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Afzalur Rashid,

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THE INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON CORPORATE SOCIAL RESPONSIBILITY REPORTING

Afzalur Rashid[✍]
University of Southern Queensland

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Author's biography:

Afzalur Rashid, PhD, CPA is a Senior Lecturer in Accounting at the University of Southern Queensland, Australia. The major areas of his research interest are in Corporate Governance, Corporate Social Responsibility Reporting, Corporate Intellectual Capital Reporting and Earnings Management. He presented papers at several international conferences in Australia and New Zealand, Canada, Malaysia, the United Kingdom and the United States of America. He also has his articles published in different international refereed journals: *Academy of Taiwan Business Management Review; Australasian Accounting Finance and Business Journal; Corporate Board, Roles, Duties and Composition; Corporate Ownership and Control; International Journal of Learning and Intellectual Capital; International Journal of Management; International Research Journal of Finance and Economics; Journal of Applied Business and Economics; Journal of Business Ethics, Journal of Management and Governance; Research in Accounting in Emerging Economies and Social Responsibility Journal*. He is the editor-in-chief of Australian Academy of Accounting and Finance Review, Editor of Australasian Journal of Law, Ethics and Governance and 'Corporate Governance Section' Editor of Journal of Business Ethics.

[✍] School of Commerce, University of Southern Queensland, Toowoomba, QLD 4350, Australia, **Phone:** +61-7-46315515, **Fax:** +61-7-46315594, **E-mail:** afzalur.rashid@usq.edu.au, **web:** www.usq.edu.au

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THE INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON CORPORATE SOCIAL RESPONSIBILITY REPORTING

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ABSTRACT

Purpose: This study investigates if the 'corporate governance practices' has any influence on corporate social responsibility (CSR) reporting by listed firms in Bangladesh.

Design/Methodology/Approach: This study employs a content analysis to examine specific Corporate Social Responsibility (CSR)-related attributes from 101 publicly listed non-financial firms in Bangladesh. By using various attributes of social and environmental reporting a disclosure index is also constructed.

Findings: The finding of this study is that, 'corporate governance practices' do not have any influence on firm CSR reporting. The findings, in particular, show that CSR disclosure by firms is not responsive to new corporate governance regulations.

Research Limitations: This is study is subject to some limitations, such as the subjectivity or judgement associated in the coding process.

Practical Implications: The implication of this study is that firm CSR practices are legitimization exercises and firms will not make increased disclosure due to regulator's quest for institutionalisation of corporate governance practices.

Originality/Value: This study contributes to the literature on the practices of corporate social responsibility reporting in the context of developing countries following regulator's quest for institutionalisation of corporate governance practices.

Keywords: Content Analysis, Corporate Governance, Corporate Social Responsibility, Legitimacy Theory, Neo Institutional Sociology.

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1. Introduction

Since the emergence of corporate social responsibility (CSR) in the 1950s, it has been vigorously debated whether companies should be involved in CSR activities and whether they should be required to produce reports on such activities, also known as sustainability reports (Carroll and Shabana, 2010). Nobel laureate economist Milton Friedman (Friedman, 1970) was one of many who argued that 'there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it engages in open and free competition without deception or fraud'. However, this view of company operations attracted intense criticism arguing that companies should have social accountability and morality in their operations (see Freeman, 1984; Elkington, 2001) and embrace a more holistic perspective of their responsibilities in which a broad range of stakeholders are given consideration (Deegan, 2010).

The mega corporate collapses in the early 2000s, and in particular the collapse of Enron, WorldCom, HIH Insurance and Parmalat, have drawn public attention to responsible company behaviour (Pedrini, 2007), including issues of good governance, ethics, responsibility and trust (Marsiglia and Falautano, 2005), as well as the need to provide relevant information to investors and other stakeholders (Clarke and Dean, 2007). One of the causes of these collapses has been attributed to ethical breakdowns, rather than simply auditing failures (Parker, 2005). While these incidents have given rise to the imposition of regulations requiring companies to increase accountability and restore the public trust, there has been a parallel development of environmental regulations that require companies to provide additional information to relevant stakeholders. For example, the Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines, ISO 14001, the Accountability Assurance Standards 1000 and 1000S, Social Accountability (SA) 8000 and the International Standard on Assurance Engagements (ISAE) 3000 require companies to prepare sustainability reports. Furthermore, there is legislation in developed countries that encourages

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companies to pursue efficient environmental strategies and make related disclosures. For example, in the United States, 'The National Environmental Policy Act 1970' (NEPA 1970), the 'Energy Policy Act 2005', the 'American Recovery and Reinvestment Act 2009' and a provision in the 'Sarbanes Oxley Act 2002' that require companies to take into account environmental issues, such as by calculating environmental costs and other related disclosures (De Villiers, Naiker and van Staden, 2011). Other countries have developed similar measures: in Canada, the Canadian Environmental Protection Act 1999 (CEPA 1999) and the 'Canada Labour Code'; in Australia, 'The Environment Protection and Biodiversity Conservation Act 1999' (EPBC Act 1999), the 'National Greenhouse and Energy Reporting Act 2007' and the 'Emissions Trading Scheme 2012'; and in the United Kingdom, the 'Environmental Protection Act 1990'.

Though there exists some sorts of regulations that require firms to consider social and environmental effect on their reporting practices in developed countries, such regulation is relatively absent in the developing countries. Due to absence of such regulations, firms in developing countries have little motivation to report environmental and societal effect in their annual report.

This study aims to investigate whether 'corporate governance practices' has any influence on firm CSR reporting in the context of a less developed country by considering Bangladesh as a case study. In early 2006, Bangladesh adopted a reform movement on corporate governance practices requiring the listed firms to follow a 'corporate governance practices'. The regulatory body 'Securities and Exchange Commission Bangladesh' (SECB) announced the Corporate Governance Notification (CGN), similar to a 'Code of Corporate Governance Best Practices' in some developed economies. CGN imitated many international (Anglo-American) corporate governance practices which the listed firms in Bangladesh are required to comply. Non-compliance requires an explanation. Though this reform movement was a major event in Bangladesh corporate

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sector, the CGN does not require companies to undertake CSR activities and produce a report thereon. The choice of Bangladesh in this study is important as the listed firms in Bangladesh are featured by a mixture of agency relationship; that is, firms have a concentration of ownership by managers and the firms are not solely owned by managers. Thus the managers' motivation to be involved in a CSR activity in Bangladesh is not necessarily same with that of the firm managers in a developed economy.

