ASSOCIATION BETWEEN CORPORATE GOVERNANCE PRACTICES AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURES OF PUBLIC LISTED COMPANIES IN SRI LANKA

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Abstract

The key objective of this study was to examine how Corporate Governance (CG) Practices would influence the Corporate Social Responsibility (CSR) Disclosures. For this purpose, With reference to the literature survey, it was noted that the in the Sri Lankan context, studies that examined this relationship is lacking. On this grounds, this study would be a pioneering study to develop indices and to examine the relationship between Corporate Governance Practices and Corporate Social Responsibility Disclosures in Sri Lankan context. Data was collected from annual reports for both 2014 and 2015 form the Colombo Stock Exchange (CSE) website selected based on the highest hundred market capitalized companies listed in Colombo Stock Exchange as at 31st March 2016. Correlation and regression analyses were the main methods used for analyzing the gathered data. The results of the correlation analysis revealed that there is a statistically significant positive relationship between Corporate Governance Practices and Corporate Social Responsibility Disclosures in terms of the main corporate governance index and its sub-indices: Leadership (***CG_LDRSHP***), Effectiveness (***CG_EFFEC***), Accountability (***CG_ACCOUN***), Remuneration (***CG_REMU***) and Relationship with shareholders (***CG_RLSHP***). Furthermore, the multivariate pooled regression analysis showed that there an statistically significant positive association between corporate governance main index, effectiveness and relations with shareholders with CSR disclosures. Thus, overall, based on the results of this study, it is concluded that better corporate governance leads to better corporate social disclosures for the selected companies in the Sri Lankan context.

Key words: Corporate governance practices, Corporate social responsibility disclosures, Sri Lanka

Introduction

Corporate Governance is one way of ensuring that shareholder rights are safeguarded, stakeholder and manager interests are reconciled, and that a transparent environment is maintained wherein each party is able to assume its responsibilities and contribute to the corporation's growth and value creation (Jamali, Safieddine & Rabbath 2008). Thus, it is not always about shareholders but stakeholders which comprise a wider scope. This is where both corporate governance (CG) and corporate social responsibility (CSR), set into one platform.

In present context, business corporations immensely take part in CSR activities than ever because many executive positions consider it as a fundamental factor to create a competitive edge (Jamali 2008). Price water house coopers (PWC) international survey in early 2002 found that nearly 70 per cent of the global chief executives believed that addressing CSR was vital to their companies' profitability (Simms 2002). The concept of CSR developed years ago in the Western world since the 1950s, is novel to developing countries such as Sri Lanka. The aim of this research is to find the influence of CG Practices over CSR Disclosures. It originates by examining the role of CG Practices in an organization and measuring the level of Corporate Governance Practices of selected sample companies using an index. Furthermore, study would be extended to measure the level of CSR Disclosures using an index.

Problem and Research Questions

As per the referred literature (Kilic 2016, Majeed et. al. 2015, Sun 2015), most of the researches show a positive relationship between two variables. Hence, companies are less likely to engage in CSR Disclosures if CG Practices are not implemented effectively. Apparently, less CG Practices will reduce CSR Disclosures as well. Apart from that, the magnitude of CG around the world, there have been very limited studies pertaining to the effect of CG variables such as CG Practices and CSR Disclosures in Sri Lanka except the study carried out by Thilakasiri in 2013. With reviewed literature in Sri Lankan context there is a dearth in literature in this phenomenon. Thus, by carrying out this research, any gap prevailed with regard to studies combining the association between CG and CSR in Sri Lankan context will be bridged. Therefore, research question of this research would be to identify whether there is a statistically significant association between CG Practices and CSR Disclosures of public listed companies in Sri Lanka.

Objective of the Study

Main objective of this study is to observe whether there is an association between the level of Corporate Governance Practices and Corporate Social Responsibility Disclosures of companies listed in Colombo Stock Exchange (CSE) of Sri Lanka as at 31st March 2016. Accordingly, our main objectives of the research would be,

1. Assessing the level of Corporate Governance Practices by developing CG index for the first hundred companies in order of highest market capitalization as at 31st March 2016.

2. Assessing the level of the Corporate Social Responsibility Disclosures by developing a CSR index for the first hundred companies in order of highest market capitalization as at 31st March 2016.
3. Identifying the relationship between the level of Corporate Governance Practices and the Corporate Social Responsibility Disclosures for the first hundred companies in order of highest market capitalization as at 31st March 2016.

Significance of the study

One of the practical significances of this study would be to provide guidance for the companies who actively concern on CG Practices and CSR Disclosures in Sri Lanka. Further, the process of developing a CSR framework can be useful for management as well as stakeholders to help them understand the concept of CSR and enhancement of scope of CSR activities. Hence CSR concept is a voluntary participation and recognized internationally, numerous privileges are brought to company and its stakeholders, it is indeed to identify the influence of the CG Practices towards them whether there is any association between aforesaid concepts.

In Sri Lankan context, separate studies on CSR Disclosures and CG Practices have been done by scholars and any research regarding the association between these two concepts has not been came across in literature survey. For the lack of conclusions on association between two concepts in developing countries like Sri Lanka, this study will provide a conclusion or in other words solution to those problems. Moreover, this research is introduce a CSR Index with 91 criterion to measure the various aspects of CSR Disclosures. A CSR index has not been developed so far in empirical researches and this study is introducing the index with compliance to GRI guidelines and relevant research findings. Consequently, this study results will support to enhance the existing theoretical aspects and encourage researchers more towards the similar researches by overcoming the limitations of this study.

2. Literature Review

This section of the article would brief the referred literature regarding dimension of Corporate Governance and Corporate Social Responsibility, Association between variables and development of indices.

Corporate Governance

Corporate Governance (CG) plays a vital role in the corporate world. Cadbury Committee (1992) offers a more expansive definition of CG as the mechanism through which companies are managed and controlled. Further to this basic concept Johnson, Whittington and Scholes (2011) explain CG as the structures and systems of control by which managers are held accountable to those who have a legitimate stake in organization. MacMillan et al (2004) emphasized in their research as a broader CG conception, emphasizing every business' responsibilities toward the different stakeholders.

