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# Effect of board- and firm-level characteristics on the product responsibility ratings of firms from emerging markets



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## Abstract

**Purpose** – Consumers have increasingly become more concerned about environmental degradation, wastage of critical resources and safety. Therefore, firms are adopting sustainability management practices to attract these conscious consumers. Product responsibility (PR) is an important indicator of corporate social responsibility (CSR) and sustainability management. This study examines the relationship between the board- and firm-level characteristics and the PR ratings of firms.

**Design/methodology/approach** – A temporal design with a lag of one year for a sample of 403 firms from the global emerging economies is analyzed for this purpose.

**Findings** – Hierarchical regression analysis shows that total revenue, board size, and board diversity have a positive effect on PR ratings.

**Research limitations/implications** – These findings have implications for policy-level decisions on the composition of boards for the sustainable future of firms.

**Originality/value** – The study is one of the few studies that have looked into the factors affecting the PR ratings, which are an important indicator of the sustainable practices of an organization.

**Keywords** Corporate governance, Sustainability, Board characteristics, Corporate social responsibility, Emerging nations, Product responsibility

**Paper type** Research paper

## Introduction

Over the last few years, corporate social responsibility (CSR) as a concept and practice has been drawing the attention of scholars and practitioners alike (Aguinis and Glavas, 2012; Frynas and Stephens, 2015; Jamali and Karam, 2018; Hassan and Kodwani, 2019). Several reasons have been attributed to this change. For example, an increasing number of empirical studies have highlighted the strategic role of CSR for organizations (McWilliams *et al.*, 2006; Falkenberg and Brunsæl, 2011; Saeed and Arshad, 2012). Scholars conceptualizing CSR from a strategic perspective have examined its effect on critical business processes and performance indicators, such as financial performance (Cochran and Wood, 1984) talent retention (Randy Evans and Davis, 2011), brand values (Lai *et al.*, 2010), and innovations (Zhang and Lee, 2018), among others. Another factor that has heightened the interest in implementing socially responsible practices stems from pressure groups in the form of different stakeholders, namely, employees, shareholders, clients, government, nongovernmental organizations, and the community from which the business draws its resources (Peng *et al.*, 2014; Yang and Rivers, 2009). Globalization is also an essential contributor to this change, as it has increased business complexity by creating newer demands for enhanced transparency and corporate citizenship (Jamali and Mirshak, 2007). Further, globalization has led to the foundation of the concept of global corporate citizens, who are committed toward displaying social responsibility (Corporate Global Citizen World Corporate Citizen Forum, 2013). Therefore, studies on CSR have lain a stepping stone to bridge the gap between the current global socioenvironmental concerns and scholarly works that aim to suggest amicable solutions to address these concerns.

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As discussed earlier, stakeholders such as the consumers have increasingly become more concerned about the effect of business on society (Hassan and Pandey, 2019). They have become cautious on how the environmental degradation, wastage of critical resources, and safety concerns are addressed by the brands they are associated with. To attract consumers and to create a more stable and favorable brand image, firms have become more prone to adopting sustainability management practices today than before (Popoli, 2011). The most critical and effective indicator of firms' social cohesiveness is their willingness to promote and practice CSR initiatives (Frederick, 1994; Gorenak and Bobek, 2010). One such CSR practice is the product responsibility (PR) behavior.

Although a significant number of studies (McWilliams and Siegel, 2000; Zhu *et al.*, 2014; Saeidi *et al.*, 2015) have highlighted the role of CSR in creating a positive brand image to improve firms' performance and attract talents, studies on PR as a dimension of CSR have not received much attention from scholars. Further, such studies have not been conducted in the context of emerging economies. Therefore, the present study addresses this gap by examining the relationship between PR ratings and various board- and firm-level characteristics.

## Literature review

### *CSR and its indicators*

The concept of CSR was first propounded by Howard Bowen in his book *Social Responsibilities of the Businessman*, which was published in 1953. Surprisingly, studies on the indicators of CSR surfaced only in 2001 and onward (Moir, 2001; Hamann and Kapelus, 2004). These studies have explored the different dimensions of CSR and their suitable measures. A consensus among scholars is that the indicators of CSR can be grouped under three categories: environment, society, and governance (Renneboog, 2017). The environmental indicators focus on the performance of firms related to parameters such as product carbon footprint, energy efficiency, sourcing of raw materials, toxic emissions, waste management, renewable energy usage, and others (Kim *et al.*, 2013). The social indicators reflect on firms' ability to manage the workforce and to handle issues of controversial sourcing, health and safety, development of human capital, safety and quality of products, chemical safety, privacy and data security, and health care, among others (Liang and Renneboog, 2017). Similarly, the governance indicators comprise performance parameters on diversity management, executive pay based on CSR ratings, CSR reporting, and others (Cheng *et al.*, 2014; Krueger, 2015). Evidently, these indicators address not only firms' responsible behavior toward the society but also the responsible practices within the organization.

