Corporate governance and corporate social responsibility disclosure: evidence from Pakistan

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Abstract

Purpose – *This paper aims to investigate whether there is any change in corporate social responsibility (CSR) disclosure in Pakistani companies after the introduction of CSR voluntary guidelines in 2013 by Securities and Exchange Commission of Pakistan (SECP) and determine the effect of corporate governance (CG) elements on CSR disclosure.*

Design/methodology/approach – *Content analysis was applied to measure CSR disclosure from annual and sustainability reports of 50 companies from eight different sectors from 2010 to 2014. Paired-samples t-test was applied to examine the difference in CSR disclosure. Regression analysis was used to examine the relationships between CG elements and CSR disclosure.*

Findings – *Paired-samples t-test shows an increase in the extent of CSR disclosure after the introduction of CSR voluntary guidelines in 2013. The one-way ANOVA test reveals that the extent of CSR disclosure is different across various sectors. Multiple regression results prove that independent directors, women directors and board size positively affect the extent of CSR disclosure.*

Practical implications – *SECP should enforce medium-sized firms to start producing CSR reports. Voluntary guidelines of 2013 moderately improved CSR reporting. Therefore, enforcement of the SECP rule of independent directors may enhance the extent of CSR disclosure.*

Originality/value – *This study is the first to examine the effect of CSR voluntary guidelines issued by SECP in 2013 and CG elements on CSR disclosure in Pakistan.*

Keywords *Pakistan, Corporate governance, CSR disclosure, CSR guidelines*

Paper type *Research paper*

Introduction

Since the beginning of the twenty-first century, the field of corporate social responsibility (CSR) has shown significant growth around the globe. CSR is not just considered as a social activity, but explicit commitments regarding CSR have been made to the vision, mission, value statements, management structure and processes of the company, so that every social responsibility issue is foreseen and dealt with in a proper way (Shahin and Zairi, 2007). The purpose of CSR is to go beyond profit maximization to include responsibility of company toward multiple stakeholders – investors, customers, community, employees and environment (Gill, 2008; Ofori and Hinson, 2007). CSR reporting has not only increased but its notion has also broadened considerably (Cho *et al.*, 2015; Laidroo and Sokolova, 2015). Transparency is the main reason for organizations to disclose their CSR information (Kolk and Pinske, 2010; Ofori and Hinson, 2007; Qu and Leung 2006). To be more transparent and to meet the needs of stakeholders, companies try to disclose most of the information (Gelb and Strawser, 2001). Managers voluntarily disclose different types of information so as to narrow the information asymmetry between management and shareholders (Ho and Taylor, 2013). Companies with good corporate governance (CG) mechanisms not only promote ethics, transparency and accountability but also keep generating profits (Ruangviset *et al.*, 2014). CSR disclosure can be used as a proxy to assess companies' performance in terms of CSR initiatives (Gelb and Strawser, 2001;

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Turker, 2009) as managers disclose CSR in annual reports to attract investors and manage public relations (Idowu and Papasolomou, 2007; Saleh *et al*., 2010). Because CSR reporting is considered as an important part of CSR, the extent of CSR disclosure by an organization can be considered as its intentions to engage in CSR initiatives.

The key feature of CSR is to acknowledge good practices that are often based on good standards of CG (Welford, 2007). As long as corporate responsibility issues are not integrated into governance structures, companies will not act responsibly (Spitzeck, 2009). CG and CSR are considered as two sides of the same coin (Bhimani and Soonawalla, 2005). Both emphasize that corporations should disclose their responsibilities and duties to stakeholders (Jamali *et al*., 2008). Earlier research shows the positive relationship of CG with CSR disclosure (Cormier and Magnan, 2014; Jo and Harjoto, 2012; Li and Zhang, 2010; Kolk and Pinske, 2010; Stuebs and Sun, 2015). CG scholars (Bird, 2001; Jamali *et al*., 2008; Manville and Ober, 2003) suggest the integration of responsibility issues into governance systems. The quality of CG enhances investor confidence, provides easier access to finance and lowers cost of capital (Peters *et al*., 2011).

