Relationship between Corporate Social Responsibility Performance and Disclosures: Commercial Banks of Bangladesh

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Abstract

Purpose:
The research investigates the determinants of corporate social responsibility (CSR) spending and CSR disclosures by the Bangladeshi commercial banks. It also explains the relationship between CSR disclosures and CSR expenditure by Bangladeshi commercial banks.

Design/Methodology/Approach:
Legitimacy theory has been used to explain the motivation for such expenditure and disclosure. For purpose of analysing the determinants, OLS regression analysis has been used for the first test with CSR expenditures and ordered PROBIT regression analysis has been used for test with CSR disclosures.

Findings:
The result found that CSR expenditure depend on banks' size, age, market value and government ownership; whilst CSR disclosures depend on CSR expenditure, profitability, age, government ownership and Islamic compliance.

Practical Implications:
The practical contribution of this study includes the assistance for the public policy development by providing better understanding of extent and credibility of CSR reporting by the Bangladeshi banking sector.

Originality/value:
The study contributes to the academic literature by presenting findings from different focus on a developing economy like Bangladesh. The study will lead to draw a standard for the developing country to find out the differences compared to developed country.

Keywords: Corporate social responsibility, disclosures, commercial banks, CSR expenditures, Islamic banking.

1. Introduction

Commercial Banks (banks, hereafter) are encouraged and put forward by the Bangladesh Central Bank (Bangladesh Bank, hereafter) to spend on corporate social responsibility (CSR) activities besides their regular operations. Bangladesh Bank took many initiatives to encourage banks to engage in CSR activities.

For example - Bangladesh Bank introduced its own refinancing scheme, along with its development partners Asian Development Bank (ADB) and Japan International Cooperation Agency (JICA) refinancing schemes at a reduced interest rate. Women entrepreneurship got a high importance and has 15% of the fund reserved for the purpose. Banks took necessary steps to maintain minimum requirement for marginal farmers in the year. Farmers account also proves to be a very important and active part of Bangladesh Bank's CSR initiative. Bangladesh Bank also continued own and donor financed refinancing for small and medium enterprises (SME). Banks also have another refinancing line in addition to the earlier years against their lending for agro financing projects. Banks were requested to spend at least 30% of their CSR expenditures. The aim is to minimise the inequality of different levels (privileged and underprivileged) of students. Banks were requested to spend significant portion of their CSR expenditures on distributing free agricultural components, interest free loans to landless sharecroppers and assisting various income generating activities to promote sustainable development and improve the livelihood of the poor people living in the underdeveloped areas of the country. Day care centres, gender inequality, mobile banking facility are other parts of CSR activities taken by the banks in Bangladesh. Thus, banks are being encouraged by the central bank (the representative regulatory body) to engage in CSR activities, which motivate the context of this study to find the determinants of CSR activities of Bangladeshi commercial banks.

From 1970s, CSR disclosures have been seen in corporate annual reports and had sharply expanded since then (Saha and Akter, 2012). CSR reporting has become an issue of interest for researchers, over the last twenty years. Most of the CSR reporting studies conducted so far have been in the context of developed countries such as Western Europe, the USA and Australia (see, for example, Guthrie and Parker, 1989; Deegan and Rankin, 1996; Robertson and Nicholson, 1996; Mathews, 1997; Adams et al., 1998; Gray et al., 1998; Tobin et al., 2002; Adams, 2011). There is very little study available in developing countries on CSR reporting practices (Belal and Cooper, 2011). Bangladesh is a developing country in South East Asia. While economic development is evident, the qualitative development has still to make any progress like any other developing countries. While it aims to gear up the economic development, there is an urge within the country for its qualitative development. It has a number of pressure groups and non-governmental organisations (NGOs) working for positive social change in society. BRAC and Grameen Bank are prominent two developing organizations. Environmental groups have started to work, like - Bangladesh Environmental Network (BEN), to address the environmental issues (Islam, 2000).

The concept of CSR reporting is relatively new in Bangladesh. Before 1990's there was no evidence of CSR information or disclosure in annual reports of public limited companies listed with Dhaka Stock Exchange (DSE). Available literature on CSR reporting in Bangladesh includes Belal, 2000; Imam, 2000; Hossain et al., 2006; Belal and Momin, 2009; Ahmed et al., 2010; Saha et al., 2013. Prior studies have mostly covered the extent of CSR disclosure through corporate annual reports. This study investigates the overall present condition of CSR reporting practices in Bangladesh by the listed companies under DSE and finds for the determinants of CSR disclosures made and CSR expenditure published in the Bangladesh Bank reports.

Research Question 1: What determines the CSR expenditures by Bangladeshi banks?

Research Question 2: What determines the extent of CSR disclosures by Bangladeshi banks?

This study is arranged in five sections. The next section presents a view on literature with a description of underpinning theoretical framework used in the research. Section three presents the research design used. Section four presents the results, relevant detailed analyses and description. Finally, section five concludes with the importance of the research.

2. Literature Review and Hypotheses Development

Business needs resources to manufacture products or render services; they operate in a society from which they draw their resources and workforces and that environment and community may be affected by their activities. Corporate social responsibility reporting has been mainly a phenomenon of developed countries and consequently, most corporate environmental reporting studies were confined to the developed countries (Belal, 2000). A handful of studies concentrated on the newly industrialized countries such as Korea, Hong Kong, Malaysia and Singapore and African countries as South Africa, Nigeria and Uganda (Belal, 2000). This section sheds light on studies (in the international context as well as in the context of Bangladesh) on corporate social (CSR) responsibility reporting.