PR, which is a socioenvironmental indicator of CSR in the context of global emerging economies, is examined in this study. Although PR has been used in the CSR literature, no serious attempts have been made to define the concept. PR acts as a principle that focuses on sharing the life-cycle environmental effects of various products and services on different actors (White *et al.*, 1999). These views have ignored the fact that firms largely control the means of production and supply, although the market creates demand. A more responsive behavior of firms can prevent the socioenvironmental effect of products, which can be identified only after the products reach their end user. Based on a thorough review of literature and an engagement with experts and stakeholders, PR or product responsiveness is defined as follows: "such designs, processes and/or logistical approaches of organizations that intend to create value-added products and services to uphold the safety of consumers. PR brings a greater degree of transparency and motivates the stakeholders to adopt sustainability management practices."

Here, the design, process, and logistics approaches refer to the different stages involved in the conceptualization and selling of a product or service. Responsible firms are expected to ensure the high standards of their products and services in all the stages. Product responsiveness highlights firms' serious commitment toward producing high-standard goods and services. Health, safety, integrity, and privacy of consumers are integral parts of this responsible behavior of corporates. Further, PR reflects the degree to which companies publicly disclose vital information about their products and services to their consumers.

Research on PR has not been limited to the social responsibility literature alone. It has also been discussed in other fields of inquiry such as marketing (Selnes, 1993), operations (Spicer and Johnson, 2004), strategic management (Toffel, 2004), and public health (Peloza *et al.*, 2015), among others. A keyword search for PR on the EBSCO database in 2018 revealed that over 72 articles published in reputable marketing journals have exclusively mentioned the term in their articles. Similarly, in the last two decades, more than 145 research papers on social responsibility have been published in top journals on this issue. Therefore, the question of product and service responsiveness has an interdisciplinary presence.

In marketing and operations management, PR has been studied in different forms such as ethical branding, extended PR (Lifset, 1993), product safety (Lin *et al.*, 2011), product stewardship (Snir, 2001), product recall (Dawar and Pillutla, 2000), product durability (Runkel, 2003), and ethical labeling (Hartlieb and Jones, 2009), among others. Marketing literature has focused on PR as an approach toward value creation. For example, labeling (e.g. "green products") is a result of a long-drawn fear among the consumers about the ability of the planet to sustain human lives. Jacquelyn Ottman in her book, *The New Rules of Green Marketing*, mentioned that people do comprehend the effect of harmful products, especially the environmentally undesirable products, on their lives. The awareness to identify the social and environmental effects of the products and services has developed in due course of time. Today, effect-related factors (i.e. ethical, social, and environmental) are given consideration by the consumers when making a purchase or consumption-related decisions (Ottman, 2017).

PR can also be understood from the perspective of organizational behavior. Informational justice is one such framework that can be used to examine PR as concept. It refers to the fairness reflected in the content and dissemination of information to its recipient (Colquitt *et al.*, 2001). In the context of this study, the propagation of correct information by clearly stating the purpose and objective of an action (e.g. marketing of a food product, its ingredient, its harmful effects, and other vital information to the consumers) can be understood as a practice related to informational justice. Studies (Greenberg and Cropanzano, 1993) have shown that informational justice practices effectively promote the acceptance of a product or service. The dissemination of correct information about products and services significantly improves the credibility and creates value of these products and services (Caswell and Mojduszka, 1996; Guiltinan, 2006; Ellis *et al.*, 2009).

### *Why emerging nations?*

The earlier discussion on CSR is only one facet of the whole story. Understanding the concept of CSR remains ambiguous (Munro, 2013). To examine this issue, the context of this study is investigated: emerging nations. The report entitled *Business Insights on Emerging Markets* (2017) published by the Organization for Economic Co-operation and Development states the growing interest of developed nations in these emerging economies. Emerging economies are the low-income, rapidly growing countries that use economic liberalization as their prime growth agent (Hoskisson, 2000). They offer a sizeable untapped market potential for multinational firms (McKinsey, 2012). Therefore, studies on emerging economies have been conducted more frequently in the last few years (Yong *et al.*, 2008; Hoskisson *et al.*, 2013; Meyer and Peng, 2016).

