ID - 37

IMPACT OF OWNERSHIP AND BOARD STRUCTURE ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE OF LISTED COMMERCIAL BANKS OF SRI LANKA

Mithushana.R[1], Johnathan Kevin S.P.T[2], Vijayakumaran R[3]
Department of Financial Management, Faculty of Management Studies and Commerce, University of Jaffna.
Department of Financial Management, Faculty of Management Studies and Commerce, University of Jaffna.
Department of Financial Management, Faculty of Management Studies and Commerce, University of Jaffna.

Abstract

The purpose of this study is to examine the relationship between corporate social responsibility (CSR) disclosure and ownership and board structure in domestic licensed commercial banks in Sri Lanka. Ownership and board structure have been identified as independent variables and CSR disclosure identified as the dependent variable in this study. The researcher selected 11 high performance domestic licensed commercial banks as a sample for a period of six years starting from 2012 to 2017. Based on the analysis results, there is a significant, positive impact between CSR disclosure and institutional ownership and foreign investors has a significant negative impact on CSR disclosure. Further managerial ownership has insignificant impact on CSR disclosure. Also board structure does not show a significant impact on CSR disclosure in listed licensed commercial banks in Sri Lanka. Researcher concludes that different ownerships have different impacts on the bank's CSR reporting.

Keywords: Board Structure, Commercial Banks, Corporate Social Responsibility, Ownership Structure.

Introduction

CSR has gained momentum as a new concept regarding the social impact of business enterprises and has become a popular notion among stakeholders, such as managers, investors, creditors, suppliers, customers, employees and policy makers. Several issues in this regard, such as pollution, resource depletion, waste, product quality and safety and the rights and the status of the workers, have become the focal aspects of this growing attention (Gray, Owen and Maunders 1987). Firms are expected to behave in a socially responsible manner while, at the same time, generating value for investors. Today the banking industry is considered as one of the key contributing sectors behind economic solidity and growth, and it is highly observable to public evaluation. So general public now has high expectations of the government and private sector for responsible behavior. With the recent corporate scandals and corruption have indicated that over-focusing on financial results while disregarding other aspects of business has produced failures. Thus, CSR refers to finding a balance between the financial and non-financial goals of corporations, while acting in the best interest of society as a whole.

Problem Statement

The results of impact of ownership and board structure on CSR Disclosure on past studies have been mixed. Some researchers have been identified a negative relationship between CSR and profitability. As well as some researchers conclude that there are no any relationships between these two variables. As examples Wright and Ferris (1997) discovered a negative relationship, Tsoutsoura (2004) reported a positive relationship, while Teoh, Welch and Wazzan (1999) found no relationship between CSR and financial performance. Therefore it's better to understand the actual situation of the Sri Lankan banking industry. This measured how CSR practices effect on reporting of the banks of the same financial year and how it affects the next financial year.

Research Question

Does the ownership and board structure have an impact on CSR reporting of listed commercial banks in Sri Lanka?

Objectives

The primary objective of the study is to examine the impact of ownership and board structure on CSR reporting of listed banks in Sri Lanka.

Literature Review

As to Gray, Owen and Adams (1996) define CSR reporting disclosure is as the process of communicating the social and environmental effects of organizations' actions such as economic, to relevant interest groups within society and to society at large. When considering the CSR disclosures, most of the entities disclose the CSR activities for various purposes. According to Damayanthi and Rajapaksha (2011), there are two reasons company motivating the CSR disclosures. First one is creating authenticity through reporting the quality and reputation of its products and operations, being a communication media, stay away from stakeholder challenges, proactively winning the assurance of stakeholders, informing the stakeholders on organizational changes and changing the perception of the public reflecting the legitimization through the factors leading to CSR reporting. Second, CSR reporting is due to: requirement to ensure the competitive position in the industry, maintain the trend in the industry, the influence by the professional bodies which provide guidelines, the organizational growth and its' profitability, influence of leaders on CSR reporting, and the impact of organization specific culture reflecting the institutionalization through the factors leading to CSR reporting.

Financial institutes are exclusive in many ways and the retail services provide to firms role in facilitating economic activity for corporations. Those firms are also unique in how they have altered over the last few decades. When considering the Sri Lankan economy, the service sector plays vital role and high portion support from banking and financial institutions. The finance sector had become so important to the Sri Lankan economy; problems within the finance sector can impact so many other aspects of the economy. Studying the factors that can impact the finance sector is of critical importance. According to Damayanthi and Rajapaksha (2011), there is an increment trend to report on listed companies in Sri Lanka and

CSR Index = $\beta 0 + \beta 1 MOWti + \beta 2 IOWti + \beta 3 FOWti + \beta 4 BRDSIZti + \beta 5 INDRMEMti + \beta 6 FEMDRMEMti + \beta 7 BSIZti + \beta 8 PRFTti + \beta 9 LEVti + \varepsilon ti$

that in the banking and finance, insurance, plantation, food and beverage and tobacco sector the CSR reporting is most common.

