Corporate Social Responsibility Disclosure in Bangladesh

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Keywords : Corporate Characteristics, Corporate Social Responsibility Disclosure, Voluntary, Explanatory Variables and Stakeholders.

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Abstract - This study looks into the association between corporate characteristics and corporate social responsibility disclosure (CSRD) in annual reports of listed companies in Bangladesh. Seventy annual reports of nonfinancial companies for the year 2010 have been taken as sample to find the empirical result of this study. The study reports that the mean score of CSRD is five and 75 percent companies disclose 7 items voluntarily which is 20 percent of total disclose-able items. So, companies in general have not responded enough to disclose CSR items in the annual reports. The explanatory variables total assets, profitability, MNC affiliation and listing age are insignificant factors for CSRD while market capitalization has statistically significant effect on CSRD. It is expected that the usefulness of this research work will be acknowledged by potential and present investors, stakeholders, policy makers, and regulatory bodies of the country.

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1. Introduction

Bangladesh got her independence in 1971 from West Pakistan with small area of 147570 square kilometer and heavy population of 70 million. Now she has a large population of 140 million with high growth rate of 1.34 per cent (2011 census). Besides, about 25.1% of total population lies under poverty line (Economic Review 2011, GOB). Bangladesh is trying to develop economically through industrialization since her inception. A number of industries have been established at an accelerated rate to meet the increasing demand of population. Accordingly, the demand for performing social activities termed Corporate Social Responsibility (CSR) by the firms is increasing rapidly. In general, CSR embraces all organizational activities relating to the organization and society. So, it is the contribution of firms to the social being in the all sphere of society. Once firms would recognize the expenditures for CSR as expenses, now these are considered as social assets. It is also called strategic social investment of firms. It is seen that firms are doing CSR in order to have good impression of regulatory bodies, potential investors and stakeholders in the capital market. So, Corporate Social Responsibility (CSR) has become an eye-catching issue that has increasingly attracted the attention of the businesses, political persons, academicians and researchers. Prior studies of Chiong et al. (1993), Garry et al. (1995), Carroll, (1999), Cetindamar and Husoy, (2007), Webb et al. (2009), Kamal et al. (2012) etc. have reported that the initiatives of CSR by the firms are generated from the economic theory, political theory, agency theory, stakeholder theory, legitimacy theory and ethical theory. Private pressure group and government regulatory bodies which enforce the laws and guidelines of corporate social responsibility can intensify the CSR for firms. In Bangladesh there is no private and government pressure group either to enforce or to monitor the CSR activities of listed firms. Here, firms are practicing CSR voluntarily from the social point of view. The central bank of Bangladesh, Bangladesh Bank has issued mainly three circulars from the Department of Off-site Supervision due to maintain a separate CSR desk, a separate statement on CSR initiatives and to give an outline of social activities for banks only. On the other hand, the Department of Environment of the People’s Republic of Bangladesh has issued an Effluent Treatment Plants (ETPs) guideline for industrial establishment to protect the environment as a part of CSR. As there is no mandatory requirement for firms to disclose CSR in their annual report or elsewhere, they do this with an intention that the doing good is always lead to doing better. Firms also seek a recognition and profile of its own from the perspective of international and local investors. Furthermore, by practicing better CSR they want to involve with the overall national agenda of our country like Vision 2021 and Millennium Development Goals (MDG). Corporation can practice CSR from different dimensions. These include CSR on employees support ( health safety, job security, profit sharing, employee participation, treating employees fairly and equitably etc.), community support (activity involved in education, health and housing related supportive activities, philanthropic activities), product/services support (product/service quality, product safety, delivery, research and development etc.), and environmental support such as; sustaining the eco-friendly environment, producing environmentally friendly products, waste management, recycling etc. (Sen and Bhattacharyya, 2001). Although some firms have been practicing Corporate Social Responsibility Disclosure (CSRD) pro-actively in this green field, it is considered infant in Bangladesh. To be good corporate...
citizens and to have some competitive advantages such reduction of tax and VAT etc. corporations are practicing CSR sporadically. From the prior studies it is seen that most of the research works on this field have been conducted in the developed countries like UK, USA, Australia and Canada and the rate of disclosure is also high. A study by Guthrie and Parker (1990) showed a disclosure rate 98% for UK companies, 85% for US companies, and 56% for Australian companies in the year 1983. On the contrary, a few studies are prevalved at Bangladesh and reported low and poor disclosure rate. The study of Belal (1999) and Islam et al. (2005) revealed that only 6% and 16% companies disclosed environmental information in their annual reports. The studies carried on CSR by Rahman and Azim (2009) and Karim et al. (2012) are conceptual, and conducted with a view to analyzing the CSR items of listed companies. The proposed study will be carried to examine the present scenario of CSR disclosures made by listed companies in their annual reports, and also to see whether there is an association between CSR disclosure and various corporate characteristics. This study would be of immense value for the primary and secondary stakeholders, financial analysts, academicians and researchers. As the most of the studies on corporate social responsibility disclosure belong to developed countries and no extensive research work in this field has been done in an emerging economy of Bangladesh. In this context the proposed study is very justified.

