Corporate governance and corporate social responsibility disclosures in insurance companies

Abstract

Purpose
The objective of our study is to empirically examine the association between corporate governance and the extent of corporate social responsibility (CSR) disclosures in insurance companies, using archival data.

Design
Our dataset comprises 277 listed insurance company-years in Bangladesh for the period of 2008 to 2014. We have used a checklist to measure the extent of CSR disclosures. The checklist was developed based on the previous CSR literature. Our study utilizes a multiple regression analysis technique to investigate the association between different governance variables, particularly managerial ownership, institutional ownership, board independence, and the proportion of female directors, and the extent of CSR disclosures in Bangladeshi insurance companies.

Findings
We find that board independence and the proportion of female directors have positive associations with the extent of CSR disclosures. However, our results indicate that managerial ownership is negatively associated with the extent of CSR disclosures.

Originality/Value
Unlike most of the prior research that explored CSR disclosures in non-financial companies, we focus on financial companies; namely, insurance businesses. We provide empirical evidence using archival data that suggests that some governance mechanisms are important determinants of CSR disclosures in the insurance industry.

Keywords: Corporate social responsibility (CSR), Corporate governance, Legitimacy theory, Insurance companies.

Paper type: Research paper
1. Introduction

Our study attempts to examine the association between different corporate governance variables and the extent of corporate social responsibility (CSR) disclosures in Bangladeshi insurance companies. Business organizations impact significantly on society through their activities. Nowadays therefore, companies adopt CSR strategies and undertake various CSR-related activities to ensure sustainable business practices. CSR strategies help companies to create a balance between their social and economic goals and the efficient use of limited resources. CSR considers the interests of all stakeholders, rather than only those of stockholders by taking society, ecology, and ethics into account. CSR strategies may help a business to be competitive in the market (Mittal et al., 2008). In order for a company to position itself as a responsible corporate citizen, differentiate it from competitors, and enjoy competitive advantages (Porter and Kramer, 2006; Smith, 2003; Smith and Higgins, 2000), it needs to not only discharge its social and environmental responsibilities, but also to communicate its superior socio-environmental performance to the relevant stakeholders. This is because stakeholders are crucial to the success of businesses, and are now increasingly concerned about corporate social and environmental performance (Hossian and Alam, 2016).

Regarding CSR disclosures, the prior studies mostly focus on non-financial companies and ignore the financial sector; and in particular, insurance companies. Like any other businesses, insurance companies have a significant impact on human, social, and environmental development by mobilizing funds from the surplus small savers to the deficit units (Chong, 2015) and supporting the socioeconomic activities of a country. Unlike manufacturing companies, the socio-environmental impacts of insurance businesses may not be visible due to their indirect and intermediary activities. By accepting the risk of loss, insurance companies strongly support individuals, other businesses, and society at large (Greenbaum and Thakor, 2007). Scott (2003) argues that insurance companies consider social,
ethical, and environmental conditions in selling their products and making investments. Scott (2003) further argues that insurance companies also profoundly impact society (by eradicating poverty and inequality) through their mainstream activities and social performance. The insurance industry has a special social role as a manager of medium- and long-term risks throughout the lifecycle of individuals and societies. Insurance companies, especially life insurers, promote sustainability and social well-being with their medium- and long-term products (Atchinson, 2004). Through their active monitoring role, insurance companies induce other companies to adopt good governance and socially responsible practices (Marsiglia and Falautano, 2005; Scholtens, 2011). By accepting the risk of loss, the insurance companies support individuals and business to perform their activities smoothly. Therefore, the CSR of insurance companies is critically important for promoting social solidarity and inclusive growth.

By reviewing the literature on CSR disclosures, it appears that the issue of corporate social activities has not been widely researched in the insurance industry. Moreover, the current evidence in this area is mostly qualitative in nature. For example, Das (2013) finds that non-life insurance companies provide significantly less CSR information than life insurance companies. He also documents that insurance companies emphasize human resources, products, and services disclosures more heavily compared to environmental and community-related issues. Similarly, Scholtens (2011) reveals that insurance companies pay less attention to environmental concerns. Obalola (2008) finds that insurance companies in Nigeria engage in CSR-related activities through their involvement in community-based projects. Olowokudejo and Oke (2011) reveal that consumer affairs receive the most active attention of insurance companies. Hsu (2012) documents that customer perceptions of the CSR performance of life insurance companies are positively associated with customer satisfaction, business reputation, and brand equity. Collectively, these studies focus on different areas of
CSR disclosure, as well as the reasons for making such disclosures, using qualitative methodologies. Moreover, these studies also delineate policyholders’ perceptions of CSR disclosures. However, there is a paucity of empirical evidence in regard to CSR disclosures by insurance companies, using archival data.

Previous studies suggest that corporate governance can influence CSR practices (Haniff and Cooke, 2005; Khan et al., 2013). However, neither of these studies explores the association between corporate governance and CSR practices in insurance industries. Like any other business organization, corporate governance is also important for insurance companies. Corporate governance plays a crucial role in adopting and implementing CSR strategies within an insurance company. An insurance company with good governance is likely to uphold the interests of all stakeholders, including shareholders, policyholders, and the general public. Good governance promotes CSR. Therefore, we attempt to address this gap in the CSR literature by exploring the association between governance mechanisms; namely managerial ownership, institutional ownership, board independence, and female directors, and CSR disclosures using a dataset of Bangladeshi insurance companies.

