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CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURES : A COMPARATIVE ANALYSIS BETWEEN AUSTRALIAN AND SRI LANKAN MARKET

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Abstract

This paper aims to investigate the effects of corporate governance and CSR disclosures and how they vary, depending on the level of economic development. 100 Australian (ASX200-listed) firms and 100 Sri Lankan firms provided the study's comparative data (Colombo-stock-exchange-listed firms). A quantitative research design, based on secondary data, was used to address the research questions. Using content analysis, CSR disclosure information was culled from annual reports and websites. Multivariate regression was used for data analysis and hypothesis testing. Only three factors like board size, audit committee independence, and firm size, were found to be related to the CSR disclosure index, in both Australian and Sri Lankan companies, according to the regression model's findings. In Australian companies, board independence was strongly correlated with the degree of CSR disclosure. In Australian and Sri Lankan companies, there was little correlation between CEO duality and disclosure of corporate social responsibility. The results are only applicable to the context of the study, which was restricted to listed Australian and Sri Lankan companies in 2020–2021. The study offers evidence on the connection between corporate governance and the degree of CSR, in the context of a developed and an emerging economy as a comparative study. By concentrating on two different stages of economic development as a research context, the study contributes to the body of existing literature.

Keywords: *Corporate Governance, CSR disclosure, Australia, Sri Lanka*

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1. Introduction

The aim of this research is to investigate the relationship between corporate governance and the extent of CSR disclosures in Australian and Sri Lankan firms, as a comparative study. Through their activities, business organisations have a significant impact on society (**Lone et al. 2016**). To ensure long-term business practices, firms are now implementing CSR strategies and participating in various CSR-related activities. CSR strategies assist firms in striking a balance between social and economic objectives, as well as the efficient use of limited resources (**Orazalin, 2019**; **Said et al., 2009**). CSR considers society, ecology, and ethics, as well as the interests of all stakeholders and not just shareholders (**Habbash, 2016**). The procedures and processes, that a firm uses to direct and control itself in order to foster an environment of trust, transparency, and accountability, are referred to as corporate governance (**Chijoke-Mgbame et al., 2020**). The agency theory underpins the concept of corporate governance (**Alshbili and Beddewela, 2019**). Corporate governance is concerned with resolving issues, that arise in agency relationships when the goals and interests of the principals and agents do not coincide (**Fallah and Mojarrad, 2018**). Later, the definition of corporate governance evolved, and scholars investigated corporate governance from various angles. For example, **Shleifer and Vishny (1997)** investigated the relationship between firms and their shareholders, whereas other researchers expanded corporate governance to include both internal and external stakeholders. Recently, governance has been expanded to emphasize the positive impact of governance practices on environmental, social, and economic development (**Lone et al., 2016**; **Said et al., 2009**). Further, the recent increase in corporate scandals has prompted calls for the implementation of more corporate governance mechanisms in various parts of the world, with varying degrees of success (**Ananzeh, 2022**; **Ananzeh et al., 2019**). CSR entails going above and beyond legal requirements, by investing 'more' in human capital, the environment, and stakeholder relations. According to **Ullah et al., (2019)**, firms develop CSR disclosure initiatives for a variety of reasons. Despite the fact that corporate governance and CSR disclosure are both well-studied fields, there has been less emphasis on establishing an association between the two. Previous research into the relationship between corporate governance and CSR disclosure has been ongoing. The research in this area has been inconclusive (i.e. mixed results) (**Fallah and Mojarrad, 2018**; **Orazalin, 2019**; **Said et al., 2009**). The mixed findings of the study suggest that there is a significant gap in understanding the nature, intensity, and direction of the relationship between corporate governance and CSR disclosure. This study examines corporate governance and CSR disclosure in two different stages of development: developed and emerging economies.

2. Literature Review

2.1 Board Size and CSR Disclosures

According to stakeholder theory, larger boards, with members from different stakeholder groups, promote more financial reporting and voluntary disclosures, to satisfy their own needs and interests (**Chen et al., 2022**). Increased board size may lead to an increase in the number of directors, different with accounting or financial backgrounds, which may have a favorable effect on CSR disclosure, according to **Haji, (2013)**. Empirical studies by authors like **Chijoke-Mgbame et al., (2020), Coffie et al., (2018), Giannarakis (2014),** and **Fallah and Mojarrad (2018)** support these findings. But according to earlier studies, board size has an impact on coordination and communication, lessens the board's ability to control management, and spreads the cost of poor decision making across a larger group (**Lipton and Lorsch, 1992; Eisenber et al., 1998, Ali et al., 2021**).

