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Declaration

I, Yousuf Kamal, declare that the PhD thesis entitled ‘Corporate Social and Environment-related Governance Disclosure Practices in the Textile and Garments Industry: Evidence from Bangladesh’ is no more than 90,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography and footnotes. I certify that the work completed in this thesis is mine alone, that any editorial work undertaken by a third party is acknowledged, that this thesis contains no material that has been submitted previously, in whole or in part, for any other academic award, that the content of this thesis is the result of work which has been carried out since the official commencement date of the approved research program, and relevant ethics procedures and guidelines have been followed.

Yousuf Kamal
November 2013
Acknowledgement

I am very grateful to the almighty Allah (GOD) for His blessings on me in the pursuit of higher studies, particularly in achieving this award.

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Publication from the thesis

Referred publications


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Acronyms
ACCA----The Association of Chartered Certified Accountants
ACCSR--- Australian Centre for Corporate Social Responsibility
ATC---Agreement on Textile and Clothing
BGMEA---- Bangladeshi Garments Manufacturers and Exporters Association
CEO---Chief Executive Officer
CPO---Chief Purchasing Officer
CSD----Corporate Social Disclosures
CSR---Corporate Social Responsibility
ETP---Effluent Treatment Plant
ILO---International Labour Organisation
MFA---Muliti-Fibre Arrangement
MNBC---Multinational Buying Company
NGO---Non-Government Organisation
OECD— Organisation for Economic Co-operation and Development
PwC----Pricewaterhouse Coopers
SEC---Securities and Exchange Commission
SEGDI---Social and Environment-related Governance Disclosure Index
SGS-----Société Générale de Surveillance
UNCTAD—United Nations Conference on Trade and Development
UNICEF--- United Nations International Children's Emergency Fund
WRAP--- Worldwide Responsible Accredited Production
WTO---World Trade Organisation
Summary of the thesis

In this thesis, three inter-related research issues have been explored within the context of the textile and garments industry of a developing country, Bangladesh. This industry in Bangladesh has gained negative media publicity and Western concern over the use of child labour, poor working conditions, health and safety issues, and human rights and other labour-related issues for years. Western clothing brands (for example Gap, JC Penny, Tommy Hilfiger, Calvin Klein, PVH, H&M, Wal-Mart, Target), who source many of their products from developing countries like Bangladesh, have particularly highlighted various concerns about the safety records and working conditions of the garments factories in Bangladesh. These heightened levels of concern would imply that the various stakeholders, including multinational buying companies, non-government organisations (NGOs) and the media, expect accountability and/or transparency pertaining to corporate governance practices and related disclosures from the organisations that these international brands source their products from. There is also a gap in the social accounting literature in regards to investigating corporate social responsibility (CSR)-related corporate governance practices and the disclosure thereof both in a developed and developing country context. This thesis attempts to address this gap by investigating corporate disclosure practices of CSR-related governance information. The findings from this research have been explained using legitimacy theory, stakeholder theory and institutional theory.

The thesis consists of three inter-related parts: the first part investigates the social and environment-related governance disclosure practices of a sample of textile and garments companies operating within Bangladesh. Using annual report content analysis the findings show that the disclosure of governance information lags behind general CSR disclosures. Consistent with previous CSR research investigating CSR disclosures generally, the first part of the thesis finds that the textile and garments companies disclose information about their governance practices in order to secure/maintain legitimacy and/or to meet community expectations. However, this part shows that governance disclosures still fall short of what might be construed as necessary to support the demand or expectation of the international community, and despite ongoing international concerns about
workplace conditions and associated safety, the results suggest limited accountability and transparency in relation to social and environment-related governance practices within the developing country context.

The second part of the study investigates stakeholder expectations in relation to CSR-related corporate governance practices. It explores how stakeholders’ expectations potentially translate into the disclosure of information regarding CSR-related corporate governance practices. Twenty five in-depth interviews were conducted with various stakeholders in an endeavour to understand their expectations pertaining to the supply of information about CSR-related corporate governance practices in the context of a developing country. The findings of the second part of the thesis reveal that powerful stakeholders, such as multinational buying companies, are satisfied with the information they receive, as they access this information from alternative media such as social audit reports, which cannot be accessed by other less powerful stakeholders such as NGOs, the media or employees. Multinational buying companies obtain these social audit reports directly from third party independent auditors or from the individual supply companies, who are often pressured into funding the cost for these audits in order to satisfy their powerful stakeholders. Less powerful stakeholders without access to the social audit reports believe that organisations’ disclosure of governance information is limited and only symbolic in nature.

The results of the second part of study emphasises that researchers need to be careful when making claims about the completeness (or otherwise) of disclosures if they do not also consider the possibility that special purpose (and non-public) reports, such as social audit reports, are being prepared. The findings in this part highlight that these reports prepared by independent third parties are sufficient for the multinational buying companies (the most powerful stakeholders in the textile and garments companies of Bangladesh), thus they do not need any additional information. However, in projecting a positive image to the global market, perhaps there is a need for these general purpose financial reports to be produced by the supply companies and their association, the BGMEA. Since NGOs, the media and other stakeholders who are less powerful perhaps do not have access to these special purpose reports, or perhaps they have not clearly identified what
information they specifically want, they have to rely on the general purpose reports which do not satisfy their demands. The second part of the thesis explores the apparent disconnection between stakeholder expectations and corporate disclosures.

The third and last part of the thesis explores the motivations driving corporate managers’ disclosure of CSR-related corporate governance information. The insights were gathered through conducting 12 in-depth interviews with senior corporate managers of the textile and garments companies of Bangladesh. The interview results reveal that corporate managers provide CSR-related governance information primarily to satisfy powerful stakeholders. The result suggests that corporate managers of Bangladeshi supply companies are motivated by financial returns and they want to make sure that buyers get the required governance information; which is not driven by corporate accountability or social responsibility. It is found that the managers in a developing country provide CSR-related governance information when they perceive pressure from powerful stakeholders and when they are threatened with the loss of their supply contract, in other words, lost business. It is worthwhile noting that the textile and garments companies of Bangladesh are an export-oriented industry, are therefore dependent on the foreign export of their produce; thus they really need to take into consideration what their powerful stakeholders expect from them.

Combining the three parts discussed above, the thesis provides an original contribution to academic research scholarship by providing insights into the disclosure of CSR-related corporate governance information in a developing country context.
Chapter One
Introduction and Brief Overview of the Thesis

1.1 Introduction
This thesis consists of three inter-related parts of a broader study investigating corporate social and environment-related governance disclosure practices of organisations within a developing country. The first part investigates CSR-related governance disclosure practices of a sample of textile and garments companies in the context of Bangladesh. The second part investigates the expectations of stakeholders pertaining to CSR-related governance and how or whether these expectations translate into the disclosure of governance information. This part also investigates the potential institutional effect of a major industry association over its constituent companies. Finally, the third part of this thesis investigates the motivation behind corporate managers’ disclosure/non-disclosure of CSR-related governance information.

Throughout the thesis the term ‘CSR-related governance’, ‘CSR-related corporate governance’, ‘social and environment-related governance’ and ‘social responsibility-related governance’ have been used interchangeably and synonymously. For the purpose of this thesis, CSR-related governance is defined as the rules, regulations, policies or structures that an organisation has in place to address matters related to CSR. These plans and policies could be part of organisations’ broad corporate governance practices. The following sections of this chapter provide an overview of the three research issues explored in this thesis, the development of research methods, this study’s contribution to research, and an outline of the organisation of remaining chapters.

1.2 Research issues explored in this thesis
As stated above, this thesis explores three interconnected research issues. The general motivation to explore these research issues is that there is lack of research in social accounting literature pertaining to the investigation of CSR-related governance practices (Parker, 2005a; Parker, 2005b; Solomon, 2010). Some specific motivations are described in this section, while these are further
elaborated in Chapter Two after providing a detailed discussion about the context of this study.

The first research issue and objective, addressed in Chapter Five, is to understand CSR-related governance information disclosure practices within the context of a developing country. To achieve this objective, this part of the thesis focuses on the social and environment-related governance disclosure practices of five sample textile and garments companies operating in Bangladesh. The motivation behind this is now provided.

During the last two decades the textile and garments industry of Bangladesh has attracted severe criticism from the Western community, including multinational buying companies, NGOs and media, particularly with respect to the use of child labour, poor working conditions within supply factories, and violation of human rights/labour rights (Islam & Deegan, 2008). Over the years, the global community’s expectations have changed, and various stakeholders have become more interested in the corporate governance practices pertaining to the CSR performance of supply companies. Accordingly, textile and garments companies in Bangladesh received external pressure to change their corporate governance practices and to provide disclosures pertaining to those practices (Chapter Two provides a list of pressures perceived by the textile and garments industry of Bangladesh). However, there is no known research that investigates how organisations within a developing country provide disclosures pertaining to their governance practices; prior research has tended to focus on CSR disclosures generally rather than focusing on disclosures pertaining to the CSR-related governance practices in place (see for example Belal & Roberts, 2010; Islam & Deegan, 2008; Belal & Owen, 2007; de Villiers & van Staden, 2006; Haniffa & Cooke, 2005; Imam, 2000; Belal, 2001; Jaggi & Zhao, 1996; Teoh & Thong, 1984; and Singh & Ahuja, 1983, among others). Thus, in the first part of this thesis the researcher investigates the CSR-related governance disclosure practices of the textile and garments companies of Bangladesh, and how (if at all) they have changed their governance disclosure practices over the years. This part of the thesis utilises annual report content analysis in order to understand the disclosure practices pertaining to social and environment-related governance information.
The primary research (the first part of the broader study) reveals that the disclosure of social and environment-related governance information is limited, and identifies that disclosures tend to be symbolic rather than substantive. The first part of the thesis specifically shows that early in the lifecycle of CSR disclosure, organisations might tend to provide symbolic disclosures that are consistent with a commitment to sound CSR-related performance. However, should stakeholder pressure be sustained, subsequent disclosures tend to be more substantive and include details about actual governance practices in place. The findings of this part of the thesis imply that when organisations provide detailed information about CSR-related governance practices this can help stakeholders determine the potential risk of being associated with them in their supply chain. It also implies that if an organisation demonstrates that it has sound CSR-related governance practices in place, and its disclosures reflect this, it could have a competitive advantage over other organisations within the industry.

Based on the above findings of primary research, this study further explores whether these disclosures (as found in the primary research) actually appear to meet the information demands of stakeholders, in particular stakeholders that might be considered powerful. Thus, the objective of the second part of the thesis (detailed in Chapter Six) is to investigate the expectations of stakeholders pertaining to CSR-related governance disclosure practices. The exploration of stakeholders’ expectations is important, since poor CSR-related corporate governance practices in the supply chain can have significant implications for stakeholders (such as multinational buying companies); these stakeholders do not only want information about supply companies’ CSR performance, but also require information about the corporate governance practices supply companies have in place to mitigate the risk of negative social and environmental incidents arising. While some of the previous research investigates stakeholders’ influence on corporate social disclosures (see for example Deegan & Blomquist, 2006), there is no study so far that investigates the expectations of stakeholders pertaining to CSR-related corporate governance disclosure practices.

To understand the expectations and perceptions of stakeholder’s pertaining to CSR-related corporate governance disclosure practices, 25 in-depth personal
interviews were conducted with different stakeholders in the textile and garments companies of Bangladesh. The result of this part of the thesis indicates that stakeholders have different expectations and perceptions and there are two distinct groups of stakeholders; powerful and low-power stakeholders. Powerful stakeholders seem to receive the required governance information from an alternative source (that is, not from publicly available sources of information), whereas less powerful stakeholders depend on general purpose reports (that are publicly available) for their information needs. Accordingly stakeholders’ levels of satisfaction are different, as they receive different levels of information depending on the respective sources of information available to them. This is particularly significant, since researchers clearly need to be careful when making claims about the completeness of disclosures if they do not consider the possibility that special purpose (and non-public) reports are being prepared and used by particular stakeholder groups.

The third and final component of the research (detailed in Chapter Seven) was developed as a result of the first and second part of the thesis; the first part found limited disclosures pertaining to CSR-related governance information and the second part found that some of the powerful stakeholders are able to access the required governance information while other stakeholders are not, with the consequence that the latter group believe that the corporate disclosures are limited and inadequate for their purposes. Thus, the third part of the thesis investigates the rationale behind corporate managers’ behaviours when disclosing CSR-related governance information. The motivation behind this part of study is provided below.

Since the garments industry of Bangladesh is highly dependent on multinational buying companies, they need to satisfy the information demands of this group of stakeholders. As discussed elsewhere in this thesis, global community’s expectations have changed from the disclosure of general CSR information, which

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1 This thesis uses the term ‘general purpose reports’ to refer to a report that is publicly available, for example corporate annual reports and which is designed to at least partially address the information needs of a broad cross-section of users. This is contrast with ‘special purpose reports’. A stakeholder could command, and receive, special purpose reports when it has relatively greater power to make decisions about the allocation of scarce resources necessary to an organisation’s survival (Henderson et al., 2011).
is deemed to be symbolic, to more substantive disclosures of governance practices. Thus it is imperative for Bangladeshi corporate managers to change/adopt CSR-related governance practices and disclose all of these to demonstrate that they are concerned about global community expectations and/or stakeholders’ pressure. Furthermore, if organisations fail to provide appropriate disclosures pertaining to CSR-related corporate governance practices, this might create pressures for the business as the powerful stakeholders could be dissatisfied in the absence of receiving required governance information and may consequently withdraw their support. While previous research explored the managerial motivation behind general CSR disclosures (see for example Islam & Deegan, 2008; Belal & Owen, 2007, Deegan, 2002, O’Dwyer, 2002, Tilt, 1994), there is no known research that investigates the motivation behind corporate managers’ CSR-related governance disclosures. Thus, the third part of the thesis investigates the underlying motivations behind corporate managers’ disclosure/non-disclosures of CSR-related governance information. The results suggest that corporate managers of the local supply companies are motivated by financial incentives rather than ethics, corporate accountability or social responsibility.

To investigate the above three inter-related research issues, the researcher developed a research method combining annual report content analysis and personal interviews. The next section focuses on the development of the research methods.

1.3 Developments of research methods
The detailed research method applied to investigate the respective research issues is discussed separately in Chapter Five, Six and Seven. The first phase of the research (Chapter Five) utilises annual report content analysis, the second part (Chapter Six) utilises in-depth personal interviews with various stakeholders, and the third part (Chapter Seven) utilises in-depth personal interviews with corporate managers. An overview of the development of the research methods is given below.
The first part of the thesis utilised annual report content analysis (Krippendorff, 2004). The annual reports of five Bangladeshi textile and garments companies were collected for a period of 14 years (from 1996 to 2009). This period has been chosen to provide insight into how the disclosure of social and environment-related governance information has changed over time, and during a period where there were changing pressures being exerted upon the industry. This part of the thesis also requires the preparation of an index to measure and classify the disclosures pertaining to CSR-related governance information as there was no such index. The index was developed based on various international guidelines and is available for future researchers. The research methods utilised in this part of the research were also used by researchers such as Haque and Deegan (2010), Islam and Deegan (2008), Hackston and Milne (1996), Deegan and Gordon (1996), and Deegan and Rankin (1996) among others. The development of the disclosure index and the detailed research methods for the first part of the research are outlined in Chapter Five.

The second major phase of the research utilised in-depth personal interviews with various stakeholders of the textile and garments companies of Bangladesh. The primary objective of these interviews was to obtain detailed insights into the perceptions and/or expectations of the stakeholders about CSR-related corporate governance practices and related disclosures. Stakeholders are identified based on prior literature in the context of the textile and garments industry of Bangladesh. A total of 25 interviews were conducted with various stakeholders, including multinational buying companies, NGOs, representatives from the media, workers, the government, and with senior officials from BGMEA. This is the first known study to encompass such a variety of stakeholders’ views on CSR-related corporate governance practices. The research methods adopted for this part of the research were similar to those used in certain previous research, such as Islam and Deegan (2008), Belal and Owen (2007), Deegan and Blomquist (2006), and O’Dwyer (2002) among others. The interviewee profiles and the details of conducting interviews are discussed in Chapter Six.

The third and final phase of the research also utilised primary data from corporate managers of the textile and garments companies of Bangladesh. As this part of the
research aims to understand the motivation behind corporate managers’ disclosure of CSR-related governance information, 12 in-depth personal interviews were conducted with senior corporate managers. Three interviewees were selected from listed Bangladeshi companies and the remaining were selected from unlisted Bangladeshi companies. Most of the interviewees are very senior corporate managers, or chief executive officers or chairmen, or managing directors of the companies; in most of the cases (except in public listed companies) they are the owners or majority shareholders. The detailed research methods and the interviewee profiles are elaborated on in Chapter Seven.

Thus, the researcher of this thesis utilises annual report content analysis and in-depth personal interviews with different stakeholders and senior corporate managers, in order to provide a richer empirical understanding of corporate social and environment-related governance reporting practices. The next section briefly outlines some potential contributions that this thesis makes to the social and environmental accounting literature.

1.4 Contribution to research

Whilst the three parts of this research contribute to the understanding of corporate disclosure practices of social and environment-related governance information in a developing country context, there are several further significant contributions of each part of this research.

The significant contribution of the first part of this research is that it develops an index called the ‘social and environment-related governance disclosure index’ (SEGDI), which provides a measure of disclosure quality in relation to the disclosure of social responsibility-related corporate governance information. This index might usefully form the basis for other researchers interested in developing an instrument to evaluate the quality of social responsibility-related corporate governance information. The result of the first part of the thesis finds that CSR-related governance information disclosures are limited and fall short of what
might otherwise be expected by the international community\textsuperscript{2}. It also finds that the apparent peak in CSR-related governance disclosures is different from that of general CSR disclosures\textsuperscript{3}. There is lot of research investigating the disclosure practices of CSR issues generally, both in the developed and developing country context, but there is relatively limited research investigating CSR-related governance disclosure practices. In terms of a theoretical contribution, this part of the thesis applies a legitimacy theory perspective in a developing country context to analyse the disclosures of CSR-related governance information. While the previous research has applied the same theory to explain the disclosure practices of CSR performance in general, this thesis applies it to explain the more specific and narrow area of CSR-related corporate governance disclosure practices.

While investigating the expectations of stakeholders regarding the corporate governance practices pertaining to social and environmental performance, in the second part of the study the researcher selected a wide variety of stakeholders in order to understand their perceptions and/or expectations pertaining to social and environment-related governance reporting. The results emphasised that social accounting researchers need to consider the other avenues of disclosures in order to obtain a fuller understanding of the governance disclosure practices pertaining to CSR-related corporate governance. This part of the finding reveals that some stakeholders receive the required governance information from an alternative source (special purpose reports); these reports are often prepared by third parties. However, many stakeholders do not have access to these reports and thus may perceive that the disclosures in traditional publicly-available media (for example corporate annual reports) are limited and symbolic. This part of the thesis suggests that corporate managers consider placing some forms of CSR-related corporate governance disclosure – such as that included within social audit reports - in publicly available media in order to demonstrate greater accountability and transparency.

\textsuperscript{2} As noted earlier, this part of the thesis has developed an index based on various international guides that seem to reflect the expectations of the international community. The development of the index has been explained in Chapter Five.

\textsuperscript{3} The terminology ‘general CSR disclosures’ refers to the disclosure CSR information which encompasses various CSR issues and which can be subdivided community, environment, product and safety, energy, human resources and ‘other’ categories. It does not include CSR-related governance disclosures.
The result of this part of the thesis also reveals that the industry association in a developing country context (BGMEA) has a direct institutional effect over the supply companies; specifically it appears to have some influence in causing the use of relatively similar governance disclosure practices. In terms of theoretical contribution, this part utilises a combination of legitimacy theory, stakeholder theory and institutional theory to provide insights into the expectations of stakeholders pertaining to CSR-related governance disclosures. Using the complementary perspective of these three theories, it shows that organisations in a developing country need to consider societal expectations as well as stakeholders’ power whilst implementing corporate governance practices and undertaking disclosure decisions pertaining to their social performance.

While the results of the second part of the thesis find that some stakeholders are receiving the required governance information from an alternative media, it does not consider why corporate managers are forced to use a third party (alternative media) to provide the required governance information. Thus, the third component of this study explores the motivation behind corporate managers’ decision pertaining to the disclosure/non-disclosure of CSR-related governance information. The results reveal that corporate managers are primarily interested in providing CSR-related governance information to satisfy the information demand of powerful stakeholders such as multinational buying companies, which is consistent with the managerial branch of stakeholder theory. The significant contribution in this part of the research is that local supply companies are more interested in securing their supply contract rather than considering the broader societal expectations or corporate accountability and transparency. To satisfy the information needs of the buyers, they want to make sure that these buyers get the required governance information from a reliable source. Accordingly, they provide information to the third party who eventually discloses the governance information to the sourcing companies. Using the managerial branch of stakeholder’s theory, this part of the thesis provides a deeper understanding of the managerial motivation behind CSR-related governance disclosures.

Further contributions are discussed in each of Chapter Five, Six and Seven, and again these are highlighted in Chapter Eight. This chapter provides only a brief
overview of the contribution of each part of the thesis. Thus, considering the above contributions and addressing the research gap in social and environmental accounting, it is argued that this thesis provides an original contribution to the social and environmental accounting literature, as it offers an overview of corporate governance reporting in its broader social and environmental context.

1.5 Organisation of remaining chapters
The next chapter (Chapter Two) discusses the context of the thesis, which is the textile and garments industry of Bangladesh. This chapter particularly focuses on the relevant CSR issues such as human rights, child labour and poor working conditions in the supply factories that Western brands source their products from. This chapter also discusses the motivation behind choosing the Bangladeshi textile and garments sector as the context of this thesis. Chapter Three focuses on relevant literature in the social and environmental accounting discipline. It also focuses on relevant literature on corporate governance areas, as the thesis focuses on CSR-related corporate governance disclosure practices. It then sheds light on prior literature in the developing country context and finally identifies apparent gaps in the literature.

Chapter Four discusses the relevant theoretical paradigm and focuses on legitimacy, stakeholder and institutional theory. The theoretical discussions are relevant as the researcher applied these theories to explain the findings of this thesis. This chapter also justifies the complementary perspective of the underlying theories in the context of the thesis. Some of the theoretical discussions overlap in Chapter Five, Six and Seven, as each of these chapters has a separate section detailing the particular theory (ies) utilised to encapsulate the findings. Chapter Five provides the results of the first part of broader study by investigating the annual reports of a sample of Bangladeshi textile and garments companies over a period of time. Chapter Six provides the results of the investigation pertaining to stakeholders’ expectations about CSR-related corporate governance disclosure practices. This chapter also focuses on the apparent institutional effect of an industry association over its constituent bodies. The next chapter (Chapter Seven) investigates the managerial motivation to disclose social responsibility-related governance information within a developing country context. Finally, Chapter
Eight concludes the thesis by focusing on the research contributions, potential limitations, research implications and identifies some further potential avenues of research.
Chapter Two

Textile and Garments Industry of Bangladesh

2.1 Introduction
This chapter provides the context of the thesis. As the textile and garments industry of Bangladesh is the focus of this thesis, it seems relevant to discuss the growth and development of the garments industry of Bangladesh. The history of independence of Bangladesh is economically significant; as it helps to develop the textile and garments sector. This chapter provides the chronological development of the textile and garments sector, and the employment opportunities, since its inception. As this sector of Bangladesh is subject to Western criticism because of poor working conditions and health and safety issues, this chapter focuses on the overall CSR practices in the supply factories. This chapter provides a list of major pressures, and pressure groups on the textile and garments sector of Bangladesh. Finally, this chapter provides the motivation behind choosing the Bangladeshi textile and garments industry as the focus for this research. The term ‘textile and garments’, ‘garments’, ‘ready-made garments (RMG)’ are used throughout this thesis synonymously. The next section discusses the growth and development of the garments industry of Bangladesh.

2.2 The growth and development of the garments industry of Bangladesh
Bangladesh is a developing country located in South Asia with an area of 147,570 square kilometres and with a population of 150.5 million (World Bank, 2011a). It achieved its independence in 1971 from West Pakistan (as it was then) after a nine month long liberation war. Before independence, it was part of Pakistan and was ruled by the British for almost 200 years (as a British Colony) and by West Pakistan for another 24 years. The official language of the country is Bengali, the only language in the world that a country has fought to keep and many of its people sacrificed their lives for on the 21st of February, 1952. As a result, the 21st of February is marked as ‘International Mother Language Day’ and has been
observed throughout the world to respect Bangladeshi’s mother tongue (UNESCO, 2012)⁴.

