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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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Keywords: Corporate Social Responsibility, Disclosure, Banking

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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 Rodriques (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).