THE EFFECT OF CORPORATE GOVERNANCE CHARACTERISTICS ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: EMPIRICAL EVIDENCE FROM PUBLIC LISTED COMPANIES OF SRI LANKA

A.N.Prasantha

K.L.N.Jayasekara

P.G.D.Sewwandi

A.L.A.C.S.Kumari

M.G.N.Madushika

H.A.D.Sandaruwan

H.M.D.C.Bandara

W.Sriyani

S.H.A.Malsha

Abstract

The purpose of this study is to find out the level of Corporate Social Responsibility (CSR) disclosure provided in the annual reports of companies listed on Colombo Stock Exchange (CSE) of Sri Lanka and to assess the impact of corporate governance characteristics on the extent of CSR disclosures. Data was collected from 2015/2016 financial year annual reports of 64 listed companies on Colombo Stock Exchange (CSE) of Sri Lanka representing all business sectors other than Bank finance and insurance. Board duality, board independence, audit committee, foreign ownership and board size were considered as independent variables. Corporate social responsibility disclosures were used as dependent variables. Firm size, profitability and leverage were used as control variables. The research hypothesis was formulated to test, whether there is a relationship between selected corporate governance characteristics and level of corporate social responsibility disclosure on companies' annual reports. A literature review was carried out to identify factors of corporate governance and corporate social responsibility disclosure. Descriptive statistics were used to examine the importance of identifying corporate governance factors, and correlation and regression analyses were performed to identify mutual relationship between independent variables and dependent variable. Finally, it is concluded that corporate governance factors: Board duality, board independence, audit committee and board size have a significant impact on the level of corporate social responsibility disclosures in the company's annual report.

Key Words- Corporate Social Responsibility Reporting, Corporate Governance, Board duality, Board independence.

1. Introduction

Corporate governance (CG) is a system of rules, processes and practices which facilitate long term success of organizations. It helps in balancing the interests of different stakeholders such as investors, employees and customers etc. The companies who are following good practices of CG focus on ethical conduct and maintain good internal controls while earning profit (Ruangviset et al. 2014). In such environment, companies take decisions to satisfy not only the internal stakeholders but also external stakeholders such as the society.

In current business environment, the organizations believe that they have an obligation to act for the benefit of the community at large. In other words if the organizations neglect their responsibility towards the society they are not able to sustain strongly in the competitive business environment to fulfill the interests of different stakeholders. Hence the organizations undertake charitable activities, greener production processes, customer concern, good working environment etc. They are considered as Corporate Social Responsibility (CSR) activities undertaken by corporate entities while satisfying CG goals and this can be considered as the connectivity of CSR with CG. As per previous research it is mentioned that CG and CSR are strongly and intricately connected to each other (Jamali& Rabbath, 2008).

This research is based on the relationship between CG and CSR reporting which is not much discussed in the prior research studies conducted in Sri Lankan context. Since the previous research studies conducted in developed countries have provided evidence that there is a strong relationship between CG and CSR, it is worthwhile to study whether there is a relationship between CG and CSR disclosures in the context of emerging economy. The results of previous research (Lone et al. 2016) identified that board size exerts a significant positive effect on CSR disclosure. Another previous research has found that there is a positive and significant impact from board size, institutions ownership, ownership concentration and firm size on CSR reporting (Majeed et al. 2015). However in a previous research a significant negative relationship has been identified and has conclude that it can be due to reduced incentive and opportunities for the insider management to invest on CSR activities since their activities are extensively monitored by different CG mechanisms (Ruangviset et al. 2014).

In this research the information related to implication of CG guidelines and the level of CSR disclosure would be collected from the annual reports of sample companies. The sample would be 64 companies listed in CSE (Colombo Stock Exchange). The level of CSR disclosure of each company would be observed by constructing a CSR disclosure index consisting 51 items and it would be used as the dependent variable to examine the impact of corporate governance on CSR disclosures.

The main objective of the research is to examine the relationship between corporate governance practices and the level of corporate social responsibility disclosure. Based on the research question this study addresses the following sub objectives.

1. To find out the level of CSR disclosures in the annual reports.
2. To assess the impact of corporate governance characteristics on the level of CSR disclosures.
3. To study whether those companies have complied with selected CG practices on corporate governance.
4. To examine whether there is a separate section in the company's annual report for CSR reporting.

The study of the relationship between corporate governance (CG) and the level of corporate social responsibilty (CSR) disclosure is important mainly due to two reasons.CSR disclosure has become an essential requirement of stakeholders and thus, it become a mainstream component of corporate strategies. Therefore "CSR reporting" also has become vital due to its ability of strenthenning the credibility of different stakeholders including the society towards the organisation. Importance of this study is having deeper insight in to the sample of Sri Lankan listed companies' extent of CSR reporting.

Moreover this study evaluate the influence of several CG practices on CSR reporting to conclude whether thers is any relationship between them. Other important point is, the underlined research area is not much discussed in previous researches in Sri Lankan context. It is argued in many previous researches that there is a strong relationship between CG and CSR reporting. The applicability of such theory in Sri Lankan business entities would be the area reseached in this study.

