Journal of Management *Vol. 17, Issue. 2, October 2022*
ISSN: 1391-8230 *29-43*

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: A STUDY OF SELECTED LISTED COMPANIES IN SRI LANKA

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Abstract

Purpose - The primary objective of this study is to investigate the link between corporate governance and corporate social responsibility disclosure in Sri Lankan listed firms. Corporate governance was evaluated using the following criteria: board size, board independence, role duality, women representation, audit committee size, and ownership concentration. The GRI methodology was utilized to assess CSR disclosure using content analysis. This study collects balanced panel data from 44 Sri Lankan listed firms over a five-year period, from 2018 to 2022. Because of their highly regulated nature, the banking, finance, insurance, and investment trust industries were omitted from the sample. All of the information was gathered from yearly reports published on the Colombo Stock Exchange's website in Sri Lanka. Descriptive statistics were used to characterize the data, and Pooled OLS regression analysis was utilized to study the association between corporate governance and corporate social responsibility disclosure. Regression results suggest that board size, board independence and women representation, have no significant relationship with CSRD. Role Duality, Audit Committee Size and Ownership Concentration exhibit a significant association with CSRD. Moreover, the mean value of the CSRD is 44.56 percent for the selected listed companies in Sri Lanka. This study only uses the GRI-based CSR disclosures published by the companies in their annual reports. However, many companies still need to publish GRI-based CSR disclosures in their annual report as it is evident through the mean CSRD value. However, those companies may use other disclosure formats in their annual reports which have not been portrayed in the study since the study has utilized GRI content elements as base. Therefore, the results cannot be generalizable. This study contributes to determining how effectively organizations have adhered to the GRI as a widely acknowledged disclosure framework. It is believed to offer value to the company's management in order for them to make better judgments on whether the firms should involve them in more corporate governance disclosures in order to raise the degree of CSR to enhance transparency and to promote stakeholders' well-being. The outcome also has ramifications for regulatory agencies in developing obligatory reporting requirements for all listed firms to comply with the GRI framework.

Keywords: *Corporate social responsibility disclosure, corporate governance, Global Reporting Initiative.*

1. Introduction

Corporate governance emerged due to agency issues associated with establishing limited liability companies (Tricker, 2015). As a result, corporate governance has become the most critical aspect of all corporate entities. It contributes to proper supervision and control efficiency and effectiveness, thereby reducing agency conflicts. Therefore, all businesses should focus on practicing good corporate governance.

Corporate Governance (CG) of the firms plays a significant role in this progression as CG is responsible for shareholders and managing all the stakeholders (OECD, 2015). Since corporate governance is accountable for the management of the company in the best interests of all stakeholders, including society, it must concentrate on ways to increase corporate social responsibility (CSR). When a company discloses its CSR initiatives, it can absolve itself of responsibility to all stakeholders rather than just its shareholders (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020).

It has been observed that corporate governance is becoming broader, and some areas of corporate governance are becoming a part of CSR (Khan, 2010). As Khan, Muttakin, and Siddiqui (2013) indicated, it is vital to analyze corporate governance mechanisms as a predictor of CSR because CSR activities are the outcome of the values, choices, and motives of the people engaged in forming the firms' decisions.

According to Jo and Harjoto (2011), corporate social responsibility (CSR) results from businesses' efforts to implement effective corporate governance, which guarantees the survival of businesses by encouraging accountability and transparency. As viewed above, corporate governance is often considered a deciding aspect that influences the disclosure of CSR.

CSR reporting is an external aspect of corporate governance, while the board of directors makes decisions on CSR activities, which is an internal aspect of corporate governance (Lu, Abeysekara, & Cortese, 2015). Furthermore, they argue that companies with effective corporate governance mechanisms are more likely to use CSR reporting to show relevant stakeholders their commitment to corporate, social, and environmental responsibility.

