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DOES CORPORATE SOCIAL RESPONSIBILITY INGRAIN IN CORPORATE GOVERNANCE?

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ABSTRACT

This study describes that regulatory bodies' governance mechanisms are the better instrument to incline the listed companies towards more environmentally friendly activities rather than firm profitability and shareholder other demands. This cross-sectional study is based on the annual report of Australian Stock Exchange (ASX) listed firms. To empirically prove the main driving force behind better fulfillment of corporate social responsibility, this study divided the sample of ASX listed firms, i.e., 2,177 firms, into three sectors: financial services, non-financial services, and manufacturing sectors. The corporate social responsibility (CSR) disclosure pattern in ASX-listed firms is first measured through qualitative software NVIVO. This study results proved that a firm with strong corporate governance mechanisms is more responsive towards voluntary activities such as CSR disclosures. Moreover, firms' profitability only influenced CSR activities in non-financial sectors. Therefore, this study concluded that the regulatory governance mechanism is a more vital tool to incline corporations towards voluntary activities. In the end, the practical implication of this research is that the Australian companies having strong corporate governance (C.G.) structures are found more responsible in social and community ethical values. Therefore, implementing a complete C.G. mechanism irrespective of the size and nature of the company would be cause for better CSR activities.

KEYWORDS

Corporate governance; corporate social responsibility; profitability; structural equation modeling; NVIVO.

1. INTRODUCTION

The burning of fossil fuels continuously produces greenhouse gases (i.e., carbon dioxide, methane, and nitrous oxide) that significantly deteriorate the natural environment. Rising temperature, scarcity of fresh, clean water, depletion of the ozone layer, acid rains are the common global environmental challenges caused by the industrial units. The development of industrial units has disrupted the functioning of the earth's natural system. Therefore, environmental protection has become the top of the priority list in all industrialized economies. Moreover, implementing the Kyoto Protocols, which became

effective in February 2005, reducing greenhouse gas (GHG) emissions has become a priority on the strategic agenda of all economies (Aslam et al., 2020; Giannarakis et al., 2020; Haque & Deegan, 2009).

Corporate Social Responsibility (CSR) is now considered an overwhelming issue for business units; the corporation disclosed its positive contribution to society beyond its narrow profit maximization scope. As a result, investors are attracted by the corporations showing profit maximization trends and showing concerns in using green technology, highly ethical value for human resources, and affiliation toward community development programs (Bernal-Conesa et al., 2017). The fast pace of technology has made life easy by providing the facilities. Still, it has also brought some drawbacks, including publicizing the dangerous effect of industrialization on the ecosystem. Managers proactively address more and mere compliance regarding environmental concerns to the investors, regulators, and community. So there is pressure on firms' managers to conduct their business activity in environment-friendly manners by meeting the stakeholders' demands. The concept of CSR has become more complex and detailed over time because the idea of CSR is being acknowledged to make corporations more profitable, more successful, and more sustainable (Janssen et al., 2015).

Corporate Governance (C.G.) is enhanced the meanings of the traditional financial reporting framework and improved due to significant financial shocks to investors like Ansett, Enron, HIH, One. Tel and WorldCom (Brennan, 2001). The company's governing (direction and control) is known as corporate governance. For mitigating the financial crisis, there is a need to implement adequate C.G. structures (Ferrero-Ferrero et al., 2015). Because of this critical situation, almost all countries have developed their corporate governance code. Shareholders are not only the one who is interested in the business activities, but there are many other groups known as stakeholders. For sustainable development purposes, almost all corporations must be accounted for their positive image. Directors play a significant role in enhancing public faith by satisfying the need of all stakeholders. One of the major claims of the community is the welfare of society, referred to as CSR. In addition, some groups are interested in what the companies are doing for the conservation of resources and ecosystem referred to the corporate sustainability. Therefore Directors are expected to play a role in developing policies regarding corporate sustainability (Khan et al., 2013). Due to the separation between ownership (shareholders) and control (management), shareholders cannot monitor day-to-day activities in a better way. Whereas it is the responsibility of the board of directors to act in the best interest of shareholders (Ferrero-Ferrero et al., 2015). Thus, the top management must integrate the interests and concerns of stakeholders into the decision-making process in a decision balance way (Reimer et al., 2018).

Implementation of CSR practices generates some internal and external benefits. Internal benefits like saving in wastage of resources, recycling, high-quality products, and a safer work environment, whereas external benefits like reduction in environmental risk, legitimacy in society, goodwill from stakeholders, increased brand value, and higher prices for products (Sonmez & Yildirim, 2015). Lack of uniformity is found in disclosure practices of CSR. As social and environmental responsibilities are not considered primary responsibilities of the organizational managers, but the stakeholder pressure inclined the company towards a good sense of CSR activities (Holliday et al., 2002). Neoclassical

economics and management theories emphasize that the corporation's objective is to maximize profit in limited available resources. Shareholders are the key respondents in such models who claim themselves to be the ultimate beneficiary as they are providing the necessary financial resources for the operation of the firm (Jensen & Meckling, 1976).