2. Literature review and Hypotheses Development

The relevant literature related to the underlined research area is analyzed and concluded under the literature review. The researches carried out by the various researchers based on the different countries in the world are considered. The summary of this literature review is consisted with several parts such as, corporate governance (CG),corporate governance in Sri Lankan context, corporate social responsibility (CSR), corporate social responsibility disclosures, the relationship and the impact between the corporate governance and the corporate social responsibility disclosure. This helps to compare the findings of proposed research. Finally research gap will be discussed as an inception to further study based on the literature.

Corporate governance

In general corporate governance is ‘a system by which a company is controlled and directed’ (Cadbury 2000 p.8, cited in Jamali et al. 2015). Main objective embedded in emerge of corporate governance practices is balancing the different objectives of interested parties of the organization who are called as stake holders. Corporate governance concept has emerged rapidly after the huge scandals happened in reputed organizations in the world (Aras & Crowther 2008). It has stated that corporate governance is ‘the system of structural, procedural and cultural safeguard designed to ensure that a firm runs in the best long-term interest of its stakeholders’ (Fombrun 2006 cited in Cortese 2015, p.100).The stakeholders of an corporate entity can be identified as, share holders, managers, employees, customers, competitors, suppliers, government etc. The nature of the corporate governance addresses to the concepts and prevailing systems. Benston (1982a, b) stated that its key role in corporate governance is to provide assurance to shareholders and other stakeholders.

The several corporate governance codes have been published in some countries serving as guidelines for the corporate entities to follow up. Countires such as Australia (1993), Canada (1994), Holland (1997), Hong Kong (1998) and several other countries have published code of best practices. There is a published code of best practice on corporate governance in Sri Lanka (2013) which is a useful guide for Sri Lankan corporate entitities.This is jointlty published by, Instititute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commision of Sri Lanka. In most of the countries there is no legal enforcement to comply with corporate governance practices and the companies are allowed to implement them voluntarily.The Financial Times Stock Exchange 100 (FTSE 100) companies who are reporting on London Stock Exchange are required to follow the Combined Code of the Corporate Governance.A recent study has argued that those companies are largely complied with corporate governance practices (Aras & Crowther 2008).

Fundamental theory of corporate governance is agency thory. It has been pointed out that agency theory has been dominated in corporate governance literature utill recently (Aguilera 2005). The stewardship theory, transaction cost economics theory, resource dependancy theory and managerial and class hegemany theory are several other theories come as corporate governance theories.

Most researchers have identified various corporate governance aspects in their studies. The board size, independent directors and women directors are identified to measure the relatioship between such elements over CSR reporting by Lone (Lone et al. 2016). All corporate governance theories are based on CG priciples. Transparency, accountability, responsibility and fairness are highlighted as CG priciples in previous literature (Aras & Crowther 2008).

Corporate governance in Sri Lankan context

In Senaratne and Gunaratne (2008b, p. 82) outlined that '[a]t present the corporate governance practices of Sri Lankan listed companies are governed by the mandatory corporate governance rules included in the CSE Listing Rules'. Moreover they have pointed out that listing rules provide only minimum standards to be complied by listed companies and practices which does not cover under these listing rules are covered by ICASL Code of Best Practice. According to listing rules, it is required to establish board committees on audit and remuneration in companies.Apart from that companies required to appoint a nomination committee as per ICASL Code of Best Practice. External audit is an essential part in corporate governance The Companies Act requires the external auditor to be appointed by the shareholders at the AGM of the Company.

In Sri Lankan context, findings of researches carried on corporate governance provide indications that there is a gap between theory and practice in relation to board accountability. Senarathne and Gunarathne (2008 b, p. 86) identified that the lack of transparency procedure in the board appointment procedure and emerging business class with political power and patronage in Sri Lanka society may lead to mal practices.

Corporate social responsibility

According to Bursa Malaysia CSR framework, corporate social responsibility can be defined as business activities which relates to ethical values of the organization and they address mainly shareholders of the company, employees, environment as well as the community (Said et al. 2009).

'Corporate social responsibility (CSR) is a broad concept: the term is used to describe the social and environmental contributions and consequences of organizational activities' (Jenkins &Yakovleva 2006 pp 271-284).Further (Mohammed & Al-Amri 2013, p. 284-295) The world is becoming global, digital, health conscious and spiritual. In this new and evolving international environment with a large private sector and global integration of world capital markets, corporate social responsibility (CSR) has become the prominent topic of institutional reform.

Moreover (Shahin&Zairi 2007, p. 753-770) pointed out that 'Since the beginning of the twenty-first century, the field of corporate social responsibility (CSR) has shown significant growth around the globe. CSR is not just considered as a social activity, but explicit commitments regarding CSR have been made to the vision, mission, value statements, management structure and processes of the company, so that every social responsibility issue is foreseen and dealt with in a proper way'. Further (Ofori and Hinson 2007) affirmed that, the purpose of CSR is to go beyond profit maximization to include responsibility of company toward multiple stakeholders, investors, customers, community, employees and environment.

Corporate social responsibility disclosure

Most of the companies include a separate section for CSR reporting in their annual financial reports currently all over the world and it is becoming vital in Sri Lankan companies gradually. Ccorporate social responsibility disclosure is simply providing information of the organization's social activities undertaken to the interest groups of the organization such as environmental authorities, regulatory bodies, investors, etc. (Gray et al. 1995).