After the independence of Bangladesh, jute and tea were the top export industries, but with the persistent natural calamities like floods, falling jute fibre prices and world demand, the role of the jute sector in the country’s economic development declined. Then the government moved to a private sector-led export-oriented economy in the late 1970s in search of prosperity and growth. Due to this change, there was a rapid growth in the private sector, and the textile and garments industry benefited most from this privatisation policy. Bangladesh formally entered the global export market for apparel in 1978, with nine garments factories which earned US$0.069 million (The New Nation, 2010). The journey started in 1978 with a shipment of 10,000 men’s shirts worth 13 million Francs to a French company from Reaz Garments Ltd. (Mirdha, 2013). Desh Garments Ltd. was the first fully export-oriented garments factory in the country and it entered the global market in 1979. In 1980, the South Korean Youngone Corporation formed the first joint-venture garments factory with a Bangladeshi firm, Trexim Ltd (Mirdha, 2013).

Bangladesh experienced rapid trade liberalisations in the early 1990s and turned from being an agricultural economy to a market-led economy. The open market-led economy further accelerated the growth of the textile and garments sector of Bangladesh. For Bangladesh, initially, the imposition of export quotas⁵ by the US, Canada and other European countries acted as a guarantee for certain quantities of export sales; this helped to establish market presence, and acted as a way to emerge from the Multi-Fibre Arrangement (MFA) shield with its comparative advantage over other countries (World Bank, 2005). Mirdha (2013) also notes that the availability of cheap labour, trade quota facility, and cash incentives against export and entrepreneurial skills have helped the garments sector of Bangladesh to grow since the country’s initial entry into the global market.

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⁴ International Mother Language Day has been celebrated every year since February 2000 to promote linguistic and cultural diversity and multilingualism (UNESCO, 2012).

⁵ The ‘imposition of export quota’ prima facie reflects a restriction on trade, however, in the context of the Bangladeshi textile and garments industry this restriction provided a rather positive aspect, as other competitors could not export more than their designated quota and Bangladesh was provided with the opportunity to enter into the global apparel market.
Bangladesh has enjoyed the trade quota facility since 1985, and since it has enough manpower it has fully utilised its trade quota unlike its neighbours: India, Pakistan, Sri Lanka and Nepal (Mirdha, 2013). However, the industry remained competitive even after the withdrawal of export quotas by 2005\(^6\).

During the last two decades this industry has rapidly grown due to policy support from the government and the dynamism of private sector entrepreneurs. Currently, the number of garments factories is over 5,000 and it provides almost 80% of the total national export earnings of Bangladesh (Table 1). The dollar value of the textile and clothing export industry of Bangladesh was US$18 billion in the financial year of 2010-2011 (BGMEA, 2011). McKinsey (2011), a large consulting firm, has predicted that Bangladeshi garment exports could triple by 2020.

The industry also provides employment to about four million people of which about 85% are women (BGMEA, 2011), and plays a critical role in providing a socially acceptable vocation for women in what is generally considered to be a very conservative Muslim country (Yardley, 2012). Belal and Roberts (2010) also note that the current economic context of Bangladesh is characterised by a private sector-led rapid industrialisation policy, marked by significant foreign investments and export-oriented industrialisation such as the growth and development of the textile and garments industry. Such economic strategy has enabled Bangladesh to achieve a stable average annual economic growth of about 6% over the last decade (World Bank, 2011a). At a broader level, and with its linkages to supporting industries, the textile and garments industry of Bangladesh supports the livelihood of more than 10 million Bangladeshis – many of whom would otherwise be destitute (World Bank, 2005; Habib, 2009). Thus, in terms of employment, output, export earnings, and the development of forward and backward linkages, the industry has had a very positive impact on the economy of Bangladesh.

\(^6\) As the global apparel market became more competitive, this ‘quota system’ was finally abolished on 31 December 2004, making worldwide textile and garments trade quota-free.
Table 1: The growth of the garments industry of Bangladesh in terms of numbers of garments factories, numbers of employees and the percentage of exports to total exports.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of garments factories</th>
<th>Employment in millions</th>
<th>Percentage of garments exports to total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-85</td>
<td>384</td>
<td>0.12</td>
<td>12.44</td>
</tr>
<tr>
<td>1985-86</td>
<td>594</td>
<td>0.2</td>
<td>16.05</td>
</tr>
<tr>
<td>1986-87</td>
<td>629</td>
<td>0.28</td>
<td>27.74</td>
</tr>
<tr>
<td>1987-88</td>
<td>685</td>
<td>0.31</td>
<td>35.24</td>
</tr>
<tr>
<td>1988-89</td>
<td>725</td>
<td>0.32</td>
<td>36.47</td>
</tr>
<tr>
<td>1989-90</td>
<td>759</td>
<td>0.34</td>
<td>32.45</td>
</tr>
<tr>
<td>1990-91</td>
<td>834</td>
<td>0.4</td>
<td>50.47</td>
</tr>
<tr>
<td>1991-92</td>
<td>1163</td>
<td>0.58</td>
<td>59.31</td>
</tr>
<tr>
<td>1992-93</td>
<td>1537</td>
<td>0.8</td>
<td>60.64</td>
</tr>
<tr>
<td>1993-94</td>
<td>1839</td>
<td>0.83</td>
<td>61.4</td>
</tr>
<tr>
<td>1994-95</td>
<td>2182</td>
<td>1.2</td>
<td>64.17</td>
</tr>
<tr>
<td>1995-96</td>
<td>2353</td>
<td>1.29</td>
<td>65.61</td>
</tr>
<tr>
<td>1996-97</td>
<td>2503</td>
<td>1.3</td>
<td>67.93</td>
</tr>
<tr>
<td>1997-98</td>
<td>2726</td>
<td>1.5</td>
<td>73.28</td>
</tr>
<tr>
<td>1998-99</td>
<td>2963</td>
<td>1.5</td>
<td>75.67</td>
</tr>
<tr>
<td>1999-00</td>
<td>3200</td>
<td>1.6</td>
<td>75.61</td>
</tr>
<tr>
<td>2000-01</td>
<td>3480</td>
<td>1.8</td>
<td>75.14</td>
</tr>
<tr>
<td>2001-02</td>
<td>3618</td>
<td>1.8</td>
<td>76.57</td>
</tr>
<tr>
<td>2002-03</td>
<td>3760</td>
<td>2</td>
<td>75.01</td>
</tr>
<tr>
<td>2003-04</td>
<td>3957</td>
<td>2</td>
<td>74.79</td>
</tr>
<tr>
<td>2004-05</td>
<td>4107</td>
<td>2</td>
<td>74.15</td>
</tr>
<tr>
<td>2005-06</td>
<td>4220</td>
<td>2.2</td>
<td>75.06</td>
</tr>
<tr>
<td>2006-07</td>
<td>4490</td>
<td>2.4</td>
<td>75.64</td>
</tr>
<tr>
<td>2007-08</td>
<td>4743</td>
<td>2.8</td>
<td>75.83</td>
</tr>
<tr>
<td>2008-09</td>
<td>4925</td>
<td>3.5</td>
<td>79.33</td>
</tr>
<tr>
<td>2009-10</td>
<td>5063</td>
<td>3.6</td>
<td>77.12</td>
</tr>
<tr>
<td>2010-11</td>
<td>5150</td>
<td>3.6</td>
<td>78.15</td>
</tr>
<tr>
<td>2011-12</td>
<td>5400</td>
<td>4</td>
<td>78.6</td>
</tr>
</tbody>
</table>

Source: Compiled by the researcher from BGMEA (2012), and EPB (2012).

The table above indicates the growth of the garments industry of Bangladesh over the years in terms of the number of factories, number of employees and its export contribution in relation to the national economy. The most significant contribution of this industry is that it has uplifted the neglected section of the population, most of whom are illiterate and/or rural women. Providing employment to these vulnerable groups in society, the garments industry thus radically transformed the socio-economic condition of the country. Without employment in this sector, some would end up in prostitution and others could be street beggars, or domestic maids. In addition to this, a significant portion of the Gross Domestic Product
(GDP) of Bangladesh’s economy comes from this sector; Reuters (2008) notes that almost 10.5% of the country’s GDP is provided by the textile and garments industry and it contributes about 40% of the total manufacturing output of the country. Over the years, Bangladesh has become one of the favourite sourcing destinations for the fashion-based multinationals. The following section focuses on this issue.

2.3 Bangladesh, a major sourcing destination

Since the start of its garments export industry in the late 1970s, Bangladesh has seen its export levels grow steadily and has become one of the top global exporters. The attractiveness for buyers lies in Bangladesh’s long-term experience and performance in relation to the sourcing countries’ selection criteria of price and capacity, as well as product portfolio offered (McKinsey, 2011). Leading international retailers, especially from the value sector\(^7\), started to source in Bangladesh in the 1980s. Over time, multinational buyers have strengthened their sourcing base by shifting towards direct sourcing and opening their own local offices in Dhaka and Chittagong (the two biggest cities of Bangladesh) (McKinsey, 2011). Yardley (2012) notes that for global brands, which are forever chasing the cheapest labour costs from country to country, Bangladesh has been an attractive destination, especially as wages have increased in China.

Mirdha (2013) also notes that now, Bangladesh is not only a supplier of basic garments, but also a major sourcing destination for high-end apparel items and currently, more than 30% of the total garments export is high-end products\(^8\). The strength of the country’s apparel sector is well understood through its ability to supply high-end items to famous global brands such as Hugo Boss, Adidas, Puma, Tommy Hilfiger, G-Star, Diesel, Ralph Lauren, Calvin Klein, DKNY, Nike, Wal-Mart, K-Mart, Reebok, Gap, PVH, Perry Ellis, Tesco, Primark, Carrefour, Kids Headquarters, Inditex (Zara), Li & Fung, H&M, JC Penny, Marks & Spencers and many others. Some of these brands have been sourcing garments from Bangladesh

\( ^7 \)“Value sector” products in the textile and clothing industry include high quality, fashionable and more sophisticated products such as outerwear and formal wear. The value market products typically require higher quality fabrics (McKinsey, 2011).

\( ^8 \)A high-end product is a product that is one of the most expensive or advanced in a company’s product range, or in the market as a whole.
for many years and others have only recently become interested in Bangladeshi garments due to the increased costs in China. For example, Li & Fung, a Hong Kong based company that manages sourcing and apparel manufacturing for companies like Wal-Mart and Liz Claiborne, reported that its production in Bangladesh jumped 20% in 2010, while China, its biggest supplier, slid five percent (The New York Times, 2010). Bangladesh is known for its low labour costs relative to other producers of garments and this seems to be the key reason for the transfer of garments manufacturing to Bangladesh (Doshi, 2006). Very recently (April 23, 2013), The American Federation of Labour-Congress of Industrial Organisations (AFL-CIO), a US-based labour rights group, released a report titled ‘Responsibility Outsourced: Social Audits, Workplace Certification and Twenty Years of Failure to Protect Worker Rights’ (AFL-CIO, 2013, p. 3). In its executive summary it notes:

Since at least the 1980s, global supply chains of major brands have spread to countries where governments have demonstrated little will or capacity to regulate the many workplaces that enter into business relationships with these brands. In such places, labour laws often are weak or poorly enforced, workers’ rights are not recognised and workers effectively are blocked from organising unions and engaging in collective bargaining with employers to bring wages above poverty level. Basic safety and health standards and human rights at many of these workplaces routinely are violated. Locating production in these most precarious parts of the global supply chain has become a standard means for international brands to maximize revenues and press for an edge on their competitors by driving production costs ever lower.

Since the early 1990s, corporate social responsibility has become an issue of increasing importance in regards to outsourcing decisions to developing countries (Linfei & Qingliang, 2009), and the Bangladeshi garments sector has benefited from this. The recent labour unrest in China, which led to big pay rises for many factory workers and changes in Beijing’s currency policy, has raised the cost of Chinese exports; this has led to more opportunities for other competitive countries such as Bangladesh and Vietnam (The New York Times, 2010). Although Bangladeshi garments workers sometimes protest against low wages, they still receive much lower wages than in China. For example, an average Bangladeshi garments worker’s wage is about US$64 a month, the lowest garments wage in the world, whereas the minimum wages in China’s coastal industrial provinces
range from US$117 to US$147 a month (The New York Times, 2010). The following table provides further insights into the different wage structure of different garments producing country.

Table 2. Average hourly wages (including fringe benefits) in the RMG industry

<table>
<thead>
<tr>
<th>Country</th>
<th>Hourly wages in US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>3.56</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.20</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.04</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.78</td>
</tr>
<tr>
<td>India</td>
<td>0.56</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.49</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.43</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.40</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.39</td>
</tr>
<tr>
<td>China</td>
<td>0.40</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Source: Adapted from Habib (2009).

McKinsey (2011) finds that Bangladesh offers two main ‘hard advantages’ – price and capacity – which helps it to retain its attractiveness as a sourcing destination. It has successfully turned its comparative advantage, cheap labour (as indicated in Table 2), into a competitive advantage over other countries. Bangladeshi garments manufacturers provide satisfactory quality levels, especially in value and entry-level mid-market products, while acceptable speeds and risk levels can be achieved through careful management. All Chief Purchasing Officers (CPO) participating in the research conducted by McKinsey (2011) named price attractiveness as the first and foremost reason for purchasing in Bangladesh. Half of the CPOs identified capacity as the second biggest advantage of Bangladesh’s garments industry. Having more than 5,000 factories and employing about four million workers, Bangladesh is clearly ahead of Southeast Asian clothing suppliers in terms of capacity offered (for example, Indonesia has about 2,450 factories, Vietnam 2,000, and Cambodia 260 factories) (McKinsey, 2011). Other markets such as India and Pakistan have the potential to be high-volume supply markets, but high risk or structural workforce factors prevent a high utilisation of their capacity (McKinsey, 2011).
Traditionally, European and US apparel buyers benefited from continually decreasing purchasing prices by moving their sourcing activities to low-cost countries in the Far East; China held the most interest. As the labour costs in China and other key sourcing markets have increased significantly, however, Western buyers searched for the ‘next China’ and Bangladesh was clearly the preferred next stop for the sourcing caravan (McKinsey, 2011). War on Want (2012) also identified that the reason so many multinational companies source clothing and sportswear from Bangladesh is that it has the lowest minimum wage in Asia, guaranteeing some of the lowest production costs in the world.

Because of the competitive advantage over price and capacity, apart from the traditional markets like the US and the EU, export earnings from garments sold to new export destinations have increased significantly; new export markets include India, Japan, China, Australia, Canada, South Africa, Brazil and Mexico (The New Nation, 2010). In addition to price, capacity and capability, a high share of European CPOs strongly emphasise the advantages of sourcing from Bangladesh due to favourable trade agreements (McKinsey, 2011). The broadening of the European Union Generalised System of Preference (EU-GSP) rules on duty-free imports of garments from Bangladesh, to include products with two stage processing, made sourcing from Bangladesh even more attractive (McKinsey, 2011).

Thus, price, capacity, capability and trade regulations provide a solid foundation for positive growth of the garments industry of Bangladesh (McKinsey, 2011). The garments products of Bangladesh include both knit and woven wear. The share of knitwear in the total production of garments in Bangladesh is steadily increasing over time (McKinsey, 2011). Of the woven wears, high-value products are shirts, jackets, coats, blouses, sportswear and many other casual and fashion apparel, whereas basic low value-added items include trousers or shorts. The garments industry’s development of high-end product portfolios and continuously capturing increased market share has provided significant socio-economic development for Bangladesh, which is discussed in the next section.
2.4 Socio-economic significance of the garments industry of Bangladesh

The overall impact of the readymade garments exports is certainly one of the most significant social and economic developments in contemporary Bangladesh (Habib, 2009). As the economy of Bangladesh largely depends on the garments sector then, in short, this sector is considered as the ‘lifeline’ of Bangladesh’s economy and plays an indispensable role in the social stability of the country (Habib, 2009). In a society where women’s mobility is extremely restricted, and where women’s access to resources and economic opportunities, and their participation in decision making both within and outside households is constrained, the fact that large numbers of women are working outside the home through the garments industry is noteworthy and has resulted in some significant social changes (World Bank, 2011b). Families are willing to allow these women to migrate to cities, and stay alone if needed, in order to obtain paid work and provide an income; they often become the principal earners for the family (World Bank, 2011b).

A World Bank (2000) study found that 37% of women undertook employment in the garments industry against the wishes of their families, indicating their ability to make independent decisions. It also found that parents are often so dependent on their unmarried daughter’s income that they are reluctant to permit marriage until the family has become more financially secure (World Bank, 2000). This, combined with the fact that women are earning their own wages and do not need to rely on a husband for income, means that these women are marrying at a later age and delaying childbearing, which is seen as positive and supportive of women’s health (World Bank, 2000). Thus, the garments industry of Bangladesh helps to empower women both economically and socially. In addition to this, World Development Report (2012) also noted that mass employment of women and girls in the country’s flagship export sector – the readymade garments sector – has been one of the more visible and prominent changes in women’s lives since its introduction in the late 1970s.
Another significant socio-economic impact of the garments industry of Bangladesh is the development of backward and forward linkage\textsuperscript{9} industries, which provides further employment and foreign exchange earnings for the economy; the success of a garments industry depends on this linkage. If the backward supports are not available, the production process will be hampered and it will require more lead time, and in garments sector lead time is the key factor. Lead time is the difference between getting inputs (fabrics) and using those inputs in the manufacturing process (making garments); from a supply chain perspective, it is the total time needed for an order to be processed. Lead time would be less in the garments industry if there were enough backward linkages to support it. Backward linkages play a major part in the garments industry to reduce lead time and offer competitive prices in the international market (Habib, 2009). Backward linkages mean the use of one firm or industry of produced inputs from another firm or industry (Habib, 2009). If the manufacturer has effective control over the supply of raw materials, components and ancillary services needed to produce final products, then the production flow is likely to be uninterrupted (Habib, 2009) and requires less lead time.

In the garments industry, the backward linkages includes cotton production, spinning of cotton and synthetic yarn, weaving and knitting of yarn, fabrics and grey fabrics as finished products under dyeing, printing and finishing (Habib, 2009). It also includes the accessories required for interlining, labels, buttons and sewing threads, neck boards, plastic collar stays, tissue papers, hang tags, pins and clips, hangers, poly bags, zippers, stiffeners, drawstrings and cartoons to pack the goods for exports (Habib, 2009). About 80\% of these accessories are provided from local backward linkage industries (Habib, 2009). However, the auxiliary industries such as embroidery, printing, level production and washing plants, among others, are inadequate to support the growth in export of the textile and clothing industry (The Independent, 2011).

\textsuperscript{9} Backward linkage is a channel used between a garments company and its suppliers of raw-materials such as cotton, fabrics and yarns; forward linkage is a distribution chain that connects a garments company with its customers.
Although at the beginning of the history of the garments industry of Bangladesh, it was more or less dependent on imports for backward linkages, this problem has been solved to a large extent. For example, the knitwear sector is 90% covered and the woven sector is 30% covered by domestic sources (The Independent, 2011). The remaining portions (mainly fabrics) need to be imported. Fabric is the main raw material for making garments and accounts for about 75% of the garments’ cost, and about two-thirds of the garments export earnings are used for the purpose of paying for labour and fabric (Habib, 2009). Bangladesh’s dependency on fabric imports creates sourcing risks and longer lead times. For example, if Bangladesh sources its fabrics from within Bangladesh, the average lead time is seven days, whereas it increases to up to 15 days when fabrics are sourced from India and up to 30 days when these are sourced from China (McKinsey, 2011).

Again, if the forward linkages are not supportable, the lead time increases and organisations might lose large customers. The forward linkages include fashion design and branding of products. If the company develops effective marketing strategies that portray the right messages, and if marketing and distributing systems as a whole effectively reach the target markets, then the sales revenue for the company is likely to be maximized (Habib, 2009). This requires a great deal of innovative entrepreneurial capability that involves complex product design, marketing and financial networks. Thus, to minimize cost of production and maximise sales revenue, both backward and forward linkages need to be integrated (Habib, 2009).

Based on the above socio-economic significance of the textile and garments sectors of Bangladesh, international rating agencies such as Goldman Sachs and JP Morgan have recognised the overall future economic growth of Bangladesh. For example, Goldman Sachs (2007) included Bangladesh in the ‘Next 11’ emerging countries to watch following BRIC (Brazil, Russia, India and China), and JP Morgan (2007) listed Bangladesh among its ‘Frontier Five’ emerging economies worth investing in. A recent UN Report (2013) also found that Bangladesh was second in South Asia, just behind Sri Lanka, in economic growth during 2012 and the reasons are strong growth in private investment and
consumption, which is backed by a steady increase in remittances. It is noted elsewhere in this chapter that Bangladesh’s remittances mostly comes from the export of textile and garments. From this perspective it is imperative to briefly review the global context of the textile and garments industry.

2.5 Global context of the textile and garments industry

The global textile and garments industry forms an important component of world trade flows, particularly for some developing and less developed countries where clothing accounts for a large proportion of total exports (McNamara, 2008). The textile and garments trade is regarded as one of the most ancient and global export industries in the world (Dickerson, 1999). Textiles and clothing played a crucial role in the early stages of industrialization in Britain, parts of North America, and Japan, and more recently in the export-oriented growth of East Asian economies (Yang & Zhong 1998). Following almost the same pattern of Hong Kong, South Korea and Thailand, the South Asian economies namely India, Pakistan, Bangladesh and Sri Lanka have also emerged as significant textile and clothing exporters in the world market. Global trade in textiles and garments has increased 60-fold during the past 40 years, from under $6 billion in 1962 to $353 billion in 2002; current textile and apparel export represents nearly 6% of the total world exports (Appelbaum, 2004). Due to its low technology requirements and high labour absorption potential, low and middle income countries have benefited the most, and share 70% of global apparel export, rising from $53 billion in 1993 to $123 billion in 2003 (Sattar, 2006). Oxfam (2004) also ranks ‘the textile and garments sector’ as the single largest source (by value) of manufactured export goods from developing counties. Global textile and apparel trade was estimated to be US$662 billion in 2011 and it is expected to grow by 5% each year in the next 10 years (Technopack, 2012).

The global textile and garments trade was governed by the MFA from 1974, until 1995 when the Agreement on Textiles and Clothing (ATC) took over for 10 years and then subsequently expired on the 31st of December, 2004 (WTO, 2013). With the expiry of MFA, came the abolition of the export quotas for countries that were benefiting from guaranteed access to the US, Canada or European markets for garments exports. Thus, the world experienced a quota-free garments and textile
market from the 1st of January, 2005. The abolition of quotas provided buyers with an option to source their products from the most efficient and cost effective suppliers. As a result, many developing countries now face increasing competition and downward pressure on prices, as the global garments industry consolidates around a relatively small number of ‘winners’ (McNamara, 2008). Consequently, suppliers are facing stiff global competition driven by low costs and new legislation.

However, competition for global market share from emerging countries is increasing, which is beneficial for low cost countries such as Bangladesh and Vietnam. For example, in terms of growth of garments exports, Bangladesh is just behind China with 21.15% growth, and ahead of Vietnam with 17.26%, Indonesia 16.17%, Mexico 13.49% and India with 13.25% growth based on 2010-2011 export data and if the same growth trend continues, Bangladesh will overtake China in the near future (The Daily Star, 2011). McNamara (2008) also states that China, Bangladesh, Turkey, Mexico, India, Indonesia, Thailand, Vietnam, Tunisia and Pakistan are among the top 15 clothing exporters globally based on monetary export values.

Globally, the apparel industry has come increasingly under the spotlight (Kozlowski, Bardecki & Searcy, 2012) because of its major negative environmental and social impacts, particularly on those at the bottom of the supply chain (Lee, 2007; Allwood, Laursen, de Rodriguez & Bocken, 2006). The global expansion of the apparel industry supply chains has harmed people’s health and increased pollution through the release of toxic chemicals and solid waste (Dickson, Waters & Lopez-Gydosh, 2012). It has caused water shortages, increased fossil fuel consumption, depleted raw materials and negatively contributed to climate change (Dickson, Loker & Eckman, 2009). Outsourcings of apparel production to developing countries has become the most common choice because of the low-cost labour and less stringent standards and regulations surrounding social and environmental issues (Allwood et al., 2006); this results in significant social impacts such as violation of workers’ rights, poor working conditions, long hours, low wages, child labour and health and safety issues in developing nations such as Bangladesh (Madsen, Hartlin, Perumalpillai, Selby &
Moreover, in the 1990s the apparel industry experienced a public backlash against the lack of social responsibility and accountability of factories located in developing nations and the use of so called ‘sweatshops’ (Kozlowski et al., 2012). These issues warrant research attention.

