

Determinants of Corporate Social Responsibility Disclosure: The Case of Banking Sector in Pakistan

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This research aims to examine Corporate Social Responsibility Disclosure (CSRD) in Islamic and conventional banks in Pakistan. As legitimacy theory suggests existence of “social contract” among society and banks, therefore, banks must consider CSRD for long-term and profitable performance. Based on the theory, this study examines the effect of bank size, profitability, financial leverage, bank age, audit firm size, and visibility on the CSRD of Islamic and conventional banks in Pakistan. A sample of 24 banks is considered including 5 full-fledged Islamic and 19 conventional banks for six years from 2010 to 2015. Capitalizing content analysis, a Corporate Social Responsibility Index (CSRDI) is developed using annual reports of the sample banks. Empirical results show that ethics and human resource are the highest disclosed categories. Furthermore, Mann-Whitney test reveals that there is no significant difference in the disclosure of Islamic and conventional banks in the annual reports in terms of CSR. Finally, the results of multiple regression analysis reveal that size, financial leverage, and listed status are highly significant and positively affect the CSRD of banks in the context of Pakistan.

Keywords: Corporate Social Responsibility, Social and Environmental Disclosure, Banks, Annual Reports.

1. INTRODUCTION

Corporate Social Responsibility (CSR) implies the legal, economic and ethical unbounded expectations that society has from business institutions (Carroll, 1979). CSR has developed across the globe as a number of contemporary corporations are actively involved in social activities, subsequently reporting CSR information to the public (Tilt, 2016). Disclosure of such social information is known as Corporate Social Responsibility Disclosure (CSRD). It is a form of accounting which considers both mandatory and voluntary disclosures with respect to business operations and their possible impact on the well-being of society and economic factors (Tilling, 2001). Notably, multinational corporations (MNCs) were the key players in introducing CSRD back in 1990s. The key reason for CSRD is to display their socially responsible activities towards society and their impact on the stakeholders such as customers, employees and communities (Monks & Minow, 1995). Moreover, CSRD is a prominent matter of investigation by businesses,

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researchers, NGOs, and consumers around the world (Tilling, 2001; Gamerschlag, Moller, & Verbeeten, 2011; Deegan, 2011; Ramdhony, 2015). Financial institutions also disclose CSR information because of having a huge impact on the society. The reason for CSR is that they not only offer financial services but also manage borrower-related risks (Greenbaum & Thakor, 2007).

Various researchers have investigated CSR in the context of the developed countries from different dimensions (Habisch, Jonker, Wegner, & Schmidpeter, 2005; Illia, et al. 2012; Patten & Zhao, 2014). However, literature supporting CSR in the developing countries is limited as it is at the initial stages of evolution (Muthuri & Gilbert, 2011). Furthermore, the available literature focuses mainly on the broader CSR practices in MNCs (Sumiani, Haslinda, & Leman, 2007; Jamali, 2010). It presents various sets of CSR determinants such as regulators, shareholders, media, creditors, etc. Moreover, external sources such as international buyers, international media or international regulative authorities (i.e., World Bank) also have strong influence on CSR (Ali, Frynas, & Mahmood, 2017).

As a developing country, Pakistan presents an interesting case of CSR. MNCs operating in Pakistan were the first to implement CSR activities in the business operations to reach the international standards of the world (Waheed, 2005; Yunis, Durrani, & Khan, 2017). The emergence of CSR can be traced back to the child labor incident in the football industry in Sialkot, which caught attention worldwide (Awan, Kamal, Rafique, & Khan, 2012). As a result, national and international non-governmental organizations (NGOs) were formed in Pakistan to specifically spread awareness among people regarding CSR (Yunis, Durrani, & Khan, 2017). Moreover, the concept of CSR becomes relevant in the context of Pakistan due to several natural disasters and incidents (flood, earthquake, and terrorism) that affected local communities. Interestingly, both international and national companies aided communities. Similarly, banks also participated to overcome the tough times by assisting people in several ways (i.e. financial assistance, house-building, medical facilities, safe drinking water, etc.). In 2013, Pakistani government issued “*Corporate Social Responsibility Voluntary Guidelines*”. The main objective was to promote the development of a CSR framework within all the listed companies to work for the betterment of society and implement a transparent and socially responsible strategy. However, CSR research in Pakistan is limited; so far, studies have focused mainly on MNCs, oil and gas industry, tobacco industry, fertilizers industry, etc. (Ahmad, 2006; Kiran, Kakakhel, & Shaheen, 2015; Nazir, Iftikhar, Rana, Sadiq, & Ahmed, 2010; Nazir, 2010). Most of the studies focus on non-financial institutions, albeit, banks are not considered due to their distinct set of regulations.

