RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY: EMPIRICAL EVIDENCE FROM LISTED COMPANIES IN SRI LANKA

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ABSTRACT

COVID - 19 pandemic has heightened attention on corporate social responsibility worldwide. Empirical evidence suggests inconclusive evidence related to corporate governance and corporate sustainability, and there is a dearth of studies in this field in the Sri Lankan context. Therefore this study contributes to bridging the empirical gap by ascertaining the relationship between corporate governance and corporate social responsibility in Sri Lankan listed companies. This study applies a quantitative deductive approach, and a cross-sectional survey was conducted using 130 listed companies as a random sample of the study and collected data using data triangulation method using primary data employing a structured online questionnaire survey and secondary data using annual report 2019/2020 data. Corporate governance is considered an independent variable and operationalizes using the equilibrium variable model, including board size, board independence, CEO Duality, women on the board, board activity, and a sustainable committee. Corporate social responsibility (CSR) is a dependent variable measured using the CSR index, including the economic, social, and environmental responsibility sub-index. Initially, reliability and validity analysis was conducted for the CSR questionnaire, and descriptive analysis was conducted to examine the level of CSR in Sri Lanka. Pearson correlations and multiple regression techniques were used to ascertain the nature of the relationship and effect between variables. The research findings descriptive statistics of dependent variables revealed the highest mean of the study was gathered for the social variable, and it is 4.0350 in value, environment factors took the lowest mean value, and it is 3.9365 in value, economic factor mean value is 3.9777. Women on board and board size have a significant relationship and impact on the corporate social responsibility of the listed companies in Sri Lanka. This study will add stakeholder theory and resource dependence theory and have many implications for businesses and policym*akers.*

Keywords: Corporate Social Responsibility, Corporate Governance, Data Triangulation Method, CSR Index

JEL Classification: M14, G34, G20

1. INTRODUCTION

Businesses have been formed in many different ways to compete and satisfy human needs. A large majority of the population believes that businesses participate in ethical business activities (Tilakasiri, 2013). According to researchers, many Sri Lankan enterprises have included CSR in their business strategy, which has become a crucial component of local business for many reasons(Tilakasiri, 2013). In Sri Lanka, there is no consensus on socially responsible behaviour. As a result, the business sector's CSR behaviour in Sri Lanka must be understood from this perspective (Rathnasiri,2003). The recent budget suggested many social, environmental, and economic growth initiatives. These three approaches have received significant funding to expand their operations. For example, under social integration, funds have been granted to the elderly, low-income families, women's and children's protection, animal conservation, and shoreline preservation(Rathnasiri, 2003).

The industrialization has spurred the pursuit of ever-increasing wants and expectations of people worldwide, and it has become a symbol of wealth and economic growth. However, it has resulted in exploiting the natural environment, which has thrown the ecological balance off. The disruption of ecological equilibrium has harmed humans and their surroundings. In the past three decades, recent industrial catastrophes and natural disasters have been connected to uneven industrialization, either directly or indirectly (Grove et al., 2011). As a result, environmentalists, governments, and organizations from all over the globe have highlighted a fundamental problem of environmental preservation. Environmental sustainability and development have risen to the top of the worldwide community's priority list. Various conferences and initiatives, such as the Earth Summit and the United Nations Environmental Program, raised awareness about this grave problem. Recognizing the significance of human health and well-being, governments and organizations have begun to take different measures in the interest of environmental preservation and sustainability. Environmental sustainability is critical for long-term growth and development since the combination of social, economic, and environmental sustainability helps to ensure long-term development (Ahmad, 2006). Most industrialized nations have made environmental protection a component of their strategy and have begun to provide environmentally friendly or green goods and services to their customers (Ganesan and Bhuvaneswari, 2016).

At first sight, governance refers to the authority and control used to manage and administer any organization within a framework of rules, roles, responsibilities, systems, procedures, and relationships. As a result, leaders and directors of boards of directors in any organization are expected to be held responsible for their actions while maintaining a high level of social awareness (Australian Stock Exchange, 2014). As a result, the board must shape and define the company's vision, fundamental beliefs, and values to govern corporate strategy and culture. Aside from their responsibility, the board should follow management policies and individual tasks following statutory frameworks and norms. Furthermore, the board is supposed to be in charge of all aspects of governance, including decision-making, organizational structure, operational and control procedures, and explaining the organizational design, which must be understood by all managers, workers, and shareholders (Baret, Board Governance, Roles and Responsibilities, 2013).

