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Influence of Directors' Ownership and Institutional Ownership on Community Involvement Disclosure (CID) Practices of Cement and Ceramic Sectors in Bangladesh

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ABSTRACT

The purposes of this paper were to measure the level of Community Involvement Disclosure (CID) as well as to identify whether the directors' ownership and institutional ownership explain the volume of community involvement disclosure of an environmentally-sensitive industry, specifically, cement and ceramic industry of Bangladesh. The study used content analysis of annual reports as the methods of data collection and employed Ordinary Least Square (OLS) to test the effect of explanatory variables (directors' ownership and industry ownership) on dependent variables (extent of community involvement disclosure). The study discovers that the level of community involvement disclosure by the cement and ceramic industry of Bangladesh is very poor and totally qualitative in nature. Interestingly, the study discovers that directors' ownership as the most significant explanatory variable that positively affects the extent of community involvement disclosure in the cement and ceramic industry of Bangladesh. Another explanatory variable i.e., institutional ownership considered as insignificant which means it does not have any significant impact on community involvement disclosure of cement and ceramic industry of Bangladesh.

Key words: CID, Directors' ownership, Environmentally-sensitive industry, Institutional ownership, OLS

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1. INTRODUCTION

Corporate community involvement or what Rehbein & Schuler (2015) referred to as 'corporate community program' is the participation of business entities in societal initiatives in order to address the needs of the communities in which the enterprises operate (Yekini et al., 2015). Corporate community involvement is promoted by the many organizations to convey their activities to the rest of the society (Hamil, 1999). Corporate community involvement, however, more than donations and charitable activities were done by the organizations. It is argued that corporate community involvement offers strategic benefits to a business organization through enhancing corporate reputation. It involves employing significant time and the company's resources to community projects. Corporate community involvement is different from other corporate social responsibility types because whilst these may be driven by the need to rescue the negative externalities arising from a company's operations, corporate community involvement are distinct in their noble motives (Yekini et al.,

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2015). Today, corporate social responsibility has become very complex and it requires organizations to adopt a broader view of its responsibilities that include not only stockholders, but many other constituents as well, including employees, customers, suppliers, the local community, local, state, environmental groups and other special interest groups (Gatimbu & Mukaria, 2016). The traditional contract between business and society has changed over the years because of the addition of new social value responsibilities placed upon business. Some of these new social value responsibilities include stricter compliance with local, state, and international laws; social problems; human values; quality of life; health care; pollution; equal employment opportunities; elimination of poverty; child and elderly care; support of the arts and culture; and many others (Samy et al., 2010).

Literature Review

Yekini et al. (2017) examined the impact of community concerns on corporate communications is undeveloped. It contributes to the literature on corporate social responsibility (CSR) by considering the impacts of community expectations on corporate community involvement disclosures. Findings support the media-agenda theoretical expectation and provide important practice and policy recommendations for improving interactions between corporations and their communities. Yekini et al. (2015) investigate the link between board independence and the quality of community disclosures in annual reports. Using content analysis and a panel dataset from UK FTSE 350 companies, the results indicate a statistically significant relationship between board independence, as measured by the proportion of nonexecutive directors, and the quality of community disclosures. Yekini (2012) focused on corporate community involvement disclosures, a theme usually disclosed under corporate social responsibility disclosures in annual reports. The primary aim of the research is to investigate the genuineness of corporate community involvement disclosures in annual reports. The study provided evidence to show that corporate community involvement disclosures as disclosed in annual reports have an undertone of reputation/impression management. Gatimbu & Mukaria (2016) determined the effect of community involvement disclosure on the financial performance of NSE listed firms in Kenya. Content analysis of sampled listed companies' annual reports was undertaken to examine Community Involvement disclosure practices. Findings reveal that community disclosure with *P*-value <0.05 has a positive significant difference in the mean financial performance. Yekini & Jallow (2012) examined whether corporate community involvement disclosures in annual reports can be construed as a measure of corporate community development or a mere signal of corporate social responsibility observance. The study found that the volume of corporate community disclosure has a significant association with its total quality score although the impact was found to be very small. Hamil (1999) conducted a study and the central point of that paper is that corporate community involvement is not a neutral action with favorable and mutual benefits for all involved. Rather, it is a more complex task which may also have some unfavorable impacts. The paper explores: (a) the practice of corporate community involvement in the UK, (b) the grounds on which corporate community involvement is justified and (c) the material consequences of such activities for corporate governance. The study concludes by arguing that there is a case for a review of the law on community involvement information to assess the need for extensive public disclosure so as to allow shareholders and other interested groups the opportunity to assess the impact and effectiveness of corporate community information more thoroughly. The literature review shows that generally there is a shortage of study on community involvement disclosure in the world and Bangladesh in particular. This is why the present endeavor has been taken in the context of Bangladesh.

