CORPORATE SUSTAINABILITY DISCLOSURE PRACTICES IN BANGLADESH: A COMPARISON OF TWO BANKS FROM AN INSTITUTIONAL PERSPECTIVE

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CORPORATE SUSTAINABILITY DISCLOSURE PRACTICES IN BANGLADESH: A COMPARISON OF TWO BANKS FROM AN INSTITUTIONAL PERSPECTIVE

by

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Dedicated to

those who are contributing to

sustainable sustainability locally and globally.

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LIST OF ABBREVIATIONS

AAOIFI = Accounting and Auditing Organization for Islamic Financial Institutions

AFD = Accounts and Finance Department

AMD = Additional Managing Director

ARPPC = Annual Report Preparation and Publication Committee

BAS = Bangladesh Accounting Standards

BB = Bangladesh Bank

BBS = Bangladesh Bureau of Statistics

BDT = Bangladeshi Taka (Local Currency)

BER = Bangladesh Economic Review

BIBA = Bangladesh Islamic Bankers Association

CEO = Chief Executive Officer

CEP = Council on Economic Priorities

CFO = Chief Finance Officer

CRR = Corporate Responsibility Reporting

CRS = Conventional Reporting System

CS = Company Secretary

CSD = Corporate Sustainability Disclosure

CSDI = Corporate Sustainability Disclosure Index

CSE = Chittagong Stock Exchange

CSED = Corporate Social and Environmental Disclosure

CSER = Corporate Social and Environmental Reporting

CSR = Corporate Social Responsibility

CSRD = Corporate Social Responsibility Disclosure

DMD = Deputy Managing Director

DSE = Dhaka Stock Exchange

EcSD = Economic Sustainability Disclosure

EnSD = Environmental Sustainability Disclosure

FAD = Financial Administration Division

FPFIs = Equator Principles Financial Institutions

GB = Grameen Bank

GDP = Growth Domestic Production

GOB = Government of Bangladesh

GRI = Global Reporting Initiative

HRD = Human Resource Development

IBS = Islamic Banking System

ICAB = Institute of Chartered Accountants of Bangladesh

ICMAB = Institute of Cost and Management Accountants of Bangladesh

IDB = Islamic Development Bank

IEMA = Institute of Environmental Management and Assessment

IERB = Islamic Economics Research Bureau

IRS = Islamic Reporting System

ISEA = Institute of Social and Ethical Accountability

MD = Managing Director

MDG = Millennium Development Goal

NIS = Neo Institutional Sociology

NRV = Net Realizable Value

NSAPR = National Strategy for Accelerated Poverty Reduction

PBUH = Peace Be Upon Him

PRB = People's Republic of Bangladesh

SA8000 = Social Accountability Codes

SAI = Social Accountability International

SEA = Social and Environmental Accounting

SEC = Securities and Exchange Commission

SEP = Social Enterprise Partnership

SME = Small and Medium Enterprise

SMR = Sustainability Management and Reporting

SSD = Social Sustainability Disclosure

SWT = *Subhanahu Wata'alah*

UNEP-FI = United Nations Environmental Program Finance Initiative

USD = United States Dollar

USDS = United States Department of State

WCED = World Commission on Environment and Development

AMALAN PERLAPORAN KELESTARIAN BANK DI BANGLADESH: PERBANDINGAN DIANTARA DUA BANK DARI PERSPEKTIF INSTITUSI

ABSTRAK

Kelestarian kini menjadi perhatian dunia disebabkan oleh perubahan alam sekitar, masalah social dan tekanan ekonomi. Ini seterusnya mendesak badan korporat yang bertanggung-jawab untuk melaporkan aktiviti kelestarian mereka yang memberi kesan kepada bumi dan masyarakat amnya. Kajian ini bertujuan untuk menumpukan pada amalan perlaporan kelestarian korporat dan mengenal pasti faktor-faktor di sebalik dedahan dan ketakdedahan maklumat kelestarian syarikat oleh bank-bank di Bangladesh. Ianya seterusnya bertujuan untuk membandingkan amalan perlaporan kelestarian korporat ini diantara bank konventional dan Islam. ”Matahari” dan ”bulan”, adalah dua kes bank yang telah sengaja dipilih bagi tujuan kajian ini. Matahari adalah nama samaran bagi bank konvensional dan Bulan adalah nama samaran bagi bank Islam. Kaedah kajian campuran berurutan digunakan untuk mencapai tujuan kajian. Selain laporan tahunan dan laman web syarikat, dan media-media lain seperti surat khabar, brosur syarikat, dan penerbitan lain telah digunakan dalam analisis kandungan. Temubual separa berstruktur telah dilakukan bersama kaki tangan bank terpilih untuk mengetahui persepsi mereka tentang amalan CSD. Kajian ini mengunakan “Neo Institutonal Sosiology (NIS)” bagi menginterpretasikan dapatan kajian. Dapatan kajian menunjukkan bahawa mekanisme paksaan, normatif dan kognitif-budaya NIS mempengaruhi bank kepada amalan isomorfik dalam pendedahan kelestarian. Kritikan semasa terhadap NIS, heterogenitas organisasi akan membawa kepada kepelbagaian dalam amalan. Bagaimanapun dapatan kajian mengesahkan bahawa isomorfisme institusi wujud dalam amalan CSD walaupun