CSR has recently been a significant issue in the Sri Lankan business community. Consequently, the country's severe economic troubles, citizens, workers, customers, and other interested parties pressure the government and business sector to enhance the people's social and economic well-being (Tilakasiri, 2013). Families control most private firms in Sri Lanka, and there is no indication that these businesses are involved in charitable activities. After the Asian tsunami in 2004, private sector businesses in Sri Lanka began to recognize the benefits of CSR programs (Fernando, 2007). Sri Lanka's private sector is currently the most significant contributor to GDP, and private sector workers make up most of the workforce (CBSL, 2020).

Sri Lankan organizations, on the whole, are more concerned with CSR activities that benefit the external environment. On the other hand, internal CSR programs have been created by businesses to serve the organization's interests. Efforts to enhance employee working conditions, gender equality, equal opportunity, waste management, advertising truth, environmental stewardship, and ethical corporate practices are among them (Rathnasiri, 2003). However, according to CSR information in Sri Lanka, the conventional profit-maximizing mindset is dominant (Rathnasiri, 2003). In Sri Lankan organizations, awareness and comprehension of CSR are inadequate. The primary emphasis of this research is on the association between corporate social responsibility and corporate governance in Sri Lankan listed companies.

Few prior studies have investigated the link between corporate governance and corporate social responsibility. In the Sri Lankan context, studies on corporate governance and corporate social responsibility in selected commercial banks have been conducted (Tilakasiri, 2013). Empirical evidence suggests inconclusive evidence related to corporate governance and corporate sustainability, and there is a dearth of studies in this field in the Sri Lankan context (Kabir and Thai, 2017). Therefore, the researcher selects the research to investigate the link between corporate governance and corporate social responsibility in Sri Lankan companies.

The study's main objective is to examine the relationship between corporate governance and corporate social responsibility in listed companies in Sri Lanka.

Specific objective

1. To examine the relationship between corporate governance and social responsibility in listed companies in Sri Lanka.
2. To examine the relationship between corporate governance and environmental responsibility in listed companies in Sri Lanka.
3. To examine the relationship between corporate governance and economic responsibility in listed companies in Sri Lanka.

In terms of empirical importance, this study shows that most research in this area has been done in many other nations, but no research has been done in Sri Lanka. In terms of studies, there is a dearth. This study is expected to fill the empirical gap in relevant areas.

2. LITERATURE REVIEW

Corporate social responsibility

In the last several decades, the idea and meaning of corporate social responsibility (CSR) have changed dramatically. Carroll (1979), one of many academics who have researched the topic, described CSR as follows: "The social responsibility of business includes the economic, legal, ethical, and discretionary obligations that society has on companies at any particular time." Later, in the form of a four-layer pyramid, the author offered the four components of CSR: economic, legal, ethical, and discretionary. The economic reason for profitability is put at the bottom of the pyramid as the fundamental duty, in order of importance. The legal duty of following the law comes next, followed by the ethical responsibility of doing what is right, just, and fair while avoiding damage. The philanthropic duty of being a good corporate citizen by giving resources to the community and enhancing the quality of life is at the summit of the pyramid (Carroll, 1979).

Corporate social responsibility (CSR) has grown in vital interest internationally and domestically. As globalization increases, corporate social responsibility (CSR) advantages are becoming more widely acknowledged in different countries where these companies operate. As a result, academics, corporate executives, researchers, consultants, and media reporting on companies' excellent and negative contributions to society are becoming more interested in the CSR idea (Crane and Matten, 2004).

Corporate governance

According to Shleifer and Vishny (1997), corporate governance is the process through which businesses ensure they will receive a return on their investment. Furthermore, Gillan and Starks (2000) describe corporate governance as the set of laws, regulations, and variables that regulate a company's activities from a comprehensive viewpoint. Corporate governance (CG) does not have a universally accepted definition. However, the most common definition is the system by which organizations are directed and controlled (Cadbury, 1992). Simply CG means a collection of rules, processes, policies, structures, and incentives that guide and regulate a company's management to accomplish general and particular goals.

