

DETERMINANTS AND RECENT DEVELOPMENT OF SUSTAINABILITY REPORTING OF BANKS IN DEVELOPING COUNTRIES: THE CASE OF BANGLADESH

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Abstract

The paper reports recent initiatives and development of sustainability reporting from the banking sectors of a developing country (specifically from Bangladesh). It also identifies potential factors that could influence sustainability reporting in the context of banks in Bangladesh. A theoretical framework has been developed through the lens of new institutional sociology (NIS), strategic response and legitimacy theory. The framework could be useful to understand factors that stimulate commercial banks of Bangladesh in respect of sustainability reporting practices. Moreover, the framework would encourage academics to test empirically in future.

Keywords: Commercial Banks, Corporate Governance, Sustainability Reporting, Bangladesh, Theoretical Framework

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1. Introduction

The surf of sustainability is no longer a developed countries phenomenon. Recent years have witnessed an increasing move to ponder these issues in many firms of developing countries irrespective of industries (Belal & Owen, 2007; Rowe & Guthrie, 2010). As a result of pressure from international buyers (Belal & Owen, 2007), inducement of national regulators (Khan et al, 2010), corporate governance elements such as independent directors, foreign directors (Khan et al., 2013; Khan, 2010), and desire for maintaining internal legitimacy (Momin & Parker, 2013), much have been developed with regards to sustainability issues during recent decades. Development of sustainability reporting guidelines such as the Global Reporting Initiative (GRI) have also envisaged firms in developing countries to address environmental and community performance on top of economic performance (Hedberg & Malmberg, 2003). With the rising move of sustainability issues for companies evidenced in the world (Rowe & Guthrie, 2010), a sharp increase of sustainability reporting are now well documented across the world including developing countries (see Visser, 2008; KPMG, 2011 for a detailed review).

Despite such surf on sustainability practices, researches into the sustainability reporting practices of commercial banks in Bangladesh are fairly sparse (nevertheless see Khan, 2010; Khan et al, 2011; Sobhani et al., 2009). Within published research in commercial banks of Bangladesh, there is a clear paucity to identify factors that could drive banks to embrace sustainability reporting. Given that sustainability issues have become key attention in the banking industry (Thompson & Cowton, 2004; Campbell & Slack, 2011), it is vital to understand what factors, and why banks in developing countries (with specific reference to Bangladesh) engage in sustainability reporting. Understanding such phenomenon is likely to enable academics to recognize the driving (enabling) forces of banking sectors that could induce them lining up their sustainability practice either due to local expectations or pressure from their regulators (Roca & Searcy, 2012). Similarly, such attempt has potential to advance our understanding of implicating sustainability reporting to stakeholders and identifies challenges (if any) that banks in Bangladesh could experience. Thus far, recent initiatives and development of sustainability reporting practices of banking sector in Bangladesh, and the factors that could drive them to advance sustainability reporting are still under-researched in the literature. The current

study therefore aims to fill up these gaps in the context of Bangladesh and aims to address following research questions (RQ):

(RQ-a) What are the recent initiatives and development of sustainability reporting in the context of banks in Bangladesh?

(RQ-b) What factors influence banks in Bangladesh for sustainability reporting?

The paper investigates recent development of sustainability issues in commercial banks of Bangladesh. The focus on sustainability issues is due to the recent introduction of related standards and codes of conduct by national regulators (see section 4 for details).

The remainder of the paper is organized as follows. Section 2 is a brief overview of reasons for sustainability practices in banks. Section 3 provides corporate governance, institutional environment in Bangladesh followed by a brief review of CSR related studies in both non-banking and banking industry. Section 4 outlines the study's first research question, that is, the recent initiatives and development of sustainability reporting of commercial banks in Bangladesh. Section 5 details factors influencing sustainability reporting practices in banks by offering a theoretical framework. Section 6 identifies the implications of the study, and provides areas for further research.

2. Reasons for sustainability practices in banks

Given that there have been growing urge across the globe to evaluate organisational performance not merely from economic perspective, but also from environmental and societal performance perspective, calls have been made from external stakeholders to heighten firms' initiatives on corporate sustainability reporting (Sheikh & Beise-Zee, 2011). Wilson (2003) in this respect argued that within corporate sustainability paradigm, growth and profitability for an enterprise are essential, however, enterprises require to pursue societal goals in many ways, for example, sustainable development for environmental protection, social welfare and development etc.

In the specific context of banks, it has been argued that although banks and other financial institutions do not directly involve in activities detrimental to environment, they do relate with the natural environment through their lending activities to borrowers that harm the natural environment (Sarokin & Schulkin, 1991; Simpson & Kohers, 2002). Banks accountability and responsibility towards the society and environments have therefore gained overriding importance in recent decades (Campbell & Slack, 2011). Indeed, adopting sustainable business practices for banks is necessary since such practices enable them to build corporate reputation, lowering employees' turnover, above all ensuring long term social and environmental development as a whole

(Roca & Searcy, 2012). Given that the external environment poses threats and risks to banks, engaging banking operation in a sustainable manner offer benefits for them as well (Thompson, 1998a; 1998b). Specifically, banks can avoid of experiencing three types of risks such as direct risk, indirect risk, and reputational risk.¹ Likewise, working as a partner coupled with inspiring borrowers to implement sustainability practices have potentials for banks to reduce damaging practices across the banks' supply chain that could otherwise have adverse social environmental impacts for banking institutions themselves (Thompson, 1998a; Halabi et al, 2006).