bank kajian yang konvensional dan Islam heterogen sifatnya. Kurangnya peraturan, kurangnya amalan oleh bank lain, kurangnya perancangan terhadap kelestarian syarikat, kekurangan tenaga kerja dan logistik sokongan dan penglibatan kos merupakan alasan yang dilaporkan oleh para responden di sebalik ketakdedahan maklumat penting CSD. Dari sudut perspektif institusi, alasan ini hanya untuk merasionalisasi strategi mereka untuk mengelakkan pendedahan. Jelas bahawa peranan akauntan profesional dalam kalangan watak-watak dalam organisasi penting untuk menerima atau menolak mikro-atau makro-dinamic institusi dalam bidang amalan CSD. Kajian ini memberikan sumbangan signifikan terhadap teori. Antara sumbangan teorinya, penemuan bentuk baru dari dinamik institusi seperti takut akan Allah (Swt) di balik amalan CSD adalah sangat penting. Keseluruhannya, kajian perbandingan di antara dua bank ini telah menyumbangkan ilmu baru di bidang kajian perakaunan kelestarian.

CORPORATE SUSTAINABILITY DISCLOSURE PRACTICES IN BANGLADESH: A COMPARISON OF TWO BANKS FROM AN INSTITUTIONAL PERSPECTIVE

ABSTRACT

Sustainability is now a global concern because of the effects of climate change, social unrest, and economic depression. This has encouraged the corporate bodies to be accountable by disclosing their sustainability activities that may affect the earth and society at large. The study aims to focus on the extent of corporate sustainability disclosure (CSD) practices, and identification of the factors behind the disclosure and nondisclosure of CSD information by two selected banks in Bangladesh. Indeed, it compared the CSD practices between a conventional and an Islamic bank. "Sun" and "Moon", these two banks were purposively selected for this study. "Sun" is a pseudonym of a conventional and "Moon" is a pseudonym of an Islamic bank. The study applied the "sequential explanatory mixed method" in data collection. In addition to annual reports, corporate websites, and other mediums of disclosure such as newspapers, corporate brochures, and magazines were used in content analysis. Semi structured interviews were conducted among the senior bankers to ascertain their perceptions regarding CSD practices. The study applied the Neo Institutional Sociology (NIS) to explain the findings. The study found that coercive, normative and cultural-cognitive mechanisms of NIS influenced the banks towards isomorphic disclosure of sustainability practices. According to the recent critics of NIS, organizational heterogeneity leads to practice variation. However, the findings confirm that there is no significant difference between the disclosure practices of the

Sun and the Moon. It is revealed that isomorphic practices may exist even though organizations are heterogeneous in nature. Factors that lead to the isomorphic practices are supported by the coercive, normative, and mimetic mechanisms of NIS. From an institutional perspective, the reasons behind the nondisclosure of crucial CSD information include the strategies to rationalize the avoidance of disclosure. It is evident that the role of professional accountants among the key personnel is crucial to accepting, avoiding or resisting institutional forces in the process of CSD practices. The study has contributed significantly to the theory and knowledge body of literature. The discovery of new forms of institutional dynamics such as the fear of God behind the CSD practices seems to be a vital theoretical contribution. Above all, a comparative study between two case banks has generated new knowledge in the field of sustainability accounting research.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter provides the background of the study. It highlights basic information about the research issues, symptoms of problems and is followed by the motivation to undertake the research. The research problems have been identified from the discussion in the background of the study. A separate section identifies the objectives of the study including the main and specific objectives. The research questions, which are answered throughout the research, have been articulated in respect of the research problem. An indication is given as to how the research questions are addressed in this study followed by the significance of the study. The key terms used in the study have been conceptualized and the chapter ends with a briefing on the organization of the remaining chapters.

1.2 Background of the Study

Sustainability is a universal concern. The global society today is achieving neither ecological nor social sustainability (Porritt, 2007). Environmental pollution, inequity, injustice, and poverty are encountered by millions of people across the world (Unerman, Bebbington & O'Dwyer, 2007). Corporate bodies are still concentrating on maximizing wealth rather than taking the notion of sustainability into account. Industrial pollution is still a threat to sustainable development in many developing countries such as Bangladesh (Sobhani, Amran & Zainuddin, 2009a; Belal & Cooper, 2011). The agenda for sustainability urges the corporate concerns to be transparent by disclosing those sustainability activities that may affect the earth and society at large.

In the field of social and environmental accounting (SEA) research, corporate sustainability disclosure (CSD) is a new issue (Adams & McNicholas, 2007). SEA research first became established as a substantial discipline in its own right in the early 1970s (Mathews, 1997). A crucial change in SEA research started at the end of the 1980s with the emergence of corporate social responsibility (CSR), which emphasized environmental dimensions as the prime focus of attention. Despite the studies still continuing until today, a far more critical edge became increasingly apparent from the mid 1990s onwards, that is, in addition to those of eco-efficiency, research addressing the sustainability issues of eco-justice and their disclosure by the corporate bodies (Belal & Owen, 2007; Owen, 2008; Belal & Cooper, 2011).

CSD is an integral part of sustainability accounting. It is a rethinking process beyond mere corporate social and environmental responsibility activities and reporting (Unerman et al., 2007). The process of CSD begins with employee disclosure and then moves on to social disclosure, environmental disclosure, CSR disclosure and eventually and ideally, sustainability disclosure (Hogner, 1982; Guthrie & Parker, 1990; Buhr, 2007). Traditionally, sustainability disclosure focuses on triple-bottom-line (TBL) reporting, surrounding the social and economic dimensions in addition to the purely environmental aspect (Owen, 2008). It is regarded as an expanded spectrum of values and criteria for measuring organizational performance and success from three dimensions – social, economic, and environmental (Unerman et al., 2007; Owen, 2008).