Unsurprisingly, emerging market firms are performing at par in the global market with those from developed nations. Conglomerates such as Tata and Sons (India), Aditya Birla group (India), Hinduja group (India), Haier (China), Hitachi (Japan), AmBev (Brazil), and HTC (Taiwan) have become the leading business groups across the world (Palepu, 2006).

The relevance of the context in this study is many-folded. First, emerging nations such those in Asia are different from developed countries in aspects such as the equity market. The former is more illiquid and largely characterized by family ownership. Second, these firms have a shared ownership and management. Therefore, the traditional agency problems do not apply much in these economies. Common ownership and management also reduce the frequency of aggressive business strategies such as a hostile takeover (Cheung *et al.*, 2010). Third, studies such as Visser (2008) have suggested that CSR-related challenges for emerging firms are contrary to those for developed markets. One reason for these differences is the result of the degree to which a socioenvironmental crisis affects a society. Further, the variability of research on CSR is large in these regions (Araya *et al.*, 2006).

The context (geography, culture, and economy) can significantly affect the implications of CSR on business and the society, and examining the concept in different contexts to understand its role and effect on the society at large becomes relevant. Extant literature on CSR suggests that emerging economies behave differently from nations such as the United States in terms of CSR priorities and effect (Carroll, 1999; Visser, 2008). Based on the literature review, PR can be assumed to serve as an essential element of CSR. Therefore, similar to CSR as a whole, PR can be expected to behave differently in the context of emerging markets. Studying PR in the context of emerging markets is also important because rapid industrialization in emerging nations has raised concerns about product safety-related issues in these regions. Successfully addressing these concerns can add value to the business and may make emerging national firms more acceptable globally (Lai *et al.*, 2014).

## Corporate boards, financial performance, and product responsiveness

### *Board characteristics and PR*

Studies have highlighted the role of quality control, ethical sourcing, distribution, labeling, and advertising to make firms more product responsive (Shapiro, 1982; Tellis and Fornell, 1988; Vickery *et al.*, 1997; McWilliams and Siegel, 2001; Sen and Bhattacharya, 2001; Klein and Dawar, 2004). Nevertheless, many studies have been conducted considering certain aspects of a product or service only. To the best of the authors' knowledge, no empirical research has examined the role of boardrooms and firms' financial performance in the PR rating of firms. Some studies on PR have been conducted on operations management (OM). However, OM literature has addressed the concept of PR (extended PR) in a different way (Gui *et al.*, 2013; Hickle, 2014). This study is an attempt to contribute to the growing stream of research on CSR in the strategic HRM literature.

Studies on corporate governance have examined corporate boards as a decision-maker or a workgroup (Forbes and Milliken, 1999; Carpenter and Westphal, 2001; Huse *et al.*, 2009; Van Puyvelde *et al.*, 2018). For example, Forbes and Milliken (1999) defined a work group as "intact social systems that perform one or more tasks within an organizational context" (Bettenhausen, 1991, p. 346) and the board of directors as a work group in the organizational setting. Corporate boards are the apex decision-maker that controls the body of firms. Boards are empowered to recommend new recruitments, retrench employees, compensate top management, and rectify and monitor crucial decisions of the company (Fama and Jensen, 1983). Further, they play a significant role in defining the business and in gatekeeping and setting the boundaries of strategic actions. Therefore, the composition, structure, power controls, and other characteristics of corporate boards are expected to predict the board's decisions.

*Board diversity and PR*

Board diversity has been widely discussed in the strategic management and corporate governance literature. Previous research (Carter *et al.*, 2003; Ntim, 2015) offers several research and managerial implications on the role of diversity in corporate boards. For example, Erhardt *et al.* (2003) examined the relationship between board diversity and financial performance. Bear *et al.* (2010) observed a positive role of board gender diversity in firms' reputation.

Corporates have felt increasing pressure to appoint women board members (Hillman *et al.*, 2007; Adams and Ferreira, 2009). For this reason, the percentage of women on corporate boards has increased in the last two decades (Burgess and Tharenou, 2002; Burke and Mattis, 2005). These demands are possible because of the growing consensus on the positive effect of having a woman board member. Bernardi *et al.* (2006) observed that the presence of women on board could significantly improve the workings of the firm both internally and externally. Women board members can help gain legitimacy and reputation for firms (Zyglidopoulos, 2003). The findings of studies on the role of women board members in the social responsibility practices of firms have given similar results. Williams (2003) examined the appointment of women board members in Fortune 500 companies and found a strong positive correlation between the proportion of women on boards and the philanthropic activities of firms. The differences in the leadership style due to gender diversity can also improve participative communication within the board, which in turn can lead to better decision-making for different concerns from the immediate and extended stakeholders of the organization (Eagly *et al.*, 2003).