As a consequence, numerous banks from different countries in the globe participate in the United Nations Environment Program's on Environment and Sustainable Development (UNEP, 1992). Similarly, in the globe there have been recent trends in the financial sectors to comply the 'Equator Principles', which vitalize private lenders to consider both social and environmental impact before funding projects (Missbach, 2004; Jane, 2009). Capitalizing the issues of sustainability reporting as paramount important for the industry, GRI has also offered financial sectors specific disclosures requirement applicable only for the banking industry (Khan et al., 2011). As a matter of fact, sustainability reporting is a medium which enable stakeholders to evaluate and understand how and to what extent, decision makers of banks execute their responsibilities not only towards fund providers but also towards the society and environment as a whole.

3. Corporate governance, institutional environment in Bangladesh

The country Bangladesh is located in the south Asia region surrounded by two neighboring countries namely India and Myanmar and Bay of Bengal-the largest bay in the world. Historically, it was the part of Pakistan subsequent to demise of British colonial during 1947, later acquired its own independence during 1971. Family ownership dominates in the country's corporate sector. Such family ownership is however not peculiar to Bangladesh only but consistent with other developing countries both in Asia and Europe (Wiwattanakantang, 2002; Joh, 2003; Ararat & Ugur, 2003). While the presence of family ownership in corporate sectors is nothing anomalous in a traditional society like Bangladesh, it has been claimed that owing to large share of family

¹ Direct risk arises from a reduction of the value of collateralized property, which may be contaminated, and banks as a lender become legally responsible for clean-up potentially beyond the value of the original loan (Thompson & Cowton, 2004; Murray et al., 1997). Indirect risk is where a borrower defaults on a loan and is not capable to repay the principle amount due to the adverse financial consequences of environmental regulation (Campbell & Slack, 2011). Reputational risk arises from customer and public protest from banks' indirect participation in environmental degradation (Thompson, 1998b).

ownership; rights of minority shareholders in the corporate sector are often undermined, solid accountability and transparency of corporate activities are not easy to establish, above all, conforming code of corporate governance by firms is rather ritual (Uddin & Choudhury, 2008; Farooque et al., 2007). On top of family ownerships, political influence and appointment of board of directors within political identity is quite rampant in the corporate sectors in particular in the enterprises owned by government (Uddin & Choudhury, 2008).

There have no mandatory requirement in company act for reporting sustainability reporting in the corporate sectors of Bangladesh (Khan, 2010). As such, listed companies in Bangladesh report their social and environmental activities externally in a voluntary fashion (regulatory guidelines in very recent years are put in place in the context of banks, which have been discussed in section 4). With regards to corporate governance (CG) guidelines, the Securities and Exchange Commission (SEC) of Bangladesh has issued a 'CG notification' consisting of guidelines in regards to CG practices for the listed companies (SEC, 2006). During 2012, SEC revised previous CG guidelines and made it compulsory for listed companies. The revised guidelines have now been replaced in lieu of previous 'comply or explain' CG guidelines. As a consequence of new guidelines, listed companies of Bangladesh including banking institutions are required to obtain an independent certificate from a practicing Professional Accountant/Secretary (Chartered Accountant/Cost and Management Accountant/Chartered Secretary) regarding compliance of conditions of CG guidelines and shall have to report externally in annual reports on an annual basis (SEC, 2012).

To strength the corporate governance system in the banking sector, the Bangladesh Bank (BB), the central bank of Bangladesh, also issued a number of circulars relating to formulation of audit committees, corporate governance guidelines for independent directors and appointment of the board of directors using 'fit and proper' test and appointment of directors from depositors (Bangladesh Bank, 2012; 2010).² Banking sectors of Bangladesh are more regulated compared with other industries in Bangladesh (Mohiuddin, 2012). Such regulation seems plausible since banking industry plays key role towards development of country's economy, which calls for more financial discipline, stability and prudential regulations.

3.1 Review of previous studies in non-banking sectors of Bangladesh

There have been number of sustainability/CSR reporting related empirical studies in the specific context of Bangladesh in recent years. For example, Belal and Cooper (2011) reported that key domain of CSR activities such as child labour, equal opportunities and poverty alleviation are deficient in firms of Bangladesh because of absence of legal requirements, lack of awareness and resource constraints. In their research toward understanding non-managerial stakeholders perceptions (n=11), Belal and Roberts (2010) reported that stakeholders advocated mandatory CSR reporting through regulation in Bangladesh, however authors were doubtful about such attempt arguing that the tendency to implement stricter CSR regulations may result in adverse consequence (e.g., corruption or other unpremeditated significances) given that the motivation and practice for CSR in Bangladesh stems from international pressure. CSR reporting practised by foreign firms operated in Bangladesh are also evidenced in other studies. Specifically, Momin and Hossain (2011) study suggested that MNC subsidiaries report not as much of social and environmental information in Bangladesh compared to their parent firm. Momin and Parker (2013) in their very recent study on a MNC reported that CSR practice in Bangladeshi MNC subsidiaries is inadequate, concentrating primarily on human resources related information.