In the form of stand-alone reporting, CSD first appeared in the early 1990s (Epstein & Roy, 2003; Schaefer, 2004; UNEP-FI, 2006). Since then it has spread quickly worldwide mainly amongst big corporations. Leading corporations, such as General Motors, Nestlé, Procter & Gamble, Shell, and BHP, have attempted to integrate their strategies, processes, and people across the “triple-bottom line” and began disclosing their performance concerning the economic, environmental and social dimensions (Elkington, 1997; Gao & Zhang, 2006). Today more than 2,000 companies worldwide produce responsibility reporting, covering more than 50 percent of the world’s top performing 250 companies. The average level of disclosure of such companies is about 80 percent (KPMG, 2008).

The disclosure practices of corporate sustainability are mostly voluntary in nature (Gray, 2006). However, these practices are gradually becoming obligatory in developed countries such as the UK, the US and Australia (Larrinaga-Gonzalez, 2007). Obligatory versus voluntary disclosure is prominent in the literature of SEA research. However, something that has not been adequately explored is the idea of voluntary and mandatory being different shades of a rainbow instead of black or white possibilities. As noted by Buhr (2007), voluntary and mandatory disclosures are a spectrum, not an on-off switch. However, as opined by many top executives, it is overly optimistic and naïve to raise the bar for everyone through voluntary reporting standards . They encourage regulated reporting to achieve what needs to be done (Gallhofer & Haslam, 1997). According to Buhr (2007), just because disclosure is mandated does not necessarily mean that it will be provided. Mandatory disclosure is a more elastic phenomenon than most people might think. Even when disclosure is provided, there is room within the confines of “mandatory” for selective and subjective disclosure.

Currently, in Western Countries, many organizations are voluntarily practicing CSD. As a result, CSD has been recognized as a key strategic asset of an organization. Organizations such as GRI, UNEP-FI, ISEA, and SEP have over the last decade developed a variety of initiatives, principles and standards, which are based on the “strategic asset” notion. In 2002, the ISEA issued the AA1000 Assurance Standard, as a generally applicable standard for assessing, attesting to and strengthening the credibility and quality of organizations’ sustainability reporting and their underlying processes, systems and competencies (Gao & Zhang, 2006). In 2006, GRI published the “sustainability reporting guideline (version 3)”, aiming at introducing a common framework for CSD under the sustainable dimensions of ecology, economy, and society.

Although disclosure of sustainable issues is gradually being increased in developed countries, it is lagging in developing countries. The level of social and environmental disclosure in developing countries, including emerging nations such as Malaysia, Singapore and China, is very poor (for example, Amran, 2006; Said et al., 2008; Sobhani et al., 2008; Belal & Cooper, 2011). The mean level of disclosure of top companies among seven Asian countries that were studied (India, South Korea, Thailand, Singapore, Malaysia, Indonesia, and the Philippines) shows a score of 41 percent, which is less than half of the score for the UK (98 percent) and Japan (96% percent) (Chambers, Moon & Sullivan, 2003). It is evident that most of the social responsibility information in the developing countries is still undisclosed.

UNEP-FI (2006) identified two reasons behind this nondisclosure, the lack of awareness of the issues by the top management and lack of capacity to deal with these issues by the corporations. Management unwillingness is the main factor for the nondisclosure of sustainability issues (Belal & Cooper, 2011). According to Belal (2008), the reasons behind management unwillingness to disclose sustainability issues include lack of legal requirement, lack of knowledge, poor performance, and fear of bad publicity. Therefore, it seems that the overall perception of corporate management in the developing countries is not in favour of sustainability disclosure.

Similar to other developing nations, Bangladesh (the location of this research and justified in Chapter 3) lags far behind in CSD practices. None of the companies has a stand-alone sustainability report. The state of sustainability disclosure practices is totally unknown. Authors including Belal (1999, 2001), Imam (2000), Belal and Owen (2007), Islam and Deegan (2008), Sobhani et al. (2009a, 2009b), and Belal and Cooper (2011) contributed in SEA research in Bangladesh. The studies of Belal (1999, 2001) and Imam (2000) are mostly limited to an overview of disclosure practices in the corporate bodies. Belal and Cooper (2011) provide a partial focus on the nondisclosure of eco-justice sustainability issues such as child labour, equal opportunity and poverty alleviation in the textile and garment industries. The study uses old data, which was collected during 1999-2000.

Considering the recent data, a study on the state of overall social and environmental disclosure was conducted by Sobhani et al. (2009a). The study reveals that the level of disclosure has increased over the last ten years. All listed companies (N=100) have at least a minimum amount of employee disclosure. The level of disclosure on employee issues is 100 percent; on community issues 47 percent; on consumer issues 23 percent; and on environmental issues 19 percent. Most of the information disclosed, is descriptive in nature and only reports good news (Imam, 2000; Sobhani et al., 2008; Belal & Cooper, 2011). Although employee issues are commonly disclosed by the listed companies in Bangladesh, the extent of disclosure is meagre compared to the global perspective.

