

THE EFFECT OF CORPORATE GOVERNANCE ON SUSTAINABILITY DISCLOSURE

(A Study Based on Bangladeshi Companies)

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Abstract

The issue of corporate governance is one of the major challenges of today's corporate world. Companies from different segments of the economy facing multiple challenges to ensure adequate and appropriate methods of governing their organizations. In this connection this article tried to analyze the effect of corporate governance on the sustainability disclosures of different companies in Bangladesh. The companies were selected from the four different segment of the industry namely banking, non-banking, servicing and manufacturing industries in Bangladesh. Total of 74 companies were analyzed regarding their effect of corporate governance on sustainability disclosures. For the study purpose data set were divided into two groups' independent variables and dependent variables. Independent variables includes types of organization, board size, numbers of independent directors, percentage of independent directors, numbers of women directors , percentage of women directors in the board, number of foreign directors, percentage of foreign directors in the board, independent committee for CSR, and dependent variable is effect on sustainability disclosures. The one way ANOVA for continuous variables, chi- square test for categorical variables, Bi-variate and multi variate linear regression model were performed to identify the effect of corporate governance on sustainability disclosures of the companies. The result of one way ANOVA and chi-square test shows that, Numbers of board of directors ($P < .001$), percentage of independent directors ($P < .025$), numbers of women directors ($P < .002$), presence of independent CSR committee ($P < .003$) are statistically significant, which means that these four factors of corporate governance have significant association to sustainability disclosures according to the types of organizations under study. The result of Bi-variate analysis shows that, Number of board of directors ($P < .006$), Number of independent directors ($P < .025$) in the board have a significant bearing on the sustainability disclosure of the firms. The multivariable regression model analysis concludes that, Number of women directors in the board ($P < .042$), Number of foreign directors in the board ($P < .039$), Percentage of foreign directors in the board ($P < .027$) are significantly correlated to sustainability disclosures of the concerned companies under study.

Keywords: Corporate governance, Sustainability Disclosures, Board of directors, Independent directors, Bi-variate analysis, Multivariable regression model.

Introduction

Corporate governance has becoming an important issue towards the appropriate management of the firm with consideration of the stakeholder's interest in the various segment of the society. The term getting its utmost importance as the rise of debate regarding appropriate management significantly affect the sustainability disclosure or not. Board of directors particularly plays a pivotal role in attaining CSR activities of the firms (Zahra, S. A. 1989), and in ensuring the practice of ethical behavior within the whole organization (N.Al-Malkawi et., al 2014).

Corporate governance is perceived as the systematic structured approach by which organization and companies can be directed towards the best interest of the shareholders (Cadbury, S.A. 2000). Sustainability has been defined as the planned development in progress considering the current accomplishment without sacrificing the future opportunities (Güler, A., and Crowther, D. 2009).

The inter relationship between these two have become the major area of concentration in the current business world. Corporate sustainability been defined as the intra and intergenerational equity that ensure 'eco justice' and 'bring eco- efficiency' (Blowfield, M.; Murray, A.2008).

Business sustainability emphasizes on the issues like environmental regulations, sustainable development, and taking care of stock holder's interest (Christofi, et., al 2010). Corporate sustainability perceived as the ability of the companies to handle its governance and market presence in such a way however the stakeholders of the corporation benefited through establishment of eco-friendly production process, supporting employment generation and paying employees appropriate salary alongside with other common benefits (Sustentare 2010).

The term sustainability can also be postulated as the way through which organizations minimizes negative effect relating to the environment, social and economic issues thereby enhancing the positive aspect to the best interest of the stockholders (Accenture, 2011) . Enterprise knows what they needed to be to be sustainable and what makes them distinctive from the other similar competitors and how the concept is applied to the industries concerned (T. Dyllick, K. Hockert's, 2002).

In determining the relationship between corporate governance and sustainability reporting (Bansal, P. 2001) says, that the companies who is not responding to sustainability will surely find them under great difficulties even they may become extinction which force the companies of today's business world to set the economic objectives better aligned with social objectives. Recent climate changes issues place major insights about how the developed countries are looking forward to seeing these issues with great response requiring a significant business action to help them arrest the long run negative impacts on societal welfare (Hoffman, A.J. 2005).

The way board of directors are structured to assess information, disseminates them within the business has a significant bearing on the overall performance of the organization (Thomas, et.,al 1990).

Corporate governance has an important bearing on the success of the firms as it is considered as the environment of trust, ethics, morale values which constitute a society itself and action of

thus criteria will certainly influence on the long run sustainability of the firms (Hermalin, B.E. 2005).

The relationships between board size to sustainability reporting has been found as a positive association that the more number board of directors helps to ensure more appropriate sustainability reporting to the firm (Esa, et., al 2012). The numbers of independent directors on the board place an important indicator about sustainability reporting of the firm (Borowski, 1983).

Board diversity enhances the effective decision making for the organization irrespective of gender, women participations in the management board enable the companies around the world to think more voluntarily rather than male employee (Ibrahim, N.A.; Angelidis, J.P. 1994).

