Anti-Corruption Disclosure and Political Corporate Social Responsibility

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Corruption is a major concern globally, particularly in developing countries, such as Bangladesh, where it is the main obstacle to economic development. Corruption is also mentioned as the major impediment to accomplishing sustainable development. Corruption is the main impediment to economic development in Bangladesh. The country's financial sector is under threat due to issues such as illegal money transfers, money laundering, and terrorist financing. The Paradise Papers and The Panama Papers scandals have found many Bangladeshi business people and politicians involved in offshore businesses globally. The recent misappropriation of the financial sector, financial heist of the Central Bank (BB), liquidity crises, share market scandal, and political intervention on banks have left the financial sector in turmoil. Companies provide more Corporate Social Responsibility (CSR) expenditure in order to signal to stakeholders about their motivation and determination to social responsibility in relation to enhancing transparency and accountability. Working in a high or low corruption environment, CSR expenditure has significant value because the expenditure increases visibility to the market, improving reputation.

Keywords: corruption ; CSR ; political CSR

1. Introduction

Corruption is treated as a cancer on society because it has negative impacts on sustainable development [1][2] According to the World Bank, poor households in Paraguay pay 12.6% of their income to bribes, while rich people pay 6.8%. Similarly, in Sierra Leone, people pay 13% and 3.8%, respectively [3][4].

The prior literature has found a negative influence of corruption on investments, economic growth, and financial, social, and environmental performances of big corporations and SMEs [2][5][6]. Prior studies on CSR and environmental disclosure practices have received significant attention from academics, researchers, policymakers, practitioners, non-government organizations, and various stakeholders [7][8][9][10][11][12][13]. There are few studies, however, on corruption disclosure in developing countries [1][14][15][16][17][18][19][20]. It is argued that corruption causes major impediments in developing countries as it decreases productivity and growth potential [2][6]. Also, preventing corruption is one of the important agendas of Sustainable Development Goals (SDGs). Globally, development agencies (the World Bank) and national (the Anti-Corruption Commission) and international organizations (Transparency International) are working together to diminish corruption on both country- and firm-levels [3].

Researchers focuses on anti-corruption disclosures of Bangladeshi firms facing significant corruption problems in the last decades. Transparency International (TI), a leading global non-governmental institution working on corruption issues, has announced the Corruption Prevention Index (CPI) since 1993, and Bangladesh was ranked 147 out of 180 countries (13th from below) in 2021 (Transparency International: https://www.transparency.org/cpi2021 (accessed on 15 March 2022). Bangladesh is the second-most corrupt country in South Asia, while Afghanistan is the top most according to the TI report. Moreover, the country became a champion in corruption for five consecutive years, from 2001–2005 [21]. TI defines corruption as "the abuse of entrusted power for private gain". The CPI index for 2021 highlights that the majority of countries have made limited progress in preventing corruption, which signifies the depth of immorality and illegality in global society. Moreover, corruption creates poverty and negatively impacts SDGs. The prior literature reports that corruption is the major regulatory issue of governments. Therefore, many countries issue new laws and rules to control corruption [5]. Generally, developing countries face a weak institutional environment, lack corporate governance and transparency, and have weak judicial systems and corrupt political and administrative environments that lead to a fragile economy and motivate firms to engage in informal transactions and eventually in corruption [5][14][15][22].

The previous literature argues that whenever companies face greater obligations, they tend to focus on disclosure because it signals positivity to investors [5][23]. Watson and Hirsch [24] (2010) argue that weak governance leads to information asymmetries that increase corporate corruption. Lopatta et al. [5] conducted an empirical study on firm-level corruption disclosure and concluded that corruption risk disclosure helps management change strategic decisions on combatting corruption. Faisal et al. [14] documented that higher levels of corruption disclosure help increase the transparency and accountability of firms in relation to whistle-blowing themes. Aldaz Odriozola and Álvarez [15] empirically reported that press freedom is the most determinant of corporate anti-corruption reporting of multinational corporations operating in emerging economies. Joseph et al. [6] also argued that corruption disclosure is a strategic mechanism for fighting against corruption. TI noted that corruption reporting is a strong commitment that addresses corruption and bribery. Moreover, Azim and Kluvers [25] argue that controlling corruption at a national level is better than resisting corruption on an organizational level. The previous literature motivated people to consider that anti-corruption disclosure has significant value to the efficiency of organizations and their commitment against corruption.

