

# **THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY IN SRI LANKA**

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## **Abstract**

The main purpose of this research study is to examine the relationship between corporate governance and corporate social responsibility in selected Sri Lankan listed companies. Corporate finance literature suggests that Corporate Governance will play a critical role in determining the Corporate Social Responsibility (CSR) of a firm. Therefore, this study aims to investigate the relationship between corporate governance and CSR by aiming at the stakeholder theory of hundred companies traded in Colombo Stock Exchange (CSE) which covers four highest market capitalization industries (exclude banking, finance, and insurance). As the methodology of research, a quantitative research approach has been adopted to evaluate the relationship between corporate governance and CSR. Data for the study will be collected from the Annual Reports of selected companies from 2015-2017. Hence, it is expected to study the research problem in detail and achieve defined objectives of the research. Most of the corporate governance mechanisms considered in this study have in line with the corporate governance best practices, and the corporate social responsibility via nine control variables. Further, a positive relationship was found between corporate governance and corporate social responsibility.

**Keywords:** Corporate social responsibility, Corporate governance, Stakeholder theory

## **1. Introduction**

The concentration on corporate governance and CSR has been increased since firms are not only required to focus narrowly on generating profit returns for shareholders but also asked to take responsibilities for firm's other stakeholders, ex: customers, society, employees etc., from Social, Environment and Economic Perspective. Thus, today most of the companies aim to have a better CSR performance with better corporate governance while adding profitability to the shareholders to achieve sustainable success in the long term.

Stakeholder theory (Hill and Jones, 1992) attention on the position of a firm's relationship with stakeholders. Relationships with various stakeholder groups like customers, employees and the community affect firm performance either of those stakeholder groups shares in ownership rights. Effectively responding to and managing these stakeholder relationships is difficult task to success.

In general, corporate governance can be defined as a system employed to safeguard investors' interests. Shleifer and Vishny (1997) defined corporate governance as the ways in which suppliers of finance to companies assure themselves of getting a return on their investment. As Monks and Minow (2004, p. 1) remark in their research, due to corporate frauds and collapses, corporate governance is surfacing as a more and more critical domain of modern management. In Sri Lankan context corporate governance has a vital role with the introduction of open economy policy in 1977 and that policy turned the corporate sector into a foremost force in the Sri Lankan economy. Furthermore, the corporate sector has provided keener on improving the efficiency and effectiveness of corporate governance practices among the listed companies.

Pomeroy and Johnson, 2009 describe Corporate Social Responsibility as how business implements the broad societal responsibility of going beyond economic criteria including creating products, employment and profits to meet broader social and environmental expectations. However, the increased attention on the Corporate Social Responsibility (CSR) across firms and industries requires a firm not only concentrating on adding profit, but also focusing on its social responsibilities so that to meet the expectations of various stakeholders, e.g. customers, suppliers and employees (Ruf et al., 2001; Kolstad, 2007; McWilliams & Siegel, 2000; Gatewood & Carroll, 1991; Freeman, 1999).

## **2. Theoretical foundations and literature review**

This section reviews the literature on corporate governance and corporate social responsibility, to determine the theoretical and empirical relationship between corporate governance and corporate social responsibility.

### **2.1 Significance of the Research**

The relationship between corporate governance and CSR activities has been tested over years by many researchers and many arguments have been expressed throughout those studies. The studies are still ongoing, and conclusions are still made. During the search of literature review for the study, researchers have observed that the level of studies that have been conducted in the Sri Lankan context regarding the relationship between corporate governance and CSR has low, hence the present study will be empirically significant. Also, the research studies related to this area has been conducted using the companies in only one sector (banking and finance, healthcare, government etc.). Therefore, this research tries to fill the above research gap. In this study, the researcher will use hundred listed companies relevant to four main sectors based on their market capitalization regardless of the sector. Therefore, the findings will be very beneficial to all companies since it covers more than one business sector in Sri Lanka. At the end of the study, researchers expect to identify the relationship between corporate governance and CSR in Sri Lanka. Results of the study will be an advantage to the practicing bodies of corporate governance and CSR.

### **2.2 Research Question**

The main question of this study is that “what the relationship between corporate governance and CSR is?”

### **2.3 Research objectives**

The primary objective of this study is to identify the relationship between corporate governance and corporate social responsibility

In addition to that, there are secondary objectives as follows;

1. To identify whether there is a positive relationship between corporate social responsibility and corporate profitability

2. To identify whether good corporate governance leads to good future social responsibility

## **2.4 Literature review**

A Main concern of every company is to maximize its performance through its operations. To achieve this objective a firm must take some important decisions. One of these critical decisions which a firm should take is how its operations will be position among the society. Positioning can be done by maintaining good corporate governance and fulfilling corporate social responsibilities. The aforesaid corporate governance and corporate social responsibility will ultimately decide the position of the organization in the society. This positioning will depend on various factors; such as industry which the firm operates, size of the firm, expectations of the main stakeholders including the top management and the Directors etc. However, the optimal level of corporate governance and corporate social responsibility which a firm should maintain to maximize its performance is highly practicable among the organizations.

Said, Zainuddin, and Haron (2009) described the relationship between corporate social responsibility disclosure and corporate governance characteristics in Malaysian public listed companies. Moreover, (Bursa, 2006) defined the CSR:

“Corporate social responsibility is open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders.”

According to this research paper Disclosure of social responsibilities is not a mandatory requirement in Malaysia but usually, many firms disclose the information about corporate social responsibilities to the public such as affairs with community, environment and its employee. Disclosure of social responsibilities can be seen through advertising, annual report, focus group, company’s website, employee councils, and booklets. Corporate governance of a firm consists of several components such as board size, independent non-executive directors, CEO duality, audit committee managerial ownership, foreign ownership, and government shareholding. Among all corporate governance components, government ownership and audit committee has significantly and positively related to corporate social responsibility. High level of government shareholdings reflects that the higher level of government pressure to corporate social responsibility activities. Because of that Government ownership is the most influenced variable for the corporate governance disclosures.