Ho et al. (1994) studied 182 companies and found that only 9 out of these 182 companies (4.9 percent) disclosed CSR information in their annual reports for the year 1991, in Hong Kong. In Korea, out of 770 listed companies only 64 companies disclosed CSR information revealed by the study of Choi (1998) for the year 1997. Tsang (1998) managed a continuing study of the area of social and CSR reporting practices by the beverages, food banking and hotel industries over a ten-year period from 1986 to 1995. He found that only 52 percent listed companies made social and environmental disclosure in their annual reports. Prior research on corporate social responsibility (CSR) reporting in Bangladesh shows a poor reporting performance. Belal (2001) surveys 30 companies' annual report in Bangladesh of which 28 were listed and he found 90 percent of the companies under study made some CSR disclosure. Whereas, Imam (2000) analysed 34 companies and found that only 22.5 percent of the companies provided CSR information in their annual reports. Most of the prior studies in Bangladesh have mainly concentrated on the extent of CSR disclosure through corporate annual reports but they did not give much attention on the relationship of the CSR disclosure with several corporate attributes (such as size, age, efficiency, profitability, multi nationality, industry type etc.). Thus, this study investigates the relationship between the CSR disclosure on corporate annual reports and determinants of CSR reporting the banking industry.

Organizations face pressures from different stakeholders to cope with the social expectation (Medley, 1997). This study uses the legitimacy theory to explain the motivation of disclosing and reporting on CSR with Bangladesh Bank and annual reports to the stakeholders. Legitimacy theory is arguably the most used theory to explain the social and environmental reporting of different organizations worldwide. It has been widely used to theorise such behaviour of different organizations in literature (Gray et al., 1995a). The research recognises the pressure from societal expectations (Gray et al., 1996). Thus, this study uses legitimacy theory to explain the motivation for such reporting to manage various expectations.

Banks report their CSR expenditure to the Bangladesh Bank. In addition, they disclose their CSR activities of the year and long-term CSR issues in the annual reports that can be read by public in the society to maintain legitimacy. Society expects that the banks should spend on CSR. The banks engaging in CSR in response to the social expectations should communicate these CSR activities to the society to maintain their legitimacy. Thus, this study hypothesizes that banks making higher CSR expenditures make more CSR disclosure in their annual reports.

H1: CSR expenditures are positively related with CSR disclosures of banks.

CSR appears to be related to company size (for example, Belkaoui and Karpik, 1989; Cowen and Carolina, 1987; Trotman and Bradley, 1981). Prior related literature found a positive relationship between size and CSRE reporting (Abdo and Al-drugi, 2012). However, Roberts (1992) found that the size of the company did not significantly explain an association with the level of corporate social and environmental disclosure and its variability.

Bigger banks are more subject to scrutinisation by the society as they are more visible and loud. Society expects that the bigger sized banks to have definite impact on the society. Visibility of bigger banks ensures that their activities and non-activities do not go unseen. Thus, bigger banks are expected in this research to have more CSR spending than others.

H2: Bigger banks report more spending on CSR and disclose more in annual reports.

Prior literature does not show any straightforward conclusion regarding the relationship shared between the CSR disclosures and profitability of firms. Researchers used profitability as well as corporate financial performance as an explanatory variable for differences in disclosure level. On the contrary, the relationship between corporate social and environmental disclosure and corporate financial performance is arguably one of the most controversial issues yet to be solved (Choi, 1998). Different studies about the relationship between corporate financial performance and corporate social and environmental disclosure show different results. There is much dispute regarding such relationship between profitability and CSRE as researchers studying this relation in past found quite mixed evidence irrespective of time and place of their research.

CSR does not appear to be related to profitability in the same period (Belkaoui and Karpik, 1989; Freedman and Jaggi, 2005; Ingram, 1978), although there is some evidence to suggest that it might be related to lagged profits (Roberts, 1992). Researchers found a positive association between profitability and the extent of corporate social and environmental disclosure among all these (Waddock and Graves, 1997) whereas Cowen and Carolina (1987) found no association between the variables. On the other hand, the results Belkaoui and Karpik (1989) tend to be more captivating. However, they showed a significantly pair-wise correlation, an insignificant negative regression co-efficient for return on assets and corporate social and environmental disclosure. Among the researchers who used log of profits, (Roberts, 1992) has found a positive relationship between profitability level of a company and corporate social and environmental disclosure. However, Patten (1992) fails to find any significant positive relationship between profitability and corporate social and environmental disclosure.

However, higher profitable banks are expected to spend a part of their profits for the society in the form of CSR expenditures. This also needs to be properly communicated to the society to maintain its organisational legitimacy. Banks working in the society needs to maintain its legitimacy and prove its worth to the society. They work in the society utilising societal resources and doing business with the members in the society need to prove that they are worthy social beings. Thus, the direction of the relationship can be in any direction, though there should be a definite impact of profitability on the CSR disclosure.

H3: Profitability has a positive impact on the CSR spending and annual report disclosures.

