THE INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING - EVIDENCE FROM MAURITIUS

A Thesis Submitted by

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ABSTRACT

This study investigates the extent to which corporate governance practices impact on Corporate Social Responsibility (CSR) reporting in Mauritius. It is mandatory for all profitable businesses in Mauritius to contribute 2% of their profit towards CSR activities (CSR levy). It is also mandatory for all Public Interest Entities to report their CSR activities in their annual report. The practice of CSR is the norm rather than the exception in Mauritius and the responsibility of 'what' and 'how much' to report on is the Board's responsibility. This study, therefore, aims to answer the following primary question: To what extent do corporate governance practices influence the extent of CSR reporting in Mauritius? In seeking the answer to the overarching research question, the following sub-questions are asked: (1) To what extent are Mauritian companies disclosing CSR? (2) What themes of disclosure are favoured by Mauritian companies? (3) Which corporate governance practices/other factors determine the extent of CSR reporting? (4) To what extent does legislation affect CSR reporting? (5) Do companies undertake more than the minimum required on CSR? (6) What are the determinants of voluntary CSR practices?

The study is conducted using a sample of listed firms on the Stock Exchange of Mauritius (SEM) over a period of eight years (2007-2014). A checklist comprising of 41 items was developed based on four themes: environment, human resource, products and consumers and community. A dichotomous procedure was used whereby an item appearing on the checklist and disclosed in the annual report was given a score of '1' else '0'. The disclosure score for each company based on the checklist was converted into an index (Corporate Social Responsibility Index) which is the

disclosure score divided by the maximum allowable score (41). This index (CSRI) is used as proxy for the extent of CSR reporting. Empirical results show a pattern of reporting different from other countries with the 'environment' being the most disclosed theme. Regarding the determinants of CSR reporting, it was found that board size, board gender diversity, firms which are involved in employee volunteering and firms which contribute funds to a CSR foundation, report more often. Results also show that director ownership, government ownership and board independence have a negative influence on the level of reporting. The study also examines the characteristics of those firms which go beyond the 2% threshold. Results show that firms with a female board presence, firms with the presence of a director with a social qualification, larger firms, manufacturing firms and those firms which channel their funds to a CSR foundation are more likely to over-invest. Conversely, as director ownership increases a firm is less likely to over-invest.

This study makes a number of contributions to the literature. First, the study is carried out using a number of theories and thus contributes to legitimacy, stakeholder and neo-institutional theories showing the suitability of these theories in a period of pure voluntarism as well as in during a period of mandatory CSR. Second, it contributes to the scant number of studies on CSR practices and reporting in Small Island Developing States (SIDS) and from an 'emerging governance' perspective. Third, the study throws light on the contribution of two new determinants of CSR reporting: foundations and employee volunteering. Finally, this is one of the rare studies which investigates the determinants of voluntary CSR in a mandatory CSR setting.

CERTIFICATION OF THESIS

This Thesis is the work of Dineshwar Ramdhony except where otherwise acknowledged. The work is original and has not previously been submitted for any other award, except where acknowledged.

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LIST OF ACRONYMS

BoM	Bank of Mauritius
CG	Corporate Governance
CSR	Corporate Social Responsibility
EO	Equal Opportunity
FDI	Foreign Direct Investment
FRA	Financial Reporting Act
FSC	Financial Services Commission
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
MEF	Mauritius Employers Federation
MIPA	Mauritius Institute of Public Accountants
NCCG	National Code of Corporate Governance
OECD	Organisation for Economic Co-operation and Development
SIDS	Small Island Developing States
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

Chapter 1 Introduction

1.1 Background

In recent times Corporate Social Responsibility (CSR) has emerged from being an 'irrelevant and doubtful idea' to a highly researched topic (Moura-Leite and Padgett, 2011). This growing interest can be attributed to a general agreement that the role of business has widened from just maximising profits for their owners (Friedman, 1962) to also being accountable to other stakeholders. Although maximising investment returns remains the main objective of business, in pursuit of this goal, business has to consider the impact of their actions on the environment and society (Cormier et al. 2011).

Global warming and climate change have contributed to bringing environmental issues into the limelight (Yip et al. 2011). Businesses are seen as the main contributors to environmental harms. This creates valid expectations for companies to act responsibly (Adams and Zutshi, 2004). Companies are also responsible for environmental disasters such as the Exxon Valdez oil spill in 1989 and the BP oil spill in the Gulf of Mexico in 2010 which had serious environmental consequences. Such events have drawn the attention of the public and media to their activities. Now companies worldwide are under public scrutiny to provide an account of the impact of their activities on societies and environment. Financial scandals such as Enron in the United States and HIH in Australia have eroded public confidence in companies. Investors can no longer pay attention solely to the bottom-line figure of profits when making investment decisions.

Investing in developing countries presents further challenges as it is difficult to assess firm-level and country-level risk (Henisz and Zelner, 2010). Furthermore, the evolution of corporate governance arrangements in developing countries is unclear due to the 'co-habitation of different institutional, legal, and ownership traditions and assumptions from more established governance models, brought about by design, colonial heritage, and/or economic and political circumstances' (Mahadeo and Soobaroyen, 2016). Bhasa (2004) contends that an 'emerging governance' model is developing which contains both features of a market-centric governance model (e.g. USA and UK) and a relationship based governance model (e.g. Japan, France and Germany).

Financial statements cannot capture information of a non-financial nature which stakeholders require for decision making. Consequently, companies have increasingly adopted an integrated sustainability reporting approach and are now disclosing social and environmental information in their annual reports in addition to the traditional financial reports. Various terms are used to describe reporting in this area; such as Social Reporting, Environmental Reporting (together these two are known as CSR reporting), Triple Bottom Line Reporting or Sustainability Reporting.

Corporate disclosure practices play a major role in reducing information asymmetry between the firm and stakeholders. It has the power to influence the perception of external stakeholders by providing relevant information to them (Brammer and Pavelin, 2008) and also helps to supervise and control managerial activities (Jizi et al. 2014).

A variety of reasons explain managerial motivations to disclose CSR despite its mainly voluntary nature. Some of them are: to counteract negative media attention (Deegan et al. 2002); to manage a particular stakeholder group (Roberts, 1992); to

improve financial performance (Margolis and Walsh, 2003); to attract talented staff (Adams and Zutshi, 2004) and to improve corporate image (KPMG, 2005). Several reasons might simultaneously motivate a firm's decision to disclose CSR and it would be inappropriate to assume that one motivation dominates others. These motivations are in fact interrelated (Deegan, 2002). Therefore a strong business case to report CSR practices exists. However, companies use CSR reporting mainly to manage favourable impressions of their aims and intentions rather than actions and performances (Hopwood, 2009). Consequently, a number of countries have taken initiatives to move from voluntary CSR reporting to mandatory CSR reporting. For example, France, Denmark, Norway and South Africa have passed legislation which requires firms to disclose their environmental performance (Ioannou and Serafeim, 2014). While the debate was initially centred on CSR reporting, three countries (Mauritius, India and Indonesia) have gone further and imposed a mandatory CSR contribution by firms (CSR levy). This decision attracted much criticism especially in Indonesia where the legality of mandatory CSR was challenged in the Constitutional Court (Waagstein, 2011).

This study aims at investigating the CSR practices and reporting in a small island developing state (SIDS) in the Indian Ocean, namely, Mauritius. While Indonesia requires companies conducting their business activities in the field of natural resources to implement CSR (Waagstein, 2011), the Mauritian government requires from 2009 onwards that all profitable companies must be engaged in CSR through the imposition of a levy of 2% of a company's preceding year profit to be spent in the following year.

A number of studies have linked corporate governance practices with different types of disclosure; such as financial disclosure (Chen and Jaggi, 2000), voluntary

disclosure (Huafang and Jianguo, 2007), and disclosure via public announcements (Laidroo, 2009). Although results of the aforementioned studies are inconclusive, they indicate a possible link between corporate governance practices and disclosure of information. Corporate governance encourages fairness, transparency, ethics and accountability in their dealings while pursuing their objective to maximise profits for shareholders (Jamali et al. 2008). Taking into account the aspirations of society falls under the sphere of CSR. It is the duty of senior management to ensure that the company is conforming to the expectations of the society by undertaking social actions and to account for them accordingly to avoid the risk of a legitimacy gap (Khan et al. 2013a). The board of directors is responsible for the contents of the annual report. Effective governance improves accountability and transparency leading to increased disclosures (Rao et al. 2012). Thus, it is important to examine how the internal governance structure of a firm can impact on CSR practices and disclosure.

1.2 Statement of the Problem and Research Questions

The study of the link between corporate governance and CSR has attracted huge interest from researchers. Despite their unique and localised characteristics, developing countries have adopted an Anglo-American style of corporate governance due to institutional pressures, which may not best suit their context (Khan et al. 2013a). Examining the CG and CSR link in developing countries presents further challenges as family ownership, corruption and political interference are prevalent (Uddin and Choudhury, 2008). Similarly, the Mauritian corporate governance model follows the Anglo-American model meaning that the determinants of CSR reporting may be different from developed countries. The institutionalisation of CSR in Mauritius means

that the determinants of CSR reporting may differ from other developing countries. The central research question of this thesis is:

> ‘To what extent do corporate governance practices influence the extent of CSR reporting in Mauritius?’

To answer the main research question, the following questions are set:

(1) To what extent are Mauritian companies disclosing CSR?

(2) What themes of disclosure are favoured by Mauritian companies?

(3) Which corporate governance practices/other factors determine the extent of CSR reporting?

(4) To what extent does legislation affect CSR reporting?

(5) Do companies undertake more than the minimum required on CSR?

(6) What are the determinants of voluntary CSR practices?

1.3 Research Hypotheses

The above research questions are converted into testable hypotheses. These hypotheses can be categorised into: ownership structure, board practices and other factors which include foundations, employee volunteering and control variables. A summary of these hypotheses is shown in chapter 5.

1.4 Motivations

Mauritius provides an interesting setting to study CSR. With the recent introduction of the CSR levy, firms have the choice of either paying the levy in the form of a tax or using the funds on CSR activities. It remains to be assessed whether firms have increased their engagement with CSR as a result of the levy. The

government has provided guidelines for the spending of CSR funds. It is also mandatory as per the Financial Reporting Act (2004) for Public Interest Entities (PIE) to abide by the National Code of Corporate Governance (2004). The NCCG (2004) requires companies to adopt integrated sustainability reporting but fails to provide guidelines to this effect.

Since companies no longer have the flexibility to spend funds on CSR freely, but rather following government's guidelines, it is expected that CSR practices will differ significantly as a result. An analysis of CSR disclosures in the chosen period (2007-2014) will provide evidence as to whether changing CSR practices have been translated into increased disclosures.

In Anglo-American countries, ownership of firms is widely dispersed and CSR is quasi-mandatory. The prevalence of owner-managed firms in Mauritius implies that firms are less inclined towards CSR (Ghazali, 2007). However, the existence of the CSR levy and mandatory CSR disclosure requirements makes CSR more explicit to business and stakeholders. This brings an up-to-date description of CSR practices and trends in Mauritius.

A review of the CSR reporting literature shows that most empirical studies have been conducted in Europe, Australia and the USA. Even after four decades of research in the field of CSR reporting, researchers have not been able to devise a universal framework or model for explaining the determinants of CSR disclosure. Possible reasons for this situation are mainly the voluntary nature of CSR disclosures and the lack of a comprehensive theory to explain why firms engage in CSR reporting (Gray et al. 1995; Deegan, 2002). It would be dangerous to generalise the findings from developed countries to developing ones as the level of economic development influences CSR practices (Tsang, 1998). Furthermore, cultural and national

differences also influence CSR (Adnan, 2012). In the same vein, Belal and Momin (2009) argue that local economic, social and political factors contribute to shaping corporate attitudes towards CSR reporting practices. It can, therefore, be argued that the context under which CSR reporting takes place is specific for each country and has to be studied within that particular context.

1.5 Significance of the Research

This study devises a framework of determinants which examines the corporate characteristics, ownership structure and board practices which are expected to be significant in explaining the extent of observed CSR reporting. The findings will be of interest to regulators who have an agenda for making disclosure of CG information mandatory in annual reports. No previous Mauritian studies are available as to whether firms are disclosing CSR and what type of information is being disclosed. The findings will show whether the target of legislators has been met. For instance, an overall low level of disclosure could prompt legislators/regulators to issue guidelines for CSR reporting.

The spirit of the legislation requiring a contribution towards CSR for companies is to make them more socially responsible by engaging in activities which will benefit the community. This study will show whether market forces are sufficient to encourage firms to adopt CSR or whether regulation is necessary to induce firms to become more socially responsible. This will contribute to the debate of whether voluntary or mandatory CSR induces better company behaviour. No significant changes from 2009 to other years affected by CSR legislation will imply that firms were already practising CSR and it is business as usual, which highlights that market

forces are sufficient to induce firms to be socially and environmentally responsible. A significant increase in CSR post-2009 onwards will show the importance of regulation for firms to practise and disclose CSR.

Regulators can also benefit from this study when drafting new board governance requirements. The code of corporate governance requires companies to have a minimum of two independent directors. Findings could show whether independent directors play a significant role in enabling a company to discharge its social and environmental obligations. The findings could also help regulators to decide whether the actual minimum requirement is sufficient to engage companies to report on their social responsibilities. The results of this study can guide legislators as to whether the current requirement which makes it mandatory to follow the National Code of Corporate Governance (NCCG, 2004) needs fine tuning.

Turner (2004) argues that a country's poor reputation of CSR disclosures can negatively impact on a country's international competitiveness both in attracting foreign capital and for local companies seeking to invest abroad. Mauritius relies heavily on FDI and foreign investors are increasingly attentive to Socially Responsible Investment (SRI). For instance, more than 10% of assets under management in the USA follow the SRI criteria (Cormier et al. 2011). This study provides information on the extent and trends of disclosures which will be of interest to potential investors. The results can be compared to countries having similar characteristics, like Malaysia, to identify similarities and differences in disclosure practices and determinants of CSR disclosure. Legislators can judge the CSR performance of Mauritian firms compared to their overseas counterparts and take further action if required.

Businesses must operate according to society's norms to avoid the risk of a legitimacy gap. Involvement in CSR is seen as a legitimising tool. It is the duty of top

management to undertake social and environmental actions and to account for them accordingly to avoid a legitimacy gap (Khan et al. 2013). The findings could help companies to plan appropriate board sizes and decide on other board characteristics which will enable the company to discharge its social responsibilities.

1.6 Contributions of the Study

This study contributes to the CSR and corporate governance literature in an 'emerging corporate governance' model. The common characteristics of emerging governance models as explained by Bhasa (2004), fit the Mauritian context such as: domination of the market by a few business groups; families with ancestral property having established themselves as business leaders; transitioning from state ownership to private ownership. Research into emergence governance models is scant (Bhasa, 2004). Therefore, this study provides the opportunity to compare the determinants of CSR reporting of an emerging governance model with other governance models.

This research also contributes to the literature by investigating CSR practices in a Small Island Developing State (SIDS), which has received limited attention from researchers so far. SIDS have special characteristics which make them different from other countries. In general SIDS are very small and as a result, most SIDS are excluded from the global economy and many are not represented at the WTO (UN-OHRLLS, 2013). Many of the SIDS are especially prone to natural disasters such as cyclones, volcanic eruptions or earthquakes. While most countries are more prone than others to being hit by disasters, the associated costs of these disasters are relatively higher due to the small size of the country. These natural disasters lead to higher damage per unit of area and higher per capita costs (Briguglio, 1995). An alarming issue relating to

SIDS is the rise of sea levels, which threatens the survival of low-lying islands (UNOHRLLS, 2013). The environment and natural resources are of vital importance to these countries due to their small size. In several instances SIDS have experienced a total or near depletion of their natural resources. Examples include the depletion of gold for Fiji and manganese for Vanuatu (Briguglio, 1995).

The social responsibility of business is therefore of critical importance to enable SIDS to achieve sustainable development. Furthermore, CSR plays a fundamental role in alleviating poverty in Mauritius (Ragodoo, 2009). An analysis of CSR reporting in Mauritius will show whether firms play their 'social role'. No study has been conducted in such a unique environment whereby a CSR levy exists for all profitable firms and CSR reporting is mandatory for all Public Interest Entities. From a theoretical perspective, this study is carried out using a number of theories. Chen and Roberts (2010) state that using more than one theoretical perspective of CSR reporting enables a better understanding of the relationship between the organisation and society. Using various theories can provide a richer explanation of CSR practices and reporting. This study, therefore, contributes to a number of theories used to explain CSR reporting. The novelty of this study lies in explaining whether in a compulsory context firms are willing to go beyond the mandatory threshold. The CSR levy exists only in a couple of countries. This is probably one of the first studies to investigate the characteristics of firms which exceed the mandatory CSR threshold and also to examine the CSR activities on which these firms spend their discretionary CSR funds. Two new potential determinants of CSR reporting and voluntary CSR practices are also examined, namely foundations which have become increasingly popular since the introduction of the CSR levy and employee volunteering.

1.7 Structure of the Thesis

The remaining chapters are organised as follows. Chapter 2 covers the institutional background of Mauritius. It starts with a brief description of the Mauritian social, economic and political environment. A description of the Mauritian legal system then follows. The financial reporting requirements for various types of firms based on the relevant legislation are discussed. It also includes an explanation of the role of key institutions in the business arena. An overview of corporate governance practices is provided for a better understanding of the Mauritian context.

Chapter 3 discusses the theories underpinning CSR practice and reporting. Similarities and differences between various theories are discussed. The justification for using more than one theoretical approach to explain CSR practices and reporting is explained.

Chapter 4 provides an extensive literature review of CSR reporting studies. It reports empirical findings on themes of CSR disclosure and also findings of prior studies on corporate governance characteristics and their link to CSR reporting. The weaknesses of prior studies are discussed and more importantly, how this study intends to fill a gap in the literature is identified.

Chapter 5 develops hypotheses based on research questions set in chapter 1. These hypotheses are grouped under regulation, corporate governance practices/ other factors and voluntary CSR.

Chapter 6 describes the research methodology which includes sample selection process, data collection and measurement of the dependent and independent variables. It also shows the analytical models to be tested.

Chapter 7 presents the results of the study. The chapter starts with a descriptive analysis of the results of the content analysis. It provides a discussion of CSR practices, trends and patterns over time. The chapter then reports the results of multivariate analysis. This consists of two parts; determinants of CSR reporting and determinants of voluntary CSR practices in a mandatory CSR environment. The main findings are discussed in detail.

Finally, chapter 8 provides the implications of the study, its limitations and scope for future research.

Chapter 2 Institutional Background of Mauritius

2.1 Introduction

To further understand the context of this study, this chapter provides an explanation of the institutional background, laws and major events influencing CSR disclosures in Mauritius. This chapter is important due to the unique Mauritian context of CSR practices and disclosures. Mauritius is a developing small island state. Its economic success stands out in Africa. It is also a well-cited example of the cohabitation of people from various cultures, ethnicities and religions in a peaceful environment.

The chapter begins with an overview of the Mauritian social, economic and political environment. This section helps the reader to understand the reasons for the introduction of the CSR levy. This is followed by a quick overview of the Mauritian legal environment in Section 2.3. In the same section statutory requirements for the preparation and auditing of financial statements are covered. Section 2.4 gives an overview of the CSR levy in Mauritius and other countries. Section 2.5 explains the role of key institutional bodies responsible for accounting and financial regulation in Mauritius. Section 2.6 explains corporate governance practices in Mauritius. Finally, section 2.7 provides a summary of the whole chapter.

2.2 Social, Economic and Political Environment

The Republic of Mauritius is an island located in the Indian Ocean to the east of Madagascar. The land area is 714 square miles with a population of around 1.3 million people (Statistics Mauritius, 2012). There is no record of an indigenous population. The island was first inhabited by the Dutch in 1698 who introduced sugar cane to the island. The French occupied the island between 1721 and 1810, bringing slaves from Africa to cultivate the sugar cane (Meisenhelder, 1997). In 1810 the British took control of the island. Following the abolition of slavery in 1835, indentured labourers from India were brought to work in the sugar cane fields. Mauritius gained independence from England in 1968 and became a republic in 1992.

Hindus (Indian descendant) make up the majority of the population followed by Creole descendants of African slaves (28%) and Muslims (Indian descendant) (17%). Other components of the Mauritian population include the Chinese who came to the country as traders and descendants of European settlers which both account for around 3 to 4% of the population (Carroll, 1994). In 1961 Professor Meade, a Nobel Prize winner predicted a dismal future for Mauritius. The country was heavily dependent on sugar cane which accounted for 93% of the country's exports at the time of independence. In the 1970's the country embarked on a process of economic diversification which was made possible from bumper cane harvests. During these years employment in the manufacturing sector increased from 5% to 20% (Meisenhelder, 1997). However, worsening economic conditions from 1978 caused GDP to decrease by 10% between the years 1980-1982. Inflation reached up to 42% and unemployment rose to 23%.

Several measures were taken to bring the country back on the track of economic progress. Tax rates were reduced, interest rates were liberalised, moderate wage policies were adopted and trade reforms were set in place to promote export-oriented industries and the tourism sector (Joseph and Troester, 2013). These measures were successful. The tourism sector boosted the economy with gross tourism receipts increasing from $42 million to $244 million between the years 1980-1990 (Sacerdoti et al. 2005). The manufacturing sector continued to flourish which helped to reduce unemployment to 2.7% by 1992. The country continued to economically diversify and in the early 1990's an offshore banking sector and a stock exchange were established. In 2000 there was the end of two trade agreements which guaranteed preferential access of Mauritian products to the USA and Europe. Several textile firms closed their doors or relocated to other parts of Sub Saharan Africa to take advantage of AGOA (African Growth and Opportunity Act) opportunities and cheap labour which caused the unemployment rate to increase. Meanwhile, other sectors like financial intermediation and tourism prospered to mitigate the downturn in the sugar and textile sectors. Progressing in its phase of economic diversification, two new pillars emerged; Information and Communication Technologies (ICT) and Sea Food production. Sobhee (2009) attributes the country's resilience against external shocks to successful economic diversification.

Mauritius has a Gross National Income per capita of USD 8,240 and ranks 19th in 'Doing Business' out of 185 economies (Doing Business, 2013). The economy is well diversified and more service-oriented. The sugar sector contributed only a meagre 1.5% to the country's GDP in 2012 (Mauritius Chamber of Commerce and Industry, 2013).

2.3 Legal Environment

The Mauritian legal system is a unique hybrid system merging both civil and common law practices. Being a former colony of the French and subsequently the British, the legal system has been influenced by both and is a combination of the French Napoleonic Code and English common law. The substantive private law is French-inspired, except for company law and bankruptcy law while public and administrative law is based on English common law. This results in instances of confusion when applying and interpreting laws (World Bank, 2004). The next sub-section provides an overview of the financial reporting requirements for major entities in Mauritius based on the Companies Act (2001) and Financial Reporting Act (2004).

This study sources data from annual reports of companies and therefore an understanding of the financial reporting requirements as per the Companies Act 2001 and Financial Reporting Act (FRA) 2004 is informative to the reader and is helpful in determining the sample frame for this study.

2.3.1 Companies Act 2001 and Financial Reporting Act 2004.

The Companies Act 2001 and the Financial Reporting Act 2004 provide the financial reporting frameworks for companies. The Companies Act requires all companies with a turnover in excess of Rs50 million (USD 1.7 million) to prepare financial statements in accordance with IFRS. Companies having a turnover of less than Rs50m have no obligation to prepare financial statements but have to prepare a financial summary which comprises of an income statement and a balance sheet, without notes. The format for preparing a financial summary is laid out in the Ninth Schedule of the Companies Act. The Companies Act requires two directors to sign the

financial statements on behalf of the board not later than 6 months after year-end. With the exception of small private companies, all companies must file audited financial statements with the Registrar of Companies within 28 days of signing. The Financial Reporting Act requires all public interest entities (entities having an annual turnover of greater than Rs200m) to prepare financial statements in full compliance with IFRS. Companies having a turnover of more than Rs50 million must have their accounts examined by an auditor who is registered with the Mauritius Institute of Professional Accountants (MIPA) and approved by the FRC.

Banking and financial institutions face additional financial reporting requirements as prescribed in the Banking Act 2004 and guidelines issued by the Bank of Mauritius. The Guidelines on Public Disclosure of Information sets the minimum disclosure standard banks are required to adopt in their audited financial statements. For instance, they must prepare quarterly financial reports in accordance to IAS 34, Interim Financial Reporting. The Banking Act 2004 requires all banking financial institutions to file IFRS compliant audited annual financial statements with the Bank of Mauritius and publish them within three months of their year-end. In addition to being registered with the MIPA and approved by the FRC, the auditor requires the approval of the Bank of Mauritius. In the approval process, the Bank of Mauritius takes into consideration; experience in audit of financial institutions, independence, resources and quality control. Audit partners must be rotated every five years. In the event an auditor’s services are terminated prior to the end of the term, the approval of the Bank of Mauritius must be sought following justification for the termination.

The reporting requirements of non-banking financial institutions are governed by the Financial Reporting Act 2004, Financial Services Act 2007 and the Companies Act 2001. Financial statements complying with IFRS of these institutions have to be

filed with the Financial Services Commission (FSC) within 6 months of year-end and within 28 days of approval by the board. The financial statements must be audited by an auditor registered with the Mauritius Institute of Professional Accountants (MIPA) and licensed by the Financial Reporting Council (FRC). The FSC reviews the financial statements of non-banking financial institutions and has the power to request clarifications on the financial statements.

The Insurance Act, Financial Services Act, Companies Act 2001 and Financial Reporting Act 2004 provide the financial reporting framework for insurance companies. They are required to file audited financial statements based on IFRS to the FSC within 3 months of the year-end. The auditor has to be registered with the FRC and the FSC uses guidelines to establish whether the auditor is 'fit and proper'. On termination of an audit appointment other than the expiry of term or resignation of the auditor, the FSC must be informed in writing within 15 days. Both FSC and FRC monitor compliance with financial reporting requirements.

The financial reporting requirements of listed companies are contained in the Financial Reporting Act 2004, Companies Act 2001, Financial Services Act 2007, the Securities Act 2005 and listing rules. Financial statements of listed companies must be IFRS compliant and audited based on ISA by a registered and licensed auditor. Interim quarterly reports must be filed with the Stock Exchange of Mauritius (SEM) and the FSC not later than 45 days after the end of the quarter. The quarterly interim reports must also be published in two local newspapers with wide coverage. Where the interim report has not been audited, a statement to that effect must be included and if audited, the audit report must accompany the interim report. Abridged annual financial reports must be filed with the SEM not later than 90 days of the year-end. Annual reports must be filed with the SEM within 90 days.

2.3.2 Background to CSR Legislation

CSR activities of Mauritian firms can be traced back to the days where sugar production used to be the main economic activity.

Table 2.1: Financial Reporting Requirements for Major Entities in Mauritius

Company	**Law and regulation**	**1.Accounting standards 2.Reporting framework 3.Regulators**	**Audit requirements**	**1.Publication 2.Filing 3.Timing**
Listed Companies and companies (turnover > 200m rupee)	Securities Act, Companies Act, Financial Reporting Act	1. Full IFRS 2. For those that are public interest entities, FRC monitors financial reporting 3. FSC	Qualified statutory auditor ISA	1. Publish financial statements, (Consolidated) if group 2. File entity financial statements with registrar of companies 3. Publish quarterly financial Reports
Companies (turnover>50m < 200m rupee)	Companies Act	1. Full IFRS 3. No regulator	Qualified statutory auditor ISA	2. File financial statements with registrar of companies
Banking institutions	Banking Act BoM act Companies Act	1. Full IFRS 3. BoM	Qualified statutory auditor approved by BoM ISA	2. Financial statements filed with the BoM and the registrar of companies. 1. Published in Gazette & website of institution 3. Quarterly financial reports may be unaudited

Insurance Companies	Insurance Act Financial Services Act Companies Act	1. Full IFRS 3. FSC	Qualified statutory auditor approved by BoM ISA	2. Financial statements filed with the FSC and the registrar of companies
State Owned Enterprise (SOE) (First schedule Financial Reporting Act)	Financial Reporting Act Statutory Bodies Act	1. Full IFRS 2. FRC monitors financial reporting	Qualified statutory auditor Approved by the board Approved by the minister ISA	1. Financial statements presented to assembly by minister
Some SOE (Part 1: 2nd Schedule Statutory Bodies Act)	Statutory Bodies Act	1. IPSAS 3. No regulator	Qualified statutory auditor Approved by the board Approved by the minister	1. Financial statements presented to assembly by minister
Some SOE (Part II: 2nd Schedule Statutory Bodies Act)	Statutory Bodies Act	1. FRS issued by FRC 2. Financial Reporting Framework issued by FRC	Qualified statutory auditor Approved by the board Approved by the minister	1. Financial statements presented to assembly by minister
IFRS- International Financial Reporting Standards IPSAS- International Public Sector Accounting Standards FRS- Financial Reporting Standards FRC- Financial Reporting Council ISA- International Standards on Auditing SOE- State Owned Enterprise				

[Source: Adapted from World Bank, 2011]

Sugar estates and factories being the main employer in the country used to provide support to activities in their ‘factory-area’. These support activities termed as philanthropic CSR could range from helping schools to religious donations. These

were made on an ad-hoc basis and could be termed as philanthropic CSR (Soobaroyen and Mahadeo, 2010). A study by the MEF in 2007 found that the majority of businesses are of the view that pursuing economic interest should be balanced with social and environmental responsibility. The study also found that firms were involved in CSR activities on an ad-hoc basis which were not linked to their business operations and strategy. A report by the Joint Economic Council (JEC) in 2007 pointed out the lack of coordination and systematic approach of local firms while engaging in CSR activities which was mainly due to the ad-hoc response (Pineda Escobar, 2010).

Already suffering from the end of two preferential trade agreements at the start of the twenty-first century, the rising price of oil and falling price of sugar made matters worse which undermined the economic situation. Unemployment was on the increase causing those who are disadvantaged to drop further down the social ladder. In its 2007 budget, the government made an appeal by requesting (all) companies to contribute more towards CSR activities.

> 'Most companies, though sensitive to the issue of Corporate Social Responsibility (CSR) do not have structured programmes of support. With the exception of a few companies, CSR is being carried out on an "ad hoc" basis … it is our conviction that there should be a concrete show of solidarity with the weak, the vulnerable and the poor. To this end, a number of firms in the corporate sector have agreed to voluntarily contribute at least 1% of their profits to CSR activities run by them. I make an appeal to companies that can afford it to contribute more.' (Ministry of Finance, 2007).

In its 2008 budget, the finance minister raised the alarm regarding the increasing number of families living in poverty. Changing economic conditions were compelling people living in villages, especially in coastal areas, to return to agriculture. Farming and fishing are the two main activities in which people in coastal communities are involved. Moreover, marine resources can no longer assure a living to those people who depend on them as the lagoon catch is decreasing. Consequently, those who rely on agriculture are facing difficulties to subsist. As such, there is a widening economic gap between those who can take advantage of growing areas of the economy and those who cannot do so for various reasons. Pockets of poverty are mainly found in the northern and eastern parts of the island (IFAD, 2013).

It seems that the request of the government for businesses to contribute more towards CSR was not met. In 2009 the government mandated CSR. Several reasons could explain this step. A lack of coordination in the CSR activities of firms might have resulted in certain areas of CSR being neglected or too many firms focusing on the same areas of CSR. MEF (2007) showed that firms were mainly involved in internal CSR catering for employees while the community received a meagre part of allocated CSR funds. Firms were also blamed for setting CSR departments that employed relatives of owners and thus consumed an important part of their CSR budget.

After the announcement of the CSR levy, the Joint Economic Council (JEC) formed a working group comprising of around 20 CSR managers and other trade associations such as the MEF and AHRIM (Association des Hoteliers et Restaurateurs de L'ile Maurice) to present the private sector's position on mandatory CSR. A joint public-private consultative committee was set up by the Minister of Finance to finalise the guidelines (Pinoda Escobar, 2010). The guidelines for spending CSR funds were

aimed at synchronising CSR activities and at the same time ensuring that the CSR funds benefit the society and more particularly the needy.

In 2009, the government amended Sec 75 of the Financial Reporting Act 2004 requiring all Public Interest Entities (entities having an annual turnover of Rs200 million and above) to adopt the Code of Corporate Governance. Public Interest Entities (PIEs) must also lodge a statement of compliance with the code to the FRC. In the event of non-compliance, the reasons must be stated. Section 8.4 of the Code states that there must be a corporate governance section in the annual report and Section 7 of the code which deals with integrated sustainability reporting requires companies to report (within the annual report) to stakeholders on issues linked to: environment, ethics, health and safety and social issues. This implies that CSR reporting is mandatory for PIEs. However, no reporting guidelines are available in the code. This is admitted in the NCCG (2004): ‘While it may not be possible at this stage to have triple bottom line reporting as part of the code, it should certainly be one of the aspirations.’

2.3.3 Income Tax Act 1995 and Guidelines on CSR Spending

From July 2009 companies have a legal obligation to contribute 2% of their book profits (changed to 2% of chargeable income as from 1 January 2012) towards CSR activities through the creation of a CSR fund (Income Tax act 1995, Sec 50). Annex 1 of guidelines on CSR states that the objectives of the fund are to:

- Encourage companies to manage their own programmes, impacting the intersection of economic with social and environmental development
- Facilitate the contribution of companies to support existing Approved National Programmes implemented by Companies, national agencies or NGOs

- Promote a functional community on NGOs with complementary work plans that are relevant to the national development programme.