Khan (2010) explained the impact of corporate governance elements on corporate social responsibility (CSR) reporting in private commercial banks of Bangladesh. The significance of corporate social responsibility reporting and corporate governance reporting of the Bangladesh firm has been increased in recent years and the corporate governance concept has been extended broadly. CSR reporting is also decreased the legitimacy gap between shareholders and the management through non-executive directors.

The composition of non-executive directors, the composition of women directors, foreign ownership, Shareholders are the corporate governance factors. Khan (2010) has found that most banks concerned more on the support for the natural disaster.

The results of the study show that the most significant corporate governance factors affecting to the corporate social responsibilities are the non-executive directors and foreign ownership whereas there is no relationship between women representation on the board and CSR reporting. The researcher has used only one period and limited CSR initiatives to obtain the results.

Jamali, Hallal, and Abdallah (2010) investigated the differences between major two types of hospitals in healthcare sector namely for-profit and non-profit organizations in terms of the application of corporate governance practices and the understanding and application of corporate social responsibility in the context of a developing country. They explored some basic governance differences between those two types of hospitals in terms of ownership and the role of the board of directors, managerial structure and orientation towards the corporate social responsibility. Accordingly, they identified that non-profit hospitals are more in line with corporate governance best practices and more concern on corporate social responsibility whereas in the context of family-owned, for-profit hospitals there is lack of understanding and application of corporate governance best practices.

Over time, different research studies have been conducted to conclude that what sort of relationship exists between corporate governance and corporate social responsibility. Luu Trong Tuan (2012) had linked corporate social responsibility and ethics with corporate governance to determine whether corporate social responsibility and ethics are qualifications for corporate governance. The researcher has used 370 responses returned from self-administered structured questionnaires sent to 1,173 middle-level managers were analyzed and conclude that there is a chemistry emerged between the ethics and CSR which positively influences corporate governance. All the managers are from listed companies in Vietnam and further researcher has found that a considerable level of ethics training program, as well as CSR initiatives, were practiced supporting corporate governance.

Esa and Ghazali (2012) examined whether there is an increase in the extent of corporate social responsibility disclosure in Malaysian Government-linked companies (GLCs) after the introduction of the 'Silver Book' in 2006 which provides guidelines GLCs to proactively engage in corporate social responsibility activities. Further, they investigated whether there is an impact on the corporate social responsibility disclosures from the attributes of corporate governance. They explored that there was an increase in the extent of corporate social responsibility disclosure in the annual reports when compared to 2005 because of the introduction of 'Silver Book' which has had some positive impact on GLCs to engage in more corporate social responsibility activities and disclose those in the annual reports. Further, they explored board size has a significant impact on the extent of corporate social responsibility

reporting in the annual report. Accordingly, they suggested that boards with more members with diverse experience are more engaged in corporate social responsibility activities.

Grigoris Giannarakis, (2014) examined the relationship between corporate governance and financial characteristics and the extent of corporate social responsibility (CSR) disclosure in the 100 companies from the Fortune 500 list for 2011. The dependent variable was corporate governance and it is supported by control variables such as board meetings, an average age of board members, the presence of women on the board, the board's size, chief executive officer duality, financial leverage, profitability, company's size, board composition and board's commitment to CSR. The association of corporate characteristics with CSR disclosure was measured by integrating multiple linear regression. Findings concluded except financial leverage other control variables of corporate governance are positively associated with the CSR of the organization.

Gali, Hajjar, and Jamali (2016) explored the conflicting sights of banks and banking authorities in Lebanon about the corporate governance (CG) and corporate social responsibility (CSR) nexus by using responses of manager of bank and bank authorities for the survey. The result of this research paper shows that there is a conflict when defining the nexus of corporate governance and corporate social responsibilities. Lebanese banking authorities are promoting for the good corporate governance practices for the banks and CSR reporting is not the mandatory requirement for the banks. This is the conflict between them.

Uzma (2016) examined how the governance structure incorporates corporate social responsibility into corporate behavior in the perspective of the external environment within emerging countries. It was explored that the embedded relationship between corporate social responsibility and corporate governance is influenced by the factors such as ownership structure, stakeholder approach, and other external environmental factors such as government regulation and legislation, legal enforcement and corporate disclosure culture. Further, it is identified that in ensuring the organizational legitimacy of corporate governance dimensions play a fundamental role. Additionally, it is explored that both the internal and external environmental factors could create an effective environment for corporate disclosure practice in emerging countries. Further, it is explained that the legal and external environment influence the corporate governance structure and corporate social responsibility disclosures is different from that of developed economies.

Lone, Ali and Khan (2016) examined the impact of voluntary guidelines in 2013 imposed by Securities and Exchange Commission of Pakistan (SECP) on the corporate social responsibility disclosure in Pakistani companies and investigated the effect of corporate governance factors on corporate social responsibilities by using annual reports and sustainability report of 50 companies from different sectors. The degree of disclosure of corporate social responsibility reporting has been increased after introducing the voluntary guidelines. CSR disclosure is positively related with the independent directors, board size and

women directors. In this research can be included human error when gathering data about CSR and this has been unnoticed the qualitative aspect.

The attention of investors, customer, supplier, employees and government on corporate social responsibility activities of the firms have been increased drastically in recent years and it plays a vital role in the company nowadays. When a company involving to the corporate social responsibility activities company has to employee financial resources. Kabir and Thai (2017) have broadly described that corporate social responsibility activities have a huge positive influence on the financial performance of the firm. In addition to that, the positive relationship between corporate social responsibilities and financial performance is strengthened by the features of corporate governance such as board size, board independence, and foreign ownership. But State ownership is not affected by corporate social responsibility. But there is an argument whether firms grow into because they are socially responsible or whether the firm is doing CSR after achieving success.

