

Firm ownership and board characteristics

Do they matter for corporate social responsibility disclosure of Indian companies?

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Abstract

Purpose – This paper aims to examine whether the extent and type of corporate social responsibility (CSR) disclosures made by Indian public listed companies are associated with firm ownership and board characteristics.

Design/methodology/approach – Data analysis is based on the top 100 companies listed on the Bombay Stock Exchange (2007-2011) using a 17-item CSR disclosure measure.

Findings – The extent of CSR disclosure is positively associated with foreign ownership, government ownership and board independence and negatively associated with CEO duality. Promoter ownership has a negligible effect on the extent of CSR disclosure. In terms of the type of CSR disclosure, community information increases with government ownership and board independence, while environmental information expands with foreign ownership and board independence. Information on employees/human resources has a positive association with foreign ownership but decreases with CEO duality. The amount of product and services information increases with promoter ownership, foreign ownership and board independence and CEO duality.

Practical implications – Given the positive impact independent directors have on the extent of CSR disclosure, their role can be further strengthened in terms of overseeing quality of information disclosed. Stakeholders and regulators will need to develop greater awareness of firm CSR disclosure biases associated with ownership and more carefully scrutinize firm CSR activities that firms are “not” reporting on.

Originality/value – Empirical evidence on the link between corporate governance and CSR disclosure from a developing nation context is limited. This paper provides much needed evidence in this area from India – one of the largest, rapidly developing economies in the world.

Keywords India, Corporate governance, CSR disclosure, Agency theory, Institutional theory

Paper type Research paper



1. Introduction

Reporting on corporate social responsibility (CSR) activities is increasingly vital for businesses to show their commitment to environmental and social issues (Adams, 2004; Brammer and Pavelin, 2008). A long line of research has burgeoned over the years (Gray *et al.*, 1987; Roberts, 1992; Kolk, 2008; Mishra and Suar, 2010), indicating CSR disclosures as being a function of *corporate characteristics* (e.g. industry affiliation, financial performance, firm size, etc.), *general contextual factors* (e.g. culture, political and legal systems) and *internal contextual factors* (e.g. board composition and expertise)

(Adams, 2002). However, much of the evidence, to date, on CSR disclosure is derived from developed countries (Guthrie and Parker, 1989; Deegan and Rankin, 1996; Newson and Deegan, 2002; Kim *et al.*, 2012) where the capital markets are mature, the approach to CSR is more business model oriented and stakeholder awareness of business accountability is high.

We argue that in light of evolving global economic trends and the underlying differences in socio-cultural factors between the developed and developing nations (Jamali and Mirshak, 2006; Blowfield and Frynas, 2005), further research on CSR practices from a developing nation context is warranted. Moreover, Jamali and Mirshak (2006) contend that CSR in developing nations is still embedded in a more philanthropic culture where there is little emphasis on formal accountability processes (e.g. formal planning and reporting of CSR activities). Furthermore, given that capital markets in developing nations are still maturing and their institutional, regulatory and governance environments are generally weak, the impact corporate governance mechanisms may have on CSR disclosure becomes questionable. A review of prior studies on CSR in developing countries unfortunately sheds limited light on this issue. Despite research conducted in a variety of countries [for example, Bangladesh (Belal, 2001; Belal and Cooper, 2011), Thailand (Kuasirikun and Sherer, 2004; Virakul *et al.*, 2009), Indonesia (Gunawan, 2010), Malaysia (Othman *et al.*, 2011), Turkey (Dincer and Dincer, 2010) and Iran (Nejati and Ghasemi, 2012)], much of the evidence lacks generalisability and is largely descriptive and anecdotal in nature (Haider, 2010).

Another justification for further research on CSR reporting in developing economies relates to the rising demand for such reports, particularly as firms in such countries increasingly become a critical part of the global supply chain. In addition, recent high-profile environmental and industry disasters such as the factory fires in Bangladesh (e.g. the Tazreen Fashions and the Savar fires), Pakistan and Mexico (Manik and Yardley, 2012; Washington Post, 2013) have heightened the scrutiny over the supply firms' social and environmental responsibility (Young and Marais, 2012). Prieto-Carron *et al.* (2006, p. 977) argue that: "[...] if CSR initiatives are to be legitimate, their content and implementation should be adapted to the particular country or region in which they are taking place". They also contend that further research is needed on "issues of power and participation and the need for contextualizing discussions about the links between governance and CSR".

1.1 The present study

In this study, we aim to assess the effects of firm ownership and board composition on the level and nature of CSR disclosures using data from the top 100 Indian public listed firms covering a five-year time frame (2007-2011). We draw on prior empirical findings linking corporate governance and voluntary disclosure (Ho and Wong, 2001; Haniffa and Cooke, 2002, 2005; Chau and Gray, 2002; Eng and Mak, 2003; Gul and Leung, 2004; Li *et al.*, 2013), which, in general, indicate that such firm disclosures are dependent upon the self-interests of owners and managers. Many of these studies adopt an agency theory (Jensen and Meckling, 1976) perspective where voluntary disclosure is seen as a mechanism for managing the separation between owners and managers, i.e. owners (principals) are able to monitor management (agents) so as to ensure that their residual claims are not diluted (Jensen and Meckling, 1976). Empirical findings by Ho and Wong (2001) indicate family ownership is negatively associated with voluntary disclosures,

while [Chau and Gray \(2002\)](#) report a positive association between such disclosures and outside ownership. [Eng and Mak \(2003\)](#) found voluntary disclosure increases with lower managerial ownership and higher government ownership, but blockholder ownership had no significant effect. [Huafang and Jianguo \(2007\)](#), by contrast, found both blockholder and foreign ownership associated with increased voluntary disclosure. Empirical evidence also supports significant associations between board composition and voluntary disclosure. [Gul and Leung \(2004\)](#) found CEO duality to be negatively associated with disclosure level, while [Chen and Jaggi \(2000\)](#) found a positive association between the proportion of independent directors on boards and voluntary disclosure. More recently, [Michelon and Parbonetti \(2012\)](#) examined board characteristics and sustainability disclosures among US and European firms listed on the Dow Jones Sustainability Index. They found that the traditional measures of corporate governance such as board independence and CEO duality had little impact on sustainability disclosures, but instead specific characteristics of directors such as whether they are community influential members play a significant role in engendering sustainability disclosures.

Studies assessing the effects of ownership and board characteristics on CSR disclosures in a developing economy context are scant and less clear. [Ghazali \(2007\)](#), based on Malaysian firm data, found lower managerial stock ownership and higher government ownership associated with greater CSR disclosure. [Rashid and Lodh \(2008\)](#) use Bangladeshi firm data and report ownership by outside directors had a negligible effect on CSR disclosure, but corporate governance regulatory pronouncements had a strong and positive effect. More recently, [Li et al. \(2013\)](#) analysed Chinese firm data and found firm ownership as a significant moderator of firm performance and CSR disclosure where high-performing, state-owned firms exhibited lower CSR disclosure than high-performing, non-state-owned firms. However, as noted by [Belal and Momin \(2009\)](#), in their review of corporate social reporting in emerging economies, most studies have concentrated on the Asia-Pacific and African regions, are descriptive in nature and have focussed on the level and volume of disclosures contained within the annual reports using content analysis. Many of the studies have not fully assessed the associations between corporate governance mechanisms and corporate social reporting.