Combining the concept of power to CG, Litch (2002) has defined Governance as the Rules and structures for wielding power over other people's interests, including the use and abuse of power.

Corporate Governance is also intimately concerned with honesty and transparency, which are increasingly expected of the public both in corporate dealings and disclosure (Page 2005) Supporting this concept Bronsonetal (2009) and Jaggietal (2009) have also discussed in their researches that Board of Directors and audit committee characteristics like independence and expertise ensure good governance and high-quality financial reporting. In Cadbury (2000) report, it has emphasized that transparency and disclosure of information between managers and employees are essential to earn employee trust and commitment. Recent views on CG highlighted that the consequences of corporate actions are not limited to internal claimholders but also affect external stakeholders i.e. the environment, society and the economy. This all-encompassing view of CG and further argue that CSR constitutes an integral component of good CG (Jamali 2016).

Corporate Social Responsibility

Corporate Social Responsibility (CSR) concept is not an unfamiliar concept in the business world. Infact, according to Zairi (2007), the concept has been around for more than two decades and during the latter half of twentieth century there arose the idea of the corporate social contract, which today underlies the CSR concept. Skouloudis et al. (2014), in their research has identified CSR as a one of the non-financial disclosure practices of entities. Moir (2001) on the other hand describes CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on voluntary basis (Commission of the European communities, 2001) while IBLF (2003) defines CSR as open and transparent business Practices based on ethical values and respect for employees, communities and the environment, which will contribute to sustainable business success.

In the current era, more and more companies are initiating Corporate Social Responsibility (CSR) programs and include such issues in their public communications, for example in annual reports and separate, thematic reports (Corporate Register 2008, Knox et al. 2005). Furthermore, accounting scandals and corruptions took place recently in business world is also another main reason for entities to give a second thought on CSR disclosures. This has been discussed by Kiliç et al. (2015) that focusing only on financial results while ignoring businesses' non-financial aspects have caused companies to fail. Both Arvidsson (2010) and Khan et al. (2013) have identified CSR is used by companies that wish to establish legitimacy. CSR also help to build a good corporate image (Hinson, 2011). Companies can face claims and adverse reactions from a wide stakeholder group because of the rising expectations of good corporate practice (Ogrizek, 2002). Thus, Barako and Brown (2008) suggest that entities try to respond to stakeholders' expectations through their CSR communications channels.

Association between Corporate Governance Practices and Corporate Social Responsibility Disclosures

The two variables, Corporate Governance Practices and Corporate Social Responsibility Disclosures are related in both aspects of positive and negative as per the findings of the research articles referred.

Positive Relationship

The evidences found are related to the direct and indirect analyses of the effect of CSR on the firm's profits (cost to the supplier of CSR - firm) and also to the performance of socially responsible investments (the demander of the same good- investor). Beltratti (2005) has considered both the cost and the benefit of CSR. A study conducted considering Bangladesh companies by Muttakin et al. (2012) has been able to find out that CG elements like managerial ownership, public ownership, foreign ownership, board independence, CEO duality and presence of audit committee have played a vital role in influencing the CSR Disclosures.

Bhimani and Soonawalla (2005) stated that the concepts of Corporate Governance and CSR are two sides of the same coin while Baldarelli and Gigli (2011) emphasized that the development of CSR initiatives concerns the Corporate Governance level and can contribute to persistent profitability and superior performance. Waleed et al. (2015) have proved that corporations with larger boards, a big 4 auditor, higher government ownership, a CG committee, and higher institutional ownership disclose considerably more on Corporate Governance than those that are not. This shows that higher the importance of the efficient use of resources and requirement to the stewardship of those resources to the management, more the focus on Corporate Governance will be.

According to Jamali (2008), CG and CSR should always be considered together because a company without an efficient long term view of leadership, effective internal control mechanisms and a strong sense of responsibility with regard to internal stakeholders cannot possibly pursue genuine CSR. Habash (2016), has concluded after studying Saudi Arabian companies that there is a significant positive relationship between government ownership, family ownership, firm size, firm age and CSR Disclosures. Majeed et al. (2015) have found a significant positive association between Institutional Ownership and CSR reporting with respect to companies registered in Karachi Stock Exchange, Pakistan. Habash (2016) has also mentioned that the positive association is more between the CG variables and CSR reporting after the implementation of the new CG index in Saudi Arabia after 2007.

Negative Relationship

There has been a negative relationship between Managerial Ownership and CSR Disclosures, according to Khan et al. (2012), which has been found by a study conducted targeting emerging economies as a result of their dominance than the other investors, and they have shown less interest in the CSR activities. Madueño et al. (2016) support the idea that strategic incorporation of socially responsible actions, more concerned and engaged with stakeholders, contributes to improve the competitiveness of these organizations. In Classon & Dahlstrom (2006) article on "How CSR affects company performance? They've mentioned that customers are ready to boycott which do not behave socially responsible. CSR has influenced customer perception on a product or service offering and in the end affect company performance through the links in the CSR-Performance Chain. Furthermore, it's found that, level of CSR Disclosures of must lie on or above customer's' baseline (i.e. minimal acceptable level) in order for them to avoid boycotts, since boycotts affect company performance negatively. Klein (1998) does not show a relation between overall board independence and operating performance, but does between insider presence on certain (finance and investment) committees and operating performance. Yermack (1996) documents an inverse relation between board size and firm profitability.