In the context of Bangladesh, CSR activities are driven essentially to satisfy external influential stakeholders evidenced in earlier studies. Specifically, in their study of understanding managerial perceptions of CSR reporting, Belal and Owen (2007) reported that managers believed that current CSR activities of Bangladesh are essentially motivated as a result of 'external' forces such as parent firms, foreign buyers, and international agencies. Belal (2008) in another qualitative content analysis of companies (n=87) concluded that CSR reporting practices in Bangladesh reflected the interests of powerful economic stakeholders disregarding the interests of weak stakeholders such as community, environment and the wider society. This line of understanding has further been confirmed by another research, specifically, (Islam & Deegan, 2008), who investigated in the context of ready-made garments industry.

Quite different issues on CSR reporting have been evidenced in other studies. For example, in their revisiting study of understanding CSR reporting practices of listed companies in Bangladesh (n=100), Sobhani et al. (2009) commented that albeit the reporting level seemed to have developed over the last decade, the quality of reporting was miserable. With regards to CSR reporting of MNCs in Bangladesh, Islam and Deegan (2010) commented that MNCs

² This requires meeting many criteria's before the appointment of a director of a private bank. The test has to apply when appointing directors from the depositors and the adviser of banks (BB, 2010).

provided more positive social and environmental information in to response to negative media information (e.g., news related to labour practices). With respect to examining associations between elements of corporate governance (CG) and CSR reporting research in Bangladesh, there have been some very recent attempts. For example, Khan et al (2013) reported that public ownership, board independence and the presence of audit committee have positively influence on CSR reporting [but see also Khan (2010) for similar theme in the context of banks in Bangladesh].

3.2. Review of previous studies in banking sectors of Bangladesh

Parallel to the development of CSR reporting related studies in non-banking sectors of Bangladesh stated earlier, there have been recent trend of studying CSR reporting in the specific context of banks in Bangladesh. Surprisingly, CSR related studies exclusively in the context of banking industry of Bangladesh were not originated in the literature until 2009. As a primary attempt, Khan et al (2009) study-based on collecting both questionnaire and annual reports data-evidenced that CSR reporting in banks of Bangladesh is narrative in nature. Their study also reported that stakeholders of commercial banks are interested to see more disclosures. In another recent study, Azim et al. (2009) revealed that only around 16% companies make CSR disclosures voluntarily; of which banking industry disclose more information than other sectors. To understand relationship between CG elements and CSR reporting in banks, the study by Khan (2010)-considered first of its kind in the context of Bangladesh- reported that the non-executive directors and existence of foreign directors have significant impact on CSR reporting. Their results nevertheless could not confirm significant relationship between the women representation in the board and CSR reporting.

Understanding the practices of sustainability reporting in the commercial banks of Bangladesh following GRI guidelines is also a recent phenomenon. Specifically, Khan et al (2011) in their study analysing annual reports of 2008 (n=12) evidenced that information on society is reported most comprehensively regarding extent of reporting. This then followed by the disclosures on decent works and labour practices and environmental issues. Furthermore, the reporting of product responsibility information and the information on human rights is relatively infrequent in banks' reporting (Khan et al., 2011). Their study further reported that on the subject of financial sector-specific (FSS) disclosures, only seven items out of sixteen are disclosed by all studied banks. Disseminating CSR reporting in terms of the medium of reporting (annual reports versus web sites) was also unexplored in the banking sectors of Bangladesh until recent years. To illustrate, Shobhani

et al (2012) in recent year reported that banking sector of Bangladesh prefers the annual report as a medium than the corporate website in the reporting of all categories of sustainability practices. Their study further reported that Islamic banks release more sustainability information in comparison to conventional banks.

While above-mentioned discussion evidenced that there have been growing academic research on CSR reporting in banks of Bangladesh addressing various issues, however, most prior studies have been directed towards either understanding the status of CSR reporting using content analysis technique or establishing relationship between CSR reporting and elements of CG or understanding CSR issues netting stakeholders opinions. Very few prior studies have illustrated the recent initiatives and development of sustainability reporting in the context of banks of Bangladesh. Similarly, there is a lack of research in the banking sector identifying factors that could influence sustainability reporting by developing a theoretical framework. This study is therefore motivated to develop a theoretical framework on the sustainability reporting practices of commercial banks in Bangladesh.

4. Recent initiatives and development of sustainability in commercial banks of Bangladesh (RQ-1)

While earlier studies in Bangladesh commented that sustainability reporting was as a result of international pressures, the phenomenon is different in the context of banking industry in that country's central bank, the Bangladesh bank (BB) takes proactive stance to engage commercial banks in CSR and sustainable activities. Specifically, through the use of regulatory guidelines, encouragement, and other initiatives, BB took initiatives to engage commercial banks in sustainability activities more structured fashion since 2008. For example, with an aim of initiating 'green finance', BB issued a guideline to ensure that commercial banks have measures to minimize environmental pollution when financing new projects in 2008 (BB, 2008). Under such guidelines, banks are instructed to focus on corporate social and environmental performance, to engrain sustainable banking practices and engage with borrowers in scrutinizing their environmental and social impacts (BB, 2009).

In February 2011, the BB circulated another policy guidelines for commercial banks to introduce 'green banking/sustainable banking' in line with global developments and responses to environmental degradation (BB, 2011; Rahman, 2011). As per circular of Bangladesh Bank, commercial banks are required to implement 'Green Banking' under three phases. Under phase-1, banks are required to perform such activities as (a) policy formulation and

governance³ (b) incorporation of environmental risk in core risk management⁴ (c) initiating in-house environment management⁵ (d) on line banking (e) supporting employees training, consumer awareness and green events (f) introducing green finance (g) creation of climate risk fund (h) introducing green marketing, and (i) reporting green banking practices. As instructed in the circular, the deadline for implementing phase-1 is 31 December, 2011.