Variables and Hypothesis Development

Dependent Variable:

The extent of community information disclosure is the dependent variable of this study which will be determined through content analysis of annual reports and with the help of a self-developed checklist.

Explanatory Variables:

The ownership structure is a mechanism that aligns the interest of shareholders and managers (Chau & Gray, 2002; Eng & Mak, 2003; Haniffa & Cooke, 2002). Eng & Mak (2003) suggests that ownership structure affects the level of monitoring in the firm, which in turn may determine the extent of disclosure. To determine the effect of ownership structure on the extent of community involvement disclosure, this study has considered two styles of ownership structure as explanatory variables, viz., (a) Directors ownership and (b) Institutional ownership.

Director Ownership: The extent of disclosure is directly affected by the function of the directors, and outside stakeholders who have to depend mainly on corporate managers for the disclosure (as they have no access to firms' information). Eng & Mak (2003) found managerial ownership to be negatively associated with the extent of voluntary disclosure in Singaporean listed companies. Mak & Li (2001) and Chau & Gray (2002) have also provided evidence that executive share ownership is negatively related to voluntary disclosure. Jensen & Meckling (1976) argue that additional monitoring is required by outside shareholders as managerial ownership (i.e., ownership by executive directors) decreases. This monitoring puts pressure on managers to disclose more information. Thus, the study has drowned the following hypothesis-

H_1: There is a statistically significant negative association between the directors' ownership and the extent of community involvement disclosure.

Institutional Ownership: Extensive shareholdings by institutional investors help to create strong incentives to monitor corporate disclosure practices to reduce informational asymmetry (El-Gazzar, 1998). Managers may voluntarily disclose information to meet the expectations of these large shareholders. Bushee & Noe (2000) cited in Ho & Tower(2011) find a significant positive relationship between institutional shareholdings and corporate disclosure practices. However, based on a study of interim disclosure by Finnish firms, Schadewitz & Blevins (1998) report an inverse relationship between institutional ownership concentration and disclosure, whereas, McKinnon and Dalimunthe (1993) find weak support for the hypothesis that increased institutional ownership associated with voluntary disclosure practices. Haniffa & Cooke (2002) reported no significant association between institutional investors and voluntary disclosure. Thus, the extent of community involvement disclosure could be positively associated with a higher proportion of institutional ownership. So, the following hypothesis has been drowned.

H_2: There is a statistically significant positive association between the institutional ownership and extent of community involvement disclosure.

2. METHODOLOGY

Study population and sample selection: All the public limited companies of cement and ceramic sector listed in the Dhaka Stock Exchange (DSE) are the study population which consists of 7 companies in the cement sector and 5 companies in the ceramic sector. All these 12 companies had been considered as the sample of the study, but unfortunately, the study could not collect the annual report of Aramit cement limited. Thus the final sample consists of 11 cement and ceramic companies listed in the DSE.

Data collection and scoring: The study is based on secondary data that has been collected from the annual reports of the respective companies. Annual reports have been collected from companies' websites and the year 2018 has been chosen for ensuring the study as updated as possible. To collect necessary data systematically, we developed a disclosure index (see Appendix-2). Necessary data for this study has been collected through content analysis of annual reports. The study has used an un-weighted scoring approach where '1' has been awarded for disclosing an item and '0' otherwise. Thus total disclosure of a company will be-

Total disclosure = $\sum_{i=1}^{n}$ di
Where, d = 1 if the item di is disclosed, or 0 for not disclosing; n = number of items

Measurement of explanatory variables: In these study directors ownership has been measured by the percentage of share held by the sponsors and directors. Institutional ownership has been measured by the percentage of share held by the institutional entities.

Data analysis: To observe the correlation between the variables, the Pearson correlation has been used and to examine the association between the dependent and explanatory variables multiple regression model has been used. Variable Influence Factor (VIF) also been used to test the multicollinearity among the explanatory variables. Data has been analyzed using Statistical Packages for Social Science (SPSS), version-23.

