The Influence of Ownership Structures and Board Practices on Corporate Social Disclosures in a Developing Country

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Abstract

In recent times the debate on 'corporate social disclosures' (CSD) has become increasingly prominent in the social accounting and corporate governance literature. A host of studies has been conducted on CSD practices in developed countries. However, such studies are relatively rare in respect of developing countries. This study investigates whether ownership concentration and the imposition of regulation on corporate governance practices (including a change of board composition) influence voluntary CSD practices in developing countries. The results show that the imposition of regulation on corporate governance practices can significantly influence CSD practices in a developing country such as Bangladesh.

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Introduction

'Corporate social disclosures' (CSD) has become increasingly prominent in the social accounting and corporate governance literature. There is a host of studies conducted on CSD practices in the context of developed countries including Australia and New Zeeland (Guthrie and Mathews, 1985; Guthrie and Parker, 1989; Tilt, 1994; Hackston and Milne, 1996; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Hall, 2002); United States (Ernst and Ernst, 1978); Western Europe (Adams *et al.,* 1998; Dierkes, 1980; Rey, 1980) and Japan (Yamagami and Kokubu, 1991; Stanwick and Stanwick, 2006) The literature shows that in developed countries there is an increased awareness about CSD practices among different stakeholders. On the other hand, some literature has linked ownership structure and firm performance (Demsetz and Lehn, 1985; Morck *et al.*, 1988; Kim *et al.*, 1988; McConnel and Servaes, 1990; Han and Suk, 1998; Short and Keasey, 1999; Xu and Wang, 1999; Chen, 2001, Hovy *et al.,* 2003; Yammeesri and Lodh, 2004; Sheu and Yang, 2005; Yammeesri *et al.,* 2006). However, these studies did not examine the associations between CSD practices, ownership concentration and imposed regulation of corporate governance practices.

The literature on voluntary CSD is divided into two divergent theoretical underpinnings: from market-driven *self-regulation* (in a Milton Friedman's economic rationality sense), to *pro-regulation*. This study investigates whether ownership concentration and the imposition of regulation on corporate governance practices, including a change of board composition, influence voluntary CSD practices in developing countries. For example, Milton Friedman believed that the responsibility of business is to make profits and belongs *solely* to the individual outside the business community. Being a supporter of the free-market perspective, he adopted the purely agency theory perspective (Jensen and Meckling 1976) and believed that any attempt to satisfy stakeholders, other than shareholders, is misguided (Solomon, 2007). However, such ideas of market-driven self-regulation are debated vigorously. It is argued that business has the responsibility to preserve the environment for continued profits; to become socially responsible and to have the basic sense to 'clean up the mess' they made (Solomon and Martin, 2004, p 171). Therefore, there is increased concern about whether corporate entities are acting in a socially responsible manner. Accordingly, CSD practices have received an increasing amount of attention from academics, government, professional bodies, industries and corporations (Perera, 2007; Ghazali, 2007). CSD practices are seen as providing a solution to improved accountability for societal issues and have become an international issue (for example, global warming and climate change) (Elkington, 1997, Cheney, 2001; Hall, 2002).

Following the recent high incidence of corporate collapses around the world (in particular, the collapses of Enron, WorldCom, HIH Insurance and) (see Clarke and Dean 2007), corporate governance reforms have emerged in several countries. A cause of these collapses has been alleged to the ethical consequence, rather than simply auditing failure (Parker, 2005; Gordon, 2007; Perera, 2007). This has given rise to the imposition of regulation and/or good corporate governance principle guidelines by several developed countries, for example, introduction of Serbanes-Oxley Act, 2002 in United States, Higgs Report, 2003 and Smith Report, 2003 in UK and CLERP9 in Australia.

Mathews (1984, p.204) defines CSD in the corporate social and environmental research arena as:

> ……voluntary disclosure of information both qualitative and quantitative, made by organizations to inform or influence a range of audiences. The qualitative disclosures may be financial or non-financial terms.