Under phase-2, commercial banks of Bangladesh are to perform seven key activities which include: (a) formulation of banks' specific management plan and guidelines, (i.e. manuals), (b) improved in-house environment management⁶ (c) sector specific environmental policies (d) green strategic planning⁷ (e) setting-up green branches⁸ (f) rigorous program to educate banks' clients and (g) disclosure and reporting of green banking activities (BB, 2011). The time-frame for implementing phase-2 was allowed up to 31 December, 2012. Under phase-3, two key activities are to be accomplished such as designing and introducing eco-friendly and innovative products and reporting sustainability reporting following standard reporting format⁹ with external independent verification. The deadline for the implementation of phase-3 should be done by December 31, 2013.¹⁰

As part of monitoring green banking activities, BB also plays an active role, evaluates and oversees whether commercial banks follow sustainability guidelines. Accordingly, performances of commercial

banks in terms of 'green banking' are evaluated by BB every year since 2012. The first evaluation report of its kind has been published during April, 2013 (BB, 2013). The performance of commercial banks in sustainability issues are now considered as part of management efficiency at the time of calculating CAMEL (regular assessment criteria of central bank to evaluate commercial banks performance) and are taken into considered when granting permission to open up new branches. At present, BB has also issued a common reporting format to all commercial banks to report 'green banking' in an organized way for why banks need to submit report to BB for green banking activities in every quarter. As an encouragement, BB has launched 'refinancing scheme' under which commercial banks can borrow fund from BB only at a rate of 5%, but can lend to borrowers at much higher rate for sustainable activities.

5. Factors influencing sustainability reporting in banks of Bangladesh (RQ-2)

This section discusses factors that are likely to influence sustainability reporting practices in commercial banks of Bangladesh. As mentioned earlier, there has been lack of study which offered a framework in the context of banks in Bangladesh. Identifying factors¹¹ influencing sustainability activities and reporting through developing a framework would have potential to have a deeper understanding of second research question of the study.

The rise of corporate sustainability reporting in the context of banks in Bangladesh could be driven as a result of many potential factors, which can be evaluated from many dominant theoretical perspectives of CSR literature. The current study considers three key theories namely the new institutional sociology (NIS) theory, strategic response theory and the legitimacy theory. The rationales behind using multiple theories are manifolds. First, use of merely one single theoretical perspective is unable to capture and convey a broader picture of theme under investigation. Second, an attempt of capitalizing theoretical pluralism in the current study is in line with the prescriptions of 'theoretical triangulation' advocated by several researchers (see Hoque et al., 2013; Arena et al., 2010; Hopper & Hoque, 2006). These researchers argued that use of phenomenon/factors from different theoretical perspectives enable researchers to concurrently study the same aspect of a research problem. Last, we believe that use of compound theoretical lenses have potential to explain standpoints of phenomena (e.g., factors influencing

³ Under this, key activities include (i) setting separate 'green banking department/ unit' responsible for green banking issues (ii) formulation of high powered committee chaired by CEO (ii) Approval of budget for green activities by board of directors.

⁴ Key activities under this include (i) setting separate 'green banking department/ unit' responsible for green banking issues (ii) formulation of high powered committee chaired by CEO (ii) Approval of budget for green activities by board of directors (BB, 2011).

⁵ Under this, key activities include (i) setting separate 'green banking department/ unit' responsible for green banking issues (ii) formulation of high powered committee chaired by CEO (ii) Approval of budget for green activities by board of directors (BB, 2011).

⁶ Key activities under this include taking necessary measure towards the consumption of water, paper, electricity, energy etc. by its offices and branches. Likewise, relying on online communication than printed form of communication with banks clients, use of energy saving bulbs, purchase energy saving car (BB, 2011).

⁷ Determining a set of achievable targets and strategies, and disclose these in their annual reports and websites for green financing as well as in-house environment management (BB, 2011).

⁸ Such green branch will be entitled to use a special logo approved by Bangladesh Bank (BB, 2011).

⁹ BB did not specify any specific internationally acceptable format; however, they refer to Global Reporting Initiatives (GRI) (BB, 2011).

¹⁰ During August, 2013, under GBCSRD Circular No- 04, the deadlines for implementing each phase have been extended. For example, the timeline for implementing phase-1 is by June 30, 2014; for phase-2, it is extended up to December 31, 2014 and the time period for phase-3 implementation is by June 30, 2015 (BB, 2013).

¹¹ The current study admits that the framework developed in the current study for identifying factors is not exhaustive. There could be other factors that might shape sustainability reporting in banking sectors under other theoretical perspective which is beyond the scope of the study.

sustainability reporting in this case) from a wide range of perspectives. Based on multiple theoretical perspectives, the next sub-sections therefore identify and discuss factors categorised into three

classifications: (a) institutional factors (b) self-interest related factors and (c) firms-level factors (see fig. 1). We posit that these factors have influential role in sustainability reporting of banks in Bangladesh.

