The Influence of Corporate Governance and Corporate Foundations on Corporate Social Responsibility (CSR) Reporting Practices

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Abstract

This study investigates whether corporate governance and corporate foundations have any influence on corporate social responsibility (CSR) reporting practices in the context of a developing country - Mauritius. Data were collected from Mauritian listed companies for the period of 2007-2014. Content analysis was used to assess the extent of CSR reporting. Multivariate regression was used to investigate the three research hypotheses. It was found that firms which contribute to a CSR foundation, generally report a higher level of CSR information provision. Conversely, state ownership has a negative influence on the level of CSR reporting while board independence had no significant influence on CSR reporting. This study contributes to the literature by shedding light on less explored intrinsic drivers of CSR reporting. While the role of extrinsic drivers (e.g. institutional obligations) remains relevant, it is only through an organizational/management commitment to ethical and social issues that substantive embedding of positive managerial attitudes towards CSR and stakeholder will occur.

Keywords: CSR Reporting, Foundations, Boards, Mauritius.

1.0 Introduction

Corporate social responsibility (CSR) has arguably become one of the most prolific areas

of research in business and management (Tarus, 2015), with a particular emphasis on which organisational and extrinsic (i.e. institutional) factors might drive CSR practice, outcomes and effectiveness. As a result, researchers have continued to examine the relevance of a few contributory factors behind the level of CSR reporting (Shabana & Ravlin, 2016). Among the wide range of factors that have been found to influence CSR disclosures are general firm characteristics such as size, profitability and leverage (Rashid, 2018), institutional contexts such as a country's legal, regulatory and cultural systems (Adnan et al, 2018) as well as multiple facets of governance such as the background of executives, ownership structure, board structure/arrangements (Rashid, 2018).

Whilst there remains significant inconsistencies as to the relevance (and direction) of country-level and governance factors (Ali et al., 2017; Kühn et al., 2018) and notable gaps in the literature on the internal, micro or intrinsic 'drivers' of CSR and its reporting (Muller & Kolk, 2010; Shabana & Ravlin, 2016), factors, reflective of deeper levels of engagement and commitment within an organisation, can be very significant drivers of CSR reporting (Shabana & Ravlin, 2016). According to Muller & Kolk (2010), an intrinsic managerial commitment to ethics may be pragmatically and proactively considered to create an inclusive CSR reporting. Paradoxically, there has been scant empirical evidence on these factors, particularly in the context of developing economies which feature different ownership, legal, cultural, state and civil society characteristics relative to developed economies (Ali et al., 2017; Kühn et al., 2018). Relatedly Shabana & Ravlin (2016) call for a greater integration of individual (micro) level analysis of factors in the study of CSR and its reporting at the organisational and institutional levels.

In this study, we respond to these calls by considering the case of a developing country (Mauritius) which experienced relatively rapid and somewhat idiosyncratic developments in corporate governance and CSR (Mahadeo et al., 2011; Mahadeo & Soobaroyen, 2016). These include: (i) the adoption of a stakeholder-led corporate governance code in 2003 (which had

rather loose guidance in relation to CSR reporting); (ii) the establishment of corporate (CSR) foundations by some local companies from 2005 onwards purportedly to structure and enhance their CSR activities, with the increased involvement of employees in corporate social activities; and (iii) the enactment of a mandatory CSR regime in 2009, whereby companies are required to spend a given percentage of their profits on specific CSR activities (known as the CSR levy) or remit it instead to the State as a tax charge. While Mahadeo et al. (2011) investigated the influence of firm level characteristics on CSR disclosure in Mauritius, and Soobaroyen & Mahadeo (2016) analysed the changing discourses in community disclosures from a qualitative perspective, the implications of the above-mentioned intrinsic factors and of governance/board structures for CSR reporting have not been considered. Therefore, we raise the following research questions:

RQ1: To what extent are government ownership and independent board members associated with the level of CSR reporting?

RQ2: Does the establishment of a CSR Foundation foster higher levels of CSR reporting?

The remainder of the paper is structured as follows: section two presents the theoretical framework; section three is a brief literature review and further develops the hypotheses; section four outlines the research design; section five presents the empirical analysis and results and the final section summarises the paper and offers brief conclusions.

2.0 Theoretical framework - Stakeholder Theory

The stakeholder theory assumes that stakeholders have intrinsic rights (for example safe working conditions and fair pay) and that all stakeholders have the right to be treated fairly (Hasnas, 1998, p.32). The normative branch of stakeholder theory, which is based on ethical principles, assumes that businesses have an overriding social responsibility (Hasnas, 1998). Firms will be involved in CSR activities as a firm may believe it is part of its moral responsibility (‘doing what is right’), such as providing safe working conditions, reduction of pollution or

sponsoring community projects. CSR reporting is a reflection of intrinsic motives (Muller & Kolk, 2010) accountable to all stakeholders, and underpinned by organizational values/culture/identity and a management commitment to ethical behaviour.