CG Index and CSR Index model development

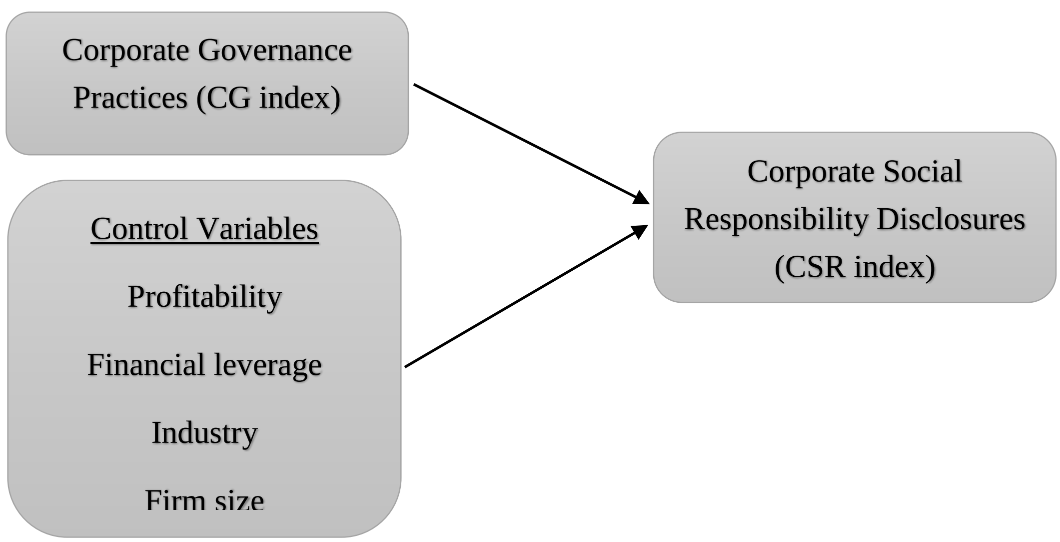
CSR has been discussed by many of the prior studies by segregating it into many sub categories. Ernst and Ernst (1978) in their research have classified CSR disclosure as environment, energy, fair business practices, human resources, products and customers, and community. Branco and Rodrigues (2006) as environment, human resources, products and customers, and community involvement. Hackston and Milne (1996) as environment, energy, employee health and safety, products, and community involvement; Gao et al. (2005) as environment, energy, health and safety, human resources, community involvement, and fair business practices. Kiliç (2016) as environment and energy, human resources, products and customers, and community involvement. A comprehensive categorization of CSR is included in the Global Reporting Initiative (GRI), issued by the Global Sustainability Standards Board. This guideline mainly includes three main categories namely, Economic, Environmental and social and under each of the categories further sub categories are presented.

Many of the prior researchers who used a CG Index in their data collection has associated with the CG index developed by Institutional Shareholder Service (ISS). It basically includes sixty one variables under eight main categories. Board structure and composition, audit issues, charter and by law provisions, laws of the state of incorporation, executive and director compensation, qualitative factors, director and officer stock ownership and director education are the main areas covered under the ISS CG index. Bowns and Caylor (2006, 2009) have used this index to develop a separate CG index called Gov-Score. Contrasting the ISS index with the Gov-Score instead of 61 variables in the index developed by Brows and Caylor (2006) has only fifty one binary variables which is firm specific as well. In Sri Lankan context the Corporate Governance is being much discussed by the Institute of Charted Accountants in Sri Lanka (ICASL) in their Code of Best Practice on Corporate Governance 2013.

Theoretical Framework

After analyzing other empirical studies, the following model is developed for the study. This model includes Independent variables and dependent variables are depicted in figure 1 as below.

Figure 1 Theoretical Framework



Source: Constructed by Authors

Hypothesis

According to the theoretical model and the identified independent, dependent and control variables in the previous section, the hypotheses are constructed to understand, association between corporate governance practices and corporate social responsibilities. Table 1 provides the definitions of the selected variables.

Table 1: Definition of Variables

Variable Name	Variable Description	Denotation
Independent Variable - Main Corporate Governance Index		
Corporate Governance	Disclosures about Corporate Governance Practices under selected 31 variables (*Appendix 01*) which would be listed below under sub-indices. Presence of CG practices would be scored as 1 and absence would be scored as 0.	***CG***
Sub Independent Variables – Sub Indices		

Leadership	Disclosures about the role of the board, Division of responsibilities, CEO Duality and Non-Executive directors will be scored with 1, otherwise 0		***CG_LDRSHP***
Effectiveness	Disclosures about the composition of the board, Appointment of the board and Evaluation of the board will be scored with 1, otherwise 0		***CG_EFFEC***
Accountability	Disclosures about financial and business reporting, Risk management and control, Audit committee and audit will be scored with 1, otherwise 0		***CG_ACCOUN***
Remuneration	Disclosures about the Level and components and Procedures will be scored with 1, otherwise 0		***CG_REMU***
Relationship with shareholders	Disclosures about the Dialogue with shareholders and Constructive use of general meetings will be scored with 1, otherwise 0		***CG_RLSHP***
Dependent Variable			
Corporate Social Responsibility	Disclosures about Corporate Social Responsibility under selected 91 variables (*Appendix 02*) are scored with 1, otherwise 0		***CSR***
Control Variables			
Profitability	Return on Equity	ROE was calculated based on the equation turnover divided by the equity of the shareholders. Gathered data was winsorized by 5%.	***ROE***
	Return on Assets	ROA was calculated based on the equation turnover divided by the total assets of the company. Gathered data was winsorized by 5%	***ROA***
Financial Leverage	Debt to Equity Ratio		***DEBTOEQT***
Industry	Sectors of the company belongs to		***SECTOR***
Firm Size	Natural Log of Assets		***LnTA***

Source : Constructed by Authors

The independent variable of the study would be CG practices. An index was developed based on the Code of Best Practice 2013. This index consists with 31 criterion which is required by Code of Best Practice 2013. (*Appendix 01*) These 31 criterion are sub categorized into five sections. I.e. leadership, effectiveness, accountability, remuneration and relations with shareholders. Sub-indices were developed based on this categorization.

