THE EFFECT OF CORPORATE GOVERNANCE ON THE EXTENT OF CSR DISCLOSURES IN BANKING, FINANCE AND INSURANCE SECTOR IN SRI LANKA

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Abstract

Corporate Social Responsibility (CSR) of corporate entities and corporate governance (CG) had been of mounting importance when it comes to the research arena during the past few decades and is still heavily discussed globally nowadays. By addressing this topic specifically into bank, finance and insurance sector in Sri Lanka, this study first determines the level of CSR disclosures in the identified industry, then draw the relationship between CG and CSR disclosures and thereby examines the impact of CG characteristics particularly the board size, board independence, CEO duality, managerial ownership, institutional ownership and women representation on the extent of CSR disclosures measured by the CSR index developed based on the GRI G4 guidelines. Following the literature, cross sectional and longitudinal designs are used to examine the relationship between CG and CSR and the annual reports of 67 companies representing both listed and non-listed, for the period of 2015 – 2017 are examined using content analysis to identify the level of CSR disclosure. The impact of CG aspects on the CSR disclosure levels is measured through the multiple regression model. Findings of the study suggested a satisfactory level of CSR disclosures in the industry, while board size and board independence presented to have a significant impact while indicating a positive association with the level of CSR disclosures. Our findings will be of interest to the policy makers, future researches as well as to the general public since improvements in the good governance practices would promote more CSR engagements.

Keywords: Corporate governance, CSR Disclosures, Bank, finance and insurance sector, Sri Lanka

1 Introduction

In a world where corporate scandals and corruptions have place ever than before, financial institutions are under a constant pressure to disclose on their activities to their investors and to all the stakeholder groups. The vital role played by the financial institutions in an economy has given this trivial attention to the financial institutions in today’s contemporary world. These institutions while acting as the backbone of the economy are exerting a negative impact to the society due to the facts of mismanagement and poor control systems. In the Sri Lankan context recently occurred corporate scandals such as Pramukha bank, Golden key etc. have shattered the confidence of the general public towards financial systems. Following these incidents, engaging in CSR for financial institutions is vital not only for the risk assessment of investors’ and customers’ but also for the confidence the public place on the country’s financial system, and for their own goodwill too (Jizi et al. 2014).

1.1 CSR in current context

Referring to the current Sri Lankan context, there seems to be a positive trend in the CSR activities in the bank, finance and insurance sector. Sri Lankan banks are moving towards formulating collaborations with certain bodies who are promoting CSR initiatives. For an example Sri Lanka Banks’ Association (SLBA) partnered in 2015 for the ‘Sri Lankan Sustainable Banking Initiative’ (Daily FT 2017) and also there had been a forum conducted by CSR Sri Lanka focusing on the path that banks should take towards CSR (Daily Mirror n. d.). Besides, the green banking concept in which the banks are gradually moving towards could also be taken as an important initiative taken to consider on the natural environment and sustainability. Hence, the most accepted way to identify these CSR activities, is through the CSR reporting by the entities. Accordingly CSR reporting is one approach used by these finance institutions to publish their CSR engagements.

As per Said, Zainuddin & Haron (2009), many studies had used corporate social disclosure as a proxy to corporate social responsibility or corporate social performance. According to Wijesinghe (2012), the study revealed that the overall level of CSR disclosure is at a low level in Sri Lanka. This can be caused because still most Sri Lankan firms are operated solely towards the purpose of shareholder wealth maximization. However, compared to other sectors in Sri Lanka, in Bank, finance and insurance sector, the CSR disclosure levels are relatively high.

1.2 Linkage of CSR and Corporate Governance

In this study we are examining the link between Corporate Governance (CG) and CSR in the Sri Lankan bank, finance and insurance sector. Corporate governance has a major role in reducing the information asymmetry in-between managers and shareholders and other stakeholders. As a result, good corporate governance should ensure that the company’s economic, social and environmental commitments are properly disclosed to its stakeholders. In Sri Lanka, the corporate governance aspect has been improved through the adoption of voluntary codes. When considering the Banking sector specifically, it is required to mandatorily comply with the Corporate Governance rules of the Code of Best Practice of Corporate Governance laid down as per Central Bank Direction No. 11 of 2007 as amended and also the Colombo Stock Exchange rules of Corporate Governance for listed entities (Kajananthan 2012).

Wide-ranging prior research have been conducted on the relationship between CSR and CG in developed economies. However there is an explicit lack of research into the link between CSR disclosures and CG in the developing economies, especially in the Sri Lankan context. Further, there is a dearth of research in identifying this connection in between the corporate governance characteristics and the extent to which it will effect on CSR reporting, specifically focusing on the bank, finance and insurance sector in Sri Lanka. Thus, this research contributes to the literature by examining the relationship between these two concepts by using certain variables of CG characteristics and by developing a CSR index based on GRI guidelines for the measurement of CSR disclosures.

Thereon, the following sections of the study would first examine the prior literature based upon the aforementioned relationship and would describe the research methodology, analyses of findings, discussions and limitations of the study. The conclusion of the overall study would be provided at the end of the article along with the significance of the study to the parties who will be interested upon.

2 Literature review

This section of the report denotes a critical review on the prior literature based on the association in between corporate governance and CSR disclosures. Several empirical studies had assessed this relationship in various aspects and had revealed findings which are nearly similar as well as contradicting.

2.1 Corporate Governance

Many scholars throughout many decades had emphasized the significance of corporate governance in terms of various scopes. As Lucian & Michael (2010) say, interest in corporate governance has been rapidly growing, both inside and outside academia, together with recognition of its importance. As Monks and Minow in 2004 (cited in Tuan 2012) remark in their research, due to corporate frauds and meltdowns, corporate governance is surfacing as a more and more critical domain of modern management. And recently occurred corporate scandals have given more attention to corporate governance.