The banking system in Pakistan is both conventional and Islamic. Elsewhere, quite many researchers have contributed to explain CSR from an Islamic perspective and compare CSR of Islamic and conventional banks (Zubairu, Sakariyau, & Dauda, 2011; Mosaid & Boutti, 2012). CSR is a known concept in Islamic banking and vital component of the globally accepted practice of Islamic banking (Dusuki & Dar, 2005). It is engraved in the system of Islamic banking that comes from Shariah guidelines for being ethically and socially responsible and for refraining from illegal activities that may lead to any harm to the society and environment. In the context of Pakistan, only few researchers have investigated CSR in financial and banking sector of Pakistan, and its

effect on the financial performance of institutions (Malik, Ali, & Ishfaq, 2015; Abbasi et al., 2012; Bagh, Khan, Azad, Saddique, & Khan, 2017). However, studies are limited regarding CSRD and its determinants, specifically, in the banking sector of Pakistan. Therefore, this study contributes from both theoretical and empirical perspectives by comparing CSRD of Islamic and conventional banks and its determinants.

2. LITERATURE REVIEW

Carrol's (1979) definition of CSR is widely accepted among researchers who stated that "CSR encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (p. 500). One of the ways to understand this role is from religious perspective. The concept of CSR in Islam is considered to be comprehensive in nature compared to the western view of CSR (Khaliq & Sadeq, 2002). For instance, it is related with the spirituality of individuals which comes from the religion- Quran and Sunnah, in specific. This substitute provides a clear framework based on the philosophy regarding the relation of an individual with other people.. Therefore, these principles provide clearer and more continual guidelines for the business operations and well-being of the society (Khaliq & Sadeq, 2002). Many researchers have contributed in defining CSR from Islamic and Shariah perspective. For instance, Jusoh, Ibrahim, and Napiiah (2015) explained responsibilities of a business towards society under the principles of Shariah by highlighting different Quranic verses and Ahadith by Prophet Muhammad (P.B.U.H). They elaborated that every human being has certain responsibilities towards the other human beings, irrespective of their positions. This is a kind of system that maintains justice, so that rights and safety of every individual is preserved.

2.1. Corporate Social Responsibility Disclosure (CSRD)

Accounting, the act of managers for constructing a report that explains activities of a business, holds reliable information in it based on which people decide about their opinions. Therefore, it has the capacity to influence people's way of perceiving a phenomenon, and to affect their process of decision-making (Hines, 1988). Hence, it shows that accounting carries the ability to affect shareholders and, therefore, it should be managed carefully (Tilling, 2001).

CSRD is a form of accounting that covers both areas: mandatory and voluntary disclosures of business operations. It highlights their effect on the community and economic factor (Tilling, 2001). Parker (1986) defined CSRD and its role as follows:

- (1) Estimation of social and environmental effect caused by corporate activities
- (2) Effective measurement of corporate social and environmental program
- (3) Social and environmental reporting by corporation
- (4) Complete estimation of corporate resources and effects through an internal and external information system.

By this time, many studies explain the relation of CSRD with Islamic and conventional banks in both the developed and the developing countries including Pakistan. For instance, Hanifa and Hudaib (2007) claim that Islamic banks are supposed to be more socially responsible compared to the conventional banks. They analyze

Islamic banks' level of ethical identity by highlighting "communicated" and "ideal" ethical identity. They find that there is an absence of information on four dimensions namely; commitment to society, the disclosure of corporate vision and mission, contribution to and management of *Zakat*, charity and benevolent loans. Similarly, Zubairu, Sakariyau, and Dauda (2011) study Islamic banks of Saudi Arabia; results of which indicate that Islamic banks (supposedly based on Shariah) operating in Saudi Arabia, have many similarities with conventional banks and that there is no difference.

In Pakistan, Malik et al. (2015) conduct a study to estimate the impact of CSR activities and organizational performance in the presence of organizational culture. They conclude that organizational performance is positively correlated with CSR activities where organizational culture plays the role of a moderator between the relationships. Moreover, Majeed, Aziz, and Saleem (2015) examine the effect of elements of Corporate Governance (i.e. board size, independent directors, etc.) on CSR. Results reveal that there is significant and positive impact of board size, institutions ownership, ownership concentration, and firm size on CSR reporting.

Abbasi et al. (2012) investigate CSR of 10 Islamic and 10 Conventional banks of Pakistan by using content analysis approach. The results reveal that CSR is introduced in Islamic banks prior to conventional, and that Islamic banks have shown relatively more positive results as compared to conventional banks. However, the study is restricted to a limited number of banks in Pakistan.

2.2. CSR in Islamic Banks

CSR and its implementations are growing in the corporate world as well as financial institutions. Dusuki and Dar (2005) argue that CSR is a framework with certain standards which if followed by businesses will benefit the society, and limit the act of profit-making without considering the effect and drawbacks of its operations on society. Resources are scarce in nature; however, CSR in such a circumstance still plays an important and active role of partner for the business (Jamali & Mirshak, 2007).

Banks in the developed and the developing countries actively participate in activities that benefit society. The driving forces behind this behavior are; regulations, social awareness, social activists, and non-governmental organizations (Samina, 2012). Similarly, Sadeq (2007) stated that the Islamic codes ensure the promotion of 'sharing and caring society' which means that it is highly recommended for Islamic banks to participate in the responsibilities towards society at the same time as their personal interest that is profit-making.