The management of older banks have time and expertize to anticipate the expectation from the society as they are working in the market for a longer period of time. Prior literature found similar results with age of the organisations and CSR reporting (Abdo and Al-drugi, 2012). Roberts (1992) agrees with the positive relationship found between age and CSR disclosures of firms. This is because of the fact that the society and the stakeholders expect that the banks, which are doing business for quite a long, climbed up above the break-even point and earning profit to utilize a part of their profit for social benefit in the form of CSR to gain legitimacy for continuing business.

Age and reporting of CSR expenditure are hypothesised to share a positive relation between them. Older banks are expectedly well established and had enough time to concentrate on their profitability in past. Thus, they should be well equipped to look into societal factors more in present.

H4: Older banks spend more on CSR and disclose more in annual reports.

Prior literature argued about the importance of government intervention in corporate CSR reporting (Bebbington et al., 2008; Parker et al., 1998; Saha et al., 2013). International literature found a positive association between the government intervention and the CSR disclosures (Deegan and Gordon, 1996; Gray et al., 1995a; Guthrie and Parker, 1990). Thus, government ownership is likely to positively affect the reporting of CSR expenditure. Government shareholding, in the present condition of the country, arises a further responsibility among the management of bank. The likely result is that banks with more government ownership will be more responsible in reporting their CSR spending.

H5: More government shares results in higher CSR expenditure and higher disclosures in corporate annual reports.

Bangladesh is the third largest Muslim populated country of the world with around 140 million of Muslim population. Earlier in 1974 Bangladesh signed the Charter of Islamic Development Bank (IDB) which is the sign of its commitment towards recognizing Islamic economic and financial system. Since after the establishment of Islamic Development Bank (IDB) Islamic banking and financial institutions grew fast throughout the world. After the inception of Islamic banking in Bangladesh in 1983 there was a consistent growth and today out of 47 commercial banks in Bangladesh 7 are full-fledged Islamic banks. In addition, 15 other regular commercial banks and two foreign banks are offering Islamic products through their Islamic banking branches/windows. Currently, the combined share of Islamic banks accounts around 25 per cent of the total banking market of Bangladesh. Thus, Islamic part of banking sector contributing greatly in the development of national economy.

Belal and Momin (2009) found very low amount of disclosure in the Islamic community. However, this research argues that Islamic banking advocates for social contribution and thus should be more involved in CSR activities and disclosures. This study hypothesize that banks complying with Islamic banking, should focus more on social activities as per definition of Islamic banking. Thus, Islamic banks are expected to have more CSR spending reported to the Bangladesh Bank, other stakeholders and society.

H6: Islamic banks spend more on CSR and disclose more in annual reports on CSR.

3. Research Design

This paper selects banking sector for the research purpose. The financial sector in Bangladesh is dominated by the banking sector. The dominance of the banking sector highlights the crucial importance of the sector in resource mobilization and economic growth. The role of the banking sector in accelerating growth is contingent upon the soundness and depth of the sector. Financial sector of Bangladesh is dominated by banks as asset of the banking sector holds more than 60 per cent share in the Gross Domestic Product (GDP) and total deposit is currently 51 per cent of GDP of the Country. As per the last year's (2011) financial records the total asset of 47 commercial banks of the country stood at Tk. 5875 billion and deposit at Tk. 4510 billion. Furthermore, during the last ten years the total asset of the banking sector has grown by 325 per cent while deposit has increased by 327 per cent which is the sign of remarkable contribution of banking sector in development of the country.

The study is based on the secondary data collected from the Bangladesh Bank CSR report, annual reports of financial year 2012 of the sample banks listed on the DSE, DSE website and Bankscope database. Information for 2012 were the most recent data available at the time of the study and were used for the same. This helps to capture the most recent awareness of the CSR and disclosure practices. This research uses cross-sectional analysis as the researcher does not expect any significant fluctuation in CSR expenditure and disclosure around the study period and also does not find any influential fact happening around the study period to induce such significant fluctuation in CSR disclosure. Especially, as no significant year-to-year CED variation is expected around the selected study period, this study period seems to be a good choice for the research. This is in line with previous major research in social accounting of similar nature. Annual reports were downloaded from DSE website (http://www.dsebd.org). A total number of 30 banks are enlisted in DSE. All data for those banks were available except the City Bank Limited. Thus, it was dropped from the sample making the sample size down to 29 banks. Though the researcher acknowledges that this is quite a small sample, the fact that all banks have been included in the sample except one unavailable bank, should excuse the limitation.

In many previous environmental disclosure research, content analysis method has been widely employed (Tilt 1994; Deegan & Rankin 1996; Wilmshurst & Frost 2000; Moneva & Llena 2000; van Staden & Hooks 2007; Bebbington & Larrinaga-González 2008; Chatterjee 2012; Saha & Akter 2013). Quantifying of CSR disclosure for research purpose in prior literature has been based on two main streams- quality of disclosures and volume of disclosures (Gray et al., 1995b). Qualitative measure may lack objectivity. This study uses quantitative content analysis method to quantify the disclosures in annual reports as an well-designed indices can measure the quality of disclosures through volume (Hackston and Milne, 1996).