Theoretically, resource dependence theory and agency theory provide broader theoretical underpinnings to the influence of board diversity and composition on the board's decision-making and on the performance of different parameters, such as CSR and financial performance, among others (Minichilli, Zattoni and Zona, 2009). Corporate boards have several roles. Forbes and Milliken (1999) argued that boards share some of the functions performed by the top management teams (TMTs). These roles can be categorized into three major task groups: control task, strategic task, and service task (Zahra and Pearce, 1989; Forbes and Milliken, 1999; Huse *et al.*, 2009). According to resource dependence theory, a critical task performed by a corporate board is to procure external resources (i.e. service roles) for their organization (Pfeffer and Salancik, 1978). The boards perform this task in two ways. First, they can advise and counsel the TMTs, and the board members are expected to provide strategic alternatives to the TMTs for helping them to effectively manage the company (Minichilli *et al.*, 2009). Second, the boards can bring external legitimacy and help in networking with other organizations, which helps in building a strong relationship with various stakeholders such as employees, clients, shareholders, and, most importantly, the community in which the company thrives (Pfeffer and Salancik, 1978; Zahra and Pearce, 1989; Musteen *et al.*, 2010).

Agency theory supports the idea that boards are responsible for protecting the interest of stakeholders from the embezzlements of the management (Ross, 1973; Jensen and Meckling, 1976; Eisenberg, 1998; Sharma, 2004; Minichilli *et al.*, 2012). Boards safeguard the stakeholders' interest by monitoring the behavior and actions of top management and controlling the performance of the firm (Payne *et al.*, 2009).

Women members have been found to adopt a qualitative approach in their decisions. They prioritize the social aspects of business in making recommendations to the TMT (Selby, 2000). Contrary to this behavior, men are more profit-oriented in decision-making. Further, upon the application of upper echelon theory to board members based on the arguments put forth by Forbes and Milliken (1999), gender diversity at the board level is expected to positively affect the organizational performance (Dwyer *et al.*, 2003; Nishii *et al.*, 2007). The presence of women members can encourage the TMT to be more customer-oriented in their approach (Brammer *et al.*, 2009). Diversity in gender and in other dimensions is also expected to bring more creativity and innovation (Carter *et al.*, 2003). PR ratings act as an indicator of some important corporate performance parameters (e.g. CSR, corporate reputation, etc.), and the board characteristics are expected to affect the ratings significantly. Therefore, the first hypothesis is proposed as follows:

*H1.* Board diversity (measured in terms of number of women board members) is positively associated with PR ratings.

*Board size and PR*

Board size is another characteristic that is worthy of examination. Studies have found a strong correlation between board size and firm size (Eisenberg *et al.*, 1998; Daily *et al.*, 1999; Kiel and Nicholson, 2003), and this connection seems to be evident from the perspective of agency theory.

The increase in board size is expected to affect the PR rating of firms. Pfeffer (1972) showed the probable ways through which an increase in the number of board members could help in gaining more critical resources and expertise for firms. Similarly, Pearce and Zahra (1992) examined the board size of 119 Fortune 500 companies from the perspective of strategic contingencies. The results of their study showed that an increase in board size helps firms to gain different strategic views for a problem. Firms derive greater value in their decisions through a larger board (De Villiers *et al.*, 2011). Larger boards tend to bring more knowledge and experience that encourage better advice (Dalton *et al.*, 1998). Several empirical studies (Barnhart and Rosenstein, 1998; Dalton *et al.*, 1998; Guest, 2009; Jackling and Johl, 2009) have demonstrated that board size plays a positive role in firms' financial performance. However, there has been no study yet on board composition (i.e. board size) and its effect on firms' PR ratings. PR is an indicator of the socioenvironmental performance of firms, and it holds an important place in firms' strategic success (Russo and Fouts, 1997; Greening and Turban, 2000). Therefore, examining board size and PR is necessary to understand the firm-level dynamics. As previous research (Johnson and Greening, 1999; De Villiers *et al.*, 2011; Rao and Tilt, 2016) has studied the effect of board size on CSR as a whole, the focus of this study is specifically on PR. However, there has been no attempt to evaluate this relationship with the subindicators of CSR. If the relationship between board composition and firms' overall CSR performance holds, a similar result can be observed when overall CSR is replaced with PR scores.