Bangladesh is commonly known as having a weak legal environment. In Bangladesh, a considerable portion of shares are held by family members and blockholders and the interests of minority shareholders are generally neglected. Overall, disclosure practices, including CSR reporting, by Bangladeshi companies are generally poor. Prior studies on CSR disclosures in Bangladesh mainly concentrate on non-financial companies (Imam, 2000; Belal, 2001; Islam and Deegan, 2008; Khan et al., 2013). Thus, little is known about CSR disclosures in Bangladeshi insurance businesses because of the dearth of research in this area.

Our results, based on recent data from Bangladeshi publicly-listed insurance companies, indicate that there is a positive association between board independence and the extent of CSR disclosures. Independent directors are usually expected to represent the interests
of all stakeholders. They can put pressure on insurance companies to become more involved in social activities and disclose this accordingly to ensure organizational legitimacy. We also find that the proportion of female directorship has a positive association with CSR disclosures, indicating that gender-diversified insurance boards are more accountable to stakeholders. However, we find that managerial ownership is negatively associated with CSR disclosures. This, in turn, suggests that concentrated ownership by managers influences insurance companies to be less accountable to stakeholders. Therefore, companies with high managerial ownership are less involved in social and environmental activities and accordingly, report less.

The study makes several contributions. Unlike prior CSR studies in insurance companies, which are mostly qualitative in nature, this study provides empirical evidence regarding CSR disclosures, using archival data. While previous CSR and corporate governance studies mainly focus on non-financial companies, our paper emphasizes the financial sector; and in particular, insurance companies. Our empirical evidence suggests that like non-financial companies, governance attributes such as ownership structure and board composition are important determinants of CSR disclosure by insurance companies. Overall, this study helps to increase our level of understanding with regard to the importance of corporate governance and CSR practices in Bangladeshi insurance companies.

The rest of the paper is structured as follows. Section 2 provides an overview of the insurance business in Bangladesh. Section 3 elaborates the theoretical framework. Section 4 reviews the related literature and develops the hypotheses. Section 5 describes the research methodology. Section 6 presents the empirical results, and Section 7 concludes the paper.
2. An Overview of the Insurance Industry in Bangladesh

The insurance business gained pace in Bangladesh prior to independence in 1971. During the pre-independence period, there were 44 privately-owned insurance companies and one government-owned company. After independence, the Bangladesh government nationalized the insurance industry in 1972, and five insurance companies were established. Subsequently, those five companies were replaced by two state-owned companies; in particular, the ‘Jiban Bima Corporation’ and ‘Sadharan Bima Corporation’ to run life and non-life insurance businesses, respectively. In 1984, the Insurance Corporation Act was amended and the process of denationalization commenced. The amended act had a provision to allow insurance companies to operate in the private sector, subject to certain restrictions. Currently, there are 45 general and 30 life insurance companies in Bangladesh. The Corporate Social Responsibility of Insurers Regulation 2012 mandates that insurance companies in Bangladesh operate a certain percentage of their business/policies in rural areas and/or social insurance.

With the rapid growth of industrialization and infrastructure development in Bangladesh, the country’s insurance business is expanding. The GDP growth rate in Bangladesh has soared at around six percent over the last few years. However, growth in the insurance industry has been in double digits from 2007 to 2010, although it has slowed down over the last two years. The coverage and market size of insurance is increasing as people are realizing its importance. According to the Bangladesh Insurance Association, in terms of gross written premiums the insurance industry grew at a compound annual growth rate (CAGR) of 2.3 percent during 2009–2013. The non-life insurance segment grew at a CAGR of 2.9 percent, while life insurance recorded a CAGR of 8.8 percent over the same period (Market Research Report, 2015). The non-life segment accounted for 89.5 percent of the total insurance gross written premiums in 2014. The industry as a whole experienced a positive growth rate in the year 2014, despite the global recession and local political turmoil.
Rashid (2012) suggests that although there are good prospects for insurance businesses in Bangladesh, insurance companies have been experiencing a number of constraints. First, the depth of the market is low, due to little product diversity and low penetration. Second, the industry risk appetite is low as its capital standing is low. Third, governance in the industry is weak and there are instances of capital corruption relating to premium collection, reinsurance, claim settlement, insider trading, interference by directors, etc. Some CEOs have even tried to harass the regulators under the protection of several politicians, to keep them inactive. Finally, there is a shortage of skilled staff in the sector and no visible initiatives have been undertaken for staff development.

Compared to the status of the insurance industries in neighboring countries, the Bangladeshi insurance industry still has a long way to go. According to the Asian Development Bank (ADB) (2012), insurance penetration in Bangladesh remains at 0.8 percent, while it is 4.1 percent in India and 1.2 percent in Sri Lanka. The majority of the population, non-resident workers/remittance earners, are still unable to access insurance coverage (Rashid, 2012). The low insurance penetration in Bangladesh offers potential for further growth.