Annex II of CSR guidelines details activities authorised for the purpose of utilising CSR funds which include: Socioeconomic Development, Health, Leisure and Sports, Environment, Education and Training, and Catastrophe. From 1 January 2012, companies are required to spend half of the funds in priority areas comprising of the following: social housing, absolute poverty and community empowerment, the welfare of children from vulnerable groups and prevention of non-communicable diseases. Section 4 of Annex I states that companies may use their CSR funds in the following ways: (i) Implement an approved programme by the company; (ii) Finance the project of an approved NGO; (iii) Implement an approved programme under the National Empowerment Foundation; or (iv) Implement projects in collaboration with public sector organisations.

Programmes require the approval of the National CSR committee. The members of the committee are appointed by the Minister and not more than six members drawn from the public sector, private sector and the community. Companies or group of companies having CSR funds totalling more than Rs2 million can create a special purpose vehicle (foundation) to channel their CSR funds (NEF, 2009).

In 2015 changes to the use of CSR funds were announced. The finance minister declared in its budget speech that the previous guidelines for the use of CSR funds were not effective in reducing poverty and the life of those living in poverty. He proposed a direct approach to help those needy families living in ‘cites’ (areas of concentrated low-cost housing built for poor people). Thirty-seven areas were identified and companies were requested to sponsor a particular area. Under the

concept referred to as ‘parrainage’ (sponsor) a company will be involved in the short, medium and long-term development of a ‘cite’.

The ‘Parrainage’ will attempt to achieve the following: improving living conditions generally; raising the level of employment; curbing social ills; ensuring that all children attend school and develop fully their talents; creating sports and leisure facilities; and improving quality of life generally.

Consequently, all guidelines for spending CSR funds were removed. Companies are now free to determine their priorities to spend their CSR funds to fulfil their social responsibility (Ministry of Finance, 2015). A summary of changes in the calculation of the CSR levy and its spending is provided in Table 2.2.

2.4 CSR Levy

2.4.1 Mauritius

The introduction of the CSR levy did not attract much criticism, because of the general feeling that businesses were not contributing enough towards society (Soobaroyen and Mahadeo, 2015). However, the Mauritius Employers Federation (MEF) expressed concerns about the legislation. The MEF claimed that CSR should be voluntary and cannot be governed by legislation; the law is more prone towards community development rather than CSR, which is an all-encompassing concept.

The new law focused solely on external CSR and failed to cater for employees. The MEF believed that enterprises should be free to engage in CSR based on their own priorities and believed the CSR levy is tantamount to a tax. The MEF also criticised the management of projects which were under the responsibility of the governments’ National Corporate Social Responsibility Committee (NCSR). The MEF claimed that

guidelines for approving projects were unclear and questioned the ability of the NCSR to properly coordinate CSR activities. Recipients of CSR funds (e.g. NGOs) were required to be registered which it was claimed would increase their administrative burden (MEF, 2011).

Table 2.2: Changes in Calculation of CSR Levy and Spending

2009	• Every company shall, in every year, set up a CSR Fund equivalent to 2 % of its book profit derived during the preceding year to – implement an approved programme by the company; implement an approved programme under the National Empowerment Foundation; or finance an approved NGO. • A programme shall fall within the guidelines, approved by the committee • The committee appointed by the Minister and shall consist of a Chairperson and not more than 6 other members comprising of representatives from the public sector, private sector and civil society. • If the amount paid out of the CSR Fund is less than the amount provided under the Fund, the difference shall be remitted to the Director-General at the time the company submits its return of income.
2010	• Companies that have set up a CSR Fund exceeding Rs500,000 for the year of assessment 2010 are required to support their claim for the amount spent on approved CSR activities by a certificate from the CSR Committee. • Companies with a CSR fund below the threshold of Rs500,000, will only be required to produce a certificate from the CSR Committee on the amount they have spent on approved CSR activities as and when their case will be audited by the MRA. • Any amount claimed to have been spent on approved CSR activities out of CSR Fund but not duly supported by a certificate from the CSR Committee will be disallowed and claimed by MRA as income tax.
2011	• Corporate Social Responsibility (CSR) should now be computed on 2% of chargeable income

	• The amendment is effective in respect of income year commencing 1 January 2012 and in respect of every subsequent year.
2012	• The amount paid out of CSR Fund < amount provided under the Fund, a company is not required to remit the whole amount of the difference to the MRA. It can, with the approval of the CSR Committee, carry forward the difference, limited to 20% of the amount provided under the Fund, to the following year to form part of the CSR Fund for that year. • Amount paid out of CSR Fund> amount provided under the Fund, the excess amount, to the extent of 20% of the amount provided under the Fund, may be carried forward and offset in equal instalments against any amount to be remitted to the MRA in respect of the 5 succeeding years. Any excess arising in the year will be carried forward to the following year and offset against any amount provided to be spent under the Fund. • Any excess carried forward will not apply to any excess of > 2 consecutive years

(Source: Adapted from Sannassee et al. 2017)

There are merits in mandatory CSR. Businesses have used CSR to paint a glossy picture of their activities which may not reflect reality. A large part of CSR reporting contains policies and plans which are not put into practice. The CSR levy is, however, a guarantee of action.

The Mauritian CSR levy has set a precedent which other countries can follow to institutionalise CSR. For instance, the Indian and Mauritian CSR levy and guidelines have several similarities. India has used the Mauritian CSR levy model and customised it to apply there. While CSR practices originated from developed countries and were quickly adopted by less developed countries (LDCs), the trend on mandatory CSR has been set by LDCs.

Mandatory CSR supports the role of the government in protecting the environment and raising the living standards of people (Japhet et al. 2015). The government on its own is unable to meet all of the needs and expectations of society. Allowing firms to manage CSR projects allows them to innovate in meeting society's needs. With several parties involved, the needs of society are met faster compared to a centralised body keeping custody of funds. Based on the findings of MEF (2007) whereby only a minority of companies were found to allocate funds to CSR, it can be argued that the CSR levy will enable firms to respond spontaneously if the need arises, for example in the case of a catastrophe. The CSR levy with guidelines for spending is perhaps the best mix between the two extremes of keeping full control by government or in the hands of companies. The situation is therefore ideal for both companies and the government. Pillay (2015) describes the Mauritian CSR system as a hybrid regulatory system of CSR in which the state sets a framework for self-regulatory CSR measures which 'comprehensively links development, law and social policy'.

India and Indonesia also impose a CSR levy. The limited liability corporation law number 40/2007 in Indonesia requires companies operating in the field of natural resources to implement CSR. The law provides for an 'obligatory' amount to be spent on CSR (Waagstein, 2011). The law was introduced due to the negative impact of deforestation and pollution caused by companies. Companies are required to report annually on CSR activities undertaken (Islam et al. 2008). CSR became mandatory in India through the Companies Act 2013 which requires companies to spend 2% of their average net profit of the immediately preceding three years on CSR activities in the next year (Kansal et al. 2014). The legislation affects 'capable companies' i.e. any company incorporated in India which has (1) a net worth of Rs5 billion (USD 167

million) or more, (2) turnover of Rs10 billion or more, or (3) net profit of Rs50 million or more in any of the three preceding financial years. The CSR funds are managed by a committee one of whom must be an independent director. The committee has to provide a report of CSR initiatives undertaken by the company prior to each annual general meeting. Activities recommended for the use of CSR funds include: eradicating extreme hunger and poverty, promotion of education, promotion of gender equality and empowerment of women, combating HIV and AIDS, malaria and other diseases, ensuring environmental sustainability, employment-enhancing vocational skills, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central government (Jain, 2014).

2.5 Key Institutional Bodies in Mauritius

Mauritius aspires to become a leading financial centre. Institutions play a crucial role in maintaining the credibility of a country to attract investors. In line with the recommendations of the World Bank, two institutions, namely the Mauritius Institute of Public Accountants and the Financial Reporting Council were created. This section reviews the role of main institutional bodies responsible for accounting and financial regulation in Mauritius.

2.5.1 Mauritius Institute of Public Accountants (MIPA)

The MIPA was created under the Financial Reporting Act 2004. Its functions include the registration of professional accountants and establishing a code of ethics for professional accountants which is in line with IFAC's code of ethics for professional accountants. The MIPA has the power to take sanctions against its

members. To become a member of the MIPA an individual must be a member of one of the following professional bodies: Institute of Chartered Accountants in England and Wales; Institute of Chartered Accountants of Scotland; Institute of Chartered Accountants of Ireland; Association of Chartered Certified Accountants; Institute of Chartered Accountants of India; South African Institute of Chartered Accountants; and Chartered Institute of Management Accountants.

A person who is a member of an accounting body other than the above-mentioned bodies can still become a member of the MIPA. He/she needs to satisfy the requirements relating to qualifications in the field of accountancy and have at least three years of experience in the field of accountancy. For firms to become registered members, at least half of the partners need to be members of the MIPA. These firms are required to hold professional indemnity insurance or offer a financial guarantee as determined by the MIPA (FRA, 2004).

2.5.2 Financial Reporting Council (FRC)

The FRC is the regulator of the accounting profession. One of its objectives is to promote high-quality financial reporting by entities (FRA, 2004). To achieve this objective the FRC has the authority to set accounting and auditing standards to be followed by PIEs (companies having an annual turnover of Rs200 million and over). The FRC fulfils its duties through the operation of several panels: Standards Review Panel, Financial Reporting and Monitoring Panel, Audit Practice and Review Panel and Enforcement panel. The panels comprise of employees of the FRC and independent qualified persons appointed by the council. The FRC is the body responsible for licensing auditors. To be eligible for an audit licence, a person must meet the following requirements: (a) a practicing certificate issued by MIPA, (b)

documentary evidence of passing a professional accountancy examination with auditing as one of the subjects, (c) at least 48 weeks (240) days of audit work performed before or after becoming a member of a professional accountancy body, provided at least 12 weeks there from were spent on statutory audit or similar work, (d) 2 years' work experience after becoming a member of a professional accountancy body, with at least 24 weeks spent on statutory audit work, (e) Satisfactory experience in (i) practice management, (ii) audit quality control and control of audit work, and (iii) documentation and maintaining quality assurance (Financial Reporting Council, 2015). Mauritius has adopted all IFRS regulations without amendment.

2.5.3 Financial Services Commission

The Financial Services Commission (FSC) was established under the Financial Services Development Act 2001 as the regulator of non-banking financial services in Mauritius. The FSC has taken over the role of the Stock Exchange Commission, the insurance division of the Ministry of Economic Development, Financial Services and Corporate Affairs, the Mauritius Offshore Business Activities Authority which were the regulatory bodies for securities, insurance and global business respectively. The FSC is mandated under the Financial Services Act 2007 to license, regulate, monitor and supervise businesses operating in the areas which are governed by the following pieces of legislation: the Securities Act 2005, the Insurance Act 2005 and Private Pensions Schemes Act 2012.

The FSC is responsible for the supervision and regulation of entities carrying out business under its enabling laws. The FSC monitors compliance of licensees in relation to its legislative framework and also has the power to enforce the laws under its responsibility. The combat of financial frauds, money laundering and the prevention

of investment business abuse is also part of the core functions of the FSC. Other functions of the FSC include the protection of consumers and investors through its legislative framework, the promotion and development of the financial services sector to achieve economic stability and the elaboration of policies with the aim to ensure fairness, efficiency, transparency and stability of the financial system (Financial Services Commission, 2015).

2.6 Corporate Governance Practices in Mauritius

In the wake of several financial scandals affecting developed countries at the beginning of the twenty-first century and high profile cases of corruption in the local context, the Mauritian government-initiated actions for the drafting of a code of corporate governance. The outcome of the King Committee was a report on corporate governance and a code of corporate governance. The code which was released in 2004 applies to listed companies, banks and non-financial institutions, large public companies, large private companies, state-owned enterprises including statutory bodies and parastatal organisations. The code is meant to be applied to a 'comply or explain' basis. Moreover, regulatory bodies e.g. Stock Exchange of Mauritius through listing rules may impose additional governance requirements. The code comprises of the following sections: compliance and enforcement; boards and directors; board committees; role and function of the company secretary; risk management, internal control and internal audit; accounting and auditing; integrated sustainability reporting and finally communication and disclosure.

The Code devotes one section to integrated sustainability reporting and encourages companies to disclose their policies and practices as regards to social,

ethical, health and safety and environmental in the annual report. The code stresses the adoption of a code of ethics by companies partly to attenuate the perception of inequality prevailing in the country regarding employment and also in the aftermath of high profile cases of corruption. To this end, the code states that a company's code of ethics:

> '…should make clear what acceptable and unacceptable practice is and should be easy to communicate to all stakeholders, especially the company's officers and employees who will rely on it to guide them in their dealings'.

Stressing on the particular importance of the environment for Mauritius, the code states:

> '… companies need not only be aware of the importance of these issues but should also be actively involved in managing their activities so as to minimise any negative impact on the environment'.

2.6.1 Ownership Structure

The concentration of economic power and wealth among a small proportion of the population especially successors of colonial masters remains a topical issue. Those who held economic power since independence have been prospering by maintaining close ties with politicians. This inequality in income and wealth distribution is visible in Mauritius (Mahadeo et al. 2011b). It is no surprise that ownership of firms remains concentrated. Cross-shareholding and cross-directorship are common features among firms in Mauritius. Many successful firms are not listed on the stock exchange as major shareholders do not want to relinquish control. At the time when the EPZ sector was

the major sector boosting the economy, none of the textile firms was listed on the SEM (Manos and Ah-Hen, 2003).

A few large companies and conglomerates hold a significant share of the market in Mauritius. In addition to market concentration, another important feature of these companies is concentrated ownership structure with a majority of them being family owned and controlled (Manos and Ah-hen, 2003). Consequently, external control mechanisms such as takeovers which can be an important market disciplining tool are rare in Mauritius. The stock market plays a limited role in providing finance to firms. Though the stock market has moved from an equity-based market to offer a variety of products such as corporate bonds, this remains less preferred than bank loans. Similar to Anglo-American countries the relationship between the bank and the business is that of lender and borrower. Banks are not involved in the management of companies as it is the case in continental European countries.

The corporate control mechanism in Mauritius is mainly insider oriented. It is similar to Asian countries like Bangladesh where there is a high concentration of ownership among few owners known as ownership control (Rashid, 2011). The main shareholders exercise a major role in disciplining the firm. These shareholders would be part of the board of directors and have the duty to act in good faith and in the best interest of the company.

The Code states that ownership concentration is common in many countries and not always bad for economic growth. However, it calls for wider ownership of companies which is desirable to allow people of all communities to be shareholders of companies. Pension funds can play a major role to have wider ownership.

2.6.2 Family Ownership

The Mauritian business environment is characterised by family owned and managed firms with a concentration of ownership among a small percentage of the population. Even listed companies have a high level of influence by family driven management with the same people having a stake in several areas of business activities. This results in a 'high level of opacity' in running such enterprises (Soobaroyen and Mahadeo, 2008). The smallness of the island and the 'tight-knit' nature of the business community often results in instances of conflict of interest arising from family/personal relationships among directors/managers and suppliers. Over the last 20 years, successive governments have been providing assistance for the creation and expansion of small and medium sized enterprises. Trust is the essential element in any business venture and it is no surprise that entrepreneurs turn to family members to invest in their enterprise. Many of these enterprises have been successful over the years and some are even listed on the Stock Exchange of Mauritius. Nearly 50% of the most successful businesses in Mauritius are family owned.

2.6.3 Institutional Ownership

Institutional investors consisting of mutual funds, pension funds and insurance companies are very active on the stock exchange and account for 75% of the daily turnover. However, institutional investors do not hold majority shareholding in listed companies. Foreign pension funds are also active on the SEM. Given that concentration of ownership is common among Mauritian firms, pension funds can play a key role to achieve wider ownership (NCCG, 2004).

2.6.4 Board Structure

Two leading approaches have emerged with regard to the organisation of board structure; one-tier and two-tier boards. In Anglo-American countries such as the UK, US and Canada a one-tier structure is adopted where the board comprises of both executive and non-executive directors. Two-tier boards are common in continental Europe in countries such as Finland, Germany and Netherlands. In a two-tier structure, the executive and supervisory functions are separated. The supervisory board (higher level) is composed exclusively of non-executive supervisory directors who may represent the government, workers and institutional directors. The management board comprises executive directors (Maassen and Van Den Bosch, 1999). Mauritius follows the Anglo-Saxon style of board structure. The board of directors are comprised of a mixture of executive and non-executive directors on a single board. There is a trend towards a majority of members being non-executive directors. The board is normally headed by a non-executive chairman.

The chief executive officer (CEO) who is responsible for the day to day operations of the firm is a member of the board. Listing rules prevent the combination of the role of the chairman and the CEO referred to as role duality. Role duality is common in family-owned businesses in Mauritius. In theory, shareholders elect members of the board to oversee the CEO on their behalf but in practice, the CEO could encourage shareholders to choose individuals who are close to him to form part of the board so that his authority is unopposed (Latham, 1998). To safeguard against the possibility of such abuses, in the US and likewise in Mauritius control mechanisms such as disclosures and financial audits are required. Other control measures similar to the Anglo-American style, include nominating independent directors on the board and an audit committee to oversee the audit function.

2.6.5 Board Practices

The code recognises the special characteristics of Mauritius. As the country is small, finding the right skills and competence for the appointment of independent directors might be difficult. True independence which is a pillar of corporate governance might be difficult to achieve due to Mauritius' remoteness. Most business enterprises are small and as corporate governance involves a cost, achieving full compliance compared to firms in larger countries will only be possible for a few companies. The code states that an appropriate balance of executive, non-executive and independent directors is necessary to ensure satisfactory performance while at the same time operate within the bounds of good governance. To this effect, the Code states that each board must have at least two executive directors to ensure a strong management presence and two independent directors to safeguard the interest of minority shareholders (NCCG, 2004). There is a tendency for boards in Mauritian companies to be male-dominated and board members to have a long tenure (Mahadeo et al. 2012). While it was not possible to confirm the tenure of board members, data collected for this study confirms that male directors make up, on average 96% of board membership.

2.6.6 Equal Opportunities

At the time of independence, the sugar economy was controlled by a few French families leading to economic power concentration while the Hindu-Mauritian majority enjoyed political power (Vandemoortele and Bird, 2011). Even today descendants of European settlers largely control the private sector. Some of the charges often levelled against the Mauritian private sector are 'unfair employment practices,

opaque management policies and quasi-monopolies in certain sectors' (Mahadeo et al. 2011a). To this effect, the code notes that

> 'A common public perception is that employment and promotion within the private and public sectors are linked to the "community" of the employee and that of the company's shareholders. This perception could be redressed by the application of a code of ethics in the Code of Corporate Governance, which commits the company to merit in recruitment and promotion'.

The Labour party made democratisation of the economy its motto since coming into power in 2005. A commission for the democratisation of the economy was nominated to look into ways to reduce the disparity in income and wealth prevailing between those who have economic power and the remainder of the population. The much awaited 'Equal Opportunities Act' became a reality in 2011. An Equal Opportunities Commission was nominated in 2013 to investigate matters of discrimination relating to employment, training, selection and other activities falling under the purview of the commission.

2.6.7 Corporate Governance and CSR

The term corporate governance has been defined by various authors. The Cadbury Committee (1992) defines corporate governance as 'the system by which companies are directed and controlled'. The control aspect of CG embraces compliance, accountability and transparency and how managers discharge their responsibility in accordance with rules, regulations and code of conducts (Jamali et al. 2008). Widely publicised cases of corporate failures such as Enron, Tyco and

WorldCom have increased attention towards corporate governance practices. In this vein, Page (2005) contends that the importance of corporate governance lies in continuously refining laws, regulations and code of conducts as 'they cannot foresee every eventuality'.

From an agency perspective, CG relates to the control mechanism and procedures which ensures that management acts in the best interest of shareholders. At the same time, it reduces the likelihood that managers acting in their self-interest, take actions which are not congruent with maximisation of shareholder value (Kanagaretnam et al. 2007). Though there is no doubt that shareholder supremacy should prevail (Page, 2005), a broader conception of CG embraces a more stakeholder-oriented approach (Brennan and Solomon, 2008). To this end, managers are also responsible towards employees, suppliers, customers and communities whose investment in the organisation is valuable (Jamali et al. 2008). The stakeholder approach to CSR, as advocated by Freeman (1984) who argues that 'corporations are at the crux of a complex web of stakeholder relationships and have an obligation or responsibility to these different stakeholders', is consistent with the broader concept of CG. Therefore, paying proper attention to stakeholders provides a potential link between CG and CSR.

Both CG and CSR are expected to have positive long-lasting benefits which will strengthen the business. Good governance mechanisms allow successful reconciliation of interests of owners, managers and other stakeholders dependent on the organisation allowing it to obtain long-term capital and invest it proficiently (Jamali et al. 2008). With regard to CSR, Bowman (1978), Alnajjar (2000) and Ntim and Soobaroyen (2013) found that it has a positive effect on corporate financial performance. However, the latter report that a combination of CG and CSR has a

stronger positive effect on corporate financial performance than CSR only. Firms with good governance structures tend to be more profitable (Bozec and Bozec, 2012). Therefore both CG and CSR can lead the firm towards its ultimate objective of making profits.

CG has been theorised as a pillar of CSR by Hancock (2005), with other pillars being human capital, stakeholder capital and environment. Ho (2005) presents CSR as a dimension of CG. In her model, good CG entails taking into consideration the expectations of society and also internal stakeholders. Bhimani and Soonawalla (2005) describe CSR as part of a continuum which ranges from corporate conformance and corporate performance. Any of the above three ways of conceptualising CG and CSR shows that they are closely linked. Jamali et al. (2008) explain that CG and CSR are based on the same essential principles: honesty, transparency and accountability to shareholders and stakeholders.

In the aftermath of previously-mentioned corporate scandals, the United States introduced the Sarbanes-Oxley Act (2002) which places greater responsibility on board for their actions and more emphasis on reporting on internal control. Several countries followed the US and introduced regulation for better corporate governance. This has seen boards being more independent and increase disclosure to promote transparency (Hauswald and Marquez, 2007). Diligent exercise of board responsibilities is one of the basic principles of corporate governance (OECD, 1999) which is reflected in the composition of the board. Patel and Dallas (2002) advocate that

> 'good corporate governance includes a vigilant board of directors, timely and adequate disclosure of financial information, meaningful disclosure

> about the board and management process, and a transparent ownership structure identifying any conflicts of interests between managers, directors, shareholders, and other related parties'.

A number of studies (Haniffa and Cooke, 2002; Ghazali, 2007; Barako and Brown, 2008; Jizzi et al. 2014) have empirically tested how board practices and ownership structure influence CSR practices. This study, therefore, posits that board practices and ownership structure will influence CSR practices in Mauritius.

2.7 Chapter Summary

The study examines the relationship between corporate governance and CSR. CSR and corporate governance practices vary among countries. A good starting point is therefore to understand the institutional settings of the country under study. This chapter explains the key issues, events and challenges surrounding CG and CSR practices and disclosure in Mauritius.

This chapter starts with an overview of the transformation of the Mauritian economy over the years from an agricultural economy to a service-oriented one. The social and political context is also covered. The chapter then explains the legal framework governing financial reporting in Mauritius.

Based on the advice of the World Bank several institutions were set up and legislation passed to strengthen the financial reporting system in Mauritius. The role of other bodies such as the MIPA, FRC and FSC are then explained. Corporate governance practices in Mauritius in line with 2004 King Report and selective sections of the code of corporate governance are covered. The special characteristics of the country and the challenge of meeting international corporate governance practices are discussed. Mauritius is one of the few countries which has mandated CSR and imposed

a CSR levy. A background to CSR legislation and the CSR environment in Mauritius throws light on CSR practices. The latest development in CSR legislation is also explained. This chapter covered factors specific to the country which are important to develop an understanding the uniqueness of the study. The conceptual link between CG and CSR is also covered.

Chapter 3 Theoretical Framework

3.1 Introduction

This chapter reviews the theories used to explain the reasons for and the extent of CSR disclosure. Theory has been defined as '… an ordered set of assertions about a generic behaviour or structure assumed to hold throughout a significantly broad range of specific instances' (Sutherland, 1975). The main aim of theory is to 'answer the questions of how, when or where, and why . . . unlike the goal of description, which is to answer the question of what or who' (Bacharach, 1989). Several theoretical perspectives have been applied in support of CSR reporting and disclosure. Gray et al. (1993) classify voluntary disclosure theories into three types; economic theories, social and political theories and decision usefulness theories. However, 'the most insightful theoretical studies are drawn from social and political theory studies' (Gray et al. 1995). Three commonly used socio-political theories to explain CSR are legitimacy theory, stakeholder theory and institutional theory. These theories are often referred to as systems-based theories which assume that an organisation is influenced and in turn have an influence on the society in which it operates (Deegan, 2009).

This chapter provides an overview of theories applicable to the practice and disclosure of CSR. The chapter starts with an overview of the stakeholder and instrumental stakeholder theories in sections 3.2 and 3.3. A detailed discussion of the legitimacy and political economy theories is provided in sections 3.4 and 3.5 respectively. Neo-institutional theory is examined in section 3.6. In sections 3.7 and 3.8, two economic theories related to disclosure of CSR are covered, namely, signalling theory and agency theory. Section 3.9 covers public interest theory followed

by capture theory in section 3.10. These two theories are relevant to accounting regulation. Since CSR is mandatory in Mauritius these two theories provide an understanding of the need for regulation. In section 3.11, contingency theory is explained. The justification for the theoretical framework used in this study is provided in section 3.13. A summary of the chapter is provided in section 3.14.

3.2 Stakeholder Theory

Stakeholder theory examines how an organisation manages its relationship with stakeholders (Gray et al. 1995). Donaldson and Preston (1995) define a stakeholder as 'persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity'. Since the definition can include many persons or group of persons, Clarkson (1995) distinguishes between two types of stakeholders: primary and secondary. He defines a primary stakeholder as 'One without whose continuing participation the corporation cannot survive as a going concern' while a secondary stakeholder is referred to as 'those who influence or affect, or are influenced or affected by, the corporation, but are not engaged in transactions with the corporation and are not essential for its survival'. The objective of classifying stakeholders in these two streams implies that the attention paid by firms to these two categories is likely to differ. This is the bone of contention between the two branches of stakeholder theory: ethical (normative) and managerial (positive).

The ethical branch of stakeholder theory is prescriptive stating the 'Do (Don't do) this because it is the right (wrong) thing to do' (Donaldson and Preston, 1995). The ethical branch 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. The business is operated not for the sole purpose of increasing shareholders' returns but 'as a vehicle for coordinating stakeholders' interests' (Hasnas, 1998). Thus, management has a fiduciary duty not only towards shareholders but stakeholders as well. Management should give equal consideration to all stakeholders. Stakeholders should be considered as an end in themselves rather than a means to an end (Belal and Roberts, 2010). Management must manage the business to attain optimal balance among them (Hasnas, 1998). This may imply the sacrifice of shareholders' interest to some extent at the expense of stakeholders, on account of the moral role of business and its social effects on people's lives (Stoney and Winstanley, 2001). Hence, the normative branch of the stakeholder theory assumes that the business has a social responsibility (Hasnas, 1998). Thus, involvement in CSR activities will be in activities which the firm believes it has a moral responsibility such as providing safe working conditions, reduction of pollution or sponsoring projects.

Extending the idea of treating all stakeholders fairly, Deegan (2009) argues that all stakeholders have the right to be informed of how the organisation is affecting them even though they might not use the information.

The managerial branch of stakeholder theory takes the view that stakeholders have to be treated differently. Gray et al. (1996) note that: 'the more important the stakeholder to the organisation, the more effort will be exerted in managing the relationship'. The criticality of resources which the stakeholders control will influence the attention given to them (Ullmann, 1985). For instance, the influence of lenders is considered to be high for a firm which is highly geared. Thus, it will put in more effort in managing its relationship with lenders. Information is a major element that can be employed by the organisation to manage (or manipulate) the stakeholder in order to gain their support and approval, or to distract their opposition and disapproval'**.** Van

der Laan et al. (2005) argues that the support of stakeholders is essential for the long-term success of the organisation. From an accounting perspective, the annual report provides the medium for the dialogue between stakeholders and the firm.

Ullmann (1985) presents a three-dimensional model explaining the relationship between social disclosure and social and economic performance. The first dimension is based on stakeholder power. If a stakeholder is considered important the firm will meet the demand of that particular stakeholder. CSR activities and disclosure are therefore considered part of an effective strategy to manage stakeholders (Roberts, 1992). The second dimension deals with the strategic posture which a firm adopts towards CSR activities. If a firm continuously monitors its position vis-à-vis its stakeholders and develop CSR activities which address their needs, the firm is perceived to adopt a strategic posture. The third dimension relates to the firm's past and current economic performance. The firm's economic performance will determine its involvement in CSR activities. The importance of meeting social responsibility goals decreases with low economic performance.

A firm has numerous stakeholders and has to identify which stakeholder to cater for. In their model of stakeholder identification and salience, Mitchell et al. (1997) posit that the need of a stakeholder will be fulfilled depending on the combination of the stakeholder's attributes of power, legitimacy and urgency. A stakeholder is assumed to have power if it can compel the firm to accept its demands.

3.3 Instrumental Stakeholder Theory

Instrumental stakeholder theory as advanced by Jones (1995) aims to describe what will happen if managers behave in certain ways. He argues that problems of

opportunism, inherent in organisations can be overcome by developing relationships with stakeholders based on trust and cooperation. For instance, developing trustworthy relationships with employees can earn the company a competitive advantage (Cummings and Patel, 2009). In short, instrumental stakeholder theory is a contingent one which purports that certain results can be obtained only if certain behaviours are adopted (Pesqueux and Damak-Ayadi 2005).

The importance of stakeholders for the current and future financial success of the firm has been the subject of several studies but their application in practice remains largely untested (Cummings and Patel, 2009). A major contribution to the instrumental stakeholder literature is the study carried by Polonsky (1995). His study focused on how an organisation can achieve greater organisational effectiveness and enhance its marketing strategy by adopting a stakeholder approach. The study classified stakeholders according to their involvement, being: supportive, marginal, non-supportive or mixed-blessing. Using data from Fortune magazine about eight attributes of reputation, Riahi-Belkaoui (1991) measured organisational effectiveness. He also tested a model of social performance using part of the reputation index. He found that size and profitability were positively related to organisational effectiveness and social performance and negatively related to risk. Thus, he concluded that organisational effectiveness and social performance are conceptually similar.

3.4 Legitimacy Theory

Legitimacy theory asserts that organisations want to be perceived as operating within the norms and bounds of the societies in which they operate. Legitimacy theory is based on the assumption that a social contract exists between the organisation and

society. The social contract sets out the implicit and explicit expectations of how the organisation should conduct its operations.

Businesses are therefore expected to behave according to society's expectations. Gray et al. (1996) state that the explicit terms of the contract are embodied in legal requirements while the implicit terms are non-legislated societal expectations. Managers have the difficult task to anticipate society's expectations to operate within society's bounds.

Suchman (1995) defines legitimacy as:

> '… a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed system of norms, values, beliefs, and definitions.'

Legitimacy is a 'conferred status that is judged and controlled by others rather than by the legitimating organisation' (Chen and Roberts, 2010). CSR disclosure is a means to cope with the needs and demands of society (Freedman and Jaggi, 2005). Legitimacy is a relative concept since it depends on the social system in which the organisation operates and is time and place specific (Deegan, 2009). In this respect, Mathews (1993) stated that: 'Organisations draw on community resources and output both goods and services and waste products to the environment'. The organisation has no inherent rights to these benefits, and in order to allow their existence, society would expect the benefits to exceed the costs to society'.

Tilling (2004) argues that there are two levels of legitimacy theory: the institutional forming the macro theory of legitimation and one level down, organisational legitimacy. Institutional legitimacy deals with how organisations (capitalism or government) have gained acceptance from society. From this perspective 'external institutions construct and penetrate the organisation in every

respect' (Suchman, 1995). Unlike the institutional view which takes legitimacy for granted, organisational legitimacy views it as 'an operational resource ... that organisations extract - often competitively - from their cultural environments and that they employ in pursuit of their goals" (Suchman, 1995). Though legitimacy is a resource considered vital for the firm's survival (Dowling and Pfeffer, 1975) the firm can engage and control the legitimation process by conforming to society's expectations. Maurer (1971) states that 'legitimation is the process whereby an organisation justifies to a peer or superordinate system its right to exist'. Firms can, therefore, choose how they are going to engage in the legitimation process. When faced with the conflicting choice of either adapting existing operations to meet social norms (e.g. divest from polluting activities) or engage in a communication process to manage impressions (e.g. sponsoring environmental projects) managers will favour the latter (Mahadeo et al. 2011a).

Most CSR studies are undertaken from an organisational legitimacy perspective. Organisational legitimacy is threatened when the behaviour of the firm and the expectations of the society are not aligned, giving rise to a legitimacy gap. Unacceptable behaviour can lead to boycotts of a firm's product, factor suppliers restricting access to labour and/or capital and lobbying to increase fines or introduce new laws (Deegan, 2002). Wartick and Mahon (1994) explain the circumstances when a legitimacy gap can occur: (1) There is a change in corporate performance, but society expectations of corporate performance remains unchanged; (2) Corporate performance is unchanged, but society expectations of corporate performance have changed; and (3) Corporate performance and society expectations change in different directions, or in the same direction but with differing momentum.