It is argued that good corporate governance and sustainability disclosure can be seen as complementary mechanism of legitimacy that companies may use to dialogue with stakeholders (Michelon and Parbonetti, 2012); corporate governance and corporate responsibilities are an integrated continuum; this is due to the fact that, corporate governance is one side of the corporate coin, and the other side is CSR (Bhimani and Soonawalla, 2005). It is also argued that corporate governance and CSR initiatives are seemingly synonymous: while corporate governance implies "being held accountable for," CSR means "taking account of"; corporations are gradually advancing from a philanthropic variant of corporate capitalism to strategies and approaches that are designed to regain the trust of clients and society in general (Marsiglia and Falautano, 2005). Acknowledging the importance of corporate governance practices on firm CSR reporting, earlier studies have investigated if corporate governance mechanism influence firm CSR practices; such as the ownership structure (see Ghazali, 2007; Dam and Scholtens, 2012), board characteristics (see De Villiers et al, 2011; Michelon and Parbonetti, 2012), and corporate governance practices in general (Haniffa and Cooke, 2002; Haniffa and Cooke, 2005; Rashid and Lodh, 2008; Harjoto and Jo, 2011; Harjoto and Jo, 2012; Rao, Tilt and Lester, 2012; Khan et al, 2013; Bhaduri and Selarka, 2016). There are also conceptual studies on corporate governance and corporate social responsibility (e.g. Beltratti, 2005; Rahim, 2013); qualitative studies on managers' perception in CSR as part of corporate governance practices (Jamali et el, 2008; Young and Thyil, 2014). Arora and Dharwadkar

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(2011) from 518 Standard and Poor 500 firms reveal that good corporate governance leads to reduction in negative CSR, such as activities that deliberately defy environmental standards and local community concerns. Likewise, Harjoto and Jo (2011), found that CSR choice is positively associated with governance characteristics. However, it is relatively unexplored whether 'corporate governance practices', in particular the regulator's quest for institutionalisation of 'corporate governance practices' has any influence on firm CSR reporting.The motivation to investigate the corporate governance practices on CSR reporting is that, an element of corporate governance practice (e.g. board of directors) may be weak in an institutional setting and it is worth studying the corporate governance practices as whole.

Given the paucity of research that has considered organisations' disclosure in responses to the pronouncement of corporate governance best practices and the importance of corporate governance practices on CSR, this study extends the knowledge about the impact of 'corporate governance practices' on firm CSR practices. The remainder of the paper is organised as follows: section two presents the literature review, section three offers the theoretical positioning and hypothesis, section four presents the research method, section five reveals the empirical results, and the final section presents the discussion and concludes.

2. Literature Review

Apart from examining the factors that may influence firm CSR practices, empirical evidence on CSR practices suggests that firms also change their disclosure practices following a major event; such an event could be an environmental disaster, the introduction of environmental regulations and/or the introduction of good corporate governance practices. Gamble, Hsu, Kite and Radtke (1995) examined whether there was a change in CSR reporting following the issuance of new standards by the Financial Accounting Standards Board in the United States. They found that there

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was a significant increase in CSR reporting by the sample firms following the issuance of the Financial Accounting Standards Board's Issues No. 89-13 (1989), 90-8 (1990), and 93-5 (1993). Patten (1992) examined whether there was a change in disclosure practices in the United States oil industry following the *Exxon Valdez* oil spill in Alaska. He found that there was an increase in disclosure practices in the industry. Deegan and Rankin (1996) examined whether there was any change in disclosure practices by firms that were prosecuted by the New South Wales and Victorian Environmental Protection Authorities for breaches of various environmental protection laws. They found that the firms that were prosecuted during the period from 1990 to 1993 disclosed significantly more environmental information in the year of prosecution than in any other year and that prosecuted firms disclosed more information than non-prosecuted firms. Deegan, Rankin and Voght (2000) examined how social disclosures in annual reports changed around the time of major social incidents or disasters, such as the *Exxon Valdez* in Alaska*,* the Bhopal disasters in India, the Moura Mine disaster in Queensland, the Iron Baron oil spill in Tasmania and the *Kirki* oil spill in Western Australia. They found that following four of the incidents, the sample firms operating in the affected industries provided more social information in their annual reports than prior to the incidents. Deegan, Rankin and Tobin (2002) examined the social and environmental disclosures by BHP following community concern (proxied by media attention). They found that management released positive social and environmental information in response to unfavourable media attention. Cho and Patten (2007) examined the differences in the use of monetary and non-monetary non-litigation-related environmental disclosures in United States firms. They found that although the use of monetary and non-monetary components of non-litigation-related environmental disclosures varied across groups, companies used disclosure as a legitimising tool. Cunningham and Gadenne (2003) examined voluntary environmental disclosures by Australian corporations during the Australian National Pollutant Inventory implementation period and they found that an enhancement

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in environmental regulations caused companies to include information on certain environmental issues in their annual reports. Alciatore, Dee and Easton (2004) examined the changes in environmental reporting by petroleum companies from 1989 to 1998 following the promulgation of environmental reporting regulations in the United States. They found that although the average disclosure was smaller, more firms made disclosures following the promulgation of the regulations. Ghazali and Weetman (2006) examined voluntary disclosures in Malaysia following the economic crisis and found no significant change in disclosure before and after the crisis. This study is study is similar to earlier studies in the way that it investigates the firm disclosure practices following a major event. However, differs from earlier studies in the way that such event is the institutionalisation of 'corporate governance practices' on firm CSR reporting.

3. Theoretical Development and Hypotheses

Corporate social responsibility is consistent with some organisational theories, particularly 'legitimacy theory' and 'stakeholder theory'. Legitimacy theory relies on the notion of accountability and a 'social contract'. This theorist argues that corporations act within bounds and norms per the expectations of society (Mathews, 1995; Brown and Deegan 1998; Gray, Owen and Maunder, 1988; Deegan, 2006). Deegan (2002) argue that legitimacy is a resource upon which an organisation is dependent for survival, but it also can be manipulated. He maintained that when firm managers consider that the supply of the particular resource is vital to organisational survival, they will pursue strategies to ensure the continued supply of the resource; such strategies may include targeted disclosures

Legitimacy theory is most appropriate when a variation in CSR around some factor – such as an event that causes a shift in the 'social contract', or some other setting where it is expected that the legitimacy of a firm is threatened (Patten, 2002; Cho and Patten, 2007) as a method of

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responding to the changing perceptions of a corporation's relevant publics (Paten, 1992): "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" (De Villiers and van Staden, 2006, p.763). They maintain that "social disclosures will be maintained at present levels, or increased over time, to avert legitimacy crises" (p.763). Companies will take many actions to legitimise their activities; they may adapt output, goals and methods of operation to conform to definitions of legitimacy (Dowling and Pfeffer, 1975); they may attempt, through communication, to alter the definition of social legitimacy so it conforms with the organisation's present practices, output and values; or they may attempt, through communication, to become identified with symbols or values that imply legitimacy (Deegan, 2006).

