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## Drivers of Corporate Social Responsibility Disclosures: Evidence from Turkish Banking Sector

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### Abstract

Traditionally, the primary objective of financial management is known as the maximization of shareholder wealth. Companies are also responsible for the interests of stakeholders and society at large. The concept which describes this new approach is called as "Corporate Social Responsibility" (CSR). It is an interdisciplinary and multidimensional concept. Companies disclose their CSR activities through annual reports or a special CSR report. Measurement of social performance is a subjective and judgmental issue, and one of the methods for this purpose is to score companies based on their CSR disclosures. The level and quality of CSR disclosures depend on several factors. We search for the relationship between CSR disclosure scores and corporate governance related bank characteristics by considering five dimensions of CSR. We find out that stock exchange listing, ownership and bank type influence the CSR disclosure of banks.

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## 1. Introduction

An important assumption in finance theory is that the primary objective of financial manager is to maximize share price and wealth of shareholders. However, companies also have responsibilities towards several parties which are called as stakeholders, including customers, suppliers, employees, and society. This phenomenon which covers ethical, environmental and social duties of companies is called as Corporate Social Responsibility (CSR). Financial institutions, especially banks, have a central role in CSR engagement. They provide crucial services to the society. They can engage in CSR application during their intermediations such as filtering socially responsible businesses to finance. Therefore, it is important to study CSR engagements of banks. What drives banks to engage in CSR activities and how a relationship exists between several company characteristics and Corporate Social Performance (CSP) are also important to analyze.

There are several methods to measure CSP. Content analysis is one of the widely used methods which analyze the CSR disclosures. This study uses the scores obtained by a content analysis and examines the drivers of CSR disclosure of commercial banks operating in Turkey. It sheds a light on the disclosure differences of banks by considering the corporate governance related factors. It is a comprehensive study which examines CSR in five dimensions and performs a separate analysis for each dimension.

The remainder of the study is organized as follows. In the next section, we present a brief literature review. In the third section, data and methodology are explained. In the fourth section, results are presented. Final section is the conclusion.

## 2. A brief literature review

Corporate social responsibility (CSR) is a very broad concept which includes different dimensions. The central idea of the concept arises from the argument that a company must have other objectives in addition to maximizing profit. The implementation of this idea has several levels. Carroll (1991) divides the concept of CSR into four different categories as economic, legal, ethical, and discretionary, describing them as the levels of a pyramid. The highest level includes a proactive approach in which companies take social initiatives. On the other hand the minimum level of the concept requires the company behave ethically, business ethics can be placed as a core element in the discussion of CSR.

Level and content of corporate social disclosures are influenced by several factors such as size, ownership, profitability, industry, firm age, and the social responsibility committees. Font et. al (2012) study the CSR disclosures and actual practices in tourism industry. Their results reveal that policies of large hotels are comprehensive, but gaps in implementation are higher than small hotels. Branco and Rodrigues (2008) show that banks with higher visibility pay more concern on corporate social disclosure to improve their images than banks with lower visibility. Abreu et al (2012) reach the conclusion that institutional framework of countries influence the CSR practices of firms by examining Chinese and Brazilian textile firms. Khan et. al (2013) find that corporate governance characteristics effect the CSR disclosures in Bangladeshi companies.

A number of studies examine the effect of corporate social responsibility on the corporate performance. Wu and Shen (2013) find a positive association between CSR and financial performance of banks by analyzing 162 banks in 22 countries. Simpson and Koher (2002) find out that corporate social and financial performances are positively linked. Inoue and Lee (2011) disaggregate CSR into five dimensions and show that all dimensions have positive, but differential financial effects. There is an inter-relationship between CSR and financial performance in Turkish banking sector according to Yılmaz (2012).

### 3. Data and Methodology

The sample consists of 33 banks operating in Turkey. We make a distinction between commercial, participatory, investment& development banks during the analysis. We also classified and analyzed banks as domestic, public and foreign banks as well as listed and unlisted banks. Time period covers 2005-2009. Data for the bank characteristics are obtained from the web site of Associations of Banks in Turkey and Participation Banks Association of Turkey.