If a company faces a legitimacy gap it can pursue legitimation strategies. Dowling and Pfeffer (1975) list the following strategies: (1) Adapt its output, goals and methods of operation to conform to prevailing definitions of legitimacy; (2) The organisation can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organisation's present practices, output and values; or (3) The organisation can attempt, through communication, to become identified with symbols, values or institutions that have a strong base of legitimacy.

Lindblom (1994) proposes several strategies to adopt in circumstances where the legitimacy of an organisation is threatened. Tilling and Tilt (2010) summarise these strategies as follows: (1) Change itself; (2) Change the public; (3) Manipulation; and (4) Misrepresentation. These strategies mostly overlap and involve some form of communication and therefore disclosure.

Suchman (1995) posits that the strategy chosen will depend as to whether a firm wants to gain, maintain or repair legitimacy. Tilling (2004) and Tilling and Tilt (2010) provide a refinement to the phases of the legitimation process by adding two more phases. In the first phase, firms want to establish legitimacy. This occurs in the initial stages of the organisation's development where financial competence and meeting market expectations are important. If the organisation fails to do so, it loses legitimacy vis-à-vis its principal stakeholders (customers, suppliers, creditors). Once legitimacy has been established, in the second phase, the organisation has to maintain legitimacy. This stage has attracted the attention of most accounting researchers. This stage is harder than establishing legitimacy. Legitimacy is a dynamic construct which requires the organisation to be responsive to society's expectation to be seen as legitimate. When firms enter new markets or change the way it does business in its current market, it enters the third phase where it may have to extend legitimacy.

Management must be proactive and attempt to win the confidence of wary stakeholders. An internal or external incident may threaten the organisation's legitimacy.

Social and environmental reporting papers have concentrated on Lindblom's (1994) defensive strategies (Tilling et al. 2010). As an extension to the previous model, Tilling (2004) argues that if an organisation fails to defend its legitimacy, it enters a 'loss phase'. Taking the example of the tobacco industry, Tilling (2004) argues that the loss of legitimacy can become 'chronic' if the product is thought to be unsafe. However, the loss can be managed or slowed over a long period of time. The organisation can re-establish its legitimacy if it makes significant improvements. From the loss phase, an organisation can be moved back to the first stage or be moved into some form of disestablishment. Within the loss stage, there will be instances where the organisation will increase disclosure to counteract specific threats or where the organisation has made some fundamental changes to defend its legitimacy.

Brown and Deegan (1998) found that firms which have attracted media attention due to their negative environmental actions, increase environmental disclosures in their annual reports. Following the Exxon Valdez oil spill in Alaska in 1989, Patten (1992) investigated the disclosure of US oil firms. He found an increase in environmental disclosures in the post-1989 period. When faced with a legitimacy crisis, firms increase their disclosures to legitimise their activities. Managers may purposefully not increase disclosures if they judge that disclosure is not the appropriate strategy to tackle a legitimacy threat or if previous disclosures have made matters worse (De Villiers and Van Standen, 2006). The reluctance to disclose environmental information is consistent with legitimacy theory. Similarly De Villiers and Van Standen (2006) state that a change in the composition of disclosure (general/ specific)

and even a reduction in the level of environmental disclosure can have legitimising effects. Companies may reduce the level of environmental disclosure to ‘avoid further scrutiny’.

3.5 Political Economy Theory (PET)

The view expressed by PET is that economic issues cannot be discussed in isolation but rather in conjunction with the political, social and institutional framework in which economic activity takes place. Gray et al. (1996) define political economy as ‘the social, political and economic framework within which human life takes place’. Managers will engage in CSR activities to seek the support of those groups which can help the firm to further its business activities. For instance, firms will make political donations if they believe that these political donations will bring in benefits. Amran and Devi (2008) found that firms which obtain government contracts have CSR high on their agenda. Arguably, the firm faces pressure from stakeholders and responds by making disclosures to either seek the support of these stakeholders (such as government, customers or environmental groups) or to reduce the pressure exercised by these stakeholders (Cotter et al. 2011). Guthrie and Parker (1989) argue that firms disclose CSR under themes as they recognise that there are several stakeholders interested in CSR information. They further claim that CSR disclosures whether they are at a minimal level or absent, lend support to political economy as it shows how reporters view the economic, social and political world in their own terms.

PET has two variants labelled ‘classical’ and ‘bourgeois’. Classical PET is based on the works of Karl Marx which acknowledges the existence of sectional interests, conflicts within society and the central role of the state. In contrast, bourgeois

PET ignores these aspects and views the world as pluralistic whereby several stakeholders have the power to influence decisions made by firms. However, no particular stakeholder is expected to have the upper hand, bourgeois PET rather focuses on group interactions within society as a whole (Gray et al. 1996). Legitimacy and stakeholder theories are derived from the bourgeois stream of the PET. They are both based on the concept of social responsiveness whereby the company may adapt or change its strategy to change the perception of the public (Momin, 2006).

3.6 Neo-Institutional Theory

Neo-institutional theory explores how cultural, political and social forces lead to homogeneity in organisational structure and practices (Fogarty, 1996). It is accepted that institutional theory has a wider applicability as all organisations 'are subject to regulative processes and operate under local and general governance structures' (Dillard et al. 2004). DiMaggio and Powell (1983) made a major contribution to institutional theory by investigating why organisations in new fields initially display variety in their approach and form but tend to become similar once a field becomes well established. The process of homogenisation which is at the heart of institutional theory is termed 'isomorphism'. DiMaggio and Powell (1983) define isomorphism as 'a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions'. Three forces are at play which leads to institutionalisation of certain practices.

Coercive isomorphism can take the form of regulation or other informal pressures which compel organisations to follow institutionalised procedures. Mizruchi and Fein (1999) argue that coercive isomorphism come from two sources: pressure

from other organisations on which the focal organisation is dependent and an organisation's pressure to conform to expectations of society. Coercive isomorphism is similar to the managerial branch of stakeholder theory where an organisation has to conform to the requirements of powerful stakeholders. In this respect Tuttle and Dillard (2007) note:

> 'The primary motivator is conformance to the demand of powerful constituents and stems from the desire for legitimacy as reflected in the political influences exerted by other members in the organisation field'.

From a CSR perspective, a company could be forced to adopt voluntary reporting practices to show that its practices are in line with those espoused by powerful stakeholders and at the same time ignoring less powerful stakeholders (Deegan, 2009).

Mimetic isomorphism occurs when an organisation copies or improves on practices of other organisations to gain a competitive advantage in terms of legitimacy (DiMaggio and Powell 1983). Rahaman et al. (2004) state that uncertainty could be a driving force for such imitation. Therefore, to reduce uncertainty firms try to emulate other organisations which are viewed as successful. For instance, a new firm joining an industry may engage in CSR practices simply because other firms are involved in such practices. Following trends reassures stakeholders of the legitimacy of the organisation. Therefore without stakeholder pressure, firms are unlikely to imitate or exceed social reporting practices of other firms. As such, a firm may adopt CSR so as not to be seen as different from other firms. Therefore from a neo-institutional perspective, firms not only compete for resources but also seek social legitimacy (Ntim and Soobaroyen, 2013).

Normative isomorphism relates to pressure exercised by a group/organisation to follow certain institutional practices. Preparing financial statements which comply with international financial reporting standards is a form of normative isomorphism as professional accountants will adhere to these standards, though it might not be mandatory. In terms of CSR reporting, adherence to reporting guidelines like OCED or GRI promotes the disclosure of CSR information. Accounting bodies also issue guidelines on CSR reporting. Upon implementation by their members, it can lead to standardised practices.

It is worth noting that in practice it is difficult to distinguish between these three forces (Deegan, 2009). To this end DiMaggio and Powell (1983) state:

> '…two or more isomorphic pressures may be operating simultaneously making it impossible to determine which form of institutional pressure was more potent in all cases'.

In the same vein, Carpenter and Feroz (2001) used neo-institutional theory to investigate the United States of America state governments' decision to change from cash accounting to accounting based on GAAP. They note that states which were early adopters of GAAP did so because of coercive pressure from credit markets while a combination of coercive and mimetic pressures could better explain late adopters.

Another dimension of institutional theory is decoupling. Dillard et al. (2004) state that 'Decoupling refers to a situation in which the formal organisation structure or practice is separate and distinct from actual organisational practice'. Managers might ostensibly project an image of the company which is not really followed in practice. In terms of voluntary reporting practices, decoupling can be linked to

legitimacy theory where an organisation might paint a rosy picture of CSR practices in its annual report which is far different from actual practices (Deegan, 2009).

3.7 Signalling Theory

Market signalling theory was initially developed by Spence (1973) to explain asymmetry of information in labour markets. In the recruitment process, higher calibre applicants can distinguish themselves from other applicants by sending a signal through their higher level of education. With the passage of time, signalling theory has been applied to different fields of study including the voluntary disclosure literature. In the signalling environment, the sender (signaller) holds information which is not available to another party (ies) and must decide whether to send and how to send the information (signal) to the other parties (receiver). The receiver must then choose how to interpret the signal (Connelly et al. 2011). Omran and El-Galfy (2014) state that it is beneficial for the sender to disclose private information about itself if the information is credible and reduces outsider uncertainty. Managers of companies which have high growth prospects will signal this fact to investors through their accounts. Firms which are performing well and firms with neutral news will also have the incentive to report positive news to dispel any doubts about poor performance.

Firms with poor performance do not have any incentives to report bad news (Godfrey et al. 2010). However, Cotter et al. (2011) argue that firms with bad news have an incentive to report their true performance to avoid litigation costs for failure to disclose and maintain the equity value of the company. Therefore, to be effective, the sender must be able to show that its signal is credible.

Bhattacharya and Dittmar (2001) distinguish between two types of signalling strategies; costless and costly. They argue that costless (cheap talk) strategies are used by undervalued firms to gain attention. Therefore, to be effective, the signal sent must not be easy to replicate and those who attempt false signalling do not benefit (Connelly et al. 2011). Costly measures will add credibility to the signals. For example, managers can signal the sound health of their companies by increasing dividends. Managers are normally reluctant to decrease dividends as investors may interpret it as an adverse signal. From a voluntary disclosure perspective, better firms will signal their superiority by disclosing information in excess of what is required by law (Campbell et al. 2001). Firms prepare standalone reports and voluntarily disclose other information on the assumption that stakeholders interpret these initiatives favourably. Therefore, firms can use standalone reports to show that they are good corporate citizens or for 'greenwashing' (Mahoney, 2012).

3.8 Agency Theory

An agency relationship describes the contractual agreement between one party (the principal) who appoints another party (the agent) to act on its behalf. In the contract, the principal delegates some of the power to make decisions to the agent (Jensen and Meckling, 1976). If both parties are utility maximisers, there is no guarantee that the agent will act in the best interest of the principal. A major issue which arises is to persuade the agent to act in such a way to maximise the principal's welfare (Godfrey et al. 2010). This gives rise to certain costs termed agency costs.

Deegan (2013) classifies agency costs into three types: monitoring costs, bonding costs and residual losses. Monitoring costs are incurred by the principal to

'measure, observe and control' the agent's behaviour (Godfrey et al. 2010). Examples include the appointment of a board of directors so that managers provide credible information to shareholders and lenders which is fulfilled by: preparing audited financial statements and making disclosures (Watson et al. 2002). Under debt agreements, the lender (principal) might impose certain conditions on the firm (agent-manager acting for shareholders). This may require preparing quarterly financial statements to meet the contractual requirement of capital providers. These costs link managers' interests to those of lenders (Cotter et al. 2011).

The agent's actions may still deviate from the principal's objective despite incurring monitoring and bonding costs. For instance, the manager can take actions out of self-interest that are not in line with the principal's interest such as changing the accounts to maximise his/her bonus. Barnea and Rubin (2010) view CSR as a source of conflict between managers and shareholders. They claim that affiliated insiders have the tendency to over-invest in CSR. Motivated by self- interest, managers will spend on CSR activities which improve the company's reputation as a good citizen, indirectly improving their own rating as managers to the detriment of firm owners. On the other hand, non-affiliated shareholders (those who hold a stake in the firm as part of a diversified portfolio) will only be interested to invest in CSR if it increases the firm's value. Harjoto and Jo (2011) argue that managers may strategically use CSR activities to gather support from stakeholders in a bid to save their position, reducing the risk of CEO turnover.

Bonding costs can take the form of the cost of preparing financial statements by managers to show that they are operating in the interest of owners (Jensen and Meckling, 1976). 'Managers bond themselves to prepare the financial statements' (Deegan, 2013). Owners would require the financial statements to be audited to reduce

the risk that managers overstate the profits. To guard against the self-interest of managers, organisations may even place contractual limitations on the decision making power of managers (Jensen and Meckling, 1976).

Though monitoring and bonding costs aim to reduce dysfunctional decisions by managers, they may not be complete and effective. Thus, firms incur residual costs when the manager is an outsider (Ang et al. 2000). This is in fact the value of the lost profit because a contract's full enforcement cost exceeds the benefits (Fama and Jensen, 1983).

3.9 Public Interest Theory

Public interest theory holds that regulation is necessary because of market failure. The aim of regulation is to protect the public interest and that society is better off with regulation than otherwise (Godfrey et al. 2010). The theory assumes that the regulator (usually government) has no independent role to play in the development of regulation. It rather acts as a neutral arbiter intervening at the request of 'public interest' agents. The government does not let its self-interest prevail in the regulation process (Deegan, 2013).

Government intervenes to create a regulated financial reporting environment to ensure that firms provide accurate accounting information to the market. Consequently, this improves investor confidence and improves overall market efficiency (Omran and El-Galfy, 2014). The introduction of Sarbanes-Oxley Act in the aftermath of the collapses of Enron and audit firm Arthur Andersen can be viewed through the lens of public interest theory as new corporate governance, financial reporting requirements and auditing standards were introduced (Godfrey et al. 2010).

Public interest theory can be extended to explain the introduction of the CSR levy in the case of Mauritius. Since firms were mainly practising internal CSR the government had to intervene so that CSR activities benefit the wider society. CSR activities are now geared towards external CSR and benefitting needy people. Omran and El-Galfy (2014) argue that public interest theory ignores the opportunistic roles of the regulator, capture of the regulatory process by firms and the private interests of stakeholders. Moreover, the lack of competence of the regulator and their true intention to protect the public interest may compromise the usefulness of this theory (Gaffikin, 2008).

3.10 Capture Theory

Proponents of capture theory argue that though regulation is aimed at protecting the 'public interest', this laudable aim will not be achieved ultimately because, in the process, the regulatee eventually controls the regulator (Deegan, 2013). Capture theory assumes that all individuals pursue their self-interest and if a regulation will decrease their wealth, they will lobby to change the regulation so that the final version of the regulation is in their favour (Godfrey et al. 2013). The accounting standards-setting process in Australia is influenced by lobbyists from the profession and former executives of large companies who eventually 'capture' the standard-setting process (Walker, 1987). In a move towards greater independence of accounting standards setting, the International Accounting Standards Board now requires that all members of the board are full-time employees of the IASB and have to sever ties with their previous employers (Deegan, 2013). When the government of Mauritius introduced the CSR levy in 2009, the private sector through the Joint Economic Council (JEC) lobbied to be part of the consultative committee for drafting guidelines

relating to allowable activities from CSR funds. Being part of the consultative committee allowed the private sector to influence the committee to include those activities which were practised by its members.

3.11 Contingency Theory

Contingency theory states that there is no best way to structure an organisation. Instead, a number of factors (contingencies) determine the appropriate structure of an organisation (Chenhall and Chapman, 2006). These contingent factors are determined by the environment in which the organisation operates (Lawrence and Lorsh, 1967). Williams (2004) argues that technology and the environment in which firms operate are sources of uncertainty which results in differences between organisations.

Extending the contingency theory to corporate reporting, Thomas (1986) argues that circumstantial factors which influence management choice of accounting practices can be classified into two sets; the environment of the enterprise and organisational attributes. In the same vein, Nobes (1998) accounts for international differences in financial reporting based on a country's financial system. He argues that disclosure items are determined based on the relative importance of outsiders (lenders and individual shareholders, not forming part of the board of directors) compared to insiders (financiers such as government, families and banks). In countries where outsiders are more important, the demand for disclosure is higher. Studies of CSR reporting have considered a number of factors in explaining the extent and quality of disclosures.

3.12 Theoretical Foundation of this Study

Legitimacy theory, stakeholder theory and institutional theory are all classified as systems-oriented theories in which the organisation is assumed to be influenced and in turn influences the society in which it operates (Deegan, 2002). The same phenomenon can be analysed from different perspectives. A particular entity can initiate a particular social activity as a result of its interaction with stakeholders while another entity could choose a similar activity to legitimise its activities. So the same activity could be analysed from stakeholder theory or from legitimacy theory standpoint. Compatible interpretation of the same business situation can be reached from different theoretical perspectives due to the overlapping nature of the three theories (Chen and Roberts, 2010). However, it's the way a particular business situation is decomposed that differentiates the theories (Chen and Roberts, 2010).

Legitimacy theory considers the impact of a firm's action/s on the society as a whole while stakeholder theory is more specific, considering the consequence of a firm's action on a particular stakeholder or how a stakeholder will benefit the organisation. Both legitimacy and stakeholder theories explain how an organisation can attain legitimacy and as such are overlapping rather than competing theories (De Villiers and Van Staden, 2006). Further, Rashid (2015) claims that the legitimacy and institutional theories overlap. Firms might change their structures to follow other firms because of pressures to adopt a particular governance structure which has been granted legitimacy status. The decoupling dimension of institutional theory is in line with legitimacy theory. As Suchman (1995) explains, legitimacy is not only strategic but also institutional. Furthermore, Deegan (2009) states that coercive isomorphism is similar to the managerial branch of stakeholder theory whereby the entity will disclose

social and environmental information to please those stakeholders which are powerful. All three theories offer useful insights in understanding managers' decision to disclose CSR.

There are several motivations to explain CSR reporting (Deegan, 2002) which means several theories can be used to explain CSR reporting. While some academics are critical of adopting a multi-theoretical perspective of CSR claiming that researchers should adopt 'one view of the world' (Deegan, 2002), Gray (1995) argues that the choice of competing theories is less related to arguments for and against such competing theories but is rather a question of 'perception'. In the same vein, Jain and Jamali (2016), in a review of the CG-CSR literature conclude that a multiple-theoretical lens is advisable to gain a better understanding of how CG systems influence CSR.

This study uses three theories combining legitimacy theory, stakeholder theory and neo-institutional theory. More than one theoretical approach is adopted as the period examined (2007-2014) covers periods of voluntary and mandated CSR practice and disclosure. One theoretical perspective will give a limited picture of the CSR arena in Mauritius. The reasons for choosing these theories as opposed to other theories are now discussed.

For a number of reasons, this study does not consider economic-based theories. First, economic-based theories are concerned with maximising the value of the firm and not concerned with corporate citizenship (Cotter et al. 2011). Second, they assume that disclosure of information is undertaken to reduce information-asymmetry and as such considers shareholders to be the main target of disclosure (Lokman, 2011). CSR information has a larger audience which includes society. Finally, society/stakeholders/institutions pressure firms to attain legitimacy whereas

economic-based theories assume that disclosure of information is connected to monitoring management behaviour. Investigating whether CSR disclosure can maximise the value of the firm is outside the scope of this research. Therefore, economics-based theories are not considered relevant in explaining CSR disclosure for the purpose of this study.

Legitimacy theory is based on the assumption that a 'social contract' exists between the firm and society and the firm has to operate according to society's expectations to earn its 'licence to operate'. Several reasons suggest that legitimacy theory is appropriate to study CSR in the Mauritian context. First, the Mauritian business environment is dominated by a few firms which have common shareholders/directors. The lack of transparency of the private sector in business dealings and recruitment of personnel has long been a public policy issue. While there is little incentive for these firms to engage in CSR activities it is believed that firms can only continue to operate if they comply with societal expectations earning their 'licence to operate'. Second, the CG code requires firms to report on their CSR activities. Mahadeo et al. (2011a) investigated CSR disclosures from 2004-2007 and found that legitimacy theory provides an explanation for CSR disclosures. Finally, the study also covers the effect of the MID (Maurice Ile Durable) event and several studies using legitimacy theory have shown that companies change their disclosure strategy to influence the perception of society following an incident/event (Tilling and Tilt, 2010; Haji, 2013; Chu et al. 2013).

While legitimacy pressures are still deemed to be prevalent during the study period, there are two of key events in 2009 which have to be considered; the CSR levy (2%) and the amendment of the Financial Reporting Act 2004. As guidelines for the use of CSR funds were imposed by the government, this means that firms can only

practise a certain set of CSR activities, leading to the standardisation of CSR practice. Due to the existence of coercive pressure, neo-institutional theory is deemed appropriate to explain CSR disclosures in the post-legislation period.

Chen and Roberts (2010) argue that two theoretical considerations are necessary for a better understanding of social and environmental research. They further argue that legitimacy theory does not explain how to meet social expectations. Conversely, institutional theory suggests that adhering to norms and rules can help an organisation to attain legitimacy. Adams and Larrinaga-Gonzalez (2007) claim that institutional theory is superior to other theories in explaining social and environmental accounting as it explains the path to legitimacy. Ntim and Soobaroyen (2013) used it to explain differences in CSR practices at firm level, based on the theoretical implications of legitimation and efficiency. Regarding the efficiency perspective, they claim that 'regulative, cognitive and normative institutional pressures can cause firms to compete for critical resources in order to protect shareholder interests and maximise corporate profits.

The view taken here is that institutional factors such as legislation will affect CSR practices and thus their disclosure. Although firms need to stick to guidelines for using their CSR funds, they still have the flexibility to choose among a number of activities. Management can also decide how much to disclose. As legitimacy theory and institutional theory have several points in common, it is believed that together they can provide the answer to both similarity and differences in CSR disclosures at the firm level in the Mauritian context.

The MEF (2007) found that Mauritian companies were involved in some form of CSR activities, mostly internal. In the post-levy period, internal CSR activities and religious donations are no longer allowed to be funded by levy funds. Mauritius is a

multi-religious country where religion plays an important part in the life of people. It can also be argued that the employee is an important stakeholder for firms. As such, firms with good governance practices will be involved in internal CSR activities such as training and welfare of employees to meet the expectations of an important stakeholder. Also in their quest to maintain their legitimacy vis-à-vis religious organisations and thus society, firms will maintain the tradition to donate to religious organisations therefore going beyond the CSR levy to finance these activities. Stakeholder and legitimacy theory are used in combination to examine why firms go beyond the mandatory CSR threshold to be involved in voluntary CSR.

3.13 Chapter Summary

The choice of a particular theory, as opposed to others, will 'at least, in part' involve value judgement by authors (Deegan, 2009). Thus, there is no universal theory to explain CSR disclosures. This thesis puts forward the hypothesis that CSR disclosures are explained by three set of factors: company characteristics, board practices and ownership structure. Based on the context of the study, this thesis uses institutional theory to investigate the extent of CSR reporting. Discretionary CSR is examined from a legitimacy and stakeholder perspective.

Chapter 4 Literature Review

4.1 Introduction

The purpose of this chapter is to review past empirical studies on CSR reporting. There is a growing body of literature on CSR reporting. Adams (2002) classifies studies seeking to establish the determinants of CSR into three categories. First, those which focus on corporate characteristics such as size, financial performance and age of companies. Second, general contextual factors such as country of origin, time, specific events, media pressure, cultural and economic context. Third, internal factors such as the presence of a CSR committee and management characteristics. The chapter covers all three sets of Adams (2002) categorisation with a particular focus on the first and third categories. This discussion is considered important as it shows gaps in the literature which provides the justification for the present study.

The chapter is organised as follows. Definition of CSR and CSR reporting are covered in sections 4.2 and 4.3 respectively. Motivations to disclose CSR are discussed in section 4.4. Section 4.5 reviews empirical studies on themes of CSR reporting. This is followed by empirical studies on corporate governance practices and CSR reporting. Studies on employee volunteering are discussed in section 4.7. Research that link firm characteristics and CSR reporting are covered in section 4.8. Further empirical studies from SIDS are discussed in section 4.9. The influence of regulation on reporting is empirically discussed in section 4.10. Finally, section 4.11 draws conclusions.

4.2 Definition of CSR

The term CSR has no standard definition. A much-cited definition by the World Business Council for Sustainable Development (WBCSD, 2000) states that: 'Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.' Gray (2000) defines social and environmental accounting as: "the preparation and publication of an account about an organisation's social, environmental, employee, community, customer and other stakeholder interactions and activities, and where possible, the consequence of those interactions and activities." Using content analysis, Dahlsrud (2008) identified five dimensions common to these definitions: environmental, social, economic, stakeholder and voluntariness. The diversity in defining CSR mirrors the vast range of activities which can encompass CSR. This study adopts the previously mentioned definition provided by Gray (2000).

This study defines voluntary or discretionary CSR as those activities which are not mandated by CSR guidelines. Firms which contribute more than the legally required amount are also considered to be involved in voluntary CSR. Since voluntary CSR implies firms have to contribute more than the legally required CSR amount, this study describes this action as 'over-investment' in CSR.

Basil and Erlardson (2008) categorise CSR on the basis of whether an external party is involved or not. They group CSR activities into 'internal' and 'external'. External CSR refers to those efforts which affect the community (Haughton et al. 2009) which automatically involves an external party. Examples of external CSR activities include; philanthropic giving, community development programs, ecological

and sustainability initiatives, and other extra-organisational activities that enhance the firm's social capital (Houghton et al. 2009). Internal CSR does not involve an external party. Health and safety policies and having a code of ethics are examples of internal CSR.

4.3 CSR Reporting

Hackston and Milne (1996) define CSR reporting as

> 'the provision of financial and non-financial information relating to an organisation's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports'.

This shows that the company is accountable not only to shareholders but the society at large and that the aim of the business goes beyond making a profit for owners (Gray et al. 1987). Corporate social disclosures can include information of any type which is related to social responsibility (Gray et al. 1996). Typically it includes information relating to a company's activities and aspirations relating to the environment, community, employees and consumers (Gray et al. 2001).

Various terms are used to describe reporting in this area: such as Social Reporting, Environmental Reporting (together they are known as CSR reporting), Triple Bottom Line reporting or Sustainability reporting. This literature review draws from studies of these previously mentioned areas including voluntary disclosure studies as CSR reporting is voluntary in most countries.

4.4 Motivations to Disclose CSR

Motivations underpinning social and environmental reporting are many and varied. Spence and Gray (2007) outline that the various reasons to report social and environmental information are tightly linked to a 'business case'.

4.4.1 Pressure from Stakeholders

The existence of powerful stakeholders might prompt a firm to disclose CSR (Ullmann, 1985). Belal and Owen (2007) found that textile firms in Bangladesh disclose CSR to meet the requirements of powerful stakeholders. This includes multinational companies, international agencies, domestic NGOs, trade unions and political parties. In the same context, Islam and Deegan (2008) found that firms disclose CSR to meet the needs of international buyers.

4.4.2 Threat to Organisational Legitimacy

Firms use CSR reporting as a strategy when the legitimacy of their operations is under threat. Firms can increase or decrease CSR disclosures to counteract threats of legitimacy. Following the Exxon Valdez oil spill, Patten (1992) found an increase in CSR disclosure of oil companies based in North America.

4.4.3 Complying With Legal Requirements

Though CSR reporting is largely voluntary, certain countries such as France, Netherlands and Mauritius have imposed legal requirements to force firms to disclose their social and environmental performance. For instance, in the Netherlands, firms are required to produce two environmental reports; one to provide information to the

public, and another one for governmental agencies when the activities of the organisation are detrimental to the environment (Frost, 2007).

4.4.4 Improved Corporate Image

Firms can use CSR to enhance corporate reputation and public relations (KPMG, 2005). Corporate reputation is an important intangible asset and there is increasing evidence that CSR reporting is being used to manage corporate image (Toms, 2002).

4.4.5 Financial Performance

Good CSR performance leads to better financial performance (Margolis and Walsh, 2003). The link between social performance and financial performance has been extensively examined by researchers. Porter and Kramer (2006) posit that the relationship between CSR and profit depends on how CSR is managed. In the same vein, Gyves and O'Higgins (2008) report that CSR which is initiated internally provides benefits for the firm and its stakeholders. The study of Balabanis et al. (1998) further shows that the relationship between social and financial performance is not straightforward. They found that economic performance is related to both CSR performance and disclosure but the results were weak and lacked overall consistency.

4.4.6 Building Customer Base

Attracting and maintaining a customer base is key to the success of an organisation. Customers are increasingly cautious about conditions under which products that they buy are produced. The reported use of child labour has caused an

outrage among customers in developed countries. Adams (2002) states that disclosing information on CSR can minimise the risks of a boycott by consumers. Abrantes Ferreira et al. (2010) found that consumers value products which are socially responsibly produced and are prepared to pay up to 10% extra for the goods.

4.5 Themes and Extent of Disclosures

One of the rare studies examining developing countries was undertaken by Singh and Ahuja (1983). They reviewed the annual reports of 40 public sector companies using a 33 item disclosure index which included social, environmental, charitable and community activities. Approximately 50% of companies disclosed around 50% of items on the disclosure index. However, the sample was made up of public sector companies only. In a longitudinal study of Singaporean companies over ten years (1986-1995), Tsang (1998) explored the CSR reporting of 33 listed firms. Using content analysis, he examined annual reports using the following themes: human resource; environment and community involvement. Only 52% of companies made CSR reporting over the period. Human resources were the highest quantity of disclosures followed by community involvement. After a steady increase in social disclosures from the late 1980s till 1993, disclosure ratios stabilised. The author claims that since CSR reporting is voluntary, firms are not motivated to go beyond that level.

Studies on developing countries started to grow in the early 2000s. Belal (2001) studied CSR disclosures of Bangladeshi companies using annual reports. It provided a preliminary indication of the quantity of CSR disclosures and the nature of CSR practices in Bangladesh and found that the main area of disclosure was human resources. It is claimed that the presence of a unionised labour force can explain such

emphasis. Only 13% of companies disclosed information on community involvement. Belal (2001) noted in several instances that mandatory financial reporting requirements were not met by companies and concluded that the quantity of disclosure was low and mainly descriptive. However, it overlooked environmental disclosures. A similar study of Bangladeshi companies showing almost same results was carried by Imam (2000). Poor legal infrastructure and the lack of accounting professionals are the main reasons for the low level of CSR disclosure in developing countries (Elmogla et al. 2015).

Emphasis on human-resource CSR reporting is highlighted by Ratanajongkol et al. (2006) in Thailand, Al-Naimi et al. (2011) in Qatar and Elmogla et al. (2015) in Libya. Analysing annual reports of the largest 40 Thai companies for CSR reporting over three years, Ratanajongkol et al. (2006) reported an increase in CSR reporting over the period 1997-2001 which they attribute to recent corporate governance changes. The second most disclosed theme was 'community'. Disclosure on environment and product themes increased over the years but decreased as a proportion. Comparatively, none of the companies sampled by Al-Naimi et al. (2011) provided environmental information. Low concern for the environment seems to be common in developing countries as indicated by Kabir and Akinnusi (2012), (Belal, 1997) and Imam (2000). Similarly, Elmogla et al. (2015) report a complete absence of consumer information in annual reports of Libyan companies. Conversely, in a study of Spanish companies, Echave and Bhati (2010) found 'products and services' to be the second most disclosed theme.

CSR Studies in SIDS are rare. Lodhia (2000) explored CSR reporting of Fijian companies using their annual reports. Though the sample size was very small, it gives an indication that companies in Fiji (62.5%) follow other developing countries by

disclosing on human resource. Surprisingly environment was the least disclosed theme. However, due to the very small sample size (8) the result cannot be generalised to Fijian companies. On account of the importance of the environment for the country's economy, the author raised concern about the lack of environmental consideration by companies. In a more recent research by Khan et al. (2013b) environmental disclosure showed an improvement with 20% of companies making such disclosure. It is worth noting that the environment was the most commonly disclosed theme followed by community and marketplace.

Mahadeo et al. (2011a, b) found a rather different pattern of CSR disclosure in Mauritius which showed that the majority of companies (95%) made social disclosures while few companies made environmental (8%), health and safety (15%) or ethical (30%) disclosures. Mahadeo et al. (2011a) claim that the lack of human-based disclosure in Mauritius is contrary to other developing countries. This was evident as a 'human resource/ employee' category was not included in their study. However, social disclosures improved significantly over the period under consideration being declarative, monetary and quantitative rather than purely monetary in nature. The supremacy of community disclosure is also found in the study of Gao et al. (2005) in Hong Kong and Kabir and Akinnusi (2012) in Swaziland. Both studies found an upward trend in total disclosures over the periods under study.

4.6 Corporate Governance Practices and CSR

4.6.1 Ownership

Eng and Mak (2003) studied the relationship between ownership structure and board composition with voluntary disclosure. The study used a sample of 158 firms

listed on Singapore Stock Exchange. Three ownership variables were examined: managerial ownership, block ownership and government ownership. Eng and Mak (2003) posit an inverse relationship between managerial ownership and block ownership with voluntary disclosure as a low proportion of the two mentioned variables increases the need for monitoring. Therefore, voluntary disclosure is expected to increase, thus reducing the need for monitoring. To mitigate high agency cost and weak governance structures, government ownership is expected to increase voluntary disclosure. Results were as predicted for government ownership and managerial ownership. However, no relationship was found between block ownership and voluntary disclosure. As regards board composition, outside directors were associated with lower levels of disclosure, which is at odds with prior studies. Eng and Mak (2003) explain that outside directors may be nominated by block holders and can have access to information internally rather than through public disclosure.