Corporate governance is the process of rationalizing, directing, controlling, and monitoring businesses. Shareholders, directors, managers, workers, creditors, consumers, the global environment, and the rest of society are all involved in corporate governance, which aims to improve business performance and well-being as a shared objective (Dissa Bandara, 2006) is perhaps the broadest and most comprehensive definition of corporate governance.

Relationship between corporate governance and corporate social responsibility

Board size

According to the Companies Act, every listed business in Sri Lanka must have at least two directors on its board. Consequently, research suggests that the total number of board members may affect directors' responsibilities (Alfraih and Almutawa, 2017). Recent research (Kabir and Thai, 2017) supports this notion, claiming that corporate governance measures such as board size have a beneficial effect on CSR. Furthermore, Alfraih and Almutawa (2017) stated that the size of the board of directors is linked to the number of voluntary disclosures. According to the literature following hypothesis is proposed

H_1: There is a significant relationship between board size and corporate social responsibility.

Board Independence

According to agency theory, an independent governing board can effectively supervise and monitor the agents' conduct. Furthermore, independent directors represent greater transparency, which leads to increased long-term value. The board's independence is supposed to be favourably related to a greater degree of SP in the stakeholder theory framework since external directors are genuinely less prone to pressure from shareholders and management than internal directors (Jizi et al., 2014). Furthermore, since they are external to the firm, they have a more significant duty to a larger audience and face more considerable reputational risks (Lim et al., 2007; Prado-Lorenzo and Garcia-Sanchez, 2010). According to the literature following hypothesis is proposed.

H_2: There is a significant relationship between board independence and corporate social responsibility

CEO Duality

CEO duality suggests that one person holds the chairman and the CEO positions. When the chairman of the board and the CEO are the same people, it implies concerns with leadership and governance. There will be less room for dialogue if the CEO and chairman are the same people, as well as a restricted range of skills, knowledge, and expertise to draw on, which could impair corporate performance (Shakir, 2009). A CEO who also serves as Chairman is in a unique position to assess his or her own performance. As a result, their ability to conduct independent self-evaluation is dubious (Petra, 2005; Rechner and Dalton, 1990). Prior research in this area found a negative relationship between CEO duality and the amount of CSR disclosures. Companies with CEO duality are more likely to have a lower extent of CSR (Alabdullah et al., 2019). The following hypothesis is offered based on the literature.

H_3: There is a significant negative relationship between CEO Duality and corporate social responsibility.

Women on Board

The presence of more women on corporate boards has been related to a higher level of social responsiveness to measure diversity (Wang and Coffey, 1992; Williams, 2003). Stakeholder management may be improved by meeting a more comprehensive range of customer expectations when more women are on the board (Daily and Dalton, 2003). Companies may make a CSR effort to enhance their socially responsible conduct (Nath et al., 2013). Empirical evidence suggests a positive relationship between women on board and CSR (Hyun et al., 2016). According to the literature following hypothesis is proposed.

H_4: There is a significant relationship between Women on board and corporate social responsibility.

Board Meetings

Board meetings are techniques that directors can use to decide collectively and set the company's direction, resolve any emergent problems, take strategic action, analyze the company's performance, and oversee the company's operations(Ju Ahmad et al., 2017). With the importance of CSR concerns growing, board meetings are likely associated with more CSR responsibilities, such as CSR reporting. According to the literature following hypothesis is proposed.

H_5: There is a significant relationship between board activities and corporate social responsibility.

Sustainability Committee

A sustainability committee is a high-level control structure that analyses the possible impact of sustainability-related risks on attaining primary business objectives(Burke et al., 2019). An SP and a CSR committee have a beneficial relationship because of the theoretical background and common sense (Ricart et al., 2005). No strong agreement has emerged from empirical studies, however. There are positive and negative associations between a sustainability committee and SP in the literature. According to (Mckendall et al., 1999; Rodrigue et al., 2013), environmental infractions and performance are not linked to CSR Committees. According to the literature following hypothesis is proposed.

H_6: There is a significant relationship between the sustainability Committee and corporate social responsibility

3. METHODOLOGY

This study uses stakeholder and resource dependence theories to examine the relationship between corporate governance and corporate social responsibility in listed companies in Sri Lanka. Positivism philosophy and deductive approach were used to develop and test the selected theories and hypotheses of the study. Quantitative research uses descriptive and inferential statistics to examine the study objectives. The current study used a cross-sectional design and questionnaire to obtain primary data from corporate sustainability officers, accountants and managers working in listed companies in Sri Lanka.