As noted above, the global textile and garments industry was subject to much negative publicity in the late 1990s in the form of consumer protests about ‘sweatshops’ and ‘child labour’ in developing countries. As a result, many multinational buying companies are now interested in implementing different CSR-related policies, programs and ‘codes of conduct’ which cover their suppliers and subcontractors (McNamara, 2008). For example, they are conducting independent social audits to ensure compliance on a wide range of social and environmental issues. Some garments owners in developing countries, however, are reluctant to embrace this due to increased costs, but they effectively have to since large US and EU buyers are increasingly refusing to place orders without such systems in place; without these, supply companies will lose supply contracts. Multinational buying companies need to ensure that the supply companies have CSR-related governance practices in place, as they are receiving related pressure from their customers. For example, ‘eco-labelling’ is becoming more popular with consumers in the US and EU, and presents a new challenge for manufacturers in developing countries (McNamara, 2008).

There is growing acceptance in the global community that corporations should not only be accountable to their shareholders, but since companies exist within society, they should also be accountable to society as a whole because of the notion of a ‘social contract’ (social contract is explained in Chapter Four in detail). There is increasing public concern about the proper implementation of CSR-related governance practices, use of codes of conduct, monitoring based on International Labour Organisation (ILO), voluntary standards and other standards.

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10 The US Department of Labor (2012) defines a sweatshop as a factory that violates two or more labour laws, such as those pertaining to wages and benefits, child labour or working hours. In general, a sweatshop can be described as a workplace where workers are subject to extreme exploitation, including the absence of a living wage or benefits, poor working conditions, and arbitrary discipline, such as verbal and physical abuse.

11 Eco-labelling aims to identify and promote products that have a reduced environmental impact (McNamara, 2008).
developed by stakeholder initiatives. These include the Apparel Industry Partnership (AIP), Fair Labor Association (FLA), Social Accountability 8000 (SA 8000), World Responsible Apparel Production (WRAP) and others (Tsoi, 2010).

Although the term ‘sweatshop’ has been used in the developing country context, very recently the notion has been applied to the developed country garments industry as well. For example, the Herald Sun, a popular newspaper in Australia found a ‘sweatshop’ in Melbourne (Herald Sun, 2011, p. 21).

Victorian students are wearing uniforms produced in Melbourne sweatshops and by home workers paid as little as $7 an hour, according to the clothing manufacturers’ union.

The Herald Sun found that one of the companies accused was BuxWear, which is the largest school uniform provider in Victoria, supplying uniforms to more than 100 Victorian schools; it has been accused by the Textile Clothing and Footwear Union for sourcing garments from contractors who use local sweatshops (Herald Sun, 2011). This implies that the textile and garments industry globally is being accused of poor CSR practices, particularly for the use of child labour, human rights violations including violation of labour rights, and poor working conditions. As this thesis concentrates on Bangladesh, the following section provides an insight into the CSR practices of its textile and garments industry.

2.6 CSR practices in the textile and garments industry of Bangladesh

Though the textile and garments industry of Bangladesh provides economic benefits in terms of huge foreign currency earnings and employment, its economic growth has resulted in many adverse social, environmental and ethical impacts; this has increased the demand for stakeholder engagement (Islam & Deegan, 2008) and greater transparency and accountability in companies (Byron, 2005; Rahman, 2003). These companies have been the subject of Western criticism for a number of issues such as child labour, poor working conditions, health and safety issues, human rights violation including labour rights, and social and environmental compliance issue, among others. These issues are further described in the following sections.
2.6.1 Child labour

Since the 1990s the use of child labour in the garments factories of Bangladesh has been a controversial issue for Western customers (Islam & Deegan, 2008); Western media and NGOs made this issue global, and Bangladesh was identified as one of the developing countries using child labour or sweatshops in the manufacturing sector. The use of child labour in the garments factories was highlighted when Harkin’s Bill (Child Labor Deterrence Act\textsuperscript{12}, 1992) was presented in the US Senate by Democratic Party senator, Tom Harkin (Rahman, Khanam & Absar, 1999). The bill was proposing a ban on the importation of all goods to the US from the countries that use child labour at any stage of production. The second significant event was when the NBC (1993) broadcast that Wal-Mart was buying clothing from Bangladesh made by illegal child labour (Nielsen, 2005). The introduction of the Harkin’s Bill and the NBC broadcast created a major threat to the Bangladeshi garments industry. As a responsive measure the BGMEA\textsuperscript{13} wrote to Wal-Mart assuring the company that “all necessary steps had been taken to ensure that all BGMEA member factories would be child labour free” (Nielsen, 2005, p. 568). It also signed a Memorandum of Understanding (MOU) with ILO and UNICEF in 1995 to gradually eliminate child labour from the garments factories and place the children in schools (Rahman et al., 1999).

Since then both the BGMEA and the government of Bangladesh often discourage child labour in the garments factories, but the socio-economic condition of Bangladesh is such that the use of child labour cannot be completely eliminated. For example, Belal and Roberts (2010) note that the termination of using child workers can often lead to various anti-social activities which might have devastating impacts on their families; they argue that the socio-economic context of Bangladesh is different from the Western idea of good labour practices. However, Bangladesh enacted a child labour regulation in 2006, and in 2010 a

\textsuperscript{12} The Child Labor Deterrence Act was created in the US following the actions of Democratic Party Senator, Tom Harkin of Iowa, and was first proposed in the US Congress in 1992 (Neilsen, 2005)

\textsuperscript{13} According to Islam and Deegan (2008, p. 852), BMGEA is the only government-recognised trade body that represents the export-oriented garment manufacturers and exporters of Bangladesh. It has a considerable degree of political and administrative control over the industry as only its members have the legal right to export clothing.
new legal framework was developed in collaboration with UNICEF and other relevant stakeholders to eradicate child labour by 2015 (Mckinsey, 2011). The US Department of Labor (2011) recently found that children between the age of 5 and 14 years make up about 10.1% of Bangladesh’s total labour force. However it is not clear from their findings how much of this percentage is allocated to the garments industry. Nevertheless, it is estimated that a significant proportion of these children are working in different garments factories, and stakeholders are increasingly interested to know how the supply companies are tackling this issue of child labour in their corporate governance practices. In addition to child labour, another significant social and environmental issue in the garments sector of Bangladesh is the labour rights and human rights issue, which is discussed in the next section.

2.6.2 Labour rights and human rights

Although Bangladesh responded positively to international pressure in the past regarding the curtailing of child labour and improving health and safety conditions, international pressure is also now on the rights of workers to organise and collectively negotiate their wages (Yardley, 2012). The most important issue within labour rights includes the payment of minimum wages to workers and the implementation of a living wage rather than a minimum wage. As noted elsewhere in this chapter, Bangladesh has the lowest wages in the world. Currently the minimum wage of a garments worker is BDT. 3000, equivalent to approximately US$35 per month. Although this minimum wage was fixed in 2010, it has still not been increased even though Bangladesh is currently facing inflation of about 7.7% (BBS, 2013). While low wages secure huge profits for the global brands, the more than four million workers in the Bangladeshi clothing industry are left with an income that is often less than the living wage. A living wage is internationally recognised as one that covers the cost of basic necessities such as food, shelter, clothing, health and education (War on Want, 2012). However, there are instances where some factory managers are not even paying these minimum wages to workers. For example, War on Want (2012), a non-profit group, found that the workers in five factories in Bangladesh making products for Nike, Puma and Adidas, were paid less than the minimum wage. Yardley (2012), in his investigative reports published in the New York Times, noted several
incidents of human rights and labour rights violation within the supply factories of Bangladesh.

If a workers’ leader speaks out about a wage increase or makes a complaint against management, he/she risks being sacked and at worst, potentially murdered. One such labour organiser, Mr. Aminul Islam, was found tortured and killed in April 2012 (Yardley, 2012). Islam was a leader of the Bangladesh Garment and Industrial Workers Federation (BGIWF) and was active in protesting for the increase of minimum wages for workers. Following the death of Mr Islam, several NGOs and labour rights organisations, including Clean Cloth Campaign (CCC), International Labour Rights Forum (ILRF), and the US-based labour rights group AFL-CIO have raised the issue of human rights violation internationally. As a consequence, the Secretary of State, Hillary Rodham Clinton, raised labour issues and the Islam murder case to the top government level of Bangladesh during her visit in May, 2012. In the following month, US Ambassador, Dan W. Mozena, warned Bangladeshi garment factory owners that “any perception of a rollback on labour rights could scare off multinational brands and damage the garment industry and could coalesce into a perfect storm that could threaten the Bangladesh brand in America” (The Daily Star, 2012b, p. 7). It was found by Yardley (2012) that workers are afraid to join a union because that could make them a target for firing or worse.

Bangladeshi labour laws clearly set a standard of a 48-hour working week, working eight hours a day, six days a week, and a strict maximum of 60 hours a week when overtime is included (Bangladesh Labour Act, 2006). Workers are also entitled to one full day off each week. However, it was found that two thirds of the workers within the garments factories worked more than 60 hours per week (War on Want, 2012), which is a clear breach of the Bangladeshi Labour Act; this also means that brands sourcing their products from these factories are breaching their own CSR programs pertaining to working hours and labour rights. Local labour act violations also include forced overtime to meet the buyer’s target, discriminating against women, such as not providing maternity leave, absence of day-care facilities, and sexual harassment among others (War on Want, 2012). However the violation of human rights and labour rights seem to be much higher
in sub-contract factories\textsuperscript{14}, which are called C-category factories (Ali, 2011). Although Bangladeshi labour laws do not clearly indicate anything about collective bargaining or unions, it is widely expected by the brands that supply companies should have labour unions; in practice this is rare in the garments companies of Bangladesh (Ali, 2011). The current minimum wage is the outcome of an informal collective bargaining process involving the workers, NGOs, experts, federations, and government; although garments owners and their association BGMEA consistently deny any increase in the wages in a plea that it will increase production costs and decrease profit.

To ensure that companies respect workers’ rights they must be held accountable for the impact of their actions, and one of the most effective ways to hold corporations accountable is to ensure that those affected by violations of their human rights have access to justice through the courts (War on Want, 2012). But the reality is that within Bangladesh it is very difficult for a worker to go to the court to make a complaint against the management or owner, and there is no reliable method to report a violation (Ali, 2011). Because the garment owners are some of the most powerful political people in the country, and since they have money and political power, workers and their leaders are scared to go against them because of the excessive costs of any legal action and the fear of ‘political musclemen’ (mastan) being used by the owner. For example, Yardley (2012) notes that the factory owners of Bangladesh are major political donors and some of them own news media such as newspapers and television, which provide relatively positive news ignoring labour-related issues such as labour rights. He also notes that in Bangladesh’s parliament, roughly two-thirds of the members belong to the country’s three biggest business associations and at least 30 factory owners or their family members hold about 10% of the seats in parliament (Yardley, 2012).

The owner of the factory building ‘Rana Plaza’, which collapsed on April 24, 2013 and caused the death of 1130 garments workers, is also a local political

\textsuperscript{14}Sub-contract factories do not meet the same safety standards in place at the factory that originally received the order (Lahiri, 2013).
leader of the ruling party (Bangladeshi Awami League). Mr Sohel Rana (the owner of Rana Plaza) was charged with ‘culpable homicide’ for allegedly forcing employees to return to work on April 24, 2013, even though cracks had appeared on an exterior wall the previous day and some local engineers and experts suggested closing the factories (The Wall Street Journal, 2013). War on Want (2012) found that the exploitation and abuse of workers that underpin the profits of global brands are based on their outsourcing of production to suppliers in poorer countries, which allows them to pass on risks to their suppliers and, more fundamentally, it often allows them to escape legal accountability for their action. However, sometimes brands are unable to escape their responsibility due to increased public criticism and media backlash; this was evident in the case of Wal-Mart, a sourcing company of Tazreen Fashions Ltd. For example, a recent letter signed by five US Senators and one Congressman, led by Senator Tom Harkin, urged US President, Mr. Barack Obama, not to pursue or continue contracts or licensing agreements with prime contractors, sub-contractors, or licensees that fail to guarantee basic and fundamental rights for their workers, highlighting the recent fire accident of Bangladesh (in Tazreen Fashions Ltd) that claimed the lives of 112 workers (The Daily Star, 2012a). This initiative showcases how important it is for organisations to maintain the labour rights and human rights within the supply factories of Bangladesh. More importantly the supply companies need to incorporate their corporate governance practices in such a way that encompasses all the relevant policies pertaining to labour rights and human rights. Another significant issue in the garments and textile industry of Bangladesh is the overall health and safety issue, which is discussed in the next section.

2.6.3 Health and safety issues, including fire safety

The health and safety conditions of the garments factories of Bangladesh are predominantly characterised by frequent fire accidents and the collapse of factory buildings due to unplanned, poorly structured buildings and a lack of proper maintenance. One hundred years after the Triangle Shirt Waist\textsuperscript{15} fire in New York City on March 25, 1911, was the deadliest industrial disaster in the history of the city of New York, causing 146 deaths and an unknown

\textsuperscript{15} The Triangle Shirtwaist Factory fire in New York City on March 25, 1911, was the deadliest industrial disaster in the history of the city of New York, causing 146 deaths and an unknown
City that killed 146 workers, and with brands’ pressure on supply companies for CSR performance, garments workers of Bangladesh continue to die in the same way (Brown, 2011). Since the 1990s more than 800 workers have lost their lives due to fire accidents in different factory fires in Bangladesh. The most recent collapse of a factory complex mentioned above, Rana Plaza, took the lives of 1130 workers; this is considered the second most catastrophic industrial accident since the Bhopal disaster in India in 1984 and the deadliest in the garments industry’s history. Table 3 provides a list of factory fires and building collapses since the 1990s.

Table: 3 Major accidents in the garments sector of Bangladesh

<table>
<thead>
<tr>
<th>Year</th>
<th>Factories</th>
<th>Number of deaths</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990 to 1999</td>
<td>Several factory fires</td>
<td>248</td>
</tr>
<tr>
<td>2000</td>
<td>2 factory fires</td>
<td>53</td>
</tr>
<tr>
<td>2001</td>
<td>1 factory fire</td>
<td>24</td>
</tr>
<tr>
<td>2002-2003</td>
<td>2 factory fires</td>
<td>17</td>
</tr>
<tr>
<td>2004</td>
<td>4 factory fires</td>
<td>50</td>
</tr>
<tr>
<td>2005</td>
<td>1 factory fire, Spectrum Sweater</td>
<td>64</td>
</tr>
<tr>
<td>2006</td>
<td>2 factory fires, one in KTS Textile Industries Limited in Chittagong, another in Narayanganj</td>
<td>90</td>
</tr>
<tr>
<td>2007 to 2009</td>
<td>Several factory fires</td>
<td>95</td>
</tr>
<tr>
<td>2010</td>
<td>2 factory fires, one in the Ha-meem group, another in the Garib &amp; Garib Sweater plant</td>
<td>57</td>
</tr>
<tr>
<td>2011</td>
<td>1 factory fire</td>
<td>2</td>
</tr>
<tr>
<td>2012</td>
<td>1 factory fire, Tazreen Fashions Ltd</td>
<td>112</td>
</tr>
<tr>
<td>2013</td>
<td>1 factory fire in Tung Hai Group, Mirpur, May 8, 2013</td>
<td>8</td>
</tr>
<tr>
<td>2013</td>
<td>Factory building collapse (Rana Plaza) on April 24, 2013</td>
<td>1130</td>
</tr>
<tr>
<td>Total since 1990</td>
<td></td>
<td>1950</td>
</tr>
</tbody>
</table>

Source: Compiled by the researcher based on different local and international newspaper articles (for example, the Daily Star, the Daily Prothom-Alo, the New Nation, the Age, the Economist, the New York Times, the Wall Street Journal and others).

The causes of these repeated factory fires include large quantities of poorly kept flammable materials, damaged and overloaded electrical systems, absent or completely inadequate fire extinguishing equipment, non-existent or unimplemented emergency evacuation plans, and last but not least, the workers’ unawareness of how to exit the building (without proper awareness many people number of injuries. Most of the workers died from the fire, smoke inhalation, or falling or jumping to their deaths (Kosak, 2005).

16 The Bhopal gas disaster killed 2,259 people in 1984.
could and have been trampled to death in staircases (Brown, 2011)). The reasons for factory building collapses include blatant violation of the building code, the use of substandard materials and the operation of heavy machinery, including generators on the upper floors (The Wall Street Journal, 2013).

In addition to this there is lack of enforcement by government safety agencies and lack of implementation of local labour laws. For example, within Bangladesh, there are a number of rules and regulations (such as Factories Act, 1965; Industrial Relations Ordinance, 1969; Employment of Labour (Standing Orders) Act, 1965; Payment of Wages Act, 1936; Environmental Protection Act, 1995 and Workmen Compensation Act, 1923), and most of these were inherited from the British colonial regime (Belal & Roberts, 2010). These rules and regulations are supposed to control the social and environmental behaviour of the companies operating in Bangladesh. However, they are routinely flouted due to the lack of enforcement by the relevant agencies, which appear to be corrupt, weak and ineffective (Belal & Roberts, 2010). Khan (2012) also argues that systematic flouting of safety norms and regulations has turned the country's garments factories into veritable death traps. Brown (2011) states that the international brands are also at least partially responsible for such fire accidents, as their ‘iron triangle’ of lowest possible prices, highest possible quality and fastest possible delivery might be a cause. However, whatever the reason, fire accidents are a common phenomenon in the garments industry of Bangladesh, and international brands are starting to take this issue seriously. For example, after the most devastating fire accident in the history of Bangladesh’s garments industry in November, 2012, in Tazreen Fashions Ltd, a sourcing factory of Wal-Mart, Wal-Mart took the initiative to improve fire safety education and training in Bangladesh (Wal-Mart, 2012).

In addition, under mounting pressure to improve working conditions in Bangladesh’s garments factories after the most devastating factory building collapse in Dhaka, several of the world’s largest apparel companies agreed to a landmark plan to help pay for fire safety and building improvements (The New York Times, 2013a). European brands such as H&M, Zara, Marks & Spencer, Primark, Tesco, PVH (the parent company of Calvin Klein, Tommy Hilfiger and
Izod), Puma and other retailers signed an agreement that facilitates a far-reaching and legally binding plan that requires retailers to help finance fire safety and building improvements in the factories they use in Bangladesh (The New York Times, 2013a). But the major US retailers such as Gap, Wal-Mart, J.C. Penney, Sears and Australian retailers such as Target and Kmart have yet to sign this agreement initiated by H&M and labour rights group IndustriALL. Accordingly, these US and Australian retailers have faced criticism for not joining with at least 24 other garment-sellers in a legally binding agreement that has won support from labour-monitoring groups to improve safety in the Bangladesh factories. As of the 30th of May, 2013, these US and Australian retailers have come up with an alternative ‘New Factory Safety Plan’ to develop and implement a new program to improve fire and safety regulations in the garments factories of Bangladesh, which some labour advocates called ‘divisive and a sham’ (The New York Times, 2013b).

The above noted issues raise the question as why international brands are not proactively implementing fire safety precautions before the accidents happen and workers are killed. It is widely accepted in Bangladesh and abroad that brands should take some responsibility for fire accidents and should be accountable to their end customers as part of their own CSR programs. It is also expected that brands should ensure that their supply factories have sufficient fire safety policies as part of their corporate governance practices, since fire safety training and regular fire drilling are very important in avoiding the large death toll resulting from fire accidents. For example, a recent inspection report revealed that about 60% of the 5,000 garments factories lack fire-fighting tools, even if they have fire extinguishers; no one would know how to operate these (Khan, 2012), because no workers are trained to use these. Of course, brands provide their social compliance codes17 to the suppliers, however despite their compliance codes, the rock bottom wages and near zero regulatory enforcement in Bangladesh are apparently too good for the brands to pass up (Brown, 2011). Moreover, hardly any workers participate in the development and implementation of brand’s CSR programs, and

17 Social compliance codes are acceptable social standards, which are made up of particular reference to in-house codes of conduct/standards developed by multinational buying companies, ILO standards, SA 8000 and European standards such as Business Social Compliance Initiative (BSCI) (Islam & Deegan, 2012).
thus it is hard to envisage a time when there will be an end to the preventable deaths and labour rights abuse in supply factories of Bangladesh (Brown, 2011).

In most of the cases of fire accidents in Bangladesh it is found that the workers are locked in while they are working and the entry gates are only open at the beginning and end of shifts; this is a major cause of fire-related deaths, as the workers are not able to get out of the factory premises when fire accidents happen (Ahmed & Paul, 2012). After every fire accident, brands, NGOs and different media put pressure on BGMEA and individual garments companies to have appropriate fire safety policies in place. But unfortunately these fire safety policies were not being practiced by the garments companies which results in frequent fire accidents and death. This implies that there is a need to implement substantive changes in the corporate governance practices of the garments companies to incorporate health and safety issues including fire safety policies and building code polices. The next section briefly discusses some of the environmental hazards caused by the textile and garments industry of Bangladesh.

2.6.4 Environmental hazards
As noted earlier in this chapter, globally the garments and textile industry has come under the spotlight because of its major negative social and environmental impacts, especially to those stakeholders such as employees within the supply chains located in developing countries. This section briefly discusses some of the environmental hazards of the garments and textile industry of Bangladesh. Yardley (2013) notes that a significant environmental hazard created by garment products’ operations is the environmental pollution caused by dumping wastewater and toxic chemicals into nearby canals. The odour rises off the polluted canals and the stench causes various health hazards (Yardley, 2013). The local people are able to see what colours are ‘fashionable’ by looking at the waters flowing down the canals. Sometimes it is red, sometimes it is gray and sometimes it is blue – all depending upon which colours the garments and textile companies are using in the factories. Yardley (2013, p. 1) further states:

Bangladesh’s garment and textile industries have contributed heavily to what experts describe as a water pollution disaster, especially in the large industrial areas of Dhaka, the capital. Many rice paddies are now inundated with toxic
wastewater. Fish stocks are dying. And many smaller waterways are being filled with sand and garbage, as developers sell off plots for factories or housing. Environmental damage usually trails rapid industrialization in developing countries. But Bangladesh is already one of the world’s most environmentally fragile places, densely populated yet braided by river systems, with a labyrinth of low-lying wetlands leading to the Bay of Bengal. Even as pollution threatens agriculture and public health, Bangladesh is acutely vulnerable to climate change, as rising sea levels and changing weather patterns could displace millions of people and sharply reduce crop yields.

This thesis will show in later chapters that some factories treat their wastewater, but many do not have treatment plants (or indeed, where some factories do have treatment plants they often disable them so as to save on associated energy costs). Bangladesh has laws to protect the environment; a national environment ministry and new ‘special courts’ for addressing selected environmental cases. However, Yardley (2013) finds that when the environment ministry appointed a tough-minded official who levied fines against textile and dyeing factories, complaining owners eventually appeared able to force his transfer. This further reinforces the apparent weak enforcement ability of regulatory regimes in Bangladesh. As a result, environmental hazards caused by the textile and garments industry of Bangladesh is attracting growing attention from various stakeholders including local and international environmental groups, who often create pressure for environmental improvement. The next section provides a detailed discussion of various international pressures on the textile and garments industry of Bangladesh.

2.6.5 International pressure on the textile and garments industry of Bangladesh

The textile and garments industry of Bangladesh was subject to pressure exercised by local and international pressure groups such as multinational companies, NGOs and media for poor working conditions, use of child labour and violation of human rights. McKinsey (2011) finds that the past improvements in the social and environmental compliance of the RMG industry of Bangladesh can be attributed to the continuous pressure from significant Western stakeholders as well as European and US buyers. These pressures can be seen as both positive and negative: positive because it helps garments companies retain their international
customers, as they are continuously trying to comply with international standards and respond to pressure. For example, McKinsey (2011) states that continuous pressure from the buyers helps supply companies of Bangladesh increase and maintain compliance standards by educating workers, implementing different standards and fostering transparency in the supply chain via their local sourcing offices. By contrast, it could also be seen as negative in the sense that this criticism could be used by competitors to persuade buyers from the international market to buy garments from them instead of from Bangladesh. The following table (Table 4) provides some key pressures related to the garments and textile industry of Bangladesh.

