Impact of ownership pattern and board structure on Corporate Social Responsibility Reporting: A study of listed Banks in Sri Lanka

Pamila, S[a] and Sangeerthana, P[b]

[a]*Department of Accounting, Faculty of Management Studies and Commerce, University of Jaffna, Sri Lanka*

[b]*Department of Commerce, Faculty of Management Studies and Commerce, University of Jaffna, Sri Lanka*

[a]pamilasri@gmail.com

Abstract

The main aim of the study is to examine the impact of ownership pattern and board structure on Corporate Social Responsibility (CSR) reporting of listed banks in Sri Lanka over the period from 2015 to 2019 by using ownership proxies, namely foreign ownership and institutional ownership, board structure variables such as board size, board diversity and board independence and CSR reporting. This study considered 13 banks listed in Sri Lanka, and data is collected from annual reports of respective banks. Descriptive and inferential analysis was performed with the help of STATA's latest version. Regression analysis confirmed that ownership pattern has a significant impact on banks' CSR reporting while board structure has an insignificant impact. Correlation analysis revealed that foreign ownership, institutional ownership, and board size have a significant positive relationship with CSR reporting while board diversity and board independence have an insignificant positive relationship. Descriptive statistics show that there is room for improvement in CSR reporting. The study's findings can have important implications for regulatory organizations, banks, stakeholders, non-governmental organizations, and firms.

Keywords: board Structure, corporate social responsibility reporting, listed banks and ownership pattern

Introduction

A board of directors is a recognized group of people who jointly oversee an organization's activities and have emerged as a governing body to initiate action on voluntary activities and programs related to Corporate Social Responsibility (CSR) (Brammer & Pavelin, 2008). Ownership pattern has an important influence on the board's priorities and that these priorities will determine the optimal composition of the board of directors (Desender, 2009). Firms that have a separation of ownership are performing more CSR activities to be a good corporate citizen in the corporate world (Sufian & Zhan, 2013). In this context, both ownership patterns and board structure play a relevant role in determining the level of CSR reporting. CSR refers to finding a balance between the financial and non-financial goals of corporations while acting in society's best interests a whole (Kiliç, Kuzey & Uyar, 2015). The process of providing financial and non-financial information about interactions between companies regarding environment, employees, society, and consumer issues is called SR reporting (Hackston & Milne, 1996). It involves extending the company's accountability beyond the traditional role of providing a financial account to the owners of capital. The studies examined the impact of ownership patterns, and board structure on CSR reporting found controversial results (Kiliç et al., 2015). There is a paucity of literature on this area in the context of emerging countries, and prior studies exclude banks (Soliman, Eldin & Sakr, 2012; Li & Zhang, 2010). As a result, this study focuses on finding the impact of ownership patterns and board structure on CSR reporting of listed banks in Sri Lanka from 2015 to 2019.

Research Objectives

- to examine the impact of ownership pattern and board structure on CSR reporting of listed banks in Sri Lanka.
- to identify the relationship between the ownership pattern, board structure, and CSR reporting of listed banks in Sri Lanka.

Literature Review

CSR reporting has received an increasing amount of attention in both the academic and business fraternities. The term CSR reporting deals with disclosing information by a firm about social and environmental effects of its economic actions to interest groups, namely regulators, investors, and environmental lobby groups within society and society at large. Positive CSR disclosure enhances the company’s favorable image in the eye of its customers, potential employees, and investors (Alniacik et al., 2011). A focus on CSR moves firm attention away from a purely profit-maximizing objective in the exclusive interest of shareholders to one that considers the interests of a broader set of stakeholders (Barnett, 2007).

Sukcharoensin (2012) argued that more profitable firms are inclined to utilize CSR disclosure as a self-regulating mechanism, as they are under political pressure and public scrutiny. Adams (2002) stated that disclosing information on social and environmental issues could minimize the risks of external parties' powerful consumer boycotts. Soliman et al., (2012) indicated a significant, positive relationship between CSR ratings and ownership by institutions and foreign investors, and shareholding by top managers is negatively associated with a firm’s CSR rating. The researchers also concluded that different owners have differential impacts on the firm’s CSR engagement. Kiliç et al., (2015) investigated the impact of ownership and board structure on CSR reporting within the banking industry and proved that there is a significant positive effect of size, ownership diffusion, board composition and board diversity on the CSR disclosure of the banks. Galbreath (2017) concluded that insiders' concentration increases on boards has a negative effect on CSR, and insider training on CSR positively moderates the relationship between insiders and CSR.