Scholars (Dusuki & Dar 2005, Samina, 2012) emphasized that there is the need to investigate ethical banking and finance under the principles of CSR from the Islamic perspective. They, therefore, examined seven stakeholders' perception about CSR in Islamic banking in Malaysia. Stakeholders of the study contained employees, customers, depositors, Shariah advisors, branch managers, local communities, and regulators. Results of the study led to the view that stakeholders hold positive perception or views about CSR. In fact, decision in selecting bank is also influenced by CSR. Moreover, they concluded the results and found that Islamic banks can better prosper in a country like Malaysia with dual-banking system by finding their own target market which has concerns about ethical and socially responsible banking. CSR is not a concept that is new

in Islamic banking. In fact, it is the globally agreed-upon practice for the Islamic banking in a way that it is imprinted in the Islamic banking system which is a result of Shariah guidelines for ethical and socially responsible banking to prevent illegal activities and those activities that could harm society and environment/nature (Dusuki & Dar, 2005).

Concept of CSR having its philosophical differences in western and Islamic banks, still share similarities in common (Samina, 2012). For instance if compared the four dimensions (human rights, human resource, environmental and philanthropic) of CSR practices and the Islamic perspective of it from corresponding sources from Quran and Hadith.

There is resemblance among all the definitions, but these resemblances and similarities of definitions do not provide the ground to decide a way to manage balance among all the definitions. Therefore, CSR is the natural commitment of Islamic banks. Similarly, according to the Islamic Association of Islamic Banks (IAIB), the characteristic that distinguishes Islamic banks from other banks is the involvement of social implication, which comes from Islamic principles.

The prime consideration of Islamic banks is the social implications while making any decision in the banking operations. Although, profitability is important for running operations of the bank, it is not the only criterion to judge Islamic banks' performance. The reason is that they have to consider both profit-making and well-being of society as a whole. Social responsibility of Islamic banks is not a goal that could be replaced or ignored (Al-Omar & Abdel Haq, 1996).

The statement, given above, clearly demonstrates the theory of Islamic banking, especially on how Islamic banks are expected to operate in a certain way. Islamic banks are different from conventional banks because the sole purpose is not the capitalistic approach of earning profit alone. In fact, it is a blend of physical and spiritual satisfaction. To elaborate; Islamic banking is not an enhancement of outputs alone, rather it has to be an attempt to satisfy spiritual needs- contentment of human consciousness, as well as to maintain justice with all sort of human interactions (Dusuki & Dar, 2005).

However, it would be a misconception if Islamic banks are merely considered charitable institutions that provide financial assistance when requested. In the same way, it is unsuitable for Islamic banks to focus on profit-making strategy while overlooking its impact on society's well-being (Haron, 1995). Alternatively, Islam provides a guideline that keeps balance between making profit and remaining socially responsible. It is unfair for the Islamic banks to be incompetent in earning sufficient profit against the money that their business partners and shareholders have trusted them with. Similarly, it is unfair for the Islamic banks to earn excessive profit without considering the influence of their operations on the society as well as environment.

2.3. Theoretical Positioning: CSR and Legitimacy Theory

Legitimacy can be defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). Deegan and Unerman (2011) claim that, based on the theory of legitimacy, "social contract" exists between organization and society. CSR in this case, helps businesses to legitimize their business operations to achieve acceptance from society, and ensure that the organization

operates for a longer period. Moreover, O'Donovan (2002) argues that, according to legitimacy theory for organizations to have profitable operations, they must consider society's norms and values. This act is referred to as socially acceptable behavior.

Furthermore, certain industries are more visible and more publicly revealed (Branco & Rodrigues, 2006). Legitimacy theory suggests that businesses with high visibility in the market, face the pressure to disclose more social responsibility information compared to less visible firms (Clarke & Sweet, 1999). Ramdhony (2015) suggests that banks have different CSRD than other industries. This difference includes information related to community development rather than environmental practices; however, level of CSRD may still be the same as other industries. Good image and reputation in the eye of the public is more of a concern for the businesses that have high visibility.

One of the ways to see legitimacy theory is from the institutional perspective. The institutional perspective to legitimacy presents three imperatives. First, coercive imperatives expect organizations to respond to external environments by adapting to formal regulations (Scott, 1987). Second, mimetic imperative shows organization replication of peers in the industry (De Villiers & Alexander, 2014). Last, normative imperative requires firms to engage in internalization of professional standards (Suddaby & Viale, 2011). Under the light of legitimacy, factors that affect CSRD of a firm are briefly discussed here:

2.3.1. Firm Size

Big firms, due to their high exposure to the sensitive industry, tend to be in the public scrutiny more than small firms. Therefore, they disclose more social responsibility information (Watts & Zimmerman, 1978; Juhmani, 2014). Findings on the size of firm and CSRD are inconclusive. For instance, some part of literature suggests that there is a positive relationship between firm size and CSRD (Haniffa & Cooke, 2005; Alarussi, Hanefah, & Selamat, 2009). However, some studies (Barako, Hancock, & Izan, 2006; Smith, Yahya, & Amiruddin, 2007; Nawaiseh, Boa, & Youssef El-Shohnah, 2015; Adeneye & Ahmed, 2015) also suggest that there is no association between CSR and firm size. Proponents of this view argue that large firms face more legitimacy issues than smaller firms because of their exposure to the sensitive industry. According to the available literature, practices of the large firms have more environmental effect and tend to be under public scrutiny more than small firms. Big firms take more legitimacy because of their high societal existence and tend to disclose more social responsibility information than small firms (Juhmani, 2014). Therefore, through these disclosures, visible organizations try to evade regulatory interventions and legitimize their existence.

