Wayamba Journal of Management
Volume 16 Issue 02 December 2025

Corporate Governance and Corporate Social Responsibility Disclosure: Evidence From Listed Companies of Sri Lanka

Piriya Muraleetharan

Department of Accounting
University of Jaffna.

Abstract

Corporate governance and corporate social responsibility (CSR) are two important essentials of recent business practices that have gained major concentration in current years. The association between these two concepts has turned into more and more significant as firms face growing pressure from stakeholders to not only achieve efficiently but also to act in a communally accountable way. The purpose of this research topic is to explore this study is to examine the Corporate Governance and corporate social responsibility disclosure in listed companies in Sri Lanka. The determine factors are CEO duality, board size, gender diversity, board independent. The CSR disclosure variables are economic, social and environmental using content analysis method. Researcher looked at data from 80 companies in different industries between the period from 2019 to 2023 was selected to capture recent and relevant trends in corporate governance and CSR disclosure practices among listed companies in Sri Lanka. Importantly, it also encompasses the COVID-19 pandemic and the subsequent recovery period, during which firms faced heightened scrutiny regarding social, environmental, and economic responsibilities. In this analysis board size and board independent are positively associated with the level of CSR disclosure, indicating that larger companies tend to disclose more information about their CSR activities. Secondly, board independent has a significant positive impact on CSR disclosure.

Keywords: *Corporate Governance, CSR, Economic, Environmental and Social Disclosure*

Received: 18th June 2025

Accepted: 9th December 2025

Published: 31st January 2026

Corresponding Author:
Priya Muraleetharan

E-mail address:
piriyam@univ.jfn.ac.lk

https://orcid.org/0000-0002-2442-3871

DOI:
https://doi.org/10.4038/wjm.v16i2.7643

pp: 01 - 11

ISSN:2012-6182

Wayamba Journal of Management
Department of Business Management
Wayamba University of Sri Lanka

Journal Home Page:
dbm.wyb.ac.lk/wjm

Introduction

Corporate Social Responsibility (CSR) is becoming more popular as a new thought that has gained popularity regarding the social impact of corporate entities. Among the various parties involved, including management, investors, creditors, suppliers, customers, and staff policymakers (Freeman, 1984; Carroll, 1991). After the ultimate goal of a business has moved forward from profit concentration to stakeholder wealth maximization (Hill & Jones, 1992) so, business must perform ethically while still generating profit for investors. More-over, globalization and technology development have generated detrimental environmental and social effects that have attracted a growing amount of attention, and in both developed and developing countries, there is an increasing concern about social and environmental disclosures in annual reports (Nuskiya et al, 2021). Several issues raised from firm operation in this regard, namely biodiversity loss, pollution, carbon emission, resource depletion, global warming, safety and quality of product, natural disasters, and the worker's rights and status, have become growing intentions for CSR practices (Gray et al, 1987; Adams, 2002).

In order to prevent or reduce potential political costs, businesses willingly invest important resources (time and money) into implementing CSR practices as part of their business models. Every socially responsible business looks to participate in beneficial practices to the social and environment and minimize the harm effect of business activities to society which they operate. (Sheehy, 2014).

Because there are no specific professional standards or regulatory frameworks, CSR activity has not been given much thought. Despite the fact that many organizations are regarded as engaging in CSR practices as part of their business models, they still achieve the corporate governance objective because organizations that disclose more information stand a better chance of reaping rewards like lower capital costs, increased investor confidence, and improved share marketability. Due to the significance of voluntary disclosure, businesses have increased their disclosure of voluntary CSR information without being required to do so by law. As a result, the amount of voluntary CSR information disclosed varies from firm to firm (Iatridis and Alexakis, 2012), and there are a variety of factors that affect voluntary disclosure in annual report.