In the present study, our aim is to extend this line of research by assessing the effects of both ownership structure and board composition characteristics on CSR disclosure by Indian firms. In the next section, we provide a brief background to India's economic and institutional settings, followed by justification for choosing Indian firms for this study.

1.2 India – background and contextual justification

India gained its independence from British rule in 1947, and subsequently opted for a socialist governance structure with most of its industries and enterprises controlled by the State. Economic growth was slow with demand driven internally while organisational systems became highly bureaucratic. By 1991, there was a massive financial crisis resulting in the intervention by the International Monetary Fund where loans were agreed to under the condition that India liberalised and privatised most of its sector. Consequently, the government had no choice but to loosen its grip and corporatize the various Central Public Sector Enterprises (CPSEs) while maintaining majority ownership in an attempt to keep control over key assets including infrastructure, oil and gas, mining and manufacturing. Increased privatisation was

fostered, as it was seen as a way to attract foreign direct investment which was a critical factor for addressing the financial crisis. Other developments to attract foreign direct investment included a major revision of its legal and regulatory systems including corporate law with many of the changes closely resembling those in developed economies such as the USA and the UK. Subsequently, the regulatory framework and related governance mechanisms grew, leading to the various amended versions of the Companies Act (1956), the Securities and Exchange Board of India (SEBI) Act (1992), the Securities Contracts (Regulation) Act (1956), Sick Industrial Companies (Special Provisions) Act (1985) and the Listing Agreement (2006)[1]. Some of the revised corporate governance recommendations included having more outside directors, separation of chief executive officer (CEO) and the Chairperson roles and establishing an audit committee. Collectively, these changes aimed to promote the accountability and transparency of listed companies and protect minority shareholders (Jackling and Johl, 2009).

Our justification for choosing Indian firms for this study relates to the following reasons. First, the Indian economy is one of the world's largest and fastest growing economies. India's gross domestic product (GDP) has risen almost 10 per cent per year in recent years which is much higher than that of the USA and closer to China (Arevalo and Aravind, 2011). For example, the market capitalization-to-GDP ratio reached a record level of 132.47 per cent in 2010-2011 compared to 23.28 per cent in 2002-2003 (SEBI, 2012). Its capital market has also grown rapidly in the last decade with the Bombay Stock Exchange (BSE) listing 5,174 firms in 2012. Among these firms, some of the largest and most profitable are the central government-owned companies (also known as CPSEs). As at 31 May 2013, there were 260 operating CPSEs contributing to about 9 per cent of the country's GDP, and, of these, 50 CPSEs were listed on the stock exchanges, contributing to about 17 per cent of the total market capitalization (Gupta, 2013)[2]. However, India also houses some of the poorest economic groups in the global income pyramid (Ramani and Mukherjee, 2013), and CSR is increasingly heralded as being a critical avenue for achieving economic development and social equity (Timane and Tale, 2012). Traditionally, corporate giants such as Tata and Birla Inc. have undertaken many high-profile community-support projects and have come to symbolise how private sector benevolence can help to promote social equity and welfare (Kumar *et al.*, 2001).

In more recent times, however, there has been a strong push for Indian firms to adopt a more business model-based approach to CSR where the rationale for considering social and environmental issues is predominantly related to firm value creation (Narwal and Singh, 2013). The promotion of this view is particularly reflected in the rapidly evolving regulatory rules governing Indian corporate affairs and related CSR policies. Provided below are some of the key policies and guidelines covering the period from 2008 to 2014:

- *In 2009:* The Ministry of Corporate Affairs released the “*National Voluntary Guidelines (NVG) on CSR (2009)*” (MCA, 2009a) as well as “*The Corporate Governance Voluntary Guidelines*” (MCA, 2009b).
- *In 2010:* The Department of Public Enterprises mandated CPSEs to undertake CSR. The “*Guidelines on CSR for CPSEs*” was distinct from the NVG on CSR; in that, it only applied to CPSEs and with the requirement of mandatory expenditure on CSR based on the firm's net profit[3].

- *In April 2013*: The Department of Public Enterprises released a revised set of CSR guidelines, titled “*Guidelines on CSR and Sustainability for CPSEs*” (DPE, 2010), which brought the subject matters of sustainable development and CSR together.
- *In August 2013*: The new Companies Bill 2013 was passed by Parliament, mandating all large, profit-making companies in India to earmark 2 per cent of average net profits of three years towards CSR (namely, companies with net worth of more than Rs 500 crore (approximately USD50 million) or an annual turnover of over Rs 1,000 crore).
- *In February 2014*: The “*Companies CSR Policy Rules 2014*” were released to provide more specific guidelines for the implementation of CSR according to the Companies Bill. Some key highlights are: expenditures related to normal course of business and those that directly benefit employees and their families are excluded from the mandatory CSR spend. Further, companies not compliant with the required mandatory expenditure would have to “cite reasons for non-implementation”, as per the proposed legislation.

Nevertheless, while these regulatory developments signal a highly visible public commitment to CSR by Indian authorities, they have also been hotly debated with resistance from many private sector firms. It is argued that a more voluntary approach may better achieve the intended objectives of CSR through business-led initiatives than the regulated model which appears to still be based on an altruistic approach (Vijayaraghavan, 2013).

In terms of reporting on CSR, the guidelines accompanying the Companies Bill as released in February 2014 state that at minimum an annual report on CSR is needed for the financial year commencing after 1 April 2014 with disclosures on firm CSR policy, types of projects planned, expenditure amount and an explanatory statement if the firm did not meet the required minimum spending. Prior to this policy document, the guidelines for CSR reporting in India tended to be more general. For example, the 2009 NVG on CSR (MCA, 2009b) merely states:

The companies should disseminate information on CSR policy, activities and progress in a structured manner to all their stakeholders and the public at large through their website, annual reports, and other communication media.

Likewise, the 2010 CSR guidelines for CPSEs (DPE, 2010) simply noted that “each CPSE should include a separate paragraph/chapter in the Annual report on the implementation of CSR activities/projects including the facts relating to physical and financial progress” (DPE, 2010, p. 16).

Interestingly, there have neither been specific external audit nor enforcement processes set in place for monitoring and assessing CSR activities and reporting. Instead, it would appear that significant emphasis has been placed on internal governance mechanisms, namely, the governing board to oversee implementation and reporting of activities. For instance, the new Companies Bill mandates a specialized CSR board committee with at least one independent director for CSR oversight. Given this increasing confidence placed on the governing board by the evolving CSR guidelines, a key empirical issue that emerges is whether corporate governance mechanisms have an impact on the nature and level of CSR disclosures in Indian firms. In particular, as CSR entails a broad range of multi-dimensional activities, e.g. environmental impacts,

community upliftment, employee welfare and customer/product safety, further investigation may be fruitful for detecting any inherent biases on the disclosure choice of particular activities based on shareholders' or board members' (i.e. directors and CEO) interests.