Table 4: Major pressures, and pressure groups, as perceived by BGMEA and Bangladeshi clothing and textiles companies

<table>
<thead>
<tr>
<th>Year(s)</th>
<th>Key issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-1985</td>
<td>Boom days.</td>
</tr>
<tr>
<td>1985</td>
<td>Imposition of quota restrictions by UK, then France and Canada, and finally US on Bangladeshi export of popular RMG products such as shirts, blouses, shorts and jackets.</td>
</tr>
<tr>
<td>1987-1990</td>
<td>Minimal social and environmental pressure from multinational buying companies, NGOs and/or media (Islam &amp; Deegan, 2008).</td>
</tr>
<tr>
<td>1990s</td>
<td>Knitwear sector developed significantly.</td>
</tr>
<tr>
<td>1992</td>
<td>Introduction of Harkin’s Bill (Child Labor Deterrence Act) to US Congress to ban importation of goods manufactured using child labour. However, the bill was not passed by Congress at that time (Rahman et al., 1999).</td>
</tr>
<tr>
<td>1993</td>
<td>NBC Date Line Coverage highlighting the use of child labour in Bangladeshi and Chinese factories that supplied Wal-Mart (Nielsen, 2005).</td>
</tr>
<tr>
<td>1996</td>
<td>ILO, UNICEF and the US government put pressure on BGMEA to eliminate child labour.</td>
</tr>
<tr>
<td>1997-2001</td>
<td>Emerging pressures from NGOs, trade unions and Western consumers to make multinational buying companies ensure basic human rights and to ensure adequate health and safety measures in the supply factories (Islam &amp; Deegan, 2008).</td>
</tr>
<tr>
<td>2002-2003</td>
<td>Pressure from multinational buying companies to change factory working conditions and to comply with ‘social codes of conduct’ (Islam &amp; Deegan, 2008).</td>
</tr>
<tr>
<td>2003</td>
<td>Withdrawal of Canadian quota restriction.</td>
</tr>
<tr>
<td>2005</td>
<td>Phase out of export-quota system18. The garments sector became more competitive as they needed to attract more customers in an open/unrestricted market through global competition.</td>
</tr>
<tr>
<td>2000-2006</td>
<td>Several NGOs (such as Oxfam and GIZ), BGMEA and other stakeholders</td>
</tr>
</tbody>
</table>

18 Unilateral restriction, short-term arrangement (STA), long-term arrangement (LTA), Multi-fibre Arrangement (MFA) and finally the WTO Agreement on Textiles and Clothing (ATC) are the chronological steps through which the ‘export-quota system’ was administered until it was finally abolished on 31 December 2004, making textile and garments trade quota-free worldwide.
actively engaged with the training and awareness building of the workers regarding their legal rights.

2006 Corporate regulatory authority, the Securities and Exchange Commission (SEC) of Bangladesh, requires ‘corporate governance status compliance reports’ from all the listed companies including listed garments and textile companies (SEC, 2006).

2006 Following May’s most severe garments workers’ trepidations, a tri-partite Memorandum of Understanding signed between garments trade unions, BGMEA and the government on 12 June 2006, which later grew into a full-fledged Wage Commission (Islam & Ahmed, 2010).


2008 The country’s garments sector experienced 209 reported incidents of labour unrest in 12 months from January 1 to December 31.

2010 Garments workers began protests in April to demand a minimum wage of BDT 5,000, resulting in huge unrest in the sector which got tremendous media attention globally. To control the protest, the government formed a special police force for the garments industry called ‘Industry Police’. As a result of local and international pressure, the government set a minimum wage for the garments workers, which was BDT. 3,000 on 29 July (The Daily Star, 2010a).

2010 On 30 July, the police filed charges against some leaders of the workers who protested earlier in the year and arrested Ms. Kalpana akther, Mr. Babul Akhter and Mr. Aminul Islam. Following their arrest, different local and international labour rights groups, NGOs and media put pressure on the government and finally they were all released on bail after a few days (The Daily Star, 2010b).

2012 On April 5, the body of Mr. Aminul Islam (garments workers’ leader) was found murdered outside the city of Dhaka and there were several marks of wounds from his waist to his foot. Mr. Islam and several of his associates were charged with instigating riots and he was being interrogated in July, 2010, by the police and intelligence agency. Following the death of Aminul, the garments sector got huge pressure from international bodies such as labour rights groups, NGOs, media and multinational buying companies, as some of them suspected that his death was linked to the protest for wage increases and a trade union formation within the garments industry. Even the US Secretary of State, Hillary Rodham Clinton, and the US Ambassador, Dan W. Mozena, warned Bangladesh about the labour rights violation in the garments industry and the resulting consequences if Bangladesh did not properly address the labour rights issue (The New York Times, 2012).

2012 112 workers died in the most tragic fire accident ever in the history of the garments sector of Bangladesh. Wal-Mart, the sourcing company immediately cancelled its relationship with this factory because of national and international pressure. A group of US law makers led by Senator Tom Harkin wrote to Barack Obama urging action in response to the above fire accident, seeking Obama’s interference to ensure that clothing coming into the US – particularly products for their military – is made in factories that protect their workforce (The Daily Star, 2012a).

2013 The European Parliament backed a call to encourage tougher safety laws and proper inspections in Bangladesh, following deadly fires in garment factories in Dhaka in November, 2012 (The Daily Star, 2013a).
2013 After a factory building collapsed in Bangladesh on April 24 killing 1130 workers, Western retailers faced more pressure than ever to take action to ensure factory safety in their sourcing country (The New York Times, 2013b).

Source: Compiled by the researcher from different sources as noted above.

The table above identifies various events or pressures that are deemed likely to impact on the textile and garments industry of Bangladesh. This table also indicates that the pressure has greatly increased in many areas of CSR of supply companies. This table also provides a potential basis for explaining why a change is required in the corporate governance structure of the textile and garments companies to implement health and safety and labour rights issues in their governance practices. Some of the information in the above table was also identified by Islam and Deegan (2008) as a basis for explaining movements and trends in CSR disclosure generally. Islam and Deegan (2008) found that BGMEA – the organisation at the centre of their analysis – appeared to respond to these pressures with specific disclosures being made shortly after particular international pressure arose (consistent with a legitimising strategy). For example, in relation to human resource disclosures, they found (2008, p. 866) that:

The disclosure on human resources coincided with concerns associated with the treatment of women employees, employment of child labour and workers’ health and safety issues in clothing companies – all of which attracted considerable global attention from the early 1990s.

What is of interest in this thesis is whether the implementation and disclosure of actual governance practices changes in relation to the pressures summarised in Table 4. Having continuous pressure from local and international bodies, it is expected that supply companies will incorporate CSR-related issues into their corporate governance practices and then disclose these issues via available media. However, McKinsey (2011) finds that Bangladesh is still under close scrutiny by NGOs and various stakeholders regarding CSR compliance, and there is still a broad range of non-compliance seen across suppliers. It also noted that most factories have not implemented CSR policies pertaining to the accountability and transparency for CSR reporting. Thus, the events summarised in the table imply that if pressure from multinational buying companies, NGOs, and media is sustained over a number of years, then it could be anticipated that whilst an initial
reaction might be to provide legitimising disclosures (consistent with a legitimacy theory perspective), ultimately companies that seek to survive will need to put in place appropriate policies and procedures in their governance mechanisms. Keeping this in mind, the following section discusses the motivation driving this research.

2.7 Motivation behind this research

As the garments sector of Bangladesh is highly dependent on foreign buyers, especially Western customers, it needs to satisfy this global community’s expectations as well as powerful stakeholders’ demand with respect to their social performance. If they do not formulate their internal governance mechanisms according to the demands or expectations of powerful stakeholders, there is a potential threat to survival. Moreover, the clothing sector of Bangladesh needs to operate in an environment where ethical standards are taken care of and are consistent with what global customers expect from them. Therefore, in order to get economic incentives and long-term survival, they need to consider the pressure from powerful stakeholders.

Since the Western clothing brands source many of their products from developing countries like Bangladesh, across time, they have highlighted various concerns about the safety records and working conditions of the garments factories in various developing countries, including Bangladesh. Heightened levels of concern would imply that the various stakeholders, including multinational buying companies, NGOs and the media, expect accountability and/or transparency pertaining to corporate governance practices and related disclosures of the organisations from which brands are sourcing their products. However, it is emphasised in this thesis that multinational buying companies are not necessarily embracing any moral/ethical perspective but are being reactive in terms of protecting their market share; this is consistent with the findings of Islam and Deegan (2008). Thus, if it is accepted that Western clothing brands are conscious of the risks associated with being linked to suppliers with poor social and environmental performance, then failure by organisations within Bangladesh to provide appropriate disclosures may result in a loss of customers with obvious
implications for the nation’s economy. Because poor CSR-related corporate governance practices in the supply chain can have significant implications for multinational buying companies, such companies would not only want information about supply organisations’ social performance (process outcomes), but more importantly they would require information about the corporate governance practices that organisations have in place to mitigate the risks of negative social or environmental incidents.

Prior research reveals that the textile and clothing industry of Bangladesh is subject to pressure exerted by multinational buying companies, NGOs and media regarding their social performance (Islam & Deegan, 2008). In addition to this, the introduction of the Harkin’s Bill to the US Congress and NBC Date Line Coverage (in 1993 and 2005) ignited serious criticism over the textile and clothing sector; both of these initiatives were prescribing a ban on the importation of goods manufactured using child labour in Bangladesh. Furthermore, in Bangladesh, every year many garments workers die because of poor working conditions and fires in the garments factories. Since 1990, 1950 workers have died resulting because of fires and factory buildings collapsing in the garments industry in Bangladesh, as indicated in Table 3.

Such loss of life starkly highlights the dismal state of preparedness these factories have against fire-related accidents where flammable materials are kept, and Western clothing brands have to confront concerns about the poor safety records of the garments industry (Birchall & Kazmin, 2010). Such incidents also pose serious questions about the effectiveness and transparency of related governance practices; failure to provide information pertaining to such governance practices will have potentially negative implications for maintaining important supply contracts (and therefore negative implications for the financial prosperity of Bangladesh). It could be argued that the garments companies might have certain plans and policies which govern their practices of social and environmental performance to react to the pressure of powerful stakeholders stated above.

These plans and policies could be a part of organisations’ broad corporate governance practices. Given that these organisations faced severe international
pressures and criticism pertaining to poor CSR practices (including child labour and human rights), it is expected that these organisations change their corporate governance practices over the years. The researcher was thus motivated to explore how organisations in a developing country incorporate CSR-related governance issues into their actual corporate governance practices and provide related disclosures. This is an interesting issue to investigate, particularly in the light of the importance of the clothing sector of Bangladesh and the expectations of Western consumers. Given the previous research, which has identified increasing concerns being raised by multinational buying companies; it is expected in this thesis that there could be an upward trend in the supply companies’ disclosure of social and environmental governance information. Finally, this thesis aims to provide a contribution to the existing social accounting body of knowledge, as there is limited research in the context of a developing country and garments sector in particular investigating internal governance mechanisms from a social and environmental perspective. There is no known study that considers the issues which this thesis investigates in a way that encompasses corporate annual reports analysis (Chapter Five), interviews with a broad group of stakeholders such as NGOs, multinational buying companies, government officials, media, and employee representatives (Chapter Six), and in-depth personal interviews with senior corporate managers in an endeavour to understand their motivation behind such disclosures (Chapter Seven).

2.8 Conclusion

This chapter provides an overview of the growth and development of the textile and garments industry of Bangladesh. This industry is very promising for the economic growth and prosperity of the country, in terms of employment and foreign exchange earnings; at the same time it provides an opportunity for the global fashion and sports multinationals to source their products from Bangladeshi companies, which provides them with the lowest production costs possible. While both the buyers and local economy are financially advantaged by this sector, the social and environmental issues associated with this industry should not be understated. The factory working conditions, labour rights, wage structures, health and safety issues and many other concerns need to be carefully analysed, both from the perspective of Bangladesh’s economy and from the perspective of
powerful stakeholders such as multinational buying companies. As a result, and from the discussion above, it could be concluded that multinational buying companies, NGOs, media, foreign governments and others consistently provide support/pressure to improve the CSR performance of the supply factories of Bangladesh.

Because of these pressures from different sectors, the supply companies arguably need to make changes in their corporate governance structures in order to embed CSR-related considerations in their corporate governance practices and disclose this information for the satisfaction of the global community, as well as for the stakeholders noted above. A step needs to be taken from simply reacting to buyer and NGO demands, to proactively developing a comprehensive CSR strategy (McKinsey, 2011). This CSR strategy could be formulated within the formal corporate governance structure of the supply company itself, and then the supply company would need to disclose this governance information.

The next chapter will discuss the relevant literature pertaining to social and environmental accounting in general, and the disclosure of social and environmental information in particular.
Chapter Three
Social and Environmental Accounting Literature

3.1 Introduction
This chapter provides an overview of prior literature on the broader discipline of social and environmental accounting. Gray, Owen and Maunders (1987) argue that social and environmental accounting is an important element of Corporate Social Responsibility (CSR), thus this chapter provides some definitions and insights into the emergence of social accounting and CSR to help readers understand how these concepts are being used in the context of this thesis.

There are three inter-related parts in this thesis, which are described in three consecutive chapters: Chapter Five, Six and Seven. Since these three chapters focus on three specific research issues within the broader perspective of corporate social and environmental accounting, the literature in this chapter has been reviewed with the research objectives and rationale of each of those chapters in mind. As this thesis explores CSR-related corporate governance practices, it is deemed necessary to review some of the relevant literature focusing on corporate governance practices within the broader context of corporate social and environmental accounting. Finally, this chapter focuses on some of the relevant research pertaining to social and environmental accounting within the developing country context and discusses apparent gaps in the literature. However it is noted that some of the relevant literature is also discussed in Chapter Five, Six and Seven as well.

3.2 Social and environmental accounting
Due to the growth in awareness of corporate social responsibility and the increased criticism of the use of profit as an all-inclusive measure of corporate performance, organisations began to consider corporate social accounting in the mid 1970s (Ramanathan, 1976). Mathews (1997) also argues that the 1970s is generally regarded as the period when social and environmental accounting research first became established as a substantial discipline in its own right. An early definition of social accounting is provided by Ramanathan (1976, p. 519):
Social accounting as the process of selecting firm-level social variables, measures, and measurement procedures; systematically developing information useful for evaluating the firm’s social performance; and communicating such information to concerned social groups, both within and outside the firm.

Crowther (2000, p. 20) provided the following somewhat different definition of social accounting:

Social accounting is an approach to reporting a firm’s activities which stresses the need for the identification of socially relevant behaviour, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques.

Social accounting describes companies’ communication of the social and environmental impacts that its economic actions have on particular interest groups within society and on society at large (Gray et al., 1987). Social accounting is often known as social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting, sustainability accounting, as well being known by many terms. Yet researchers define each of these terminologies differently. For example, Bebbington and Thomson (2007, p. 42) define social and environmental accounting as “an inclusive field of accounting for social and environmental events which arise as a result of, and are intimately tied to, the economic actions of entities”. However, Gray, Owen and Adams (1996) define it as accounting for a range of social and environmental events, rather than merely accounting for economic events. Deegan (2003, p. 10) defines environmental accounting as “a broader term that relates to the provision of environmental-performance related information to stakeholders both within, and outside, the organisation”.

Over the years, social and environmental accounting research has become popular among scholars. The 1980s and early 1990s witnessed the coming of age of social and environmental accounting research as an area of scholarly enquiry, as greater attention was paid to methodological issues (for example, content analysis), stakeholders perspectives and application of theory (for example, political economy theory and legitimacy theory); the aim was to explain rather than simply describe social and environmental accounting and reporting practices (Owen, 2008). Social and environmental accounting has many areas of research interest.
However, this thesis focuses on the reporting aspect of social and environmental accounting. It is considered that social and environmental reporting is a subset of social and environmental accounting. As social and environmental reporting practices are considered important elements of broader CSR practices, a brief discussion is essential to understand the term ‘CSR’ for the purpose of this thesis.

3.3 Corporate Social Responsibility (CSR)

One of the early definitions of CSR was presented by Bowen (1953, p. 6), who stressed that it was the “obligation of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”. This perspective developed in response to the progressively widening range of activities implemented by large companies that had potential and severe repercussions on the welfare and general conditions of society (Russo & Perrini, 2009). The World Business Council for Sustainable Development (WBCSD, 2006, p. 3) defined CSR as:

> CSR is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

The Commission of European Communities (2001, p. 6) provides the following definition of CSR:

> CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and the relations with stakeholders.

Hopkin (1998) noted that CSR is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. Business for Social Responsibility (BSR, 2005) defined CSR as business decision-making linked to ethical values and respect for people, communities and the environment. Despite the fact that there are a lot of definitions for CSR from different organisations, companies and academics, in general it covers a multidimensional perspective that includes the environment and extends to include society and the business community (Tsoi, 2010). In fact, the concept of CSR has a long history associated with how it impacts upon an organisations’ behaviour. CSR has also become one
of the most orthodox and widely accepted concepts in the business world during recent years (Carroll & Shabana, 2010). Since this thesis investigates CSR-related corporate governance, it is imperative to provide a definition of CSR for this context. In this thesis, the term ‘CSR’ has been used to understand the voluntary commitment of firms to relevant stakeholders such as employees, community, environment, consumers and so forth for the well-being of the broader society, and it is expected that businesses not only fulfil the legal expectations but also go beyond the legal compliance and thus contribute towards sustainable economic development. Thus, the researcher of this thesis defines CSR-related governance as those rules, regulations, plans, policies and/or procedures that are relevant to address the matters associated with CSR (A detailed discussion of CSR-related governance practices is provided later in this chapter).

While discussing CSR practices in large firms and small and medium enterprises (SMEs), Russo and Perrini (2009) argue that profit can no longer be a corporations’ sole objective; their success is also based on their stakeholder relationships, which encompass many interests. Such relationships develop into a necessary integration of ‘business in society’ in which society interacts with business at large, providing it with legitimacy and prestige (Garriga & Mele´, 2004), and businesses become responsible for the long-term effects of their operations and creation of values.

Although corporations have been addressing the issue of philanthropy for the past 200 years, it was not until the twentieth century that the nature of corporate philanthropy came under scrutiny. For example, Parker (2011) found that the practice of corporate social responsibility is not a phenomenon of this century; it dates back to at least as early as the 17th century. Parker (2011) profiled four industrial pioneers as leading actors in CSR of their time. They are Robert Owen (1771-1858), Titus Salt (1803-1876), George Cadbury (1839-1922) and William Hesketh Lever (1851-1925). Their philanthropic activities included: co-operative movement; infant schooling; trade unionism; innovation of efficient mill production technology; improvements in employees’ quality of life by pursuing social welfare strategies for the workforce; implementing cooperative working practices; increasing employee benefits and sharing corporate prosperity with its
workers; donating major gifts or property to a wide variety of organisations and charities; developing community facilities such as the building of hospitals, construction of a convalescent home for children, and many others (Parker, 2011). Parker (2011) however, concluded that these four ‘legends’ are examples of leading, and high-profile industrial entrepreneurs who simultaneously pursued business and social objectives. It is worthwhile to note that these people and their businesses pursued this kind of corporate philanthropy not because of pressure from their stakeholders, but because they wanted to combine social and business objectives. In other words, these organisations seemed to integrate their CSR activities with corporate governance practices.

Carroll (2008) also argued that it is becoming more apparent that, well into the first decade of the 2000s, CSR in many firms is moving towards full integration with strategic management and corporate governance. Over the years, corporations have tended to realise that they not only have to practice CSR but they need to disclose the particular CSR policies they have in place; they also need to demonstrate their CSR performance in addition to financial performance (Chowdhury, 2012). Organisations need to disclose these policies to demonstrate their transparency and accountability associated with their operations. Thus, the next section discusses the relevant literature about the disclosure of CSR information.

3.4. Corporate social and environmental disclosure
Social and environmental disclosure can typically be thought of as comprising information relating to a corporation’s activities, aspirations and public image with regard to environmental, community, employee and consumer issues (Gray, Javad, Power & Sinclair, 2001). It is the provision of information about the performance of an organisation in relation to its interaction with its physical and social environment (Deegan, 2007, p. 1265). The disclosure of such information can be deemed to be part of an organisation’s responsibility to its stakeholders or a response to stakeholders’ expectations (Deegan, 2007; Deegan, 2002; Gray, Kouhy & Lavers, 1995; Mathews, 1995) and the information disclosures include (but are not limited to) physical environment, energy, human resources, products, community involvement matters, and others (Hackston & Milne, 1996).
As social and environmental accounting has gained more prominence among researchers in recent years (Parker, 2005a), corporate social and environmental reporting has become increasingly prominent in social accounting and corporate governance literature (Rashid & Lodh, 2008). Solomon (2010, p. 24) also noted that “social and environmental reporting is the broader range of accountability mechanisms under the frontiers of corporate governance research”.

Social and environmental disclosure research in the 1970s and 1980s basically focused on developed countries such as the US, Australia and the UK (see for example Dierkes & Preston, 1977; Trotman, 1979; Brockhoff, 1979; Ernst & Ernst, 1978; Hogner, 1982; Guthrie, 1983; Guthrie & Parker, 1989), and most of the research investigated the nature and frequency of disclosure of a particular country or industry (Owen, 2008). Since the late 1980s and early 1990s, the study of social and environmental disclosures in developing countries has emerged (see for example Singh & Ahuja, 1983; Teoh & Thong, 1984; Andrew, Gul, Guthrie & Teoh, 1989; and Tsang, 1998, among others). Over the last two decades there has been a substantial amount of research in the area of social accounting and it seems that many researchers are particularly focusing on social and environmental reporting.

Although some countries, including Australia, have limited mandatory social and environmental reporting requirements, in most countries it is still predominantly voluntary. Consistent with this, Deegan (2002) and Mathews (1995) note that in reality it is predominantly a voluntary corporate practice. Particularly in the context of this thesis (discussed in Chapter Two), there are no mandatory social and environmental reporting practices within Bangladesh. Thus, for the purpose of this thesis, social and environmental reporting represents a term that relates to the voluntary disclosure of social and environmental information and related governance practices.

To understand the broader perspective of corporate social and environmental disclosure, it is necessary to consider the major avenues of research under this discipline. These include the nature and frequency of disclosure, stakeholder
influence on corporate disclosures and managerial perceptions, and/or motivations behind disclosure. Since the investigations in this thesis also embrace these broad areas of research, the relevant literature has been reviewed in the following sections. In addition, there are some other areas of research reviewed such as media attention as a proxy for community concerns, the ‘costs’ of externalities, and share price reactions to particular social and environmental information. As these areas of research are not directly relevant to this thesis, only a brief review of the literature is provided to gain an understanding about the broader discipline of corporate social and environmental accounting. Social accounting researchers generally pursue their study in order to address one or more of the specific issues in the literature. The following sections explore the relevant literature pertinent to each of these major avenues of research.

3.4.1 Nature and frequency of disclosures:
Researchers such as Hogner (1982), Guthrie and Parker (1989), Andrew et al. (1989), Yamagami and Kokubu (1991), Patten (1992), Gray et al. (1995), Deegan and Gordon (1996), Adams, Hill and Roberts (1998), and Tsang (1998) focused on the nature and frequency of disclosure of social and environmental information. Hogner (1982) examined annual reports from US steel companies for the years 1901 to 1980 and found that the subjects of disclosure were concentrated on the areas of human resources and community involvement. Hogner (1982), however, found that the reported information consisted of both good news and bad news and thus argues that social disclosure was a response to societal forces and behaviours. Guthrie and Parker (1989) used historical and content analysis research methods for BHP from 1885 to 1985 and concluded that the peak in environmental disclosures in the 1970s was associated with the time when mining, steel and oil industries were targeted by conservationists. They identified six themes of social disclosure: environment, energy, human resources, products, community involvement and others. The identification of these themes is considered a significant contribution to social accounting research, as many studies later used these themes to identify the nature and frequency of disclosure in different countries and industries (see for example Hackston & Milne, 1996; Yamagami & Kokubu, 1991; Islam & Deegan, 2008). For example, using the same themes, Yamagami and Kokubu (1991) found that Japan was slow in
developing corporate social disclosure practices compared to the US and European countries. They also found that Japanese companies were providing comparatively less information on topics relating to environment, community involvement and employee relations.

Patten (1992) focused on the change in the extent of environmental disclosures made by a North American oil company (Exxon) and found that there was an increase in environmental disclosures post-1989. Gray et al. (1995) conducted a longitudinal study of UK corporate social and environmental disclosures for the period 1979 to 1991 and found that corporations used social reporting to inform the ‘relevant public’. Deegan and Gordon (1996) reviewed annual report environmental disclosures made by a sample of companies from 1980 to 1991 and found that the increases in corporate environmental disclosures over time were positively associated with increases in the levels of environmental group membership. They also found that the disclosures were self-laudatory and there was a positive correlation between the environmental sensitivity of the industry and the level of disclosure. Adams et al. (1998) found that company size, industrial groupings and the country where the operation was based influenced corporate social reporting patterns; large companies were significantly more likely to disclose all types of corporate social information than small companies. They also found that the amount and nature of information disclosed varied significantly across Europe. While all of the above research was carried out in the context of developed countries, Tsang (1998), Andrew et al. (1989), Teoh and Thong (1984), Imam (2000), Belal (2001), de Villiers and van Staden (2006), among others, provided a developing country perspective while investigating the nature and frequency of corporate social and environmental disclosures. Since this chapter has a separate section to discuss social and environmental reporting in a developing country context, these are not discussed in this section.