CSR is associated with voluntary initiatives that offer flexibility for innovative responses. To make these responses realized, policymakers recognize that CSR needs to be underpinned by an appropriate legal framework (Williamson and Lynch-Wood, 2008). In this regard, regulatory bodies and policymakers should consider the need to formulate CSR disclosure requirements that are beneficial to stakeholders. Such disclosures may be used by regulatory bodies to measure and rank social performance of corporate entities. Companies may use the disclosure to measure success of their CSR policy and to attract potential investors (Saleh *et al*., 2010). The response of companies to social pressure becomes fundamental to achieve social legitimacy, social acceptance and prestige (Vurro and Perrini, 2011). Therefore, many countries issued guidance documents regarding good governance practices, for example, Austrian Code, Combined Code in UK, German Code, OECD guidelines, Second King Report in South Africa and Silver book in Malaysia. These corporate responsibility recommendations in practice have a considerable impact on responsible corporate conduct (Spitzeck, 2009).

Following the footsteps of advanced countries, Securities and Exchange Commission of Pakistan (SECP) (2013) issued CSR voluntary guidelines. The objective of CSR guidelines is to encourage corporations to align their strategies with responsible business practices. These guidelines induce organizations to have a CSR policy endorsed by the board of directors that reflects their understanding and commitment toward CSR reporting. The purpose of this research is twofold; first, to examine any increase in CSR disclosure after the introduction of CSR voluntary guidelines in 2013 by SECP, and second, to investigate the effect of CG elements on CSR disclosure in Pakistani companies.

Literature review and hypotheses formulation

CSR is a highly significant trend, and progressive firms are taking it very seriously (McManus, 2008). It will remain with us, at least for the foreseeable future and even beyond that (Idowu, 2011). CSR is a moral and ethical movement, whose supporters want higher ethical standards across the board (Robins, 2008). CSR is an area of corporate concern and helps organizations build corporate strategy and corporate reputation (Galbreath, 2006; Papasolomou-Doukakis *et al*., 2005). It provides an opportunity to re-configure competitive position of a firm and develop distinctive and dynamic resources and capabilities (Arendt and Brettel, 2010; Husted and Allen, 2007). It is expected that like quality, CSR will also become a cornerstone of future organizational activities (Castka and Balzarova, 2007).

Good CSR practices are often based on good standards of CG (Welford, 2007). Companies that engage in socially responsible activities provide more informative and extensive disclosures than do firms that are less involved. In this vein, increased disclosure is an indication of socially responsible behavior (Coombs and Holladay, 2013; Gelb and Strawser, 2001). Companies use CSR reporting as corporate communication and marketing instrument to be judged as legitimate by different stakeholders (Nielsen and Thomsen, 2007; Podnar and Golob, 2007). Stakeholders expect that firms will inform them about their activities, covering issues like labor management, human rights, society, environment and product responsibility. Accordingly, firms are required to report their social impact to stakeholders through their CSR reporting (Sutantoputra, 2009).

CSR conformance and company performance are strongly linked, as they are essentially different ends of the same continuum. This will allow CSR reporting to adopt a more comprehensive and integrated approach in considering disclosure issues as part of corporate responsibilities (Bhimani and Soonawalla, 2005). Positive relationship between CG and CSR score implies that firms with strong CG mechanisms are more likely to follow CSR initiatives (Farooq *et al.*, 2015). Voluntary CSR initiatives generate a sustainable mutual benefit to the firm and its social beneficiaries (Gyves and O'Higgins, 2008). Public groups in the field of CSR recommend new guidelines for companies on how to report social information to achieve long-term goals of social welfare while accommodating the business needs of market as well (Gill, 2008). CSR activities cost resources, managerial time and efforts; therefore, companies should evaluate CSR activities (Robins, 2008). Therefore, subsequent discussion develops hypotheses regarding the links of CG elements with CSR disclosure.