### **3. Research methods**

This section covers the research methodology of this study, the selected sample and how data was collected, the conceptual framework and operationalization of the variables and measurements.

#### **3.1 Research approach**

In this study, the relationship between corporate governance and the corporate social responsibility was examined through evaluating the stakeholder theory. The quantitative approach was used to explore the relationship between corporate governance and the corporate social responsibility and It was studied by evaluating annual reports of the listed companies selected.

CSR index was developed in the Sri Lankan context based on the KLD index provided by Boston based consulting firm and 10 features were used to assess the status of corporate governance.

#### **3.2 Population and sample**

The population of this study comprises 296 companies which are listed on Colombo Stock Exchange and categorized into 20 sectors (*Refer Appendix 1 – Number of companies according to Sector classification by Colombo Stock Exchange and market statics*). 100 companies of the Manufacturing, Beverage food and tobacco, hotels and travels and diversified holdings sectors (*Refer Appendix 2 – Sample selection based on market capitalization*) which have highest market capitalization excluding banking, finance, and insurance sector (were selected as a sample purposively for our study. 31 March is the period end for all the listed companies which were in the sample.

Even though banking and finance sector is the one of highest market capitalized sector and included the 77 companies among 296 listed companies, As the industry by nature has a close supervision by the Central Bank of Sri Lanka on corporate governance which makes an extreme situation, and to achieve the greater comparability among the data, banking and finance sector was ignored.

**Table 1: Sample selection**

<b>Sector</b>	<b>Sector market capitalization as a % total market capitalization</b>	<b>Number of Firms in the market</b>	<b>Sample</b>
<b>Hotels and Travels</b>	11%	40	33
<b>Manufacturing</b>	5%	38	30
<b>Beverage food and tobacco</b>	21%	21	18
<b>Diversified</b>	20%	19	19
<b>Total</b>	57%	118	100

*Source:* Colombo Stock Exchange Website (2018)

To ensure the statistical adequacy of the sample, annual reports for 2 years period were obtained for the study .2015/2016 and 2016/2017 were selected as the 2 financial years 2017/2018 financial year was not obtained due to non-availability of annual reports of several listed companies. (*Refer Appendix 3: Selected companies listed in CSE*)