Corporate social responsibility disclosure (CSRD) has become a crucial component of corporate policy and practice in Sri Lanka over the past few decades, driven by increasing stakeholder expectations, regulatory developments, and global sustainability trends (Beddewela & Herzig, 2013; Senaratne & Gunarathne, 2015). Researchers are very happy to see that CSR (sustainable) reporting and GRI are becoming more popular among Sri Lankan businesses. Due to the lack of standardization and other forms of guidance, CSR disclosure procedures used by Sri Lankan businesses vary greatly. Wijesinghe and Senaratne (2011) finds that most Sri Lankan businesses are willing to participate in CSR reporting, even if it is not yet required. That is to say, if a firm disregards its social and environmental responsibilities, it will have a tough time competing in the market.

Wijesinghe (2012) described that the overall level of CSR disclosure in Sri Lanka is low, and there is a substantial need for improvement in key components of CSR disclosure, such as governance, economic, social, and environmental disclosure. The degree of transparency has been found to differ between industry sectors. The level of disclosure, however, is trending upward and suggests that CSR disclosures will increase significantly in the coming years. Many studies are investigating the role of corporations in disclosing CSR practices in the banking and financial sectors in Sri Lanka (Madhurangi & Basnayake, 2020; Nirmaan et al., 2020).

Problem Statement

While a substantial body of literature on corporate social responsibility and corporate governance exists in developed nations, empirical research in developing countries such as Sri Lanka remains limited (Belal, 2001; Jamali & Mirshak, 2007; Beddewela & Herzig, 2013).Many studies on CSR have been undertaken in both domestic and international settings. The factors that influence CSR efforts and their benefits are crucial issues that could affect the performance and conduct of an organization. Moreover, due to the lack of standardization, CSR disclosure varies from company to company and from country to country special legislation to formally enshrine the CSR disclosure procedures. Since some of the researchers are focused on the determinant factors in foreign countries (Velte, 2021; Giannarakis et al. 2014; Ali et al. 2021), but they mainly focused on the financial and firm determinate factors, and there are many different findings explaining the relationship between determinant factors and CSR disclosure from country to country.
The Voluntary CSR disclosure largely depends on individual company policies, management attitudes, and governance structures, resulting in significant variation in the type and extent of information disclosed. Although numerous studies have examined the determinants of CSR disclosure in developed economies, there remains a notable lack of longitudinal research that investigates how these determining factors influence CSR disclosure over time in developing countries such as Sri Lanka. In particular, empirical evidence examining the role of corporate governance mechanisms in shaping voluntary CSR disclosure across multiple years is limited. This lack of time-series or panel-based analysis creates a significant research gap in the Sri Lankan context, which this study seeks to address by examining the relationship between corporate governance characteristics and CSR disclosure over an extended period.

The answers to the following question will determine the entire studies.

How do the corporate governance factors impact of corporate social responsibility disclosure in Sri Lankan listed companies?

Research Objectives

Research objectives describe the expected outcome of research. This research aims to achieve the following objectives:

- To examine the impact of corporate governance on CSR.
- To examine the relationship between corporate governance and CSR.

Literature review

The firm's CSR disclosure policies are also influenced by corporate governance traits. CEO duality is one of the factors in corporate governance that affects CSR disclosure. When one person holds the positions of chairman and CEO at the same time, a CEO duality results. Previous research indicated that CEO duality have a negative intention with CSR disclosures, implying that CEO duality may result in conflicts of interest and, as a result, may damage a specific organization's transparency process (de Freitas Neto and Mol, 2017). Board size is another factor in corporate governance that affects CSR. Gender diversity has become a crucial component of effective corporate governance and is crucial to CSR activities. Gender diversity on the board promotes better coordination, control, monitoring, and other corporate governance activities. Furthermore, it was discovered that female entrepreneurs play a critical role in the rising economy.
Board independence is another element of company governance that influences CSR. According to the Gerged (2021) observes that independent directors appeared to push for the publication of environmental information as a strategy for engaging in a balanced accountability process.

Fahad and Nidheesh, (2020) study the relationship between firm characteristics and CSR disclosure and its subcategories of environmental, social and governance disclosure in India. Using panel regression analysis, the study examined seven different categories of factors.