Companies in Sri Lanka are now filing CSR disclosures more often than in previous years. Most publicly traded corporations have begun to use the Global Reporting Initiative (GRI) Framework to provide CSR data in their annual reports. As a result, CSR disclosures become an essential component of annual reports. In this context, the influence of corporate governance on CSR Disclosure is being investigated, i.e., whether there is a link between corporate governance and the company's CSR disclosure.

This study investigates the relationship between corporate governance (CG) and corporate social responsibility disclosure (CSRD) of Colombo Stock Exchange-listed companies in Sri Lanka for a sample period from 2018 to 2022. This study demonstrates how corporate governance variables affect corporate social responsibility disclosure. Therefore, this study uses six independent variables (IV) as a corporate governance proxy. While to measure the CSRD, the content analysis approach based on Global Reporting Initiative (GRI) framework has been used (Madhusanka et al., 2019). Many studies looked into the relationship between CG and CSRD (Madhusanka et al., 2019; Lingesiya & Sivakaran, 2019; Niruja, 2020; Madhurangi & Basnayake, 2021; Weerasinghe, 2021; Imasha

& Lakshan, 2021; Muthumalika & Tilakasiri, 2021) in Sri Lanka.

Exploring the relationship between CG and CSRD by incorporating the Global Reporting Initiative (GRI) guidelines, a globally recognized framework to evaluate CSR disclosures is the foremost contribution of this study. Only a few studies (Niruja, 2020; Muthumalika & Tilakasiri, 2021) have been conducted in Sri Lanka by using the GRI guidelines to measure CSR disclosures. Instead, most of the previous studies have been carried out utilizing the index developed by the researcher. It has the limitation of being influenced by bias as those indices were not globally recognized.

Another study contribution is its sample period, where the data were collected from 2018 onward. This sample period is worth mentioning because this research is based on data obtained immediately the code of best practices on corporate governance was reviewed and revised in 2017 by CA, Sri Lanka. CSR disclosure was also measured using the most recently updated GRI's reporting framework. Further, this study considers various CG variables to see their relationship with CSRD. Furthermore, this study found that audit committee size has a positive relationship, and role duality negatively affects the CSRD.

The remaining of this study is organized into five parts. Section 2 consists of a theoretical framework and hypotheses development; Section 3 contains methods, while Section 4 describes data analysis. Section 5 is the conclusion

2. Theoretical framework and hypotheses development

2.1 Board size

Prior studies indicate that the total number of occupants on the Board of corporate governance is an essential factor in determining the quality of corporate governance. According to the Code of Best Practice on Corporate Governance, every public company should be governed by an effective Board that controls, directs, and leads the company (Code of best practice on corporate governance, 2017). Reviewing the past literature shows that a smaller board size facilitates better communication of information and coordination, hence higher effectiveness in monitoring. However, smaller boards have a less diversified range of expertise than larger boards, which results in an ineffective quality of advice and monitoring. As a result, Jizi, Salma, Dixon, and Stratling (2013) asserted that larger boards would be better equipped to lead management in CSR initiatives and effectively convey their social performance to stakeholders.

Madhurangi and Basnayake (2021) examined the impact of CG on the CSR disclosure of 30 high-market capitalized Colombo Stock Exchange listed companies. The analysis also proved that board size has a negative impact on CSRD. Kengatharan, Pinthuja, & Suganya (2021) examined the extent to which corporate governance practices impact on corporate social responsibility of financial institutions in Sri Lanka and concluded that CSR is not significantly impacted by board size and also (Madhusanka et al., 2019; Lingesiya & Sivakaran, 2019) suggest that board size and CSRD have no any relationship.

Niruja (2020) examined the relationship between corporate governance and corporate social responsibility of Sri Lankan-listed banks from 2016 to 2019. An established framework of GRI guidelines was utilized to measure CSR disclosure by deploying content analysis. Results concluded that board size is positively associated with CSR disclosure. The findings suggest that policymakers should consider developing mandatory reporting requirements, at least to a certain extent. Further, Imasha & Lakshan (2021) found that the Board positively impacts CSRD.