The rest of the paper is organized as follows. Section 2 states a review of the literature and hypothesis development of this study. The research method is outlined in section 3. Section 4 reports results and discussion and finally, the conclusion is presented in section 5.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This section provides some insights and understanding of prior studies done by different authors in the same field. This helps us to develop hypothesis in one hand and to compare the findings of proposed research. The research of Ismail and Koh (1999) on Corporate Social Responsibility Disclosure (CSRD) in Singapore have done to examine the relationship between corporate characteristics and the extent of CSRd, and trend of CSRd of listed corporations on the Stock Exchange in Singapore. The major findings are: first, their study has failed to show any relationship between CSRD and corporate characteristics i.e., size and industry type while there is positive relationship between profitability and CSRD. Second, they have found a significant increasing trend of CSRD from the earlier period (1980-1984) and later period (1990-1994). The purpose of the study of Rahman and Azim (2009) was to focus on corporate social reporting by pharmaceutical companies operating in a least developed country, Bangladesh. Analysis of annual reports published in 2007-2008 revealed that 33.33% of listed pharmaceutical companies made some kind of CSR disclosures.

A longitudinal study undertaken by Saleh (2009) on Corporate Social Responsibility Disclosure (CSRD) practices in Malaysia revealed that companies generally disclosed the four categories of CSRD such as employee relations, product, community involvement and environmental disclosures in their annual reports on the Bursa Malaysia. The study also reported that employee relations were the highest disclosed, followed by product, community involvement. Furthermore, it stated that only 22 out of 200 Malaysian companies reported consistently about their CSR activities in their annual reports.

From the past researches it is seen that some studies are carried on disclosure of Human Resource and Environment as a part of CSRD. The considerable researches of these field are the research of Hossain et al. (2004); Islam et al. (2005); Hossain et al. (2006) and Alam and Deb (2010).

Hossain et al. (2004) investigated 40 annual reports of sample companies for financial year 2002 with aiming to identifying the nature of voluntary human resource disclosure by Bangladeshi Companies have concluded that Bangladeshi Companies are making some human resource disclosures voluntarily as these kinds of disclosures are not mandatory from any regularity authority.

A study of 48 companies done by Islam et al. (2005) on Corporate Environmental Disclosure in Bangladesh Public Limited Companies revealed that only 40% of companies surveyed have made environmental information, more general and descriptive in nature in their annual reports for the year 2003. Only 16% companies have disclosed environment disclosure under a separate heading in the annual reports.

Hossain et al. (2006) have conducted a study on Corporate Social and Environmental Disclosure in Developing Countries; Evidence from Bangladesh with a view to achieving two objectives are (a) to see the nature of the voluntary environmental disclosure in Bangladesh; (b) to measure the association between firms’ attributes and extent of disclosure. They have taken 82 listed companies from Bangladesh and they have used regression and correlation analysis to investigate the results. Findings of the study are (i) Environment reporting is found in Bangladesh but it is done voluntarily; (ii) seven explanatory variables i.e. total sales , total assets, industry type , rate of return on total assets, net profit margin, international link of auditing firms and subsidiary of a multinational companies have been considered for determining the extent of environmental disclosure. The study revealed that only
one variable is significant in determining disclosure levels is subsidiary of a multinational company.

The objectives of study done by Alam and Deb (2010) were to identify, quantify and report investment made in human resources of an organization as well as to investigate some corporate attitudes such as corporation size and profitability that influence human resource accounting disclosure in Bangladesh. A regression model has been used to analyze the data of 58 sample companies listed either with Dhaka Stock Exchange or Chittagong Stock Exchange in 2009. Their paper revealed that none of the companies disclose all the human resource accounting information items. From the study it has also been found that the level of human resource reporting of listed companies of Bangladesh is very poor.