Corporate Governance is a well-researched area even though there is no universally accepted definition for CG (Beltratti 2005).

The definition of corporate governance is not something static. It depends on each other's mind set and it may be affected by the area the researcher lives, the society he or she involves and his or her education level and on numerous other factors. According to Aoki 2001, (cited in Igor & Brian 2009) corporate governance is a structure of rights and responsibilities among the parties with a stake in the firm.

Taking somewhat a broader perspective on defining corporate governance Shahin and Zairi (2007) state that:

> Irrespective of the particular definition used, Researchers often view CG mechanisms as falling into one of two groups: those internal to firms and those external to firms. Of course, firms are more than just boards, managers, shareholders, and debt holders. Over the years, CG has evolved from the traditional "profit-centered model" to the "social responsibility model".

However, through its definition of corporate governance as ''a set of relationships between a company's management, its board, its shareholders and other stakeholders'', the OECD (2004) looks beyond the relationship between shareholder and director into a wider network of relationships including other stakeholders (cited in Tuan 2012).

These wide-ranging definitions and thoughts on corporate governance have led for varied systems and practices of corporate governance which are operating in different economies. In the Sri Lankan context, the corporate governance practices have been evolved in consisting with British developments and reforms introduced (Senaratne, 2011). And the corporate governance framework in Sri Lanka is based upon the Anglo Saxon model and follows a principle based mechanism (Shamil et. al 2014). Regarding to the regulatory frameworks which impact on the corporate governance practices in Sri Lanka, as mandatory regulations, Companies Act No. 07 of 2007, CSE Listing Rules, SEC Directives and Codes could be mentioned. Further, CBSL Directives on corporate governance and Finance Companies (Corporate Governance) Direction No. 3 of 2008 could be declared as regulations specifically relating to banking and finance sector. On the other hand, Code of Best Practice on Corporate Governance (ICASL 2017) is voluntarily followed in Sri Lanka where the disclosure regarding its compliance is mandatory.

Kajananthan (2012) has stressed out importance of corporate governance regarding the banking sector, which is one of the sectors this study involved with. Accordingly, had stated that banks have wider stakeholders, government regulators and most importantly depositors and pointed out, good corporate governance practices in these financial institutions contribute to financial market development and financial stability.

2.2 Corporate Social Responsibility

During past few decades, corporate social responsibility (CSR) has been attracting worldwide attention. The field of CSR can be summarized as the management of potential conflicts of interest between different stakeholders with respect to economic, environmental, social and ethical issues (Yan et al. 2010). Firms need to strike a balance between the priorities of different stakeholders to exist in this highly competitive market. Firms are increasingly engage in CSR practices and disclosures because it enables firms to increase their market value and to gain more investor attraction.

However, CSR had being defined in many means. The Commission of the European Communities (Cited in Belratti 2005, P. 377) defines CSR as a concept by which ‘‘companies decide voluntarily to contribute to a better society and a cleaner environment’’. In general, CSR is a set of policies, practices, and programs that are integrated throughout business operations and decision-making processes, and intended to ensure the company maximizes the positive impacts of its operations on society (Business for Social Responsibility 2003, cited in Jamal et al. 2008, P. 445). According to Ismail (2013), “corporate social responsibility (CSR) refers to the company’s responsibilities to society”. And stressed that since company exists in social environment, it cannot survive by ignoring its existence in society. As a whole, these definitions have emphasized on the fact that corporations need to move their intentions from economic factors to the impact they would cause from their business for the wide area of stakeholders.

Niresh & Silva (2017) had pointed out three dimensions in which CSR could be classified, as philanthropic CSR, transactional CSR and transformational CSR and had remarked that organizations are moving towards transformational CSR where shifting from charity driven CSR to strategy driven CSR. This had been seen as a way in which organizations could adopt a culture of corporate responsibility into its core operations.

When focusing on the importance of CSR engagements specifically relating to the financial institutions, Jizi et al. (2014) had stated that the view of corporate social responsibility is important for the banks to be considered since banks needs to establish the confidence within the public for a stable financial system, otherwise mismanagement and poor control could lead to significant negative impact on the society at large. As Khan (2010) pointed out in his study relating to Bangladesh banking sector, for a higher public acceptance, banks maintain a positive image towards general public, mostly by contributing to social welfare. Further, Ismail (2013) who had examined CSR in selected commercial banks in Sri Lanka, mentioned that for the long survival of banks, they need to establish and maintain proper corporate image among clients hence should socially responsible for internal customers, external customers and society as a whole.

Besides, comparing to the other industries in Sri Lanka, Wijesinghe (2012) had observed a positive increment in the trend of CSR disclosures over the last five years of banking finance and insurance sector, further pointing out that recently experienced corporate scandals and the attempt of improving the awareness of stakeholders had caused for the observed trend. However, Niresh & Silva (2017) who carried out a study relating to the extent of CSR disclosures in banking, finance and insurance sector had concluded that during the period 2010-2014 this sector have not given the priority to health CSR but given their main focus on community related CSR activities. Thus, these provide evident that financial institutions including banks, finance companies and insurance companies are moving their operations towards considering wider stakeholder perspectives.

CSR and CSR Disclosures

Prior studies which had examined on CSR practices in firms had undergone both quantitative approaches as well as qualitative approaches in research. The studies directed by Jamali, Safieddine & Rabbath (2008) and Young & Thyil (2014) had observed the CSR quality by conducting interviews with the management instead of observing the disclosures presented in annual reports and other documents.