Empirical model:
CID_SCOREi = $\alpha 0$ + $\beta 1$ DIR-OWNERSHIP+ $\beta 3$ INS-OWNERSHIP + ε
Where,

CID_SCORE	=	Community involvement disclosure score by a company
$\alpha 0$	=	The constant value
β_n	=	The regression co-efficient of the independent variables
DIR-OWNERSHIP	=	Director ownership
INS-OWNERSHIP	=	Institutional ownership
ε	=	Prediction error or the error term

3. RESULTS AND DISCUSSION

Table 1 shows the descriptive statistics for the sample firms. Community involvement disclosure score (CID_SCORE) indicates the highest score achieved by the firm is 8 and the lowest score is 0, with a standard deviation 3.26970. Directors' ownership ranges between 5.33 and 72.08 with a mean of 49.1982. The mean of institutional ownership is 18.1209 million, where the highest value is 38.88 million and lowest value is 8.13 million with a standard deviation of 8.77146 million.

Table 2 shows the Pearson correlation matrix of the dependent and explanatory variables. The table indicates that the highest correlation between variables DIR-OWNERSHIP and CID_SCORE is 0.759. A correlation is considered as harmful if it exceeds 0.80 or 0.90 (Bryman & Cramer, 2002). Again, when the variable influence factor (VIF) exceeds 10 then it is considered as an indication of harmful multicollinearity (Neter et al., 1989). In the present model, the VIF observed is 1.432 and coincidentally both are the same. So, multicollinearity between the explanatory variables is unlikely.

Table 3 depicts the result of the multiple regression analysis. The table shows the association between community information disclosure levels and the experimental variables. The R square, F ratio, beta coefficients and t-statistics for the regression model and summarized results of the dependent variable (the extent of community information disclosure) on the explanatory variables are available in the table. The results indicate an R square of 0.603, and an F value of 6.076, which is significant at the 0.025 level. The adjusted R square is 0.504 i.e.,

Table 1. Descriptive Statistics.
N = 11 companies, Valid N (list wise) = 11

Mean	Mean	Minimum	Maximum	Standard Deviation	Skewness		Kurtosis	
					Statistics	Std. Error	Statistics	Std. Error
CID_SCORE	3.90	0	8	3.26	-0.32	0.66	-1.86	1.27
DIR-OWNERSHIP	49.19	5.33	72.08	20.83	-1.09	0.66	0.39	1.27
INS-OWNERSHIP	18.12	8.13	38.88	8.77	1.36	0.66	2.31	1.27

Table 2. Correlation Matrix and Multicollinearity Analysis.
[N= 11, Two-tailed test]

Correlations		CID_SCORE	DIR-OWNERSHIP	INS-OWNERSHIP
ED_SCORE	Correlation	1		
	Sig. (2-tailed)			
DIR-OWNERSHIP	Correlation	0.759**	1	
	Sig. (2-tailed)	0.007		
INS-OWNERSHIP	Correlation	-0.278	-0.549	1
	Sig. (2-tailed)	0.408	0.080	
Collinearity Statistics				
	Tolerance	-	0.698	0.698
	VIF	-	1.432	1.432

Table 3. Regression Analysis.

I. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.777[a]	0.603	0.504	2.30334

a: Predictors: (Constant), DIR-OWNERSHIP, INS-OWNERSHIP

II. ANOVA[b]

Model 1	Sum of Squares	df	Mean Square	F	Sig
Regression	64.466	2	32.233	6.076	0.025[a]
Residual	42.443	8	5.305		
Total	106.909	10			

a: Predictors: (Constant), Predictors: (Constant), DIR-OWNERSHIP, INS-OWNERSHIP
b: Dependent Variable: CID_SCORE

III. Coefficients
Dependent Variable: CID_SCORE

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-4.133	3.469		-1.191	0.268
DIR-OWNERSHIP	0.136	0.042	0.868	3.255	0.012
INS-OWNERSHIP	0.074	0.099	0.199	0.745	0.478

50.4%. Both of these values suggest that a significant percentage of the variation in community information disclosure can be explained by the variations in this set of explanatory variables. The most significant explanatory variable observed is director ownership. The positive coefficient for the variable director ownership is 0.868. It is statistically significant at the 0.012 level which suggests that companies with more directors' ownership disclose more community involvement information. Thus, hypothesis H_1 is supported. The coefficient on institutional ownership is observed as insignificant which means that these variables do not explain the level of community information disclosure.

The study shows that the average community involvement information disclosure by the sample firms is only 32.58% of the checklist developed for this study (Appendix-2). The highest score is 8 (out of 12) by only the one firm (out of 11), whereas 4 companies i.e., 36.36% did

Table 4. Extent of Disclosure.