2.2 Independence and CSR Disclosures

Agency theory states that having more independent directors on a board makes it more effective at overseeing and reining in management (**Muttakin and Subramaniam, 2015; Ananzeh, 2022**). The absence of material interests and non-financial positions, in accordance with stakeholder theory, encourages independent directors to pursue the interests of all stakeholders by pressuring management to disclose more sustainability-related information and enhance a company's reputation (**Rashid and Hossain, 2021**). Further, independent directors are seen as a tool for monitoring management behavior, resulting in increased voluntary disclosure of corporate information (**Coffie et al., 2018**). A higher percentage of independent directors on the board, according to **Chouaibi et al., (2021)**, improves financial disclosure quality monitoring and reduces the benefits of withholding information.

2.3 CEO Duality and CSR Disclosures

According to agency theory, duality increases the concentration of decision-making power, creates conflicts of interest, causes decisions to be made against the interests of larger stakeholder and decreases participation in CSR disclosure (**Petra, 2005**). In my view, separating the CEO and the chairman increases the level of disclosure (**Chaganti et al., 1985; Haniffa and Cooke, 2002; Said et al., 2009**). Opponents argue that CEO duality is not a factor in CSR disclosure because many companies have multiple CEOs. However, consolidating power in one person as CEO and chairman of the board, on the other hand, creates a strong power base that may undermine the board's ability to exercise effective control (**Ananzeh, 2022**).

2.4 Audit Committee Independence and CSR Disclosures

The effectiveness of the audit committee in the process of financial reporting oversight is frequently viewed as being significantly influenced by its independence (**Appuhami and Tashakor, 2017**). Members of the independent audit committee are not connected to the business or its executives personally or financially (**Musallam, 2018**). The level of voluntary disclosure was found to be significantly and favorably correlated with the existence of an audit committee (**Bliss and Balachandran, 2003**). The Sri Lankan Code of Corporate Governance specifies that majority of independent directors should serve on the board's audit committee. The presence of an audit committee should result in lower agency costs and improved internal control, leading to higher-quality disclosures. The audit committee should also have a higher percentage of independent directors (**Appuhami and Tashakor, 2017**).

3. Statement of the Problem

Despite extensive research into both corporate governance and CSR disclosure, establishing a link between the two has received scant attention. Previously, there was ongoing research into the relationship between corporate governance and CSR disclosure. In this area, research has been inconclusive. The study's mixed results indicate a significant gap in understanding the nature, intensity, and direction of the relationship between corporate governance and CSR disclosure. This study looks at corporate governance and CSR disclosure at two stages of development: developed and emerging economies.

4. Need of the Study

The increase in corporate responsibility awareness in recent years has sparked interest in CSR information with additional performance metrics. There might be some pressure on the management to take part in more socially responsible activities and then reveal them in annual reports. The literature on the impact of developed and developing economies on corporate governance and CSR disclosure is, however, scarce. Furthermore, a large number of earlier studies, that only used descriptive statistics, looked at corporate governance in various nations. According to the Researcher, this is the first attempt to compare Australia and Sri Lanka.

5. Objectives of the Study

The objective of this research was to look at the relationship between corporate governance and corporate social responsibility disclosures and how they differ, depending on the stage of economic development.

6. Hypotheses of the Study

The study examined the following hypotheses.

H_1: Board size has significant impact on the level of CSR disclosures, reported by Australian and Sri Lankan firms.

H_2: Board independence has significant impact on the level of CSR disclosures, reported by Australian and Sri Lankan firms.

H_3: CEO duality has insignificant impact on the level of CSR disclosures, reported by Australian and Sri Lankan firms.

H_4: Audit committee independence has significant impact on the level of CSR disclosures, reported by Australian and Sri Lankan firms.

7. Research Methodology

7.1 Sample Selection

As of February 2020, the population of interest consisted of 289 Colombo Stock Exchange (CSE) listed companies and 200 Australian Securities Exchange (ASX) listed companies (S&P/ASX200), due to similarities in market capitalization, liquidity, and listing characteristics between the two nations. Because of the likelihood that high levels of regulation would muddle or otherwise negatively affect the outcome under investigation, the financial, investment, and securities sector firms were excluded from the population selection. Additionally, the risk of missing data was minimized by excluding companies, that were not listed at all during the review period. After the eliminations, there were still 100 listed companies from Australia and 100 from Sri Lanka.