Ghazali (2007) investigated the influence of ownership structure on CSR disclosure in the Malaysian context using annual reports. She notes significant differences in the extent of CSR disclosure even among listed companies. Director ownership was negatively related to CSR disclosure while government ownership was found to positively influence CSR disclosures. Ownership by the ten largest shareholders had no influence on CSR disclosures. Size measured by market capitalisation increased CSR disclosures while no evidence of the influence of industry affiliation and profitability on CSR was found.

Rashid and Lodh (2008) were the first to investigate the effect of ownership on CSR disclosures, in Bangladesh. Using a two-stage least square regression they found that CSR disclosures increase with regulation thus highlighting that the stick approach

is necessary to increase disclosures in the context of developing economies. Results also showed that ownership structures influence CSR disclosures.

Brammer and Pavelin (2008) investigated the relationship between firm characteristics, company ownership and board composition with the quality of environmental disclosures of 450 UK companies drawn from a well-diversified range of sectors over a single period. They found evidence of firm size and nature of business activities influencing the quality of CSR disclosures but also failed to find a significant relationship between ownership structure and board composition with CSR quality.

In a study of large listed firms in South Africa over the period 2002 to 2009, Ntim and Soobaroyen (2013) investigated the effect of corporate governance on CSR. Unlike other studies, they examined whether CG can positively moderate the link between financial performance and CSR. They found that better-governed firms are more likely to engage in CSR. Government ownership was positively associated with the CSR index showing that commitment to CSR can win the support of the government as a powerful stakeholder. As expected block ownership was negatively associated with CSR. Independent directors and board diversity positively impacted on CSR. A major finding of the paper was that CG and CSR combined has a greater effect on financial performance than CSR alone thus implying that CG positively influences the financial performance-CSR link.

In a different context, Al-Bassam and Ntim (2016) unveiled the determinants of voluntary disclosure of corporate governance information in Saudi companies. Using self-constructed indices to measure voluntary disclosure and Islamic values, Al-Bassam and Ntim (2016) found that firms which commit to high Islamic values are more likely to disclose than those who do not, showing insights of the influence of Islamic values on voluntary disclosure. Additionally, audit size, board size,

government ownership, institutional ownership and the presence of a corporate governance committee were all found to positively influence voluntary disclosure while block ownership reduced voluntary disclosure.

4.6.2 Board Practices

In the Malaysian context, Haniffa and Cooke (2002) examined the influence of a multitude of variables grouped under corporate governance, cultural and firm-specific, with the extent of voluntary disclosure. Data for the study was collected from the annual reports of 167 companies for the year 1995. Two corporate governance variables; an independent non-executive director as chairperson and the proportion of family members on the board were found to be statistically significant in explaining voluntary disclosures. However, the negative relationship between an independent non-executive director and voluntary disclosure was contrary to their expectation and in contradiction with the agency theory. Haniffa and Cooke (2005) conducted another study comparing the extent and variety of CSR disclosures over two years. They also examined the relationship between corporate governance characteristics and ethnic background of directors and shareholders and CSR disclosures. Results showed a significant association of CSR disclosures with boards dominated by Malay directors, boards dominated by executive directors, chair with multiple directorships and foreign share ownership. The extent and variety of CSR disclosures also increased over the two periods.

The effect of corporate governance on sustainability disclosure was investigated by Michelon and Parbonetti (2012), arguing that both are related concepts aiming to improve its relationship with stakeholders. Using US and UK companies in their sample, they used content analysis on annual reports and stand-alone reports to

measure sustainability disclosures. Findings show a positive association between community influential members and sustainability disclosure. However, the association is significant for stand-alone reports only and not for annual reports. Weak evidence of the existence of a CSR committee or CSR director with sustainability disclosure was noted. Surprisingly independent directors were not found to influence sustainability disclosure. Instead of classifying directors as independent or executive, Michelon and Parbonetti call for a better appreciation of the characteristics of independent directors as their backgrounds and competencies are not homogeneous.

4.7 Employee Volunteering

De Gilder et al. (2005) in a study of employees at Dutch ABN-AMRO Bank investigated the effect of employee volunteering on participants' attitudes and their behaviour towards their employer. The study reports a positive attitude expressed by those who participated in the program. Colleagues who covered those involved in volunteering programs thus facing an increased workload, still expressed a positive attitude towards the program.

4.8 Firm Characteristics

Cowen et al. (1987) examined CSR disclosures of 134 US-based firms from 10 industries. CSR disclosures were analysed using the Ernst and Whinney (1978) themes of disclosure: environment; energy; fair business practices; human resources; community involvement and products. Their findings show that corporate size is the most important explanatory variable in explaining CSR disclosures. However, they note that the presence of a CSR committee is only associated with human resource

disclosures suggesting that the committee is more concerned about employee safety, health and training than other themes. No relationship between disclosure type and industry affiliation was found. However, no theoretical background was used in explaining the choice of explanatory variables.

Hackston and Milne's (1996) study of New Zealand companies aimed to provide an up-to-date description of CSR reporting based on overseas documented CSR practices and also to examine the potential determinants of CSR reporting. Similar to other developed countries such as UK, US and Australia, 'human resource' was the most disclosed theme followed by 'environment' and 'community'. Regarding determinants of CSR reporting, size and industry were found to be significant while profitability was not. The association was stronger for high profile industries than low profile industries. Dual and multiple listing also influenced CSR reporting but the authors argue that further investigation is needed to confirm whether the relationship can be extended to other countries.

4.9 Corporate Governance and Voluntary Disclosure in SIDS

In SIDS, firms are typically run by dominant shareholders who are also actively involved in management. The dominant shareholder serves as CEO, chairman or vice chairman of 50.7% of the publicly listed firms, on average (Robinson, 2017). One exception is Mauritius where role duality is not allowed by the national code of corporate governance (NCCG, 2004; Robinson, 2017). Therefore the most pertinent corporate governance issue is the protection of the interests of minority shareholders against the dominant shareholders instead of the conventional conflict between owners and managers (Robinson, 2017).

In a descriptive study of the impact of ownership structure on the disclosure of voluntary information of companies listed on the South Pacific Stock Exchange in Fiji, Khan et al. (2013b) found that companies making more voluntary disclosure are institutionally owned. Companies with a concentrated ownership structure especially those which are family owned disclose less strategic information but more CSR information. The authors highlight the lack of information regarding board members' qualifications, board committees and other corporate governance mechanisms and questions the effectiveness of corporate governance in these firms.

4.10 Regulation and CSR Reporting

Frost (2007) examined the effect of introducing mandatory environmental reporting requirements in Australia. The findings showed the importance of environmental regulation in increasing environmental disclosures especially negative aspects of environmental performance. Similarly, Fallan and Fallan (2009) compared the volume and content variety of environmental disclosures during periods of voluntarism and regulated disclosure. Some evidence of substitution of annual report disclosure to separate report disclosure is noted. They resent the need for regulation arguing that regulation does not have a long-lasting effect.

Conversely, Rashid and Lodh (2008) argue that a pro-regulation approach is required in developing countries to increase CSR reporting. Their study of Bangladeshi firms found an increase in the level of CSR reporting following regulation. Similarly, Mahadeo et al. (2011a) studied the effect of the introduction of a code of corporate governance on CSR reporting in Mauritius. The results showed an increase in CSR reporting following the implementation of the code. However, significant changes were only noticed two years after the implementation of the code. A change in the

variety of CSR reporting was also noticed after the introduction of the code. The importance of regulation is again highlighted by Haji (2013) who found an increase in CSR reporting after Bursa Malaysia mandated CSR reporting for all firms.

While environmental disclosure is mandated by several countries, this is not the case for social disclosure. One of the rare studies on mandatory CSR disclosure was conducted in the US following the California Transparency in Supply Chains Act (CTSCA) of 2010. This Act requires large retail and manufacturing firms to disclose their actions to eliminate slavery and human trafficking from their supply chains. Findings show that firms which face greater supply chain risk respond negatively to the CTSCA. A high compliance level to the legislation was noted though disclosure tends to be more symbolic than substantive. The authors argue that mandates only without additional rules and guidance may not lead to 'meaningful social disclosure' (Birkey et al. 2016).

Chelli et al. (2016) compared environmental disclosure in France and Canada. France has a mandate regarding environmental disclosure whereas in Canada it is purely voluntary. Results show that a parliamentary regime is more successful in enhancing environmental disclosure, however, in both cases, substantive disclosure remains low. Similarly, Chauvey et al. (2014) assessed the changes in CSR reporting of 81 French firms between 2004 and 2014. France was one of the first countries to mandate CSR reporting in 2001. The research found an increase in space allocated to CSR disclosure together with the quality of information disclosed. However, disclosure quality and disclosure of negative information remain low.

The tables which follow summarise those studies on voluntary disclosure drawing from strands in the literature such as ownership structure, board practices and corporate characteristics.

Table 4.1: Ownership Structure

Author	Aim	Sample	Findings
Khan et al. (2013a)	Examine the relationship between corporate governance and the extent of CSR disclosures	135 manufacturing companies over the period 2005-2009	Board independence, public ownership, foreign ownership and the presence of an audit committee are positively associated with CSR disclosure while CEO duality has no effect on CSR disclosures. A negative relationship is found between managerial ownership and CSR.
Muttakin and Khan (2014)	Examine the effect of corporate characteristics on CSR disclosure	135 manufacturing companies over the period 2005-2009	Larger firms and those which are export-oriented disclose more CSR information. Firms in the 'process' and 'consumer' industry categorisation disclose less CSR information than other industries. Family ownership has a negative impact on CSR disclosure.
Amran and Devi (2008)	To investigate the influence of government and foreign affiliates on corporate social reporting CSR	Companies listed on Bursa Malaysia in the year 2002/2003	Evidence of government influence in terms of ownership and dependence on government contracts, on CSR is found while foreign ownership and dependence on a foreign partner do not influence CSR.

Table 4.2: Board Practices

Author	Aim	Sample	Findings
Rao et al. (2012)	To investigate the relationship between Environmental Reporting and Corporate Governance	100 largest Australian firms listed on the Australian Stock Exchange (ASX)	A significant positive relationship between the extent of environmental reporting and the proportion of independent and female directors on a board is found. Board size and institutional shareholding were associated with higher disclosure.
Michelon and Parbonetti (2012)	To investigate the influence of corporate governance on sustainability disclosures	57 Dow Jones Sustainability Index companies	Community influential members positively affect sustainability disclosure. The presence of a CSR committee/ CSR director moderately influences sustainability disclosure while no evidence of board composition and CEO duality on sustainability disclosure is found.
Haji and Ghazali (2013)	To investigate the quality of voluntary disclosure practices by Shari'ah compliant companies (ShCCs) and its determinants	76 ShCCs selected from various sectors listed on Bursa Malaysia in the year 2009	The quality of voluntary disclosures by ShCCs is low compared to studies which previously investigated the quality of voluntary disclosures in Malaysia. Board size is significant in explaining the quality of voluntary disclosure. Company size and leverage used as control variables in the multi-variate analysis are also significant.

Chang et al. (2017)	To explore the relationship between boards characteristics and CSR	293 large Korean companies	The relationship between board characteristics and CSR is non-linear. Board independence has a positive effect on CSR only if the proportion of independent directors exceed the mandatory requirement of 25%. CEO-outside director ties lead to more CSR but can be detrimental on CSR when the ties become too 'tight' which impedes on independence. An increase in board educational diversity can increase CSR as members are more comfortable to express their ideas.
Chintrakarn et al. (2016)	To explore the effect of corporate governance quality on CSR	3334 firm-year observations	Findings point towards the over-investment hypothesis. Higher levels of governance quality lead to a cut in CSR investment. The conflict resolution hypothesis which states that better governance brings more CSR investment is not supported.

Table 4.3: Themes of Disclosure and Corporate Characteristics

Author	Aim	Sample	Findings
Cormier and Gordon (2001)	Investigate the relationship between CSR disclosure and corporate characteristics	3 Canadian Electric power companies	Larger companies and publicly owned companies provide more disclosures than small companies and privately owned firms.
Adams et al. (1998)	Identify factors which influence CSR	25 largest companies from western Europe	Company size, industry affiliation and country of domicile all affect CSR disclosure pattern. Industry affiliation is significantly related to environmental and employee information but not to ethical information. Disclosure level across Europe varies significantly.
Khemir and Baccouche (2010)	Assess the extent of CSR reporting and its determinants	23 non-financial firms listed on Tunisian stock exchange over the period 2001-2004	Disclosure about products is the main theme of disclosure followed by human resource, environment and lastly community involvement. Firms' degree of internationalisation, level of debt and political visibility are factors which influence CSR reporting.
Usman and Amran (2015)	Describe the trend of CSR practices in Nigeria and assess the relationship between CSR disclosures and corporate financial performance (CFP)	68 listed firms on Nigeria Stock exchange	Human Resource disclosures lead the themes of disclosure. Environment is the least disclosed theme. Community disclosure, Human Resource and product disclosure enhance CFP.

4.11 Conclusion

Despite four decades of research on the determinants of CSR reporting, there is no consensus on the influence of CG characteristics on CSR reporting. For instance a number of studies report a negative relationship between block ownership and voluntary disclosure (Ntim and Soobaroyen, 2013; Rees and Radionova, 2015; Zheng et al. 2014) while Harjoto and Jo (2011), Mallin et al. (2013) found a positive relationship between the two variables and no relationship is reported between the two variables by Brown et al. (2006). Similarly, conflicting results have been found between CSR and other CG characteristics such as board size, the proportion of independent directors on the board and managerial ownership among others. Differences in institutional and economic contexts result in varying motivation to undertake CSR (Jain and Jamali, 2016) which can explain conflicting results. Belal and Momin (2009) call for 'contextually anchored' studies in emerging countries.

Most studies have been conducted in developed countries such as UK, USA, Canada and Australia (Cowen et al. 1987, Clarkson et al. 2008; Newson and Deegan, 2002; Brammer and Pavelin, 2004), or large developing countries such as Malaysia, India and Bangladesh (Imam 2000; Belal and Owen, 2007; Islam and Deegan, 2008; Haniffa and Cooke; 2002; Rashid and Lodh, 2008; Rashid, 2015; Singh and Ahuja, 1983). Studies on African countries and especially SIDS like Mauritius are very rare.

A number of studies have been carried out over a single period (Rizk et al. 2008; Al-Naimi,et al. 2011; Belal, 2001; Echave and Bhati, 2010). Results of these studies cannot be generalised. As explained by Mahadeo et al. (2011a), social, economic and political circumstances which give rise to CSR reporting do not unfold in the same period. A larger window of observation is therefore required for CSR

reporting studies. Furthermore, studies have focused on a segment of CSR reporting such as environmental reporting (Brammer and Pavelin, 2006; Rao et al. 2012; Rodrigue et al. 2015) or community disclosures (Soobaroyen and Mahadeo, 2016). Many studies are also restricted to one particular sector, such as banks (Khan, 2010; Khan et al. 2009; Krasodomska, 2015). Furthermore, a number of studies use a binary variable to measure the dependent variable of their study. For example, Haddock-Fraser and Fraser (2008) use a dichotomous score to measure environmental reporting of firms in the UK. Similarly, Kolk and Perego (2010) use a dichotomous score to measure whether firms provide assurance of sustainability statements. Likewise, Yunus et al. (2016) use a binary scale to investigate which firms adopted a carbon management system. Using a dichotomous scale to measure disclosure may give an improper account of the CSR/sustainability performance of a firm. It also neglects the richness of information disclosed by firms.

This study contributes to the scarce CSR literature in the African region. The study also overcomes the weaknesses of other research by considering a broader view of voluntary disclosure i.e. CSR (both social and environmental) and not limited to environmental reporting. This longitudinal study over eight years implies a greater power of generalisation. CSR reporting is measured based on a 41-item index and not limited to a dichotomous score.

Themes and extent of disclosure vary from country to country and results even differ for the same country at different time periods (Belal, 2001 and Imam, 2000). This lends evidence to the fact that motivations to disclose CSR is a complex phenomenon consisting of a set of interconnected logics (Freedman and Stagliano, 1991). Events, social and political context and legislation among others, all play an important role in shaping the CSR landscape. However, few studies (e.g. Haniffa and

Cooke, 2005; Mahadeo, 2010 and Mahadeo et al. 2011a, b) attach importance to these factors and others simply ignore them. This study addresses such shortcomings by putting forward hypotheses and interpreting results based on local factors influencing CSR.

In the unique Mauritian CSR environment, this study intends to shed light on the effect of the CSR levy on CSR activities of firms and reporting. This research provides an opportunity to examine whether Mauritian firms follow a disclosure pattern different from other developing countries as claimed by Mahadeo et al. (2011a). Due to non-inclusion of the 'human resource' theme in their study, this lacks validity. Furthermore, Mahadeo et al. (2011a, b) consider only firm characteristics. This thesis extends the work of Mahadeo et al. (2011a) by considering CG variables in addition to firm characteristics among determinants of CSR. Among the exploratory variables, this study explores the effect of firms which practise employee volunteering on CSR reporting. This perspective has been overlooked by other researchers (e.g. Sanders and Roefs, 2002; Muthuri et al. 2009) who have focused on the effect of employee volunteering. Another novelty of this study is the investigation of the CSR activities of firms which go beyond the 2% levy. This study is the first to examine discretionary CSR activities and characteristics of these firms in a mandatory CSR setting.

The empirical evidence of the effect of legislation indicates that CSR disclosures increase but there are subtle differences of the regulation on CSR disclosures. Fallan and Fallan (2009) claim an immediate effect of regulation on CSR reporting while Mahadeo et al. (2011a) report a delayed effect. Frost (2007) reports an increase in disclosure but the substitution of voluntary disclosures by mandatory disclosures. More importantly, prior studies reported the incidence of regulations on

or related to CSR disclosures, this study reports the dual effect of mandatory CSR contribution (levy) and CSR disclosures. This study is also different from other studies such as Frost (2007) and Fallan and Fallan (2011) as CSR reporting is mandatory without any guidelines on 'what' and 'how' to report. Similarly, the CSR levy can also be paid as a tax if a company chooses not to be involved in CSR activities. The effects of these two regulations on CSR reporting are yet to be assessed.

CSR activity and disclosure is a voluntary activity in most countries. This chapter reviewed a number of studies covering themes, the extent of CSR reporting and determinants of CSR reporting. The review shows that determinants of CSR reporting vary between countries, institutional settings and culture. There is not a set of pre-determined CG characteristics which influence CSR reporting. An appreciation of the context in which CSR reporting takes place is therefore important. Most importantly, this chapter identifies the shortcomings of previous studies and explains how this study will address these weaknesses. The contribution of this study to the CSR literature is highlighted.

Chapter 5 Hypothesis Development

5.1 Introduction

This study aims to examine whether corporate governance practices influence CSR reporting in Mauritius. More particularly, it examines the influence of ownership arrangements such as block ownership, director's ownership and Government ownership on CSR reporting. It also considers the effect of other factors such as board practices (board size, board independence, board diversity and director's education), employee volunteering and the existence of foundations on CSR reporting. This chapter addresses three research questions: (1) To what extent CSR regulation influence CSR reporting? (2) Which corporate governance practices/other factors influence CSR reporting? (3) What are the determinants of voluntary CSR? These three research questions are developed into testable hypotheses.

The chapter is organised as follows: Section 5.2 develops the hypothesis which links CSR regulation to CSR reporting. In section 5.2 hypotheses related to ownership structure are developed. This is followed by section 5.4 which elaborates on the influence of board characteristics on CSR reporting. This thesis includes two other factors (foundations and employee volunteering) which can potentially influence CSR reporting. Two hypotheses linking foundations and employee volunteering are shown in section 5.5. Section 5.6 provides a summary of hypotheses and finally section 5.7 summarises the chapter.

5.2 CSR Regulation and CSR Reporting

With the introduction of the CSR levy companies have the choice of using their CSR funds for approved CSR activities or pay it in the form of a tax. However, it remains to be assessed whether companies have continued their CSR engagement. The choice to be involved in CSR activities is a voluntary one. In line with the legitimacy theory, it can be contended that companies will perpetuate their CSR engagement to maintain their standing in society, following the circumstances under which the CSR levy was imposed. Though the CSR levy is not directly linked to CSR disclosure, it is expected that its influence will extend to CSR disclosure. First, mandatory CSR will in some way compel non-CSR engaged firms to be involved in CSR activities and, secondly if CSR disclosure mirrors CSR practices, an increase in disclosure can be expected. Third, in line with the requirements of the FRA (2004) firms will disclose CSR to avoid scrutiny by the regulator. From a neo-institutional theory perspective, coercive pressure in the form of the two previously-mentioned regulations will compel companies to be more socially and environmentally responsible and, at the same time be more transparent. This discussion leads to the following hypothesis:

Hypothesis 1: There is an increase in the extent of CSR reporting following CSR regulation.

5.3 Ownership Structure

5.3.1 Director Ownership

When executive directors own a substantial part of the share capital, agency conflicts are lower. The principal-agent problem is exacerbated when managers have a low shareholding in the organisation giving rise to opportunistic behaviour by

managers (Jensen and Meckling, 1976). As such outside shareholders will increase monitoring which, in turn increases the costs of the organisation. Voluntary disclosures can reduce the need for such monitoring (Eng and Mak, 2003). High level of insider ownership means that the cost of non-value adding activities must be borne by them. If CSR decreases firm value, an increase in insider ownership will decrease CSR involvement (Barnea and Rubin, 2010). Owner managed firms attract less public interest and consequently, their involvement in CSR activities might be minimal as the costs of such programmes might outweigh the benefits (Ghazali, 2007). Neo-institutional theory predicts that firms with high managerial ownership will be less influenced by mimetic and normative pressures. As regards coercive pressure to be engaged in CSR, such firms might prefer to hand their mandatory CSR contribution to approved agencies or pay it in the form of a tax than being involved in CSR activities, which will enable them to concentrate on their core activities. Going beyond the mandatory CSR threshold is not the appropriate strategy to attain legitimacy for firms with high managerial ownership due to less powerful stakeholders. This discussion leads to following hypotheses:

Hypothesis 2a: There is a negative association between the proportion of director ownership and the extent of CSR reporting

Hypothesis 2b: Firms with a higher proportion of director ownership are less likely to engage in voluntary CSR practices in addition to mandatory CSR practices.

5.3.2 Block Ownership

Ownership structure determines the level of management monitoring (Eng and Mak, 2003). In a widely held firm, agency conflicts and managerial opportunism are

common. Disclosure acts as a bonding and monitoring tool to reduce agency conflicts (Jensen and Meckling, 1976). Jiang and Habib (2009) argue that 'the extent and the quality of corporate disclosures are the outcomes of conflicting interests among management, majority and minority shareholders' It can be argued that if the ownership of a company is concentrated the organisation will endeavour to meet the needs of the major shareholders. However, large shareholders already have access to internal information and are less likely to demand additional disclosure (Lakhal, 2005). Since they do not need to attract capital from outside they are less inclined to disclose additional information (Habib and Jiang, 2009). Conversely, when shares in a company are widely held, a large number of shareholders may hold a small proportion of the shares. In such a situation accountability becomes an important issue as the shares may be held by the public at large. The higher level of accountability may be accompanied by greater involvement in social activities and disclosure of the same (Ghazali, 2010). Roberts (1992) states that disperse shareholding in the hands of those who have an interest in social activities (e.g. mutual funds) increase the pressure for social disclosures. An absence of disclosure in a firm with dispersed shareholding increases the information asymmetry between shareholders and the organisation which can entail severe adverse investor reaction.

The absence of strong stakeholders inside a closely-held firm may result in low quantity and quality of CSR disclosure. From a stakeholder perspective, CSR is less important for a firm with concentrated ownership. Furthermore, closely held firms can better avoid coercive, mimetic and institutional pressures including CSR, than firms with dispersed ownership (Ntim and Soobaroyen, 2013). This discussion leads to following hypotheses:

Hypothesis 3a: There is a negative association between the proportion of shares held by block holders and the extent of CSR reporting.

Hypothesis 3b: Firms with a higher level of block ownership are less likely to engage in voluntary CSR practices in addition to mandatory CSR practices.

5.3.3 Government Ownership

Government-owned entities look beyond the profit maximisation perspective and have to embrace social goals. The conflicting objectives faced by these firms require more communication with other shareholders (Eng and Mak, 2003). With the increasing awareness about social and environmental responsibility globally and in light of mandatory CSR, these companies have government-appointed directors who have the moral and professional responsibility to implement government initiatives. 'Being in sync with the government is important for the survival' (Amran and Devi, 2008). Government-owned companies are also more politically sensitive. The fact that they are run by public funds, activities of these firms are more in the eyes of the public as government ownership is equivalent to a business being owned by the public at large (Ghazali, 2007). Therefore, government shareholding can be expected to result in greater CSR disclosures as these firms must promote transparency and discharge their public accountability (Said et al. 2009; Post et al, 2011). This discussion leads to the following hypothesis:

Hypothesis 4: There is a positive association between the presence of government ownership and the extent of CSR reporting**.**

5.4 Board Characteristics

5.4.1 Board Independence

In modern organisations, the separation of ownership and management gives rise to a conflict of interest due to the lack of trust between managers and shareholders. Shareholders are unsure whether management decisions and actions are in the best interest of the organisation (Ntim and Soobaroyen, 2013). From a neo-institutional perspective, independent directorship is a strategy to reduce this conflict of interest as directors who are independent of the organisation are better placed to monitor conformance to rules, codes and norms. Independent directors can bring better governance to improve overall board effectiveness (Prasanna, 2006) which can improve firm performance (Bonn, 2004). Independent directors' act as a check and balance mechanism ensuring that companies act in the best interest of shareholders and stakeholders (Haniffa and Cooke, 2005). The ability of the board to monitor and ratify managerial decisions is enhanced by boards comprising of a higher proportion of independent directors as they care about their reputation (Cheng and Courteney, 2006). They are also more concerned about the social responsibility of the company as this can improve their prestige and honour in society (Zahra and Stanton, 1988). Tricker (1984) views CSR as a strategy to close the legitimacy gap between management and shareholders via non-executive directors. Independent directors are less inclined to management and predisposed to influence firms to provide information to a broad range of stakeholders (Michelon and Parbonetti, 2012; Haniffa and Cooke, 2005).

Moreover, the salaries of independent directors are not linked to the financial performance of the organisation and therefore are more concerned about the long-term

sustainability of the organisation rather than short-term financial performance, encouraging practice and reporting of CSR activities (Ibrahim and Howard, 2003). A survey of independent directors in Australia showed that they play an active role in ensuring that the business meets its social responsibility (Brooks et al. 2009). This discussion leads to following hypotheses:

Hypothesis 5a: There is a positive association between the proportion of independent directors and the extent of CSR reporting.

Hypothesis 5b: Firms with a higher proportion of independent directors are more likely to engage in voluntary CSR practices in addition to mandatory requirements.

5.4.2 Board Size

Board size refers to the number of directors sitting on the board and varies among countries. The average board size in Mauritius is 10 while in Europe, countries such as France, Belgium, Spain and Germany tend to have a larger board which averages 13 to 19 members (Heidrick & Struggles, 2011).

Larger boards are associated with greater monitoring abilities and with broader stakeholder representation it increases attention towards the environment (Ho and Williams, 2003; Halme and Huse, 1997). Conversely, in smaller boards, the workload of members is greater, which impedes on their ability to monitor management (John and Senbet, 1998). However, drawbacks associated with large boards include slow decision making and lack of unanimity which eventually affects board effectiveness and efficiency (Rao et al. 2012). Larger boards can lead to lower monitoring with members engaging in free riding and shrinking of responsibilities which can result in a few managers dominating the board decisions and thus impacting negatively on CSR

practices and disclosures (Ntim and Soobaroyen, 2013). Conger and Lawler (2009) argue that a board of 9 to 13 members is the ideal size but it is the ability of members to work as a team which makes boards effective.

From a neo-institutional theory perspective, a larger board is in a better position to monitor compliance with regulations and conformance to norms (Ntim and Soobaroyen, 2013). Furthermore, the chance of having a dominating CEO is lessened as the board has better monitoring abilities (Harris and Raviv, 2005), as such CSR matters can be discussed by a larger board. From a legitimacy theory point of view, the wide representation of stakeholders can persuade firms to go beyond the mandatory CSR guidelines and engage in voluntary CSR. This discussion leads to following hypotheses:

Hypothesis 6a: There is a positive association between board size and the extent of CSR reporting.

Hypothesis 6b: Firms with a larger board size are more likely to engage in voluntary CSR practices in addition to mandatory requirements.

5.4.3 Board Gender Diversity

The issue of diversity becomes important as women and minorities are increasing in proportion in the workforce (Erhardt et al. 2003). Watson et al. (1993) claim that diversity brings a greater knowledge base, creativity and innovation which can lead to a competitive advantage. Gender diversity is the most debated element of diversity at board level (Mahadeo et al. 2012; Rao et al. 2012). Women representation on corporate boards remains low. One-third of Australian companies have no woman represented on their board while nearly half of companies have only one female board

member (Kang et al. 2007). Similarly, in the US only 15 percent of board members in large companies are women (Terjesen and Singh, 2008) and even lower (3%) in Mauritian listed companies (Mahadeo et al. 2012).

Board gender diversity can create a better atmosphere in the boardroom as women are more prepared for meetings and ask questions (Huse and Solberg, 2006) which promotes better quality board discussion and increases the ability of the board to provide better monitoring of a firm's disclosures. Better monitoring results in more transparency in the form of increased public disclosure meaning that managers have less scope to use private information to their benefit. It also enables investors to gain firm-specific information at a reduced cost (Gul et al. 2011). Female directors attribute greater importance to philanthropy than economic performance, implying that firms with more women directors are more inclined to engage in CSR (Nabil and John, 1994). This is because women as compared to men possess more communal traits such as affection, kindness and concern for others' welfare (Galbreath, 2016). Female directors can enhance independence which can improve transparency through increased disclosure (Rao et al. 2012). Carter et al. (2003) concluded that a positive significant relationship exists between the proportion of women or minorities on the board and firm value. They also observe that the proportion of women and minorities increases with firm size and board size but decreases as more insiders join the board of directors. Gender equality legislation and changing social attitudes have contributed to bringing more women in the boardroom (Mahadeo et al. 2012). Mauritius attributes high importance to gender equality. It has a minister responsible for gender equality affairs and parties willing to contest municipal elections are required to have a threshold of at least one-third of women candidates. Neo-institutional theory posits that a spill-over effect of the above initiatives will induce companies to promote

greater woman representation on their boards which will enhance CSR disclosures. Stakeholder theory suggests that board gender diversity can help the organization to maintain its legitimacy by linking the firm with the external environment. It is expected that gender-diverse boards will exert pressure for keeping with traditional CSR activities even if it implies going beyond the mandatory CSR contribution. This discussion leads to following hypotheses:

Hypothesis 7a: There is a positive association between the proportion of board gender diversity and the extent of CSR reporting.

Hypothesis 7b: The presence of a female board member increases the likelihood for a firm to engage in voluntary CSR practices in addition to mandatory requirements.

5.4.4 Directors' Education

To build a highly effective board, firms should consider their needs and bring the right mix of knowledge, information, power, opportunity and availability (Congler and Lawler, 2001). It can be argued that education influences an individual's act. Hambrick and Mason (1984) claim that the field of study of an individual will have an influence on a person's cognitive base. For instance, a person educated in engineering and a person educated in law would have a different cognitive base and would, therefore, be different. Individuals with different academic backgrounds view the social role of an organisation differently (Chang et al. 2017). Better educated managers can provide a rich pool of ideas and contribute to board discussion through an in-depth analysis of matters, leading to better decisions. Moreover, they are more inclined to adopt innovative ideas and accept ambiguity (Westphal and Milton, 2000; Hambrick and Mason, 1984). Using academic background as a possible factor influencing

strategic change, Wiersema and Bantel (1992) hypothesized that academic fields like science or engineering are linked with innovation, progress and improvement; consequently, people studying these fields are more open to change than those studying arts or business students. Their findings proved their hypothesis correct. Ralston et al. (1997) argue that when countries become industrialised there is a convergence towards Western capitalistic values. Industrialisation has given rise to common education to support technology, which can lead to homogeneity across societies (Ralston et al. 1993). Palmer et al. (1993) found similarities in the strategy adopted by people having followed the same type of education. Respondents in the study of Congler and Lawler (2001) identified accounting and finance professionals as major providers of expert knowledge to board discussions when discussing strategy. From a neo-institutional perspective, it can be argued that directors who have an accounting/business/ finance academic background (hereafter referred to as business-educated directors) have received a common education and must have been exposed to CSR as part of their formal education. They are expected to be more familiar with CSR issues than directors having studied a different academic field. These directors can choose to provide more disclosures to show the accountability of the organisation which can enhance the organisation's image (Haniffa and Cooke, 2002). Directors holding a social qualification have a better knowledge of the expectations of the society and can, therefore, advise on CSR activities which can prevent a legitimacy gap. This discussion leads to following hypotheses:

Hypothesis 8a: There is a positive association between the proportion of business-educated directors and the extent of CSR reporting.

Hypothesis 8b: The presence of a director holding a social qualification increases the likelihood for a firm to be involved in voluntary CSR practices in addition to mandatory requirements.