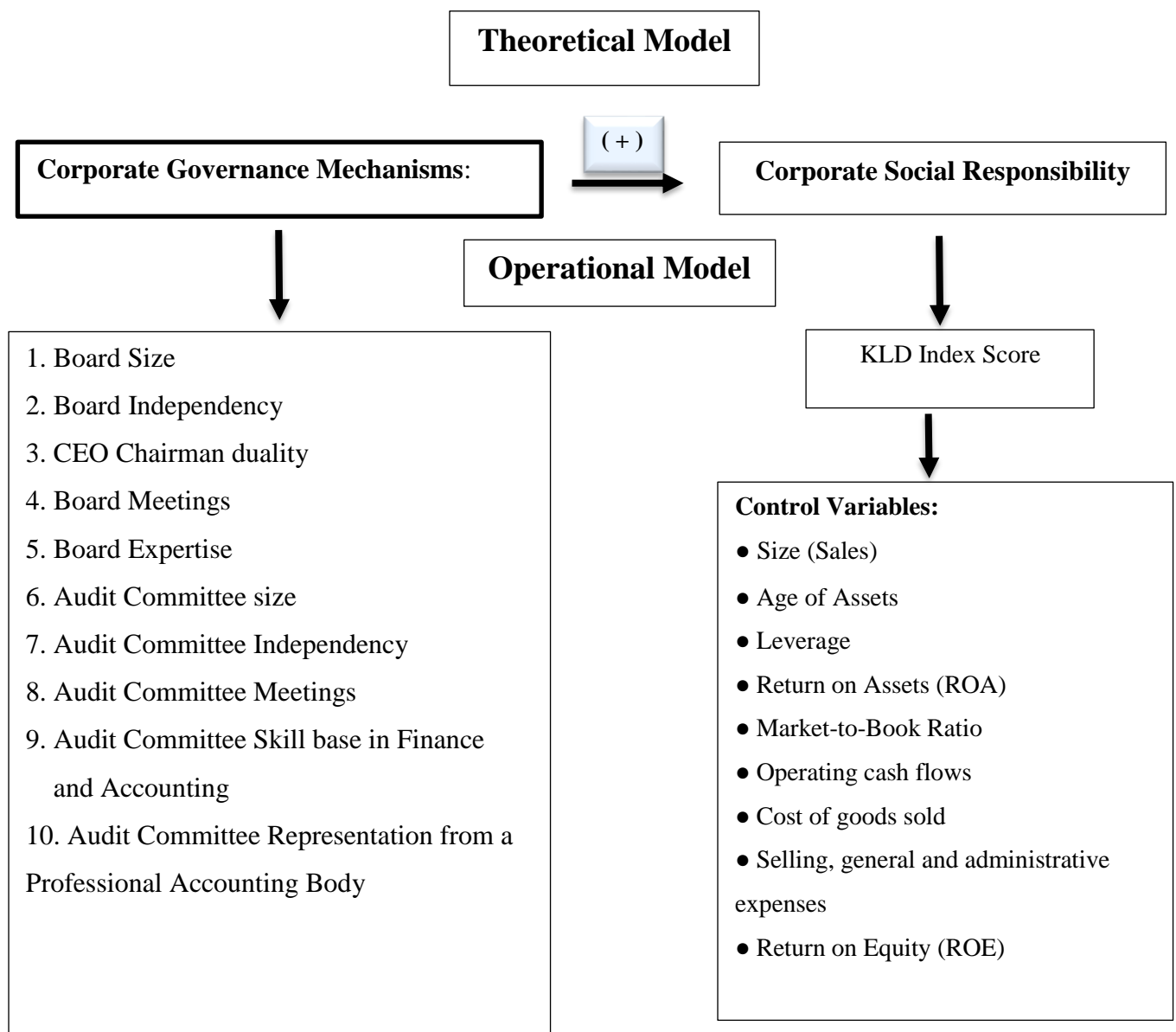
### **3.3 Data Collection**

Our research study was based on secondary data due to limited access to the primary data resources and non-availability of primary data. Annual reports of listed companies selected which have been published in CSE website were the main source of data collection and both financial and non-financial data were taken consideration during this study. Corporate annual reports for financial years 2015/2016 and 2016/2017 of companies were assessed to identify the association between corporate social responsibility and corporate governance.

### **3.4 Conceptual framework**

Figure 1 below gives the conceptual framework of the study, which is based on the literature review discussed in Section 2.4, depicts the relationship between selected corporate governance mechanisms and corporate social responsibilities.





Source: Author constructed

### 3.5. Operationalization

Corporate governance components and CSR index were developed in the Sri Lankan context based on the KLD index provided by Boston based consulting firm were used to assess the association between the corporate social responsibility and corporate governance. Five control variables also included for this study and they were firm size, the age of long-term assets, leverage, return on assets and the market-to-book ratio. Under the following two topics, we provided details related to the measurement of primary variables i.e. CSR and corporate governance.

### 3.5.1. Dependent variable-CSR

We developed a CSR index in Sri Lankan context by using the KLD index provided by Boston based consulting firm to assess the corporate social responsibility status of the firm.

KLD provide scores for 7 qualitative areas and we used only 6 variables which were suitable to Sri Lanka. Community, corporate governance, employee relations, diversity, environment, and product are the 6 qualitative areas used. Strengths and concerns under 6 qualitative areas selected are considered to find the CSR index.

**Table 2: Operationalization of CSR**

Variable	Measurements	Qualitative areas used to develop measurement
Corporate social responsibilities	CSR Index	<p><u>Community</u>  Strengths- Generous Giving  Innovative Giving  Peoples Relations  Voluntary Programs  Concerns- Investment Controversies  Tax Disputes</p> <p><u>Corporate Governance</u>  Strengths- CEO chairman duality  Board independency  Audit committee meetings  Concerns - High Compensation  Lack of CEO chairman duality  Lack of board independency</p> <p><u>Diversity</u>  Strengths- Promotion  Gender Equality  CEO's gender  Concerns- Non- representation  Promotion  Gender Discrimination</p> <p><u>Employee Relations</u>  Strengths – Unions  Cash Profit Sharing\  Health and Safety (ISO 22000 etc)  Retirement Benefits</p>

		Concerns- Workforce reduction Health and Safety <u>Environment</u> Strengths- Pollution Prevention Clean Energy Beneficial Product Concerns- Regulatory Issues Hazardous Waste Destructive Product  <u>Products</u> Strengths- Quality Product R&D and Innovation Concerns- Product safety Antitrust Any concerns of alcohol Any concerns of tobacco
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### 3.5.2. Independent variable-Corporate governance

Level of corporate governance was measure by using following features and industry averages were calculated for selected 4 sectors and if a firm score is above the industry average, we have considered, it's corporate governance level is high and if a firm score is below industry average, we considered, its corporate governance level is low.

**Table 3 –Operationalization of CG**

Variable	Measurement	Extant Studies
Board Size	Total number of board of directors for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawaduge & Ajward 2017)
Board Independency	Number of independent nonexecutives directors on the board for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawaduge & Ajward 2017)
CEO Chairman duality	Coded as '1', if CEO and chairman roles are separated, and '0' otherwise, for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawaduge & Ajward 2017)
Board Meetings	Number of board meetings for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawaduge & Ajward 2017)
Board Expertise	Number of members with financial or/and accounting	(De Silva, Manawaduge & Ajward 2017)

	qualifications for firm <i>i</i> and period <i>t</i> .	
Audit Committee size	Number of members in the audit committee for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawaduge & Ajward 2017)
Audit Committee Independency	Number of independent nonexecutives directors on the Audit Committee for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawaduge & Ajward 2017)
Audit Committee Meetings	Number of audit committee meetings for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawadu & Ajward 2017)
Audit Committee Skill base in Accounting and Finance	Number of members with Finance or/and Accounting qualifications in the audit committee for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawadu & Ajward 2017)
One audit committee a director is a member of a professional accounting body	Coded as '1' if at least one a director is a member of a professional accounting body, and '0' otherwise, in the audit committee for firm <i>i</i> and period <i>t</i> .	(De Silva, Manawadu & Ajward 2017)

**Table 4- Operationalization of control variables**

<b>Control Variables</b>		
Sales	Net Sales during each period	(Marty Stuebs, Li Sun 2015)
Age	The ratio of Net property plant and equipment and gross property plant and equipment	(Marty Stuebs, Li Sun 2015)
Leverage	The ratio of total debt at the end of the period to the total assets at the end of the period.	(Marty Stuebs, Li Sun 2015)
Return on asset	The ratio of net income for the period and Total asset at the end of the period	(Marty Stuebs, Li Sun 2015)
Market to book value ratio	The ratio of total share value and total common equity at the period end.	(Marty Stuebs, Li Sun 2015)

### 3.5.3 Measurement of corporate social responsibility

Corporate social responsibility and corporate governance were the dependent and independent variable of this study respectively and CSR index and corporate governance mechanisms were used in the following regression model to check the relationship between the corporate governance and corporate social responsibility.