The main purpose of elaborating CSR information to the public is gaining social license to operate in the industry through implementing an exceptional image within the society. Moreover it ensures long term sustainability of the company's operations while satisfying key stakeholders of the company. Corporate social responsibility disclosure can be identified on five major perspectives namely, physical environment, energy, human resources, products and community involvement matters (David & Milne 1996). This information may be financial or non-financial and can be included in organizational annual reports or may be included separate social report (David & Milne 1996).

The relationship between corporate governance and corporate social responsibility disclosures

Since corporate governance and corporate social responsibility activities are interelated in many ways it can have any kind of relationship in between.A recent study based on Pakistani companies has identified positive relationship between number of members in the board and extent of CSR disclosure (Lone et al. 2016). A previous study based on Sri Lankan listed companies also found that board size and dual leadership are positively associated with sustainability reporting (Mohamed et al. 2014). This study also found that sustainability reporting is likely to be influenced by firm size and firm growth. External aspect of corporate governance is CSR reporting and the internal aspect of CG is the board of directors who are taking decisions on CSR activities (Lu et al. 2015). Moreover they argue that the firms where good CG mechanisms are implemented are more likely to demonstrate corporate, social and environmental responsibility to relevant stakeholders through CSR reporting (Lu et al. 2015).

It has been discussed that CSR reporting as a strategy to understand the legitimacy gap between management and shareholders via non- executive directors (Tricker 1984). He argued that non-executive directors have an important role to take CSR activities and therefore boards with more non-executive directors are believed to have more pressure on CSR reporting.

A recent study has found the relationship between corporate social responsibility reporting and coporate governance characteristics in Malayasian listed companies (Said et al. 2009). According to their results of the analysis, only three variables were associated with the extent of disclosures namely government ownership, ownership concentration and audit committee. Government ownership, ownership concentration and audit committee are positively and significantly correlated with the level of corporate social responsibility disclosures.As well as they have revealed that government ownership is the most important variable that influence the level of CSR disclosure.

CSR reporting is a driver of corporate social reputation and they are positively correlated (Lu et al. 2015). Above literature support that corporate social reputation is negatively related with CEO/chairman duality. A research carried out based on Saudi Arabia companies has identified CSR disclosure improvement after application of Saudi CG code in 2007. Moreover the research findings elaborate that board independence and role duality have no impact on CSR disclosure (Habbash 2005).

A study of 70 companies done by Sufian (2012) on Corporate Social Responsibility Disclosure in Bangladesh pointed out that 75% of company surveyed have disclosed environmental information in their annual reports for the year 2010.The analysis shows that market capitalization of firm has a positive association with CSR disclosure.Therefore that study does not find any association between other corporate characteristics.

Based on the literature review it is understood that most of the previous studies has considered different CG aspects in relation to CSR disclosure. However it is understood that, none of the studies which were based on Sri Lankan context did not consider more than two corporate governance aspects to correlate with the extent of CSR reporting. In this study it will be considering the impact on CSR disclosures based on five CG aspects which are big concerns in Sri Lankan business environment.

Hypotheses Development

<u>1. Board Size and Corporate Social Responsibility disclosure.</u>

Board of directors is one of the most important elements of corporate governance mechanism in overseeing the conduct of the company’s business (Said et al. 2009). It is found that large boards results in less effective coordination, communication and decision making and are more likely to be controlled by CEO (Jensen 1993, cited in Said et al. 2009).Smaller boards are often expected to be more effective at monitoring and controlling management than larger boards (Ahmed et al. 2006,cited in Jizi et al.). However, the drawback of small boards is that the workload of individual members tends to be high, which might limit the monitoring ability of the board (John and Senbet 1998, cited in Jizi et al.). Moreover, smaller boards can draw on a less diversified range of expertise than larger boards, which can impact on the quality of the advice and monitoring offered (Guest 2009, cited in Jizi et al.). Hence, we expect that larger boards will be better able to direct management to engage in CSR activities and to effectively communicate their social performance to the stakeholders (Jizi et al. 2013). This leads to our first hypothesis.

H1: *There is a positive relationship between board size and level of CSR disclosure.*

2. Audit Committee and Corporate Social Responsibility disclosure.

Prior researches have proven that audit committee plays an effective role in enhancing the corporate governance standards (Said et al. 2009). The existence of an audit committee was significantly and positively related to the extent of voluntary disclosure (Ho and Wong 2001,cited in Said et al. 2009). The board should establish an audit committee with at least three independent directors or more (Said et al. 2009). The existence of audit committee with a higher proportion of independent directors should reduce the agency cost and improve the internal control that will lead to greater quality of disclosures (Forker 1992, cited in Said et al.2009).Hence it is hypothesized that:

H2: *There is a positive relationship between proportion of independent directors in audit committee and the level of CSR disclosure.*

3. CEO duality and Corporate Social Responsibility disclosure.

Agency theory suggests that managers' private interests are likely to impact on the degree to which they engage in CSR activities and CSR disclosure. In this context, CEO duality can be seen both as a sign and an instrument of managerial power. CEOs are more likely to be appointed as chairs of the boards of directors if they have a successful track record or if they control a large proportion of the firm's shares (Hermalin and Weisbach 1998, cited in Jizi et al.).