By referring to the literature aforementioned the following hypothesis is formulated;

H_1: Board size and corporate social responsibility disclosure are positively correlated.

2.2 Board independence

In general, the proportion of independent non-executive directors to the total number of directors on the Board is used to determine the level of board independence. In comparison to non-independent directors, independent directors are more concerned with long-term advantages and have a stronger stakeholder focus (Kabir & Thai, 2017). The Board should have a mix of Executive and Non-Executive Directors, according to the Code of Best Practice on Corporate Governance - 2017. It must have three or two-thirds of the Non-Executive Directors nominated to the Board as independent non-executive directors, whichever is greater.

Gallego and Pucheta (2019) investigated the effects of key board features of developing-country businesses on CSR disclosure across 204 multinational non-financial corporations from 2004 to 2015. They discovered that board independence had a beneficial impact on CSR disclosure. Furthermore, there is evidence of a positive relationship between board independence and corporate social responsibility disclosures (Fahad & Rahman, 2020; Lingesiya & Sivakaran, 2019; Imasha & Lakshan, 2021). In contrast, no link between board independence and CSRD has been discovered (Madhusanka et al., 2019; Niruja, 2020; Kengatharan, Pinthuja, & Suganya, 2021; Madhurangi & Basnayake, 2021).

The use of the literature above leads the researcher to the formation of the following hypothesis;

H_2: Board independence and corporate social responsibility disclosure are positively correlated.

2.3 Role duality

The chairman of the Board also serves as the CEO of the firm, this is referred to as role duality. As corporate governance attempts to preserve the independence of the Board of Directors, the twin duties of the CEO and chairman must be separated. If the chairman and CEO are the same person, it reflects on concerns of leadership and governance. Prior research in this area sought to find a link between role duality and CSR filings. Madhusanka et al. (2019) discovered no link between role duality and CSRD.

A positive relationship between role duality and corporate social responsibility disclosures is proven (Fahad & Rahman, 2020; Imasha & Lakshan, 2021). In contrast, a negative relationship between role duality and CSRD has been proven (Subramaniam & Muttakin, 2014; Alfraih & Almutawa, 2017; Said, Joseph, & Mohd Sidek, 2017; Muttakin, Khan, & Mihret, 2018; Gallego-Alvarez & Pucheta-Martinez, 2019; Nour, Sharabat, & Hammad, 2020; Abdulnaser & Abdel-Aziz, 2022).

The following hypothesis is formulated by referring to the extant literature;

H_3: Role duality and corporate social responsibility disclosure are negatively correlated.

2.4 Women representation

Women on the Board have become an essential component of good corporate governance. Female directors bring different perspectives and opinions among diverse members of the Board to promote better decisions. Female directors effectively enhance the implementation of CSR-related activities (Zhuang, Chang, & Lee, 2018). Therefore, higher women representation on the Board would improve the CSRD.

A positive association between women representation and CSRD is proven (Javaid Lone, Ali, & Khan, 2016; Nour, Sharabat, & Hammad, 2020; Abdulnaser & Abdel-Aziz, 2022; Kengatharan, Pinthuja, & Suganya, 2021). In contrast, no relationship between women representation and CSRD has been proven (Naseem, Rehman, Ikram, & Malik, 2017; Lingesiya & Sivakaran, 2019; Niruja, 2020). According to Madhurangi & Basnayake (2021), female directors have a negative impact on CSRD.

H_4: Women's representation and corporate social responsibility disclosure are positively correlated.

2.5 Audit committee size
Prior studies proved that the audit committee plays a vital role in the companies' corporate governance. The audit committee is a subcommittee of the Board which monitors the financial reporting process and the reporting of non-financial information, including CSR information disclosure (Niruja, 2020). Imasha & Lakshan (2021) and Niruja (2020) report a positive relationship between audit committee size and CSR disclosure. In contrast, no relationship between Audit committee size and CSRD has been proven (Lingesiya & Sivakaran, 2019; Kengatharan, Pinthuja, & Suganya, 2021).