2.3.2. Firm Profitability

Profitable firms disclose more CSR information than less profitable ones to attract more capital (Juhmani, 2014). Similarly, Deegan (2002) suggests that firms, under legitimacy theory, are restrained by an accepted "social contract" in society. In case a business fails to consider the social contract, then it can affect their survival and financial performance in a negative manner. Studies suggest positive association between CSRD

and profitability (Akrouf & Othman, 2013; Smith et al., 2007); whereas, some have contrary result (Choi, 1998; Cormier & Mgnan, 2004). Therefore, it could be argued that due to legitimacy a profitable firm tends to do more CSR and report it accordingly.

2.3.3. Financial Leverage of Firm

A firm which is dependent on a high level of debt faces more pressure and could raise issue of legitimacy. Therefore, they must practice in a more socially responsible manner and disclose more CSR information to satisfy expectations of creditors regarding issues related to the environment (Roberts, 1993). If leverage ratio of the firm is high, then disclosure of the firms must also be high related to social and environmental issues (Christopher & Filipovic, 2008). Moreover, Juhmani (2014) in his study of the listed firms of Bahrain concluded that firms with high leverage ratio disclosed more information related to social and environmental issues than firms with low leverage ratio. In Pakistan, Arshad et al. (2015) conducted research on 125 companies listed in Karachi Stock Exchange from 25 countries regarding CSR's impact on the financial performance of the firms. Results showed that CSR had positive impact on leverage and, hence, on legitimacy of the firm.

2.3.4. Firm Age

Firms influence society and are influenced by society; therefore, legitimacy is crucial for their survival (Deegan, 2002). Older firms tend to communicate with the community and have positive effect on CSR, as there is positive relationship between CSR and firm age (Roberts, 1992; Jiraporn & Phakorn, 2015). Some studies, although, suggest contrary relationship (Trensansky & Tsaparlidis, 2014; Juhmani, 2014).

2.3.5. Auditing Firm Size

It is assumed that large audit firms tend to relate with those clients who take more social responsibility practices and disclose more CSR information (Juhmani, 2014). In this regard, Hamid (2004) claims that the legitimacy theory could predict that "the age of a corporation is related to its reputation in the society and its history of involvement in CSR activities". Similarly, firms "strive to develop good reputation throughout their years of existence" (Menass, 2010).

Based on previous literature, it has been found that there is a positive correlation between the level of CSR and audit firm size. It is believed that large audit firms influence firms associated with them to take part in socially responsible practices and disclose more CSR information (Choi, 1998).

2.3.6. Visibility of Firm

The listing status of firms is, generally, linked with the firm's ability to access financing opportunities (Menassa, 2010). A good relationship between the organization and its key stakeholders is vital and can raise legitimacy issues. Visibility of a firm, determined by listed status, affects CSR of a firm (Branco & Rodrigues, 2006). They are more visible than non-listed firms. Therefore, they disclose more CSR information (Branco & Rodrigues, 2006; Ramdhony, 2015). However, some studies show contrary result (Hinson, Boateng, & Madichi, 2010).

2.4. Hypothesis Development

Following are hypotheses developed with the help of literature:

- H₁: Islamic banks disclose more CSRD in their annual reports than conventional banks in Pakistan
- H₂: Bank size positively affects CSRD in the annual reports of Pakistani banks
- H₃: Bank profitability positively affects CSRD in the annual reports of Pakistani banks
- H₄: Financial leverage of bank positively affects CSRD in the annual reports of Pakistani banks
- H₅: Bank age positively affects CSRD in the annual reports of Pakistani banks
- H₆: Audit firm size positively affects CSRD in the annual reports of Pakistani banks
- H₇: Bank visibility positively affects CSRD in the annual report of Pakistani banks

3. RESEARCH METHODOLOGY

3.1. Sample

Companies use a number of mediums to disclose CSR information, such as; annual reports, newspaper, websites and promotional materials (Hamid & Atan, 2011). Other mediums too exist including company staff newspaper, television and radio advertising and company brochures, press reports and interim reporting (Ramdhony, 2015). Companies disclose CSR information because they feel the need to enhance their image in the eye of the public by showcasing that there is flow of capital, labor and customers as survival is crucial.

However, this study only focuses on the annual reports of the banks. Many researchers have measured CSR disclosure using annual reports (Branco & Rodrigues, 2006). Annual reports hold great importance when it comes to communication tools. Gray et al. (1995) presented that annual report is the most important regarding the way an organization builds its image in the eyes of shareholders. Annual reports are deemed more credible. Therefore, this research is based on the CSR information extracted from the annual reports of banks operating in Pakistan.

Sample consists of 24 banks in Pakistan from 2010 to 2015. Banks included in the sample are public and private, Islamic and conventional, listed and non-listed, and foreign banks. However, specialized banks such as microfinance and development financial institutions are not considered. Moreover, those banks are also excluded which merged with other banks during 2010-2015, or banks with missing data for certain years.

