



**CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE
AND ITS DETERMINANTS IN THE YEMENI BANKING
SECTOR**

BY

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ABSTRACT

The objective of the current study is to provide empirical evidence on Corporate Social Responsibility (CSR) practices in banks in Yemen. The present study focuses on the quantity and quality of CSR disclosure. To achieve this, it analyses the annual reports of 18 banks from 2011 until 2013. In addition, the current study is also enriched with an analysis of the determinants of CSR disclosure. The theoretical framework is based on legitimacy theory. It is argued that bank size, profitability, foreign share ownership and government share ownership would determine CSR disclosure (in terms of quantity and quality). The results indicate that, overall, the quantity and quality of CSR disclosure in Yemen banks are low. The regression analysis maintains that size, foreign share ownership and government share ownership have a positive impact on the quantity of CSR disclosure and to a lesser extent, the quality of CSR disclosure. On the other hand, profitability has a negative impact on both quantity and quality of CSR disclosure. However, this impact on quality is not significant. The variable government share ownership is considered an important factor of CSR disclosure on quantity and quality. It explains why banks in Yemen disclose information of CSR more than other factors such as size, profitability and foreign share ownership. In conducting this study, the findings fill the gap in the literature, specifically in the context of Yemen.

ملخص البحث

الهدف من هذه الدراسة هو تقديم الدليل التجريبي على المسؤولية الاجتماعية في قطاع البنوك في اليمن. الدراسة الحالية تتعامل مع حجم وجودة الإفصاح عن عناصر المسؤولية الاجتماعية. لتحقيق ذلك الهدف تم فحص التقارير السنوية لعدد ثمانية عشر بنكاً-عينة الدراسة خلال الأعوام ٢٠١١-٢٠١٣م. إضافة إلى ذلك الدراسة الحالية تقوم بفحص محددات الإفصاح عن عناصر المسؤولية الاجتماعية. تم بناء إطار الدراسة بناء على نظرية أصحاب المصالح، وكذلك نظرية الشرعية. إطار الدراسة يفترض أن حجم البنك، وربحية البنك، والملكية الأجنبية، والملكية الحكومية هي التي تحدد كمية وجودة الإفصاح عن عناصر المسؤولية الاجتماعية. النتائج التجريبية وضحت بشكل عام أن كمية وجودة الإفصاح ضعيفة. النتائج التجريبية تدعم إلى حد كبير الإطار المقترح. تحليل الانحدار يبين أن حجم البنك، وربحية البنك، والملكية الأجنبية، والملكية الحكومية تحدد كمية الإفصاح عن عناصر المسؤولية الاجتماعية، وتحدد أيضاً مدى أقلية جودة الإفصاح عن عناصر المسؤولية الاجتماعية. حجم البنك، والملكية الأجنبية، والملكية الحكومية لها تأثير إيجابي على كمية وجودة الإفصاح عن عناصر المسؤولية الاجتماعية. من ناحية أخرى الربحية لها تأثير سلبي على كل من كمية وجودة الإفصاح عن عناصر المسؤولية الاجتماعية باستثناء تأثير الربحية على جودة الإفصاح عن عناصر المسؤولية الاجتماعية على أنها ليست كبيرة. علاوة على ذلك نجد أن العوامل لها تأثير أكبر على حجم الإفصاح عن عناصر المسؤولية الاجتماعية من تأثيرها على جودة الإفصاح عن عناصر المسؤولية الاجتماعية. بالإضافة إلى ذلك تُعد ملكية الحكومة عاملاً مهماً في الإفصاح عن عناصر المسؤولية الاجتماعية. حيث أنه يوضح لماذا البنوك في اليمن تفصح عن عناصر المسؤولية الاجتماعية أكثر من العوامل الأخرى التي هي حجم البنك، وربحية البنك، والملكية الأجنبية. من المؤمل القيام بذلك إن النتائج تملأ الفجوة في الأدبيات السابقة خاصة في سياق اليمن.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATIONS

BSE	Bombay Stock Exchange
CBSD	Centre for Business and Sustainable Development
CSR	Corporate Social Responsibility
CSRQLD	The quality of CSR disclosure
CSRQND	The quantity of CSR disclosure
DSE	Dhaka Stock Exchange
FRGOWN	Percentage of shares held by foreign shareholders
GDP	Gross Domestic Product
GOVOWN	Percentage of shares held by government
IFRS	International Financial Reporting Standards
MBBG	Major British Banks Group
MNCs	multinational companies
O&G	Oil and Gas
p.b.u.h	Peace and blessings be upon him
PRO	Profitability
R/E	Return on Equity
SPSS	Statistical Package for the Social Science
YR	Yemeni Rial

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

Corporate reporting focuses on providing financial information to investors (Thompson & Zakaria, 2004). However, in the 1970s, the public became more aware and concerned about the responsibility of companies towards the society in general (Hackston & Milne, 1996). Therefore, over the years, corporate social responsibility (CSR) activities have grown in importance. Accordingly, companies have become more active in promoting themselves in the community through applying CSR activities (Jamali & Mirshak, 2007).

In terms of disclosure, CSR is considered a significant part of annual reports as these reports include both financial and non-financial information. The non-financial information includes information on employees, the environment and products. In this regard, awareness and efforts toward CSR reporting have gradually reached developing countries and less developed countries like Yemen. The Yemeni government launched an annual award for social responsibility for the best social projects in a move to raise corporate awareness on the importance of social responsibility and to encourage companies to disclose these activities (Althawra, 2008).

Corporate sustainability is closely related to CSR (Huang & Waston, 2015). KPMG (2013) documents that 25 percent of the world's largest 100 firms use the term "corporate social responsibility," 14 percent use "corporate responsibility" and 43 percent of firms use the term "sustainability" (Huang & Waston, 2015). However, this study uses the term 'CSR' throughout its discussions.

Based on the principle of full disclosure, the banking sector, as one of the vital sectors in Yemen, should disclose quality information in its annual reports. Hence, it should also disclose information related to CSR to assist the users of annual reports to evaluate their social responsibility. This is because, although not all of these banks are Islamic in nature, they function in a 100 percent Islamic environment. As it is known, community service is strongly encouraged by Islamic values. Helping people is a requirement in Islam and it is applicable to individuals, businesses as well as banks. Even in non-Muslim or conventional environments, particularly the West, being socially responsible is gaining prominence. As contributing towards charity and social welfare becomes more important even in capitalistic societies, it should be even more crucial in an Islamic community where consideration for the community is a requirement. Thus, these banks in Yemen should respond to these values to ensure their survival as they are accountable to the society that they function in. However, CSR reporting is still in its infancy in Yemen. Moreover, the requirement to report CSR is not legislated. This creates certain challenges as explained in the next section.

1.1 PROBLEM STATEMENT

Rapid population growth and increasing demands, more supplies of goods and services in Yemen have caused the government to fail to meet the needs of the people. Accordingly, the government of Yemen controls the economy through the support of the private sector. Since Yemen's economy depends on market mechanism, the private sector in Yemen is considered a key driver of economic growth. Its contribution in Gross Domestic Product (GDP) was 85.5 percent in 2013 with a growth rate of 2.02 percent (Presidency of the Republic-National Information Centre, 2015). The private sector provides employment to over 82 percent of the working

population in Yemen (Ministry of Planning and International Corporation, 2009). Thus, the private sector has a prominent role to play in contributing to the communities it operates in. This contribution takes place through social responsibility activities of the private sector in line with the objectives of the national development initiatives. Therefore, Yemeni authorities have encouraged and called the private sector to share in the welfare and development of the country through fulfilling its social responsibility, either by contributing financially to social programmes or reducing the harmful impacts of industrialization to the environment and to the society at large (Althawra, 2013).