3. Theoretical Framework

Previous research on CSR disclosures is diverse and has highlighted three major theoretical perspectives; namely, agency theory, stakeholder theory, and legitimacy theory, to explain corporate social reporting practices. Some previous studies (e.g., Mallin and Michelon, 2011; Mallin et al., 2013) have also used the resource dependence perspective to explain the role of corporate governance in achieving the objectives of CSR. Agency theory asserts that companies provide CSR disclosures to address information asymmetry between managers and shareholders (Friedman, 1970). Unlike stakeholder and legitimacy theories, this theory focuses on the interests of general shareholders. According to the resource dependence perspective, the board is considered as the key resource in managing a firm’s external environmental
dependencies, such as those posed by social and environmental challenges (Pfeffer and Salanick, 1978).

Stakeholder theory asserts that companies report in response to the concerns and expectations of influential stakeholders (Ullman, 1985). Legitimacy theory explains the essential actions of an organization necessary to continue its mandate to operate in society (Deegan, 2002). Unlike agency theory, legitimacy theory considers the interest of society at large. Woodward et al. (1996) consider that an organization is an inseparable part of wider society under the legitimacy and stakeholder theories. The target of legitimacy theory is society as a whole, whereas the focus of stakeholder theory is the relatively more powerful stakeholders. In this study, we adopt legitimacy theory as the premise of our theoretical framework and hypothesis development since we would like to know to what extent the governance variables of interest, in particular, managerial ownership, institutional ownership, board independence, and female directors, influence organizational actions in responding to expectations of society.

4. Literature Review and Hypothesis Development

4.1 Managerial ownership

If managers own shares in an insurance company, their interests could be aligned with the general shareholders. Interest-aligned managers may care about their accountabilities and the public interest. Therefore, they may implement a CSR agenda to legitimize their activities. However, managers with a significant proportion of company shareholdings are likely to have greater power to influence the decision-making processes of the company (McConnell and Servaes, 1990). Concentrated ownership can enable managers to control the business’s operations and make decisions on important polices and strategies, such as CSR. Owner-managed businesses are very common in Bangladesh. In many cases, the owners belong to the founding families (Farooque et al., 2007). Owner-managed insurance companies may be less
accountable to stakeholders, and may be reluctant to legitimize their activities. When it comes to spending money on CSR-related activities, owner-managers may become concerned about the reduction in their ‘share of the pie’, and care less about the environment, society, or their community. Consistent with this notion, prior research finds that managerial ownership is negatively related to the levels of voluntary disclosures (Eng and Mak, 2003; Chau and Gray, 2010; Oh et al., 2011; Khan et al., 2013). Issues like CSR-related matters are likely to receive lower priority in these companies. We therefore propose the following hypothesis: 

**H1**: There is a negative association between managerial ownership and the extent of CSR disclosures in Bangladeshi insurance companies.

### 4.2 Institutional ownership

Institutional investors are usually large investors. They are perceived to have an effective monitoring role over the company’s management, both to protect their own interests as well those of other stakeholders through increasing the level of disclosures, including voluntary disclosures (Farooque and Ahulu, 2017). Unlike general investors, institutional investors consider profitability as well as the different activities, strategies, and stakeholders of the companies they invest in (Pound, 1992; Smith, 1996). Therefore, the issue of public accountability and legitimization of corporate activities is an important factor for institutional investors when making investment decisions. The previous literature finds that institutional ownership positively affects corporate social performance. For example, Bushee and Noe (2000) document that that institutional shareholding is positively linked with the reporting rankings of firms. Institutional investors emphasize enduring benefits (Turban and Greening, 1997) and invest more in companies with better CSR outcomes (Graves and Waddock, 1994). However, Teoh and Shiu (1990) report that institutional investors do not change their investment decisions simply based on a company’s CSR disclosure activities in annual reports.
In Bangladesh, institutional investment as a percentage of total market capitalization ranged between 4.53 percent and 4.88 percent during the period 2005–2008 (Banerjee and Siddique, 2010). In a recent study, Moazzem (2013) suggests that some institutional investors in Bangladesh behave like retail investors. They do not comply with regulations and perform unauthorized transactions. Moreover, some of these institutional investors have a tendency to invest for short periods of time. However, Imam and Malik (2007) document a positive association between institutional ownership and firm performance, indicating that institutional investors have the motivation and power to oversee and control the behavior of firms. Accordingly, we contend that institutional investors in Bangladeshi insurance companies will ensure better corporate governance and influence the management to enhance public accountability by providing more CSR disclosures. We therefore propose the following hypothesis:

\[ H2: \text{There is a positive association between institutional ownership and the extent of CSR disclosures in Bangladeshi insurance companies.} \]

4.3 Board independence

Previous research on corporate governance focuses on board independence, as an independent board ensures better monitoring (Agrawal and Knoeber, 1996). Harjoto and Jo (2011) observe that board independence positively influences the level of CSR disclosure. Independent board members are accountable to the company’s shareholders. Because of their position and interest neutrality, they are expected to have a greater focus on meeting the social obligations of the company (Zahra and Stanton, 1988). However, in an emerging market like Bangladesh this may not be the case. For example, although a previous study by Khan et al. (2013) finds a positive association between board independence and CSR disclosures, independent directors in Bangladesh may not be truly independent (Uddin and Choudhury, 2008). Independent directors are sometimes appointed based on personal connections with the
CEOs and influential board members. Furthermore, sometimes family members sit on the board as independent directors to implement the agenda of the families. Given the above, independent board members might emphasize their accountabilities to stakeholders less than they should do.