Sentences were chosen for the purpose from a selection of a unit of analysis such as word counts (Deegan and Rankin, 1997), line counts, sentence counts (Hackston and Milne, 1996), paragraph (Campbell, 2000), proportion of pages (Guthrie and Parker, 1990), phrase count (Beck et al., 2010) etc. as the basis for coding decisions. Each alternative unit has its own advantages and limitations. However, words are meaningless unless they are placed into a sentence criticized by van Staden and Hooks (2007). Literature advocating in favour of sentences count argues that sentences are easy to track; unambiguous in nature, separated by a definite mark. This results in less subjectivity and less disagreement amongst researchers or coders (Milne and Adler, 1999). Also individual words lack any meaning or value and thus may not be a valid way to quantify the volume (Milne and Adler, 1999), also words might get very cumbersome to keep track of (Deegan et al., 2000). Phrases are very vague and incorporates subjectivity and lack any specific measure for objective counting (Campbell and Abdul Rahman, 2010). Pages and portion of pages are very straight forward measure but are very unlikely to give any comparable means of quantification (Hackston and Milne, 1996). Whilst, sentences are easy to count, each being separated with a definite 'full stop'. This attribute make sentence count objective for content analysis study. Thus, in this research, sentence count has been chosen as the most appropriate and balanced way to quantify the CSR disclosure made in the annual reports.

For quantifying the CSR disclosure in annual reports and facilitating the count of such disclosure an index was developed. The CSR disclosure index used for data collection is as follows-

	CSR disclosure categories	**Score**
a)	CSR policies, vision and claims	1
b)	CSR law of land	1
c)	CSR accreditation	1
d)	CSR activities	1
e)	CSR spending	1
f)	Involvement of society	1

This is a weighted disclosure index where score was based on sentence count as argued earlier in section three. With the score of the CSR disclosure index a grading was done depending on the sentence count. The final grading of the CSR disclosure is as follows-

Disclosure level	**Sentence Count**	**Grading categories**
No disclosure	0	0
Low disclosure	1-5	1
Moderate disclosure	6-10	2
High disclosure	11-15	3
Very high Disclosure	More than 15	4

For the measurement of one dependent variable an index was used, which requires judgment. More than one coder were engaged to reduce the subjectivity. Krippendorf's alpha was used for the purpose (Krippendorf, 1980). A pilot study was done with all the annual reports to find out about stability, reproducibility and accuracy. In the first stage for testing stability, coder needs to agree with him/her over time. The test once done was repeated after 30 days to find out whether the coding results in the same coding score. The result reveals that coding processes were stable and resulted in approximately similar and comparable result when recoded after a month. The second step is to check for reproducibility that is whether two coders find the same result coding with same annual reports. Two coders were engaged with all the annual reports once and found approximately similar results. Moreover, there are few tests to check reproducibility of coding process, one of them being Kreippendorf's alpha. There lacks any universal acceptable score for Krippendorf's Alpha. However, 80% is the minimum cut off identified in prior literature (Guthrie and Parker, 1990). At first two coder's found a score of 76%, however, this increased to 97% after consultation between two coders and getting the definitions of coding criteria modified to make these more objective. At the third step, accuracy test has been suggested, where appropriate standard can be found for such coding. However, in absence of any such standard coding test accuracy test was not viable for the research. In addition, prior research was not found in the field to use accuracy test for content analysis.

The current research uses the following model to identify the factors affecting the corporate social responsibility expenditures reported to the Bangladesh Bank. The dependent variable Corporate Social Responsibility Expenditure (CSRE) denotes expenses incurred by the Bangladeshi banks enlisted in the DSE for CSR purpose – which is continuous in nature. Thus, an ordinary least square (OLS) model has been used.

$$CSRE_i = \beta_0 + \beta_1 Size_i + \beta_2 Profitability_i + \beta_3 Age_i + \beta_4 Government\ Ownership\ \%_i + \beta_5 Islamic_i + \varepsilon_i \quad \ldots (1)$$

$$CSRD_i = \beta_0 + \beta_1\ CSRE_i + \beta_2 Size_i + \beta_3 Profitability_i + \beta_4 Age_i + \beta_5 Government\ Ownership\ \%_i + \beta_6 Islamic_7 + \varepsilon_j \quad \ldots (2)$$

Here, β_0= Intercept; β_1 to β_6= Coefficient of slope parameters; ε = Error term. CSRD = Corporate social responsibility disclosure in the annual report 2012; annual reports can be collected from Dhaka Stock Exchange website. CSRE= Corporate Social Responsibility Expenditure reported by Bangladesh Bank, which can be collected from reports published by Bangladesh Bank. Size= Total assets to be collected from Bankscope database. Profit= Return on asset to be collected from Bankscope database; Age= Age of the Bank in terms of completed years since its establishment to be collected from Bankscope database. Govt Share= Percentage of shares owned by the Government; DSE website; Islamic= 1, if Islamic bank, 0, otherwise; this is also available in Bankscope database.

4. Results and Discussions

This section depicts and analyses results obtained from the data for this research.