Methodology

This research study focuses on inferential research design to identify the impact of ownership and board structure on CSR in listed banks in Sri Lanka. By conducting this research study, researcher is going to identify the relationship in between CSR reporting disclosure and CSR proxies with the different type of ownership of shareholders and board structure. EViews 8 software used to analyze statistical data of the research. Based on the variables following regression equation is derived by the researcher.

When those variable applied to regressions those are formulated as follows,
Where,

β0 – Intercept

MOW – Managerial Ownership

IOW - Institutional Ownership

FOW – Foreign Ownership

BRDSIZ - Board size

INDRMEM - Independent directors

FEMDRMEM - Female directors

BSIZ - Bank size

PRFT – Profitability

LEV - Leverage

E – Error term

Hypotheses

H1a = There is a significant relationship between MOW and CSR

H1b = There is a significant relationship between IOW and CSR

H1c = There is a significant relationship between FOW and CSR

Results

Table 01. Descriptive Analysis

	BRDSIZ	FEMDRMEM	FOW	INDRMEM	IOW	MOW	BSIZ	LEV	PRFT	CSR
Mean	10.64	2.12	16.40	5.32	55.36	1.35	8.55	1.15	0.14	0.76
Median	11.00	2.00	17.90	5.00	75.78	0.04	8.54	0.78	0.15	0.80
Maximum	15.00	4.00	36.70	10.00	92.79	15.02	9.30	5.18	0.34	0.91
Minimum	7.00	0.00	0.00	0.00	0.00	0.00	7.50	0.00	0.00	0.43
Std. Dev.	1.99	1.076	12.63	1.69	34.80	3.66	0.44	1.25	0.06	0.14
Skewness	-0.10	0.21	-0.07	-0.46	-0.78	3.28	-0.29	1.44	0.14	-0.98
Kurtosis	1.95	1.86	1.56	5.11	1.87	12.48	2.31	4.33	3.98	2.77
Jarque-Bera	3.06	3.94	5.58	14.28	9.97	355.46	2.21	26.91	2.82	10.41
Probability	0.21	0.14	0.06	0.000794	0.0068	0.00	0.33	0.00	0.24	0.01
Sum	681.0	136.00	1049.96	341.00	3543.42	86.51	546.98	74.00	9.43	48.87
Sum Sq. Dev.	250.73	73.00	10050.48	180.11	76302.12	845.59	12.70	99.79	0.24	1.25
Observations	64	64	64	64	64	64	64	64	64	64

The data shows that the mean of the FOW is 16% with the standard deviation of 13% also the FOW ranges approximately from 37% (Maximum) to 0% (Minimum). The data also shows that, nearly (55.37%) of the sample firms owned by institutional investors which means most of the shares held by the Institutions. The Managers have the ownership nearly 1.35% (average) and the maximum Managerial Ownership rate is 15% whereas the lowest recorded managerial ownership is 0%. The mean of the Dependent Variable CSR Index is 76% and the maximum value of the CSR Index is 91% while the lowest is 43%.

Table.02 Correlation Analysis

Correlation Probability	BRDSIZ	FEMDRME	FOW	INDRMEM	IOW	MOW	BSIZ	LEV	PRFT	CSR
BRDSIZ	1.000									

FEMDRME	0.3687	1.000								
	0.003	-----								
FOW	0.228	0.213	1.000							
	0.069	0.092	-----							
INDRMEM	0.294	0.343	0.282	1.000						
	0.018	0.006	0.024	-----						
IOW	0.202	0.287	0.721	0.356	1.000					
	0.110	0.021	0.000	0.004	-----					
MOW	0.255	0.277	0.014	0.081	0.150	1.000				
	0.042	0.027	0.915	0.524	0.238	-----				
BSIZ	-0.544	0.126	-0.070	-0.059	-0.170	-0.040	1.000			
	0.000	0.319	0.584	0.645	0.178	0.754	-----			
LEV	-0.248	0.023	0.048	-0.075	-0.036	0.007	0.136	1.000		
	0.048	0.860	0.709	0.556	0.778	0.958	0.286	-----		
PRFT	-0.348	-0.049	-0.105	-0.235	-0.244	-0.106	0.467	-0.068	1.000	

	0.005	0.700	0.411	0.061	0.052	0.4041	0.000	0.594	-----	
CSR	-0.307	0.125	0.384	0.073	0.637	-0.053	0.277	0.204	0.068	1.000
	0.013	0.324	0.002	0.566	0.000	0.677	0.027	0.107	0.594	-----

Based on the results BRDSIZ has negative relationship with CSR Index (-0.307490) and which is statistically significant with CSR Index at 5% level. The FEMDRMEM has positive relationship with CSR Index (0.125309) but it is not statistically significant. The Independent Directors INDRMEM has positive relationship with CSR Index (0.073068) but it is not significant.

