

ABSTRACT

For the past several decades, businesses have been undergoing the most intense scrutiny it ever received from the public to conduct businesses in a socially responsible manner. Addressing the interests of different stakeholder groups in the society has become a necessity for modern businesses and thus, it has created a growing interest within businesses to understand the way their financial figures affects social performance. Slack Resource Theory has made a significant contribution in understanding how the company's financial performance would result in social performance, by bringing up the argument of better CFP results in a surplus of resources that provides firms with the financial capability to consider social issues and act upon them. Accordingly, Slack Resource Theory recognize financial performance positively impact company's social performance, since higher financial performance has the ability to generate slack resources that can be subsequently allocated into social domains.

Since a successful implementation of CSR requires a comprehensive understanding of multiple stakeholders' interests, directors with diversified qualities and backgrounds will be of immense support for a firm to engage better in CSR and thereby achieve higher level of social performance. Thus, incorporating diversity of board to the CFP-CSP relationship is identified as important in getting better insights on corporate social performance. Upper echelon theory along with Resource dependency theory provided the explanatory framework for understanding the impact of board diversity on the relationship between CFP and CSP.

Accordingly, the main purpose of this study was to examine what determines the variation of the relationship between corporate financial performance and social performance. Researcher examined the association between corporate financial performance and social performance from the Slack Resource Theory perspective while paying a special focus on the role of board diversity. The first objective of this study was to examine the association between CFP and CSP. Examining the effect of slack resources on the CFP-CSP relationship was the second objective. Theorizing that one of the reasons for lack of clarity on the relationship between CFP and CSP could relate to the diversity in board characteristics, the researcher examined the moderating impact of board diversity on the relationship between financial slack resources and CSP, which was the third objective of the study.

In order to achieve the research objectives, researcher employed a multi-method approach by conducting two separate quantitative studies parallelly, taking companies listed in Colombo Stock Exchange as unit of analysis. Study 1 employed secondary data collected using archival research strategy, where the data collection is done by extracting and analyzing the content of published annual reports of 100 listed companies. Study 2 employed a structured self-administered questionnaire to collect primary data from 152 listed companies. Collected data of study 1 and study 2 were used to test the hypotheses of the study separately. Data analysis of both studies was done using Statistical Package for the Social Science (SPSS) and PLS-SEM software, SmartPLS. Data analysis revealed that, relationships established among CFP-financial slack-CSP is contracting in two studies and it is attributed to the difference in measuring CSP under two studies, using two different data sources.

Current study contributed for the theory by expanding the available knowledge on corporate social performance. Researcher attempted to expand the Slack Resource Theory by incorporating the contribution of board diversity to achieve higher levels of corporate social performance. Researcher brought this argument drawing on Upper Echelon Theory and Resource Dependency theory, and it was also supported by supplementary theories such as Affordability theory and Resource Based View. Supporting the arguments, the findings of the study revealed that social performance of a company is highly positively influenced by the degree of board diversity. In addition to the theoretical implications, the research findings of the current study brought out valuable managerial implications by highlighting the importance of maintaining a diversified board and importance of properly managing and exploiting excess resources in a company, in a way it helps organizations to achieve higher levels of social performance.