Deegan (2002) argues that legitimacy theory also overlaps with other organisational theories, such as institutional theory also known as Neo Institutional Sociology (NIS) (see DiMaggio and Powell, 1983). He maintains that organisations change their structures or operations to conform to external expectations about acceptable (legitimate) forms or structures; for example, because the majority of the other organisations in an industry might have a particular governance structure, there could be "institutional" pressure on an organisation to also have such a structure. That is, some form of movement to conform is expected. Corporations tend to conform when there is an interaction between the organisation and its internal and external socio-political environment, with both increasingly considered complementary fundamental prerequisites for sustainable growth within a globalising business environment (Van den Berghe and Louche, 2005; Windsor and Preston, 1988).

This study is drawn on legitimacy theory as well as the NIS as theoretical foundation which is concerned with the processes by which schemes, rules, norms, and routines, become established as authoritative guidelines for social behaviour (Meyer and Rowan, 1977; DiMaggio and Powell,

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1983, 1991; Scott, 2005). This theorist suggests that organizational survival is subject to some form of conformity to prevailing values or standards for appropriate behaviour (Fogarty, 1996). Organizations adopt such behaviour and norms in response to market and institutional pressures and to legitimize their existence; firms under the influence of legitimization effects will adopt similar structures through a process called "*institutional isomorphism*" (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; 1991).

The process of *institutional isomorphic* change may occur in three ways: *coercive isomorphism, mimetic isomorphic and normative isomorphism* (DiMaggio and Powell, 1983, p 150). *"Coercive isomorphism* occurs from both the formal and informal pressures exerted on companies by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function……..in some circumstances, organizational change is a direct response to government mandate: manufacturers adopt new pollution control technologies to conform to environmental regulations; nonprofits maintain accounts, and hire accountants, in order to meet tax law requirements; and organizations employ affirmative-action officers to fend off allegations of discrimination" (DiMaggio and Powell, 1983, p. 150). The state, in its own right or through the delegation of its powers, becomes a central force in the coercion of organizations through its control over resources (Fogarty, 1996). *Mimetic isomorphism* occurs due to uncertainty and "organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful" (DiMaggio and Powell, 1983, p. 152). Finally, *normative isomorphism* stems from pressures or intervention by professional groups (DiMaggio and Powell, 1983, p. 152).

NIS perspectives have extensively used in the literature. These studies have aimed at identifying and explaining the sources of isomorphic pressures on the adoption of international accounting standards (Mir and Rahaman, 2005); in explaining the development of auditing practices

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(Al-twaijry, 2003), on the adoption of corporate governance codes/regulations (Enrione *et al,* 2006; Siddiqui, 2010); on the accounting choices (Carpenter and Feroz, 2001; Modell, 2002); in explaining performance measurement (Brignall and Modell, 2000; Hussain and Hoque, 2002); in explaining organizational legitimacy (Rahman, Lawrence, and Roper, 2004); impact of administrative reforms (Lippi, 2000); context, process and consequences of the introduction of devolved budgeting systems within the organization (Collier, 2001); in explaining the changes in accounting systems (Tsamenyi, Cullen, Mar´ıa and Gonz´alez, 2006); in explaining the compensation disclosure (Brandes, Hadani, M. and Goranova, 2006); in examining the governance failure (Nwabueze and Mileski, 2008).

As mentioned in this paper, Bangladesh went through a corporate governance reform to enhance corporate governance practices. Many firms have adopted corporate governance best practices as required in the 'Corporate Governance Notifications'. It can be argued that firms that have adopted corporate governance best practices to handle the institutional (*coercive*) pressure will be less willing to adopt more CSR practices as these firms are already in the process of institutionalisation of corporate governance practices. Following legitimacy theory, previous studies have found that there is an increase in disclosure practices by firms following the incidents such as *Exxon Valdez* oil spill in Alaska, the Bhopal disasters in India, the Moura Mine disaster in Queensland, the Iron Baron oil spill in Tasmania and the *Kirki* oil spill in Western Australia (see, Patten, 1992; Deegan and Rankin, 1996; Brown and Deegan, 1998; Deegan Rankin and Voght, 2000). It can be argued that pronouncement of corporate governance practices and regulator's quest for institutionalization of corporate governance best practices does not pose any threat to firms' legitimacy. Thus, code of corporate governance best practices will have no impact or negative impact on firm CSR reporting as firms' legitimacy is not threatened anyway. This discussion leads to the following hypothesis:

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Hypothesis 1: There will be a negative association between corporate governance practices and CSR reporting.

4. Research Method

4.1 Sample Selection

Traditionally, annual reports are the only source of companies' financial and non-financial information, such as corporate social responsibility reporting. Companies in Bangladesh are not an exception to this practice. Companies in Bangladesh provide most of their CSR reporting in the form of qualitative statements in their annual reports. Such disclosures are mainly found in the director's report, the chairperson's address to the shareholders and other stakeholders and the notes to the financial statements. In general, there is no 'stand-alone' sustainability report issued by companies in Bangladesh. Although a handful of companies also provide such disclosures on their web pages, the pilot study shows that such reporting are typically duplicates of the information from the annual reports. Furthermore, disclosures made on the web are not helpful for content analysis because it is difficult to determine when the web pages are published or updated (see Michelon and Parbonetti, 2012). No other forms of disclosure, such as brochures, press releases or separate reports, are found in Bangladesh's corporate sector. In other words, there is no stand-alone social and environmental report prepared by companies in Bangladesh. Therefore, companies' published annual reports are the only sources of CSR reporting in this study.

There were 281 listed companies on the Dhaka Stock Exchange as of 31 December 2012. Of the 281 listed companies on that date, 97 were financial companies (banks, insurance companies and other financial institutions), and 184 were non-financial companies. Based on the availability of company annual reports, this study considers 101 non-financial firms listed on the Dhaka Stock Exchange for the period from 2006-2012, representing 35.94 percent of the total listed firms as of

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31 December 2012. These firms also represent 54.89 percent of the total listed non-financial firms. Depending on the company's annual reports, a total of 707 observations were made for 7 years, forming a balanced panel. The data before 2006 were not considered, as the 'corporate governance practices' was announced in early 2006. The sample consists of a variety of industries as per the 'Standard Industrial Classification Codes' (SIC) (Table 1).