Then FOW has positive relationship with CSR Index (0.384444) and also significant with CSR Index at 1% level. IOW has strong positive relationship with the CSR Index (0.637327) and also it is statistically significant with the Dependent Variable at 1%. MOW has negative relationship with CSR Index. (0.053167) and it is not statistically significant.

Except BSIZ and MOW other all variables have positive relationship with the CSR Index. IOW has the strongest relationship with CSR Index among all the variables.

Table 03: Regression Analysis

Dependent Variable: CSR_INDEX

Method: Least Squares

Date: 06/26/19   Time: 10:07

Sample: 1 66

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.052401	0.338975	0.154586	0.8777
BOARD_SIZE	-0.013354	0.008436	-1.582919	0.1193
FEMAL_DIRECTORS	0.000261	0.012857	0.020263	0.9839
FOREIGN	-0.002280	0.001314	-1.735245	0.0884
INDEPENDENT_DIRECTORS	-0.008033	0.007296	-1.101103	0.2757
INSITUTIONAL	0.003802	0.000503	7.554248	0.0000
MANAGERIAL	-0.004582	0.003173	-1.443802	0.1546
BANK_SIZE	0.080162	0.034609	2.316223	0.0244
LEVERAGE	0.018286	0.009233	1.980487	0.0528
PROFITABILITY	0.151939	0.210387	0.722189	0.4733

R-squared	0.687030	Durbin-Watson stat	1.055047
Adjusted R-squared	0.634869		
F-statistic	13.17120		
Prob(F-statistic)	0.000000		

Based on the results, it is observed that institutional ownership shows a significant impact over CSR disclosure since the p value of this being 0.0000. Also foreign ownership shows a significant impact on CSR disclosure at 90% confidence level, since the p value is 0.0884. Other independent variable not shows a significant impact over CSR disclosure on commercial banks of Sri Lanka since the p values became 0.1546 of managerial ownership. R squared indicates that 69% of influence over dependent variable is caused by the independent variables used in the particular study. And F statistic results shows that the model fits perfectly to the study since the value became 0.0000.

Conclusion

The main objective of this study was to find out the impact of ownership and board structure on banks' CSR disclosure. According to the result of the regression analysis researcher found that there is a significant relationship between institutional and foreign ownership and CSR disclosure of banks. Findings of this study are consistent with Merve et al. (2015), Muttakin et al. (2015), and Panicker (2017).

The regression model shows that institutional ownership has a significant positive impact on CSR disclosure. This finding is consistent with Shleifer and Vishny (1997), Schnatterly et al. (2008), Graves and Waddock (1994) Teoh and Shiu (1990).It means if there is an increase in the institutional ownership the CSR disclosure will also be increased. Normally the institutional owners concentrate on long term performance because they cannot easily sell the shares. Since the CSR investments are mostly realized in long term, so the institutional owners would be more supportive to CSR. The results state that there is a negative significant relationship between foreign ownership and CSR disclosure. This significant indicates any increase in the foreign ownership will result reduction in the CSR disclosure. This finding is consistent with Fitri et al. (2017). Then the model shows that there is a negative insignificant relationship between managerial ownership and CSR disclosure. It indicates that any changes in the managerial ownership do not impose impact on CSR disclosure. This finding is consistent with Swandari and Sadikin (2016). Therefore, based on the study, it can be concluded that the institutional ownership and foreign ownership shows a significant impact on banks' CSR disclose in listed licensed commercial banks in Sri Lanka.

Reference

1. Damayanthi, D. G., & Rajapakse, R. M. R. B. (2011). Factors Leading To CSR Reporting: A Case From Manufacturing Sector In Sri Lanka.

2. Graves, S. B., & Waddock, S. A. (1994). Institutional owners and corporate social performance. Academy of Management journal, 37(4), 1034-1046.

3. Gray, R., Owen, D., & Maunders, K. (1987). Corporate social reporting: Accounting and accountability. Prentice-Hall International.

4. Muttakin, M. B., & Subramaniam, N. (2015). Firm ownership and board characteristics: do they matter for corporate social responsibility disclosure of Indian companies?. Sustainability Accounting, Management and Policy Journal, 6(2), 138-165.

5.Panicker, V. S. (2017). Ownership and corporate social responsibility in Indian firms. Social Responsibility Journal, 13(4), 714-727.

6. Schnatterly, K., Shaw, K. W., & Jennings, W. W. (2008). Information advantages of large institutional owners. Strategic Management Journal, 29(2), 219-227.

7. Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. The journal of finance, 52(2), 737-783.

8.Teoh, H. Y., & Shiu, G. Y. (1990). Attitudes towards corporate social responsibility and perceived importance of social responsibility information characteristics in a decision context. Journal of Business Ethics, 9(1), 71-77.

9.Tsoutsoura, Margarita. "Corporate social responsibility and financial performance." (2004).

10.Wright, P., & Ferris, S. P. (1997). Agency conflict and corporate strategy: The effect of divestment on corporate value. Strategic management journal, 18(1), 77-83.