Increase in corporate social responsibility reporting

SECP is committed to develop a socially and environmentally responsible corporate sector and is playing a vital role in developing CSR culture in the organizations (Ahmad *et al.*, 2015). SECP introduced CSR voluntary guidelines in 2013 that urge the board of directors to get involved in formulation, adoption and implementation of the CSR policy in their companies. Corporations are more likely to adopt socially responsible business practices under strong state regulations and independent organizational monitoring system (Campbell, 2007). Esa and Ghazali (2012) reported an increase in the extent of CSR disclosure after the introduction of the silver book in the Malaysian Government-owned firms. A similar result was also found by Haji (2013). Therefore, it is expected that after the introduction of the CSR guidelines by SECP, companies in Pakistan will engage in more CSR activities and will disclose more CSR as compared to previous years:

H1. Extent of CSR disclosure has increased after SECP guidelines in 2013.

Corporate social responsibility differences across sectors

CSR strategies adopted by companies in a particular sector differ significantly from other sectors. Some sectors tend to outperform other sectors. The companies from polluting industries – chemical, fertilizer, oil and gas – tend to have a higher extent of CSR disclosure (Gamerschlag *et al.*, 2011). Likewise, consumer and energy supply sectors tend to disclose more CSR information as compared to the service industry. The European firms operating in manufacturing sector have a higher CSR reporting as compared to the other sectors because of extensive commercial, industrial, environmental and regulatory checks (Ho and Taylor, 2007). These companies opt to disclose CSR information to reduce the potential impact of additional regulation, taxes and other negative activities (Gamerschlag *et al.*, 2011). The companies in the financial sector disclose more CSR to show that profit maximization is not a sole purpose of organizations (Giannarakis, 2014). Besides other factors, industrial self-regulations play a crucial role in determining socially responsible behavior of companies (Campbell, 2007):

H2. Extent of CSR disclosure is different across sectors.

Board size

Board size is positively associated with CSR disclosures (Jizi *et al.*, 2014; Said *et al.*, 2009). Because, larger boards exercise better monitoring, leading to wider exchange of innovative ideas and experiences (Esa and Ghazali, 2012; Giannarakis, 2014). A larger board size offers diverse knowledge and expertise that acts to mitigate agency – principal conflict (Haji, 2013):

H3. There is a positive effect of board size on extent of CSR disclosure.

Independent directors

Independent directors advocate the extent of financial reporting to safeguard the shareholders' rights (Petra, 2005). Well-formed boards contribute to promote the interests of all stakeholders and not merely the shareholders (Jizi *et al.*, 2014). Independent directors help reduce the conflicts of interest between the management of the company and stakeholders (Ienciu, 2012). Studies report a positive association of independent directors with the extent of CSR reporting in Bangladesh (Khan, 2010), environmental reporting in Romania (Ienciu, 2012) and voluntary disclosure in Singapore (Cheng and Courtenay, 2006) and Ireland (Donnelly and Mulcahy, 2008). However, some studies could not prove the significant effect of independent directors on CSR disclosure in Malaysian firms (Said *et al.*, 2009; Haji, 2013). Contrary to earlier discussion, Haniffa and Cooke's (2005) study reveals that executive directors report more CSR in Malaysian corporations. It is therefore, believed that boards with a large proportion of independent directors exert more pressure on CSR reporting as they try to integrate CSR into organizational policies:

H4. There is a positive effect of independent directors on the extent of CSR disclosure.

Women directors

The board diversity is associated with high intensity of social performance and CSR disclosure (Ibrahim and Angelidis, 1994; Siciliano, 1996). Board diversity enhances board independence, as individuals from different ethnicity, gender and cultural backgrounds ask questions which might not have been asked by a less diverse board of directors (Carter *et al.*, 2003). Women directors are less economically oriented and more philanthropically driven than male directors (Ibrahim and Angelidis, 1994). Presence of women directors in board increases corporate reputation and CSR ratings (Bear *et al.*, 2010). The organizations with higher proportion of women on boards tend to engage in more charities as compared to the firms having a smaller proportion of women on boards (Williams, 2003). However, a study conducted in Bangladeshi banks could not prove the relationship of women directors with CSR disclosure (Khan, 2010):

H5. There is a positive effect of women directors on extent of CSR disclosure.