Gray *et al.* (1987) define corporate social disclosure (CSD) or triple bottom line reporting as:

> …the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. (p ix)

The World Business Council for Sustainable Development (WBCSD, 2000, p.10) proposed a broader understanding of the concept, emphasizing the balance between sustainable economic development as well as working with employees, their families, the local community and society. The Council further states that the commitment of business is to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

The emergence of CSD can be traced back to the early 1960s and 1970s in industrialized countries. In the last two decades or so, following the growing criticisms of industries by external pressure groups, the issue of good corporate governance has become a prominent global agenda (Burke, 1984; Yamagami and Kokubu, 1991; Tilt, 1994). Various influential standards and guidelines exist in developed countries, including Global Reporting Initiatives (GRI), ISO 14001, AA1000, and the International Standard on Assurance Engagements (ISAE) 3000. An important question remains whether such disclosures are occurring in developing countries. It is considered to be a new phenomenon in developing countries and law does not require such disclosures to be made; even though the need for them is acute (Gray *et al.,* 1996).

Milne (2007) argues that social research accounting "should concentrate on the extent of disclosure, relationship between disclosure and other variables (e.g., size industry, market price), the audit of disclosures and view of participants". (p.50). He further argues that other than disclosure practices, there are numerous studies that also have analyzed the relationships on various firm characteristics over the last two decades.

In the context of developing countries, there are several studies conducted on CSD practices (Singh and Ahuja 1983, Teoh and Thong, 1984; Andrew *et al.,* 1989; Savage *et al.,* 1994; Hegde *et al.* 1997; Imam, 2000; Belal, 2001; Haniffa and Cooke, 2002; Haniffa and Cooke 2005; Kuasirikun and Sherer, 2004; De Villiers *et al.,* 2006). However, CSD in the context of Bangladesh were studied by Imam (2000) and Belal (2001). Most of these studies examined the extent of corporate social disclosures, rather than examine the relationship between CSD practices and corporate governance attributes. This study, therefore, investigates whether ownership concentration and the imposition of regulation on corporate governance practices (including a change of board composition) influences voluntary CSD practices in a developing country context in Bangladesh.

Section two outlines the background literature and theoretical framework on CSD practices. Section three illustrates the context of CSD practices in Bangladesh. The method and hypotheses are developed in the subsequent section. A note on data collection and research method is outlined in section five. Empirical results are interpreted in the following section. A conclusion is drawn in the final section.

Background Literature on CSD Practices

The issue of business social responsibilities and to what extent businesses should make social disclosures has been debated for over the last few decades (Milne 2007). Numerous theories have dominated CSD research. A few of these theoretical underpinnings are discussed below.

Market Driven Forces and Regulation

This perspective suggests that the market or economic forces will motivate managers to provide information (such as, CSD) even in the absence of regulation (Deegan, 2006). The market forces will lead corporations to provide socially oriented information that may influence the share price and returns, and will be in line with modern management (Mathews, 1995). Contrary to this view, the pro-regulation perspective suggests that regulation is required and the market might not always work in the best interest of society:

> Over the years there have been many arguments and debates over the necessity for regulation. Those who believe in the efficacy of markets argue that regulation is not necessary as market forces will operate to best serve society and optimise the allocation of resources. However, there are many who point out that markets do not always operate in the best interests of societies, so some form of intervention in the form of regulation is necessary (Gaffikin 2005, p.1).

Stakeholder Theory

The concept of corporate social disclosure has been alleged to arise consistent with stakeholder theory, and the suggestion that companies should disclose environmental and social issues in addition to their financial reporting (Solomon, 2007, p.250). This perspective suggests that financial matters should not be the only consideration - there are moral obligations that should never be abandoned whatever the circumstances that an organisation faces (Solomon and Martin, 2004). Therefore, rather than to maximize the interest of the shareholders only, stakeholder theory suggests that the interest of the wider community involved in corporations (such as employees, customers and suppliers, communities and even the environment) is to be satisfied (Freeman, 1984; Blair 1995; Maher and Anderson, 1999; Stovall *et al.,* 2004). Compliance of such obligation (or social responsibility) ranges from profit maximization to social awareness and community service (Lantos, 2001).

Social Contract, Accountability and Organizational Legitimacy

Corporate social responsibility also arises to provide greater accountability, which can be considered a social contract in a legitimacy sense. This assumes that corporations act within the bounds and norms of society (Mathews, 1995; Gray *et al.,* 1998; Deegan, 2005). According to De Villiers *et al*. (2006, p.763) "corporations will do whatever they regard as necessary in order to preserve their image of a legitimate business with legitimate aims and methods of achieving it". Therefore, it is expected that corporations in developing countries will publish voluntary social and environmental information to ensure legitimacy.