5.5 Other Factors- Foundations and Employee Volunteering

5.5.1 Foundations

Mauritian CSR rules permit a company or group of companies having a CSR fund of more than Rs 2million to set up a Special Purpose Vehicle often termed as a 'foundation' to implement their CSR projects. With a number of companies setting up foundations to further their social goals, CSR in Mauritius has become more 'institutionalised' (Pillay, 2015). Foundations can engage themselves in long-term and strategic projects since they can attract a considerable amount of CSR funds. Since several companies in a group can channel their CSR funds to one foundation, on the grounds of accountability, these companies are expected to disclose CSR projects carried out by the foundation. This discussion leads to following hypotheses:

Hypothesis 9a: There is a positive association between companies channelling their CSR funds to a foundation and the extent of CSR reporting.

Hypothesis 9b: Companies channelling their CSR funds to a foundation are more likely to engage in voluntary CSR practices in addition to mandatory CSR requirements.

5.5.2 Employee Volunteering

Volunteering is 'an activity that is performed outside of work, as a consequence of an individual's choice to donate time to non-profit activities' (De Gilder et al. 2005).

Some companies encourage staff to do volunteer work during their working hours at the expense of the company. Employees leave their usual company task and may, for instance, help in a neighbouring school or contribute to the development of a community safety program (De Gilder et al., 2005). Corporate employee volunteer programs are an innovative way for companies to show their commitment to the community, improve company reputation and instil a good corporate culture (Houghton et al. 2009). A number of reasons are provided by companies initiating employee volunteering programs such as 'doing good', 'cooperating with others', 'trusting' or 'networking' (Muthuri et al. 2009). When CSR is mandatory and companies cannot use it to gain a competitive edge, employee volunteering can be used as a differentiating strategy to achieve the same objective. From a stakeholder theory perspective, employee volunteering links the company to an important stakeholder: the community. Being in touch with the community makes it easier for firms to be in accord with society's expectations. Such practice can only benefit the company if it is reported. It can, therefore, be hypothesised that:

Hypothesis 10: There is a positive association between employee volunteering and the extent of CSR reporting.

5.6 Summary of Hypotheses

The hypotheses developed above are summarised in table 5.1 below.

Table 5.1: Summary of Hypotheses

Regulation	Hypothesis 1: There is an increase in the extent of CSR reporting following CSR legislation
Ownership structure (Director ownership)	Hypothesis 2a: There is a negative association between the proportion of director ownership and the extent of CSR reporting.
Ownership structure (Director ownership)	Hypothesis 2b: Firms with a higher proportion of director ownership are less likely to engage in voluntary CSR practices in addition to mandatory CSR practices.
Ownership structure (Block ownership)	Hypothesis 3a: There is a negative association between the proportion of shares held by block holders and the extent of CSR reporting
Ownership structure (Block ownership)	Hypothesis 3b: Firms with a higher level of block ownership are less likely to engage in voluntary CSR practices in addition to mandatory CSR practices.
Ownership structure (Government ownership)	Hypothesis 4: There is a positive association between the presence of government ownership and the extent of CSR reporting
Board Practices (Board independence)	Hypothesis 5a: There is a positive association between the proportion of independent directors and the extent of CSR reporting
Board Practices (Board independence)	Hypothesis 5b: Firms with a higher proportion of independent directors are more likely to engage in voluntary CSR practices in addition to mandatory requirements.
Board Practices (Board size)	Hypothesis 6a: There is a positive association between board size and the extent of CSR reporting
Board Practices (Board size)	Hypothesis 6b: Firms with a larger board size are more likely to engage in voluntary CSR practices in addition to mandatory requirements.
Board Practices (Gender diversity)	Hypothesis 7a: There is a positive association between the proportion of board gender diversity and the extent of CSR reporting.
Board Practices (Gender diversity)	Hypothesis 7b: The presence of a female board member increases the likelihood for a firm to engage in voluntary CSR practices in addition to mandatory requirements.

Board Practices (Education)	Hypothesis 8a: There is a positive association between the proportion of business educated directors and the extent of CSR reporting.
Board Practices (Education)	Hypothesis 8b: The presence of a director holding a social qualification increases the likelihood for a firm to be involved in voluntary CSR practices in addition to mandatory requirements.
Foundation	Hypothesis 9a: There is a positive association between companies channelling their CSR funds to a foundation and the extent of CSR reporting.
Foundation	Hypothesis 9b: Firms channelling their CSR funds to a foundation are more likely to engage in voluntary CSR practices in addition to mandatory CSR requirements.
Employee volunteering	Hypothesis 10: There is a positive association between employee volunteering and the extent of CSR reporting.

5.7 Chapter Summary

This thesis argues that CSR reporting in Mauritius is influenced by corporate governance practices, other factors (employee volunteering and foundations), CSR regulation and corporate characteristics. The first hypothesis is developed around neo-institutional theory which argues that CSR regulation will bring an increase in CSR reporting. Using a combination of legitimacy and neo-institutional theories, hypotheses relating to corporate governance practices and other factors were developed. The same set of factors were used to explain involvement in voluntary CSR. Legitimacy and stakeholder theories were used to explain the decision to adopt voluntary CSR.

Chapter 6 Research Method

6.1 Introduction

This chapter explains the research methods used to test the study hypotheses. More specifically, it details the measurement of the dependent and independent variables. The chapter proceeds as follows. Section 6.2 explains positivism and phenomenological research paradigms. In section 6.3 the research design which compares deductive and inductive research approaches is explained. Then the research methodology and design used in this study are explained. In section 6.4 the models to be estimated as well as the measurement of the dependent variables, the independent variables and the control variables as well as data sources are covered. The assumptions of multiple regression are outlined in section 6.5. Finally, section 6.6 concludes the chapter.

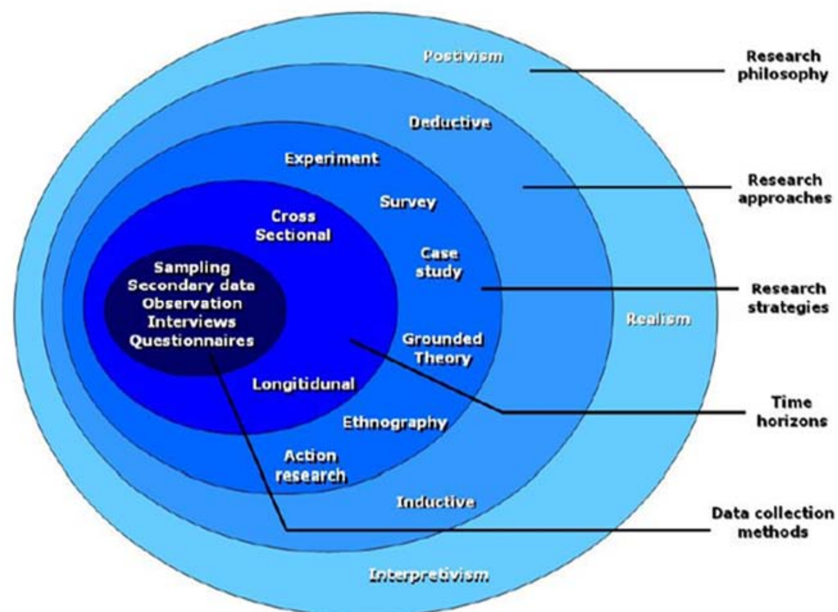
6.2 Research Philosophy

The research philosophy one adopts can be thought as the assumptions about the way one views the world. Maylor and Blackmon (2005) state that research philosophy is about the ontological assumptions about the nature of reality: 'what is considered to exist and, just importantly, what does not exist in the environment we are studying.' In their research process 'onion' Saunders, et al. (2009) describe positivism, realism and interpretivism as three research philosophies through which knowledge is developed and is considered acceptable (Figure 5.1). They further argue that these three philosophies are different 'if not mutually exclusive'. Before going

further, there are three terms (ontology, epistemology and methodology) which are frequently used and which need to be defined. Healy and Perry (2000) describe ontology as the 'reality' that researchers investigate; epistemology is the relationship between the reality under investigation and the researcher; while methodology is the strategy used by the researcher to investigate that reality.

Two extreme classifications of research philosophies are positivism and phenomenology. Positivism is also described as traditional, quantitative or empiricist, while, the phenomenological approach is also referred to as post-positivist, subjective or qualitative (Collins and Hussey, 2007).

Figure 6. 1: The Research Process Onion



Source: Saunders et al. (2009)

Positivism is derived from the philosophy of science (Mayor and Blackmon, 2005). The researcher takes the role of an objective analyst, interpreting data which is assumed to be collected in a value-free manner (Saunders et al. 2009). Thus, the researcher must be separate from what he/she is researching to remain objective. This

distance can be physical, for example, performing a postal survey or by a procedure such as separating planning and execution of research (Mayor and Blackmon, 2005). The emphasis of positivism lies in a highly structured methodology whereby observations can be replicated and they lend themselves to statistical analysis (Saunders et al. 2009).

The phenomenological paradigm is critical of the positivist approach arguing that the social world is far too complex to be reduced to ‘laws’ which apply in the physical sciences. The world is ever changing; conditions which apply now may not be relevant in three months’ time, which implies that generalisability is not possible (Saunders et al. 2009). Easterby-Smith et al. (2006) explain that the phenomenological paradigm views reality as being socially constructed. People make different interpretations of the one situation which leads to different courses of action and changes in the nature of their social interaction with one another (Saunders et al. 2009). Phenomenology appreciates differences in interpretation, feelings and actions and tries to explain why and how people have these different experiences rather than finding some ‘laws’ or external factors to explain their behaviour (Easterby-Smith, 2006). As opposed to scientific research, the researcher is part of the phenomenon he/she is observing.

6.3 Research Approach and Design

6.3.1 Deductive and Inductive Approach

In a deductive research approach, there is a well-established role of theory which guides the development of hypotheses and choice of variables. Under this approach, the researcher sets a theoretical framework and goes about testing it (Ali and

Birley, 1999). Conversely, in an inductive research approach, the researcher makes knowledge claims based on a constructivist perspective. The researcher collects data with the intention to develop themes from the data (Elmogla, 2009). Basically, a deductive approach follows a positivist paradigm whereas an inductive approach follows a phenomenological paradigm. A comparison of inductive and deductive research approaches are summarised in Table 6.1.

Robson (1999) [cited in Saunders et al. 2009] lists the sequential steps of deductive research as:

1) - Develop a hypothesis based on a theory;

2) - Express hypothesis in operational terms (explain variables to be tested and how they are going to be measured), which explains the relationship between variables;

3) - Test the hypothesis;

4) - Conclude whether the outcome is in line with theory or indicates the need for modification; and

5) - If required, modify theory based on findings.

Table 6.1: Comparison between Deductive and Inductive Research Approaches

Deductive emphasis	Induction emphasis
Highly structured approach	Flexible approach to permitting changes of research emphasis as research progresses
Researcher is independent of the research process	Researcher is part of the research process
Need to explain causal relationships among variables	Gaining an understanding of the meanings humans attach to events
Collection of quantitative data	Collection of qualitative data
Sufficient sample size to generalise conclusions	Less concern with the need to generalise
Develop theoretical framework	Area of inquiry identified but no theoretical framework

Outcome: theory tested based on whether hypotheses are accepted or rejected	Outcome: theory developed

Source: (Saunders et al. 2009; Ali and Birley, 2009)

6.3.2 Study Design

Research design relates to a framework for collecting and analysing data, which serves as a plan, strategy or structure to assist a researcher's investigations (Bryman and Bell, 2011). There are four types of research design: longitudinal design, experimental design, cross-sectional design and case study design (Muwazir, 2011). In a longitudinal design, 'a sample is surveyed and then surveyed again on at least one further occasion' (Byrman and Bell, 2011).

This study adopts a positivist approach using a hypothetico-deductive methodology. The steps outlined by Robson (1999) are followed to test the hypotheses. This study uses a longitudinal design in a panel study as it intends to investigate CSR reporting over time for several companies.

6.4 Model Specification

The hypotheses are to be tested using multiple regression. Following Petersen (2009), robust standard error technique will be used. Three regression equations aim to identify the impact of regulation on CSR reporting; the influence of corporate governance practices and other factors on CSR reporting and the influence of corporate governance practices and other factors on voluntary CSR in a mandatory CSR environment. The variables to be used in the estimation are in Table 6.2.

6.4.1 Regulation and CSR Reporting

$CSRI_{it} = \alpha + \beta 1REG_{it} + \beta 2DIROWN_{it} + \beta 3BLOCKOWN_{it} + \beta 4GOVOWN_{it} + \beta 5BDSIZE_{it} + \beta 6BDIND_{it} + \beta 7BDDIV_{it} + \beta 8FOUND_{it} + \beta 9SIZE_{it} + \beta 10INDUSTRY + \beta 11PROF_{it-1} + eit$

The dependent variable, CSR Reporting (CSRI), is a function of 11 independent and control variables. See section 6.4.4 for the details of the dependent variable measurement.

6.4.2 Corporate Governance Practices and CSR Reporting

$CSRI_{it} = \alpha + \beta_1 DIROWN_{it} + \beta_2 BLOCKOWN_{it} + \beta_3 GOVOWN_{it} + \beta_4 BDSIZE_{it} + \beta_5 BDIND_{it} + \beta_6 BDDIV_{it} + \beta_7 DIREDU_{it} + \beta_8 FOUND_{it} + \beta_9 EMPVOL + \beta_{10} SIZE_{it} + \beta_{11} INDUSTRY + \beta_{12} REG_{it} + \beta_{13} PROF_{it-1} + e_{it}$

The dependent variable, CSR Reporting (CSRI), is a function of 13 independent and control variables. See section 6.4.4 for the details of the dependent variable measurement.

6.4.3 Corporate Governance Practices and Voluntary CSR

$VOLCSR_{it} = \alpha + \beta_1 DIROWN_{it} + \beta_2 BLOCKOWN_{it} + \beta_3 BDSIZE_{it} + \beta_4 BDIND_{it} + \beta_5 BDDIV_{it} + \beta_6 SOCIALEDU_{it} + \beta_7 PROF_{it-1} + \beta_8 FOUND_{it} + \beta_9 SIZE_{it} + \beta_{10} IND + e_{it}$

The dependent variable, voluntary CSR, (VOLCSR) is a function of 10 independent and control variables. See section 6.4.5 for the details of VOLCSR measurement.

6.4.4 Dependent Variable Measurement: CSR Index (CSRI)

Content analysis is used to quantify the extent of CSR disclosures of companies. Content analysis is a technique of codifying the text of writing into various groups or categories which captures the aspects of CSR information (Branco and Rodrigues, 2008). It assumes that frequency indicates the importance of the subject matter (Krippendorff, 1980). There are several stages of content analysis, Wolfe (1991) lists them as follows: Identify the question(s) to be investigated; Determine the sampling units; Determine and define the content categories; Determine the recordings unit; Determine the coding mode; Test coding on a sample of text and assess reliability and validity.

Table 6.2: Variables – Definition of Dependent and Independent

Panel A: Dependent Variables	
$CSRI_{it}$	is the CSR Index of company *i* in period *t*. It is measured using the CSR checklist.
$VOLCSR_{it}$	is a dichotomous variable which takes value *1* if a company is involved in voluntary CSR, otherwise zero (0). It is measured using the voluntary CSR checklist.
Panel B: Independent Variables	
Ownership Structure	
$DIROWN_{it}$	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*.
$GOVOWN_{it}$	is a dichotomous variable which takes value *1* for the presence of Mauritian Government or its investment arm as shareholder, else zero (0).
Board Practices	
$BDIND_{it}$	It represents the proportion of independent non-executive directors on the board of company *i* in period *t*.
$BDSIZE_{it}$	is the number of directors of company *i* in period *t*.
$BDDIV_{it}$	It represents the proportion of female directors on the board of company *i* in period *t*.
$DIREDU_{it}$	is the proportion of directors, qualified in accounting/finance/business of company *i* in period *t*.
$SOCEDU_{it}$	is a dichotomous variable which takes value 1 for the presence of director(s) qualified in social studies/sociology/social work of company *i* in period *t*, else zero (0).

Other Variables	
$FOUND_{it}$	is a dichotomous variable which takes value *1* if company *i* channels its CSR funds through a foundation in period *t*, else zero (0).
$EMPVOL_{it}$	is a dichotomous variable which takes value *1* if company *i* runs an employee volunteering program in period *t*, else zero (0).
Control Variables	
$SIZE_{it}$	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).

6.4.4.1 Stage 1 - Identify question(s) to be answered

The starting point is to identify the questions to be answered. Content analysis is used in this thesis to analyse annual reports of companies to measure the extent of CSR reporting.

6.4.4.2 Stage 2 - Determine sampling units

At this stage two decisions have to be made: first, selecting the source to be examined and second determining which component of the source to analyse (Elmogla, 2009). Companies can communicate CSR details using various media, including social reports, billboards, websites, TV, the press and annual reports among others. Campbell (2000) justifies the use of annual report in undertaking research on social reporting for two reasons: the company has complete control over the issue of this document, apart from the audited financial sections, and; it is usually the most commonly circulated public document produced by the company. Furthermore, it is a statutory requirement in many countries including Mauritius for companies to produce annual reports. This makes comparison relatively easier (Tilt, 2001).

Focusing only on the annual report might give an incomplete picture of CSR (Unerman, 2000) as it represents only a small proportion of corporate communication channels (Islam and Deegan, 2010). However, considering all CSR sources is practically impossible (Zehgal and Ahmad, 1990). Annual reports are permanent records which are widely available (Cormier et al. 2004). Guthrie and Parker (1989) argue that management has complete editorial control of the annual report and are therefore free from journalistic distortions. Furthermore, 'what organizations choose to include in (and omit from) their annual reports is a conscious decision that communicates a significant message to stakeholders' (Guthrie and Abeysekera, 2006).

Annual reports of companies for the eight-year period 2007-2014 are used for the purpose of this study. While it is acknowledged that company websites are becoming an important medium to communicate CSR information, this study has elected to ignore web-based disclosures due to the dynamic nature of company websites, as it would have been difficult to trace when changes occur. Similarly, this study also ignores stand-alone reports as only a few companies use this method of disclosure in Mauritius. A number of prior studies have examined annual reports; for example Deegan and Rankin (1999), Raar (2006), Khan (2010), Rao et al. (2012) and Ho and Taylor (2013).

6.4.4.3 Stage 3 - Determine and Define the Content Categories

Webb (1990) identifies two decisions which researchers must make at this stage. First, whether categories are going to be mutually exclusive. If one item can be included in two categories then including the same item in both categories for statistical analysis can result in dubious results. The second decision lies in defining

the categories i.e. how narrow or broad definition to adopt. A proper definition of CSR and its categories is therefore important to measure CSR appropriately.

Gray et al. (1995b) argue that the use of the following four themes is established in the literature: natural environment; employees; community and customers. This thesis uses environment, human resource, products and consumers and community as themes of disclosure. Branco and Rodrigues (2006), AlNaimi et al. (2011) and Ahmad et al. (2017) have used similar themes. Of utmost importance is the validity of the CSR index, that is, it measures or represents what it is supposed to measure (Webb, 1990). However, the NCCG does not contain specific disclosure requirements. The researcher reviewed a number of studies: Mahadeo et al. 2011, Hackston and Milne (1996), Haniffa and Cooke (2005), Branco and Rodrigues (2008), Purushothaman et al. 2000, Said et al. (2009), Newson and Deegan (2002) to initially construct a CSR index. Since CSR became mandatory in 2009, the CSR index had to reflect this change. An initial index was constructed.

6.4.4.4 Stage 4 - Determining the Recording Unit

Another decision concerns the unit of analysis. Content analysis can be applied in several ways to measure the extent of CSR disclosure. Vourvachis (2007) classifies them into two streams: volumetric and index approaches. Joseph and Taplin (2011) refer to volumetric analysis as disclosure abundance while the index measures disclosure occurrence. Volumetric analysis of disclosures can be applied by counting: the number of words (Deegan & Rankin, 1996); the number of sentences (Hackston and Milne, 1996) or the number of pages (Guthrie and Parker, 1989).

Whether we want to measure disclosure abundance or disclosure occurrence, the starting point is a checklist of disclosure items. Disclosure occurrence counts the

number of items with at least some disclosure (Joseph and Taplin, 2011). Coy (1995) defines a disclosure index as a list of pre-selected items which is devised to measure something specific in a particular context. In this method, the researcher allocates a score of one for the presence of a certain information and zero otherwise.

One limitation of the disclosure checklist lies in its subjective nature. For instance, 'environmental mission statement and objectives' can be treated as either one item or two items if we split them into 'environmental mission statement' and 'environmental objectives'. Disclosure of both will reap a score of 2 if the items are split whereas if it is treated as one item, it will make a score of 1 (Joseph and Taplin, 2011). Another limitation is that it ignores the quality and materiality of information disclosed (Najah, 2012).

As regards volumetric measurement, several units of measurement have been used in CSR studies such as words, sentences and pages. Hackston and Milne (1996) criticise the measurement of disclosures using the number of words, claiming that the researcher is faced with the difficult task of judgement, which can lead to serious disagreement among coders. They claim that the use of the number of sentences overcomes this problem. However, the use of either the number of sentences or words cannot measure non-narrative disclosures like charts and photographs which can convey information more effectively than words (Unerman, 2000). In the literature, both disclosure abundance and occurrence methods are widely accepted and 'the decision to use one is rather a matter of personal preference than an understanding of the differences based on empirical evidence' (Joseph and Taplin, 2011).

This study uses an index to measure the extent of CSR reporting. This method of CSR reporting measurement and the themes of disclosure are consistent with studies carried by Haniffa and Cooke (2005), Branco and Rodrigues (2008), Purushothaman

et al. (2000) and Said et al. (2009). The steps followed in the construction of the checklist and the calculation of the Corporate Social Responsibility Index (CSRI) is detailed in section 6.4.4.6.

6.4.4.5 Stage 5 - Determine the Coding Mode

Coding can be done by human effort, computers or a combination of both. Since some of the annual reports were available in hard copy only, human effort was used during the whole coding process.

6.4.4.6 Stage 6 - Test Coding on Sample of Text

Weber (1990) advises to code a sample of text which can provide clarity about the exercise and also reveal any ambiguity in the coding rules. A consultation meeting was scheduled with the supervisors and the researcher. The researcher received advice about the way to proceed with the coding process and pitfalls to avoid in the process. This also gave the researcher the opportunity to ask questions to clarify any doubts. The researcher sent a sample text to a PhD colleague and another person who would be a member of the coding team. A spreadsheet and clear rules for coding were sent to these two persons. The results showed that there was no major problem.

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 from Price Waterhouse Coopers corporate reporting awards 2013 were scrutinised to have an idea about items disclosed by these companies as it is presumed that disclosure practices on these companies will represent the high end in total disclosures. This is to ensure there is some variability in the disclosure score of companies (Ghazali, 2007). A spreadsheet was created with

year/company forming the vertical axis and items of disclosure on the horizontal axis. Items disclosed in the annual reports but not found in the disclosure index were noted. This exercise showed the need to create two separate categories: ‘Human resources’ and ‘Products and Customers’. As such elements of disclosure relating to ‘Ethics’ and ‘Health and Safety’ were reclassified under ‘Human Resources’ and ‘Products and Customers’. An item was included in the checklist only if it is disclosed in at least two annual reports. Consequently, several items were removed from the checklist.

A checklist covering four areas of disclosure was constructed (Table 6.3). The four areas of disclosure were: Environment, Human Resources, Products and Consumers and Community. The guidelines for CSR spending limits the use of CSR funds to some specific purposes. The majority of allowable activities under the guidelines are related to the community. As such community is the theme having the largest number of items in the checklist.

A dichotomous procedure was adopted whereby an item appearing on the checklist which is disclosed is marked as 1 or else 0. If the same issue is discussed twice, only one mark is allotted as a reiteration of issues emphasises on quality rather than quantity (Puroshotaman et al. 2000). The CSR Index (CSRI) which serves as a proxy for CSR reporting for each company will be 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:

$$CSRI = \sum_{j=1}^{n=41} \frac{dj}{n}$$

where dj=1 if item j is disclosed; 0 if item j is not disclosed; n is the number of items. The total CSRI is a combination of the scores for the environment, human

resource, products and consumers and community. 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 and Shrives, 1991).

6.4.4.7 Stage 7- Reliability and Validity

In content analysis, reliability means that the same text must be coded in the same way by different people (Elmogla, 2009). 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 shows unreliability. This is the weakest form of reliability as there is only one person involved (Weber, 1990). The second form of reliability is reproducibility also called 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 and Alder, 1999). Guthrie and Matthews (1985) argue that an agreement rate of 80% or above is acceptable for inter-coder reliability.

Following Elmogla (2009), several steps were undertaken to ensure the reliability of the data collected. Five annual reports were initially coded by the researcher and the process was repeated one week later. The results were found to be stable. The same five annual reports were then coded by the researcher's colleague. There were minor differences in the categorisation of text. These minor differences were resolved after discussion with the principal supervisor.

Table 6.3: CSR Checklist

Environment		Human Resource
1. Environmental policy		1. Employee Health and Safety
2. Environmental management		2. Employment of women
3. Pollution from business operations		3. Employee training
4. Prevention of environmental damage		4. Code of ethics
5. Conservation /recycling activities		5. Equal opportunities
6. Reduce pollution		6. Number of employees
7. Support NGO in environment field		7. Family activities
		8. Medical check up
		9. Employee study scheme
		10. Support employees with long term sickness
Products and Consumers		**Community**
1. Product safety		1. Housing programme
2. consumer safety practices		2. Promote women empowerment
3.Consumer complaints/satisfaction		3. Support literacy and numeracy skills
4. Major types of products/service		4. Prevention of drug, cigarette and alcohol consumption
5. Improvement in product/service quality		5. Youth empowerment
		6. Training for unemployed/ retrenched
		7. Donations to NGOs/ Foundations to fight poverty
		8. Calamities
		9. Sports and leisure activities for vulnerable children
		10. Support education of children from vulnerable group
		11. Sponsorship of clubs/federations
		12. Support to the elderly
		13. Support to disabled
		14. Support to NGOS in preventing communicable / Non-communicable diseases
		15.Run artistic classes for vulnerable children
		16. Educational facilities/support to schools in needy areas
		17. Blood donation
		18. Charitable donation in addition to CSR
		19. Extra contribution to CSR fund

Of equal importance to reliability is the validity of the coding process. Krippendorff (1980) defines validity as the extent to which coders agree that the list of themes placed in each category has a similar meaning or connotation. During pilot testing, there was an agreement between all coders regarding the categorisation of text. In addition, the categories used and the themes making up each of the categories have been used by several authors as mentioned previously which is another indication that the categorisation process is valid.

6.4.5 Dependent Variable Measurement: Voluntary CSR (VOLCSR)

Companies are bound to spend their CSR funds on one or a combination of the three ways; practise activities prescribed by the guidelines, donate the funds to a registered NGO or pay it in the form of a tax. The guidelines explicitly prevent the use of CSR funds for the following:

(i) Contribution to religious activities; (ii) Contribution to activities discriminating on the basis of race, place of origin, political opinion, colour or creed; (iii) Contribution to trade unions; (iv) Sponsorship for marketing purposes (v) Contribution to political parties; (vi) Shareholders and senior staff benefits (schemes benefiting staff and/ or their family members and shareholders holding more than 5% of shareholding); (vii) Staff welfare (including e.g. current and future staff training costs); and (viii) activities which are against public safety and national interest (Mauritius CSR Guidelines, 2009)

However, firms are free to engage in these activities by using funds other than the CSR levy to do so. This implies that firms willing to do so have to contribute more than the 2% levy. Since a number of these activities were practised by companies prior

to 2009, twenty annual reports for the years 2010-2014 (post-levy period) were scrutinised to judge whether companies were still practising these activities. Of the eight items listed in the guidelines only items (i) and (vii) are retained, as the others fall outside the purview of CSR. The objective is to know whether firms are willing to spend more than the levy amount to engage in these activities. After reviewing the twenty annual reports, a list of six activities not allowed by CSR guidelines was compiled which are listed below. One more item (Extra contribution to CSR funds) was added to the checklist as some firms reported that they have voluntarily contributed more than the mandatory threshold.

An index comprising the seven activities were constructed using a dichotomous scale. If a company is involved in employee training, for instance, a score of 1 is allotted, otherwise 0. Item 7 was included as some companies disclosed that they voluntarily contribute more than the mandatory amount towards CSR. After collecting data on voluntary CSR it was noticed that 69% of companies were involved in that activity and that most had a score of 1 or 2 out of the maximum of 7. A dichotomous total score was therefore adopted. Any company having a total voluntary CSR score of 1 or above was given a dichotomous score of 1 and 0 otherwise.

Table 6.4: Voluntary CSR Checklist

No.	Voluntary CSR activities
1.	Employee training (Amount spent/Training hours mentioned)
2.	Medical checkup for employees
3.	Religious donation
4.	Employee study scheme
5.	Supporting employees with long-term sickness
6.	Family activities
7.	Extra contribution to CSR fund

6.4.6 Independent Variable Measurement

This study considers corporate governance practices as being the prime factor which influences the dependent variables. Under corporate governance practices, this study considers board practices and ownership structure. These are explained below.

Ownership Structure

The ownership of firms in Mauritius is concentrated in the hands of a few individuals. Family owned and managed firms and cross-shareholding are common features of the Mauritian corporate sector. This study classifies ownership structure into block ownership, director ownership and government ownership. Similar to Cheng and Courtney (2006) and Ho and Taylor (2013), block ownership represents the proportion of shares held by the five largest shareholders. Sami and Musallam (2015) define director ownership as the proportion of shares held by directors. Cheng and Courtney (2006) define government ownership as the proportion of shares held by the government and its investing arm, the State Investment Corporation, Mauritius. These are then converted in a dichotomous variable which takes value 1 if a company has the Mauritian Government or its investment arm as a shareholder, or 0 otherwise.

A variable BLOCKOWN represents block ownership. Director ownership is represented by the variable DIROWN and finally, government ownership is represented by the variable GOVOWN.

Board Practices

Leblanc (2004) states three components of effective boards. First, board membership i.e. the board must comprise of individuals with a range of competencies

and expertise. Second, board structure, which includes board size, board composition and leadership structure. Third, board process represents the appropriate balance of behaviour which promotes effective interaction between board members and management.

Corporate boards in Mauritius are traditionally one-tier where executive and non-executive directors both form part of the ultimate decision-making authority of a company. The NCCG states that there must be an appropriate balance of executive and non-executive directors on corporate boards with a minimum of two of each. The variable, BDIND represents the proportion of non-executive independent directors which meet the definition of the NCCG. Jizi et al. (2014) posit that a larger board can direct management to engage in and disclose CSR to stakeholders. Consistent with Rao et al. (2012) board size (BDSIZE) is measured by the total number of directors on the board. Gender-diverse boards bring wider perspectives to board discussion. As women are more stakeholder-oriented and aligned with the needs of the market, increasing women representation on boards can enhance financial performance and sustainability disclosure (Arayssi et al. 2016). Board gender diversity is measured by the number of women on the board compared to the board size and is denoted by the variable, BDDIV. The educational background of directors can influence disclosure practices (Haniffa and Cooke, 2002). Two variables representing directors' educational background are considered; DIREDU which represents the proportion of the directors with a qualification in accounting/finance/business and SOCEDU, which represents directors qualified in social studies/sociology/social work. These are measured by using a dichotomous scale with 1 representing the presence of one or more director with the characteristic, or 0 otherwise.

Other Variables

This study also considers employee volunteering and foundations. Both variables are measured using a dichotomous scale. Employee volunteering (EMPVOL) takes the value 1 if a company is involved in employee volunteering, otherwise 0. Similarly, foundations (FOUND) takes the value 1 if a company channels its CSR funds through a foundation, and 0 otherwise.

6.4.7 Control Variable Measurement

Size

Mahadeo et al. (2011a) argue that large companies are more visible and their activities are subject to enquiry, criticism and/or attention by government authorities, media and civil society. In the same vein, Cowen et al. (1987) point out that larger firms are under pressure to exhibit social responsibility as they have a larger number of shareholders. Since their activities have a larger impact on society, they receive more attention from the general public. Several studies confirm the positive link between company size and CSR (Mahadeo et al. 2011a; Hackston and Milne, 1996; and Patten, 1991). Similar to Trotman and Bradley (1981) and Kimberly (1976), this study uses the natural logarithm of total assets as a proxy for size.

Profitability

Profitability gives management the flexibility to be involved in social responsibility programs. Haniffa and Cooke (2005), Cormier and Magnan (1999) and Cowen et al. (1987) found a positive association between profitability and CSR. Return

on Equity is used as a measure of profitability, consistent with Said et al. (2009), Eng and Mak (2003) and Haniffa and Cooke (2005).

$$\text{ROE} = \frac{Profit\ after\ tax}{Book\ value\ of\ equity}$$

As an alternative measure of profitability, Return on Assets (ROA) is used, in line with Hackston and Milne (1996), Jizi et al. (2014) and Haji (2013).

$$\text{ROA} = \frac{Profit\ before\ interest\ and\ tax}{Total\ assets}$$

Industry

The activities of industries which have a visible impact on society are expected to disclose CSR (Mahadeo et al. 2011). Morhardt (2010) studied the disclosure practices of 454 companies from 25 industries and found that companies with the low socio-environmental impact such as homebuilders, wholesalers, oil equipment and photographic equipment producers have low disclosure levels. Those firms with considerable impact on the environment such as utilities and petroleum have scores above the range. He also observes high scores for banks and motor vehicles and parts industry, which he puts on account of 'strong retail-customer' interactions. To control for industry effect on CSR, industry dummies are introduced in the regression equation.

Regulation

In 2009, two regulations which impacted on CSR practices and disclosures were introduced. To cater for this possible effect, a dummy variable is introduced which takes a value of 1 in years 2010-2014, and otherwise 0. The large majority of

companies in the sample have a financial year ending 30 June. Therefore, the effect of the above regulation (if any) can be felt from the year 2010.