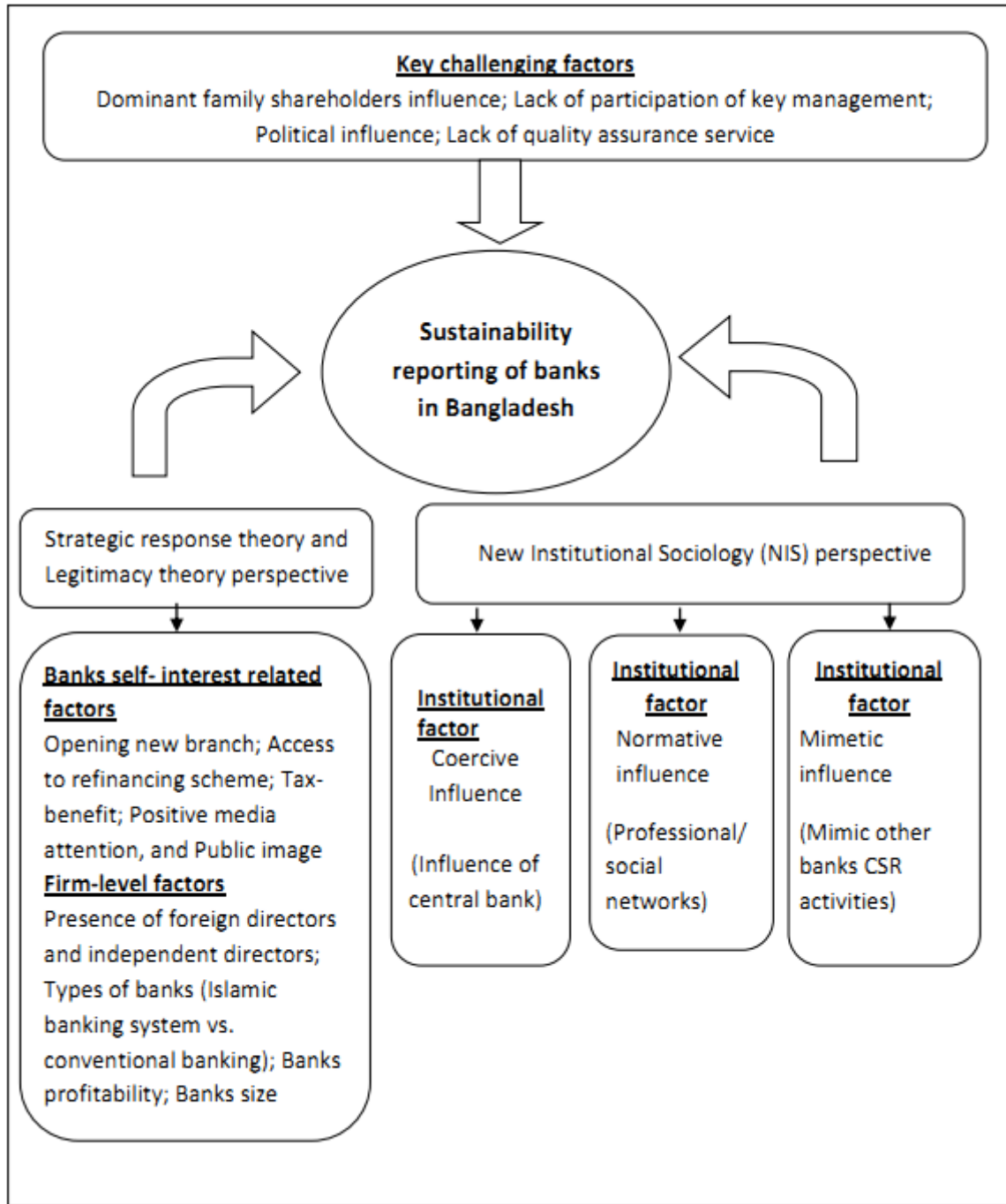


Figure 1. Factors influencing sustainability reporting of banks in Bangladesh

5.1 Institutional factors:

Understanding sustainable activities and reporting from institutional theory lens is a recent phenomenon (Campbell, 2007; Muthary & Gilbert, 2011). According to Brammer et al., (2012), institutional theory provides a solid lens toward understanding why sustainability activities constitute diverse forms

in diverse countries. Such perspectives have also provided acumens into why sustainability concept is now fundamental of business practices in many countries of the world (e.g. Visser & Tolhurst, 2010). From institutional theory perspective, firms are not able to overlook societal aspect of sustainability reporting. Rather, it is emerged as a result of influence from external institutions, state regulations, business

and social networks (Campbell, 2007; DiMaggio & Powell, 1983; Meyer, & Rowan, 1977). From a new institutional sociology (NIS) perspective, it has been argued that firms in an organizational field are interested to obey societal expectations of the many external actors so as to ensure and confirm their success and existence in the field (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). DiMaggio and Powell (1983) described three pillars of institutional influences (coercive, normative and mimetic), by which new organizational practices (e.g., sustainability reporting in the current study) are emerged and developed in the field. The current research considers these three institutional factors that could have key influence in the emergence and development of sustainability reporting in banks of Bangladesh.