Please insert table 1 about here

The audited financial report was the basis for obtaining each company's accounting information, such as EBIT, assets and liabilities. The digitised soft and hard copies of the companies' annual reports were collected from the library of the Dhaka Stock Exchange and from several other sources. Field trips were made in the years 2006-2013 (a total of seven times) to collect the data. The data from the selected companies were manually posted during the period from 2006-2013. The board composition and CEO duality data were obtained from the respective companies' directors' report. The market value of the year end share price was collected from the Dhaka Stock Exchange web page (www.dsebd.org) and from the 'Monthly Review' of the Dhaka Stock Exchange. The monthly market price of the shares was collected from the *DataStream* database. Ownership data were obtained from the notes to the financial statements, from the 'Corporate Governance Compliance Report' of the respective companies and from the 'Monthly Review' of the Dhaka Stock Exchange.

4.2 Variable Definitions

4.2.1 Dependent Variable

CSR reporting is a broad concept that includes social and environmental reporting (Deegan,

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2010). The dependent variable in this study is the 'Corporate Social Responsibility Index' (CSRI) as a proxy for Corporate Social Responsibility reporting. It is measured in terms of different social and environmental attributes reported in each company's annual reports. Consistent with earlier studies on CSR (e.g., Haniffa and Cooke, 2002; Haniffa and Cooke, 2005; Ghazali, 2007; Rashid and Lodh, 2008), a checklist containing 24 attributes (shown in Table 2) was constructed to assess the extent of CSR reporting in the annual reports of the sample companies. Some of the social reporting attributes/performance indicators from the Global Reporting Initiative (2006) were considered, such as labour practices and work conditions, including 'occupational health and safety', 'employee education and training', and 'diversity and equity/opportunity'; human rights, including 'freedom of association and collective bargaining' and child labour and indigenous rights'; and product responsibility, including 'customer health and safety'.

This study uses content analysis because it is the most common method of measuring corporate social responsibility reporting in annual reports (Yamagami and Kokubu, 1991). Content analysis is a method of changing the text (or content) into codes for various groups (or categories), depending on selected criteria (Weber, 1985; Guthrie and Petty, 2000). Content analysis relies on the assumption that the extent of disclosure can be taken as an indication of the importance of an issue to the reporting entity (Krippendorff, 1980). Additionally, a dichotomous procedure was applied, whereby a company was awarded a 1 if an item included in the checklist was disclosed (irrespective of the length of a sentence); otherwise, a 0 was awarded. The CSRI index was derived by computing the ratio of the actual scores awarded to the maximum score attainable (24) by each company. More specifically, the CSRI was calculated using the following equation:

$$CSRI_i = \frac{\sum_{t=1}^{nj} X_{ij}}{n_j}$$

Where,

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$CSDI_i$ = Corporate Social Responsibility Reporting Index for i^{th} firm

n_i= Number of items expected for i^{th} firm, where $n \leq 24$

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

Please insert table 2 about here

4.2.2 Independent Variable

The independent variable in this study is the corporate governance practices index, hereafter referred to as CGI. A checklist containing 37 items was constructed to assess the extent of the companies' corporate governance practices. As per Bangladesh 'Corporate Governance Notification', these checklist are containing under four broad headings, (1) Board of Directors (e.g. board size, board independence (minimum 10 percent), CEO non-duality, directors' report to the shareholders), (2) Chief Financial Officer (CFO), Head of Internal Audit and Company Secretary (e.g. appointment of CFO), (3) Audit Committee (constitution of an audit committee) and (4) External/Statutory Auditors. A dichotomous procedure was also applied, whereby a company was awarded a 1 if an item of the practices was fully complied with; otherwise, a 0 was awarded.

4.2.3 Control Variables

A number of control variables, such as insider ownership, board independence, CEO duality, debt ratio, liquidity, firm age, firm size, firm growth, profitability, market capitalisation and firm risk are considered in this study. Inside owners have some influence on firm CSR activities. Insider ownership has huge role in firm's CSR reporting. When insiders' holdings are high, companies expend a lower level of resources on CSR (Barnea and Rubin, 2010). Insiders may be interested to invest the firm resources in CSR activities if there is a private gain. Insiders may also be interested

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to make more social and environmental disclosures to compensate for the non-disclosure of sensitive information. Insiders may also induce the firm to invest in CSR if they bear little of the cost of doing so (Barnea and Rubin, 2010). Insiders are measured as the percentage of shares owned by insiders (INSOWN). It is argued that, corporate strategic decisions to be involved in CSR activities and related disclosure policies should come from the board (Gul and Leung 2004; Haniffa and Cooke 2005; De Villiers *et al*., 2011; Michelon and Parbonetti, 2012). It is expected that, board independence (board with majority of independent directors) will be able to provide independent advice and oversight monitoring on this matter. Board independence (BDIND) is the percentage of outside independent directors on the board. CEO has huge influence on firm CSR reporting. When CEO is also acting as chair of the board, with consolidation of power, a CEO may embrace responsibilities towards a broad group of stakeholders or may predominantly divert the firm resources to social and political objectives. CEO duality (CEOD) is a binary variable equal to one (1) if the posts are held by the same person and zero (0) otherwise (Rashid, 2013a). Debt is an important instrument that may influence firm CSR reporting. Once a firm relies on more debt, the monitoring demands by lenders for information increase (Leftwich, Watts and Zimmerman, 1981). Thus, a firm with a high level of debt tends to disclose more information, including CSR information, to reduce the monitoring cost and to indicate to creditors that they are less likely to bypass their covenant claims (Haniffa and Cooke, 2005). The variable debt ratio (DR) is considered to be the ratio of total debt to closing total assets (Mahoney and Roberts, 2007). Liquidity is another influential control variable that may induce a firm to be involved in CSR activities. Firms with excess liquidity may overspend on CSR without adding much value to the firm. By contrast, firms with a shortage of liquidity may search for extra funds in an attempt to be legitimate and make more disclosures. Liquidity (LIQ) is measured as the current ratio. CSR practices may also be influenced by firm age (Haniffa and Cooke 2002; Haniffa and Cooke, 2005; Michelon and Parbonetti, 2012);