However, many researchers who had approached with the quantitative method, had used CSR disclosures as a proxy for assessing CSR engagements in a company. Campbell in 2004 had defined CSR disclosures as “the information that a company discloses about its environmental impact and its relationship with its stakeholders by means of relevant communication channels” (cited in Gamerschlag, Moller & Verbeeten 2011). As emphasized by Giannarakis (2014), most of the entities use CSR disclosures as a mechanism in order to make known their image to general public and to legitimize CSR initiatives. Khan (2010) had also viewed, for a company to continue its long-term existence, it is important to engage in social responsibilities as well as to report those activities in regular intervals. In line with this, Giannarakis (2014) had identified three approaches in which the CSR disclosures had been examined in prior literature; “The first approach concerns disclosures which incorporate multiple dimensions of the CSR concept. The second approach extends the first approach by comparing the effects of corporate characteristics with different types of disclosures, such as environmental and social ones to record differences between those disclosures. The last one focusses only on a specific dimension of CSR, the environmental disclosure”.

Nevertheless, most of the researchers had used content analysis technique to obtain information on CSR initiatives disclosed by the firms (e.g. Khan 2010; Khan, Muttakin & Siddiqui 2013; Jizi et al. 2014; Said, Zainuddin & Haron 2009). Besides, they had constructed CSR indexes to measure the level of CSR based on numerous frameworks and guidelines. For an example, Giannarakis (2014) had developed the CSR index based on the environmental, social and governmental (ESG) disclosure score index. In comparison, (Wijesinghe 2012; Bidari 2016; Gamerschlag, Moller & Verbeeten 2011) had included GRI guidelines to measure the CSR initiatives. As Wijesinghe (2012) highlights, corporate governance is one aspect of CSR according to GRI guidelines. GRI guidelines and those are the main CSR disclosure indexes that are widely used in Sri Lankan context. But according to the findings of many researchers only few companies are doing CSR reporting and disclosing their CSR activities. The reason is that in Sri Lanka, there is no proper or clear guidance to disclose CSR and that CSR disclosures are not a mandatory requirement. (Wijesinghe K.N 2012).

2.3 Association between Corporate Governance and CSR

As per the overview provided by the previous section regarding the concepts of corporate governance and corporate social responsibility separately, it is important to consider how these aspects connect with each other in order to provide the necessary base to this study.

It has been viewed that the concept of CG is becoming wider, that some areas of CG have becoming a part of CSR (Khan 2010). As Haniffa and Cooke in 2005 suggested, it is of worth to consider corporate governance mechanisms as a determinant of CSR, since the CSR initiatives are a result of the choices, values and motives of the parties who are involved in formulating the companies' decisions (cited in Khan, Muttakin & Siddiqui 2013). Further, Harjoto (2011) has viewed CSR as a result of firms' efforts to adopt effective corporate governance, ensuring firms' sustainability via sound business practices that promote accountability and transparency. As viewed above, CG is often treated as a determining factor which affects the disclosure of CSR.

Several studies had examined the relationship in between corporate governance and CSR involvement in different contexts. According to Young & Thyil (2014), the interrelationship between Governance and CSR across different countries is a result of different historical backgrounds, characteristics and varied conceptualisations.

In their study based in Malaysia, Said, Zainuddin & Haron (2009) had focused on some characteristics of corporate governance namely, Board Size, Board Independence, Duality, Audit committee, Ownership concentration, Managerial Ownership, Foreign ownership and Government ownership and studied the association with the extent of CSR disclosures. Based on the data being collected from annual reports and company websites, the study has concluded that Government ownership and Audit committee variables as the most significant variables which affects for the CSR disclosure. Both has positive and significant correlation with CSR disclosure items. Therefore, it was determined that through government interventions companies may disclose additional information, and with regarding to audit committees with greater proportion of non-executive directors it affects to a higher extent of CSR disclosure.

The study done in Bangladesh by Khan, Muttakin & Siddiqui (2013) which had examined the same has denoted that in many developing countries culture, legal and political structures have influences CG practices. In Bangladesh, where the family ownership structured business is very common, the family presence is very strong inside BOD and CG mechanisms are not always much appreciated by the management. They have found a negative relationship between managerial ownership and CSR disclosures but it is vice versa in export oriented industries because of the external stakeholder pressure. Managers in PLCs report more on CSR to gain legitimacy. When the board independence increases there are more disclosures and they have not found any significant impact from CEO Chair duality on CSR disclosures.

However, in the Sri Lankan context, the above relationship had not thoroughly been examined while only few studies including, Shamil et al. (2014) had observed the relationship between board characteristics and sustainability reporting in listed companies in Sri Lanka. Similarly to prior researchers they had discussed the topic by basing on the legitimacy theory and agency theory.

Hence, this study expects to add further contribution to the literature by examining the relationship and the impact of CG on the level of CSR disclosures particularly regarding the banking, finance and insurance sector.

3 Methodology

This section would provide the insight to the research approach applied, population and study sample, conceptual diagram, hypotheses developed, operationalization and data analyses strategy of the study.

3.1 Research Approach

Cross Sectional and longitudinal design is used in testing the impact of Corporate Governance Characteristics on CSR disclosures of a sample of 98 firms in the bank, finance and insurance sector in Sri Lanka. A content analysis would be conducted by collecting data from Annual Reports of the companies from year 2015 to year 2017. Multiple regression analysis will be used in analyzing the impact of Corporate Governance Characteristic on CSR disclosures by testing the hypothesis built.

3.2 Population and Study Sample

In order to represent both listed and non-listed companies in Bank, Finance and Insurance sector in Sri Lanka, a sample of 98 firms were drawn from, Licensed commercial banks, Licensed specialised banks, Licensed finance companies, Specialised leasing companies which are governed by CBSL and Insurance companies which are governed by the Insurance Board of Sri Lanka. Out of 98 firms, only 67 companies were used as the study sample due to the unavailability of sufficient data.