H_5: Audit committee size and corporate social responsibility disclosure are positively correlated.

2.6 Ownership concentration

A higher degree of ownership concentration is connected with a higher amount of social and environmental disclosure, which may imply that shareholders who control a big part of the stock are more concerned with such disclosure owing to the advantages it provides (Dante Baiardo & Vicente, 2020). The distribution of ordinary shares among shareholders has a significant impact on the scope of CSR disclosures (Madhusanka et al., 2019). Ownership concentration has also been studied as a predictor of the extent of CSR disclosure in Sri Lanka. They discovered no link between the level of CSR disclosures and ownership concentration (Said, Zainuddin, & Haron, 2009; Madhusanka et al., 2019).

A negative relationship between ownership concentration and CSR disclosures is proven (Mohammad & Mishiel, 2018; Lammertjan & Bert, 2013; Juhmani, 2013). Dante Baiardo & Vicente (2020) report a positive relationship between ownership concentration and CSR disclosures.

H_6: Ownership Concentration and corporate social responsibility disclosure are positively correlated.

3. Data and Sample

This study is based on the Colombo Stock Exchange (CSE) listed companies in Sri Lanka. CSE has 294 companies representing 20 GICS industry groups as of 31st August 2022 (CSE, 2022). However, the study covers only Forty-four (44) listed companies from 12 industry sectors listed with CSE for five years from 2018 to 2022. The sample excluded Banking, Finance, Insurance, and Investment trust sectors due to their inherent nature of being highly regulated (Weerasinghe, 2021). Other companies were excluded from the above sample due to the non-availability of relevant information. This study measured CSR disclosures using content analysis based on the Global Reporting initiatives (GRI) framework. All the data was collected from annual reports published in CSE Sri Lanka.

3.1 Methodology

This study is based on a positivist philosophy that uses a deductive approach and quantitative techniques. The study considers board size, board independence, role duality, women representation, audit committee size, and ownership concentration as corporate governance variables.

This study examined the association between corporate governance and CSR disclosure using panel data modeling and Pooled OLS as the estimate approach. The Variance Inflation Factor (VIF) test is used to determine whether or not the independent variables are correlated. The multiple regression approach allows the researcher to evaluate numerous variables at the same time. For example, many independent variables can be examined at the same time. Furthermore, the statistical tool Stata 17 was utilized to apply the aforementioned panel data modeling approaches and evaluate the data. Table 1 displays all of the study's variables and measuring procedures.

3.1.1 Operationalization of Variables

This section contains information on the variables of focus used in this research and how they are measured.

3.1.2 Corporate Social Responsibility Disclosure (CSRD). The dependent variable, the CSR disclosure, has been measured through the content analysis method based on the GRI framework following Samarakoon et al. (2018).

3.1.3 Board Size (BS). Following Madhusanka et al. (2019), this paper measured board size as the total number of directors on the Board.

3.1.4 Board Independence (BI). Following Samarakoon et al. (2018), board independence has been measured as the proportion of independent non-executive directors to the total number of directors on the Board.

3.1.5 Role Duality (RDUAL). Following Madhusanka et al. (2019), this study also measured role duality as a dummy variable with a value of 0 if both positions were detained by the same person else. The value for the dummy variable was 1.

3.1.6 Women Representation (WR). Following Samarakoon et al. (2018), this study also measured women representation as the proportion of women to the total number of directors on the Board.

3.1.7 Audit Committee Size (ACS). Following Niruja (2020), this paper measured audit committee size as the number of directors in the audit committee.

3.1.8 Ownership concentration (OC). Following Madhusanka et al. (2019), ownership concentration has been measured as a proportion of the shares owned by the top ten shareholders.