The above discussion is relevant to this thesis as none of the studies noted above specifically explored the governance issues associated with CSR. In other words, prior researchers tended to focus on the nature and frequency of general CSR
disclosure\textsuperscript{19}, whereas this thesis explores the disclosure of CSR-related governance practices and contributes to the literature by exploring the differences between general CSR disclosures and CSR-related governance disclosures in a developing country context (for example, information is provided to contrast the trends in disclosure of both). More specifically, Chapter Five of this thesis explores the nature and frequency of disclosure of CSR-related governance information. In addition, some researchers investigate stakeholder influences on corporate disclosures. Some of the relevant discussion about this major avenue of research within the social accounting discipline is provided in the next section.

3.4.2 Stakeholders’ expectations and/or influence over disclosures
To understand the influence of stakeholders on corporate disclosure, it is important to know how organisations manage their stakeholders. White (2006) noted that corporations are responsible to multiple stakeholders, all of which are integral to the success of the business. He also identified three historical stages of stakeholder management. For example, in the 1980s (first stage), the concept of stakeholder management described the need for corporate recognition of non-financial stakeholders when developing strategy and management of organisations. Russo and Perrini (2010) argued that where a company has many opportunities to increase its performance, many actors can influence it and within this context, the importance of stakeholder management increased. Some researchers (see for example Clarkson, 1995; Donaldson & Preston, 1995; Rowley, 1997; Scott & Lane, 2000; and Baldwin, 2002) argued that the concept of stakeholder management was developed so that organisations could recognise, analyse and examine the characteristics of individuals or groups that influenced or were influenced by organisational behaviour.

In the 1990s, (second stage) focus shifted to the next level of stakeholder management, that of engagement, where organisations not only identified stakeholders, but also aimed to build and sustain relationships with all parties substantively affected by their activities, or who affected them. Finally, (late 2000) was stakeholder governance (third stage); this includes empowerment of

\textsuperscript{19} A definition of ‘general CSR disclosures’ is provided in Chapter One.
groups to make decisions that fairly balances the claims of all key stakeholders (White, 2006). Spitzeck and Hansen (2010) explained two important dimensions of stakeholder governance as power and scope. Power refers to the level of influence stakeholders are granted in corporate decision making (Jonker & Nijhof, 2006; Burchell & Cook, 2008) and scope refers to the breadth of power in corporate decision making and usually involves deciding on isolated local issues to decisions affecting the general business model of the organisation (Kaptein & Van Tulder, 2003; Jonker & Nijhof, 2006). Spitzeck and Hansen (2010) however, found that most corporations take an instrumental approach when granting stakeholders more access to corporate decision making, and only a minority of corporations (26%) grant stakeholders significant power to shape corporate decisions.

Based on the discussion above, this thesis considers the ‘stakeholder governance’ stage, which implies that organisations need to consider the claims of all key stakeholders while implementing CSR-related corporate governance practices and providing disclosures. Stakeholder governance also implies that organisations are subject to pressure from stakeholders who expect them to explicitly take their interests into account when making strategic and operational decisions (Margolis & Walsh, 2003). Organisations receive these pressures from outside the firm, particularly to enhance reputation and meet heightened stakeholder expectations (Barnett, 2007). Often organisation receive these pressures from inside the firm as proxying for better decision making that improves strategy or transaction efficiency (Chami, Cosimano & Fullenkamp, 2002).

Over the years, organisations have disclosed more information pertaining to their social and environmental performance in response to stakeholders’ demands for social and environmental responsibility and accountability (Jose & Lee, 2007). Stakeholder pressure acts on companies in two different ways: not only are companies expected to effectively manage their social and environmental performance, but also to be accountable for this performance (Schaltegger &

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20Mitchell, Agle, and Wood (1997) described three attributes of stakeholders: power, legitimacy and urgency. These are discussed in Chapter Six.
Burritt, 2000). Jose and Lee (2007) found that when responding to stakeholder concerns and regulatory requirements, many companies incorporated environmental policies, designed systems and structures, and measured and controlled their environmental performance. If an organisation implements particular governance structures/policies in their corporate governance practices it would seem that this organisation better demonstrates its accountability than others (Jose & Lee, 2007). They concluded that many companies have come a long way, yet others have a long way to go. Since the above research discusses the importance of incorporating stakeholder demands/concerns in organisations’ corporate governance structures, a definition of a ‘stakeholder’ is necessary.

There is a vast amount of research aimed at identifying the stakeholders\textsuperscript{21} of businesses. For example, Friedman and Miles (2006) argued that the term stakeholder has been used indiscriminately in the last two decades. Mainardes, Alves and Raposo (2011) argued that Freeman (1984) was the first researcher to clearly identify the strategic importance of other groups and individuals on the company, other than the traditional groups of clients, suppliers, employees and shareholders. In fact, he saw these groups as highly disparate, legitimate stakeholders, such as the local community, environmentalists and consumer defence organisations, as well as government authorities, special interest groups and even competitors and the media (Clement, 2005). As this thesis investigates the CSR-related governance practices of Bangladeshi garments supply companies, the relevant stakeholders in this context include customers (multinational buying companies), NGOs, media, the government, employee representatives, the local community and environmental groups. A detailed discussion about why these groups are considered stakeholders of the supply companies of Bangladesh is supplied in Chapter Six.

Since this thesis investigates the expectations and perceptions of stakeholders regarding CSR-related governance practices and related disclosures, a discussion about the relevant literature is appropriate. Some of the prominent research in this

\textsuperscript{21} Chapter Four provides more definitions of ‘stakeholders’ when discussing stakeholder theory.

Deegan and Blomquist (2006) found that there are some lobby groups, such as World Wide Fund for Nature (WWF), that have significant power and influence over an industry’s disclosure policies. They found that WWF instigated an initiative (an exercise in which they scored the environmental reports of Australian mining companies) that influenced revisions to the industry’s code of conduct as well as the reporting behaviour of individual mining companies. Thus, Deegan and Blomquist (2006) found WWF to be an important and powerful stakeholder for the Mineral Council of Australia (MCA).

Esty (2007) found that stakeholders such as customers, employees, and capital markets as well as the government and NGOs expect companies to release public reports on greenhouse gas emissions, make progress in improving energy efficiency, and achieve targets for reducing emissions. He also argued that companies that fail to meet these stakeholder expectations face potentially serious business consequences. Esty provided this commentary in the Harvard Business Review (2007) while criticising Apple’s ranking as last in the electronic industry category by an environmental group called Climate Counts. This implies that organisations need to consider the expectations of stakeholders while implementing their corporate governance practices; otherwise they might face potentially negative business consequences.

By conducting 11 semi-structured interviews with non-managerial stakeholders in the context of a developing country, Belal and Roberts (2010) found that corporate social responsibility reporting in the context of Bangladesh is developing in response to pressures from international markets. This finding is also similar to those provided by Balal and Owen (2007) and Islam and Deegan (2008), although these later studies investigated managerial perceptions and/or motivations rather than stakeholder influence. Based on a sample of firms listed

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22 Climate Counts released a scorecard ranking of major corporations in their tracking, reporting and reduction of greenhouse gases, and Apple got a score of 2 out of 100 (Esty, 2007).
23 A detailed discussion about the findings of these two studies can be found in the next section and in Chapter Six.
on the Taiwan Stock Exchange (TWSE) from 2003 to 2005, Huang and Kung (2010) found that the level of environmental disclosure is significantly affected by stakeholder groups’ demands. They classified stakeholders into three different groups: external, internal and intermediary; they then argued that external stakeholder groups such as the government, debtors and consumers, exert a strong influence over management intentions regarding the extent of environmental disclosure. Tilt (1994) found that pressure groups such as environmental lobby groups, community services, consumers, and energy and minority groups are engaged in lobbying either directly with the companies or indirectly with the government bodies in an attempt to exert influence over companies’ disclosure practices. She concluded that pressure groups need to be considered one of the users of corporate social disclosures.

The above brief discussion of stakeholder pressure and identification of pressure groups is relevant for the context of this thesis, as it identifies stakeholders based on the findings of some of the above studies. It is also relevant in the context of organisations operating within a developing country context. Organisations need to identify the stakeholders so that they can satisfy the stakeholders’ demands in terms of CSR performance.

A recent study by Tsoi (2010) revealed that local and regional stakeholders perceive that CSR is fairly significant for largely export-oriented businesses; however, it is lagging behind the West due to the fact that most local/regional companies only address CSR when there is a client requirement; Tsoi (2010) came to this conclusion after collecting and analysing data from 21 major stakeholders from Hong Kong and Mainland China. The findings of this study are particularly important for this thesis, which investigates how and whether the local supply companies of Bangladesh disclose CSR-related governance information.

Reviewing the above studies relating to ‘stakeholders’ influence’ indicates that, none of the research noted above provide any evidence regarding the expectation of stakeholders regarding CSR-related corporate governance practices and/or the influence of stakeholders on CSR-related governance practices of organisations.
Therefore, this thesis finds a research gap in the social and environmental accounting literature to investigate CSR-related corporate governance practices of the firms. Chapter Six of this thesis explores what stakeholders expect and how those expectations potentially translate into the disclosure of CSR-related governance information. Another significant area of research within social and environmental accounting is exploring the motivation behind corporate managers’ social reporting decision, discussed next.

3.4.3. Managerial perception or motivation behind social disclosures

Investigating managerial perception or the motivations behind social and environmental disclosures is one of the significant areas of research regarding social and environmental disclosure. To explore managerial perceptions or the motivation behind social and environmental disclosures, the researchers particularly sought to explore ‘why’ questions, and in explaining ‘why’, reference is often made to the positivist approach to research. The positivist approach is an approach of “explaining what is” (Deegan, 2006, p. 220). This area of research finds that an organisation reports social and environmental information to manage its stakeholders (see for example Ullman, 1985; Arnold, 1990; Tilt, 1994; Deegan & Blomquist, 2006; Belal & Owen, 2007; Islam & Deegan, 2008), to secure or maintain legitimacy, or to meet community expectations (see for example Deegan, 2002). O’Dwyer (2002), O’Donovan (2002), Belal and Owen (2007) and Islam and Deegan (2008) provide different perceptions and motivations behind the disclosure of social and environmental information. Since this thesis investigates managerial motivation for CSR-related governance information disclosures, a review of the above studies is relevant. Two studies are particularly relevant for the purposes of this thesis: Belal and Owen, (2007), and Islam and Deegan, (2008).

Based on interviews with senior managers from 23 Bangladeshi companies representing the multinational, domestic private and public sectors, Belal and Owen (2007) found that organisations disclose social and environmental information to satisfy their powerful stakeholders. They found that powerful stakeholders include parent companies (in case of multinational company), investors, international agencies (such as World Bank), domestic NGOs and
community bodies, trade unions and mainstream political parties. They also found that corporate managers are motivated to disclose social and environmental information when they perceive pressure from external forces, notably parent companies’ instructions and demands from international buyers.

Founded on annual report content analysis of BGMEA over 19 years and conducting 12 in-depth interviews with BGMEA senior officials, Islam and Deegan (2008) also found that an industry association within a developing country is motivated to disclose social information to satisfy its powerful stakeholders. They found that BGMEA is motivated to disclose social information when they perceive pressure to do so from powerful stakeholders such as foreign buyers, ILO, UNICEF, the US Government, NGOs and the media.

Both of these studies found that powerful stakeholders exert influence on corporate social and environmental reporting. In addition, O’Dwyer (2002) and O’Donovan (2002) also investigated managerial motivation behind the disclosure of social information.

O’Dwyer (2002) interpreted managerial perceptions of corporate social disclosures by conducting interviews with 29 senior managers of 27 Ireland-based public limited companies. He found that while corporate social disclosures (CSD) may occasionally form part of a legitimacy process, ultimately this is misguided, as it is widely perceived as being incapable of supporting the achievement of a legitimacy state24, thus for many managers, the continued CSD practices are deemed somewhat perplexing. He found that attempts at legitimation, in many cases through environmental disclosures, have been greeted with increased scepticism and heightened public demands for action regarding environmental issues. Rather than responding to these increased demands through engaging in further or more thorough CSDs, some companies, apparently identifying the futility of using CSD as a legitimation vehicle, have ceased to engage in its practice. O’Dwyer (2002) does not support the legitimacy theory perspective, and provides an important contribution to research by providing an engagement-based

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24 A detailed discussion about ‘legitimacy’ and ‘legitimation’ is provided in Chapter Four.
study with senior corporate managers while investigating their motivation behind corporate disclosures.

O’Donovan (2002) used primary data from interviews with six senior managers from three large Australian companies including BHP, Orica and Amcor and found that corporations disclose environmental information to present the corporation in a positive light. However, none of the research noted above focuses on the disclosure of CSR-related governance information from the perspective of individual companies’ reporting behaviour.

While the above researchers consider the managerial perspectives, some researchers consider the normative or ethical perspective. These groups of researchers pursue their study to identify what organisations ‘should do’ to be ethical and accountable to the wider stakeholder groups. This area of research can be classified as a normative approach to research, that is, “describing what should be” (Deegan, 2006, p. 220). The normative approach is based on moral premises about how actors and organisations should go about their activities (Mainardes et al., 2011). This approach may serve to generalise the understanding of how organisational behaviours may be shaped and fashioned (Mainardes et al., 2011). In other words, the efforts of management need to be focused on grasping why the company needs to satisfy its stakeholders’ demands and figure out how to achieve this, as well as providing prescriptions. Some other prominent research in this particular area includes Cooper and Owen (2007), Cooper, Neu & Lehman (2003), Adams (2002), Lehman (1995), Gray et al. (1996). Normative research provides useful suggestions about how to measure and classify social and environmental disclosures (see for example Hackston & Milne, 1996; Gray et al., 1995). One of the significant characteristics of the normative research approach is that “disclosure decisions should not be responsive to perceived legitimacy threats but should be based on the beliefs about what managers are considered to be accountable for, and what people need to know about” (Deegan, 2002, p. 298).

The above discussion is relevant since Chapter Seven of this thesis investigates the managerial motivations behind CSR-related governance disclosures and contributes to the existing literature by exploring these in a developing country
context. However, this thesis embraced the positivist’ approach of research rather than normative approach as it focuses on explaining ‘the disclosure practices (what is)’ (Deegan, 2006).

In addition to the above three broad areas of research, there are other areas of research in the social accounting/reporting discipline, which are not directly relevant to this thesis. However, it is important to understand the broader body of knowledge regarding the social accounting/reporting environment.

3.4.4. Other areas of research
Within the broader discipline of social and environmental accounting, some researchers investigate media attention as a proxy for community concerns, others explore how to cost externalities and others investigate share price reaction. Although these areas of research are not directly related to the focus of this thesis, a brief review of this literature is provided in this section.

There are a number of researchers who examined media attention as a proxy for community concerns. They focussed on corporate social and environmental impacts and tried to relate the media attention to corporate social and environmental disclosure practices (see for example Zeghal & Ahmed, 1990; Brown & Deegan, 1998; O’Donovan, 1999; Deegan, 2002; Cho, Chen & Roberts, 2009; Islam & Deegan, 2010). For example, Zeghal and Ahmed (1990) found that the information content and the form of social information disclosure is related to a company’s operations and that this content is likely to be distributed by means of a medium of communication like annual reports and brochures. They also found that brochures are often used by corporations to supplement annual reports, by targeting specific interest groups. Brown and Deegan (1998) investigated the relationship between the print media coverage given to various industries’ environmental effects and the levels of annual report environmental disclosures made by a sample of firms within those industries and found that a higher level of media attention is significantly associated with higher levels of annual report environmental disclosures. Brown and Deegan (1998) was the first known study to introduce Media Agenda Setting Theory into the social and environmental accounting literature.
By interviewing three large Australian companies, O’Donovan (1999) considered the role of the media in shaping community expectations, and how corporate management responds to potentially damaging media attention; he found that the media shapes community expectations and that corporate disclosure is one way to correct misperceptions held or presented by the media. His study supports legitimacy theory.25

Deegan, Rankin and Tobin (2002) conducted a further longitudinal study examining disclosures on social and environmental issues in the annual reports of BHP over a period from 1983 to 1997, and found that there was a positive correlation between media attention for certain social and environmental issues and the volume of disclosures on these issues. Cho et al. (2009) recently found that the richness of the presentation medium of social and environmental website disclosures may influence and bias user perceptions of the content disclosed. Companies are concerned largely with the potential damage to their reputations that may accrue as a result of media exposure of corporate malpractice, including their activities which are likely to impact on the environment, working conditions and human rights (Jenkins, 2005).

While the above researchers investigate media attention as a proxy for community concerns, there is another stream of research that investigates how to cost externalities (see for example Schaltegger & Burritt, 2000; Parker, 2000; Deegan, 2003; Burritt, 2004; Deegan, 2005; Deegan, 2008). Deegan (2003) focused on activity-based costing; Deegan (2005) applied full-cost accounting; while Parker (2000) applied life-cycle costing to incorporate accounting for environmental costs.

Yet, another perspective of research in social and environmental disclosure is quite different from the other areas discussed above is the study of share price reactions (or market return) to social and environmental disclosure practices (see for example Deegan, 2002; Gray et al., 1995; Murray, Sinclair, Power & Gray, 2006). However, Parker (2005a) noted that the rationale behind the decision to

25A detailed discussion about legitimacy theory is provided in Chapter Four.
disclose social and environmental information in this perspective is driven by corporate self-interest. This is also consistent with Parker (2005a), Owen (2008) and Deegan (2002), who also identified major limitations in this area of research.

While the studies in the above sections discuss different perspectives of research within the broader discipline of social and environmental accounting, there still remains a general lack of research attention to the issue of integrating social and environmental accounting within the corporate governance practices of organisations (Parker, 2005a; Parker, 2005b; Solomon, 2010). This thesis attempts to integrate corporate governance with corporate social and environmental responsibility. Since it considers corporate governance within the context of the broader area of corporate social and environmental accounting, this warrants further discussion in its own right. Also, the current state of corporate governance practices in the context of Bangladesh is relevant, as it will provide an understanding about the underlying CSR-related governance disclosure practices within a developing country context. Thus, the next section provides a discussion on corporate governance and the disclosure of corporate governance information.

3.5 The notion of ‘corporate governance’ and disclosure of corporate governance information

Corporate governance is understood as the system by which companies are directed and controlled (Cadbury, 2000). Corporate governance has also been more broadly defined to include “the social organisation of firms and their relation to their environments including their relations to states” (Fligstein & Freeland, 1995, p. 22), combining an economic concern with efficiency and a broader sociological concern with social, political and cultural factors. The objective of corporate governance has traditionally been conceptualised by agency theory (Williamson, 1975; Jensen & Meckling, 1976) as the maximisation of profits for shareholders (Friedman, 1970). However, corporate governance has shifted from its traditional focus on agency conflicts to address issues of ethics, accountability, transparency and disclosure (Gill, 2008). Based on the political view of corporate governance, proponents of stakeholder theory (Freeman, 1984; Donaldson & Preston, 1995; Letza, Sun & Kirkbride, 2004) argue that stakeholders are critical for the survival of an organisation and need to be considered in the system by
which companies are directed and controlled (Spitzeck & Hansen, 2010). Also, key proponents of agency theory acknowledge that stakeholder interests need to be considered in ‘enlightened’ governance arrangements (Jensen, 2001). While some researchers limit their analysis to board governance (for example White, 2009), this thesis regards corporate governance as a broader concept including corporate social responsibility.

Generally, corporate governance refers to the direction, control and management of an entity; this includes the rules, procedures and structures upon which the organisation seeks to meet its objectives (Birt, Chalmers, Byrne, Brooks & Oliver, 2010). The Organisation for Economic Co-operation and Development (OECD, 2004) states that:

Corporate governance deals with the rights and responsibilities of a company’s management, its board, shareholders and various stakeholders. How well companies are run affects market confidence as well as company performance. Good corporate governance is therefore essential for companies that want access to capital and for countries that want to stimulate private sector investment. If companies are well run, they will prosper. This in turn will enable them to attract investors whose support can help to finance faster growth. Poor corporate governance on the other hand weakens a company’s potential and at worst can pave the way for financial difficulties and even fraud.

It is generally accepted, however, that corporate governance extends beyond the law to include a consideration of best practice and business ethics (Birt et al., 2010). The issues surrounding the rights and responsibilities of corporations are complex and ever changing as the financial markets become more global, corporations become larger and more powerful, and society’s perceptions of the corporate role develop (Birt et al., 2010). The obligation that corporations need to be socially and environmentally responsible requires a maximisation of positive effects and a minimisation of negative effects on society and the environment (Birt et al., 2010). Competing stakeholders’ interests, increasing stakeholder awareness of corporate responsibilities and corporate collapse have all heightened interest in the corporate governance debate and there is a growing expectation that corporations should consider and report on social and environmental issues as well as traditional financial matters (Birt et al., 2010). Since societal expectations
change over time, organisations also need to update their business processes and/or practices so that they are seen as a socially responsible organisation. As this thesis considers CSR-related governance practices in the context of Bangladesh it is relevant to provide a brief review of the overall corporate governance practices in Bangladesh.

3.5.1 Corporate governance practices in Bangladesh

Uddin and Chowdhury (2008), Siddiqui (2010) and Khan, Muttakin and Siddiqui (2013) are some of the prominent studies that highlighted the state of corporate governance practices in Bangladesh. Siddiqui (2010) noted that corporate governance reforms in Bangladesh are still at a developmental stage, and so far Bangladesh has failed to develop any recognised code of corporate governance. The only code of corporate governance so far was developed through a donor-funded private research organisation called Bangladesh Enterprise Institute (BEI, 2004). However in 2006, the Bangladesh’s SEC issued a directive that all the listed companies must submit corporate governance status compliance reports within their annual reports by ticking some check-box items and indicating whether or not they comply with the check-box item(s).

Siddiqui (2010) found that the corporate environment in Bangladesh is characterised by concentrated ownership structures, bank financing, poor legal frameworks and a lack of monitoring. He argues that the process of development of corporate governance regulations in Bangladesh is characterised by the lack of self-regulation by the professional bodies, a dominant presence of donor-funded private sector regulations and the lack of government initiatives to provide regulations. Siddiqui (2010) however, concluded that despite a lot of problems in its implementation, Bangladesh has adopted the shareholder model of corporate governance, which is adopted by many developed countries. He argues that rather than the shareholders model of corporate governance, a stakeholder model

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26 This is an Anglo-American model of corporate governance, where shareholders have two important rights: the right to ultimate control of a corporation and a right to all its profits. The role of shareholders in corporate governance can also be expressed by saying that maximizing shareholder wealth is and ought to be the objective of a firm. These features of the shareholder model of corporate governance appear to place shareholders in a privileged position in comparison with employees, suppliers, customers, and other corporate constituencies or stakeholder groups. As a result, this model is often regarded as a model based on the ‘shareholder primacy’ perspective (Boatright, 2008).
of corporate governance\textsuperscript{27} would be more suitable in the context of Bangladesh. Consistent with Siddiqui (2010), Uddin and Chowdhury (2008. p. 1030) provide the following insights while investigating the corporate governance practices in Bangladesh:

The development of Bangladeshi capitalism, as argued, is shaped by colonialism, exploitation, interventions and families (Uddin and Hopper, 2001; Hopper et al., 2004), which reveals the traditionalist feature of capitalism. This is also reflected in the size and nature of the capital market of Bangladesh. The majority of the business corporations in Bangladesh are not listed on stock exchanges. Previous research has also shown that the ownership structure of the large stock exchange listed companies is dominated by families (BEI, 2004), not unlike other LDCs (Dyball and Valcarcel, 1999). Family and kinship ties are deeply rooted in Bangladesh’s political and economic history. The power of family and friends often shapes the political power within the Bangladeshi state.

Uddin and Chowdhury (2008) also note that in Bangladesh, there are four main institutions that enforce various regulations and standards necessary to shape corporate governance practices; these are the Institute of Chartered Accountants of Bangladesh (ICAB), the SEC, stock exchanges (Dhaka Stock Exchange and Chittagong Stock Exchange) and the Registrar of Joint Stock Companies (RJSC). However, because of political parties’ influence and corruption these institutions appear to fail to provide necessary rules and regulations to ensure good corporate governance practices within Bangladesh. Uddin and Chowdhury (2008, p. 1044) provide further insights about the current state of corporate governance practices in Bangladesh:

The integrity and competence of the professional audit firms is questionable and, consequently, the financial reporting practices in Bangladesh lack quality (meaning the adequacy of disclosure) as well as transparency of information disclosed. Key corporate governance measures, are being ignored by many companies and rules essentially remain ineffective. To sum up, companies fail to comply with basic corporate rules and regulations, even auditing their own accounts.