$$KLD_{it} = \alpha_0 + \alpha_1 * GOV_{it} + \alpha_2 * SALES_{it} + \alpha_3 * AGE_{it} + \alpha_4 * LEV_{it} + \alpha_5 * ROA_{it} + \alpha_5 * MTB_{it} + \epsilon_{it}$$

Where:

- KLD<sub>it</sub> = Social responsibility index score for firm i in year t;  
GOV<sub>it</sub> = Corporate governance score of firm i in year t;  
SALES<sub>it</sub> = Net sales of firm i in year t;  
AGE<sub>it</sub> = Net property, plant and equipment /Gross property, Plant and equipment of firm i in year t;  
LEV<sub>it</sub> = Leverage ratio [total liabilities total assets of firm i in year t;  
ROA<sub>it</sub> = Return on assets [income before extraordinary items – available for Common equity /total assets of firm i in year t; and  
MTB<sub>it</sub> = Market-to-book ratio {[common shares outstanding Stock price – fiscal year-end /total common equity of firm i in year t.

### 3.6 Hypotheses

To assess the relationship between corporate governance and corporate social responsibility and evaluate whether good corporate governance practices may lead to good future social responsibility, the following two hypotheses were developed.

- H<sub>1</sub> = Corporate governance is positively associated with social responsibility  
H<sub>2</sub> = Good corporate governance leads to good future social responsibility

## 4. Data analysis and results

This section contains the results obtained from the statistical analysis suggested under research methods. Accordingly, the results of the descriptive analysis, correlation analysis are presented with the resulting discussion in this section.

### 4.1 Descriptive statistics

This study has analyzed the results of the sample of hundred firms which are operating in four major sectors via descriptive statistics and Pearson Correlation matrix for each of the two years namely, 2016 and 2017.

Table 5 and 5a summarizes the sample firm's descriptive statistics for each of the two years. For selected variables, information such as mean and standard deviation is provided for each year. For an instance, the mean values of CSR score are 9.17 and 9.72, while the mean values of CG score are 4.87 and 4.66 for 2016 and 2017 respectively. In both years standard deviation for CSR score and CG Score is closer to zero, which is indicating a consistency among the data gathered from the sample; which will be helpful to elevate the reliability of the generalization of research findings to the population.

**Descriptive Statistics (2017)**

	Mean	Std. Deviation	N
CSR Score	9.17	5.07	100
CG Score	4.87	2.08	100
Sales	2345576.63	4963829.46	100
Age	.67	.36	100
Leverage	.31	.25	100
ROA	1.22	11.54	100
MTB	1.59	1.54	100
OCF	558704.05	1435404.58	100
COGS	561205.58	1687275.29	100
XSGA	347070.03	460850.88	100
ROE	1.26	11.54	100

(Table 5)

**Descriptive Statistics (2016)**

	Mean	Std. Deviation	N
CSR Score	9.72	4.70	100
CG Score	4.66	1.94	100
Sales	2449345.99	4833081.41	100
Age	.66	.39	100
Leverage	.31	.22	100
ROA	0.92	.64	100
MTB	1.59	1.78	100
OCF	488810.68	1658773.82	100
COGS	386727.01	4062476.04	100
XSGA	239267.46	973631.71	100
ROE	-.26	3.19	100

(Table 5a)

### Correlations (2017)

ROE	Pearson Correlation	-.024	-.091	-.045	-.187	-.122	1.000**	-.014	-.038	-.032	-.074	1
	Sig. (2-tailed)	.812	.366	.653	.063	.226	.000	.893	.708	.750	.464	
	N	100	100	100	100	100	100	100	100	100	100	100

(Table 6)

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

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



**Correlations (2016)**

		CSR Score	CG Score	Sales	Age	Leverage	ROA	MTB	OCF	COGS	XSGA	ROE
CSR Score	Pearson Correlation	1	.118	.090	.139	-.004	.052	.076	-.039	-.105	.102	.024
	Sig. (2-tailed)		.244	.376	.167	.968	.608	.454	.701	.297	.315	.814
	N	100	100	100	100	100	100	100	100	100	100	100
CG Score	Pearson Correlation	.118	1	.067	-.125	.041	-.145	.031	.105	.021	.044	-.090
	Sig. (2-tailed)	.244		.506	.215	.683	.150	.757	.297	.835	.666	.374
	N	100	100	100	100	100	100	100	100	100	100	100
Sales	Pearson Correlation	.090	.067	1	.067	.342**	-.203*	.059	.350**	-.399**	.202*	-.493**
	Sig. (2-tailed)	.376	.506		.505	.000	.043	.560	.000	.000	.044	.000
	N	100	100	100	100	100	100	100	100	100	100	100
Age	Pearson Correlation	.139	-.125	.067	1	.122	.128	-.110	-.081	-.014	.040	.007
	Sig. (2-tailed)	.167	.215	.505		.228	.203	.278	.424	.892	.692	.946
	N	100	100	100	100	100	100	100	100	100	100	100
Leverage	Pearson Correlation	-.004	.041	.342**	.122	1	-.094	.167	-.003	-.111	.151	-.290**
	Sig. (2-tailed)	.968	.683	.000	.228		.352	.097	.979	.271	.134	.003
	N	100	100	100	100	100	100	100	100	100	100	100
ROA	Pearson Correlation	.052	-.145	-.203*	.128	-.094	1	.147	-.157	.185	.477**	.629**
	Sig. (2-tailed)	.608	.150	.043	.203	.352		.145	.120	.065	.000	.000
	N	100	100	100	100	100	100	100	100	100	100	100
MTB	Pearson Correlation	.076	.031	.059	-.110	.167	.147	1	-.070	-.140	.025	.114
	Sig. (2-tailed)	.454	.757	.560	.278	.097	.145		.491	.165	.802	.258
	N	100	100	100	100	100	100	100	100	100	100	100
OCF	Pearson Correlation	-.039	.105	.350**	-.081	-.003	-.157	-.070	1	-.147	.295**	-.378**
	Sig. (2-tailed)	.701	.297	.000	.424	.979	.120	.491		.145	.003	.000
	N	100	100	100	100	100	100	100	100	100	100	100
COGS	Pearson Correlation	-.105	.021	-.399**	-.014	-.111	.185	-.140	-.147	1	.183	.385**
	Sig. (2-tailed)	.297	.835	.000	.892	.271	.065	.165	.145		.068	.000
	N	100	100	100	100	100	100	100	100	100	100	100
XSGA	Pearson Correlation	.102	.044	.202*	.040	.151	.477**	.025	.295**	.183	1	-.053
	Sig. (2-tailed)	.315	.666	.044	.692	.134	.000	.802	.003	.068		.602

