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PDF issue: 2024-11-08

Corporate Social Reporting and Practices from the Perspective of Legitimacy Theory-Evidence from the Banking Industry in Bangladesh

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(Degree)
博士（経営学）
(Date of Degree)
2016-09-25
(Date of Publication)
2017-09-01
(Resource Type)
doctoral thesis
(Report Number)
甲第6768号
(URL)
https://hdl.handle.net/20.500.14094/D1006768

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PhD thesis

Corporate Social Reporting and Practices from the Perspective of Legitimacy Theory – Evidence from the Banking Industry in Bangladesh

Submission date: 19 July, 2016

School: Graduate School of Business Administration

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Major: Business Administration

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Executive Summary

In a quest to know whether companies legitimate their action and behavior by sustainability reporting in response to the stakeholder's expectation in the developing countries economy, this study is motivated to explore three specific objectives – to examine the development of the corporate social reporting and practices in the banking industry of Bangladesh from longitudinal aspect; to test the applicability of legitimacy theory in the developing country's perspective – Bangladesh as a case; and to extend and interrogates the use of legitimacy theory to infer bank managers' perceptions of corporate social reporting in Bangladesh. This study analyzes 46 corporate social reporting items using annual report in line with ISO26000 with some country and industry specific adjustments of all listed banks (currently 30 out of total 56; April, 2016) for 10 years (2004-2013) in Bangladesh as a case, and constructs a CS reporting index. Moreover, this study tests legitimacy theory argument by using multiple regressions to find the applicability of three legitimacy variables – proximity to end-users, corporate social reporting initiatives by the stakeholders, and listing age of the firm. In total, 30 banks for 10 years with 282 observations have been used to test empirically of the legitimacy theory variables. Further, 28 in-depth interviews were conducted from 24 listed banks to contemplate the conception of legitimacy theory argument in corporate social reporting and practices in the banking industry of Bangladesh in search to support the findings of longitudinal and empirical study. The interviewees were ranged from operational CSR manager to MD/CEO of the bank. The longitudinal study finds that the CS reporting and practices in the Banking industry of Bangladesh has been increased over the periods because of the legitimization of the new banking products and processes through societal perceptions that is implicitly and explicitly supported by the ideological alignment of the regulators. On the other hand, the empirical study finds that the broader thrust of legitimacy theory argument is similarly applicable to the developing country's context as well as in the banking industry situation. Further, this study added that 'proximity to end-users', corporate social responsibility initiatives by the stakeholders, and listing age of the firm can be explained three interceding variables to the contemplation of legitimacy theory argument. Again, the interview study finds that bank managers report CS information in annual report as a strategy to legitimize corporate actions and behavior. Further, newer firm which has less number of branches that has less market position in the industry disclose more social information to gain market legitimacy as they have legitimate crisis in the market, the interview findings added.

Based on the longitudinal, empirical, and the bank managers' perception study findings, this thesis proposes a new dimension of legitimacy theory argument that might be termed as 'Neo-Legitimacy Theory', as academic implication, in a logical ground that this study extends the broader thrust of

legitimacy theory contemplation in CS reporting. ‘Neo-legitimacy theory’ in the argument that this thesis does not discard the existing logic of legitimacy theory concept, rather extends the applicability of legitimacy theory quest in broader aspect. This thesis explains ‘Neo-legitimacy theory’ contemplation at least in three arguments empirically. First, the general adage of legitimacy theory is that companies which are ‘public profile’ category disclose more social information than the others. This study finds that companies that are away from the ‘proximity to end-user’ disclose more social information than the companies which are intense to the customers to ensure market legitimacy in the industry. Second logical ground is that this study supports the legitimacy theory argument that companies positively respond to the stakeholder initiatives as the industry’s code of conduct, license to operate, and congruence with the voice of stakeholder; and initiatives rather powerful steps are important for the CS reporting and practices when it is in the novice stage. Third, another general adage by legitimacy theory argument on ‘listing age of the firm’ is that older firms disclose more social information than the newer ones as they have diverse stakeholder. This thesis opposes this general adage by explaining that newer banks which have less scope to reach ‘proximity to tertiary clients’ discloses more social information than the older ones to fill the ‘proximity to tertiary clients’ gap to meet the community expectation. Hence, the present legitimacy theory arguments cannot be generalized to the service industry; rather, the proposed new dimension of legitimacy theory contemplation ‘Neo-Legitimacy Theory’ is applicable to the service industry irrespective of developed or developing country situation.

The practical implications of this thesis are multifold. First, this study facilitates regulators to adopt an appropriate balance of legislation, reform their enforcement to make improvements in the CS reporting practices, and enhancement of organizational legitimacy. Second, policy makers need to be cautious about importing and mandating CSR policies and practices to promote instead of encouraging motivated behavior. Third, this study explains that younger banks should strategize their CSR initiatives and CS reporting as a brand by focusing on particular area of CSR development while the older banks should do more CS reporting for their CSR initiatives as it brings competitive advantages. Forth, Islamic shariah (rules/guidelines) reporting can be incorporated in the international standard (ISO26000; GRI-G4) that short falls in the international standards.

However, this study considers banking industry as an area which is a limitation. Further study can be conducted in other financial institutions such as insurance and leasing companies. Moreover, the proposed new dimension of legitimacy theory ‘Neo-legitimacy theory’ argument can be examined in other developing and developed countries banking, other financial institutions, and/or other service industries.

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Abbreviated terms

BB = Bangladesh Bank

BRPD = Banking Regulation and Policy Department

BSEC = Bangladesh Securities and Exchange Commission

CDP = Carbon Disclosure Project

CED = Community for Economic Development

CEREs = Coalition for Environmentally Responsible Economies

CG = Corporate Governance

CI = Consumer Issue

CID = Community Involvement and Development

CRGM = Credit Risk Grading Manual

CS = Corporate Social

CSD = Corporate Social Disclosure

CSO = Civil Society Organization

CSP = Corporate Social Performance

CSR = Corporate Social Responsibility

CSRI = Corporate Social Reporting Index

DSE = Dhaka Stock Exchange

EPs = Equator Principles

ERMP = Environmental Risk Management Policy

ETP = Effluent Treatment Plant

FCBs = Foreign Commercial Banks

FOP = Fair Operating Practices

GB = Green Banking

GBCSRD = Green Banking & CSR Department

GC = Global Compact

GDP = Gross Domestic Product

GRI = Global Reporting Initiative

GSB = Green and Sustainable Banking

HHK = Hybrid Hoffman Kiln

HR = Human Right

IASs = International Accounting Standards

ICB = Investment Corporation of Bangladesh

IDRA = Insurance Development & Regulatory Authority

IIRC = International Integrated Reporting Council

ISO = International Organization for Standardization

IUCN = International Union for Conservation of Nature

KP = Kyoto Protocol

KPI = Key Performance Indicator

LT = Legitimacy Theory

LP = Labor Practices

MCPs = Micro Credit Programs

MD = Managing Director

MFIs = Microfinance Institutions

MOEF = Ministry of Environment & Forests

MOF = Ministry of Finance

MRA = Microcredit Regulatory Authority

NBFIs = Non-bank Financial Institutions

NBR = National Board of Revenue

NGOs = Non-government Organizations

OECD = Organization for Economic Cooperation and Development

OG = Organizational Governance

PCBs = Private Commercial Banks

SCI = Spatial Competition Index

SDBs = Specialized Banks

SEC = Securities and Exchange Commission

SME = Small and Medium Enterprises

SOCB = State Owned Commercial Banks

SRI = Sustainable Responsible Investment

ST = Stakeholder Theory

TBL = Triple Bottom Line

TRI = Toxic Release Inventory

UNEP = United Nations Environmental Program

UNGC = United Nations Global Compact

UNPRI = UN Principles for Responsible Investment

WB = World Bank

WCED = World Commission on Environment and Development

WWF = World Wildlife Fund

Chapter-1: Introduction

The role of corporate social (CS) reporting and practices to corporate social responsibility (CSR) has been accredited by the corporate sustainability reporting practitioners, academics, international communities, non-government organizations, media, and civil societies. Companies, as an integral part of the society, report their sustainability activities in the annual report or standalone sustainability report, by feeling to ensure sustainable living for the existing and next generations. However, the spectrum of CS reporting is now extended to conveying the message of how the companies create value for the society through products and processes. CS reporting as a mediating two-edge sword ensures business strategic goal in one side and society's desires to environmental friendly products and process in other side. Further, CS reporting is now no longer a media to convey sustainability initiatives rather a strategic tool to link stakeholders perceptions with corporate visions and missions. Again, it gives competitive advantages to the companies in the marketplace by innovations, market segmentations, employee engagement, long-term greening visionary, and branding the company's sustainable products and process. Hence, CS reporting or sustainability reporting is the voice of companies that can ensure goal congruence of the society.

The trend of CS reporting and practices is increasing around the globe due to its strategic importance to the business. In this regard, KPMG found that in 1994 only 12 percent companies around the globe do practice CS reporting but it continued to rise and reached at 73 percent in 2015 (KPMG, 2015). Moreover, by G250, KPMG (2015) found that from 2011 to 2015 the average trend of global largest companies remained more than 90 percent, which was measly 35 percent in 1999. Hence, CS reporting has generated significant place in the corporate circles around the globe. However, the increasing trend in CS reporting raises a chief issue whether companies discloses CS information based on the stakeholders expectations, desires and influences or legitimates the corporate actions and behaviors to the society's expectations.

Further, this debate raises questions regarding the extent to which corporations operating in the developing countries have CS reporting obligations (Jamail and Mirshak, 2007). A moot question for some is whether CS reporting policies for business should be voluntary or mandatory. A voluntary policy builds trust between businesses, governments and communities, but may limit results. On the other hand, a mandatory approach can be implemented universally but may cost more and generate ill between public and private sectors in the process. However, solving problems of inequality and poverty are of paramount importance and will require a great deal of integrated actions, reporting, CS accounting and auditing, honest endeavor, and the forging of new partnership arrangements among companies, government and civil society. Again, CS reporting includes a variety of issues revolving around companies' connections with society. These issues covered organizational governance, human rights, labor practices, environment and environmental risk management, fair operating practices, consumer issues, and community involvement and development. When considering CS reporting from accounting professional perspective, such consideration is necessarily and inextricably linked with social and environmental reporting or accounting. Social and environmental or sustainability accounting or reporting was itself a product, in part, of the early social responsibility movement of the 1960s (Drucker, 1965), but also appeared around the same time the environmental movement emerged (Gray and Guthrie, 2007). Till to date, the academics try to figure out the potent philosophy i.e. to legitimate, or to respond owing to stakeholder influences in social and environmental reporting.

The broad objective of this study is to promote the role of CS reporting and practices to CSR in developing countries from the perspective of sustainability reporting theories. Moreover, the specific objectives of this study are to examine the development of CS reporting and practices followed by testing the applicability of legitimacy theory empirically in the banking industry of Bangladesh, and extend and interrogate the use of legitimacy theory to infer bank managers' perceptions in CS reporting.

1.1 Background

The background part of this study includes the essence of banking industry in CS reporting and practices, developing countries CS reporting, and research theories in sustainability reporting.

i) Banking

The importance of studying CS reporting and practices is increasing as the banking industry plays a pivotal role in an economy in the intermediation of funds to private or even public companies because of the fierce information asymmetry and moral hazard problem in the capital markets. As banks provide the lion's share of an industry's finances, they are expected to play a major role in undertaking CS reporting initiatives not only through their own in-house environmental management but also by financing projects according to lending principles that are environmentally and socially sustainable. The sustainability initiatives undertaken by the banks would ultimately shift to sustainability implementation by the borrowers. As banks deal with depositors' investments, they are familiar with the need for transparency, and they disclose information other than economic information, which is a higher requirement from the stakeholders (Khan, 2010). In addition to shareholders, depositors and regulators have a direct stake in the bank's performance, since these three categories enjoy stakeholder attributes: power, legitimacy, and urgency (Yamak and Suer, 2005). The legitimate claim that depositors have on banks by entering into deposit agreements gives power and urgency to other stakeholders (Griffiths, 2007) such as regulators, client associations, civil society, media, non-governmental organizations (NGOs), etc. Studying the necessity of CSR reporting in financial institutions, KPMG (2011) found that financial services, insurance, and securities companies dominate the sample of G250 companies drawn from the Fortune Global 500 List (2010). Again, the nexus between financial services and sustainable development through investment has become evident over the years and the evidences indicate that financial industry may have a major influence on who in the society gets access to financing; how financial services benefit the people; and how a financed project causes environmental destruction (Raihan and Habib, 2005).

Further, while numerous prior studies investigated the CS reporting and practices in the annual reports of textile, cement, ceramic, chemical, tannery, and other manufacturing companies, research has focused on the reporting practices of the banking industry only recently. The recent catalytic role of banks in changing the corporate behavior of other industries in terms of sustainability management and disclosure led to a change in the research perception of their role, as banks finance companies that directly harm the society and the environment. Without financing, these companies could not have harmed or would have caused less harm than they did with financing.

Nevertheless, legislators are increasingly turning their attention to environmental and ethical matters and are introducing regulations to force businesses to act more responsibly, whether that is in regard to the environment, finance, health and safety, wellbeing or a variety of other areas. Again, regulators around the globe passed different regulations to perform CSR activities linking to economic, social, environmental, other reasons. However, different organizations voluntarily set standards for CS reporting and practices for CSR initiatives such as ISO14000, ISO26000, Global Reporting Initiative (GRI), Equator Principles (EPs), UN Principles for Responsible Investment (UNPRI), UN Global Compact, United Nation Environment Program (UNEP) Finance Initiative Statements, UN Global Compact (UNGC), Kyoto protocol, KPI, etc. and encourage companies to publish CSR initiatives voluntarily and banking industry is being no exception.

ii) Developing countries

CSR reporting is increasing in the developing and under developed countries. Such as, Malaysia and Singapore (Andrews et al., 1989), Singapore (Tsang, 1998), India (Maheshwari, 1992), China (Bouvain, et.al. 2013), Pakistan (Sharif and Rashid, 2013), Bangladesh (Belal and Cooper, 2011; Islam and Deegan, 2008[1]) are notable. Noted that, the level of CSR reporting is lagging behind in Asia Pacific region corresponding to other regions such as 71percent companies in EU countries, 69 percent in American, 61percent in Middle East and Africa now report on CSR initiatives and with just less than half of companies (49percent) in Asia Pacific region now disclosing CSR data to the markets (KPMG, 2011). However, KPMG (2015) found that the emerging economies (such as India, Indonesia, Malaysia and South Africa) have the highest CS reporting rates in the world and the retail sector has lagged behind all other sector in the world.

Besides the developed world, the government of the Asian counties ingraining CSR and stock exchanges also play pivotal role in bolstering CSR reporting and other initiatives due to going social-economical-political manifestation in climate change, reduction of CO_2 emission, labor right and working environment, work place safety, and poverty reduction. For example, in Malaysia, companies required to present a description of their CSR initiatives in their annual report according to Bursa Malaysia's listing. Lu and Castka (2009) explained that Malaysian legislation incorporated many CSR aspects such as environment quality, anti-corruption, and human right. On the other hand, Korean Stock Exchange introduced SRI index since 2009 which was designated to measure the companies' policies, performance and reporting in relations to social, environmental and governance. Again, in China, number of rules and regulations had been introduced to bolster CSR practices and to promote standardization of corporate information of the listed companies (Noronha et al., 2013). In Bangladesh, the Dhaka Stock Exchange (DSE) listed companies required to have corporate governance compliance reporting in the annual report as per Bangladesh Securities and Exchange Commission.

Earlier studies accredited the essence of studying sustainability reporting and accounting in different ways and the study on CS reporting in the financial institutions in developing countries is increasing such as Bouvian et al. (2013) on the comparative position in China and East Asia vis-à-vis American banks, Branco and Rodrigues (2008) banks in Portuguese, Nikolaou (2007) in Greece banks, Tsang (1998) in Singapore for banking, food and beverage, and hotel industries, Ventura and Vieira (2007) in Brazil, Narwal (2007) in India, Sharif and Rashid (2013) in Pakistan, and Belal and Abelsalam (2015) in Bangladesh are mentionable. The following section explains the reasons to choose banking industry in Bangladesh as an area of study.

[1]Belal and Owen, 2007; Sobhani, et al. 2009; Khan; Naeem and Welford, 2009

Among the South-Asian countries geographically Bangladesh is mostly a natural disaster affected country. 80 percent land of Bangladesh occupies floodplains that have diverse characteristics and are affected by flash floods, river floods and rainwater floods to different extents (Brammer, 1990). Flood, cyclone, and other natural disaster are a common phenomenon in Bangladesh. Nevertheless, Bangladesh supersedes all other South-Asian counties in most of categories of the human development index (HDI) (http://hdr.undp.org/). These development esteemed in coordinated effort from government legislation to organizational level practices, which boosted spreading corporate social responsibility practices at the corporate levels, which is one reasons to choose Bangladesh as case of developing country among the South Asian countries. Similarly to many other developing countries, Bangladesh is lagging behind in CSR disclosure and research study that has also not been considered by KPMG (2011, 2015) CSR investigation.

Nevertheless, the banking industry in Bangladesh is considered as an area of study for a number of reasons. First, Bangladesh's banking industry performs some unique jobs for poverty reduction, philanthropic giving, women's entrepreneurship development, green banking, school banking, and the provision of specific banking products for farmers, share-croppers, the pro-poor, the ultra-poor, etc. Second, scant literature and limited study on the CS reporting and practicing issues in the banking sector are evidenced in both developed and developing countries setting due to the existence of strict regulatory requirements, particularly in Bangladesh. Uncovering the CS reporting and accounting practices in the Bangladeshi banking sector over a given time period including testing the applicability of sustainability reporting theories empirically with some factors as potential explanatory variables, and managers' perception survey findings tends to create an understandable contribution on the existing literature, where there is a limited comprehensive study. Third, the movement of CS reporting by the banks was fashioned by the central bank, the Ministry of Finance (MoF), depositors, NGOs, and the media, and it has received international recognition. Regulatory movement in CS reporting and practices for the banking industry was remarkable in the recent times and the companies now hold these initiatives to their sustainability responsibilities to society. Now, many banking companies developed business case for CSR that directly impact on the social and environmental development of the country. Finally, the civil societies in Bangladesh stimulate CSR issues for all sectors in the recent years by producing greater societal demand and expectations of business responsibility in the form of organizing different seminar, press release or with other initiatives (Rahman and Jabed, 2003).

iii) Theories

Social and political theory studies particularly political economy theory, stakeholder theory, and legitimacy theory are mostly used in concerning organization-society information flow (Gray et al. 1995a). Gray et al. (1996) explains the political economy theory as the social, political, and economic framework within human life takes place, and stakeholder theory and legitimacy theory both derived from political economy theory. While stakeholder theory is considered the expectations of the various stakeholder group will impact on the operating and disclosure policies of the organizations, legitimacy theory explains organizations continually seek to ensure that they are perceived as operating within the bounds and norms which are not fixed and changes over time of their respective societies in order to ensure that company's activities are perceived by outside parties as being legitimate (Deegan and Unerman, 2011). This study adopt legitimacy theory, however, the logical reasons to adopt legitimacy theory is explained in Chapter-3.

1.2 Objectives

CS reporting as a research agenda has been gaining momentum worldwide in finding the corporate desires whether to legitimate corporate actions and behavior or merely follow stakeholders' pressures. Despite potential for legitimacy theory to explain a broad range of corporate behavior, there is limited study to date into legitimacy theory on the developing country's situation and hardly, a study tests the applicability of legitimacy theory in the developing countries context. Furthermore, most of the studies test legitimacy theory in manufacturing industries such as mining (Guthrie and Parker, 1989), chemical (Milne and Patten, 2002), petroleum (Deegan et al., 2002) tobacco (Tilling and Tilt, 2010) and other manufacturing companies, research has focused on the banking industry only recently. Nevertheless, exploration of managerial perception for making social disclosure has long been held a prominent position as research agenda (Owen, 2004). The exploration of managerial perception in the banking industry to contemplate the legitimacy theory variables is limited.

The broad objective of this study is to promote the role of CS reporting and practices to CSR in developing countries from the perspectives of sustainability reporting theories. However, the specific objectives of this thesis are to –

(1) examine the development of corporate social reporting and practices in the banking industry of Bangladesh from longitudinal aspect;
(2) test the applicability of legitimacy theory empirically in the developing country's banking industry – Bangladesh as a case; and

(3) extend and interrogate the use of legitimacy theory to infer bank managers' perceptions of corporate social reporting in the banking industry of Bangladesh.

The three specific objectives of this study are intrinsically linked with each other. First, a longitudinal study has been conducted for ten years from 2004 to 2013 to figure out the development of CS reporting and practices in the developing country's banking industry – Bangladesh as a case. Followed by the longitudinal study findings, this study tests the applicability of legitimacy theory variables in the developing country's banking industry. Furthermore, for cementing the empirical study findings an extensive interview survey has been conducted to interpret the bank managers' attitude and perception toward CS reporting and practices from the lens of legitimacy theory.

1.3 Methodology

The methodology is basically clustered into three parts – descriptive, statistical and interview. The first part of this study uses the longitudinal aspects of CS reporting and practices in the banking industry of Bangladesh (Chapter-4). This study analyzes the content of annual reports using the ISO26000 standards with some country and industry specific adjustments as the method of data coding. All Dhaka Stock Exchange (DSE) listed banks (currently listed 30 banks of 56, April 2016) and 282 annual reports with 46 items are used for data analysis during a 10-year period (2004–2013) in the legitimacy theory setting. A CS reporting index has been constructed for this purpose of analysis.

The second part (methodology) of this study uses the data set of the first part with legitimacy theory variables data collected from annual reports of the banks, Bangladesh Bank, Securities and Exchange Commission, Ministry of Finance (MoF), Ministry of Forest & Environment (MoFE), and civil society organizations. This part (Chapter-5) tests the applicability and extendibility of legitimacy theory variables (proximity to end-users, CSR initiatives by the stakeholders, and listing age of the firm) in CS reporting and practices in the developing country's banking industry – Bangladesh as a case. Total 30 banks for 10 years with 282 observations have been used to test empirically of these legitimacy theory variables.

The third part (methodology) of this study conducted an in-depth interview (Chapter-6) to the bank officials who are involved in the corporate policy making, and corporate social reporting and practices. 28 interviews were conducted to gather evidence from 24 listed commercial banks to mediate the legitimacy theory argument in CS reporting and practices in the banking industry of Bangladesh. The interviewees were ranged from operational CSR manager to managing director/chief executive officer of the bank.

1.4 Structure of this thesis

This thesis has been divided into seven chapters – introduction, developing countries and the financial sector's CS reporting, legitimacy theory for CS reporting and practices, descriptive analysis of CS reporting and practices, statistical analysis of the legitimizing factors in CS reporting, and interviewing analysis of managers' perception in CS reporting in Bangladesh. Conclusion is explained in Chapter-7.

Chapter-1 includes introduction part of this thesis that explains background and objectives, research questions, methodology, and structure of this thesis. In chatper-2 this thesis explains corporate social responsibility and reporting from developing countries and financial sector that includes development of CS reporting and practices, literature review in the developing counties perspective, role of financial sector in CSR and CS reporting and practices in Bangladesh. Chapter-3 incorporates sustainability reporting theories followed by reason to adopt legitimacy theory to this study.

Chapter-4 of this thesis explains descriptive analysis of corporate social reporting and practices in Bangladesh from longitudinal aspect. Testing the applicability of legitimacy theory in the developing countries situation – Bangladesh as a case has been explained in Chapter-5. Interviewing analysis of banks managers' perceptions on corporate social reporting and practices in the banking industry of Bangladesh has been explained in Chapter-6.

While this chapter explains introduction of the thesis the next chapter explains corporate social reporting and practices from the developing countries and financial sector perspective.

Chapter-2: Corporate Social Reporting and Practices: Developing Countries and Financial Sector

This chapter is divided into five sections – development of CS reporting and practices, CS reporting from developing countries perspective, role of financial sector for CSR and CS reporting, and the banking industry in Bangladesh. The following sections explain these issues.

2.1 Development of CS reporting and practices

The concept and development of CS reporting, and global CSR reporting and practices accredit the strategic emergence of CS reporting and its role in shaping the corporate behavior and society's perception to the companies. The following sections explains CS reporting – concept and development, and global CSR reporting and practices.

i) CS reporting – concept and development

Over the last few decades, accounting reporting has been widened into some branches including social reporting. Schaltegger et al. (2006) explained the perspectives of sustainable development and development of sustainability reporting with regard to the three-pillar approach (Figure-1).

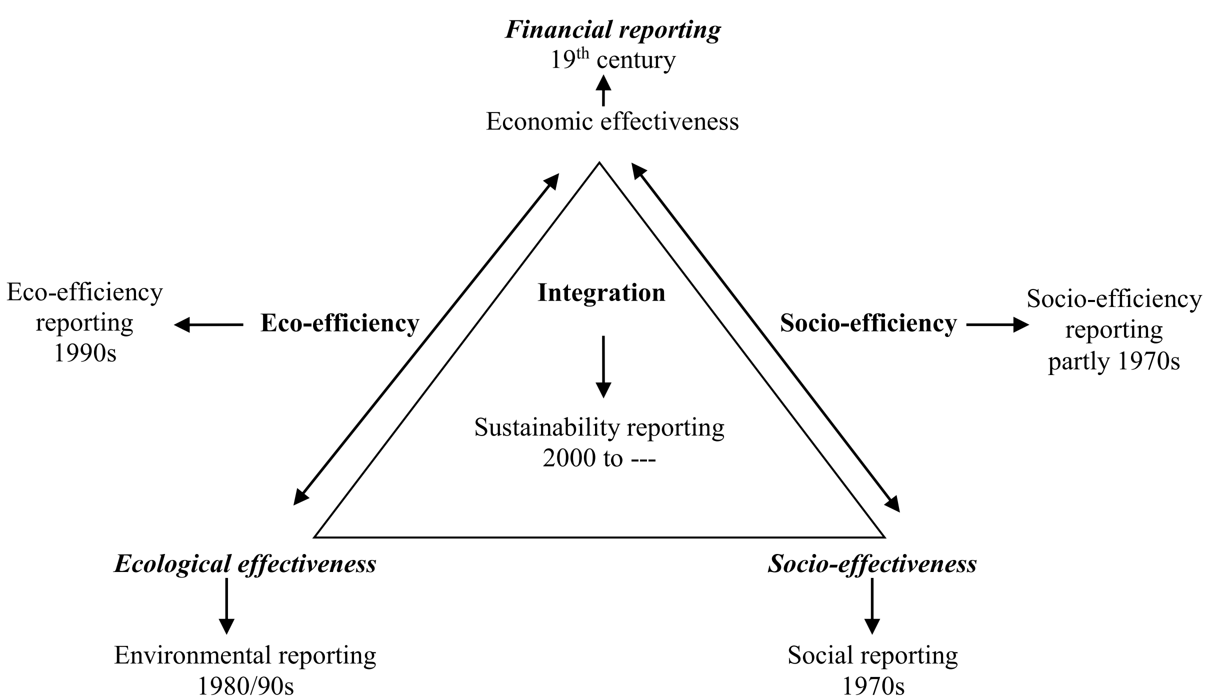

Figure-1: Perspectives and development of sustainability reporting
Source: Schaltegger et al. (2006), p. 305.

Financial reporting: originated in the 19th century and focuses was exclusively on monetary principles. The financial reporting had been complemented and extended to *social reporting* in 1970s. However, the essential concern was to report positive and negative impact on society of company's activities. The focus was then on *social effects*, or *social effectiveness* and only partially on *socio-efficiency* (Herzig and Schaltegger, 2006). A decade later the idea of environmental reporting emerged and the main focus was on *ecological effectiveness* i.e. level of impact on air, water, land etc. In somewhat extend, the reporting started to link between economic and social dimensions (*socio-efficiency*). The current attempt is to issue integrative sustainability reports that address all these issues. Basically, in 1970s the income level of people increase and the focus of the society and politics moved to the quality of life and the affect of quantitative economic growth took center stage around the globe (Herzig and Schaltegger, 2006) and at these time many companies started to publish social goals, activities and their impact on the society in a specific social report.

Employees reporting: From the sustainability reporting literature, it shows that earliest reporting practicing was confined to employee issues reporting. Honger (1982) examined the US Steel's reporting practices from 1901 to 1980 and found that the initial decade's information included – dwellings build for workers, community development, worker safety, and mortgage assistance for employees. On the other hand, Guthrie and Parker (1989) investigated 100 years of annual reports of BHP from 1885 to 1984 and similar to US Steel, they found BHP reports employee and community issue. However, the recent literature (e.g. Unerman, 2003) shows that for decade corporate just disclosing more than financial information.

Social reporting: Employee reporting was one aspect of social reporting that grew the emergency of widening the scope in 1960s and 1970s. However, in 1960s and 1970s the impact of world politics and environmental disasters made the society concerned about social issues such as – women's right, racial equality and peace of the world, which turned into a focal point of corporate reporting. Then, employee relations and human resource reporting together evolved into *social reporting.* However, most of the social reporting was disclosed in the financial statement of the annual report than separate reports. KPMG (2015) found that only 4 percent companies around the globe in 2008 incorporate CSR initiatives to their annual report. Buhr (2007) explained that in mid-1970s only 1 percent of Fotune-500 companies disclose separate social reporting booklet together with annual report from a survey by Ernst & Ernst. Buhr et al. (2014) explained that –

> "The early 1970s focused on social responsibility; by the mid to late 1970s it had shifted to *employee and unions*; in 1980s was explicit pursuit of economic goals with a

> thin veneer of *community concern* and redefinition of employee rights as the major theme, while in the 1990s attentions shifted to *environmental concern*" (p.54)

Environmental reporting: Late 1960s, environmental catastrophe such as Cleveland's oil-contamination in Cuyahoga River on 23 June 1969 led to upshot some acts such as US Clear Air Act 1970 and Clean Water Act in 1972. Again, a massive chemical leak and contamination in Bhopal, India in 1984 that caused 20,000 people death and 600,000 people with permanent physical damage (Ramesh, 2009) led to form '*Responsible Care'* by *'Canadian Chemical Producers' Association'* in 1985 in a hope that voluntary steps would prevent restrictive governmental regulations. Moreover, the Bhopal, India incident gave birth of '*US Emergency Planning and Community Right-To-Know Act'* in 1986, that required to report released toxic substances information which made available to the public. This Toxics Release Inventory (TRI) information to the public had significant impact on public perception and companies tried to reduce their release. Nevertheless, researchers also found that corporate legitimate their disclosure behavior immediate after certain incidents (Patten, 1992; Deegan et al. 2000; Magness, 2006). Further, a study by KPMG by Fortune 500 (G250) in 1999 found that 35 percent companies had environment report (KPMG, 2005).

Sustainability reporting: Around the year 2000 corporations started to produce reports titled 'sustainability' or 'sustainable development report' incorporating environmental, economic and social aspects of corporate performance (Buhr et. al. 2014). Gray et al. (1987) defined –

> "Social reporting (CS) also know as social accounting, social accounting and auditing, social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting or accounting, sustainability accounting, which refers to the process of reporting the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large (p. ix)."

By the conflation of sustainability with economic, social, and environmental performance indicator, John Elkington, a co-founder of SustainaAbility consultancy, coined '*Triple Bottom Line (TBL)'* in 1994 by explaining that financial results do not provide comprehensive performance of the company rather company should report on social and environmental performance in addition to financial consideration for their market success (Elkington, 1998). Global Reporting Initiative (GRI) (founded in Boston, USA in 1997) has launched the first version of the global framework for comprehensive sustainability reporting in 2000. GRI defined –

> "A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report can also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy" (GRI-2016).

In 2010, International Organization for standardization (ISO) released its first version on 'Guidelines on Social Responsibility' that provides guidance on how businesses and organizations can operate in a socially responsible way which means acting in an ethical and transparent way that contributes to the health and welfare of society (www.iso.org). It is also an intrinsic element of 'integrated reporting' a more recent development that combines the analysis of financial and non-financial performance. The International Integrated Reporting Council (IIRC) was formed in august, 2010 aiming to create a globally accepted framework for a reporting process for organization (IIRC, 2016). By IIRC, integrated reporting means to communicate a clear, concise, integrated story that explains how all of their resources are creating value.

ii) Global CSR reporting and practices

This study explains CSR reporting practices based on the KPMG survey on Corporate Social Responsibility (CSR) reporting which is used extensively in the academic literature for its comprehensiveness in coverage (Al-Hamadeen, 2007). However, O'Dwyer and Owen (2005) notified that KPMG survey report should be carefully considered because KPMG's surveyed sample size is changing overtime and therefore not directly comparable, but they conclude that KPMG survey provides a broad indication of practicing CS reporting worldwide. The following figure-2 indicates CSR reporting practices by percentage of companies since 1993.