Table 1: Definitions of Variables

Variable	Description	Measuring technique
CSRD	Corporate social responsibility disclosure	CSR index developed based on GRI (Global reporting initiative) guidelines
BS	Board Size	Total Number of directors

BI	Board independence	Proportion of Independent non- executive directors in the board
RDUAL	Role duality	Whether the chairman and CEO is the same person
WR	Women Representation	Proportion of female directors in the board
ACS	Audit Committee Size	Number of directors in the audit committee
OC	Ownership concentration	Proportion of the shares owned by the top ten shareholders

3.2 Model Specification

To study the relationship between CG variables and CSR disclosure, the following Panel regression model is formulated:

$$CSRD_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 RDUAL_{it} + \beta_4 WR_{it} + \beta_5 ACS_{it} + \beta_6 OC_{it} + \varepsilon_{it}$$

Where BS is the board size, BI the board independence, RDUAL the role duality, WR the women representation, ACS the audit committee size and OC the ownership concentration.

3.3 Corporate social responsibility disclosure

This study uses content analysis to measure the CSRD. The dependent variable, CSR disclosure, has been measured based on the GRI framework. To measure the CSR indicator, a score of “1” is given for each CSR disclosed in the annual report and “0” if not shown in the annual report. The CSR disclosure equation is mentioned as follows:

$$\textbf{\textit{CSR disclosure}} = \frac{\textbf{\textit{Number of disclosure activities adopted by the company}}}{\textbf{\textit{Total number of disclosure items in CSR Index}}}$$

4. Analysis and Results

As discussed in the methodology, this investigation is mainly for the CSE-listed companies in Sri Lanka. The sample period is five years, starting from 2018 to 2022, while the sample size is 44 CSE-listed companies. To analyze the data about CG variables and their impact on the CSRD, the statistical package Eviews 12 has been used.

Table 2 illustrates the descriptive Statistic for corporate governance proxies such as BS, BI, RDUAL, WR, ACS, and OC, and the dependent variable Corporate Social Responsibility Disclosure that is denoted by CSRD, which includes Economic Disclosure (ECOD), Environmental Disclosure (ENVD), and Social Disclosure (SOCD). The data contains 220 (44*5) observations.

Table 2: Descriptive Statistics

Variables	**Max**	**Min**	**RNG**	**Mean**	**SD**
BS	16	5	5-16	9.03	2.22
BI	62.50	22.22	22.22-62.50	39.28	10.57
RDUAL	1	0	0-1	0.88	0.33
WR	36.36	0	0-36.36	9.45	9.26
ACS	7	3	3-7	3.36	0.66

OC	99.26	55.60	55.60-99.26	90.86	8.99
ECOD	100	0.31	0.31-100	40.36	23.76
ENVD	100	3.13	3.13-100	43.07	22.87
SOCD	91.18	5.88	5.88-91.18	47.73	19.35
CSRD	94.19	7.79	7.79-94.19	44.56	18.76

As shown the above table 2 board size of the selected companies shows an average value of 9, ranging from 5 to 16 members. As per the CA Sri Lanka code of best practices on corporate governance, there is no specific indication about board size.

The average value of board independence is 39 percent. However, the average value of the board independence complies with the CA Sri Lanka code of best practices on corporate governance because it says that non-executive independent directors should represent a minimum of 1/3 of the board.

In the case of role duality, the range falls between 0 and 1; at the same time, the average value is recorded as 0.88 with a standard deviation of 0.33. It reveals that most of the selected firms follow the separation of roles performed by the Chairman and CEO per the guidelines issued by the governing bodies such as ICASL and the Central Bank (CB) of Sri Lanka.

Women representation of the firms for the sample period was an average of 9.45 percent, ranging from 0 to 36 percent.

The audit committee size shows an average of 3 directors ranging from 3 to 7. As per the CA Sri Lanka code of best practices on corporate governance, the audit committee should comprise at least three non-executive directors. The average ownership concentration is 90.86 percent, with a standard deviation of 8.99 %.