Control variables

This research considers firm size, profitability and leverage as control variables. Previous studies indicate positive relationships of firm size, profitability and leverage with the extent of CSR reporting. Research reveals a positive association of firm size with the extent of CSR disclosure (Ghazali, 2007; Haniffa and Cooke, 2005; Husted and Allen, 2007; Ho and Taylor, 2007; Said *et al.*, 2009). The larger firms do more CSR because they have financial resources to afford heavy investments in CSR activities. Large companies are highly visible and visibility motivates them to behave responsibly (Vurro and Perrini, 2011). Additionally, large-sized firms are more sensitive to external market oversight particularly by environmental protection agencies and investigate media (Farooq *et al.*, 2015). Extant literature proves a positive relationship of profitability with CSR reporting (Haniffa and Cooke, 2005; Roberts, 1992; Said *et al.*, 2009; Scott, 2007). Profitable firms are more likely to disclose information to show their contribution to society (Ho and Taylor, 2007). Companies with high leverage tend to disclose more information, as it gives surety to the creditors that management and shareholders are less likely to deny their claim (Ferguson *et al.*, 2002; Naser *et al.*, 2002; Schipper, 1981). A study shows no association between leverage and CSR disclosure (Farooq *et al.*, 2015):

H6. The extent of CSR disclosure is greater for larger firms (*H6a*), highly profitable firms (*H6b*) and firms having high leverage ratio (*H6c*).

Research methodology

Data set

Secondary data were used to analyze the relationships between CG and CSR disclosure. The data were collected from annual and sustainability reports of companies listed on the Karachi Stock Exchange (KSE). Fifty companies were selected from eight major sectors – Chemical, Commercial Bank, Cement, Fertilizer, Textile, Oil and Gas, Power Generation and Distribution and Technology and Communication – on the basis of two conditions. First, a company must be registered with KSE before 2010 as most of the companies started reporting CSR on a separate sustainability format from 2010. Second, a company must have minimum outstanding shares worth Rs. 100m because large-sized firms only produce sustainability reports on regular basis. The study covers the time period from 2010 to 2014.

Research instrument and scoring method

This study used a content analysis method to measure the extent of CSR disclosure in annual and sustainability reports of companies. This is a well-established method that has been used in CSR literature (Jizi *et al.*, 2014; Lanis and Richardson, 2013). An index developed by Khan (2010) was used to measure the extent of CSR disclosure. Minor changes were introduced to make it suitable for Pakistani environment. The index covers seven broader activities of CSR, namely, contribution to the health sector, natural disaster, employee welfare, education sector, product and services, environmental issues and other donations. The purpose of the study is to examine the extent of CSR disclosure and not focus on importance or relevance of a particular activity or item. Hence, equal weight was assigned to each element. These broader activities were divided into 60 sub-activities. If a company reported a particular element in its sustainability report, one was assigned, otherwise it was assigned zero. Total number of items disclosed by that company was used to calculate the extent of CSR disclosure.

Results and discussion

Descriptive statistics for variables are shown in Table I. The level of CSR disclosure in Pakistani companies has increased after the introduction of CSR guidelines. The minimum number of board members has increased from four to seven and the leverage of companies has decreased from 273 per cent in 2013 to 60 per cent and 2014.

This research's *H1* was to investigate whether there is any increase in the CSR disclosure after the introduction of CSR voluntary guidelines. To check this, paired-samples *t*-test was applied on CSR disclosure before and after the 2013 guidelines. The results reveal that the extent of the overall CSR disclosure has significantly increased after the issuance of SECP voluntary guidelines from 58.9 to 62.7 per cent (Table II). This supports *H1* of the study. Gamerschlag *et al.* (2011) argue that companies disclose CSR to reduce the potential impact of additional regulation, taxes and other activities that may negatively affect firm value. The failure to disclose CSR information may result in more occupational safety regulations, higher anti-pollution taxes and consumer boycotts.