Chang et al. (2017) contend that independent directors could restrict managers’ self-seeking activities that may lead to socially irresponsible decisions. Haniffa and Cooke (2005) suggest that independent board members may place greater emphasis on CSR-related activities to ensure congruence between a company’s activities and its social responsibilities. Overall, independent directors may play an important role in legitimizing corporate activities by influencing management behavior such that more CSR-related information is disclosed. Accordingly, we would like to suggest following hypothesis:

**H3: There is a positive association between the proportion of independent directors and the extent of CSR disclosures in Bangladeshi insurance companies.**

4.4 Female directors

The gender composition of the board can influence quality of its monitoring role. Gender diversity results in greater board efficiency because of more monitoring (Adams and Ferreira, 2009). Inclusion of a female on the board of directors can lead to better corporate governance (Bernardi et al., 2002) and better decision-making as a result of the active participation and discussion in board meetings (Letender, 2004). The critical mass theory (Konrad et al., 2008) indicates that a critical mass of women on boards is necessary to change board attitudes toward CSR reporting.

Unlike many emerging countries, although Bangladesh has made significant progress in terms of women’s empowerment and education, society is still male-dominated. Accordingly, females are likely to be in the minority on insurance company boards. In a male-dominated board, sometimes female board members may find it difficult to raise their voices regarding
important issues, such as CSR. Furthermore, sometimes female members sit on boards based on their connection with the owner-managers, and without the necessary qualification and skills. In such situations they may care less about social legitimacy and may implement the agenda of the owner-manager.

Previous studies find that the greater the share of female directors on the board, the higher the corporate charitable giving to community, arts, and cultural activities (Wang and Coffey, 1992; Williams, 2003). Nielsen and Huse (2010) argue that females may be particularly sensitive to certain organizational issues, such as CSR and environmental policies. In a meta-analysis Majumder et al. (2017) document a positive and insignificant association between board gender diversity and corporate social disclosures. Post et al. (2011) document that firms with more female directors disclose more environmental information. Therefore, female directors may ‘lead from the front’ to maintain a firm’s legitimacy through CSR. We propose the following hypothesis in regards to the proportion of female directors on insurance boards:

**H4:** There is a positive association between the proportion of female directors and the extent of CSR disclosures in Bangladeshi insurance companies.

**H4(a):** There is no association between the proportion of female directors and the extent of CSR disclosures in Bangladeshi insurance companies when insurance companies are owned by families.

### 5. Research Design

#### 5.1 Sample

We report the sample selection procedure in Table 1. Our sample study period is between 2008 and 2014. Our sample consists of all 46 insurance companies (12 life and 34 non-life) listed on the Dhaka Stock Exchange (DSE) in Bangladesh over the period 2008-2014, resulting in 322 sample-year observations. Due to missing data, we excluded 45 insurance firm-year
observations, yielding a final sample of 277 firm-years observations. We collect the financial and corporate governance data from the annual reports of the sample insurance companies. CSR related information was hand collected from the CSR disclosures, directors’ report, Chairman’s statement, and notes to the financial statements contained in annual reports of the relevant insurance companies.

5.2 Model specification and variable description

We use the following OLS regression model to test the hypotheses of this study.

$$CSRDI = \alpha + \beta_1 MO + \beta_2 IO + \beta_3 IND + \beta_4 FEM + \beta_5 AGE + \beta_6 SIZE + \beta_7 LVG + \beta_8 TYPE + \beta_9 \text{YEAR DUMMY} + \epsilon$$

In the above model, the CSR disclosure indices (CSRDI) represent the dependent variable in this study. To assess the extent of CSR disclosure in annual reports, a checklist containing 20 items was constructed. The checklist was developed based on the previous research (e.g. Muttakin et al., 2015; Muttakin and Khan 2014; Das, 2013). These 20 items are related to five categories (community, environment, employee, product and service, and value-added information), which have applicability to the Bangladeshi environment. Das (2013) also identifies this information in Indian Listed Insurance companies. The community involvement covers three items such as charitable donations and subscriptions, sponsorship and advertising and community programme in relation to health and education. The environment covers disclosures regarding environmental policies, support for public/private action to protect the environment. The employee information covers nine aspects such as number of employees, employee relations, employee welfare, employee education, policy on employee training, number of employees trained, pay and incentives, health and safety, equality in employment opportunity. Product and service covers five aspects such as types of products disclosed, innovative products, discussion of marketing, focuses on customer satisfaction, and customer award/rating received. The value-added information focuses on the disclosure of value added
statement. A dichotomous procedure was applied whereby an insurance company is awarded a 1 if an item included in the checklist is disclosed and 0 if it is not disclosed. Accordingly, the CSR disclosure index (CSRDI) was derived by computing the ratio of actual scores awarded to the maximum score attainable (20) by that company. Following Haniffa and Cooke (2002) and Muttakin and Khan (2014), the CSR disclosure index (CSRDI) was calculated as follows:

$$\text{CSRDI}_j = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$$

CSRDI$_j$ = Corporate Social Responsibility Disclosure Index for $j^{th}$ insurance firm