N		100	100	100	100	100	100	100	100	100	100	100
ROE	Pearson Correlation	.024	-.090	-.493**	.007	-.290**	.629**	.114	-.378**	.385**	-.053	1
	Sig. (2-tailed)	.814	.374	.000	.946	.003	.000	.258	.000	.000	.602	
N		100	100	100	100	100	100	100	100	100	100	100

(Table 6a)

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

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

Table 6 and 6a reports the Pearson Correlation matrix for the Independent, Dependent and Control variables for each of the two years. In that table, the Pearson correlation coefficient and related p-value are provided for each pair of variables.

Pearson correlation coefficient measures the strength of a linear relationship between two variables. The Pearson correlation coefficient can take values from (+1) to (-1). Zero indicates that there is no relationship between the two variables. If the value is a positive value, that indicates a positive relationship between the two variables. If the value is a negative value that indicates a negative relationship between two variables. If the value is +1/-1, that indicates no variations. Smaller the coefficient value becomes weaker the relationship.

The p-value for each independent variable tests the null hypothesis that the variable has no correlation with the dependent variable. If there is no correlation, there is no relationship between the changes in the independent variable and changes in the dependent variable. Further, this means that there is no sufficient evidence to conclude that there is an effect at the population level.

For the year 2016, the Pearson Correlation Coefficient is +0.001 and for the year 2017 +0.118. This represents that there is a positive relationship between Corporate Social Responsibility and Corporate Governance. However, the relationship seems to be weak as the Coefficient is very close to zero. In general, the results indicate that both CSR score in 2016 and CSR score in 2015 are positively correlated with total sales, leverage, ROA etc.

Further, also the p-value for the year 2016 is 0.991 and is greater than the significance level of 0.01 ( $p > 0.01$ ) and for the year 2017 p-value is 0.244 and is also greater than the significance level of 0.01 ( $p > 0.01$ ). According to the p-value, which is greater than the significance level indicates that there is no adequate evidence in the sample to conclude that a non-zero correlation exists.

The significant correlation between CSR score and CG score suggest that corporate governance is positively associated with Corporate Social Responsibility. As analyzed above, in overall the results provide initial evidence supporting our hypothesis.

<i>Regression Statistics</i>	
Multiple R	0.8517625
R Square	0.72549935
Adjusted R Square	0.68693817
Standard Error	5.78091075
Observations	100

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	10	7949.296386	794.929639	23.786808	4.24831E-21
Residual	90	3007.703614	33.418929		
Total	100	10957			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	9.0516999	1.906835916	4.74697368	7.842E-06	5.262857548	12.840542	5.26285755	12.8405422
CG	0.73049379	0.218505427	3.34313798	0.0012084	0.296394622	1.164593	0.29639462	1.16459296
Sales	1.3225E-08	1.42331E-07	0.09291893	0.9261745	-2.6954E-07	2.96E-07	-2.695E-07	2.9599E-07
Age	5.14663625	1.348215756	3.81736842	0.0002473	2.468170334	7.8251022	2.46817033	7.82510217
Leverage	0.69299797	2.799570568	0.24753724	0.8050563	-4.86883761	6.2548335	-4.8688376	6.25483354
ROA	8.41011085	11.16610694	0.75318201	0.4533063	-13.7733095	30.593531	-13.77331	30.5935312
MTB	0.48174543	0.454851331	1.05912723	0.2923761	-0.42189613	1.385387	-0.4218961	1.38538699
OCF	2.4067E-07	4.76656E-07	0.50492285	0.6148472	-7.0629E-07	1.188E-06	-7.063E-07	1.1876E-06
COGS	-3.6E-07	4.15277E-07	-0.866875	0.3883158	-1.185E-06	4.65E-07	-1.185E-06	4.6503E-07
XSGA	2.1546E-06	1.70424E-06	1.26423989	0.2094083	-1.2312E-06	5.54E-06	-1.231E-06	5.5403E-06
ROE	-8.3627329	11.16478985	-0.7490273	0.4557939	-30.5435366	13.818071	-30.543537	13.8180709

**Table 7 - Regression analysis 2016**

<i>Regression Statistics</i>	
Multiple R	0.88136761
R Square	0.77680886
Adjusted R Square	0.74337863
Standard Error	5.37225229
Observations	100