Most banks had annual reports available until 2015 (at the time of conducting the research), while reports for many were missing beyond that point. A number of banks would have been lost in case of adding more years. Therefore, we had to make a tradeoff between the sample size and the number of years. To ensure our results do not suffer from survivorship bias, we had to constrain data to 2015.

3.2. Research Design

According to many researchers (Emory, 1976; Dannel, 2018; Quinlan, Babin, Carr, & Griffin, 2019), a research design is the set of methods and procedures that are

used to extract the required information. It is the comprehensive operational design which specifies the nature, source and procedures required to extract certain information. This design for research is important to ensure that the extracted information is relevant and appropriate to answer research question(s) and extracted with an objective using economic procedures.

A quantitative content analysis has been used in this study to examine level of CSR by Pakistani banks from year 2010 to 2015.¹ Content analysis is the process of scanning and examining texts and documents. Content analysis is “*a research technique for making replicable and valid inferences from data according to their context*” (Krippendorff, 1980). Content analysis can be both quantitative and qualitative in nature. However, focus of the study is analysis of texts and documents in quantifying manner; therefore, quantitative content analysis is considered. Quantitative content analysis attempts to measure volume of disclosure to further make inferences on the basis of text (Gray et al., 1995). Many researchers have attempted to define content analysis in quantitative way (Nobanee & Ellili, 2016). According to them, content analysis is a technique that deals with the process of classifying the disclosed information into number of categories which express the features of CSR information that researcher aims to examine. Therefore, content analysis is used in this study to develop Corporate Social Responsibility Disclosure Index (CSRDI); one point is assigned for themes disclosed by the banks or zero otherwise. Total 39 themes are considered formulating 5 categories, i.e., human resource, product and customers, environment, community development, and ethics disclosure. This kind of scoring system is to make certain that each score a firm receives is related to new disclosure. Scores are further added up and not weighted; therefore, it is considered that each score has equal importance (Branco & Rodrigues, 2006).

Each of the categories has a number of themes, which are developed with the help of previous literature, pilot testing of annual reports of Pakistani banks, and the CSR Voluntary Guidelines (2013) by Securities and Exchange Commission of Pakistan (SECP). To ensure the validity and reliability of CSRDI, authors validate the process to make sure each time results are reliable (existence and non-existence of themes in annual reports).

Descriptive statistics and correlation matrices are used to compare CSR categories using STATA. To compare CSR of Islamic and conventional banks, and see if the level of disclosure is the same or different between the two types, Mann-Whitney test is used.

To observe the relation of CSR with independent variables, this study uses the following model (Recently, similar models are being widely used in CSR related studies (Muttakin, Khan, & Mihret, 2018 ; Nawaiseh et al., 2015):

$$CSR_{it} = \beta_0 + \beta_1 Siz_{it} + \beta_2 Proff_{it} + \beta_3 Lev_{it} + \beta_4 Age_{it} + \beta_5 A F SizD_{it} + \beta_6 List_{it} + \varepsilon_{it}$$

Where CSR=Corporate Social Responsibility Disclosure (CSR Index), which is the dependent variable and the level of CSR information is extracted from the annual reports of banks through content analysis of 5 categories (human workforce disclosure,

¹See Annexure 1 for detail of CSR in Pakistani Banks

environmental disclosure, community development disclosure, product and customer and ethics).

Siz = Size of bank, represented by total assets of the bank.

Proff = Profitability of bank represented by the bank's earnings per share.

Lev = Financial leverage ratio, which is the debt-to-equity ratio, i.e., total liabilities divided by total shareholders' equity.

Age = Bank age, which is estimated from the date of incorporation to the sample period.

AFSiz = Audit Firm Size, which is estimated as a dummy variable, value of '1' assigned to bank audited by big audit firms and '0' otherwise.

List = Listed status of banks, which is used as a proxy for visibility of the bank, measured through a dummy, value of '1' assigned to a bank if listed and '0' to a non-listed bank.

4. DATA ANALYSIS

Table 1 shows the descriptive statistics for CSR categories. In all of the 24 banks, the mean values of all the banks suggest that the banks do disclose information on all the five categories of CSR during the sample period. The means of 0.559 and 0.51 for Ethics and Human Resource respectively, suggest that these are the most highly disclosed categories of all the five categories.

Table 1

Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Human Resource	144	.51	.18	.18	.909
Product and Customer	144	.139	.25	0	.667
Environment	144	.121	.19	0	0
Community	144	.396	.2	0	.769
Ethics	144	.559	.3	0	1

Table 2 presents the correlation matrix for the CSR, which suggests the five categories are not significantly statistically correlated with each other.

Table 2

Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)
(1) Human Resource	1.00				
2) Product and Customer	0.52	1.00			
(3) Environmental	0.57	0.61	1.00		
(4) Community	0.56	0.51	0.47	1.00	
(5) Ethics	0.61	0.32	0.48	0.34	1.00

As Table 3 suggests, Islamic and conventional banks do not differ in terms of CSR from the year 2010 to 2015. It means that both Islamic and conventional banks disclose relatively equal CSR information in their annual reports.