3.3 Conceptual Diagram

The Corporate governance element is explained by the selected corporate governance characteristics namely, Board Size, Board Independence, CEO Duality, Managerial ownership, Institutional ownership and Women representation. The extent of the CSR disclosure level is measured by using the CSR Index (Appendix 1) developed based on the GRI guidelines as an indicator for the CSR reporting.

Through the development of hypotheses for each corporate governance characteristic, the impact of the corporate governance element on the CSR disclosure would thereafter be examined.

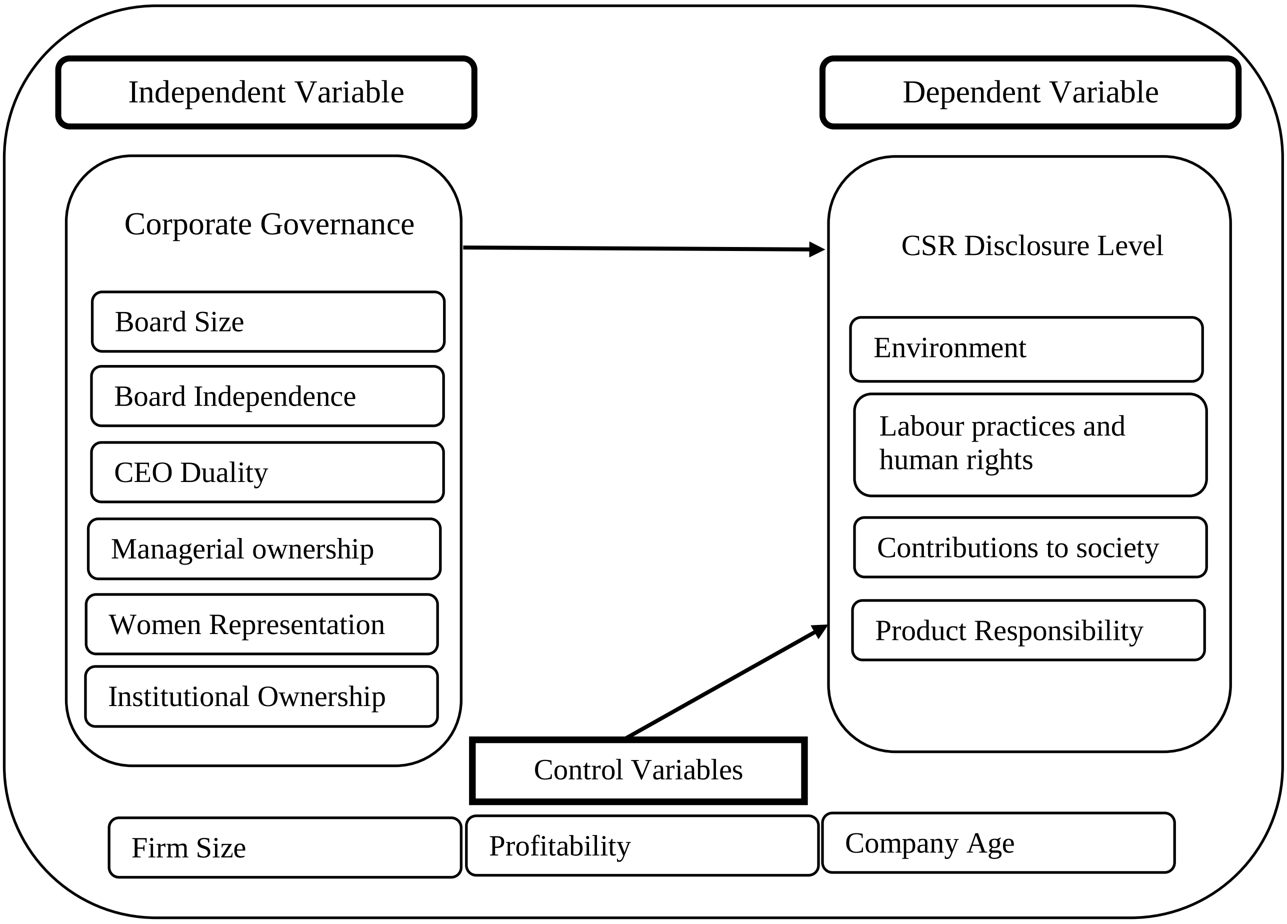

Figure 1: Conceptual Diagram *(Author developed)*

3.4 Hypotheses

Board Size

Board of directors is one of the main characteristics of the Corporate Governance mechanism of a company which is being managed by the agents of owners (Said, Zainuddin & Haron 2009). Different literature on corporate governance propose different contrasting results between board size and their performance. As per Yermack there is a neagtive association between board size and operating effiency. However Boards consisting relatively large number of directors are more expertized. So, when it comes to CSR disclosures, there is a positive relationship between the Quality of corporate governance practices and CSR disclosures in annual reports (Chan et al. 2013). As per Majeed, Aziz & Saleem (2015) the board size is a significant variable which influence the CSR disclosures thus, larger the board size, higher the level of CSR discloses will be. Similarly Shamil et al. (2014) shows that there is a positive relationship between board size and sustainability disclosures. Therefore this study hyothesizes that:

H1. There is a positive relationhsip between board size and the level of CSR disclosure.