CSR disclosures would be the dependent variable of the study. Another index was developed to measure the CSR Disclosures of the selected sample based on the Global Reporting Initiative (GRI) guidelines. 91 criterion are used to construct this index under three sub categories. I.e. environmental, economic and social. (*Appendix 02*)

The following hypotheses are constructed:

H1: There is a statistically significant association between Corporate Governance (***CG***) Disclosures and Corporate Social Responsibility (***CSR***) Disclosures.
(i.e., there is a statistically significant association between leadership, effectiveness, accountability and remuneration and CSR Disclosures)

H1a: There is a statistically significant association between the Leadership (***CG_LDRSHP***) and CSR Disclosures
(i.e., there is a statistically significant association between the role of the board, division of responsibilities, Chairman and non-executive directors and CSR Disclosures)

H1b: There is a statistically significant association between Effectiveness (***CG_EFFEC)*** and CSR Disclosures
(i.e., there is a statistically significant association between the composition of the board, appointment of the board and evaluation and CSR Disclosures)

H1c: There is a statistically significant association between Accountability (***CG_ACCOUN)*** and CSR Disclosures
(i.e., there is a statistically significant association between financial and business reporting, risk management and control and audit committee and auditors and CSR Disclosures)

H1d: There is a statistically significant association between Remuneration (***CG_REMU)*** and CSR Disclosures
(i.e., there is statistically significant association between the levels of components, procedure and CSR Disclosures)

H1e: There is a statistically significant association between Relationship with shareholders (***CG_RLSHP)*** and CSR Disclosures
(i.e., there is a statistically significant association between dialogue with shareholders and constructive use of general meetings and CSR Disclosures)

3. Methodology

This section of the study would brief the research approach, population and sample, data collection and strategy for analysis of the study.

Research Approach

Data from annual reports and company websites are gathered and analyzed to identify whether there is a statistically significant association between CG practices and CSR Disclosures. Based on the deductive approach, first hypotheses will be developed from the existing theories, next data will be collected and analyzed and finally the hypotheses will be accepted or rejected based on the statistical analysis performed.

Population and Sample

A sample was chosen from the Colombo Stock Exchange in Sri Lanka (CSE). 100 companies from Colombo Stock Exchange in Sri Lanka were chosen. Selection base was the highest market capitalization as at 31st March 2016. The reason behind the selection base for the research sample is, the companies which have the higher market capitalization have the higher probability to engage in more corporate social responsibility activities and to disclose them to their stakeholders (Khan 2010 ;Siregar & Bachtiar 2010; Ghazali M 2007). Data for both financial periods: 2014 and 2015 were selected.

Data Collection

Annual reports for the most recent two years of the selected 100 companies will be downloaded from Colombo Stock Exchange official web site (www.cse.lk) and extra data will be collected through official web sites of the companies. Next, for the purpose of analysis the data was entered into SPSS software.

Strategy for Analysis

A self-developed index is used to measure effectiveness of CG in companies and their association influence towards CSR Disclosures. In order to obtain the desired output Descriptive and Inferential analysis are decided to exercise using Statistical Package for Social Sciences (SPSS) software.

Descriptive statics for control variables are calculated using gathered data which are winsorized to limit the extreme values in the statistical data to reduce the effect of possibly spurious outliers.

Pooled regression analysis is carried for CG practices and CSR disclosures to analyze the association between these two variables. Further, relationship between the main categories considered under Corporate Governance index i.e. Leadership, Effectiveness, Accountability, and Relationship and CSR Disclosures were analyzed. Basic regression equations constructed for the study are as follows.

$\text{CSR Disclosure}_i = \alpha + \beta \text{ CG Main Index}_i + \beta \text{ Control Vars}_i + \mu_i$ - Equation 1

$\text{CSR Disclosure}_i = \alpha + \beta \text{ CG Sub-Indices}_i + \beta \text{ Control Vars}_i + \mu_i$ - Equation 2

Here $_i$ denotes the firm. CSR Disclosures is the dependable variable of firm $_{i,}$ β represents the coefficient of the variables. CG char is to represent the Corporate Governance sub categories (i.e. Leadership, Effectiveness, Accountability, Remuneration, Relationship with shareholders) for the firm $_{i,}$ Control Char represents the control variables (i.e. ROE, ROA, Debt to Equity ratio, Total Assets), μ_i is a disturbance term due to unobservable individual effects.

Based on the results of the regression analysis, it is investigated whether there is a positive relationship between CG Practices (for both the main index and sub-indices) and CSR Disclosures.

4. Analysis and Discussion

To meet the above mentioned research objectives, gathered data are analyzed. Descriptive statistics, correlation analysis and regression analysis are the main modes of analyzing the gathered data. Descriptive would summarized the collected data and correlation analysis and regression analysis would identify the relationship between CG Practices and CSR disclosures. Further details of the data analysis are documented as follows.

Descriptive analysis

Table 2 represents the sample of 100 companies listed in the Colombo Stock Exchange having the highest market capitalization as at 31st March 2016 categorized according to their sector. Out of the 100 companies a total of 26% (*n*=26) are from Bank Finance and Insurance industry (***BFI***). Beverage Food and Tobacco industry (***BFT)*** representation is 14% (*n*=14) and Chemical and Pharmaceutical (***CHPH***) companies represents 11% (*n*=11). There are 10% (*n*=10) of Construction and Engineering (***CONENG***) companies 8% (*n*=8) of Diversified Holdings (***DIVHOL***), 5% (*n*=5) of Footwear and Textiles (***FWTX***) companies, 4% (*n*=4) of Healthcare (HLTH) companies. Hotel and Travel (***HOTE***) companies, Investment Trust (***INVTRUS***), Land and Properties (***LANDP***) and Manufacturing (***MANU***) companies each represent 3% (*n*=3) out of the sample respectively. Similarly 2% (*n*=2) is represented in Motor (***MOTO***), Oil palm (***OILP***), Plantation (***PLANTA***), Power and Engineering (***PWRENG***) companies (*n*=2). The least representation in the total sample is from Telecommunication (***TELECOM***) and Trade (***TRAD***) industries which is 1% (*n*=1)

Table 2: Sample Distribution by Industry

Sector	Frequency	%
BFI	26	26
BFT	14	14
CHPH	11	11
CONENG	10	10
DIVHOL	8	8

FWTX	5	5
HLTH	4	4
HOTE	3	3
INVTRUS	3	3
LANDP	3	3
MANU	3	3
MOTO	2	2
OILP	2	2
PLANTA	2	2
PWRENG	2	2
TELECOM	1	1
TRAD	1	1
Total	100	100

Source: Constructed by Authors

Table 3 summarizes the descriptive statistics for the sample of the firms aggregated for two years 2014 and 2015. The descriptive statistics includes minimum, maximum, mean and standard deviation for the variables. Accordingly, the Corporate Governance Disclosures (***CG***) is scored at 6 minimum and 29 maximum. This indicated that almost all the companies have disclosed CG at least to a certain extent in their annual reports and websites. In contrast, Corporate Social Responsibility Disclosure (***CSR***) varies from 0 to 91 range. Unlike CG, there are certain companies within the selected sample, which does not have any CSR disclosures in their annual reports or in websites. There is a mean of 22 for both the CG and CSR Disclosures. Standard Deviation varies from 5 to 17 respectively.