Recently in Yemen, the disclosure of CSR within the traditional financial reports has become a necessity to enable the government to evaluate if the contributions of these enterprises are consistent with the social development plans of the government as well as Yemen's sustainable economic goals. However, to date there are no standards, legislations or disclosure requirements in Yemen, specifically in relation to CSR. This could be contributed by the fact that, currently, there is no stock exchange in Yemen. Due to the absence of CSR reporting standards, mandatory requirements and regulations, the decision to disclose CSR information is on a voluntary basis, and left to the discretion of management. Thus, there is likely to be inconsistency and non-comparability of disclosure from firm to firm, even those within the same industry.

Based on the above, there is a need to study the quantity and quality of CSR disclosure in Yemen in order to determine the disclosure. Such a study is especially warranted as there is a lack of studies in developing countries on the quality of CSR disclosure. Huang & Waston (2015) mention that compared to research on the quantity of CSR disclosure, research on quality of CSR disclosure is quite limited.

Currently, Yemen is in dire need of private sector's contributions through CSR. Providing quality CSR disclosure is one way for these companies to report that they are fulfilling their social responsibility to the Yemeni public. Consequently, the present study intends to fill the gap in the literature by evaluating the quality of CSR disclosure.

Furthermore, Adams (2002) states that in order to completely understand CSR disclosure, the determinants of this disclosure require examining. Huang & Watson (2015) state that research on determinants of CSR is very important and call for more research on this matter. Thus, the factors that affect CSR disclosure by banks in Yemen are investigated in this study. Hackston & Milne (1996) and Haniffa & Cooke (2005) argue that the characteristics of the company are essential to show the important factors that affect its CSR disclosure. Lately, it is important that attention be given to the Middle East region as there is a lack of studies on this area. Hence, this study hopes to overcome the limitations and extend the literature on determinants of CSR disclosure in Yemen in particular. The present study seeks to provide evidence about factors that may influence the quantity and quality of CSR disclosure in Yemen, whereby understanding these factors may assist both the banks and the government to improve the quantity and quality of CSR disclosure (Adams, Hill & Roberts, 1998).

Although the Yemeni government encourages CSR reporting in all companies in Yemen, this study solely focuses on banks. As mentioned before, banks are crucial to any economy. Moreover, the biggest areas involving operational risks that threaten the banking sector in Yemen are those related to criminal acts (Cooperative & Agricultural Credit Bank, 2012). The situation is even direr with the eruption of a war in Yemen. Hence, in order to appease the public, the banks should actively involve with CSR as well as promote their CSR activities. One of the ways of reporting their

CSR involvement is to disclose these activities in the banks' annual reports. However, since there are no regulations, it is uncertain to what extent these banks are disclosing these activities. Therefore, the aim of this study is to investigate CSR disclosure practices by banks in Yemen as elaborated in the next section.

1.2 OBJECTIVES OF THE STUDY

This study aims to examine the quantity and quality of CSR disclosure in the annual reports of Yemeni banks. In addition, it seeks to examine the determinants of CSR disclosure. Specifically, the research objectives of this study are:

- i. to evaluate the level of the quantity of CSR disclosure in the corporate annual reports of banks in Yemen over the period of 2011-2013.
- ii. to evaluate the level of the quality of CSR disclosure in the corporate annual reports of banks in Yemen over the period of 2011-2013.
- iii. to investigate the determinants of CSR disclosure (quantity and quality) in the banking sector in Yemen.

1.3 RESEARCH QUESTIONS

In line with the research objectives above, the study aims to answer the following questions:

- i. What is the level of quantity of CSR disclosure in the annual reports of banks in Yemen?
- ii. What is the level of quality of CSR disclosure in the annual reports of banks in Yemen?
- iii. What are the determinants of CSR disclosure (quantity and quality) in the banking sector in Yemen?

1.4 MOTIVATION OF THE STUDY

The people in Yemen do not seem to be satisfied with the activities that are provided by Yemeni banks, specifically in services related to CSR (Presidency of the Republic-National Information Centre, 2006). Moreover, they complain that banks, including Islamic banks, are more concerned about earning money and generating profits. Also, if a person needs a loan, the banks demand a huge collateral, making it extremely problematic to the poor. Such negative perceptions regarding the banks have to be alleviated for their continued survival. As one possible way to portray their social responsibility is through CSR disclosure, this study is motivated to investigate the quantity and quality of such disclosure of banks in Yemen.