The managerial branch of stakeholder theory takes the view that stakeholders are to be treated in a rather more instrumental way. In prior studies, in developing countries context, it is found that, the influence of multinational investors and/or buyers has been crucial for local companies, leading to higher levels of CSR reporting by local companies (e.g. Belal & Owen, 2015). Relatedly, the stakeholder salience model (Mitchell et al., 1997) posits that the needs of a stakeholder will be fulfilled depending on the combination of the stakeholder's attributes of power, legitimacy and urgency.

Overall, while we acknowledge the predominance of the instrumental stakeholder approach in the study of CSR reporting practices, we however argue that, CSR reporting could be more broadly conceptualized as a dynamic outcome from a range of multiple intrinsic- and extrinsic-led motivations underlying varying conceptions of the organization-stakeholder relationship While extrinsic motivations (e.g. responding to external pressures) may often lead to an instrumental stakeholder theory-led response mainly in the form of reactive/symbolic types of CSR disclosure (Shabana & Ravlin, 2016; Soobaroyen & Mahadeo, 2016), the increasing importance and relevance attached to social and ethical issues raised by stakeholders (and in particular powerful ones e.g. government) can also heighten managerial and organizational levels of commitment and engagement. Muller & Kolk (2010) argue that intrinsic motivations from a firm are often more prevalent in developing/emerging countries. This is coupled with absent or weak institutional forces leading to a lesser emphasis on extrinsic motives. Such settings would be consistent with an ethical/normative slant to stakeholder engagement and reporting. We therefore contend that the extent, breadth and depth of CSR reporting in developing countries may be the result of a combination of extrinsic and intrinsic-driven motivations, rather than purely arising from an operational response to particular stakeholder and

institutional pressures.

3.0 Literature Review and Hypothesis Development

CSR reporting has received increasing interest from the mainstream accounting research community, and this has resulted in a proliferation in the provision of environmental and social information about companies and their operations (Cho et al., 2015).

Rao & Tilt (2016) examined the association of board diversity and CSR reporting among the top 150 listed companies over a three-year period and found that three of the board diversity attributes (gender, tenure and multiple directorships) and the overall diversity measure have the potential to influence CSR reporting. Habbash (2016), in a study of 267 Saudi Arabian companies reveal that firm size, family ownership, government ownership and firm age improves CSR disclosure, while firm leverage reduces CSR disclosure. In the same vein, Garas & El Massah (2018) examined 147 firms in the Gulf Cooperation Council (GCC) countries and exhibit that internal Corporate Governance (CG) mechanisms, such as board independence, CEO non-duality and the existence of an independent audit committee are positively influencing CSR disclosures. Conversely, Dam and Scholtens (2012) and Brown et al. (2016) report a negative relationship between government ownership and board independence respectively.

Considering the above review, we argue that the results on the nexus between corporate governance mechanisms and CSR is ambiguous and inconclusive. However, albeit the plethora of research conducted, as described above, have mainly focused on CSR and corporate governance nexus in terms of ownership and board characteristics. Velte (2017) noted that political, social and economic environments have a different impact on board composition and levels of CSR reporting and concluded the need for further research on this topic. The role of CSR foundations has grown in importance as CSR becomes institutionalised in Mauritius (Pillay, 2015). This study, therefore, intends to address this research gap by bringing empirical evidence on CSR reporting by those firms which have set up a CSR foundation to carry out their CSR

activities. The choice of corporate foundations as a research topic is commendable for its uniqueness in the CSR field (Rangan et al., 2015). According to Gautier & Pache (2015), albeit their prevalence and uniqueness, corporate foundations are acknowledged but often overlooked mechanism which corporations use to fulfil their social responsibilities. The following subsections present hypotheses adopted in this study.

3.1 Government Ownership

Stakeholder theory advocates that governmental ownership is a key factor among corporate governance mechanisms that influences CSR disclosure, particularly in developing countries. State-ownership (even a minority stake) may reflect motivations that are beyond the narrow profit maximisation perspective and can be linked to a range of national interest, political and social goals (Haniffa & Cooke, 2005; Ali et al., 2017). At the same time, 'being in sync with the government is important for survival' (Amran & Devi, 2008), particularly in light of the political concerns in Mauritius about the reluctance of businesses to contribute to social causes and eventually, the resulting decision to impose a CSR levy in 2009 (Mahadeo & Soobaroyen, 2016). As a result, companies that are partly or substantially owned by the state tend to be more politically sensitive than other businesses causing them to engage and disclose socially responsible activities as a result of pressure from their government owners. Furthermore, companies are in receipt of public funds and state guarantees, and generally attract more attention from public and the political elite (Ghazali, 2007).