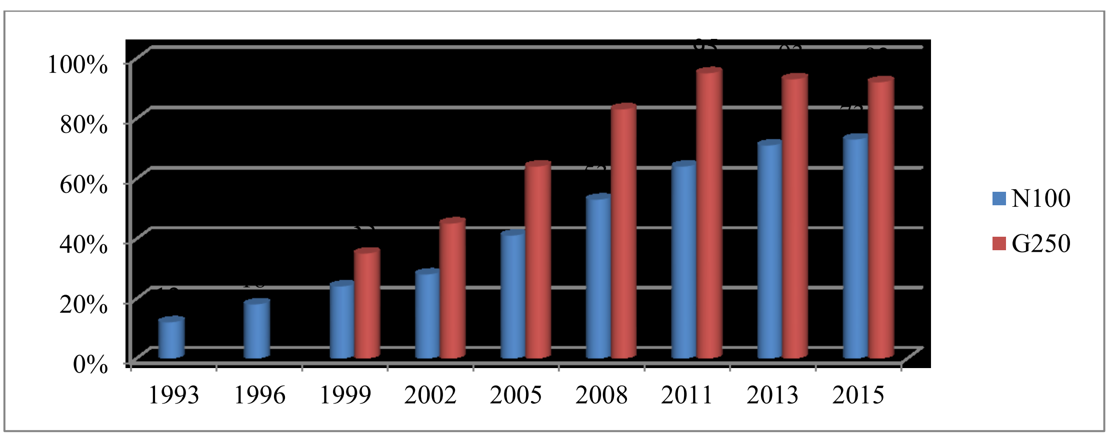

Figure-2: Global CSR reporting practices (N100/G250)
Source: KPMG (2015, p.30)

KPMG conducts two surveys – N100 and G250. National 100 (N100) indicates the companies that are largest by revenue in the selected countries (45 in 2015), while global 250 (G250) are the top 250 companies in the Fortune Global 500 companies. In 2015, these G250 are taken from Fortune Global 500 of the year 2010. Figure-2 indicates, in 1994, only 12 percent companies around the globe (by N100) do practice CS reporting which continued to rise and reached at 73 percent by a small raise from 2013 (71 percent). Moreover, the stabilization from 2013 to 2015 suggests future growth in CS reporting is likely to occur in smaller increments unless driven by mandatory reporting legislation (KPMG, 2015, p.30). On the other hand, by G250, it is found that from 2011 to 2015 the average trend of global largest companies remained more than 90 percent. However, KPMG identified the reason for fluctuations in CS reporting since 2011 was primarily due to changing the composition of the G250 list. Thus, it can be explained that using the term '*CSR reporting'* the companies around the globe are trying to increase reporting coverage including social, environmental and governance issues that might affect their business. However, the global corporate preferred media to report CS information is annual report. It is found that only 4 percent companies chose annual report as their media of disclosing social information in 2008, which marked a high and peaked at 56 percent in 2015 (KPMG, 2015). It indicates that companies prefer to incorporate CSR data in accordance with financial data to the annual report.

Nevertheless, the emerging economies (such as India, Indonesia, Malaysia and South Africa) have the highest CS reporting rates in the world and the retail sector has lagged behind all other sector in the world. It is found that Asia Pacific leads the CS reporting rate by 79 percent in 2015 where it was lagging behind in 2011 by 49 percent. KPMG (2015) explained that this fastest trend in CS reporting has been driven by mandatory and voluntary reporting requirements, which have been introduced by some Asia Pacific countries such as India, Taiwan and South Korea. The second highest reporting rates marked in Americans by 77 percent followed by 74 percent in Middle East (KPMG, 2015).

2.2 Developing countries perspectives

From the emerging Asian developing economies context studies such as Belal and Momin (2009) conducted literature review of CSR to emerging economies. They used desk-based research method, using a classification framework of three categories-studies related to extent and level of CSR disclosure and determinants, managerial perception of CSR reporting, stakeholder perception. They found that most CSR studies in emerging economies are descriptive in nature used content analysis methods and measured the extent and volume of disclosures contained within the annual reports but of late, a studies to probe managerial motivations behind CSR directly through in-depth interviews has been remarkable.

Another study by Baughn et al. (2007) in fifteen Asian countries including Bangladesh that analyzed the firms' performance in these Asian counties in CSR relative to country's economic, political, and social condition followed by comparing those to other regions (Western Europe, East/Central Europe, Australia/New Zealand, US/Canada, Middle East and Africa). Their study found strong relationship between CSR and country's economic, political and social contexts reflecting the importance of a country's development of such institutional capacity to promote and support CSR practices. Again, Frost et al. (2007) reviewed the CSR news in Asia during October –December 2006. They investigate Channel-4 news and newspaper reporting on seven companies (Sony, Tesco, Topshop, Pierre Cardin, IBM, NCR, and Hittachi) during the period. They found that each of the companies was facing issues relating to reputations, child labor, or corruptions linking to CSR. They added that inadequate CSR policy that is solely based on philanthropy demonstrates the confusion how the companies will embed the CSR practices.

Nevertheless, from the African developing economy context Mahadeo et al. (2011) examined corporate social disclosures in annual report on the listed companies in from 2004 to 2007. They used legitimacy theory to interpret the data and result. They found a significant increase in the volume and diversity of CSD. Size and leverage impact on the extent of CSD, whilst profitability and industry affiliation are not significantly linked to CSD, they added. Again, they explained that legitimacy, as a strategic and managerially driven approach favoring symbolic actions, is the prevailing motivation underlying the progression of CSD in Mauritius. Further, Bowrin (2013) examined the extent of social and environmental disclosure and the factors related to such disclosures of 55 Caribbean companies listed in three major Caribbean stock exchanges in 2010. He found that the level of social and environmental disclosure was relatively low and the disclosure were related to firm's size, industry affiliations, foreign influences and organizational culture, however, firm's profitability, national culture, importance of public equity financing, gender diversity, and directors independence were not statistically linked to such disclosure.

Furthermore, from the Lebanese context, Jamali and Mirshak (2007) critically examined the CSR approach and philosophy based on Carroll (1979 - three dimensional model) and Wood (1991 - corporate social performance revisited) of eight companies (selected based on the level of CSR activity) in the Lebanese context. They found that lack of a systematic, focused, and institutionalized approach to CSR and that the understanding and practice of CSR in Lebanon are still grounded in the context of philanthropic action. Further, Rizk et al. (2008) surveyed the corporate social and environmental reporting practices of 60 Egyptian companies for the year 2002 in nine different manufacturing industry segments. The study found significant difference is practicing CSR initiatives and support significantly relations between ownership structure and the reporting decision. Additionally, Mirfazli (2008) evaluated CSR disclosure in annual report of listed Jakarta Stock Exchange (JSX), Indonesia companies. They used content analysis with indexing ‘yes’ or ‘no’ approach and categorized high profile and low-profile companies and found significant difference between High-Profile and Low-Profile for disclosure about corporate social responsibility in annual reports. The labor category receives the most attention among the category of social disclosure; however, the total social disclosure in Indonesia is still relatively low.

Conversely, the first growing Chinese economy also put emphasis the essence of CS reporting as a strategic business tool. Kuo et al. (2012) evaluated the quality of CSR information reported by the Chinese firms in the annual report. They used content analysis and found that more than 40 percent firms fails to provide CSR initiatives to make understand to the outside stakeholder, and text descriptions of their general CSR activities. Moreover, they found that environmentally sensitive industries and state owned enterprises significantly disclose environmental information particularly in ‘paying attention to energy saving/carbon reduction. Again, Noronha et al. (2013) investigated the development of CSR reporting requirement in China and a literature had been conducted especially those which were written in Chinese language. They found that CSR reporting in China is at a very preliminary stage and while many companies report variety of CS information on different issues without having major emphasis/directions, few companies pay high attentions on the key business operations dimensions linking to CSR.

From the South-East Asian context, Beddewela and Herzig (2013) conducted 18 in-depth interviews to examine the pressures, barriers and enablers of 10 multinational subsidiaries in engaging corporate social reporting in Sri Lanka. They found that the subsidiaries were overwhelmingly driven by their internal needs to attain internal legitimacy and lack of publishing separate social report, and a tension between head office reporting requirements and accountability needs for local stakeholders. Moreover, Sahay (2004) investigated the environmental reporting practices by the Indian corporations and explain that like other developed counties, Indian corporations took hesitant steps for environmental protections; however, most of them are regulatory compliance. However, a few companies do social and environmental reporting but it is unsystematic and non-comparable, and sustainability reporting is scare, and they aimed it publicity rather than providing environmental facts and figures, they added.

Similarly to many other developing countries, Bangladesh is lagging behind in CSR disclosure, which was also considered a little by KPMG's (2015) study. Before, 2000s only a few studies such as Belal (1999), Solaiman and Belal (1999), Imam (2000), Belal (2000; 2001) were conducted on CS reporting and practices in Bangladesh context. However, in the late 2000s the nature of study shifted to performance linking to CS reporting practices. Such as, Akhtaruddin (2005), Islam and Deegan (2008), Ahmed and Islam (2009) studies are mentionable. Particularly, Islam and Deegan (2008) showed that the pressure of stakeholders groups on the Bangladeshi clothing industry in terms of its social performance and explained that the expectation of the global community turns drives the industry's social policies and related disclosure practices.

In 2010s, the nature of studying CS reporting in Bangladesh had been changed from simply one or two years of studying to non-managerial perspectives, media presence. Again, the method of studying also been shifted to engagement based study with interview method. Studies such as Belal and Robert (2010) conducted non-managerial stakeholder interviews; Islam and Deegan (2010) conducted media pressures to corporate social responsibility reporting performance in Bangladesh. They support that corporations react negative media attention by providing positive social and environmental disclosures. However, Belal and Cooper (2011) conducted a study from Bangladesh perspective on the absence of corporate social responsibility reporting concentrating on three particular eco-justice issues: child labor, equal opportunities and poverty alleviation. Their findings suggested that the main reasons for non-disclosure include lack of resources, the profit imperative, lack of legal requirements, lack of knowledge/awareness, poor performance and the fear of bad publicity.

Nevertheless, corporate governance (Khan and Muttakin, 2013), determinants (Muttakin and Khan, 2014), earnings quality (Muttakin et al., 2015), prevalence of written policies (Naeem and Welford, 2009), and non-government organizations in community involvement initiatives (Sharmin et al., 2014) in explaining CS disclosure in Bangladesh context are mentionable.

2.3 Role of financial sector for CSR and CS reporting

The financial sector plays chief role in ingraining CSR initiatives by banking business which is the upshot of increasing trend in CS reporting among the banking companies. The following section explains role of financial sector for CSR and CS reporting respectively.

i) Role of financial sector for CSR

In this margin earning process of deposit mobilization and lending, banks can not only ensure in-house environmental practices but also other industries environmental sustainability practices. No matter whether the country is developed or developing, the roles of commercial banks in financing the projects are same. Banking industry is highly regulated industry as they deal with public money. Before 2000s, it was believed that, as banks will do general conventional activities i.e. deposit mobilization and credit functioning. However, in 2000s, the perceptions of the researchers, practitioners, and academics had been changed as banks have pioneering role in sustainability practices. As banks have lion stake in the capital/share to most of the environmental sensitive industries, hence, the accountability of the banks should be accounted as they financing the polluting companies. The indirect impact on environmental and social responsibility may increase if banks grant credit to companies that pollute the environment, produce unsafe products or violate human rights (Idowu – Filho, 2009).

Moreover, since the 1990s economic crisis has been stems from the financial sector, due to bankruptcy of many financial institutions such as Barings Bank[2] in 1995 and Lehman Brothers[3] in September 2008. These financial crisis spread to Europe, Asia, and other Western part of the world by decreasing GDP growth rate, unemployment, financial injunction to loan sanctioning, lowering industrializations, etc. After the crisis, most of the banks around the world wanted to restored the confidence on financial institutions and set the bankers to think sustainable economic and social growth. This gave a new green/sustainable platform by exploring the possibilities of increasing ethical coordination through fulfilling social expectation. Hence, the financial institutions, besides the business interests of the companies, the bank finances, the social, environmental and human right issues are gaining prominence.

The traditional banking business was generally confined from collecting mass deposit by selling deposit products from corporate/giant clients then lending to the again corporate clients. As the number of banks and banking business had expanded, the competition to mobilize deposit and lending the fund has severely increased, while the number of corporate/giant clients has not increased accordingly. Moreover, many banks have financed to same corporate clients, which created burden and stuck up funds for the banks. Furthermore, the credit repayment failure of corporate clients forced the banks to lend the money in the micro and SME sector as alternative mode of business expansion. Hence, for sustainable banking business growth, the tradition system of banking business has been changed by

[2] Barings Bank was a British merchant bank based in London, and the world's second oldest merchant bank founded in 1762.

[3] Lehman Brothers is the world largest leasing company faced bankruptcy which the largest bankruptcy filling in the USA history will $600 billion in assets.

green banking/sustainable banking, banking by business case, social business, SME, microcredit, risk rating in financing environmental sensitive projects, and financial inclusion.

However, unlike other industry, banking industry has multiple stakeholders and any financial crisis streams from defaulting to return credit affect a great variety of people. Since the banking industry differs from other sectors, the CSR activities and reporting practices also be different. The emphasis of bank's responsibilities basically related to the areas of banks deposit mobilization, lending, treasury management operation, and investment and asset management functions, hence, combating with bribery, anti money laundering issues are the most important issue, thus, the key elements of anticorruption is a crucial part of the banks' CSR activities (Vigano– Nicolai, 2009).

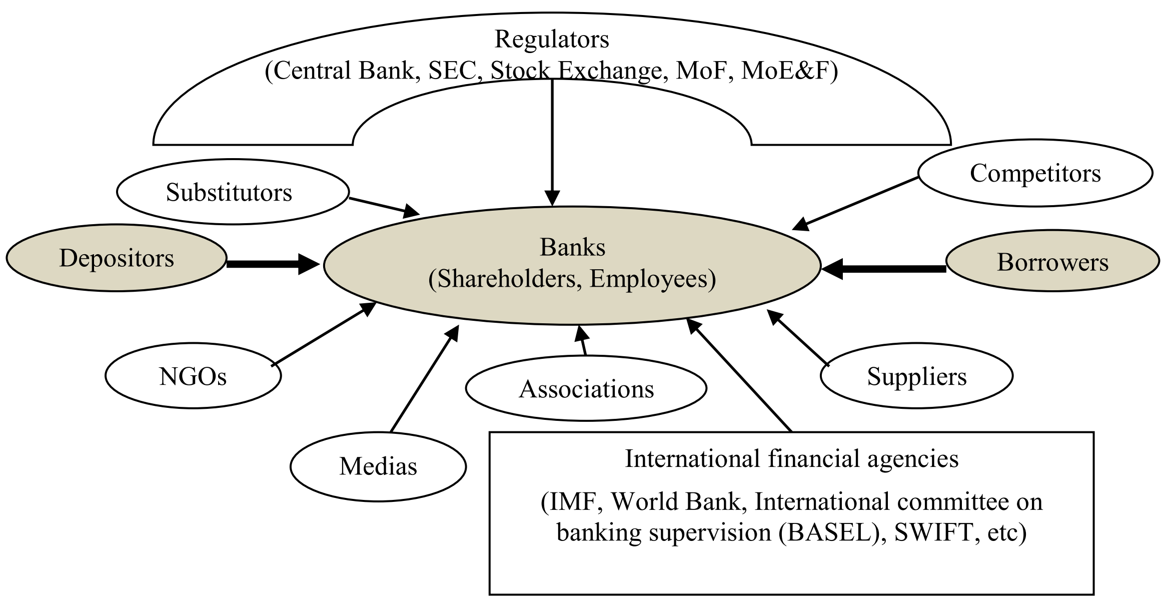

Figure-3: Stakeholders of banks; Source: The author
Note: The bold lines indicate flow of key functions of a bank

Further, the diverse number of stakeholder includes – shareholders, regulators, depositors, borrowers, employees, suppliers, NGOs, medias, international financial agencies. These stakeholders directly and indirectly influence the business behavior of the banks. Among these diverse stakeholders, regulators and international monitory agencies mostly influence the banking business and processes. Again, among the regulators, central bank has direct influence while other regulators have indirect influence; they have to influence the banks through the central bank. Nevertheless, international financial agencies (such as International Monetary Fund (IMF), World Bank (WB), International committee on banking supervision (BASEL), Worldwide Interbank Financial Communication (SWIFT) have also strong influences to the banking business. Again, different associations (such as employees union, employers union, environmental activist association, consumers association, anti-corruption association etc.) also have indirect influence to the business behavior of banks (Figure-3).

From the above conceptual backdrop, the following CSR model for banking by business can be explained. The figure-4 (Appendix-6) indicates the CSR model for banks by business. Banks works as intermediary between depositors and borrowers. In the intermediating process banks collects deposits by selling products in an sustainable manner such as financial inclusions (farmer's, sharecroppers, school working/street children, housewives, mobile, handicapped/ disable people banking), migrant workers/immigrant banking, general depositors (individual as well as institutions, and etc.), online banking, financial literacy, and etc. Now, banks can do CSR in several forms – own in-house environment management, and CSR by sustainable business/SRI[4], CSR by lowering margin, and CSR by philanthropic. CSR by sustainable business are lending to borrowers such as agricultural credit, micro-credit, Small and Medium Enterprises (SME) financing, Women Entrepreneurship Development (WED) program, green banking (such as financing to ETP, biogas, solar panel etc.), and industrial credit by environmental risk rating. The other novel form of CSR by business is lowering margin in the lending, remission of loan, reschedule of the repayment schedule to the disadvantage people (such as flood/cyclone affected people, farmers, sharecroppers, freedom fighters, old-aged people, handicapped/disabled people, etc.). Further, banks can do CSR as philanthropic either directly or indirectly. Indirect CSR as philanthropic is possible by granting donation to Civil Society Organizations (CSOs) and Non-government Organizations (NGOs) those are primarily aimed to build for poverty reduction, to enhance literacy to street children, to increase standard of living to the people living in the costal cyclone prone areas. The other form of CSR as philanthropic is to involve directly by the banks side by side to the regular banking business. Banks can assess the need of philanthropic donation for health treatment, scholarship to poor and meritorious students, sponsoring arts and culture, donation for environmental protection, humanitarian and disaster relief, and sponsoring sports. The total deposit mobilization and lending process will ultimately gears sustainable growth/development that will lead to sustainable business, economic, environmental and social development. The model is rather cyclical because the sustainable business, economic, environmental and social development will generate depositors deposit capacity that again will be a part of deposit mobilization process. This theoretical model can be applied irrespective to developed/developing/under-developing countries.

[4] Socially Responsible Investment (SRI) means that investments are only made in companies, which meet defined criteria related to environmental, social and governance aspects (www.ebf-fbe.eu).

ii) Role of financial sector in CS reporting

The study on CS reporting and practices in the financial institutions is increasing day-by-day both in developed and developing countries due to their pioneering participation in social and environmental involvement by financing.

From the developed world, Douglas et al. (2004) conducted a study on six Irish financial institutions to demonstrate the extent of social reporting in company annual reports and web sites from 1998 to 2001. Irish banks disclose a greater volume of social information on their web sites than in their annual reports, they added. Further, Day and Woodward (2009) determined the extent of disclosure in the annual reports within the financial services sector in the UK. They found that the level of social and environmental disclosure is lamentably low across the financial service sector with an observable tendency for compliance to be related to size indicating the larger the organization, the more likelihood of compliance. Additionally, Coupland (2006) analyzed the web-based forms of reports of five banks[5] operating in the UK. He found that each of the banks describes their CSR activities to a greater or lesser extent within these parameters and argued that rather than producing stand-alone reports for signaling the growing essence of CSR consideration, the context they function to peripheralise the information and reporting locations is disguised. Halabi et al. (2006) explained that four Australian's banking companies are the top Australian's ten implement GRI and all banks discloses environment, labor practices, and human right.

Nevertheless, Crawford and Williams (2010) investigated how country contexts pressure firms for greater reporting activity and to explore the impact of these pressures on disclosure quality. They explained that countries with higher regulative pressures, such as France, will lead to a ‘‘minimum-requirement’’ type of disclosure, while countries with more liberal markets, such as the USA, will present higher quality disclosure, counter-theoretical evidence was found in the results, indicating that French firms exhibit higher quality disclosure than US firms on average. Furthermore, Simpson and Kohers (2002) investigated the links between corporate social and financial performance in the USA banking industry. They found that corporate social performance is solidly supports positively to the financial performance of the banks. Again, Carnevale et al. (2012) presented a work aiming to understand whether investors attribute (stock price) a significant value to the information contained in the sustainability reporting in the European Banks. They explained that there is no significant correlation between the publication of a social report and the stock price.

[5] Five banks are Lloyds/TSB, the Royal banks of Scotland, HSBC, Barclays and the Co-operative Bank.

However, from the developing world, researchers have also accredited the importance of studying CS reporting and practices. Studies such as Branco and Rodrigues (2008) examined social responsibility disclosures using content analysis on the Internet in 2004 and 2005 which, were then compared with those made in annual reports in 2003 and 2004 in the Portuguese banking industry. They used legitimacy theory to explain social disclosure and public visibility using size related measures (size represented by total assets; total number of employees; and profit). They proposed spatial competition index based on the number of branches for public visibility and explained it should be explored further. They support legitimacy theory by explaining banks with higher visibility exhibit greater concern to improve the corporate image through SRD when compared with banks with lower visibility. Moreover, Barako and Brown (2008) examined the influence of gender and board representation on communication of corporate social reporting by Kenyan banks. They explained that there is a complete lack of disclosure on the categories of recruitments, employment of special Groups, assistance to retiring employees, and employees' productivity and turnover. Again, Ventura and Vieira (2007) analyzed the dissemination of structural arrangements linking to CSR movement in the banking industry of Brazil. They found that there is an isomorphic (as a part of institutional theory) movement among the banks and the large banks joined the movement by adopting different stances, however, the wholesale banks still doing the same things, which ratifies the process as a search for legitimacy, the core argument of the theory.

From, the Asian economies context, studies such as, Tsang (1998) conducted a longitudinal study in Singapore banking, food and beverage and hotel industries. Tsang (1998) tested legitimacy theory in Singapore, and found that the company efforts to strive for legitimacy when the regulatory environment gradually reduced it similar arguments were put forward by the same company in annual report when the Government banned tobacco advertisements and widened the restrictions on smoking in public areas. Further, Bouvain, et al. (2013) studied on CSR in financial services by comparing China and East Asian banks vis-à-vis American banks. They analyzed 84 major banks and found that brand value is positively associated with CSR particularly in Japan and South Korea, and explained that CSR factors are distinctively depending on the geographic markets.

Again, the researchers in the East Asian economies also emphases the essence of CS reporting and practices in the financial institutions. Studies such as, Hossain and Reza (2007) investigated the extent of voluntarily disclosure by 38 listed (Bombay Stock Exchange and the National Stock Exchange, India) banks in India. The study found that on average, banks publish 35% of voluntary items of information in their annual report in 2002-03. Again, Narwal (2007) explained that the banks in India concentrating mainly on education, balance growth (different strata of society), health, environmental marketing and customer satisfaction as their core CSR activities. Sharif and Rashid (2014), on the other hand, founds that even though reporting of CSR is voluntary in Pakistan, the participation of Pakistani commercial banks in different CSR activities is not low.

2.4 The Banking Industry in Bangladesh

The banking industry and financial system is Bangladesh has been emerged with many changes in regulations after the independence of Bangladesh. The following sections include background, financial system, and role in CS reporting and practices of the banking industry in Bangladesh.

i) Background

After liberation in 1971, Bangladesh inherited an undiversified and underdeveloped financial system, which was overwhelmingly dominated by the commercial banks (Bhattacharya and Chowdhury, 2013). The banking industry in Bangladesh were nationalized by the Government of the People's Republic of Bangladesh under president's order No.26 of 1972 entitled the Bangladesh Bank (Nationalizations) Order, 1972 on March 26. Further, in 1982 the government denationalized two of the six nationalized commercial banks and permitted private local banks to compete in the banking sector. In 1986, government formed a 'National Commission on Money, Banking and Credit' to reforms in bank rate, refinancing policy, overdue loans, loan diversifications, supervisory problems, frauds and forgeries in the banking sector etc. Further, 1990, Financial Sector Reform Program (FSRP) were formed contracts with the World Bank which expired in 1996. After words, government of Bangladesh formed a bank reform committee (BRC) that gave highest priority on restructuring of the supervisory and regulatory set up, strengthening legal framework and restructuring of the nationalized commercial banks. In fine, the state owned commercial banks have been incorporated as Public Limited Company in 2007; however, public offering has not been given yet.

Further, Bangladesh was a British colony in the Indian sub-continent and the banking business functioned under the common law system by the Banking Companies Ordinance, 1962, however, the first law passed in 1948 in the world to provide licensing of banks. In 1947 Indian sub-continent has been separated from British regime that led to the creation of Union of India (later Republic of India) and Pakistan (East and West). Then, from 1947 to before 1971 the banking companies in Bangladesh (East Pakistan) was operated by the State Bank of Pakistan Act, 1956 and the Banking Companies Ordinance, 1962. After independence from Pakistan (West) in 1971, the Banking Companies

Ordinance-1962 was promulgated in 1991 (ordinance no. 15 of 1991) in Bangladesh. Then after Banking Companies Act-1991 (Act No. 14 of 1991) was passed by the parliament and made effective from 24 Feb-1991. After 1991, the Banking Companies Act was amended in 7 times i.e. in 1993, 1995, 1997, 2001, 2003, 2007, and in 2013. The major changes are regarding maintaining capital adequacy, corporate governance, loans and advances, reporting and punishment for unrolling financial activities.

In maintaining minimum capital reserve to Bangladesh Bank (BB) (Section-13, 2013) BB has given the authority to determine paid up capital and reserves; insertion of new Section-14L by restricting on mentionable share holder (previously it was 15%); and amended Section-23 on the requirement of cash reserve of its time and demand liabilities by omitting 5% and Bangladesh Bank's discretion is included. Again, a new Section-22 has been inserted by restriction on the payment of dividend explaining to declare after meeting all capitalized expensed written off or managed to preserve constantly its capital.

Again, most of the changes are related to corporate governance issues such as – appointment (minimum eligible requirement), promotion, and dismissed, removed or released of directors, MD or CEO of a bank (Section-15 L, M); resignation of directors, MD or CEO; restrictions on maximum number of directors (20 including 3 independent directors; Section-15M9); restrictions on appointing family director (maximum 2; Section-15M10); extent of the designation of the director, etc (15KK); insertion of new section (15L,M) to strict the liability of BoD in issuing and implementation/compliance of guidance, risk management, internal control, internal audit & compliance of bank company; formation of risk management committee adjusting with the member of BoD (15L); and giving power to the independent of audit committee and report to the board (15M). Moreover, the new amendment relaxes Section-23 by allowed directors of a bank company can also be a director of insurance company.

Regarding loans and advance, a new Section-26L has been inserted on general limitation on loan margin (maximum 25%) and includes new provision regarding restriction to give loan to bank employees for the purposes of the condition given by the Bangladesh Bank time to time (Section-26N). Again, restrictions on loan and advances as no Banking Company shall make any loans, advances, guarantee or any other financial facilities on the security of its own shares; classification of loan and reservation of deposit, exemption of loan, rescheduling or mandatory order for reenactment matters for all bank companies where power has given to BB (Section 49O, P).

Nevertheless, all banking companies have to report on quarterly basis instead of half yearly basis (Section-36) and the amount of punishment has been increased for certain activities in relation to banking activities (Section- 57, 109). In fine, Bangladesh Bank has been given more power in most of cases and area of control has been expanded to state owned banks and specialized banks (Section-45). Moreover, in some cases more power also given to Bangladesh Securities and Exchanges Commission (BSEC) such as for giving appointment of independent director (Section-15-9), and submission of report (Seciton-40).

ii) The financial system

The financial system of Bangladesh is comprised of three broad sectors: formal, semi-formal, and informal sector. The formal sector includes all regulated institutions; the semi formal sector includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator; and the informal sector includes private intermediaries, which are completely unregulated (Bangladesh Bank, 2016; www.bb.org.bd). Furthermore, the formal financial sector has three markets – the money market, capital market, and foreign exchange market.

Bangladesh Bank acts as the Central Bank (Chief regulator) in the formal financial system of Bangladesh, which was established on December 16, 1971 through the enactment of Bangladesh Bank Order 1972- President’s Order No. 127 of 1972 (Amended in 2003). BB has been entrusted to a 9 members' Board of Directors that is headed by the Governor who is the Chief Executive Officer of this institution as well. BB has 45 departments and 10 branch offices (April, 2016).

After the independence in 1971, banking industry in Bangladesh started its journey with 6 nationalized commercialized banks, 2 state owned specialized banks and 3 foreign banks. In the 1980's banking industry achieved significant expansion with the entrance of private banks. Now, banks in Bangladesh are primarily of two types- scheduled banks which get license to operate under the Bank Company Act, 1991 (Amended in 2013) are termed as scheduled banks. The banks which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives, are termed as non-scheduled banks (Bangladesh Bank, 2016; www.bb.org.bd). There are 56 scheduled banks (6 state owned commercial banks, 2 specialized banks, 39 private commercial banks (31 conventional and 8 Islamic banks), and 9 foreign commercial banks) in Bangladesh who operate under full control and supervision of Bangladesh Bank (Bangladesh Bank; April, 2016) (Table-1). Moreover, based on the year of establishment, the banking sector is clustered into four generations – first, second, third, and fourth. Banks incorporated in 1971-1990; 1991-2000; 2001-2012; and after 2013 are called first, second, third, and fourth generation banks respectively (bracepl.com). In 2013, Bangladesh Bank licensed nine private commercial banks including one Islamic Bank to start banking business in Bangladesh (Scheduled bank statistics, Septermber-2015).