Methodology

Research Design

This study used a quantitative research approach because numerical and secondary data are used. The data utilized for this study was extracted from the annual reports of listed banks from 2015 to 2019. A sampling includes all 13 listed banks listed in CSE. The researcher focuses on listed banks as banks have a great responsibility to society as its operations depend on public funds. As a result, they engaged in socially responsible activities and reported more CSR items in their annual reports than other firms.

Hypotheses of the study

H_1: There is a significant impact of ownership patterns on CSR reporting of listed banks in Sri Lanka.

H_2: There is a significant impact of board structure on CSR reporting of listed banks in Sri Lanka.

H_3: There is a significant relationship between ownership pattern and CSR reporting of listed banks in Sri Lanka.

H_4: There is a significant relationship between board structure and CSR reporting of listed banks in Sri Lanka.

Results and Discussions

Table 1 shows that the CSR reporting level does not vary between the banks as the maximum is 0.0555 and the minimum is 0.0119. On average, CSR reporting is 2.29%, and it shows that there is room for improvement as it is at a primitive level.

Table 1. Descriptive Analysis

Variable	Observations	Mean	Min	Max	Std. Devi
CSR reporting	65	0.0229	0.0119	0.0555	0.0889

According to correlation analysis, there is a significant positive relationship between foreign ownership (r=0.2568; $p<0.05$), Institutional ownership (r=0.2999; $p<0.05$), Board size (r=0.2854; $p<0.05$) and CSR reporting. Other variables, namely Board independence and board diversity, have an insignificant positive relationship with CSR reporting.

Table 2. Correlation Analysis

Variable	Foreign ownership	Institutional ownership	Board size	Board Independence	Board diversity
CSR reporting	0.2568*	0.2999*	0.2854*	0.0629	0.0407

Table 3 shows that there is 14.53% of the variance in CSR reporting. The *p*-value is 0.0077, which is lower than 0.05, shows a significant impact of ownership pattern on CSR reporting. The adjusted R^2 value is 0.1178, which means that the ownership pattern on CSR reporting creates an 11.78% impact. Coefficient estimation shows that the impact of foreign ownership and institutional ownership on CSR reporting is significant as their p values are lower than 0.05. This means that increase in foreign ownership and institutional ownership can help to improve CSR reporting.

Table 3. Multiple Regression Analysis

CSRR		Coefficient	Std. Err	t	P >| t |
Foreign ownership		0.0104562	0.0052161	2.00	0.049
Institutional ownership		0.0508075	0.0211679	2.40	0.019
CONS		-0.0236364	0.0177516	-1.33	0.188
Observation	65		R-squared		0.1453
F(2,62)	5.27		Adjusted R-squared		0.1178
Prob>F	0.0077		Root MSE		0.00835

Table 4 shows that there is 8.25% of the variance in CSR reporting. The *p*-value is 0.1514, which is higher than 0.05, shows an insignificant impact of board structure on CSR reporting. The adjusted R^2 value is 0.0374, which means that a board structure on CSR reporting creates only a 3.74% impact. Coefficient estimation shows that the impact of board size on CSR reporting is significant as its p-value is lower than 0.05. This means that increase in board size can help to improve CSR reporting.

Table 4. Multiple Regression Analysis

CSRR		Coefficient	Std. Err	t	P >| t |
Board size		0.0009248	0.0004054	2.28	0.026
Board independence		-0.0000695	0.0006352	-0.11	0.913
Board diversity		-0.0001714	0.0009432	-0.18	0.856
CONS		-0.0236364	0.0177516	4.22	0.000
Observation	65		R-squared		0.0825
F(3,61)	1.83		Adjusted R-squared		0.0374
Prob>F	0.1514		Root MSE		0.00873

Conclusions and Recommendations

This study examined the impact of ownership pattern and board structure on CSR reporting of listed banks in Sri Lanka over 2015-2019 by using the secondary data gathered from annual reports of banks. Data is analyzed using descriptive statistics, correlation, and regression analysis using STATA12. It is concluded that there is a significant impact of ownership pattern on CSR reporting, while board structure has an insignificant impact. Researcher suggests that the banks should have to enhance the CSR reporting by investing more money on CSR activities and also it is better to report their CSR activities in their annual reports as it will help various parties to identify the interaction of the company with the society.

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