Many studies have investigated the relationship between CSR disclosure and corruption, where CSR performance is measured through contents [1][10][11][12] or rating-based [26] analyses. A few studies used CSR expenditure to justify the significant association between CSR expenditure and corruption; however, no study has tested the relationship between cash holdings and corruption. Moreover, political CSR (PCSR) is under-theorized [19] and limitedly used in academic research on disclosure [19][27][28]. The prior studies on the political connections of organizations report that the relationship between politicians and organizations mainly depends on the situation, shapes, and forms of the countries' legal, institutional, and political settings [12][29]. Specifically, political connections between politicians and businesses are more open and strong in countries with a weak institutional environment, family-led politics, lack of the rule of law, and poverty [19][27][29].

As stated earlier, Bangladesh is one of the most corrupt countries in the world, the second-lowest position among the eight South Asian countries and the fourth-lowest among the 32 Asia-Pacific countries. The recent financial heist of the Bangladesh Bank (BB, Bangladesh's central bank), financial scandals of banks, political intervention on bank management, members of parliament (MP)'s interests in business, illegal money transfers, lack of the rule of law, decreasing press freedom, and fragile civil rights undermine the country's economic backbone [9][10][19][29]. The above-mentioned incidents have contributed to the decrease in transparency, morality, and ethics in Bangladesh despite the increasing GDP and per capita income. This inspired people to investigate why Bangladeshi financial companies are providing anti-corruption disclosures and what are their drivers and motivations. Researchers also consider if the disclosure is greenwashing or window-dressing to seek legitimacy. There has been a dearth of empirical studies on anti-corruption disclosure by Bangladesh companies. Masud et al. [1] found the role of board expertise and anti-corruption disclosure on Bangladeshi firms, but the study was limited to disclosure practices rather than CSR performance. They documented that anti-corruption disclosure is influenced by political directors and the media. Furthermore, the most recent study by Mottakin et al. [27] used political connections and CSR disclosure data on non-financial firms, and Uddin et al. [19] examined the PCSR and CSR disclosure of banking companies, citing the corruption scenario in Bangladesh. Moreover, Azim and Kluvers [25] conducted a descriptive study of corruption on a specialized micro-credit bank.

2. CSR Expenditure, PCSR, and Media in Bangladesh

CSR expenditure in the financial sector has been rapidly increasing in Bangladesh since 2009. The Ministry of Finance has selected 21 to 25 areas where companies spend CSR expenditures and are allowed to claim tax rebates [10][19]. Moreover, BB has been promulgating green reporting and CSR rules since 2012, which are effective as full pledges from 2015 when voluntary guidelines directed to financial companies disclosing CSR expenditures were provided. During the study period, all listed banks and non-banking financial institutions (NBFI) have spent some funds on CSR expenditures. Recent studies raised the question of CSR expenditure in the name of PCSR [11][19]. Bangladeshi politics are controlled by two family-led political parties, and, as such, businesses are commonly politically affiliated in the country [19]. In the 11th National Parliament election in 2018, 61% of the members of Parliament (MPs) were business people, representing the vast political connections of businesses. For instance, the founding chairman of the Mercantile Bank was the then-current ruling party's secretary-general and MP; Dhaka Bank's founding chairman was the opposition party's influential leader, a former MP, and minister; the newly licensed Union Bank's key influential person was the former President of the country, special envoy of the current prime minster, and an MP. Additionally, Uddin et al. [19] argue that Bangladeshi banking companies are mainly allocating funds to CSR for the ruling parties' political agenda and personal projects of powerful leaders. Moreover, Muttakin et al. [27] argue that Bangladeshi companies have high political connections that lead to more corruption. Additionally, Al Farooque et al. [30] document that political connections and a weak regulatory environment translate into corruption. According to Uddin et al. [19], financial companies are disclosing information on CSR activities and expenditures for political benefits, hoping that corruption disclosure is a strategic tool in seeking legitimacy from society and stakeholders.

The media plays an important role in controlling corruption and making people aware of the negative effects of corruption and bribery [31]. Recently, Reporters Without Borders published the press freedom index, where Bangladesh's position is very poor, indicating severe restrictions imposed on the media. Weak democracy and the continuous rule of law threaten freedom of the press. A strong media is a counterpart to the ruling government since the media seeks the public's interest. Recently, Bangladeshi media has begun to play a strong role against corruption because the Banker's Association of Bangladesh (an organization of bank owners) demanded that the government promulgate a law against the media for not circulating negative news to the public (Private banks blamed the media, stating that media coverage of bank scams led to a frenzy of depositors withdrawing their money. The Bangladesh Association of Banks rushed to propose a "Bank Reporting Act" be created [32].