$n_j$ = Number of items expected for jth insurance firm, where $n \leq 20$

$X_{ij}$ = 1, if $i^{th}$ items are disclosed for insurance firm j, otherwise 0

So that $0 \leq \text{CSRDI}_j \leq 1$

Previous studies (Botosan, 1997; Gul and Leung, 2004) on disclosure index uses the coefficient alpha as a reliability statistics useful to assess the degree to which correlation among the information categories of the disclosure index is attenuated due to random error. We therefore follow previous studies and examine the internal consistency of the disclosure index, by using the Cronbach's coefficient alpha (Cronbach, 1951). The coefficient alpha for the five information categories in our disclosure index is 0.67. The estimated coefficient alpha of our study suggests that the set of items in our disclosure index capture the same underlying construct.

The corporate governance variables are managerial ownership (MO), institutional ownership (IO), board independence (IND), and female director (FEM). Managerial ownership (MO) is measured by taking the percentage of share ownership by the directors (Samaha et al., 2012). Institutional ownership (IO) is measured by taking the percentage of share ownership by the institutional investors. Board independence (IND) is measured by taking the proportionate independent directors on the board. Female director (FEM) is measured by taking...
the proportion of female directors on the board. We also include control variables that have been found in prior research on CSR disclosures. The control variables included are firm age (AGE), firm size (SIZE), leverage (LVG) and type of insurance companies (TYPE). Firm age (AGE) is defined as the natural log of the number of year since a firm’s inception. A more matured firm is concerned about its reputations and hence may disclose more CSR information (Roberts, 1992). Firm size (SIZE) is defined as the natural log of book value of assets. Larger firms are expected to disclose more CSR related information (Kansal et al., 2014). Leverage (LVG) is defined as the ratio of total debt and total assets (Ji et al., 2015). In companies with higher leverage, management needs to legitimise its actions to creditors as well as shareholders (Haniffa and Cooke 2005, Khlif and Souissi, 2010). Type of insurance company (TYPE) is defined as a dummy variable equals to 1 if an insurance company is life insurance company and 0 otherwise. We also add year dummy variables in our model.

6. Results

Table 2 depicts the descriptive statistics for the variables used in the study. The average disclosure score is 0.328 (median= 0.350). The average managerial ownership (MO) is 36.10 percent. The average level of institutional ownership (IO) is 12.00 percent. In our sample 67 per cent of the insurance companies are family business. The average board independence (IND) of our sample is 8.70 percent and 21.90 percent of the directors on board are female directors (FEM). The average firm size (SIZE) is 20.93 (natural log) and average firm age (AGE) in our sample is 2.76 (natural log). 30 percent insurance companies are life insurance companies.

<Table 2 about here>

Table 3 presents the correlation matrix among variables. CSR disclosure index (CSRDI) score is negatively correlated with managerial ownership (MO) ($\rho = -0.222$).

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1 Female directors are appointed on board as a sponsor director.
However, CSRDI score is positively correlated with board independence (IND) ($\rho = 0.203$) and the proportion of female directors (FEM) ($\rho = 0.319$). CSRDI is also positively correlated with the control variables firm age (FAGE) ($\rho = 0.162$), firm size (SIZE) ($\rho = 0.238$), and type of insurance company (TYPE) ($\rho = -0.258$).

Table 3 reports the mean difference of the variables for both firms with a CSR disclosure score higher than the median and those with a CSR disclosure score lower than the median. We find that firms with a CSR disclosure score higher than the median have higher board independence (IND), female directors (FEM) and lower managerial ownership (MO) as compared to those firms with a CSR disclosure score lower than the median. Several control variables such as firm age (AGE), firm size (SIZE), leverage (LEV) and type of insurance company (TYPE) differ significantly between both groups.

Table 4 about here

Table 4 reports the mean difference of the variables for both firms with a CSR disclosure score higher than the median and those with a CSR disclosure score lower than the median. We find that firms with a CSR disclosure score higher than the median have higher board independence (IND), female directors (FEM) and lower managerial ownership (MO) as compared to those firms with a CSR disclosure score lower than the median. Several control variables such as firm age (AGE), firm size (SIZE), leverage (LEV) and type of insurance company (TYPE) differ significantly between both groups.