Table-1: Number of Scheduled banks

			Listed in Dhaka Stock Exchange (DSE), as on April, 2016
Scheduled banks		**Total**	
State owned commercial banks (SOCBs)		6	1
Specialized Banks (SDBs)		2	0
Private commercial banks (PCBs)	39		
	Conventional PCBs	31*	22
	Islamic Shariah based PCBs	8**	7
Foreign commercial banks (FCBs)		9	0
	Total	56	30

Source: Schedule Bank Statistics, BB and DSE, 2016

Note: *8 banks licensed in 2013; ** 1 bank licensed in 2013

Nevertheless, Non-bank financial institutions (FIs) are those types of financial institutions, which are regulated under Financial Institution Act, 1993 and controlled by Bangladesh Bank. Now (April, 2016), 31 FIs (2 state owned, 1 subsidiary of state owned commercial bank, 13 private, and 15 joint venture) are operating in Bangladesh while the maiden one was established in 1981 (www.bb.org.bd). Insurance sector in Bangladesh emerged after independence with 2 nationalized insurance companies- 1 Life & 1 General; and 1 foreign insurance company. In mid 1980s, private sector insurance companies started to enter in the industry and it got expanded. Now (April, 2016), 62 companies (18 life including 1 foreign and 1 state owned, and 44 general insurance including 1 state owned company) are operating under Insurance Act 2010. However, currently, 599 micro-finance institutions (as of October 10 2011) have been licensed by microcredit regulatory authority (MRA) to operate Micro Credit Programs. The figure-5 depicts the overview of the financial system of Bangladesh:

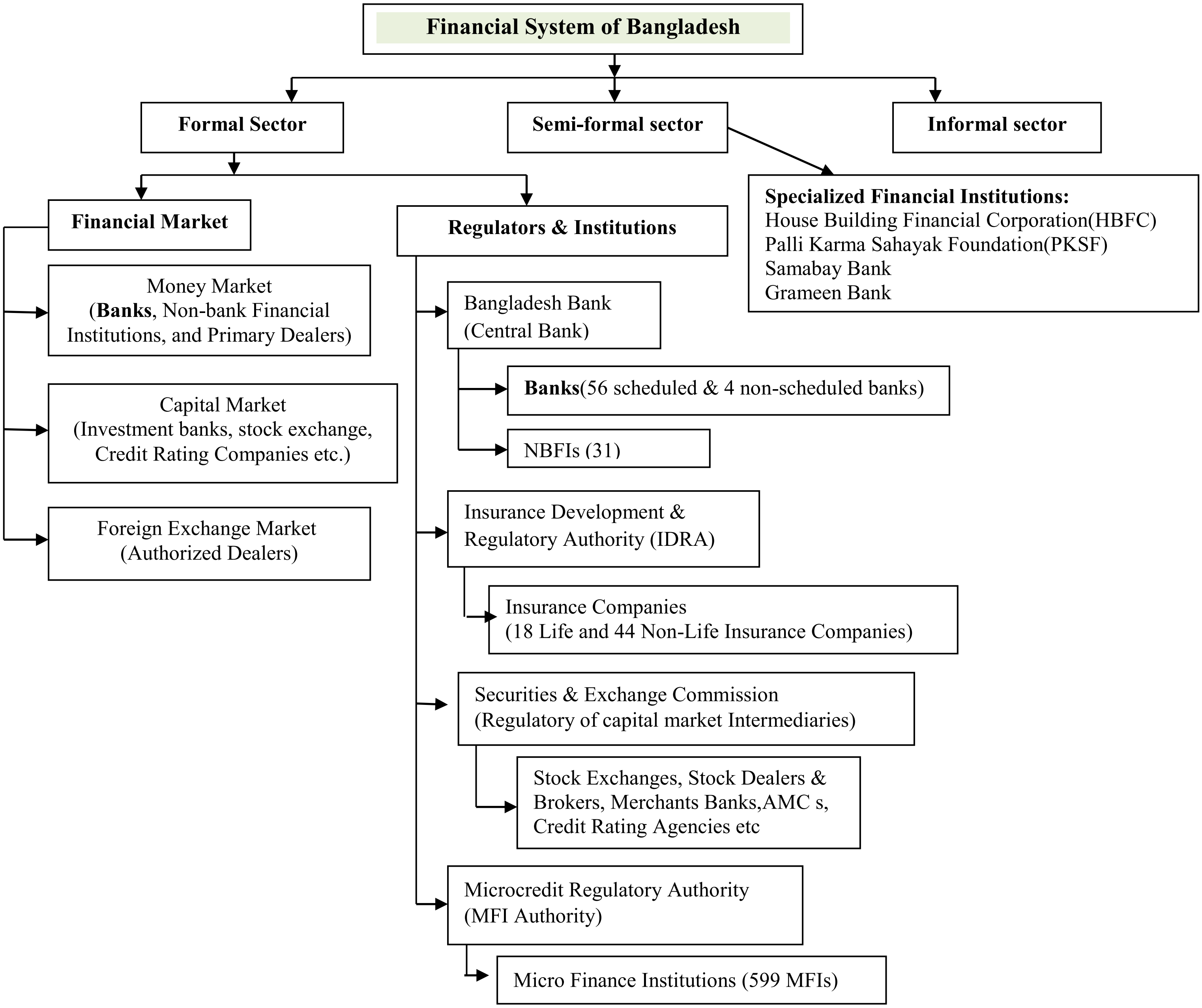

Figure-5: Financial System of Bangladesh
Source: Bangladesh Bank; 5 April, 2016

iii) Role in CS reporting and practices

The study on the banking industry in Bangladesh is very recent by Belal and Owen (2007) that includes banking companies with other sample respondents. They found that the current corporate social reporting practice is to manage powerful stakeholder groups, notably parent companies instructions and demand from international buyers. Sobhani et al. (2009) carried out a study on the practices of corporate social and environmental disclosures in Bangladesh. They conclude that from a global perspective, the level and the extent of disclosure are found to be meager. Again, Belal and Cooper (2011) conducted a 23 semi-structured interview which includes banking industry also and finds that the main reasons for non-disclosure in CSR reporting in Bangladesh include lack of resources, the profit imperative, lack of legal requirements, lack of knowledge/awareness, poor performance and the fear of bad publicity.

Furthermore, Khan et al. (2009) examined user's perceptions in corporate social responsibility reporting by the banks in Bangladesh. They found that the banking companies doing some CSR reporting on a voluntary basis and the user groups are in favor of CSR reporting, and would like to see more disclosure. Again, Khan (2010) investigated potential effects of corporate governance (CG) elements on CSR disclosures of Bangladeshi listed commercial banks and found that though voluntary, overall CSR reporting are rather moderate, however, the varieties of CSR items are really impressive. Yet again, Khan et al. (2011) carried out a research on the commercial banks in line with GRI guidelines to examine the tendency of corporate social reporting in Bangladesh. They found that information on society is addressed most extensively with regard to extent of reporting followed by decent works and labor practices and environmental issues. Likewise Sobhani et al. (2012) described the status of disclosure practices of corporate sustainability in the annual reports and company websites of the banking industry in Bangladesh. They found that all listed banks practice sustainability disclosure in an unstructured manner in both the annual reports and company websites and, the older bank does not outperform the younger bank in terms of the sustainability disclosure.

Nevertheless, in a case bases approach, Sobhani et al. (2011) conducted a trend analysis of two selected (purposively) case banks to understand the corporate sustainability disclosure practices in Bangladesh. study found that most of the trend lines were linear in shape and social issues received priority in disclosure compared with environmental and economic issues. Very recent, Ullah and Rahman (2015) identified the impact of regulatory change on CSR reporting and bank characteristics. They analyzed annual reports of DSE listed banks in Bangladesh and found that there were no significant influence of the selected bank characteristics on the extent of CSR reporting and have significant impact of regulatory change on nature and extent of CSR reporting. Again, Belal and Abelsalam (2015) critically examined the ethical and developmental performance of a bank. They found that the ethical disclosure had increased over the period, however, the earlier disclosure were confined to Shariah compliance and post 2005 the disclosure were dominated to sustainability, charity, employees, and community issues.

The next chapter explains an overview of the sustainability reporting theories and the key justification for the application of the legitimacy theory in the developing country context - Bangladesh as a case.

Chapter-3: Legitimacy Theory for Corporate Social Reporting and Practices

This chapter provides an overview of the corporate social responsibility reporting theories and the key justification for the application of the legitimacy theory to this thesis.

3.1 Research theories for corporate social reporting

The 'social and political theory studies' is particularly political economy theory; stakeholder theory, and legitimacy theory (Gray et al. 1995a) are used of concerning organization-society information flow. These theories are sometimes referred to as 'system-oriented theories' which permits to focus on the role of information and disclosure in the relationship(s) between organizations, the state, individual and groups (Gray et al. 1996). The system-oriented theories have also been referred to as 'open-systems theories'. Deegan and Unerman (2011, p. 321) explain,

> "Within legitimacy theory, stakeholder theory and institutional theory, accounting disclosure policies are considered to constitute a strategy to influence the organization's relationships with the other parties with which it interacts. In recent times, stakeholder theory and legitimacy theory have frequently been applied to explain why organizations make certain social responsibility disclosures within their annual reports, or within other corporate reports. These theories could, however, also be applied to explain why companies adopt particular financial accounting techniques."

i) Political economy theory

Gray et al. (1996) explains the political economy theory as the social, political and economic framework within human life tales place. From a broader theory that has been called political economy theory, Institutional theory can also be linked to political economy theory (Deegan and Unerman, 2011). From this point of view, accounting report is seen as social, political, and economic document that is issued to legitimize economic and political arrangement, institutions and ideologies which contribute to the corporation's self interest (Guthrie and Parker, 1990) by which a researcher is able to consider broader (societal) issues that directs how and what information an organization elects to disclose (Deegan and Unerman, 2011). Hence, Political economy theory explain the perspective that society, politics and economies are inseparable, and economic issues cannot meaning be investigated in the absence of considerations about the political, social and institutional framework in which the economic activity takes place (Deegan, 2007).

ii) Stakeholder theory

Stakeholder[6] and legitimacy are two variations of political economy theory that are commonly used in sustainability reporting literature. Stakeholder theory recognizes a wide range of corporate stakeholders and sustainability reporting is seen way of communicating with them (Gray, et.al. 1995). Sustainability reporting is influenced by and in turn influences, a wide range or stakeholders (Deegan and Unerman, 2006) and accountability and stakeholder theory which concern with self-reporting by organization (Geddes, 1992; Gray et al., 1991). Stakeholder theory has two branches – ethical (moral) or normative and managerial or positive branch.

While moral or ethical perspective of stakeholder theory argues that all stakeholders have the right to be treated fairly by the organization, managerial aspects attempt to explain when corporate management will be likely to attend to the expectation of particular (typically powerful) stakeholder (Deegan and Unerman, 2011). Moreover, they also asserted that ethical branch of stakeholder theory viewed that stakeholders have intrinsic right such as safe working conditions, fair pay etc. which should not be violated. In contrast, the managerial branch of stakeholder theory emphasizes the need to 'manage' particular 'powerful' stakeholder groups (Ullman, 1985). Managerial branch of stakeholder theory is based on the premise that an organization and its stakeholders are interdependent upon one another for resources and managers are responsible for maintaining this exchange relationship for the organization's survival (Donaldson and Preston 1995). Therefore, the organization will not respond to all stakeholders equally, but rather, will respond to those deemed to be 'powerful' (Deegan and Blomquist, 2006).

iii) Legitimacy theory

The term, legitimacy, was used in most accounting disclosure studies; however, few of them define it. According to Suchman (1995),

> "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions…Accounting practices from such a perspective are represented as tools for documenting institutional compliance or as means for seeking external legitimation" (Rahaman et al., 2004 p.36).

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[6]Clarkson (1995) explains, there are basically two types of stakeholders – primary and secondary. A primary stakeholder is defined as one who has direct participation in share capital of the corporation without which the corporation can't survive as a going concern. Secondary stakeholders were defined as those who influence or affect or are influenced or affected and who are not engaged with the transaction of the share capital. Creditors, government, regulators, media, employees, employees' families, local communities, local charities, future generations, and so on are the examples of secondary stakeholders.

There is a difference between legitimacy and legitimation. Former is a status or conditions and later is the process that leads to an organization being adjusted legitimate (Lindblom, 1994). From the legitimacy theory aspect, 'legitimacy' is considered to be a resource on which organization is dependent on survival (O'Donovan, 2002). From legitimacy theory based on perception, it is said that legitimacy is not an abstract measure of the 'rightness' of the corporation but rather a measure of societal perceptions of the adequacy of corporate behavior (Suchman, 1995). It is measures of the attitude of society toward a corporation and its activities, and it is a matter of degree ranging from highly legitimate to highly illegitimate (Deegan and Unerman, 2011).

Hence, legitimacy theory asserts that organizations continually seek to ensure that they are perceived as operating within the bounds and norms which are not fixed and changes over time of their respective societies in order to ensure that the company's activities are perceived by outside parties as being 'legitimate' (Deegan and Unerman, 2011). If the value systems of the organization and society are congruent then the organization is said to be legitimate (Lindblom, 1994). The social contract is the core part of the legitimacy theory. The term 'social contract[7]' is not new, it is said that any social institution including business that operates in society via social contract where the institution's survival and growth is based on the – delivery of socially desirable products or services; distribution of economic, social, or political benefits to groups from which it derives its power (Shocker and Sethi, 1974).

The central premise of the legitimacy theory is '*social contract'* between the organization and the society in which society allows the organization to continue operations to the extent that it meets the society's expectoration and any kind of disparity will consider as breach of such contract that may legitimize the organization (Lindblom, 1994; Deegan, 2002). Social contract is defined to represent the multitude of implicit and explicit expectations that society has about how the organization should conduct its operations (Deegan and Unerman, 2011). Moreover, they explained that, by the social contract, legitimacy theory emphasizes that organization must consider the rights of the public at large, not merely its investors. Moreover, it is said that organization has no inherent right to resources; rather, the right to access resources must be earned. By legitimacy theory, if a company can't justify its continued operation then in a sense the community can revoke its 'contract' to continue its operations (Deegan, 2002; 2007). Hence, Legitimacy theory relies upon the notation of a social contract and on the maintained assumption that managers will adopt strategies, inclusive of disclosure strategies, that show

[7] Social contract may be implicit or explicit. While the requirements imposed by the law reflect the explicit terms of the social contract which un-codified community expectations constitute the implicit terms of the social contract. Gray et al. (1996) explained that legal requirements provide the explicit terms of social contract while non-legislated social expectations embody the implicit terms of the contract.

society that the organization is attempting to company with the society's expectations (as incorporated within the social contract) (Deegan et al., 2002).

However, community expectation represented by social contract is not static rather changing over time and an organization will have to be congruent for survival with the changing social expectation which is dynamic (Deegan and Unerman, 2011). Legitimacy gap occur for societal expectation changes or while organization change is slower than the changing community expectations and when previously unknown information become known to the organization (Sethi, 1977). Thus, legitimacy itself can be threaten even when an organization's performance is not deviating from society's expectations of appropriate performance, which might be because of failure to make disclosure that show it is complying with society's expectations, which is might be changing across time (Deegan and Unerman, 2011).

A number of legitimacy tactics and disclosure approach may be adopted to reduce the legitimacy gap. Dowling and Pfeffer (1975) offers three ways – i) the organization can adopt its output, goals and methods ii) attempt to alter the definition of social legitimacy through communication and iii) attempt to become identified with symbols, values or institutions through communication. Moreover, legitimation strategies might be used to gain, maintain or repair legitimacy (Suchman, 1995; O'Donovan, 2002). O'Donovan (2002, p.349) explained,

> "Legitimation techniques/tactics chosen will differ depending upon whether the organization is trying to gain or extend legitimacy, to maintain its current level of legitimacy, or to repair or to defend its lost or threaten legitimacy."

Dowling and Pfeffer (1975) and Lindblom (1994) explained that the public disclosure of information in such places as annual reports can be used by an organization to implement the strategies to reduce the legitimacy gap. Numerous accounting researchers study social and environmental reporting practices in the annual report to explain to reduce the legitimacy gap using legitimacy theory. Nevertheless, Lindblom (1994) explained four strategies, – the organization may seek to educate and inform its relevant publics about changes in the organization's performance and activities; to change the perceptions of the relevant publics – but not changes its actual behavior; to manipulate perception by deflecting attention from the issue of concern to other related issues through an appeal; and to change external expectations of its perception. In fine, Deegan and Unerman (2011) asserted that legitimacy is a relative concept – it is relative to the social system in which the entity operates and is time and place specific.

iv) Other theories

Other prominent theories that are used in sustainability literature are agency theory/economic agency theory and voluntarily disclosure theory.

Agency theory: Owing to the emergency of corporate financial reporting, agency theory or economic agency theory became a rational for CS reporting. Agency theory basically explains the contracts among diverse economic agents who act opportunistically within efficient market. One possible situation is employer-management contract where the economic relationship is always rivalry. Cormier et al. (2005) explains agency theory focuses on monetary or wealth consideration among agents who trade in efficient market does limit the scope of relevant social and environmental disclosure as well as its intended purpose, insofar as many potential users of this kind of information may not act in these markets at all (e.g., pressure groups such as Greenpeace). In this context, Reverte (2009) explained, social and environmental disclosure may prove useful in determining debt contractual obligations, managerial compensation contracts, or implicit political costs.

Voluntarily disclosure theory (VDT): VDT is based on the research which is ingrained in the financial (economic) disclosure literature and assumed that disclosure is used as a tool of communication to market participants (Guidry and Patten, 2012). Healy and Palepu (2001) explained that voluntarily disclosure research mainly focuses on financial reporting particularly on stock market motives for accounting and disclosure decision. By a careful review of the articles forming the foundation of VDT arguments, Guidry and Patten (2012) pointed out that none specially address the provision of social and environmental issues; nonetheless, VDT-based research attempts to determine what factors drive the quality of financial reporting relative to the issuance of new capital, global diversification, and board composition. Further, based on Verrecchia (1983) and Dye (1985) study Guidry and Patten (2012) summed as the signaling argument could apply if there is any information asymmetry between managers and environmental information users and if proprietary costs associated with the use of the data. Hence, VDT is mostly popular to investigate firm's financial disclosure, however, by a careful and most restrictive case of disclosure consideration it can be used also for social and environmental research. Guidry and Patten (2012) explained if corporate environmental disclosure is made primarily to reduce information asymmetries between managers and investors, the application of VDT to this practice would be warranted (p, 82).

3.2 Legitimacy theory over other theories

The argument of legitimacy theory contemplation differs from other theories in the sustainability literature. The logical explanation of legitimacy theory to political economy theory, stakeholder theory, economic agency theory, and voluntarily disclosure theory can be explained in the following ways.

Legitimacy theory over political economy theory: Political economy theory is macro and wider level of application that consider the social, political and economic framework (Gray et al., 1996; p.47) and economic issues cannot be investigated in the absence of considering the political, social and institutional framework within which economic activity takes place. Corporate reports are not considered neutral and unbiased, but are a product of the interchange between the corporation and its environment (Guthrie and Parker, 1990). Stakeholder and legitimacy theory are two overlapping perspectives on the issue that are set within a framework of assumption about 'political economy' (Gray et al. 1995a). The application of political economy theory to a study is the application of two theories – stakeholder and legitimacy theory and sometime might difficult to find core issues into practical and academic implications as the political economy theory deals with wider or macro issues. On the other hand, legitimacy theory explain the perspective that corporate legitimize their actions and process according to the societal norms and bounds.

Legitimacy theory over stakeholder theory: Stakeholder theory is considered the expectations of the various stakeholder groups will impact on the operating and disclosure policies of the organization (Deegan and Unerman, 2011). Legitimacy theory basically considers the interactions with the society as a whole while stakeholder theory focuses on how organizations manage their powerful stakeholders' demand and expectations (Gray et al., 1995a). Again, the stakeholder theory explains, the more the powerful the stakeholder, the more the company must adopt (ebit.). Further, the moral (or normative) aspect of stakeholder theory argues that all stakeholders have the right to be treated fairly by an organization, and that issues of stakeholder power are not directly relevant (Deegan and Unerman, 2011). Hence, the two wings of stakeholder theory are contradict in terms of stakeholder power that give vague assumption in application to the study while legitimacy theory explain very specifically that companies need to legitimize their behavior in order to existence in the industry.

Legitimacy theory over economic agency theory: Unlike agency theory, legitimacy theory provides comprehensive perspectives on social and environmental disclosure as the theory explicitly recognizes that corporate are agreed to performs different socially desirable actions and behaviors in return to have approval of their actions, objectives and other rewards as bound by the social contract, which will guarantee corporate survival in the industry (Brown and Deegan, 1998; Deegan, 2002). By the means of social and environmental disclosures companies legitimate their actions and behavior for their continued existence to the society. Reinforcing the previous argument to legitimacy theory, prior studies evidenced that corporate voluntarily disclose social information to their annual report as a strategy to legitimate the corporate behavior (Deegan and Rankin, 1996; Campbell, 2000).

Legitimacy theory over voluntarily disclosure theory: Contrary to voluntarily disclosure theory, legitimacy theory directly linked to social and environmental disclosure research and Deegan et al. (2000) explained that corporate uses social and environmental disclosure to address concerns about the legitimacy to the organization. Further, Deegan (2002; 2007) summed a body of research to legitimacy theory that examined the use of social and environmental disclosure and explained disclosure as a legitimating tool for reducing exposures to social and pressures. Hence, voluntarily disclosure theory is related to the economic area of research while, legitimacy theory is under the school of social and environmental research.

3.3 Adoption of legitimacy theory to this study

Based on the research objective and the country's political, socio-cultural, and economic factors, this study adopts legitimacy theory. Legitimization strategies, if employed, may vary among countries, and general comments about how managers react to particular events need to explicitly consider the specific national, historical, and cultural context (Deegan, 2002). The major events are relevant to the country's political, socio-cultural, and economic turnaround factors (Guthrie and Parker, 1989) that considered as evidence of attempts to legitimize the organization. Moreover, changes in policy, structural changes in the industry, political turmoil, stakeholder initiatives, changing community expectation shaped by economic development, and earlier literature in legitimacy theory adoption are the some chief reasons to adopt legitimacy theory in the developing country – Bangladesh as a case.

First, the Banking Companies Law in Bangladesh has been amended many times since the history. The banking business was run under the British common law while Bangladesh was a British colony before 1947, then operated under the State Bank of Pakistan Act, 1956 and the Banking Companies Ordinance, 1962 during 1947-1971 when Bangladesh (East Pakistan) was a part of Pakistan. After independence in 1971, Bangladesh government adopted the Banking Companies Ordinance, 1962 and finally the Banking Companies Act-1991 has been enacted. Since 1993, the Banking Companies Act was amended in 7 times i.e. in 1993, 1995, 1997, 2001, 2003, 2007, and in 2013. The major changes in the law were regarding maintaining capital adequacy, corporate governance, loans and advances, and reporting and punishment for unrolling financial activities. In these frequent changes the corporate have to be congruent as vide by the law for their existence in the industry (Deegan, 2002). The legitimacy theory is mostly applicable in such situation, because corporate needs to legitimize their actions and behaviors owing to the legal reforms over the periods.

Second, moreover, the structural change in the industry is another reason to adopt legitimacy theory to this study. The banking industry in Bangladesh went through some structural reforms by nationalization by the Government of the People's Republic of Bangladesh under president's order No.26 of 1972; denationalization of some commercial banks and permission of private local banks to compete in the banking sector in 1982; National Commission on Money, Banking and Credit in 1986; financial sector reform program (FSRP) in 1990 and bank reform committee (BRC) in 1996. Finally, state-owned commercial banks have been incorporated in 2007. In these structural reforms in the banking industry, the banking companies legitimized their banking products and processes, actions and behavior so as protect organizational legitimacy. To company with industry requirement or particular code of conduct corporate legitimize their corporate structure, which is supportive to the legitimacy theory contemplation (Deegan, 2002).

Third, frequent changes and turmoil in politics of a country is another key reason to adopt legitimacy theory in the developing countries context – Bangladesh as a case. The structural changes in politics and governance system in a country ultimately induce governance and structural breakthrough in the business industry in that country also. When there is a structural change in political government/environment or frequent changes in politics, the corporate also have to legitimate their governance system, structure of the company, and products and processes. These factors as a threat to organizational legitimacy are congruent to the legitimacy theory argument.

In Bangladesh, immediately after the independence in 1971, Sheikh Mujibur Rahman became a founding leader in Bangladesh as Prime Minister, which as a democratic succeeding formation in 1970. However, in 1975 Military government went in power and continued until 1990. In 1990s the democratic government again started by stepping down the Military administration in 1991 by a civil political conflict. However, Military backed caretaker government went into power in 2006 and continued until 2008 due to political crisis. These political turmoil and structural changes in political governance in Bangladesh are very relevant to the adoption of legitimacy theory contemplation.

Fourth, stakeholder in an industry of a country play also pivotal role in defining, shaping, and reshaping corporate behavior. Because organization will change their structure or operations to conform external expectations about what forms or structures are acceptable (legitimate) (Deegan, 2002). The banking industry of Bangladesh legitimates their banking operations in responding numerous stakeholders' initiatives. Such as, corporate Governance (CG) compliance reporting started as mandatory regulatory requirement by the Bangladesh Securities and Exchange Commission (BSEC; SEC/CMRRCD/2006-158/admin/02-08) since 2006; Bangladesh Bank (BB) initiatives (by circular no.-2, by DOS on 1st June 2008) on 'mainstreaming CSR in Banks and Financial Institutions) voluntarily, 'Green Banking' initiatives in 2011 (number-2, by BRPD, BB), and separate monitoring and supervision department (GBCSRD; circular-1) in 2013 for CSR reporting and practices are the chief one. Besides regulators, association of bankers Bangladesh (ABB), institute of bankers Bangladesh (IBB), consumer association of Bangladesh (CAB), and Bangladesh Paribesh Andolon (BAPA) also play role in taking different initiatives in social and environmental initiatives in the banking industry of Bangladesh. These stakeholder initiatives generated institutional pressures that leads particular organizational products and processes (Deegan, 2002), and movement toward the conformance of stakeholders expectation which is supportive to the legitimacy theory contemplation, which is another reason to adopt legitimacy theory to this study.

Moreover, to be congruent with the international market (as a stakeholder), all commercial banks in Bangladesh follow Credit Risk Grading Manual (CRGM) that incorporate 10% weight for "Regulatory Environment & Compliance" as a qualitative factor while assessing the creditworthiness of the projects submitted by the borrowers (BRPD, circular-18; 2005). Deegan (2002) explain a desire to comply with the borrowing requirements is one factor to legitimate.

Fifth, economic development represented by the access to finance[8] has increased in Bangladesh, which aligns ideologically with the regulators' and the society's expectations. Society's expectations have been changed over the time aligning increased forms of purchasing power and standard of living, which called 'dynamic[9]' in community expectation (Lindblom, 1994) and organizations must also adapt and changes (Deegan, 2002). Among the South-Asian counties, Bangladesh supersedes most of the human

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[8] Access to finance means providing financing services to the unbanked or underbanked people such as farmer, sharecropper, handicapped, poor, pro-poor and ultra-poor.

[9] Dynamic means legitimacy is dynamics in that the relevant publics continuously evaluate corporate output, methods, and goals against an ever evolving expectations and the legitimacy gap will fluctuate without any changes in action on the part of the corporation (Lindblom, 1994).

development indicators (HDI) such as poverty alleviation, women empowerment, child mortality, literacy, life expectancy etc. These factors are more prevalent in explaining 'community dynamics' where corporate must legitimate their products and process, and legitimacy theory is best suited to explain this situation. Hence, this study embraces legitimacy theory argument to explain the objectives (Chapter-1) of this thesis.

3.4 Previous research of legitimacy theory to CS reporting

The following sections explain literature of legitimacy theory for corporate social reporting based on the two broad approaches – testing legitimacy theory by the effects of threats to an organization's legitimacy and studying legitimacy theory to investigate managerial attitudes toward the role of corporate reporting in legitimation strategies.

i) Research of legitimacy theory as a threat to organizational legitimacy

The literature of corporate social reporting to study legitimacy theory as a threat to organizational legitimacy can be clustered in two broad categories: external forces as a measure of community concerns and changes (e.g. media attention; stakeholder pressure) and responses after major social incidents.

Honger (1982) examined sustainability reporting practices in annual report in US steel and found that specific information types are fluctuating over times and arguing that societal disclosure constituted a response to societal forces and behavior as indicative of corporate needs for legitimacy. Moreover, Brown and Deegan (1998) conducted a dual test of media agenda setting theory and legitimacy theory for the public disclosure of environmental performance information in 27 Australian companies from nine industries from 1981 to 1994. Basically, they investigated the relationship between the print media's attention to an industry's environmental performance, and the annual report environmental disclosures made by firms within that industry. They support both theories by explaining that the majority of the industries studied, higher levels of media attention are significantly associated with higher levels of annual report environmental disclosure. Further, Deegan et al. (2002) tested legitimacy theory to examine the social and environmental disclosures of BPH (one of the largest Australian companies) by analyzing annual reports from 1983 to 1997. They analyzed media attention to such disclosures and compared and contrasted the results with those of Guthrie and Parker (1989) study. They found significant positive relations between the general themes of environment and human resources to social and environmental disclosure. They support legitimacy theory by explaining that manager release positive social and environmental information in response to unfavorable media attention. Again, Tilling and Tilt (2010) examine the voluntary social and environmental disclosures made in the annual reports of Rothmans Ltd from 1955 to 1999. They considered legitimacy theory in light of disclosures made by Rothmans. They attempt to measure resource flows as a proxy to stakeholder influence on CS reporting. They provided qualitative examples of expected attempts to legitimatize owing to threat posed by the smoking and health debate. However, their further analysis contradicts when compared with previous studies and an alternative conceptualization of legitimacy theory they proposed.

On the other hand, Deegan et al. (2000) examined the reaction of Australian firms, in terms of annual report disclosure, to five major social incidents (*Exxon Valdez* and Bhopal disasters; the *Moura Mine* disaster in Queensland; an oil spill, caused by the *Iron Baron*, off the coast of Tasmania; and the *Kirki*oil spill, off the coast of Western Australia). They found that sample firms provided more social information than they did prior to the incidents occurrence. Thus, they support legitimacy theory with a view that organizations utilize their annual report as a means of influencing society's perception of their operations, and as a means of legitimizing their ongoing existence. Moreover, Patten (1992) used legitimacy theory to measure the environmental disclosure in response to the ALASKAN oil spill. The study used 21 of the 23 publicly traded companies (petroleum firms) other than Exxon, *Fortune 500* and annual reports of 1988 and 1989 of these companies were analyzed where the disclosure were measured as the amount of pages. The study supports the legitimacy theory argument explaining that social disclosures can be viewed as a method of responding to the changing perceptions of a corporation's relevant public.

However, to postulate legitimacy strategy, Suchman (1995) conducted a study on strategic and institutional approaches in managing legitimacy. The study basically synthesizes the similarities and disparities among leading strategic and institutional approaches that indentify three forms of legitimacy – pragmatic bases on audience self-interest, moral based on normative approval, and cognitive bases on comprehensibility and taken-for-grantedness. Further, three strategies has been examined as challenge to corporate – gaining, maintaining, and repairing legitimacy. Moreover, O'Donovan (2002) conducted a study on the extend and applicability power of legitimacy theory by investigating to what extent annual report disclosures is interrelated to: attempts to gain, maintain and repair legitimacy. The study conducted a semi-structured interview with six senior personnel from three large Australian public companies (mining, chemical, paper and pulp). The findings support legitimacy theory as an explanatory factor of environmental disclosures. Moreover, Milne and Patten (2002) explored the role that environmental disclosures in annual reports might play in producing a legitimating effect on investors within the context of the chemical industry, USA. They used an experimental investment decision experiments on 76 sample participants from accounting background to generate data. The results from the decision experiment, which indicate that under some circumstances positive disclosures can restore or repair an organizational legitimacy. Further, to explore the links that exist between the legitimizing strategies of firms and the characteristics of the political environment, Archel et al. (2009) expand the scope of legitimacy theory through a detailed analysis of the links that exist between the legitimizing strategies of firms and the characteristics of the political environment. They conducted disclosure analysis on the social and environmental issues of Volkswagen (VW) in Spain from 1986 to 1995. They found that VW used social and environmental disclosure strategically to legitimize a new production process through the manipulation of social perceptions, and that this strategy was supported implicitly and explicitly through ideological alignment with the State.

From, organizational performance point of view, Mobus (2005) examined the relationship between mandatory environmental disclosures and actual environmental performance in the US petroleum refining industry from 1992-1994. The study used legitimacy theory explaining the regulatory non-compliance disclosures that threaten organizational legitimacy and different legitimation strategies for reducing these threats. He found a negative correlation between the mandatory disclosure of environmental legal sanctions and subsequent regulatory violations. Subsequent regulatory compliance is a tactic employed by managers to minimize the delegitimizing effect of organizational impropriety revealed by mandatory accounting disclosures, he added. Moreover, Magness (2006) empirically test legitimacy theory for Ullmann's hypothesis that strategy posture, modified by financial performance, must be considered in light of stakeholder power in order to understand a company's social responsibility disclosure policy. He used annual reports disclosure after major incidents in Canadian mining industry. He analyzed company's press release for 1995 with the environmental disclosure. The study finds that companies that maintain themselves in the public eye through press release activity disclose more information than other companies. However there is no evidence to suggest that disclosure content is moderated by financial performance, he added. Further, Mahadeo et al. (2011) examined corporate social disclosures in annual report on the listed companies in an African developing economy from 2004 to 2007. They used legitimacy theory to interpret the data and result. They found a significant increase in the volume and diversity of corporate social disclosure (CSD). Size and leverage impact on the extent of CSD, whilst profitability and industry affiliation are not significantly linked to CSD, they added. Again, they explained that legitimacy, as a strategic and managerially driven approach favoring symbolic actions, is the prevailing motivation underlying the progression of CSD in Mauritius.