Board Independence

Board independence within the board composition could be considered as a prominent factor which represents the corporate governance of a firm. The level of board independence could be generally measured by the proportion of independent non- executive directors to the total number of directors represented in the board. As previous literature suggests, the representation of independent directors leads to greater transparency in the firm's decisions and effective monitoring and controlling of the board's decisions. As per Jizi (2014), independent non-executive directors are expected to drive and direct management towards long term firm value enhancing activities and lead the company towards high degree of transparency. In addition, Tricker in 1984 had pointed out that apart from ensuring the duty to act in best interest of the shareholders, independent non-executive directors should execute their duties on other stakeholders by advising on the public presentation of the company's activities and performance and providing additional windows on the world (cited in Khan 2010). Said, Zainuddin & Haron (2009) in their study stated that the independent directors are contributing to enhance the corporate image, and not engaging in corporate social responsibility would reflect a bad image of the company. Therefore it had been argued that higher proportion of independence in the board would lead to higher level of corporate social responsibility. In consistent with this, many researches had been examined that there is a positive association in between board independence and CSR disclosures. (Said, Zainuddin & Haron 2009; Giannarakis 2014; Khan, Muttakin & Siddiqui 2013; Khan 2010; Jizi 2014). In line with the above literature, we hypothesize that;

H2: There is a positive relationship between board independence and the extent of CSR disclosures.

CEO Duality

CEO Duality is where both the positions of Chairman and CEO are held by a single individual. Combining the two functions to be handled by a single person might create governance and agency issues. According to agency theory managers private interests are likely to have an impact on the interests of other stakeholders. In the research done by Jizi et. Al (2014) shows that if powerful CEOs are capable in using CSR to further theirown interests over the other stakeholders' interests, they would curtail the level of CSR engagements as well as voluntary disclosures. In this regard Haniffa and Cooke (2005) suggest two views. Their first view supports the separation of two roles enables the questioning of management performance while the other view suggests that there are many companies which run and govern well even with the presence of CEO duality.

Michelon and Parbonetti cited in Giannarakis(2014) pointed out that CEO duality reduces the accountability towards stakeholders. Further, there is a tendency towards single person having too much of power concentrtion might acting in his/her own will without taking into account the other stakeholders' desires. Even the Code of Best Practice (2013) in Sri Lanka requires the two positions to be held by separate individuals. In this context examining whether there is actual impact from the separation of two roles on CSR disclosure would be of an interest. Thus, we hypothesize that;

H3: There is a negative association between CEO Duality and the level of CSR disclosures.

Managerial ownership

It could be observed by the previous literature, the ownership concentration of the management within the company influences the strategic initiatives and decisions occupied by the company. Khan, Muttakin & Siddiqui (2013) stated that such concentration of the ownership by management would enable managers to dominate the company and thereby decide on the initiatives taken on organizational social behavior. Since the decision to engage in CSR also included within those strategic initiatives, it would also have an impact from the managerial ownership. This connection in between managerial ownership and CSR disclosures had been examined in prior researches where, Said, Zainuddin & Haron 2009 had concluded that there is a negative relationship between the proportion of shares held by executive directors and the level of CSR disclosures. Further, Khan, Muttakin & Siddiqui (2013) in their study based on Bangladesh companies, had also revealed that managerial ownership has a negative relationship with the CSR disclosures, and highlighted that this is because of management hold dominance than other investors, thus reporting less on CSR disclosures. Consistent with above, we hypothesize that;

H4: There is a negative relationship between the proportion of shares held by executive directors and the extent of CSR disclosures.

Institutional Ownership

Institutional ownership refers to the shared held by large organizations or institutions in companies. These institutions can be generally categorized as pension funds, mutual funds and insurance companies. Many researches had been conducted in testing the relationship between Institutional ownership and the level of CSR disclosures. As per Graves and Waddock (1994), there is a positive relationship between Institutional Ownership and the level of CSR disclosures. Further, institutional investors tend to invest in companies with good social performance rather that poor social performance (Cox et al. 2004). Similarly, Saleh, Zulkifli and Muhamad (2010) have examined a positive relationship between Institutional ownership and CSR disclosures.

Therefore, this study hypothesizes that:

H5: There is a positive relationship between Institutional Ownership and the level of CSR Disclosures.

Women Representation

A growing number of studies have contended that gender diversity of the board of directors impacted on the achieving a higher level of corporate social responsibility (CSR) performances. Therefore Moreover, the existing literature has found that, gender diversity would be positively related to CSR performance for several key reasons. (Zhuang et. al 2018)

According to Zhuang, Chang & Lee 2018 suggested that different perspectives and opinions among diverse members of the board promote, high – quality decisions and also female members of the board enhance the overall quality of board decisions related to CSR reporting by providing different insights. They also pointed out that female members in the director board effectively enhance the implementation of CSR – related activities. For example – female board members always encourage the firm to take part in charity – related social activities. Williams cited in Zhuang et al. (2018) stated that having a higher proportion of female members on the board of a firm positively influences the level of charitable initiatives.

Agyemang, Konada & Ayamba (2017) provide evidence that women on board have significant positive association with CSRD and more importantly, the association is much stronger when a women is the chairperson of the board of directors. Moreover their study concluded that there should be a women quota of not less than 40% on the board and that will ensure the full disclosure of the company's activities related to CSR. Consistent with above, we hypothesize that;

H6: There is a positive association between the percentage of women representation and the level of CSR disclosures.

3.5 Operationalization

The measurement and operationalization of the variables of the study are hereby mentioned in this section. The level of CSR disclosure is regarded as dependent variable while corporate governance elements are treated as independent variables in this study.

To indicate the level of CSR disclosures, at first this study has developed a CSR Index (Appendix 1) based on the specific standard disclosures indicated in GRI G4 guidelines and adjusted accordingly to suit into the industry sector, after pilot testing into a chosen sample of banks, financial institutions and insurance companies. Further, the index developed by Bidari (2016) who had studied on CSR disclosures in Nepalese banks using GRI perspective had also adapted to the development of the CSR index in this study.