Based on the earlier discussions, the following hypothesis is proposed:

*H2.* Board size (measured as number of board members) of firms is positively associated with the PR ratings of firms.

*Board tenure and PR*

The term limits and tenure of board members across different sectors and industries are not consistent (Spencer Stuart, 2011; Huang and Hilary, 2018). Studies such as Pozen and Hamacher (2015) criticized the idea of having a short tenure for board members. They argued that shorter tenure could reduce a board member's monitoring capacity, as short tenure demands examination of urgent problems only, thereby ignoring the gravity of problems that have long-term implications. The rationale behind the idea of a longer duration for board members is the unique experience and organizational memory associated with board members (Huang and Hilary, 2018).

Long-serving directors have been observed to have a greater tendency to examine even the minute details of company policies. They are open to criticizing and challenging the top management in case of discrepancies (Bebchuk *et al.*, 2002), unlike the less experienced board members who would probably agree with the TMT without scrutinizing matters.

Katz and McIntosh (2014) found that longer tenure helps board members to establish trust and collegiality, and this helps board members to be in a superlative position before these powerful chief operating officers (Beasley, 1996). A review of the literature showed that no empirical study has been conducted to understand the relationship between board tenure and PR ratings of firms. PR, which is a strategic decision part of the firm, requires the active involvement of the board members. The experienced board members are more proactive in regulating the firm and are thus expected to contribute to a higher PR of the firm. Therefore, the following hypothesis is proposed:

*H3*. Board tenure (measured as number of years allowed as board member) is positively associated with the PR ratings of firms.

*Financial performance and PR*

The board members of a company are responsible for the effective monitoring and controlling of the business; therefore, they play an essential role in improving the financial performance of the firm. Several empirical studies (Dalton *et al.*, 1998; Rhoades *et al.*, 2000; Erhardt, 2003) have confirmed this relationship. However, studies on whether financial performance can act as an antecedent for other performances are scarce. Preston and O'bannon (1997) were the first to identify the causality and the direction of the relationship between firm performance and CSR. They even argued that financial performance could be the driver of socially responsible behavior. The reason behind this argument is that improved financial performance brings in more resources and opportunities to facilitate the process. Recently, Wright et al. (2005) conducted a similar study on understanding the causal relationship between human resource practices and financial performance. They found that firms with a higher financial performance can provide better pay and benefits to their employees and board members.

Further, they may invest in offering more training and development opportunities. These engagements are considered to create more awareness among employees of socially and ethically correct business practices. Firms performing poorly on financial terms have been found to drastically reduce their expenditure on innovation, training, and development (McIntyre, 1992; Kennedy *et al.*, 2003). Thus, poor financial performance could also reduce the quality of products and socially responsible behaviors. Product and service qualities have been found to be significantly affected by employees' compensations and their treatment in the workplace (Lawler *et al.*, 1992; Tornow and Wiley, 1991; Bloom and Michel, 2002; Rynes *et al.*, 2004). Financially underperforming firms experience a high degree of bargaining power from a stakeholder for more favorable exchange relationships, which diverge firms away from socially responsible behaviors such as manufacturing quality and safe products (Ahlstrom and Bruton, 2004). Few studies such as Arrowsmith *et al.* (2003) have found that firms operating at a lower margin tend to adopt illegal practices in their business.

Therefore, the following hypothesis is proposed:

*H4*. The financial performance of firms (measured as return on assets) is positively associated with PR ratings.

*Duality of firm revenue as an indicator of firm size and financial performance and its relationship with PR*

Firms that have grown in size and revenue require some directors to regulate their operational and strategic activities. Growth in size results in the growth of demand for more resources that are rare, imitable, and surplus in nature (Kiel and Nicholson, 2003). An increased firm size is expected to bring more socially and environmentally concerned persons in the TMTs. On one hand, it has resulted in the greater visibility of larger firms

(Udayasankar, 2008), but on the other, it has increased the pressure on firms to maintain a socially desirable brand image (Ahmad *et al.*, 2016). The increasing size of firms with regard to revenue can also lead to a more complex administrative structure within the organization. In their article entitled *Firm Size, Organizational Visibility, and Corporate Philanthropy*, Brammer and Millington (2006) argued that such administrative changes make the management to be more serious about social causes, thus causing them to make decisions accordingly. High-revenue-generating firms are considered to adopt more formal and rational business practices such as sustainability management (Papadakis *et al.*, 1998).