6.4.8 Data

Sample

The sample selected for this study comprises companies listed on the Stock Exchange of Mauritius (SEM). Forty-six companies were listed on the SEM as at 30 June 2014 and the study considers this whole population. The SEM industry classification is used and three industries represented by one firm each are grouped under 'other'. The industry classification in the sample is shown Table 6.5.

Table 6.5: Industry Classification

Sector	Number of companies	%
Banks and Insurance	7	17
Commerce	6	15
Industry	7	17
Investment	13	31
Leisure and Hotel	5	13
Other	3	7
Total	41	100

The choice of listed companies is motivated by several factors. Mauritius is a small country with a preponderance of small firms. Publication of an annual report is not mandatory for small firms. Listing rules oblige listed companies to produce an annual report and their operations encompass the whole economy. It is therefore

believed that focusing on listed firms will show a proper picture of CSR practices in Mauritius.

The study spans the period 2007-2014. A breakdown of the number of observations is shown in Table 6.6. Out of a maximum of 326 observations, 287 were observed which represents around 88% of the sample. The remainder (12%) were not available. In 2009, the CSR levy was introduced and analysis will be conducted both pre and post this date.

Table 6.6: Sample Description

Year	No. of listed firms	Observed firm years
2007	41	34
2008	40	38
2009	40	34
2010	37	36
2011	38	37
2012	41	38
2013	43	39
2014	46	31
Total	326	287

Collection

It is worth noting the numerous obstacles faced by the researcher in collecting the annual reports. Not all companies publish annual reports on their website. Commonly, only three to five annual reports immediately preceding the reporting period are available. This study spans over eight years so additional efforts were required to collect the annual reports. Since listing rules oblige listed companies to file their annual reports with the SEM, the researcher contacted the SEM to request access to the SEM library. The marketing manager of the SEM responded to the request by stating that public access to the SEM library is not allowed. The researcher then

contacted individual companies through their ‘contact us’ email address available on their websites but the response rate was very low. Company secretaries were then contacted but again the response rate remained low. The Director of SEM was then contacted in a final attempt to collect the annual reports but the request remained unanswered. The last step was to access annual reports from the Companies Division of the Ministry of Finance which acts as a central repository of financial information of companies. However, regulations state that companies need to file a copy of their financial statements with the companies division while CSR information which is the main interest of this thesis, is sourced from annual reports. A number of companies go beyond the requirement of the law and file a copy of their annual report with the companies division. The researcher was, therefore, able to collect part of the missing data from the Ministry of Finance. For those companies which file their financial statements only with the companies division, CSR information could not be collected and had to be removed from the sample. As many annual reports had to be accessed physically, what was initially planned to take three months lasted for nine months.

6.5 Assumptions of Multiple Regression

A number of conditions must be met when conducting multiple regression. Performing multivariate analysis without checking for these conditions can lead to spurious results. These conditions are explained below.

6.5.1 Sample Size

It is important to have an adequate sample size for results to be generalizable. When a sample is small, results may not be replicated when applied to other samples,

which reduces the scientific value of the results (Pallant, 2007). Tabachnick and Fidell (2007) give a guide regarding the number of cases which depends on the number of independent variables (n); number of cases = 50 + (n x 8). This study considers 13 independent variables, therefore the minimum number of cases according to Tabachnick and Fidell (2007) should be 154 (50+104). This criterion is largely met as the number of cases considered in this study exceeds 200.

6.5.2 Multicollinearity

Multicollinearity refers to high correlation among independent variables. Multicollinearity can cast doubt on the validity of a variable (coefficient) in the model (Mahadeo et al. 2011). Singularity occurs when one independent variable is actually a subset of another independent variable (Pallant, 2007). Rashid and 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 6.7) reveals the highest correlation of 0.462 which is well below the guide provided by Rashid and Lodh (2008). None of the predictors has a Variance Inflation Factor (VIF) greater than 3 which further confirms that multicollinearity is not of concern. Bowerman and O' Connel (1990) argue that a VIF of 10 or more indicates a strong linear relationship among predictors.

6.5.3 Normality

Observations should be normally distributed. However, a violation of this assumption is not of major concern if the sample size is large (Coakes and Steed, 2001). To check for the normality of variables, skewness and kurtosis are examined.

The dependent variable (CSRI) showed no deviation to normality rules. Furthermore, the Q-Q plot for CSRI shows that observations lie around the 45-degree line. While it is not a rule that independent variables should be normally distributed, Mahadeo et al. (2011a) argue that this allows for a meaningful interpretation of regression statistics, especially the F and T-tests. Based on previous studies (Rao et al. 2012; Haniffa and Cooke, 2002) independent variables which failed to meet the normality criteria were transformed. Thus, total assets which acts as a proxy for company size was transformed using its natural logarithm. All other continuous variables not meeting the normality criteria (DIROWN, BDDIV AND PROF) were transformed into normal scores using the Van der Waerden transformation (Mahadeo et al. 2011a).

This is an extension to rank regression and was proposed by Cooke (1998) where ranks are replaced by normal scores (Amran and Devi, 2008). While using normal scores, the power of F and T-tests are preserved and meaningful interpretation of regression coefficients can be made.

Furthermore, there are advantages of using normal scores in case of non-linear data or monotonicity problems (Haniffa and Cooke, 2002). This method of transformation has been widely used in previous CSR studies (Haniffa and Cooke, 2005; Branco and Rodrigues, 2008; Mahadeo et al. 2011a; Amran and Devi, 2008). The transformation yielded positive results as tests carried out following transformation showed that normality issues were properly addressed.

6.5.4 Outliers

Multiple regression is sensitive to outliers (Pallant, 2007). One way to determine outliers is to examine residual statistics. Tabachnick and Fidell (2007)

define outliers as those which have standardised residual values above +3.3 or less than -3.3. As such, observations outside the range specified by Tabachnick and Fidell (2007) were omitted from the analysis.

6.5.6 Normality, Homoscedasticity, Independence of residuals

An examination of a scatterplot of standardised residuals against predicted values and Q-Q plot is undertaken to check whether the fundamental assumptions of multiple regression analysis are satisfied (Amran and Devi, 2008). Residuals which refer to the difference between observed and predicted values must follow a normal distribution. From the histogram of 'regression standardised residual' it can be observed that residuals are normally distributed (bell-shaped). This is confirmed by examining Appendix 1 which shows that residuals lie on the 45-degree line.

Homoscedasticity means that residuals for predicted dependent variable scores must be the same for all predicted scores (Pallant, 2007). It can be observed that residuals are centred towards zero with roughly a rectangular shape, implying residuals are homoscedastic. Independence of residuals means that residuals should not be correlated. The Durbin-Watson statistic which is close to 2, confirms that residuals are not correlated, therefore serial correlation is not an issue.

Table 6.7: Pearson's Correlation Matrices of Independent Variables

	Correlations														
		1	2	3	4	5	6	7	8	9	10	11	12	13	VIF
1	DIROWN	1													1.618
2	BLOCKOWN	-0.219***	1												1.737
3	GOVOWN	-0.074	0.117	1											2.172
4	BDIND	-0.050	-0.282***	0.070	1										2.460
5	BDSIZE	-0.163***	-0.066	0.036	-0.163**	1									1.757
6	BDDIV	-0.060	-0.190***	0.238***	0.462***	-0.074	1								2.511
7	DIREDU	0.057	0.071	-0.132**	0.066	-0.012	0.165***	1							1.665
8	FOUND	0.039	-0.055	-0.305***	-0.048	0.404***	-0.160**	0.331**	1						1.874
9	EMPVOL	-0.123**	0.071	-0.089	0.050	0.072	-0.046	0.089	0.161**	1					1.258
10	SIZE	0.059	0.054	-0.014	-0.120**	0.275***	-0.269***	0.027	0.460***	0.208**	1				2.142
11	PROF	-0.013	0.040	-0.020	-0.008	-0.055	-0.034	-0.032	-0.099	-0.036	-0.062	1			2.057
12	REGULATION	-0.048	0.063	0.007	0.118**	-0.099	0.114	0.156***	0.117	0.094	0.038	0.021	1		1.108
13	SOCEDU	-0.073	0.129*	-0.114	0.099	0.054	-0.116	0.137**	0.230***	0.191***	0.160***	-0.009	0.062	1	

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

6.5.7 Endogeneity

If an increase in independent directors increases CSR reporting but reporting level also attracts independent directors, the two measures are said to be endogenous (Rao et al. 2012). In other words, there could be reverse causality. To test the possibility of reverse causality between corporate governance practices and CSR reporting (CSRI), Block Exogeneity Wald test was conducted. The results which are summarised in Table 6.8 show that CSRI does not have a causal effect on any of the corporate governance practices (DIROWN, BLOCKOWN, BDIND, BDSIZE and DIREDU).

The possibility of omitted variables is present in all statistical models. This possibility has been checked using the Ramsey Regression Equation Reset Test (RESET). The results show no evidence of omitted variable bias.

Since there are no omitted variables and the model residuals are normally distributed, it can be taken as an informal sign that there are no obvious estimation issues (Rao et al. 2012).

Table 6.8: Block Exogeneity Test Results

Dependent variable	Excluded	Chi-Square	Degrees of Freedom	Probability
DIROWN	CSRI	0.237536	1	0.6260
BLOCKOWN	CSRI	0.102734	1	0.7486
BDIND	CSRI	1.039012	1	0.3081
BOARD	CSRI	0.589989	1	0.4424
DIREDU	CSRI	0.002731	1	0.9583
FOUND	CSRI	1.213311	1	0.2707

6.6 Chapter Summary

This chapter explains the methodology used to test the study hypotheses. The sample selection and data gathering process are explained in detail. A major part of this chapter is devoted to explaining the process used to measure the extent of CSR reporting and voluntary CSR, which are the dependent variables for this study. Content analysis is used to measure the extent of CSR reporting using an index constructed using prior studies and adapted to the Mauritian context. Analytical models were devised to test hypotheses. All explanatory variables used in the models, classified under board practices, ownership variables and other variables are explained and their inclusion is justified. The next chapter provides the empirical results based on content analysis.

Chapter 7 Analysis and Results

7.1 Introduction

This chapter presents the empirical results of the study. The chapter has two major parts; the first contains a descriptive analysis of the results. Using content analysis, the frequency and extent of CSR reporting of sampled companies are investigated under four categories: Environment, Human Resource, Products and Consumers and Community. The period under investigation coincides with two distinct legislative regimes which are assumed to impact on the extent of CSR disclosures. The chapter examines CSR practices and reporting before and after the regulatory change. The second part shows the results of multivariate analysis. It identifies the determinants of CSR reporting and voluntary CSR practices in Mauritius. The results from the analytical models are presented and discussed. For the sake of comparison, this study uses other countries sharing the same characteristics as Mauritius, such as, Malaysia and Fuji which are both developing countries and multi-ethnic. Bangladesh is also included, being a developing country and covered extensively in the literature.

The rest of this chapter is structured as follows. The next section comments generally about CSR disclosure practices in sampled firms. This is followed by an analysis of environmental disclosures in section 7.3. The evolution of Human Resource disclosures is detailed in section 7.4. In section 7.5, Products and Consumers disclosures are analysed. Community disclosures are examined in section 7.6. In section 7.7, voluntary CSR practices in a mandatory setting are discussed. This is followed by the results of hypothesis testing of changed regulation on CSR in section

7.8. In section 7.9, descriptive statistics of independent variables are shown. This is followed by regression analysis results in sections 7.10. The logistic regression results which show the determinants of voluntary CSR are found in section 7.11. The penultimate section provides a summary of the results. Finally, section 7.13 summarises the whole chapter.

7.2 General Comments

More than 85% of companies reported on their CSR activities during 2007-2014 (except 2008) as shown in Table 7.1. A possible explanation for the high rate of companies involved in CSR reporting is the high number of accounting professionals working in the corporate sector in Mauritius. It is worth noting that there is no local professional accounting body and the local regulatory body of accountants (Mauritius Institute of Professional Accountants) does not offer its own qualification. Accountants in Mauritius are mainly UK-qualified, and members of Association of Chartered Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA) and Institute of Chartered Accountants of England and Wales (ICAEW). These professional bodies attach importance to CSR disclosure which is passed to their members through training. The influence of Western education could be one reason that explains the actual result. A second reason is the detailed reporting framework which is in place backed by the Companies Act 2001 and the Financial Reporting Act 2004. Thus, normative and coercive isomorphism can be a possible explanation for the high proportion of companies reporting CSR. These observations are in contrast with Ahmad and Nicholls (1994) and Elmogla et al. (2015) who claim that developing countries lack accounting professionals and have a poor legal

infrastructure. Since 88% of companies were already involved in some form of CSR in 2007 (pre-legislation) and reached 100% in 2013, it can be argued that the impact of legislation on CSR participation has been moderate. However, this also shows the compulsion to be involved and to report CSR.

Table 7.1: CSR Reporting by Companies

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
No of companies listed	41	40	40	37	38	41	43	46
No of annual reports collected	34	38	34	36	37	38	39	31
No of disclosing companies	30	27	32	33	34	37	39	31
Percentage making disclosure	88	71	94	92	92	97	100	100

With regard to categories of disclosure, the percentage of companies making environmental disclosure increased from 32% in 2007 to reach 100% in 2014 (Table 7.2). Human Resource has been the most popular category of disclosure over the years. It has attracted disclosures from over 80% of companies, reaching nearly 95% in the last three years. Products and Consumers is the least popular disclosure category among companies which dropped from 71% in 2007 to 5% in the next year and reached 55% in 2014.

A steady increase is noted in the number of companies which engaged in community disclosures since 2008. It is worth noting that almost all companies made some form of disclosure regarding the environment, human resource and the community. Though the guidelines prescribe CSR practices, the choice to be

involved/not involved in a particular activity is a corporate message to stakeholders. In the next section, the evolution of CSR disclosures within each category is examined.

Table 7.2: CSR Reporting by Category

Year	2007	2008	2009	2010	2011	2012	2013	2014
Environment	32%	55%	71%	72%	81%	89%	97%	100%
Human resource	82%	61%	85%	86%	89%	95%	95%	94%
Product and consumers	71%	5%	18%	14%	19%	18%	13%	55%
Community	71%	63%	88%	78%	81%	84%	95%	90%

7.3 Environment

A steady increase in companies disclosing environmental information is noted from 2007, reaching 100% in 2014 (Table 7.3). Mauritian companies compare very favourably with their counterparts in developing countries as regards environmental disclosure. Only 20% of Fijian companies made environmental disclosures in 2009 and 2010 (Khan et al. 2013). The Environment category consisted of seven sub-categories. An increasing number and proportion of companies have adopted an 'environmental policy' over the years. When it comes to 'environmental management' only a few companies (not more than 8%) acknowledge using international standards such as ISO 14000 or GRI to manage the impact of their operations on the environment. The cost of these certifications may be prohibitive thus explaining low disclosure levels. Moreover, only 16% of companies come from the manufacturing sector, an industry sector that has a direct impact on the environment. Environmentalists play a passive role in Mauritius, so these firms face low levels of

stakeholder pressure. Hence, they do not feel the need to have international certifications as it does not convey legitimacy status.

Consistent with previous studies (Rizk et al. 2008; Belal, 2001) environmental disclosure tends to provide positive information about the firm such as conservation and recycling rather than 'bad news' such as pollution caused by the firm. The non-disclosure of environmental information has also been interpreted from the lens of legitimacy theory (De Villiers and Van Staden, 2006). Though by a very low proportion, an increase in the number of firms disclosing pollution is noted. Proactive steps towards a better environment such as 'prevention of damage', 'conservation and recycling' and 'improvement in processes' have all experienced an increase. This could be the result of the Maurice Ile Durable (MID) project. The 'Maurice Ile Durable' is a project initiated by the then Prime Minister in 2007. It aims to educate the public on sustainability matters and reduce the country's dependence on fossil fuel. An increase in support to NGOs operating in the 'environment field' is also noted after 2009. This is due to the introduction of the CSR levy, and one of the ways companies can use their CSR levy is by donating to NGOs.

The high degree of concern for the environment in the corporate sector is an encouraging sign for a small island developing state like Mauritius. This result is at odds with other developing countries such as Bangladesh and Libya where the environment seems to be neglected. Several reasons can explain this dissenting result. Mauritius is extremely dependent on the environment as compared to other developing countries.

Table 7.3: Environmental Disclosures

Year	2007		2008		2009		2010		2011		2012		2013		2014	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Disclosing companies	12	35	21	55	23	68	26	72	31	84	33	87	38	97	31	100
Sub-category																
Environmental policy	10	29	20	53	24	71	26	72	27	73	33	87	36	92	30	97
Environmental management, systems and audit (e.g. ISO, GRI)	1	3	0	0	1	3	0	0	3	8	3	8	3	8	1	3
Pollution from business operations	1	3	0	0	0	0	0	0	1	3	3	8	6	15	2	6
Prevention or repair of damage to the environment	7	21	7	18	8	24	4	11	5	14	10	26	20	51	20	65
Conservation of natural resources and recycling activities	2	6	4	11	4	12	6	17	10	27	18	47	21	54	21	68
Improvement in processes to reduce pollution	3	9	3	8	7	21	7	19	12	32	16	42	14	36	16	52
Support NGOs in environment field	4	12	9	24	12	35	15	42	14	38	16	42	10	26	12	31

N- Number of companies disclosing
%- Percentage of companies disclosing

Tourism is one of the main pillars of the Mauritian economy. The main attractions of the country are mainly beaches which over the years, have suffered from erosion with the process of climate change. Several campaigns were organised to educate the population of the importance of keeping a clean environment and how the action of each individual matters.

The results also show that the involvement and commitment of people in the highest level of the hierarchy of an organisation/ country can lead a project towards success. Another reason for the interest in environmental disclosure is the involvement of various stakeholders in the MID project. Stakeholders from ministries, parastatal bodies, the private sector, local communities and civil society were all involved in elaborating plans to achieve the MID mission.

With almost all companies involved in some form of environmental disclosure by 2013, this can also be the result of mimetic pressure whereby companies have followed what their counterparts are doing. Abstinence from disclosing pollution levels in the initial years (2008-2010) can be due to lack of technical knowledge towards its estimation. Disclosure of carbon emissions requires companies to hire the services of an expert. On one side, there is a cost which is involved, on the other side, companies would better avoid scrutiny about the ecological impact of their operations (Mahadeo et al. 2011b). Furthermore, a number of companies seek the services of communication agencies to produce their annual report. The objective of these agencies is to project a positive image of the company. As such, they may dissuade companies to disclose negative information. However, an increase in the number of companies disclosing pollution levels is noted from 2011 and which reached 15% in 2013. It shows companies are more transparent regarding the effect of their activities on the environment. Users of annual reports are therefore better informed about the

environmental activities and initiatives of companies (Frost, 2007). Concrete actions towards a better environment such as 'conservation and recycling', 'prevention of damage' and 'improvement in processes' though on the increase, need further improvement. The former two sub-categories have reached the 50% threshold which is in the right direction.

Villiers and Van Staden (2006) argue that companies in South Africa do not disclose environmental information because it does not have a legitimising effect. It can be argued that due to the importance of environmental concerns for Mauritius, legitimacy motivations can explain the high number of companies which disclose environmental information in this study.

7.4 Human Resource

'Human Resource' is one of the most disclosed themes among Mauritian companies. Apart from the drop in 2008, an increasing number of companies were involved in HR disclosures over the period under consideration (Table 7.4). This result is consistent with studies carried in other developing countries (Belal, 2001; Ratnajongkol et al. 2006; Pratten and Mashaat, 2009) where an emphasis on HR disclosures is noted.

Table 7.4 shows that there has been an increase in the disclosure of almost all sub-categories of employee disclosure over the period. A notable increase is found in two sub-categories: health and safety and ethics. This is due to a requirement of the NCCG (2004) which necessitates companies to report regularly on them. Disclosure about 'employment of minority/women' is nearly absent.

Table 7.4: Human Resource

Year	2007		2008		2009		2010		2011		2012		2013		2014	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Sub-category																
Disclosing companies	27	79	23	38	28	82	31	86	34	92	36	95	38	97	29	94
Employee Health and Safety	14	41	15	39	20	59	20	56	25	68	30	79	36	92	29	94
Employment of women	0	0	0	0	0	0	0	0	1	3	1	3	2	5	3	10
Employee training	8	24	11	29	14	41	12	33	13	35	20	53	24	62	23	74
Code of ethics	19	56	20	53	26	76	27	75	32	86	30	79	35	90	29	94
Equal opportunities	4	12	2	5	6	18	8	22	7	19	10	26	11	28	12	39
Number of employees	3	9	5	13	5	15	5	14	3	8	12	32	13	33	14	45
Family activities	0	0	1	3	1	3	1	3	1	3	6	16	4	10	5	16
Medical check up	1	3	1	3	1	3	0	0	4	11	7	18	5	13	4	13
Employee study scheme	0	0	1	3	1	3	1	3	2	5	1	3	1	3	1	3
Support employees with long term sickness	0	0	0	0	1	3	1	3	1	3	1	3	1	3	1	3

N- Number of companies disclosing

%- Percentage of companies disclosing

Mauritius is a country which promotes gender equality. Gender discrimination towards employment of women has not been an issue in Mauritius (Ramdhony et al. 2012). As such, companies do not deem it important to bring this issue to the attention of stakeholders. Companies disclosing ‘Training’ has more than doubled between 2007 and 2014, even though companies are not allowed to use their CSR levy to finance training for their employees. Disclosure of ‘equal opportunities’ showed a significant increase from 12% in 2007 to 39% in 2014. This can be explained by the fact that the Mauritian private sector has been criticised for not following fair employment policies (NCCG, 2004). The Equal Opportunities (EO) Act which has been long awaited by the Mauritian people eventually came into force in 2013.

By disclosing commitment towards employee health and safety and ethics, companies are adhering to the NCCG and the FRA. This disclosure is consistent with neo-institutional theory which predicts that firms will bend to coercive pressure exerted by regulators. This result is in line with the finding of Mahadeo et al. (2011a) who reported an increase in the number of companies reporting on health and safety and ethics. The increase in the number of companies providing ‘Equal opportunity’ disclosure is an attempt to gain moral legitimacy with stakeholders. Equal opportunity has been a topical issue in Mauritius and in anticipation of the EO Act a growing number of companies disclosed on this matter. There is a common perception that employment of an individual is linked to his/her ‘community’ (NCCG, 2004). This perception creates an environment of distrust between employer and employee and even amongst employees. Therefore, to attenuate the perception that hiring/firing/ promotion/demotion decisions are ostensibly linked to a person’s ‘community’, companies have increasingly disclosed that they offer equal opportunities to employees. Low disclosure levels for ‘supporting employees with long-term sickness’

and ‘study’ is circumstantial. Costs involved in running ‘family activities’ and ‘medical check-up’ may explain low involvement in these two activities but at the same time, a slightly increasing trend can be noted. The slight increase can be interpreted as a move towards a moral form of legitimacy. Mahadeo et al. (2011a) reports that the pattern of disclosure of Mauritian companies is different from other developing countries such as Bangladesh and Thailand where human resource disclosures are greater than other CSR categories. However, findings from Table 7.1 do not support this claim. Table 7.1 shows that HR was the most disclosed theme in 2007. An increasing trend is noted and it is the second most disclosed theme in 2013. The main reason for different results relates to the categories used in performing a content analysis of annual reports. Mahadeo et al. (2011a) used four categories of CSR in their study: social, ethics, environment and health and safety. Obviously, if a human resource category is itself not included, results will be different from studies which include such a category.

7.5 Products and Consumers

The noticeable low percentage of companies disclosing ‘Product and Consumers’ is common in developing countries. Elmogla et al. (2015) report that ‘Consumer’ disclosure was totally absent in their sample of companies over the five year (2001-2005) period under investigation. Similarly, Imam (2000) found that only 10% of companies provide consumer disclosure, in Bangladesh. Product and consumers is the least disclosed theme. Of the five sub-categories (Table 6.5) only two reached the 20% threshold.

Table 7.5: Products and Consumers

Year	2007		2008		2009		2010		2011		2012		2013		2014	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Disclosing companies	10	29	2	5	6	34	5	36	7	19	7	18	12	21	17	55
Sub-category																
Product safety	0	0	0	0	1	3	2	6	0	0	0	0	2	5	0	0
Consumer safety practices	1	3	0	0	0	0	0	0	1	3	0	0	1	3	0	0
Customer complaints/satisfaction	3	9	0	0	2	6	0	0	2	5	3	8	5	13	5	16
Major products/services	7	21	2	5	0	0	2	6	6	16	0	0	2	5	17	55
Improvement in product/service quality	8	24	0	0	0	0	0	0	1	3	6	16	4	10	5	16

N- Number of companies disclosing

%- Percentage of companies disclosing

Ignorance of product and consumers disclosure in the annual report has been noted in studies by Elmogla et al. (2015) in Libya, Imam (2000) in Bangladesh, Gray et al. (1995) in the UK and Branco and Rodrigues (2006). Therefore, the low attention to product and consumer is a worldwide trend

It is also worth noting that two sub-categories (Discussion of major products/ services and improvement in product/service quality) which attracted disclosure from more than 20% of companies in 2007 did not preserve the same attention, falling even to 0% in some years then showed improvement in the last two years. Pratten and Mashat (2009) argue that the low disclosure about consumers in Libya is due to the past practices of those firms when they were state-owned. Preparers of annual report at that time ignored the consumer and this tendency has perpetuated. While such argument is not valid in Mauritius, the target audience of the annual report can be the main reason for such low disclosure. Zeghal and Ahmed (1990) contend that the choice of a medium for disclosing information depends on the target audience. Branco and Rodrigues (2006) argue that the annual report is intended for investors. Human resource, being an important resource, it is logical that investors would be interested in it, thus, the reason for high disclosure about employees in the annual report. Conversely, company websites are used to disseminate information targeted to a broader audience including consumers. The researcher is inclined to consider that the same reason may apply to companies in Mauritius. While further investigation is required to confirm the reason, an analysis of the trend of 'product and consumer' disclosure shows a sudden drop after 2007. Since these years coincide with a growing use of the internet, companies may have substituted annual report disclosures about products and consumers with web disclosures. From a pragmatic legitimacy point of view, the calculated self-interest of the organisation about its most immediate

audiences states that the consumer is relatively less important to warrant disclosure in the annual report.

7.6 Community

Community disclosures appear in almost all (95%) companies' annual report in 2013, though a majority (71%) of companies were already disclosing community information in 2007. This finding is in accord with Mahadeo et al. (2011a, b) in Mauritius and Usman and Amran (2015) in Nigeria. Community comprises of 19 sub-categories (Table 7.6). All experienced an increase following the introduction of the CSR levy.

'Housing programme for needy families' has shown a major increase post-2010. The low number (3 or less) of companies engaged in this activity prior to 2010 is understandable as this activity requires substantial investment. There is a noticeable increase in this sub-category between 2012 and 2013 due to the requirement of companies to spend half of their CSR funds on priority areas; social housing being one of them. This is evidence of coercive isomorphism to bring firms towards CSR activities which benefit those most in need. 'Promoting women empowerment' which was below 10% prior to the CSR levy, reached 32% by 2011. Empowering women can be a strategic form of CSR where both society and company may benefit

Table 7.6: Community Disclosure

	2007		2008		2009		2010		2011		2012		2013		2014	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Disclosing companies	24	71	23	61	29	85	28	78	31	84	32	84	37	95	29	94
Sub-categories (19)																
Housing programme for needy families	1	3	0	0	1	3	2	6	6	16	5	13	9	23	4	13
Promote women empowerment	3	9	2	5	4	12	9	25	12	32	11	29	6	15	13	42
Literacy and numeracy skills training	1	3	4	11	4	12	5	14	5	14	2	5	11	28	5	16
Prevention of drug, cigarette and alcohol consumption	1	3	3	8	3	9	5	14	5	14	4	11	2	5	2	6
Youth empowerment	5	15	3	8	10	29	8	22	8	22	6	16	8	21	13	42
Training for unemployed	2	6	2	5	3	9	8	22	6	16	5	13	8	21	14	45
Donations to NGOs to fight poverty	5	15	5	13	8	24	16	44	15	41	18	47	23	59	17	55
Calamities	0	0	3	8	2	6	4	11	2	5	0	0	9	23	2	6
Sports and leisure activities for vulnerable children	8	24	11	29	16	47	20	56	21	57	24	63	20	51	19	61
Support education of children from vulnerable group	3	9	16	42	21	62	23	64	27	73	28	74	31	79	28	90
Sponsorship of clubs/federations	3	9	4	11	10	29	10	28	5	14	0	0	2	5	7	23
Support to the elderly	0	0	1	3	1	3	11	31	2	5	4	11	4	10	0	0
Support to disabled	6	18	6	16	7	21	16	44	12	32	11	29	13	33	15	48
Support to NGOs' in preventing diseases	6	18	9	24	15	44	16	44	19	51	17	45	20	51	19	61
Artistic classes for vulnerable children	4	12	2	5	3	9	10	28	15	41	11	29	15	38	15	48
Educational facilities	9	26	17	45	21	62	26	72	25	68	26	68	28	72	26	84
Blood donation	0	0	1	3	2	6	3	8	0	0	1	3	2	5	0	0
Charitable donation	8	24	7	18	12	35	6	17	11	30	8	21	13	33	7	23
Extra contribution to CSR fund	0	0	0	0	0	0	0	0	0	0	2	5	4	10	0	0

N- Number of companies disclosing
%- Percentage of companies disclosing

It can provide skills to women who can then enter the labour force at a time when the country is facing labour shortages in manufacturing sectors such as textile and seafood processing where a growing number of foreign workers are imported to overcome the deficit. Educational support through 'support literacy and numeracy skills for general population', 'supporting the education of children from vulnerable groups' and 'educational facilities/support to school in needy areas' is a priority CSR activity, reaching 90% in 2014. Having an educated and trained workforce has been the priority of successive governments. Moreover, education is the most effective way to eradicate poverty. Education from pre-primary to tertiary level is free in Mauritius. However, poverty causes children to drop out of education. By helping vulnerable children to further their education companies seek to gain moral form of legitimacy.

An analysis of 'support education of vulnerable children' shows 62% of companies in 2009 practised this activity which increased to 79% by 2013, which again is the consequence of changes in 2012 of CSR guidelines. 'Donation to NGOs'/ foundations to fight poverty' has increased from 15% in 2007 to 59% in 2013. The spirit of the CSR levy is to engage firms in activities which alleviate poverty. 'Donation to NGOs'/foundations to fight poverty' is a means to gain cognitive legitimacy. Similarly, from a neo-institutional theory perspective, this subcategory is growing into a standardised practice with companies trying to emulate others. This action assures stakeholders of the legitimacy of the organisation. 'Sports and leisure activities for vulnerable children' shows an increasing trend over the years. Pockets of poverty are concentrated in certain areas of the country. In these areas, excessive use of alcohol and drugs are common social problems affecting young people. Engaging children in sports activities is an effective way to prevent them from falling into the

aforesaid scourges. Therefore, the increasing trend relating to this activity can be interpreted as an attempt to gain ‘moral legitimacy’.

7.7 Voluntary CSR in a Mandatory CSR Regime

The CSR levy has changed the CSR landscape in two ways: first, by setting a minimum amount to be spent on CSR activities and second, by prescribing a list of allowable CSR activities and non-allowable activities. Given the restriction placed on activities allowed to be funded from the CSR levy, firms have had to adjust their CSR activities to stay in line with the guidelines. It implies that some CSR activities which were carried out for years had to be either stopped, or that the firm must spend more by contributing more than the mandatory 2% to fund these voluntary/discretionary activities.

It was found that firms still engage in voluntary activities outside the guidelines (Table 7.7). The decision to engage in voluntary CSR in a mandatory regime is motivated by the desire by firms to legitimise their position with stakeholders. A combination of the legitimacy and stakeholder theories explains this position. Religious donations were common prior to the CSR levy. However, a sudden drop in this activity is noticed, from 32% of companies engaged in 2009 to only 17% in 2010. This is attributed to the immediate effect of the mandatory regime which prohibited the use of CSR funds for religious purposes. This activity received subsequent companies’ allocations.

Table 7.7: Voluntary CSR Activities

Year	2009		2010		2011		2012		2013		2014	
	N	%	N	%	N	%	N	%	N	%	N	%
Religious donation	12	35	6	17	11	30	8	21	13	33	7	23
Extra contribution to CSR fund	0	0	0	0	0	0	2	5	4	10	0	0
Staff welfare												
Employee training	14	41	12	33	13	35	20	53	24	62	23	74
Family activities	1	3	1	3	1	3	6	16	4	10	5	16
Medical check up	1	3	0	0	4	11	7	18	5	13	4	13
Employee study scheme	1	3	1	3	2	5	1	3	1	3	1	3
Supporting employees with long term sickness	1	3	1	3	1	3	1	3	1	3	1	3

N- Number of companies disclosing NA- Not Applicable

%- Percentage of companies disclosing

Soobaroyen and Mahadeo (2015) note that discourses, beliefs and rules in Mauritius are largely influenced by religion and ethnicity which are not regarded as merely private matters.