In the context of Sri Lanka, Nuskiya et al, (2021) investigated the corporate environmental disclosure (CED) level with the corporate governance effect over the practices of environmental disclosure. The study's findings show an increasing trend of CED in the Sri Lankan setting using a sample of 80 listed businesses in Sri Lanka from 2019 to 2023 and panel regression analysis.

Methods

This study examines the relationship between corporate governance characteristics and corporate social responsibility (CSR) disclosure using a sample of eighty listed companies. The sample was selected based on the availability of complete and consistent annual reports for the financial years ending on March 31 over the period from 2019 to 2023. This timeframe ensures uniformity in reporting periods and allows for meaningful comparison of CSR disclosure and corporate governance practices across firms and over time. Secondary data were utilized to address the research objectives, as such data provide reliable and verifiable information on CSR disclosure and corporate governance attributes. The required data were collected from publicly available annual reports, specifically from sections related to corporate information and sustainability reporting. The corporate governance variables examined include CEO duality, board size, gender diversity, and board independence.

Hypothesis testing

H_1: There is a significant impact of corporate governance on CSR disclosure
H_2: There is a relationship between corporate governance on CSR disclosure

Results

According to table 1 value show that positive and negative correlation with dependent variable. Positive correlation board size, board independent, with dependent variable (CSR Index), According to correlation analysis these two variables are significant and other two variables are CEO duality and Gender diversity insignificant on CSR Index.

The table 2 results for CEO duality indicate a negative coefficient of −0.0648 with a p-value of 0.1426. This suggests that CEO duality is negatively associated with the dependent variable; however, the relationship is not statistically significant. In practical terms, the combination of the CEO and Chairperson roles may have a marginal adverse effect on the outcome variable, but the evidence is insufficient to confirm a meaningful or reliable impact.

Considering Board independent, it exhibits a positive coefficient of 0.0329 but a p-value of 0.0405. This suggests that a higher degree of board independence has a positive impact on the dependent variable, although, similar to the other variables, this relationship lacks statistical significance. In other words, a more independent board structure may have a favorable influence on the outcome variable, but this impact is not strong enough to be considered statistically reliable.

Regarding the overall model's performance, the R-square value of 0.1116 indicates that the model explains a little amount of the variance in the dependent variable. The Adjusted R-squared value of 0.0915 suggests that the model's explanatory power diminishes when adjusting for the number of predictors. This may imply that the selected variables may not be the most suitable for explaining the variation in the dependent variable or that there might be missing factors not considered in the current model. Durbin-Watson statistic test was 1.76, and a probability value of 0.028, suggesting limited explanatory power and statistical significance.

Discussion

This study provides empirical evidence on how corporate governance mechanisms influence CSR disclosure among listed companies in Sri Lanka during the period 2019–2023. The findings indicate that board size and board independence play a positive role in enhancing CSR disclosure, suggesting that broader and more independent boards are better positioned to promote transparency and accountability in sustainability reporting. This supports stakeholder and agency theory arguments that effective monitoring by independent directors encourages firms to respond to stakeholder expectations through greater disclosure. In contrast, CEO duality and gender diversity show no statistically significant relationship with CSR disclosure, implying that leadership concentration and female board representation alone may not be sufficient drivers of CSR practices in the Sri Lankan context. The relatively low explanatory power of the model suggests that CSR disclosure is influenced by additional factors beyond governance characteristics, such as firm culture, industry sensitivity, and external regulatory pressures. Overall, the results highlight the importance of strengthening board structures to improve CSR transparency, particularly in emerging economies facing increasing sustainability expectations.

Conclusion

The study started by looking at certain factors and the amount of CSR information that Sri Lankan companies listed on the stock market share with the public. Then, it used statistical methods like descriptive analysis, correlation, and multiple panel regression analysis. This means the study tried to measure how different things influence the financial choices companies make when reporting their CSR activities. The study checked if the factors it studied had a significant effect on CSR disclosure by looking at indicators like the size of the company, its profitability, how long it's been in business, and various aspects of its corporate governance like whether the CEO holds multiple roles, the size of the company's board, whether there's gender diversity on the board, and how independent the board. Additionally, the study considered a couple of control variables, such as the company's size and how much debt it has. This study aimed to find out how specific factors influence the way companies in Sri Lanka disclose their CSR activities, using statistical methods to analyze the data and check for meaningful relationships between these factors.