Thereby a CSR score would be calculated as follows;

$$\textbf{CSR score of the organization} = \frac{\textbf{Number of disclosure activities adopted by the company}}{\textbf{Total number of disclosure items in CSR index}} \times \mathbf{100}$$

(Adopted from Wijesinghe 2012)

Further, to measure the no. of disclosure activities, the index items would be allocated as "1" and "0" to indicate disclosed and non disclosed items in the annaul report respectively. The independent variables which represent the corporate governance elements are Board Size (BS), Board Independence (BI), CEO

Duality (CD) , Managerial Ownership (MO), Institutional Ownership (IO) and Women Representation (WR).

The operationalization of the above mentioned variables could be referred in Table 1.

Table 1: Measurement of variables

Concept	**Variables**	**Indicators**	**Measurements**
Dependent variable			
Corporate Social Responsibility	Corporate Social Responsibility Disclosures (CSRD)	CSR index developed based on GRI (Global reporting initiative) guidelines (see Appendix 1)	Firm disclose on the CSR indicator = 1 Firm does not disclose on the CSR indicator = 0
Independent Variables			
Corporate Governance	• Board size (BS)	Number of directors	Total number of directors in the board
	• Board independence (BI)	Independent non-executive directors	Proportion of independent non-executive directors to the total number of directors in the board
	• CEO Duality (CD)	CEO role and chairman role is held by one person	Chairman and CEO positions held by one person = 1 Chairman and CEO positions held by two persons = 0
	• Managerial ownership (MO)	Executive directors' ownership in the company	Percentage of shares held by executive directors
	• Institutional ownership (IO)	Ownership of the company by the institutions	Percentage of shares held by institutions
	• Women Representation (WR)	Number of women in the board	Proportion of women to the total number of directors in the board
Control Variables			
	Firm Size	Assets	Total assets
	Profitability	Return on Equity (ROE)	$\frac{\text{Net profit}}{\text{Total Equity}}$
	Company Age	No. of years in the industry	No. of years in the industry

3.6 Sources and Collection of Data

Due to the limitations in collecting primary data, annual reports of the selected sample will be used as the predominent source of data. According to Deegan and Rankin (cited in Niresh and Silva, 2017), since the annual reports are read by wide variety of stakeholders, information contained in the annual report has the power of influence the audience. This is very evident in the bank, finance and insurance sector because these financial institutions are paying a greater consideration in publishing their annual reports. Further, information with regard to CSR disclosures will be collected through applying content analysis from annual reports of the sample over the period from 2015 to 2017. Extensive prior researches have shown that content analysis is very much used for stdudying annual reports.

3.7 Data Analysis Strategies

Correlation matrix will be applied to investigate the relationship between CSR disclosures and the defined CG variables. Then the regression analysis would be carried out to provide the impact of CG variable on the level of CSR disclosures, and VIF test will be used to test for the multicollinearity between the independent variables. The following regression model will be used in order to identify the relationship between CG variables and CSR disclosures of the selected sample after incorporating the control variables.

$$CSRDI = \propto + \beta_1 BS + \beta_2 BI + \beta_3 CD + \beta_4 MO + \beta_5 IO + \beta_6 WR + \beta_7 SIZE + \beta_8 ROE + \beta_9 AGE + \varepsilon$$

Where,

CSRDI = Corporate Social Responsibility Disclosure Index

BS = Board Size

BI = Board Independence

CD = CEO Duality

MO = Managerial Ownership

IO = Institutional Ownership

WR= Women Representation

SIZE = Firm Size

ROE = Return on Equity

AGE= Company Age

In the regression model proxy for CSR disclosure will be measured using the value obtained by the firms for CSRDI developed based n the GRI G4 specifications.

4 Findings and Discussion

This section outlines the findings based on descriptive statistics, correlation and regression analysis employed in order to examine the aforementioned relationship and thereby providing a discussion of those findings.

4.1 Descriptive Statistics

Descriptive statistics including mean, median, standard deviation and other parameters are presented in Table 2 relating to a sample of 67 companies in the bank, finance and insurance sector over three years.

Average level of CSR disclosure in the respective sector is around 41%. In relation to board characteristics, average no. of board of directors *(BS)* was found to be eight directors. The board independence *(BI)* which was measured in terms of the percentage of independent non-executive directors served in the board amounted to 42%. The component representing a dual role of CEO *(CD)* is shown an average of only 2% which indicates that almost 98% of companies in the sample have separated the roles between Chairperson and CEO which is in accordance with the best practices of corporate governance. The percentage of shares held by the executive directors *(MO)* exhibits an average of 3% while the percentage of institutional ownership *(IO)* is 62%. Further the women representation *(WR)* of the sector remains at 10% which is quite low. The mean value of ROE is 15% with a standard deviation of 21% in the respective sector. Moreover, the average no. of years existed in the sector *(AGE)* appeared to be 33 years indicating a quite impressive establishment within the industry.

Table 2: Descriptive Statistics

	Mean	Std. Deviation	Skewness	Kurtosis
CSRDI	.406	.2768	.150	-1.002
Total Assets	121299878018.014	291414020786.1332	3.795	16.070
ROE= Net profit/ Total equity	.151	.2134	-5.287	55.256
No of years in the industry	33.41	20.979	.755	.291
Board Size	8.40	2.492	.538	.054
Board Independence	42.1512%	19.99314%	.173	.664
CEO Duality	.02	.125	7.809	59.613
Managerial Ownership	.035	.1069	3.362	10.513
Institutional ownership	.621	.3758	-.693	-1.112
Women Representation	.103	.1068	.682	-.203

4.2 Relationship between corporate governance characteristics and level of CSR disclosure

This section presents the correlation & regression analysis based on the findings of the study.