CEO Duality occurs when the same person holds both the CEO and board chairman positions in corporation (Recher and Dalton 1989, cited in Said et al. 2009).Therefore, companies with the CEO duality offer greater power to a person, which enable him to make decisions that do not maximize the shareholders wealth (Said et al. 2009). Moreover, if powerful CEOs are able to use CSR to further their own interests and moral convictions, rather than the interests of shareholders and other stakeholders; they are likely to be reluctant to provide comprehensive, high quality disclosure of CSR activities (Healy and Palepu 2001, cited in Jizi et al.). Therefore it is hypothesized that:

H3: *Companies which are having CEO duality are more likely to have a lower extent of CSR disclosure.*

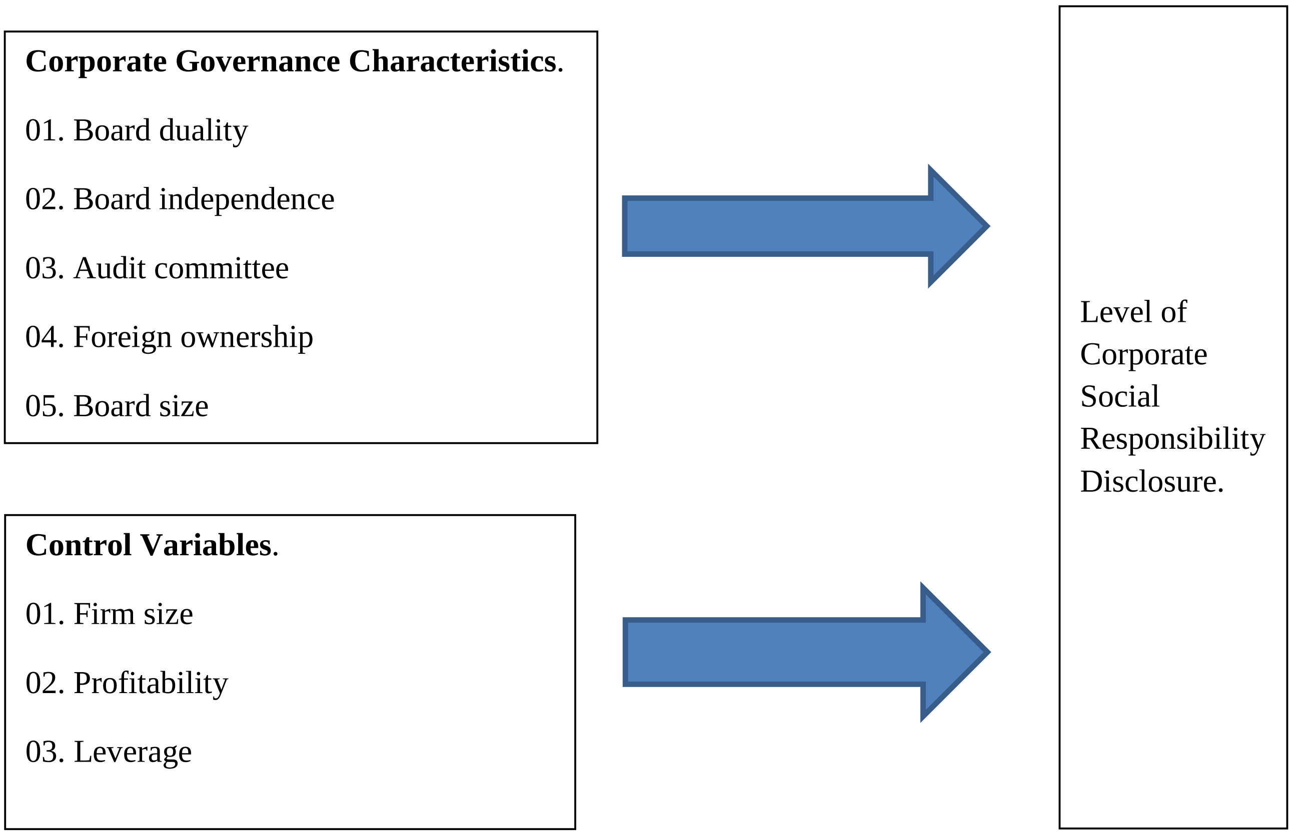
3. Methodology

This section addresses the basis of sample selection by the researcher to represent the entire population. In addition to that explanation of variables that have been chosen to build up the model, the procedure of econometric model building in relation to the result of this research. Furthermore, methods that were used to carry out the research are given in this section.

Conceptual framework

The following conceptual framework was developed based on the literature survey carried out.

Figure 1: Relationship between corporate governance and CSR disclosure



Source: Author Constructed.

Variables and Measurements

Independent and Control Variables

The construction of independent variables with control variables and their measurement are elaborated in Table 01.

Table 01: Independent variables and their measurement

Variables	Measurement Method
Board Duality	Whether Chief executive officer and chairman are two persons.
Board Independence	Percentage of independent Directors to total directors.
Audit Committee	Percentage of independent directors to total of directors sitting on audit committee.
Foreign Ownership	Percentage of shares owned by foreign shareholders to total number of shares issued.
Board Size	Number of Directors in the Board.
Firm Size	Measured based on the Total Assets as at 31st march 2016.
Profitability	Measured based on the Return on equity ratio for the financial year ended 31st March 2016. (ROE=Net profit after tax/ Total Equity).
Leverage	Measured based on the Debt to Equity ratio as at 31st march 2016.
.	(Debt to Equity=Total long term debt / Total equity)

Source: Author Constructed

Dependent Variable

For the purpose of collecting and codifying the data, content analysis technique which is a method of codifying the text (or content) of a piece of writing into various groups (categories) based on chosen criteria (Webber 1988, cited in Khan 2010.) was used. Content analysis is an established method of studying annual reports and has widely been used in the corporate social, ethical and environmental reporting field of accounting research which is seemed to be empirically valid.