Some studies show that manufacturing industries such as pharmaceutical companies, namely, Square Pharmaceuticals and Beximco Pharmaceuticals disclose more social and environmental information (Imam, 2000; Rahman & Muttakin, 2005). Sobhani et al. (2009a) found that banking companies including Islamic banks disclose more social and environmental information compared to other listed companies. The level of disclosure by sample banking companies is the highest (0.31), followed by pharmaceuticals and chemicals companies (0.28), and cement companies (0.24). Although the banking sector is disclosing more social and environmental information compared to other sectors, the level of disclosure is low where 69 percent of the information remains undisclosed.

Most of the early studies did not consider any theoretical or conceptual frameworks in their social and environmental research (for example, Imam, 2000; Belal, 2001; Belal & Owen, 2007). However, a change has emerged in the application of theories (Belal, 2008; Islam & Deegan, 2008; Sobhani et al., 2009b). Belal (2008) considered the stakeholder theory in interpreting the reasons for CSR reporting. Islam and Deegan (2008) focused on the elements of legitimacy and institutional theories behind the disclosure of corporate social information. Sobhani et al. (2009b) found an institutional link behind the CSD practices in the banking industry of Bangladesh. They suggested an intensive research on banks using the institutional theory.

Banks are the most dominant service industry globally that can contribute towards social and environmental sustainability. As stated by Douglas, Doris, and Johnson (2004), financial institutions such as banks can play a “catalytic role” in changing the corporate behaviour of other industries towards sustainability management and disclosure. Unfortunately, banks lag in CSD research where Islamic banks are highly ignored and neglected (Haniffa & Hudaib, 2004), even though the role of banks in sustainable socioeconomic development is globally recognized (UNEP-FI, 2006). Along with the traditional banks, Islamic banks also play a pivotal role in sustainable development throughout the world (Haniffa & Hudaib, 2004). In respect of Bangladesh, there are various conventional and Islamic banks that render substantial voluntary services for the socioeconomic development of the country (Sobhani et al. 2009b). The unique social welfare services of different banks in a comparative mode provide an essential niche area for intensive research that has not been studied by any researcher. Therefore, a comparison of the CSD practices between two case banks in Bangladesh is a timely attempt to fill in the gap.

1.3 Research Problem

Sustainability reporting and disclosure is an emerging area of research (Adams & McNicholas, 2007; Buhr, 2007) and, hence, there is a wide scope of research in the field of sustainability accounting (Larrinaga-Gonzalez, 2007). To date, no attempt has been made to understand why companies such as banks should be engaged in sustainability disclosure and what might stimulate them to, or discourage them from disclosing certain sustainability information. Banks can play a “catalytic role” (Douglas , Doris, & Johnson, 2004) in changing the corporate behaviour of other industries towards sustainability practices and disclosure (Haniffa

& Hudaib, 2004). However, research in the area of social and environmental disclosure has mainly ignored banks (for example, Belal, 1999; Imam, 2000; Belal & Owen, 2007; Islam & Deegan, 2008; Belal & Cooper, 2011).

Sustainability issues such as energy, human rights, and environmental items are most “crucial” in Bangladesh for its sustainable development. There is a huge shortage of power supply including gas and electricity in Bangladesh. The adverse impacts of global warming are going to spread along the shoreline of the country affecting their overall socioeconomic condition (BER, 2010). The present state of human rights in the country is also vulnerable and considered highly questionable by many agencies. However, these issues are highly neglected by the corporate bodies in disclosure practices (Sobhani et al., 2009a, 2009b; Belal & Cooper, 2011). Banking has become the largest and dominant sector among the listed companies in Bangladesh. But banks lag in CSD research where Islamic banks are highly ignored and neglected (Haniffa & Hudaib, 2004), even though the role of banks in sustainable socioeconomic development is globally recognized (UNEP-FI, 2006). Islamic banks are mostly successful in business operation compared with conventional banks in Bangladesh. As such, a comparison between the CSD practices of a conventional bank and an Islamic bank would bring into light the sustainable contribution of two banks under different financial systems.

Recent studies show that banking companies disclose more social and environmental information than other listed companies (Sobhani et al., 2008; 2009a; 2009b). The trend of high disclosure by banking companies seems to be unique in Bangladesh. Although the level of disclosure in the banking industry is the highest, it is quite low when compared with that of developed countries (Tsang, 1998; Day & Woodward, 2009), as approximately 70 percent of information is still undisclosed (Sobhani et al., 2009a). The issues of disclosure are mostly dependent on the will and perception of top executives such as the Managing Director, Company Secretary, and Finance Director (Belal & Owen, 2007; Belal & Cooper, 2011). Interviews of senior bankers can help identify the motivational factors behind the CSD practices and reasons behind nondisclosure of crucial sustainability issues. However, their perception regarding sustainability disclosure and nondisclosure have not been studied yet.

Finally, there is a lack of theoretical application to understand CSD phenomena around the world. Theoretical application can easily relate the research findings for better understanding or prediction of specific phenomena in organizational level studies (Silverman, 2005). In the context of Bangladesh, only Belal (2008), and Islam and Deegan (2008) used the stakeholder theory to interpret the findings of CSR reporting. Islam and Deegan (2008) also hinted about the applicability of institutional theory in explaining corporate responsibility reporting in Bangladesh. Currently, institutional theory, perhaps better to say, Neo-institutional Sociology (NIS) is the most dominant approach in the field of social science research. Neither Institutional Theory as a whole nor NIS specifically has been used by any researcher in the case of CSD practices. According to the recent critics of NIS, contemporary organizations are heterogeneous in nature that causes significant practice variations. A comparative study of CSD practices between two heterogeneous banks that is, a conventional and an Islamic bank, can explain this theoretical proposition.