Therefore, this study contributes to the literature as; Firstly, this study strengthens the existing literature which endorsed that CSR is embedded in effective C.G. structures. Second, this study used the Australian Stock Exchange guideline to measure the C.G., which is a compressive model for understanding the quality of C.G. and the disclosures pattern of listed companies in their annual reports.

2. THEORETICAL PERSPECTIVE

Different theoretical perspectives have been used earlier to investigate the CSR phenomena, like agency theory, resource dependency theory, triple bottom line, legitimacy, and stakeholder theory. Moreover, both legitimacy and stakeholder theories are the most widely accepted theories to understand the CSR disclosures pattern of listed companies. For example, legitimacy theory proved the listed companies' inclination towards its society, whereas; stakeholder theory explains how an organization responds to its particular stakeholders (Deegan & Blomquist, 2006; Fernando & Lawrence, 2014).

Legitimacy theory adopts that the engagements of any organization are looked-for and appropriate within the limitation of a pre-determined set of beliefs, norms, and values. Whereas if the organization is failed to legitimize its operation as society expected, it became the cause of the legitimacy gap (Haniffa & Cooke, 2005). The organization used the scarce natural resources of the society on the implied condition that firms are acknowledged their social and environmental responsibility. Therefore the organizations are continuously involved in society, community, and social welfare programs to win their trust. So, to work in this complex business environment, all organizations disclose their voluntary programs to attract their customers and community (Aslam et al., 2018; Guthrie & Parke, 1989; Fernando & Lawrence, 2014). From the above discussion, legitimacy theory can be divided into two main perspectives: strategic legitimacy and institutional legitimacy. Strategic legitimacy theory depicts the philosophy of management how much they considered the community rights, whereas legitimacy theory by the institutional way is the social expectation from the company.

The second theoretical prospect this study used is the stakeholder theory, which elaborates the motivation of the top management to adopt the voluntary activities to satisfy the shareholder interest with other stakeholders. Friedman, in 1970 firstly introduced shareholder primacy where the only objective of the business is to maximize the shareholder interest. Business is governed by the managers but owned by the owners. Therefore, this is managers' fiduciary duty to do their best to maximize shareholder wealth. In contrast, the stakeholder concept has a broader term that considers all stakeholder groups, including the shareholder. Freeman in 1984 also suggested that the management should pay attention to all types of stakeholders to achieve the strategic objectives of the firms. So, the real organization must give importance to all stakeholders' relations, whether concentrating on any single stakeholder group (Freeman, 2010).

Voluntary disclosures of social issues in annual reports become the source of long-term growth and success of the company, which is mainly concerned with different stakeholder groups (Zunker, 2011). C.G. and CSR are the two primary tools used to build a strong relationship with the stakeholders. At the same time, stakeholder powers don't always need to influence corporate managers' behavior to incline their efforts towards society (Chan et al., 2014).

3. LITERATURE REVIEW

Governance means taking responsibility for all the decisions made by the firm and their impact on stakeholders. It's also included legitimizing the action of a corporation. It is difficult to explain the C.G. model by a single definition because it matured with the corporate scandals (Keasey et al., 2005). Corporates reporting are dramatically changed after the inclusion of C.G. and financial scandals. Due to this fact, both C.G. and CSR emphasize the corporation to discharge their duties in the best interest of the public and stakeholders. Furthermore, the main focus of both CSR and C.G. is on creating long-term value for the sustainability and competitive advantage of the business (Jamali et al., 2008).

It has been assumed that C.G. and CSR are parallel to each other. The legitimacy gap between management and shareholders can be reduced by non-executive independent directors that would be considered more favorable for stakeholders regarding CSR issues (Haniffa & Cooke, 2005). Discover the belongings to the culture of C.G. on CSR practices. The culture is measured by the national background of the directors and shareholders. C.G. is the leading cause for the foundation of CSR activities, and C.G. has to be a more focusing area for better disclosures of CSR (Alshareef & Sandhu, 2015). The top management has understood the fact "do good have good," so they reinvest their return in societal activities to earn society's trust by fulfilling the last two faces, namely ethical and philanthropic responsibilities, as mentioned by (Carroll 1979). A number of independent non-executive directors and audit committees were significantly associated with the CSR practices. CEO leadership and expectation of stakeholders were found main driving forces behind the disclosures practices of corporations regarding CSR (Rouf & Abdur, 2011).

Several companies use CSR disclosures for window dressing purposes (claiming to have done all activities while they did nothing or had exaggerated what they did). The Independent audit committee acts as a meditator and checks the authenticity of actions taken by the business for economic and societal well-being. The audit committee and its relation to the audit report are not complex because the presence of the audit committee caused better reporting quality (Alawaqleh & Almasria, 2021). No doubt, the proper functioning of the audit committee improves the quality of reporting, whether financial or non-financial, of triple bottom line reporting and accountability for the society (Zunker, 2011).

Based on the above literature and theories, it is, therefore, hypothesized that:

H1: Strong Corporate Governance leads to better CSR disclosures.

C.G. principles are the core driving mechanism to reduce the agency problem and become the maximization shareholder wealth source. Board of Directors' (BOD) independence and their relevant experience positively influence any business's financial

and operating performance. In a financial crisis, suitable C.G. mechanisms lead to better financial results. In the period of high uncurtaining good governance leads to high profit (Kowalewski, 2016). Whereas Bhagat and Bolton (2019) argued that sometimes C.G. negatively correlated with financial performance (ROA). Compliance with fully C.G., sometimes not systematically inclined with better financial growth (Christensen et al., 2015).