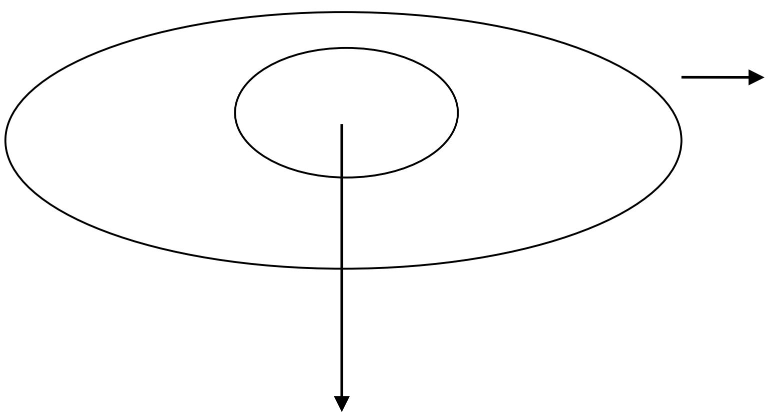
CSR disclosure items were based on past study, Khan 2010, Jizi et al. 2013, and GRI G4 Guidelines which covered the four themes which were environmental, employee information, Community involvement and product related disclosures.

If a disclosure item is disclosed in the annual reports with the numerical explanations, offer weight as “2”. If a disclosure item is disclosed in the annual reports only words without numbers offer weight as “1”.If it is not disclosed in the annual reports offer weight as “0”.The score of each item was then added to get the ultimate score for the company. The disclosure model for the CSR reporting thus measures the total CSR score for a company additive.

Data and Sample

Population includes the listed companies in Colombo Stock Exchange (CSE) of which operations are carried out in variety of industries in Sri Lanka. Specifically, Bank, Insurance and Finance sector is eliminated as the characteristics of their financial reports are different from those of non-financial firms (Said et al. 2009). Sixty-four (64) companies are selected out of listed companies as the sample of this study. Stratified random sampling technique was used to select the sample.

Figure 2: Sample selection and population.



226Companies listed in CSE (Population)

64 Companies of CSE (Excluding Banks, Finance and Insurance companies). (Sample)

Sample Size and Selection of Sample.

Selected sample size is 64 public listed companies representing all business sectors other than Bank Finance and Insurance. This sample count about 28% of the total population. Sample will be selected based on market capitalization as at 31st march 2016 (Khan, 2010). It has been selected as follows.

Table 2: Sample companies by industry sector in the CSE

	Sector	No of Registered companies	No. of Selected Companies	Percentage %
1.	Bank finance and insurance	Excluded	Excluded	Excluded
2.	Beverage food and tobacco	21	6	29%
3.	Chemicals and pharmaceuticals	10	3	30%
4.	Construction and engineering	4	1	25%
5.	Diversified holdings	18	5	28%
6.	Footwear and textile	3	1	33%
7.	Healthcare	6	2	33%
8.	Hotels and travels	37	10	27%
9.	Information technology	2	1	50%
10.	Investment trusts	9	3	33%
11.	Land and property	19	5	26%
12.	Manufacturing	36	10	28%
13.	Motors	6	2	33%
14.	Oil palms	5	1	20%
15.	Plantations	20	6	30%
16.	Power and energy	8	2	25%
17.	Services	8	2	25%
18.	Stores and supplies	4	1	25%
19.	Telecommunication	2	1	50%
20.	Trading	8	2	25%

Source: Colombo Stock exchange 31st March 2016

Data Collection

Secondary data was collected through the annual reports and company web sites. Data collection was performed through annual reports by filling the variable index which were developed based on the prior researches and the GRI G4 guidelines in the initial stage. Prior research articles and GRI G4 guidelines have been referred to develop the CSR disclosure index (Khan 2010, pp.93-95).

Model Development

A data analyzing software called “Statistical Package for Social Science” was used to analyze data and to make conclusions. Before starting data analysis, Normality Test was performed to identify the type of distribution of the collected data. In order to find out the relationship between level of CSR disclosure and corporate governance aspects the regression analysis was performed. The assumptions underlying the regression model were tested for multicollinearity based on the correlation matrix as well as the variance inflation factor (VIF).