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	10	9040.501483	904.050148	31.324181	5.39938E-25
Residual	90	2597.498517	28.8610946		
Total	100	11638			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	8.60059686	1.70534932	5.04330506	2.395E-06	5.212104087	11.98909	5.21210409	11.9890896
CG	0.78456888	0.192710271	4.07123541	0.0001003	0.40171629	1.1674215	0.40171629	1.16742147
Sales	5.178E-08	1.44938E-07	0.35725453	0.7217376	-2.3616E-07	3.397E-07	-2.362E-07	3.3972E-07
Age	5.36338541	1.203442382	4.45670311	2.39E-05	2.972537066	7.7542338	2.97253707	7.75423375
Leverage	1.71834976	2.580600981	0.66587193	0.5071961	-3.40846451	6.845164	-3.4084645	6.84516402
ROA	-2.3125538	1.528745163	-1.5127137	0.1338561	-5.34967286	0.7245653	-5.3496729	0.72456533
MTB	0.51783735	0.314454868	1.64677796	0.1030913	-0.10688213	1.1425568	-0.1068821	1.14255683
OCF	-4.326E-08	3.81887E-07	-0.1132862	0.910056	-8.0195E-07	7.154E-07	-8.019E-07	7.1542E-07
COGS	-2.089E-07	1.67048E-07	-1.2504654	0.214371	-5.4076E-07	1.23E-07	-5.408E-07	1.2298E-07
XSGA	1.0845E-06	8.6532E-07	1.25328523	0.2133481	-6.3462E-07	2.804E-06	-6.346E-07	2.8036E-06
ROE	0.47964818	0.30155079	1.59060494	0.1152052	-0.1194351	1.0787315	-0.1194351	1.07873145

**Table 7a – Regression analysis 2017**

As per the regression analysis for the 2016 and 2017, the result shows that corporate governance is significant to corporate social responsibility as the significant p-value is  $<0.5$ . Further the significance F value of the model also less than 0.05 which confirm that the relationship between corporate governance and corporate social responsibility is positive. For both years adjusted R square is more than 70% and which confirms that the proportion of the variation independent variable (corporate social responsibility) explained by independent variables (corporate governance and other control variables) is strong.

## **5 Conclusion**

There are many international and local examples to highlights that poor corporate practices lead organizations towards a questioning position among the stakeholders. Organizations might use corporate social responsibility as a coverup component to not to emphasize the real picture of the corporate governance of the organization.

This research examined whether certain corporate governance practices (i.e., size of the board of directors, independence of the board of directors, CEO-Chairman duality, frequency of board meetings, board finance and accounting expertise, size of audit committee, independence of audit committee, number of audit committee meetings, skills base in finance and accounting in audit committee, and at least one director from a professional accounting body in the audit committee) has a positive relationship with corporate social responsibility.

The sample consisted of hundred companies listed in the Colombo Stock Exchange (CSE) selected basis of the highest market capitalization for the period 2016 to 2017 and representing the hotel and travels, diversified, beverage, food & tobacco and manufacturing sectors, which had accounted for 57% of the total market capitalization of CSE.

This study first determined the corporate governance score and corporate social responsibility score in the selected listed companies. Then by using correlation analysis and regression analysis examined the relationship between these selected control variables and corporate governance with corporate social responsibility.

In this study, corporate governance is positively associated with CSR. In another way, good corporate governance leads and create positive implications for corporate social responsibility. The study has examined the association between corporate governance (in 2016 and 2017) and CSR (in 2016 and 2017). Regression analyses document a positive and significant ( $p < 0.05$ ) association between corporate governance and CSR for both hypotheses. Results from Pearson correlation tables also confirm this significant and positive association. Further in the Sri Lankan context, due to the unavailability of nationally accepted guideline to measure both independent and dependent variable, hence it is a major drawback to determine the exact relationship.

Finally, it should be noted that this research study is subject to certain limitations as this study has selected only certain board characteristics and audit committee characteristics to evaluate

the corporate governance impact on corporate social responsibility. However, there are many other corporate governance aspects that may have an influence on corporate social responsibility.

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## Appendices

Appendix 1: Number of companies according to sector classification by CSE and market statics

Serial No	Sector	No of Companies	Market Capitalization	Market Capitalization as a percentage (%)
1	Banks Finance And Insurance	64	767,949,928,285	26%
2	Beverage Food And Tobacco	21	634,910,844,001	22%
3	Chemicals And Pharmaceuticals	10	15,175,352,795	1%
4	Construction And Engineering	4	30,777,065,836	1%
5	Diversified Holdings	19	589,071,472,298	20%
6	Footwear And Textiles	3	11,712,651,131	0%
7	Health Care	6	59,239,018,105	2%
8	Hotels And Travels	40	315,224,899,040	11%
9	Information Technology	2	718,275,924	0%
10	Investment Trusts	9	20,988,367,373	1%
11	Land And Property	19	53,420,300,320	2%
12	Manufacturing	38	142,234,120,247	5%
13	Motors	6	20,178,101,809	1%
14	Oil Palms	5	43,395,654,398	1%
15	Plantations	19	31,487,141,960	1%
16	Power And Energy	9	46,290,184,678	2%
17	Services	8	6,283,156,208	0%
18	Stores And Supplies	4	6,879,212,547	0%
19	Telecommunications	2	131,115,361,989	4%
20	Trading	8	23,404,562,388	1%

Appendix 2 : Sample selection based on market capitalization

Sector	No of Companies	Market Capitalization as a percentage (%)	Selected / Excluded	Reason for Exclusion
Banks Finance And Insurance	64	26%	Excluded	Close supervision by the Central Bank of Sri Lanka on Corporate Governance .Therefore lack of comparability.
Beverage Food And Tobacco	21	22%	Selected	N/A
Diversified Holdings	19	20%	Selected	N/A
Hotels And Travels	40	11%	Selected	N/A
Manufacturing	38	5%	Selected	N/A