Furthermore, to understand management motivation to disclose environmental information within the annual report in Australian companies, Wilmshurst and Frost (2000) tested legitimacy theory for corporate environmental reporting. They analyzed the link between the importance of specific factors in decision to disclosure environmental information and actual reporting practices. They used mailed survey to the chief financial officers (CFOs). They analyzed 105 companies (among top 500 Australian companies) from chemical, mining and resources, oil gas and petroleum, transport/tourism, manufacturing, construction, and food and household. They found significant correlations and the analysis provide limited support for legitimacy theory as an explanatory link between identified influential factors in management's decision process and actual environmental disclosure.

The above studies to test legitimacy theory were confined in the developed countries situation and hardly a study test legitimacy theory in the developing counties context (except Branco and Rodrigues, 2008) particularly in the banking industry. Further, the prior research failed to explore interceding variables to legitimacy theory, that of 'proximity to end users', and stakeholder initiatives at the growing stage of sustainability reporting. Although, Campbell et al. (2006) examined legitimacy theory from 'proximity to end users' aspects by explaining whether high and low 'public profile'[10] companies disclose more community information. They contention that "companies with higher public profiles – those most vulnerable to changing social opinion – would be the most likely not only to undertake community activities but also to report on them (p, 98)". Their study findings to 'higher public profile' were confined to retailers, brewers, and petrochemicals, which cannot be generalized to the service industries. Moreover, their study was limited to measure community disclosures only and failed to test whether the intensity of 'proximity to end users' for higher public profile companies has influence in corporate social disclosure. The current study fills this gap in the legitimacy theory literature.

ii) Research of legitimacy theory to managerial attitudes in legitimation strategies

The literature on perception and attitudes in legitimation strategies to corporate social reporting can be cluster in two broad categories – managerial and non-managerial (e.g. society, community, NGOs).

From the developed world perspectives in studying managerial perception was confined to generic explanation of corporate social reporting (such as Quazi, 2003; Cacioppe et al., 2008; Adams and Forst, 2008) exception to O'Dwyer (2002) which is described from the lens of organizational legitimacy. O'Dwyer (2002) interprets managerial perceptions of corporate social disclosure presence and absence

[10]Companies that have directly interacted with the customer they have higher 'public profile' in part.

through the lens of organizational legitimacy theory. The study conducted 29 semi-structured interviews in 27 Irish public limited companies. The study found that disclosure may occasionally form part of a legitimacy process, ultimately this is misguided, as it is widely perceived as being incapable of supporting the achievement of a legitimate state. Consequently, for many managers, the continued practice of social disclosure is deemed somewhat perplexing, the study added. Nevertheless, from the non-managerial perspective of studying corporate social reporting in the developed world, Campbell et al. (2003) used legitimacy theory to explain society's perception in social and environmental reporting in the UK. Campbell et al. (2003) basically examined environmental and social reporting in five companies representing three FTSE sectors (tobacco, brewing, and retailing), which are selected according to an intuitive understanding of society's perceptions of their depth of 'sin' or supported unethical behavior. They analyzed annual reports for 22 years (from 1975 to 1997) and test legitimacy theory. They found that legitimacy theory may be an explanation of disclosure in some cases but not in others. However, O'Dwyer et al. (2005) presented an in in-depth investigation of non-governmental organizations' (NGOs) perceptions of CSD (corporate social disclosure) in Ireland but limited to interpret their result from the legitimacy theory perspectives.

Nevertheless, literature from the developing world perspectives in studying managerial perception was confined to generic explanation of corporate social reporting exception to Bhattacharyya (2014) which is described from the lens of organizational legitimacy. Bhattacharyya (2014) examined the Australian and Indian managerial attitudes towards social responsibility to assess their support for, factors shaping their belief and attitudes, and compares differing attitudes among respondents in the counties. They investigate 318 Australian and Indian managers drawn from three industries (Chemical, Industrial Engineering and Pharmaceutical, and Biotech) by using legitimacy theory. They found Indian respondents are concerned about a greater range of social issues than Australian respondents to legitimize their existence. The studies in investing the managerial perceptions in CS reporting and practices are also popular in developing world. Studies such as Ismail et al. (2014) and Rashid and Ibrahim (2002) in Malaysia; Al-Khater and Naser (2003) and Rettab et al. (2009) in Qatar; Costa and Menichini (2013) and Aburge (2014) in Italy are mentionable, however, are away from interpreting legitimacy theory contemplation. Moreover, from the non-managerial perspective Narwal and Sharma (2008) conducted a study in India which is also away from legitimacy theory explanation.

The study on the managerial and non-managerial perception also becomes prominence among the academics in Bangladesh. Studies such as Belal and Owen (2007) on stakeholder engagement, Islam and Deegan (2008) on the perception on the pressures of stakeholders groups, Moyeen and West (2014) on the attitude and perception of senior managers, and Islam and Dellaportas (2011) on accountants' perception in CS reporting and practices are mentionable. Nevertheless, from the non-managerial perspective, Belal and Robert (2010), Momin (2013) for NGO are notable.

All of the above studies on exploring perceptions of corporate social reporting either in the developed or developing countries were confined to manufacturing and NGOs only and hardly a study investigate the concept of legitimacy theory in explaining managerial and non-managerial perception, particularly in the banking industry. Studies that narrate legitimacy theory such as O'Dwyer (2002) and Campbell et al. (2003) were limited to the developed countries manufacturing industry. This study adds legitimacy theory literature gap in exploring the concept of legitimacy theory in explaining perception in corporate social reporting from developing country's banking industry.

Further, no study so far conducted particularly in the banking industry to narrate the concept of legitimacy theory in explaining the perception of corporate social reporting. Studies such as Adams and Forst (2008), Belal and Owen (2007), Rashid and Ibrahim (2002) that includes sample interviewee in their study, however, it is limited only and failed to explain legitimacy theory to describe stakeholder perceptions to corporate social reporting. However, studies such as Khan and Ali (2010) and Dusuki and Dar (2007) conducted a perception study in the banking industry that is also away from legitimacy theory aspect.

3.5 Variables of legitimacy theory

Based on the above theoretical ground and literature review on the legitimacy theory studies, the core concept of legitimacy theory can be explained by Figure-6. The central premise or core concept (Deegan, 2002) of legitimacy theory is grounded on 'social contract' which could be codified social contract and un-codified social contract (Deegan and Umerman, 2011) represented by community expectations. To be congruent with the community expectations, corporate took different legitimation strategies by disclosure (Deegan et al., 2002).

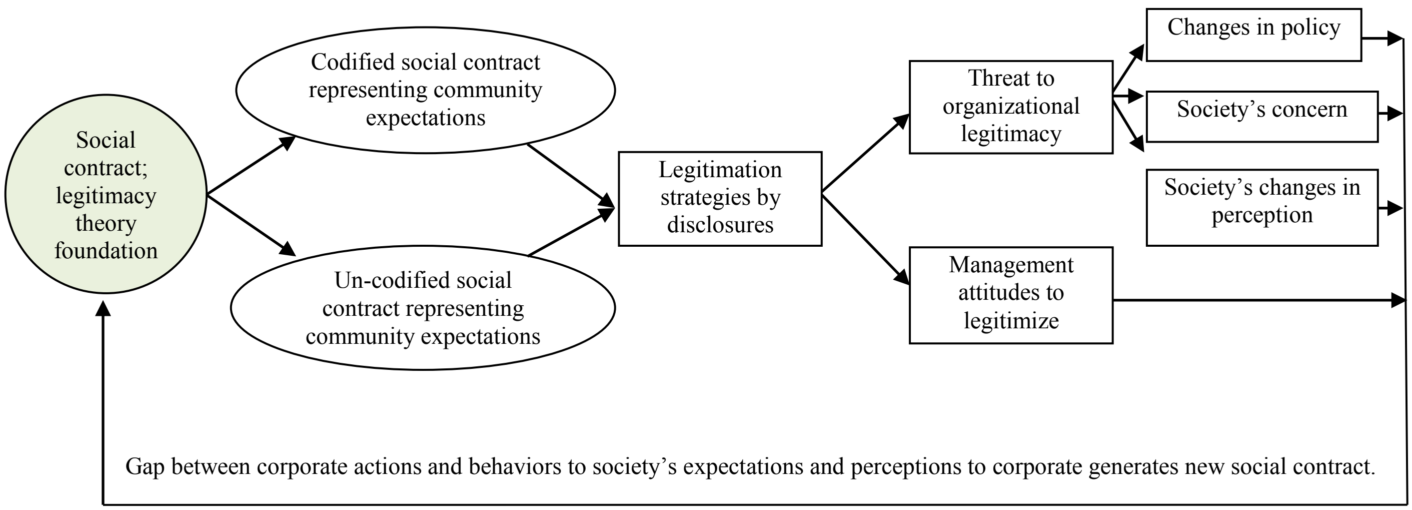

Figure-6: Fundamental concept of legitimacy theory (LT); Source: The author

i) Major variables

Further, from the above backdrop, two broad theoretical variables can be summed these are – issues or variables as threat to organizational legitimacy, and management attitude in legitimization strategies.

Theoretical variables from the threat to organizational legitimacy might be changes in policies (Honger, 1982), external forces such as economic, social, and political (Guthrie and Parker, 1989), sudden incidents (Patten, 1992; Deegan et al., 2000), resource flow to stakeholder influences (Tilling and Tilt, 2010) (Table-5). Further, theoretical variables from society's concerns and changes as a threat to organizational legitimacy might be media attention (Brown and Deegan, 1998; Deegan et al., 2002; Islam and Deegan, 2010), society's perceptions and expectation (Campbell et al., 2003), public profile to represent community expectation (Campbell et al., 2006), and regulatory non-compliance that threaten organizational legitimacy and environmental performance (Mobus, 2005). From the corporate performance criteria studies such as social disclosure for public visibility (measured by media) with financial performance (Magness, 2006), CSR disclosure and financial performance (Mahadeo et al., 2011), and public visibility (size variables) and social disclosure (Branco and Rodrigues, 2008) used legitimacy theory to explain community changes (Table-2).

Nevertheless, from the management attitudes in legitimization strategies, the theoretical variables might be managers' perceptions and attitudes (Whilmshurst and Frost, 2000; O'Donovan, 2002), and motives (O'Dwyer, 2002) legitimization effect on investors (Milne and Patten, 2002), and legitimization strategies and characteristics of the political environment (Archel et al., 2009). It is very difficult to frame in a single bound of management attitudes and perceptions because of variation of attitudes among the chief executive officers (CEOs), managers and non-mangers. Basically, it depends on whether corporate wants to gain, maintain or repair strategy (Suchman, 1995) (Table-2).

Table-2: Variables of legitimacy theory

Studies	Theoretical variables	Surrogate variables/issues/methods
Honger (1982); Guthrie and Parker (1989); Mobus (2005); Archel et al., (2009); Tilling and Tilt (2010).	Changes in policies/ External forces such as economic, social, and political/ regulatory non-compliance/ legitimization strategies and characteristics of the political environment/ stakeholder influences	Social and environmental policies/ legal sanctions and laws/ structural changes; stakeholder initiatives.
Patten (1992); Brown and Deegan, (1998); Deegan et al. (2000); Deegan et al. (2002); Magness (2006); Islam and Deegan (2010); Tilling and Tilt (2010).	Sudden incidents/ Concern for particular social and environmental issues.	Media
Milne and Patten (2002); Campbell et al. (2003); Campbell et al. (2006); Branco and Rodrigues (2008); Mahadeo et al. (2011).	Society's perceptions and expectation/ public profile/ public visibility/ legitimization effect on investors.	Proximity to end-users analysis/ size variables.
Whilmshurst and Frost (2000); O'Donovan (2002); O'Dwyer (2002).	Managers' perceptions and attitudes/ motives/ decision to disclose and actual performance.	Interview

Based on the nature of study and the variables of legitimacy theory, the theoretical variables of legitimacy theory can be clustered into four thoughts. These are changes in policies, society's concerns, society's changes in perception, and management attitude and perception in legitimization strategies. First thought of theoretical variable is related to *changes in policy* that can be explained best by studying disclosure trend analysis in a longitudinal aspect with changes in economic-socio-cultural and political environment and the surrogate variables are social and environmental policies, legal sanctions and laws, structural changes in the industry, and stakeholders initiatives.

The second group of thought to explain theoretical variables of legitimacy theory is *society's concern* for particular social and environmental issues or incidents. By analyzing the extent of media attention/media coverage/ press release to social and environmental disclosure as a legitimation of the corporate can be studied. Media is the key surrogate variable to explain society's concern for a particular social and environment incident of this thought.

Again, changes in society's perceptions and expectation therein *society's changes* is the third thought of theoretical variables of legitimacy theory. The society's changes can be represented by proximity to end-users analysis or analyzing size variables. Further, society's changes can be studied by disclosure trend analysis or experimental perception analysis to the community about their attitude to the company if/not engaged in social and environmental initiatives or linking size variables (e.g. total assets, total revenue, total number of employees, etc.) to disclosure analysis to explain corporate legitimation to the community expectations. Moreover, 'age' variable can be explained to link community changes in perception. While aging the company, the community perception and attitudes also changes towards the company which is also a legitimate factor that has not been explained inclusively in the earlier literature.

The fourth thought of theoretical variable to legitimacy theory is *management attitudes* or motives in legitimization strategies by disclosure. Interview is the best suited method to study management attitudes and perception in corporate social disclosure. However, mail questionnaire or experimental analysis is also can be used to explain management attitudes in legitimization strategies.

ii) Variables of legitimacy theory to this study

Any changes in policies including laws/legal sanctions, structural changes in the industry, political environment, and stakeholder influences are the variables (the first area to examine legitimacy theory) that can be explained as factors of legitimation of the corporate. These variables are explained as a threat to organizational legitimacy. Moreover, this area of study is applicable in manufacturing as well as service industry irrespective in developed or developing country. This study considers *stakeholder initiatives* as a proxy to changes in policies and conducts disclosure trend analysis from longitudinal aspects similar to earlier studies (e.g. Guthrie and Parker, 1989; Archel et al., 2009).

The second area to examine legitimacy theory variables is *society's concern* as a threat to organizational legitimacy. Media attention is explained as the key surrogate variables as a proxy to society's concern. This area of study basically explains the corporate legitimization after sudden social and environmental incidents happen. All of the earlier studies (e.g. Brown and Deegan, 1998; Deegan et al., 2000; Deegan et al., 2002; Magness, 2006) explain media attention as a legitimacy variable after sudden incidents in the manufacturing industries as the incident has direct impact on the environment and community concern therein. Sudden incidents such as ALASKAN oil spill, Exxon Valdez and Bhopal disaster, oil spill, and other chemical contamination. Unlike manufacturing company, the 'media' as a legitimacy variable is not directly applicable to the financial institutions in two logical grounds. One, any kind of financial incidents/scam have no direct impact on the environment, however, it has economic impact on the society and these incidents/scam have no effect on the individual financial transaction behavior. Two, financial incidents/scam is not an incidents rather it is an effect of long-run unrolling financial investment decision, for example, Lehman Brothers (USA) bankruptcy was due to unrolling subprime mortgage crisis for long term. In case of any financial incidents/scam, the companies cannot regain/repair their market image because of the fund crisis by using 'media' as legitimization variable. Hence, this study does not use 'media' as a surrogate variable to explain legitimate behavior of banks, however, can be used carefully to explain society's concern for particular business case.

The third area of examining legitimacy variables is *society's changes* as a threat to organizational legitimacy. Changes in society's expectation and perception can be examined by 'proximity to end-user' analysis (e.g. Campbell et al., 2006; Branco and Rodrigues, 2008) or analyzing size variables (e.g. Branco and Rodrigues, 2008). Moreover, 'age' of the firm can also be used as a proxy to *society change in perception* as companies are aging the society's perception to the companies are changes over time. This study uses 'proximity to end-users' and 'age' as legitimacy variables to measure corporate attempts to legitimize society's expectations.

Finally, management attitudes or motives in legitimization strategies differ from industry to industry, country to country and situation to situation. Earlier studies (e.g. O'Dwyer, 2002) documented that interview is the best suited method. This study uses 'direct interview method' to extend and interrogate the use of legitimacy theory to infer bank managers' perceptions in corporate social reporting.

From the above backdrop, this study uses three groups of thoughts of legitimacy theory variables – *changes in policy*, *society's changes*, and *management attitudes in legitimation strategies*. As '*society's concern'* is another thought of legitimacy theory variables that is not directly applicable to the financial institutions, this study does not consider it to explain threat to organizational legitimacy.

The next chapter explains the descriptive analysis of longitudinal study findings of corporate social reporting and practices in the banking industry of Bangladesh.

Chapter-4: Corporate Social Reporting and Practices in Bangladesh: Descriptive Analysis

The first objective of this study is to examine the development of corporate social responsibility reporting in the banking industry of Bangladesh. The following sub-sections include research design, development of corporate social reporting, analysis of individual thematic item, and findings and discussions.

4.1 Research design

The research design of the descriptive analysis study includes sampling and data collection, content analysis, reasons to choose annual report, longitudinal study, and method of data analysis that described in the following sub-sections respectively.

Sampling and data collection: This study uses Dhaka Stock Exchange (DSE) listed banks in Bangladesh for 10 years from 2004 to 2013 and analyzes 282 annual reports. Currently (April, 2016), 30 (out of 56) banks are listed in DSE. The DSE listed banks and number of banks analyzed over the years are as follows (Table-3):

Table-3: Sample organizations analyzed

Year	DSE listed banks	Sample size/ population
2013	30	30
2012	30	30
2011	30	30
2010	30	30
2009	30	30
2008	30	30
2007	29	29
2006	25	25
2005	24	24
2004	24	24
Total	282	-

Source: Dhaka Stock Exchange (DSE), Bangladesh

Moreover, the DSE listed banks can be classified into two categories – conventional and Islamic banks bases on the banking operation. Again, basing on the ownership pattern it can also be divided into two– private commercial banks and state-owned commercial banks (Table-4).

Table-4: Categories of banks under DSE

Banks in nature	Listed in DSE (Year 2016)
Conventional banks	23
Islamic Banks	7
Total	30
Private commercial banks	29
State-owned commercial banks	1
Total	30

Source: Dhaka Stock Exchange (DSE), Bangladesh; April, 2016

In Bangladesh, the Corporate Governance (CG) compliance reporting started as mandatory regulatory requirement by the Securities and Exchange Commission (SEC) since 2006 by a notification number SEC/CMRRCD/2006-158/admin/02-08 on 20th February which is issued under the section CC of the SEC Ordinance, 1989. The rational to select 2004 as a base year is to see the reflection of governance in the banking section before and after the regulatory initiatives. Moreover, in 2008, to mainstream CSR in banks and financial institutions in Bangladesh, Bangladesh Bank (BB) issued first voluntarily guidelines by the Department of Offsite Supervision (DOS,) on 1st June (circular number-2). However, it is mentioned in the circular that-

> "While adoption is voluntary and not mandatory, Bangladesh Bank shall monitor CSR adoption and CSR performance of banks and financial institutions, as an additional dimension of their management performance."

ISO26000[11] has been used as a basis for data coding. For selecting ISO26000, a step-by-step procedure has been followed. Firstly, select ISO26000 as a basis followed by preparing a comparison table among ISO26000, GRI guidelines, and Global Compact (GC). Then after, some country and industry specific coding items have been selected with considering previous literature. The disclosure content (Appendix-1) then finalize with the necessary adjustments with the ISO26000 disclosure content (Figure-7).

[11] ISO released its first version in 2010 as 'ISO 26000: Guidance on social responsibility' that provides guidance to all types of organizations regardless of their size or location on concepts, terms, definition, principles and practices, and the core subjects and issues of social responsibility (www.iso.org). ISO26000 on 'corporate social responsibility reporting' is wider and specified by categories compared to GRI-G4 and GC, and mostly the reporting themes are same (Appendix-1). Nevertheless, this study is conducted from 2004 which is before the birth of ISO26000, that does not affect this study consideration in adoption of ISO26000 in the firms because ISO standards are designed based on the current and previous practices around the globe. Further, the process, practices, and reporting of corporate social responsibility issues are not new in the corporate world; though, it was not in the form of current sustainability reporting, that the corporate now practicing. This is not ISO legitimation rather organizations' legitimization to corporate social responsibility issues and concepts to be congruent with the society's expectations.

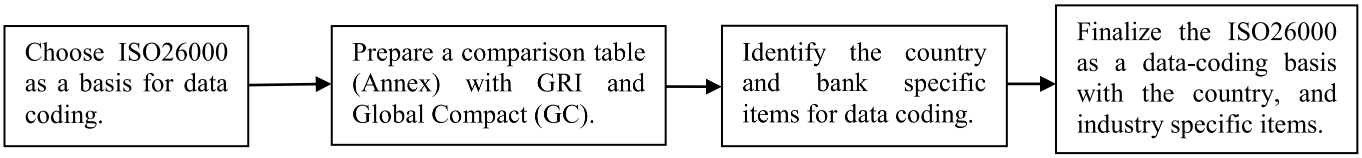

Figure-7: Method to choose disclosure content
Source: The Author

ISO26000 CSR disclosure items have been used to analyze the report with additional eight issues – CSR in vision/mission/strategic priority/code of conduct, top level commitment/message from CEO/President, corporate governance, lending risk management, internal control and compliance/audit committee/shariah committee, and stakeholder engagement- are incorporated under the organizational governance in support with the country specific culture and the nature of the industry. Again, a separate chapter is added on "Green and Sustainable Banking" with the disclosure content of ISO26000 as BB issued mandatory Green Banking circular (number-2, by Banking Policy and Regulatory Department, BRPD, on 2 February) in 2011. In total, this study identified 46 items (37 as reporting checklist. In fine, a coding guideline (Appendix-2) has been prepared based on the ISO26000.

Content analysis: This study uses content analysis for data collection. Most of the prior studies have focused on the disclosures in the annual reports, either as a proxy for social and environmental responsibility activity, or as an item of more direct interest (Milne and Adler, 1999). Again, they asserted that the most commonly used research method in this aspect is content analysis. Content analysis is a method of codifying the text or content of a piece of writing into various group or categories depending on selected criteria (Weber, 1988). Thus, the essential stage of content analysis is to decide which documents are to be used (Krippendorff, 2004).

Choosing Annual report: This study uses annual report for content analysis. Prior studies emphasized annual report is an important document in CSR due to high degree of credibility to the information within them (Tilt, 1994). Moreover, Deegan's (2002) review of prior literature has specifically found that corporate annual report disclosure is a tool for maintaining legitimacy. Annual reports as tool to content analysis is used in different studies for CSR reporting and analysis (e.g. Deegan and Rankin, 1996; Hackston and Mile, 1996; Adams and Harte, 1998). However, there is an insightful debate on measurement techniques (Unerman, 2000) explaining which techniques used in earlier research. Such as percentage of pages (Adams, et.al. 1998; Guthrie and Parker, 1990; O'Dwyer and Gray, 1998), number of pages (Cowen, et.al. 1987; Deegan and Rankin, 1996), number of sentences (Hackston and Mile, 1996; Tsang, 1998); and word counts (Deegan and Rankin, 1996; Deegan and Gordon, 1996; Neu, et.al. 1998).

However, this study uses relevancy of the CS reporting items in the annual report as a basis of analysis, moreover, number of pages has been count to understand the trend of the CS reporting and practices in supporting to the research findings. Again, another reason for choosing annual reports is that it the most widespread and accepted document that is published regularly by the companies in Bangladesh. Studies such as Belal (1999, 2001), and Khan et al. (2009) illustrated that annual reports are considered as the major means through which information about the company is communicated. Further, the banks in Bangladesh rarely publish separate sustainability report rather they incorporate sustainability reporting as a part of annual report, which is another key reason to consider annual report for this study.

Longitudinal study: Due to country differences, Parker (1986) and Guthrie and Parker (1989*)* have identified that attention needs to be given to the time dimension and that both disclosure practice and researchers' interest and focus were not time-invariant. Longitudinal studies such as Guthrie and Parker (1989) for 100 years on mining/manufacturing industry in Australia; Gray et.al., (1995a*)* 13 years on UK companies; Unerman (2000) for 100 years of Shell's corporate (energy and chemical company) in UK; Tsang (1998) for 10 years in Singapore for banking, food and beverage, and hotel industries; Sharif and Rashid (2014) for 6 years of banks in Pakistan and Sobhani et al. (2011) for 10 years of two banks in Bangladesh are mentionable.

Data analysis: This study considers categorization case for the CS disclosure as per ISO26000. In ISO26000, there are seven categories – Organizational Governance (OG), Human Right (HR), Labor Practices (LP), The Environment, Fair Operating Practices (FOP), Consumer Issue (CI), and Community Involvement and Development (CID). In addition to the ISO26000, a separate categorization on "*Green and Sustainable Banking (GSB)*" is considered. Under these eight broad thematic items, total *forty-six* items have been coded for this study.

This study constructs CS reporting index. In this case, an item which is disclosed by the company was coded "1" and "0" if it is not disclosed or irrelevant to this study. In other words, this study considers that if the company discloses the item of CS reporting (e.g. corporate governance) in the annual report, it awarded "1" and otherwise "0." The score of the items then added up to get ultimate score for the company. The CS disclosure index for CS reporting thus measures the total disclosure for the company as follows:

$C_{CSRI} = \sum d_i^{46}/n_j$ -------------equation (i)

Where, C_{CSRI} is the Company's Corporate Social Reporting Index. . n_j is the maximum likely disclosed item which is equal to 46[12] and d_j is the number of item(s) disclosed by a particular company (1, if the item is disclosed and 0, if the item not disclosed). To get a CS disclosure index for a company, the score of items is added then the total is divided by the maximum likely score (46), that are multiplied by 100 to have index. For example, if a company discloses an item (1) out of 46 items, the disclosure index of that company will be 2.17 ($^1/_{46} \times 100$) (approximately). Then, an industry disclosure index based on the following equation has been calculated.

$I^j_{CSRI} = \sum C^j_{CSRI}/n^j$ ---------equation (ii)

Where I^j_{CSRI} is the Industry's CS Reporting Index for j^{th} year

$\sum C^j_{CSRI}$ = Sum of the Companies' CS Reported Items in j^{th} year

n^j = Maximum likely disclosure item of j^{th} year of the industry (here maximum likely score is number of variables X number of companies analyzed)

Suppose, the sum of the companies' CS reported items for the year 2013 is 810 and the maximum likely disclosure item for the same year is 1380 (46 ×30). Thus, the industry's CS reporting index for the year 2013 is 58.70 (approximately) ($^{810}/_{1380} \times 100$). In the same manner, the years' industry index has been calculated using the equation (ii).

Again, aggregate CSR disclosure indices have been calculated for the eight thematic items - Organizational Governance, Human Right, Labor Practices, The Environment and environmental risk management, Fair Operating Practices, Consumer Issue, Community Involvement and Development, and Green and Sustainable Banking - by first adding the items disclosed by each of the company under the same thematic areas then add the total items disclosed under the same thematic item by all of the companies followed by, dividing the maximum likely score of each thematic item in a particular year. Thus, the aggregate disclosure indices for the eight individual thematic items are as follows:

OGRS[13] $=\sum d_i^{180}/n_j$---------------------equation (iii)

HRRS $=\sum d_i^{240}/n_j$-----------------------equation (iv)

LPRS $=\sum d_i^{150}/n_j$-------------------------equation (v)

[12] Under the eight broad thematic items based on ISO26000 the distribution of 46 items for coding are organizational governance (6), human right (8), labor practices (5), the environment and environmental risk management (4), fair operating practices (5), consumer issues (5), community involvement and development (8), and green and sustainable banking (5).

[13] RS is reporting score which is same for other individual thematic item.

ERS $=\sum d_i^{120}/n_j$--------------------------equation (vi)

FOPRS $=\sum d_i^{150}/n_j$----------------------equation (vii)

CIRS $=\sum d_i^{150}/n_j$------------------------equation (viii)

CIDRS $=\sum d_i^{240}/n_j$-----------------------equation (ix)

GSBRS $=\sum d_i^{150}/n_j$-----------------------equation (x)

Here, OGRS, HRRS, LPRS, EERMRS, FOPRS, CIRS, CIDRS and GSBRS are the aggregate Organizational Governance, Human Right, Labor Practices, The Environment and environmental risk management, Fair Operating Practices, Consumer Issue, Community Involvement and Development, and Green and Sustainable Banking reporting index respectively.

The calculation of aggregate disclosure index is same as the calculation of CS reporting equation-(i). However, the maximum likely possible scores vary from the individual thematic item to item. The maximum likely possible scores are found by multiplying the reportable items under the thematic variables to total banks for particular year, for example, for year 2013 total banks are 30. Suppose, for the year 2013, the maximum likely reportable score of OGRS is 180 (for equation-iii), which is found by multiplying 6 (number of reportable items) with 30 banks. Similarly the maximum likely reportable score of HRRS, LPRS, EERMRS, FOPRS, CIRS, CIDRS and GSBRS would be 240 (8×30), 150 (5×30), 120 (4×30), 150 (5×30), 150 (5×30), 240 (8×30), and 150 (5×30). The numbers of reportable items are based on ISO26000 reporting guidelines with some country and industry specific items (Appendix-1).

4.2 Development of corporate social reporting

This study presents descriptive statistics on the trends that indicate separate chapters on CS and/or green banking in the annual report. In Bangladesh, except Bank Asia and Trust Bank, all banks report CSR and/or green banking activities as part of the annual report. Bank Asia started separate sustainability reporting in 2012, while Trust Bank started doing so from 2013 based on the GRI guidelines. No other banks in Bangladesh follow either ISO26000 or GRI guidelines; however, Dhaka Bank has announced their commitment to follow ISO26000 (*Dhaka Bank Limited, Annual Report, 2012*). This study finds that in 2004, only one bank had a separate chapter on CS reporting in the annual report; however, this number increased over the years and peaked at 25 in 2013 (Table-5). Moreover, this study finds that the number of pages devoted to CS reporting compared to the total number of pages of the annual reports (in percentage) also increased (albeit negligibly) over the years, so as to address the community requirements.

Table-5: CS reporting in terms of percentage of pages as compared to total number of pages of the annual reports

Year	Total no. of pages in annual reports	Separate chapter on CS/green reporting (by banks)	Total no. of pages on CS reporting in annual reports	No. of pages on CS reporting compared to total no. of pages of annual report (in %)
2004	1794	1	11	0.61
2005	2113	2	21	0.99
2006	2388	4	38	1.59
2007	3153	7	53	1.68
2008	3638	10	72	1.98
2009	4203	13	115	2.74
2010	5417	17	129	2.38
2011	6588	22	228	3.46
2012	7247	24	303	4.18
2013	7731	25	307	3.97
Total	44272	125	1277	
Minimum	1794	1	11	
Maximum	7731	25	307	
Mean	4427.2	12.5	127.7	

Source: Calculations based on the coded data

In examining the development of CSR reporting in the banking industry, this study coded 46 items (shown in the Appendix-1) each year for 10 years. The development of CSR reporting from 2004 to 2013 is displayed in Figure-8. Figure-8 shows that CSR disclosure index in Bangladesh's banking industry increased over the years by about 40 from 2004 to 2013. In 2004, the industry's disclosure index was 18.75, which increased linearly to 24.70 in 2006. The year 2006 was a turning point for CSR disclosures in Bangladesh, this trend continued over the following years, which supports the legitimization of the new process of reporting organizational activities. The development of CSR reporting crossed the linear trend in 2007 and peaked in 2011. The legitimacy reason for the trend of the industry disclosure is the regulatory initiatives in CS reporting and practices.

The first structured initiative for CSR disclosure was taken by the neutral Caretaker Government in Bangladesh during the governance period 2006-2008. Followed by the initiatives, the later governments took initiatives to the development of CSR reporting in the banking industry. The initiatives from the regulators shape largely the CSR reporting development over the periods. Firstly, in 2006, Bangladesh Securities and Exchange Commission (BSEC) issued first circular on the corporate governance, which was a regulatory compliance report that speeded up the total CSR disclosure in the industry. Secondly, Bangladesh Bank (BB) issued its first circular (circular no.-2, by DOS on 1st June 2008) on 'mainstreaming CSR in Banks and Financial Institutions) voluntarily. Thirdly, the another remarkable initiative by BB on "Green Banking" by issuing a circular (number-2, by BRPD, on 2 February) to all banks and financial institutions in 2011 where BB asked all banks and financial institutions to report GB initiatives mandatorily and provides guidelines on how and when to implement the CSR commitments by other circular (number-2, by BRPD, on 2 February 2011). In 2013 (April), BB open separate department named Green Banking & CSR Department (GBCSRD) for monitoring and supervising CSR reporting practices by the banks (GBCSRD Circular no. 1, April 13, 2013). In the circular it is mentioned that --

> "It has now been decided that banks shall submit the above mentioned reports to newly established Green Banking & CSR Department (GBCSRD) instead of BRPD and ACFID. Banks will be required to continue to submit quarterly reports on green banking, half yearly reports on school banking within the next 15 days of the respective quarter and half year end and CSR activities within the next 30 days of the respective half-year end. Banks shall keep their annual reports and websites updated with the disclosures on green banking, school banking and CSR activities/initiatives."