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older firms are likely to be more socially responsible. A recently listed company may want to raise additional capital at the lowest cost compared with mature companies that may rely more on internal funds (Choi, 1973; Haniffa and Cooke, 2002). Therefore, a newly listed firm may not invest more in CSR activities. Firm age (AGE) is defined as the natural logarithm of the number of years a firm has been listed on the stock exchange. Firm size is also an important control variable in most accounting and finance studies (De Villiers *et al.*, 2011), including studies on voluntary disclosure practices (Elsayed and Hoque, 2010). The larger the firm size, the larger the information asymmetry, and thus, the greater demand for information disclosure (Elsayed and Hoque, 2010). Resources available to larger firms can place them in a better position than small firms in meeting environmental regulations. Larger firms can utilise this competitive advantage to operate in a responsible manner and provide more disclosure on environmental issues. In contrast, smaller firms tend to be less concerned with CSR because it reflects organisational slack (Waddock and Graves, 1997). Thus, firm size has been found to be significantly associated with corporate disclosure practices (Cooke, 1992; Neu *et al.*, 1998; Patten, 1992; 2002; Eng and Mak, 2003; Gul and Leung, 2004; Clarkson, Li, Richardson and Vasvari, 2008). Prior studies (for example, Patten, 1992; McKendall, Sanchez and Sicilian, 1999; Haniffa and Cooke, 2002; Michelon and Parbonetti, 2012) have found a positive association between firm size and environmental reporting. Following previous studies (such as Cooke, 1992; Haniffa and Cooke, 2002; Clarkson *et al.,* 2008; De Villiers *et al.,* 2011; Rao *et al.*, 2012; Michelon and Parbonetti, 2012), this study uses the natural logarithm of total assets for firm size (SIZE).

Following prior studies (such as De Villiers *et al.,* 2011); a variable for growth (GROWTH) is measured as the ratio of the market to book value of equity. It can be argued that profitable firms reveal their organisational legitimacy by complying with environmental regulations because they have a better ability to make accommodations for them, while poorly performing firms may choose

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to disclose less or be silent on the matter (Clarkson *et al.,* 2008). Profitable firms reveal social and environmental information to highlight their role in society's well-being, with an aim of reducing public scrutiny (Haniffa and Cooke, 2005), and to signal stakeholders about their strengths and any good news (Lang and Lundholm, 1993). As stated by Siegel and Vitaliano (2007), "higher profits provide managers with greater discretion and latitude to spend, thereby enabling them to be socially responsible, as opposed to the hypothesis that CSR adoption is part of the firm's profit-maximizing strategy" (p. 777). Prior studies (for example, Waddock and Graves, 1997; Haniffa and Cooke, 2002; McKendall *et al.*, 1999) have found an association between firms' profitability and environmental performance. Following earlier studies (such as McKendall *et al.,* 1999; Clarkson *et al.,* 2008), this study considers ROA as a profitability measure (PROFIT). Following Rashid and Lodh (2008) and Rashid (2010), the variable ROA is calculated by dividing earnings before interest and taxes (EBIT) by closing total assets. Firm growth is another important control variable in most accounting and finance studies. High growth firms are better able to disclose environmental issues such as compliance with environmental regulations and the installation of environmentally friendly plants that cause fewer emissions. By giving importance to environmental performance, high growth firms are better able to gain a competitive advantage to extract higher future returns (Russo and Fouts, 1997; De Villiers *et al.,* 2011). In contrast, low growth firms are more likely to have organisational structures that are bureaucratic and inflexible (De Villiers *et al.,* 2011); thus, the adoption of environmental policies and procedures is more unlikely in these firms (Russo and Fouts, 1997). A company's market capitalisation is important for sustainability reporting; a company with a low market capitalisation has little role in sustainability reporting (Rashid and Lodh, 2008). This is because; a company with low market capitalization will be able to bypass the public scrutiny. Following this argument, the variable Market Capitalisation (CAP) is considered. A firm's CSR reporting practices may also be influenced by its risk and social performance of a firm

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may reduce a firm's financial risk (Orlitzky and Benjamin, 2001). Risky firms will try to survive and provide more disclosures. Following Rashid (2013a), risk (RISK) is measured as the natural logarithm of a company's stock returns' standard deviation over the year (12 months).

4.3 Regression Model Specification

The following model is developed in this study:

$$\mathbf{CSRI_{i,t}=\alpha+\beta_1CGI_{i,t}+\beta_2INSOWN_{i,t}+\beta_3BDIND_{i,t}+\beta_4CEOD_{i,t}\ \beta_5DR_{i,t}+\beta_6LIQ_{i,t}+\beta_7AGE_{i,t}+\beta_8SIZE_{i,t}}$$
$$\mathbf{+\beta_9GROWTH_{i,t}+\beta_{10}PROFIT_{i,t}+\beta_{11}CAP_{i,t}+\beta_{12}RISK_{i,t}+\varepsilon_{i,t}}$$

Where, for the ith firm at time t, $CSRI_{it}$ is the Corporate Social Responsibility Reporting Index, CGI_{it} is the corporate governance practices index, $INSOWN_{i,t}$ is the percentage of shares owned by directors (insiders), $BDIND_{i,t}$ is the degree of board independence, $LIQ_{i,t}$ is the liquidity, $DR_{i,t}$ is the debt ratio, $AGE_{i,t}$ is the firm age, $SIZE_{i,t}$ is the firm size, ROA_{it} is the return on assets, $PROFIT_{it}$ is the firm profitability, $GROWTH_{i,t}$ is the firm growth, $CAP_{i,t}$ is the natural logarithm of market capitalisation, and $RISK_{i,t}$ is the natural logarithm of stock returns' standard deviation. α is the intercept, β is the regression coefficient, and ε is the error term.

To perform the statistical analysis, it is necessary to meet the assumptions of normality, multicolinearity, heteroscedasticity and endogeneity.

Please insert table 3 about here

The residual test/histogram-normality test of the regression equation produced a bell shape, conforming the normality of the data. The plot of the standardised residuals (ZRESID) against the standardised predicted value (ZPRED) of the model does not look like a funnel or curve shape, indicating no evidence of heteroscedasticity. However, the Chi-square statistics and corresponding

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p-value of the Breusch–Pagan-Godfrey test suggest that heteroscedasticity is present in the model; this heteroscedasticity is corrected using White's (1980) correction technique for unknown heteroscedasticity.