The mean corporate social responsibility disclosure percentage is 44.56 %, with a standard deviation of 18.76%. It means that out of the total 86 performance indicators, companies reported about 39 performance indicators on average. A maximum of 94 percent of adoption is recorded among the sample firms, even though the minimum level is 8 %.

Further, CSRD is categorized into three dimensions: economic disclosure, environmental disclosure, and social disclosure. Here the average value of economic disclosure is 40%, ranging from 0.3 to 100. The mean value of environmental disclosure is 43%, where the maximum and minimum disclosure percentages are between 3 and 100. The mean value of social disclosure is about 48%, while the maximum is 91% and the minimum is 6%. The mean value of social disclosure is higher when compared with the other two dimensions. This study shows that the listed firms prefer social disclosures to be economic and environmental disclosures.

Table 3 represents the results of the dependence of CSRD on CG variables. Applying the panel data modeling, this study used Pooled OLS as the estimation technique. The study shows the result of regression analysis using Stata.

Table 3: Pooled-OLS panel regression of Corporate Governance on CSRD

CSRD	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig

BS	.688	.592	1.16	.247	-.48	1.855	
RDUAL	-7.562	2.874	-2.63	.009	-13.226	-1.897	***
WR	-.117	.126	-0.93	.352	-.365	.131	
BI	-.071	.128	-0.55	.582	-.323	.182	
OC	.263	.117	2.24	.026	.032	.494	**
ACS	5.134	1.911	2.69	.008	1.367	8.902	***
Constant	7.752	16.227	0.48	.633	-24.234	39.739	

Mean dependent var	44.561	SD dependent var	18.759
R-squared	0.070	Number of obs	220
F-test	3.924	Prob > F	0.001
Akaike crit. (AIC)	1911.355	Bayesian crit. (BIC)	1935.111

**** p<.01, ** p<.05, * p<.1*

To control for heteroskedasticity, the researchers utilized the robust option while running the regression analysis. Based on the R-squared value, all the independent variables explain 7 percent of the total variation of the CSR disclosure. BS, BI, RDUAL, WR, ACS, and OC create 7% of the influence. In contrast, the remaining 93% impact is made by the factors not depicted in the model. Further, the results suggest that the p-value of the F-test is less than 0.01, which indicates the model is significant at the level of 99% and is highly reliable.

Board size (BS) has a positive and insignificant relationship with the CSRD with a p-value of 0.247. Thus, the sign of the board size coefficient is positive as hypothesized; however, the association is not significant. It implies that larger board sizes do not significantly impact the determination of a company's CSR disclosures. Hence, H_1 has not been supported. However, this result contradicts the studies conducted in Sri Lanka (Imasha & Lakshan, 2021; Niruja, 2020), which found a positive relationship between Board size and CSRD. However, the results align with prior studies like Madhusanka et al. (2019), who find a positive and insignificant relationship between Board size and CSRD. Moreover, Madhurangi & Basnayake (2021) argued that the Board size has a negative effect on the CSRD of CSE-listed companies in Sri Lanka.

Board Independence (BI) has a negative and insignificant relationship with the CSRD with a p-value of 0.582, which is more than 0.1. Hence, H_2 has not been supported. This result is consistent with prior studies, which found no significant relationship between board independence and CSRD (Madhurangi & Basnayake, 2021; Kengatharan, Pinthuja, & Suganya, 2021). However, this result contradicts the study by Imasha & Lakshan (2021), who found a positive relationship between board independence and corporate social responsibility disclosures.

Role duality (RDUAL) has a negative and significant association with the CSRD with a p-value of 0.009. Hence, H_3 has been supported as hypothesized. The result is consistent with prior research by Abdulnaser & Abdel-Aziz (2022), finding a negative relationship between role duality and CSRD. However, this result contradicts the Sri Lankan study by Imasha & Lakshan (2021), who found a positive relationship between role duality and corporate social responsibility disclosures.