In empirical analyses, there are several methods to measure the corporate social performance such as content analysis, surveys, reputational measures, one-dimensional indicators, ethical rating. We use the CSR disclosure scores of banks measured by Yılmaz (2012) who use content analysis. CSR disclosure scores are derived from annual reports and it includes five categories. Each of those categories consists of several performance criteria. Depending on the level of information disclosed, banks receive a score ranging from 0 to 3. The scale for scoring is as follows:

- 0 = No meaningful information is provided on the specific criterion.
- 1 = Patchy information is provided.
- 2 = the reporting provides good information on the criterion. However, one relevant area/indicator is not addressed.
- 3 = the reporting includes full information to the criterion.

Total max score is 114. Actual points are converted into a percentage score. For example, a bank whose score is 53 points from all categories has a percentage score of 46 % (53/114). We used the percentage scores in the analyses. Maximum possible score is 100 %. The names of the categories and descriptive statistics are given in Table 1.

**Table 1.** Summary Statistics for CSR Scores

<b>Disclosure Scores</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
A. Strategy, Vision& Mission, Governance	165	0.28	0.20	0.00	0.72
B. Economic Performance Indicators	165	0.46	0.20	0.00	0.75
C.Environmental Performance Indicators	165	0.10	0.15	0.00	0.78
D. Social Performance Indicators	165	0.33	0.21	0.00	0.73
E. Financial Services Specific Items	165	0.09	0.18	0.00	0.92
<b>Average (Overall Score)</b>	<b>165</b>	<b>0.28</b>	<b>0.17</b>	<b>0.00</b>	<b>0.63</b>

Source: Yılmaz (2012)

In order to investigate the effects of bank characteristics on the CSR disclosures, multivariate regression analysis is performed. We use overall CSR disclosure score and scores of the CSR components as dependent variables. Firstly, a regression is run for overall CSR disclosure scores. Then separate regressions are run for the disclosure scores of each CSR component. The independent variables used in the study are as follows:

- Stock Exchange Listing: A dummy variable called “Listed banks” takes a value of one for the banks which are listed on stock exchange and zero for unlisted banks
- Ownership: Dummy variables are used for foreign banks, public banks, and domestic banks. Domestic bank is the base dummy.
- Bank type: Dummy variables are used for commercial banks, participatory banks, and investment & development banks. Investment and development bank is the base dummy.
- Year dummies: Base year is 2005
- Loan ratio, size, capital strength, and profitability enter in the analysis as control variables. Loan ratio is the net loans divided by total assets and size is the natural logarithm of total assets. Ratio of equity to total assets and the ratio of net income to total assets are used as capital strength and profitability respectively.

#### 4. Results

Regression result for the overall CSR scores is summarized in Table 2. Stock exchange listing, bank type, and ownership matters for the CSR disclosures. Listed banks have on average %8.7 higher CSR disclosure scores than unlisted banks. Participatory banks and commercial banks are highly distinguishable from investment and development banks with %16.4 and %18.5 higher scores respectively. CSR disclosure score of foreign banks is on average %4.13 lower than that of domestic private banks. Public banks are not statistically distinguishable from the domestically owned banks in terms of CSR disclosure scores. Mainly, disclosure score improves as the year passes.

**Table 2.** Factors Affecting the Total CSR Disclosure Score

Independent variables	Dependent variable: Overall CSR score
Listed banks	0.0870** (3.05)
Foreign banks	-0.0413* (-2.11)
Public banks	-0.0606 (-1.36)
Participatory banks	0.164** (2.95)
Commercial banks	0.185*** (4.24)
Size	0.0434** (4.45)
Capital strength	0.119 (1.48)
Loan ratio	-0.0285 (-0.60)
Profitability	0.0988 (0.40)
Year- 2006	0.0250 (1.73)
Year-2007	0.0425** (2.66)
Year-2008	0.108*** (6.71)
Year-2009	0.0948*** (5.63)
_cons	-0.600*** (-4.48)
R-sq: 0.8033, N=165	