Therefore, considering the stakeholder salience perspective, state ownership reflects an element of power, legitimacy and arguably urgency in the context of the implications of CSR for business in general. Consequently, state ownership may be associated with a greater extent of CSR disclosures (Said et al., 2009). Prior studies in the developing economy context highlight a positive association between government ownership and CSR disclosure (Esa & Zahari, 2016; Habbash, 2016) although this has not been validated widely (Ali et al., 2017; Adnan et al., 2018;

Sahasranamam et al., 2019). Our discussion leads to the following hypothesis:

Hypothesis 1: There is a positive association between government ownership and the extent of CSR reporting.

3.2 Board Independence

Board independence is another aspect of corporate governance which has received increasing attention expeditiously for its relevance. From a stakeholder theory perspective, the board independence can be seen as a strategy to ensure the interests of a wide range of stakeholders are taken into account in executive decision-making. Independent directors are often called on to fulfil an advisory role and to help mediate interactions between the organisation's different shareholders and stakeholders (Haniffa & Cooke, 2005). It has also been argued that independent directors care about their reputations and therefore should be more mindful of corporate social responsibilities (Cheng & Courteney, 2006), with a concurrent interest in the provision of information to a broad range of stakeholders (Michelon & Parbonetti, 2012; Haniffa & Cooke, 2005; Barakat et al., 2015). Relatedly, a survey of independent directors in Australia showed that they play an active role in ensuring that the business meets its social responsibilities (Brooks et al., 2009). In a similar vein, the Mauritius corporate governance code (2003 and 2016 versions) highlighted the responsibility of boards and independent directors in terms of evaluating the impact of the company's operations on society and reporting on its CSR activities.

Even if most prior studies largely support a positive association between board independence and CSR disclosure (Ntim & Soobaroyen, 2013), the available empirical evidence is inconsistent. A few studies (Haniffa & Cooke, 2005; Sundarasen et al., 2016) indicate a negative effect of board independence on CSR disclosure while Barakat et al. (2015) and Habbash (2016) find an insignificant association. It is also argued that the extent to which board independence can positively influence CSR disclosure is dependent on the legal system in place,

their experience/expertise and their actual ability to exercise this independence in the best of interests of stakeholders (Mahadeo and Soobaroyen, 2016). Our above discussion leads to the following hypothesis:

Hypothesis 2: There is a positive association between board independence and the extent of CSR reporting.

3.3 CSR Foundations

The advent of a global rise of philanthropy coupled with the strong growth of foundations in many countries have drawn the attention of academics towards charitable foundations (Anheir, 2018). While some firms organise their corporate philanthropy internally, others establish a corporate foundation to formalise their corporate philanthropy with a long-term commitment. A CSR foundation is "*...established by corporations to signal their stakeholders and the public at large their commitment to a high level of corporate social responsibility*" (Fleishman-Hillard, 2007:4). Such an entity may be directly involved in implementing and managing social projects on behalf of the company and/or act in a grant-making capacity to finance the work of other social organisations. Typically, a foundation operates (or is seen to operate) at arm's length from the business that are financing the foundation's charitable activities (Mincuillo & Pedrini, 2015).

Following the implementation of the CSR levy in Mauritius in 2009 (Sannassee et al., 2017), companies generating a CSR levy fund of more than 2 million Mauritian Rupees (approximately USD 60,000) were permitted to set up a 'Special Purpose Vehicle' - often termed as a 'foundation' to implement its CSR projects. However, with a number of listed companies setting up foundations since 2005, we argue that CSR activities in Mauritius have evolved not only as a result of institutional pressures and events (e.g. corporate governance requirements, social unrest in 1999, CSR levy e.g. refer to Mahadeo et al., 2011; Soobaroyen & Mahadeo, 2016) but also as a result of a gradual embedding of a proactive, ethical and longer term approach to addressing social issues (Sannassee et al., 2017). These discourses reflect a higher adherence

to intrinsic attitudes and motivations about the role of business in local society that appears to have gradually developed over time. Therefore, we contend that the establishment of a CSR foundation can be seen as a material representation of this intrinsic motivation arising from a managerial commitment to deeply and pro-actively engage (Henriques & Sadorsky, 1999) with the 'stakeholder-organisation' environment and help determine expectations and issues to be addressed. In turn, this implies that there would be a greater level of accountability and reporting arising from the normative approach to CSR.