Following regression model was developed to identify the relationship between the level of corporate social responsibility disclosure and corporate governance.

$$CSRDS = \beta 0 + \beta 1DUAL + \beta 2NED + \beta 3AC + \beta 4FO + \beta 5BDSIZE + \beta 6FIRMSIZE + \beta 7\ PROFITABILITY + \beta_8\ LEVERAGE$$

Where,

CSRDS	=	CSR Disclosure Score
β1DUAL	=	CEO Duality
β2 NED	=	Percentage of independent directors to total directors
β3 AC	=	Percentages of independent directors to the total directors in the audit committee
β4 FO	=	Percentage of shares owned by foreign shareholders to total shares.
β5 BD SIZE	=	Number of directors in the board
β6 FIRM SIZE	=	Total Assets
β7 PROFITABILITY	=	Return on equity ratio
β8 LEVERAGE	=	Debt to equity ratio

4. Analysis and Discussions

Regression analysis was used to examine the relationship between the corporate social Responsibility disclosure index and the independent variables namely the board size, board independence, duality, Audit Committee, Foreign ownership. To determine the appropriateness of the model, several tests underlying the regression model were made which was normality, linearity. In testing the model, it is involved two-fold that are testing the individual independent variables and testing the overall relationship after model estimation (Hair et al. 1998, cited in Said et al. 2009).

Descriptive statistics

Table 2 represents the 64 companies being the final sample from 226 public listed companies of total population listed at Colombo Stock Exchange for the year ended 2016. The final sample of 64 companies is a valid representative of population of 226 main board companies of public listed companies in Colombo Stock Exchange for the year ended 2016. From the Table 2, the sample represents 28% percent of the target population with a representation from 19 sectors. The Table 2 shows the sector analysis of the final sample and target population with sector representation of 25 percent to 50 percent in each sector.

Table 3: Descriptive statistics of dependent and independent variables

	N Valid	Mean	Std. Deviation	Minimum	Maximum
Total CSR Score	64	29.67	15.490	2	60
Board Size	64	8.63	2.367	3	15
Board Independence	64	.4332	.16280	.20	.89
Board Duality	64	.80	.406	0	1
Audit Committee Independence	64	.8112	.20475	0.00	1.00
Foreign Ownership	64	.1764	.26828	0.00	.97

Source: Author Constructed

Table 3 shows the descriptive statistics for the dependent variables of corporate social responsibility (CSR disclosure index) and continuous variables. The descriptive statistics includes statistics such as minimum, maximum, mean and standard deviation for the corporate social responsibility index. The mean for the CSR disclosure index level is 29.67 that are generally low.

Table 4 presents the level of CSR disclosure index for the 64 companies. The non-disclosure companies is 0 percent (n=0) and 11 percent (n =7) of the companies had the CSR disclosure index less than 10. This indicates that the levels of corporate social responsibility disclosure in Sri Lankan companies are generally acceptable with a mean of 29.67 percent.

Table 4: Frequency table of Total CSR Score

	Frequency	**Percentage**
Not Disclosed	0	0%
Not more than 10	7	11%
10 to 20	11	17%
20 to 30	15	23%
30 to 40	14	22%
More than 40	17	27%

Source: Author Constructed

As shown in the Table 5, Employee related theme has the highest number of disclosure. The Environmental related disclosure theme is ranked second for the number of disclosure for 64 companies, followed by Product theme.

Table 5: Descriptive statistics for four themes of CSR disclosure

	N	Minimum	Maximum	Mean	Std. Deviation
Environmental Related Disclosures	64	0	23	9.4688	6.35952
Community Related Disclosures	64	0	13	4.4063	3.11534
Product Related Disclosures	64	0	13	4.5781	3.13103
Employee Related Disclosures	64	1	28	11.2031	6.50563

Source: Author Constructed

Table 6: Sector wise Average CSR Disclosure Score and Ranking

Sector	Average CSR Disclosure Score	Rank
Power and energy	48.50	1
Trading	44.00	2
Plantations	41.83	3
Motors	39.50	4
Services	36.00	5
Healthcare	33.50	6
Beverage food and tobacco	33.00	7
Footwear and textile	33.00	7
Diversified holdings	31.40	8
Manufacturing	29.90	9
Construction and engineering	29.00	10
Oil palms	29.00	10
Land and property	24.20	11
Chemicals and pharmaceuticals	24.00	12
Hotels and travels	22.60	13
Telecommunication	18.00	14
Investment Trust	13.33	15
Stores and supplies	12.00	16
Information technology	11.00	17

Source: Author Constructed

According to the Table 6, power and energy sector represents highest level of CSR disclosure while information technology sector represents lowest level of CSR disclosure out of the nineteen sectors.

Table 7 represents the percentage of companies having separate section for CSR disclosure from each sector selected for the sample. The companies selected from the sectors of Healthcare, Land and property, Telecommunication and Services present highest level of percentage while Plantations, Footwear and textile, Hotels and travels, Investment Trust, Stores and supplies and Information technology represent lower level of percentage.

Table 7: Frequency Table of companies with separate section for CSR

Sector	Sample selection from each sector	Number of companies having separate section for CSR Reporting	Percentage
Services	1	1	100%
Healthcare	2	2	100%
Land and property	1	1	100%
Telecommunication	2	2	100%
Motors	5	4	80%
Trading	3	2	67%
Beverage food and tobacco	10	6	60%
Construction and engineering	10	6	60%
Power and energy	6	3	50%
Oil palms	2	1	50%
Chemicals and pharmaceuticals	6	3	50%
Diversified holdings	3	1	33%
Manufacturing	5	1	20%
Plantations	1	0	0%
Footwear and textile	1	0	0%
Hotels and travels	2	0	0%
Investment Trust	1	0	0%
Stores and supplies	1	0	0%
Information technology	2	0	0%

Source: Author Constructed

Correlation Analysis

Table 8 shows the correlation analysis between the dependent variable, independent variables and control variables. The Pearson correlations coefficient reported in the below table suggest that the multicollinearity is not serious for the independent variables. As suggested by Gujarati (1988) in Jan (1998), simple correlations between independent variables are considered ‘‘harmful’’ when its exceed 0.80 or 0.90. The Pearson correlations between independent variables in this study were range ‘‘between’’ -0.012 to 0.266 which is not exceeding 0.80 or 0.90.