Patton and Worthington (2003) observed that firms could have specific motivators to indulge in any particular activity. However, irrespective of their size, firms design new policies and processes to adopt good practices such as the environment-friendly production process. The reason for this action is that the critical motivator for such changes is not the size of the workforce but that of the revenue, which contributes to size and financial performance. Graafland *et al.* (2003) shared similar views on firms' strategy for environmental and socially responsible behavior. In both studies, the researchers agreed that the degree of involvement in adopting such behavior increases in the case of high-revenue-generating firms compared with the low-revenue-generating firms. In other words, firms with a reduced workforce have been found to perform better than those with a larger workforce (Wayhan and Werner, 2000). Similarly, Hickson *et al.* (1986) found no difference in the strategic decision taken by firms considering the variation in firm size with regard to the size of the workforce. Thus, the number of employees might not be a suitable measure to understand the effect of size on indicators such as CSR performance.

Firms' financial performance and size in terms of revenue address this issue more clearly. In some cases, small firms perform better (financially) than firms with a large workforce. Therefore, in relation to revenue, large firms perform more poorly than small firms. Some studies on CSR have observed a strong positive relationship between firm revenue and CSR performance (Prior, Surroca and Tribo, 2008; Lev, Petrovits and Radhakrishnan, 2010).

Therefore, revenue can be considered a suitable indicator of both firm size and performance. As revenue has been found to affect decision-making at different levels as discussed earlier, it is also expected to influence the PR ratings of firms. Therefore, the following is proposed:

*H5.* Firm performance (measured as the logarithmic value of the total revenue) is positively associated with the PR ratings of firms.

## Methodology

### *Data collection and sampling*

We collected data from 16,208 companies at the first stage. The Thomson Reuters Eikon database (ASSET 4) was used for the data collection. The initial sample was cleaned because of the absence of data for all the measures in this study. Thus, the number of companies decreased to 403 at the final stage of sampling. The 403 companies represented 36 emerging nations and 10 industries. The selection of the list of emerging nations was made according to the Thomson Reuters Business Classification (TRBC) for emerging global nations (Thomson Reuters). The sample countries considered for the study included India, China, Bangladesh, Indonesia, Singapore, Taiwan, Chile, South Africa, and Russia. The 10 industries considered on the basis of the TRBC included utilities, telecommunication, energy, basic material, health care, information and technology, financials, consumer cyclic, consumer noncyclic, and industrials. The data collected were temporal as data for two consecutive financial years were received. For the *t*1 period, the data on board characteristics, firm size, and others were collected. For *t*2, the data on PR and financial performance were collected.

### Measures

We used the natural logarithmic value of total revenue and return on assets (ROA), which are widely accepted measures, as the indicators of financial performance. Board diversity was measured by the total number of female board members in $t$ year ($t$ = 0 FY). Board size was measured by the number of board members for the company during $t$ year. Tenure was measured as number of years allowed as board member. PR was measured using the Thomson Reuters PR ratings that were collected for year $t + 1$. The Thomson Reuters ASSET four provides CSR ratings and the scores for the individual components of CSR such as PR. The ASSET four database is widely used by journals of finance, marketing, organizational behavior, and operational research and strategy (Dorfleitner *et al.*, 2015; Attig *et al.*, 2016; Gasser *et al.*, 2017; Liang and Renneboog, 2017).

The TRBC industry code of Thomson Reuters was used to control the industry effect. Each country was coded with a country code from 1 to 36. In this study, a country represents the nation where the headquarters of the firms are located.

### Analysis

Hierarchical regression was conducted to test the hypotheses. First, the control variables were entered, followed by the independent variables. The data were checked for assumptions of regression analysis, and multicollinearity was assessed through the variance inflation factor (VIF) values, which were below the prescribed threshold of 10 (West and Aiken, 2014).

### Results

Table I presents the descriptive statistics and the bivariate correlation among the variables. Table II shows the result of the hierarchical regression analysis. The model consisting only of the control variable was not significant ($R^2 = 0.004$; $F = 1.49$, n.s.), and the model including the control variables and independent variables was significant ($R^2 = 0.04$; $F = 3.54$, $p \leq 0.05$). The results of the analysis showed that board diversity is positive and has a significant effect on the PR score ($\beta = 0.094$, $p < 0.01$), thus supporting hypothesis 1. Board size was found to have a positive and significant effect on the PR score ($\beta = 0.088$, $p < 0.01$), thus supporting hypothesis 2. Board term duration (i.e. tenure) did not have a significant effect on the PR score ($\beta = 0{-}0.048$, ns). Thus, hypothesis 3 was not supported.