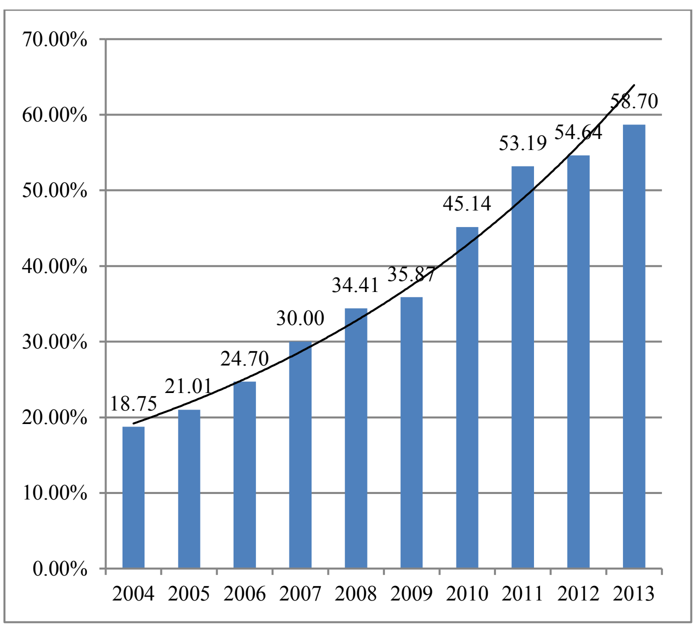

Figure-8: Trend of industry disclosure index in CS reporting from 2004 to 2013
Source: Calculations based on the coded data

Deegan (2002), there could be several motivations simultaneously driving organizations to report social and environmental information; one of them is to comply with the industry requirements or a particular code of conduct and/or as a result of certain threats to the organization's legitimacy. This study finds that the banking industry's CS reporting practices increased in order to comply with the industry requirements that are shaped by the regulatory initiatives, so as to protect the organization from threats to its legitimacy.

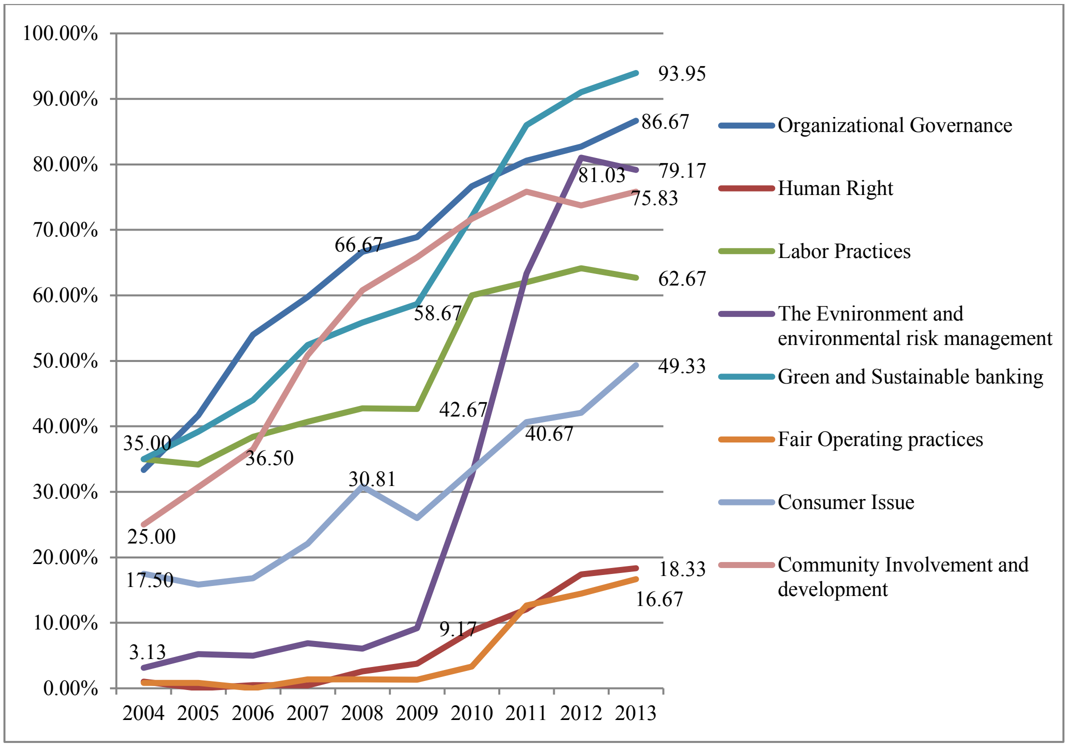

Figure-9: Trends of CS reporting index of the individual thematic item from 2004 to 2013
Source: Calculations based on the coded data

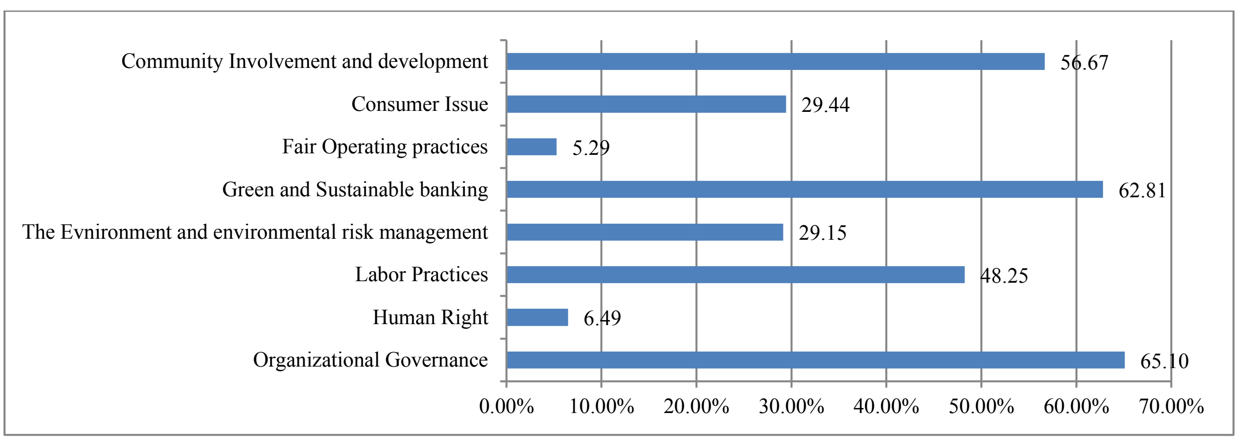

Figure-10: Average disclosure of the individual thematic item from 2004 to 2013
Source: Calculations based on the coded data

Figure-9 demonstrates the development in CS reporting index of the individual thematic items over 10 years. This study reveals that green and sustainable banking is the highest disclosed item, which witnessed a sharp increase in reporting from 35% to 94% since 2006, followed by organizational governance. The reporting of the latter was slightly lower than that of the green and sustainable banking at 33.33% in 2004; however, it increased remarkably to about 87% in 2013. On average, organizational governance is the highest disclosed item, followed by green and sustainable banking. The environment and environmental risk management is the third highest disclosed item in 2013 (around 80%), while it was the third lowest item in 2004 (3.13%). However, from 2009, the disclosure of environmental items radically changed and reached around 80% in 2012. Figure-10 represents the average position of the CSR reporting of the individual thematic item. On average 65% companies disclose organizational governance issue which is the highest followed by the green and sustainable banking by 62.81%, while fair operating practices is the lowest (5.29%) disclosed item by the companies in Bangladesh.

This study also prepares a list of the most and lowest reporting items that corporate disclosed. Figure-11 indicates the five most while figure-12 explains the lowest aggregate reporting score by the companies over ten years. Among the 46 reported items, this study finds that human development and training in the workplace is the most disclosed item followed by internal control system, risk management, green marketing and online banking, and corporate governance. However, avoidance of complexity is the lowest reported item (only 0.34%) indicating the absence of security arrangements respect to human right, training to security personnel, complaints about the security procedure, and service that human right. Moreover, the other lowest disclosed items are resolving grievances (1.67%), respect for property right (2.01%), human right risk situation (2.53%), and responsible political involvement (3.02%).

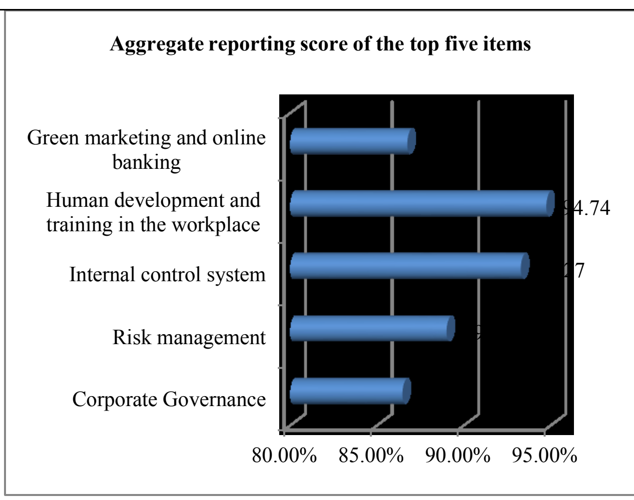

Figure-11: Aggregate reporting score of the top five items in 10 years.
Source: Calculations based on the coded data

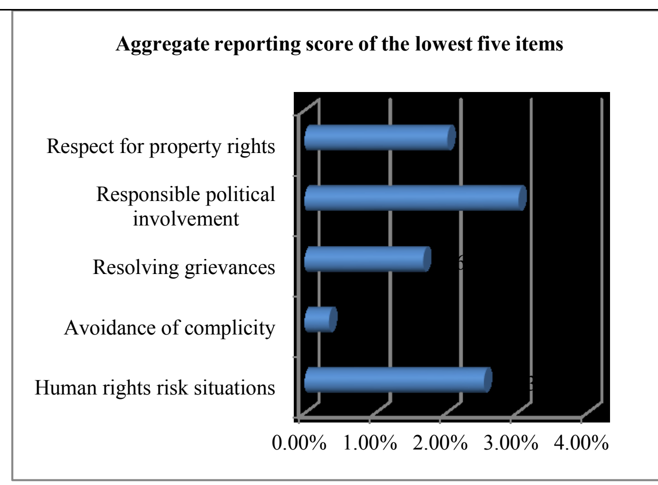

Figure-12: Aggregate reporting score of the lowest five items in 10 years.
Source: Calculations based on the coded data

Companies legitimate corporate behavior by extending their strength in internal human resources, internal control system, and risk management in loan disbursement and reimbursement voluntarily as the requirements to ensure quality in providing banking products and service to the community. Further, companies legitimate corporate governance, and green marketing and online banking issues in responses to the regulators (Bangladesh Bank, Bangladesh Securities and Exchange Commission) requirement to disclose in the annual report voluntarily and report to the regulators mandatorily. Nevertheless, having absence of legitimate reason, companies put lowest emphasis on avoidance of complexity, resolving grievance, respect for property rights, human right risk situation, and responsible political involvement. The legitimate reasons might be the absence of human right policy, weak structure and absence of resolving employee grievance procedure, and absence of trade unionism practice and freedom of opinion expression.

4.3 Analysis of the individual thematic item

This study explains the individual thematic items based on ISO26000 that includes seven individual thematic items – organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues and community involvement and development. Moreover, green and sustainable banking as another broad thematic item has been included for the country and industry specific situation in addition to ISO26000. The findings of the eight individual thematic items are explained below.

Organizational governance reporting: Based on the ISO26000 description of organization governance (OG), this study prepares the sub-categories (Annex: Table-2) corresponding to the country- and industry-specific considerations. Figure-19 presents the development in the reporting of the sub-categories, which is calculated based on equation (iii). This study finds that, on average, OG is the highest disclosed item by around 65% by the banking industry in Bangladesh (Figure-10). However, in 2004, it was around 35%, which was same as the disclosure of green and sustainable banking practices, and in 2013, it scored around 87%, making it the highest disclosed item after green and sustainable banking (Figure-9). However, among the sub-items of OG, this study finds that corporate governance disclosure was only 25% in 2004; this sharply increased over the years as almost all the organizations disclosed the item since 2007 (Figure-13).

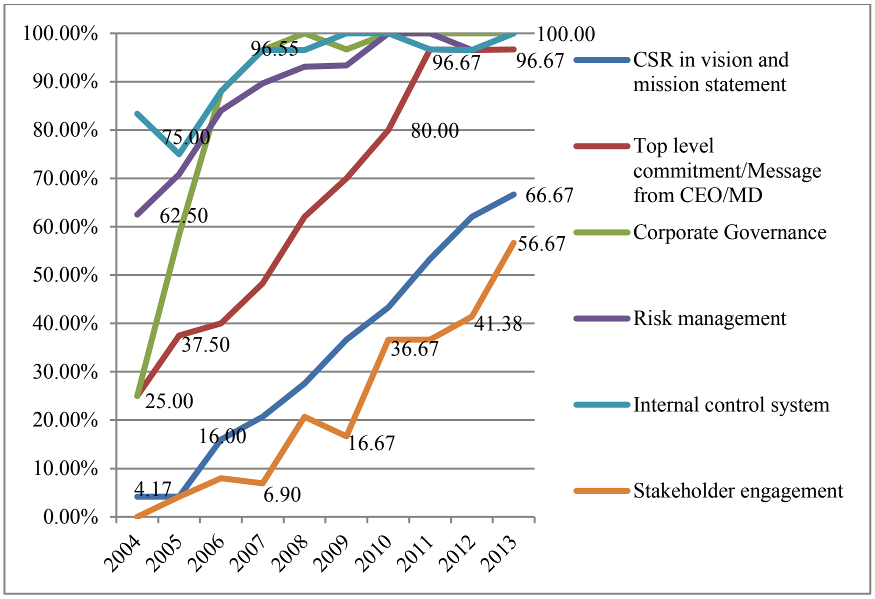

Figure-13: Issues under the individual thematic item – Organizational Governance
Source: Calculations based on the coded data

In Bangladesh, the Companies Act of Bangladesh (GoB, 1994) does not mention a formal corporate governance structure, and there is no "official" code of CG, although the Bangladesh Securities and Exchange Commission (BSEC) issued a brief CG order to the DSE listed companies (SEC, 2006). Moreover, the adoption of SEC (2006) order is not mandatory; rather, it is applicable on a "comply or explain" basis. As the annual reports of 2005 were published in 2006, the companies tended to disclose CG stringently in order to comply with the regulatory initiatives. Before the BSEC initiative, the CG was remarkably low; following the initiatives, the disclosure trend went straight upward to legitimize banking governance.

Khan (2010) found that some CG elements such as non-executive directors and the presence of foreign nationals on the board have a significant impact on the CSR reporting of the Bangladeshi banking industry. Further, Khan et al. (2013) found that CG attributes play a vital role in ensuring organizational legitimacy through CSR disclosures. The current study explains that the organizational governance mechanism might ensures goal congruence with the society's expectations so as to legitimize the organization's operations and induces the company to initiate social and environmental disclosure to legitimize its corporate actions. Moreover, this study finds that the internal control system and risk management were disclosed by most of the banking companies from the very beginning because of the nature of the industry for maintaining and controlling the loan disbursement procedure and the reimbursement of the loaned amount. The organization's legitimization can be best described by the disclosure pattern of CSR in the top-level commitments/messages from the Chief Executive Officer

(CEO)/Managing Director (MD) and CSR in the vision and mission statement, which sharply increased in 2005–2006.

Human rights reporting: Human rights (HR) constitute the lowest disclosed item by the banking companies in Bangladesh, after fair operating practices. On average, only 6.49% of the organizations disclose HR issues (Figure-10). The HR disclosure score is calculated according to equation (iv). The disclosure of HR as a broad thematic item was almost nil until 2009 (similar to that for fair operating practices); however, it reached around 18% in 2013 (Figure-9). Further, from 2004 to 2007, almost no company disclosed HR issues except issues related to HR discrimination and vulnerable group issues; the reporting of these issues started at 4% in 2006 and linearly increased to 57% in 2013, the highest among the reporting items under HR. Similarly, reporting on due diligence, avoidance of complexity, and resolving grievances related to HR issues was almost nil over the years (Figure-14). The human right[14] reporting is not a requirement for the banking industry, which is one reason for lower reporting and there were no initiative to disclose human right issues from any part. Initiatives from any part are important for bolstering the disclosure practices and the companies do not feel any pressure to legitimate human right issues by disclosure in the annual report.

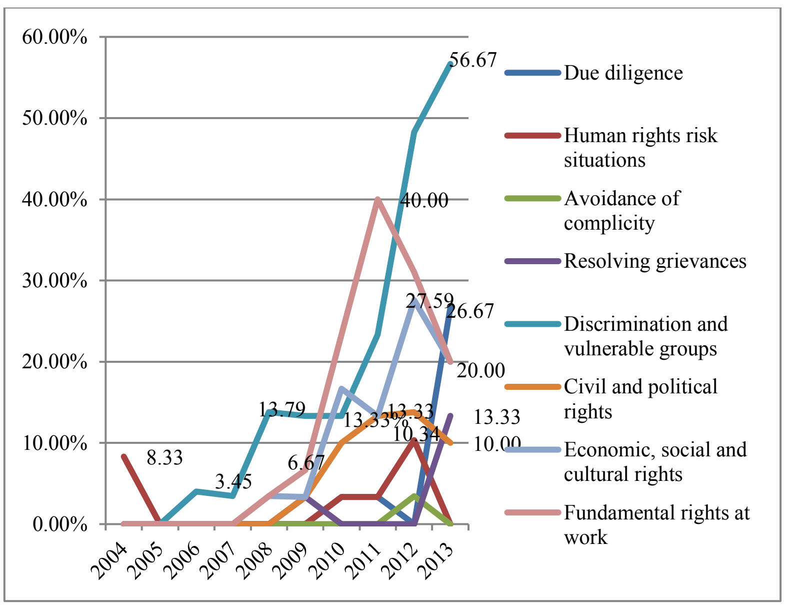

Figure-14: Issues under the individual thematic item – Human Rights
Source: Calculations based on the coded data

[14] However, in Bangladesh, the National Human Right Commission (formed in 2009) is generic to all organizations. The National Human Right Commission does not inquire about the HR reporting of any organization; rather, it inquires and handles issues if any person or organization requests it to do so.

Labor practices reporting: This study finds that around 48% (on average) of the companies disclose labor practices (LP) issues (Figure-10); the reporting score was around 35% in 2004 and reached approximately 63% in 2013 (Figure-9). The LP disclosure score is calculated according to equation (v). Under the broad thematic variable labor practices, this study reveals that the organizations tended to disclose human resources development and training in the workplace by around 96% since 2004 (Figure-15).

Belal (2001)[15] and Sobhani et.al. (2011)[16] explained that companies in Bangladesh disclose human resources issues most. Thought, Belal (2001) study was confined to small sample (15% of the total listed companies) in manufacturing companies and Sobhani et.al. (2011) study was limited with two case banks. The current study consider the full industry with all listed banks in Bangladesh for ten years, however, this study finding is supportive to explain the higher reporting in human resources issues in different reasons. Basically, the decision-making skills of the human resources in banks with regard to mobilizing deposits and organizing lending are highly dependent on the knowledge and experience of the employees working in the banks. The performance of the banks depends on how the human resources mobilize deposits and lend to the right borrowers; therefore, the banking industry emphasized the development of human resources by training from the very beginning. Hence the companies legitimate human resource development disclosure for their business to ensure adept in providing services to the society.

The least preferred item for disclosure by the banking industry is social dialogue; no organizations disclosed this issue until 2008. Reporting on this issue started only in 2009 (3.45% of the organizations). In Bangladesh, there is no trade union or employee association to protect the employees' interests in the listed commercial banks, which is one reason why there is less disclosure on social dialogue-related issues (Figure-15). State-owned banks (which are not listed on the DSE except Rupali Bank Limited) have trade unions and/or employee associations for representation of the employees. The companies do not feel any pressure for legitimacy to the disclosure in social dialogue.

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[15] Belal (2001) described social reporting practices in Bangladesh explain why a particular social disclosure category is more prevalent in Bangladesh. He mentioned that, the reason for the highest number of disclosures in the 'employee' category is probably due to unionized labor forces and the emphasis on workers' welfare in the current Labor Policy of Bangladesh.

[16] Sobhani et al. (2011) found that under the social dimension, the items of human resources were disclosed by the case banks in Bangladesh from the very inception of their operations and the amount of disclosure related to the human resources theme is the highest.

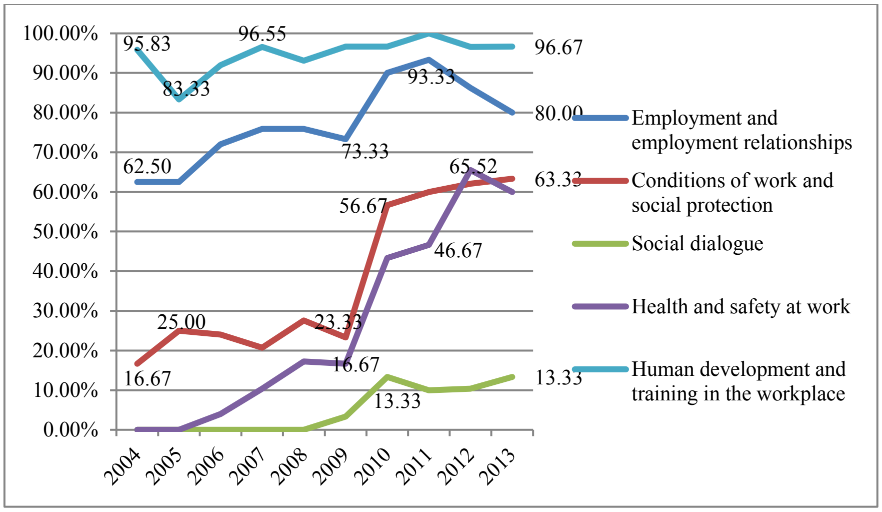

Figure-15: Issues under the individual thematic item – Labor Practices
Source: Calculations based on the coded data

The environment and environmental risk management reporting: The disclosure pertaining to the environment and environmental risk management (EERM) is calculated by equation (vi). This study combines the prevention of pollution, in-house environmental management, and use of sustainable resources as industry-specific features. In addition to the categories in ISO26000, a sub-category "environmental risk management (ERM) policy in financing the project" under this broad issue EERM was included because of the regulatory requirement since 2005. Bangladesh Bank (BB), vide its first Banking Regulatory and Policy Department (BRPD) circular (no-18) advised all banks to implement Credit Risk Grading (CRG) for their borrowing clients as per the Credit Risk Grading Manual (CRGM). The CRGM incorporates 10% weight for "Regulatory Environment & Compliance" as a qualitative factor while assessing the creditworthiness of the projects submitted by the borrowers. This study finds that among the eight broad categories, EERM is the third lowest disclosed item by the banking companies. On average, around 29% of the companies disclose the EERM issues (Figure-10); it was only around 3% in 2004 and peaked at 81% in 2012 (Figure-9). Further, from 2004 to 2009, the aggregate disclosure on EERM was less than about 10% (Figure-9).

Under the broad thematic variable, this study finds that the environmental risk management (ERM) policy and ERM-related issues in financing the project and preventing pollution/in-house environmental management/sustainable resource use had the highest disclosure (around 87%) in 2013 (Figure-16). Moreover, the turnaround change related to the ERM policy was in 2011, when BB issued the Green Banking circular that incorporates ERM policy as well. Moreover, the prevention of pollution/in-house environmental management/sustainable resource, protection and restoration of the natural environment, and climate change mitigation and adaptation were almost nil until 2009; these witnessed a striking upward turnaround since 2009 due to the BB initiatives (in 2008) for disclosing these issues voluntarily. Thus, initiatives rather than regulatory moves are important in the developing stage of CS reporting. However, as part of their own risk management policies, lending institutions are increasingly requiring borrowers to periodically provide various items of information about their social and environmental policies and performance (Deegan, 2002) in order to legitimize their new business process, which is one reason to disclose this issue. Thus, the findings of our study support adoption of the theory of organizational legitimacy as the majority of these peak disclosures are associated with events that are related to legitimizing the organization.

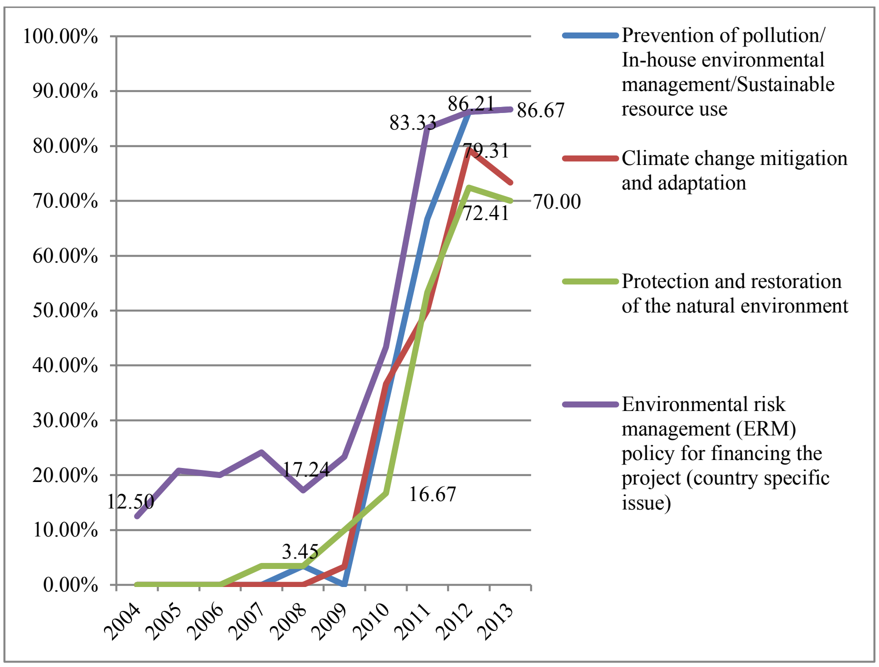

Figure-16: Issues under the individual thematic item – the Environment and Environmental Risk Management
Source: Calculations based on the coded data

Fair operating practices reporting: Fair operating practices (FOP) constitute the lowest disclosed item in the annual reports of the banking industry in Bangladesh. This study reveals that almost no company disclosed issues on responsible political involvement, fair competition, promoting social responsibility in the sphere of influence, and respect for property rights from 2004 to 2010. Except anti-corruption, all the other reporting items were stated regularly since 2011. The highest disclosed item under the broad thematic item is “anti-corruption,” which started at a low rate in 2007 and increased negligibly to 30% in 2013. On the other hand, the lowest disclosed item is respect for property rights, which scored around 3% in 2013 (Figure-17).

From the ground of legitimacy theory, it can be explained that changes in policy (Honger, 1982) is one of the reason to legitimate companies reporting behavior. The disclosure of anti-corruption was found to increase over the period because of some acts that were implemented, such as the Money Loan Court Act, 2003; the Money Laundering Prevention Act, 2012; the Anti-terrorism Act, 2009; and the Whistle blowing Law, 2013 (www.bb.org.bd). Further, the sudden increase of fair competition disclosure from 2010 was also due to influences from the Bangladesh Association of Banks (BAB)[17]. Nonetheless, the less disclosure in responsible political involvement, promoting social responsibility in the sphere influence, and respect for property right due to the less legitimate requirement for the companies in Bangladesh.

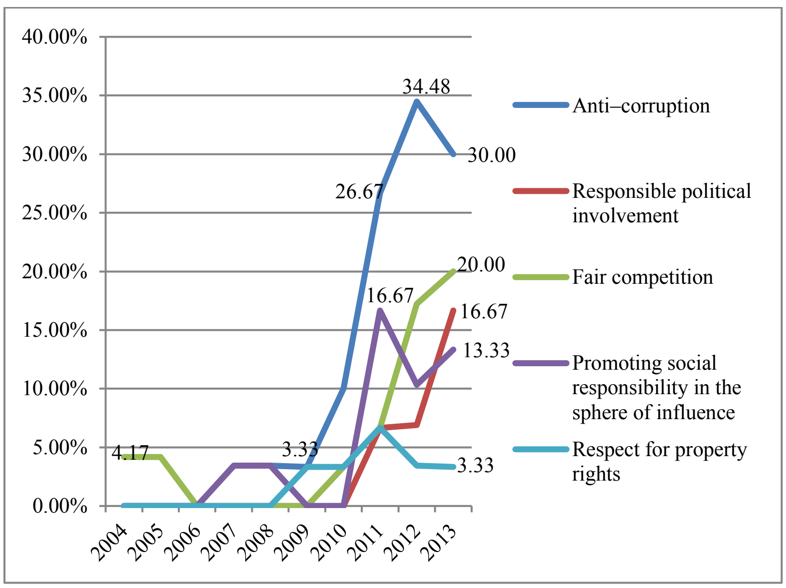

Figure-17: Issues under the individual thematic item – Fair Operating Practices
Source: Calculations based on the coded data

Consumer issues reporting: This study intentionally ignores ISO26000 sub-issue 2 and sub-issue 3 (Appendix-1), which incorporate consumer issues (CI) relating to consumers' health and safety and sustainable consumption, respectively. Unlike the manufacturing industry, the banking industry is not involved in the production of any physical substance that is related to the consumers' health and safety or the sustainable consumption of products, which is one of the reasons why these are not included as sub-categories under the core subject CI. This study finds that, on average, 30% of the companies disclosed consumer issues (Figure-10); the score was around 18% in 2004, and it reached around 49% in 2013 (Figure-9). The disclosure score of CI is calculated using equation (viii). It reveals that the

[17] Bangladesh Association of Banks (BAB) is an association of the owners of the banks in Bangladesh.

highest disclosed item is fair marketing (of products and services), information, and contractual practices, which scored around 93% in 2012. The lowest disclosed item is customer education and awareness (Figure-18). In the interests of the depositors, BB took initiatives to protect customer privacy by issuing guidelines on Information & Communication Technology (not as a disclosure agenda) on October 2005 (www.bb.org.bd), according to which the "protection and maintenance of these assets are critical to the organizations' sustainability. Banks must take the responsibility of protecting the information from unauthorized access, modification, disclosure and destruction to protect customers' interest" which is one legitimate reasons for disclosure on that issue.