Return on Assets (***ROA***) of the selected companies range from 0.01 to 8 whereas the Return on Equity (ROE) varies from 0.01 to 17.08. On average ROA and ROE for the highest capitalized 100 companies is 0.96 and 2.83 and the standard deviation is 2.12 and 5.53 respectively. Total asset on average amounts to 26,275 Million.

Table 3: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CG	200	6	29	22	5
CSR	200	0	91	22	17
ROA	200	0.01	8	0.96	2.12
ROE	200	0.01	17.08	2.83	5.53
TA	200	6,535,141	164,405,799,000	26,275,585,759	42,860,000,000
DEBTOEQT	200	0.01	11.4	2.09	3.23

Source: Constructed by Authors

In the study there are five sub categories identified under CG index. As indicated in the Table 3.1, Leadership (***CG_LDRSHP***) ranges in between 2 and 7 at maximum. The mean number of Leadership disclosures scores at 4.89. The maximum number of disclosures regarding CG is under the Accountability category with an average of 8.9. However, there are firms which do not include any disclosures regarding Remuneration and Relationship with shareholders. The score ranges in between 0 to 2 for both sub categories. CG disclosures about Effectiveness category scores 1 at minimum and 8 at maximum with a mean value of 5.

Table 3.1: Descriptive Statistics- CG Sub categories

	N	Minimum	Maximum	Mean
LDRSHP	200	2	7	4.89
EFFEC	200	1	8	5.6
ACCOUN	200	3	10	8.945
REMU	200	0	2	1.25
RLSHP	200	0	2	1.615

Source: Constructed by Authors

Correlation Analysis

Table 4 shows the correlation between the independent variable (***CG***) and dependent variable (***CSR***). The Spearman's correlations coefficient indicated in the above table suggests that there is a positive relationship in between CG Disclosures and CSR Disclosures. The significant correlation coefficient of 0.385 ($p<0.01$) provides evidence about positive relationship in between CG and CSR Disclosures thus supporting the H1 set in the study on a bivariate basis.

Further, the main categories considered under CG index, Leadership (***CG_LDRSHP***), Effectiveness (***CG_EFFEC***), Accountability (***CG_ACCOUN***), Remuneration (***CG_REMU***) and Relationship with shareholders (***CG_RLSHP***) are separately tested to identify any association with CSR Disclosures.

Table 4

	CSR	***CG***	***LDRSHP***	***EFFEC***	***ACCOUN***	***REMU***	***RLSHP***	***ROA***	***DEBTOEQT***	***ROE***
CSR	1									
CG	0.385**	1								
LDRSHP	0.190**	0.799**	1							
EFFEC	0.419**	0.888**	0.526**	1						
ACCOUN	0.281**	0.820**	0.571**	0.666**	1					
REMU	0.168*	0.707**	0.629**	0.509**	0.569**	1				
RLSHP	0.376**	0.535**	0.347**	0.453**	0.388**	0.195**	1			
ROA	0.212**	0.360**	0.224**	0.296**	0.285**	0.409**	0.329**	1		
DEB_TO_EQT	0.082	0.259**	0.111	0.261**	0.255**	0.311**	0.168*	0.186**	1	
ROE	0.187**	0.553**	0.445**	0.437**	0.452**	0.532**	0.426**	0.618**	0.299**	1
LnTA	0.040	0.031	0.087	-0.055	0.063	0.037	0.024	0.002	0.215**	0.137

*p<0.05, **p<0.01

Source: Constructed by authors

Accordingly, all the categories except Remuneration (***CG_REMMU***) have a significant positive relationship with CSR Disclosures. There is a significant positive correlation coefficient of 0.190 ($p<0.01$) between Leadership (***CG_LDRSHP***) and CSR Disclosures and similarly the positive correlation coefficient of 0.419 ($p<0.01$) in between Effectiveness and CSR Disclosures. Accountability and Relationship with shareholders also have a positive correlation coefficient of 0.218 ($p<0.01$) and 0.376 ($p<0.01$) with CSR Disclosures respectively. Moreover reumeration related corporate governance practices ***(REMU)*** and CSR disclsoures also has a positive relationship on a significant level $p<.05$. Hence, these positive associations support the *H1a, H1b, H1c, H1d* and *H1e* set in the study on a bivariate basis. It could be observed that the strongest association among above variables is in between the Effectiveness and CSR Disclosures.

When analyzing the correlation in between the Return on Assets (***ROA***),Return on Equity (***ROE***), Debt to Equity ratio (***DEBTEQT***), Natural log of Total Assets (***LnTA***) with Corporate Social Responsibility (***CSR***) Disclosures a significant relationship can only be seen only in two control variables. One such association is in between ROA and CSR Disclosures which has a 0.212 ($p<0.01$) correlation coefficient. The other association is in between ROE and CSR Disclosures with a correlation coefficient of 0.187 ($p<0.01$). However no relationship is observed in between Debt to Equity with CSR disclosures or Total assets with CSR Disclosures.