The study' *H2* was to examine the difference of CSR disclosure across different sectors. Table III shows the extent of CSR disclosure in different sectors of Pakistan. To test *H2*, one-way ANOVA test was carried out. The result shows that the extent of CSR disclosure is significantly different across different sectors. Some sectors tend to report more CSR as compared to other sectors. The mean scores of all sectors show that CSR reporting is the highest for Oil and Gas (0.72) and the lowest for Textile (0.51) among all the sectors. Most of the Oil and Gas companies involved in exploration are multinationals and follow international standards. The highest CSR disclosure for this sector reflects international environmental compliance. Also, the literature suggests that polluting companies must

Table I Descriptive statistics

	Before 2013	After 2013	Overall
CSR disclosure (%)			
Mean	58.9	62.68	60.79
SD	0.098	0.095	0.095
Minimum	0.43	0.45	0.44
Maximum	0.79	0.81	0.78
Board size			
Mean	8.79	8.82	8.8
SD	2.07	2.03	2.05
Minimum	4	7	4
Maximum	15	15	15
Independent directors			
Mean	0.16	0.22	0.19
SD	0.17	0.16	0.17
Minimum	0	0	0
Maximum	0.75	0.75	0.75
Women directors			
Mean	0.04	0.05	0.04
SD	0.09	0.09	0.09
Minimum	0	0	0
Maximum	0.43	0.43	0.43
Leverage (%)			
Mean	273	60	166
SD	13.03	0.26	10.14
Minimum	0.05	0.08	0.05
Maximum	100	96	100
ROE			
Mean	13.02	13.39	13.21
SD	42.56	22.57	35.84
Minimum	−357.5	−56.46	−357.5
Maximum	127	80.05	127
Total assets (log)			
Mean	10.57	10.67	10.61
SD	0.67	0.70	0.68
Minimum	8.97	9.17	8.97
Maximum	12.11	12.19	12.19
Observations	150	100	250

Table II Paired-samples *t*-test for pre- and post-CSR guidelines

Mean post-CSR guidelines, 2013	Mean pre-CSR guidelines, 2013	Paired differences Mean	SD	SE mean	t-statistics	Significance
62.68%	58.9%	0.03783	0.03363	0.00476	7.955	0.000

Table III Mean CSR disclosure for sectors and ANOVA results

Sector	No. of companies	Mean CSR disclosure	ANOVA result F-statistics	Significance
Commercial bank	9	0.6389	4.785	0.001
Textile	5	0.5125		
Chemical	6	0.5715		
Cement	9	0.5983		
Oil and Gas	6	0.7167		
Fertilizer	6	0.6752		
Power generation & Distribution	5	0.5606		
Technology and Communication	4	0.5288		
Total	50	0.6079		

provide information to show their commitment to environmental problems in the long run (Gamerschlag *et al.*, 2011; Husser *et al.*, 2012). While the textile firms are local and export-oriented, therefore these have been treated preferentially by regulatory bodies to retain export earnings and employment associated with them. Their demands mostly dominate in the policy-making circles and have a strong clout.

Table IV shows the values of correlation coefficients among all the variables. Board size, independent directors, profitability and total assets are positively associated with CSR disclosure. Leverage and women directors have no significant correlation with CSR disclosure. Because the descriptive statistics show that the number of women directors on board is considerably low, the correlation between the two variables is insignificant.

Research model

The following research model was adopted from the studies conducted by Esa and Ghazali (2012) and Khan (2010) to find the relationship between CG elements and CSR disclosure:

$$CSRDI_{it} = \beta_0 + \beta_1 IndNED_{it} + \beta_2 Boardsize_{it} + \beta_3 COMPWD_{it} + \beta_4 STA_{it} + \beta_5 ROE_{it} + \beta_6 Lev_{it} + \beta_7 Year_{it}$$

Where:

CSRDI: CSR disclosure index.

IndNED: Percentage of independent directors to total directors on the board.

Board size: Total number of board directors in the board.

COMPWD: Percentage of women directors to total directors on the board.

STA: Size of firm on the basis of total assets.

Leverage: Total debt to total assets ratio.

