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Corporate sustainability disclosure in annual reports: Evidence from UAE banks: Islamic versus conventional

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ABSTRACT

The objective of this paper is to measure the degree of the corporate sustainability disclosure using annual data for listed banks in the UAE financial markets during the period 2003–2013. The results show that the overall level of sustainability disclosure based on sustainability reporting for banks listed in the UAE financial markets is at a low level. The results also show that the degree of the corporate sustainability disclosure of the conventional banks is higher than the Islamic banks. In addition, our empirical results reveal that the sustainability disclosure affects significantly and positively the banking performance of the conventional banks while no significant effect on the Islamic banks performance.

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1. Introduction

In the recent years, the corporate sustainability and social responsibility have attracted a significant attention from the academics and researchers. It has been long established that the corporate financial performance is associated, among others, to the sustainable corporate economic development [2,11,37,36,27,8,31]. Indeed, all the companies are advised to voluntarily disclose all the matters regarding their sustainability to enhance the accountability and transparency of their operations and help the investors in their proper valuation.

The increase in the awareness of sustainability matters has been reflected in the creation of non-governmental organizations. The Global Reporting Initiative (GRI) is the most widespread sustainability disclosure framework and reporting to provide the shareholders with sustainability reports. The GRI guidelines released in 2000 empower the companies to measure and disclose their economic, environmental, social and governance performance. Indeed, the companies must monitor their sustainability compliance to shape their strategies, improve their performance and help the investors to understand the association between the corporate financial performance and the sustainability indicatives. In an effort to improve the quality of the sustainability report, the International Integrated Reporting Council (IIRC) released in 2013 its framework setting a standard to the companies on how they can report effectively their financial and non-financial information.

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In the management literature, there are many studies confirming the benefits of the corporate sustainability and social responsibility. In these studies, several benefit measures have been used and they comprise, among others, the creation of the financial value [19], the attraction of long-term capital [38,14], the increase of the transparency to stakeholders [30], the enhancement of the corporate reputation [25], the motivation of staff [20], the improvement of the management system [9], the encouragement of the innovation [18] and the continuous improvement [13].

In the context of the emerging market economies located in the Gulf region, there are research works about the corporate sustainability and social responsibility such as Nasser and Baker in Jordan, Al-Khater and Naser [3], Naser and Baker [28] and AlNaimi et al. [4] in Qatar, Katsioloudes and Brodtkorb [24] and Rettab et al. [31] in UAE, Rizk et al. [32] in Egypt, Mandurah et al. [26] in Saudi Arabia and Khasharmeh and Suwaidan [23] in the Gulf Cooperation Council (GCC).

Nasser and Baker [28] use a questionnaire survey to explore the perceptions of many user groups (public accountants, academics, finance managers…) regarding the corporate social responsibility (CSR) reporting in Jordan. Their study reveals that the user groups like to receive CSR informations while the companies do not provide them. In the same spirit of research, Al-Khater and Naser [3] investigate also the perceptions of different users regarding the CSR in Qatar and find most users like to find the CSR informations in the annual reports. Naser and Baker [28] find that the CSR determinants are associated with the firm size, business risk, and corporate growth. In the extension of the previous studies, AlNaimi et al. [4] explore the Qatar exchange. In their paper, they use the content analysis covering several areas of the CSR reporting such as environment, human resources, product development and community involvement. Their findings reveal that most companies provide evidences about the CSR as narrative disclosure in the chairman's report while there is the absence about environment and energy by the industry sector. Katsioloudes and Brodtkorb [24] highlight the CSR in UAE companies and find that most companies comply with the UAE environmental laws while Rettab et al. [31] highlight the positive association between the CSR and the corporate financial performance. Rizk et al. [32] construct 34-items disclosure index including environmental, energy, human resources, customer, and community involvement and find that the disclosure varies significantly across the corporations. In their exploratory study of the CSR status among Saudi companies, Mandurah et al. [26] find that the managers are aware of the CSR importance and have a positive attitude toward it. In broader context and rather than focusing on one Gulf country, Khasharmeh and Suwaidan [23] evaluate the CSR reporting of the companies listed on the GCC financial markets and find that, on average, the company's disclosure is low.