Correlation Analysis

According to the results shown in the Table 3 board size shows a significant positive relationship ($p<0.01$) with the CSR disclosure level. Board independence also indicates a significant positive relationship ($p<0.01$) with the level of CSR disclosure. Women representation is also having a significant positive association ($p<0.05$) with the level of CSR disclosures. Managerial ownership indicates no significant relationship with CSR disclosure level while CEO-Duality and institutional ownership show an unexpected association with the level of CSR disclosure which is insignificant.

Table 3: Correlation Matrix

	1)	2)	3)	4)	5)	6)	7)	8)	9)	10)
1) CSRDI	1									
2) Total Assets	.351**	1								
3) ROE= Net profit/ Total equity	.273**	.096	1							
4) No of years in the industry	.165*	.415**	.087	1						
5) Board Size	.420**	.082	.004	-.049	1					
6) Board Independence	.143**	.391**	.100	.280**	.012	1				
7) CEO Duality	.085	.078	-.002	-.015	.082	.071	1			
8) Managerial Ownership	.139	-.107	-.023	.246**	-.073	.010	-.042	1		
9) Institutional ownership	-.077	-.155*	.059	-.125	.105	.016	.092	-.226**	1	
10) Women Representation	.140*	.001	-.054	.017	.117	.099	.033	.048	-.165*	1

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

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

Regression Analysis

As per the multivariate regression analysis performed board size and managerial ownership have a significant positive impact on the level of CSR disclosure while the other variables show no significant impact on the level of CSR.

Table 4: Regression Analysis

Coefficients[a]						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
(Constant)	-.060	.076		-.791	.430	
Total Assets	3.123E-13	.000	.329	4.588	.000	1.512
ROE= Net profit/ Total equity	.333	.077	.257	4.349	.000	1.025
No of years in the industry	.000	.001	-.022	-.320	.749	1.383
Board Size	.532	.165	.205	3.219	.002	1.198
Board Independence	.255	.156	.098	1.633	.104	1.071
CEO Duality	.031	.131	.037	.619	.537	1.027
Managerial Ownership	.044	.007	.395	6.592	.000	1.055
Institutional ownership	-.019	.046	-.026	-.409	.683	1.172
Women Representation	.010	.001	-.017	-.418	.677	1.244

4.3 Discussion

As shown in the descriptive statistics average CSR disclosure level in the bank, finance and insurance sector is around 41% which implies a quite satisfactory level in the Sri Lankan context as opposed to US banking sector which shows an average of 22% in CSR disclosure level (Jizi et. al 2014). However, the minimum and maximum level of CSR disclosure is 0% and 90% respectively creating a significant gap in the CSR disclosure level within the sector. This gap occurred mainly due to the presence of both the listed and unlisted companies in the sample. This is further evident by the extant literature done by Niresh & Silva (2017) where the average CSR disclosure level was 64% in the considered industry only including the listed companies.

With reference to corporate governance variables average no. of directors in the board is 8 and the board independence is 42% whereas the mean value of board size and board independence are 12.5 and 81%

respectively in the US banking sector according to Jizi et. al (2014). The main cause for these differences is possibly be the increased regulations in the US due to the corporate scandals like Enron, WorldCom in US history.

According to the OLS regression performed the board size has a significant positive impact on the level of CSR disclosure and as hypothesized a positive relationship was observed between the board size and CSR disclosure level which is consistent with the literature (Young & Thyil 2014; Jamali, Safieddine & Rabbath 2008). Moreover, board independence and women representation have a positive impact on the CSR disclosure level as suggested by Saleh, Zulkifli & Muhamad (2010) and Zhuhang, Chang & Lee (2018) respectively. However, the relationship between CEO-Duality and CSR disclosure level resulted a positive relationship and impact, in the study which is contradicting with the hypothesized negative relationship. Although this was not expected certain literature had shown a positive relationship between the two variables due to powerful CEOs may promote more CSR disclosures with the intention of increasing their pay or tenure prospects (Jizi et al 2014; Said et al 2009). Nevertheless, out of the sample companies chosen, only one entity was observed with CEO- Duality and this would have led to such an unexpected result in this study. The percentage of shares held by executive directors caused a positive relationship between CSR disclosure as per the findings as opposed to the hypothesized negative relationship. Supporting the results Said et al. (2009) had indicated a positive impact of managerial ownership on the level of CSR disclosure. Institutional ownership is also observed to cause a negative effect on the CSR disclosures contrary to the hypothesized association of causing a positive effect on the CSR disclosure level.

Although the certain findings are conflicting to certain hypothesis under analysis the results are not conclusive. Among the board characteristics related to corporate governance board size and managerial ownership had a positive and high effect on the level of CSR disclosures while institutional ownership had a negative association. However, these observations lead to a mixed association between corporate governance characteristics and CSR disclosure level in the bank, finance and insurance sector in the Sri Lankan context. The next section will provide the conclusion to the study.

5 Conclusion

In Sri Lanka, Bank, Finance and Insurance sector is of paramount importance when driving the economic growth as well as sustainability. The instability of these financial institutions would adversely effect on the public and on other stakeholders. In the recent history, number of corporate scandals reported in the Sri Lankan economy due to lack of awareness and exercise of corporate governance practices by the corporate entities. Following these incidents, companies are now paying a greater attention to their CSR engagements in order to gain and retain the public confidence. This is most apparent in the bank, finance and insurance sector, which is very much based on the trust. Therefore, this study was undertaken to ascertain the level of CSR disclosure in the bank, finance and insurance sector, to explore the association between corporate governance characteristics and the level of CSR disclosures in this sector and to determine the effect of corporate governance characteristics on the CSR disclosure level. The sample consisted of 67 companies in the bank, finance and insurance sector in Sri Lanka and a content analysis was carried out using the annual report of the sample during the period from 2015 to 2017.