Table 4 about here

In Table 5 we report the regression results. We use CSRDI as the dependent variable. In model 1, we find a negative and significant coefficient ($\beta = -0.195$, $p < 0.01$) of managerial ownership (MO) variable. It implies that higher managerial ownership results in lower extent of CSR disclosures thus supporting H1. This is consistent with the notion that because of a relatively high stake, managers are relatively less concerned about public accountability as well as social and environmental activities thereby reporting lower extent of CSR disclosures. In model 2, we also document an insignificant coefficient of institutional ownership (IO). In other words, H2 is not supported. In model 3, we find a positive and significant coefficient ($\beta = 0.343$, $p < 0.05$) of board independence (IND) variable. Our results thus imply that the greater the board independence, the higher the extent of CSR disclosures. This result supports H3. It is more

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2 None of the variables have a VIF value in excess of 10 (Neter et al., 1983) which suggest that multicollinearity is not a problem in interpreting the regression results.
likely that independent directors in insurance companies will emphasize on societal interests and organisational legitimacy and ensure more CSR activities. In model 4, we also find a positive and significant coefficient ($\beta = 0.321$, $p < 0.01$) of the proportion of female directors (FEM) variable. It implies that higher proportion of female directors on the insurance board results in the higher extent of CSR disclosures thus supporting H4. This result indicates that women on insurance boards may care about public accountabilities. Our result is also consistent with the findings of Wang and Coffey (1992) and Williams (2003) who document a positive association between the proportion of female directors on the board and CSR disclosures. In model 5 our key variable of interest is the interaction term between FEM and FAMB\(^3\). We document an insignificant coefficient for the interaction term (FEM*FAMB). This implies that in the family dominated insurance business gender diversified boards do not have any effect on the level of CSR disclosures. Perhaps, this is consistent with our previous argument that in when females are appointed on the board from the families, they are less likely to add any value on the board in terms of CSR performance.

In model 6, we included all the hypothesized variables. Our results are consistent with main findings reported in models 1–4.

In regards to control variables, our overall findings suggest that larger firm size (SIZE), leverage (LVG) and type of insurance companies i.e. life insurance (TYPE) are significantly related to the greater extent of CSR disclosures.

*Table 5 about here*

We also performed a number of tests to check the robustness of our results reported in Table 5. *First*, in all of our regression models we use the natural logarithm value of the CSR disclosure scores (CSRDI) as the dependent variable. Our results do not differ qualitatively

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\(^3\) FAMB is a dummy variable equals to 1 if the Chairman or CEO’s family members on board, 0 otherwise. In other words, FAMB is used to denote an insurance business as a family insurance business.
from those contained in Table 5. Second, we dropped all the control variables from our regression models and we find consistent results reported in Table 5. Third, we replace managerial ownership (MO) by family insurance business (FAMB), we find that FAMB is significant and negatively related to CSR disclosure scores (CSRDI).

7. Conclusions

We provide empirical evidence, based on the listed insurance companies in Bangladesh, which reveals a significant association between corporate governance and the extent of CSR disclosures. Most of the previous research on CSR disclosures is related to non-financial companies. This study therefore addresses this gap by investigating the association between corporate governance and the extent of CSR disclosures in insurance companies, using archival data. We adopt legitimacy theory as our theoretical framework for this study since our objective is to understand to what extent the governance structure within an insurance company may influence organizational actions in addressing public accountability.

We find that board independence is positively associated with the extent of CSR disclosures. This indicates that independent directors are important in insurance companies to enhance organizational legitimacy by influencing management to make more CSR disclosures. Furthermore, the proportion of female directors on insurance boards is positively associated with the extent of CSR disclosures. This is consistent with the findings of prior studies in the context of non-financial companies that suggest that females may bring a number of strengths that can increase board sensitivity to CSR practices and disclosures (Post et al., 2011; Williams, 2003). Our results also suggest that managerial ownership is negatively associated with the extent of CSR disclosures. High ownership concentration among the managers of insurance companies may influence them to be less involved in social activities because the costs of such activities may outweigh their own benefits.
The study contributes to the CSR and governance literature, which mainly focus on non-financial companies, by concentrating on insurance companies. The results of this study should be of interest to the regulators and policy-makers in emerging countries. In particular, our findings could help regulators to adopt an appropriate balance of legislation, regulatory reform and enforcement to improve corporate governance practices as well as enhance organizational legitimacy in insurance companies. Furthermore, our results suggest that as in the non-financial sector, an effective board may be an important governance mechanism for insurance businesses. In particular, board composition, such as board independence and gender-diversified boards could enhance the CSR practices of insurance companies.

Our study may serve as a reference point for future studies. While developing the CSR disclosure index we focused particularly on CSR disclosures in company annual reports. If an insurance company uses another medium to report CSR activities, these will not be captured by our CSR index. Sometimes companies may manage the impressions of stakeholders by increasing the extent of their CSR disclosures. Therefore, the quality of disclosures is very important. A future study could be undertaken to explore the association between corporate governance and the quality of CSR disclosures. Such a study could focus not only on disclosures in corporate annual reports but also consider other media such as newspapers, the internet, etc. Furthermore, the credibility of the disclosures is also important, which can be ensured by increasing the assurance of the disclosures (Yang and Farley, 2016). A future study could examine the assurance of CSR disclosures and the associated implications for stakeholders.
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Table 1: Sample description

Panel A: Sample size

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<td>Number of firm-years</td>
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<td>Less:</td>
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<td>Firm-years without necessary information</td>
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<td>Total</td>
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Table 2: Descriptive statistics