Although our paper has some similarities with the latter studies regarding the corporate sustainability in the emerging market economies but it goes further to examine the impact of the sustainability disclosure on the banking performance by differentiating between the Islamic and the conventional banks. This is a very attractive research opportunity because in UAE, there is an emphasis on forcing all the listed companies to comply with the sustainability disclosure guidelines.

Against this background, we conduct this research with the aim of exploring the extent of the corporate sustainability disclosure and then examining its impact on the banking performance by differentiating between the Islamic and conventional banks. The three main research questions in the paper are as following. First, to what extent the UAE listed banks disclose their sustainability matters? Second, is there any significant difference between Islamic and conventional banks in the sustainability disclosure? Third, is there any significant impact of the sustainability disclosure on the banking performance?

Our findings will provide the banks with an insight about the extent of their sustainability disclosure and help the central bank develop the corporate sustainability framework and sustainability disclosure guidelines to improve the transparency and reduce the information asymmetries.

To our knowledge, there is no single research conducted in UAE about the impact of the corporate sustainability disclosure on the banking performance nor about the differentiation between Islamic and conventional banks, therefore, our research provides the first insight regarding this topic.

The robust dynamic panel data regressions are used to analyze the impact of the degree of corporate sustainability on the banking performance. The empirical results show that the degree of corporate sustainability disclosure of conventional banks is higher than the Islamic banks. In addition, the degree of corporate sustainability disclosure is significantly and positively related to the banking performance for conventional banks listed on the UAE financial markets. These results help the banks to optimally disclose their informations and improve the quality of their sustainability disclosures.

The remainder of the paper is organized as follows: Section 2 contains the literature review on the corporate sustainability disclosures as well as on the relationship between the corporate sustainability and the corporate performance. Section 3 focuses on data and the empirical methodology. Section 4 presents the empirical results and finally the conclusion in Section 5.

2. Literature review

The corporate sustainability disclosure is defined as “public reports by companies to provide internal and external stakeholders with a picture of the corporate position and activities on economic, environmental and social dimensions. In short such reports attempt to describe the company's contribution toward sustainable development” [40]. The economic, environmental and social dimensions are the major measures of the corporate sustainability quality because they determine the extent of the companies in complying with the good disclosure practices.

In the management literature, there are theories explaining the importance of the corporate sustainability disclosure. In fact, the stakeholder theory presents the duties and the responsibilities that the company has toward the stakeholders. According to this theory, the company has to report all its sustainability matters in order to maintain a sustainable relationship with its stakeholder [16]. The legitimacy theory assumes an implicit contact between the company and the society [17] and in order to demonstrate the fulfilment of its part in the contract and compliance with the value systems of the society, the company must report its economic, environmental and social issues.

In the empirical literature, there are few studies exploring the sustainability disclosure status in the banks [21,22,34,15,35,5,1].

In the examination of the sustainability disclosure status in the commercial banks, Khan et al. [21] investigate the CSR reporting of 20 Bangladeshi commercial banks (18 private and 2 governmental). The results of their analysis indicate that most of the banks disclose more qualitative information than quantitative. With regard to the location of the social disclosure in the annual reports, they find that all the social matters are reported either in the chair's statement/directors' report or in the notes. In the same spirit of research and context, Khan [22] investigates the CSR reporting information of 30 Bangladeshi public banks during the year 2007–2008 and explores the potential effects of corporate governance elements on CSR disclosure. By considering 60 CSR reporting items in constructing a disclosure index, his empirical results show, although voluntary, overall CSR disclosure is moderate and has a score of 34.06%. In addition, his analysis results demonstrate that two corporate governance elements (non-executive directors and the existence of the foreign nationalities) have a significant and positive impact on the CSR disclosure. In a different context, Akano and Yaya [1]