Women representation (WR) is negatively and insignificantly associated with CSR disclosure, with a p-value of 0.352. Therefore, H_4 has not been supported. The results are consistent with the prior studies (Bandara, Shasanka, Edirisinghe, Dissanayake, & Rathnasiri, 2018; Lingesiya & Sivakaran, 2019), which found no significant relationship with CSR disclosure.

Audit committee size (ACS) has a positive and significant relationship with the CSRD with a p-value of 0.008. Hence, H_5 has been supported as hypothesized. The result is consistent with prior research by Niruja. R (2020), by finding a positive relationship between audit committee size and CSRD. Kengatharan, Pinthuja, & Suganya (2021) argued that audit committee size has no relationship with the CSRD.

Ownership concentration (OC) is positively and significantly associated with CSR disclosure, with a p-value of 0.026. Hence, H_6 has not been supported, although the sign is positive, as hypothesized. However, the results are consistent with prior research work (Madhusanka et al., 2019), which also found no relationship between ownership concentration and CSRD. This finding is contrary to prior research findings on the relationship between concentrated ownership and CSR disclosures which suggests a positive relationship (Dante Baiardo & Vicente, 2020).

Table 4 represents the Variance inflation factors test to identify the multicollinearity between the independent variables of BS, BI, RDUAL, WR, ACS, and OC.

Table 4: Multi Collinearity Test

Variance Inflation Factor	
Variable	Centered VIF
BS	1.114809
BI	1.103749
RDUAL	1.028685
WR	1.074516
ACS	1.015945
OC	1.088556

Table 4 signifies no firm evidence of multi-collinearity among the independent variables used in this study, as the VIF-centered values are less than 10.

Figure 1 displays the results of the missing variables test.Testing for omitted variable bias is critical for our model since it is connected to the notion that the error term and the explanatory variables depicted in the model are unrelated.

Figure 1: Omitted-variables Test

Ramsey RESET test for omitted variables
Omitted: Powers of fitted values of CSRD
H0: Model has no omitted variables
F(3, 210) = 0.90
Prob > F = 0.4421

The model does not have omitted-variables bias is the null hypothesis. The p-value is greater than 0.05 (95% significance) implies that we do not need more variables.

Linktest is carried out to test the model specification and it basically checks whether we need more variables in our model. The significance of _hatsq is the thing to look for here. There is no specification error, the null hypothesis. The insignificant p-value of _hatsq is indicative of accepting the alternative hypothesis and conclude that model is correctly specified. The table 5 produces the test results of Linktest as produced by Stata 17.

Table 5: Test results of Linktest

Source	SS	df	MS
Model	5412.067	2	2706.0335
Residual	71656.7862	217	330.215605
Total	77068.8532	219	351.912572

Number of obs	=	220
F(2, 217)	=	8.19
Prob > F	=	0.0004
R-squared	=	0.0702
Adj R-squared	=	0.0617
Root MSE	=	18.172

CSRD	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
_hat	.0563897	3.031919	0.02	0.985	-5.91939	6.03217
_hatsq	.009985	.0319755	0.31	0.755	-.0530374	.0730073
_cons	21.97703	71.24953	0.31	0.758	-118.4527	162.4067

5. Discussion and Conclusion

This study examines the relationship between corporate governance and CSR disclosure of 44 CSE-listed companies in Sri Lanka. The sample period was of five years, starting from 2018 to 2022. The study is based on data attained just after the code of best practices on corporate governance was reviewed and revised in 2017 by CA Sri Lanka and therefore the selection of the sample period is worth mentioning. CSR was measured using the most recently updated GRI's reporting framework.

Regression results suggest that audit committee size positively correlates to CSR disclosure, while role duality is negatively related to the CSRD of listed companies in Sri Lanka. Further, the board size, board independence, and women representation have not profoundly associated with CSR disclosure.

This study found a significant positive relationship between audit committee size and the CSRD. Similarly, Niruja (2020) found a positive relationship between audit committee size and CSRD. Imasha & Lakshan (2021) also argued that there is a positive between ACS and the CSRD in Sri Lanka. This positive relationship points out that the larger audit committee size can enhance the CSR disclosure level.