4.1 Descriptive Analyses

Table 1 presents a descriptive analysis of the continuous variables. Mean, median, deviation, maximum, minimum, skewness and kurtosis are given in Table 1. Average CSR disclosures grade earned by banks were 2.86 for their disclosure volume in their annual reports (with a median of 3), with highest grade of very high disclosure (4) and minimum disclosure grade of 1 i.e. low disclosure. However, it is a very interesting finding that each bank discloses at least something as there is no bank getting a grade of 0 indicating no disclosure. Average expenditure on CSR by Bangladeshi banks was BDT 912 million in the year 2012 with highest expenditure of BDT 5280 million by Dutch-Bangla Bank. Size of banks measured by total assets were on average BDT 2.4 million with largest of all in the sector is Islamic Bank Bangladesh. Average profitability as measured by return on assets (ROA) is 93% with highest ROA of 1.92 by One Bank Limited. Average age of the sample banks is little less than 22 years. The oldest bank is the Pubali Bank among the DSE enlisted banks. Market capitalisation average is .29 with highest of 1.36. Average government ownership is 4.42% with highest government ownership of more than 90% in Rupali Bank. Majority of the enlisted banks do not have any government ownership.

The skewness and kurtosis show deviation from normality assumption for variables CSRD, CSRE, size, profitability, market capitalization and government share. Skewness shows the symmetry and kurtosis shows the flatness of the distribution. Here, skewness needs be with within the boundary of $\pm$1.96 and kurtosis should be in the boundary of $\pm$3.00 (Gujarati 2004; Haniffa & Hudaib 2006). Log transformation was done in line with prior literature on these continuous variables – CSRE, size, profitability, market capitalisation and government share.

Table 1
Descriptive Statistics for Variables

Variables	Mean	Median	Standard Deviation	Maximum	Minimum	Skewness	Kurtosis
CSRD	2.846	3	0.8987	4	1	-1.2647	7.7999
CSRE	91.2 mn	42.1 mn	128 mn	528 mn	1054600	2.1839	6.8899
Size	2438546	2169261	1335497	8141170	127003	2.5898	12.7297
Profitability	0.9386	1.04	0.8197	1.92	-2.86	-3.5191	17.2272
Age	21.86	19	12.9992	56	6	0.9444	3.2632
Govt Share	4.4218	0	17.5810	90.19	0	4.3574	21.2040

Table 2 shows the number of banks in the sample following Islamic banking at least to an extent. 07 banks i.e. 24 percent of the sample are Islamic banks, whilst 22 banks are non-Islamic conventional banks denoting 76 percent of the sample. Average expenditure for corporate social responsibility by Islamic banks is a lot higher than conventional banks. Islamic banks reports a spending of BDT 137 million (approx.) in the year 2012 as opposed to the average spending reported by conventional banks of BDT 76 million (approx.) only. On average, Islamic banks disclose 8.88 sentences, whilst conventional commercial banks disclose 7.51 sentences.

Table 2
Proportional Distribution of Islamic and Conventional Banks

	Percent	Frequency	Average CSRE (BDT)	Average CSRD

				(no of sentences)
Islamic bank	24	07	13,76,00,000	8.88
Conventional bank	76	22	7,64,48,381	7.51

Table 3 shows the univariate analysis using Kruskal-Wali test on the variable Islamic. Islamic banks were found to significantly differ from the conventional banks in terms of CSR expenditures.

Table 3
Univariate Analysis by Islamic Vs Conventional Banks on Reported CSRE

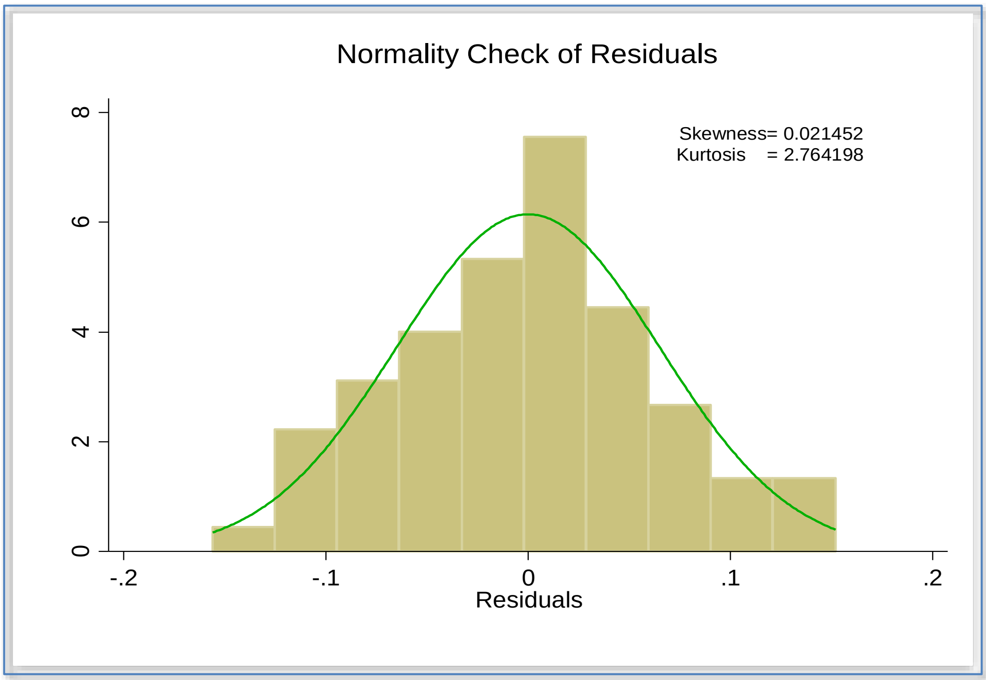
Grouping	CSRE Means	Sig (PV-T)	KW-PV- χ^2
Islamic Banks	.0215947	0.0000	0.5436
Conventional Banks	.0302293	0.0000	