Generally, it is assumed that the adoption of good governance guarantees the credibility of the management reporting. Even with the case of risk and financial reporting, good governed firms are produced more valid and reliable results than others. Implementing good governance practices also reduces the cost of equity by increasing information symmetry, limiting insider dealing/trading, and reducing outside investors' cost of external monitoring (Vitolla et al., 2020). It also enhances the comprehension of shareholders about the future and accrual cash flows of the firm, which improves value efficiency. Hence, it is hypothesized that:

H2: Good Corporate Governance caused for better financial performance.

Typically any listed company has three dominant groups of shareholders; the state (institutional ownership), block holder (having more than 5% shares), and individuals (all the remaining stock other than block holder). Mostly concentrated ownership leads to better financial results whereas, institutional ownership has mixed results. C.G. suggested that there should be a proper disclosure of ownership structure in annual reports, which leads to understanding the nature of listed companies (Wang et al., 2018; Xu & Wang, 1999). Ownership dispersion in listed firms caused the conflict of interest between management and shareholders. Where the C.G. is fully adopted, the ownership dispersion is inclined towards block holders, leading to the investor is keen interest in adopting C.G. principles. Moreover, it is found that C.G. is in full compliance in those listed firms where more ownership is concentrated. So, the ownership does matter to fulfill C.G. principles (Schoenmaker & Schramade, 2019; Shrivastava & Addas, 2014). Based on the preceding literature and theory, this study predicts that:

H3: There is a negative association between quality of corporate governance and shareholder dispersion.

Limited board size, a higher percentage of managerial ownership, and lessor ownership by the block holders caused higher CSR practices in any company (Hussain et al., 2018; Htay et al., 2012). Corporations having less governmental control are significantly associated with environmental sustainability practices (Amran et al., 2014). Corporate voluntarily disclosures are positively associated with the executive ownership of company stock. If the major stock is owned and controlled by the management, they focus on such activity, which improves the organization's image. Shareholders are the leading group in the stakeholder model who can enhance the pressure on the company to report the environmental discourses reporting in the company's annual report. Finally, strategic posture indicators recommend that any organization release its CSR scope in the company's mission statement (Pérez & López, 2017). Voluntary disclosures of social issues in annual reports become the source of the company's long-term growth and success, which is mainly concerned with different stakeholder groups (Zunker, 2011). C.G. and CSR are the two main tools used to build a strong relationship with the stakeholders. Whereas stakeholder

powers don't always need to influence corporate managers' behavior to incline their efforts towards society (Chan et al., 2014). Investors' demand to invest in social and community programs creates pressure on the shoulder of management to be more active towards the society and environment program for the employees and community (Ullmann, 1985). Under the stakeholder theory, the dominant stakeholder is known as the more powerful in demanding the adoption of CSR practices in the company due to the legitimatized power in the shape of concentrated ownership structures. So, this study postulates the hypothesis as:

H4: There is a negative association between stakeholder powers and CSR disclosures of listed firms.

The corporate attitude of ASX-listed companies has been studied by using the stakeholder theory by Hussainey et al. 2011. Finally, the company's ROA and environmental performance have a significant positive relation. Sometimes it isn't easy to find some relationship between ownership concentration and financial performance. Companies having government and families (block holders) ownership have a significant impact on the company's financial performance. Whereas, shares are disbursed among a large number of shareholders seems better from a monitoring point of view (Utomo et al., 2020). The economic and financial performance of any organization results from the direct decision on its capital structure (Leite, 2018). Ownership concentration and operational, financial results have contradictory results as some studies have positive effects, whereas others don't have any relation (Al-Ani & Al Kathiri, 2019; Erdogan, 2013). This study hypothesis is as:

H5: There is a negative association between stakeholder dispersion and profitability.

The possible explanation of this may be that companies that perform better have sufficient funds to invest them into CSR activities to gain customer loyalty, thus enhancing their profitability. So, the more they perform such activities, the more they disclose. Investors punish those companies who ignore CSR and favor those responsible socially and ethically (Li et al., 2018; Taliento et al., 2019). Lack of uniformity is found in disclosure practices of CSR, but all found the same positive impact of F.P. on CSR. As social and environmental responsibilities are not considered primary responsibilities of the organization, profitability must incline the company towards a good sense of CSR activities (Holliday et al., 2002). Socially Responsible Investment (SRI) companies attain four advantages: improved corporate image and good relation with stakeholders; better induction and retention of employees; improved managerial and strategic decision making and got the benefit of economies and become better financial returns (Adams & Zutshi, 2004: Kartadjumena & Rodgers, 2019).

CSR and F.P. were highly correlated (Cochran & Wood, 1984; Saha et al., 2020). Authors measured CSR with content analysis. Previous literature examined the CSR practices that belong to different countries and in a different context. The CSR research in Europe and other developed countries has more advanced benchmarks for developing countries. A measure of risk explained a significant portion of changes in CSR among different firms, but financial performance inclined to forecast CSR. This study concludes that companies with low CSR also experience weaker assets return (Cooper & Uzun, 2019).