Year: 0 If data are from 2010 to 2012, and 1 if data are from 2013 to 2014.

First, pooled regression was applied to the data set to assess whether all the firms under analysis are the same. Durbin–Watson value of 0.17 indicates high chances of autocorrelation in the model. It reflects that the model was not a good fit to the data (Gujarati, 2011). To remove the problem, a more advanced regression method panel estimation technique was applied. To see which regression model is a better fit to the data, Hausman test was applied. The Hausman probability value (0.23) indicates that the random effects model is more appropriate. A multicollinearity test was carried out to check the correlation between two or more independent variables. A high correlation between two or more variables produces the problem of biased estimators (Mendenhall and Reinmuth, 1982). Kennedy (1999) recommended that multicollinearity should not be considered harmful unless value of correlation coefficient exceeds 0.8 or 0.9. Multicollinearity was also checked through variance inflation factor (VIF). Table V shows that VIF of all the independent variables is below 2.

Table IV Correlation matrix

Variables	*1*	*2*	*3*	*4*	*5*	*6*	*7*
1. CSR disclosure	1						
2. Board size	0.67**	1					
3. Women director	−0.11	−0.17**	1				
4. Independent director	0.66**	0.35**	−0.14*	1			
5. Leverage	−0.07	−0.06	−0.06	−0.09	1		
6. Profitability	0.22**	0.16*	0.01	0.12	−0.02	1	
7. Total assets	0.45**	0.29**	−0.11	0.41**	−0.21**	0.03	1

Notes: **Significant at the 0.01 level (two-tailed); *significant at the 0.05 level (two-tailed)

The results reveal that board size exerts a significant positive effect on CSR disclosure. A large number of directors on board brings the experiences of diverse backgrounds that affects the extent of CSR reporting. The result is consistent with earlier studies (Esa and Ghazali, 2012; Jizi *et al.*, 2014; Said *et al.*, 2009). A study conducted in Pakistan also confirms our finding (Majeed *et al.*, 2015). This supports *H3* of the study.

The presence of women directors on board positively affects the extent of CSR disclosure. The firms with more women directors on board tend to report more CSR because women directors are more sensitive toward philanthropic activities (Williams, 2003). Another explanation may be that women directors are more likely to be present in economically successful firms that can afford the heavy investments in philanthropic activities (Ibrahim and Angelidis, 1994). The result is consistent with that of some earlier work (Bear *et al.*, 2010; Williams, 2003).

Independent directors on board exert a positive effect on CSR disclosure. This implies that independent directors have a positive influence on organizations to enhance the extent of CSR disclosure. Independent directors influence voluntary disclosure and promote the interests of not only shareholders but also of other stakeholders (Jizi *et al.*, 2014). Board independence also enhances voluntary CSR disclosure as predicted by agency theory (Donnelly and Mulcahy, 2008). The result is consistent with that of previous studies (Cheng and Courtenay, 2006; Donnelly and Mulcahy, 2008; Esa and Ghazali, 2012; Khan, 2010).

Year is also significant which means that CSR voluntary guidelines do have a positive effect on CSR disclosure in Pakistani companies. This confirms paired-samples *t*-test result of the study. The result is consistent with that of similar studies (Esa and Ghazali, 2012; Haji, 2013).

Control variables, namely, profitability, leverage and total assets, were not found to be significant determinants of CSR disclosure. Insignificant relation of profitability with CSR disclosure is consistent with some earlier studies (Esa and Ghazali, 2012; Richardson and Welker, 2001). Non-significant relation of leverage with CSR disclosure is also consistent with some previous work (Giannarakis, 2014; Ho and Taylor, 2007; Khan, 2010; Reverte, 2009). No relationship of total assets with CSR disclosure is consistent with a recent study (Cho *et al.*, 2015).