4.2 Research Diagnostics

Normality of the data were tested with Shapiro Wilk Test and Skewness Kurtosis Test, both of which show presence of non-normality in the individual variables, which proves the worthiness of log transformation of those non normal variables. To check the presence of influential and exceptional data inter quartile range was tested indicating presence of 6.9% mild outliers and 3.45% severe outliers. Severe outliers consist of those points that are either 3 inter-quartile-ranges below the first quartile or 3 inter-quartile-ranges above the third quartile. Here to get rid of the outliers WINSORIZING was used to facilitate normal distribution of residuals. Winsorising has been picked instead of trimming because winsorising does not drop the extreme outlier, rather only the outlier effect is curbed only.

Figure 1 shows histogram plot of the regression errors, which follows a normal distribution, with skewness of 0.0214 and kurtosis of 2.76. The skewness and kurtosis are also very close to the rule of thumb mentioned earlier (Haniffa and Hudaib, 2006). The normality test of residuals with Shapiro Wilk W test also could not reject the assumption of normality.

Figure 1
Histogram Plot



Linearity test was done with augmented-component-plus diagrams found relationships around the straight line, which is enough for the research purpose. Further, presence of heteroskedasticity in the distribution was proved visual check indicates that the left tail is much narrower than the right tail, which means residuals do not have constant variance. Heteroskedasticity was also checked with a more formal and statistical tests, like – Breusch-Pagan test and White test. Both tests failed to reject the assumption of homoskedasticity. Thus, both these tests show opposite result of the visual test. However, in presence of visual evidence of heteroskedasticity, this study uses the robust regression instead of simple regression in line with previous literature to make the results unbiased of the heteroskedastic effect.

Table 4 presents correlation among all variables. Pearson correlations are shown for all variables, except ISLAMIC. For ISLAMIC spearman correlation coefficients are presented, which is argued to be suitable for categorical variables. Table 4 does not show any extreme high correlation shared by any two independent variables. Thus, the variables are not likely to suffer any collinearity effect. However, correlation coefficients shared with the dependent variable CSRE shows some evidence of relationship with all other independent variables, thus proves the worth of further investigation with regression. VIF test confirms that multicollinearity is not of concern for this study as the highest VIF found here is 2.72 with an average of 1.93, thus well within tolerable limit.

Table 4
Correlation Coefficients

	VIF	CSRE	Size	Profit	Age	Government Share
CSRE	2.72					
Size	2.54	0.433				
Profit	1.82	0.060	0.200			
Age	1.75	0.210	-0.200	0.125		
Government Share	1.54	-0.156	0.105	-0.115	-0.348	

Islamic	1.54	0.202	0.000	-0.265	0.261	-0.314

*Pearson correlation in lower left and Spearman correlation in upper right

Model specification test was also done with a link test and found that the model is well specified, because _hatsq has been rejected, as the p-value is much higher than the significance level.

4.3 Regression Results

Table 5 and Table 6 show the regression results of the study. For the purpose of investigating the determinants of CSR expenditures reported with Bangladesh Bank and CSR disclosures in annual reports regression analyses were done.

4.3.1 CSR Expenditure

Table 5 presents ordinary least square (OLS) regression results investigating the determinants of CSR expenditures reported with Bangladesh Bank. Considering the nature of the dependent variable CSRE, which is a continuous variable, OLS regression was applied. At first (1.1), only banks' own controllable characteristics SIZE and PROFIT were entered as the predictors, where SIZE was found to be significant predictor of CSRE. Next (1.2), directly uncontrollable bank characteristics were entered as predictors in regression analysis and found to be significant at different level. In 3rd model (1.3), predictor was whether the bank is an Islamic bank or a conventional bank. Here, ISLAMIC was not found to be a significant predictor of CSRE in the sample. Model 1.4 includes all the variables as predictors and tests a combined effect. It found SIZE, AGE, and GOVERNMENT OWNERSHIP to be significant predictors of CSRE. Fit test of the model shows it can predict 34% of the actual value of the dependent variable - CSRE, which acceptable and in line with relevant prior literature.

Table 5
Regression Results

Models	**(1.1)**	**(1.2)**	**(1.3)**	**(1.4)**
Variables	**CSRE**	**CSRE**	**CSRE**	**CSRE**
Size – Total Assets	41.98***			34.60***
	(7.07)			(10.21)
Profit - ROA	-4274766			-13000000
	(11000000)			(23000000)
Age		2635310.1**		2975628.3***
		(1073251)		(784704)
Government Ownership		-2197668.9***		-2248383.0***
		(440119)		(569099)
Islamic			-61114398	-56670621
			(61000000)	(72000000)
Intercept	-7164009	-5253570000	76448381.0	-6017360000
	(13000000)	(2130000000)	(26000000)	(1560000000)
Log likelihood	-578.9	-573.7	-581.3	-567.4

Robust standard errors in parentheses	*** p<0.01, ** p<0.05, * p<0.1

Size of the banks as measured by the total assets was found to be significantly positively related with CSR expenditure made by banks in Bangladesh. The bigger the banks are, the more they are capable of spending and/or for social activities. In addition, a big argument put forward according to the legitimacy theory by prior literature for justifying this positive relationship between size and CSR activities is the visibility of big organisations of the society, which makes them subject to more rigorous scrutiny by various parties of the society. Thus, the study finds that SIZE is a significant determinant of CSRE by Bangladeshi banks enlisted in DSE in order to legitimize their existence, which is quite expected and valid.