Disclosure Items	Number of firms	Expected disclosures	Actual disclosure	% of actual disclosure
[a]	[b]	[c = ab]	[d]	[e = (d÷c)100]
12	11	132	43	32.57

Table 5. Disclosure Extent by the Number of Companies.

Number of disclosure	0	4	5	6	7	8
Number of companies	4	1	1	2	2	1

Table 6. Summary of Hypothesis, Variables, and the Multiple Regression Result.

Hypothesis No.	Related variables	Expected Sign	Results	Level of Significance
H_1	Directors' ownership	-	+	0.052
H_2	Institutional ownership	+	Unsupported	Insignificant

not report any community involvement disclosure in their annual reports. Two items of the disclosure have been disclosed by only two sampled firms. The reported information was totally descriptive in nature.

The study provides evidence that there is a significant and positive association between the extent of community involvement disclosure and director ownership. The study finds no significant association between community involvement disclosure and institutional ownership. Therefore, the second hypothesis (H_2) is not supported.

4. CONCLUSION

This paper was aimed to assess the extent of community involvement disclosure as well as to identify whether the directors' ownership and institutional ownership variables explain the volume of community involvement disclosure of an environmentally-sensitive industry, specifically, cement and ceramic industry of Bangladesh. The study discovers that the level of community involvement disclosure by the cement and ceramic industry of Bangladesh is very poor and totally qualitative in nature. The study examines two cause variables related to ownership structure, viz., directors' ownership and institutional ownership, and tries to determine if these factors significantly affect the level of community involvement disclosure. An interesting result is that the study discovers directors' ownership as the most significant explanatory variable that positively affects the extent of community involvement disclosure in the cement and ceramic industry of Bangladesh. This finding is contradictory to the many earlier studies (see, for example, Chau & Gray, 2002; Eng & Mak, 2003; Mak & Li, 2001). Another explanatory variable i.e., institutional ownership is considered as insignificant which means that it does not show any significant impact on community involvement disclosure of cement and ceramic industry of Bangladesh.

Some significant limitations of this study are, it has covered only two sectors i.e., cement and ceramic sectors; one single year; and two variables related to the corporate owner ship structure. To have more reliable results, it is necessary to conduct a longitudinal study that includes several years. Moreover, to know the extent of community involvement disclosure the study has used annual reports only. To get a realistic disclosure status other sources of information like corporate websites should be considered in conducting such types of future researches.

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Appendix 1. Sample firms of the study.

a. Confidence Cement Limited
b. Heidelberg Cement Bangladesh Limited
c. LafargeHolcim Bangladesh Limited
d. Meghna Cement Mills Limited
e. M.I. Cement Factory Limited
f. Premier Cement Mills Limited
g. Fu-Wang Ceramic Industries Limited.
h. Monno Ceramic Industries Limited.
i. RAK Ceramics (Bangladesh) Limited
j. Shinepukur Ceramics Limited
k. Standard Ceramic Industries Limited

Appendix 2. CommunityInvolvement Disclosure (EID) Checklist.

Sl.	Community Involvement Disclosure	No. of companies disclosed the items
1.	Charity and donations to the community	5
2.	Support for education, e.g., scholarship	5
3.	Support for the arts and culture	4
4.	Support for public health and safety	7
5	Sponsoring sporting or recreational projects & gifts	5
6.	Parks, gardens and road beautification	1
7.	Training, awareness programs, Seminars, etc.	5
8.	Establishment of non-profit organization, e.g., school, mosque, etc.	1
9.	Support against natural disaster	2
10.	Supporting poor people with food and clothes	2
11.	Support to the disabled people, e.g., blind	3
12.	Other campaign for community welfare	3
	Total score obtained by the 11 companies [Out of (11 x 12) = 132]	43

Sources: Barakat et al. (2015), Alotaibi and Hussainey (2016), and researcher's own contribution.

Appendix 3. Percentage (%) of share held by the directors and institution (as on 31.12.2018).

Company	Directors Ownership	Institutional Ownership
Confidence cement	25.50	23.54
Heidelberg cement	60.67	26.07
LafargeHolcim cement	64.68	15.64
Meghna cement	49.81	11.37
M.I. cement	67.08	17.16
Premier cement	55.13	17.07
Fu-Wang ceramic	5.33	38.88
Monno ceramic	62.40	9.15
RAK ceramic	72.08	14.72
Shinepukur ceramic	50	17.60
Standard ceramic	28.50	8.13

Source: Website of Dhaka Stock Exchange (DSE n.d.)