According to the analysis, average level of CSR disclosures within the said sector is around 41%, which lies in a quite satisfactory level even with the inclusion of unlisted companies to the sample, as a developing nation. The average number of board of directors found to be 8 in the sector and board independence is 42% which is fairly low when compared to other Anglo-American countries like USA. The dual role of CEO indicated an average of 2%, which is in line with the best practice of corporate governance. Managerial ownership was observed to be having an average of 3% while institutional ownership was 62%. However, the level of women representation in the board stood to be at an average of 10% which evident a quite a significant gender inequality of the board.

As per the correlation analysis board size and CSR disclosure level was found to have a significant and positive relationship so was the board independence ($p<0.01$). Women representation also indicates a significant positive relationship with the CSR disclosure level ($p<0.05$). Although the managerial ownership and CEO-Duality were observed with a positive relationship, their effect on CSR disclosure level were not significant. On the other hand, institutional ownership points to a negative association with the CSR disclosure level while having no significant impact on the disclosure level.

In terms of OLS regression analysis CSR disclosure level is highly impacted by the no. of directors in the board. Board independence found to be the second largest variable causing a higher impact on the level of CSR disclosure. Since internal corporate governance mechanisms like larger boards and more of independent directors attempt to increase the interest of shareholders as well as the other stakeholders, these may have led to more disclosure of CSR engagements of their companies. As women representation also indicated a significant positive association with CSR level, by increasing the women representation in the board, more enhanced CSR engagements could be expected. Contrasting to the hypothesis CEO- Duality and managerial ownership were also indicated a positive impact on the level of CSR disclosure within this sector. Based on a legitimacy theory view point powerful CEOs as well as executive directors may promote CSR disclosures in order to gain legitimacy to the entity which could be the very reason in an industry like bank, finance and insurance where the legitimacy and transparency is vital. On the other hand, it might be due to maximize their own self-interests from an agency point of view. However, institutional ownership showed a negative impact on the disclosure level where the reasons are unable to be found. Hence, it would be worth to note that diverse evidences about the association between corporate governance characteristics and CSR disclosure level as well as their effect on CSR disclosure could be found in the bank, finance and insurance sector in Sri Lanka.

The findings of this study might accommodate further knowledge and understand the analytical calculations performed for the establishment of the relationship and finding the impact for further researches in this field. Further, the knowledge explored and further explained by this study might catch the attention of the policy makers of the country so in future there will be less unfortunate events taking place in the finance sector of the country due to not taking seriously the importance of this matter.

Regardless of the contributions made by this study, it has some several limitations as well. Mainly this study extracts data related to CSR disclosures only from the annual report yet there may be other communications modes such as company web sites, news paper articles and electronic medias etc. used by the firms to communicate their CSR engagements. Moreover, all the social involvements by the entities might not be transformed into the disclosures in their annual reports and the CSR disclosure index developed based on GRI guidelines might not be able to capture all the CSR engagements of the entities. Further future researches can be directed to include more corporate governance characteristics which are not included in to this study.

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Appendix 1: CSR Index (Developed based on the GRI guidelines)

1. Environment	*1.1 Energy*	1.1.1 Energy consumption within the organization
		1.1.2 Energy consumption outside the organization
		1.1.3 Investment in renewable energy
	1.2 Water	1.2.1 Total water consumption by source
	1.3 Emission	1.3.1 Total weight of waste by type and disposal method
		1.3.2 Pollution from business operation
		1.3.3 Promotion of reuse and recycling of activities
	1.4 Products and Services	1.4.1 Extent of impact mitigation of environmental impacts of products and services
		1.4.2 Online banking facilities
	1.5 Compliance	1.5.1 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations
	1.6 Supplier environmental assessment	1.6.1 Percentage of new suppliers that were screened using environmental criteria
2. Labor practices Human rights		2.1Total number of new employees hires and employee turnover by age group, gender and region
		2.2 Employee health and safety
		2.3 Equal opportunities
		2.4 Employee training
		2.5 Employee assistance/ benefits
		2.6 Employee morale
		2.7 Formal grievance handling mechanism
		2.8 Programs for skills management and lifelong learning given
		2.9 Percentage of employees receiving regular performance and career development reviews
		2.10 Identification of right to exercise freedom of association and collective bargaining
		2.11 Incidents of discrimination and corrective actions taken
3. Contributions to society		3.1 Local community engagements and community development programmes
		3.2 Access points in low populated areas
		3.3 Initiatives to improves access to financial services to disadvantaged people
		3.4 Operations assessed for risks related to corruption and the significant risks identified
		3.5 Information on anti-corruption
		3.6 Confirmed incidents of corruption and actions taken
		3.7 Donations made to educational sector
		3.8 Donations made to health sector
		3.9 Sponsoring sporting or recreational projects
4. Product responsibility		4.1 Procedure for product and service information and labeling
		4.2 Incidents of non-compliance with regulations and voluntary codes concerning products
		4.3 Results of surveys measuring customer satisfaction
		4.4 Information regarding customer privacy
		4.5 Monetary value of significant fines for non-compliance with laws and regulations concerning products

		and services
		4.6 Monetary value of products and services designed to deliver a social benefit
		4.7 Monetary value of products and services designed to deliver an environmental benefit
		4.8 Frequency of audits to assess implementation of environmental and social policies