Regarding non-financial disclosure, corporate disclosure has a positive effect on corporate performance by signalling legitimacy. In general terms, "annual reports are a highly useful source of data because managers of companies commonly signal what is important through the reporting mechanism" (Guthrie & Petty, 2000, p. 244).

According to signalling theory, companies that have a high quality should signal their advantages to the market. In this way, investors and other stakeholders are able to evaluate the value of the company and make decisions with greater awareness and more favourability to the company. At the same time, encouraging stakeholders, the signalling would allow a company to get more investment and reduce the costs of raising capital (An et al., 2011).

Concerning the relationship between board diversity and corporate reputation, the signalling theory expects that the board gender composition disclosure may represent a signal able to indicate that the firm is socially responsible, due to paying attention to women and minorities on a firm's board (Bear et al., 2010).

In conclusion, CSR disclosure is treated by signalling theory as a signal able to improve the organisation's corporate image, attract investors, and improve its relationships with stakeholders.

4. DISCUSSION AND CONCLUSION

In the last few years, disclosure of non-financial information has received growing attention because it could help managers, and other stakeholders, to make decisions more consciously (Carini et al., 2018). In addition to the transparency of financial activities disclosed in the annual report, stakeholders demand greater corporate accountability regarding performance, as well as social and environmental issues. In this perspective, the corporate governance is able to influence the transparency of corporate communications and disclosures, more specifically CSR disclosure (Adnan, Hay, & Staden, 2018). Thus, most companies voluntarily disclose CSR matters, obtaining corporate benefits such as better recruitment of employees, internal decision-making, corporate image, and relations with stakeholders.

Regarding the disclosure of non-financial information, the organisational theories analysed in this paper outline why organisations disclose corporate information based on the assumption that corporate disclosure has a positive effect on corporate performance by reducing information asymmetry, enhancing transparency, discharging accountability, signalling legitimacy, and achieving excellence (An et al., 2011).

There is no universal theory on CSR disclosure suitable for all kinds of organisations. Agency theory provides that CSR disclosure could reduce information asymmetry between managers and shareholders of an organisation. According to shareholder theory, non-financial information allows the organisation to enhance transparency with its shareholder, which requires information related to the sustainability of actual value-creation drivers. At the same time, stakeholder theory

considers CSR disclosure as a means for organisations to discharge their accountability to various stakeholder groups, while legitimacy theory suggests that it allows the organisation to legitimise its performance and manage the perception of its stakeholders, preserving the status of legitimacy in society (Cucari et al., 2018). Finally, based on signalling theory, CSR disclosure is a signal able to improve the organisation's corporate image, attract investors, lower capital costs, and, more generally, improve relationships with various stakeholders.

Board composition is an important determinant for CSR disclosure, since it is influenced by the choices, motives, and values of those who are involved in formulating and making decisions in the organisations (Hoang et al, 2016).

Among the organisational theories analysed, those that emphasise the importance of disclosure of board diversity are mainly agency theory, resource dependence theory, and signalling theory. They suggest that board diversity allows an organisation a) to increase the board independence, improving the board's ability to monitor management; b) to adopt relevant disclosure practices to stakeholders, addressing corporate social disclosure issues; and c) to be socially responsible, due to paying attention to women and minorities on a firm's board.

We observed that the other theories do not refer to the board diversity issue, focusing only on the board's role. In fact, recently, the roles of corporate boards have received much attention by scholars investigating what roles boards of directors actually perform and what roles they should perform (Huse, 2007).

In conclusion, we argued that based on the main organisational theories, non-financial information disclosure is a means for organisations to discharge their accountability to various stakeholder groups, allowing the organisation to legitimise its performance and manage the perception of its stakeholders, thereby preserving its image and the status of legitimacy in society.

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