2. Conceptual framework

Various theoretical perspectives have been proposed to explain why firms voluntarily disclose CSR and how owners and managers come to choose the type and level of disclosure. Some of the more commonly adopted theories include agency theory (Jensen and Meckling, 1976), institutional theory (DiMaggio and Powell, 1983), legitimacy theory (Deegan, 2009) stakeholder theory (Freeman, 1984) and political economy theory (Gray *et al.*, 1996). In this study, we have chosen agency and institutional theories, as the weighing of the costs and benefits of CSR disclosure are often made by owners and managers who are generally in a principal-agent setting, and the rapidly evolving regulatory and socio-economic developments within the Indian corporate sector are likely to place various pressures on firms to conform and legitimise their environment and community activities.

Agency theory generally concerns the principal-agent relationships between managers and capital providers (principals) who can be either shareholders or debt holders (Jensen and Meckling, 1976), and with the separation of ownership and management it is assumed that information asymmetry will exist between principals and agents. The principals may utilise bonding or monitoring mechanisms to reduce the information gap, although both entail costs. The use of boards and board committees and firm reports produced by management are different monitoring mechanisms which align the interests of principals and managers and reduce the cost of debt. Prior studies on voluntary disclosure have more specifically focussed on systematic variations between board characteristics such as board independence, CEO duality and board diversity in general and voluntary disclosures (Eng and Mak, 2003; Beltratti, 2005; Michelon and Parbonetti, 2012). However, these studies essentially focus on internal monitoring mechanisms and do not fully consider or integrate other societal and environmental factors that may drive CSR disclosure. For instance, Haniffa and Cooke (2005) identify ethnicity and cultural factors, and Othman *et al.* (2011) refer to regulatory efforts as externally oriented drivers of CSR disclosure.

As such, we further draw on institutional theory which proposes that the broader societal and environmental context have the potential to shape organisational structure and practices to guide our understanding of how certain ownership structures may be influenced in their disclosure decisions. DiMaggio and Powell (1983) contend that firms come to exhibit similar values, structures and practices as a result of isomorphic pressures from three sources:

- (1) coercive (law or regulatory enforcement-based);
- (2) mimetic (stakeholder and general societal driven); and
- (3) normative (professional community-related).

More specifically, according to DiMaggio and Powell (1983), coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by social expectations. Deegan (2009) argues that those stakeholders who have the greatest power over the firm are able to

better demand the information they require or desire. Mimetic isomorphism is a process where organisations tend to adopt structures and processes that resemble others in society or the referent group so as to meet societal or group expectations. By contrast, normative isomorphism is driven by professionalisation, members of a profession or occupation tend to define structures and practices. In general, these pressures are seen to motivate firms to gain legitimacy and demonstrate conformance through formal disclosures. Applying an institutional perspective to the Indian corporate environment, we predict mimetic pressures related to the NVG on CSR as released in 2009, and coercive pressures emanating from CSR guidelines issued by the Department of Public Enterprises for CPSEs, are likely to play a strong role in affecting how the ownership composition of public listed Indian firms may influence the level and type of CSR information disclosure. For instance, firms with significant government ownership have been found to be more sensitive to disclosing on social or community-related issues (Ghazali, 2007).

2.1 Indian firms – CSR reporting practices

A review of prior studies on CSR reporting among Indian firms indicates that, to date, there have been limited efforts to disclose on environmental and society-oriented activities and outcomes. Most studies tend to focus on what was reported rather than the role of governance mechanisms in such CSR disclosures. For example, [Dutta and Durgamohan \(2009\)](#), based on the annual reports of 26 public-listed firms, found education issues were the most frequently reported, followed by health and social causes. A larger descriptive study involving the top 500 companies, [Gautam and Singh \(2010\)](#), indicates only about half report CSR activities, and most reporting appears to be making token gestures with little evidence of a structured, planned CSR approach. [Kansal and Singh \(2012\)](#) find that community development is the most disclosed item followed by human resource disclosure in the annual reports of 100 public-listed firms. More recently, [Das \(2013\)](#), based on 26 insurance firms, reveals that non-life insurance companies disclosed less social information than life insurance companies. [Murthy and Abeysekera's \(2008\)](#) study of the top 16 software companies in India documents community planning and child education as the two most popular community-related activities, and employee training, employee numbers and career development as the three most reported items under human resources. They also interviewed managers of 14 such firms and found that a key motivation to disclose human resource activities was the need to attract and retain staff in an industry that faced a severe skills shortage, while community activities disclosure were driven by a genuine interest to help society.

In summary, studies on CSR disclosure by Indian firms are largely based on small samples and are predominantly descriptive, and provide little understanding of the drivers of CSR disclosure.

3. Hypotheses development

3.1 Promoter ownership

In India, a promoter of a company is defined as any person or family member who is directly or indirectly in control of the company ([Jackling and Johl, 2009](#))[4]. The more concentrated the company's ownership by the promoters, the greater the power they are likely to have in influencing decision-making.

According to agency theory, with higher levels of ownership concentration, there is likely to be less information asymmetry and the potential for conflicts between principals and agents is reduced as well (Fama and Jensen, 1983), thus diminishing the need for more disclosure. By contrast, in situations where there is greater diffusion in ownership, the different shareholders have less access to management boards, and the agents are likely to voluntarily disclose more so as to signal the market and shareholders that they have acted in the best interests of the owners (McKinnon and Dalimunthe, 1993). Empirical evidence based on prior research linking ownership diffusion and voluntary corporate disclosures, however, appear mixed. Studies by Chau and Gray (2002), Prencipe (2004), Ghazali (2007) and Brammer and Pavelin (2008) find negative associations between concentrated ownership and voluntary disclosures using data from public listed firms in Singapore, Italy, Malaysia and the UK, respectively. Likewise, based on S&P500 data, Ali *et al.* (2007) report that family firms, where ownership concentration is generally high, are less likely to make voluntary disclosures on corporate governance practices in their regulatory filings. By contrast, Craswell and Taylor (1992), which involved firms in environmentally sensitive industries, find no significant association between ownership diffusion and voluntary disclosures. Most of the prior studies, however, did not specifically assess CSR disclosures. We argue that the cost of disclosure is likely to exceed the benefits in promoter firms where the concentrated power over decision-making is high and thus the need to appease other stakeholders is low.

Based on the above discussion, we propose the following hypothesis:

H1. There is a negative relationship between promoter ownership and the level of CSR disclosures.

3.2 Foreign ownership

Greater foreign ownership generally indicates stronger influence of foreign practices (Oh *et al.*, 2011; Jeon *et al.*, 2011), as well as a greater separation of ownership and management as a function of geographic distance (Schipper, 1981; Haniffa and Cooke, 2005). It is also argued that foreign shareholders tend to demand higher level of corporate disclosure due to the geographic separation (Bradbury, 1991). Many foreign shareholders are also likely to be multi-national businesses that have invested in local firms and thus may potentially hold different values and wider knowledge because of their foreign market exposure. From an institutional theory viewpoint, CSR disclosure may function as a proactive legitimating strategy to obtain continued inflows of capital and to please ethical investors. Foreign owners are also likely to be more aware and sensitised to the rising expectations for businesses to be socially accountable in the broader global community, and thus may concede to mimetic pressures through CSR disclosures comparable to multinational firms. Empirical findings by Haniffa and Cooke (2005) and Khan *et al.* (2013) provide some support from an Asian context perspective for a positive relationship between foreign ownership and CSR disclosures.