Dependent Variable is affected by the manipulation of independent (predictor) variables. The dependent variable used in this study is Corporate Social Responsibility Disclosure (CSRD) and a number of firm characteristics have been considered as explanatory variables to explain the variation of CSRD. In this study five corporate attributes market capitalization, asset size, profitability, multinational affiliation and listing age are considered as explanatory variables to examine the relationship between firm characteristics and the level of CSRD. All of them are taken from the previous studies undertaken by researchers Ahmed and Nicholls (1994), Ismail and Koh (1999) Hossain et al. (2004), Akhtaruddin (2005), Islam et al. (2005), Hossain et al. 2006 and Alam and Deb (2010). These variables are explained here to develop hypotheses and to fit regression model.

Size of the firm: The size of the reporting firm has either a positive or a negative impact on the variability of disclosure. Several measures of size have been used by different researchers such as turnover, total assets, fixed assets, paid up capital, shareholders equity, capital employed, number of employees and the market value of the firm as proxies of size. In the present study total assets and market capitalization value have been taken as explanatory variables. Company size (market capitalization) is computed by multiplying the market value per share with the number of outstanding ordinary share represents the capitalization position in the market. So, it is expected that a large firm want to disclose more in its annual report because it wants to have increased external funds from stock markets and the costs of preparing and disseminating highly-detailed corporate annual reports is less burdensome for large firm. Ismail and Koh (1999) have found a negative significant relationship between the firm size and the extent of disclosure but most of the researchers such as Ahmed and Nicholls (1994), Akhtaruddin (2005), Alam and Deb (2010), have found a significant positive relationship between the firm size and the extent of disclosure. Therefore hypotheses can be drawn in alternative form as follows:

H1a there is a positive relationship between asset size and CSRD.
H1b there is a positive relationship between market capitalization and CSRD

Profitability: Profitability may affect the firm’s CSRD. The various variables regarding profitability such as net profit to sales, earnings growth, dividend growth and dividend stability, rate of return and earning margin, return on assets, return on capital employed and profit margin have been used in previous researches. The empirical results from these researches are mixed. Ismail et al. (1999) and Alam and Deb (2010) have found positive association between profitability and the level of disclosure. On the other hand, the finding of akhtaruddin (2005) was a low association between corporate disclosure and profitability In this study profitability will be measured by net earnings of firm. It is said that profitable firm spends more on CSR activities. So, it is expected that there is a positive association between profitability and CSRD. Now, a hypothesis can be drawn in alternative form as follows:

H2 there is a positive association between firm’s net earnings and CSRD.

MNC Affiliation: Multinational Corporation’s (MNC) affiliation is considered an important determinant of disclosure level, i.e., firms, which have MNC affiliation, are likely to disclose more information for two reasons. Firstly MNC influenced companies are likely to disclose more information because they have to comply with the more stringent requirements of parent company as well as the host country requirements. Secondly, Companies which have MNC affiliation are therefore likely to have sophisticated CSR reporting systems that facilitate greater disclosure in their corporate annual reports. So, it is argued that the subsidiaries of MNCs operating in Bangladesh are expected to disclose more information than the domestic companies and it can be hypothesized in alternative form as follows:

H3 Firms listed on DSE that have MNC affiliation tend to disclose more financial information than firms that do not have MNC affiliation.

Listing Age: Company age is an important factor for affecting the level of disclosure. Age of company is the length of listing in capital market as a public limited company. It also represents the years of operation in the market as a listed public limited company. The study of Alam and Deb (2010) has revealed a positive association between the level of disclosure and company age while the counter result has been got by Akhtaruddin (2005). It is expected that company which is operating for many years is likely to
disclose more CSR information. Now, a hypothesis in alternative form is made as follows:

H₄: there is a positive relationship between company age and CSRD.

From the above discussion it is clear that the dependent variable CSRD depends on the above independent variables such as corporate size, profitability, MNC affiliation and age. By considering these variables the following regression model can be constructed to test the above hypotheses:

\[ CSRD = \alpha + \beta_1 \text{ASSET} + \beta_2 \text{MCAPITA} + \beta_3 \text{PROFIT} + \beta_4 \text{MNC} + \beta_5 \text{AGE} + \epsilon \]

Expected sign (+) (+) (+) (+) (+)

Where

- CSRD = Total score for each company each year under CSR index
- \( \alpha \) = The constant
- \( \epsilon \) = The error term
- MNC = Dummy variable, taking a value of 1 for firms with MNC affiliation, and 0 otherwise.