Banks' age was found to be significantly and positively related to CSR expenditure, which is in line with prior literature (Abdo and Al-drugi, 2012; Roberts, 1992). Older banks are in better position as they are in position to have more stability in terms of rules and regulations and probably have done preliminary financial works. The longer existence gives the managers the luxury of time to assess the demand of the society and other stakeholders; and go beyond the primary profit focus of the shareholders. This positive relationship is a reflection of the societal expectation on the banks to utilize a part of their profit for social benefit in the form of CSR.

Government ownership was found to be a significant predictor of CSR expenditure. However, the relationship is, quite interestingly, negative and this contradicts with the prior international literature (Guthrie and Parker, 1990). This is probably because of the fact that the government ownership in the country, by tradition and past experience, seems to result in reluctance to the social cause. This means that management of banks with government ownership is reluctant to the financial and social needs, rather more inclined to create value for themselves. This might be in the form of financial, political or other benefits. This results in the fact that banks with more government ownership are reluctant to report their CSR spending (Khan, 2010) in the absence of any real legitimacy threat on government owned banks. Couple of recent scandals of government owned banks support this argument for example – recent scandals in Basic Bank (Byron and Rahman, 2014) and Sonali Bank (The Daily Star, 2012). In contrary, private commercial banks are always in public scrutiny as the social perception is that the banking business is highly profitable and thus they should pay a high corporate tax and pay for social causes to legitimize their existence. Thus, the government shareholding, in the present condition of the country, gives reluctance about business viewpoint.

Profitability as measured by ROA (return on asset) was not found to be a significant estimator of CSR expenditure. Prior literature, as well, could not reach any universal convergence about relationship between profitability and its impact on CSR (Patten, 1992). The relationship between corporate financial performance is arguably one of the most controversial issues yet to be solved (Choi, 1998). Thus, the insignificant result for profitability on the sample of Bangladesh is quite in line with prior research findings, which does not show any straightforward conclusion regarding the relationship shared between the CSR disclosures and profitability.

The case whether the banks follow Islamic banking or conventional banking was not found to be a significant estimator of CSR expenditure as well. This is quite surprising and contradicts the descriptive finding of the research earlier in section 4.1, where Islamic banks were found to be reporting more than average CSR expenditure (CSRE) to the Bangladesh Bank. In spite of this difference in average CSRE, the variable ISLAMIC was not found to be a significant estimator of CSRE, which is quite interesting. Islamic banks are not consistent in CSR spending and thus it was not found to be significant as an estimator of CSRE in spite of having higher average in descriptive results. However, because of the emphasis in Islamic shariah for the provision of CSR, further study on the impact of Islamic banking CSR disclosure should be done.

4.3.2 CSR Disclosures

Table 6 shows regression results for finding out the relation between CSR disclosures and CSR expenditure. Table 6 also shows the determinants of CSR disclosures made in annual reports by the banks. A fit test here shows its prediction ability to be 36% of the actual value of the CSR disclosures, which again well in line with previous literature.

Table 6
Regression Results

Models	**(2.1)**	**(2.2)**
Variables	**CSRD**	**CSRD**
CSRE	.00000000306***	.00000000904***
	(.00000000110)	(.00000000221)
Size – Total Assets		.000000335
		(.0000003)
Profit – ROA		1.977***
		(0.774)
Age		-0.106**
		(0.0438)
Government Ownership		0.191***
		(0.0358)
Islamic		2.345***
		(0.809)
Intercept	2.2022***	11.94**
	(0.6559)	(4.629)
Pseudo R square	0.024	0.355
Log likelihood	-78.41	-51.81

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

CSRE has been found have a significant positive relationship with CSRD. The banks engaging in CSR in response to the social expectations should communicate these CSR activities to the society. They disclose their CSR activities of the year and CSR issues in the annual reports that can be read by public in the society. It is quite intuitive that the banks spending more on CSR are likely to disclose these activities to the society though their corporate annual reports, which will have a great positive impact in legitimizing their business. Spending more on CSR means more activities, which gives more scope to objectively disclose and communicate this attention to the society. Thus, banks with higher CSR expenditures, disclose more on the same - is quite in line with the research hypothesis.

Profitability has a positive and significant determinant effect on CSRD in annual reports of Bangladeshi banks. Though prior literature could not reach any definite conclusion regarding the effect of profitability, there exist evidences of a positive association between profitability and the extent of corporate social and environmental disclosure (Roberts, 1992; Waddock and Graves, 1997). This study also found that Bangladeshi banks with higher profitability disclose more in the annual reports as compared to the less profitable banks. Society thinks that higher profit earning banks utilize the social resources to generate higher profit. Banks working in the society needs to maintain its legitimacy and prove its worth to the society (Khan et al., 2009). Social expectation exists that at least a portion of the banks' profit should be utilized for the society. This also needs to be properly communicated to the society to maintain its organisational legitimacy. Bangladeshi banks respond to this social expectation to maintain legitimacy by disclosing CSR.