1.4 Rationale of the Study

Sustainability disclosure is a virgin field of research. Several symptoms of social and environmental problems indicate that the global society today is neither economically, nor ecologically sustainable (Porritt, 2007). Environmental disasters such as floods, earthquakes, tsunamis, and storms have become a common tragedy for many developing nations. Sustainability issues trouble the conscience of global thinkers as well as the conscious citizens of Bangladesh. Recently, the Prime Minister of Bangladesh at the Copenhagen Climate Change Conference in 2009 claimed that Bangladesh is the first victim of climate change effects among the developing nations (Pasha, 2009). About 18 percent of land in Bangladesh will be submerged following a sea level rise in future (WDR, 2010). In addition to social and economic irregularities, environmental pollution, mainly caused by industrial disposal, has become one of the major sustainability problems in Bangladesh. Due to environmental pollution, Bangladesh runs the risk of an ecological catastrophe (Inam, 1995; Sobhani et al., 2009b). Corporate bodies can play a vital role against industrial pollution. Disclosure of sustainability issues by the corporations does not have the potential to save any nation or planet (Buhr, 2007; Milne & Gray, 2007). However, an in-depth academic study on such an issue on two leading banks can bring into light a comparative picture, develop awareness and enhance competition in the corporate world regarding sustainability practices and disclosure. Above all, this research initiative may help develop ways to protect the society, economy and environment.

1.5 Objectives of the Study

The study attempts to provide a comparative view of CSD practices in a conventional and an Islamic bank in the context of Bangladesh. The main objective of this study is to identify the reasons behind disclosure and nondisclosure of CSD information of two case banks. The specific objectives of this research are sequentially linked with the main objective. Initially the study attempts to examine the past and present state of the sustainability disclosure using longitudinal data. Then the findings of this examination guide the interviews with the senior bankers of the case banks. The motivational and demotivational factors have been identified from the interviews with practicing managers. The findings of this study have been explained using the theoretical lens of neoinstitutionalism. The sequential steps of this study together with the methodology are stated as follows:

First, the study attempts to describe the state of CSD practices of the case banks. In order to know the past and present state of CSD practices, the annual reports for ten years have been explored through content analysis. Longitudinal data helps to identify the trend of sustainability disclosure practices in the economic, environmental, and social dimensions. Furthermore, it identifies the disclosed and nondisclosed items of CSD practices as per the designed instrument for content analysis.

The level of awareness of the interviewee is a basic query for an in-depth interview (Ahmad & Haron, 2002; O'Dwyer, 2002; Bley & Kuehn, 2004). It provides a guide in formulating questions to address the necessary queries. In respect of the managerial perception, this research focuses on three issues: awareness of senior bankers regarding global sustainability reporting initiatives, motivational and demotivational factors behind CSD practices, and the managerial process of CSD information. The managerial process helps in understanding the role of key personnel such as professional accountants in disclosing the CSD practices of the case banks.

Finally, the study attempts to identify the reasons behind the CSD practices of the case banks. According to the NIS, regulative, normative and cultural-cognitive mechanisms affect any change at the organizational level (Scott, 2008). Hence, the institutional framework as conceptualized by Scott and other proponents such as DiMaggio and Powell (1983), has been applied to explain the isomorphic practices as well as the institutional mechanisms behind the disclosure and nondisclosure of CSD information of the case banks.

1.6 Research Questions

Research questions may be considered as the door to the research field under study (Flick, 1998). Whether an empirical study produces answers or not depends on the articulation of such questions. The important criteria for evaluating research questions include their soundness and clarity. Hence, in respect of the research problems, this study attempts to answer the following questions:

1. To what extent do the two case banks disclose sustainability information?

1.1 What is the level of CSD practices in the two case banks?

1.2 Which items are mostly preferred or ignored in disclosure?

1.3 What is the trend of disclosure of sustainability practices?

1.4 What is the similarity of CSD practices between the two banks?

2. **Why do the banks disclose CSD information?**

2.1 Are the management of the case banks aware of the global sustainability reporting initiatives?

2.2 What are the institutional forces behind the existing trends of CSD practices?

2.3 Why do the banks avoid crucial CSD information in disclosure?

3. **How are the key personnel involved in the institutionalization of CSD practices?**

3.1 Who plays the vital role in the process of CSD information?

3.2 What is the role of accountants in the institutionalization of sustainability disclosure?

1.7 Research Framework

A research framework may make the study clearer, as shown below:

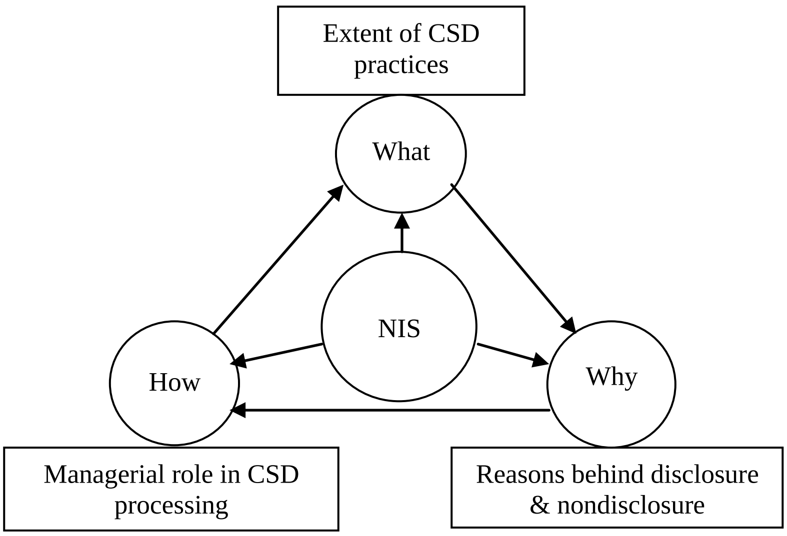

Figure 1.1 – Research Framework

The above framework indicates that the main research questions of this study are related to “what”, “why”, and “how” interrogations. This study applied various methods to answer these research questions (see Chapter 3 for details). An indication is given below to aid the understanding of how the research questions are addressed in this study:

Table 1.1 Addressing Research Questions

Main Research Questions	*Phase*	*Instruments, Methods, & Nature*	*Research Objectives*	*Theoretical Perspectives*
1. To what extent do the two case banks disclose sustainability information?	First	# Instrument for Content analysis # Quantitative # Descriptive	Describing the extent of CSD practices	#Comparing CSD practices in two case banks. # Finding similarity in CSD practices
2. Why do the case banks disclose CSD information?	Two	#Interview schedule # Qualitative # Explanatory	Identifying the reasons behind motivation and demotivation of CSD practices	# Identifying institutional factors #Finding Isomorphic mechanism
3. How are the key personnel involved in the institutionalization of CSD practices?	Two	#Interview schedule # Qualitative # Explanatory	Understanding the managerial process of CSD information	Finding the role of key personnel such as accountants in institutionalization

1.8 Significance of the Study

The study is expected to make a significant contribution theoretically, methodologically as well as empirically. Regarding the theoretical contribution, the study attempts to show the existence of competitive and institutional isomorphism in the CSD practices of the case banks. Mostly, this study tries to address the recent critiques on institutional theory by the opponents of the concept of isomorphism. According to the recent critics, contemporary organizations are heterogeneous in nature and organizational heterogeneity causes practice variations that are supported by institutional rationality. However, this study confirmed that organizational heterogeneity can significantly reduce practice variations because of the common institutional guidelines, unique agenda for consideration, award mechanism to follow the prescribed format, and above all global initiatives in standardizing corporate efforts.

Concerning the methodological contribution, the study developed some predicting equations to extrapolate the future CSD practices of the case banks. It attempted to develop a robust framework for content analysis in accordance with the global sustainability reporting guidelines and the opinion of local experts. Empirically, it is expected that the designed framework for content analysis will be useful for practicing managers as well as the policy makers of the banking industry in Bangladesh. Above all, the comparison of two case banks has generated new knowledge in the field of sustainability accounting research.

1.9 Definition of Key Terms

The understanding of terms varies from one researcher to another, time to time, country to country, and context to context. This study uses many terms that are described in the next chapter under the “particulars of research instruments” (Appendix 2). Only a few concepts are defined here.

1.9.1 Concept of Sustainability

The most commonly used definition of sustainability is “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p. 8). It considers development from a holistic perspective and involves long-term planning and investment to build a sustainable society, not just a sustainable business in financial terms.

1.9.2 Corporate Sustainability Disclosure

The term "sustainability disclosure" is synonymous with "sustainability reporting" (Unerman et al., 2007). It is an issue of Social and Environmental Accounting (SEA) or Sustainability Accounting. As defined by GRI (2006), Corporate Sustainability Disclosure (CSD) is the practice of measuring, reporting, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. The conceptual framework of CSD is wider and deeper than corporate social reporting.

1.9.3 Conventional Bank

Usually conventional banks are governed by secular banking laws and are not influenced by religious laws or guidelines. Under the conventional banking system, banks conduct their business through the giving and taking of interest, which is totally opposed by the Islamic banking system (Raquib, 2007).

1.9.4 Islamic Bank

Banks that are committed to being governed based on Islamic *Shari'ah* and that have stated as such in their "Memorandum of Association" and "Memorandum of Articles" and formed an independent "*Shari'ah* Board or Council", have been considered as an Islamic bank. The main philosophy of doing business in Islamic banks is based on profit-sharing principles instead of taking and giving interest. In terms of their operational philosophies, Islamic banks are of a different nature to conventional banks (Sarker, 2000).

1.9.5 Neo-institutional Sociology

Neo-institutional Sociology (NIS) is an emerging theory in the field of SEA research. It possesses high explanatory power in comparison with other contemporary theories such as Stakeholder Theory and Legitimacy Theory (Larrinaga-Gonzalez, 2007). Three pillars of institutions, which are regulative, normative and cultural-cognitive, are the vital issues behind institutional isomorphism (Scott, 2008).

1.9.6 Isomorphism

Isomorphism is a lively concept in the domain of NIS. It is a mapping between objects that shows a relationship between two properties or operations. The notion “isomorphism” was highlighted as a central tendency towards homogeneity by DiMaggio and Powell (1983, 1991). There are two types of isomorphism: competitive and institutional, where competitive isomorphism arises from market forces and institutional isomorphism arises from the competition for political and organizational legitimacy.

1.10 Organization of the Study

There are seven (7) chapters in this study: 1) Introduction to the study; 2) Literature review; 3) Research methodology; 4) Comparative findings of CSD practices; 5) Managerial perceptions concerning CSD practices; 6) Theoretical discussion of the case findings; and 7) Summary and conclusion.