According to, (Amran, A.; et., al 2014) the presence of a CSR committee is positively related to the extent and quality of sustainability reporting. In connection with Bangladesh economy the collapse of State Owned Enterprise namely Adamjee jute mills was necessarily imminent due to inefficient board size, members and inappropriate governance system jute mills (Bhaskar, V. and M. Khan 1995). The 1996 index crash in Bangladesh was necessarily all because of absence of corporate governance in every aspect of the participating firms in DSE and CSE. The study pointed out that empirical investigation to the corporate social reporting practice of listed companies of Bangladesh where independent CSR committee is a matter of voluntary disclosures. Analysis of annual reports published in 2007 reveals that only 15.45% of listed companies made such disclosures.

The governance system of the organization particularly the board size, number of independent directors, women participation in the board, CSR committee, and number of foreign directors in the board has a significant bearing on the sustainability disclosure of the firm in general. Where there is a separation of ownership like principal and agent relation exist in that case board of directors have a great responsibility to ensure the appropriate measures that keep interest of all the party concerned with entire organization. Considering the present context of Bangladesh we have selected this topic to determine the extent to which the organizational structure and the governance system affect in sustainability disclosures of the concerned firm. This paper will add value to the extent to know the aspect of disclosures from each industry as the different organization been selected from different segments of the industry in Bangladesh.

Objectives of the Study

- To identify the effect of corporate governance on sustainability disclosures of the Bangladeshi companies.
- To show the effect of organizational structure on sustainability disclosure of the concerned companies under study.



Materials and Methods

The study is been carried out to show the casual relationship between the corporate governance system with exposure to sustainability disclosures of different companies in Bangladesh. The companies are selected from the multiple dimensions of the organizations to represent the true pictures of disclosure from each sections of the industry. The study conducted on the basis of secondary sources of data as information required were collected from the annual reports of the different companies under consideration.

The data collection period was June 2018 to September 2018. The data were collected by developing an appropriate questionnaire format. Total 74 corporate companies' data were gathered by using a structured questionnaire to determine the effect of corporate governance on sustainability disclosure of the target set of companies.

For the purpose of determining the sustainability disclosures of the company this study includes following explanatory variables with categories shown in the parenthesis, viz. Sustainability Disclosure will be measured as(0 = No disclosure, 1 = Item mentioned in general (in 1 or 2 sentences), 2 = Brief explanation (in 3 to 5 sentences), 3= Items described in great details with photos or justification, 4 = Items briefly described which included cost incurred and photos or graph ,5 = Detailed explanation of activities or items with cost involved) and points for independent CSR committee(1= yes , 0 = no).

Statistical Methods

The exposure to sustainability disclosure is been measured on the basis of association with numbers of independent variables to one dependent variables. The independent variables are Types of organization, Board size, Number of independent directors, percentage of independent directors, numbers of women in the board, percentage of women directors in the board, number of foreign directors, percentage of foreign directors in the board, independent CSR committee and the dependent variable is exposure to sustainability disclosures. Basic characteristics of the study according to types of organizations carried out by using one way ANOVA for continuous variables, chi -square test for categorical variables. Bi- variate and multivariable linear regression analysis has been used to determine the effect of corporate governance on sustainability disclosure.

Results and Discussions

Table -1: Basic characteristics of the study characteristics according to the types of organizations

| Variables | Estimate | Total | Manufactu -ring | Banking | Non-bank Financial | Non- financial Service | P- value ¹ |
|--|--------------|-----------|--------------------|------------|-----------------------|------------------------------|--------------------------|
| Number of Board of Directors | Mean± SD | 9.94±4.15 | 7.71±2.78 | 14.46±3.98 | 12.53±2.81 | 7.87±2.29 | 0.001* |
| Number of Independent Directors in the Board | Mean± SD | 1.95±0.91 | 1.78±0.84 | 2.46±1.06 | 1.92±0.86 | 1.87±0.83 | 0.108 |
| Percentage of Independent Directors in the Board | Mean± SD | 0.20±0.09 | 0.23±0.09 | 0.18±0.07 | 0.15±0.08 | 0.23±0.06 | 0.025* |
| Number of Women Directors in the Board | Mean± SD | 1.54±1.45 | 1.21±1.09 | 1.33±1.11 | 2.92±2.01 | 1.25±1.38 | 0.002* |
| Percentage of Women Directors in the Board | Mean± SD | 0.83±5.79 | 1.46±8.08 | 0.09±0.08 | 0.22±0.12 | 0.18±0.23 | 0.824 |
| Number of Foreign Directors in the Board | Mean± SD | 0.36±0.98 | 0.52±1.26 | 0.06±0.25 | 0.46±0.77 | - | 0.312 |
| Percentage of Foreign Directors in the Board | Mean± SD | 0.03±0.11 | 0.05±0.14 | 0.01±0.03 | 0.04±0.09 | - | 0.400 |
| Presence of Independent CSR Committee | Yes, n(%) | 12(16.22) | 2(5.26) | 7(46.67) | 2(15.38) | 1(12.5) | 0.003 ^{#*} |
| | No, n(%) | 62(83.78) | 36(94.74) | 8(53.33) | 11(84.62) | 7(87.5) | |

¹ One way ANOVA for continuous variables; [#] Chi-square test for categorical variables; * Statistical significance at P<0.05.