\textsuperscript{27}Contrary to the shareholder model, this model emphasises a trust-based long-term relationship between firm and stakeholders, protection of the rights of different stakeholders, employee participation and business ethics (Letza et al., 2004).
From the above discussion it is concluded that the corporate governance practices in the context of Bangladesh are still underdeveloped and there are many impediments both in the private sector and government initiatives to provide relevant rules and regulations necessary for the implementation of good corporate governance practices in Bangladesh.

While the previous sections focus on the notion of corporate governance and corporate governance practices in the context of Bangladesh, it is also important to review some of the existing studies that explore the disclosure of corporate governance information. As noted elsewhere, there is a relative scarcity of research in this particular area, yet some researchers have attempted to focus on the issue of CSR in their discussion of corporate governance disclosures. Since this thesis specifically investigates CSR-related governance disclosure practices, a brief review of relevant literature is necessary.

3.5.2 Disclosure of corporate social and environment-related governance information

As this thesis intends to explore social and environment-related corporate governance practices, a definition is essential. ‘Social and environment-related governance information’, as the name suggests, includes particular rules, regulations, plans, policies or procedures that an organisation has in place to address matters related to social and environmental performance. Particularly, these are the rules, regulations, plans, policies or procedures that govern the practices of corporate social and environmental disclosure. These plans and policies could be part of an organisation’s broad corporate governance practices. Although it is believed that corporate governance and corporate social responsibility should not be considered and sustained independently (Jamali, Safieddine & Rabbath, 2008), there is limited literature to link both of them. Khan et al. (2013) also argue that even though corporate governance and corporate social responsibility reporting have separately established themselves as well-researched areas, relatively less attention has been paid in setting up a link between these two.
Most of the earlier studies in this area focused on the corporate governance variables and attempted to establish a relationship between corporate governance variables and disclosure practices (see for example Eng & Mak, 2003; Haniffa & Cooke, 2002, Said, Zainuddin & Haron, 2009; Cormier & Gordon, 2001; Donnelly & Mulcahy, 2008; Rashid & Lodh, 2008; Young & Thyil, 2009; Barako & Brown, 2008; Gill, 2008; Liu & Taylor, 2008; Ho & Wong, 2001; Webb, Cohen, Nath & Wood, 2008; Kolk & Pinkse, 2010; ACCA, 2010; and Haniffa & Cooke, 2005). A brief review of these studies is relevant for the purposes of this thesis.

Eng and Mak (2003) found that ownership structures and board composition affect disclosure, since lower managerial ownership and significant government ownership are associated with increased disclosure, whereas block-holder ownership is not related to disclosure, and an increase in outside directors reduces corporate disclosure. Haniffa and Cooke (2002, 2005) document empirical evidence about the positive association between the proportion of Malay directors on the board and the extent of voluntary disclosure by Malaysian companies. In a country with two distinct ethnic groups: Malay and Chinese, their findings suggest that ethnic orientation impacts on firms’ voluntary disclosure practices including social reporting. Some researchers (see for example Said et al., 2009; Cormier & Gordon, 2001; Ho & Wong, 2001) argue that ownership status, audit committee, and size, which are likely to affect legitimacy, influence the amount of social and environmental disclosure of an organisation. For example, Said et al. (2009) found that government ownership and audit committees are positively and significantly correlated with the level of corporate social responsibility disclosure.

In contrast, Donnelly and Mulcahy (2008) found that voluntary disclosure increases with the number of non-executive directors on the board, as such firms with a non-executive chairman make greater voluntary disclosures than other firms. They found no evidence that ownership structures are related to voluntary disclosure. These findings are in contradiction with Haniffa and Cooke (2002). Rashid and Lodh (2008), however, supported the fact that corporate ownership structures somehow influence corporate social disclosure, but board composition
positively influences the corporate social disclosure practices in a developing country, such as in Bangladesh.

Young and Thyil (2009) argued that there is a divergence between views and statements on CSR and how these are operationalised throughout the organisation (governance); they concluded that it is not enough for firms to simply measure and report on factors such as diversity, occupational health and safety, harassment and equal opportunity, which are often governed by legislation, and to not include employee participation, rights to collectively bargain and the freedom of association. Gill (2008), however, emphasised the convergence of corporate governance and corporate social responsibility. Barako and Brown (2008) found that disclosure of corporate governance information is not of primary concern to Kenyan banks and there is a complete lack of disclosure on the categories of recruitment, employment of special groups, assistance to retiring employees, employee’s productivity and turnover. They also found that very few banks disclose information relating to their environment policy and environmental activities they undertake (12.5% and 0.03% respectively). They also found that the proportion of women directors on the board has significant positive influence on the disclosure of social information in annual reports.

Liu and Taylor (2008) found significant relationships between the extent of executive remuneration disclosure (for example rights, options, and termination benefits) and corporate governance variables (for example shareholders’ activism, media attention, company size, board composition and existence of a remuneration committee). They argued that, under a relatively unregulated environment, corporate management will react to community and shareholders’ expectations by disclosing sensitive information when they perceive a legitimacy threat and when they want to meet the expectations of good corporate governance.

Webb et al. (2008) investigated 50 US firms and their public disclosure packages from 2004 and found a high degree of variability in the presentations and reporting format choices for many elements of the governance structures. They found that smaller firms offer fewer disclosures pertaining to independence, board selection procedures, and oversight of management. Boards that are less
independent offer fewer disclosures of independence and board oversight matters, and large firms provide more disclosures of independence standards, board selection procedures, audit committee matters, management control systems, other committee matters, and whistle blowing procedures (Webb et al., 2008).

Kolk and Pinkse (2010) found that the companies that disclose information on a wider variety of social and environmental issues and frame CSR with a focus on internal issues are more inclined to integrate corporate governance into their CSR reporting. ACCA (2010), in collaboration with Net Balance Foundation Limited, conducted a study to analyse the disclosure of corporate governance information for the top 50 listed companies on the Australian Securities and Exchange (ASX); they found that the governance disclosures still fall short of upholding the fundamental values of transparency, accountability, fairness and responsibility.

For the purposes of this study, the review of above literature reveals that the consideration of corporate governance within the broader perspective of corporate social responsibility has increasingly gained academic attention and impetus. Nevertheless, the review also reveals a general lack of research exploring social and environmental disclosures within the context of a developing country. Thus, the following section provides an overview of studies carried out in the context of developing countries.

3.6 Research within developing countries
As noted elsewhere in this chapter, since the 1980s there has been great deal of research in social accounting/reporting in the developed country context. However, research in social and environmental reporting in developing countries emerged in the late 1990s and early 2000s (with a few exceptions). As the context of this thesis is a developing country, namely Bangladesh, a brief review of the available literature from a developing country perspective is relevant.

Among the developing countries, Bangladesh attracts a substantial amount of research in social and environmental accounting (see for example Belal, 2001; Imam, 2000; Belal, 1997; Belal & Owen, 2007; Belal, 2008; Islam & Deegan, 2008; Rashid & Lodh, 2008; Belal & Roberts, 2010; Sobhani, Amran &

The first known study within the context of a developing country can be traced back to 1983 by Singh and Ahuja. Immediately after that Teoh and Thong (1984) investigated corporate social responsibility reporting in a Malaysian context. Utilising interviews with 100 chief executive officers in Malaysia, they found that social reporting lags behind corporate social involvement, and that major corporate attention is largely focused on activities relating to human resources and products/services. They found that corporate size and the national origin of corporate ownership are relevant in reflecting the extent of social commitments made by companies. For example, companies with a predominant Malaysian ownership were less progressive with regards to fulfilling social responsibilities, whereas companies with major foreign ownership, particularly those from the US and Britain, appeared to be more prepared to accept social accountability commitments (Teoh & Thong, 1984).

Five years after Teoh and Thong (1984), Andrew et al. (1989) provided a descriptive study on corporate social disclosure in Singaporean and Malaysian
companies. By taking a sample of 119 companies from different sectors, they found that overall 26% of the companies provided social disclosures, and a higher proportion of large and medium-sized companies made relatively more social disclosures compared with the small companies. They believed that a potential reason for this difference could be that larger companies are mostly foreign-owned, have greater public visibility, and are more likely to be scrutinised by the host government. However, they concluded that the social disclosures in developing countries were not as extensive as in industrialised countries.

By reviewing Tanzanian companies’ annual report disclosure practices, Abayo et al. (1993) found that the annual reports of companies operating in a developing country are likely to contain disclosures of poor quality and insufficient information. Tsang (1998) conducted a longitudinal study, encompassing 17 companies from the banking, food and beverage, and hotel industries of Singapore from 1986 to 1995 and found that the main disclosures were related to human resources and community involvement, followed by environment. They also concluded that the nature of information disclosed by the companies was influenced by the nature of the industry. The United Nations (1995) found that the quantity and quality of social and environmental disclosures in India, Malaysia and the Philippines was disappointing. Their study was based on secondary data for these three countries.

To understand corporate social responsibility reporting in Thailand, Kuasirikun (2005) combined questionnaire and interview methods and found that a more positive attitude was held by the Thai accounting profession towards the development of social and environmental accounting. de Villiers and van Staden (2006) conducted a study by using annual report content analysis of more than 140 companies to investigate the environmental disclosure practices of companies operating in South Africa over a period of nine years. They found a fluctuation in environmental reporting for both mining companies and the top 100 industrial companies, and linked this fluctuation to a legitimacy theory perspective. That study provides some important insights into the disclosure of social information in a developing country context.
Linfei and Qingliang (2009) explored the state of corporate social responsibility in China’s apparel industry and found that the state of disclosure was better than before and the firms which practiced corporate social responsibility appeared to perform better both socially and economically than those who were inactive. Tsoi (2010) and Huang and Kung (2010) also provided important insights into stakeholders’ expectations and demands of social disclosure in a developing country context; this is described in an earlier section (Section 3.4.2).

The review of the above literature indicates that generally researchers in the developing country context focus on a particular country or particular industry to investigate social and environmental reporting, and provide a general description of the reporting practices. The general understanding of the disclosure practices of social and environmental information in the developing country context is that companies’/industries’ CSR disclosures are mostly self-laudatory, and they provide CSR information on a limited scale (see for example Belal, 2008). Most of the studies used annual report content analysis and there were relatively few engagement-based studies.

The discussion of the above studies is relevant as these provide some insights which might be consistent with the research aims of this thesis. As noted earlier, among the developing countries, Bangladesh takes the lead for research regarding corporate social responsibility disclosure. The following section highlights some of the research within the context of Bangladesh.

3.6.1 Social and environmental research in the context of Bangladesh
Some early examples of empirical research found within the context of Bangladesh were that conducted by Imam (2000) and Belal (2001). Both studies generated consistent findings. For example, Imam (2000) found that most of the listed companies in Bangladesh do not provide any information regarding the environment, human resources, community and consumers. He concluded that social information provided by the Bangladeshi companies is qualitative in nature and that the disclosure level is very poor (Imam, 2000). Belal (2001) investigated the social and environmental disclosure practices of a small number of publicly traded companies operating in Bangladesh and found that the quantity of social
information disclosed by Bangladeshi companies is very low (0.5% of the average total number of lines contained in the annual reports of a sample of 30 companies) and it was mainly descriptive. He argued that due to the absence of independent verification, the credibility of information disclosed was questionable. He further explained that the reason for poor social disclosures may be a lack of statutory requirements, the presence of very few organised social groups and less social awareness, an under-developed corporate culture, and a relatively new stock market (Belal, 2001).

Both Belal (2001) and Imam (2000) based their research on the annual reports from 1996 to 1997. However, the status of social disclosure in Bangladesh has improved over the last 10 years. For example, 10 years after Belal’s (2001) study, a recent study was conducted by Sobhani et al. (2009); they took a sample of 100 listed companies’ annual reports from 2006 to 2007 and found that the level and extent of social and environmental disclosures of Bangladeshi companies has improved. They found that 100% of companies disclose at least one item of information related to Human Resource (HR) issues and concluded that the level of social disclosures from sample companies was more than those found by Belal (2001) and Imam (2000), and in a few cases more than doubled. They, however, concluded that the nature and extent of disclosures seemed to be poor and that awareness was still lagging compared to that of developed countries (Sobhani et al., 2009).

While investigating the motivation behind social disclosures of Bangladeshi companies, Belal and Owen (2007) and Islam and Deegan (2008) came up with similar findings. These two studies are particularly important as they are considered engagement-based studies and provide a managerial perception of social and environmental disclosure in the context of Bangladesh. The discussion of these studies is not repeated in this section, as they are discussed in an earlier section (Section 3.4.3). Islam and Deegan’s (2008) study is one of the relevant studies for the purposes of this thesis as the researchers used annual report content analysis of BGMEA and conducted in-depth interviews with managers. However, one similarity between Belal and Owen (2007) and Islam and Deegan (2008) is that they found that external pressures motivate improved social disclosure.
practices in Bangladeshi companies. In another study, Belal (2008) conducted a qualitative content analysis of 87 companies’ annual reports and concluded that corporate social responsibility reporting practices in Bangladesh reflected the interests of powerful economic stakeholders, neglecting the interests of weak social stakeholders such as the local community, environment and the wider society.

After reviewing the broad social and environmental reporting discipline in general and a developing country context in particular, it is argued that there is still a scarcity of research regarding the exploration of social and environment-related governance practices. Prior research tended to focus on CSR disclosures generally rather than investigating the governance aspects pertaining to the implementation of CSR practices. Understanding CSR-related governance structures/processes within an organisations’ corporate governance practices is important since stakeholders, including international NGOs, media and multinational buying companies are increasingly interested in the governance practices pertaining to CSR. In the longer term, organisations need to change their corporate governance practices in order to incorporate CSR-related issues within the governance mechanism. While most of the prior research focused on social and environmental accounting and reporting practices in general, this study focuses on CSR-related governance aspects and explores stakeholders’ expectations vis-a-vis managerial motivation behind the disclosure/(non-disclosure) of CSR-related governance information. The next section specifically discusses the research gap in current literature, which this thesis aims to address.

3.7 Gaps in the literature

There has been limited research by accounting researchers in the context of a developing country, and the garments sector in particular, that investigates internal governance mechanisms from a social and environmental perspective. This thesis has been carried out in an attempt to fill some of these gaps in the social accounting literature. Again, it is argued that to assess the risks (and opportunities) associated with sourcing products from a developing country (and indeed, elsewhere) stakeholders such as multi-national buying companies need information about the processes and practices suppliers have put in place to
address various social and environmental issues. As concerns about issues such as poor labour practices, unsafe factories, child labour, and so forth continue to rise, the demand for such information arguably continues to rise. The disclosure of such information becomes a practice which can have direct impacts upon the economic livelihood (and accountability) of individual organisations, as well as broader societies.

The social accounting literature basically focuses on social and environmental accounting and reporting. While reporting includes the disclosure of various issues such as social, environmental and governance, the reviewed literature has not incorporated the (corporate) governance issues within the social and environmental accounting discipline. As noted above, the disclosure of CSR-related governance information is significant for many stakeholders who need or want to know how stakeholder rights are respected and how an organisation’s corporate governance systems address particular CSR issues (PwC, 2011). Thus, this thesis specifically focuses on three research gaps in the social accounting literature. These are discussed below:

1. If stakeholder pressure is sustained for a particular CSR performance issue, then it is worthwhile to know how organisations respond to this pressure in terms of incorporating and/or changing corporate governance practices/structures, and whether (if at all) they provide disclosures pertaining to that particular governance practice. However, in the social accounting literature no study was found that investigated CSR-related governance disclosure practices of organisations within a developing country. Also, there are calls for research to investigate corporate governance reporting within the social and environmental context (see for example Solomon, 2010; Parker, 2005a; 2005b). This thesis investigates this particular issue and the results are provided in Chapter Five.

2. Another gap is the exploration of different stakeholders’ expectations and/or perceptions regarding the disclosure of corporate governance practices within a developing country. It can be argued that the
researchers’ attention in social accounting is no more limited with exploring the disclosure of social and environmental issues; rather academic attention now focuses on corporate governance practices pertaining to those social and environmental issues. It is also argued that if organisations do not integrate social and environmental issues within the formal corporate governance practices, the stakeholders are not satisfied, and they perceive the disclosures as ‘symbolic’; this disclosure is done with the intention of avoiding immediate pressure from powerful stakeholders. However, no known study investigates stakeholders’ expectations and/or perceptions regarding the disclosure of CSR-related governance information. Exploring stakeholders’ expectations of CSR-related governance practices would provide insights for CSR managers to consider incorporating the required governance issues in their corporate governance practices. This thesis thus explores stakeholders’ expectations and/or perceptions of the disclosure of CSR-related governance information and provides these findings in Chapter Six.

3. The third research gap identified in the literature is the lack of research into the motivation behind corporate managers’ disclosure of CSR-related governance information. Prior research in this area has focused on managers’ motivation for social performance and social disclosures; however, no known study has investigated managers’ motivation for social responsibility-related corporate governance practices and related disclosures. It is interesting to explore the managerial motivation behind CSR-related governance disclosures, as corporate managers in a developing country need to consider powerful stakeholders’ demands for corporate governance practices. Often these powerful stakeholders (in this context, the multinational buying companies) are exposed to the risk of being associated with organisations that do not disclose appropriate governance practices pertaining to labour rights/human rights, working conditions, health and safety issues, and child labour. Accordingly, these organisations’ survival is more assured by disclosures of appropriate governance practices. Thus, this thesis explores the managerial
motivation behind the disclosure of CSR-related governance information
and provides these findings in Chapter Seven.

The above research deficiencies have led to this study which attempts to fill the
void by contributing to the existing social accounting body of knowledge through
exploring CSR-related governance information of organisations in a developing
country.

3.8 Conclusion
This chapter provides a review of relevant social and environmental accounting
research in general. Key terms arising from the discussion have been defined. The
discussion begins with the emergence of social accounting and stretches to
different areas of research within the broader area of social and environmental
accounting. This chapter also provides some relevant reviews of corporate
governance literature and addresses the existing body of knowledge that links
corporate governance with corporate social responsibility. It emphasises the social
and environmental reporting research within a developing country context and
thereby identifies some research deficiencies and highlights these gaps. While
reviewing the existing social accounting body of knowledge, the researcher found
that other researchers use various theories to explain their findings. This thesis
also uses a particular theoretical paradigm to explain the findings. Thus, the next
chapter (Chapter Four) provides the theoretical framework for this research.
Chapter Four
Theoretical Perspectives

4.1 Introduction

This chapter provides the general discussion and application of the relevant theories in the broader social and environmental literature. During the last two decades a number of theories such as legitimacy theory, stakeholder theory and institutional theory have been applied by researchers with the aim of explaining rather than simply describing social and environmental accounting and reporting practices (Owen, 2008); these theories provide useful frameworks for studying corporate social behaviour (Gray et al., 1996; O’Donovan, 2002). This thesis utilises legitimacy theory, stakeholder theory and institutional theory to explain the findings of the study. Accordingly, this chapter provides relevant discussion on each of these theories; it also provides a complementary perspective and justification for using these theories in this thesis. A brief discussion is provided about political economy theory as legitimacy theory, stakeholder theory and institutional theory, to some extent, are derived from a political economy theory perspective.

4.2. Political economy theory

It is considered by some people that legitimacy theory and stakeholder theory are both derived from a broader theory known as political economy theory (Gray et al., 1996). Institutional theory can also be linked to political economy theory (Deegan, 2009). The ‘political economy’ itself has been defined by Gray et al. (1996, p. 47) as “the social, political and economic framework within which human life takes place”. Political economy theory suggests that to investigate an economic issue a researcher needs to consider the political, social and institutional framework within which the economic activities take place. Deegan (2009) noted that by considering political economy theory, a researcher is able to consider broader (social) issues that impact on how an organisation operates, and what information it elects to disclose. The political economy theory is relevant, as

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28 The perspective embraced by the political economy theory is that society, politics and economics are inseparable, and economic issues cannot meaningfully be investigated in the absence of consideration of either of them (Deegan, 2009).
organisations and their accounting systems operate in a social, political and economic context (Buhr, 1998). Guthrie and Parker (1990, p. 166) provided the following insights to explain political economy theory:

> The political economy perspective perceives accounting reports as social, political and economic documents and they serve as a tool for constructing, sustaining and legitimising economic and political arrangements, institutions and ideological themes which contribute to the corporations’ private interest.

Political economy theory has been divided into two broad streams which Gray et al. (1996, p. 47) labelled as ‘classical’ and ‘bourgeois’ political economy. Classical political economy theory is related to the works of philosophers such as Karl Marx and explicitly places “sectional (class) interest, structural conflicts, inequity and the role of State” at the heart of the analysis and bourgeois political economy theory largely ignores these elements and is content to perceive the world as essentially pluralistic (Gray et al., 1996, p. 47). Deegan (2013) also notes that according to the bourgeois political economy theory perspective, many classes of stakeholders are assumed to have the power to influence various decisions made by corporations, the government and other entities and no one group dominates another. Most researchers who apply legitimacy theory embrace a view consistent with the ‘bourgeois’ branch of political economy theory (Deegan, 2013).

Buhr (1998) identifies a gap between the legitimacy perspective and political economy perspective. According to Buhr (1998) the distinction between legitimacy theory and political economy theory is on a micro rather than macro level. They both serve to legitimate, but means and motivation are viewed differently. The variation occurs in the interpretation of disclosure choice. For example, if ‘the disclosure choice’ focuses on the social constructionist perspective, it is consistent with the legitimacy theory, whereas if it focuses on the hegemonic perspective, it is more consistent with political economy theory (Buhr, 1998). Thus ignoring this difference in interpretations, bourgeois political economy is the branch of broader political economy theory from which legitimacy

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29 The hegemonic perspective is a radical structuralist view that sees an oppressive nature in the social and organisational world that arises from dysfunctional structural relationships. These relationships create a power elite that controls resources, broadly defined (Buhr, 1998, p. 165).
theory and stakeholder theory are derived. Deegan (2011, p. 323) noted that institutional theory can be applied within either a classical or a bourgeois conception of political economy. However, this thesis will embrace the ‘bourgeois’ branch of political economy theory since while considering the stakeholders’ power this thesis argues that different classes of stakeholders have power differentials to influence various decisions made by corporations (a detailed discussion about this is provided in Chapter Six). Thus, broadly the political economic theory perspective embraces legitimacy theory, stakeholder theory and institutional theory. As this thesis applies these theories, it is relevant to provide a detailed discussion of each.

4.3 Legitimacy theory
Legitimacy theory states that organisations continually seek to ensure that they are perceived as operating within the bounds and norms of their respective societies; to ensure this perception, organisations attempt to engage in activities that are seen by outside parties as ‘legitimate’ (Deegan, 2011, p. 323). If the organisations’ activities are not consistent with the expectations of the society/community, it loses its rights to continue operation in that particular society. Legitimacy theory, at its simplest, argues that organisations can only continue to exist if the society in which they are based perceives the organisation to be operating within a value system that matches the society’s own value system (Gray et al., 1996, p. 46). According to Suchman (1995, p. 574), "legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Dowling and Pfeffer (1975) and O'Donovan (2002) considered legitimacy as a resource on which an organisation is dependent for survival. Unlike a physical resource, it is a resource that is conferred by the society to the corporations, and organisations are considered to be able to affect or manipulate this resource through different disclosure-related strategies (Woodward, Edwards & Birkin, 1996).

The essence of legitimacy theory is based on the notion of a ‘social contract’. This notion is used to represent the multitude of implicit and explicit expectations that society has about how an organisation should conduct its operations (Deegan,
An implicit agreement among the members of a society to cooperate for social benefits, for example, by sacrificing some individual freedom for state protection. Theories of a social contract became popular in the 16th, 17th, and 18th centuries among theorists such as Thomas Hobbes, John Locke, and Jean-Jacques Rousseau, as a means of explaining the origin of government and the obligations of subjects.

Deegan (2011) also emphasised that a social contract is a theoretical construct, and hence a person cannot just get a copy of the social contract between an organisation and the society in which it operates. It is assumed within legitimacy theory that society allows the organisations to continue operations to the extent that they generally meet society’s expectations by complying with the social contract (Deegan, 2011, p. 325). If corporations fail to comply with the societal expectations and therefore breach the social contract, then society could impose various sanctions on the corporations, including legal restrictions, limited resources or consumer boycotts and so forth (Deegan, 2011). When this occurs, an organisation faces a 'legitimacy threat', which is described in the next section.