Table 4 shows the descriptive statistics for all the variables used in the regression tests. The mean for CSR is 14.32, which shows a substantial difference in the items of disclosure of the sample banks. The positive mean value for profitability shows that the sample banks on average are profitable during the sample period. The mean of 0.875 suggests most of the sample banks are listed banks. Table 5 highlights the correlation coefficients involving each pair of variables. There is significant relation between Size and CSR. Moreover, there is a relation between FinLev and CSR as well. Apart from significant correlation between AudFSize and FinLev, the correlation between each pair of the variables in this model is either reasonably small or with acceptable magnitude.

Table 3

Mann-Whitney Results

Years	Test Statistics ^a	CSRDI
2010	Mann-Whitney U	46.000
	Wilcoxon W	236.000
	Z	-.107
	Asymp. Sig. (2-tailed)	.915
	Exact Sig. [2*(1-tailed Sig.)]	.945 ^b
2011	Mann-Whitney U	47.500
	Wilcoxon W	237.500
	Z	0.000
	Asymp. Sig. (2-tailed)	1.000
	Exact Sig. [2*(1-tailed Sig.)]	1.000 ^b
2012	Mann-Whitney U	40.000
	Wilcoxon W	55.000
	Z	-.534
	Asymp. Sig. (2-tailed)	.593
	Exact Sig. [2*(1-tailed Sig.)]	.629 ^b
2013	Mann-Whitney U	42.500
	Wilcoxon W	57.500
	Z	-.357
	Asymp. Sig. (2-tailed)	.721
	Exact Sig. [2*(1-tailed Sig.)]	.731 ^b
2014	Mann-Whitney U	41.000
	Wilcoxon W	56.000
	Z	-.464
	Asymp. Sig. (2-tailed)	.643
	Exact Sig. [2*(1-tailed Sig.)]	.679 ^b
2015	Mann-Whitney U	38.500
	Wilcoxon W	53.500
	Z	-.641
	Asymp. Sig. (2-tailed)	.522
	Exact Sig. [2*(1-tailed Sig.)]	.534 ^b

Descriptive statistics is given in Table 4. Table 5 is the correlation matrix. Finally, the regression results are reported in Table 6.

Table 4

Descriptive Statistics

	N	Min.	Max.	Mean	Std. Dev.	Variance	Skewness
CSRD	144	4	31	14.32	6.403	0.44	0.50
Size	144	12703	2124900	402023.2	419210.97	1.04	1.73
Prof	144	-7.62	24.18	4.26	6.61	1.55	1.57
FinLev	144	2.83	61.48	12.30	7.02	0.57	3.30
Age	144	6	74	26.62	21.04	0.79	1.15
AudFSize	144	0	1	0.96	0.20	0.20	-4.63
List	144	0	1	0.875	0.33	0.37	-2.26

OLS pooled regression model is used to test the effect of bank size, profitability, financial leverage, age, audit firm size, and listed status, on CSRD of banks under the framework of legitimacy theory.

Correlation Coefficients for n= 144

CSRD	Size	Prof	FinLev	Age	AudFSize	List	
1	0.54**	0.58	0.02*	0.53	-0.01	0.40**	CSRD
	1	0.78	-0.08	0.80	-0.11	0.30	Size
		1	-0.27	0.85	-0.04	0.23	Prof
			1	-0.23	0.10*	0.08	FinLev
				1	-0.14	0.23	Age
					1	-0.07*	AudFSize
						1	List

*P<0.1, **P<0.05

Models in Table 6 are free of collinearity/multicollinearity and heteroscedasticity problems. Table 7 reports the results of test run for multicollinearity. To test the problem of collinearity, Variance Inflation Factor (VIF) has been used. If values exceed more than 10, then there is problem of collinearity/multicollinearity. Above variables have values less than 10; therefore, it shows that there is no problem of collinearity or multicollinearity.

In Table 6, bank size is highly significant representing positive effect on the CSRD of banks consistent with previous studies (Haniffa & Cooke, 2005; Alarussi et al., 2009; Majeed et al., 2015).

Similarly, bank profitability, on the other hand, has insignificant value representing no effect on CSRD of banks. This finding is consistent with the results of other studies (Cormier & Magnan, 2004; Majeed et al., 2015).

Financial leverage ratio of banks has significant value representing positive effect on the CSRD of banks; thus, supporting previous studies (Juhmani, 2014; Arshad et al., 2015). Age of bank has significant relation with CSRD but at the 5 per cent significance level. This finding does not support the results of previous studies (See for example Trensansky & Tsaparlidis, 2014; Juhmani, 2014). Size of audit firm is also significant at

the 10 per cent significance level. Lastly, listed status of banks shows significant value representing positive effect on CSR. It supports findings of previous studies (Branco & Rodrigues, 2006; Ramdhony, 2015).

Conclusively, results of empirical tests reveal that size, financial leverage and visibility of the banks have a positive effect on the CSR of the banks. In addition, Age of bank and Audit firm size have also some effect on the CSR of banks at the 5 per cent and 10 per cent significance level respectively.