7.2 Sources of Data

Data were mainly obtained from secondary data, consisting of annual reports of relevant firms during 2020/21, taken from the ASX, CSE's and SIRCA databases.

7.3 Period of Study

The data for the independent variables in the empirical analysis were collected for 2020, allowing for a one-year lag to the CSR disclosure in 2021. As a result, the CSR data of Australian and Sri Lankan businesses were based on 2021 full-year data.

7.4 Tools used in the Study

Eviews-10 was used to generate descriptive statistics and regression analysis from the quantitative data.

8. Findings of the Study

8.1 Descriptive Statistics

Table -1 displays the descriptive statistics for the dependent variable (CSR disclosure index), the independent variable (Corporate governance) and the control variables. According to the CSR disclosure index results, Australia received the highest score of 71.23 percent and the lowest score of 11.1 percent, with a standard deviation of 11.32 percent. The aggregate CSR disclosure index was 32.64 percent on an average. In other words, corporate social responsibility disclosure is common among Australian businesses. According to the CSR disclosure index results, Sri Lanka received the highest score of 49.13 percent and the lowest score of zero percent, with a standard deviation of 12.62 percent. The aggregate CSR disclosure index was 11.33 percent on an average. In other words, CSR disclosure levels in Sri Lankan firms are generally lower than in Australian firms. The average board size in Australia was 8.01, with the minimum and maximum sizes being 5 and 13, respectively. Sri Lankan firms' average board size was 7.91, with minimum and maximum sizes of 3 and 14, respectively. For Australian companies, the average proportion of independent directors to board directors was 0.83 percent, with a standard deviation of 0.11. Meanwhile, the average proportion of independent directors on Sri Lankan boards of directors was 0.39 percent, with a standard deviation of 0.48 percent. CEO duality was 0.36 percent on an average for Australian firms, with a standard deviation of 0.30. The average percentage of CEO duality in Sri Lankan firms was 0.86 percent, with a standard deviation of 0.34 percent. The findings revealed that majority of audit committees, at most Australian companies, were made up of independent directors. Despite the fact that firms must have at least 50% independent directors on the audit committee, the audit committee typically reported 81 percent independent directors. According to the findings, in Sri Lanka, an average of 82 percent of directors were independent members of the audit committee. Australia's results were comparable. The average firm size for Australian firms was 8.12, with a minimum and maximum of 5.65 and 10.51 respectively. While the average firm size for Sri Lankan firms was 7.14, with a minimum and maximum of 2 and 12.11 respectively, the average leverages of Australian and Sri Lankan firms respectively were 0.45 and 0.56 percent.

Table-2 reveals that 12.9 percent (n = 13) of Australian firms did not disclose while 25.7 percent (n = 26) reported a CSR disclosure index of less than 10 percent. At the same time, 31.2 (n = 29) percent of Sri Lankan firms were non-disclosers and 33.3 (n = 31) percent reported fewer than 10 disclosures. According to the CSR disclosure index, 20.8 percent of Australian firm disclosures revealed more than 30 percent, compared to 10.9 percent of Sri Lankan firms. In other words, CSR disclosure levels generally low in Sri Lankan firms, with a mean of 11.33 percent. **Table-3** shows that the environmental theme was prevalent in both aggregated data sources such as annual reports and firm websites for Australian firms. The products theme was followed by employee relations in terms of the number of disclosures for Australian firms. In Sri Lankan firms with low disclosures, the products theme comes first, followed by the community theme.

8.2 Results of Correlation Analysis

Table-4 displays that at the 0.01 level in Australia, there was significant correlation between board size, board independence, and CSR disclosure. The relationship between audit committee independence, leverage, and CSR disclosure was negligible. However, a 0.05 level analysis shows a significant relationship between firm size and CSR disclosure. **Table-5** discloses that at the 0.01 level in Sri Lanka, there was significant correlation between board size and CSR disclosure. Despite the fact that there was significant correlation between CSR disclosure, audit committee independence, and board independence at the 0.05 level, there were no significant correlations between other variables in Sri Lankan firms.