No correlation or negative correlation was also found between CSR and F.P. by different researchers like (Parvin et al., 2020; Siueia et al., 2019). so we conclude that there is a mixed result of the impact of F.P. on CSR or it is varied from country to country and the culture of their management having the sense of corporate social responsibility or not. Financial sound firms tend to involve more CSR activates, thus disclosing more about them. Hence, those companies who have already achieved a certain level of economic benefit tend to reveal more about CSR activities. Based on the preceding discussion, this study hypothesis that:

H6: Profit oriented companies' leads to disclose more CSR disclosures.

4. RESEARCH METHODOLOGY

After developing hypotheses, the next step in this study is to describe the rationale for the research method used in the study. Furthermore, this section explains the sampling method, source for organizing observations, and variables' measurement. The sample in this study is ASX-listed firms. In this cross-sectional study, the total listed firms in 2014 are 2177 in ten different sectors and having twenty-six different industry groups. Generally, the European countries are consist of developed economies in which there is no issue for the compliance of C.G. and CSR practices. Still, the Australian economy is more reliable, consistent, and less developed than the UK, Germany, and France. So, the Australian economy is more suitable for emerging and developing countries as a benchmark because it is leading in energy and resources and has decent financial and non-financial services sectors. After excluding the two sectors not Applic and Class pen there are reaming 24 industry groups divided firstly into three main groups, i.e., Financial Services and Non-Financial Services and Manufacturing Sector.

The sample of this research is restricted to those firms whose reports are available on their website. At the same time, some annual reports were also downloaded from the ASX website. Financial Sector includes industrial groups (Banks, Diversified Financials, insurance, and Real Estate) with 234 companies. However, outlier and incomplete reports are removed from the sample, and the final sample of the financial sector is 203 companies that are 86.75% of the total companies. The non-Financial sector of this research is consists of industrial groups (Commercial services and supplies, Transportation, Consumer Durables and Apparel, Consumer Services, Media, Software and Services, Telecommunication Services, and utilities) with 346 non-financial companies, while the final sample from the non-financial group is 282 that is 81.50%. Manufacturing Sector contains (Energy, Material, Capital goods, Health Care Equipment, Pharmaceuticals Biotechnology, Food and Staples and Food Beverage and Tobacco) 1284 entities but the final sample of this sector for the empirical analysis is 986 that is 76.79%. The last sector retailing or merchandising (Automobiles components, Retailing, Household Personal Products, Semiconductors, and equipment), is as small as 56. The reliability of any statistical results can be reduced due to the small sample size; that is why the retailing sector is not considered for empirical analysis because Amos cannot give reliable results for a sample less than 200. Finally, this study considered three sectors for empirical analysis: 1- Financial Services; 2- Non-Financial Services and 3- Manufacturing.

Corporate social responsibility disclosure measurement: CSR data can be gathered from many sources, such as reputation indices and survey methods. The most suitable way to know the CSR initiatives of listed firms is through their publicly available reports. However, the survey method is a time-consuming and costly activity. So, this study uses the most reliable technique among all approaches: content analysis from secondary data annual reports using well-known qualitative software NVIVO. Reliability and validity are a matter of discussion in content analysis, but this limitation is first checked and overcome to take the CSR dimension from the study (Chan et al., 2014). The one internal CSR dimension (Employees disclosure) and two external dimensions of CSR (Environment and Community) are used in this study. The all the themes and nodes used to measure the CSR in this study are adapted from the study of (Aslam et al., 2018a; Chan et al., 2014). This study has no language and cultural issues due to the earlier use of CSR themes in the same country.

Corporate governance measurement: This study's four main C.G. variables are BOD, Audit Committee, Nomination Committee, and Compensation and Remuneration Committee. These variables can also be measured by the indexing method. The score of each construct is transforming into dichotomous variables. Annexure 1 depicted the criteria and score of each corporate governance indicator prepared with the help of Australian Stock Exchange Council guidelines. Several earlier studies also consider C.G. by this scoring method like (James-Overheu & Cotter, 2009; Zunker, 2011).

This research's other two main constructs are *Return on Assets* (ROA) and stakeholder power S_P. Several researchers previously used return on Assets (ROA) to measure organizational financial performance. Besides, the ROA not only reports the profitability trend but also exposes how firms efficiently use their assets. The last construct of the study is S_P which is measured by the percentage of ordinary shares not owned by the block holders (all the remaining shares except the shareholders having more than 5% shares).

5. DATA ANALYSIS

The analysis of this study is divided into two main parts. First, some fundamental analyses are carried out to know the data normality, linearity, detection of outliers, and multicollinearity among the dependents and independent variables of this study by using SPSS software. Second, the validity and reliability of the construct are measured with the STAT tool kit because AMOS 19 is unable to measure the validity and reliability of the constructs. Therefore, AMOS uses the two-step Structural Equation Modeling (SEM) technique to answer this study's research questions.