Table 8: Correlation analysis

	Total CSR Score	1	2	3
	1			
Total CSR Score				
	64			
	0.168	1		
Board Duality	0.184			
	64	64		
	0.034	-0.018	1	
Board Independence	0.79	0.886		
	64	64	64	
	0.105	-0.048	-0.087	1
Board Size	0.41	0.709	0.492	
	64	64	64	64
	0.156	-0.214	-0.045	0.12
Audit Committee Independence	0.219	0.089	0.726	0.347
	64	64	64	64
	.266*	0.139	.248*	.394**
No of total directors in Audit committee	0.034	0.275	0.049	0.001
	64	64	64	64
	-0.012	-0.192	0.11	-0.218
Foreign Ownership	0.925	0.132	0.39	0.085
	63	63	63	63
	0.153	-.356**	0.197	0.168
Total Assets	0.229	0.004	0.119	0.186
	64	64	64	64
	0.2	0.026	-0.134	-0.185
ROA	0.113	0.84	0.291	0.143
	64	64	64	64

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source : Author Constructed

Table 8: Correlation analysis

	4	5	6	7	8
Total CSR Score					
Board Duality					
Board Independence					
Board Size					
Audit Committee Independence	1				
	64				
No of total directors in Audit committee	-0.083	1			
	0.516				
	64	64			
Foreign Ownership	-0.172	-0.048	1		
	0.178	0.711			
	63	63	63		
Total Assets	0.043	0.223	0.175	1	
	0.735	0.076	0.17		
	64	64	63	64	
ROA	-0.21	-.263*	.451**	-0.077	1
	0.095	0.035	0	0.545	
	64	64	63	64	64

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Author Constructed

Regression Analysis

Model 1 in Table 9 showed regression analysis of control variables for total assets (firm size), return on equity (profitability), and debt to equity (leverage). The model is significant with R square 0.159, Adjusted R square 0.117, R square change 0.145 and F Value 3.795. The result showed that the ROE (β=+0.305, p=0.014) have a positive influence on CSR disclosure. This implies that model 1 in the Table 9, the coefficient of determination (R square) was found to be 15.9 percent of the level of CSR disclosure is explained by firm's size, Leverage and profitability of the companies. It can be observed that the firms size (total asset) and leverage (debt to equity ratio) did not have significant relationship with CSR disclosure at the 0.05 level of significant (P=0.22, 0.179). It can be observed that the ROE (profitability) have significant and positive relationship with CSR disclosure at the 0.014 level of significant.

Table 9: Detail results of the regression analysis

Variables	Beta model 1		Beta model 2	
Control variables	**Beta**	**Sig.**	**Beta**	**Sig.**
Total assets	0.147	0.22	0.217	0.096
Return on equity (ROE)	0.305	0.014	0.307	0.016
Debt to Equity ratio	0.164	0.179	0.198	0.131
Independent Variables				
Board duality			0.229	0.086
Board Independence			0.054	0.657
Audit Committee			0.199	0.113
Foreign ownership			-0.094	0.51
Board size			0.033	0.802
R square	0.159		0.255	
Adjusted R square	0.117		0.146	
R square change	14.5		14.31	
F value	3.795		2.347	
Sig. F change	0.015		0.03	

Source: Author Constructed

Model 2 in the Table 9, by adding all the model variables, the R square is increased to 25.5 percent (this represents the model as a whole) and the R square change is 14.31 percent and is significant. This implies that the additional 10 percent of the variation in CSR disclosure is explained by CG characteristics. R square change of 10 percent means that the CG characteristics explain additional 10 percent of the variance in CSR disclosure even when the effects of firm's size and profitability of the companies are statistically controlled for.

The independent variables were not most significant with $p > 0.05$. The result is not consistent with the study done by Eng and Mak (2003) and MohdNasir and Abdullah (2004). Audit committee, board size, board independence is positively correlated and weak significant with $\beta>0$ at $p >0.05$. Foreign ownership is negatively correlated and weak significant with $\beta= -0.094$ at $p=0.51$.

Summary of hypotheses

Table 10: Supportiveness of hypothesis

Summary Of Hypothesis	
H1: There is a positive relationship between board size and level of CSR disclosure.	Accepted
H2: There is a positive relationship between proportion of independent directors in audit committee and the level of CSR disclosure.	Accepted
H3: Companies which are having CEO duality are more likely to have a lower extent of CSR disclosure.	Accepted

Source: Author Constructed

5. Conclusions and Directions for Future Research

There are number of gaps identified in the study which was aimed to find the relationship between selected Corporate Governance practices and Corporate Social Responsibility Disclosures. This study is heavily depending on secondary data. This implies that the study findings are not exactly accurate and it is depending on third party data collection. The way of data collection is collecting data through the company annual report. Therefore, study has been limited to one way of data collection. It would be much accurate and reliable if primary data could be collected rather secondary data which are less relevant and objective. In this study it was fully dependent on second hand data which were already available and collected for other purposes. Further researchers can enhance the credibility of the research outcome by collecting required data using interviews with responsible personnel, direct questionnaires or direct observations.