Based on the above discussion, we propose the second hypothesis of this study as follows:

H2. There is a positive relationship between foreign ownership and the level of CSR disclosures.

3.3 Government ownership

Government-owned companies tend to be politically sensitive because their activities are more visible in the public eyes and there is a stronger expectation for such firms to be conscious of their public duty (Ghazali, 2007). CSR activities, by their very nature, ideally, can reflect how government entities are willing to serve both the business interests and society's well-being. Thus, government owners are likely to generate pressures for companies to disclose additional information because the government, as a body that is trusted by the public, will need to meet its stakeholders, i.e. the public's expectations. In other words, public disclosure of CSR activities can function as a critical vehicle to legitimise government-owned enterprise activities. Both Eng and Mak (2003) and Ghazali (2007) provide evidence of a positive and significant impact of government ownership on CSR disclosure.

In India, there are high expectations set upon CPSEs which were specifically set-up post-independence as vehicles for industrial development and employment generation. However, a recent review of the World Bank of the governance of these entities (World Bank, 2010) suggests that corporate disclosure varies in quality and that they may need the support of professional expertise from private sector to improve governance and transparency. The promulgation of the CSR guidelines specific to CPSEs in 2010 by the Department of Public Enterprises thus can be seen as a form of coercive pressure from the government for CPSEs to implement CSR activities and to report upon them.

Based on the preceding discussion, we, therefore, propose the following third hypothesis:

H3. There is a positive relationship between government ownership and the level of CSR disclosures.

3.4 Board independence

According to agency theory, independent directors are more conscious of promoting their reputational capital and thus will pay attention to the company's stakeholder interests when making board decisions. It is argued that the economics of the managerial labour market provides incentives for independent directors to enhance their reputation (Fama and Jensen, 1983). As such, it is contended that independent directors will act as monitors to ensure that companies are not only properly managed by the management but also are presented in the best light (Andres *et al.*, 2005). Further, from an institutional perspective where there is societal pressure for firms to be aligned with society's interests, independent directors are likely to respond to concerns about honour and obligations and would generally be more interested in satisfying the social responsibilities of the firm, as well as preserving their professional reputation (Zahra and Stanton, 1988). Forker (1992) find that a higher percentage of independent directors on the board enhances the monitoring of the financial disclosure quality and reduces the benefits of withholding information. Chen and Jaggi (2000) find that the proportion of independent directors is positively related with mandatory disclosure. Similarly, Khan *et al.* (2013) find a positive and significant relationship between board independence and CSR disclosure.

Therefore, we propose the fourth hypothesis of this study:

H4. There is a positive relationship between proportion of independent directors and the level of CSR disclosures.

3.5 CEO duality

CEO duality reflects a situation where board leadership is held by the same person who holds the responsibility for the day-to-day management of the organisation as CEO. As such, CEO duality is generally seen to significantly empower the CEO/Chairman while increasing the risk of minority interest neglect. [Haniffa and Cooke \(2002\)](#) likewise argue that CEO duality offers greater decision-making power, which may enable the CEO to make decisions that do not take into account the greater interests of a broader set of stakeholders. Consequently, this may be reflected in lower firm involvement in social or community activities, and limited disclosure of these activities. [Li et al. \(2008\)](#) argue that separation of the roles of Chairman and CEO is preferable, as it tends to enhance monitoring quality, particularly on matters related to stakeholder responsiveness. However, [Michelon and Parbonetti \(2012\)](#) find no association between CEO duality and sustainability disclosures. Empirical evidence by [Gul and Leung \(2004\)](#), based on Hong Kong firm data, indicates that CEO duality is related to a lower level of voluntary corporate disclosure.

We therefore propose the following hypothesis:

H5. There is a negative relationship between CEO duality and the level of CSR disclosures.

4. Research design

4.1 Sample

The sample consists of the 100 top Indian companies listed on the Bombay Stock Exchange (BSE) by market capitalization in India from 2007 to 2011, producing a total of 500 firm-year observations. Due to missing information, we exclude seven firm-year observations, yielding a final sample of 493 firm-years observations. The data for our analysis come from multiple sources. We collected the financial and ownership data from the Prowess database created by the Center for Monitoring the Indian Economy (CMIE) which has been commonly utilised in previous studies on Indian corporate sector ([Khanna and Palepu, 2000](#); [Sarkar and Sarkar, 2009](#); [Bhaumik and Selarka, 2012](#)). Social responsibility information was hand collected from various sections of the annual reports, e.g. corporate governance disclosures, directors' report, Chairman's statement and notes to the financial statement. Although companies use different media for communicating social responsibility disclosures, this study focusses on annual reports because they:

- are the sole source of certain information that many stakeholders look for ([Deegan and Rankin, 1997](#));
- are widely distributed and thus have greater potential to influence ([Adams and Harte, 1998](#)); and
- are more accessible for research purposes ([Woodward, 1998](#)).

As shown in [Tables I and II](#), the sample consists of firms from a cross-section of industries including chemicals, consumer products and tobacco, oil and petroleum, iron, steel, and metals; transport; financial; and computer software and services. In terms of ownership, shares held by the promoter varied from 0 to 81 per cent, while the proportion of foreign shares in a firm varied from 0 and 65 per cent. Only about a third

of the sample firms had foreign ownership, and government ownership varied between 0 to 90 per cent, with 38 firms having shares held by government.

4.2 Model specification

The following model is used to test our hypotheses:

$$CSRDI = \alpha + \beta_1 PRMOWN + \beta_2 FOROWN + \beta_3 GOVTOWN + \beta_4 BIND + \beta_5 CEODU + \beta_6 FSIZE + \beta_7 FAGE + \beta_8 LEV + \beta_9 ROA + \beta_{10} SEN + \beta_{11} YEARDUM + \varepsilon$$

Where:

- CSRDI = corporate social responsibility disclosure score/index;
- PROMOWN = percentage of shares owned by the promoters;
- FOROWN = percentage of shares owned by the foreign investors. These include foreign collaborators, foreign financial institutions and foreign nationals;
- GOVTOWN = percentage of shares owned by the government;
- BIND = proportionate independent directors on the board;
- CEODU = dummy variable equals 1 if same person holds the positions of CEO and chairman in a firm;
- FSIZE = natural logarithm of total assets;
- FAGE = natural log of the number of year since the firm's inception;
- LEV = ratio of book value of total debt and assets;

Table I.
Number of observation and proportion of firms by industry classification and by year

Industry	No.	(%)
Electrical	32	6.49
Chemicals	68	13.79
Consumer products and tobacco	20	4.06
Oil and petroleum	33	6.69
Iron, steel, and metals	40	8.12
Transport	40	8.12
Financial	135	27.38
Computer software and services	60	12.17
Others	65	13.19
<i>Total</i>	<i>493</i>	<i>100</i>

Table II.
Year-wise sample description

Year	No. of firm in the sample	Observed firm years
2007	100	99
2008	100	100
2009	100	99
2010	100	100
2011	100	95
<i>Total observations (Firm years)</i>	<i>500</i>	<i>493</i>

ROA = ratio of earnings before interest and taxes and total assets;
SEN[5] = dummy variable equals 1 if the firm operated in an industry with significant environment impacts and 0 otherwise; and
YEAR DUM = year dummy.