Confirmatory Factor Analysis (CFA) is used to find the correlation between dependent and independent variables. The variable and their indicators measure the measurement Model in CFA by SEM. In the measurement model, indicator reliability is assessed through indicator loading named in AMOS as standardized regression weight. The minimum standard for indicator loading is .45 is suggested by (Hair 2006). All the indicators value in the first model, i.e., Financial Sector, is greater than the standard value (.654 to .854). In model number two, the factor loading values (.675 to .871) of the Manufacturing Sector are above the criteria value. In the third sector, Non-Financial, all the indicators factor loadings are (.719 to .875) shown above as per threshold. Moreover, the other two

constructs, Profitability and Stakeholders Powers, have a single indicator, so factor loading of a single indicator is neither required nor given by the Amos output. All the above values are depicted in Table 1.

Table 1
Internal Consistency

Construct	Indicators	Standardized Regression Weight		
		Financial	**Manufacturing**	**Non-Financial**
Corporate Social Responsibility	Environment_D	.654	.684	.719
	Employees_D	.828	.760	.841
	Community_D	.676	.675	.739
Corporate Governance	Board_C	.836	.684	.744
	Audit_C	.819	.815	.875
	Remuneration_C	.854	.871	.852
	Nomination_C	.742	.765	.742
Profitability	ROA	Single Factor		
Stakeholders Power	S_P	Single Factor		

After examining each construct's factor loading, the next step is to check the reliability and validity of constructs. Table 2 shows the value of these assumptions. Without fulfilling the assumption of reliability and validity of the model, the SEM result cannot be considered fit.

In Table 2, the internal consistency of the construct is measured through C.R. The threshold value for C.R. is > 0.70, and all the values of CSR and C.G. in each model of the study have not violated the assumption of C.R. One of the other conservative and old measures to know the internal consistency is Cronbach Alpha. The acceptable value for Cronbach Alpha is also > 0.70. All the models of this study have the Cronbach Alpha value greater than the standard value. The convergent validity of the constructs is measured by AVE. The standard of AVE is > .50, which shows that an indicator correlates positively with other indicators of the same construct. AVE is also explained to which extent latent construct converges in underlying indicators by explaining their variance. Also, all the AVE values in the third model of this study did not violate the standard value.

Discriminant validity of construct is measured by three most appropriate methods, i.e., Cross Loading, Fronell-Larcker Criterion, and Heterotrait-Monotrait Ratio of Correlations (HTMT). The core object of measuring the discriminant validity is to know which level a construct is really different from the other construct. Fronell-Larcker Criterion calculates discriminant validity in this study. All the bold values in DV columns of C.G. and CSR in all the study models clearly show that each construct of the study is different from the other.

Table 2
Measurement Model for Reliability and Validity

CFA Models	Composite Reliability (C.R.)		Average Variance Extracted (AVE)		Cronbach Alpha α		Discriminant Validity (DV)	
	CSR	CG	CSR	CG	CSR	CG	CSR	CG
Financial	.771	.887	.530	.662	.772	.867	.728	.814
Manufacturing	.750	.866	.501	.619	.751	.848	.708	.787
Non-Financial	.811	.880	.590	.649	.841	.862	.768	.806

The model complexity is measured by normed X2. The summary of model fit indices is shown in Table 3. The value of normed chi-square values (3.232, 3.674, and 2.621) respectively for models 1, 2, and 3. The values of normed chi-square in all the sectors are under the upper limit and do not violate the threshold value for normed chi-square that is 5 (Gulla & Purohit, 2013).

The observed covariance matrix and the model of estimated covariance are examined through SRMR. The value of SRMR directly correlated with the high number of indicators and the sample size (Hooper et al., 2008). The good fit value for SRMR is less than 0.05, as recommended by (Hu & Bentler, 1999). All the value of SRMR in this study is considered a good fit. RMSEA is also similar to SRMR, whereas RMSEA is considered as one of the best-fit indices due to its ability to measure the model complexity and the size of the sample in its calculation (Hair et al., 2010). Many indices are used to know the incremental fit indices like Normed Fit Indices (NFI), Tucker-Lewis Index (TLI), Comparative Fit Index (CFI), Goodness-of-fit (GFI), and Adjusted Goodness-of-fit (AGFI). But GFI and AGFI are considered the most fit indices to know how much the hypothesized model is fitted with its sample data by matching it with some alternative baseline model (Hair et al., 2010). R2, GFI, and AGFI are conceptually identical (Blunch, 2015). All the values of GFI and AGFI are under the criteria value as given by (Gulla & Purohit, 2013). Measurement models out of all three sectors of this study are given in Annexures 2, 3, and 4.

Structural Model: After evaluating the measurement model, the next step is to assess the relationship between constructs, which can be done through the structural model in SEM. CB-SEM results also predict the model fitness and show that hypothesized model and data of the study are similar. In this step, results are based on the difference between two covariance matrices: chi-square statistic and other fit indices. The structural model is applied to all three models of the study to assess the consistency between the measurement model results and the structural model. Structural model results are evaluated by structural path (t-value). This study is considered 1%, 5% and 10% level of statistical significance for the acceptance and rejection of hypotheses. Moreover, the fitness indices of financial, manufacturing and non-financial sectors' empirical results can be understood with the help of Table 4.