Pooled Regression Analysis

The study use regression analysis to test the relationships between the main and sub categories of CG index (independent variable) with the CSR Disclosure level. The basic regression equations of this study are as follows.

$$\text{CSR Disclosure}_{i} = \alpha + \beta \text{ CG Main Index}_{i} + \beta \text{ Control Vars}_{i} + \mu_{i} \qquad \text{- Equation 1}$$

$$\text{CSR Disclosure}_{i} = \alpha + \beta \text{ CG Sub-Indices}_{i} + \beta \text{ Control Vars}_{i} + \mu_{i} \qquad \text{- Equation 2}$$

Table 5 represents the results of the regression analysis. As can be seen from the table the regression model explained 9.9% ($F=4.248$; $p=0.000$) and 10.6% ($F=4.922$; $p=0.000$) of CSR Disclosures for the explanatory variables for main CG index and CG sub-indices. The regression model indicates a significant positive relationship between the main CG Index ($p<.01$) and CSR disclosures under first regression equation and in the second regression equation, both RLSHP (relationship with shareholders) and Effectiveness CG sub-indices have a significant positive relationship ($p<.05$) with CSR Disclosures. That is, when the main and sub-indices of CG in a company increases the CSR Disclosures will also increase. In terms of the sub-component Effectiveness, the finding implies that there is a statistically significant association between the compositions of the board, appointment of the board and evaluation and CSR Disclosures.

Table 5: Regression Analysis

	CG Main-Index and CSR (Equation 1)			CG Sub-Indices and CSR (Equation 2)		
	Coefficients	**t-value**	**VIF**	**Coefficients**	**t-value**	**VIF**
Intercept	-8.732	-.750		-11.127	-.835	
CG	.982**	3.595	1.191			
LDRSHP				-1.224	-1.097	1.981
EFFEC				2.002*	2.481	2.133
ACCOUN				.988	.725	1.998
REMU				-.364	-.132	2.236
RLSHP				5.060*	2.088	1.378
ROA	.945	1.584	1.143	1.032	1.696	1.245
DEB_TO_EQT	-.425	-1.067	1.185	-.528	-1.311	1.252
LnTA	.379	.957	1.076	.502	1.277	1.098
SECTOR	.017	.064	1.158	.004	.017	1.183
R^2 (%)		9.9%			14.7%	
F-value		4.248**			3.626**	

* p<.05; **p<.01

Source: Constructed by Authors

Moreover, in terms of the Relationship with shareholders the positive relationship can be noted as dialogues with shareholders and constructive general meetings and CSR Disclosures have a positive impact on the CSR disclosures. These finding confirm the hypotheses: *H1*; *H1b* and *H1e* of this study.

Discussion

The main objective of this study was to identify whether there is statistically significant association between CG practices and CSR disclosures. Recent views on CG highlighted that the consequences of corporate actions are not limited to internal claimholders but also affect external stakeholders i.e. the environment, society and the economy. This all-encompassing view of CG and further argue that CSR constitutes an integral component of good CG (Jamali 2016). This is consistent with the research findings of the study. The self-developed index was designed specifically for this study due to non-availability of such index in Sri Lankan context. However, there were some referred literature **(**Khan et al. (2012), Madueño et al. (2016), Classon &

Dahlstrom (2006)) which suggest that there is a negative relationship between CG Practices and CSR Disclosures. Complying with these claims made, the regression results of this study finds a significant positive relationship between corporate governance (CG) and corporate social responsibility disclosures (CSR), which confirms the hypothesis *H1*.

Next hypothesis set in this study is to test the association between Leadership and CSR Disclosures (*H1a*). Leadership is a sub category of CG index. Role of the board, division of responsibilities, Chairman and non-executive directors are taken as the indicators of effectiveness.
Muttakin et al. (2012) has been able to find out that CG elements like managerial ownership, public ownership, foreign ownership, board independence, CEO duality and presence of audit committee have played a vital role in influencing the CSR Disclosures. Moreover, according to Jamali (2008), CG and CSR should always be considered together because a company without an efficient long term view of leadership and a strong sense of responsibility with regard to internal stakeholders cannot possibly pursue genuine CSR. Nevertheless, the regression results of this study do not reveal that there is a positive relationship between Leadership and CSR Practices.

Third hypothesis of the study is to test the association between Effectiveness and CSR Disclosures (*H1b*). As a sub category of CG index, Effectiveness is measured using composition of the board, appointment of the board and evaluation. This the regression results of the study analysis indicated that there is a statistically significant positive relationship between Effectiveness and CSR Disclosures. Waleed et al. (2015) have found that corporations with larger boards, a Big 4 auditor, higher government ownership, a CG committee, and higher institutional ownership disclose considerably more on Corporate Governance than those that are not.

Association between Accountability and CSR are test as the fourth hypothesis of the study (*H1c*). Financial and business reporting, risk management and control and audit committee and auditors were considered as the indicators to measure the Accountability. Corporate Governance is intimately concerned with honesty and transparency, which are increasingly expected of the public both in corporate dealings and disclosure (Page 2005) Supporting this concept Bronsonetal (2009) and Jaggietal (2009) have also discussed in their researches that Board of Directors and audit committee characteristics like independence and expertise ensure good governance and high-quality financial reporting. In Cadbury (2000) report, it has emphasized that transparency and disclosure of information between managers and employees are essential to earn employee trust and commitment. In the current era, more and more companies are initiating Corporate Social Responsibility (CSR) programs and include such issues in their public communications, for example in annual reports and separate, thematic reports (Corporate Register 2008, Knox et al. 2005). However, against this literature, the regression results of this study did not find a positive relationship between Accountability and CSR Disclosures.

Fifth hypothesis of the study is to test the association between Remuneration and CSR Disclosures (*H1d*). To measure the remuneration, the Level and Components and Procedures were taken as indicators. Results of this study indicate that there is no relationship between Remuneration and CSR Disclosures. Studies on relationship between these two dimensions are hardly to discover. The results of the regression of this study did not find a statistically significant result between Remuneration related governance practices and CSR Disclosures.

Last hypothesis of the study is test the association between the Relations with Stakeholders and CSR Disclosures (*H1e*). Dialogues with Shareholders and Constructive Use of General Meetings are taken as indicators to measure the Relations with Stakeholders. Kiliç et al. (2015) has discussed that focusing only on financial results while ignoring businesses' non-financial aspects have caused companies to fail. Johnson, Whittington and Scholes (2011) explain CG as the structures and systems of control by which managers are held accountable to those who have a legitimate stake in organization. MacMillan et al (2004) emphasized in their research as a broader CG conception, emphasizing every business' responsibilities toward the different stakeholders. Supporting the referred literature, the regression results of this study also revealed that there is a positive relationship between the Relations with Stakeholders and CSR Disclosures.