Firm ownership and board characteristics

The independent predictor variables are promoter ownership (PRMOWN), foreign ownership (FOROWN), government ownership (GOVTOWN), proportion of independent directors on board (BIND) and CEO duality (CEODU). We also include control variables that have been found in prior research to be related to disclosure. The control variables included are firm size (FSIZE), firm age (FAGE), leverage (LEV), return on assets (ROA) and environmental sensitive industries (SEN).

For FSIZE, larger firms are expected to disclose more information (Gao *et al.*, 2005), as they are more visible and tend to be subject to greater public scrutiny (Watts and Zimmerman, 1978). For FAGE, an older firm provides more social responsibility disclosure (Roberts, 1992). A more mature firm is concerned about its reputation, and hence would disclose more social responsibility information. In the case of LEV, companies with higher leverage may disclose more because management needs to legitimise its actions to creditors as well as shareholders (Haniffa and Cooke, 2005). Alternately they may report less, as argued by Purushothaman *et al.* (2000) that companies with high leverage may have closer relationships with their creditors and use other means to disclose social responsibility information. Finally, profitable companies (increasing ROA) are likely to have better resources to disclose more corporate social and environmental disclosure (Gray *et al.*, 2001).

4.3 Dependent variable – corporate social responsibility disclosure indices

The dependent variable in this study is the level of CSR disclosure which is measured as a corporate social responsibility disclosure index (CSRDI) based on 17 items as shown in Appendix. The checklist items were adapted from past research including several recent Indian studies (Das, 2013; Narwal and Singh, 2013; Kansal and Singh, 2012), as well as by an earlier study by Haniffa and Cooke (2005). We classify CSR activities under the following four areas – environment, community development, product and/or services and human resource disclosures. In terms of coding, a dichotomous procedure was applied, whereby an item is coded 1 if it is disclosed in the annual report and 0 otherwise. One advantage of this method is that it is more reliable than other methods because less choice is available for coders (Haniffa and Cooke, 2005; Hackston and Milne, 1996). The index also facilitates the use of a numerical comparison of CSR disclosure across companies in a systematic manner, and has been a common procedure used in this area. Annual reports of all 100 firms over the five years were reviewed and coded. Further, as coder reliability is an element of concern in studies that adopt content analysis, certain precautionary measures were adopted to ensure reliability. For example, the first author reviewed all sample annual reports and proceeded with the coding process. Then, the second author compared the coded data, and in cases where discrepancies existed, the annual reports were re-analysed and the differences were resolved.

The CSRDI is derived by computing the ratio of actual scores awarded to the maximum possible score attainable for items appropriate (applicable) to that firm (Ghazali, 2007). Following Haniffa and Cooke (2005), the CSRDI is calculated as follows:

$$CSRDI_j = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$$

Where:

- CSRDI_j = Corporate Social Disclosure Index for *j*th firm;
 n_j = number of items expected for *j*th firm, where $n \leq 21$; and
 X_{ij} = 1, if *i*th items are disclosed for firm *j*, otherwise 0, so that $0 \leq CSRDI_j \leq 1$.

Consistent with prior disclosure index studies (Botosan, 1997; Gul and Leung, 2004), we use Cronbach's coefficient alpha (Cronbach, 1951) to assess the internal consistency of our disclosure index. We find the coefficient score for the four categories in the disclosure index is 0.67, which suggests acceptable internal reliability and that the set of items in the disclosure scoring index is capturing the same underlying construct.

5. Results

Table III provides the descriptive statistics for the variables used in the study. The average disclosure score is 0.309 (median = 0.294). The average firm age is nearly 40 years, and the average firm size is 12.31 (natural logarithm of total assets).

Table IV presents the correlation matrix among variables. CSRDI is positively correlated with foreign ownership (FOROWN) ($\rho = 0.196$), government ownership (GOVTOWN) ($\rho = 0.121$) and board independence (BIND) ($\rho = 0.218$). CSRDI is negatively correlated with CEO duality (CEODU) ($\rho = -0.104$).

Table V reports the mean values of the explanatory variables across the CSR disclosure scores across firms with a score higher than the median and those with a score lower than the median. Analysis based on a *t*-test of means indicates that firms with a CSR disclosure score higher than the median have higher foreign ownership (FOROWN) and board independence (BIND) as compared to firms with a CSR score lower than the median.

Table VI reports the results of regression analysis using CSRDI as the dependent variable. In Model 1, we find promoter ownership (PROMOWN) to be insignificant. Given that promoter firms are also mainly family controlled, there may be less need to justify or showcase their CSR activities to external parties or potential investors who are likely to be in the minority group, thus avoiding costs associated with disclosure.

In Model 2, we examine the impact of foreign ownership on CSR disclosures, and find a significant, positive coefficient ($\beta = 0.092, p < 0.01$) on foreign ownership (FOROWN). This result supports H2. Our findings imply that foreign shareholders are likely to have different values and knowledge related to broader global issues and are able to inform and shape strategic thinking towards social and environmental activities and, subsequently, this is reflected in the firms reporting. This is consistent with the findings of Haniffa and Cooke (2005) who suggest that companies with high foreign ownership report more CSR disclosures as a proactive legitimacy strategy to satisfy ethical foreign investors so that they attract more foreign capital.

In Model 3, we investigate the impact of government ownership on CSR reporting. We document a positive significant coefficient ($\beta = 0.072, p < 0.05$) on government ownership (GOVTOWN). This result is consistent with the findings of Ghazali (2007) in

Variables	Minimum	Maximum	Mean	Median	SD
<i>CSRDI</i>	0.058	0.647	0.309	0.294	0.132
<i>COMDIS</i>	0.000	1.000	0.525	0.667	0.274
<i>ENVDIS</i>	0.000	0.800	0.262	0.200	0.218
<i>EMPDIS</i>	0.000	0.714	0.285	0.286	0.145
<i>PRODIS</i>	0.000	1.000	0.192	0.000	0.289
<i>PROMOWN</i>	0.000	0.810	0.321	0.340	0.226
<i>FOROWN</i>	0.000	0.650	0.087	0.000	0.169
<i>BIND</i>	0.000	0.833	0.407	0.444	0.170
<i>CEODU</i>	0.000	1.000	0.325	0.000	0.469
<i>GOVTOWN</i>	0.000	0.900	0.109	0.000	0.210
<i>LEV</i>	0.002	0.955	0.577	0.568	0.237
<i>FAGE</i>	3.000	116.00	39.87	33.000	27.165
<i>FSIZE</i>	8.647	12.319	12.309	12.319	1.442
<i>ROA</i>	-0.134	0.538	0.114	0.081	0.108
<i>SEN</i>	0.000	1.000	0.290	0.000	0.454

Notes: CSRDI = corporate social responsibility disclosure score/index; COMDIS = community involvement disclosure score/index; ENVDIS = environmental disclosure score/index; EMPDIS = employee information disclosure score/index; PRODIS = product and service disclosure score/index; PROMOWN = percentage of shares owned by the promoters; FOROWN = percentage of shares owned by the foreign investors; CEODU = dummy variable equals 1 if same person holds the positions of CEO and chairman in a firm; BIND = proportionate independent directors on the board; GOVTOWN = percentage of shares owned by the government; LEV = ratio of book value of total debt and total assets; FAGE = the number of year since the firm's inception; FSIZE = natural logarithm of total assets; ROA = ratio of earnings before interest and taxes and total assets; SEN = dummy variable equals 1 if the firm operated in an industry with significant environment impacts and 0 otherwise

Table III.
Descriptive statistics

Malaysia. From an institutional theory perspective, this suggests that government-owned companies may engage in more socially responsible reporting as a legitimisation exercise given that they are more visible in the public eye.