Coercive influence stream from different actors such as regulators, parent companies, dominant suppliers and customers etc. (DiMaggio & Powell, 1983). The key components of the coercive pillar are power, authorization and control (Scott, 2008). Earlier studies explained that the greater the extent of external dependence on the forcing actors, it is more likely that the organization will introduce the specific practice; comply the guidelines prescribed by actors so as to meet actors expectations (DiMaggio & Powell, 1983; Oliver, 1991). Banks and financial institutions tend to follow regulatory rules and guidelines since regulators entails key resources necessary for banks' survival (e.g., granting permission for opening new branch; regulator is also able to control statutory reserve requirement and cash requirement that commercial banks have to maintain in the central bank) (Deephouse, 1996). In the specific context of banks in Bangladesh, as discussed earlier (see section 4), BB takes proactive stance to implement sustainability activities and reporting through their guidelines. As such, Bangladesh bank is the key actor for emergence of sustainability reporting in banks of Bangladesh and influence from the Bangladesh bank is likely to be a key driving factor for sustainability reporting in commercial banks of Bangladesh.¹²

Driven by professionalization, formal education and professional networks (DiMaggio & Powell, 1983), *normative* influence initiates not as a result of legal mandate, but by means of variety of social actors' influence such as educational and professional associations, social movement organisations, media, institutional investors, and NGOs (Muthary & Gilbert, 2011). These social actors form normative expectations for firms and responding to such

expectations is perceived as acceptable corporate behaviour (DiMaggio & Powell, 1983). Larrinaga-González (2007) described that in the context of sustainability reporting, the GRI guidelines can be considered as examples of normative influence. In the context of banks, being engaged with bankers association, top-executives of commercial banks in Bangladesh could feel influence of adopting sustainability reporting practices. Similarly, formal education of top executives and their professional network (e.g., member of alumni as a result of obtaining university degrees from same institutions) could create normative influence towards involving sustainability reporting.

Organisational sustainability reporting practices can also be disseminated as a result of *mimetic* influence. According to DiMaggio and Powell (1983), given that an organization operates in an institutional environment, they frequently observe similar firms practices in the industry, copy that practices to legalize their own action. Indeed, a peer pressure is an effective means of facilitating socially responsible behaviour (Muthuri & Gilbert, 2011). Mimetic influence of sustainability practices take place when organizations copy the best sustainability program of a leading peer who are perceived as 'role model' regardless of their industry (Matten & Moon, 2008; DiMaggio & Powell, 1983). In the specific context of banks in Bangladesh, banks can also be interested either to copy sustainability activities performed by other banks or adopt any sustainability practices that have already been widely acclaimed by others in the industry. Khan (2010) in his study reported that Dutch-Bangla bank launched a massive initiatives of scholarship program for meritorious but poor students at secondary, higher secondary and university level since decades earlier. Anecdotal evidence documented that many other commercial banks in Bangladesh subsequently introduced 'scholarship program' for meritorious students being inspired by such initiative. Sustainability activities and reporting practices of commercial banks in Bangladesh could therefore be steered as a result of mimetic influence.

5.2. Self-interest related factors:

In addition to above-mentioned institutional factors, self-interest related factors are also essential to figure out sustainability reporting of commercial banks in Bangladesh. As reported in figure 1, these factors include opening new branch; access to refinancing scheme; tax-benefit; positive media attention and building public image. In the current study, such self-interest related factors of banks are analysed based on strategic response theory. Principally advanced by Oliver (1991), strategic response theory describes how firms strategically respond to, manage, and even challenge institutional rules and regulations. The focal theme of this theory is organisations are not blind devotees of institutional norms, regulations and

¹² In the managerial branch of stakeholder theory, similar arguments are also echoed. That is, rather than focusing on meeting expectations of all stakeholders irrespective of their power (a theme of ethical branch of stakeholder theory), organisations manage only powerful stakeholder and act accordingly to satisfy those stakeholder who has more influence on company resources needed by the firms (see Deegan, 2009 for details).

expectations (Scott, 1995; Oliver, 1991).¹³ They possess resources and capabilities to respond to institutional rules and regulations pre-emptively. According to Oliver (1991), when organisational internal benefits and institutional rules and expectations perfectly match together, it is less likely that organisations will disobey institutional regulations and expectations.¹⁴ In other words, organisations will tend to follow institutional rules, regulations and expectations when they find certain benefits are available as a result of such compliance.

In the specific context of Bangladesh, compliance of sustainability guidelines and reporting entails benefits for the commercial banks. For example, as mentioned earlier, participation of sustainable business practices enable commercial banks to enjoy privilege of getting permission when opening new branches.

Similarly, enjoying greater access to funds from the central bank (i.e. BB) at a reduced rate under 'refinancing scheme' is another likely benefit that could motivate commercial banks in sustainability activities and reporting. Likewise, enjoying tax-benefit from the Government of Bangladesh (GOB) could be another stimulator for engagement in sustainability activities and its reporting. Specifically, in recent years, the taxation office of GOB-National Board of Revenue (NBR)-has developed guidelines and announced policies for tax waiver for CSR activities (see Khan, 2010; Khan et al., 2011). Under such guidelines, firms in Bangladesh including banks are eligible for tax exemptions at @10% when they donate in twenty two areas specified by taxation office (GOB, 2011)¹⁵. Therefore enjoying tax

benefits, privilege of getting permission while applying for opening new branches, and access to re-financing scheme are the likely self-interest factors that could lead commercial banks in engaging sustainability activities and its reporting.