Companies have traditionally donated funds to religious organisations (MEF, 2007) and perpetuating the tradition is a step to maintaining pragmatic legitimacy ‘Extra contribution to CSR funds’ refers to additional contributions made by firms to fund activities which are still within the guidelines. 5% and 10% of companies in 2012 and 2013 respectively contributed more than the levy. A typical example of a disclosure relating to extra contribution to CSR funds is taken from Omnicane’s 2012 annual report:

> ‘With the amendment in the computation of the 2% of mandatory CSR funding as from 2012, Omnicane Foundation’s CSR budget considerably reduced to Rs1.1 million compared to Rs9.8 million in 2011. In its commitment to pursue its CSR actions for the betterment of the community, Omnicane Board agreed to make a special voluntary contribution of Rs3 million to the 2012 CSR budget. This has enabled Omnicane Foundation to maintain its social engagement’.

Many of the projects undertaken require regular injection of funds as they are continuous projects. For example, Sun Resorts, in its 2012 annual report states that it provides full funding of a day care centre which supports 95 children. If the profit of the company goes down, it implies that CSR funds available will decrease, which impacts on these types of projects. In the extreme situation, Sun Resorts makes a loss, this will mean that support to run the daycare centre will be withdrawn, putting in jeopardy the existence of the centre and affecting the lives of the children. Therefore,

the decision to contribute more than the 2% CSR levy to keep the day care centre running is motived by moral legitimacy reasons.

In its 2013 annual report Mauritius Union states that it wants to be

> 'A step ahead of the law: we decided not to restrict ourselves to the new method of calculating (2% of CSR), which leads to the allocation of a sum only at the end of each year. Instead, we opted to allocate an annual budget to CSR independently of the mandatory 2% of profits'.

Therefore, if a firm believes that the mandatory guidelines acts as a constraint to the proper running of their CSR activities, they are prepared to over-invest to meet expectations of their stakeholders.

The choice of companies to continue with training activities despite their exclusion from the mandatory guidelines is an attempt to meet the expectations of an important stakeholder. Having a trained and skilled workforce can provide a company with a competitive advantage. Employee training is a strategic form of CSR where economic and social benefits converge (Husted and Salazar, 2006). The company benefits from an increase in competitiveness as a result of training and employees benefit from skills which they can carry into new jobs.

Costs involved in running 'family activities' and 'medical check-up' may explain the low involvement in these two activities, yet at the same time a slight increasing trend can be noted which can be interpreted as a move towards a moral form of legitimacy.

7.8 Descriptive statistics

Table 7.8 shows the descriptive statistics of independent variables used in models 1 and 2, prior to transformation. The board size of companies listed on the SEM varies between 4 and 15. The mean of around 10 is similar to Australian companies (Rao et al. 2012) and South African companies (Ntim and Soobaroyen, 2013). On average 33% of board members are non-executive and independent directors. This is considered high when compared to 7% in Bangladesh (Khan et al. 2013) but lags behind Malaysia on 63% (Said et al. 2009). Business educated directors vary between 9 and 100% with an average of 51%. Female directors average 4%. This is low compared to FTSE 350 companies where the average is 8% (Arayssi et al. 2016).

As regards ownership structure, companies are owned on average 55% by block holders. Haniffa and Hudaib (2006) report that around 60% of shares are held by block holders in Malaysia. Comparatively, in Saudi Arabia block shareholding averages only 33%. Director ownership averages 2.5% in companies which is low compared to an average of 20% in Malaysia (Ghazali, 2007) and 27% in Bangladesh (Khan et al. 2013). Government ownership is on the low side with only 11% of firms having the government as a shareholder. Comparatively, 64% of firms on Bursa Malaysia have government as a substantial shareholder (Ghazali, 2007).

On average 59% of firms use a foundation to channel their CSR funds while 17% of firms practice employee volunteering. Total assets (size) is an average of Rs17 million. Return on equity varies between -2% to 32% showing high variability, with an average of 0.3%.

Table 7.8: Dependent and Independent Variables Descriptive Statistics for the Whole Sample (2007-2014)

	Minimum	Maximum	Mean	Std. Deviation
CSRI	0.24	0.59	0.2593	0.1208
DIROWN	0.00	36.33	2.5171	6.48711
BLOCKOWN	0.05	1.00	0.5552	0.21915
GOVOWN	0.00	1.00	0.1120	0.31594
BDSIZE	4.00	15.00	9.6314	2.27267
BDIND	0.10	1.00	0.3381	0.23347
BDDIV	0.00	0.40	0.0368	0.06834
DIREDU	0.01	1.00	0.5153	0.20299
FOUND	0.00	1.00	0.5909	0.49279
EMPVOL	0.00	1.00	0.1732	0.37904
SIZE	56301.00	5.55E8	1.7161E7	4.82782E7
REGULATION	0.00	1.00	0.6250	0.48486
PROF	-2.07	32.60	0.3017	2.16033

Table 7.9 shows the frequency distribution of nominal variables used in the logistic analytical model. 69% of the sampled observations engaged in voluntary CSR (VOLCSR), in addition to mandatory requirements. 22% of companies reported the presence of a director with a social qualification (SOCIALEDU) on the board. Female directors (BDDIV) were present in 31% of companies. 39% of companies came from manufacturing while 61% came from other sectors.

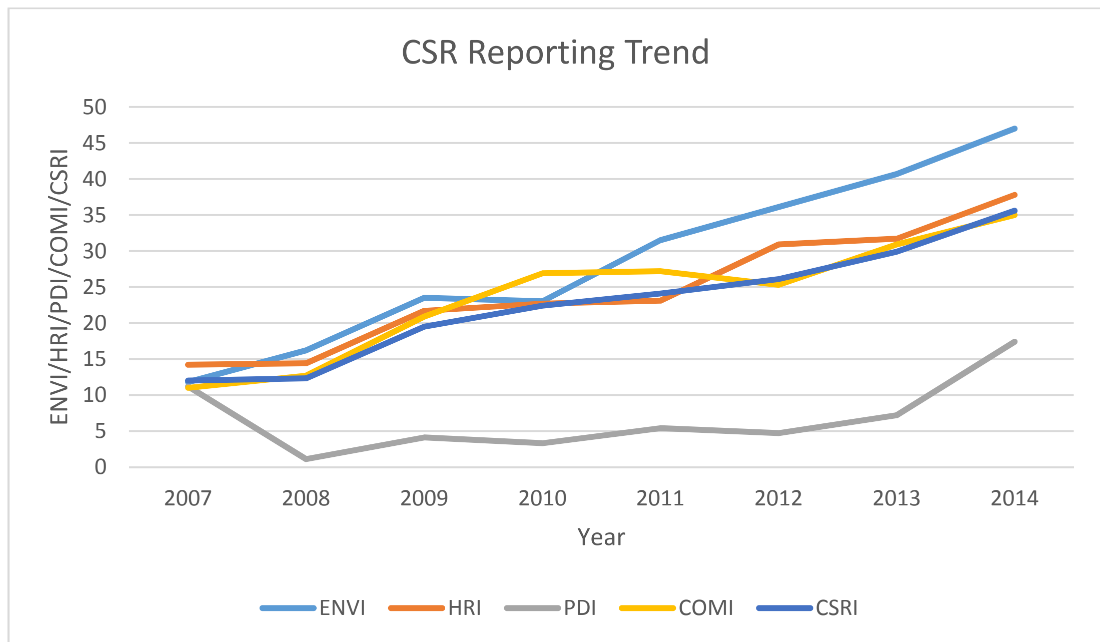
Table 7.9: Nominal variables (2010-2014)

Nominal variables	Frequency	%
VOLCSR		
Yes	113	69
No	51	31
SOCIALEDU		
Yes	36	22
No	128	78
BDDIV		
Yes	51	31
No	113	69
INDUSTRY		
Manufacturing	64	39
Other	100	61

7.9 Regulation and CSR Reporting

It can be observed from Figure 7.1 that the CSRI (Corporate Social Responsibility Index) has increased steadily from 12% in 2007 to reach 30% in 2013. The extent of CSR reporting of Mauritian companies as measured by the CSRI compares favourably with other developing countries such as Bangladesh and Malaysia where it averages 13% and 14% respectively (Rashid, 2015; Said et al. 2009). The Maurice Ile Durable (MID) project and the regulation regime change have all contributed to the increase in total disclosures.

Figure 7.1: CSR Reporting Trend



In the wake of regulation regime change, a shift in the pattern of CSR reporting can be observed. Figure 7.2 shows that pre-legislation, 'Environment' disclosures topped the list of categories. Following regulation regime change 'Community' was the highest by 2010 and is explained by the emphasis of regulation regime change to be 'community' focused. Coercive pressure caused firms to alter their activities and thus CSR disclosures. New legislation prohibits the use of CSR funds for training and employee welfare activities. The immediate reaction of companies was to readjust their activities favouring more 'community' activities, in line with the guidelines. However, realising the importance of employees, firms have reiterated their support towards 'human resource' related activities.

Figure 7.2: CSR Reporting Pattern

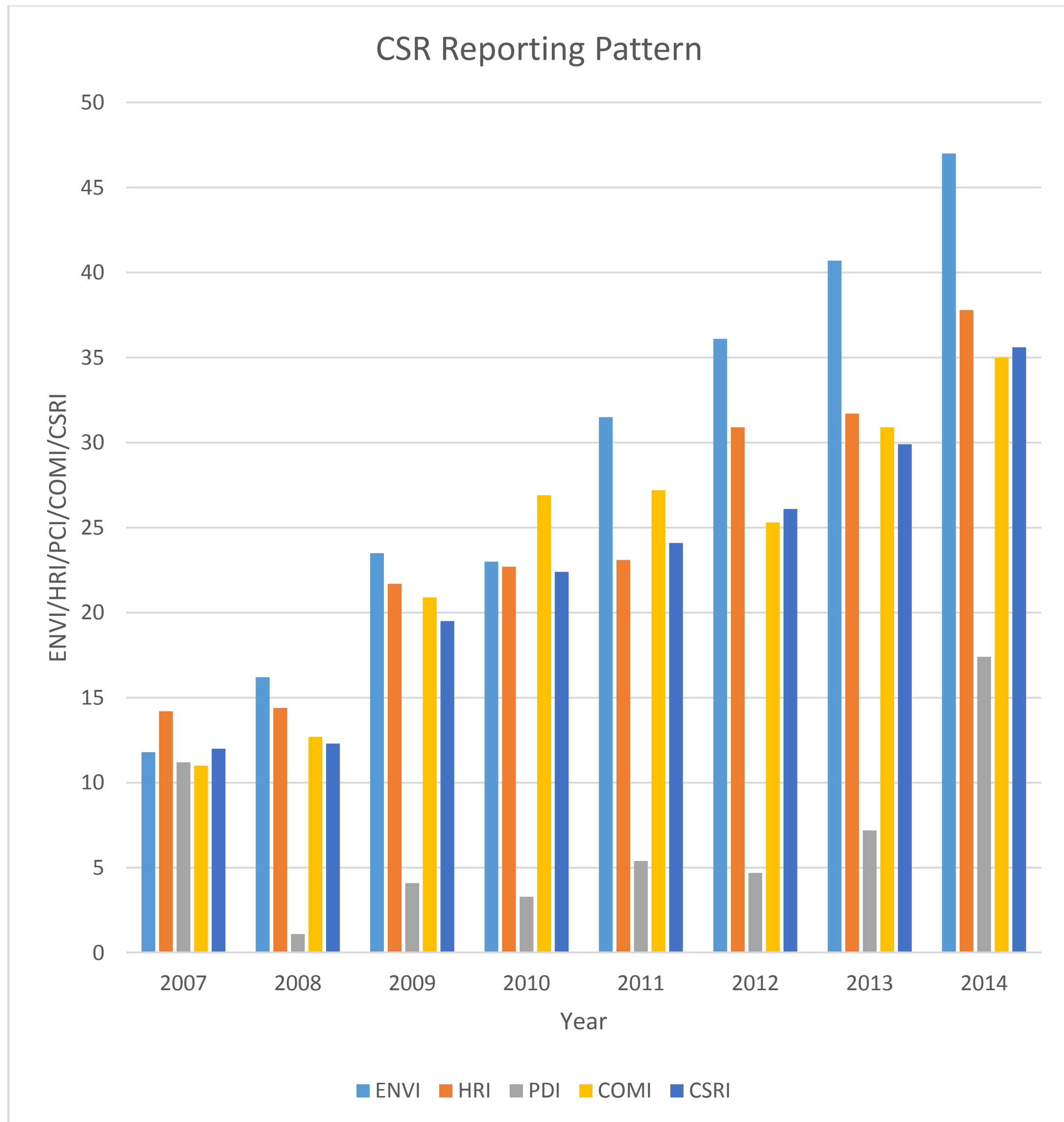


Table 7.10 reports the regression results for the whole sample. The results of hypotheses are tested using panel data covering 8 years (2007-2014). Model 1 tests the effect of regulation on CSR reporting. The F value of 8.160 is significant at 1% level and the adjusted R^2 explains around 44% percent of the variation in CSR reporting.

Table 7.10: Regression Results of CSRI on the Explanatory Variables

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5
Intercept	-0.175 (0.127)	-0.094 (0.044)	-0.306 (0.005)	0.512 (0.446)	-0.016 (0.887)
DIROWN	-0.027 (0.007)***	-0.028 (0.003)***	-0.023 (0.000)***	-0.027 (0.001)***	-0.028 (0.003)***
BLOCKOWN	-0.062 (0.193)	-0.060 (0.183)	-0.0014 (0.742)	-0.029 (0.465)	-0.044 (0.350)
GOVOWN	-0.073 (0.067)*	-0.092 (0.014)**	-0.073 (0.016)**	-0.088 (0.003)***	-0.070 (0.067)*
BDIND	-0.092 (0.093)*	-0.104 (0.044)*	-0.096 (0.049)*	-0.046 (0.259)	-0.097 (0.064)*
BDSIZE	0.016 (0.003)***	0.016 (0.002)***	0.007 (0.191)	0.010 (0.022)**	0.014 (0.009)***
BDDIV	0.031 (0.033)**	0.044 (0.028)**	0.036 (0.005)***	0.022 (0.048)**	0.040 (0.007)***
DIREDU	-	-0.033 (0.526)	0.019 (0.681)	0.126 (0.781)	-0.003 (0.953)
FOUND	0.0102 (0.000)***	0.098 (0.000)***	0.074 (0.000)***	0.088 (0.000)***	0.107 (0.000)***
EMPVOL	-	0.078 (0.000)***	0.091 (0.000)**	0.107 (0.000)***	0.099 (0.000)***
SIZE/ SIZE1	0.030 (0.018)**	0.022 (0.067)*	0.063 (0.000)***	-	0.016 (0.178)
REG	0.074 (0.001)***	0.071 (0.001)***	0.064 (0.001)***	0.071 (0.000)***	-
PROF/ PROF1	0.022 (0.027)**	0.022 (0.069)*	0.009 (0.237)	-	0.019 (0.047)*
Banks and Insurance	-0.014 (0.629)	-0.016 (0.573)	-0.006 (0.814)	-	-0.019 (0.524)
Commerce	0.095 (0.002)***	0.068 (0.007)***	0.038 (0.113)	-	0.065 (0.014)**
Investment	0.033 (0.138)	0.006 (0.921)	0.049 (0.00)***	-	0.018 (0.459)
Other	0.031 (0.604)	0.006 (0.921)	0.035 (0.478)		0.009 (0.868)
Model summary					
F statistic	8.160 ***	9.166 ***	11.175***	12.32***	7.486***
R^2	0.498	0.564	0.623	0.506	0.505
Adjusted R^2	0.437	0.503	0.567	0.465	0.437
Observations	170	174	166	186	126

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

The test variable REG is significant at 1% level. With a positive coefficient, it implies that CSR reporting has increased significantly following the regulatory regime change. Hypothesis 1 is therefore supported, regulation in the form of the CSR levy and mandatory CSR disclosure via the Financial Reporting Act (2004) have increased CSR reporting. This result is at odds with Fallan and Fallan (1999) who found that modest regulation may cause firms to reduce their voluntary disclosure. From a neo-institutional theory perspective, it shows that coercive pressure whereby firms are compelled to spend on CSR and report same in the annual report brings more CSR disclosure. This result also shows that stricter laws are required to increase CSR reporting.

7.10 Corporate Governance Practices and CSR Reporting

Model 2 tests the influence of corporate governance practices and other factors such as employee volunteering and foundations on CSR reporting. The F value of 9.303 is significant at a 1% level, suggesting that the model as a whole can be used to explain CSR reporting in Mauritius. The adjusted R^2 states that the model explains around 51% of the variation in CSR reporting in the sampled firms. This section provides a detailed interpretation of the results.

7.10.1 Ownership Structure and CSR Reporting

Hypothesis 2a is empirically supported. The impact of director ownership on CSR reporting is significant (p=0.003) and negative. This finding is in line with Ghazali (2007), Eng and Mak (2003) and Khan et al. (2013). The economic implication is that one standard deviation increase (decrease) in director ownership causes a 0.18

(6.49 x 0.028) decrease (increase) in CSRI. This supports the neo-institutional view which predicts that owner-managed firms are less prone to mimic their competitors due to the absence of influential stakeholders.

Hypothesis 3a predicted a negative relationship between block ownership and CSR reporting. The negative relationship is supported but is not significant (p=0.183). Hypothesis 3a is thus not supported. This finding supports Ghazali (2007) and Said et al. (2009). From a neo-institutional theory point of view block owners are less likely to be influenced by normative and cognitive institutional demands as compared to firms with dispersed ownership (Ntim and Soobaroyen, 2013). On account of their significant ownership, block holders can request internal CSR reports rather than rely on public reports (Zheng, Balsara and Huang, 2014). Block shareholders already have access to private information through representation on the board and therefore pressure to disclose CSR does not arise.

Hypothesis 4 predicted a positive association between government ownership and CSR reporting. Results indicate a negative and significant effect of government ownership with CSR reporting. Hypothesis 4 is not supported. This finding accords with Dam and Scholtens (2012) who report that communication with stakeholders is poor in state-owned companies, but contradicts the evidence of positive support by Haji (2013), Tagesson et al. (2009) and Al-Bassam and Ntim (2016).

A number of reasons can explain the negative relationship between government ownership and CSR reporting. First, government involvement in business activities is limited. Government shareholding in the companies listed on the SEM is low with majority shareholding in only two of the companies. This implies that government has limited representation on the boards of these companies. Thus, even

with all good intentions, directors nominated by the government have limited ability to pursue the socially responsible and accountable agenda of the government.

Second, the Government of Mauritius invests in strategic areas such as telecommunications, water and electricity. 60% of companies with government shareholding operate as quasi-monopolies. While it can be argued that government-owned entities should show that they are operating according to the expectations of the nation and are thus involved in greater CSR (Ghazali, 2007) and that firms which have the government as important stakeholder should have CSR high on their agenda to win the government's support (Amran and Devi, 2008), these arguments do not hold in a quasi-monopoly situation. The absence of competition means that the need for accountability and legitimacy is less felt by these firms. They can avoid coercive and mimetic pressure without major consequence. CSR is relegated in importance, thus, they communicate less CSR information.

Religion and ethnicity pervade in all spheres of life and there is a tendency to link hiring and firing decisions to religious belonging (NCCG, 2004). Nominations on boards of state companies are often decided on criteria other than competence and experience. These government-nominated directors cannot impart the government's CSR agenda to these companies.

7.10.2 Board Practices and CSR Reporting

Hypothesis 5a posits that the percentage of independent directors (BDIND) is positively associated with the level of reporting. Empirical evidence shows a statistically significant ($p=0.044$) but negative relationship between BDIND and reporting. An increase in the percentage of independent directors leads to lower reporting. Hypothesis 5a is therefore not supported. This contradicts previous studies

(De Villiers et al. 2011; Cheng and Courtenay, 2006; Choi et al. 2013). The negative association is however supported by Haniffa and Cooke (2005) and Prado-Lorenzo and Garcia-Sanchez (2010). The model predicts a fall of 0.023 (0.23 x 0.10) in the CSRI for one standard deviation increase in BDIND. From a neo-institutional perspective, independent directors are supposed to bring legitimacy to the organisation by bridging the gap between corporate practices and social expectations (Ntim and Soobaroyen, 2013). However, this does not appear to be the case in Mauritius. Moreover, Mahadeo et al. (2012) found a negative association between the proportion of independent directors and financial performance.

One possible explanation for the unexpected negative relationship between board independence and CSR reporting can be the lower average of board independence of companies listed on the SEM compared to other studies. For instance, Jizi et al. (2014) and Rao et al. (2012) who found a positive association between board independence and CSR, report values of 80% and 60%, respectively. The average for board independence is 33% for firms on the SEM. The current Code provides for a minimum of two independent directors to be represented. However, compliance with the code has been mainly to the 'letter' rather than the 'spirit' (Mahadeo et al. 2012). When independent non-executive directors are outnumbered by other directors, their contribution to board decisions is limited. As such they may align themselves to the majority of directors, adopting a 'rubber stamp' attitude forsaking their true role of independent directors.

Board members are often appointed by powerful CEO's. These board members are often personal friends or family members of majority shareholders and therefore appointed based on personal ties rather than qualifications. 'As a result they (directors) have been unwilling or unable to ensure effective oversight' (World Bank, 2002). This

can compromise the independence of these directors therefore, limiting their role as monitors (Johnson et al. 2012).

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 in Mauritius. In a study by Soobaroyen and Mahadeo (2008) a director of a private company declared ‘It is not easy to find people who are really independent. Not only independent but people who will bring value to the board.’ Having competent and independent directors seems to be problematic and Soobaroyen and Mahadeo (2008) argue that the appointment of independent directors tend to be ‘more symbolic than substantive’. Similarly, Haniffa and Cooke (2005) are critical of the role played by independent directors in encouraging greater disclosure. They claim that independent directors lack experience and knowledge and in certain instances are ‘indifferent to societal concerns’. Arguably in this context independent directors cannot fully exercise their role of acting as ‘check and balance mechanism’ in promoting board effectiveness.

Company directors of large firms in Mauritius normally come from a tightly knit business community with the same people serving on several boards (Mahadeo et al. 2012; NCCG, 2004). Haniffa and Cooke (2002) argue that interlocking relationship can have important implications for governance especially independence. Interlocking of firms might lead to decisions in favour of management to the detriment of shareholders (Johnson et al. 2012). Liu and Yang (2008) point out that sitting on several boards can lead those members to become less committed with their job. Fich and Shivdasani (2006) concluded that firms having outside directors serving on three or more boards experience lower profitability and exhibit lower market-to-book value

ratio. The researcher is inclined to consider that inter-locking of directors compromises the independence of directors thus culminating in an adverse effect on CSR reporting.

An alternative explanation is provided by Eng and Mak (2003) for the negative relationship between board independence and CSR reporting. They argue that independent directors may be nominated by block shareholders who may acquire information directly. These directors pay a substitute -monitoring role to disclosure.

Hypothesis 6a predicts that board size is positively associated with the extent of reporting. The result is statistically significant (p=0.002) which suggests that Mauritian firms with a larger board size provide more information on their CSR performance. Hypothesis 6a is therefore supported. This result supports the findings of Rao et al. (2012), Haji (2013) and Al-Bassam et al. (2015) but contradicts the findings of Bai (2014). This result is also in accord with the neo-institutional framework. A larger board size can be representative of a diverse range of stakeholders (Kock et al. 2012) who can demand a greater variety of CSR activities.

Hypothesis 7a states that board gender diversity exhibits a positive relationship with reporting. Hypothesis 7a is accepted (p=0.028) This finding is consistent with Arayssi et al. (2016) and Rao et al. (2012) who found that gender-diverse boards tend to make more disclosures. From a neo-institutional perspective gender-diverse boards are in a better position to monitor adherence to rules and norms as the presence of women leads to better oversight from a managerial point of view (Adams and Ferreira, 2009).

The representation of women on corporate boards in Mauritius still lags behind advanced countries. However, there are two positives which can be gathered from the findings of this study. First, even if women representation is very low, it has the power to positively influence CSR reporting. This is because women encourage participative

communication and can, therefore, sensitise board members towards CSR initiatives (Bear et al. 2010). Women as compared to men possess more communal traits such as affection, kindness and concern for others' welfare (Galbreath, 2016). Second, data from this study shows that women make up to 40% of one or more boards, which is a good signal and a step toward the worldwide trend of increasing women representation on corporate boards.

Hypothesis 8a predicts a positive relationship between director education and CSR reporting. Director education displays an insignificant (p=0.526) and negative relationship with CSR reporting. This result supports Haniffa and Cooke (2002). It does not support the neo-institutional framework which posits that homogeneity in education can result in greater disclosures.

The non-significant relationship between the proportion of business-educated directors and CSR reporting shows that educational background alone is not enough in making the board more accountable by pushing for more disclosures. Jeanjean and Stolowy (2008) argue that financial expertise is not the only skill and knowledge required on boards. It has to be acknowledged that directors may be involved in activities and professions different from their academic backgrounds (Mahadeo et al. 2011c). Moreover, directors carry their experience which enable them to interpret business situations (Olffen and Boone, 1997) and which can prove more valuable in acknowledging accountability. Wiersema and Bantel (1992) argue that single industry experience in the long run can create resistance to change, with directors preferring status-quo. As stated before, directors in large companies in Mauritius come from a select group of people and tend to have long tenures (Mahadeo et al. 2012). Even though changes might be occurring in the market place, long standing directors may

fail to react to these changes. Thus, a potential reason to explain the non-significant association between business-educated directors and CSR reporting.

Sonnenfeld (2002) argues that having more board members with financial expertise does not guarantee better governance. Taking the example of Enron, he argues that the firm had an accounting professor along with international bankers, former financial market regulars, and current financial service firm leaders on board. However, they could not understand Enron's activities on the international financial markets. Therefore, a business academic background does not necessarily predispose an individual towards greater accountability in terms of higher disclosures.

7.10.3 Foundation and CSR Reporting

Hypothesis 9a predicts that the existence of a foundation to run CSR activities in a company is positively associated with the extent of reporting. The result is statistically significant (p=0.000) which suggests that Mauritian firms which channel their CSR funds through a foundation provide more information on their CSR performance. Hypothesis 9a is therefore supported.

Foundations are non-profit organisations set by profit-making entities to implement social projects. Since a foundation is comparable to a pool of funds from a number of companies, on the grounds of accountability these foundations have to show how funds have been utilised which is then reported in the annual reports of contributing companies. The monitoring function of donor companies is highlighted in a study by Pillay (2015) where the executive of a company which runs a foundation states

'…the company is regularly putting cash into it, is regularly monitoring it. You have the finance director and the company secretary on the board of the foundation, and it's not just left to its own devices…'

Foundations are meant for those companies or group of companies with a CSR fund in excess of Rs2 million. Since foundations manage a considerable amount of funds, they can implement a greater variety of CSR activities. Therefore companies contributing to a foundation have more to report upon. Greater variety of CSR activities can also be explained by each contributor trying to lobby for the foundation to engage in those activities which will legitimise their operations in the eyes of their relevant 'publics'. For example a firm willing to employ people in its immediate environment might push for an employability project to train people, making them more employable and also acting as a potential pool of candidates for recruitment by the firm. Another firm contributing to the same foundation and operating in the health sector could suggest that the foundation runs health check programmes for the community which would show care for the community and also benefit business operations.

Foundations foster strategic alliances with NGOs to implement certain CSR projects as these NGOs have the expertise in specific fields. Collaborating with an NGO enables the patron (foundation/company) to share decision making about allocation of resources and also it shows that the foundation is responsive to pertinent issues about stakeholders (Amran et al. 2014). NGOs are accountable to themselves in terms of responsibility to carry out their mission and to their staff (Dhanani and Conolly, 2015) and do also have an upward responsibility towards their patrons (Najam, 1996). As recipient of CSR funds, these NGOs must provide an account to foundations/companies. This information is then relayed to those companies which

ultimately fund the foundation. Collaboration with an NGO allows the company via the foundation to be involved in a greater variety of CSR activities, thus a higher level of CSR reporting. This result is corroborated by Amran et al. (2014) who found a better CSR reporting quality for those firms which build partnership with an NGO.

7.10.4 Employee Volunteering and CSR Reporting

Hypothesis 10 posits a positive relationship between employee volunteering and CSR reporting. Employee volunteering (EMPVOL) has a positive coefficient and is significant (p=0.000). Hypothesis 10 is therefore accepted. It implies that firms which run a corporate volunteering program disclose notably more than those which do not follow such practice. Organisations seek legitimacy by adhering to norms valued by key institutions in society (Campbell, 2007). Employee volunteering allows for better understanding of stakeholders expectations for companies and helps in 'reaching shared understandings of the values which govern common business practices' (Muthuri et al. 2009). This result is in accord with neo-institutional theory as 'norms' of business practice are mutually agreed and understood by working in close collaboration. Firms practising employee volunteering will therefore capitalise on their proximity to stakeholders and show that they are conforming to expectations by reporting such activity.

DiMaggio and Powell (1983) argue that organisations compete for institutional legitimacy in addition to resources. When CSR is mandatory, firms can use employee volunteering as a strategic tool to show that they are different from their competitors. For example, a firm selling educational items may send its employees to volunteer in nearby schools to show children how to use technology in their education. Children benefit from an increase in knowledge while the firm can potentially increase sales

from those children who were exposed to the training sessions. However, publicizing the event through the annual report or other means will bring greater benefits to the organisation. Even those individuals who have not directly benefitted from the actions of the company will lend their support to the organisation, seeing the organisation's positive actions (Bhattacharya et al. 2009). Furthermore, reporting on employee volunteering is an 'implicit endorsement' from the non-profit sector that the organisation is socially responsible (Basil et al. 2009).

Firms that encourage employee volunteering are better at attracting potential employees (De Gilder et al. 2005). This occurs when the initiatives of the employer match the employee's cause (Lindgreen and Swaen, 2005). Some form of congruence is required between the company's objective and the employee's intentions to bring the best out of employee volunteering activities. Most of activities under the purview of employee volunteering are employer-initiated i.e. intra-organisational (Peloza and Hassay, 2006) which means management decides on activities to be undertaken and provides the required support. Basically, management would prefer those activities which would directly/ indirectly benefit the business operations. When employees can have their say on activities they want to volunteer, satisfaction is greater for employees which can be reflected in the employee's performance at work. Inter-organisational employee volunteering which allows employees to choose and lead philanthropy projects, enables them to acquire project management skills (Peloza and Hassay, 2006) which can benefit the employee and the company in the future. In this scenario it would be expected that the organisation will report more on CSR on account of a variety of CSR projects undertaken. Employees will compete for their projects to be funded resulting in a number of projects being carried out by the employer to motivate

employees to volunteer. The extract below is taken from the annual report of State Bank of Mauritius (SBM) (2010) and best illustrates the researcher's point.

> 'SBM staff is encouraged to volunteer their time and talent to support the community. Following its success and request from staff, the SBM 50:50 Matching Scheme has been upgraded to SBM 1:2 Matching Scheme. Under the scheme, staff members are encouraged to organise fund-raising activities in favour of NGOs/ community organisations of their choice, with the Company topping up the amount by twice the proceeds raised, subject to a ceiling. We have seen an increasing number of employees getting involved in community development initiatives'.

Companies perceive that employee volunteering can be used as a strategy to manage a damaged reputation (Basil et al. 2009). For example a firm accused of using child labour in its production process may ask its employees to volunteer in neighbouring schools, showing that it cares for the education of children, in an attempt to rebuild its reputation. Changing the perception of the community requires communication which can be achieved through disclosure in the annual report. Rebuilding trust through employee volunteering is a currently used strategy (Muthuri et al. 2009). Following corporate scandals in Europe and the US which has eroded the trust of the community, firms in the UK food industry are using employee volunteering to reach out stakeholders demonstrating that they are legitimate and can be trusted (Muthuri et al. 2009). Thus, employee volunteering can be used as a responsive strategy to rebuild trust and ameliorate a firm's reputation. As reputation management is the most important reason to disclose CSR (KPMG, 2005), firms involved in employee volunteering will disclose more CSR.

7.10.5 Control variables and CSR Reporting

7.10.5.1 Regulation

Regulation (REG) is a dummy variable which takes the value 1 in years when CSR is mandatory, otherwise 0. REG has a positive coefficient and is significant at the 1% level (P=0.001). This result implies that disclosures are significantly higher than when CSR was purely voluntary. A significant influence of regulation on disclosures have been reported by Kolk and Prego (2010), Fallan and Fallan (2009) and Mahadeo et al. (2011a).

7.10.5.2 Profitability

Profitability (ROE) is significant at the 10% level (p=0.069) and is positively related to CSR. The result implies that an increase in profitability increases disclosures. This finding accords with Tagesson et al. (2009) and Cormier and Magnan (1999). However, it contradicts the result of Mahadeo et al. (2011a) who found a negative relationship between profitability and CSR in the Mauritian context. The mandatory nature of CSR in Mauritius from 2009 explains the opposing results between this study and Mahadeo et al. (2011a). Higher profits allow firms to spend more on activities thus increasing disclosures. The results show that more profitable firms disclose significantly higher.

7.10.5.3 Company Size

Company size (Total Assets) has a positive coefficient and is significant at the 10% level (p=0.067). This result is in line with Haniffa and Cooke (2005); Mahadeo et al. (2011a); Ntim and Soobaroyen (2013) and also consistent with neo-institutional theory. Large firms are better equipped financially to adhere to normative and

regulatory pressure for increased activities. Larger firms are under greater scrutiny by the public and disclose more CSR information to meet the needs of a greater number of stakeholders.