5. Conclusion, Limitations and Future Directions

The prime objective of this study was to identify whether there is statistically significant association between Corporate Governance (CG) Practices and Corporate Social Responsibility (CSR) Disclosures of 100 companies chosen from the Colombo Stock Exchange in Sri Lanka based on the highest market capitalization as at 31st March 2016. A self-developed index (and sub-indices) is designed specifically for this study due to non-availability of such index in Sri Lankan context for corporate governance and a separate index was formulated for the corporate social responsibility based on the guidelines of the Global Reporting Initiative. Findings based on correlation analysis indicated that there is a statistically significant positive relationship between CG Practices and CSR Disclosures as indicated by the Main CG Index and its sub-indices: Leadership (***CG_LDRSHP***), Effectiveness (***CG_EFFEC***), Accountability (***CG_ACCOUN***), Remuneration (***CG_REMU***) and Relationship with shareholders (***CG_RLSHP***) with corporate social responsibility disclosures. The multivariate regression analysis indicated a significant relationship between main corporate governance index, board effectiveness sub-index and relationship with shareholders sub-index with CSR Disclosures. Referred literature also supported these hypothesizes. Overall, based on the results of this study, it could be concluded that better corporate governance leads to better corporate social disclosures.

However the study was carried under some limitations. These limitations could be taken as a guide for further studies. One of the major limitations of this study is it has taken only a sample from listed companies based on the market capitalization. This sample was only consisted with companies from 15 different sectors. But in Colombo Stock Exchange, there are 20 different sectors. Another major limitation is data were gathered only through annual reports and company web sites. There could be another form of communication media such as social media, journal, company newsletters, newspapers etc. to communicate the CSR engagements. Also there could be some other factors that can influence to the CSR Disclosures which can be only discovered through a primary data collection. Results and the conclusion of the study were arrived based on a self-developed indices. It was assumed that criterion taken for the indices are equally weighted. However, the weights from each criterion to for the CSR disclosures could be different.

Hence by considering the above mentioned limitations in-depth studies could be carried out to increase the generalizability of the results. As this is the first index to measure the CSR disclosures, more advanced indices could be developed by taking global CSR indices as benchmark. And also further studies could extend the data scope from secondary data to primary data.

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Appendix 01: CG Index

	Main Criterion	Sub Criterion	Description
01	Leadership	The role of the board	The annual report include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.
02			The annual report identify the chairman, the deputy chairman (where there is one) the chief executive, the senior independent director and the chairmen and members of the board committees.
03			Number of meetings of the board and those committees and individual attendance by directors.
04			The company should arrange appropriate insurance cover in respect of legal action against its directors
05		Division of responsibilities	The roles of chairman and chief executive are not exercised by the same individual.
06		The Chairman	Disclosure in the annual report if the CEO becomes the Chairman
07		Non-executive directors	The board appoint one of the independent non-executive directors to be the senior independent director
08			The chairman hold meetings with the non-executive directors without the executives present
09	Effectiveness	The composition of the board	The board identify in the annual report each non-executive director it considers to be independent

10			The board state its reasons if it determines that a director is independent
11			at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent
12		Appointment of the board	Existence of nomination committee
13			A majority of members of the nomination committee are independent non-executive directors
14			A separate section of the annual report describe the work of the nomination Committee
15		Evaluation	The board state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.
16			The external facilitator identified in the annual Report
17	Accountability	Financial and business reporting	The directors explain in the annual report their responsibility for preparing the annual report and accounts
18			The directors include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model)

			and the strategy for delivering the objectives of the company
19			In annual report the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
20		Risk management and control	The directors confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
21			Taking account of the company's current position and principal risks, the directors explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate.
22			The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report
23		Audit committee and Auditors	The board establish an audit committee of at least three

24			The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience
25			The main role and responsibilities of the audit committee are set out in written terms of reference
26			Internal audit procedure
27			for the absence of internal audit procedure, explanation in the relevant section of the annual report
28	Remuneration	The level and components	Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.
29		Procedure	The board establish a remuneration committee of at least three
30	Relations with shareholders	Dialogue with shareholders	The board state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.
31		Constructive use of general meetings	

Appendix 02: CSR Index

Category	Sub category	Criterion	GRI Guideline	Description
Economic	Economic	Economic performance	G4-EC1	Direct economic value generated and distributed
			G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change
			G4-EC3	Coverage of the organization's defined benefit plan obligations
			G4-EC4	Financial assistance received from government
		Market presence	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operations
			G4-EC6	Proportion of senior management hired from the local community at significant location of operation
		Indirect economic presence	G4-EC7	Development and impact of infrastructure investments and services supported

			G4-EC8	Significant indirect economic impacts, including the extent of impacts
		Procument practices	G4-EC9	Proportion of spending on local suppliers at significant location of operation
Environmental	Environmental	Materials	G4-EN1	Materials used by weight or volume
			G4-EN2	Percentage of volume used that are recycled inputs
		Energy	G4-EN3	Energy consumption within the organization
			G4-EN4	Energy consumption outside the organization
			G4-EN5	Energy intensity
			G4-EN6	Reduction of energy consumption

Environmental	Environmental		G4-EN7	Reduction in energy requirements of products and services
		Water	G4-EN8	Total water withdrawal by source
			G4-EN9	Water sources significantly affected by withdrawal of water
			G4-EN10	Percentage and total volume of water recycled and reused
		Biodiversity Biodiversity	G4-EN11	Operational sites owned, leased, managed in, or adjacent to protected arears and areas of high biodiversity value outside protected areas
			G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity valie outside protected areas
			G4-EN13	Habitats of protected or restored
			G4-EN14	Total number of IUCN red list species and national conservation list

				species with habitats in arears affected by operations, by level of extinction risk
Environmental	Environmental	Emissions	G4-EN15	Direct greengouse gas emissions
			G4-EN16	Energy indirect greenhouse gas emissions
			G4- EN17	Other indirect greenhouse gas emissions
			G4-EN18	Greenhouse gas emissions intensity
			G4-EN19	Reduction of greenhouse gas emissions
			G4-EN20	Emissions of ozone-depleting substances
			G4-EN21	Nox, Sox and other significant air emissions
			G4-EN22	Total water charge by quality and destination
			G4-EN23	Total weight of waste by type and disposal method