Endogeneity is the relationship between any of the explanatory variables and the error term. When endogeneity is present, the ordinary least squares (OLS) estimate is inconsistent; instrumental variable techniques are used to deal with endogeneity. As suggested by Gujarati (2003), the Hausman test indicates that there are no signs of potential endogeneity. The F-test for the predicted value of corporate governance practices is insignificant (F = 4.86 and relevant p = 0.0277). This finding marginally indicates that there are no signs of potential endogeneity between index and CSR reporting, suggesting that both the OLS and IVs are consistent.

5. Empirical Results

5.1 Descriptive Statistics

Descriptive statistics of the variables are presented in Table 4. The descriptive statistics include the mean, minimum, maximum and standard deviation. The descriptive statistics reveal that the average Corporate Social Responsibility Reporting Index is 22.1 percent indicating a very low reporting CSR practices by firms in Bangladesh. A further look at this index by industry wise reveals that some variations of reporting which is presented in table 1. Such sector wise reporting reveals that firms belonging to the manufacturing/ polluting industries are making more disclosure, whereas firms belonging to the agricultural production sector are making least disclosure. Such variation is due to the fact that firms which will pollute more will try to be legitimate in their operations by making more disclosure. The average corporate governance practices index is 77.3 percent, indicating that a majority number of the firms have gone through the institutionalisation process. The average insider ownership is 39.2 percent, which implies that there is a huge family

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dominance within the listed firms in Bangladesh. The average board independence is 11.7 percent indicating a very low level board independence practices by firms in Bangladesh. There is a 27.7 percent incident of CEO duality implying that CEO duality is not a very common practice by firms in Bangladesh.

Please insert table 4 about here

The regression coefficients of the relationship between corporate governance practices index and CSR reporting are presented in 'Panel A' of Table 5. From the regression coefficients, it can be seen that the signs of the coefficients for the corporate governance practices index are not in the expected directions (though not significant); thus, it can be concluded that there is no relationship between corporate governance practices and firm CSR reporting. Surprisingly, it is noted that insider ownership has a significant positive relationship with firm CSR reporting. Firm age, firm size and market capitalization have significant positive influence on firm CSR reporting. These results imply that big and older firms with larger market capitalisations are better able to meet their stakeholders' expectations and provide relevant reporting, partly because growing firms are subject to high scrutiny that they will try to bypass.

Based on the above results it is noted that, the corporate governance practices do not have any influence on firm disclosure practices. Furthermore, firms that are in compliance with corporate governance practices are reluctant to make disclosure. As noted in this study, listed firms in Bangladesh went through a reform movement on corporate governance practices requiring them to follow a 'corporate governance practices'. It was more likely that such practices would have an impact on firm social responsibility practices and relevant reporting. This is due to the fact that, a company cannot operate in isolation from the wider society in which it operates (Tricker, 2012).

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Good corporate governance can be achieved through an increase in social and environmental reporting (CSR reporting) (Haniffa and Cooke 2002) because good corporate governance cannot stand alone; good corporate governance and accountability must address social, environmental, economic and ethical expectations (Unerman and Bennett, 2004), which have a positive effect on profitability as well as enhancing sustainability (Rao *et al.*, 2012). Furthermore, CSR is being treated as a strategy to deal with governance failure and corresponding reputational risks and developing country like India consider CSR as a natural part of good governance (Young and Thyil, 2014).

Please insert table 5 about here

5.2 Robustness Check

The results of this study are robust in the sense that there is no unobservable heterogeneity, as a balanced panel was used. This study further controls for the regression equation by industry because a company's voluntary disclosure of information or its stakeholders' expectations may be influenced by the types of firms and sectors to which the firm belongs (see Jaggi and Zhao, 1996; Moneva and Llena, 2000; Haniffa and Cooke, 2002; Ng and Koh, 1994; Clarkson *et al.,* 2008). Following this argument, the regression model is controlled for industry effect by adding 'INDUSTRY' dummies for the two-digit industrial classification (SIC) codes for the sector to which the firm belongs. It is also argued that firm CSR reporting varies across time as a firm may make variation of it disclosure following an event. Following this argument, the regression equation is controlled for the time effect by adding 'TIME' dummies for the year when the observations are made. The following regression equation is derived:

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$$\mathbf{CSRI_{i,t}= \alpha+\beta_1CGI_{i,t}+\beta_2INSOWN_{i,t}+\beta_3BDIND_{i,t}+\beta_4CEOD_{i,t}\ \beta_5DR_{i,t}+\beta_6LIQ_{i,t}+\beta_7AGE_{i,t}+\beta_8SIZE_{i,t} +\beta_9GROWTH_{i,t}+\beta_{10}PROFIT_{i,t}+\beta_{11}CAP_{i,t}+\beta_{12}RISK_{i,t}+\gamma INDUSTRY+\Omega TIME+\varepsilon_{i,t}}$$

Panel B of table 5 presents the regression coefficients for the relationship between the corporate governance practices index and CSR reporting after controlling for industry and time. It can be seen that the new regression coefficients are not materially altered materially except that the signs of some coefficients have turned from negative to positive and vice versa and some coefficient have turned from significant to non-significant. However, the coefficient CGI is unchanged. It confirms the robustness of the findings.

It could be possible that, firms which have complied with corporate governance practices (either fully or partially) are not concerned about their legitimacy, thus they will tend to make less disclosure and it is expected that there will be a negative relationship between corporate governance practices and CSR reporting of these firms. To investigate this possibility, this study conducts an explanatory analysis. The explanatory analysis between corporate governance practices and firm CSR reporting reveal that firms complying with the corporate governance practices are making less disclosure compared to all firms (figure 1).

Please insert figure 1 about here

The regression is re-run with the firms that complied with the corporate governance practices (either partially or fully). The outputs shown in Panel C of table 5 reveal that, there is a significant negative relationship between the corporate governance practices and CSR reporting. This finding implies that firm that are complying with the corporate governance practices are making less disclosure as they may less willing to extend the legitimacy any further beyond the institutional requirement.