Herlin & Pedersen (2013) advanced that a corporate foundation can promote the relationship of the company to stakeholders. More recently, a study conducted by Abukari & Abdul-Hamid (2018) to look at CSR reporting in the telecommunications sector in Ghana, found that two of these telecommunications companies, MTN Ghana and Vodafone Ghana have "Foundations" to promote their CSR contributions in the areas they operate so as to coordinate their social investment they embark on and depict their intention to effectuate their social investment competently. Similar results were found in studies conducted by Tang & Li (2009), Hinson & Kodua (2012), Dashwood & Pupulampu (2010) who in their respective studies also found that companies established "Foundations" to coordinate their social investment. Our above discussion thus leads to the following hypothesis:

Hypothesis 3: There is a positive association between companies channelling their CSR funds via a CSR foundation and the extent of CSR reporting.

4. Research Design

4.1 Sample

The sample selected for the study comprises companies listed on the Stock Exchange of Mauritius (SEM) over the period 2007-2014. There are 41 companies listed on the SEM. The whole population of companies was chosen for this study. The period starting from 2007 was chosen to allow firms enough time to implement the provisions of the code which requires firms

to adopt ‘Integrated Sustainability Reporting’. The maximum number of observations over the eight-year period to 2014 is 326 firm-years. However, on account of missing information, data for only 287 firm-year observations were available. Data on financials, board composition, ownership structure and CSR foundation was collected from annual reports of these companies.

<TABLE 1>

4.2 Variable definitions

4.2.1 Dependent Variable

CSRI, the dependent variable in this study is measured using a checklist of 41 items. A few studies; Mahadeo et al. (2011), Haniffa & Cooke (2005), and Said et al. (2009) were reviewed together with the CSR levy guidelines to initially construct a checklist. In line with the above-mentioned sources, four disclosure themes were considered: Environment, Human Resources, Products & Consumers and Community.

The checklist was then pilot tested on twenty annual reports, half of which were from the pre-legislation and post-legislation periods respectively. In addition, the annual reports of three top performers as per the *PricewaterhouseCoopers Corporate Reporting Awards 2013* were scrutinised to ascertain the type of disclosure practices deemed to be at the high end of disclosure in the local context. Items disclosed in the annual reports but not found in the disclosure index were noted. An item was included in the checklist only if it was disclosed in at least two annual reports.

A dichotomous procedure was adopted whereby an item appearing on the checklist which is disclosed is marked as 1 or otherwise 0. If the same issue is discussed twice, only one mark is allotted as a reiteration of information emphasises quality rather than quantity (Puroshothaman et al. 2000). The CSR Index (CSRI) which serves as a proxy for CSR reporting, for each company is the sum of all items disclosed divided by the maximum allowable score (41). More specifically, the CSR Index for each company is calculated using the following equation:

$$CSRIi = \frac{\sum_{t=1}^{nj} X_{ij}}{n_j}$$

where

$CSRI_i$ = the Corporate Social Responsibility Reporting Index for the ith firm

n_i= the number of items expected for the ith firm, where $n \leq 41$

X_{ij}= 1 if the jth items are disclosed for firm i and 0 otherwise

The total scores (CSRI) are not weighted, thus assuming that all categories of disclosure have the same importance. The majority of studies use unweighted indices as they are of equal relevance to all companies and there is no subjectivity in allocating weights (Marston & Shrives, 1991).

In content analysis, reliability means that the same text must be coded in the same way by different people. Krippendorff (1980) identifies three types of reliability while undertaking content analysis: stability, reproducibility and accuracy. Stability is applicable when the same content is coded several times by the same coder. If results are inconsistent, it may indicate a lack of reliability, particularly if there is only one person involved (Weber, 1990). The second form of reliability relies on reproducibility and is also referred to as inter-rater reliability. This involves assessing the proportion of errors made by various coders. To assess the accuracy of content analysis, the coding results are either compared with a benchmark set by a panel of experts or from previous studies (Milne & Alder, 1999). One way of ensuring reliability in content analysis is to use a single coder who has undergone a sufficient period of training (Milne & Alder, 1999). In this study, a research assistant was hired and was trained by one of the authors who has experience of the coding process. Furthermore, 30 annual reports were read by the same coder over two different periods to ensure accuracy. The results of the coding showed no major discrepancies.