Table 4
Summary of Fit Indices

Fit Indices	Financial	Manufacturing	Non-Financial	Threshold
Goodness-of-Fit (GFI)	.943	.981	.938	Fit > 0.90
Adjusted Goodness-of-Fit (AGFI)	.889	.964	.879	Fit > 0.8
Root-Mean-Square Error of Approximation (RMSE)	.087	.052	.090	Marginal fit < 0.090 Acceptable < 0.080 Good fit < 0.050
Standardized Root Mean Square Residual (SRMR)	.041	.027	.039	Acceptable < 0.080 Good fit < 0.050
Normed Chi-Square (X2/df)	3.131	3.674	2.621	Lower Limit 1.0 Upper Limit 2.0/3.0 or 5

The Amos output of the first model of the study clearly shows that the data is fitted well and does not need any modification or re-specification. Table 4 is shown as a summary of fit indices of all study models. The result of the path analysis shows that H1 is accepted at the level of 1%, proving that corporate social responsibility disclosure is ingrained in the adoption of corporate governance practices. H2 explained that Good Corporate Governance caused better financial performance. The Table 5 results shown that this hypothesis is only proved in the case of the manufacturing section at the level of 10%. H3 predicts that there is a negative association between the quality of corporate governance and shareholder dispersion. In the case of the manufacturing sector, the hypothesis is proved at the level of 1%. In contrast, in case of the financial sector, stakeholder dispersion positively influenced the corporate governance mechanism at the level of 5%. H4 predicts that there is a negative association between stakeholder powers and CSR disclosures of listed firms. The results are significant at the level of 1% in the financial sector and 5% in the case of the manufacturing sector. H5 predicts that there is a negative association between stakeholder dispersion and profitability. The study failed to prove this hypothesis in all study models. H6 explained that profit-oriented companies' leads to disclose more CSR disclosures

Table 5
Regression Weights

Hypotheses	Relationship	Sector	Estimates	S.E	C.R	P values
H1	CG → CSR	Financial	.460	.060	7.666	0.001***
		Manufacturing	.468	.033	14.170	0.001***
		Non-Financial	.430	.051	8.445	0.001***
H2	CG → ROA	Financial	.044	.094	.473	.636
		Manufacturing	.167	.098	1.691	.091*
		Non-Financial	-.115	.077	-1.485	.138
H3	CG → S_P	Financial	16.554	7.222	2.292	.022**
		Manufacturing	-11.240	2.975	-3.778	0.001***
		Non-Financial	.302	4.252	.071	.943
H4	S_P → CSR	Financial	-.003	.000	-6.448	0.001***
		Manufacturing	-.001	.000	-1.991	.047**
		Non-Financial	.000	.001	-.183	.854
H5	S_P → ROA	Financial	.000	.001	.345	.730
		Manufacturing	-.001	.001	-.629	.530
		Non-Financial	.000	.001	-.262	.793
H6	ROA → CSR	Financial	-.007	.028	-.265	.791
		Manufacturing	-.008	.009	-.976	.329
		Non-Financial	.062	.030	2.063	.039**

Note: *p < .10, **p < .05, ***p < .001

6. CONCLUSION

This research assesses whether the strong C.G. structure influenced the CSR disclosures practices of ASX-listed firms or higher the profitability is caused to adopt more CSR practices. Analysis of this research is based on ASX-listed firms but interested in different industry groups' reporting patterns of CSR practices. The first hypothesis of this study state that strong corporate governance leads to better CSR disclosures. All groups of this study have shown the path between C.G. and CSR statistically significant at 1%. The t-value or critical ratios of models (Financial, Manufacturing, and Non-Financial Services) were 7.66, 14.17, and 8.45, respectively. Furthermore, the results indicate that C.G. is a stronger indicator to incline the listed firms to be more environmental, social, and community-oriented, irrespective of their industry group. The results of all models of this study are consistent with (Aslam et al., 2018a; 2018b; Chan et al., 2014; Gibson & O'Donovan, 2007; Rao et al., 2012). Finally, it is proved that the legitimacy theory is more practical than the stakeholder regarding CSR practices among listed firms because the stronger C.G. ensures the adoption of better disclosures policy.

Generally, it is assumed that Family firms are found more conscious about CSR practices than non-family firms.

A sound C.G. structure may achieve successful operational performance. A sound and organized corporate governance mechanism is the core condition required for any corporation to raise its financial performance. H2 stated that there is a positive relationship between C.G. and ROA, and the results are consistent with (Christensen et al., 2015; Makki & Lodhi, 2014). Moreover, the results of the financial and non-financial services sector are not matched with the above literature. Ownership concentration does matter, especially in respect of fulfilling the recommendation of corporate governance structured issued by the regulator authority like ASX council in the case of study related to Australian Stock Exchange. Hypothesis 3 stated that good governance attracted the investors, and more ownership concentration was found where the block holders had more shares. Stakeholder powers and C.G. showed negatively significant at 1% in case of manufacturing sector whereas, in the non-financial sector it is significant at 5% level. So it is concluded that investors select those companies where the governance structure is followed strictly which may cause safer and growing investment.