There haven't been many studies focusing on how certain factors influence a company's decision to disclose their corporate social responsibility (CSR) efforts in Sri Lanka. The existing research on this topic is not clear, and each study uses different methods, leading to conflicting findings.

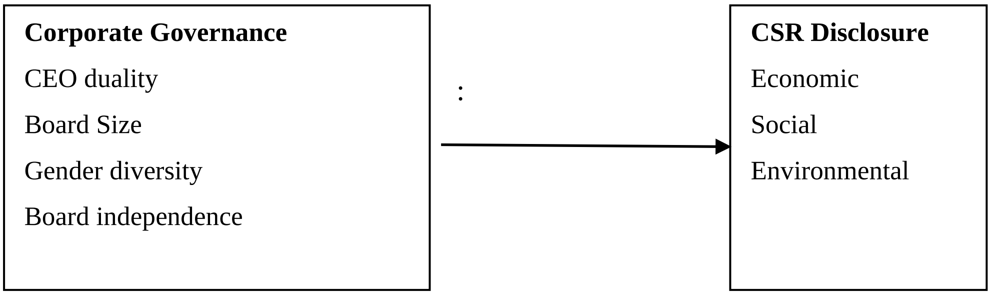
However, others, such as Cheng (2008) and Cheung et al. (2007) established a optimistic link among CG and performance in Asia. More recently, Simons et al. (2024) emphasized that Environmental, Social, and Governance (ESG) considerations have become a key area of investigation globally.

Future research could explore the moderating role of variables such as firm size, industry type, and cultural differences in the relationship between board gender diversity and CSR engagement. Additionally, some of these factors could be included as mediators in empirical models to further clarify the mechanisms influencing CSR practices (Judd et al., 2001).

Author Contributions

The author was fully responsible for the conception and design of the study, including the development of the research framework and hypotheses. Data collection was carried out by the author using secondary data from published annual reports of listed companies in Sri Lanka. The author performed the content analysis and statistical analysis, interpreted the empirical findings, and discussed the results in relation to existing literature. Additionally, the author prepared the initial manuscript, revised it critically for intellectual content, and finalized the paper, ensuring clarity, consistency, and compliance with academic and ethical research standards.

Figures and Tables



Source: Developed by the researcher based on prior literature.
Figure 1: Conceptualization Model of the Study

Table 1: Correlation Analysis

probability	CSR Index	CEO Duality	Board Size	Gender diversity	Board independent
CSR index	1.000				

CEO duality	-0.063	1.000			
	0.207	-----			
Board size	0.061	0.210	1.000		
	0.019	0.000	-----		
Gender diversity	0.009	0.070	-0.001	1.000	
	0.857	0.156	0.974	-----	
Board independence	0.031	-0.126	-0.233	0.095	1.000
	0.028	0.011	0.000	0.056	-----

Source: Eview 10

Table 2: Corporate governance characteristics on CSR

Variable	Coefficient	Std. Error	t-Statistic	ob.
C	0.356710	0.108651	3.283081	0.0011
CEO duality	-0.064834	0.044126	-1.469275	0.1426
Board size	0.014950	0.008945	1.671283	0.0955
Board independent	0.032942	0.059592	0.033013	0.0405
Gender diversity	-0.025176	0.166527	-0.151180	0.0799
R-squ	0.111605	Mean depence var		0.488333
Adj R-squ	0.091596	S.D. depen var		0.417359
S.E. of regre	0.417025	Akaike info criter		1.101082
Sum squ resid	68.69453	Schwarz criter		1.150975
Log likeli	-215.2164	Hannan-Qui criter.		1.120840
F-statistic	1.159480	Durbin-Watson stat		1.760582
Prob(F-statistic)	0.028262			

Source: Eview 10

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