Table 6
Pooled OLS Regression

Model 4: Heteroscedasticity-corrected, using 144 observations				
Dependent Variable: CSR				
	Coefficient	Std. Err.	t-ratio	p-value
Const	0.78	1.54	0.5091	0.61
Bank Size	5.74E	1.88E	3.049	0.00
Bank Profitability	0.11	0.14	0.8069	0.42
Financial Leverage	0.29	0.06	4.4742	<0.00
Bank Age	0.06	0.03	1.9126	0.05
Audit Firm Size	2.21	1.22	1.81	0.07
Listed Status	4.28	0.66	6.3987	<0.00
Statistics Based on the Weighted Data				
Sum Squared Resid	469.27	S.E. of Regression		1.85
R-Squared	0.66	Adj. R-Squared		0.65
F(6, 137)	45.92	P-value(F)		1.78E
Log-likelihood	-289.38	Akaike criterion		592.7
Schwarz Criterion	613.56	Hannan-Quinn		601.22
Mean Dependent Var	14.31	S.D. Dependent var		6.40
Sum Squared Resid	3810.88	S.E. of regression		5.27

Table 7
Test of Collinearity

Variation Inflation Factors	
Minimum Possible Value = 1.0	
Values > 10.0 may indicate a collinearity problem	
Test of Collinearity	
Bank Size	3.443
Bank Profitability	4.493
Financial Leverage	1.184
Bank Age	4.494
Audit Firm Size	1.067
Listed Status	1.126

5. CONCLUSION AND RECOMMENDATIONS

CSRD is a growing trend among various industries in both the developed and the developing countries. In Pakistan, non-financial firms contribute in undertaking CSR activities and disclosing the information to the public, limited researchers have investigated CSRD of financial institutions. There is scarcity of literature in terms of CSRD of Islamic and conventional banks in a comparative manner. Hence, purpose of this study is to fill the gap by comparing CSRD of both banking system and investigate possible factors that affect their CSRD. Sample of 24 banks is developed through purposive sampling from 2010 to 2015. Firstly, categories of CSRD are compared which reveals that human resource and ethics are the highest disclosed categories. Secondly, results of Mann-Whitney test indicate that there is no visible difference in the CSRD of Islamic and conventional banks based on the information disclosed in their annual reports. Thirdly, pooled regression model was used to investigate effect of factors as bank size, profitability, financial leverage, age, audit firm size and visibility of the banks, on their CSRD. Empirical results certify a positive and significant effect of bank size, financial leverage and visibility on CSRD of the selected banks. Age of bank and Audit firm size also has some effect on the CSRD of banks whereas, there was no significant evidence to determine positive impact of profitability, on CSRD of banks. This study is important because of the lack of literature of CSRD in the banking sector of Pakistan. More researchers need to focus on it to highlight significance of CSRD in the society expected from financial institutions such as commercial banks that deal with money. Such studies can be of importance to managers and policy makers to ensure that banks are disclosing social responsibility information to the public that would ultimately improve image of the banks and encourage customers to base their decision in their favor.

This study only focuses on the annual reports of the banks as medium of data collection. However, studies indicate that banks use other mediums too for disclosing information related to their operations and their impact on the society; such as website. Future research can be done considering all the mediums of disclosure. Moreover, further research can be complementary to this study by finding out the perception of bankers with respect to CSRD. In this way, it can be useful to find out difference of opinion between bankers of a conventional bank and those of Islamic banks.

Various researchers have attempted to explain CSRD in the banking sector in the developing countries, whereas limited studies are carried out in the context of Pakistan specifically in the banking sector. The already existing studies on CSRD in banking sector highlight the difference of CSRD in both banking systems i.e., Islamic and conventional, using cross-sectional data. This study, on the other hand, aims to discover the difference of CSRD in Islamic and conventional banks operating in Pakistan along with determinants that highly affect CSRD of these banks through panel data analysis. This study contributes by examining panel data on CSRD of banks from 2010 to 2015 which shows development of CSRD throughout. Furthermore, it finds out the highest to the lowest disclosed CSR themes among banks, an endeavor which is first of its kind by using content analysis. Both conventional and Islamic banks disclose CSRD themes and categories through guidelines provided by government along with voluntary activities (CSR Voluntary Guidelines 2013 by SECP). It also discovers effect of determinants as of bank size, profitability, financial leverage, bank age, audit firm size, and visibility of

banks on their CSR. Results indicate a visible and positive difference in their CSR in the six-year time-period respectively. Moreover, bank size, financial leverage, and visibility (as determined by listed status) tend to affect CSR of banks positively among all determinants. Moreover, audit firm size also has some effect on the CSR. This study compares and examines difference along determinants of CSR in Pakistani banks in a comprehensive manner.

This study focuses on CSR of both Islamic and conventional banks in Pakistan. To support conventional banking system and its determinants affecting CSR, legitimacy theory is considered. However, relation of CSR in terms of Islamic banking system, an understanding of CSR is compared with Islamic modes of ethics. It means that socially responsible activities must be incorporated in Islamic banking activities not only for conforming to the contemporary CSR perspective but also for acting upon Islamic teachings that support well-being of the society. This study contributes by comparing both perspectives in Islamic and conventional banks in Pakistan, the result of which indicates that there is no significant difference between the two banking systems in terms of CSR. Further research can be conducted to qualitatively differentiate the understanding of executives in both banks and their driving force to incorporate CSR activities in their operations.