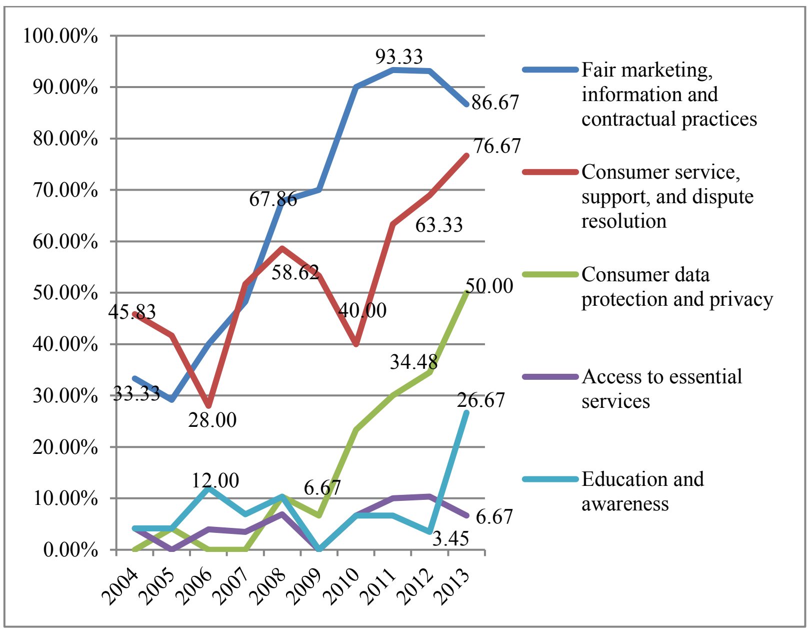

Figure-18: Issues under the individual thematic item – Consumer Issues
Source: Calculations based on the coded data

Community involvement and development reporting: Community involvement and development (CID) is the highest disclosed item after organizational governance and green and sustainable banking reporting. On average, 57% of the companies disclosed CID issues (Figure-9); in 2004, the score was 25%, and it reached 76% in 2013 (Figure-10). This study incorporates support to disadvantage people under the broad thematic variable CID in addition to the ISO26000 category given the rigorous involvement of the banks in Bangladesh in such initiatives. It reveals that community investment is the highest disclosed item over the period under the broad thematic item CID since 2004 (Figure-19). In Bangladesh, the banking industry provides philanthropic donation to schools/colleges/universities/madrasas, hospitals, and charitable organizations (e.g., Anjuman Mofidul Islam is a charitable organization that buries the anonymous dead) as well as health support to the poor and ill, disaster-affected people during floods and cyclones. More than 85% of the organizations disclosed support to disadvantaged people (flood-affected people, cold-stricken people, autistic babies, senior citizens) since 2007. The disclosure related to education and culture, which support disadvantaged people, is similar. In Bangladesh, many banks provide scholarships to poor and meritorious students for their higher studies, and they are also involved in healthcare by giving equipment, vehicles or philanthropic donations to hospitals. A few banks run their own hospitals that offer lower prices or discounts to patients. Further, the banking industry provides training to farmers (for instance, NCC Bank provides training to the maize farmers in the North Bengal region), offers loans meant for small and medium-sized enterprise (SME) to craftsmen, and maintains specific service desks to provide services to women entrepreneurs.

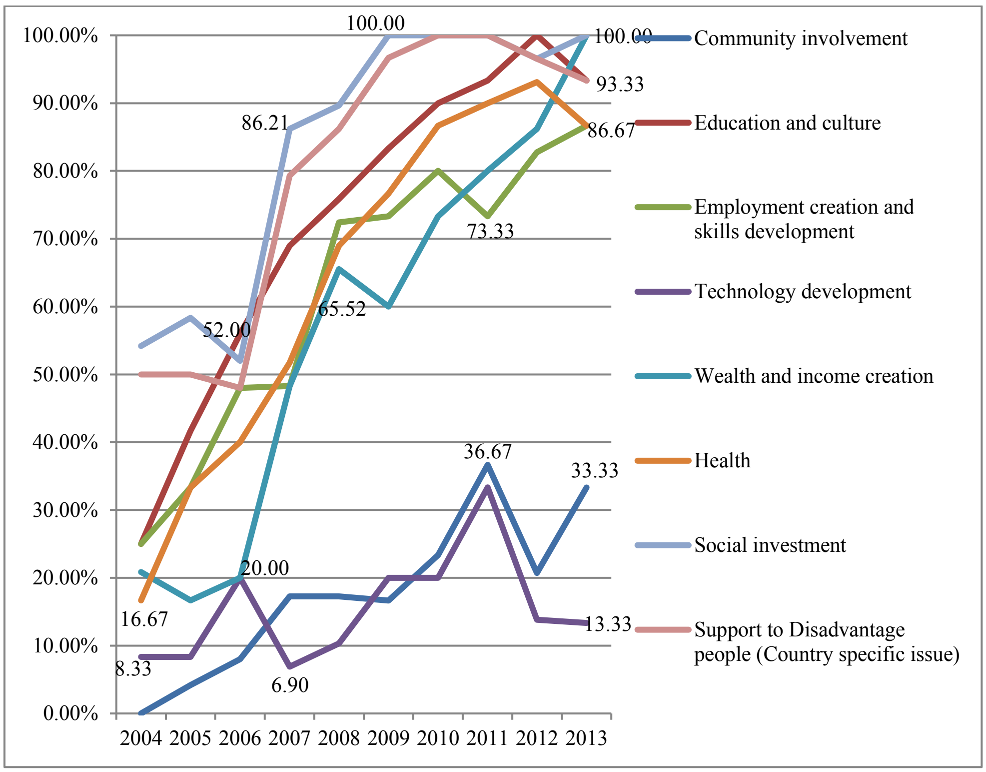

Figure-19: Issues under the individual thematic item – Community Investment and Involvement
Source: Calculations based on the coded data

Deegan (2002) explained that this trend is perhaps reflective of the view that compliance with the "community license to operate" (or "social contract") is dependent upon providing certain accounts of social and environmental performance. However, this study shows that legitimizing the new banking process through social perceptions—supported implicitly and explicitly through ideological alignment with the regulators—requires the stringent disclosure of community involvement and development over the period, which supports the findings of earlier studies (see Archel et al., 2009).

Green and sustainable banking reporting: In addition to the ISO26000 disclosure content, a broad thematic item green and sustainable banking (GSB) was added to account for country- and industry-specific issues. Under this thematic/core issue, five sub-issues have been categorized: green banking governance; green financing; green marketing and online banking; financing to SMEs/micro/retail/agriculture; and access to finance and financial inclusion. A coding terminology was prepared (Annex: Table-2) for coding the annual reports. Green banking (GB) refers to banking business conducted in a selected area and in a manner that helps the overall reduction of external carbon emissions and internal carbon footprint (Bahl, 2012). Sustainable banking is about using money with conscious thought about its environmental, cultural, and social impacts; this can happen only with the support of savers and investors who want to make a difference by meeting present-day needs without compromising those of future generations (Triods Bank: www.triods.com/en).

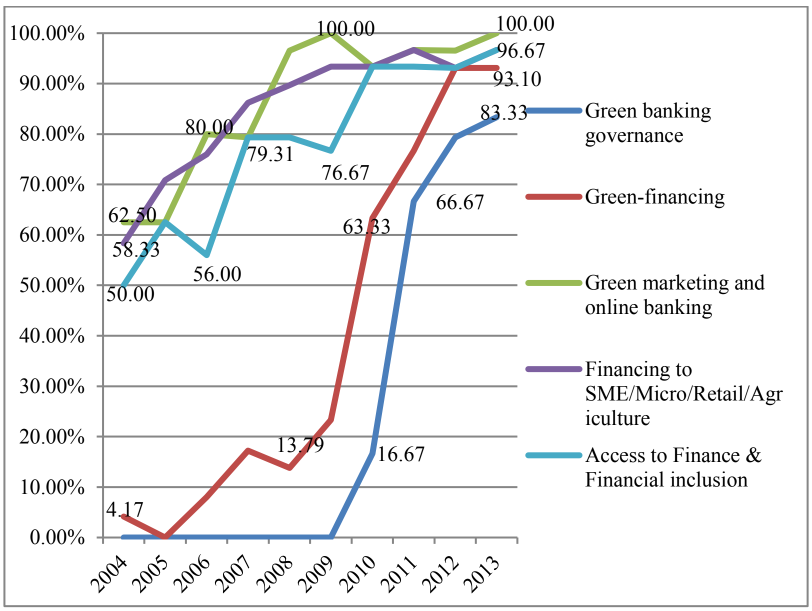

Figure-20: Issues under the individual thematic item – Green and Sustainable Banking
Source: Calculations based on the coded data

This study reveals that GSB is the highest disclosed item after organizational governance. On average, around 63% of the companies disclose GSB (Figure-10); in 2004, the score was around 35%, and it peaked at around 94% in 2013, which is the highest among all the other broad thematic items (Figure-9). GSB as a reporting item started from 2011 following the regulatory requirement in circular-2 issued by the BRPD on 2 February, 2011, which is re-emphasized by the new department of BB called the

Green Banking & CSR Department (GBCSRD), Circular-04 dated August 11, 2013 that includes three phases[18].

The sharp turnaround in the score of green banking governance and green financing occurred in 2009 (Figure-20) following attempts to legitimize the industry's code of conduct with new banking products and processes in order to be congruent with the community expectations, which is another aspect of the legitimacy theory. Green financing indicates financing to eco friendly business activities and energy efficient industries. Environmental infrastructure such as renewable energy project, clean water supply project, wastewater treatment plant, solid & hazardous waste disposal plant, bio-gas plant, bio-fertilizer plant should be encouraged and financed by the banks (circular no 2, by BRPD, on 2 February 2011). The green financing concept was not popular until 2010. It was miserly 4.17percent in 2004 and increased negligibly up to 2009 to around 23percent.

4.4 Findings and discussions

This chapter examines the development of CS reporting in the banking industry using Bangladesh (which is a developing country) as a case. This study analyzed 46 CS reporting items in line with ISO26000 with some country and organization specific adjustments of 30 banks for 10 years since 2004. The key findings is that the CS reporting index was less than 20 at the beginning, and it increased linearly and reached around 60 in 2013 and this driving development of CSR reporting is due the stakeholders initiatives. This process is supported implicitly and explicitly through ideological alignment with the regulators. The main implication of this chapter of this study is the identification of the greater importance of CSR reporting as the stakeholders are becoming increasingly concerned about sustainable banking through the financing of sustainable projects. This chapter contributes to the documentation of the CSR reporting practices of the banking industry in a developing country where there is a lack of published longitudinal studies.

In support of the legitimacy theory, this study explains that the banking industry voluntarily responds to the requirements of society's expectations with initiatives related to consumer issues and society's involvement and development from the very beginning (since 2004) in order to legitimize the banking products and processes. Further, the regulatory initiatives/ mandates (such as the mandate of the Bangladesh Securities and Exchange Commission for corporate governance in 2006; Bangladesh

[18] Phase I explains the policy formulation and governance issues; phase II includes sector-specific environment policies; and phase III incorporates the design and introduction of innovative products.

Bank's mandate on mainstreaming CSR in 2008; and the green banking guidelines issued in 2011) to voluntarily report as the industry's code of conduct established the organization's legitimacy to report in the banking industry.

Again, the sub-thematic items under the individual thematic item – the environment and environmental risk management such as in-house environmental management, climate change mitigation and adaptation, protection and restoration of natural environment, and environmental risk management (ERM) policy in financing the project (Figure-16); and green banking governance and green financing (Figure-20) have been increased sharply to legitimate the structural changes in corporate policy and legal sanctions in CSR reporting and practices supportive to earlier studies (Honger, 1982; Mobus, 2005). Further, the increasing trend in the voice of the top management commitment on CSR in vision and mission statement (Figure-13) is another legitimate signal to community that companies has already been congruent or going to be congruent to the community expectation supportive to the legitimacy theory contemplation.

Furthermore, the disclosure trend analysis clearly show that the variations or increases in CS reporting are a response to the society's changing expectation of corporate behavior and the extent of CS reporting in the banking companies of Bangladesh is notably exceptional as of 2013. As Guthrie and Parker (1989) explained that the peak disclosure in CS reporting and relevant events indicates companies are trying to legitimate. This relevant events in the longitudinal analysis might be structural changes in company polices, regulatory/legal sanctions, voluntarily initiatives by the stakeholder, political changes/movement, changes in banking companies laws, and compliance reporting required by the regulators (BB, BSEC). Finally, this study emphasizes the need to legitimate the focus on human right issues and fair operating practices, the lowest disclosed items among the individual thematic items. Hence, the longitudinal study supports the broader thrust of legitimacy theory argument in the developing country – Bangladesh as a case.

This chapter examined only the general trend from the perspectives of legitimacy theory and did not examine the character of each bank. The next chapter describes statistical analysis of the legitimizing factors in corporate social reporting by the banks in Bangladesh.

Chapter-5: Legitimizing Factors in Corporate Social Reporting and Practices in Bangladesh: Statistical Analysis

The second objective of this study is to test the applicability of legitimacy theory empirically in the developing country's banking industry – Bangladesh as a case. This chapter explains the statistical analysis of legitimizing factor in CS reporting and practices. The following sub-sections include research design and hypothesis development, variables, and findings and discussions.

5.1 Research design and hypothesis development

This study uses same sample as used in the descriptive analysis i.e. 30 banks for 10 years from 2004 to 2013; 282 annual reports are analyzed as part of this study. The rationality of choosing 2004 as starting year has explained in the descriptive study research design section (Chapter-4).

This study uses three groups of thoughts of legitimacy theory variables – *changes in policy*, *society's changes*, and *management attitudes in legitimization strategies*. As '*society's concern*' is another thought of legitimacy theory variables represented by 'media' that is not directly applicable to the financial institutions, this study does not consider this variable to explain threat to organizational legitimacy (detailed in Chapter-3). This chapter explains two groups of thoughts of legitimacy theory variables – changes in policy, and society's changes while chapter-6 explains management attitudes in legitimization strategies. The logical background to choose these legitimacy theory variables has been explained in chapter-3.

Further, this study uses spatial competition index - a measure of 'proximity to end-users' and listing age of the firm as proxy to 'society's changes' and corporate social reporting initiatives by the stakeholders as a proxy to 'changes in policy', as variables of legitimacy theory.

Spatial Competition Index-measure of 'proximity to end-users'

As banking industry is considers as public profile company because of its direct interaction and touch with their clients. Now the moot question is how to measure or the basis to measure proximity to end-users. There are different ways that we can measure proximity to end users such as density of location sites/retailers/branches (including off-shore location with ATM), proportion of dedicated employees/agents to meet the community expectation, competition index based on rural and urban density of location sites/retailers/branches (including off-shore location with ATMs) to population of the country.

Campbell et al. (2006) explain that a 'proximity to end user metric' measures a company's 'distance' from tertiary customers would be appropriately indicate its 'public profile'. They explained whether the amount of community disclosure in annual report is associated with public profile bases on a measure of "proximity to end user" in the UK FTSE-100 sector. Following to Campbell et al. (2006) study, Branco and Rodrigues (2008) used number of bank branches (at district level) to measure "proximity to end user metric" in the Portuguese banking industry and explained it is a better measure to sustainability disclosure in legitimacy theory. They referred the measured "spatial competition index (SCI)". However, they recognized that it is necessary to explore SCI empirically as public visibility variable in legitimacy theory. Branco and Rodrigues (2008) adopted Mendes and Rebelo (2003) measures for 'SCI', which was used in structure and performance in Portuguese banks. The measures based on rural and urban position are well explained for density by population, which is not explored in the Branco and Rodrigues (2008, p. 169) paper.

This study uses branch density by population in rural and urban locations. The selection of branch network is consistent with the socio-economic condition of a developing country like, Bangladesh. First, the access to Internet is remarkably poor in Bangladesh. Only 24.43% people have access to Internet using both mobile phones (23.41%) and computer, and only 1.02% has access via ISP and WiMax (BTRC, 2013). Second, the literacy rate (between 15 – 45 age) in Bangladesh is 51.3% (LAS, 2013).

SCI is an index to measure the market share (in terms of number of branches) of a company weighted by the relevance of that local market for the company. The information is collected from the *Banking Regulatory and Policy Department (BRPD), Bangladesh Bank*[19] for calculating SCI. The index is defined as -

$$\mathrm{SCI} = \sum_{r} \left(\frac{n_{ir}}{n_i} \times \frac{n_{ir}}{n_r} \right)$$

SCI= Spatial competition index

n_{ir} = The number of branches of bank 'i' in rural areas 'r' in a given year

n_i= Total number of branches of bank 'i' in a given year

n_r = The total number of bank branches in the industry in rural areas 'r' in a given year

[19]Bangladesh Bank segregates the rural and urban branches of the banks based on the inhabitants living in the particular region.

A high value for the index means that bank 'i' has strong market power in the market to meet the community expectations. This index is useful to measure public visibility (Branco and Rodrigues, 2008) as banks concentrate on certain locality which more prone in the developing countries.

The relationship between corporate sustainability reporting and SCI might be either positive (Branco and Rodrigues, 2008) or negative. In general, banks with higher density of branches weighted by local markets are expected to disclose more social information. However, banks with less market position by the branch density may disclose more social information for ensuring market legitimacy in the industry. Thus, the following hypothesis is assumed to test –

H_1: There is a either positive or negative relation between corporate social reporting and spatial competition index (SCI) – a measure of 'proximity to end-users'.

Corporate Social Reporting Initiatives

Corporate social reporting initiative by the stakeholders (such as corporations, regulators, civil society, and others) is considered as another legitimacy variable to test legitimacy theory. In the banking industry, the relationship between depositors-bankers and borrowers-bankers is very close. Depositors and borrowers consider banks legitimacy before buying any banking products as the nature of banking products are indifferent to banks. Basically, depositors consider bank's reputation, financial strength, deposit rate offering, and banker-depositor relationship. Banks always try to ensure trust of the depositors to continue their (banks) existence. Deegan (2002) explains that there could be several motivations simultaneously driving organizations to report social and environmental information; one of them is to comply with the industry requirements or a particular code of conduct and/or as a result of certain threats to the organization's legitimacy. Firms have to be congruent with the community expectations, norms, and attitude supportive to legitimacy theory (Deegan, 2002; 2007). Banking industry also has to be congruent with the stakeholders expectation, hence any initiatives for sustainability reporting from the stakeholder is important for organizational legitimacy. Thus, the consideration of stakeholder initiatives to sustainability reporting is supportive to legitimacy theory from the aspects of 'social contract'. In general, the mandates from the stakeholders influence corporate social reporting of a country. The following hypothesis has been derived in this case -

H_2: There is a positive relation between corporate social reporting and corporate social reporting initiatives by the stakeholders.

In determining the corporate social reporting initiatives, this study considers the number of initiatives taken by the regulators (e.g. Bangladesh Bank, Ministry of Finance, Ministry of Environment & Forest, Bangladesh Securities and Exchange Commission), and other civil society organizations (e.g. Association of Bankers Bangladesh, Institute of Bankers Bangladesh, Bangladesh Association of Banks, Bangladesh Paribesh Andolon (BAPA), and Consumer Association of Bangladesh) since 2004. Further to calculate the number of initiatives to CSR, this study visits the organizations' websites and records their total initiatives linking to their concern departmental functions and CSR. The following Table-6 shows the number of initiatives taken by the stakeholder related to CSR against the total number of initiatives to their concern department.

Table-6: CSR initiatives by the stakeholders

Year	Total number of Initiatives	Number of Initiatives related to CSR	%
2004	60	2	3.33
2005	95	5	5.26
2006	62	2	3.23
2007	82	12	14.63
2008	100	19	19.00
2009	179	22	12.29
2010	243	39	16.05
2011	192	22	11.46
2012	188	22	11.70
2013	228	35	15.35

Source: BB, BSEC, MoF, MoE&F, ABB, IBB, BAB, BAPA, CAB websites (2004-2013); Appendix-7

Age of the company

This study also considers listing age of the firm as legitimacy variable to test legitimacy theory in sustainability disclosure. In general, older firms disclose more for their diverse stakeholders (Robert, 1992). This legitimacy finding might be different as older banks have more deposited fund from customers and they might be less worried about sustainability disclosure. Negative relationship might exist because newer banks have scarcity of reputation in the market and they opt to disclose more social information to legitimize corporate behavior. Previous studies produce mixed result. Such as Roberts (1992), Chen et al. (2008), Khan et al. (2013), Cormier et al., (2005) explained positively significant association between listing age of the firm and the corporate social and environmental disclosure. While other studies (e.g. Liu and Anbumozhi, 2009; Cho et al., 2010) found negative associations. Furthermore, some studies (e.g. Singh and Ahuja, 1983; Menassa, 2010) found weak or no significant association between corporate social reporting and listing age of the firm. Thus, the following hypothesis has been followed -

H_3: There is either positive or negative relation between corporate social reporting and the company's listing age.

Model specification: This study uses ordinary least square method to test the legitimacy variables in the banking industry of Bangladesh. The following regression model has been used–

$CSR_{Index} = \alpha + \beta_1 SCI + \beta_2 CS_{ri} + \beta_3 Age + \beta_4 logSize + \beta_5 Profit_{ability} + \beta_6 Leverage$

Where,

CSR_{Index} = Corporate Social Reporting Index

SCI = Spatial Competition index- a measure of 'proximity to end users'

CS_{ri} = Number of corporate social reporting initiatives by the stakeholders

Age= Listing age of the company

Size = Total Assets (TA) by taking natural logarithm

$Profit_{ability}$ = Return on Equity (ROE)

Leverage = Debt to total assets

Hence, the following figure (Figure-21) shows the theoretical framework of this study –

Figure-21: Theoretical framework

5.2 Variables

The dependent, independent, and control variables to this study to test legitimacy theory are explained in the following sub-sections.

Dependent variable: Corporate social reporting index (CSR_{Index}): Corporate social reporting index has been used as dependent variable of this study. The coding and calculation procedure is done according to the equation (i) explained in the descriptive research design section (Chapter-4).

Independent variables: This study considers spatial competition index- a measure of 'proximity to end users', corporate social reporting initiatives by the stakeholders, and listing age of the company as independent variables to the legitimacy theory. The legitimacy theory variables and logical explanations to consider these variables in this study have been explained in chapter-3.

Spatial competition index – a measure to proximity to end-users: Proximity to end-users, the term is highly linked with the public profile companies. The term 'public' is ambiguous and escape ready definition or circumscription. Companies that have direct interactions with the clients/consumer are called higher public profile company and are more likely to be targets for media exposure or criticism by the general public, while companies which have indirect interactions with their clients/customers are called lower public profile company (Campbell et al., 2006). MacMillan et al. (2002) found that best social reputations were enjoyed by retailers (including Marks and Spencer and Boots). All of the "top 20" corporate reputations belonged to companies that had some direct contact with consumers – and the same was true of the "worst 10", they added. Further, MacMillan et al. (2002) explained tertiary consumers as a proxy to explain high proportion of customer. Customers of tertiary producers are readily identifiable in a supply chain whereas "the general public" is not (Campbell et al., 2006). Thus, a 'proximity to end-user's metric' measures company's distance from tertiary customers, which approximately indicate its "public profile".

Studies such as Cowen et al., (1987), Hackston and Milne (1996) explained that consumer-oriented industries can be expected to exhibit greater concern with social responsibility to the community. Nonetheless, Clarke and Gibson-Sweet (1999), tested the companies operating in industries in UK with a high public profile that have to pay the greatest attention to community relations by using 'proximity to individual customer' as a proxy measure of public profile. Further, Adams et al. (1998) divided the companies in their study into two – companies operating in the raw materials and consumer goods market as ‘sensitive’ while engineering and construction (i.e. production for a customized market) and service, food and retail (i.e. operating in directly proximity to final customers) as ‘less sensitive’.

Whether a company is a ‘public profile’ or not is basically determined by the nature of the company and the services they are providing. A manufacturing company that produces goods and services using raw materials (such as land, labor, capital, natural materials) are more environmentally sensitive while the companies providing services directly to the users (such as transport, food and retail, banks) are less environmentally sensitive. The former clusters companies has less direct relations with the customers while the later cluster companies operating their business directly proximity to final customer. ‘Proximity of end-user’ variable is explored a little in the ‘less sensitive industry’ cluster because of the role in social and environmental impact.

Corporate social reporting initiative: Another variable that this study considers to test legitimacy theory is CS reporting initiatives by the stakeholder. From the perspectives of organization, initiatives is usually a description of the direction the organization wants to take and woe that will improve the organization which may be a component of the organization’s vision for the future. Bhattacharya et al. (2009, p. 260) explained that corporate social responsibility (CSR) initiatives are discrete undertakings, intended to improve societal welfare and being supported by corporate resources (e.g., money, labor). Tsang (1998) explained that at the developing stage of sustainability reporting, voluntary initiatives from any stakeholders for disclosure is remarkable which allow benchmark reference to the firms in the industry.

Now stakeholders are not satisfied with only seeing the balance sheet and profit and loss accounts of the company, they want to see what additional the companies are doing for the society, and thus the number of stakeholders initiatives in social and environmental issues are increasing in the corporate world. Yuan et al., (2011) explained that the sharp increases in societal stakeholders’ demands for CSR initiatives, and the simultaneous managerial requirement that any such initiatives should improve business performance, has triggered various alternative strategies to integrate CSR in prevailing business activities (p, 88).

Studies such as Bhattacharya et al. (2009) found that stakeholder responses to CSR activity are manifested in behaviors toward not only the company, but also toward the cause and other stakeholders. Nevertheless, Yuan et al. (2011) explained the ladders of fit with CSR initiatives from external consistency, internal consistency and coherence. This study considers corporate social reporting initiatives by the stakeholders (e.g. regulators, community, voluntarily association, media, NGOs) as a mediating variable to test legitimacy theory that can legitimate corporate social reporting behavior.

Age of the firm: The third core variable to test legitimacy theory this study considers is the listing age of the firm. The 'age' variable can be explained to link community changes in perception in legitimacy theory. While aging the company, the community perception and attitudes also changes towards the company which is also a legitimate factor that has not been explained inclusively in the earlier literature.

The exact calculation of age of a firm is difficult to measure because of the merger, acquisition, and changes of its business operations. However, the age of the firm can be calculated from two aspects – date of commencement of business operation, date of stock listing. The former gives little disclosure requirement as the company remains at the novice form with structural barriers, less commitment to stakeholders and in private form. However, the calculation of the firm's age based on the stock listing gives validation of disclosure requirement, accountability to stakeholder, and formation to public limited company. Prior studies (e.g. Cormier et al., 2005; Cho et al., 2010) documented to use firm's listing age to measure its influences to corporate social disclosures.

From the legitimacy theory argument, the relationship between age and corporate social reporting can be explained from both aspects – positive or negative. Positive relation in a sense that as companies become older they strive to maintain good reputation developed throughout their years of existence. Moreover, the diverse stakeholder requires more social information and corporate requires disclosing more social information to ensure the organizational legitimacy. In this direction, Roberts (1992) explained the maturity of a firm might affect its social responsibility activities because as a firm matures, its reputation and history of involvement with nonprofit and charitable organizations can become entrenched. On the other hand, negative relation in a sense that companies which are new in the industry they might disclose more to gain market legitimacy (Suchman, 1995) in the industry. In general, a new company has less diverse stakeholder relations and hence, requires less corporate social reporting supportive to legitimacy theory. Thus, from legitimacy theory perspective, the relationship between listing age and CS reporting might be either positive or negative. Most of the studies explained that age are likely to act as an intervening variable and controlled for in the empirical tests (Cochran and Wood, 1984; Ullmann, 1985; Cowen et al., 1987). No study so far test the variable 'age' to explain CS reporting from legitimacy theory perspective, this current study add this gap. Roberts (1992) explains additional work is needed to improve the understanding of the empirical associations between companies' age and social disclosure.

Control variables: This study uses three control variables – size, profitability, and leverage– in the model for better prediction of the exogenous variables. Size and industry affiliations are two of the most popular proxies to measure public visibility (Branco and Rodrigues, 2008). Prior studies documented that the larger companies disclose more social and environmental information (see Neu et al., 1998; Haniffa and Cooke, 2005; Cho et al., 2010) as they have diverse stakeholder groups, and are expected to engage more heavily in legitimizing behavior (Dowling and Pfeffer, 1975). This study uses size (Total Assets) as a control variable to examine the influence in the legitimacy variables. On the other hand, in general, a profitable firm demonstrates their existence through the disclosure of corporate social information. However, some studies elucidated that profitable firms have more social constrains, public exposure and affected by political costs, so as to explain that they operate within the explicit/implicit norms of the society and profit has not been at the expense of the society (Haniffa and Cooke, 2005; Branco and Rodrigues, 2008) while Patten (1991) argues that economic performance only ensures economic legitimacy, where as social disclosure should be a function of social legitimization. Finally, in companies with higher leverage, the management needs to legitimize its actions to creditors as well as shareholders (Haniffa and Cooke, 2005) as debt provider demand more disclosure.

5.3 Findings and discussions

Descriptive statistics: Table-7 provides the descriptive statistics for the variables used in this study. The average corporate social reporting index (CSR_{Index}), and spatial competition index (SCI) - a measure of 'proximity to end-users' are 38.93 and 0.01 respectively. While the mean corporate social reporting initiative (CS_{ri}) is 18.92, the maximum is 39.0. Further, mean stock market listing age of the firm is 13 while maximum age is 30 years. The standard deviations of the variables are not remarkably high to justify outlier effect of this study.

Table-7: Descriptive statistics

Variable	Mean	Std. Dev.	Min.	Max
CSR_{Index}	38.93	17.85	0.00	84.78
SCI- a measure of 'proximity to end users'	0.01	0.03	0.00	0.25
CS_{ri}	18.92	12.05	2.00	39.00
Age (Dhaka Stock Exchange Listing)	12.40	8.86	0.00	30.00
logSize (Total Assets)	4.82	0.33	4.04	5.82
$Profit_{ability}$ (ROE)	16.51	17.06	-193.16[20]	100.82
Leverage (Debt/Total Assets)	0.94	0.09	0.79	1.65[21]

[20] The minimum profitability ($Profit_{ability}$) measured by ROE shows negative (-193.16) because of either negative equity or negative revenue of the firms.

Correlations: Table-8 explains correlation matrix among dependent, independent and control variables. This study finds that corporate social reporting initiatives (CS_{ri}), and size of the business (logSize) are positively associated with corporate social reporting of the companies. However, spatial competition index (SCI), age, profitability, and leverage of the firms are negatively correlated with corporate social reporting. Moreover, the variables have no strong correction to explain possible co-linearity.

Table-8: Correlations among dependent, independent and control variables

	CSR_{Index}	SCI	CS_{ri}	Age	Logsize	$Profit_{ability}$	Leverage
CSR_{Index}	1.0000	-	-	-	-	-	-
SCI	-0.0845	1.0000	-	-	-	-	-
CS_{ri}	0.6196	-0.0205	1.0000	-	-	-	-
Age	-0.0193	0.3317	0.1743	1.0000	-	-	-
Logsize	0.6912	0.2596	0.6260	0.4134	1.0000	-	-
$Profit_{ability}$	-0.0299	-0.4460	0.0260	-0.0978	-0.1148	1.0000	-
Leverage	-0.2228	0.0841	-0.0869	0.1267	-0.3553	0.0013	1.0000

Regression results: Table-9 shows the findings of the regression (OLS)[22] results.

Table-9: Regression result for tests of the relation between corporate social reporting and legitimacy variables

Variables	**Co-efficient**	**t-value**
Constant	-196.458	-10.61***
SCI	-129.596	-5.41***
CSri	0.251	3.58***
Age	-.690	-8.30***
logSize	44.681	14.35***
$Profit_{ability}$	-0.078	-1.94*
leverage	28.626	3.68***
R-square	0.674	
Adj R-square	0.667	
F (6, 275)	94.81	
Prob>F	0.000	
*** Significant at 1% level; * Significant at 10% level		

[21] The maximum leverage ratio is 1.65 because total debt is higher than the total asset.

[22] The consideration of both CSri and year dummies causes multicolinearity, therefore this study drop year dummies from the OLS regression. This is because the numbers of the initiatives taken by the stakeholders (CSri) from 2004 to 2013 are same for the every firm.

The legitimacy model is statistically significant (at 1% as Probability of F- statistics = 0.000) and explains the exogenous variables by around 67% (Adj R-square = 0.667). This study importantly finds that spatial competition index (SCI) - a measures of 'proximity to end-users', is negatively significant (as β_1 = -129.596 and $p<.01$) and suggesting that companies with less 'proximity to end-users' in the industry disclose more social information than the companies with more proximity to tertiary clients supportive to legitimacy theory. Hence, this study supports the hypothesis (H_1). It means companies which have less market position in the industry disclose more social information than the companies which have more market position in the industry. Further, companies that are away from the proximity to end-users might want to gain or increase market legitimacy by disclosing more social information in the annual report. Moreover, these companies might have also image crisis in the market, difficult in product selling, lower market position in the industry, lower market coverage, lower banker-customer relations, and lower sites to provide services to the clients.

This study opposes the study findings of Branco and Rodrigues (2008). While they explained SCI is positively connected with social responsibility disclosure (p, 176), this study found negative association with social reporting arguing that companies with less market position by branch density in population disclose more social information for organizational legitimacy. Hence, companies that are away from the 'proximity to end-users' disclose more social information for their market and organizational legitimacy. Thus, finding of this variable is congruent to the argument of legitimacy theory contemplation.