The population consists of 289 listed companies in Sri Lanka as of 4th November 2020. The online structured questionnaires were delivered to a random sample of 168 chosen based on morgan criteria. In total, 130 hotels (or 77% of the sample) provided valid responses to the questionnaire, resulting in a sample representative of the target population and free of significant bias. Additionally, this study used secondary data for the independent corporate governance variable to collect data. The data was collected from the annual report from 2019 to 2020, one year from the 130 listed Sri Lanka companies.

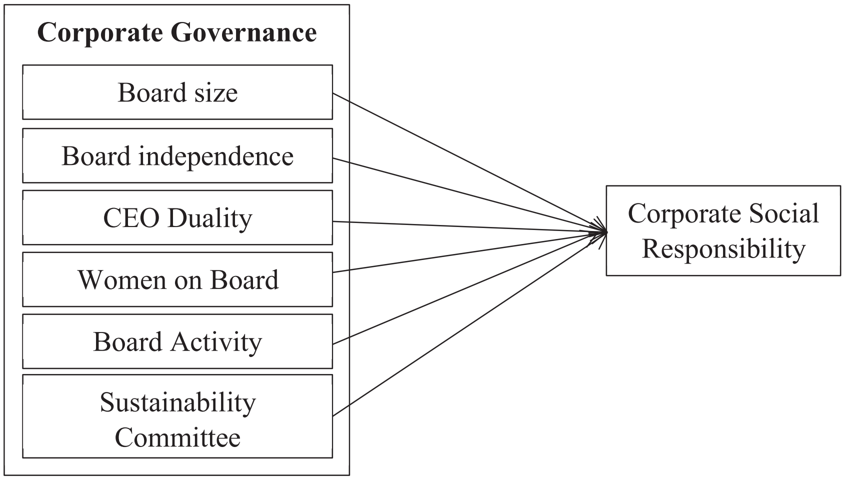

Figure 1: Conceptual Daigram

The operationalisation of variables is illustrated in Table 1.

Table 1: Operationalization of Variables

Variable	Acronym	Description	Reference
Independent Variable- Corporate Governance			
Board size	BSIZE	Number of directors on the board-log	(Hussain et al., 2018)
Board independence	BIND	Control and monitor the Board of Directors' agents' activities.	
CEO Duality	CEOD	Two different people should hold the chairman of the board of directors and the CEO.	
Women on board	WMOB	Numbers of women in the board-log	
Board Activities	BA	Key policy and procedure execution -log	
Sustainability Committee	SC	Develop and plan the CSR activities of the company	
Dependent Variable – Corporate Social Responsibility			
Economic	ECONOMIC	Increase the financial performance of the company. (Ten Questions)	(Turker, 2009)
Social	SOCIAL	Enhance the social performance of the company. (Nineteen Questions)	
Environment	ENV	Environment protection activities. (Thirteen Questions)	

This study used perceptual measures and customized (Turker, 2009) instruments to quantify CSR. Ten questions related to the economic dimension, nineteen questions measured social CSR, and thirteen assessed environmental CSR. Responses were measured on a five-point Likert scale (1 = ''strongly disagree'' to 5 = ''strongly agree''). Confirmatory Factor analysis and Composite reliability analysis are conducted to ensure the validity and reliability of the questionnaire. CSR score is obtained by the average economic, social, and environmental scores. Initial sub-scores were calculated using the average of scores of all questions.

Research Model

This study employs the following CSR model to examine the hypothesis that a significant association exists between corporate governance components and the CSR level.

$$CSR = \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 CEOD + \beta_4 WMOB + \beta_5 BA + \beta_6 SC + \varepsilon \ldots\ldots\ldots\ldots\ldots (01)$$

$$ECO = \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 CEOD + \beta_4 WMOB + \beta_5 BA + \beta_6 SC + \varepsilon \ldots\ldots\ldots\ldots\ldots (02)$$

$$SOC = \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 CEOD + \beta_4 WMOB + \beta_5 BA + \beta_6 SC + \varepsilon \ldots\ldots\ldots\ldots\ldots (03)$$

$$ENV = \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 CEOD + \beta_4 WMOB + \beta_5 BA + \beta_6 SC + \varepsilon \ldots\ldots\ldots\ldots\ldots (04)$$

After checking all the assumptions, regression analysis tests the relationship between independent and dependent variables.