This study is conducted with a *pro-regulation* perspective. It assumes that companies will not make any CSD voluntarily.

The Corporate Social Disclosure Context in Bangladesh

Bangladesh is a developing country in Asia. The population of Bangladesh during the year ended 30th June 2007 was approximately 141.8 million, making it the eighth most populous nation in the world and one of the most densely populated, with more than 916 people per square kilometre (Index of Economic Freedom, 2008). Therefore, living standards are increasing concerns in Bangladesh. Moreover, due to increased industrialization and growing foreign investment there are some adverse impacts on the environment. The river Buriganga, on the bank of which the capital city Dhaka stands, became 'clinically dead' as most of the industries are either on its banks (Belal, 2001) or the industrial waste ultimately flows in it. Due to industrialization, industries occupy cultivable fertile lands and industries dispose of wastes to the nearby fertile lands (causing the loss of fertility) and the waterways. However, there are neither active external pressure groups nor regulations requiring firms to make such disclosure. Foreign investors may not consider investing in Bangladesh companies that are not socially and ethically responsible (Belal, 2001). Therefore, corporate social disclosure is an increased concern in Bangladesh.

Corporate Governance Regulation in Bangladesh

The United Kingdom Cadbury Report (*Cadbury*, *1992*) defined corporate governance as the system by which companies are directed and controlled (p.15).

OECD (1999) defines corporate governance as follows:

> … a set of relationships between a company's management, its board, its shareholders and other stakeholders (p 11).

> Corporate governance also provides the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined…

CLERP (1997) defines corporate governance as:

> … the rules and practices put in place within a company to manage information and economic incentive problems inherent in a separation of ownership from control in large enterprises. It deals with how, and to what extent, the interest of various agents involved in the company are reconciled and what checks and incentives are put in place to ensure that managers maximise the value of the investment made by shareholders… (p.62)

Corporate governance suffers from being a multi-level concept which differs between country (or economy) and individual levels. However, following on the high degree of corporate collapses and scandals around the world over this decade, the corporate watchdog, the Securities and Exchange Commission of Bangladesh (SECB) announced the "Corporate Governance Notification 2006" for the listed firms on the Bangladeshi Stock Exchanges. This notification is probably the first published comprehensive set of corporate best practices governance guidelines in Bangladesh, and is a milestone of the corporate sector in Bangladesh. It requires compliance with the 'board size' (which is 5 to 20 members) and position of 'independent' or non-shareholder directors' in the board (which is at least 10% of the total board members or minimum one). This independent or non-shareholder directors should not have a significant material interest in the firms.

Following the announcement of "Corporate Governance Notification 2006" for Bangladeshi firms, 21 companies immediately adopted (either fully or partly) such practices to maintain their images. However, such a notification does not require companies to report CSD. Even the Companies Act 1994, which guides corporate financial reporting in Bangladesh, does not require CSD to be reported in the disclosure document or corporate annual reports.

Companies which adopted the notification to change the board structure they made most of CSDs through the 'Reports from the Board of Directors'. No other form of disclosures, such as brochures, press releases, reporting on the web pages and separate social reports are to be found in the Bangladesh corporate sector. Most of the CSD reports are in the form of qualitative statements. Although the "Corporate Governance Notification 2006" does not require companies to make social disclosures in Bangladesh, it can be assumed that the firms which adopted the corporate governance best practices are also making CSD to maintain their organizational legitimacy.

Hypotheses

Ownership Concentration and CSD Hypotheses

Due to the separation of ownership and control in modern corporations (Berle and Means 1932), there is a conflict of interest between the principal (owners) and the agent (management). The corporate ownership structure is one of the most important factors shaping the corporate governance system of any country. Ownership structures play an important role in determining a firm's objectives, shareholders' wealth and how managers of a firm are disciplined (Porter, 1990; Jensen, 2000; Yammeesri and Lodh 2004, Yammeesri *et al.*, 2006). Further, ownership structures play an active role as a good monitor in countries where investor protection is weak (Shleifer and Vishny, 1997; La Porta *et al.*, 1998; La Porta *et al.*, 2000; Boubakri *et al.*, 2005) and both the legal protection and some forms of concentrated ownership are essential elements of good corporate governance (Shleifer and Vishny, 1997; La Porta *et al.*, 1998).