3. CSR Expenditure and Political Connection

CSR performance is extensively related to an organization's value building in that more CSR expenditures can increase an organization's financial and non-financial performance and ensure transparency [5][12][19][33]. In general, organizations with poor corporate governance, ineffective regulations, and high political engagement tend to engage in corruption [19][22]. CSR is an important tool for an organization to restore its image and reputation. Organizations consider CSR disclosure an influential mechanism to demonstrate non-involvement with unethical and anti-social practices [5][12]. Socially responsible companies are involved in more CSR activities, and CSR performance is closely associated with corruption disclosure. Organizations supporting CSR-related issues want to disclose information on these issues to their diverse stakeholders to secure social acceptance and reputation. The prior literature argues that CSR performance is positively associated with corporate anti-corruption initiatives [19]. The nature of CSR expenditure depends on the management strategy and policy influenced by the quality of governance and the control of corruption [22]. Less effective control of corruption motivates organizations to use CSR expenditure for political connections and personal investments [19].

Cho et al. [34] reported that environmental expenditure is positively related to disclosure. Bae et al. [35] explored the green financing motivations of Bangladeshi firms and documented that political boards are dominant in green and sustainable decisions. Masud et al. [1] documented that political presence on the board, directly and indirectly, influences corporate corruption reporting in Bangladeshi firms. They also evidenced that corporate political connections negatively moderated the direction of laws in relation to corruption reporting. Uddin et al. [19] identified that Bangladeshi banking companies use CSR expenditure for the ruling political party's agenda implementation and the personal benefit of powerful managers. Moreover, the recent study by Jahid et al. [33] found that ownership of the firm significantly enhanced the CSR expenditure of Bangladeshi firms. The argument posits that more CSR expenditure has a supportive relationship with corruption disclosure. Hoi and Lin [36] noted two CSR motivations that prevent organizations from being corrupt, namely, extrinsic regulations (penalty) and intrinsic motivations (integrity). Generally, a highly corrupt environment motivates organizations to engage in political connections. Thus, management in this environment is inclined to more anti-corruption disclosure to signal their efforts to prevent involvement in corruption. Therefore, PCSR and corruption disclosure imply companies' long-term strategic commitment against corruption. Prior research on political connections and CSR evidenced positive and significant relationships [28]. Higher political connections force organizations to adopt higher levels of awareness and implement CSR policies. Lopatta et al. [5] documented that more CSR performance decreases the level of corruption risk of a firm. Baldini et al. [12] find a significant negative association between corruption and CSR disclosure. Furthermore, Chen [22] states that the control of corruption and effectiveness of corporate governance significantly depends on the effectiveness of law and argues that ineffective law spread low control of corruption. Due to the nature of the financial sector of Bangladesh—that is, large PCSR expenditure, less control of corruption, and ineffective corporate regulation—the management of firms with high CSR expenditure and political connections are motivated to disclose anti-corruption information to seek legitimacy with society and stakeholders and to demonstrate organizational commitment against anti-corruption.

4. Corporate Cash Holding and Internationalization

It is assumed that corporate corruption is frequently related to cash shortages or liquidity mismanagement. Holding more cash is beneficial to management because of political donations, bribery, and other informal connections to gain a positive NPV (net present value) from an investment in a highly corrupt and ineffective corporate governance environment [22][37][38]. The lack of effective corporate governance inclines management to hold more cash for short-term investment because of the absence of monitoring. However, such types of cash investments often fail to return the maximum value of investment because of unorganized and uneconomical investments [37]. Moreover, in highly corrupt and poorly regulated countries, huge explicit and implicit political costs reduce a firm's value because of management's personal, benefit-driven strategy [22][37][38][39].