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5.3 Additional Endogeneity Test

Although the results of the study thus far suggest that the corporate governance practices has no influence on CSR reporting, it may also be possible that firms that are environmentally responsible and provide the relevant disclosures have adopted corporate governance practices. Thus, the direction of this relationship is not fully captured by cross-sectional regression. Therefore, as a final assessment of endogeneity, a simple crossed-lagged regression model is used, following Rashid (2013a):

$$CSRI_{it}=\delta_0+\delta_1 CSRI_{t-1}+\delta_2 \text{Corporate governance practices index}_{t-1}+\text{Other control variables}+\acute{\varepsilon}_{it}$$

$$\text{Corporate governance practices index}_{it}=\delta_0+\delta_1 \text{ Corporate governance practices }_{t-1}+\delta_2 CSRI_{t-1}+\text{Other control variables}+\acute{\varepsilon}_{it}$$

In the first equation, in time t, CSRI is regressed against the lagged value of itself and the lagged value of corporate governance practices. In the second equation, the corporate governance practices at time t is regressed against the lagged value of itself and the lagged value of CSRI. The regression output of CSRI at time t against the lagged value of itself and the lagged value of the corporate governance practices index reveals that a firm's past CSRI significantly influences that firm's future CSRI. However, past corporate governance practices has no significant influence on firm future CSRI. Therefore, one can conclude that there is no reverse causality between corporate governance practices and CSR reporting.

6. Discussion

This study examines the influence on 'corporate governance practices' on corporate social responsibility reporting in Bangladesh. The finding of the study is that, the institutionalisation of corporate governance practices do not have any influence on firm disclosure practices. This findings

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imply that, when firms are able to handle the institutional pressure, they may be less willing to extend the legitimacy unless there is a wrongdoing by any firm or a firm belongs to a particular industry. In other words, firm CSR practices are legitimization exercises and firms will not make increased disclosure unless firm legitimacy is threatened or there is an imminent external pressure.

The theoretical implication of this study is that, this study does not reject the validity of legitimacy theory. Legitimacy theory argues that firms will adapt output, goals and methods of operation to conform to definitions of legitimacy (Dowling and Pfeffer, 1975). However, firms may not adopt the legitimacy, just simply because the majority of the other organisations in an industry might have a particular governance structure, there could be "institutional" pressure on an organisation to also have such a structure.

7. Conclusion

The findings of this study open the new door for discussion and it can be questioned whether pronouncement of a code may promote the interest of all the stakeholders. This is because some firms may comply with corporate governance practices and may not care about social and environmental wrongdoings unless there will be an imminent pressure from an element of corporate governance practices. Thus, the practitioner/policy implication of this study is that regulators should gradually consider more onerous CSR regulations to ensure more responsible firm operations.

This study may be subject to some limitations. First, the data were mainly collected from company annual reports. Because the accounting standards are very poor in developing countries, annual reports may not truly represent a company's true state of affairs and performance (Deegan, 2006). Second, the data were collected from a large number of observations of different corporate entities, ignoring the underlying differences in organisations, for in no way are two organisations (even in the same industry) the same (Deegan, 2006). Third, this study was purposefully confined to

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the disclosure attributes within designated areas, and many other attributes, such as disability policies and pay awards, were ignored. Fourth, this study used the content analysis method, which requires objectivity and the specification of variables such that an item may be judged consistently as falling or not falling into a particular category (Guthrie and Mathews, 1985); it is thus heavily reliant on the judgement and integrity of the coder or researcher (Rashid, 2013b). Although the study's integrity is beyond question and a high level of caution was maintained during the coding process, a major limitation of this study is the subjectivity or judgement associated with the coding process, which may influence the results. Finally, the extreme values of some accounting numbers for a few firms for certain years may have severely impacted the outcome of the study. It is to be noted that there are no single or a set of factors that may influence firm CSR reporting. Managers are sometimes involved in CSR reporting to hide some wrongdoing within the firm. For example, managers may be involved in CSR reporting if they are also involved in earnings management. Further research can be carried out to examine if the managers in high disclosing firms are involved in earnings management. Managers are sometimes opportunistically involved in CSR reporting to increase the share price if they are paid on stock or stock option based compensation. Thus, further study may also be carried out to examine if the CSR reporting may add any value to the firm.

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List of Tables

Table 1: Industry Classification of the Sample

Year	Number of Firms in the Sample	Observed Firm Years	CSRI (Percent)
Agricultural Production-Corps	4	28	10.97
Agricultural Production-Livestock	3	21	11.96
Non-Metallic Minerals, Except Fuels	3	21	19.64
Food and Kindred Products	9	63	11.89
Tobacco Products	2	14	13.96
Textile Mill Products	20	140	20.46
Apparel and Other Textile Products	4	28	13.73
Paper and Allied Products	2	14	16.67
Printing and Publishing	1	7	4.17
Chemicals and Allied Products	15	105	36.67
Petroleum and Coal Products	2	14	16.07
Rubber and Miscellaneous Plastic Products	6	42	22.08
Leather and Leather Products	4	28	16.04
Stone, Clay and Glass Products	4	28	15.21
Primary Metal Industries	2	14	8.33
Industrial Machinery and Equipment	3	21	16.04
Electronics and Other Electric Equipment	5	35	48.96
Miscellaneous Manufacturing Industries	2	14	15.44
Water Transportation	1	7	54.17
Communications	3	21	17.08

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Electric, Gas and Sanitary Services	1	7	49.40
Automotive Dealers and Service Stations	3	21	22.92
Real Estate	1	7	26.39
Holdings and Other Investment Offices	1	7	32.37
Total	**101**	**707**	

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Table 2: Corporate Social Responsibility Reporting Categories

	CSR Reporting Categories
1	Community involvement (such as 'recognising the importance of community')
2	Charitable donation (involvement in community welfare programs, such as aid to schools, colleges, educational and religious institutions)
3	Health, educational and training (such as a blood donation program or adopting an adult literacy program)
4	Environmental protection (such as producing lower carbon emissions and not polluting the air and water)
5	Energy savings (such as the use of energy efficient machinery and equipment
6	Number of employees (helping society to reduce unemployment)
7	Employee relations (maintaining a good understanding among employees)
8	Employee welfare (welfare of the employee and/or family members)
9	Employee benefits (employee benefits as per International Accounting Standard 19)
10	Employee education (recognising the importance of employee education and providing support for education)

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11	Employee training (such as employment-specific training)
12	Employee profit sharing (such as profit sharing and profit bonuses)
13	Occupational health and safety (such as taking precautionary measures in the workplace, providing OHS training in the workplace, and taking measures to cope with accidents)
14	Freedom of association (such as trade unions)
15	Diversity and equal opportunity (such as employment irrespective of disability, race, gender and ethnic group)
16	Types of products (fulfilling consumer needs)
17	Product quality and improvements (recognising product quality and taking initiatives for improvements)
18	Product safety/customers' health and safety
19	Product sustainability performance/child labour (such as non-use of child labour)
20	Discussion of marketing network (on-time availability of products)
21	Focus on customer service
22	Customer award/ratings received
23	Value added statement
24	Value added data/ratio