4. FINDINGS AND DISCUSSION

Although we measured the constructs using well-established instruments, this study used Confirmatory Factor Analysis to assess their dimensionality and validity in Sri Lanka. All items achieved factor loadings between 0.60 and 0.90 in this Four-factor model (Kline 2011). Additionally, this study examined the three sub-dimensions of convergent and discriminant validity. For all three sub-dimensions, the average variance extracted (AVE) was greater than the recommended value of 0.50, indicating satisfactory convergent validity. Discriminant validity was established because the AVE for each construct was greater than any squared correlations.

Reliability of Measurement

Finally, the three constructs demonstrated a high degree of internal consistency and reliability, with Cronbach alpha values 0.903 for economic CSR, 0.931 for environment CSR, and 0.954 for social CSR, all of which are greater than the 0.7 recommended value (Nunnally 1978).

In terms of corporate governance, independent directors make up 37.75 per cent of the board, while female directors make up 9.52 per cent. Even though independent directors are well-represented, women on boards in emerging market economies remain low. The average number of board directors is 8.22, CEO duality is 64%, and 56% of the companies in our sample have a CSR committee.

Table 2: Descriptive Analysis

	Minimum	Maximum	Mean	Standard Deviation
BSIZE	4	16	8.220	2.582
BINDP	0	82	37.750	12.719
CEOD	0	1	0.640	0.482
WMOB	0	57	9.52	11.957
BA	2	18	6.21	3.582
SC	0	1	0.56	0.498
ECO	1.5	5	3.98	0.726
SOC	1.05	5	4.035	0.723
ENV	1.17	5	3.936	0.754

The descriptive statistics of the dependent variables are exhibited in Table 2. The ENV score ranges from 0 to 5 points, with an average of 3.936 (approximately 79 per cent). The SOC score ranges from 0 to 5 points, with an average value of 4.0350 points (approximately 80 per cent). In addition, ECO scored an average of 3.977 (approximately 80 per cent).

Correlation analysis

Table 3: Correlation

Variables	VIF	BSIZE	BINDP	CEOD	WMOB	BA	SC
BSIZE	1.217	1					
BINDP	1.224	0.061**	1				
CEOD	1.058	0.012	-0.115	1			
WMOB	1.16	0.133	-0.115	0.012**	1		
BA	1.174	0.139	-0.115	0.012	0.133	1	
SC	1.043	-0.058	-0.115	0.012	0.133	0.139	1
CSR		0.079	-0.115	0.012	0.133	0.139	-0.058

****Significant at 1%; **Significant at 5%; *Significant at 10%*

Table 3 contains the correlation matrix. According to the matrix figures, none of the coefficients is more significant than 0.8, indicating that they do not raise multicollinearity concerns. In addition, we computed the variance inflation factor (VIF) for each variable. According to previous research, a VIF more significant than 10 causes multicollinearity problems (Belsley, 1989). As shown in Table 3, no VIF exceeds 10, indicating no concerns about multicollinearity.

Multiple regression analysis

Table 4 summarizes the results of all models. Model 1 investigates how corporate governance variables affect CSR in Sri Lanka. In addition, models 2, 3, and 4 investigate the impact of corporate governance variables on Economic CSR, Social CSR, and Environmental CSR, respectively.

In Models 1,3, and 4, Board Size exhibits the expected sign and is statistically significant. Thus, we have to accept H_1. The Larger board size encourages total CSR and economic, social, and environmental CSR. An increase of 1% in the board size causes a 1.823% increase in total CSR, 1.404% in economic CSR, 2.089% in social CSR, and 1.976% in environmental CSR. These findings support that Larger boards can be more effective because monitoring managers can spread among more people. In addition, larger boards can also help businesses get more resources, like how much money they get from outside sources (Kabir, 2017).