8.3 Results of Regression Analysis

Table-6 summarizes the results of the regression analysis, including information on the impact of an independent variable on the dependent variable. In Australia, the model R2 value indicates that corporate governance can explain 28.3 percent of the observed variability in the CSR disclosure index. The F-statistics and significance level demonstrate that the model produces statistically significant results in Australia. In contrast, the R2 value of the Sri Lanka models indicates that corporate governance variables explain 24.4 percent of the observed variability in the CSR disclosure index. The F-statistics and significance levels demonstrated that the model produced statistically significant results. At the 1% level, the impact of board size, board independence, and audit independence on CSR disclosure in Australia, was significant. While firm size exercised significant impact on the CSR disclosure index at the 0.05 percent level, all other variables, with the exception of CEO duality, were not statistically significant. While board size, audit committee independence and firm size reported significant impact on Sri Lanka's CSR disclosure index, there were no statistically significant variables in Sri Lanka.

The findings demonstrated that board size did have significant impact on CSR disclosure, in both Australia and Sri Lanka and hence **Hypothesis-1** was supported. Independent directors did have significant impact on CSR disclosure in Australian firms but not in Sri Lanka. This affirmed the **Hypothesis-2.** CEO duality was unrelated to the CSR disclosure index, in both Australian and Sri Lankan firms. Hence the **Hypothesis-3** was accepted. Audit committee independence reported significant impact on the CSR disclosure index in both Australian and Sri Lankan firms. Hence the **Hypothesis-4** was affirmed.

9. Findings of the Study

- The results demonstrated that board size did have significant impact on CSR disclosure in Australia and Sri Lanka. The findings were consistent with earlier research (**Al Maeeni, 2022**; **Esa and Ghazali, 2012**).
- Independent directors exercised significant impact on CSR disclosure in Australian firms, but impact in Sri Lanka was not significant. It is observed that the number of independent members on the board in Australia was more (mean = 0.52) and in Sri Lanka the number of independent members was less (mean = 0.39) when compared to Australia. Hence, the difference in the CSR disclosure between the two countries. Independent directors did have an impact on voluntary disclosure and promoted the interests of stakeholders other than shareholders. As expected by agency theory (**Alshbili and Beddewela, 2019**), board independence increased voluntary CSR disclosure. This outcome was consistent with earlier research by **Esa and Ghazali (2012**, **Habbash (2016)** and **Ullah et al., (2019**).
- CEO duality was insignificantly associated with CSR disclosure index, in both Australian and Sri Lankan firms. The function of CEO duality may impair a firm transparency to internal and external stakeholders. Separating the roles of CEO and Chairman

could be an option (**Haniffa and Cooke, 2002**). **Bliss and Balachandran (2003)** and **Muttakin and Subramaniam (2015)** discovered comparable results.

- The independence of audit committees reported significant impact on CSR disclosure index, in both Australian and Sri Lankan firms. This finding was consistent with **Ullah et al. (2019), Ananzeh et al. (2017) and Aboud and Diab (2018)**.

10. Suggestion of the Study

This research examined the corporate sectors of Australia and Sri Lanka, as well as other countries in similar situations. The finds could assist policymakers, decision makers, investors, regulators, and scholars in developing new and improved standards for best practices. In order to improve CSR disclosure, policymakers should pay close attention to corporate governance issues such as board size, board independence, CEO duality, and effective audit committees. Given the positive impact of board size, board independence, and effective audit committees on CSR disclosure, lawmakers should form a larger number of independent directors on the board and audit committee.

11. Conclusion

Positive accounting theories have generally failed to support corporate management participation in reporting and CSR disclosure in annual reports because CSR is not comprehensive in emerging and even developed economies. The amount of CSR reporting depends on the diverse backgrounds and experiences, that the board members bring to the table. The advantages of having independent directors on boards, for CSR disclosure, suggest that independent directors can pressure companies to expand the scope of CSR disclosure. A company's openness to stakeholders may be diminished by the CEO's dual responsibilities. It might be possible to divide the roles of CEO and Chairman. On the other hand, audit committees, made up of independent directors, offer greater accountability and transparency, boosting the legitimacy of both financial and non-financial reporting.

12. Limitations of the study

The study found it difficult to detect and adjust for differences between firms in corporate governance, business scope, and/or financing portfolio. Factors, other than those considered in this study, may influence the frequency of corporate governance processes. This study, like most previous studies, focused solely on specific indicators of CSR disclosure. The difficulties, caused by different accounting standards and principles across countries have been greatly alleviated in the last decade by the increased adoption and use of International Financial Reporting Standards (IFRS).

13. Scope for further research

Future research should consider including a wide range of countries, from emerging to developed, to support more generalized conclusions.