7.10.5.4 Industry

Overall, the results show limited influence of industry affiliation on CSR reporting. 'Banks and Insurance' has a negative coefficient and is insignificant. It means that companies in that sector have lower CSR reporting compared to others. 'Commerce' has a positive coefficient and is significant at 1% level (p = 0.007). A similar result was found by Mahadeo et al. (2011a) between 'Commerce' and Ethics' disclosures. The investment sector has an insignificant influence on CSR reporting which is in line with Mahadeo et al. (2011a). Similarly, 'others' also does not influence CSR reporting levels. The 'Industry' sector was omitted from the analysis to avoid multicollinearity among the various industries.

7.10.6 Robustness Test

A series of tests are conducted to check the model's robustness. In model 3, two control variables are replaced by alternative proxies. Firm size (SIZE) represented in the original model (Model 2) by the natural logarithm of total assets is replaced by the natural logarithm of sales revenue (SIZE 1). The natural score of ROE using Van der Waerden's formula (PROF) which represents profitability, is swapped with its equivalent for return on asset (ROA) as an alternative measure of profitability (PROF1). The results in model 3 are not qualitatively different from model 2. The only notable difference is BDSIZE which was positive and significant ($p<0.01$) in model 2 but is positive and insignificant ($p=0.191$) in model 3. All other main variables which

were significant in model 2 (Director Ownership, Government Ownership, Board Independence, Foundation, Employee Volunteering) maintained their original sign and significance, though in some cases the level of significance changed.

Model 2 was run, keeping the regulation dummy (REG) and dropping other control variables which gives rise to model 4. Again, the results in model 4 are not qualitatively different from model 2. The only difference is BDIND which was negative and significant ($p<0.05$) in model 2 but becomes negative and insignificant ($p = 0.259$) in model 4.

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 (Ploberger and Krämer, 1992) showed that the results are within tolerable limits. It can, therefore, be concluded that the coefficients are stable over the whole time period. Nevertheless, the sample was partitioned representing the pre-legislation and post-legislation periods. Model 5 shows the regression results for the post-legislation period (2010-2014). Model 5 is not qualitatively different from the regression results for the whole sample (Model 2). All predictors and control variables, significant in model 2 are equally significant in Model 5, albeit in some cases at a different level. Due to a limited number of cases (106) in the pre-legislation period, the exercise could not be repeated for that period.

7.11 Logistic Regression Results

Companies have the discretion to contribute more than the 2% levy and to engage in CSR practices not allowed by the guidelines. Some companies do not go beyond that, mainly because of the additional cost involved, which puts them at a

competitive disadvantage. It is assumed that the decision to engage in voluntary CSR in addition to the mandatory threshold is motivated by the desire to meet the needs of an important stakeholder and/or for legitimising their activities.

Table 7.11 shows the results of direct logistic regressions used to assess the impact of a number of variables on the likelihood of engaging in voluntary CSR. The main model (model 6) contains seven independent variables and three control variables. Hosmer-Lemeshow goodness of fit test produced a Chi-square value of 11.137 with a significance level of 0.638 (> 0.05), thus showing support for the model. Model 6 containing all independent variables was statistically significant with a Chi-square value of 54.85 and $p < 0.01$, meaning that the model was able to distinguish between cases which are involved in voluntary CSR (VOLCSR) and those which are not. Cox & Snell R Square and Nagelkerke R square also called the pseudo-R square provide the coefficient of determination in a similar manner to multiple regression (Pallant, 2007). Results indicate that the model accounts for between 43.3% (Cox & Snell R Square) to 63.8% (Nagelkerke R square) of variance in voluntary CSR. The model classified 80% of cases correctly. The small number of observations (164) used for the logistic regression is due to the fact that only years 2010 to 2014 can be considered. Since the CSR levy was introduced in 2009, voluntary CSR in addition to the mandatory CSR threshold applies to the post-levy period. Therefore, years 2007-2009 are ignored for this analysis.

Table 7.11: Logistic Regression Predicting Likelihood of Engaging in Voluntary CSR (VOLCSR)

	Model 6	**Model 7**
	Coefficient (Odds ratio)	Coefficient (Odds ratio)
Intercept	-3.856	-4.392
	(0.021)	(0.012)
DIROWN	-1.640***	-1.890***
	(0.194)	(0.151)
BLOCKOWN	-1.111	-1.590
	(0.329)	(0.254)
BDIND	-1.049	-1.372
	(0.350)	(0.254)
BDSIZE	0.135	0.026
	(1.144)	(1.027)
BDDIV	1.442**	1.870***
	(4.229)	(6.485)
SOCIALEDU	1.228*	1.070*
	(3.415)	(2.914)
FOUND	1.583***	1.527***
	(4.867)	(4.604)
INDUSTRY	-0.683	-0.436
	(0.505)	(0.646)
SIZE/SIZE1	0.540*	0.898*
	(1.716)	(2.455)
PROF/PROF1	-0.175	-0.292
	(0.839)	(0.747)
Model summary		
Chi-squared	54.85	58.29
Total observations	164	164
Correctly classified (%)	80	80.2

*** significant at 1% level or less; ** significant at 5% level or less and * significant at 10% level or less

7.11.1 Ownership structure and VOLCSR

Hypothesis 2b predicts a negative relationship between director ownership and voluntary CSR. The odds ratio for Director's ownership (DIROWN) is less than one (0.194) and therefore has a negative coefficient.

It implies that a 1% increase in director ownership reduces the likelihood of engaging in voluntary CSR by 80.6 % (1 - 0.194), other things equal. Alternatively, for every 1% less of director's ownership, the odds of engaging in voluntary CSR increases by 5 times (1/0.194). H2b is accepted ($p<0.01$), director ownership reduces the odds of engaging in voluntary CSR. This finding is supported by Arora and Dharwadkar (2011) who report that managerial ownership does not incite firms to undertake CSR beyond minimum compliance level.

Barnea and Rubin (2010) claim that owner-managers might over-invest in CSR as their companies can benefit from a higher CSR rating. Managers will personally benefit from a higher CSR rating as they will be viewed as owners who care about their employees and the community. With a better reputation, managers have better job prospects and bargaining power (Jo and Harjoto, 2011). However, the results show otherwise.

The absence of external control mechanisms such as takeovers and lack of competition due to market concentration in the hands of few conglomerates can also explain the reluctance for managers to over-invest in CSR. In this situation, managers lead a 'quiet life' which can be compared with a monopoly situation with no incentive to start new ventures (Bertrand and Mullainathan, 2003). If the board comprises of several family members and the CEO is part of them, the chance of a CEO turnover is even bleaker. Thus CEOs do not need to show their managerial talent by undertaking

CSR activities beyond compliance level. Hypothesis 5b posits a negative relationship between block ownership and voluntary CSR.

The coefficient of block ownership (BLOCKOWN) is negative as predicted but insignificant, 3b is thus not supported. From a stakeholder theory point of view, the absence of strong stakeholders for block owners means that they face less pressure to undertake CSR activities. Further analysis of what type of ownership structure (family, director or institutional) constitutes block ownership can spread light on the non-significant association between block ownership (BLOCKOWN) and voluntary CSR (VOLCSR). The strategic choice hypothesis of Harjoto and Jo (2011) who expects insiders affiliated with the firm (block owners) to overspend on CSR does not hold.

7.11.2 Board Practices and VOLCSR

In hypothesis 5b it was initially thought that board independence can increase the likelihood of voluntary CSR, however, the coefficient of board independence (BDIND) is negative (odds ratio<1) and significant ($p<0.05$). H5b is not supported. Other things equal, for every unit increase in the percentage of independent directors, the odds of adopting voluntary CSR decreases by 0.350. This result seems to meet the over-investment hypothesis of Barnea and Rubin (2010) who argued that good corporate governance should prevent over-investment in CSR. There is no clear monitoring mechanism which can prevent management from over-investing in CSR. Of the internal and external measures, board independence can be one which can oversee top management's role on behalf of dispersed shareholders (Jo and Harjoto, 2011). The results in some way show that corporate governance mechanisms can prevent over-investment in CSR. This finding is consistent with the relationship

between board independence (BDIND) and CSR index (CSRI). If board independence cannot increase CSR practices within the mandatory framework, obviously, it cannot work on voluntary CSR practices. Independent directors may not think differently from insiders because they are demographically similar and therefore cannot offer different insights on decision making (Westphal and Milton, 2000).

Hypothesis 6b predicts that a larger board size increases the likelihood for a firm to go beyond the mandatory CSR threshold. Board size (BDSIZE) is positive but insignificant ($p=0.305$). 6b is therefore not supported. While board size is significant in explaining the level of CSR reporting, its impact on voluntary CSR is less visible. A cursory look at the descriptive statistics for board size shows that the standard deviation is low (1.8) compared to the mean of 9.99, which means that those firms involved in VOLCSR have roughly the same board size. As such, board size follows a norm rather than being a factor which can differentiate firms.

Hypothesis 7b predicts that gender diverse boards are more likely to engage in voluntary CSR practices. Board diversity (BDDIV) has a positive coefficient and is significant ($p<0.05$). As predicted the presence of one or more women on the board increases the likelihood that a firm engages in voluntary CSR. This result means that stakeholder theory holds, which predicts that women can link the firm with external stakeholders and can also improve the social performance of firms (Hafsi and Turgut, 2013). The results confirm that women are not solely concerned with the financial performance of the firm. Women are prepared to sacrifice financial performance to meet the needs of an important stakeholder. As advocated by Westphal and Milton (2000) minority group members can stimulate the decision-making process by questioning conventional ideas, and offering unique perspectives.

Hypothesis 8b states that the presence of a director with a social qualification on the board (SOCIALEDU) increases the likelihood for a firm to practise voluntary CSR. The odds ratio of 3.415 means that companies with a director qualified in the social field is three times more likely to engage in voluntary CSR compared to those companies with no director in the social field. 8b is accepted ($p<0.1$). This result supports stakeholder theory which posits that qualified managers can bring legitimacy to a firms' activities. The influence of director education on CSR has been empirically tested by Elm et al. (2001) who found that educational attainment positively influences concern for the environment. However, Post et al. (2011) failed to show that directors with advanced education are more committed to CSR.

A manager's academic background is an indication of their underlying attitude and expertise (Wesrphal and Milton, 2000). Business-educated directors can assume a variety of roles. For example, an individual qualified in management can occupy a position in marketing, general management, human resource among others. Though their academic background may have exposed them to CSR, the diversity of roles they can assume may fail to provide a direct link to CSR. Conversely, directors with a social academic background have a better understanding of the needs of the society through knowledge acquired as part of their education. Also, the roles they can occupy based on their qualifications is limited to the social field. Thus, the combination of education and experience bring better exposure to the needs of stakeholders. Hence, they can persuade the board to go beyond the mandatory CSR guidelines to legitimise the activities of the firm.

The presence of social-educated directors represents a small minority of firms listed of the SEM. A study by Wesphal and Milton (2000) found that minority directors can offer perspectives different from majority directors. The sample of this study is

dominated by business educated directors with an average of 52%. The mere presence of a social educated director can provide an outlook of the firm's need to engage in activities in addition to those prescribed by CSR guidelines. This is because minority directors can challenge the conventional perspective of majority directors since the former have the skills and expertise which majority directors do not have (Wesphal and Milton, 2000). Thus directors with a social academic background can be instrumental to a firm in identifying and meeting a firm's social responsibility. For example, a director with a social academic background can persuade the board to carry on with a project despite having to inject more than the legal amount of CSR funds required because of the negative consequences of disrupting the project on the community. These directors may ask for additional investment which conflict with short-term economic interest for long-term gains for shareholders (Johnson and Greening, 1999; Post et al. 2011).

7.11.3 Foundations and VOLCSR

Hypothesis 9b states that companies which contribute CSR funds to a foundation are more likely to exceed the mandatory CSR spending. The use of a foundation (FOUND) to channel CSR funds is indeed one of the strongest predictors of voluntary CSR ($p<0.01$). H9b is therefore accepted. A number of companies and foundations work in close collaboration with NGOs to implement their CSR activities (Pillay, 2015). Mandatory CSR has seen an escalation in the number of NGOs aiming to attract CSR funds. Whether foundations fund an NGO or run their own CSR programs, projects are long-term and require regular injection of funds. Firms might contribute more than the mandatory amount to keep programs running because of moral legitimacy reasons.

Pillay (2015) explains that some loss-making companies were still making CSR commitments. Some CSR projects date prior to the regulatory change or when companies were profitable and they still continue to fund these projects because they believe that the projects are 'worthwhile' even if they do not 'technically' have the money to contribute (Pillay, 2015). Again from a moral legitimacy perspective, firms maintain existing CSR programs are going beyond the mandatory requirement.

Foundations mainly attract funds from a number of affiliated companies which is known by the public, through the holding company or main company in the group. For example 'Mauritius Commercial Bank (MCB) Foundation' is in the eyes of the public operated by the Mauritius Commercial Bank, although its Foundation receives funding from several companies in the group. A number of studies have pointed out that CSR has a positive influence on reputation (Toms, 2002; Hasseldine et al. 2005; Lu et al. 2015). Reputation is one of the most important intangible assets for companies (Toms, 2002) and this reputation exists in the mind of stakeholders (Lu et al. 2015). Firms will endeavour to maintain their standing in society by injecting more funds than the legal requirement in their foundations to keep their CSR activities going. Retreating from a long-term project due to insufficient funds is therefore not the way forward due to negative consequences on the reputation of the firm. To maintain their legitimacy status, firms will exceed the CSR threshold and report upon those activities to cater for the needs of stakeholders who are involved in the assessment of the firm's reputation. The positive impact created on stakeholders will enhance the firm's reputation (Lu et al. 2015).

7.11.4 Control variables and VOLCSR

7.11.4.1 Industry

For the logistic model, firms are classified under ‘manufacturing’ or ‘other’, with manufacturing firms denoted by a zero (0) and other firms denoted by one (1). Industry (INDUSTRY) has a negative coefficient and is insignificant ($p>0.05$). It implies that other firms are less likely to be involved in voluntary CSR than manufacturing firms. This result is in accord with Qu (2011). Manufacturing firms are expected to display greater concern for social responsibility because they are politically sensitive (Cooke, 1992). As their activities are under more scrutiny by the public, these firms will attempt to meet demands from primary stakeholders. This result is at odds with Hafsi and Targut (2013) who found that service firms have a better corporate social performance than manufacturing firms.

7.11.4.2 Profitability

Profitability (PROF), as measured by return on equity, is negatively related to voluntary CSR and is insignificant. This is in line with the results of Cowen et al. (1987) and Clarkson et al. (2008). Mixed results have been reported by authors about the CSR-financial performance relationship, as Hughes et al. (2001) and Moore (2001) report a negative relationship whereas Cormier and Magnan (2004) and Murray et al. (2006) exhibit a positive relationship. Heinze (1976) claims that profitability gives management the flexibility to undertake extensive CSR programs and this claim should logically hold for voluntary CSR. However, it appears from the results that profitability is not a determining factor for a firm to spend above the compulsory amount.

7.11.4.3 Firm Size

Firm size (SIZE) as measured by total assets, is positively related to voluntary CSR and significant. This result is consistent with Stanny and Ely (2008) and Morhardt (2010) who support the firm size-CSR effect. Larger firms make a greater impact on society and have a large number of shareholders and are expected to undertake more CSR activities (Hackston and Milne, 1996). Large companies also have greater social visibility and tend to experience greater demand for sponsorship and donations. If they fail to support such demands, they can face serious consequences (Mahadeo et al. 2011a). From a stakeholder theory perspective, large firms will go beyond minimum compliance to meet the request of important stakeholders, especially religious donations in the case of Mauritius.

7.11.5 Robustness Test

Additional tests were conducted to test the model's robustness. In model 7, two alternative measures for firm size and profitability are used. The natural logarithm of Sales (SIZE1) is used instead of the natural logarithm of total assets for firm size (SIZE). For profitability, using Van der Waerden's formula, return on equity (PROF) is replaced by return on assets (PROF1). The results for model 7 does not differ qualitatively from the results in model 6. The only change is in the significance of board diversity (BDDIV) which becomes significant at the 1% level. It can, therefore, be concluded that Model 6 is robust and can be used for predicting voluntary CSR.

7.12 Summary of Results

The study examines the influence of ownership structure, board practices and other factors on reporting and voluntary CSR practices in Mauritius. Table 7.12 provides a summary of the results.

Table 7.12: Summary of Hypotheses and Results

Hypotheses	Accepted/Rejected
1: There is an increase in the extent of CSR reporting following CSR legislation	Accepted
2a: There is a negative association between the proportion of director ownership and the extent of CSR reporting.	Accepted
2b: Firms with a higher proportion of director ownership are less likely to engage in voluntary CSR practices in addition to mandatory CSR practices.	Accepted
3a: There is a negative association between the proportion of shares held by block holders and the extent of CSR reporting.	Rejected
3b: Firms with a higher level of block ownership are less likely to engage in voluntary CSR practices in addition to mandatory CSR practices.	Rejected
4: There is a positive association between the presence of government ownership and the extent of CSR reporting.	Rejected
5a: There is a positive association between the proportion of independent directors and the extent of CSR reporting.	Rejected
5b: Firms with a higher proportion of independent directors are more likely to engage in voluntary CSR practices in addition to mandatory requirements.	Rejected
6a: There is a positive association between board size and the extent of CSR reporting	Accepted
6b: Firms with a larger board size are more likely to engage in voluntary CSR practices in addition to mandatory requirements.	Rejected
7a: There is a positive association between the proportion of board gender diversity and the extent of CSR reporting.	Accepted
7b: The presence of a female board member increases the likelihood for a firm to engage in voluntary CSR practices in addition to mandatory requirements.	Accepted

8a: There is a positive association between the proportion of business-educated directors and the extent of CSR reporting.	Rejected
8b: The presence of a director holding a social qualification increases the likelihood for a firm to be involved in voluntary CSR practices in addition to mandatory requirements.	Accepted
9a: There is a positive association between companies channelling their CSR funds to a foundation and the extent of CSR reporting.	Accepted
9b: Firms channelling their CSR funds to a foundation are more likely to engage in voluntary CSR practices in addition to mandatory CSR requirements.	Accepted
10: There is a positive association between employee volunteering and the extent of CSR reporting.	Accepted

7.13 Chapter Summary

This chapter presents the results of hypotheses testing of the study's research questions. Before conducting multivariate analysis, descriptive statistics of independent variables were analysed together with the correlation matrix to identify issues related to normality and multicollinearity of variables. Three analytical models were tested using multiple regression. The first, (model 1) assessed the effect of regulation on CSR reporting. The second, (model 2) tested the influence of corporate governance practices on CSR reporting and the third (model 6) evaluated the determinants of voluntary practices in Mauritius. The results were then discussed in general. Robustness tests were carried out to ensure the results are reliable.

The role of regulation is significant in explaining CSR reporting, thus highlighting its essence in developing countries to make firms more socially and environmentally responsible. As regards the influence of corporate governance practices on CSR reporting over the eight-year period (2007-2014), director ownership and government ownership are the two attributes which influence CSR reporting, though negatively. The negative relationship between government ownership and CSR

is contrary to the prediction of the researcher which can be placed on account of the low government stake in companies and lack of competition. Regarding board practices, board independence is significant but affects CSR negatively. Local conditions such as smallness of the country or friend/ family connections can account for this unlikely relationship. Board size and board gender diversity both contribute positively towards CSR, as expected. Both employee volunteering and foundations are found to be major drivers of CSR in the Mauritian context.

Empirical evidence shows that only three variables influence voluntary CSR practices. Director ownership is significant and negative showing the lack of interest of owner-managed firms in CSR possibly due to the absence of strong stakeholders. Foundations are more likely to be involved in voluntary CSR due to the long-term nature of those projects. Director education positively influences engagement in voluntary CSR showing that minority views are not always neglected. The next chapter presents the conclusions of the study.

Chapter 8 Summary and Conclusions

8.1 Introduction

This study presents an empirical investigation of the determinants of CSR reporting in Mauritius. In so doing, it analyses practices, trends and patterns of reporting of CSR over an eight-year period (2007-2014). Regulatory regime changes which affected CSR practices and reporting occurred during the period under examination.

The rest of this chapter is organised as follows. Section 8.2 provides a summary of the contents of preceding chapters. This is followed by a summary of the findings of this study in section 8.3. The implications of the research findings are discussed in section 8.4. The limitations are discussed in section 8.5 and finally, section 8.6 provides an overview of further avenues for research.

8.2 Content of Preceding Chapters

Chapter 1 provides the scene for conducting this research. The research questions and the justification for conducting this research are covered. Research questions were converted into testable hypotheses. These hypotheses are classified into three categories: ownership structure, board practices and other factors. The significance of this study and its contribution to the literature is also discussed. The structure of the thesis finishes the chapter.

Chapter 2 gives an overview of the Mauritian economy and explains the role of key institutions in Mauritius. Mauritius is a small island in the Indian Ocean with a

population of around 1.3 million inhabitants. Mauritius has successfully diversified its economy from a monocrop (sugar) in the 1960's to Manufacturing and Tourism in the 1970's. The Mauritian economy is now diversified with other pillars such as sea food processing and financial services. The Companies Act 2001 and the Financial Reporting Act 2004 guide financial reporting. Mauritius was the first country to impose a CSR levy on all profitable companies and are required to contribute 2% of profit towards CSR activities. A concentrated structure of family ownership and few businesses controlling the market are the main characteristics of the Mauritian business environment. External control mechanisms such as hostile takeovers are rare. Corporate control is, therefore, insider oriented. The board structure is akin to Anglo-American countries and is one-tiered. This chapter also covers the role of key institutions such as Financial Services Commission, Mauritius Institute of Public Accountants and the Financial Reporting Council.

Chapter 3 outlines the theoretical framework. To understand the various perspectives on CSR, the chapter outlines various theories which can be classified into socio-political theories and economic theories. The chapter explains the similarities and differences between socio-political and so-called systems-based theories. It also shows how the legitimacy, stakeholder and neo-institutional theories are consistent with each other and where they differ. This study is in two main parts, the first which examines the influence of corporate governance practices on CSR reporting and the second which investigates voluntary CSR in a mandatory CSR environment. Legitimacy and neo-institutional theory are combined to explain determinants of reporting in Mauritius while legitimacy theory and stakeholder theory are used in conjunction to explain voluntary CSR in a mandatory CSR environment.

Chapter 4 reviews the literature on the determinants of CSR reporting. It draws from studies on CSR reporting and related environmental and sustainability reporting. It starts with the definition of CSR and its reporting and then explains the motivations for CSR reporting. A number of theories have been used to explain reporting such as legitimacy theory, stakeholder theory and neo-institutional theory. Studies using the aforementioned theories are reviewed. Research on themes of disclosure are discussed underlining which themes are most/least favoured. Studies on determinants of reporting which includes: corporate characteristics; corporate governance practices and other factors are also discussed. Additionally, research on regulation and SIDS countries are discussed. The contribution of this study to the academic literature is also highlighted.

. Chapter 5 develops hypotheses based on research questions set in chapter 1. Three sets of hypotheses are developed. The first predicts an increase in CSR reporting following regulation on CSR. The second set argues that corporate governance practices and other factors such as employee volunteering and the existence of a foundation to channel CSR funds are associated with CSR reporting. The first two sets of hypotheses are devised using neo-institutional theory and legitimacy theory. The third set argues that corporate governance practices and the existence of a foundation are potential determinants of voluntary CSR practices. Legitimacy and stakeholder theories are used to support the latter.

The research design is covered in chapter 6. It starts with an overview of research paradigms. Justification for using a longitudinal research design with a quantitative approach is provided. The process of constructing the CSR index which is the measuring tool for the dependent variable of this study is outlined in detail. Consistent with other studies, the CSR index is made up of four categories:

environment, human resource, products and consumers, and community. Three analytical models are then developed. The first model tests the influence of regulation on CSR reporting. The second seeks to identify the influence of corporate governance practices on CSR reporting and the third examines voluntary CSR in a mandatory CSR environment. All variables used in these two models and their operationalisation are explained.

The results are extensively discussed in chapter 7

.

8.3 Summary of Findings

8.3.1 Extent of CSR Reporting and CSR Themes

A large majority of firms (88%) were involved in CSR in 2007 and reached 100% by 2013. This result compares very favourably to other developing countries. Human resource disclosure has been the most prominent theme of disclosure over the years. However, the environment is the only theme which has progressively increased in disclosure. Products and Consumers is found to be the least favoured theme of disclosure among all companies. Community disclosure is also very popular and 95% of firms disclosed in 2013.

8.3.2 Effect of Regulation on CSR Reporting

Following the regulatory regime changes, an increase in CSRI is noted. A change in the pattern of disclosure is noted with an increasing tendency towards community which replicates the focus of the regulatory regime change. Multiple regression with REG as test variable confirms that CSR reporting has significantly increased following regulation regime change.

8.3.3 Corporate Governance practices/Other Factors and CSR Reporting

With respect to the driving forces of CSR reporting, the study reveals that director ownership has a significant negative influence on firm disclosure practices. Block ownership is negatively related to disclosure but the relationship is not significant. The relationship between Government ownership and disclosure is negative and significant, which is contrary to what was predicted. Regarding board characteristics, a larger board size is found to lead to higher disclosures. Board independence significantly influences disclosure but is negative which is in contrast to the hypothesised prediction. Board gender diversity has a positive influence on disclosure and is significant. No influence of director education on disclosure is found. Firms which use a foundation to channel their CSR funds disclose more often. Similarly, firms practising employee volunteering are found to disclose more often. In both cases the relationship is significant.

As regards control variables, the regulation regime changes positively influences CSR disclosure. Profitability is an influential factor in determining disclosure. In line with the literature, firm size is significantly and positively associated with disclosure. The results show mixed findings in relation to the influence of industry on disclosure. Only 'Commerce' shows a significant influence on reporting, with 'Banks and Insurance' and 'Others' having no significant influence on reporting.

8.3.4 Determinants of Voluntary CSR Practices

The guidelines impose a number of restrictions on CSR practices. For instance, firms cannot use funds for staff welfare activities and religious donations. Firms willing to undertake activities not allowed by the guidelines, must contribute more than the CSR levy. Regarding the determinants of voluntary CSR practices, the results reveal that board size does not influence a firm to go beyond the 2% levy amount on CSR and the same applies for board independence. Boards of directors having a female presence (board gender diversity) are more likely to over-invest in CSR. The presence of a director with a social qualification has a significant positive influence on voluntary CSR practices. Block ownership has a negative influence on voluntary CSR but is not significant. Firms with higher director ownership level are less likely to be involved in voluntary CSR, which is in line with the literature. Firms which contribute their funds to a foundation are more likely to exceed the mandatory CSR threshold. As far as firm characteristics are concerned, manufacturing firms are more likely to be involved in voluntary CSR. Profitability is surprisingly not a significant determinant of voluntary CSR. Larger firms are more likely to be involved in voluntary CSR mainly due to their higher social visibility.

8.4 Implications of the Findings

This study has several implications for policy and practice. The significant increase in disclosures following the introduction of the levy and mandatory CSR disclosure, shows the importance of regulation in compelling firms to practice and thus disclose CSR. In a country where the ownership of large firms is concentrated in a handful of individuals, where family-owned and managed firms are preponderant, the

market does not offer sufficient incentives for firms to voluntarily practice and disclose CSR. Moreover, the absence of external control mechanisms such as takeovers and with market concentration among a few conglomerates, there is a case for mandatory CSR practice and disclosure in Mauritius.

From a regulator's perspective, the negative association between independent directors and reporting, calls for a revision of the provisions of the Code regarding the appointment of independent directors. The actual provision states that there must be a minimum of two independent directors on a board. It is claimed that the choice of independent directors rests on powerful CEOs which compromise their role as monitors (Jain and Jamali, 2016). To this end, it is proposed that the selection of independent directors be made more transparent. A committee chaired by a non-executive chairman could screen potential candidates and make recommendations towards the selection of independent directors. Furthermore, the training of independent directors is important to empower them to play a constructive role. To this end, the Mauritius Institute of Directors (MIoD) can provide training to potential directors. At the same time the MIoD can form a pool of potential trained directors for companies to choose from, should they require an independent director.

The negative association between board independence and reporting has implications for foreign investors which have CSR high on their agenda. Compared to Anglo-American countries where independent directors are found to positively influence firms to practice and disclose more CSR, this does not seem to be applicable in the context of Mauritius.

The negative relationship between government ownership and reporting, is not the right signal to the investment community. The state should lead by example and promote transparency by disclosing more CSR. Government-owned firms may be

more concerned about their operating activities and neglect the accountability associated with government ownership. The government should consider choosing the right mix of directors in terms of qualifications and experience to enable these companies to operate effectively and efficiently and while being accountable to the public at the same time.

Agency problems are rife in modern organisations. Shareholders are always wary of the true intentions of managers. While there is no indication that over-investment in CSR is detrimental to the company, it certainly imposes an additional cost on the company. This cost is borne by shareholders. The negative significant association between director ownership and voluntary CSR, implies that, as managerial ownership increases the likelihood of over-spending on CSR decreases. Thus, owner-managers do not over-invest in CSR to strengthen their career prospects. From a shareholder's perspective, it implies that shareholders can trust managers. This finding is reassuring for small shareholders of owner-managed firms where the risk of majority shareholders expropriating minority shareholders is high (Bhasa, 2004).

One of the major criticisms levelled against CSR is that it consumes financial and human resources which lead to lower profits. Furthermore, it distracts the attention of the company from its mainstream activities. Faced with a choice of either paying the levy as a tax or spending it on CSR activities, a rational person may choose the easy way, that is pay it as a tax. However, results of this study show otherwise. An increase in all categories of CSR over 2007-2014 is evidenced. Almost all subcategories have shown an increase post 2009, which confirms that companies have continued their CSR engagement rather than paying the levy as a tax. This choice is motivated by legitimacy reasons. Regulatory regime change has altered the way CSR is practised but stakeholders' expectations have remained the same. Falling behind

society's expectations will create a legitimacy gap which companies want to avoid. Firms prefer to practise CSR activities rather than hand the funds to tax authorities.

8.5 Limitations of this Study

This study has several limitations. First, it considers only the annual report as the major source for companies to communicate CSR information to stakeholders. Whilst company financials and corporate governance information used to test hypotheses are primarily found in the annual report, there are a number of media channels that are available for companies to communicate CSR; websites, newsletters, newspapers and billboards among others. This study has purposely ignored other sources apart from the annual report. Generalisation to other small and unlisted Mauritian companies should be made with care. The study focuses on the Mauritian context which limits comparison with other countries.

This study considers a number of corporate governance and firm characteristics in predicting CSR reporting. The choice of variables considered is based on previous studies and the Mauritian context. For example, this study purposely does not consider the role of CEO duality as such a practice is condemned by the NCCG. Likewise, audit committees and CSR committees are not considered as this is an established practice among companies listed on the SEM. Family ownership and representation on the board is a common feature of the Mauritian business environment. However, due to unavailability of this information in the annual report, this study has been unable to examine this effect. A comprehensive list of determinants of CSR reporting is also difficult to build. Furthermore, only a limited number of determinants could be

examined, given the small number of observations (287) used. Nevertheless, this study gives some preliminary evidence of the influence of CG practices on CSR reporting.

Though the FRA (2004) indirectly requires firms to disclose their CSR activities, the lack of reporting guidelines means that firms may voluntarily not disclose all their CSR activities. There are some firms which have no CSR information to disclose. The study is unable to distinguish between those firms which have no information to disclose and those which purposely decide not to disclose or selectively disclose CSR information. This can affect the results of this study but in the absence of any means to check if this is occurring, this study assumes that firms have disclosed all CSR information.

8.6 Future Research

This study investigated changes in the level of CSR reporting in the wake of regulatory regime changes. The results were taken from annual report data. Firms have been accused of using CSR disclosure to manage impressions and reporting plans, rather than actions (Hopwood, 2009). Again from a user perspective, future research can investigate the type of information disclosed by firms and assess its usefulness for consumers of CSR information.

CSR undoubtedly involves a cost but its benefits remain unclear. Future studies can address the economic consequences of CSR. These studies could examine the linkages between CSR and one or more outcomes such as the cost of capital, financial performance, reputation and market value. This will shed light on whether the market rewards firms which go beyond the mandatory CSR threshold. If the answer is yes, then in what way does over spending on CSR benefit companies?

Future studies can explore other possible determinants of CSR reporting. Since this study finds limited influence of board practices on CSR reporting and further to the claim made by Mahadeo and Soobaroyen (2016) that directors in Mauritian firms tend to have long tenures; future research might consider investigating how individual characteristics of directors such as experience, skills and tenure impacts on reporting. Family ownership and representation on the board is common in firms listed on the SEM. However, due to the non-availability of this information in annual reports, this aspect has been ignored. Future research could find ways to obtain this information, possibly from company secretaries and investigate its effect on CSR reporting.

During the period covered by this study (2007 to 2014) the CSR levy was introduced and reporting CSR became mandatory. Guidelines imposed restrictions on the practice of CSR activities. In 2015, the government removed all guidelines for using CSR funds but kept the CSR levy in place. Thus, future research can extend the period of study post-2014 to investigate the changes (if any) in practices following this change.

In a multi-cultural/multi-ethnic society, the societal values may not reflect the values of a whole nation. This is because each group may want to maintain its own values (Haniffa and Cooke, 2002). Given the multi-cultural setting of Mauritius, it will be interesting to evaluate the impact of ownership structure based on cultural background such as: European descendants vs Non-European descendants; Indian background (Hindu and Muslims) vs Non-Indian background (Africans, Chinese and Europeans), on CSR reporting. Similarly, the impact of gender ownership on CSR reporting can also be evaluated.

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APPENDIX

Appendix 1: Normal P-P Plot of Regression Standardised Residual