Table 4: Results of Regression

Variable	(1)	(2)	(3)	(4)
BSIZE	1.823**	1.404	2.089**	1.976**
BINDP	-0.012	-0.012	-0.008	-0.017**
CEOD	-0.041	-0.040	-0.026	-0.058
WMOB	1.216**	0.967**	1.368**	1.312**
BA	0.377	0.437	0.321	0.372
SC	0.134	0.103	-0.004	0.302
Constant	0.928	1.530	0.478	0.774
R Squared	0.174	0.114	0.172	0.234
F Statistic	2.043**	1.248	2.011**	2.951**

****Significant at 1%; **Significant at 5%; *Significant at 10%*

Model 1, 2, and 3 provide the findings for H_2, which posits that board Independence does not affect CSR, economic CSR, and Social CSR but effect environmental CSR. Thus, we have to partially accept H2 that there is a significant relationship between board independence and CSR. However, it does not appear that having independent directors on a board aids or hinders efforts to increase transparency in corporate social responsibility (CSR) (Rashid, 2021).

Model 1,2, 3 and 4, investigate the relationship between CEO duality and the extent of CSR, economic CSR, and Social CSR and find a positive but insignificant coefficient of CEO duality in four models. In other words, CEO duality has no effect on CSR for sample companies. Therefore there is no evidence to support H3. The reason that may be behind here is that the practice of choosing the CEO and chair from the same family has reduced the corporate governance mechanism of CEO/chair duality to a mere ritual (Khan et al., 2013).

Women on board and corporate social responsibility have a positive relationship in the four models. Thus, we have to accept that H_4. The higher presence of women directors on the board encourages total CSR and economic, social, and environmental CSR. An increase of 1% in the WMOB causes a 1.216% increase in total CSR, 0.967% in economic CSR, 1.368% in social CSR, and 1.312% in environmental CSR. Having more women on the board will help the social strategy of businesses and maybe because women are more aware of the importance of Corporate Social Responsibility (Williams, 2003).

According to Table 4, board activities and corporate social responsibility have no relationship in the four models. The number of board meetings does not appear to be a significant factor in explaining the extent of CSR, most likely because the board of directors is only responsible for CSR policy, not for CSR implementation, which is almost certainly the most time-consuming element (Giannarakis, 2014).

According to the study findings, the sustainability committee and corporate social responsibility have no relationship. Directors' sustainability committees, such as environmental governance mechanisms, ensure that people think the company is doing an excellent job with the environment. This results in no relationship with the Sustainability Committee and CSR.

5. CONCLUSION

This study examined the influence of corporate governance on Corporate Social Responsibility using stakeholder and resource dependence theories with a sample of130 listed companies at CSE. Using Multiple regression study found a significant positive relationship between board size, female representation on the board with CSR, and no relationship between board independence, CEO duality, Board activity, and CSR committee with Corporate Social Responsibility. The current study's findings and arguments are compatible with prior findings and arguments made by stakeholder and resource-dependence theorists.

The positive relationship between female board members and CSR is consistent with the resource dependence theory assumption. However, CEO duality and board independence were not statistically significant concerning CSR, despite exhibiting a slightly negative relationship. In addition, board activity and sustainability committee were not statistically significant concerning CSR, despite exhibiting a slight positive relationship.

This study has several important implications. Initially, authorities in emerging market countries should consider the advantages of having female directors on boards of directors, given their favourable influence on various business decisions. Thus, legislators in developing market nations issue recommendations or enact legislation regarding women's presence on the board of directors.

Secondly, these findings could help practitioners, investors, and other stakeholders in emerging economies. Investors who care more about environmental and social issues may be interested in investing in firms with women directors and large board sizes, given their positive impact on CSR. Other stakeholders can pressure companies to improve their CSR by focusing on particular women's presence and large board size. Additionally, practitioners may be interested in cooperating with businesses that address social and environmental challenges.

Finally, scholars should undertake additional research on this subject. New findings may offer insight into the efficacy of some corporate governance measures in Sri Lanka, which have the potential to become critical instruments for enterprises to improve CSR. In this manner, businesses can meet the demands and wants of all stakeholders. As a result, future studies would conduct additional corporate governance techniques not covered in our paper.

This article can serve as a springboard for future studies. It would be interesting to investigate the corporate governance index's impact on corporate social responsibility. Additionally, creating a broad corporate social responsibility instrument measure is recommended using the questionnaire survey and annual report data using the triangulation method. Finally, it is crucial to conduct mixed-method research to follow up on the findings.

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