H4 of this study state ownership dispersion leads to weak CSR disclosures. All the study models have shown a negative relationship between S_P and CSR as the hypothesis proposed. The critical ratios of S_P and CSR are -6.448 (statistically significant at 1%) in the financial sector and -1.991 (significant at 5%) in the Manufacturing sector, while the non-financial services sector has negative path values but is not significant (-.18). So, it is a clear indication that ownership dispersion and CSR have a negative relationship. The result of the study is consistent with (Ho & Wong, 2011; Laidroo, 2009). The result of H4 supports the stakeholder theory as the firms with ownership under the control of few hands lead to be more active in CSR practices as compared to firms with institutional and government ownership.

The hypothesis 5 of this study is to know whether the family firms (where ownership is concentrated among a few shareholders) are the more profitable firms or not. The results of this study in all three models are not accepted. Finally, it is concluded that S_P does not have any relationship with profitability. Profitability is considered as one of the fundamental forces to make the firm environment-oriented. A number of previous studies have proved the relationship between ROA and CSR. Now it is difficult to prove the negative relationship between ROA and CSR. The result of H6 in the non-financial sector is significant at 5% that is a similar finding with (Mahoney et al., 2008; Peters & Mullen, 2009). Whereas, the relationship between ROA and CSR was not found significant in the Financial Services and Manufacturing sector, which are not consistent with the above studies but similar to (Aras et al., 2010). However, it is difficult to check the relationship between ROA and CSR based on one year study. To make the relationship strong and more conclusive between ROA and CSR the study may contain five or ten years of data (Giannarakis et al., 2014).

The results of this study are extended the role of C.G. and its effects on CSR based on the legitimacy theory. Specially, it depicts that CSR is embedded in a good governance structure system. Moreover, the C.G. is not only useful for the firms to consider CSR practices in their strategic goal but also leads to giving more confidence to its shareholders.

All these empirical results have three important implications. Firstly, when the regulatory bodies want to know the practices of the firms toward its environment protection either from an internal prospective or external it can be easily judged through their C.G. Secondly, the ownership concentration is also caused for better environment reporting due to their dominant role in the decision-making. Hence, from the results, the C.G. is found more effective where the ownership is concentrated more in the hand of a few investors. Thirdly, in regard to the interconnection between profitability and CSR, it is not much consistent with the relationship between C.G. and CSR.

There is always space for improvement as this study also has some limitations. Retailing sector in this study is excluded due to its small size. Hence, the empirical analysis results cannot be appropriate for the merchandizing or retailing industry. This research used four constructs. Whereas, only two constructs i.e., C.G. and CSR are measured by more than three indicators. Although, profitability may also have other indicators by which the outcome of the result will become more comprehensive and reliable but this study has used only one indicator for profitability that is ROA. The observing period in this study is consisting of one year. Moreover, the results of this study may become more general if the study period is extended. Commonly secondary data is known to be biased because all listed firms want to report their CSR practices with exaggeration by which the firms will construct a positive image among existing shareholders and the general community. C.G. and CSR are measured by indexing. As the method of index or composite score have some weaknesses that are ignored in this study. Despite the above limitation, the results of this study can be extended more by comparing the ASX results with the other developed countries of Europe that are known very enrich in CSR practices. Now, the relationship between C.G. and CSR is not an interesting area for further research but may be useful if the CSR is measured with the quantitative investment of the listed firms.

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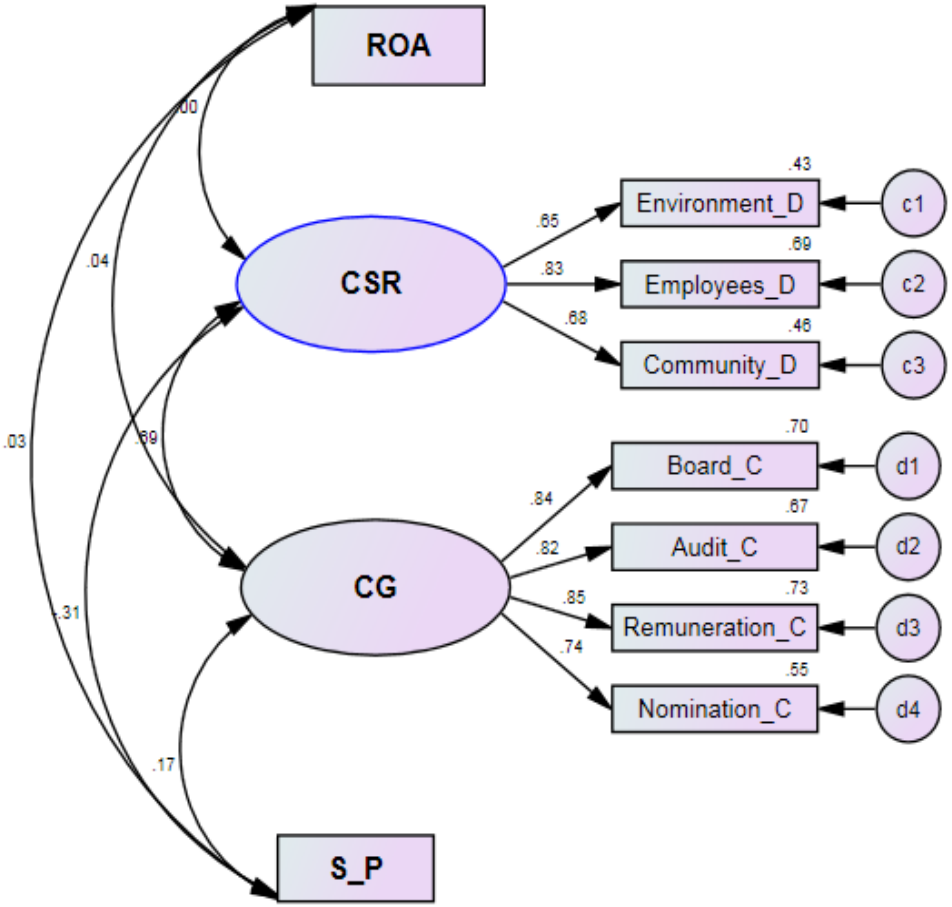
ANNEXURE 1