		Effluents and waste		
			G4-EN24	Total number and volume of significant spills
			G4-EN25	Weight of transported, imported, exported, Or treated waste deemed hazardous under the terms of basel convention and percentage of transported waste shipped internationally
			G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of wated and runoff
		Products and services	G4-EN27	Extent of impact migration of environmental impacts of products and services
			G4-EN28	Percentage of products sold and their packing materials that are reclaimed by category
			G4-EN29	Monetary value of significant fines and total number of non-monetary

Environmental	Environmental	Compliance		sanctions for non-compliance with environmental laws and regulations
		Transport	G4-EN30	Significant environmental impacts on transporting products and other goods and materials for the organization's operations, and transporting members of the workforce
		Overall	G4-EN31	Total environmental protection expenditures and investment by type
		Supplier environmental assessment	G4-EN32	percentage of new suppliers that were screened using environmental criteria
			G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken
		Environmental grievances measurements	G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms
			G4-LA1	Total number and rated of new employees and

Social	Labour practices and decent work	Employment		employee turnover by age group, gender and region
			G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part time employees, by significant location of operation
			G4-LA3	Return to work and retention rates after parental leave, by gender
		Labor/management relationships	G4-LA4	Minimum notice period regarding operational changes, including weather these are specified in collective agreements
		Occupational health and safety	G4-LA5	Percentage of total work force represented in formal joint arrangement- worker health and safety committees that help monitor and advise on occupational health and safety programs
			G4-LA6	Type of injury and rated of injury, occupational diseases, lost days, and absenteeism, and total number of work-related facilities, by region and by gender
			G4-LA7	Workers with high incidence or high risk of

Social	Labour practices and decent work	Occupational health and safety		diseases related to their occupation
			G4-LA8	health and safety topics covered in formal agreements with trade unions
		Training and education	G4-LA9	Average hours of training per year per employee gender, and employee category
			G4-LA10	Programs for skilled management and lifelong learning that support the continued employability of employees and assist them in managing career endings
			G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category
		Diversity and equal opportunity	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

Social	Labour practices and decent work	Equal remuneration for men and women	G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation
		Supplier assessment for labor practices	G4-LA14	percentage of new suppliers that were screened using labor practices criteria
			G4-LA15	Significant actual and potential negative labor practices in the supply chain and actions taken
		Labor practices grievance mechanisms	G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms
		Investment	G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening
			G4-HR2	Total hours of employee training on human rights policies or procedures

	Human rights			concerning aspects of human rights that are relevant to operations, including the percentage of employees trained
		Non-discrimination	G4-HR3	Total number of incidents of discrimination and corrective action
		Freedom of association and collective bargaining	G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights
		Child labor	G4-HR5	Operations and Suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor
			G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to

Social	Human rights	Forced or compulsory labor		the elimination of all forms of factor forced or compulsory labor
		Security practices	G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations
		Indigenous rights	G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken
		Assessment	G4-HR9	Total number and percentage of operations that have been subject to human rights human rights reviews or impact assessments
		Supplier human rights assessment	G4-HR10	Percentage of new suppliers that were screened using human rights criteria
		Supplier human rights assessment	G4-HR11	Significant actual and potential negative human rights in the supply chain and actions taken

Social	Human rights			
		Human rights grievances mechanism	G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms
	Society	Local communities	G4-SO1	Percentage Of Operations With Implemented Local Community Engagement, Impact Assessments, And Development Programs
			G4-SO2	Operations With Significant Actual And Potential Negative Impacts On Local Communities
		Anti-corruption	G4-SO3	Total Number And Percentage Of Operations Assessed For Risks Related To Corruption And The Significant Risks Identified
			G4-SO4	Communication And Training On Anti-Corruption Policies And Procedures

			G4-SO5	Confirmed Incidents Of Corruption And Actions Taken
		Public policy	G4-SO6	Total Value Of Political Contributions By Country And Recipient/Beneficiary
		Anti-competitive behavior	G4-SO7	Total Number Of Legal Actions For Anti-Competitive Behavior, Anti-Trust, And Monopoly Practices And Their Outcomes
	Society	Compliance	G4-SO8	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Laws And Regulations
		Supplier assessments for impacts on society	G4-SO9	Percentage Of New Suppliers That Were Screened Using Criteria For Impacts On Society
			G4-SO10	Significant Actual And Potential Negative Impacts On Society In The Supply Chain And Actions Taken

Social				
		Grievance mechanisms for impacts on society	G4-SO11	Number Of Grievances About Impacts On Society Filed, Addressed, And Resolved Through Formal Grievance Mechanisms
	Product responsibility	Customer health and safety	G4-PR1	Percentage Of Significant Product And Service Categories For Which Health And Safety Impacts Are Assessed For Improvement
			G4-PR2	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning The Health And Safety Impacts Of Products And Services During Their Life Cycle, By Type Of Outcomes
		Product and service labeling	G4-PR3	Type Of Product And Service Information Required By The Organization’s Procedures For Product And Service Information And Labeling, And Percentage Of

				Significant Product And Service Categories Subject To Such Information Requirements
Social	Product responsibility	Product and service labeling	G4-PR4	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Product And Service Information And Labeling, By Type Of Outcomes
			G4-PR5	Results Of Surveys Measuring Customer Satisfaction
		Marketing communications	G4-PR6	Sale Of Banned Or Disputed Products
			G4-PR7	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Marketing Communications, Including Advertising, Promotion, And Sponsorship, By Type Of Outcomes

		Customer privacy	G4-PR8	Total Number Of Substantiated Complaints Regarding Breaches Of Customer Privacy And Losses Of Customer Data
		Compliance	G4-PR9	Monetary Value Of Significant Fines For Non-Compliance With Laws And Regulations Concerning The Provision And Use Of Products And Services