In case of table number (1) the basic characteristic of the study have been analyzed according to the types of the organizations and found that, Numbers of board of directors ($P < .001$), percentage of independent directors ($P < .025$), numbers of women directors ($P < .002$), presence of independent CSR committee ($P < .003$) are statistically significant. So according to the types of the organizations these four factors namely- numbers of board directors, percentage of independent directors, numbers women directors and presence of independent CSR committee has an important bearing on the sustainability disclosures of the firms.

Table-2: Bi-variate analysis between the corporate governance on sustainability Disclosure with the study characteristics:

| | Environmental Sustainability Disclosure (Pearson correlations coefficient) | P-value |
|--|--|---------|
| Type of Organization | .067 | .573 |
| Number of Board of Directors | .319 | .006* |
| Number of Independent Directors in the Board | .261 | .025* |
| Percentage of Independent Directors in the Board | -.028 | .813 |
| Number of Women Directors in the Board | -.147 | .211 |
| Percentage of Women Directors in the Board | -.035 | .769 |
| Number of Foreign Directors in the Board | .033 | .777 |
| Percentage of Foreign Directors in the Board | .077 | .516 |
| Presence Independent CSR Committee | .157 | .182 |

In Table number (2), Bi- variate analysis have been performed to determine the effect of corporate governance on sustainability disclosure and found that Number of board of directors ($P < .006$), Number of independent directors ($P < .025$) in the board have a significant bearing on the sustainability disclosure of the firms.

Table-3: Multivariable linear regression model to explore the effect of corporate governance on sustainability Disclosure

| Characteristics | Beta coeff. (95% CI) | Std. Error | T-test | P-value |
|--|----------------------|------------|--------|---------|
| Type of Organization | 0.023(-.34, 0.39) | .186 | .124 | .901 |
| Number of Board of Directors | .146 (-.092, 0.38) | .119 | 1.227 | .224 |
| Number of Independent Directors in the Board | .192(-.997, 1.38) | .595 | .322 | .748 |
| Percentage of Independent Directors in the Board | -.434(-11.40,10.53) | 5.489 | -.079 | .937 |
| Number of Women Directors in the Board | -.301(-.591, -.011) | .145 | -2.076 | .042* |
| Percentage of Women Directors in the Board | .015(-.052, .081) | .033 | .444 | .658 |
| Number of Foreign Directors in the Board | -1.50(-2.93,-.08) | .714 | -2.109 | .039* |
| Percentage of Foreign Directors in the Board | 14.054(1.63,26.48) | 6.219 | 2.260 | .027* |
| Presence Independent CSR Committee | .421(-.64,1.48) | .530 | .795 | .429 |

* Statistical significance at $p < 0.05$

In table number (3), The Multivariable linear regression model have been used to explore the effect of corporate governance on sustainability disclosure and the study conclude that, Number of women directors in the board ($P < .042$), Number of foreign directors in the board ($P < .039$), Percentage of foreign directors in the board ($P < .027$) are significantly correlated to sustainability disclosures of the concerned companies under study.

Conclusion

The corporate governance issues becoming more vigorous areas of concentration in the modern world. This study shows that the issues of corporate governance have a significant bearing on the sustainability disclosures of the concerned firms. From our analysis we see that types of the organizations, numbers of board of directors, number of independent directors, percentage of independent directors in the board, number of women directors in the board, presence of independent CSR committee, number of foreign directors in the board and percentage of foreign directors in the board have a significant bearing on the sustainability disclosures of the firms in Bangladesh. So the organizations practicing good corporate governance are tend to show more appropriate sustainable disclosures.



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Appendices

1. Abbreviations’: CSR= Corporate social responsibility
2. Questionnaires format for specific organizations.

| SL | Company Name | Number of board of Directors | Board Independence | | Women in the board | | Foreign directors in the board | | Points for independent CSR committee | Points on Sustainability Reporting |
|----|--------------|------------------------------|---|---|---|---|--|---|--------------------------------------|------------------------------------|
| | | | No. of independent directors in the board | % of independent directors to total directors | Number of women in the board of directors | % of women directors to total directors | Number of foreign directors in the board | % of foreign directors to total directors | | |
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* Sustainability Disclosure will be measured by the following rule:



0 = No disclosure

1 = Item mentioned in general (in 1 or 2 sentences)

2 = Brief explanation (in 3 to 5 sentences)

3= Items described in great details with photos or justification

4 = Items briefly described which included cost incurred and photos or graph

5 = Detailed explanation of activities or items with cost involved

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