The corporate control mechanisms in Bangladesh are mostly insider oriented, including high family ownership concentration. That is, the core investors own significant stakes of shares (also known as *ownership control* approach, see for example Xu and Wang, 1999) and, in general, are the board of directors. The spread of share ownership in public limited companies in Bangladesh is not wide and the economic power of businesses is concentrated in dominant shareholder groups. A few shareholders account for a significant portion of total share value. There is evidence of a small ownership concentration by foreign investors, government and institutional investors. However, most public companies in Bangladesh are controlled mainly by founding sponsors/directors who are family members, leading to a very high degree of ownership concentration and control. Representatives of these concentrated owners hold positions on the company board and in management.

In Bangladesh, institutional investors comprise of banks, insurance companies, pension funds, provident funds and mutual funds. They hold power over a substantial amount of invested capital and demand strong performance and transparent corporate governance. These institutional investors have a professional interest in developing the firm's corporate governance (Nandelstadh and Rosenberg, 2003), and can identify key indicators in determining performance in the emerging market. This is because they prefer to work inside the firms to change policies of firms in their portfolio (Baysinger and Butler, 1985, p.107; Gibson, 2003). Therefore, it is assumed that corporate ownership concentration can influence the firm's voluntary CSD. The following hypothesis is developed:

H_1: *There is a significant relationship between the corporate ownership structures and CSD reporting.*

Board Composition and CSD Hypothesis

The corporate board plays an important role in determining corporate governance mechanisms. One of the requirements of the "Corporate Governance Notification 2006" in Bangladesh is the appointment of outside independent directors to the board. The view is that such outside independent directors should have advance qualifications, expertise and experience. Thereby, they can effectively influence the board's decision and ultimately can add value to the firm (e.g., Fields and Keys, 2003) and wider community. Of course, any of these outside independent directors will not have enough inside operational information about the firm.

The Corporate Governance notification neither provided any legislative definition on independent directors nor any legislative requirements for their qualifications and guidelines for appointing them into the board. As a result, outside independent directors can be appointed in Bangladesh because of a close relationship with the family, existing board members, or a large shareholder. The UK Tyson Report 2003 recommends the appointment of non-executive directors with diversity in background, skills and experience to enhance board effectiveness and improve stakeholders' relationship.

However, given the limitation on the appointment of independent directors, it is assumed there is a moral pressure for outside independent directors to respect the good governance principles advanced through launching the notification. Therefore, such an introduction of independent directors in the board structure may have some influence on the CSD practices in Bangladesh. The following hypothesis is developed:

H_2: *There is a significant relationship between the board composition in the form of representation of outside independent directors and CSD reporting.*

Research Method

Sample Selection

The sample companies were selected from the listed companies on the Dhaka Stock Exchange for the years ending 2004, 2005 and 2006. The sample is constructed on the basis of a company’s highest market capitalization (e.g., Guthrie and Parker, 1990; Belal, 2001) and compliance with the "Corporate Governance Notification 2006", in particular, companies which appointed independent directors. There were 239 listed companies as of 30 June, 2006. Following the declaration of the "Corporate Governance Notification 2006", only a few companies adopted those guidelines and appointed independent directors. The companies which did not comply with such a requirement were excluded from the sample. Further, the companies for which market capitalization is less than BDT 50 million were also excluded from the sample. It was assumed that these companies had little role in environmental sustainability exposure. After complying with all of these 21 companies were selected. The digitalized soft and hard copies of companies' annual reports were collected from the library of the Dhaka Stock Exchange. The sample consists of variety of industries: Cement (1), Ceramic (1), Engineering (3), Food and Allied (3), Fuel and Power (1), Pharmaceuticals and Chemicals (4), Service and Real Estate (1), Tannery Industries (3), Textile (3) and Miscellaneous (1).

<u>Dependent Variable</u>

CSD indices represent the dependent variable. It is measured in terms of different attributes reported in the company's annual reports (see Appendices A, B & C). Content analysis has been used commonly to measure a corporate social disclosure in annual reports (Admas *et al.*, 1998; Ernst and Ernst, 1978; Guthrie and Mathews, 1985; Milne and Adler, 1999). Content analysis codifies the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Weber, 1985). Following coding, quantitative scales are derived to permit further analysis (Milne and Adler, 1999). Content analysis assumes that the extent of disclosure can be taken as some indication of the importance of an issue to the reporting entity (Krippendorff, 1980). Content analysis requires objectivity and the specification of variables so that any item can be judged consistently as falling (or not falling) into a particular category (Guthrie and Mathews, 1985).