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<th>Variables</th>
<th>Mean</th>
<th>Median</th>
<th>Std. Dev.</th>
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<td>CSRDI</td>
<td>0.328</td>
<td>0.350</td>
<td>0.147</td>
</tr>
<tr>
<td>MO</td>
<td>0.361</td>
<td>0.361</td>
<td>0.125</td>
</tr>
<tr>
<td>FAMB</td>
<td>0.667</td>
<td>1</td>
<td>0.472</td>
</tr>
<tr>
<td>IO</td>
<td>0.120</td>
<td>0.091</td>
<td>0.131</td>
</tr>
<tr>
<td>IND</td>
<td>0.087</td>
<td>0.100</td>
<td>0.058</td>
</tr>
<tr>
<td>FEM</td>
<td>0.219</td>
<td>0.211</td>
<td>0.134</td>
</tr>
<tr>
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<td>0.807</td>
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<td>TYPE</td>
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<td>0.000</td>
<td>0.459</td>
</tr>
</tbody>
</table>

CSRDI = corporate social responsibility disclosure score/index; MO = percentage of shares owned by the directors; FAMB = dummy variable equals to 1 if the Chairman or CEO’s family members on board, 0 otherwise. IO= percentage of shares owned by the institutions; IND = proportionate indirect directors on the board; FEM = proportion of female directors on the board; AGE = natural log of the number of year since the firm’s inception; SIZE = natural logarithm of total assets; LVG = ratio of book value of total debt and total assets; TYPE = dummy variable equals to 1 if the insurance company is life insurance company, 0 otherwise. *, **, *** = statistically significant at less than 0.10, 0.05 and 0.01 level.
### Table 3: Correlation matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>CSRDI</th>
<th>MO</th>
<th>IO</th>
<th>IND</th>
<th>FEM</th>
<th>AGE</th>
<th>SIZE</th>
<th>LVG</th>
<th>TYPE</th>
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</thead>
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<td>CSRDI</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>MO</td>
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<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>IO</td>
<td>-0.024</td>
<td>0.126**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IND</td>
<td>0.203***</td>
<td>-0.056</td>
<td>0.155***</td>
<td>1.000</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>FEM</td>
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<td>-0.044</td>
<td>-0.115*</td>
<td>1.000</td>
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<td></td>
<td></td>
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<td>AGE</td>
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<td>-0.269***</td>
<td>0.195***</td>
<td>0.134**</td>
<td>1.000</td>
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</tr>
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<td>-0.163**</td>
<td>-0.182***</td>
<td>0.123*</td>
<td>-0.010</td>
<td>0.119**</td>
<td>1.000</td>
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<td></td>
</tr>
<tr>
<td>LVG</td>
<td>0.042</td>
<td>-0.011</td>
<td>0.141**</td>
<td>-0.086</td>
<td>-0.016</td>
<td>0.027</td>
<td>-0.448***</td>
<td>1.000</td>
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</tr>
<tr>
<td>TYPE</td>
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<td>-0.177***</td>
<td>-0.202***</td>
<td>0.010</td>
<td>0.038</td>
<td>-0.073</td>
<td>0.671***</td>
<td>-0.122*</td>
<td>1.000</td>
</tr>
</tbody>
</table>

CSRDI = corporate social responsibility disclosure score/index; MO = percentage of shares owned by the directors; IO = percentage of shares owned by the institutions; IND = proportionate indirect directors on the board; FEM = proportion of female directors on the board; AGE = natural log of the number of year since the firm’s inception; SIZE = natural logarithm of total assets; LVG = ratio of book value of total debt and total assets; TYPE = dummy variable equals to 1 if the insurance company is life insurance company, 0 otherwise. *, **, *** = statistically significant at less than 0.10, 0.05 and 0.01 level.

### Table 4: Differences in the value of the explanatory variables between firms with higher and lower CSRDI

<table>
<thead>
<tr>
<th>Variables</th>
<th>CSRDI&gt;$\text{Median}$</th>
<th>CSRDI&lt;$\text{Median}$</th>
<th>$P$ value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MO</td>
<td>0.344</td>
<td>0.379</td>
<td>0.022**</td>
</tr>
<tr>
<td>IO</td>
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<td>0.113</td>
<td>0.357</td>
</tr>
<tr>
<td>IND</td>
<td>0.093</td>
<td>0.081</td>
<td>0.093*</td>
</tr>
<tr>
<td>FEM</td>
<td>0.250</td>
<td>0.187</td>
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<tr>
<td>AGE</td>
<td>2.825</td>
<td>2.688</td>
<td>0.004***</td>
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<tr>
<td>SIZE</td>
<td>21.156</td>
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<td>0.001***</td>
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<tr>
<td>LVG</td>
<td>0.422</td>
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</tr>
<tr>
<td>TYPE</td>
<td>0.383</td>
<td>0.213</td>
<td>0.002***</td>
</tr>
</tbody>
</table>