### III. Methodology of the Study

A total of 254 Companies were listed on the Dhaka Stock Exchange up to December, 2010. Among them companies under Bank, Financial Institutions, Insurance, Services and Real Estate, Mutual Fund and Travel & Leisure categories are initially excluded from the study as sample. As the study is limited to non financial companies, thus the number of companies is reduced to 130. From this sample frame, annual reports of seventy companies have been selected purposively. Companies usually disclose CSR information in a number of ways, such as through annual reports, advertisements or articles published detailing a company’s activities, corporate websites, interim and quarterly reports, booklets or leaflets to address the social activities of the company, employee reports, environmental reports, special announcement and press releases. As the study is mainly based on data collected from secondary published sources, annual reports audited by the professional auditors have been selected for the validity of data. The study of Islam et al. (2005), Hossain et al. (2006), Rahman and Azim (2009) and a circular vide DFIM Circular No. 02 dated 9 January 2012 issued by Bangladesh Bank has been considered to select the items of CSRD index. A list of overall disclosure information can be found as Appendix- A. There are two widely used approaches to developing disclosure scoring scheme to determine the disclosure level of a corporate annual report i.e., weighted and unweighted approach. Unweighted approach has been used in the study to score items included in index by considering the equal important for all items of information. Under this approach, a dichotomous procedure is adopted in which an item scores one if it disclosed and zero if it is not disclosed. In this way, we can add up all the items disclosed by the company. The following formula is used to measure the total CSRD score for a company:

\[ TDS = \sum_{i=1}^{n} d_i \]

Where \( d = 1 \) if a disclose able item is disclosed, 0 if that item is not disclosed

\( n = \text{number of disclose able items} \)

### IV. Results and Discussion

#### a) Descriptive statistics

The descriptive results and the result of regression analysis have been obtained by using the Statistical Package for the Social Sciences, SPSS.

As a starting point of analysis, different descriptive statistics i.e. mean, median, standard deviation and quartiles have been obtained for dependent and independent variables are reported in table 1. The average value of total assets is Tk. 7898.3 million while that for net profit is Tk. 730.36 million. The data also reveals that the average market capitalization of sample firms is Tk. 18391 million. The mean scores of operating year (Age) as listing company, CSRD and multinational affiliation for sample firms are 16 years, 5 items and 11.43% respectively. Table indicates that on average, the sample firms disclose only 5 CSR items in their annual reports. First quartile indicates that only 25% sample firms have 2 disclosure items while third quartile implies that 75% sample firms have 7 disclosure items in their annual reports. From the critical examination of annual reports it is seen that only two companies (Bata & Grameenphone) have maximum disclosure score of 16 while seven companies have minimum disclosure score of 1. The most of the disclosure items are seen in the section of Directors’ Report, statement of the Chairman, company profile and notes to the financial statements. It is also seen that these disclosure items are related with employees’ welfare and development. In general, more than 50% companies disclose less than five items of CSR

#### b) Regression analysis

Ordinary Least Square (OLS) regression analysis has been used to examine the association among corporate characteristics and corporate social responsibility disclosure.

Table 2 provides the estimated coefficient of regression analysis in column 1 and the t-statistics of null hypotheses that is reported in parentheses. The column 1 in table 2 shows the results have been obtained by regressing CSRD for the five corporate characteristics i.e. assets, market capitalization, profitability, MNC affiliation and age. The coefficients of
assets, profitability and age are negative while the coefficients of market capitalization and MNC affiliation are positive. The P values of four variables i.e., assets, profitability, MNC affiliation and age are showed in column 2 indicate no significant association with CSRD. But the variable, market capitalization has statistically significant effect on the CSRD at .05 level. So, it rejects the null hypothesis and strongly supports the H1b i.e., companies with large capital in the market disclose more CSR items in their annual reports. Alam and Deb (2010) and Ismail and Koh (1999) have found the same result in their studies on disclosure. The explanatory power of the OLS model as indicated by the adjusted R2, is 17.5% which reveals that the model is capable of explaining of variability of dependent variable i.e., CSRD. The F statistics indicates that the model employed to explain the variation of internal fund is significant at .01 level (p<.01).

### Table 1

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Q1</th>
<th>Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Earnings After Tax</td>
<td>-9570887.00</td>
<td>1.07E10</td>
<td>7.3036E8</td>
<td>1.74555E9</td>
<td>2.1083E7</td>
<td>6.2071E8</td>
</tr>
<tr>
<td>Total Assets of Corporation</td>
<td>72250645.00</td>
<td>1.10E11</td>
<td>7.8983E9</td>
<td>1.64784E10</td>
<td>6.7702E8</td>
<td>6.3560E9</td>
</tr>
<tr>
<td>Total Market Capitalization</td>
<td>3548800.00</td>
<td>3.32E11</td>
<td>1.8391E10</td>
<td>4.32336E10</td>
<td>1.2088E9</td>
<td>1.9607E10</td>
</tr>
<tr>
<td>Company Age</td>
<td>1.00</td>
<td>35.00</td>
<td>15.7714</td>
<td>10.55170</td>
<td>5.0000</td>
<td>24.2500</td>
</tr>
<tr>
<td>Multinational Affiliation</td>
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<td>1.00</td>
<td>.1143</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Corporate Social Responsibility Disclosure Items</td>
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<td>16</td>
<td>5.00</td>
<td>3.526</td>
<td>2.00</td>
<td>7.00</td>
</tr>
</tbody>
</table>