This research is a descriptive overview of banks disclosing CSR in Pakistan. It helps in providing statistics and results on the banking sector of Pakistan on the basis of which government can propose guidelines to make CSR practices smooth and more effective. As literature suggests, financial institutions, commercial banks in particular, have huge effect on the society because they deal with capital. Therefore, banks must ensure positive effect on society by adopting CSR practices and disclose them in annual reports or through other mediums to create awareness among customers. Moreover, this study provides results for various policy-makers, such as SBP, SECP, Shariah Board, and bankers to associate banking activities with CSR disclosures.

ANNEXURE

Social and Environmental Categories Disclosed by Banks												
CSR Variables/Items	2015		2014		2013		2012		2011		2010	
	No. of Banks	%	No. of Banks	%	No. of Banks	%	No. of Banks	%	No. of Banks	%	No. of Banks	%
A. Human Resource Disclosure												
Equal Opportunity Employer (gender, disabled, etc.)	18	35	16	66.7	14	58.3	14	58.3	10	41.7	10	41.7
Employee Health and Safety	20	83.3	17	78.8	17	78.8	19	78.2	14	58.3	11	45.8
Employee Training and Development	21	87.5	19	78.2	21	87.5	21	87.5	20	83.3	18	75
Retirement Benefit/ Other Benefits	24	100	24	100	24	100	24	100	24	100	24	100
Employee Share Scheme Purchase	3	12.5	1	4.2	1	4.2	1	4.2	1	4.2	1	4.2
Separate HR Sheet	11	45.8	12	58	10	41.7	11	45.8	8	33.5	8	33.3
HR Development Fund/ Staff Welfare	10	41.7	8	33.3	11	45.8	8	33.3	11	45.8	6	25
Employment Motivation/ Job Incentive/ Job Satisfaction	11	45.8	12	58	8	33.5	8	33.5	8	33.5	3	12.5
Social Relations/values/culture	10	41.7	4	16.7	8	33.5	4	16.7	6	25	3	12.5
Managerial Remuneration	24	100	24	100	24	100	24	100	23	95.8	23	95.8
Promotion Policy	8	0	1	4.2	8	0	8	0	8	0	8	0
B. Product and Customer Disclosure												
Product Quality	8	33.5	6	25	3	12.5	5	20.8	4	16.7	3	12.5
Customer Complaint/Satisfaction	8	33.3	4	16.7	4	16.7	4	16.7	3	12.5	2	8.3
Provision of Physically Challenged Customers	1	4.2	8	0	1	4.2	8	0	8	0	8	0
C. Environmental Disclosure												
Energy Conservation	8	33.5	8	33.5	8	33.5	5	20.8	2	8.3	1	4.2
Ecosystem Protection	2	8.3	1	4.2	2	8.3	8	0	2	8.3	8	0
Paperless Culture	4	16.7	4	16.7	3	12.5	3	12.5	8	0	8	0
Pollution Prevention/ Carbon Emissions	3	12.5	4	16.7	3	12.5	1	4.2	2	8.3	8	0
Environment Protection	4	16.7	4	16.7	5	20.8	5	20.8	2	8.3	3	12.5
Wildlife Foundation	8	0	8	0	8	0	8	0	2	8.3	8	0
Bank's Concern for Environment	8	33.5	5	20.8	6	25	6	25	4	16.7	4	16.7
Environmental Education	8	0	1	4.2	8	0	1	4.2	2	8.3	1	4.2
D. Community Disclosure												
Charitable Donations and Activities	21	87.5	21	87.5	21	87.5	18	75	20	83.3	16	66.7
Support for Education	19	78.2	20	83.3	20	83.3	17	70.8	15	62.5	13	54.2
Support for Public Health	19	78.2	20	83.3	18	75	17	70.8	15	62.5	10	41.7
Sponsoring Art & Culture	3	12.5	8	33.3	8	33.3	6	25	3	12.5	4	16.7
Sponsoring Sporting Activities and other Recreational Projects	8	33.3	8	33.3	8	33.5	8	33.5	5	20.8	3	12.5
Youth	6	25	6	25	4	16.7	6	25	5	20.8	3	12.5
Implementation of Particular CSR Policy/Program	19	78.2	19	78.2	18	75	18	75	14	58.3	11	45.8
Human Rights Society of Pakistan	1	4.2	8	0	1	4.2	8	0	8	0	1	4.2
Natural Cause Donations	3	12.5	6	25	3	12.5	3	12.5	8	33.5	5	20.8
Poverty Alleviation	2	8.3	6	25	4	16.7	2	8.3	1	4.2	8	0
Safe Drinking Water	2	8.3	1	4.2	8	0	8	0	2	8.3	2	8.3
Social Welfare	21	87.5	20	83.3	19	78.2	19	78.2	18	75	14	58.3
Economic Empowerment/ Growth	8	0	6	25	8	33.3	5	20.8	5	20.8	3	12.5
E. Ethics Disclosure												
Integrity/Honesty	17	70.8	17	70.8	13	54.2	14	58.3	13	54.2	13	54.2
Transparency	8	33.3	8	33.3	8	33.5	10	41.7	8	33.3	6	25
Ethical/Professional Conduct	24	100	22	91.7	23	95.8	22	91.7	21	87.5	22	91.7
Diversity and Equality	8	33.5	8	33.3	3	12.5	10	41.7	8	33.3	6	25

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