Chapter Two provides the review of prior studies on CSD practices. It addresses the conceptual issues relating to CSD, the state of CSD practices globally and locally, local context, managerial perceptions regarding CSD practices, motivational factors behind CSD practices, resistance strategies behind the absence of CSD practices, and existing theories in SEA research including the Neo Institutional Approach.

Chapter Three discusses the unit of analysis, research strategy, mode of research, flow of research, and data collection techniques under the sequential explanatory design. The first phase of data collection describes the instrument for content analysis, measurement of CSD, preparation of indices, application of equation models, and statistical tests. The second phase of data collection discusses the interviews with senior bankers, interview techniques and data gathering procedures and analysis of collected data.

Chapter Four compares the disclosure practices of corporate sustainability of the case banks. It focuses on different mediums of disclosure, disclosure practices under different dimensions such as economic, environmental, and societal. The trends of disclosure have been specially highlighted along with the cross case analysis of the CSD practices.

Chapter Five focuses on the managerial perceptions on CSD practices. It considers the awareness of the senior bankers regarding global reporting guidelines such as GRI guidelines, the motivations behind the disclosure of CSD information, reasons behind nondisclosure of crucial CSD issues, and managerial process of CSD information.

Chapter Six is the most crucial phase of this research. It explains the case findings from a theoretical perspective. It highlights the institutional mechanisms behind the isomorphic practices of corporate sustainability disclosure by the case banks. Finally, it develops a link between the prominent role of organizational actors such as professional accountants with the extent of disclosure practices of sustainability information.

Finally, Chapter Seven summarizes the research findings addressing the research questions in a succinct way. Then, it focuses on the contribution of the study, limitations and scope of future research, recommendations together with concluding remarks.

1.11 Summary of the Chapter

It is evident that as the notion of sustainability has emerged in recent times, there is huge scope for intensive research in the field of sustainability accounting. The wide gap in the SEA research has inspired this researcher to conduct this study. Based on the research questions, the study describes the state of CSD practices of the case banks followed by managerial perceptions, and theoretical interpretations. Managerial interviews help to indentify the reasons behind the disclosure and nondisclosure of CSD information, which is the focal point of this research. A number of important terms including CSD, NIS, and Isomorphism have been conceptualized at the end of this chapter. The study has been organized in such a way that develops a systemic structure throughout.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter documents a variety of literature from the secondary sources in the field of social and environmental accounting (SEA) research, with corporate sustainability disclosure (CSD) as the latest addition. The objective of this chapter is to highlight the contributions in SEA research and to identify the gap in the existing research. The next section begins with the notion of sustainability followed by the emergence of sustainability disclosure, concept of CSD, and social and environmental disclosure practices in developed and developing countries. Attempts have been made to review managerial views together with the motivational and resistance strategies behind disclosure practices. The literature survey is not limited to this chapter, as it continues throughout this research. This chapter ends with a review of Institutional Theory as the most dominant approach in SEA research.

2.2 Concept of Sustainability

Since corporate sustainability disclosure (reporting) is an outcome of the ‘sustainability’ issue (UNEP-FI, 2006), it is necessary to look at the concept before moving to the notion of “CSD”. Finding a specific idea of sustainability that is broadly acceptable is difficult as it concerns values that vary from person to person, organization to organization and time to time. It is not absolute because it is dependent on social capital (Khan, Sobhani, & Ali, 2006) and involves multiple dimensions and scales. The quest ultimately requires decisions about what to sustain, for whom, for how long, at what cost, and how. Clearly, this is not a simple task because issues of generational equity are involved (i.e., balancing the distribution of benefits and costs within this generation and across future generations) (Zadek, Rayand, Forstater, & Oelschlaegel, 2004).

According to the US Forest Service (2008), sustainability expresses the human desire for an environment that can provide for our needs now and for future generations. It has proven to be a useful organizing concept for exploring the relationship between social, economic, and ecological systems, their current conditions, and trends (Figure 2.1). The collective journey to find a way to live harmoniously with each other and within our social, economic, and ecological environments is a quest for sustainability as shown in the figure below.

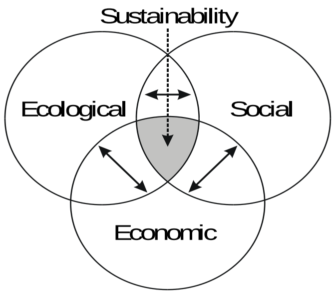

Figure 2.1 – Interactions among three dimensions of sustainability
(Source: Floyd et al., 2001)

Sustainability is synonymous with sustainable development (Crowther & Aras, 2008). The notion of sustainability has been around for a long while, achieving its popularity with the conception of sustainable development through the publication of *Our Common Future*, a report of the Bruntland Commission in 1987. The report provides a key idea on sustainable development, defining it as:

> development that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987, p.43).

Sustainable development involves two related issues: (i) Environmental resources or natural capital issues (sometimes referred to as eco-efficiency); and (ii)

Social issues (sometimes referred to as eco-justice) (WCED, 1987). Eco-efficiency concerns ecological sustainability, whereby the environment should be treated properly enabling it to meet human development for the current and future generations. In contrast, eco-justice focuses on the outcome of human development, in that it should be equally distributed not only between present generations (intra-generation equity), but also between future generations (inter-generation equity) (Hibbit, 2001). Along with business communities, nowadays, advanced academic institutions have also moved to transform education for a sustainable tomorrow to ensure justice for future generations (IPS, 2008; USM, 2008; Sobhani & Rahman, 2010).