In Model 4, we find a positive significant coefficient ($\beta = 0.194, p < 0.01$) for our board independence (BIND) variable, which supports *H4*. It is likely that independent directors are able to reduce agency conflicts between managers and owners through encouraging management to disclose more CSR activities. This finding is also consistent with results found in more developed nations (e.g. Brammer and Pavelin, 2008 and Li *et al.*, 2008).

In support of *H5*, Model 5 results indicate a negative and significant coefficient ($\beta = -0.036, p < 0.01$) for CEO duality (CEODU). Our finding is consistent with Haniffa and Cooke (2002), indicating CEOs in dual positions may not be motivated to be visibly accountable to the interests of the broader stakeholders and are likely to avoid the costs of CSR disclosure.

Finally, we regress CSR disclosure on all corporate governance variables in Model 6 to test the impact of all the hypothesised variables in one model. Our results with respect to the hypothesised variables are consistent with main findings reported in Models 1-5. In regards to control variables, our overall findings suggest that larger firm size (FSIZE), older firms (FAGE) and better performance (ROA) are significantly related to CSR disclosure levels. However, we find a negative significant impact of leverage on the level

Table IV.
Correlation matrix

Variables	CSRDI	PROMOWN	FOROWN	BIND	CEODU	GOVTOWN	LEV	FAGE	ROA	FSIZE	SEN
CSRDI	1.000										
PROMOWN	0.009	1.000									
FOROWN	0.196***	-0.503***	1.000								
BIND	0.218***	0.020	0.006	1.000							
CEODU	-0.104**	0.134***	-0.082*	-0.333***	1.000						
GOVTOWN	0.121***	0.029	-0.161***	-0.254***	0.371***	1.000					
LEV	-0.305***	0.006	-0.186***	-0.298***	0.143***	0.160***	1.000				
FAGE	0.139***	-0.238***	-0.121**	-0.292***	0.143***	0.236***	0.129***	1.000			
ROA	0.242***	-0.152***	0.371***	0.074*	-0.029	-0.059	-0.433***	0.122***	1.000		
FSIZE	0.079*	0.176***	-0.311***	-0.250***	0.161***	0.428***	0.456***	0.084*	-0.537***	1.000	
SEN	0.170***	0.025	0.061	-0.032	0.149***	0.152***	-0.210***	0.103**	0.179***	-0.209***	1.000

Notes: CSRDI = corporate social responsibility disclosure score/index; PROMOWN = percentage of shares owned by the promoters; FOROWN = percentage of shares owned by the foreign investors; CEODU = dummy variable equals 1 if same person holds the positions of CEO and chairman in a firm; BIND = proportionate independent directors on the board; GOVTOWN = percentage of shares owned by the government; LEV = ratio of book value of total debt and total assets; FAGE = natural log of the number of year since the firm's inception; FSIZE = natural logarithm of total assets; ROA = ratio of earnings before interest and taxes and total assets; SEN = dummy variable equals 1 if the firm operated in an industry with significant environment impacts and 0 otherwise; *, ** and *** = statistically significant at less than 0.10, 0.05 and 0.01 levels, respectively

Variables	CSRDI > Median	CSRDI < Median	<i>p</i> value
<i>PROMOWN</i>	0.331	0.301	0.155
<i>FOROWN</i>	0.110	0.061	0.004***
<i>GOVTOWN</i>	0.105	0.099	0.792
<i>BIND</i>	0.432	0.361	0.000***
<i>CEODU</i>	0.304	0.362	0.189
<i>LEV</i>	0.535	0.651	0.000***
<i>FAGE</i>	3.477	3.297	0.018**
<i>FSIZE</i>	12.177	12.551	0.006**
<i>ROA</i>	0.134	0.078	0.000***
<i>SEN</i>	0.357	0.167	0.000***

Notes: CSRDI = corporate social responsibility disclosure score/index; PROMOWN = percentage of shares owned by the promoters; FOROWN = percentage of shares owned by the foreign investors; CEODU = dummy variable equals 1 if same person holds the positions of CEO and chairman in a firm; BIND = proportionate independent directors on the board; GOVTOWN = percentage of shares owned by the government; LEV = ratio of book value of total debt and total assets; FAGE = natural log of the number of year since the firm's inception; FSIZE = natural logarithm of total assets; ROA = ratio of earnings before interest and taxes and total assets; SEN = dummy variable equals 1 if the firm operated in an industry with significant environment impacts and 0 otherwise; **, *** = statistically significant at less than 0.05 and 0.01 level

Table V. Difference of means tests: Differences in the value of the explanatory variables between firms with higher and lower CSRDI

of CSR disclosures. The results of our analysis with respect to the control variables are consistent with previous studies (Roberts, 1992; Haniffa and Cooke, 2005; and Ghazali, 2007, Khan *et al.*, 2013).

5.1 Impact of CSR guidelines and other robustness checks

We divided our sample into two different sub-samples based on time periods – from 2007 to 2009 and from 2010 to 2011 and replicated the original analysis. The purpose of partitioning the sample is to test for any impact the NVGs on corporate governance and CSR released in 2009 may have had on CSR disclosure levels. Results across the sub-periods, as shown in Table VII, are qualitatively similar to the whole sample as well where foreign ownership, board independence and CEO duality have significant associations with disclosure levels. However, government ownership becomes significantly positively associated with disclosure levels in the second sub-sample period, i.e. after the release of the NVGs, suggesting that government-owned firms were responding to institutional pressures following such guidelines.

Because not all government-owned companies are CPSEs and there were mandatory policies released by the Department of Public Enterprises on CSR implementation in 2010, we undertook further specific analysis comparing CSR disclosure levels between CPSEs and non-CPSEs for 2011. Our sample includes 17 CPSEs and 83 non-CPSEs. Non-tabulated results indicate significantly higher disclosure by CPSEs in 2011 compared with the previous four years, while the relation of the variables to disclosure remains qualitatively unchanged. This suggests the coercive pressures of mandatory guidelines appeared to impact the disclosure.