Conclusion

This paper examines the extent of CSR disclosure in the context of SECP voluntary guidelines 2013 and the effect of CG elements on CSR disclosure. The effect of SECP voluntary guidelines was examined by applying paired-samples *t*-test. This study concludes that CSR disclosure is different before and after the issuance of guidelines. The mean values show that there is a moderate increase in the extent of CSR disclosure

Table V Regression analysis (panel random effects)

Variables	*Coefficient*	*Standard error*	*t-value*	*Significance*	*VIF*
Constant	0.0089	0.025	0.34	0.726	
Board size	0.0025	0.001	2.51	0.012	1.2
Women directors	0.035	0.017	2.04	0.0421	1.053
Independent directors	0.05	0.01	4.67	0.0000	1.335
Profitability	−0.00001	0.000059	−0.22	0.8250	1.036
Leverage	−0.00018	0.0001	−1.28	0.199	1.065
Total assets	0.0045	0.0025	1.78	0.076	1.293
Years	0.012	0.0023	5.33	0.0000	1.028
R-square	0.933				
Adjusted *R*-square	0.930				
F-statistic (Significance)	335.53 (0.000)				
Durban–Watson statistic	2.165				

from 58.68 to 62.90 per cent. This implies that the CSR reporting culture is evolving in Pakistan and is consistent with a study conducted in top companies of India (Jain and Winner, 2016). It is expected that with the passage of time, the remaining firms will also disclose CSR information in their sustainability reports depending upon social awareness of stakeholders and regulators. The ANOVA test reveals that the extent of CSR disclosure is different across sectors. The Oil and Gas sector discloses the highest information regarding CSR. Gamerschlag *et al.* (2011) argued that companies from polluting industries report more CSR information because they are usually confronted by powerful stakeholders like environmental activists. The Textile industry that contributes around 60 per cent to exports and 70 per cent to overall employment discloses the least CSR information. It seems that this industry enjoys special treatment from regulators because of its vital importance in the national economy.

The relationship between CG elements and CSR disclosure was analyzed by applying the random effects model. The results reveal that board size exerts a significant positive effect on CSR disclosure. The larger boards with diverse experience and backgrounds are more inclined to healthy and positive discussion toward CSR which forces companies to invest more in CSR (Giannarakis, 2014). It is also found that independent directors positively affect CSR disclosure. Independent directors encourage companies to invest in CSR which in return will enhance image of their companies. The study proves a positive effect of women directors on CSR disclosure. Companies having higher women representation tend to disclose more information as compared to companies with less women representation on board of directors. Dummy variable (year) used to represent before and after SECP guidelines was found significant which confirms the results of paired-samples *t*-test. It shows that the extent of CSR disclosure has increased after the guidelines.

This research has important implications for policymakers and researchers. The study suggests that SECP should improve the content of CSR guidelines and encourage medium and small firms also to produce sustainability reports on regular basis. Presently, there are 19 per cent independent directors on board in Pakistan. In this regard, SECP should ensure companies to comply with its rule of having at least 40 per cent independent directors on board. The study found out that women directors are relatively more effective toward CSR disclosure. At present, the representation of women directors is less than 1 per cent; this could be increased by framing a new rule as it has for independent directors. The presence of women directors on board increases charities, philanthropic activities, corporate reputation and CSR ratings of organizations (Bear *et al.*, 2010; Ibrahim and Angelidis, 1994; Williams, 2003). The study reveals a moderate increase (59 to 63 per cent) in CSR disclosure after SECP voluntary guidelines. Because voluntary self-regulations require more time to reach its potential, states may introduce stronger legislation to control corporate activities and to prevent violations of human rights and environmental standards (Robins, 2008; Thirarungrueang, 2013).

This study is not without limitations. The first limitation is the use of the content analysis method to gather data on CSR disclosure which is subject to human error. The second limitation is that the study analyzed the quantitative aspect and ignored the qualitative aspect of CSR disclosure which may yield some biased findings. Results are based on data collected for 50 firms only that regularly publish sustainability reports. Therefore, the small sample size constitutes another limitation.

By combining the quality and quantity aspect of CSR disclosure, future researchers may reveal more appropriate findings regarding the explanatory factors of CSR disclosure (Giannarakis, 2014). Researchers may further improve the results by adopting some qualitative research designs, for instance, interviewing managers and employees to analyze the qualitative aspect of CSR.

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