A majority of studies conducted in the area of CSR are in developed and Western countries such as the United States, the United Kingdom, Germany, Spain and Portugal. As a result, little is known about CSR in developing countries particularly in the Middle East, and especially in less developed countries like Yemen. Due to the differences in culture, awareness and regulations, the CSR disclosure differs from country to country (Meek, Roberts & Gray, 1995; Adams et al., 1998). It also differs between developed and developing countries (Imam, 2000; Tsang, 1998). Moreover, the nature and patterns of CSR is different across types of industry (Gray, Javad, Power & Sinclair, 2001). Based on the above, lack of CSR studies in the context of Yemen, particularly in the crucial sector of banking, has motivated this study.

1.5 SIGNIFICANCE OF THE STUDY

The present study is important as it adds additional insights into the CSR disclosure practices of banks in a less developed country such as Yemen. Although most prior

studies have focused on developed countries, studies on developing and less developed countries are increasing of late. Nevertheless, there is still a dearth of studies on the latest (Gao, 2011). Therefore, this study provides new empirical evidence on Yemen. Since quality of CSR disclosure is less studied than quantity of CSR disclosure (Huang & Waston, 2015), the current research assesses both quantity as well as quality of CSR disclosure. The significance of this study is to provide empirical examination of the patterns of CSR disclosure in the banking sector in Yemen. As mentioned above, it provides understanding and insights into the patterns of CSR reporting in Yemen. The findings of the study would be useful to policy makers in Central Bank of Yemen and Ministry of Higher Education. The findings of this study would provide the Central Bank the evidence on the current actual practices of CSR by banks in Yemen. Therefore, it would indicate whether there is a need to establish mandatory regulation to improve CSR reporting. As for the Ministry of Higher Education, the results may encourage the Ministry to include contemporary issues related to CSR reporting in the curriculums in accounting departments across universities in Yemen to increase the awareness of CSR in future accountants.

This study also attempts to enrich the literature by examining the quality of CSR disclosure as it is considered an important study in this aspect in a country such as Yemen. Furthermore, through the evaluation the quantity and quality of CSR disclosure, it determines whether there is a need to establish a department in the Ministry of Planning to monitor issues related to CSR.

The significance results of determinants of CSR disclosure would be useful in providing deep understanding of factors that affect and enhance CSR disclosure in Yemen. It may also be a useful input to the Yemeni government in indicating the

important determinants which should be monitored carefully. Therefore, they would help in improving the CSR disclosure through these important determinants.

1.6 STRUCTURE OF THE DISSERTATION

Chapter One presents a brief background of this research. The chapter then proceeds with the discussion of problem statement, research objectives and research questions. Then, the reasons that motivate the researcher to conduct this study are explained. This is followed by the significance of the study.

Chapter Two starts by providing relevant general information about Yemen. This is followed by a brief explanation on the banking system in Yemen and some related issues on CSR in the light of the current situation in Yemen. The chapter also reviews prior literature related to this study in line with the objectives of the research. This chapter discusses various studies from developed and developing countries. The subsequent section discusses the literature on the quantity and quality of CSR disclosure. It starts by presenting studies on the quantity of CSR disclosure and then studies on the quality of CSR disclosure. A review of general CSR disclosure studies in the banking sector is presented next while the following part focuses on the literature in relation to determinants of CSR disclosure. This part contains two sub-sections: CSR studies in developed countries as well as in developing countries. The gap in prior literature is also highlighted. Finally, the chapter ends with its summary.

Chapter Three provides an explanation of the theoretical framework for the present study. It briefly discusses the legitimacy theory which is used to form the hypotheses. It focuses on the factors related to CSR disclosure, the hypothesis development and how the factors impact CSR disclosure are explained by the theory. The chapter closes with a summary.

Chapter Four describes the methodology used in the present research. It first discusses the population and sample of the study. The measures of the dependent and independent variables are explained. Content analysis, disclosure index, source of the items in the checklist, and reliability and validity issues are highlighted. Then, statistical tests used in the data analyses are explained.