Sample of the study is limited to only 64 public listed companies and Sample selection of the study is done randomly to represent the all business sectors other than Bank, Finance and Insurance sector. This is not representing the whole sample. Therefor there is a problem with generalization of the findings. Further it is suggested that increasing the number of companies considered would be better to explain the theory relatively to the population.

This study is focused only on 05 aspects of the corporate governance practices and 51 corporate social responsibility disclosures. There can be other practices which might have exercised by companies. Having this limitation in this study can challenge the accuracy of findings. Further research could be conducted considering other CG practices along with the selected practices in this research. To build the hypotheses study is considered control variable to derive the relationship equation. Under this study it has been considered only few control variables such as Profitability, Leverage and Firm size. But the problem with regard to this is that there are other control variables that can be influenced to companies CSR disclosures.The study identified only three control variables which are not realistic since future research can move their attention towards considering other variables which can drive CSR.

Study does not focus on the information of Private Limited Companies. Therefore, again there is a problem with generalization of the findings.Since it would be a better approach to collect data from other organizational forms such as Private Limited Companies.

When reviewing the previous literature found in Sri Lankan context, there were limited number of studies which have been conducted to find the relationship between corporate social responsibility disclosures and corporate governance characteristics. The objective of this study was to find knowledge on the availability of such relationship between selected CG practices and level of CSR disclosures. This study was conducted using information of 64 companies out of 226 public companies listed in Colombo Stock Exchange as at 31st March 2016 which will represent sample and the population for the study respectively.

Under the positivistic paradigm using quantitative approach to research, published annual reports for the period of 2015/16 were used to collect data relating to the CG characteristics & CSR disclosures and to evaluate the significance of selected corporate governance characteristics in determining the level of CSR disclosures of public listed companies in Sri Lanka.

In this study, three testable assumptions were constructed which explain the governance characteristics of the firm; Board size, Audit Committee and CEO duality. For achieving the objective of the study a descriptive statistical analysis, correlation analysis and multiple regression analysis were used. The correlation analysis revealed that there is a less significant positive relationship between board size and level of CSR disclosure and there is a weak significant ($P<0.05$) positive relationship between proportion of independent directors in audit committee and the level of CSR disclosure. Companies which are having CEO duality are more likely to have a lower extent of CSR disclosure with a less significant ($P<0.05$).

According to the results it can be observed that the firms size (total asset) did not have significant and positive relationship with CSR disclosure at the 0.05 level of significant ($P=0.22$). It can be observed that the ROE (profitability) have significant and positive relationship with CSR disclosure at the 0.014 level of significant. Overall it was observed that even the independent variables were not much significant with $p > 0.05$ with corporate social responsibility disclosures, but can identify the positive relationship with the selected corporate governance practices and corporate social responsibility disclosures.

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Appendices

Appendix 1: Corporate Social Responsibility Variables Index.

Environmental Disclosure

1) The company’s policy towards the environment.
2) Contribution in the environment protection programs
3) Conservation of natural resources
4) Recycling plant of waste products
5) Disposal of waste in a proper manner
6) Compliance with environmental regulations and requirements
7) Air Emission Information
8) Energy saving
9) Pollution control or voice for the prevention or repair of environmental damage
10) Tree Plantation
11) Water discharge information
12) Promoting environmental awareness to the community through promotional tools
13) Total fuel consumption from non-renewable sources
14) Awarded by ISO 14001

Employee related disclosure

15) Human resource development (e.g. training program/scheme)
16) Education facilities
17) Health arrangements
18) Safety arrangement
19) Discussion on strikes, industrial actions
20) Special loan interest rate
21) Establishment of training centers
22) Discussion on staff accommodation or staff home ownership schemes
23) Discussion on the company's relationship with trade union and/ or works
24) Policies for the company’s remuneration package/scheme
25) Number of employees in the company
26) Employee share purchase scheme

27) Pensions schemes
28) Award program for employee or scholarship for child of workers
29) Number of employees trained
30) Number of Accidents
31) Cost of employee’s safety measures
32) Rate of employee turnover
33) Rate of absenteeism
34) Job rotation and mobility schemes

Community related disclosure

35) Donations to the charity, arts, sports, etc.
36) Sponsoring educational seminars and conferences
37) Sponsoring education and scholarship for students
38) Conducting projects in poor areas
39) Cash donation program for disaster people
40) Donation of costly medical equipment in different medical hospital
41) Donation of cash money for operation theatre for kidney hospital
42) Organizing different local and international student’s competitions
43) Internship facility for universities students with cash allowance
44) Awarded by SA 8000

Product related disclosure

45) Developments related to the company’s products including its packaging
46) Research projects set up by the company to improve its product in any way
47) Product quality
48) Responsiveness to customer complaints
49) Compliance with customer protection legislation
50) Customer service programs, market, research, product, warranty, educate customers about goods being sold
51) Improvement of customer service