The notion of sustainability is sometimes synonymously used with CSR, which leads to confusion. Sustainability is closely connected with CSR (Hibbit, 2001; Gray, 2006; Haron, Ibrahim, Ismail, Hoo, Ali, Zainuddin, Nasruddin, Saiful, Said, & Hariri, 2006; Amran & Zakaria, 2007) and to some extent overlaps (Adams & McNicholas, 2007). Similar to CSR, sustainability is concerned with social, economic and environmental issues, but in a broader and deeper context that covers both intra and inter generation equability (Hibbit, 2001). According to Haron et al. (2006), the main agenda of CSR is to promote the need for sustainable development. In sum, CSR and Sustainability – both are interrelated and important for human development and justice, the difference is only in the complexity and the richness of the latter concept (Amran & Zakaria, 2007). The emergence of sustainability gives a clear direction behind the reasons for moving towards sustainability disclosure thereby surpassing other concepts of disclosure.

2.3 Difference between Corporate Sustainability and CSR

Corporate Sustainability and Corporate Social Responsibility (CSR) are interrelated and to some extent overlap, but not synonymous. According to Crowther and Aras (2008), accountability, transparency and sustainability are the three important principles of today's CSR, where corporate sustainability has suddenly become so common as to be ubiquitous for business and for society. Zadek et al. (2004) considered CSR as part of corporate sustainability. Similar to CSR, sustainability is concerned with social and environmental development in broader and deeper contexts that covers both intra- and inter-generation equability (Hibbit, 2001, cited in Amran & Zakaria, 2007). Though sustainable development is now a common agenda of modern CSR, many issues of corporate sustainability such as economic impact, human rights and governance issues are not fully captured by CSR (Imam, 2000; Belal, 2001; Belal & Owen, 2007; Sobhani et al., 2009b).

The purview of Corporate Sustainability Disclosure (CSD) includes Corporate Social Responsibility (CSR) disclosure. That means CSD is wider and deeper than CSR disclosure or Corporate Social Reporting. As defined by GRI, "Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development" (GRI, 2006, p. 3). It refers to the corporate disclosure practices under the "triple-bottom-line" such as economic, environmental, and social issues (UNEP-FI, 2006; Unerman et al., 2007; Owen, 2008). Social issues form an important dimension of CSD that includes community development, human rights, product responsibility, labour practices (GRI, 2006), and governance issues (ACCA, 2005). Therefore, CSR and CSD are both integrated with one another and are important for sustainability disclosure, the difference is only in the complexity and richness of the latter concept.

According to UNEP-FI (2006), sustainability reporting is broader than CSR reporting but is synonymous with corporate responsibility reporting (CRR) and triple-bottom-line (TBL) reporting. It provides a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions. It attempts to describe the social and environmental impact of organizational activities in a measurable way to its economic performance in order to show improvement or to make a more in-depth evaluation. The issue of CSD is gradually emerging throughout the world (KPMG, 2005, 2008). According to UNEP-FI (2006), it makes a key difference between those organizations that are practicing sustainability management and reporting and those that are resisting the practices. The global state of CSD practice illustrates why and to what extent the companies are involved in such practices.

2.4 Historical Background of Sustainability Disclosure

Social and environmental controversies have been troubling humankind for centuries (Buhr, 2007). Looking at the long history of environmental issues, Neuzil and Kovarik (1996) provide an interesting timeline and show a long legacy of environmental concern, many of which relate to human health. The authors pointed out that in 1306 Edward-1 of England forbade coal burning when parliamentary session was ongoing. In 1739 Benjamin Franklin along with his associates appealed to the Pennsylvania Assembly to stop dumping waste in the Delaware River. In 1775, English medical scientist, Percival Pott, found that coal was causing an unusually high incidence of cancer among the chimney sweeps. In view of health concerns, in

1804, the United States appointed the first health inspector in New York. Similarly, there were a number of historically unrecorded initiatives taken by different individuals and organizations to protest and protect against social and environmental hazards.

The process of sustainability disclosure started with employee reporting or disclosure, and then moved on to social disclosure, environmental disclosure, eventually triple bottom line (TBL) disclosure and more recently sustainability disclosure or reporting (Buhr, 2007). Employee disclosure concerns the practice of reporting on matters directly related to employees (Lewis & Unerman 1999). This type of disclosure became apparent in the 1970s, which indicates that it might have existed before then. Honger (1982), and Guthrie and Parker (1989) reported a long history of employee reporting in the studies. Honger looked at eight decades of reporting by the US steel corporations for the years 1901 to 1980 and found that the earlier decades mostly disclosed employee related issues such as: dwellings built for workers; worker safety, mortgage assistance for employees and community development.

Guthrie and Parker explored the annual reports of BHP for the 100 years starting from 1885. Notably, the Broken Hill Proprietary (BHP) Company Limited, together with its subsidiaries, operates as a diversified natural resources company. The company engages in producing alumina and aluminium, copper, coal, iron ore, nickel, manganese, metallurgical coal, oil and gas, and uranium, as well as gold, zinc, lead, silver, and diamonds. It was founded in 1885 and is headquartered in Melbourne, Australia. Guthrie & Parker reported a similar story as did Hogner. The