4.2.2 Independent Variables

Independent variables in this study are government ownership, board independence and foundations. Government ownership (GOVOWN) looks at the proportion of shares held by the Government. Board independence (BDIND) represents the proportion of non-executive independent directors to total directors. Foundation (FOUND) is an innovative way for firms to structure their CSR activities.

4.2.3 Control Variables

A few control variables are considered in the analysis. Director ownership (DIROWN), as a control variable, represents the proportion of shares held by directors of a company. Block ownership (BLOCKOWN) is the proportion of shares held by the five largest shareholders of a company. Board size (BDSIZE) is the number of directors sitting on the board of a company. Larger boards are associated with greater monitoring abilities and with broader stakeholder representation, it increases attention towards the environment (Ho & Williams, 2003; Nel et al. 2020). Director education (DIREDU) is the proportion of business educated directors on the board.

4.3 Model specification

The following model is developed to test the relationship between corporate governance practices and CSR reporting (CSRI).

$$CSRI_{it} = \alpha + \beta_1 GOVOWN_{it} + \beta_2 BDIND_{it} + \beta_3 FOUND_{it} + \beta_4 DIROWN_{it} + \beta_5 BLOCKOWN_{it} + \beta_6 BDSIZE_{it} + \beta_7 DIREDU_{it} + \beta_8 SIZE_{it} + \beta_9 PROF_{it-1} + \beta_{10} INDUSTRY_{it} + \beta_{11} REGULATION_{it} + e_{it}$$

where $GOVOWN_{it}$ is the proportion of shares owned by the Government or its investment arm the ith firm at time *t,* $BDIND_{it}$ is the proportion of independent board member to total board members for the ith firm at time *t*, $FOUND_{i,t}$ is is a dichotomous variable representing if a company channels it CSR fund through a foundation for the ith firm at time *t*, $DIROWN_{it}$ is

the proportion of shares held by directors of the ith firm at time t, $BLOCKOWN_{it}$ is the proportion of shares held by the five largest shareholders for the ith firm at time t, $BDSIZE_{it}$ is the number of directors of the ith firm at time t, $DIREDU_{it}$ is the proportion of directors, qualified in accounting/finance/business for the ith firm at time t, $SIZE_{it}$ is the natural logarithm of total assets of the i_{th} firm at time t, $PROF_{it-}1$ is the return on equity (ROE) of the ith firm at time t-1, $INDUSTRY_{it}$ is based on SEM industry classification, REG_{it} is a dichotomous variable which takes value 1 in years CSR is mandatory i.e. 2010-2014, else zero (0) and e_{it} is the error term.

Panel random effects regression has been used to test the three hypotheses after applying Hausman test. The operationalisation of the above dependent, independent and control variables are shown in Table 1.

5. Results

5.1 Descriptive statistics

Table 2 shows the descriptive statistics of the dependent, independent and control variables. The dependent variable (CSRI) has an average of 23% which is similar compared to companies listed on the Dhaka Stock Exchange (Bangladesh) for almost the same time period (Rashid, 2018). The mean value of government ownership is less than 1%, thereby indicating a very low level of ownership by government shareholders. Comparatively, 64% of firms on Bursa Malaysia have government as a substantial government shareholding (Ghazali, 2007). The average board independence is 33% indicating less than half of the sample board of directors are independent. However, lags behind Malaysia and Saudi Arabia on 63% and 52.5% respectively (Said et al., 2009; Habbash, 2016). The proportion of female board members averages 4%. This is fairly low compared to UK FTSE 350 companies or Russian companies where the average is 8% (Arayssi et al. 2016) and 10% (Garanina & Aray, 2020) respectively. On average, 59% of firms rely on a CSR foundation to channel their CSR funds.

Director ownership averages 2.1% in companies, which is low compared to an average

of 20% in Malaysia (Ghazali, 2007). Like many developing economies, blockholding is quite high (average 56%). For instance, Haniffa & Hudaib (2006) report that around 60% of shares are held by blockholders in Malaysia. Board size of companies listed on the SEM varies between 2 and 15, and the average (close to 10) is similar to Australian companies (Rao et al. 2012) and South African ones (Ntim & Soobaroyen, 2013). Lastly, the proportion of directors with business education averages 51%, but with wide variations across sectors.

<TABLE 2>

5.2 Analysis and Discussion

Before performing the statistical analysis, it is necessary to meet the assumptions of statistical analysis, such as multicollinearity and heteroscedasticity. Rashid & Lodh (2008) argue that correlations among independent variables greater than 0.75 are of concern and as such one of these variables must be removed from the regression equation. The correlation matrix (Table 3) reveals that the highest correlation is 0.530, which is well below the guide provided by Rashid & Lodh (2008). Another important assumption of multiple regression is that the variance in residuals has to be constant. The Breusch-Pagan test showed that errors in the models have constant variance.