Other self-interest related factors that could lead commercial banks in Bangladesh to involve in sustainability reporting is taking hold of positive media attention and building public image. Attaining positive image in the eyes of media and branding social activities of banks help banking institutions to build positive and long-term perceptions for business (Deephouse & Carter, 2005; Deephouse, 2000). Many commercial banks in Bangladesh are now report their CSR activities (e.g., scholarship programs, and other CSR activities) in both annual reports and local media coupled with trying to build positive image. At the same time, commercial banks of Bangladesh could also be interested to draw positive media and public perception by becoming 'top ten banks in the green banking activities' a recent attempt introduced by the central bank to formally evaluate commercial banks for sustainability activities and publish it in their website (BB, 2011). Arguably, sustainability reporting practices of commercial banks in Bangladesh could therefore be driven with an intension of gaining positive media and public attention and image.

5.3. Firm-level factors:

Along with above-mentioned institutional and self-interest related factors argued previously, firm-level factors are also important to understand sustainability reporting of banks in Bangladesh. These factors include presence of foreign directors; presence of independent directors; types of banks (Islamic banking system vs. conventional banking); banks profitability and banks size (fig.1). In the current study, these factors are discussed from legitimacy theory perspective. Legitimacy theory assumes that an organization has no essential right to exist and operate (Deegan, 2002). Their right to operate is rather given

¹³ Under strategic response framework, Oliver (1991) categorised organisational response under 5 typology ranging from *acquiescence*, *compromise*, *avoidance*, *defiance* and *manipulation* (Oliver, 1991; p.160). From these five strategy, *acquiescence* is termed as the most passive strategy (in where firms fully comply institutional rules and regulations) and *manipulation* (firms do not comply institutional rules, rather challenges institutional rules and regulations) as the most active strategy.

¹⁴ Oliver (1991) called it as 'content'; one of the antecedent of strategic response.

Under the SRO No. 270-Ain/2010, NBR (2010) such areas include (1) Clean water management 2) Afforestation 3) Beautifications of cities 4) Waste management 5) Establishment and management of old persons' homes 6) Contribution to organizations involved in raising consciousness about HIV/AIDS. 7) Contribution to organizations engaged in the welfare of mentally or physically handicapped 8) Contribution to organizations engaged in movement relating to women's rights and anti-dowry practices 9) Grants to public universities 10) Grants to organizations engaged in treating cleft lips, cataract, cancer and leprosy 11) Grants to organization engaged in treating acid victims 12) Grants to educational institutions approved by government for education of rootless children 13) Donations for redressing the hardships caused by natural calamities such as earthquake, cyclone, tidal wave and hurricane channelled through government organizations 14) Expenditure incurred through educational institutions recognized by Government for providing technical and vocational education for poor, meritorious students 15) Special financial assistance through institutions approved by

Government for facilitating higher education of meritorious students. 16) Donations to hospitals engaged in providing free medical treatment to poor patients and specialized for developing the quality of treatment, such as cancer, liver, kidney, thalassemia, eye and cardio; (17) Donations to organizations distributing freely at the level of use of birth – control products with a view to solving the population problem and to conduct camps for voluntary sterilization; (18) Grants to Public Universities; (19) Expenditure incurred through educational institutions recognized by Government for providing technical and vocational education for meritorious poor students; (20) Money invested in establishing lab for providing training on computer or information technology and in establishing infrastructure or in purchasing educational materials for implementing English education in public /private educational institutions (under Monthly Pay Order or MPO); (21) Donations to organizations engaged in providing technical and vocational training to unskilled or semi-skilled labour for export of human resources; and (22) Donations to organizations involved (GOB, 2011).

by society. In return, the organization's value system should be consistent with that of society (Magness, 2006; Lindblom, 1994). Intrinsically, organisations maintain implicit 'contract' with society to behave in a socially responsible way (Deegan, 2002; Khan, 2010). This contract can be cancelled if the organization breach any of the terms of its social contract by involving some performance detrimental to the society (Deegan, 2002). In such case, organizations attempt to correct public misapprehension of its detrimental performance. Magness (2006) narrated that organisation showed such behaviour more eagerly when there exists "legitimacy gap" as a result of public misconception so that their continued right to operate in the society can be established. Lindblom (1994) added that with an aim of achieving legitimacy, an organisation therefore inclines to disclose sustainability information voluntarily.

It has been evidenced that presence of foreign directors' have influence in social activities and report related activities. As highlighted in previous section, presence of foreign directors in the bank's board influence for sustainability reporting in banks of Bangladesh (Khan, 2010). Similarly, presence of independent directors in the board might have influential role in sustainability reporting. Studies argued that directors who are more independent to the executive management may be more inclined to motivate the reporting of more sustainability information (Khan, 2010; Khan et al., 2013). Similarly, types of banks (Islamic vs. conventional banking) could also influence sustainability reporting of banks in Bangladesh. In a recent research, Sobhani et al., (2011) reported that religion is a key factor for sustainability reporting in Bangladesh and such reporting practices differ between Islamic versus conventional banks. As a matter of fact, more than 83% population in Bangladesh are Muslim and follow Islamic values and norms. Institutions operated under Sharia law and Islamic norms could therefore be more motivated to involve sustainability activities as the religion Islam mandates *Zakat* (annual compulsory donation for solvent Muslim) in the form of charity (Zinkin & William, 2010).