Another important finding of this study is the negative relationship between role duality and CSRD. The result is consistent with Nour, Sharabat, & Hammad's (2020) research. This result indicates that the CEO becomes the board's chairperson, lowering the company's CSR disclosure. This result is contradicted by Imasha & Lakshan (2021), who argued a positive relationship between role duality and CSRD in Sri Lanka. The finding suggests that the separation of the chairperson and CEO can improve CSRD.

5.1 Implications

This study provides empirical evidence about Corporate Governance and CSR disclosure in Sri Lanka. It also contributes to the advancement of literature relating to CSR disclosure since it examines the CSR disclosure of listed companies using the latest GRI framework. Further, it gives future researchers an understanding of CSR disclosure and its relationship with corporate governance variables.

Furthermore, this research studies the code of best practice on corporate governance. As a result, this study is expected to add value to the company's management for better decisions regarding whether the companies should involve them in more corporate governance practices to improve the level of CSR disclosure. Even regulators and policymakers can determine which aspects of governance need to be restructured in the current system.

This study helps to enhance the understanding of the Regulatory bodies in Sri Lanka, such as the Colombo Stock Exchange (CSE), Ceylon Chambers of Commerce (CCC), and Securities of Exchange Commission, in implementing the regulations that encourage CSR reporting as there are no legislative requirements in Sri Lanka to prepare and publish Sustainability Reports. The regulatory bodies can take the initiative to develop new regulations to adhere to the GRI framework by all listed companies.

5.2 Limitations of the Study

This study examines corporate governance based on the codes of best practices issued by CA Sri Lanka. There are different regulatory bodies in different countries to issue corporate governance practices. Therefore, the outcome of this study could not be generalized to other countries.

Banks, Diversified Financials and Insurance sector has been excluded from the population as different regulatory bodies govern those sectors. Therefore, the findings of this study may not be applied to a broader context.

Over plenty of corporate governance attributes, this study considers only six attributes. Therefore, this also leads to the unintentional omission of significant results.

This study only examines the annual report reports available on corporate websites and CSE websites in general. Therefore, some CG practices companies followed but not in annual reports might not be considered in this study.

The study was conducted in selected companies in Sri Lanka. Thus, the sample size is small. In addition, this study only uses the GRI-based CSR disclosures published by the companies in their annual reports. However, many companies must publish GRI-based CSR disclosures in annual reports. Therefore, the study findings may not be generalizable.

This study considered the data from the last five years' annual reports of Sri Lankan listed companies. During this period, some unusual disasters happened in Sri Lanka (Easter attack, COVID -19, prolonged power cuts, Economic crisis, etc.). This led to high fluctuation of performance and practices of the firm.

5.3 Future Research Directions

As this study selected the sample based on valid criteria, the generalizability of the excluded sectors (companies) results is questionable. Therefore, it is suggested to consider the whole population and increase the sector-wise sample to get generalizable results.

The current study considered only six variables as a measurement of corporate governance. Future research studies should consider more precise corporate governance variables that may have a significant relationship with CSR disclosure. Measuring with an appropriate corporate governance index with all aspects would help to measure the accurate level of corporate governance.

This study only uses the GRI-based CSR disclosures published by the companies in their annual reports. However, management may use another form of disclosure format in their annual reports, such as Sustainable Developments Goals (SDGs), Sustainability Accounting Standards Board (SASB), Integrated Reporting (IR) Framework, and Carbon Disclosure Project Guidance. It may provide more valuable findings.

Some Companies report CSR disclosures through other communication ways like websites, magazines, and newspapers. Therefore, future researchers can use that information too in their studies. It may also provide valuable findings.

In this study, the researchers did not include any control variables (like firm size, firm age, etc.) that may have a significant relationship with CSR disclosures of the companies. Therefore, future studies should consider these variables too.

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