Table 3: Descriptive Statistics (N=707)

	Mean	*Median*	*Std. Deviation*	*Minimum*	*Maximum*
Corporate Social Disclosure Index (CSDI)	0.221	0.167	0.163	0.000	0.750
Corporate Governance Practice Index (CGI)	0.773	1.000	0.380	0.000	1.000
Director Ownership (INSOWN)	0.392	0.428	0.205	0.000	0.909
Board Independence (BDIND)	0.117	0.143	0.082	0.000	0.800
CEO Duality (CEOD)	0.277	0.000	0.448	0.000	1.000
Debt Ratio (DR)	0.709	0.598	0.580	0.022	5.619

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Liquidity (LIQ)	1.703	1.139	2.533	0.000	28.570
Firm Age (AGE)	2.814	2.833	0.433	1.099	3.611
Firm Size (SIZE) (LogTA)	6.331	6.313	1.589	2.244	11.336
Firm Growth (GROWTH)	0.366	0.088	4.323	-1.000	115.368
Profitability (ROA)	0.068	0.067	0.265	-1.611	6.452
Market Capitalisation (CAP)	5.693	5.540	2.170	0.000	11.070
Firm Risk (RISK)	2.984	2.942	2.012	-1.699	7.515

Table 4: Correlation Matrix of the Explanatory Variables (N=707)

		1	2	3	4	5	6	7	8	9	10	11	12	VIF
1	CI	1.000												1.590
2	INSOWN	0.011	1.000											1.120
3	BDIND	0.524**	0.054	1.000										1.413
4	CEOD	-0.094**	0.221**	-0.053	1.000									1.105
5	DR	-0.111**	-0.062	-0.107**	-0.014	1.000								1.238
6	LIQ	0.053	-0.088*	0.001	-0.085*	-0.227**	1.000							1.106
7	AGE	0.028	-0.108**	0.105**	0.041	0.155**	-0.156**	1.000						1.235
8	SIZE	0.226**	-0.076*	0.132**	-0.027	-0.251**	0.008	0.046	1.000					2.665
9	GROWTH	0.032	0.004	0.043	-0.025	-0.010	-0.014	-0.029	-0.008	1.000				1.006
10	PROFIT	0.081*	0.040	0.080*	-0.050	-0.002	0.039	0.063	0.087*	0.004	1.000			1.043
11	CAP	0.368**	-0.137**	0.204**	-0.146**	-0.321**	0.095**	0.050	0.776**	0.020	0.153**	1.000		3.455
12	RISK	0.307**	-0.018	0.195**	0.003	-0.162**	-0.022	0.322**	0.257**	0.018	0.102**	0.421**	1.000	1.470

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

Table 5: Relationship between adoption of corporate governance code and CSR reporting

(This table presents the summary results of the relationship between adoption of corporate governance code and CSR reporting)

	Dependent Variables					
	Panel A (Before Controlling for Industry and Time)		**Panel B** (After Controlling for Industry and Time)		**Panel C** (Firms Complying Code)	
Intercept	-0.272 (-6.694)	***	-0.275 (-4.583)	***	-0.246 (-4.124)	***
CGI	-0.022 (-1.467)		-0.007 (-0.407)		-0.079 (-1.669)	*
INSOWN	0.084 (3.826)	***	0.061 (2.283)	*	0.084 (3.495)	***
BDIND	0.063 (0.934)		0.091 (1.299)		0.088 (1.017)	
CEOD	-0.016		0.011		-0.019	

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	(-1.335)		(0.899)		(-1.348)	
DR	-0.010		0.003		-0.014	*
	(-1.481)		(0.451)		(-1.805)	
LIQ	-0.002		-0.002		-0.001	
	(-1.150)		(-0.987)		(-0.629)	
AGE	0.046	***	0.012		0.054	***
	(3.874)		(0.943)		(3.991)	
SIZE	0.029	***	0.036	***	0.034	***
	(5.921)		(7.076)		(5.938)	
GROWTH	-0.001	***	-0.001		-0.001	***
	(-4.209)		(-1.131)		(-4.296)	
PROFIT	0.010		0.002		0.011	
	(0.663)		(0.180)		(0.788)	
CAP	0.029	***	0.022	***	0.024	***
	(6.318)		(5.045)		(4.682)	
RISK	0.002		-0.001		0.003	
	(0.856)		(-0.287)		(0.932)	
Adjusted R2	0.413	***	0.542		0.407	
F Statistics	42.318	***	21.309	***	35.279	***
Observations	707		707		602	

The t-tests are presented in parentheses. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

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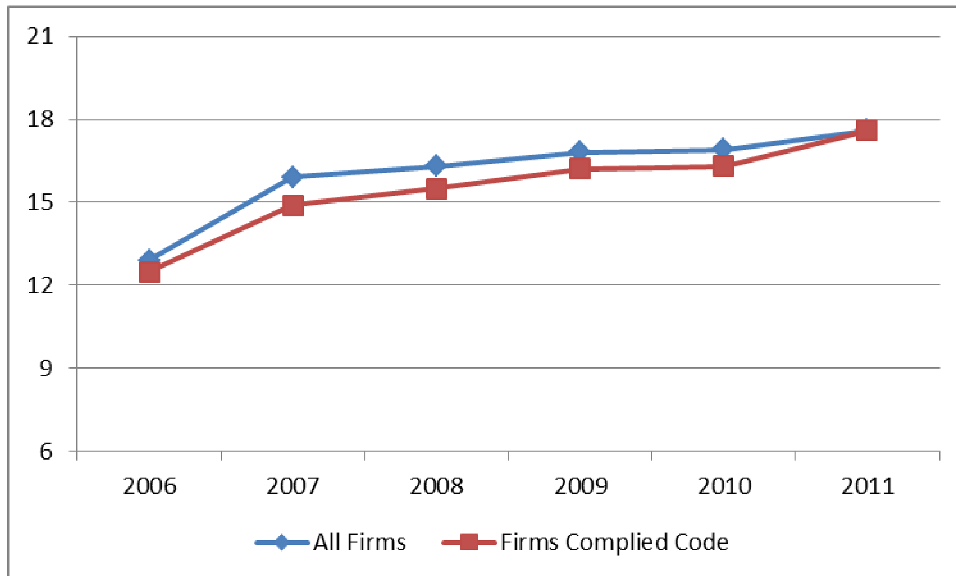
Figure 1: Trend of CSR Reporting over a Five Year Period



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