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Table-1: Descriptive Statistics of Corporate Governance and Corporate Social Responsibility Disclosures

	Australia				Sri Lanka			
	Minimum	**Maximum**	**Mean**	**Std.Dev**	**Minimum**	**Maximum**	**Mean**	**Std.Dev**
CSR disclosure	11.1	71.23	32.64	11.32	0	49.13	11.33	12.62
Board size	5	13	8.01	1.63	3	14	7.91	2.04
Board independence	0.25	0.83	0.52	0.11	0.21	1.00	0.39	0.48
CEO duality	0	1	0.36	0.30	0	1	0.86	0.34
AC independence	0.50	1	0.81	0.16	0	1	0.82	0.16
Firm size	5.65	10.51	8.12	1.53	2	12.11	7.14	3.07
Leverage	0.04	0.88	0.45	0.18	0.16	0.78	0.56	2.92

Source: Data collected from ASX, CSE's & SIRCA databases and computed using EViews

Table-2: Level of Disclosure of Corporate Social Responsibility Index

	Australia		**Sri Lanka**	
	CSR disclosure index		**CSR disclosure index**	
Level of CSR disclosure index	**Frequency**	**%**	**Frequency**	**%**
Not disclosed	13	12.9	29	31.2
Not more than 10	26	25.7	31	33.3
10 to 20	32	31.7	14	15.0
20 to 30	09	8.9	09	9.6
30 to 40	11	10.9	06	6.5
More than 40	10	9.9	04	4.4
Total	101	100	93	100

Source: Data collected from ASX, CSE's & SIRCA databases and computed using EViews

Table-3: Descriptive Statistics for Five Themes of CSR Disclosure

	Australia			Sri Lanka		
	Minimum	**Maximum**	**Mean**	**Minimum**	**Maximum**	**Mean**
Community	0	19	4.23	0	21	2.24
Diversity	0	10	2.11	0	9	1.32
Employee relations	0	23	2.36	0	13	1.99
Environment	0	42	16.25	0	18	2.02
Products	0	30	12.32	0	20	3.19

Source: Data collected from ASX, CSE's & SIRCA databases and computed using EViews

Table-4: Results of Correlation Analysis of Corporate Governance and Corporate Social Responsibility Disclosures (Australia)

	Board Size	B Independent	CEO Duality	AC Independent	Firm Size	Leverage	CSR Disclosure
Board Size	1						
B Independent	0.240*	1					
CEO Duality	-0.114	-0.212*	1				
AC Independent	0.367**	0.112	0.118	1			
Firm Size	-0.265	0.063	-0.212*	0.119	1		
Leverage	-0.24	0.031	-0.216*	0.103	0.111	1	
CSR Disclosure	0.433**	0.240**	0.433**	0.023	0.417*	0.109	1
*Correlation is significant at the 0.05 level (two-tailed) ** Correlation is significant at the 0.01 level (two-tailed)							

Source: Data collected from ASX, CSE's & SIRCA databases and computed using EViews

Table-5: Results of Correlation analysis Corporate Governance and Corporate Social Responsibility Disclosures (Sri Lanka)

	Board Size	B Independent	CEO Duality	AC Independent	Firm Size	Leverage	CSR Disclosure
Board Size	1						
B Independent	0.360*	1					
CEO Duality	-0.162	0.163	1				
AC Independent	0.677**	0.203	0.177	1			
Firm Size	0.201	0.312**	-0.123	0.555**	1		
Leverage	0.307**	0.412**	0.165	0.234*	0.203	1	
CSR Disclosure	0.605**	0.535*	-0.2	0.212	0.211	0.132	1
*Correlation is significant at the 0.05 level (two-tailed) ** Correlation is significant at the 0.01 level (two-tailed							

Source: Data collected from ASX, CSE's & SIRCA databases and computed using EViews

Table-6: Results of the Regression Analysis of Corporate Governance and Corporate Social Responsibility Disclosures

Variables	Australia		Sri Lanka	
	CSR Disclosure		CSR Disclosure	
	Coefficient values	*p*-value	Coefficient values	*p*-value
Const	1.412	0.161	5.528	0.000
Board Size	3.835	0.000	2.483	0.030
BIndependent	3.749	0.000	1.115	0.061
CEO Duality	-2.432	0.060	-0.168	0.867
ACIndependent	2.689	0.009	2.183	0.039
Firm Size	2.256	0.026	5.0590	0.000
Leverage	0.125	0.901	0.853	0.396
R^2	0.283			0.244
Adjusted R^2	0.242			0.192
F-statistic	0.6789			0.4686
p-value(F)	0.000			0.000

Source: Data collected from ASX, CSE's & SIRCA databases and computed using EViews