Consistent with earlier studies on Corporate Social Responsibilty (e.g., Haniffa and Cooke, 2002; Haniffa and Cooke, 2005; Ghazali, 2007), a checklist containing 20 items (shown in Appendices A and B) was constructed to assess the extent of CSD in annual reports. A dichotomous procedure was applied whereby a company is awarded a 1 if an item included in the checklist is disclosed, otherwise a 0 is awarded. The CSD index was derived by computing the ratio of actual scores awarded to the maximum score attainable (20) by that company (Ghazali, 2007). More specifically, similar to Haniffa and Cooke (2005), the CSD index was calculated using the following equation:

$$\text{CSD}_i \text{ Index} = \frac{\sum_{t=1}^{nj} X_{ij}}{n_j}$$

Where,

CSD_i index= Corporate Social Disclosure Index for i^{th} firm

n_i= Number of items expected for i^{th} firm, where $n \leq 20$

X_{ij}= 1, if j^{th} items are disclosed for firm i, otherwise 0

Independent Variables

The independent variables are ownership concentration and board composition. Consistent with some corporate governance studies (cf., Demsetz and Lehn, 1985; Morck et al., 1988; Short and Keasey, 1999; Demsetz and Villalonga, 2001; Lins, 2003; Yammeesri and Lodh, 2004; Yammeesri et al., 2006), this study defines the ownership structures as the percentage of shares held by different ownership categories. A variable, DIR, representing the percentage of shares held by directors/sponsors; INST, representing the percentage of shares held by institutions and LB, representing the percentage of shares held by the largest block holders is considered.

Similarly, consistent with some other corporate governance studies (e.g., Rechner and Dalton, 1986; Zahra and Stanton, 1988), board composition, BC, refers to the percentage of seats held by the outsiders or independent directors.

Control Variables

Four control variables (company size, profitability, company age, and debt) are considered. Company size is considered to be an important factor in voluntary CSD and larger companies are more sensible towards CSD (Guthrie and Matthews, 1985); larger companies are subject to greater scrutiny by various interested groups (Haniffa and Cooke, 2005;

Ghazali, 2007). Company size is considered as the natural log of market capitalization (Ghazali, 2007). Therefore a variable LnMC is considered. Ghazali, (2007) argues that companies make more disclosures to signal performance. This study considers ROA as the profitability measure to examine firms' performance. Also, consistent with Yammeesri *et al.* (2006) and Yammeesri and Lodh (2004), a variable ROA is calculated by dividing earnings before interest and taxes (EBIT) by closing assets. The firms listed for a longer period will be sensible towards more disclosure as well. Therefore, a variable AGE is considered for the number of years a firm is listed on the stock exchange. Moreover, debt is an important instrument. It enables voluntary CSD to indicate the creditors that management is less likely to bypass their covenant claim (Haniffa and Cooke, 2005). Therefore, consistent with Haniffa and Cooke (2005) and Yammeesri *et al.* (2006), a variable DEBT is considered as the ratio of total debt to total assets.

Empirical Results

The descriptive statistics for the variables are provided in Tables 1, 2 & 3 for pre-notification, post notification, and all observations (i.e., pre-and post corporate governance notification 2006 for Bangladeshi firms for the period from 2003 to 2006) as follows:

Table 1: Descriptive statistics of the samples (pre-notification period)

Variables	Mean	Median	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis	Jarque-Bera	Probability
Corporate Social Disclosure	0.143	0.125	0.097	0.000	0.350	0.348	2.001	2.594	0.273
Director Share Ownership	0.451	0.440	0.175	0.010	0.800	0.178	3.414	1.036	0.596
Institution Share Ownership	0.183	0.150	0.161	0.000	0.570	0.686	2.685	3.472	0.176
Largest Block-holders	0.457	0.425	0.202	0.100	0.800	0.041	1.811	2.488	0.288
Board Composition	0.014	0.000	0.052	0.000	0.250	3.707	15.473	368.448	0.000
LnMC	6.859	6.570	1.331	4.490	10.000	0.457	2.569	1.786	0.409
ROA	0.097	0.085	0.057	0.020	0.240	0.865	3.080	5.244	0.073
AGE	2.807	2.890	0.411	2.080	3.370	-0.436	1.846	3.664	0.160
DEBT	0.336	0.330	0.200	0.000	0.760	0.178	1.951	2.147	0.342