In addition, government owned banks were found to have more annual report disclosures. This is in line with prior studies (Guthrie and Parker, 1990) and the hypothesis of the research. In spite of the findings in Table 5, where it was found that government banks spend less on CSR, which was contradictory to the research hypothesis. However, Table 6 shows that in spite of spending less government banks are disclosing more on their CSR activities in annual reports. This might be because of the nature of CSR disclosure, which can be manipulated with qualitative, subjective and wordy sentences. Thus, government banks might be taking this as a tool to hide their inactivity and/or misconduct with the CSR disclosures to maintain legitimacy.

Islamic banks disclose more CSR than conventional banks as expected. This is also in line with the initial finding in section 6.1 – Descriptive Statistics, where Islamic banks were found to report more CSR than conventional banks. Thus, expectation is that this CSR spending is a result of more CSR activities, which is likely to be explained and communicated to the stakeholders through the annual reports, which is the most formal form of media by commercial organisations (Yekini and Jallow, 2012). Islam suggests social ethics practice, which is quite similar to CSR concepts. Thus, Islamic banks legitimize themselves in the Islamic society in Bangladesh by following Islamic rules.

Couple of surprising and interesting results found in Table 6. The older banks were found to be making less CSR disclosures than the newer banks, which contradicts with the initial hypothesis. This might be because of the fact that older banks lack the motivation to create any new concept in the market as they are already well established as compared to their newer counterparts. As they have established existence, they do not feel the market pressure to communicate to the society about their social activities. This finding is consistent with Abdo and Al-drugi (2012). Earlier in Table 5, older banks were found to be spending more on CSR than the newer counterparts. Thus, older banks, in spite of spending more on CSR, are reluctant to disclose this in their annual reports and thus found to be quite happy to give away such opportunity to create more value with stakeholders. According to the legitimacy theory, banks having the scope to disclose more should not give away the opportunity to gain legitimacy with the society.

Size, as measured by total assets and market value per share, were not found to be significant estimators of CSRD for Bangladeshi banks enlisted in DSE (the sample of the study). This is an interesting finding and contradicts with prior literature (Abdo and Al-drugi, 2012). Evidences lack to demonstrate that bigger banks disclose more as hypothesised, in spite of the fact that bigger banks do spend more on CSR (Table 5). Thus, bigger banks were found to be spending more (Table 5) but not communicating this to stakeholders through their annual reports, as they should do (Table 6). Additionally, market value per share was not found to be a significant predictor of CSRD. Banks with shares of higher market value were hypothesised that they create this additional value through effective communication of their positive contribution towards the society. Thus, they were supposed to be disclosing more than the banks with lower market value per share. However, evidences lack in demonstrating such claim in case of Bangladeshi banks, in spite of the fact that higher market valued banks spend more than the lower valued banks (Table 5).

4.3.3 Summary of Results

Table 7 shows the summary of the regression results found earlier. This shows that SIZE, and AGE have positive and significant impact on the CSRE. However, GOVERNMENT OWNERSHIP was found to have a significant negative impact on the CSRE as shown in the table.

Table 7 also demonstrates the significant positive relation between CSRD and CSRE. Also PROFITABILITY, and ISLAMIC were found to have significant positive impact on CSRD. In contrast, AGE and GOVERNMENT OWNERSHIP were found to have significant negative impact on CSRD as shown in Table 7.

Table 7
Summary Results

Predictors		CSRE		CSRD	
		Results	**Significance**	**Results**	**Significance**
H1	CSR Expenditures			+	Significant
H2	Size	+	Significant	+	Not significant
H3	Profitability	-	Not significant	+	Significant
H4	Age	+	Significant	-	Significant
H5	Government Ownership	-	Significant	-	Significant
H6	Islamic	Conventional	Not significant	Islamic	Significant

5. Conclusion

The study found that the spending on corporate social responsibility reported with Bangladesh Bank is significantly depended on the size, age, and government ownership of the banks. Whilst, the corporate social responsibility disclosures in the annual reports depend on spending on CSR, profitability of the banks, age, government ownership and compliance with Islamic banking. This study is important because of its results showing the determinants factors of CSR spending reported by banks and the determinants of CSR disclosures in annual reports by banks. It also reveals the relationship shared between the CSR spending and the CSR disclosures by banks. The thesis found that the Bangladeshi banks use to spend on CSR and report their efforts for such social cause to the general stakeholders to legitimize their business operations. Banks like to legitimize their existence and activities through CSR spending and disclosure reporting to the Bangladesh Bank and annual reports.

The study contributes to the academic literature by presenting preliminary findings from different focus on a developing economy like Bangladesh. This study also contributes by applying a uniquely designed CSR index, which can be used for similar disclosure quantification of banks in similar economy. The existing literature has seen many CSR indices based on developed economies, but not many based on developing economies. In addition, the practical contribution of this study includes the assistance for the public policy development by providing better understanding of extent and credibility of CSR reporting by the Bangladeshi banking sector. The study will lead to draw a standard for the developing country to find out the differences compared to developed country. Future studies might extend with a longitudinal study including a several years. In addition, studies comparing among CSR activities in several industries might get interest. Future studies might consider comparing banking sector CSR reporting of several countries, which might give insight into best practices in different economy.

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