Size of bank is another key factor that could shape sustainability reporting in banks. As has been appropriately argued by Cowen et al., (1987) that larger companies, in general, are under surveillance by various powerful stakeholders groups, therefore experience greater pressure to report their social activities to legitimise their business. Empirically, Khan (2010) reported that banks size is an influential factor of sustainability reporting in Bangladesh. The relationship between profitability and sustainability reporting is also evidenced in earlier studies (see Mangos & Lewis, 1995; Haniffa & Cooke, 2005). Haniffa and Cooke (2005) opined that profitable firms disclose sustainability information to clarify their performance towards society's improvement and

development so as to legitimise their survival. Therefore, banks profitability could be an influential factor for sustainability reporting in banks of Bangladesh.

5.4. Key challenging factors:

Whilst above-mentioned factors informed in three theoretical perspectives could shape sustainability reporting in the banks of Bangladesh, however, in the process of such reporting, it is likely that commercial banks of Bangladesh will experience few challenges owing to some challenging factors. These factors discussed in this section include dominant family shareholders influence; lack of key management participation; political influence; and the lack of quality assurance service (see fig.1). To illustrate, family shareholders are most common in private commercial banks of Bangladesh and they could try to manage regulators via political lobby to control sustainability regulation. Commonly referred as 'manipulation strategy' in the strategic response theory perspective (Oliver, 1991), this postulation is rather appropriate given that executive management and board of directors of Bangladesh often try to lobby political parties if any rules and regulation are not in their favour (Uddin & Choudhury, 2008); banking industry in Bangladesh is not free from such anomalies. Accordingly, dominant family shareholders in the board is considered as key challenging factor to implement sustainability reporting practices in banks of Bangladesh.

At the same time, participation from key management such as top-level management is very much essential to implement sustainability reporting. It is likely that top-management of banks could be more concentrated to fulfil family shareholders interest rather than serving the interest of other minority shareholders and stakeholders. In the institutional environment, they could pretend to follow institutional rules and regulation, however, in reality; they could more be involved in *decoupling* i.e. actual behaviour is far from the reality. From strategic response theory perspective, such behaviour is known as tactical response of firms and termed as 'concealing' tactics (Oliver, 1991; p.152). Given that regulators of Bangladesh often experience political influence from ruling parties' leaders and their blessings, regulators might not have enough capabilities of exercising and monitoring sustainable activities of banks. Consequently, lack of commitment from internal key actors' is considered as challenging factor to implement sustainability reporting practices in Bangladesh.

Lastly, ensuring 'quality' of sustainability reporting assurance service could be another challenge for commercial banks in Bangladesh. As mentioned earlier (see section 4), commercial banks of Bangladesh require report verified by external independent audit firms before disseminating

sustainability report externally since 2015. While such attempts clearly signal positive steps taken by Bangladesh Bank (BB), it is suspicious to what extent 'quality' of such report will be ensured. Our proclamation is rational given that independent assurance service for sustainability reporting is still not well developed in the auditing literature even at the global level. Given that 'quality' assurance service of local audit firms in Bangladesh are open questions (see Uddin & Choudhury, 2008 for details), it would be far from reality to expect that local audit firms will be able to provide 'quality' assurance service for sustainability reporting unless collaborative initiative with global firms are attempted.

Moreover, in the process of improving 'quality' auditing service, co-ordination and co-operation of BB with other regulatory bodies such as SEC, Dhaka stock exchange, Chittagong stock exchange, and accounting and auditing standard setter in Bangladesh such as the Institute of Chartered Accountants of Bangladesh, above all, awareness from all stakeholders are very much fundamental. Kolk and Perego (2010) argue that the call for quality assurance services is significantly influenced by the legal environment in which a firm operates. They added that the other factors such as governance mechanism, country's institutional mechanisms, and level of consciousness on sustainability issues are factors that are related to 'quality' assurance services. To improve quality of assurance service in sustainability reporting of Bangladesh, actual practices of corporate governance mechanism, institutional mechanisms in Bangladesh including auditing and accounting standard, and the level of awareness from stakeholders on sustainability issues have therefore to be increased. Overall, ensuring quality of sustainability reporting is fundamental challenges for banks of Bangladesh.

6. Conclusion

This study addresses two research objectives: (a) to understand recent initiatives and development of sustainability reporting in banks of Bangladesh (b) to identify factors that could drive commercial banks for sustainability reporting in Bangladesh. The theoretical framework developed in the current study is useful for understanding why banks in Bangladesh are motivated to adopt sustainability activities and reporting practices. The theoretical framework can be empirically tested in future research collecting primary data from the banking industry. At the same time, to what extent sustainability reporting in the banking industry has been advanced subsequent to sustainability guidelines can be investigated using well established content analysis technique. We expect that banks in Bangladesh now report more sustainability information as a result of regulatory guidelines which is worthy of further investigation.

With the help of applying relevant theoretical perspective discussed in the current study and other theories (if required), a wide-ranging longitudinal study over a longer time period is also appropriate to know the trends of sustainability reporting in banks of Bangladesh. At the same time, what are the motivations for sustainability reporting, any challenges managers of commercial banks experience towards implementing sustainability reporting deserve future examination. Comparative research on sustainably reporting between banks of Bangladesh and other developing and developed countries is also a good candidate for further investigation. Such attempt has potential to advance our understanding on how banks in Bangladesh move forward to engrain sustainability activities and reporting to eradicate socio-economic problems (such as eradicate poverty, better access to health care, assisting in country's education sectors, above all, involve in community welfares); and how such practices are of different from banks operate in other settings.

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