Table 2: Descriptive statistics of the samples (Post-notification period)

Variables	Mean	Median	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis	Jarque-Bera	Probability
Corporate Social Disclosure	0.218	0.200	0.126	0.000	0.450	0.019	2.035	0.778	0.678
Director Share Ownership	0.448	0.375	0.183	0.010	0.800	-0.271	3.217	0.285	0.867
Institution Share Ownership	0.197	0.160	0.157	0.000	0.540	0.652	2.824	1.442	0.486
Largest Block-holders	0.454	0.450	0.210	0.080	0.800	0.005	1.897	1.014	0.602
Board Composition	0.164	0.167	0.054	0.083	0.333	1.348	6.026	13.688	0.001
LnMC	6.720	6.405	1.332	4.320	9.470	0.318	2.312	0.731	0.694
ROA	0.109	0.095	0.055	0.020	0.220	0.521	2.358	1.250	0.535
AGE	2.905	3.000	0.387	2.300	3.400	-0.411	1.725	1.918	0.383
DEBT	0.350	0.375	0.184	0.070	0.660	-0.019	1.789	1.224	0.542

Table 3: Descriptive statistics of all samples (pre-and post notification periods)

Variables	Mean	Median	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis	Jarque-Bera	Probability
Corporate Social Disclosure	0.165	0.150	0.112	0.000	0.450	0.422	2.285	3.217	0.200
Director Share Ownership	0.447	0.440	0.176	0.010	0.800	-0.269	3.270	0.952	0.621
Institution Share Ownership	0.184	0.150	0.159	0.000	0.570	0.684	2.725	5.106	0.078
Largest Block-holders	0.460	0.430	0.204	0.080	0.800	-0.003	1.821	3.648	0.161
Board Composition	0.063	0.000	0.087	0.000	0.333	0.993	2.846	10.420	0.005
LnMC	6.816	6.530	1.311	4.320	10.000	0.411	2.542	2.326	0.313
ROA	0.101	0.090	0.056	0.020	0.240	0.730	2.821	5.672	0.059
AGE	2.838	2.940	0.400	2.080	3.400	-0.446	1.903	5.249	0.072
DEBT	0.335	0.340	0.196	0.000	0.760	0.119	1.909	3.274	0.195

These results reveal that the mean of the dependent variable for CSD has increased from 14.3% (pre-notification in Table 2) to 21.8% (after the notification in early 2006 in Table 3). The mean for the directors share ownership independent variable has declined slightly from 45.1% to 44.8%. The mean for institutional share ownership has increased from 18.3% to 19.7% after the notification. The largest block holder's percentage has remained the same. The mean for the board composition independent variable has increased from

1.37% to 19.7%. This shows that after the corporate governance notification, board composition with independent directors has increased significantly for the sample companies in Bangladesh. All other control variables have a slight increase as well.

Model for Analysis

Following model is developed to conduct the empirical analysis[1] and to test the hypotheses:

$$CSD_{it} = \alpha + \beta_1 DIR_{it} + \beta_2 Inst_{it} + \beta_3 LB_{it} + \beta_4 BC_{it} + \beta_5 LnMC_{it} + \beta_6 ROA_{it} + \beta_7 Age_{it} + \beta_8 Debt_{it} + \varepsilon_{it}$$

Where,

CSD_{it}	= Corporate Social Disclosure Index for i^{th} firm at time t
DIR_{it}	= the percentage of shares held by directors/sponsors for i^{th} firm at time t
$Inst_{it}$	= the percentage of shares held by institutions for i^{th} firm at time t
LB_{it}	= the percentage of shares held by the largest block holders for i^{th} firm at time t
BC_{it}	= the percentage of seats held by outside independent directors for i^{th} firm at time t
$LnMC_{it}$	= the natural log of market capitalization for i^{th} firm at time t
ROA_{it}	= the return on assets for i^{th} firm at time t
Age_{it}	= the number of years firm is listed in the stock exchange for i^{th} firm at time t
$Debt_{it}$	= the ratio of total debt to total assets for i^{th} firm at time t
α	= the constant
β	= the regression coefficient and
ε_{it}	= the error term for i^{th} firm at time t

The above model is regressed through E-Views 6.0 statistical software and by using Two-Stage Least Square (2SLS) Regression[2] analysis.