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

In order to gain deeper insight into the attitudes of banks for CSR disclosures, five more regressions are performed in which disclosure scores of the CSR components as summarized in Table 1 are considered as dependent variables. Results for these regressions are summarized in Table 3. Obviously listed banks give much importance to the component A which involves disclosures of strategy, vision& mission and governance. Listed banks' disclosure scores for component A is 18.6 % significantly higher than that of nonlisted banks. There is no statistically significant difference between listed banks and unlisted banks with respect to the scores of other components. Foreign banks' disclosure is statistically lower than that of domestic private banks only for component A at 5.61%. Disclosure of public banks is highly weak in terms of environmental performance indicators (component C). Their disclosure score in component C is 22.7% lower than that of domestically owned private banks. Participatory banks' disclosure is statistically %20.1 higher than development and investment banks with respect to component A and 37.6% higher with respect to component B. Disclosure scores of commercial banks are substantially higher than those of investment and development banks with a positive difference of 35% for component B (economic performance indicators) and 22.4% for component D (social performance indicators). Disclosure scores are mainly higher than those in the previous year with respect to most of disclosure components.

**Table 3.** Bank Characteristics Affecting the Disclosures of CSR Components

Variables	A	B	C	D	E
Listed banks	0.186*** (5.23)	-0.0151 (-0.48)	0.0539 (1.42)	0.0470 (1.15)	0.0675 (1.30)
Foreign banks	-0.0561* (-2.14)	-0.0251 (-0.91)	-0.0278 (-0.95)	-0.0270 (-1.08)	-0.0535 (-1.36)
Public banks	-0.0705 (-1.27)	-0.0298 (-0.61)	-0.227*** (-3.85)	-0.0497 (-0.78)	0.0276 (0.34)
Commercial banks	0.125 (1.77)	0.350*** (5.36)	-0.0293 (-0.39)	0.224** (2.86)	-0.0199 (-0.19)
Participatory banks	0.201*** (3.63)	0.376*** (7.19)	0.00515 (0.09)	0.190** (3.11)	0.0270 (0.33)
Size	0.0278* (2.26)	0.0174 (1.56)	0.0463*** (3.51)	0.0676*** (4.93)	0.0243 (1.34)
Capital strength	0.0729 (0.67)	-0.0271 (-0.22)	0.100 (0.81)	0.200* (1.99)	0.0469 (0.28)
Loan ratio	0.0368 (0.57)	-0.0134 (-0.19)	-0.0128 (-0.18)	-0.0963 (-1.58)	0.0179 (0.18)
Profitability	0.0806 (0.23)	0.689 (1.55)	0.361 (0.90)	-0.0706 (-0.23)	0.250 (0.47)
Year-2006	0.0312 (1.54)	0.00930 (0.34)	0.00711 (0.30)	0.0337 (1.92)	-0.00103 (-0.03)
Year-2007	0.0496* (2.25)	0.0297 (1.04)	0.0224 (0.88)	0.0454* (2.28)	0.0307 (0.91)
Year-2008	0.111*** (5.02)	0.142*** (4.97)	0.0334 (1.30)	0.115*** (5.75)	0.0857* (2.52)
Year-2009	0.103*** (4.48)	0.0538 (1.84)	0.0537* (2.02)	0.0986*** (4.66)	0.120*** (3.39)
_cons	-0.443** (-2.59)	-0.144 (-0.88)	-0.631*** (-3.41)	-0.900*** (-4.85)	-0.372 (-1.47)
N	165	165	165	165	165
R-sq	.755	.677	.454	.751	.324

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

## 5. Conclusion

Banking industry is a highly visible, heavily regulated and monitored industry which employs considerably more educated work force. Therefore, one expects that CSR would find extensive application in banking. This study focuses on corporate governance related characteristics such as stock exchange listing, ownership and type of banks on the CSR disclosures. We found out that these factors are influencing the CSR disclosures. CSR disclosures are higher for listed banks than non listed banks, besides domestic banks disclose more CSR information than foreign banks. CSR disclosures of investment and development banks are less than those of commercial banks and participatory banks. Impacts of these factors are more evident for the dimensions of CSR disclosures. When the component of CSR disclosure related to strategy, vision & mission and governance is considered, listed banks and participatory banks disclose more information than non listed banks and investment and development banks respectively; on the other hand, disclosure of foreign banks is less than domestic banks. Participatory and commercial banks disclose extensively higher than investment and development banks about economic performance indicators and social performance indicators. Public banks are highly weaker than domestic banks in the disclosure of environmental performance indicators. Although this study shed a light on the differentials of CSR disclosures, further studies should be done to examine the disclosure and implementation gap.

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