**Note:** N/A means not applicable

### Table 2

<table>
<thead>
<tr>
<th>CSRD</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R2</td>
<td>.176</td>
</tr>
<tr>
<td>F Statistics</td>
<td>3.947</td>
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<tr>
<td>Intercept</td>
<td>6.096</td>
</tr>
<tr>
<td>Independent Variables:</td>
<td></td>
</tr>
<tr>
<td>Total Market Capitalization</td>
<td>2.549 (.613)</td>
</tr>
<tr>
<td></td>
<td>.013**</td>
</tr>
<tr>
<td>Total Assets of Corporation</td>
<td>-.949 (.235)</td>
</tr>
<tr>
<td>Net Earnings After Tax</td>
<td>-.201 (.049)</td>
</tr>
<tr>
<td>Company Age</td>
<td>-.876 (.103)</td>
</tr>
<tr>
<td>Multinational Affiliation</td>
<td>1.335 (.155)</td>
</tr>
</tbody>
</table>

**Note:** Statistically significant at 1% (*) and 5% (**)  

### V. Conclusion

This research work has been conducted based on two main research objectives. First, the examination of the present scenario of CSR disclosures made by listed companies in their annual reports, second, whether there is an association between CSR disclosure and various corporate characteristics. To outline 35 disclosure items the annual reports of 70 listed non financial companies for the financial year 2010 are studied critically. The descriptive result shows that the mean score of CSRD is five and 75 percent companies disclose 7 items voluntarily which is 20 percent of total disclose-able items listed in Appendix-A. This result is very poor comparing to other developed and developing countries. A study on disclosure in the developed country reported 98% disclosure rate for UK companies, 85% for US companies, and 56% for Australian companies in the year 1983. A developing country perspective study of Saleh (2009) reported that only 22 out of 200 Malaysian companies reported consistently about their CSR activities in their annual reports. The study of Belal (1999) and Islam et al. (2005) in Bangladesh perspective revealed that only 6% and 16%
companies disclosed environmental information in their annual reports. Hence, the result of this research is consistent with prior studies. The multivariate analysis shows that the market capitalization of firm has a positive association with CSRD. This study does not find any association of other corporate characteristics such as total assets, net profit, multinational affiliation and listing age on CSRD. The major limitation of this study is that it is one year study of 70 non-financial companies listed with DSE. Moreover, it only examines annual reports of firms to make disclosure index although it is known that firms use other mass communication mechanisms such as advertisements or articles published detailing a company’s activities corporate websites, interim and quarterly reports, booklets or leaflets to address the social activities of the company, employee reports, environmental reports, special announcement and press releases. So, a longitudinal study can be done by examining more corporate characteristics of large number of sample firms in the avenue of further research in this area.

REFERENCES RéFÉRENCES REFERENCIAS
APPENDIX A

Disclosure Index
1. Pollution control or voice for the prevention or repair of environmental damage
2. Tree Plantation
3. Conservation of natural resources
4. Energy Conservation
5. Energy efficiency of products
6. Water discharge information
7. Solid waste disposal information
8. Recycling plant of waste products
9. Installation of biomass processing plants
10. Installation of Effluent Treatment Plants (ETPs)
11. Employment of minorities
12. Equality to all races, gender and religions.
13. Creation of on-farm/off-farm employment for the Manga afflicted Northern districts
14. Socially responsible practices abroad
15. Employee health and safety
16. Employee training and education
17. Employee benefits/welfare/recreation
18. Share option for employee
19. Award program for employee or scholarship for child of workers
20. Profiles of employees
21. Employee and management relation
22. Charity program
23. Scholarship program
24. Supporting national pride
25. Public Health related activities
26. Education facilities for general people
27. Support to organization working with autistic and physically challenged children
28. Sponsor for Sport, Art & Cultural program
29. Cash donation program for disaster people
30. Beautification activities
31. Transferring technology and information related to social awareness
32. Product Safety
33. Reducing pollution from product use
34. Product quality disclosure
35. Product development or research and development