Measurement of Corporate Governance

S.No.	Corporate Governance Characteristics	Score
Board of Directors		
1.	The annual report contains the statement of corporate governance index	
2.	Board of Directors qualifications are disclosed	
3.	Board of Directors experience are disclosed	
4.	CEO is not the chairman of BOD	
5.	Board Size is ≥ 5	
6.	The majority of the Directors in the board are independent ≥ 0.5	
7.	The number of BOD meetings held in a year is ≥ 6	
8.	The Chairman of BOD is an independent director	
9.	The number of Committees are ≥ 4	
10.	The number of key management is ≥ 7	
Audit and Risk Committee		
1.	Qualification of audit committee directors are C.A., CFA, CP, other professional	
2.	Audit committee size ≥ 3	
3.	The chairman of the audit committee is an independent director	
4.	The majority of the directors in the audit committee are independent ≥ 0.5	
5.	The number of audit committee meetings held in a year is ≥ 4	
6.	Auditors belong to BIG-4 (Deloitte, Ernst Young, KPMG, PricewaterhouseCoopers)	
7.	The audit report is published within 90 days from the date of closing financial year	
Remuneration and Compensation Committee		
1.	Remuneration committee size is ≥ 3	
2.	The Chairman of the Remuneration Committee is an independent director	
3.	The majority of the Directors in the Remuneration Committee are independent ≥ 0.5	
4.	The number of Remuneration committee meetings held in a year is ≥ 3	
Nomination Committee		
1.	The nomination committee size is ≥ 3	
2.	The chairman of the Nomination Committee is an independent director	
3.	The majority of the Directors in the Nomination Committee are independent ≥ 0.5	
4.	The number of Nomination committee meetings held in a year is ≥ 3	

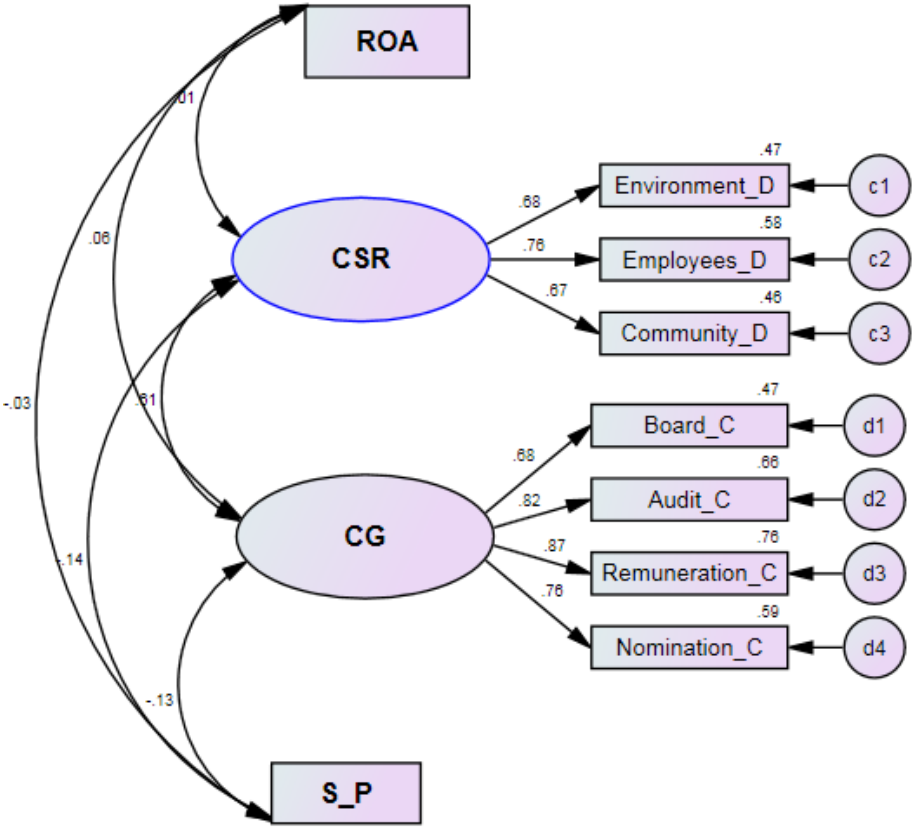
ANNEXURE 2

Measurement Model Output of Financial Sector



ANNEXURE 3

Measurement Model Output of Manufacturing Sector



ANNEXURE 4

Measurement Model Output of Non-Financial Sector