The second legitimacy variable to test legitimacy theory in corporate social reporting is corporate social reporting initiatives (CS_{ri}) by the stakeholders. This study finds that CS_{ri} is statistically significant (at $p<.01$) and positively (as β_2 = 0.251) associated with corporate social reporting. It indicates that companies disclose more social information in their annual report to legitimize corporate actions in response to the corporate social reporting initiatives by the stakeholders. Thus, this study supports the hypothesis (H_2) i.e. corporate social reporting is positively associated with corporate social reporting initiatives by the stakeholders in the developing economies where reporting is nascent stage. In this aspect, Tsang (1998) explained that at the developing stage of sustainability reporting, voluntarily initiatives from the stakeholders for disclosure are remarkable which allow benchmark reference to the firm in the industry. This study finding is supportive to Hess et al. (2002) findings, they pointed out that companies are adopting corporate social responsibility initiatives as a part of strategy seeking a competitive advantage through reputation assets and/or in response to perceived pressure from a moral market place. Therefore, this study explains that the sharp increase in demand for CSR initiatives and

CS disclosure from the stakeholders has triggered various alternative strategies to integrate CSR activities and its reporting to the annual report. This argument is supportive to the legitimacy theory contemplation by explaining that companies legitimate their corporate behavior by responding CS reporting initiatives or pressure from the stakeholders. These CS reporting initiatives might be due to change in policies (Honger, 1982), external forces such as economic, social and political (Guthrie and Parker, 1989), change characteristics of the political environment (Archel et al., 2009), and regulatory non-compliance (Mobus, 2005).

The third legitimacy variable for this study is age of the firms. It shows that company's age is significant (at $p<.01$) and negatively ($\beta_3 = -0.69$) associated with the disclosure practices indicating that newer companies disclose more social information than the older ones, hence this study accept the hypothesis (H_3). This might be to gain market legitimacy as they might have lower brand image, lower density of customer network base and unfamiliarity with the product and process offerings as compared to the older banks. Moreover, these companies might face deposit crisis and wants to increase their customer base than the older ones. From the legitimacy theory aspect, it can be explained that as the firms grew older the diversity of the stakeholder increases. The expectations of the society to the firms also changes over the period as the companies are ageing. This explanation can be best explained by the 'dynamism' of society's expectation in the legitimacy theory (Linbdlom, 1994; Deegan and Unerman, 2011). As companies are ageing the essence of legitimization also increases and consequently companies need to disclose more social information as a strategy to legitimate. Hence, older firms requires to disclose more than the newer ones for their legitimacy. However, the opposite situation also can be explained by the legitimacy theory contemplation. That is newer companies disclose more social information than the older ones as they have legitimate crisis in the market. In this regard, Suchman (1995) explained companies disclose more social information to gain legitimacy. This finding is supportive to earlier studies (see Cho et al., 2010; Rahman et al., 2011). However, this study opposes the study finding of Muttakin and Khan, (2014). They conducted study on the Bangladeshi companies and found positively significant result (p, 173); however, they exclude banking companies in their sample group and did not explain from legitimacy theory perspective.

Hence, this study explains that legitimacy theory is fitted and justified in corporate social reporting practices in the developing countries context similar to the developed countries situation. Moreover, like manufacturing industry legitimacy theory is similarly applicable to service industry, which is hardly been examined in prior studies. Moreover, this study contributes directly to legitimacy theory literature by adding some legitimacy variables that have influence to corporate social reporting. First, 'proximity to end-users' as a new interceding variables to legitimacy theory can explain as an influential factor of corporate social reporting in the sustainability literature. Second, initiative for sustainability reporting by the stakeholder is another dominant factor in legitimacy theory that can explicate irrespective of industries and socio-cultural-political aspects when social reporting is at nascent stage. Initiatives from the stakeholder are also welcomed by the sustainable reporting practitioners that might give benchmark reference in the industry. Third, the general adage for 'age of the firm' is that 'age' is positively connected with corporate social performance, which is not always true. Rather, 'age of the firm' as mediating factor to legitimacy theory to influence social reporting depends on the country and industry classification. It may differ from manufacturing industry to service industry. Thus, this study contributes to the legitimacy theory directly by testing some legitimacy variables empirically that can explain addition to the legitimacy theory literature.

This chapter tests the variables of legitimacy theory contemplation in the developing country situation while the next chapter explains the bank managers' interview study findings to interpret the legitimacy theory variables.

Chapter-6: Managers' Perceptions on Corporate Social Reporting and Practices in Bangladesh: Interviewing Analysis

The third objective of this study is to extend and interrogate the use of legitimacy theory to infer bank managers' perception in corporate social reporting in the banking industry of Bangladesh. The following subsections include research design, end-users effect, CSR initiatives, newer versus older firms, other issues, and findings and discussions.

6.1 Research design

The interview research design of managers' perceptions on CS reporting and practices in the banking industry of Bangladesh that includes sample interviewee, interviewee selection, and data analysis explained in the following sections.

Sample Interviewee: 28 interviews were conducted (Table-10) to gather evidence from 24 listed commercial banks (currently, listed banks-30 of 56; 2016). The interviewees are ranges from operational CSR manager to MD/CEO of the bank and the interviews were taken at the interviewee business place. Interviews were conducted with seven Managing Director (MD)/Chief Executive Officer (CEO) of the banks, seventeen head of the operational wings (CSR/or GB), one board secretariat, and three CSR operational managers (Table-11). The interviews were conducted in December 1-15, 2015 and the interview was lasted between around sixteen to fifty-two minutes without the time pause during the interview.

Table-10: Distribution of sample interviewee

Sl. No.	Categories of banks	Listed in DSE	Sample covered	% covered
1	Private commercial banks	22	17	77
2	Islamic banks	7	6	86
3	Government bank	1	1	100
	Total	30	24	80%

Interviewee selection: Moreover, to select interviewee, a telephone talks have been made to know the availability of the top officials and their consent to have an interview on the topic. Then an e-mail containing abstract of the research and a semi-structured questionnaire has been sent. Moreover, a letter guaranteeing confidentiality and assuring that the interview will be used anonymously. Hence, the interviewees are referred to a coded number (Appendix-4). All interviews were conducted in person. Except two, all interviews were type-recorded with the consent of the interviewees and were subsequently translated. Further, the cases where interviews are not type-recoded, detailed notes have been taken. The interviews were taken into Bengali language, and/or Bengali and English which were then translated into English. Furthermore, the interview record has been forwarded to the concern organization, upon their request and e-mail permission has been taken to use their citation anonymously.

Table-11: Interviewee status and positions

Status of the interviewee	Operating position	Number of Interviewees
Managing Director/ Deputy Managing Director (DMD)/Chief Executive Officer (CEO)	Chief of the organization	7
First Assistant Vice President (FAVP), Assistant Vice President (AVP), VP, SAVP, SVP, EVP, General Manager (GM), Deputy General Manager (DGM)	Head of the Operational Wing (CSR)	17
Board Secretary	Report to board	1
Senior Officer, Executive Officer	Operational manager (CSR)	3
	Total	28

However, before initiating the interview, introductions have been made between the interviewee and interviewer followed by the notation of corporate social responsibility issue first followed by addressing the main topics. The main topics of the interviews were – proximity to end users; responses to stakeholder initiatives; reporting practices by newer versus older organization; links to increasing, rebuilding/repairing, maintaining image of the organization; and problems and future of corporate social reporting addressed.

Data analysis: After the interview, data were analyzed using a process suggested by O'Dwyer (2004). This process involved systematic coding, de-coding, data reduction, data display, and data interpretation in order to identify commonly occurring themes and differing views.

6.2 End-users effect

From the interview data analysis, this study summarizes three key legitimacy theory variables – proximity to end-users effect, companies response to stakeholder initiatives in social reporting, reporting practices by newer versus older companies. Findings of this study can be explained in the following ways:

This study hypotheses (H_1) that there is a either positive or negative relation between corporate social reporting and spatial competition index (SCI) – a measure of 'proximity to end-users' (Chapter-5). It means companies with more proximity to end users have higher social disclosure in annual report and vis-à-vis. The empirical study (Chapter-5) found that companies, which are away from 'proximity to end-users' disclose more social information than the companies are prone to 'proximity to end users'. The interview findings also support to the empirical study findings. Some of the interview records are as follows:

> Companies that have less market position in the industry do more social reporting because of their CS reporting as market penetration policy, niche marketing, and bring the brand image of the company" (Inerviewee-2)
>
> We are very old bank (listed in DSE in 1984) but we have no marketing division. We have huge number of branches and our branches are located in every district and thana (village) level and our linkage to customer is very high. We need not to think to sell our product while new banks are worried to sell their products and they face deposit crisis." (Interviewee-12)
>
> We are 50 years of old in banking business and there is none who does know my bank's name and you will not see any advertisement in press and electronic media to sell our bank. Basically we sell our employees well behavior, and --- to the customer" (Interviewee-22)
>
> "Banking companies which are new and less proximity to end-users disclose more social information because they enter in the industry with fasted technology, structured banking regulations, structurally ahead than the older banks, on-line real-time banking --- etc." (Interviewee-24)

Hence this interview study finds that the banking companies, which have less market position in the industry, do more CS reporting to legitimize their process and product to the society, and support the empirical findings (Chapter-5). Further, this study explains that companies which are away from the 'proximity to end-users' disclose more social information than the others to gain/increase market legitimacy.

6.3 CSR initiatives

The second legitimacy variable this study concentrated is the CS reporting initiatives by stakeholder. The empirical study (Chapter-5) finds that companies respond to the stakeholder initiatives significantly to legitimize their products and processes, and to ensure industry code of conduct aligned with regulatory moves which is congruent to legitimacy theory argument. Hence, corporate disclose more social information in the annual report to ensure society's contract while there is more CS reporting initiatives by the stakeholder. Earlier studies documented that companies respond to CSR initiatives to get competitive advantage or benefiting the organization through reputation assets and/or in response to perceived pressures from the moral marketplace (Hess et al., 2002; Bhattacharya et al., 2009). However, no study so far confers the relationship between CSR initiatives and companies' response to the initiative from legitimacy theory perspective, this study fills this gap.

Basically, CSR as a term became familiar among the bankers since 2008 when Bangladesh Bank (central bank of Bangladesh) took the initiatives as their auxiliary activities side by side their mainstream activities (circular-2, June by DOS, BB). Before that, bankers did practice of CSR activities under the banner of social welfare. This study hypothesis (H_2; Chapter-5) that CS reporting is positively linked with CS reporting initiatives by the stakeholder. The empirical study found that corporate discloses more social information in their annual report to legitimize corporate actions in response to the corporate social reporting initiatives by the stakeholders. Similar response also found among the interviewees such as:

> "Initiatives are very much important where there were no effort, while regulators took initiative then the CSR practices and reporting become more visible and structured. We have positive emotion to the people --- however, we people cannot do CSR by self, if regulators have initiatives, motivation to do so, then it become supportive to bring CSR activities into the mainstream activities." (Interviewee-2)

> "Regulators played pioneering role in initiating CSR concept not only in the banking industry but also in Bangladesh. While we had intention to do philanthropic as CSR but we had no scope from the organization, now we have --- BB opened the window to do philanthropic to society." (Interviewee-14)

> "Basically, before 2008 there was a practice and reporting of CSR which was negligible and scattered but under the leadership of BB it becomes organized, some have to take initiatives while there is in the initial stage." (Interviewee-18)

However, the attitude towards the poor people in Bangladesh has changed. Now, the stakeholders are not happy only to see the profit and loss account only they want to know what extra things the company is doing. Moreover, attitude of the regulatory body is also important for bolstering CSR effort. Some interviewee responses are included here.

> "Depositors want to know what additional the bank did and they feel proud to tell others that they have deposit in that bank and the bank is socially responsible" (Interviewee-9)

> "CSR activities and reporting have been increased because not only for initiatives, but also the mentality of corporate rich people to do something for the poor people has been changed. CSR initiatives are new but social welfare is not new in Bangladesh, however, due to BB initiatives CSR becomes into structural form." (Interviewee-12)

Again, the banking industry is now changing their social responsibility philosophy from conventional banking practices to new area of banking such as green banking, school banking, financial inclusion etc. The interviewee explains that the initiatives are positives and needs more to structure the CSR activities.

> "Initiatives for the new banking products such as mobile banking, banking for the poor, sharecropper banking --- as a part of CSR are increasing which are positive and needs more for the economy of the country" (Interviewee-7)

Hence, the interview findings on 'CSR initiatives by the stakeholders' explained that companies legitimize corporate actions to ensure corporate code of conduct, congruence with the voice of stakeholder, existence of business in the industry, and avoid bans and restrictions from the stakeholders.

6.4 Newer versus older firms

This study explains listing age of the firm as the core interceding variable to explain legitimacy theory. In support of this explanation, this study conducts statistical analysis (Chapter-5). The general adage of legitimacy theory is that as firms grow the involvement of stakeholder increase, which requires disclosing more social information. This study opposes the general adages of legitimacy theory and finds that newer firms disclose more social information than the older one to gain market legitimacy and to legitimize their organizational legitimacy. However, to expand the support to the finding of 'listing age' variable to legitimacy theory, this study conducts mangers perception survey on CS reporting and practices. Moreover, this study hypothesis that there is either positive or negative relation between corporate social reporting and the company are listing age (H_3; Chapter-5). The interview findings support the descriptive and empirical findings of this study with some logical explanations. Newer banks do more CSR due to the scarcity of deposit, market image crisis, and away from the proximity to the end-users. Some interview records are accorded here -

> "Newer banks have deposit crisis and they want to familiar in the market by doing more CSR reporting in press media, regulatory compliance, annual report, website, billboard and etc" (Interviewee-4)

> "Newer banks have market image crisis and they want to recover it by CSR reporting" (Interviewee-5)

Further, CSR is now moved as advertising tool of the banks. Earlier, banking companies counted huge advertisement expenses to different electronic and print media for ensuring their market presence. Now the banks spend for philanthropic donation believing that it will elevate their market image. However, the older banks are scared about selling their products, and also not bothered about their market image because of the existing market position in the industry. Some the typical interviewee comments are as:

> "Newer banks do more CS reporting than the older banks because they used CSR as a strong marketing tool for bringing the brand into the face of the clients; hence, the mood of publicity has been changed which is called one sense of branding" (Interviewee-8)

> Newer banks are not familiar to people, lower deposit, lower number of customer, no bank branch in the rural area, and they expose themselves by using CS reporting as their promotional campaign." (Interviewee-11)

> "Older banks have already market reputation in the society while newer banks convey their name and presence to the people to attract people by using CS reporting as media. For example, philanthropic donation to '*Prime Minister's Relief Fund'* for --- which works as strong advertising tool without any further expenses; hundreds of press and electronic media cover the report of the bank's sponsorship." (Interviewee-19)

> “We have good image in the market and we don’t care about deposit because we have sufficient deposit while the newer banks do more CSR as it is a tool to their deposit hunting policy and do publicity of the presence in the market, even they are short fall of profit with deposit crisis”. (Interviewee 27)

Furthermore, older banks have structural barriers, redtapism in implementing policy, absence cutting-edge technology-know-how, old-aged employees, absence of congenial subordinate and superior relationship, mental inertia in of the Board of Directors (BoD) in disclosing CS information to public. The interviewee also accorded that –

> “While older banks have traditional approach to management, structural barrier, legitimate problem in adoption, and slower in knowledge adoption; newer banks are very familiar and orientated with CSR approach and enter the market with readymade CSR concept which is new, higher technology know-how, and free from structural barriers.” (Interviewee-10)

> “As newer banks we are doing more CS reporting because it is matter of organizational culture, we have young employees with new ideas and updated technology, and the mental set-up is modern. Moreover, --- new and private we have scope for improvement and our employees and bosses accept change management which is not possible in older banks.” (Interviewee-16)

> “As an older bank we are away from publicity by doing CSR because of the philosophy of our management, they (BoD) are totally away from media including annual report while newer banks used CS reporting as media to expand their business as their management strategy.” (Interviewee-22)

> “We have less visibility by CS reporting as an older bank as compared to newer banks because for publicity we have a traditional board and they are unwilling/away from publicity. Moreover, if you go for media presence most of budget will go there and unnecessary pressure will create on the daily CSR activities” (Interviewee-23)

Moreover, for exploring the new market, the newer banks do more CS reporting compare to the older banks as there are huge numbers of loan default to the corporate clients and many older banks are tied with the few corporate clients. To diversity the risk of loan disbursement, the newer banks cluster and concentrate their loan portfolio to the micro and small customer. Hence a variety of loan products has been introduced by the banking community to attract tiny level customer.

> "Bank is basically concentrated on corporate clients but the recent experiences of these clients are not good because of loan default, the newer banks explored the market to SME, Micro Finance, green banking, financial inclusion --- etc. for their own sustainability terming as CSR." (Interviwee-3)

Hence, this interview study explains that newer banks disclose more social information than the older banks for their scarcity of deposit, market image crisis, building market position in the industry, unfamiliar to the people (market reputation), lower number of customer, no bank branch in the rural area, and diversifying the loan recovery risk. On the other hand, older banks disclose less social information than the newer banks because of the prevailing market reputation, absence of product selling crisis, traditional approach to management, redtapism is implementing policies, attitude of the BoD to away from publicity by CS reporting, absence of organizational culture, structural barrier, legitimate problem in adoption, and slower in knowledge adoption are the key.

6.5 Other issues

Moreover, this study investigates some other issues in addition to the three key legitimacy theory variables – 'proximity to end-users', CS reporting initiatives by the stakeholders, and listing age of the firms – to furnish a more complex, complete, and critical story of the perceptions of corporate social reporting in the developing country's banking industry – Bangladesh as a case.

Corporate social reporting: The banking sector of Bangladesh reports social information to regulators which is mandatory (Circular-3, GBCSR department, BB; June-13, 2013) while annual report, company's website, company's bulletin board, company's published booklet, and other media are voluntarily. BB quarterly asked to all commercial banks to report CSR activities in a structured format which is a mandatory compliance, however, it has some incentives such as impact on CAMELS[23] rating, BB yearly publication indicating the CSR positions of the banks. Some interviewee comments are incorporate here.

[23] CAMELS means Capital adequacy, Asset quality, Management capability, Earnings, Liquidity/liability management, Sensitivity to market risk.

> “We have reporting structure for BB reporting on CSR issue which is done internally and mandatorily, while annual reporting is done voluntarily without any formatted structure which varies yearly.” (Interviewee-10)

> “Annual report is not structured in the banking industry of Bangladesh, that’s why different banks report according to their own policy while BB report on CS reporting is done on fixed table which is to all banks.” (Interviewee-16)

However, international standard practice in CS reporting to annual report has been started since 2013 by Bank Asia Limited (*Annual Report*) voluntarily. Moreover, the interviewees recognize the essence of international standards in CS reporting. Some typical records are:

> “The GRI based CSR reporting to annual report is the reflection of getting training of our CSR team from abroad and I do believe BB will ask all banks to submit CSR reporting based on international standard.” (Interviewee-13)

> “I think CS reporting to annual report should be structured, so that we can understand the status of CSR easily and it should be similar to all banks so that society can know easily and make understanding the scope of improvement.” (Interviewee-24)

Motivation of CS reporting and practices: All interviewees recognized that CS reporting is done on half yearly basis (GBCSR circular-3, June 13, 2013) to BB as mandatory with a structured format while reporting to annual report is voluntarily involving human right, labor practices, the environment and environmental risk management, fair operating practices, consumer issues, community involvement and development, and green and sustainable banking. The voluntary disclosure perception on annual report has been anchored in Bangladeshi corporations (Momin, 2013; Sobhani et al., 2009). However, the reporting of corporate governance issues to annual report is also mandatory as required by Bangladesh Securities and Exchange Commission (SEC/CMRRCD/2006-158/admin/02-08 on 20th February). The bank executives gave importance to the regulatory compliance reporting followed by social and environmental reporting. Some typical motivations for CS reporting are included here:

> CS reporting is done to ensure transparency to the shareholders, know people, build trust on us, --- and giving message that we are not away from the society as we are

> doing business by the society's money and society's responsibility cannot be ignored" (Interviewee-4)
>
> "Four basic reasons for CS reporting are – BB impact on the evaluation of CAMELS rating, --- praise/award based on CS reporting, extending brand image of the bank, and to know my competitors that we are superior in doing social welfare" (Interviewee-8)

Hence, the interview study explains that the current practice of CS reporting is not in a structured form that differs bank to bank and rarely a bank follows international reporting standards. Further, the interviewee added that the motivation of CS reporting includes BB's CAMELS rating, praise/award based on CS reporting, extending brand image of the bank, ensure transparency to the stakeholder, knowing people and building trust on the banks, and competition in doing better CSR.

6.6 Findings and discussions

This interview study supports the findings of the statistical analysis by explaining that corporate disclose social information in the annual report as a strategy to legitimize their action and behavior. The interviewees support the interceding variables of legitimacy theory – proximity to end-user, stakeholder initiative, and listing age of the firm. The interviewee explained that companies which are away from the customer disclose more social information in the annual report than the companies which are close to customer by number of branches. Further, the banking companies, which have less position in the market competition doing more social reporting to legitimize their process and product to the society, the interviewee added.

Again, the interview findings explained that corporate social reporting initiative by the stakeholder is another legitimate factor of CS reporting in the annual report. CS reporting and practices is not new in Bangladesh, however, after the initiative of the stakeholders CS activities (since 2006) becomes under the banner of documentation in a structured and systematic manner. This interview finding can be interpreted in the legitimacy theory argument that companies respond positively to CS reporting initiatives -

- to ensure corporate code of conduct in the industry;
- to ensure congruence with the voice of stakeholder;
- to continue their existence of business in the industry; and
- to avoid bans, or restriction from the stakeholder.

Hence, the interview study findings support the empirical study findings. Therefore, this study justified that ‘CS reporting initiatives by the stakeholder’ is a legitimacy theory variable to explain the CS reporting behavior by the companies.

Further, the interview records explains that newer banks disclose more social information than the older banks for their scarcity of deposit, market image crisis, building market position in the industry, unfamiliar to the people (market reputation), lower number of customer, no bank branch in the rural area, and diversifying the loan recovery risk. Moreover, newer banks enter in the industry with set CSR policy, existing corporate culture in CS reporting practices, cutting-edge technology, young and fresh employees, free from structural barriers to adopt, and board philosophy to CSR reporting and practices. On the other hand, older banks disclose less social information than the newer banks because of the prevailing market reputation, absence of product selling crisis, traditional approach to management, redtapism is implementing policies, away from publicity by the BoD, absence of organizational culture, structural barrier, legitimate problem in adoption, and slower in knowledge adoption are the key. Thus, this study finding support the empirical study findings (Chapter-5) that newer companies disclose more social information than the older ones. However, this study opposes the general adage of legitimacy theory contemplation that older companies disclose more social information than the newer ones. This study supports the boarder thrust of legitimacy theory by explaining that newer companies disclose more social information than the older ones to gain/build market legitimacy, and/or increase market image/brand, and/or gain/build customer trust supportive to Suchman (1995) explanation. Suchman (1995) explained that companies disclose more social information to gain legitimacy.

The next chapter explains conclusion of the thesis that includes summary findings, theoretical contributions, practical implications, and future research issues.

Chapter-7: Conclusion

The magnitude of corporate social responsibility disclosure has been increasing as a strategic tool among the companies in a viewing that it works as double edge sword – goal congruence with the society's expectation as well as benefiting the organization by having competitive advantages. These also have been endorsed by the policy makers/regulators, environmentalists, and academics around the globe. Companies use corporate social reporting as a legitimacy tool for their actions and behaviors. This study finds the gap in the earlier literature and motivated to explore three objectives – to examine the development of the corporate social reporting and practices in a longitudinal aspects; to test the applicability of legitimacy theory argument in the developing country's perspective; and to extend and interrogates the use of legitimacy theory to infer bank managers' perceptions of corporate social reporting. This study analyzes 46 corporate social reporting items in the annual report in line with ISO26000 with some country and industry specific adjustments of all listed banks (currently 30 out of total 56; April, 2016) for 10 years (2004-2013) in Bangladesh as a case and constructs a CS reporting index. This study tests legitimacy theory by using multiple regressions to find the applicability of three legitimacy variables – proximity to end-users, corporate social reporting initiatives by the stakeholders, and listing age of the firm. Additionally, corporate social reporting index has been used as dependent variable to explain the key legitimacy variables by controlling firm's size, profitability, and leverage variables. In total 30 banks for 10 years with 282 observations has been used to test empirically of the legitimacy theory variables. Further, 28 in-depth interviews were conducted from 24 listed banks to contemplate the conception of legitimacy theory argument in corporate social reporting and practices in the banking industry of Bangladesh. The interviewees were ranged from operational CSR manager to managing director/chief executive officer of the banks.

7.1 Summary of findings

From the descriptive analysis, the key findings of this study are that the main impetus driving the development of CSR reporting was the regulators; the CS reporting index was less than 20% at the beginning, and it increased linearly and reached around 60% in 2013 because of the legitimization of the new banking process through social perceptions. This process was supported implicitly and explicitly through ideological alignment with the regulators. Again, this study explains that CS reporting initiatives rather regulatory mandates are important for bolstering CS reporting in the developing countries where CS reporting is at the growing stage. In the theoretical explanation from the longitudinal study, this study supports legitimacy theory argument to explain that the banking industry voluntarily responds to the society's expectation to consumer issues, and community involvement and development from the very beginning.

From the statistical analysis, this thesis hypotheses that there is either positive or negative relationship between corporate social reporting and spatial competition index (SCI) – a measure of 'proximity to end-users' (H_1; Chapter-5). This study finds that companies which are away from 'proximity to end-users' disclose more social information than the companies that are prone to 'proximity to end-users'. That is companies which have less market position in the industry disclose more social information than the companies which have more market position in the industry. As a 'public profile' company, banks have to ensure direct touch with their clients. Since the companies with less 'proximity to end-users' by branch density in population have less direct touch with their clients they disclose more social information for their organizational and market legitimacy. Hence, this findings support H_1 and congruent with the broader thrust of legitimacy theory.

Further, this study hypothesized that there is positive relation between corporate social reporting and corporate social reporting initiatives by the stakeholders (H_2; Chapter-5). That means companies legitimate their behavior in response to the stakeholder initiatives. This study points out that stakeholder initiative for social reporting are important to promote corporate social reporting in the developing stage of corporate social reporting. At the nascent stage of social reporting there is an absence of standards, norms and exemplary organization. The initiatives give benchmark reference to the firms in the industry. Moreover, this study added that banking companies positively respond to the stakeholders initiatives for sustainability reporting might be to 'license to operate, ensure corporate code of conduct, and congruence with the voice of stakeholder thus is congruent with legitimacy theory. Hence, this study supports H_2.

Finally, this thesis hypothesis that there is either positive or negative relation between corporate social reporting and the company's listing age (H_3; Chapter-5). This study denotes that 'age of the firm' is opposite to general adage of legitimacy theory argument. The general adage of legitimacy theory argument is that older firms disclose more social information than the newer ones as they have diverse stakeholder. However, opposite argument on the 'age of the firm' can also be explained by the legitimacy theory contemplation. This study supports the opposite argument of legitimacy theory and narrates newer companies in the banking industry disclose more social information than the older ones. Hence, this study accepts H_3. Unlike manufacturing industry, service industry is a 'high public profile' company and newer banks have less scope to reach 'proximity to tertiary clients'. Newer banks disclose more social information to fill the ‘proximity to tertiary clients’ gap to meet the community expectation, hence, supportive to the broader thrust of legitimacy theory argument.

From the interview study, this study finds that bank managers report CS information in the annual report as a strategy to legitimize corporate actions and behavior. Companies that are away from the proximity to end-users disclose more social information than others due to their legitimate crisis. The interviewee added that companies that have less market position in the industry do more social reporting because of their CS reporting as market penetration policy, niche marketing, and bring the brand image of the company. Further the interview study explains that companies respond positively to the CS reporting initiatives to ensure corporate code of conduct in the industry; to ensure congruence with the voice of stakeholder; to continue their existence of business in the industry; and to avoid bans, or restriction from the stakeholder. Moreover, the interviewee explains banking companies which are new in the industry disclose more social information as they deposit crisis, lower market coverage, no bank branches in the rural areas, lower banker-customer relations, however, they entered in the industry with fasted technology, structured banking regulations, structurally ahead than the older banks, on-line real-time banking. Hence, the interviewee study finding is support to the empirical study finding and congruent to the contemplation of legitimacy theory argument.

7.2 Theoretical contributions

This paper contributes to legitimacy theory literature explaining that legitimacy theory is fitted and justified in corporate social reporting practices in the developing countries context similar to the developed countries situation. Like manufacturing industry legitimacy theory is similarly applicable to service industry, which is hardly been examined in prior studies. This study contributes directly to legitimacy theory literature by adding some legitimacy variables that have influence to corporate social reporting. *One,* ‘proximity to end-users’ is a new interceding variables to legitimacy theory that can be explained as an influential factor of corporate social reporting. Companies preferences to disclose social information mediated by ‘proximity to end-users’ might varies based on the nature of industries and, hence, cannot be generalized. *Two,* initiative for sustainability reporting by the stakeholder is another dominant factor in legitimacy theory that can explicate irrespective of industries and socio-cultural-political aspects when social reporting is at nascent stage. Initiatives from the stakeholder are welcomed by the sustainable reporting practitioners that might give benchmark reference in the industry. *Three,* the general adage for ‘age of the firm’ is that ‘age’ is positively connected with corporate social performance, which is not always true. Rather, ‘age of the firm’ as mediating factor to legitimacy theory to influence social reporting depends on the country and industry classification. It may differ from manufacturing industry to service industry. Thus, this study contributes to the legitimacy theory directly by testing some legitimacy variables empirically that can explain addition to the legitimacy theory literature.

Based on the longitudinal (Chapter-4), empirical (Chapter-5), and the bank managers' perception study (Chaper-6) findings, the broader thrust of legitimacy theory contemplation might be termed as 'Neo-Legitimacy Theory', as an academic implication, in a logical ground that this study extends legitimacy theory literature. This study testified that 'proximity to end-users', CS reporting initiatives by the stakeholders, and listing age of the firms are three new interceding variable to legitimacy theory. Neo-legitimacy theory in the arguments that this thesis does not discard the existing logic of legitimacy theory concept, rather this study extends the applicability of legitimacy theory quest in broader aspect. By 'Neo-Legitimacy-Theory' this thesis means adding new dimensions in explaining the broader thrust of existing 'legitimacy theory' arguments that is new or recent or contemporary. This thesis supports broader thrust of legitimacy theory explanation and support 'Neo-legitimacy theory' contemplation at least in three arguments empirically.

The general adage of legitimacy theory is that companies, which are 'public profile' category, disclose more social information than the others. It is not always true that companies that are 'proximity to end-user' disclose more social information supportive to legitimacy theory argument. This study opposes the findings of earlier literature (e.g. Cowen et al., 1987; Hackston and Milne; 1996; Clarke and Gibson-Sweet, 1999; Campbell et al., 2006). They explained 'public profile' companies are expected to disclose more social information for legitimate reasons; however, their study failed to test the intensity of 'proximity' to the end-users effect in CS reporting and practices. This study supports opposite argument that is also justified that companies that are away from 'proximity to end-users' requires disclosing more CS information for their organizational and market legitimacy. Basically, the 'intensity of proximity' is important while explaining the 'public profile' in linking CS reporting behavior by the company.

Second logical ground is this study supports the legitimacy theory argument that companies legitimate the stakeholder initiatives as the industry's code of conduct, license to operate, congruence with the voice of stakeholder, and initiatives rather powerful steps are important for the CS reporting and practices when it is in the novice stage. This finding supports legitimacy theory contemplation and supports earlier findings in an explanation that companies respond stakeholder initiatives as a strategy for competitive advantage (Hess et al., 2002), change in policies (Honger, 1982), external forces such as economic, social and political (Guthrie and Parker, 1989), and change characteristics of the political environment (Archel et al., 2009).

Third, another general adage by legitimacy theory argument on ‘listing age of the firm’ is that older firms disclose more social information than the newer ones as they have diverse stakeholder. This is not always true in all sectors differing to the service industry. This study opposes this general adage by explaining that newer banks which have less scope to reach ‘proximity to tertiary clients’ discloses more social information than the older ones to fill the ‘proximity to tertiary clients’ gap to meet the community expectation and to gain/increase market legitimacy in the industry. Hence, the opposite situation of legitimacy theory argument for ‘listing age’ is also applicable as newer companies need market penetration where CS reporting is working more as a strategic tool to ensure market position in the industry. The findings of opposite argument on ‘age’ of legitimacy theory is also support to earlier studies (Cho et al., 2010; Rahman et al., 2011) but their studies falls to link with legitimacy theory contemplation.