Table 4 represents the analysis for pre-notification period, 2003-2004 and 2004-2005. Regression results for the pre-notification show that except for the market capitalization variable, LnMC, all other variables are not associated with the CSD variable. This indicates

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[1] Prior to develop this model correlation tests were also carried out to check the associations with the variables. It was revealed that prior to notification LB variable and DIR were highly positively correlated. But after the notification DIR and BC; and LnMC and DIR were highly positively correlated.

[2] The Ordinary Least Square (OLS) regression test has also been carried out; however, it has not been shown here. A Two-stage regression analysis is also carried out by adding a dummy variable in the model ($\beta_{it} Dum_{it}$), but is apparent that there may be some interactive effects among the independent variables.

that the practice of making voluntary social disclosures was not significant prior to notification of the change of corporate governance practices in Bangladesh in early 2006.

Table 4: Results of regression (observations pre- notification period)

	Coefficients		t-*statistic*
(Constant)	-0.184		-1.217
Director Share Ownership	-0.154		-1.371
Institution Share Ownership	-0.042		-0.474
Largest Block holders	-0.023		-0.181
Board Composition	-0.301		-0.991
LnMC	0.052	***	3.232
ROA	-0.125		-0.369
AGE	0.013		0.365
DEBT	0.104		1.288
R-squared	0.455		
Adjusted R-squared	0.323		
S.E. of Regression	0.080		
F-statistic	3.447		
Prob (F-statistic)	0.005		
Mean Dependent Variables	0.143		
S.D. Dependent Variables	0.097		
Sum Squared Residuals	0.209		
Durbin-Watson Statistics	2.222		
Second-Stage SSR	*0.455*		

*** At 1% level of significance and ** at 5% level and * at 10% level of significance respectively.

Table 5: Results of regression (All observations – pre- and post Notification periods)

	Coefficients		t-*statistic*
(Constant)	-0.283	**	-2.216
Director Share Ownership	-0.151	*	-1.845
Institution Share Ownership	-0.068		-0.876
Largest Block holders	-0.090		-0.853
Board Composition	0.359	***	2.725
LnMC	0.056	***	4.075
ROA	0.282		1.124
AGE	0.031		0.967
DEBT	0.143	**	2.132
R-squared	0.476		
Adjusted R-squared	0.398		
S.E. of Regression	0.087		
F-Statistic	6.128		
Prob (F-statistic)	0.000		
Mean Dependent Variables	0.165		
S.D. Dependent Variables	0.112		
Sum Squared Residuals	0.405		
Durbin-Watson Statistics	2.085		
Second-Stage SSR	0.405		

*** At 1% level of significance, ** at 5% level of significance and * at 10% level of significance respectively.

Table 5 represents the analysis for combined pre- and post samples. A significant relationship is revealed between board composition and corporate social disclosures ($p<.01$). The ownership concentration by family directors is also found to be associated with CSD after the imposition of the corporate governance notification ($p<.10$ level). This indicates that after the introduction of the outside independent directors in the board composition there has been a significant increase of CSD in Bangladesh.

Implications of this study for developing countries

Although it is not common for companies to have increased CSD reporting in developing countries, this study provides a greater awareness of such practices. Improved CSD practice has occurred as a consequence of the announcement of the Corporate Governance Notification 2006, in Bangladesh. Before this was announced, companies' managements were dominated (mostly) by family shareholders. Representatives of family shareholders held the position in the company board who might not have urged for CSD to comply with organizational legitimacy and accountability to wider community. Outside directors have played a role in changing the attitudes of the family owners towards improved CSD practices in a developing country context.

Limitations of this study

The data are collected from a large number of observations of different corporate entities. Those data ignore underlying differences in organizations: in no two organizations are the same (Deegan, 2006). The small sample size may not be representative as there is no control on the sample due to non-compliance of corporate governance best practices by large firms in Bangladesh.

Conclusion

Although it is necessary to evaluate the quality and the reliability of the information presented in corporate annual reports, the study identified that the imposition of good corporate governance control mechanism influence corporate voluntary disclosure practices. Corporate ownership structures somehow influence CSD, but board composition does influence the CSD practices in an improved way in a developing country, such as in Bangladesh. This study supports the neo-institutional perspective of pro-regulation. This argues that without regulation, there are no incentives for companies to provide voluntary social disclosure, especially in a developing country context. Therefore, the regulatory body can consider requiring the companies to make a minimum level of compulsory disclosure.