Appendix 3: Selected companies listed in CSE

<b>Sector</b>	<b>Company</b>	<b>Included / Excluded</b>	<b>Reason for Exclusion</b>
Beverage Food and Tobacco	Bairaha Farms PLC	Included	
	Cargills (Ceylon) PLC	Included	
	Ceylon Beverage Holdings PLC	Included	
	Ceylon Tobacco Company (PLC)	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Ceylon Cold Stores PLC	Included	
	Convenience Foods (Lanka) PLC	Included	
	Dilmah Ceylon Tea Company PLC	Included	
	Distilleries Company of Sri Lanka PLC	Included	
	Harishchandra Mills PLC	Included	
	Hva Foods PLC	Included	
	Keells Food Products PLC	Included	
	Kotmale Holdings PLC	Included	
	Lion Brewery Ceylon PLC	Included	
	Lanka Milk Foods (Cwe) PLC	Included	
	Lucky Lanka Milk Processing Company PLC	Included	
	Nestle Lanka PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Raigam Wayamba Salterns PLC	Included	
	Renuka Agri Foods PLC	Included	
	Renuka Foods PLC	Included	
	Tea Smallholder Factories PLC	Included	
	Three Acre Farms PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
Diversified Holdings	Adam Capital PLC	Included	
	Adam Investments PLC	Included	
	Aitken Spence PLC	Included	
	Browns Capital PLC	Included	
	Browns Investments PLC	Included	
	C T Holdings PLC	Included	
	Carson Cumberbatch PLC	Included	
	Dunamis Capital PLC	Included	

Sector	Company	Included / Excluded	Reason for Exclusion
	Expolanka Holdings PLC	Included	
	The Colombo Fort Land & Building PLC	Included	
	Hayleys PLC	Included	
	Hemas Holdings PLC	Included	
	John Keells Holdings PLC	Included	
	Melstacorp PLC	Included	
	Richard Pieris And Company PLC	Included	
	Softlogic Holdings PLC	Included	
	Sunshine Holdings PLC	Included	
	Taprobane Holdings PLC	Included	
	Vallibel One PLC	Included	
Hotels and Travels	Aitken Spence Hotel Holdings PLC	Included	
	Asian Hotels & Properties PLC	Included	
	Amaya Leisure PLC	Included	
	Anilana Hotels and Properties PLC	Included	
	Bansei Royal Resorts Hikkaduwa PLC	Included	
	Beruwala Resorts PLC	Included	
	Browns Beach Hotels PLC	Included	
	Hikkaduwa Beach Resort PLC	Included	
	Kalpitiya Beach Resort PLC	Included	
	Citrus Leisure PLC	Included	
	Waskaduwa Beach Resort PLC	Included	
	Dolphin Hotels PLC	Included	
	Eden Hotel Lanka PLC	Included	
	The Fortress Resorts PLC	Included	
	Galadari Hotels (Lanka) PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Hotel Developers (Lanka) PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Hotel Sigiriya PLC	Included	
	John Keells Hotels PLC	Included	
	Hunas Falls Hotels PLC	Included	

Sector	Company	Included / Excluded	Reason for Exclusion
	Jetwing Symphony PLC	Excluded	Financial Statements Not Available
	The Kandy Hotels Company (1938) PLC	Included	
	Keells Hotels PLC	Excluded	Financial Statements Not Available
	The Kingsbury PLC	Included	
	The Lighthouse Hotel PLC	Included	
	Mahaweli Reach Hotels PLC	Included	
	Marawila Resorts PLC	Included	
	Miramar Beach Hotel PLC	Excluded	Financial Statements Not Available
	The Nuwara Eliya Hotels Company PLC	Included	
	Palm Garden Hotels PLC	Included	
	Pegasus Hotels of Ceylon PLC	Included	
	Ramboda Falls PLC	Included	
	Renuka City Hotel PLC	Included	
	Renuka City Hotels PLC	Excluded	Double-Counted in CSE Database.
	Royal Palms Beach Hotels PLC	Included	
	Serendib Hotels PLC	Excluded	Double-Counted in CSE Database.
	Serendib Hotels PLC	Included	
	Sigiriya Village Hotels PLC	Included	
	Tal Lanka Hotels PLC	Included	
	Tangerine Beach Hotels PLC	Included	
	Trans Asia Hotels PLC	Included	
Manufacturing	Abans Electricals PLC	Included	
	Acl Cables PLC	Included	
	Acl Plastics PLC	Included	
	Acme Printing & Packaging PLC	Included	
	Agstar PLC	Included	
	Alufab PLC	Included	
	Alumex PLC	Included	
	Blue Diamonds Jewellery Worldwide PLC	Included	

Sector	Company	Included / Excluded	Reason for Exclusion
	BPPL Holdings PLC	Excluded	The company was listed in 2016/17.
	Central Industries PLC	Included	
	Ceylon Grain Elevators PLC	Included	
	Chevron Lubricant Lanka PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Dankotuwa Porcelain PLC	Included	
	Dipped Products PLC	Included	
	Grain Elevators (+)	Excluded	
	Hayleys Fibre PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Kelani Cables PLC	Included	
	Kelani Tyres PLC	Included	
	Lanka Aluminium Industries PLC	Included	
	Lanka Cement PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Lanka Ceramic PLC	Included	
	Lanka Tiles PLC	Included	
	Lanka Walltiles PLC	Included	
	Laxapana Batteries PLC	Included	
	Orient Garments PLC	Excluded	Financial Statements Not Available
	Pelwatta Sugar Industries PLC	Excluded	Financial Statements Not Available
	Piramal Glass Ceylon PLC	Included	
	Printcare PLC	Included	
	Regnis (Lanka) PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December
	Richard Pieris Exports PLC	Included	
	Royal Ceramics Lanka PLC	Included	
	Samson International PLC	Included	
	Sierra Cables PLC	Included	
	Singer Industries Ceylon PLC	Excluded	Financial Year ending date is 31 <sup>st</sup> December

<b>Sector</b>	<b>Company</b>	<b>Included / Excluded</b>	<b>Reason for Exclusion</b>
	Swadeshi Industrial Works PLC	Included	
	Swisstek (Ceylon) PLC	Included	
	Teejay Lanka PLC	Included	
	Tokyo Cement Company (Lanka) PLC	Included	