The financial performance measured through the natural logarithm of total revenue was found to have a positive and significant effect on the PR score ($\beta = 0.16$, $p < 0.05$). The results were in accordance with the hypothesis. However, ROA, which was used to measure the financial performance of the firms, had no significant effect on the PR score ($\beta = 0{-}0.035$, ns).

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|---|
| 1. Product responsibility score | 54.20 | 28.76 | | | | | |
| 2. Return on assets | 0.09 | 0.07 | −0.045 | | | | |
| 3. Ln (total revenue) | 22.12 | 1.35 | 0.171** | −0.111** | | | |
| 4. Board size | 10.15 | 3.04 | 0.132** | −0.060 | 0.201*** | | |
| 5. Board diversity | 11.62 | 11.14 | 0.063 | 0.151*** | −0.190*** | 0.071 | |
| 6. Board term duration | 2.79 | 0.98 | −0.060 | 0.052 | −0.095* | −0.029 | 0.080 |

**Notes**: $N = 403$, *** $p \leq 0.001$, ** $p \leq 0.05$, * $p \leq 0.01$, + $p \leq 0.1$

**Table I.** Mean, standard deviation, and correlations

| Control variable | Product responsibility score Standard betas | VIF |
|---|---|---|
| Industry code | −0.027 | 1.04 |
| *Independent variables* | | |
| Return on assets | −0.035 | 1.04 |
| Ln (total revenue) | 0.160** | 1.12 |
| Board size | 0.088* | 1.06 |
| Board diversity | 0.094* | 1.09 |
| Board term duration | −0.048 | 1.01 |
| *Model statistics* | | |
| Adjusted R square | 0.04 | |
| F | 3.54** | |
| Durbin–Watson | 1.94 | |

**Note**: $N$ = 403, *** $p \leq 0.001$, ** $p \leq 0.05$, * $p \leq 0.01$, + $p \leq 0.1$

**Table II.**
Regression results

## Discussion

The findings of this study can be studied from two different aspects: the effect of financial variables on the PR score and the effects of board characteristics on the PR score.

With regard to the financial variables, the results showed that total revenues have a positive effect on the PR score and that ROA does not affect the score. The sample selected cuts across different sectors that constitute various industries, which include different companies, and intra- and interindustry differences exist in the asset holding and utilization (Bettis, 1981; Waring, 1996). These differences are the possible reasons for the insignificant effect of ROA. As total revenue is a good indicator of the money made by a company, it has positive effect on product responsiveness and indicates that companies with larger revenues are more bound to invest in sustainability measures for fulfilling the sustainability demands (Schrettle *et al.*, 2014). In the long run, these companies may become the flag bearers of sustainability, and therefore, the institutionalization of these practices is needed in their respective industries (Bansal, 2005; Etzion and Ferraro, 2010).

In terms of the board characteristics, the results showed that board size and diversity due to the presence of women members in the board have a positive effect on the PR score and that board term duration does not affect the PR score. These findings provide important insights into board composition regarding the number and the type of members to be included for achieving the broader sustainability outcomes and specific product responsiveness scores. The greater board size reflects the greater number of views and the possible sustainability champions that dictate the company's efforts toward product responsiveness (Coffey and Wang, 1998). Women are invariably the best choice for firms when making strategic decision. Studies have suggested that the presence of women on the board can help in value creation for firms (Carter *et al.*, 2003; Huse *et al.*, 2009; Torchia *et al.*, 2011). This value creation is not merely a result of the better image of the organization for having women in top positions, but women board members make strategic decisions by assuming such responsibilities. In his book entitled *Building the Business Case for Women Corporate Directors*, Bilimoria (2000) stated that women board members exert greater pressure on the management to improve the qualitative aspect of business decisions related to quality and operations.

Similarly, Huse and Solberg (2006) criticized male board members for being more concerned about revenue generation and the firm's expansion than the firm's socially responsible behavior. Further, women board members are more likely to have a research background and other expertise outside business compared with their male colleagues (Hillman *et al.*, 2002). Women board members are expected to take the initiative for promoting high-quality products and services. Therefore, that the presence of more women board members enhances firms' PR ratings is not surprising.