A further study can be carried out by increasing the analysis period from one year to a few more years for the period of post 'Corporate Governance Notification 2006' in Bangladesh, which will allow to increase the sample size as the more firms will adopt the good corporate governance notification.

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Appendix A: CSD Checklist Status pre adoption of Corporate Governance Notification

	Disclosure Items	Number of companies disclosed	Percentage Disclosed	Rank
1	Community Involvement in General	9	42.86	1
2	Charitable Donation	1	4.76	8
3	Community Program (Health and Education)	3	14.29	6
4	Environmental Protection	0	0	0
5	Energy Savings	0	0	0
6	Number of Employees	3	14.29	6
7	Employee Relations	8	38.09	2
8	Employee Welfare	1	4.76	8
9	Employee Education	2	9.52	7
10	Employee Training	6	28.57	4
11	Employee Profit Sharing	0	0	0
12	Occupational Health and Safety	2	9.52	7
13	Types of Products Disclosed	7	33.33	3
14	Product Quality and Improvements	6	28.57	4
15	Product Safety	1	4.76	8
16	Discussion of Marketing Network	4	19.05	5
17	Focus on Customer Service	1	4.76	8
18	Customer Award/Ratings Received	0	0	0
19	Value Added Statement	8	38.09	2
20	Value Added Data/Ratio	4	4.76	8

Appendix B: CSD Checklist Status post adoption of Corporate Governance Notification

	Disclosure Items	Number of companies disclosed	Percentage Disclosed	Rank
1	Community Involvement in General	10	47.62	2
2	Charitable Donation	0	0	12
3	Community Program (Health and Education)	5	23.81	7
4	Environmental Protection	0	0	12
5	Energy Savings	0	0	11
6	Number of Employees	6	28.57	6
7	Employee Relations	8	38.10	4
8	Employee Welfare	2	9.52	10
9	Employee Education	4	19.05	8
10	Employee Training	7	33.33	5
11	Employee Profit Sharing	0	0	12
12	Occupational Health and Safety	3	14.29	9
13	Types of Products Disclosed	9	42.86	3
14	Product Quality and Improvements	11	52.38	1
15	Product Safety	1	4.76	11
16	Discussion of Marketing Network	6	28.57	6
17	Focus on Customer Service	3	14.29	9
18	Customer Award/Ratings Received	0	0	12
19	Value Added Statement	8	38.10	4
20	Value Added Data/Ratio	5	23.81	7

Appendix C: Specific wording counted in content analysis

	Disclosure Items	Specific Wording Counted
1	Community Involvement in General	If there are wordings, such as 'recognizing the importance of community'.
2	Charitable Donation	If the company provided aid to the schools, colleges, educational and religious institution.
3	Community Program (Health and Education)	If the company organized any blood donation program. Adopting adult literacy program.
4	Environmental Protection	Initiatives taken to protect the environment in general; less emission of carbon; not polluting the air and water.
5	Energy Savings	If the company used the energy efficient machinery, lamps.
6	Number of Employees	Company disclosed the number of employees, helping the society in reducing the unemployment.
7	Employee Relations	If the company recognized the employee relations in general; maintaining good understanding between the employees.
8	Employee Welfare	If the company provided employee residence, welfare to the family members.
9	Employee Education	If the company recognition of employee education, provided support for education.
10	Employee Training	If the company provided employment specific training.
11	Employee Profit Sharing	If the company is allowed the employee profit sharing in general, profit bonus etc.
12	Occupational Health and Safety	Company took the precautionary measures in the workplace; proving OHS training in the workplace; available measure to cope with an accident.
13	Types of Products Disclosed	Types of products disclosed in general.
14	Product Quality and Improvements	Recognizing product quality, initiatives taken for improvements.
15	Product Safety	Explanation of product safety in general.
16	Discussion of Marketing Network	Discussion of marketing and distribution network in general.
17	Focus on Customer Service	Customer service in general.
18	Customer Award/Ratings Received	Recognition in the form of award received.
19	Value Added Statement	The company disclosed the value added statement in general.
20	Value Added Data/Ratio	The company disclosed the value Added Data/Ratio in general.