Table 4 reports the regression results for the whole sample. In the main model (Model 1) the F value of 14.41 is significant at a 1% level, suggesting that the model as a whole can be used to explain the factors associated with CSR reporting in Mauritius. The adjusted R^2 indicates that the model explains around 42% of the variation in CSR reporting in the sampled firms.

<TABLES 3 and 4>

Hypothesis 1 argues there is a positive association between state ownership and the extent of CSR reporting. Results however indicate a negative and significant effect (p=0.061) and therefore hypothesis 1 is not supported. Whilst this finding is in accordance with Dam & Scholtens' (2012) claim that communication with stakeholders is generally poor in state owned companies, there has been far greater support for a positive association.

A few reasons could explain the negative relationship between state ownership and CSR reporting. First, ownership by the state and access to potential levers for control does not necessarily mean that agents of the state will adopt a 'socially minded' perspective in the management of a company's business activities. Prior insights (Mahadeo et al. 2012) suggest that directors nominated by the government (often civil servants seconded to the boards) have limited ability and/or incentive in pursuing particular issues at the board level, unless otherwise instructed by their political masters. In such cases, board members may elect to adopt a precautionary approach and minimise disclosures.

Second, the state of Mauritius invests in strategic areas such as telecommunications, water and electricity. 60% of companies with government shareholdings operate as quasi-monopolies. While it can be argued that entities with state ownership tend to demonstrate that they are operating according to social expectations (Ghazali, 2007) and thus engage in higher levels of CSR reporting (Amran & Devi, 2008), it is contended here that this interpretation may not hold in cases of companies or entities operating in sensitive or quasi-monopoly situations. In this regard, the role of CSR is seen to be less important, thereby leading to a propensity to communicate less CSR information to stakeholders.

Hypothesis 2 posits that the percentage of independent directors (BDIND) is positively associated with the level of reporting. Empirical evidence shows a statistically insignificant ($p=0.201$) but positive association between BDIND and CSR reporting. Hypothesis 2 is therefore not supported. From a stakeholder perspective, independent directors are meant to address the gap between corporate practices and social expectations. However, this does not appear to be the case in Mauritius.

One possible explanation for this insignificant association between board independence and CSR reporting could be the lower average of independent board members of companies listed on the SEM compared to other studies. The average for board independence is 33% for firms on the SEM. The current corporate governance code provides for a minimum of two

independent directors to be appointed. However, compliance with the code has mainly been about following the ‘letter’ rather than the ‘spirit’ of the requirements (Mahadeo et al. 2012). Since independent non-executive directors appear to be largely outnumbered, their contributions to, and influence upon, board decisions is limited. As such, they may well align themselves to most directors and adopt a ‘rubber stamp’ attitude.

The result can be better understood in the context of the research. As explained earlier, due to the smallness of the country, having truly independent directors is difficult. Having competent and independent directors seems to be problematic in Mauritius and Soobaroyen and Mahadeo (2008:244) argue that the appointment of independent directors tends to be ‘more symbolic than substantive’. Mahadeo et al. (2012) argue that the existence of a relatively small and well-connected business elite in Mauritius has precluded the development of a cadre of substantively independent board members. Arguably in this context independent directors cannot fully exercise their role of acting as a ‘check and balance mechanism’ in promoting greater social accountability and transparency. Westphal & Milton (2000) state that independent directors are chosen by other directors. Therefore, the outlook of independent directors may not be different from other directors.

For hypothesis 3, it is found that existence of a foundation to run CSR activities in a company is positively and significantly associated with the extent of CSR reporting (p=0.002). From a stakeholder salience perspective, companies seek to convey a strategic level of commitment to stakeholders through the establishment of more elaborate structures and policies in relation to CSR. According to Mincuillo & Pedrini (2015), the establishment of a Foundation provides the company with the ability to engage in a greater variety of CSR activities and engagement with a diversity of stakeholders, whilst operating (or perceived to be operating) at arm’s length from the company.

Foundations foster strategic alliances with NGOs to implement certain CSR projects as these NGOs have expertise in specific CSR fields (Sannassee et al., 2017). In this way,

collaborating with an NGO enables the patron (foundation/company) to share decision making about the allocation of resources and shows that the foundation is responsive to pertinent issues for stakeholders (Amran et al. 2014). Overall, access and engagement with a variety of CSR activities at an in-depth level leads to a higher level of social accountability and CSR reporting. Distinctively, this study's results provide rare empirical evidence in support of the role of CSR foundations in influencing levels of CSR reporting.