The findings for board size and tenure and their relationship with PR need further examination. Previous empirical studies on board tenure and performance have shown some discrepancies due to their contradicting results. Thus, a positive relationship was observed between the two. The findings of this study can be easily equated with social capital theory and executive cognition theory (Hambrick *et al.*, 1993). Board members are considered to bring value to their role through their expertise, knowledge, connections, and experience (Brown *et al.*, 2017), which are mainly dependent on their length of service in the firm. In case the tenure is short, the possibility of their high involvement in making all decisions is bleak. Therefore, the short tenure may negatively affect critical monitoring and decision-making on the long-term strategies for firms such as socially responsible behavior.

## Theoretical implications

This study is an initial step toward defining the concept of PR. Although the concept has been studied widely in operations, marketing, and strategic management, attempts have not been made to provide a comprehensive definition for the term. The first part of the study focused on conceptualizing the concept. The second part of the study investigated the financial and board-level variables that could affect CSR-related indicators such as PR. The analysis of the results suggests that an improved PR can offer a substratum for the development of other CSR and sustainability practices in business.

Theoretically, this study reaffirms the underlying idea of social capital theory (Häuberer, 2011). As a component of social responsibility of business, PR can be regarded as an outcome of the "relational accumulating process" through which firms develop their social capital (Russo and Perrini, 2010, p. 208). As evident in the results, board diversity and its size can facilitate the expression of a diverse view or the knowledge among the board members that may motivate them to take appropriate decisions. These decisions are important because they aim to benefit the firm both financially and socially.

Another theoretical implication of this study is the understanding of business dynamics in an emerging economy setting. The firms in this study are newer, smaller, and limited in terms of resource accessibility. Studies on the behavior of these firms toward becoming a socially responsible business can help to reframe the existing theories on corporate governance and marketing. Emerging nations largely have a collectivist society, which is characterized by a high influence of religion on the business practice (Hassan and Sengupta, 2019). Therefore, the expected responses of a business in developed nations may not hold true for a business in emerging nations. The findings of this study clearly indicate the distinct difference between the two regions.

## Practical implications

The findings have implications for the design of policy measures for corporate governance in general and sustainability efforts in particular. Studies have shown that policy interventions for composition of representation in governance (Pandey, 2016) and employee development (Pandey, 2019; Jha *et al.*, 2019) lead to psychological empowerment in addition to structural empowerment and job performance (Pandey, 2019). Policies that can encourage firms to form a more diverse corporate board, especially with women members, can have a significant effect on the sustainability trajectory of firms. Studies have shown that a firm perceived by the clients/consumers to be low in value and ethical practices incurs more losses than one that is high in value and ethical practices (Creyer, 1997; Maignan, 2001; Mohr *et al.*, 2001). A major implication of this study is the explanation for the role of firm- and board-level characteristics in the delivery of quality products and services. This explanation is relevant to the current scenario because countries are struggling to curb pollution, resource degradation, and malicious practice in business (Duraiappah, 1998; Leonard, 2006; Dean and McMullen, 2007). Boards act as a self-regulatory mechanism to address these issues at the initial stages.

The fact that ROA was found to be insignificant has some practical implications. The sample firms comprise mostly of manufacturing and service sector units. The service sector firms are expected to have a relatively lower ROA than firms in other domains. However, this issue can be addressed better by considering revenue as a measure of performance because it gives opportunity to even the firms with smaller assets to reflect a higher rate of performance, which is also evident in the current findings. Small firms have to put in more effort to demonstrate a socially responsible behavior in their business practices (Jenkins, 2006).

Firms like Ben & Jerry have been successful in establishing their business globally through the integration of social values in each planning step, production, supply logistics, and marketing. This means that customers are able to associate themselves with these organizations more easily than with others (Schroeder, 2002). These firms are also known for their ethical sourcing of raw materials, having banking and finance partners who have a socially responsible image, and promoting the recycling of products, among others (Schroeder, 2002). These findings suggest that the PR ratings of firms can be an important indicator of brand image and reputation. Therefore, firms should aspire to have high PR ratings by incorporating socially responsible business practices.

## Limitations and directions for future research

This study has a few limitations. First, CSR is a broad concept, and this study explicitly focused on only one indicator of CSR, which is PR. Future studies can focus on other indicators such as anticompetitive behavior and compliance, among others (Wilburn and Wilburn, 2013). Second, this study is limited to the effect of a small subsection of the financial- and board-level variables on PR. Future studies can also include variables such as TMTs, chief CSR officers, and supplier diversity. Third, although this work focused only on emerging economies, a comparative study of emerging and developed countries can provide broad directions. Finally, this study grouped the emerging economies according to the Thomson Reuters classification. Conversely, studies that take an in-depth view of each country can offer interesting country-level insights.

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