The results for the other variables remain qualitatively the same, i.e. foreign ownership, board independence and CEO duality held significant relationships with

Table VI.
Multiple regression
results using CSRDI
as the dependent
variable

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability
CONSTANT	0.078	0.226	0.086	0.170	0.169	0.018**	-0.096	0.171	0.066	0.297	-0.068	0.367
PROMOWN	0.013	0.638	0.080	0.459								
FOROWN	0.092	0.006***	0.139	0.000***								
GOVTOWN	0.072	0.030**	0.121	0.000**								
BIND	0.194	0.000***	0.181	0.000***								
CEODU	-0.036	0.003***	-0.043	0.000***								
LEV	-0.172	0.000***	-0.170	0.000***	-0.174	0.000***	-0.142	0.000***	-0.164	0.000***	-0.124	0.000***
FAGE	0.024	0.001***	0.018	0.011**	0.019	0.010***	0.031	0.000***	0.023	0.001***	0.029	0.000***
ROA	0.223	0.001***	0.179	0.006***	0.195	0.003***	0.239	0.000***	0.225	0.000***	0.191	0.002***
F SIZE	0.017	0.001***	0.019	0.000***	0.011	0.044**	0.022	0.000***	0.019	0.000***	0.018	0.001***
SEN	0.028	0.030**	0.030	0.017**	0.022	0.090*	0.035	0.005***	0.036	0.005***	0.029	0.019**
Year dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.15		0.16		0.15		0.19		0.16		0.25	
F Stat	9.48		10.18		9.83		12.87		10.31		12.42	
N	493		493		493		493		493		493	

Notes: CSRDI = corporate social responsibility disclosure score/index; PROMOWN = percentage of shares owned by the promoters; FOROWN = percentage of shares owned by the foreign investors; GOVTOWN = percentage of shares owned by the government; CEODU = dummy variable equals 1 if same person holds the positions of CEO and chairman in a firm; BIND = proportionate independent directors on the board; LEV = ratio of book value of total debt and total assets; FAGE = natural log of the number of year since the firm's inception; FSIZE = natural logarithm of total assets; ROA = ratio of earnings before interest and taxes and total assets; SEN = dummy variable equals 1 if the firm operated in an industry with significant environment impacts and 0 otherwise; *, **, and *** = statistically significant at less than 0.10, 0.05 and 0.01 levels, respectively

Variables	Pre-voluntary guidelines period (2007-2009)		Post-voluntary guidelines period (2010-2011)	
	Coefficient	Probability	Coefficient	Probability
<i>CONSTANT</i>	-0.070	0.485	-0.143	0.299
<i>PROMOWN</i>	0.037	0.213	0.068	0.158
<i>FOROWN</i>	0.152	0.002***	0.091	0.037**
<i>GOVTOWN</i>	0.081	0.108	0.170	0.002***
<i>BIND</i>	0.166	0.000***	0.260	0.000***
<i>CEODU</i>	-0.039	0.017**	-0.047	0.034**
<i>LEV</i>	-0.146	0.000***	-0.110	0.022**
<i>ROA</i>	0.209	0.014**	0.278	0.012**
<i>AGE</i>	0.027	0.004***	0.042	0.002***
<i>FSIZE</i>	0.019	0.008***	0.015	0.089*
<i>SEN</i>	0.037	0.485	0.021	0.073*
<i>Adj R²</i>	0.21		0.29	
<i>F stat</i>	9.76		7.95	
<i>N</i>	298		195	

Notes: CSRDI = corporate social responsibility disclosure score/index; PROMOWN = percentage of shares owned by the promoters; FOROWN = percentage of shares owned by the foreign investors; GOVTOWN = percentage of shares owned by the government; CEODU = dummy variable equals 1 if same person holds the positions of CEO and chairman in a firm; BIND = proportionate independent directors on the board; LEV = ratio of book value of total debt and total assets; FAGE = natural log of the number of year since the firm's inception; FSIZE = natural logarithm of total assets; ROA = ratio of earnings before interest and taxes and total assets; SEN = dummy variable equals 1 if the firm operated in an industry with significant environment impacts and 0 otherwise; *, ** and *** = statistically significant at less than 0.10, 0.05 and 0.01 levels, respectively

Table VII. Multiple regression results using CSRDI as the dependent variable

level of CSR disclosure and in the expected directions as well, in the two sub-sample periods. This finding signals the inherent coercive pressures held by mandatory guidelines in affecting CSR disclosures.

5.2 Further analysis

We also undertook additional analysis for each of the four major categories of CSR disclosure index:

- (1) community involvement disclosure index (COMDIS);
- (2) environmental disclosure index (ENVDIS);
- (3) employee information disclosure index (EMPDIS); and
- (4) product and service disclosure index (PRODIS).

The results, as presented in Table VIII, show that ownership and board characteristics have different effects on different types of CSR disclosures.

In terms of the ownership predictor variables, foreign ownership (FOROWN) has a significantly positive impact on ENVDIS. Foreign investors may influence companies to disclose greater and more relevant environmental information to evaluate corporate environmental performance, thereby promoting the quality of voluntary disclosure of environmental information. Government ownership (GOVTOWN) is positively related

Table VIII.
Multiple regression
results for each of the
four categories of
CSR disclosure as the
dependent variable

Variables	COMDIS		ENVDIS		EMPDIS		PRODIS	
	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability
CONSTANT	0.088	0.568	-0.364	0.007***	-0.069	0.447	0.440	0.015**
PROMOWN	-0.067	0.314	0.073	0.129	0.063	0.055*	0.123	0.058*
FOROWN	0.182	0.015**	0.185	0.003***	0.103	0.015**	0.254	0.003***
GOVTOWN	0.157	0.051**	0.121	0.042**	0.120	0.002***	0.022	0.779
BIND	0.347	0.000***	0.276	0.000***	0.041	0.325	0.192	0.021**
CEODU	-0.026	0.304	-0.034	0.118	-0.054	0.000***	-0.056	0.058*
LEV	-0.376	0.000***	-0.179	0.000***	-0.030	0.358	-0.026	0.688
FAGE	0.055	0.000***	0.032	0.013**	0.005	0.589	0.069	0.000***
ROA	0.406	0.001***	0.327	0.003***	0.155	0.044**	-0.198	0.184
FSIZE	0.017	0.104	0.037	0.000***	0.022	0.000***	0.046	0.000***
SEN	0.087	0.001***	-0.013	0.527	0.061	0.000***	0.015	0.581
Year dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	27.52		12.87		10.02		10.48	
F stat	16.97		6.19		5.19		3.53	

Notes: COMDIS = community involvement disclosure score/index; ENVDIS = environmental disclosure score/index; EMPDIS = employee information disclosure score/index; PRODIS = product and service disclosure score/index; PROMOWN = percentage of shares owned by the promoters; FOROWN = percentage of shares owned by the foreign investors; GOVTOWN = percentage of shares owned by the government; CEODU = dummy variable equals 1 if same person holds the positions of CEO and chairman in a firm; BIND = proportionate independent directors on the board; LEV = ratio of book value of total debt and total assets; FAGE = natural log of the number of year since the firm's inception; FISIZE = natural logarithm of total assets; ROA = ratio of earnings before interest and taxes and total assets; SEN = dummy variable equals 1 if the firm operated in an industry with significant environment impacts and 0 otherwise; *, ** and *** = statistically significant at less than 0.10, 0.05 and 0.01 levels, respectively

to the COMDIS, EMVDIS and EMPDIS, whereas it is insignificantly related to PRODIS. It is likely that given the higher need and empathy by government to public-related issues – community, environment and employee levels, government ownership may affect how such firms present their community, environment and the employee engagement.