Hence, this thesis supports the broader thrust of legitimacy theory by proposing new dimension of legitimacy theory named ‘Neo-Legitimacy-Theory’.

7.3 Practical implications

The practical implications of this study are multifold. These findings, first, facilitate regulators to look for monitoring and supervision of CS reporting and financing to sustainable projects in the banking industry. The findings can help regulators to adopt an appropriate balance of legislation, reform and their enforcement to make improvements in the CS reporting practices and enhancement of organizational legitimacy. Policy makers need to be cautious about importing and mandating CSR policies and practices to promote instead of encouraging motivated behavior. Again, this study directs banking industry to foresee their sustainability reporting practices, trends, and lending disbursement preferences to green and sustainable banking. The area of CSR initiatives defined by the regulators should not be confined with the philanthropic activities only should be extended to sustainable CSR by banking business.

Second, the younger banks should strategize their CSR initiatives and CS reporting as a brand by focusing on particular area of CS development such as education, health, sports, arts and culture, SME finance, women entrepreneurship development, green banking etc. while the older banks should do more CS reporting for their CSR initiatives as it brings competitive advantages for the company.

Third, the current sustainability practices by the banking industry in Bangladesh are mostly from CSR philanthropic aspect. The practitioners and stakeholders also defined the area of CSR to philanthropic aspect only. The concept of CSR, and CS reporting and the practices should be broadened by training and development of the practicing employee and other concern stakeholders in sustainability practices.

Fourth, for ensuring international standard, the commercial banks already started practicing CS reporting based on international guidelines (e.g. ISO26000; GRI-G4). The international standards (e.g. ISO26000; GRI-G4) are very western style and ignore the Islamic philosophy of banking system and its reporting. Islamic shariah (rules/guidelines) in CS reporting can be incorporated in the international standard so that the banking companies that are practicing Islamic banking system can report their CSR initiatives.

7.4 Future research issues

Further research may consider disclosures in other media such as newspaper clipping and the internet including non-bank financial institutions such as insurance and leasing companies. Moreover, a comparative study can be conducted with other developing countries from longitudinal aspects to test the applicability of legitimacy theory in the banking industry. The proposed new dimension of existing legitimacy theory ‘Neo-Legitimacy Theory’ argument can also be tested empirically in the developing and well as developed countries banking industries setting.

Chapter-8: References

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Chapter-9: Appendices

Appendix-1: List of disclosure items for this study by ISO26000 with the country and industry context/Comparison Table among ISO26000, GRI guidelines, and Global Compact (GC)

ISO26000	**GRI G4**	**Global Compact (GC)**
Core subject: Organizational governance 6.2	G4-LA12	
Issue-1: CSR in vision and mission statement		
Issue-2: Top level commitment/Message from CEO/MD		
Issue-3: Corporate Governance		
Issue-4: Lending Risk management		
Issue-5: Internal control and compliance/shariah committee		
Issue-6: Stakeholder engagement		
Core subject: Human rights 6.3		Principle-1,2
Issue 1: Due diligence **6.3.3**	G4-HR1, G4-HR4,5,6,9,10,11	
Issue 2: Human rights risk situations **6.3.4**	G4-HR4, 5,6,7,8,9,10,11	
Issue 3: Avoidance of complicity **6.3.5**	G4-EN32,G4-EN33,G4-LA14,G4-LA15,G4-HR1, 2,4,5,6,7,9,10,G4-SO9, G4-SO10	
Issue 4: Resolving grievances **6.3.6**	G4-EN34, G4-LA16,G4-HR3,G4-HR8,G4-HR12,G4-SO11	
Issue 5: Discrimination and vulnerable groups **6.3.7**	G4-EC5, G4-LA12-13, G4-HR3,5,8	
Issue 6: Civil and political rights **6.3.8**	G4-HR4, 8	
Issue 7: Economic, social and cultural rights **6.3.9**	G4-EC7, 8; G4-SO1, 2	
Issue 8: Fundamental rights at work **6.3.10**	G4-EC5, G4-LA12, 13; G4-HR3, 4,5,6	
Core subject: Labor Practices 6.4		Principle 3,4,5,6
Issue 1: Employment and employment relationships **6.4.3**	G4-EC5,6,9; G4-HR3; G4-LA1,4,12,13,14,15	
Issue 2: Conditions of work and social protection **6.4.4**	G4-EC5, G4-LA2,3,13	
Issue 3: Social dialogue **6.4.5**	G4-LA4, G4-HR4	
Issue 4: Health and safety at work **6.4.6**	G4-LA5,6,7,8	
Issue 5: Human development and training in the workplace **6.5**	G4-LA9,10,11	
Core subject: The environment and environmental risk management 6.5.3		Principle 7,8,9
Issue 1: Prevention of pollution**6.5.4**/ Sustainable resource use **6.5.5** /In-house environmental management	G4-EN20,21,22,23,24,25,26,27,28; G4-SO1	
Issue 2: Climate change mitigation and adaptation **6.5.6**	G4-EC2,6,7,15,16,17,18,19,20,27	
Issue 3: Protection and restoration of the natural environment **6.5.7**	G4-EN11,12,13,14,27	
Issue 4: Environmental risk management (ERM) policy for financing the project	*Note:Country and industry specific Item*	
Core subject: Fair operating practices 6.6		
Issue 1: Anti–corruption **6.6.3**	G4-SO3,4,5	Principle-10
Issue 2: Responsible political involvement **6.6.4**	G4-SO6	
Issue 3: Fair competition **6.6.5**	G4-SO7	

Issue 4: Promoting social responsibility in the sphere of influence **6.6.6**	G4-EC8, 9;G4-EN30,32,33;G4-LA14,15;G4-HR1,4,5,6,7,10,11; G4-SO4, 9,10	
Issue 5: Respect for property rights **6.6.7**	G4-EC8, G4-HR8,G4-SO7	
Core subject: Consumer issues 6.7		
Issue 1: Fair marketing, information and contractual practices **6.7.3**	G4-PR3, 4,7	
Issue 2: Consumer service, support, and dispute resolution **6.7.6**	G4-PR5,9	
Issue 3: Consumer data protection and privacy **6.7.7**	G4-PR8	
Issue 4: Access to essential services **6.7.8**	G4-EC8	
Issue 5: Education and awareness **6.7.9**	G4-PR3,4	
Core subject: Community involvement and development 6.8		
Issue 1: Community involvement **6.8.3**	G4-EC1,G4-HR8	
Issue 2: Education and culture **6.8.4**	G4-HR5	
Issue 3: Employment creation and skills development **6.8.5**	G4-EC6,7,8; G4-LA10	
Issue 4: Technology development **6.8.6**	-----	
Issue 5: Wealth and income creation **6.8.7**	G4-EC1,3,6,7,8,9; G4-LA2	
Issue 6: Health **6.8.8**	G4-LA6,7;G4-PR1,2	
Issue 7: Social investment **6.8.9**	G4-EC1,7,8	
Issue 8: Support to disadvantaged people	*Note:Country and industry specific Item*	
Core subject: Green and Sustainable Banking	*Note:Country and industry specific Item*	
Issue 1: Green banking governance		
Issue 2: Green-financing		
Issue 3: Green marketing and online banking		
Issue 4: Financing to SME/Micro/Retail/Agriculture		
Issue 5: Access to Finance and Financial Inclusion		

Appendix-2: Coding terms for this study as per ISO26000 with some country and industry specific adjustments

Core subject: Organizational governance 6.2
CSR in vision, mission, core value statement, and/or strategic priority; top level commitment/message from CEO/MD; Corporate Governance; compliance/commitment with external initiatives; lending and risk management; internal control and compliance/Shariah Committee; stakeholder engagement
Core subject: Human rights 6.3
Issue 1: Due diligence 6.3.3 Includes *human right policy*, means of assessing how existing and proposed activities affect human rights, integrating human right policy throughout the organization, and means of tracking performance over time
Issue 2: Human rights risk situations 6.3.4 Specific care in circumstances and environments where organizations are more likely to face challenges and dilemmas relating to human rights and the risk of *human rights* abuse may be exacerbated such as political instability; poverty, drought, natural disasters; extractive activities that affect natural resources; proximity of operation of indigenous people, can affect children; value chain; extensive measure to secure premises.
Issue 3: Avoidance of complicity 6.3.5 Security arrangements respect human rights and are consistent with international norms and standards for law enforcement; *training to security personnel*; complaints about the security procedure; not provide goods/service that harm human rights; not enter into a formal partnership that commit human right abuses; inform about the social and environmental conditions for goods/service produced; consider making public.
Issue 4: Resolving grievances 6.3.6 Human rights grievance resolving mechanism
Issue 5: Discrimination and vulnerable groups 6.3.7 Action to ensure *equal opportunity* and respect for all, not discrimination to stakeholders, examine its own operation

and within its sphere of influence about discrimination, *raising awareness* about human rights, redressing past discrimination, take positive and conducive view of diversity among people. Note: Vulnerable group includes women and girls, people with disabilities, children, indigenous people, migrants and migrants workers, people discriminated on the basis of descent including caste, others such as poor, illiterate, minority and religious group.
Issue 6: Civil and political rights 6.3.8 Respect civil and political rights that include life of individuals; *freedom of opinion and expression; freedom of peaceful assembly/association*; freedom to seek receive and impart information and ideas through any means regardless boarder.
Issue 7: Economic, social and cultural rights 6.3.9 Support/facilitate *education and life-long learning*; joining organization/governmental institutions supporting respect; ways to adapt goods/service to *purchasing poor people*; making facilities/resources available to occasional cultural activities.
Issue 8: Fundamental rights at work 6.3.10 Freedom of association and effective *collective bargaining*; elimination of *forced/compulsory labor*; abolition of child labor; elimination of discrimination in respect of employment and occupation.
Core subject: Labor Practices 6.4
Issue 1: Employment and employment relationships 6.4.3 Confidence in work performed, not seek to avoid *obligation by law*, active *workforce planning*, provide reasonable *notice/time* that affect employment, ensure equal opportunities, eliminate arbitrary/discriminator dismissal practices, protect employee data and privacy, contracted or sub-contracted organization's has decent working condition, no benefit from unfair/exploitative or abusive labor practices and promotion & advancement of nations of host country of multinational company.
Issue 2: Conditions of work and social protection 6.4.4 *Condition of work* with national laws and regulations consistent with international standard, collective agreement, observe minimum provision of ILO, provide decent condition of work, provide equal pay for work, pay direct to the workers, respect to normal working hour, compensate overtime works, observe national/religious traditions and customs. Note: Condition of works includes wages and other forms of compensation, working time, rest periods, holidays, disciplinary and dismissal practices, maternity and welfare maters; and social protection includes all legal guarantees and organizational policies and practices to mitigate the reduction or loss of incase in injury, illness, maternity, parenthood, old age, unemployment, disability or any other hardship.
Issue 3: Social dialogue 6.4.5 *Collective bargaining* structure, rights to join/form CB organization, reasonable notice to the government for major employment impact, workers representative with access to authorized decision maker, refrain from encouraging government to restrict social dialogue. Note: Social dialogue includes all types of negotiation, consultation or exchange of information between or among representatives of governments, employers and workers, or matters of common interest relating to economic and social concern.
Issue 4: Health and safety at work 6.4.6 *Health, safety and working environment policy*; understand and apply principles of health and safety management; analyze and control the health and safety risk; communicate information, provide safety equipment; record and investigate all health and safety incidents; address Occupational Safety and Health (OSH); equal health and safety to part-time/temporary/subcontracted workers; eliminate psychosocial hazard; join labor-management health and safety committee
Issue 5: Human development and training in the workplace 6.5 Skills *development, training and apprenticeship*, career advancement, help to transition to new employment through skills recognition, respect family responsibilities, joint labor-management programs.
Core subject: The environment environmental risk management 6.5.3
Issue 1: Prevention of pollution/In-house environmental management/sustainable resource use 6.5.4/6.5.5 Emission to air, discharge to water, waste, release to toxic and hazardous chemicals, other identifiable forms; Energy efficiency *programs, water conservation* and access to water, efficiency in the use of materials
Issue 2: Climate change mitigation and adaptation 6.5.6 Source, measure, record and report *GHG emission*; programs to reduce GHG emissions, reduce to use of fossil fuels Consider opportunities for emission trading under UN Framework Convention on Climate Change (UNFCCC),

future global and local projects to mitigate climate risk; and identify opportunities to avoid/minimize climate change risk.
Issue 3: Protection and restoration of the natural environment 6.5.7 Valuing, protecting and restoring *ecosystem* service; valuing and protecting *biodiversity*; using land and natural resources sustainably; advancing environmentally sound urban and rural development.
Issue-4: Environmental risk management (ERM) policy for financing the project *(country specific issue)*

Core subject: Fair operating practices 6.6
Issue 1: Anti–corruption 6.6.3 *Policyand practices* to counter corruption, bribery and extortion; ensure leadership to implement anti-corruption policy; support employees and representative to eradicate; train and raise awareness; ensure remuneration is appropriate; effective internal control; encourage report violations; bringing violation to law; work to oppose corruption.
Issue 2: Responsible political involvement 6.6.4 *Train and raise awareness* among employees and representatives; *transparent policy* in lobbying, political contribution and involvement; policies and guidelines to manage people to retain on the organization behalf; avoid political contribution that in favor of a specific cause; prohibit activities in misinformation, misrepresentation, threat or compulsion.
Issue 3: Fair competition 6.6.5 Manner consistent with *competition laws and regulations*; procedure and other safeguard to *prevent anti-competitive* behavior; promote employee awareness; support anti-trust and anti-dumping practices; encourage public policy; not take advantage in social condition.
Issue 4: Promoting social responsibility in the sphere of influence 6.6.6 *Influence other organizations* through the exercise of its procure and purchasing decisions; consider potential impact/unintended consequences of it procurement decision on other organization
Issue 5: Respect for property rights 6.6.7 *Policy and practices* to promote respect property rights and traditional knowledge; lawful title permitting use or disposal; not engage in activities that violate; pay fair compensation; consider the expectations of society, human rights.
Core subject: Consumer issues 6.7
Issue 1: Fair marketing, information and contractual practices 6.7.3 Not engage in *deceptive, misleading, fraudulent or unfair information*; clearly identify *advertising and marketing*; openly disclose total prices and taxes, terms and conditions; substantiate claims or assertions; not use text/image that perpetuate stereotyping; not unfairly target vulnerable groups; language in the point of sale; contracts in written and clear.
Issue 2: Consumer service, support, and dispute resolution 6.7.6 Warranties and guarantees, technical support regarding use, provision for return, repair and maintenance; measures to prevent, review, improve practice to response to complaints; dispute resolution (ISO-1001,1002,1003) and redress mechanism.
Issue 3: Consumer data protection and privacy 6.7.7 *Rigorous system* for obtaining, using and protecting data
Issue 4: Access to essential services 6.7.8 Contribute to the fulfillment of rights of essential services such as electricity, gas, water, waste water services, drainage, sewerage and telephone
Issue 5: Education and awareness *Education and awareness* initiatives to enable consumers to be well informed, conscious of their rights and responsibilities, assume an active role and be able to knowledgeable purchasing decision and consumption, skills in assessing products and services, and making comparison.

Note: consumer health and safety; and sustainable consumption are not considered as banking industry does not directly involved in producing physical product.

Core subject: Community involvement and development 6.8
Issue 1: Community involvement 6.8.3 Consult representative *community groups* in determining priorities for social investment and community development activities; developments that can affect them; participate *local association*; maintain transparent

relationship with local *government officials* and *political representatives*; contribute to policy formulation.
Issue 2: Education and culture 6.8.4 Promote and support *education at all levels*, learning opportunities to vulnerable/discriminate group, encourage the enrollment of children education, facilitating human rights to education and awareness rising; conserve and protect *cultural heritage*, promote traditional knowledge and technologies.
Issue 3: Employment creation and skills development 6.8.5 Impact of investment decision on *employment creation*; consider the impact of technology choice and outsourcing; participating local and national skill development programs; attention to vulnerable group in employment and capacity building; framework condition to create employment.
Issue 4: Technology development 6.8.6 Contributing to the development of *low-cost*, economically feasible with developing *potential local and traditional* knowledge and skills technologies; engaging in partnership with local organization such as universities; adopt practices that allow technology transfer and diffuse.
Issue 5: Wealth and income creation 6.8.7 Contribute positively to wealth and income creation through *entrepreneurship programs*, development of local suppliers, employment of local community members, empowering women, meeting *tax obligation*, value chain, compliance with laws and regulations to alleviate poverty.
Issue 6: Health 6.8.8 Minimize or eliminate negative health impact of any production processes, product/services; contributing to access *to medicine and vaccination*; raising awareness *HIV/AIDS*, cancer, heart disease malaria, tuberculosis, and obesity; access to health care services, clean water and sanitation.
Issue 7: Social investment 6.8.9 Social investments include projects to *education, training, culture, healthcare, income generation, infrastructure* development, and access to information; *philanthropic (e.g. grants, volunteering and donation*), prioritize projects that viable in the long-run and contribute sustainable development.
Issue 8: Support to disadvantage people *(country specific issue)* Support to disadvantages such as providing warm clothes to cold stricken people; support to flood, cyclone, and other natural affected people; and support to autistic babies

Note: Issue 8-support to disadvantage people is additionally included in the community involvement and development area as banking industry provides support to disadvantage people round the year.

Core subject: Green and Sustainable Banking[24] *(country and industry specific issue)*
Issue 1: Green banking governance Green banking unit/department/chair/committee; green banking policy
Issue 2: Green-financing Financing to ETP, bio-gas plant, solar panel, Hybrid Hoffman Kiln (HHK)
Issue 3: Green marketing and online banking Web or SMS marketing of the product or services; on-line banking services; mobile banking; SMS banking
Issue 4: Financing to SME/Micro/Retail/Agriculture
Issue 5: Access to Finance & Financial inclusion Providing financial/banking facilities to poor, ultra-poor, sharecropper, freedom fighter, senior citizen, farmers etc.; school banking;

[24] Green and sustainable banking is, in addition to the ISO26000 guideline, considered in analyzing CSR reporting. Currently, green and sustainable banking activities are supervised by the Central Bank of Bangladesh.

Appendix-3: List of Banks

AB Bank Ltd.; Al-Arafah Islami Bank Ltd.; Bank Asia Ltd.; BRAC Bank Ltd.; City Bank Ltd.; Dhaka Bank Ltd.; Dutch-Bangla Bank Ltd.; Eastern Bank Ltd.; Export Import Bank of Bangladesh Ltd.; First Security Islami Bank Ltd.; ICB Islamic Bank Ltd.; IFIC Bank Ltd.; Islami Bank Bangladesh Ltd.; Jamuna Bank Ltd.; Mercantile Bank Ltd.; Mutual Trust Bank Ltd.; National Bank Ltd.; National Credit and Commerce Bank Ltd.; One Bank Ltd.; The Premier Bank Ltd. ; Prime Bank Ltd.; Pubali Bank Ltd.; Rupali Bank Ltd.; ShahjalalIslami Bank Ltd.; Social Islami Bank Ltd.; Southeast Bank Ltd.; Standard Bank Ltd.; Trust Bank Ltd.; United Commercial Bank Ltd. ; Uttara Bank Ltd.

Appendix-4: Coding of the interviewee

Code of the interviewee	Status in the organization	Operating position
1	Senior Assistant Vice President	Head of agriculture support and Green Banking
2	Vice President	Head of CSR and GB; SME and Agriculture
3	Senior Vice President	Head of SME, Agree, and GB
4	GM (General Manager) Banking control and common service division	Head of CSR and GB
5	Assistant Vice President	Head of GB
6	SAVP	Head of GB
7	Deputy General Manager	Head of Green Finance and Internal Credit
8	Executive vice President	Head of CSR
9	Board Secretary/ Deputy company secretary	Head of CSR
10	SAVP	Head of comm. And Brand; Head of CSR
11	Former MD of 12 commercial banks	Former Chairman, Bangladesh Krishi Bank (BKB)
12	Senior Officer	Head of CSR
13	First Assistant Vice President	Head of CSR and GB
14	Senior Officer	Head of CSR
15	Senior Assistant Vice President	Sariah Secretariat, EXIM Bank Foundation; Head of CSR
16	Senior Manager	Head of SME and Head of CSR & GB
17	Executive officer	Operating officer, brand marketing and corporate affairs
18	Senior Executive Vice President and CFO	Head of CSR
19	Deputy Managing Director	Head of CSR
20	Manager	Head of CSR & Administration
21	Senior Assistant Vice President	Head of comm. And Branding; Head of CSR
22	Managing Director (MD)	Chief Executive Officer
23	Managing Director (MD)	Chief Executive Officer
24	Managing Director (MD)	Chief Executive Officer
25	Managing Director (MD)	Chief Executive Officer
26	Managing Director (MD)	Chief Executive Officer
27	Assistant Vice President	Head of CRM-1; CSR
28	General Manager (GM)	Head of CSR

Appendix-5: Interview Questionnaire

Semi-structured **Interview questionnaire** (For Commercial Banks)
On
Managers' perceptions on Corporate Social Reporting and Accounting in the Banking Industry of Bangladesh

Dear sir/Madam,
I, Mohammad Tazul Islam, Assistant Professor, Bangladesh Institute of Bank Management (BIBM), Mirpur-2, Dhaka-1216 am doing PhD under Professor Katsuhiko Kokubu at Graduate School of Business Administration, Kobe University, Japan. For my research purpose, a semi-structured interview will be conducted on the above topic. The interview will be recorded (if you agree) and will be used only for academic purposes. The information will not be disclosed elsewhere and unanimous citation will be used for write-ups.

Name of bank:
Position/designation of the interviewee:
Which one do you give priority for CSR reporting? :

	Give priority/ please rank
Annual Report	
Bank's website	
News Media	
Bank's Bulletin board	
Others (Please mention)	

Indicate when you came across CSR reporting in your working life?-
Interview Questions:

1. How much and what kind of influences do you have in *mandatory* aspect of CSR reporting?

2. Are you concerned with any "*powerful stakeholder groups*" (e.g. regulators, depositors, borrowers, community, voluntarily organizations, media, NGO, international community etc.) to reflect the broader community for CSR activities? Please share your experience.

3. Why do you *respond to the stakeholders* (e.g. regulators, community, voluntarily association such as Association of Bankers Bangladesh) *initiatives* for CSR reporting? (Opinion)

4. Why *newer banks with fewer branches* do more CSR reporting? Please share your opinion.

5. Why do you think CSR reporting is important for *increasing, rebuilding/repairing, and maintaining* depositors (stakeholder) trust on the bank?

6. a)Why you (your bank) do (*engage* in) CSR? b) Why does your bank *report CSR*? (Opinion)

7. Do you face any *problem* in CSR reporting? (*Experience*). What is *your view* on CSR reporting in *future*?

Any comments:

Appendix-6: CSR model for banks by business

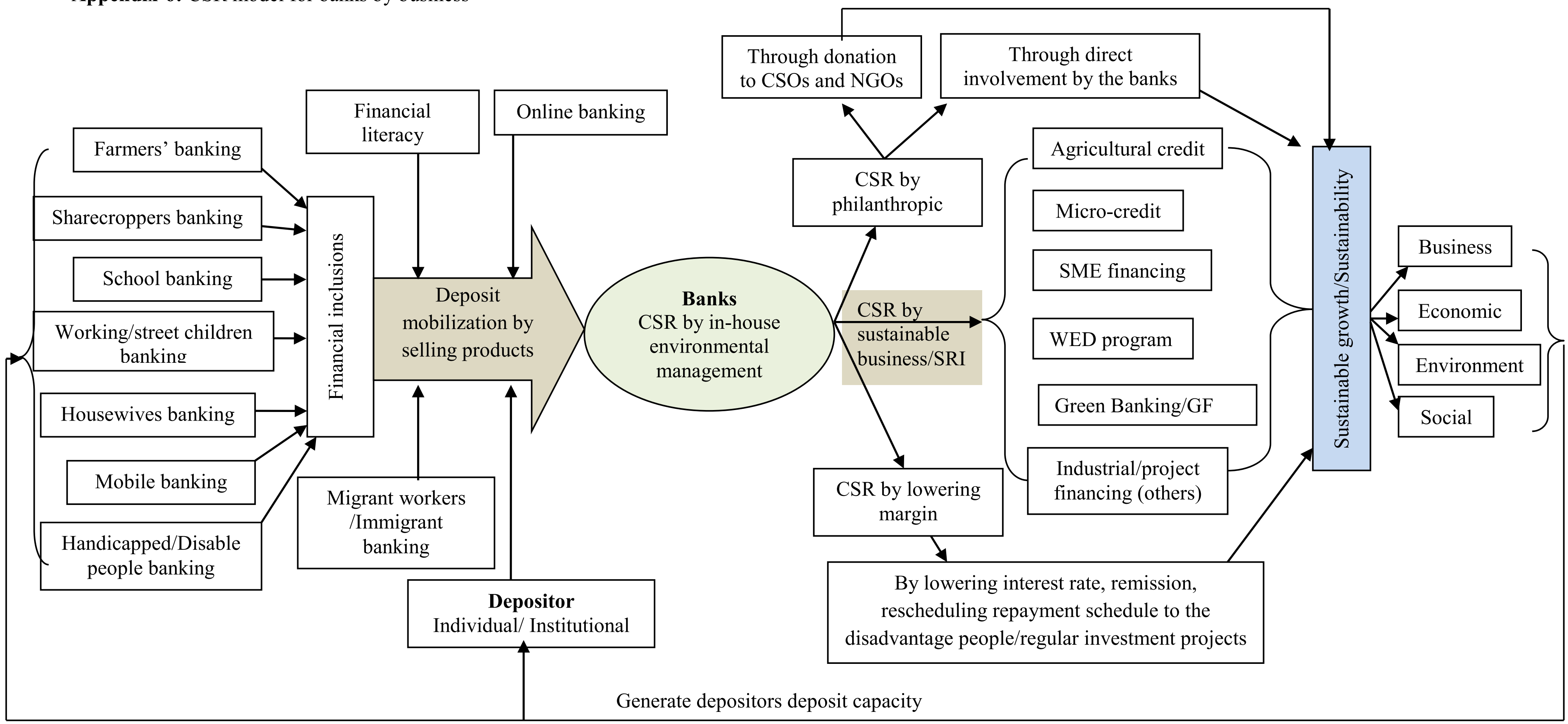

Figure-4 CSR model for banks by business
Source: Designed and proposed by the author

Note: CSOs = Civil society organizations; NGOs = Non-government organization; SME = Small and Medium Enterprises; WED = Women entrepreneurship development; GF = Green financing; SRI = Socially responsible investment

Appendix-7: Stakeholder initiatives on CSR (References numbers)

2013
ACFID Circular No. 01; BFIU Circular Letter No. 04, 08, 09; BRPD Circular No. 01 (19/3; 28/3)[25], 7, 11, 12, 14, 17, 18, 19, 21, 23; DOS Circular Letter No. 10, 13; EEF Circular No. 34; SMESPD Circular Letter No. 01(11/9; 23/10), 02; GBCSRD Circular Letter No. 01, 02 (16/4; 1/7), 3, 4 (11/8; 5/9), 05, 08

2012
ACFID Circular No. 01, 2 (24/7), 2 (2/4), 4; BFIU Circular Letter No. 02, 3 (24/4; 10/10), 4, 6; BRPD Circular Letter No. 01, 3, 4, 5 (25/4; 16/7), 7, 10, 17; DCMPS Circular No. 02; DOS Circular No. 02; SMESPD Circular Letter No. 01; MoF circular no 07.101.020.03.09.015.2009-606

2011
ACD Circular No. 01, 2, 3 (24/7), 3 (22/9); AML Circular No. 29; BRPD Circular No. 01, 2, 4, 5, 7, 8, 7; DCMPS Circular No. 02, 04, 07, 08, 10; FEIVD Circular Letter No. 01; DOS Circular Letter No.05, 07, 20; SMESPD Circular No. 01

2010
ACD Circular No. 02, 09, 10, 14, 15, 16, 17; AML Circular No. 23, 26; BRPD Circular No. 01 (17/1; 30/1), 02 (15/2; 27/2), 03, 04 (14/3; 11/4), 05 (28/1; 25/3; 19/6), 06 (4/2; 20/4), 07 (7/2; 18/9), 08 (14/2; 19/6), 12, 17, 21, 29; DCMPS Circular Letter No. 01, 07, 09; DOS Circular Letter No. 07 (15/7; 24/8), 16; SMESPD Circular Letter No. 01, 02, 05

2009
ACSPD Circular Letter No.2 (2/3; 2/6), 4 (31/3; 14/7), 5(16/4; 14/7), 6 (3/8; 26/8), 7 (7/9; 11/11), 8; AML Circular No. 21, 22; BRPD Circular No. 03, 06, 08, 10, 14; PSD Circular No. 01, 05; DOS Circular No. 02

2008
ACSPD Circular Letter No 01(1/1; 7/2), 2, 3 (18/3; 12/6), 6, 9, 10, 12; AML Circular No 16, 17, 19; BRPD Circular Letter No. 04, 06, 10, 12; BRPD circular No-04; DOS Circular No. 01, 09; EEF Circular No. 28

2007
ACSPD Circular No. 01, 3, 4; AML Circular No. 11, 14; BRPD Circular No. 07 (9/7; 18/9), 11, 13; DOS Circular Letter No. 08; EEF Circular No 25

2006
ACSPD Circular No. 03; SEC notification no SEC/CMRRCD/2006-158/admin/02-08

2005
BRPD Circular Letter No. 01, 06, 09, 14, 18

2004
ACSPD Circular No. 01; BRPD Circular No. 06

Here ACFID = Agricultural Credit and Financial Inclusion Department, ACD = Agricultural Credit Department, BFIU = Bangladesh Financial Intelligence Unit, BRPD = Banking Regulation and Policy Department, DOS = Department of Off-Site Supervision, EEF = Equity and Entrepreneurship Fund Unit, SMESPD = SME and Special Programmes Department, GBCSRD = Green Banking and CSR Department, DCMPS/PSD = Department of Currency Management and Payment System, AML = Anti Money Laundering Department, FEIVD = Department of Foreign Exchange Inspection, Bangladesh Bank; SEC = Securities and Exchange Commission; MoF = Ministry of Finance

[25] The figures in the parenthesis indicate date of initiatives in the particular year.

Appendix-8: Acknowledgement

At first, I am grateful to Allah who has given me the inability and send me to earth to learn and grow.

I would like to convey special thanks to *Professor Katsuhiko Kokubu* for his jubilant leadership and supervision for stepping forward to this PhD thesis. I am grateful to *Professor Kokubu* for guiding me in understanding and designing research methodology, and his majestic introduction to sustainability reporting theories. Importantly, as a role model, he always inspires me to bring new dimensions in sustainability reporting theories. His continual support in presenting and publishing the parts of the doctoral thesis in different reputed CSR conferences and esteemed journals are always appreciative. I am impressed for his talent, strong dedication and commitment to research, and am fortunate to work with his excellence.

Moreover, I am also thankful to the esteemed members of *Kokubu Seminar*, particularly *Professor Kimitaka Nishitani* and *Michiyuki Yagi* for their insightful comments in shaping the paper into success. Further, I also owe sincere gratitude to *Professor Horiguchi Shinji* and *Kajiwara Takehisa* for their perceptive recommendations in improving the standard of this thesis. I am gratified to *Professor Jeffrey Unerman* for his discerning comments on the chapter of the paper in uplifting the research thoughts. A special thank to the authority of Kobe University for appointing me as a SESAMI Researcher in the Strategic Entrepreneurship and Sustainability Alliance Management Initiatives (SESAMI) program. Again, warm felicitation bestowed to the Hyogo International Scholarship Authority by Kobe University in allowing me to continue this program. I am grateful to my distinguished colleagues in Bangladesh Institute of Bank Management (BIBM) particularly *Dr. Toufic Ahmad Choudhury*, *Dr. Shah Md. Ahsan Habib* and *Md. Shahid Ullah*, for their support in data collection in Bangladesh.

Finally, I would like to acknowledge the extraordinary trustworthy support, patience, and encouragement by my wife, *Aisha Akther*, during these three years of PhD. Moreover, I do acknowledge my parents for their understanding, and unfailing support in the PhD graduation process.

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