The Effect of Corporate Financial Performance and Board Diversity on Corporate Social Performance

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Abstract

For the past several decades, businesses have been under the most intense scrutiny they have ever received from the public to conduct their business in a socially responsible manner. This has created a growing interest within corporations to pursue social performance. Although the direct effects of corporate financial performance on corporate social performance have been established by the Slack Resource Theory, empirical findings related to the relationship between the two concepts have been inconclusive. Thus, the current study attempts to examine the effect of board diversity on corporate social performance using the theoretical perspectives provided by the Upper Echelon Theory and the Resource Dependency Theory. While remaining in the broad quantitative domain, this study followed a multi-method approach with the aim of ensuring the validation of data through triangulation. The study was conducted in two stages, namely, study 1 and 2. In study 1, an archival research strategy was followed where the data was collected using published annual reports, while in study 2, the survey research strategy was followed where the data was collected using structured, self-administered questionnaires. The data collected from study 1 and study 2 were used to test the proposed hypothetical relationships, and they were analyzed using Smart PLS. The study finds that diversity among directors moderates the impact of financial slack resources on corporate social performance. The study further discusses the managerial implications of the findings for organizations, with the purpose of enhancing corporate social performance through slack resources.

Keywords: Financial performance, Social performance, Slack resource theory, Financial slack, Board diversity, PLS-SEM.

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