CSRDI = corporate social responsibility disclosure score/index; MO = percentage of shares owned by the directors; IO = percentage of shares owned by the institutions; IND = proportionate indirect directors on the board; FEM = proportion of female directors on the board; AGE = natural log of the number of year since the firm’s inception; SIZE = natural logarithm of total assets; LVG = ratio of book value of total debt and total assets; TYPE = dummy variable equals to 1 if the insurance company is life insurance company, 0 otherwise. *, **, *** = statistically significant at less than 0.10, 0.05 and 0.01 level.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.014</td>
<td>-0.097</td>
<td>-0.116</td>
<td>-0.286</td>
<td>-0.201</td>
<td>-0.233</td>
</tr>
<tr>
<td></td>
<td>(0.055)</td>
<td>(-0.403)</td>
<td>(-0.478)</td>
<td>(-1.292)</td>
<td>(-0.827)</td>
<td>(-1.003)</td>
</tr>
<tr>
<td>MO</td>
<td>-0.195***</td>
<td></td>
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<td>-0.146***</td>
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</tr>
<tr>
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<td>-0.008</td>
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<td></td>
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<tr>
<td></td>
<td>(-0.341)</td>
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<td>(-0.135)</td>
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<tr>
<td>IND</td>
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<tr>
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<td>(3.207)</td>
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<td>-0.058*</td>
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</tr>
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<tr>
<td>FEM* FAMB</td>
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<td></td>
<td>(0.716)</td>
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<td>0.051**</td>
<td>0.042**</td>
<td>0.032*</td>
<td>0.401***</td>
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<tr>
<td></td>
<td>(2.720)</td>
<td>(2.547)</td>
<td>(2.059)</td>
<td>(1.705)</td>
<td>(2.367)</td>
<td>(1.280)</td>
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<td>0.012</td>
<td>0.020**</td>
<td>0.019*</td>
<td>0.019*</td>
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<tr>
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<td>(0.885)</td>
<td>(1.056)</td>
<td>(1.055)</td>
<td>(1.969)</td>
<td>(1.690)</td>
<td>(1.720)</td>
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<tr>
<td>LVG</td>
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<td>0.058**</td>
<td>0.059**</td>
<td>0.067***</td>
<td>0.075***</td>
<td>0.066***</td>
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<tr>
<td></td>
<td>(2.429)</td>
<td>(2.495)</td>
<td>(2.503)</td>
<td>(3.210)</td>
<td>(3.054)</td>
<td>(3.160)</td>
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<td>0.072***</td>
<td>0.071**</td>
<td>0.055**</td>
<td>0.058**</td>
<td>0.048*</td>
</tr>
<tr>
<td></td>
<td>(2.414)</td>
<td>(2.666)</td>
<td>(2.575)</td>
<td>(2.360)</td>
<td>(2.475)</td>
<td>(1.917)</td>
</tr>
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<td>YEAR DUMMY</td>
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<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.136</td>
<td>0.109</td>
<td>0.125</td>
<td>0.194</td>
<td>0.245</td>
<td>0.234</td>
</tr>
<tr>
<td>F Value</td>
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<td>7.35</td>
<td>8.88</td>
<td>9.68</td>
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</tr>
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<td>ProbF</td>
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<td>0.000</td>
<td>0.000</td>
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<tr>
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<td>277</td>
<td>277</td>
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</table>

CSRDI = corporate social responsibility disclosure score/index; MO = percentage of shares owned by the directors; IO = percentage of shares owned by the institutions; IND = proportionate indirect directors on the board; FEM = proportion of female directors on the board; FAMB = dummy variable equals to 1 if the Chairman or CEO’s family members on board, 0 otherwise; AGE = natural log of the number of year since the firm’s inception; SIZE = natural logarithm of total assets; LVG = ratio of book value of total debt and total assets; TYPE = dummy variable equals to 1 if the insurance company is life insurance company, 0 otherwise. *, **, *** = statistically significant at less than 0.10, 0.05 and 0.01 level.
Table 6: Additional analysis: CSRD index and Family Insurance Business

<table>
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<tr>
<th>Variables</th>
<th>Model 1</th>
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</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.453** (-2.230)</td>
</tr>
<tr>
<td>FAMB</td>
<td>-0.033* (-1.774)</td>
</tr>
<tr>
<td>IO</td>
<td>-0.053 (-0.857)</td>
</tr>
<tr>
<td>IND</td>
<td>0.565*** (3.710)</td>
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<tr>
<td>FEM</td>
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</tr>
<tr>
<td>AGE</td>
<td>0.024 (1.248)</td>
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<tr>
<td>SIZE</td>
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</tr>
<tr>
<td>LVG</td>
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</tr>
<tr>
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<td>0.040* (1.795)</td>
</tr>
<tr>
<td>YEAR DUMMY</td>
<td>Included</td>
</tr>
</tbody>
</table>

Adjusted $R^2$ 0.236

$F$ Value 11.08

Prob$F$ 0.000

N 277

CSRDI = corporate social responsibility disclosure score/index; FAMB = dummy variable equals to 1 if the Chairman or CEO’s family members on board, 0 otherwise; IO = percentage of shares owned by the institutions; IND = proportionate indirect directors on the board; FEM = proportion of female directors on the board; AGE = natural log of the number of year since the firm’s inception; SIZE = natural logarithm of total assets; LVG = ratio of book value of total debt and total assets; TYPE = dummy variable equals to 1 if the insurance company is life insurance company, 0 otherwise. *, **, *** = statistically significant at less than 0.10, 0.05 and 0.01 level.
Corporate Governance and Corporate Social Responsibility Disclosures in Insurance Companies

Md. Shahid Ullah*
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