4.3.1 Legitimacy threats and potential management strategies

A legitimacy threat arises when an organisation fails to comply with societal expectations. In other words, a legitimacy threat occurs when corporate performance does not match the expectations of stakeholders. An organisation faces a potential legitimacy threat when there is a perceived 'legitimacy gap'. A legitimacy gap indicates the discrepancy between an organisation's actions as perceived by society and society's expectations of how the organisation should act; this gap can threaten an organisation’s image and reputation, and ultimately its existence as a legitimate member of the business community and society (Sethi, 1977). To avoid these potential legitimacy threats, organisations take various actions to ensure that their activities are perceived as legitimate (Dowling & Pfeffer, 1975). Islam and Deegan (2008) also noted that ‘threats’ to an entity’s perceived legitimacy are predicted to lead to responsive actions by management (through disclosures) who endeavour to minimise its impacts.
Lindblom (1993) differentiates between 'legitimacy' and ‘legitimation’, as the former is a status or condition and the latter is the process that gives an organisation its legitimacy. Since legitimacy is a status or condition it cannot be fixed but it can be changed over time, and organisations need to be responsive to such change via different 'legitimation' strategies. Lindblom (1993) identified four such strategies that an organisation can pursue to gain, maintain or repair legitimacy, described below:

1. Bringing the organisation’s output, methods and goals into alignment with popular views of what is appropriate. Here a corporation makes internal adjustments to close the legitimacy gap (Lindblom, 1993, p. 13).

2. Organisation attempts to demonstrate the appropriateness of the output, methods and goals to the public through education and information. This strategy does not require a change in business performance or societal expectations but rather requires only a change in perceptions (Lindblom, 1993, p.14).

3. Identifying organisational output, methods and goals with the popular perception of what is appropriate, without any attempt at actual conformity. In this case an organisation does not change its business performance, nor do societal expectations change. Instead it seeks to manipulate perceptions by diverting relevant public attention from the issue of concern onto other related issues. The disclosure, while not necessarily false, will be misleading (Lindblom, 1993, p. 15).

4. Organisations attempt to bring popular views into conformity with organisational output, methods and goals possibly by demonstrating that specific societal expectations are unreasonable. In this case, an organisation is not making any internal adjustment to close the legitimacy gap, but rather seeks an adjustment in societal expectations (Lindblom, 1993, p. 16).

It is assumed that organisations might adopt one or more strategies to gain, maintain or repair legitimacy. However, an organisation might face different phases of legitimacy and accordingly it might choose a combination of strategies. The following section briefly discusses the different phases of legitimacy/legitimation.
4.3.2 Different phases of legitimacy

Tilling and Tilt (2010) provide a refinement to organisational legitimacy theory by suggesting that a firm will go through various phases with regards to its legitimacy. The first phase refers to the early stages of an organisations’ development and seems to involve its competence and effectiveness in ensuring that it can satisfy the demands of its market and can meet its obligations (Tilling & Tilt, 2010). Failure to do this will obviously result in a loss of legitimacy with traditional stakeholders such as suppliers, customers, creditors and so forth. The second phase is maintaining legitimacy, provided that it must already be established (first phase). Maintaining legitimacy is more difficult than establishing it, as society’s expectations change over time, which requires firms to be responsive accordingly if they want to be legitimate, given that organisations know exactly in which direction community expectations change. Deegan (2002) noted that even if organisations change their activities according to changing communities’ expectations but fail to communicate such changes properly; this would also be legitimacy threat. The third phase is extending legitimacy, where firms remain in the maintenance phase, and might encounter a need to extend their legitimacy because of the changing circumstances such as sudden adverse social and environmental events (Tilling & Tilt, 2010). In this phase corporate managers might be interested in obtaining the support and confidence of wary stakeholders (Ashforth & Gibbs, 1990).

The last phase is defending legitimacy, which Tilling and Tilt (2010) consider as the main focus of accounting researchers. In this phase organisations attempt to provide responses when their legitimacy is at stake. Tilling and Tilt (2010) suggest that organisations interested in defending their legitimacy have tended to use Lindblom’s (1993) four strategies noted in the previous section. Finally, Tilling and Tilt (2010) suggest that there could be one more stage beyond the defence phase, which is the ‘loss phase’, where managers may “perceive disclosure to be useless in the legitimation effort” (de Villiers & van Staden, 2006, p. 767). An organisation in the loss phase could either be moved to some form of disestablishment or restart again with the first phase (Tilling & Tilt, 2010). Although it seems to be difficult to identify exactly which phase an organisation is in at a given time, the application of this theory has been widely
used in explaining the social and environmental disclosure practices of organisations. The following section provides the application of this theory in the social accounting literature.

4.3.3 Application of legitimacy theory in the literature


Hogner (1982) argued that social disclosures of US Steel from 1901 to 1980 constituted a response to societal forces and behaviours and that such disclosures were both motivated by and indicative of corporate needs for legitimacy. While examining the effect of the Exxon Valdez oil spill on the annual report environmental disclosure of petroleum firms other than Exxon, Patten (1992, p. 475) found that the results supported the legitimacy theory perspective:

The increased environmental disclosures of the petroleum companies, along with the significance of the size and Alyeska variables in explaining that increase, can be interpreted as evidence in support of legitimacy theory. It appears that at least for environmental disclosures, threats to a firm's legitimacy do entice the firm to include more social responsibility information in its annual report.

Deegan and Gordon (1996) found that corporate environmental disclosures are used to legitimise the operations of firms that operate in industries of concern to environmental groups. Brown and Deegan (1998) used legitimacy theory to

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30 Deegan (2002) provided a detailed overview of legitimacy theory and a variety of motivations for managers to report social and environmental information in a special edition of Accounting, Auditing and Accountability Journal (AAAJ).
understand annual report environmental disclosures and found that organisations respond to community concern by increasing the extent of disclosure of environmental information within their annual reports when the media highlights the (negative) environmental performance of a particular organisation.

Deegan, Rankin and Tobin (2002) found a strong association between BHP’s disclosure policies and community concern – a result consistent with legitimacy theory. They showed that increased media attention leads to increased community concern for a particular issue and accordingly managers disclose information to legitimise their organisation’s place within society; the more media attention the more corporate disclosures. Thus, legitimacy theory is consistent with the view that corporations can also impact community perceptions through their disclosure practices (Deegan et al., 2002). Deegan (2002) also noted that legitimacy theory provides the basis of the foundation of the four papers he edited in a special edition in AAAJ and provides an understanding of how and why managers use externally focused reports for the benefit of their organisations. de Villiers and van Staden (2006) found that the fluctuation in environmental reporting is consistent with legitimacy theory because legitimising can also be achieved by changing the type (general or specific) or by reducing the volume of environmental disclosures. Deegan and Blomquist (2006) applied both legitimacy theory and stakeholder theory to explain the Australian mineral industry’s environmental disclosure practices. Utilising semi-structured interviews with senior personnel from three large Australian public companies, O’Donovan (2002) found legitimacy theory as an explanatory factor for environmental disclosures. Belal and Owen (2007), and Islam and Deegan (2008) also used legitimacy theory to explain managerial motivation behind social disclosures in a developing country context.

However, some accounting researchers argue that the process of legitimisation is perhaps no different to reputational risk management. For example, Bebbington, Larrinaga-Gonzalez and Moneva-Abadia (2008) argued that corporate social responsibility disclosures could be considered a key part of organisations reputation risk management strategies rather than as part of a process of legitimation. In other words, Bebbington et al. (2008) provided an alternative
theoretical perspective (reputation theory) to explain managerial motivation behind social disclosures. However, Adams (2008) provided a commentary on Bebington et al.’s (2008) study and argued that reputation theory does not provide more insights than legitimacy theory, and that in fact it is the legitimacy theory but with different name. The following quote provides further insights (Adams, 2008, p. 368):

…..They suggest that a negative social and environmental impact does not affect legitimacy, but rather affects reputation which then has a second order impact on the legitimacy of an organisation. I wondered “So what?” Should we rename legitimacy theory reputation theory? Would that solve the problem?

Adams (2008) concludes that legitimacy theory provides a better explanation than reputation theory, as suggested by Bebington et al. (2008), for corporate social and environmental disclosure practices. It is also believed that legitimacy theory is the most widely used theory that provides the foundation for corporate disclosure of social and environmental information in contemporary social accounting literature (Parker, 2005a; Campbell, Craven & Shrives, 2003). For the purposes of this thesis, legitimacy theory has been used to explain the disclosure practices of social responsibility-related governance information in a developing country context. The reasons why this particular theory has been used is discussed later in this chapter. However, researchers in social accounting also use stakeholder theory in conjunction with legitimacy theory to provide a richer understanding of corporate social disclosure.

4.4 Stakeholder theory

This thesis considers stakeholder theory along with legitimacy theory, since both of the theories conceptualise the organisation as part of a broader social system that the organisation influences and is influenced by, other groups within society (Deegan, 2002, p. 295). However, Gray et al. (1995, p. 52) argued that there is much overlap between stakeholder theory and legitimacy theory:

It seems to us that the essential problem in the literature arises from treating each as competing theories of reporting behaviour when ‘stakeholder theory’ and ‘legitimacy theory’ are better seen as two (overlapping) perspectives on the issue which are set within a framework of assumptions about ‘political economy’.
The political economy perspective was discussed in the previous section. Being effectively derived from political economy theory, legitimacy theory and stakeholder theory provide some consistent but slightly different insights into the factors that motivate managerial behaviour (Gray et al., 1995; O’Donovan, 2002). For example, Deegan (2011, p. 346) noted:

Differences between the theories largely relate to issues of resolution; stakeholder theory focuses on how an organisation interacts with particular stakeholders, while legitimacy theory considers interactions with ‘society’ as a whole. A consideration of both theories is deemed to provide a fuller explanation of management’s actions.

While discussing stakeholder theory it is necessary to provide a definition of stakeholders. Freeman (1984, p. 46) defined a stakeholder as “any group or individual who can affect or is affected by the achievement of an organisation’s objectives”. Post, Preston and Sachs (2002, p. 19) defined stakeholders as:

The stakeholders in a corporation are the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and are therefore its potential beneficiaries and/or risk bearers.

Stakeholder theory was further developed by Freeman (1984) as a proposal for the strategic management of organisations in the late twentieth century. Over time, this theory has gained importance, with key development by Clarkson (1994, 1995), Donaldson and Preston (1995), Mitchell et al. (1997), Rowley (1997) and Frooman (1999) enabling both greater theoretical depth and development. Its modern utilisation, traced back in management literature to the Stanford Research Institute in 1963, is to generalise and expand the notion that shareholders are the only group that management needs to be sensitive towards (Jongbloed, Enders & Salerno, 2008). Within this perspective, Freeman (1984) argued that business organisations should be concerned about the interests of other stakeholders when making strategic decisions, and he thought stakeholders as the fulcrum (central focus) of stakeholder theory.

Stakeholder theory can be used to explain as well as guide the structure and operations of established corporations (Donaldson & Preston, 1995). Russo and Perrini (2010) argued that from a practitioners’ perspectives, stakeholder theory helps instil good managerial and instrumental practices in firms. They, however,
opined that today, CSR is focused on a stakeholder model, which has become widely accepted among contemporary business organisations. Stakeholder theory arrived in time to explain and predict how organisations should act, by taking into consideration the influences of stakeholders, such as the local community, (environment) and the media, among others (Mainardes et al., 2011), that until now were not included in organisations’ practices.

Stakeholder theory recognises that the impact of each stakeholder group on a given organisation will be different, and that the expectations of different stakeholder groups are not only diverse, but sometimes conflicting (Chen & Roberts, 2010). Deegan (2002) identifies two branches of stakeholder theory, of which one is the normative (ethical) branch and the other is the positive (managerial) branch. The next sections provide a brief review of these two perspectives of the stakeholder theory.

4.4.1 Normative branch of stakeholder theory

The normative (ethical) branch provides prescription in terms of how organisations should treat their stakeholders (Deegan, 2002). In other words, normative stakeholder theory focuses on how managers should act on the basis of moral or ethical principles. This approach provides the moral basis for the stakeholder theory by stating: “Do (Don’t do) this because it is the right (wrong) thing to do” (Donaldson & Preston, 1995, p. 72).

Normative stakeholder theory grants stakeholder claims intrinsic value due to the moral rights of any individual affected by corporate conduct (Donaldson & Preston, 1995; Ulrich, 2008). Normative stakeholder theory prescribes that corporations should treat each stakeholder relationship as an end in itself, not as a

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31 Deegan (2013) explained that ‘stakeholder theory’ is a confusing term. Many different researchers have stated that they have used stakeholder theory in their research, yet when looked carefully, it could be found that they have employed different theories with different aims and assumptions in their research – and all have been labelled ‘stakeholder theory’ (Deegan, 2013). As Hasnas (1998, p. 26) states, “stakeholder theory is somewhat of a troublesome label because it is used to refer to both an empirical theory of management and a normative theory of business ethics, often without clearly distinguishing between the two”. More correctly, perhaps, researchers can think of the term ‘stakeholder theory’ as an umbrella term that actually represents a number of alternative theories that address various issues associated with relationships with stakeholders, including considerations of the rights of stakeholders, the power of stakeholders or the effective management of stakeholders.
means to an end (Belal & Roberts, 2010). This theoretical perspective considers rights and duties of the actors involved and how a just balance of different stakeholders’ interests can be achieved (Lozano, 2005; Ulrich, 2008). This theoretical viewpoint also implies that the interest of one stakeholder (such as shareholder) should not be undermined at the expense of other stakeholders such as the community or environmental groups (Clarkson, 1995). For example, Donaldson and Preston (1995, p. 67) stated:

The interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners.

Donaldson and Preston (1995) further argued that the normative branch of stakeholder theory is used to interpret the function of the corporation, including the identification of moral or philosophical guidelines for the operation and management of corporations. The normative branch of stakeholder theory implies that the relationship between managers and stakeholders is based on normative, moral commitment rather than focusing only on those stakeholders who are important for profit maximisation consideration. Philips (2003) supports the normative stakeholder theory by providing a definition of normative stakeholders (p. 31):

…those to whom the organisation has a moral obligation, an obligation of stakeholder fairness, over and above that due other social actions simply by virtue of them being human.

Normative stakeholder theory is any form of stakeholder theory that rests on the moral point of view that a firm’s responsibilities to its various stakeholders should go beyond what is accepted by contemporary shareholder/stockholder approaches (van de Ven, 2005). To explain the normative aspect of a theory, van de Ven (2005, p. 50) stated:

A normative core of a theory is a set of normative judgements about a certain subject like ‘corporations ought to be governed…’ and ‘managers ought to act to ……’ The filling in of the blanks in these judgements is the expression of a certain normative core.

From a normative perspective, existing research suggests that to prompt moral imagination and empathy, stakeholder identification needs to go beyond generic
economic roles and more towards a sense of the moral personhood of stakeholders (Crane & Ruebottom, 2011, p. 79):

The normative approach challenges the view that stakeholder groups are a means to a profitable end and emphasizes the Kantian view that stakeholders are an end in themselves (Clarkson, 1994; Evan & Freeman, 1993). Normative arguments based on social cooperation and community include all those that participate in the cooperative effort (Hartman, 1996).

Hasnas (1998, p. 26) provided the following insights to explain the normative stakeholder theory:

According to the normative stakeholder theory, management must give equal consideration to the interests of all stakeholders and, when these interests conflict, manage the business so as to attain the optimal balance among them. This, of course, implies that there will be times when management is obligated to at least partially sacrifice the interests of the stockholders to those of other stakeholders. Hence, in its normative form, the stakeholder theory does imply that businesses have true social responsibilities.

Thus, from a normative point of view, stakeholders need to be addressed by corporate governance processes in order to respect their ethical or moral rights (Spitzeck & Hansen, 2010). Deegan (2011) noted that based on the normative perspective of stakeholder theory, all stakeholders have certain minimum rights that must not be violated and that all stakeholders have the rights to information.

In regards to the notion of rights to information, Deegan (2011) considered the accountability model as outlined by Gray et al. (1996, p. 38):

The duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible.

Deegan (2011) further analysed the accountability model and argued that according to this model, corporate social reporting is assumed to be responsibility driven rather than demand driven and it implies that people in society have a right to be informed about certain facets of the organisation’s operations.

From the above discussion it can be concluded that the normative branch of stakeholder theory considers each and every stakeholder as important for carrying

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32 Moral personhood denotes individual beings as moral agents, would engage in behaviour that can be evaluated as moral or immoral, as morally right or wrong, as morally permissible or impermissible (Centre for Health Ethics, 2013).
out business operations in a socially responsible way. But in practice it is somewhat difficult for managers to treat all stakeholders equally since there are power differentials between them. This perspective of stakeholder theory also assumes that issues of stakeholder power are not directly relevant to managerial decision making. Most importantly, having the majority of the resources controlled by the stockholders it could be argued that stakeholders’ demands should be accommodated only when they improve or safeguard stockholders interests (Deegan, 2011).

Humber (2002) identified some limitations of the application of the normative or ethical branch of stakeholder theory. For example, Humber (2002) argued that firms, just like individual persons, should be free to morally assess actions in any way they see fit. It implies that it is not necessary for the firms to apply the notion of morality while giving due consideration to the stakeholders. This theoretical perspective has also been criticised as incompatible with the functions of business, where the major objective is to focus on the interests of the owner (Sternberg, 1997). Deegan (2011) also noted that there are some subjective judgements when applying this theory in practice, and that this perspective cannot be validated or confirmed by empirical observation. Thus, the critics of this theoretical perspective prefer the positive (managerial) branch of stakeholder theory.

In the context of this thesis, the ethical branch of stakeholder theory has not been applied for specific reasons. For example, this thesis argues that there are power differentials between stakeholders, and stakeholders’ power is directly relevant to managerial decision making; this embraces the managerial perspective of stakeholder theory. Nevertheless, the above discussion offers an understanding about the broader application of stakeholder theory in contemporary social accounting research. The next section provides a brief review of the managerial branch of stakeholder theory.
4.4.2 Managerial branch of stakeholder theory

While the normative branch of stakeholder theory emphasises that all stakeholders have the right to be treated fairly by an organisation, it does not consider the issues of stakeholder power (Deegan, 2009). Deegan and Blomquist (2006), Islam and Deegan (2008) and Deegan (2009) found that, in practice, profit-seeking organisations often respond to the expectations of those stakeholders that are seen as relatively more powerful. These stakeholder groups control resources necessary to the organisation’s operations and can withdraw support from the organisation if important social responsibilities are unattended (Freeman, 1984; Ulmann, 1985; Deegan & Blomquist, 2006). This notion comes from the positive or managerial branch of stakeholder theory.

Deegan (2011) states that the managerial branch of stakeholder theory not only considers the organisation as part of the wider social system (similar to the legitimacy theory perspective), but also considers the different stakeholder groups within society and how they should best be managed if the organisation is to survive (hence it has been called a ‘managerial’ perspective of stakeholder theory). The positive or managerial branch of stakeholder theory identifies and classifies the different constituents of an organisation without assigning any value judgements regarding the legitimacy of their claims or their power (Lozano, 2005); this theoretical perspective emphasises the need to manage particular stakeholder groups who are powerful in terms of controlling the supply of necessary resources (Ullman, 1985). This implies that organisations will not respond to the demands of all stakeholders, rather they will consider those stakeholders with power. Thus, stakeholder power is a function of the stakeholder’s degree of control over resources required by the organisation (Ullman, 1985). Such resources could include, but are not limited to, labour, finance, influential media, ability to legislate, and the ability to influence consumption of the organisation’s goods and services (Deegan, 2011). The more critical the stakeholder’s resources are to the continued viability and success of

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33 By comparison, Donaldson and Preston (1995) referred to the instrumental perspective of stakeholder theory in which the main focus of interest is the assumption that corporations practising stakeholder management will be relatively successful in conventional performance terms, which is similar to the ‘managerial’ perspective of stakeholder theory.
the organisations, the greater the likelihood that this stakeholder’s demands will be addressed (Smith, Adhikari & Tondkar, 2005).

Organisations tend to attribute more importance to stakeholders’ demands for social performance the more influential stakeholders are over the supply of resources to the businesses (Huang & Kung, 2010). For example, Ullman (1985, p. 552) stated:

When stakeholders control resources critical to the organization, the company is likely to respond in a way that satisfies the demands of the stakeholders. Thus stakeholder power tends to be positively correlated with social performance. Conversely, if the power of stakeholders is low, their demands tend to be ignored by the focal organisation.

Accordingly, the managerial branch of stakeholder theory attempts to explain why corporate managers are more likely to attend to the expectations of particular (powerful) stakeholders and if those expectations are considered to impact on operating and disclosure practices of the organisations. This perspective implies that the disclosure of information is an important strategy in managing stakeholders. In fact, the managerial branch of stakeholder theory explicitly refers to issues of stakeholder power (Islam & Deegan, 2008) and it accepts that different groups have different views about how organisations should conduct their operations, and have different levels of influence over an organisation (Deegan, 2002). One of the important assumptions of the managerial branch of stakeholder theory is that managers need to understand the power of a particular stakeholder and need to realise how that particular stakeholder or stakeholder group utilises this power. However, in practice it is difficult to define power. As such Mitchell et al. (1997, p. 865) stated:

Power may be tricky to define, but it is not that difficult to recognize: it is the ability of those who possess power to bring about the outcomes they desire.

To elaborate further, Mitchell et al. (1997, p. 865) cited Weber (1947) and Dahl (1957) to provide a more comprehensive definition of stakeholder power, “a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done”. Mitchell et al. (1997) argued that stakeholder identification and salience is
a function of stakeholders possessing one or more relationship attribute (situational factors): power, legitimacy and urgency. Power refers to the extent that a stakeholder can exert its influence over an organisation. A stakeholder has legitimacy when its demands conform to the norms, values and beliefs of the wider community. Urgency is the extent to which stakeholder demands require immediate attention by a firm. Urgency, when combined with either power or legitimacy, has the potential to change stakeholder-manager relations and increase the power of the affected stakeholder group (Smith et al., 2005). The greater the extent to which organisations believe that stakeholders possess these three attributes, the greater their importance to an organisation (Deegan, 2011).

Chapter Six of this thesis utilised these attributes to identify powerful stakeholders in the textile and garments companies of Bangladesh (see Section 6.4.2). Based on this theoretical perspective, it is more likely that an organisation will respond to the expectations of those stakeholders with power, legitimacy and urgency (David, Bloom & Hillman, 2007). The following section focuses on some of the applications of this theoretical perspective in the literature.

4.4.3 Application of the managerial branch of stakeholder theory in the literature

There is some research within the social and environmental accounting discipline that used the managerial branch of stakeholder theory to analyse findings (see for example Ullman, 1985; Gray et al., 1995; Gray et al., 1996; Deegan & Blomquist, 2006; Belal & Owen, 2007; Islam & Deegan, 2008). For example, Ullaman (1985, p. 552) stated that “formulating social responsibility programs as well as disclosing their existence can be viewed as part of the strategic arsenal of dealing with one particular segment of a firm’s stakeholders”; this obviously refers to powerful stakeholders within the pool of various stakeholders.

34 Stakeholders’ power, legitimacy and urgency are further discussed in Chapter Six, with specific reference to how these are applied in the context of this thesis.
Gray et al. (1996, p. 45) noted:

Here (under this perspective), the stakeholders are identified by the organisation of concern, by reference to the extent to which the organisation believes the interplay with each group needs to be managed in order to further the interests of the organisation. (The interests of the organisation need not be restricted to conventional profit-seeking assumptions). The more important the stakeholder to the organisation, the more effort will be exerted in managing the relationship. Information is a major element that can be employed by the organisation to manage (or manipulate) the stakeholder in order to gain their support and approval, or to distract their opposition and disapproval.

The managerial branch of stakeholder theory assumes that organisations use different disclosure strategies to gain or maintain the support of powerful stakeholders (see for example Deegan & Blomquist, 2006; Belal & Owen, 2007; Islam & Deegan, 2008). Thus, gaining the support/approval of different (and potentially influential) stakeholders rests on an organisation’s ability to balance conflicting expectations\(^\text{35}\). Deegan and Blomquist (2006), Belal and Owen (2007), and Islam and Deegan (2008) are among a number of researchers who apply stakeholder theory to explain the impact of particular stakeholders on corporations’ social and environmental disclosure practices. For example, Deegan and Blomquist (2006) found WWF to be a powerful stakeholder, as it was able to influence the disclosure decisions of the MCA. If a potentially powerful group is concerned about the environmental performance of an organisation, then that organisation might perceive a need to publicly disclose information about the particular environmental initiatives and that organisation would implement such initiatives in order to alleviate some of the concerns held by powerful stakeholders (Deegan & Blomquist, 2006).

Belal and Owen (2007) found that international agencies are powerful stakeholders and motivate social responsibility disclosure in Bangladesh. Islam and Deegan (2008) also found that multinational buying companies, NGOs and

\(^\text{35}\) Some organisations will balance these different demands and expectations on the basis of the impacts on the stakeholders, whilst other organisations will prioritise the needs and expectations of stakeholders based on the impact these stakeholders might have on the organisation (Freeman, 1984). In this thesis it is assumed that organisations are predominantly concerned with the interests of those stakeholders that have the necessary resources (power). For example, for suppliers within a developing country this would include multinational buying companies. This thesis, therefore, embraces a managerial perspective of stakeholder theory rather than an ethical perspective.
media are powerful stakeholders for the BGMEA. The findings of the above studies imply that management needs to assess the importance of meeting stakeholder demands in order to achieve firm’s strategic objectives. Since stakeholders’ expectations and power relativities change over time, organisations must continually adapt their operating and disclosure strategies.