Chapter Five provides the analyses of the results. It presents the descriptive statistics, correlation analysis, paired sample t-test, regression analysis, and the discussions and interpretations of the findings of the present study. The chapter also concludes with a summary.

Chapter Six summarises the whole thesis. The chapter provides a general conclusion of the research as well as the implications of the study's findings. It ends with a discussion on the limitations of the research and recommendations for future studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The previous chapter introduced this study and clearly indicated that the main objectives of this study are to determine the quantity and quality of CSR disclosure in the banks in Yemen. This study also examines the determinants of the disclosure practices. Subsequent to the Introduction chapter, this chapter provides a brief background of Yemen and its banking sector, which is the context of this study.

Accordingly, this chapter consists of eight sections. The first section presents the background of Yemen. Section 2.2 reviews and provides a background of the banking sector in Yemen, followed by Section 2.3 that highlights the current situation in Yemen and its financial reporting acts. Also, since the objective of this research is to investigate the quantity and quality of CSR disclosure as well as its determinants, this chapter reviews the relevant literature from prior studies. The fourth section presents quantity and quality of CSR disclosure studies. This is followed by reviews of CSR disclosure in the banking sector. The sixth section discusses the determinants of CSR disclosure in developed and developing countries. Next, the seventh section reviews the gaps in prior literature followed by a conclusion.

2.1 BACKGROUND OF YEMEN

The Yemeni Republic is in the south western to the southern end of the Arabian Peninsula, and is restricted by Saudi Arabia to the north, the Red Sea to the west and Oman to the east. The land area of Yemen is 527,998 square kilometres. It has a

coastline of approximately 1,906 kilometres and its capital city Sana'a is located in the west of the country (Indexmundi, 2013).



Figure 2.1 Map of Yemen

2.2 BACKGROUND OF THE BANKING SECTOR

This section highlights the background of the banking sector in Yemen. Prior to 1894, there was no valid bank in the country to cater for the financial needs of the foreign corporations operating in Yemen with the exception of money exchange agencies. The Indian National Banks in 1894 opened a branch in Aden which has paved the ground work for the formation of the financial market in the country (Zolait, Sulaiman & Alwi, 2008). The first national bank in the country is the Yemen Bank for Reconstruction and Development. It was established in 1962 as a public bank. The attractive location of Yemen which is between Asia and Africa and the active trading activities created a need for financial institutions in the country.

The banking sector in Yemen has gone through several stages of development (very gradual growth over two decades). For example, the number of banks in 1990 was 13 and in 2013 the number increased to 18 (Central Bank of Yemen-CBY, 2013). The banking sector in Yemen is considered the heart of the Yemeni services sector. It plays a crucial role in the economic development of the country by contributing substantially to the country's GDP. Its total assets amounts to about 28 percent of the GDP of the country (Central Bank of Yemen, 2013). Table 2.1 presents the list of the banks in Yemen.

Table 2.1 List of Yemeni Banks

NO.	The Name of the Banks in English
1	The Yemen Bank for Reconstruction And Development
2	National Bank of Yemen
3	Cooperative & Agricultural Credit Bank
4	International Bank of Yemen
5	Yemen Kuwait Bank for Trade & Investment
6	Yemen Commercial Bank
7	Yemen Gulf Bank
8	Arab Bank
9	Credit Agricole Corporate & Investment Bank
10	United Bank Ltd
11	Qatar National Bank (QNB)
12	Rafidan Bank
13	Islamic Bank of Yemen for Finance and Investment
14	Tadhamon International Islamic Bank
15	Saba Islamic Bank
16	Shamil Bank of Yemen & Bahrain
17	Al-Kuraimi Islamic Microfinance Bank
18	Al-Amal Bank

Source: Central Bank of Yemen (2013).

2.3 CSR AND THE CURRENT SITUATION IN YEMEN

CSR in the Yemeni business environment is expected to be at an infant stage. The absence of a stock exchange and the lack of specific accounting standards to control