Furthermore, board independence (BIND) is seen to have consistent effects on all four CSR disclosure dimensions, i.e. BIND is positively and significantly related to COMDIS, ENVDIS and PRODIS. According to agency theory, independent directors can put pressure on companies to engage in these categories of CSR to ensure organisational legitimacy. However, CEO duality (CEODU) is negatively related to EMPDIS and PRODIS. CEO power may enable him/her to make decisions that do not take into account of the greater interests of stakeholders.

6. Conclusions

The overarching aim of this study was to assess whether ownership and board composition affect CSR disclosures by Indian firms. The results of our study reveal that both foreign and government ownership have positive impacts on the level of CSR disclosures, but promoter ownership has negligible effects. Our study also indicates that board independence is strongly associated with greater levels of CSR disclosure, and CEO duality has a negative impact. These results provide deeper insights into the drivers of CSR reporting within Indian firms, thus enriching other earlier studies that predominantly focussed only on describing the CSR practices and type of information disclosed (Murthy and Abeysekera, 2008; Narwal and Singh, 2013).

The present study makes several important contributions. First, the study is one of the few to take a more comprehensive and predictive modelling approach using a relatively large sample of firm data covering a relatively longer time period (five years) in assessing the effects of ownership and board composition on CSR disclosure of Indian public-listed firms. Thus, this study adds to the limited pool of evidence on CSR disclosure by Indian firms.

Second, from a theoretical perspective, our results support both agency and institutional rationalisations. Independent directors are found to hold a more positive stance towards CSR disclosure, suggesting their reputational risk concerns as predicted by the agency perspective may encourage their support of more transparent practices. Interestingly, it appears that despite the traditional settings of an environment where corporate governance may still be evolving in India (World Bank, 2010), independent directors and CEO duality still have significant effects on CSR disclosure. Our findings also suggest that different ownership structures are associated with different types of CSR disclosure which indicates investors as principals tend to monitor and align voluntary disclosure in their interests. For instance, we find government-owned firms tend to place greater importance on community- and employee-related information as expected given their orientation towards national goals on socio-economic and community development. Also, our findings indicate that independent directors may be more neutral to the type of information disclosed given that the level of board independence was significantly and positively associated with three out of the four CSR categories, i.e. community, environment and product/service disclosure. Nevertheless, more independent boards are also seen to increase CSR disclosures. Our finding also provides support for institutional theory where mimetic pressures posed by the 2009

NGV on CSR (MCA, 2009b) and coercive pressures from the mandatory guidelines imposed on CPSEs (DPE, 2010) may explain an increasing trend in CSR disclosure among government-owned firms over 2010 and 2011.

In terms of implications for practice, we offer several suggestions. First, given that the new Companies Bill of India released in 2013 mandates all profit-making firms to establish a board CSR Committee, firms may consider having the majority of such a board composed of independent directors and CSR experts where possible. Further, given that in a more regulated, mandatory corporate environment, the risk of compliance may supersede substance, i.e. the quality of CSR information rather than quantity of information becomes pertinent for oversight. As such, independent directors could take an active role in ensuring the strategic planning, implementation and the performance metrics reflecting CSR outcomes are of high quality. This also then raises the issue of the level of CSR awareness and knowledge among independent directors. Professional workshops and skills training in CSR strategy-making and evaluation appear to be critical for independent directors to play their role more effectively. Additionally, research is also needed on other elements of board diversity and its impact on CSR disclosure. For example, the recent Companies Bill mandates at least one board member to be female. Additional evidence on gender composition of the CSR Committees and its effect on CSR disclosure will be fruitful.

Our study is subject to several limitations. Our analysis used only disclosures from the annual reports, although it is known that management may use other mass communication mechanisms. Therefore, future research may consider disclosures in other media such as newspapers, the Internet, etc. Additionally, the CSR disclosure index developed in this study may not have been fully or properly captured all aspects of CSR practices. In this study, we could not fully consider the quality of CSR disclosure because few companies in India disclosed their CSR activities quantitatively (Kansal and Singh, 2012). Further, while we focussed on agency and institutional theories, other theoretical explanations could provide additional understanding of the link between corporate governance and CSR disclosure. For example, better performing firms and politically connected firms may utilise CSR disclosure for purposes other than legitimacy. Finally, we assessed only two aspects of board composition (independence and CEO duality), but prior studies suggest that board experience and expertise, in general, leads to better governance (Zahra and Stanton, 1988; Gul and Leung, 2004). Future studies thus may consider assessing the impact of board characteristics such as director expertise and interlocks on CSR disclosure.

In conclusion, this study provides insights on how state-led guidelines on CSR coupled with corporate governance mechanisms appear to play a critical role in firm disclosure practices within the developing economy context. Scherer and Palazzo (2011), in their review of the CSR literature, contend that a new form of politicized CSR is emerging together with globalization. They propose that:

[...] political solutions for societal challenges are no longer limited to the political system but have become embedded in decentralized processes that include non-state actors such as NGOs and corporations (Scherer and Palazzo, 2011, p. 922).

As such, the quality of firm disclosures becomes increasingly critical for how well the various stakeholders are informed which ultimately affects their potential to act on CSR issues.

Notes

1. A series of major committees were further set up such as the Bajaj Committee in 1996, Birla Committee in 2000, Chandra Committee in 2002 and the Narayanan Murthy Committee in 2003 to review corporate governance and propose governance reforms.
2. CPSEs were initially established to pursue macro-economic objectives as envisaged by the Five-Year Plans and Industrial Policy Resolutions, and are among the top performing organisations in India.
3. The CSR budget was to be created through a board resolution, with firms making less than 100 crore (USD10 million), setting aside 3-5 per cent of their net profit; those making 100-500 crore, setting aside 2-3 per cent; and those making net profit more than Rs 500 crore (USD50 million), setting aside 0.5-2 per cent) of the net profit of the previous year. CSR-planned initiatives are also to form as part of the Memoranda of Understanding (MOU) to be signed between a CPSE and the government which essentially is an organisational-level performance agreement.
4. Promoter is defined in clause (h) of sub-regulation of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. Owner-managed company is very common in India, and, in most of the cases, the owners are family members (Johl *et al.*, 2010).
5. Consistent with Brammer and Millington (2005), chemical, resource extraction and utilities sectors are defined as having high environmental impacts.

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Appendix 1

CSR disclosure items

- (1) Community involvement:
 - general philanthropy;
 - participation in government social campaigns; and
 - community programs (health and education).
- (2) Environmental:
 - environmental policies;
 - raw materials conservation and recycling;
 - environmental protection programme;
 - awards for environmental protection; and
 - support for public/private action designed to protect the environment.
- (3) Employee information:
 - number of employees/human resource;
 - employees relations;
 - employee welfare;
 - employee educations;
 - employee training and development;
 - employee profit sharing; and
 - worker's occupational health and safety.
- (4) Product and service information:
 - product development and research; and
 - product quality and safety.

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