5.3 Robustness Test

A series of tests were conducted to check the model's robustness. In model 2, two control variables were replaced by alternative proxies. Firm size (SIZE) in the original model 1 was is replaced by the natural logarithm of sales revenue. ROE (PROF) which represents profitability is swapped for return on asset (ROA) as an alternative measure of profitability. The results in model 2 are not qualitatively different from model 1. GOVOWN and FOUND maintain their significance in explaining CSR reporting. In Model 3, all control variables were dropped except for REGULATION. The results were not different from model 1.

Given the changes of 2009, it is necessary to verify the stability of the model i.e. whether the same analytical model can be used to explain reporting in both the pre-legislation and post-legislation period. The CUSUM test showed that the results are within tolerable limits. It can therefore be concluded that the coefficients are stable over the whole period.

It has been argued that, if an increase in independent directors increases CSR reporting but the reporting level also attracts independent directors, the two measures are said to be endogenous (Rao et al. 2012) and hence indicative of reverse causality. To examine this, a Block Exogeneity Wald test was conducted. The results show that CSRI does not have a causal effect on any of the corporate governance practices (DIROWN, BLOCKOWN, BDIND, BDSIZE and DIREDU). Since there are no omitted variables bias and the model residuals are normally distributed, it can be argued that there are no obvious estimation issues in the sample (Rao et al.

2012).

6. Summary and Conclusions

This study focused on the potential determinants of CSR reporting in a developing country context. The findings highlight the diverse effects of the hypothesised variables, namely that government ownership and board independence are negatively related to CSR reporting while foundations are found to enhance CSR reporting. The findings contribute to the CSR reporting literature in the following ways. Firstly, we bring to the fore the relevance of intrinsic and micro-drivers (corporate foundations) of CSR reporting, as a result of the material and substantive embedding of organisational and managerial commitments to CSR (Muller & Kolk, 2010; Shabana & Ravlin, 2016). Secondly, we bring evidence that the influence of mainstream corporate governance mechanisms, those relating to the embedding of the views and interests of different stakeholders, is rather mixed. Contrary to prior findings in the developing world (Adnan et al. 2018), state ownership may not be conducive to a higher level of CSR disclosure. The role of independent directors is also noted and possible interpretations are considered about the role of independent directors in developing countries in light of the concept of stakeholder salience.

With respect to the empirical contributions of the paper, the results firstly reveal that state ownership is negatively associated with disclosure, which is at odds with a priori expectations and as observed in other countries. In Mauritius, state ownership in particular industries or sectors or within a particular context may not be necessarily conducive to higher levels of social accountability. Secondly, board independence is significantly but negatively associated with disclosure, and this brings in question the mainstream notion that the independent director is necessarily stakeholder-driven in a context where substantive board independence is in rather short supply. Third, and distinctively, new evidence in relation to the role of CSR foundations as organisational-level drivers of CSR disclosure is shown.

The study's findings have several implications for policy and practice. The significant

increase in disclosures following the introduction of the levy and mandatory CSR disclosure reveals the direct role of regulation in compelling firms to become more transparent in their use of CSR funds.

From a regulator's and practitioner's perspective, the negative association between independent directors and reporting, calls for a deeper appreciation of how to make boards and companies more accountable beyond the traditional calls for 'more' independent directors, whose role appear to be compromised by powerful CEOs and block holders in Mauritius. To this end, it is questionable as to whether a unitary board structure remains appropriate for consideration of societal and stakeholder concerns. Contexts (e.g. Germany and other European countries), a two-tier board structure with a supervisory board composed of a variety of stakeholder representatives (and appointed through a transparent mechanism) could counter-balance the executive and business-mind logic of board directors. Such a change in governance arrangements may also address the issue about the role of state ownership and government nominees on the board in that they would be operating alongside other societal representatives in the supervisory board.

In terms of limitations, it is acknowledged that the variables used may be prone to measurement errors and that the CSR reporting variable focuses on quantity rather than quality. Furthermore, several inferences from the quantitative results can be better considered from a qualitative or case study perspective, and specifically in terms of the mechanisms by which foundations and employees are involved in CSR reporting initiatives. Nonetheless, the findings do highlight several interesting insights for CSR reporting in the developing country context, particularly as more countries seek to encourage the embedding of social objectives in corporate priorities.

Further studies can extend the sample to non-listed companies in Mauritius which have not been researched so far. A cross country study investigating corporate governance practices and CSR reporting in Africa is also welcomed given the paucity of studies in the African region.

While most studies have focused on the direct relationship between, for instance, board size and CSR reporting, little is known about how board practices and ownership structure can indirectly affect CSR reporting.