Prior studies documented the negative relationship between more cash holdings and corruption. Pinkowitz et al. [39] argue that more cash holdings in firms with poor investor protection reduce the firm's value. Garmaise and Liu [40] state that holding more cash reduces a firm's value because of more involvement in corruption. Moreover, high control of corruption and effective corporate governance increase a firm's value because of efficient liquidity management and less agency cost. Huang and Zhang [41] demonstrate that more disclosure practices prevent management from holding on to excessive cash. Chen [22] conducted a study on 47 countries for cash holdings and control of corruption and documented that corporate cash holdings have a negative relationship with the level of corruption and effectiveness of corporate regulation and securities law. On the other hand, regulation positively affects disclosure performance as it is guided by a country's political and legal systems. Baldini et al. [12] argue that the level of corruption is significantly influenced by national and international regulations, and the result is consistent with Masud et al. [11] and Barkemeyer et al. [42]. Moreover, Lopatta et al. [5] pointed out that strong reporting regulations decrease additional disclosure requirements. Thus, following international reporting guidelines means disclosing more corruption activities is the company's internationalization process. Therefore, the Bangladeshi financial sector companies' corporate corruption disclosure is significantly related to more cash holdings and the internationalization of a firm's reporting regulations.

5. Media Visibility

The media plays an important role in exploring social issues, and media exposure has an important role in the disclosure literature. The prior literature has extensively investigated the relationship between media visibility and the CSR disclosure of firms and documented mixed results. Strong freedom of the press reveals highly unethical inside information about organizations and the government and discovers irregularities. Press freedom has an inverse relationship with corruption because restricted media coverage implies more corruption. However, there are very limited studies on media visibility and corruption disclosure in the financial sector. Deegan et al. [43] conducted a longitudinal study on CSR and the media coverage of Australian firms from 1983 to 1997 and reported that CSR disclosure has a positive relationship with media visibility, and the result is consistent with Branco and Rodrigues [44]. Islam and Deegan [45] investigated the media's effect on CSR disclosures and documented a significant, positive relationship for two US- and Sweden-based multinational corporations. Park and Lee [46] conducted a survey of 472 respondents from South Korea on the influence of traditional and social media on perceived corruption. They found significant positive effects from traditional media rather than social media on corruption perception in the public sector. Masud et al. [1] found a positive relationship between media and corporate corruption disclosure of Bangladeshi-listed firms. Islam and Islam [47] posit that global gas companies' environmental incidents are negatively covered in national and international media. Moreover, Islam et al. [48] documented that Chinese mobile companies' increased bribery disclosures were positively related to international media coverage, consistent with Islam et al. [31]. A recent study by Blanc et al. [23] argued that media exposure is positively associated with corporate corruption disclosure. Masud et al. [1] documented that media visibility plays a positive role in Bangladeshi financial firms' decision to disclose corruption information. The most recent study by Bae et al. [35] empirically found that Bangladeshi media positively influenced green financial promotions. Furthermore, Comyns [49] found negative relationships between media visibility and GHG disclosure of MNCs. Considering the general public sentiment against corruption, the media sets particular agendas for initiating anti-corruption movements.

6. Financial Constraints

Organizations engage in corruption for financial and non-financial advantages (tender, licensing, or investment) from the state that requires bribery or other means of informal communication [31][48]. Luo [50] identified that foreign investment is negatively associated with corruption. Corruption weakens investor protection because low control of corruption reduces transparency and accountability, which ultimately decreases the value of a firm [22]. Thus, financial constraints decrease all types of organizational investments because of limited credit availability, inability to raise money from the stock market, excessive dependence on loans, illiquidity of assets, and liquidity crises [5][51][52][53]. Financial constraints and anti-corruption disclosure should have a positive relationship because financially constrained firms significantly rely on external financing and face liquidity crises that allure unethical and informal transactions [5][53]. Garmaise and Liu [40] and Donadelli et al. [54] document that corruption is closely related to an organization's investments and returns, while low control of corruption directly reduces the firm's value by distorting investment decisions. Moreover, Bodnaruk et al. [53] argued that more financially constrained firm managers prefer to disclose more constraints in their annual reports. Lopatta et al. [5] document that financial constraints are positively linked to corruption risk disclosure. Additionally, Blanc et al. [23] and Islam et al. [48] argue that bribery and corruption disclosure is closely associated with different financial factors of organizations, including investment and growth. Furthermore, Chen [22] investigated a cross-country analysis of corruption and documented that different types of financial variables, such as dividends, leverage, and market value, have mixed relations with low control of corruption and vice-versa. The most recent study by Wellalage et al. [2] indicates that corruption increases the possibility of SME credit constraints in South Asian countries. Additionally, Bae et al. [35] found that Bangladeshi financially constrained firms are negatively promoted in climate and social innovations because of financial limitations and credibility.

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