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Table 1: Variables – Definitions

Panel A: Dependent Variables	
$CSRI_{it}$	is the CSR Index of company i in period t. It is measured using the CSR checklist.
Panel B: Independent Variables	
$GOVOWN_{it}$	is a dichotomous variable which takes value 1 for the presence of Mauritian Government or its investment arm as shareholder, else zero (0).
$BDIND_{it}$	It represents the proportion of independent non-executive directors on the board of company i in period t.
$FOUND_{it}$	is a dichotomous variable which takes value 1 if company i channels its CSR funds through a foundation in period t, else zero (0).
Control Variables	
$DIROWN_{it}$	represents the proportion of shares held by directors of company i in period t.
$BLOCKOWN_{it}$	is the proportion of shares held by the five largest shareholders of company i in period t.
$BDSIZE_{it}$	is the number of directors of company i in period t.
$DIREDU_{it}$	is the proportion of directors, qualified in accounting/finance/business of company i in period t.
$SIZE_{it}$	is the natural logarithm of total assets of company i in period t.
$PROF_{it-1}$	is the return on equity (ROE) of company i in period $_{t-1}$.
$INDUSTRY_{it}$	Industry dummies based on SEM industry classification
REG_{it}	is a dichotomous variable which takes value 1 in years CSR is mandatory i.e. 2010-2014, else zero (0).

Table 2: Descriptive statistics

	Minimum	Maximum	Mean	Median	Std. Dev.
CSRI	0	0.698	0.232	0.232	0.171
GOVOWN	0	25	0.828	0	3.045
BDIND	0	1	0.327	0.3	0.240
FOUND	0	1	0.565	1	0.496
DIROWN	0	36.329	2.025	0.220	5.920
BLOCKOWN	0	100	56.188	59.6	22.647
BDSIZE	2	15	9.543	10	2.538
DIREDU	0	1	0.515	0.556	0.224
SIZE	3.591	9.925	6.622	6.606	0.942
PROF	0.001	8.838	0.088	0.034	0.457
REG	0	1	0.700	1	0.459

Table 3: Pearson's correlation matrix of independent variables

		1	2	3	4	5	6	7	8	9	10
1	GOVOWN	1									
2	BDIND	0.083	1								
3	FOUND	-0.250**	0.040	1							
4	DIROWN	-0.051	-0.042	0.009	1						
5	BLOCKOWN	0.038	-0.186**	-0.010	-0.201**	1					
6	BDSIZE	-0.020	-0.105*	0.384**	-0.058	-0.118*	1				
7	DIREDU	-0.218**	0.023	0.351**	0.530	0.101*	0.098*	1			
8	SIZE	-0.105*	0.094	0.288**	0.075	-0.105*	0.269**	0.251**	1		
9	PROF	0.061	-0.062	-0.098	-0.026	0.137**	-0.067	-0.005	-0.099*	1	
10	REGULATION	0.007	0.224**	0.206**	-0.039	0.054	-0.036	0.159**	0.137**	0.042	1

** Correlation is significant at the 0.01 level (2-tailed) *Correlation is significant at the 0.05 level (2-tailed).

Table 4: Regression results of Corporate Governance and Corporate Foundations on the Corporate Social Responsibility Reporting Index (CSRI)

	Model 1	**Model 2**	**Model 3**
Independent variable			
Intercept	-0.476 (0.000)	-0.483 (0.000)	-0.021 (0.748)
GOVOWN	-0.005 (0.061)*	-0.005 (0.077)*	-0.005 (0.059)*
BDIND	0.048 (0.201)	0.048 (0.200)	0.049 (0.187)
FOUND	0.058 (0.002)***	0.058 (0.002)***	0.077 (0.000)***
DIROWN	-0.002 (0.261)	-0.002 (0.261)	-0.002 (0.263)
BLOCKOWN	0.000 (0.672)	0.000 (0.655)	0.000 (0.665)
BDSIZE	0.010 (0.031)**	0.010 (0.035)**	0.009 (0.043)**
DIREDU	0.033 (0.417)	0.033 (0.415)	0.056 (0.172)
SIZE	0.073 (0.000)***	0.074 (0.000)***	-
PROF	0.005 (0.316)	0.011 (0.255)	-
REGULATION	0.093 (0.000)***	0.092 (0.000)***	0.097 (0.000)***
INDUSTRY	Included	Included	-
F statistic	14.41	14.42	18.700
R^2	0.424	0.424	0.365
Adjusted R^2	0.394	0.394	0.346

Significant (*** at 1% level or less, ** at 5% level or less and * at 10% level or less)