Based on the above discussion, it is suggested that corporate managers need to understand the power of the stakeholder before taking initiatives to satisfy the demands of a particular stakeholder group. However, Mitchell et al.’s (1997) definition of power was criticised by Eesley and Lenox (2006, p. 766) who identified three limitations for three attributes:

1. The power of the stakeholder is moderated by the power of the firm,
2. In addition to the legitimacy of the stakeholder, the legitimacy of the request being made is important,
3. The urgency of the request is more vital than the urgency of the stakeholder group.

Another limitation of the managerial branch of stakeholder theory is that it does not provide prescriptions about what managers should disclose in a given situation. Accepting this limitation, this thesis identified stakeholders for the garments and textile companies of Bangladesh based on prior literature and considering stakeholders’ power. A detailed discussion and specific application of stakeholder power, legitimacy and urgency is provided in Chapter Six.

This thesis utilises the managerial branch of stakeholder theory since it argues that in the context of Bangladeshi textile and garment companies, there are particular stakeholders such as multinational buying companies who exercise more power than others, and supply companies give priority to this group of stakeholders accordingly. It is argued in this thesis that combining legitimacy theory with stakeholder theory provides useful insights into social and environmental disclosures, as both theories originate from the same paradigm (Deegan, 2006). A detailed discussion as to why this particular perspective of stakeholder theory has been applied can be found later in this chapter. In addition to legitimacy and stakeholder theory this thesis also uses institutional theory, as described next.
4.5 Institutional theory

Deegan (2011) identified that a key reason why institutional theory is relevant to researchers who investigate voluntary corporate reporting practices is that it provides a complementary perspective to both stakeholder and legitimacy theory, in understanding how organisations respond to changing social and institutional pressures and expectations. Institutional theory emphasises the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behaviour (Scott, 2004). Deegan (2011) noted that institutional theory broadly considers the forms organisations take and provides explanations for why organisations within a particular ‘organisational field’ tend to have similar characteristics and form.

DiMaggio and Powell (1983, p. 148) defined ‘organisational field’ as “those organisations that, in aggregate, constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products”. Scott (2004, p. 2) provided the following insights into institutional theory:

The roots of institutional theory run richly through the formative years of the social sciences, enlisting and incorporating the creative insights of scholars ranging from Marx and Weber, Cooley and Mead, to Veblen and Commons. Much of this work, carried out at the end of the nineteenth and beginning of the twentieth centuries, was submerged under the onslaught of neoclassical theory in economics, behavioralism in political science, and positivism in sociology, but has experienced a remarkable renaissance in our own time.

Carpenter and Feroz (2001) argued that the institutional theory views organisations as operating within a social framework of norms, values, and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behaviour (Oliver, 1997). An important assumption of the institutional theorists is that organisations must be responsive to external demands and expectations in order to maintain their legitimacy (Oliver, 1991; Pfeffer & Salancik, 1978; DiMaggio & Powell, 1983).
Dillard, Rigsby and Goodman (2004, p. 508) defined institutional theory as “a way of thinking about formal organisation structures and the nature of the historically grounded social processes through which these structures develop”. In order to understand institutional theory, it is imperative to provide a definition of the term ‘institution’. According to Scott (2001, p. 48):

Institutions are social structures that have attained a high degree of resilience. [They] are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artefacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous.

The process of embedding something (for example a concept, a social role, a particular value or mode of behaviour) within an institution (organisation) is called institutionalisation. Larringa-Gonzalez (2007, p. 151) noted that:

Institutionalisation is usually conceived as both the process and the outcome of a process, by which a social practice/behaviour becomes usual, desirable and/or taken for granted in organisations.

Institutional theory has been developed in management academic literature since the late 1970s, with contributions from researchers such as Meyer and Rowan (1977), DiMaggio and Powell (1983), Powel and DiMaggio (1991) and Zucker (1987). Among them, DiMaggio and Powell (1983) contributed significantly to the development of institutional theory (Deegan, 2011). According to DiMaggio and Powell (1983), once disparate organisations in the same line of business are structured into an actual field by competition, state or professions, then powerful forces emerge that lead them to become more similar to one another; they argued that “the concept that best captures the process of homogenization is isomorphism” (DiMaggio & Powell, 1983, p. 149). Deegan (2011) noted that there are two main dimensions to institutional theory: isomorphism and decoupling36. Both of these are of central relevance to explaining voluntary

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36 Decoupling is the creation and maintenance of gaps between formal policies and actual organisational practices; it enables organisations to gain legitimacy with their external members while simultaneously maintaining internal flexibility to address practical considerations (Meyer & Rowan, 1977). “Decoupling implies that while managers might perceive a need for their organisation to be seen to be adopting certain institutional practices, and might even institute
corporate reporting practices (Deegan, 2011). However, the researcher of this thesis focuses on ‘isomorphism’ dimension rather than ‘decoupling’ dimension.

The term ‘isomorphism’ is used extensively within institutional theory (Deegan, 2011). According to Carpenter and Feorz (2001, p. 566):

Isomorphism is a process that causes one unit in a population to resemble other units in the population that face the same set of environmental conditions. Because of isomorphic pressures, organisations will become increasingly homogenous within given domains and conform to expectations of the wider institutional environment.

Dillard et al. (2004) defined isomorphism as the adaptation of an institutional practice by an organisation. As the voluntary corporate reporting practices of an organisation is in itself an ‘institutional practice’ of that reporting organisation, the processes by which these reporting practices adapt and change in that organisation are isomorphic processes (Deegan, 2011). These isomorphic processes consist of three different forms of isomorphism: coercive, mimetic and normative. The next sections provide brief reviews of each of these isomorphic processes.

4.5.1 Coercive isomorphism

Coercive isomorphism arises when organisations change their institutional practices because of pressure from those stakeholders on whom the organisation is dependent (Deegan, 2011). Mizruchi and Fein (1999, p. 657) provided the following insights:

Coercive isomorphism is driven by two forces: pressures from other organizations on which a focal organization is dependent and an organization’s pressure to conform to the cultural expectations of the larger society. Coercive isomorphism, at least in the first instance, is thus analogous to formulations of the resource dependence model, in which organizations are viewed as constrained by those on whom they depend for resources (Pfeffer & Salancik, 1978).

formal processes aimed at implementing these practices, actual organisational practices can be very different from these formally sanctioned and publicly pronounced processes and practices and thus the actual practices can be decoupled from the institutionalised practices” (Deegan, 2011, p. 364).
Coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations on which they are dependent, and also from cultural expectations in the society within which the organisation functions; such pressures could be in the form of force, persuasive discussions or an invitation to join in collusion (DiMaggio & Powell, 1983). Deegan (2011) noted that the coercive form of isomorphism is related to the managerial branch of stakeholder theory, where organisations will address voluntary social and environmental information to those stakeholders who have the most power over the company. The company is therefore coerced by its influential (powerful) stakeholders into adopting particular reporting practices (Deegan, 2011). The primary motivator of the coercive form of isomorphism is to conform to the demands of powerful stakeholders; it stems from a desire for legitimacy as reflected in the political influences exerted by other members of the organisational field (Tuttle & Dillard, 2007). This form of isomorphism is often conveyed through laws, regulations and accreditation processes. Within this perspective it is assumed that organisations are increasingly homogeneous within given domains and increasingly organised around rituals of conformity to wider institutions.

Coercive isomorphism arises from asymmetric power relationships between and among stakeholders, and if the influencing group (a particular stakeholder) has sufficient power, change may be mandated (Tuttle & Dillard, 2007). A company could be coerced into adopting its existing voluntary corporate reporting practices to bring them into line with the expectations and demands of its powerful stakeholders (while possibly ignoring the expectations of less powerful stakeholders) (Deegan, 2011). The potential reason could be that these powerful stakeholders might have similar expectations of other organisations as well. Having the tendency to conform to practices being adopted by different organisations, institutional practices tend to be somewhat uniform (Deegan, 2011). Thus organisations strive to become isomorphic with the policies, mandates and beliefs of dominant organisations.
4.5.2 Mimetic isomorphism

Mimetic isomorphism is perceived as occurring when organisations seek to emulate (or copy) or improve on the institutional practices of other organisations, often for reasons of competitive advantage in terms of legitimacy (Deegan, 2011). According to DiMaggio and Powell (1983), mimetic isomorphism occurs when uncertainty is the powerful force behind imitation. DiMaggio and Powell (1983, p. 151) stated:

When organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations.

In circumstances where a clear course of action is unavailable (uncertain), then organisational leaders may decide that the best response is to mimic a peer organisation that they perceive to be successful (Mizruchi & Fein, 1999). Thus, mimetic isomorphism refers to the tendency of an organisation to emulate another organisation’s structure, practices or processes, because it believes that those of the latter organisation are beneficial. Mimetic isomorphism occurs when an organisation within a particular sector adopts similar new policies and procedures to those adopted by other leading organisations within their sector; managers often do this in an effort to maintain or enhance external stakeholders’ perceptions of the legitimacy of their organisation (Unerman & Bennett, 2004). Tuttle and Dillard (2007, p. 392-393) noted:

Mimetic pressures include benchmarking and identifying of (the) best practices and leading players in the field. Mimetic isomorphism occurs when the processes motivated by these pressures become institutional acceptance rather than its competitive necessity.

The mimetic form of isomorphism has attracted the greatest attention among researchers over the years as found by Mizruchi and Fein (1999). By investigating 26 articles that used the original theses of DiMaggio and Powell (1983), they found that more than three-quarters of the papers focused on only one of three types of isomorphism; of those 20, 12 used only mimetic isomorphism, compared to five instances of coercive isomorphism only and three of normative only. While further investigating the reason behind the extensive use

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37 The actual (sample) articles were 160, but after categorisation the authors finally selected 26 articles (category 4) in an attempt to operationalise and empirically test one or more components of DiMaggio and Powell’s (1983) thesis.
of this particular form of institutional isomorphism, Mizruchi and Fein (1999) found that mimetic isomorphism allows organisational researchers to examine environmental effects without the need to focus on coercion by powerful organisations. They also found that this perspective reflects the dominant tendency in North American organisational analysis to minimise relations of power and coercion among organisations in favour of the cognitive decision-making approach.

4.5.3 Normative isomorphism

Normative isomorphism arises as a particular organisational field matures and it consists of conforming to a privileged worldview within the organisational field where change occurs through the development and communication of this worldview by peers and/or common socialisation experiences (Tuttle & Dillard, 2007). This form of isomorphism relates to the pressures arising from group norms to adopt particular institutional practices (Deegan, 2011). For example, in the case of corporate reporting, the professional expectations that accountants will comply with accounting standards, act as a form of normative isomorphism for the organisations for whom accountants work to produce accounting reports (an institutional practices) that are shaped by accounting standards (Deegan, 2011).

According to DiMaggio and Powell (1983) normative isomorphism stems primarily from professionalisation of a group of participants through training regimes, trade associations, and other socialising mechanisms within the organisational field. Social networks and or common background experiences such as attending universities with similar ideals, goals and programs, create common expectations (Mizruchi & Fein, 1999). For example, Palmer, Jennings and Zhou (1993) provided an example of normative isomorphism by demonstrating that chief executive officers (CEOs) attending elite business schools were likely to adopt a particular organisational approach called Multi-Divisional Form (MDF) and when they subsequently became CEOs, having similarly trained executives resulted in organisational similarity within specific types of organisational fields.
Having discussed the three forms of isomorphism – coercive, mimetic and normative – it could be argued that these isomorphic forces dictate institutionalisation and theoretically produce an environment that induces organisational conformity, or homogeneity, and thus make organisations conform to the expectations of their environment. However, Deegan (2011) noted that these isomorphic processes are not necessarily expected to make the organisations more efficient and in practice it is difficult to differentiate between the three forces. As Carpenter and Feroz (2001, p. 573) stated:

DiMaggio and Powell (1983) point out that it may not always be possible to distinguish between the three forms of isomorphic pressure, and in fact, two or more isomorphic pressures may be operating simultaneously making it nearly impossible to determine which form of institutional pressure was more potent in all cases.

Carpenter and Feroz (2001) used institutional theory to explore how institutional pressure exerted on four US state governments influenced the decision of these governments to adopt or resist the use of Generally Accepted Accounting Principles (GAAP). They found evidence that an early decision to adopt GAAP can be understood in terms of coercive isomorphic pressure from credit markets, while late adopters seemed to be influenced by the combination of normative and mimetic institutional pressures. Although institutional theory has been widely used in sociology and organisational research, a number of accounting researchers also applied this theoretical perspective (see for example Carpenter & Feroz, 2001; Broadbent, Jacobs & Laughlin, 2001; Fogarty, 1996; Tuttle & Dillard, 2007, Islam & Deegan, 2008). Institutional theory has been used by the researchers in social and environmental accounting research to understand why or whether an organisation adopts a particular reporting practice. Most importantly, researchers in social and environmental accounting simultaneously use this theoretical perspective along with the legitimacy and stakeholder theory perspective to provide a better understanding of organisational reporting behaviours. Thus, the next section focuses on the complementary perspectives of the three theories discussed above.
4.6 Complementary perspectives of theories

It is noted elsewhere in this chapter that legitimacy theory, stakeholder theory and institutional theory are derived from the broader perspective of political economy theory. Having originated from the same theoretical paradigm, they are considered to be complementary rather than competing\(^{38}\). All these theories are considered system-oriented theories since they assume that organisations are part of broader social systems and are influenced by the society, and also influence the society in which they operate (Deegan, 2011). It is also noted above that researchers in the social and environmental accounting discipline often used these theories jointly to explain corporate social behaviour, since all these theoretical perspectives have some commonality among themselves, which is discussed below.

Legitimacy theory provides the insights that organisations must conform to broader societal expectations to maintain legitimacy. These societal expectations include expectations from all the relevant stakeholders for a particular company or industry. Stakeholder theory (managerial branch\(^{39}\)) provides the insights that organisations will consider those stakeholders who are powerful in terms of controlling organisational resources and needs, and then disclose social responsibility information to satisfy these powerful stakeholders in order to maintain legitimacy. Obviously some of these powerful stakeholders are part of the ‘broader society/community’ and thus in an attempt to satisfy this particular group, organisations in fact satisfy some ‘societal expectations’. Stakeholder theory focuses on how an organisation interacts with particular stakeholders while legitimacy theory considers interactions with ‘society’ as a whole (Deegan, 2011). Thus legitimacy theory and stakeholder theory provide similar insights.

Institutional theory proposes that organisations need to conform to existing institutional norms, values and beliefs and need to incorporate these norms to maintain legitimacy. Notably, the coercive form of isomorphism is related with

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\(^{38}\) However, legitimacy theory is not necessarily derived from the same branch of political economy theory as the others.

\(^{39}\) This thesis used the managerial branch of stakeholder theory rather than the ethical branch as it is assumed that the stakeholders identified in this thesis have power differentials and particular stakeholder’s power makes them dominant over others.
the managerial branch of stakeholder theory (Deegan, 2011) since both the theoretical perspectives imply that corporate managers are more likely to consider powerful stakeholder when disclosing social responsibility information, and to adopt similar reporting practices.

While legitimacy and stakeholder theory explain why an organisation adopts a particular strategy (perhaps to offset the legitimacy threatening impacts of particular events), institutional theory tends to take a broader macro view to explain why organisations have particular reporting practices (Deegan, 2011). Deegan (2011, p. 358) provides further insight:

> Institutional theory therefore provides an explanation of how mechanisms through which organisations may seek to align perceptions of their practices and characteristics with social and cultural values (in order to gain or retain legitimacy) become institutionalised in particular organisations. Such mechanisms could include those proposed by both stakeholder theory and legitimacy theory, but could conceivably also encompass a broader range of legitimating mechanisms. This is why these three theoretical perspectives should be seen a complementary rather than competing.

Based on the above discussion of legitimacy theory, stakeholder theory and institutional theory, this thesis argues that to investigate a broader (social) issue, all these theories need to be considered complementarily, since they all developed from a similar philosophical context and to some extent overlap with each other. The justification of these theories in the context of this thesis is provided in the next section.
4.7. Justification of theories applied in this thesis

Chapter Two provides a discussion about the context of this thesis: the textile and garments industry of a developing country, Bangladesh. The importance of this industry and the motivation behind choosing this industry for the purposes of this thesis are also described in Chapter Two. While investigating corporate disclosure of social responsibility-related governance information, this thesis utilises legitimacy theory, stakeholder theory and institutional theory. The justifications for using these theoretical perspectives are provided in this section.

The textile and garments companies of Bangladesh operate in an environment where ethical considerations are important to the global community. These companies are crucial from a CSR point of view, as their operations are associated with the issues of human rights/labour rights violation, use of child labour, poor and unhealthy working conditions, wage discriminations, poor health and safety issues, poor structural problems in factory buildings and so forth. Particularly in the late 1990s and early 2000s, supply companies were the target of extensive criticism from international media, NGOs and labour rights groups for exercising poor CSR practices.

Since the textile and garments companies of Bangladesh are primarily export-oriented companies and they supply textile and garments to many of the world’s famous brands, it is argued that these supply companies need to satisfy global societal expectations in their business operations. These companies perceptibly have ‘social contracts’ with the broader society/community, and society grants them with a ‘license to operate’. Thus, it is expected that these supply companies can continue their business operations if they comply with broader societal expectations. Failure to comply would pose a risk of survival for these companies, and thereby create a potential legitimacy threat. Thus, according to the legitimacy theory perspective it is argued that when these supply companies perceive a potential legitimacy threat (in terms of increased societal expectations about the related governance practices), they undertake strategies to repair or maintain their legitimacy. In this thesis it is predicted that initially supply companies might make

40 The details about the CSR practices of the supply companies of Bangladesh are described in Chapter Two.
‘symbolic disclosures’ in relation to their social performance, but as societal expectations change and social pressures are sustained, then ultimately real (or substantive) changes in corporate governance practices would be expected and related disclosure would follow. Thus from a legitimacy theory perspective, the researcher of this thesis predicts that the supply companies of Bangladesh provide disclosures of their CSR-related governance information in order to comply with broader societal expectations. Consistent with the discussion in this chapter, it is considered that the ‘legitimacy’ of these supply companies is the ‘resources’ on which the local supply companies are dependent on, and accordingly supply companies make efforts (through disclosures) to maintain legitimacy.

Since legitimacy theory suggests that disclosures might be necessary when legitimacy is threatened or diminished and organisations want to regain it through different disclosure related strategies, it is important to first demonstrate how legitimacy is threatened in the context of the textile and garments companies of Bangladesh. The diagram below (diagram 1) illustrates this in the context of this thesis.
It is argued that over time societal expectations have changed due to the influence of media and NGOs. NGOs and media work together, and they both influence Western consumers’ expectations pertaining to CSR. Western consumers supply...
monetary resources to the multinational buying companies, and multinational buying companies supply monetary resources to the local supply companies. Western consumers know these multinational buying companies rather than the local supply companies. People only become aware of these local supply companies when something happens such as the Rana Plaza collapse or Tazreen Fire accident. Since nobody really knows about the local supply companies, which are more than 5,000 in number, such legitimacy threats are more visible to the legitimacy of the multinational buying companies rather than the local supply companies. Legitimacy threats arise if multinational buying companies fail to meet the expectations of their Western consumers.

When the legitimacy of multinational buying companies is threatened, consumer monetary flow is reduced. For this reason multinational buying companies consider potential legitimacy threats (This thesis, however, does not investigate whether or how these multinational buying companies provide CSR-related governance disclosures to maintain their legitimacy, future research might be directed to explore more in this regard). The more Western consumers question multinational buying companies’ legitimacy, the less they buy. When multinational buying companies’ legitimacy is threatened, they subsequently put pressure on the BGMEA and on the individual supply companies to disclose their governance practices pertaining to CSR. The BGMEA also exercises power and institutionalised pressure on the local supply companies, as local factories need to get approval from the BGMEA for the export/import of garments/fabrics.

Due to the power/pressure exercised by the multinational buying companies and the BGMEA, local supply companies provide information to them; but they do not provide enough information to the NGOs or media since they are not as powerful as multinational buying companies and BGMEA. The limited amount of governance information that these supply companies disclose via publicly available media, such as corporate annual reports, might be targeted at the broader community including NGOs and media (which can be regarded as legitimacy disclosures). Providing substantial amounts of governance information via alternative media (such as social audit reports) to powerful stakeholders might be more to satisfy powerful stakeholder than broader societal expectations. That is,
individual supply companies might not directly seek legitimacy from Western society, but the multinational buying companies do.

Considering the above arguments, this thesis utilises the managerial branch of stakeholder theory to explain the expectations of stakeholders regarding CSR-related governance disclosures, and to explore the motivation for corporate managers’ disclosures. Given that the textile and garments companies of Bangladesh have some powerful stakeholders (see for example Islam & Deegan, 2008), this thesis predicts that supply companies’ disclosure of CSR-related governance information might be to satisfy these powerful stakeholders. For example, if multinational buying companies are considered the most powerful stakeholders, then it is imperative that the local supply companies follow the governance practices prescribed by them. If they do not, the supply companies’ business is at risk.

As explained in detail in Chapter Seven, multinational buying companies do not want to be associated with social and environmental crisis, hence they need to know how the supply companies are acting to reduce the likelihood that they will create problems for these multinational buying companies. Multinational buying companies therefore need/demand information about CSR-related governance practices. Thus the disclosure of CSR-related governance information might be to satisfy these powerful stakeholders and may be available via the media preferred by these stakeholders. These powerful stakeholders are concerned about the supply companies’ governance processes or practices pertaining to CSR, as these stakeholders are often exposed to the risk of being associated with suppliers with poor CSR performance. These powerful stakeholders are the multinational buying companies (as discussed in Chapter Six), and these organisations need to be consistent with the global community’s expectations. Their legitimacy is at risk when media provides negative reports pertaining to their association with a supply factory that has poor CSR performance or when NGOs campaign to boycott their products, alleging their involvement with a factory providing low wages and/or violating human rights in the workplaces.
In addition to legitimacy theory and stakeholder theory, this thesis utilises institutional theory to explain the reporting behaviour of the supply companies. When supply companies in Bangladesh receive pressure from their powerful stakeholders, it is predicted in this thesis that supply company managers might be forced to adopt similar reporting practices pertaining to CSR-related governance information. In the context of this thesis it is predicted that the supply companies of Bangladesh might be coerced by the multinational buying companies or the industry association (for example BGMEA) to adopt particular reporting practices. It is argued that perhaps the supply companies are coerced by the influential stakeholders to bring their corporate reporting practices in line with the expectations and demands of these influential (powerful) stakeholders.

It is also argued that since the supply companies are dependent on their association, namely BGMEA, as well as on the multinational buying companies, their reporting behaviour needs to be similar in terms of the organisational governance structure or process. When the supply companies of Bangladesh are exposed to external pressure from powerful stakeholders to adopt similar governance practices and have related disclosures in place, the researcher of this thesis predicts that the ‘coercive’ form of isomorphism comes into play in the textile and garments industry of Bangladesh. Diagram 1 provided above further demonstrates how these three theories work together in the context of this thesis.

Thus, this thesis applies legitimacy theory, stakeholder theory and institutional theory to analyse the corporate reporting practices of CSR-related governance information. Rather than looking at a single theory in isolation, a shared reflection of all these theories is used to provide a comprehensive understanding of corporate social responsibility-related governance disclosure practices in a developing country context.

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41 Understanding from a complementary perspective of different theories.
4.8 Conclusion
This chapter provides a generic discussion of legitimacy theory, stakeholder theory and institutional theory. The discussion of relevant theories in social accounting provides an understanding of how and to what extent researchers in this particular discipline apply these theories to explain their findings. This chapter also provides the complementary perspective of these theories and briefly discusses the justification for applying these theories in this thesis. The discussion of the complementary perspective of the three theories helps to develop the underlying theoretical foundation of this thesis. However, the specific application of each of these theories is also described in Chapter Five, Six and Seven. The next three chapters will provide details of the three interrelated parts of the thesis.
Chapter Five

5.1 Introduction
This is the first empirical component of the broader study encompassing this thesis. This chapter investigates the social and environment-related governance disclosure practices of a sample of textile and garments companies operating within Bangladesh. In a sense, this chapter sets the scene. It explores and then describes the actual disclosure practices of the Bangladeshi supply companies. This will then provide the foundation for other chapters which seek to investigate whether the disclosures seem to satisfy different stakeholder groups, and the underlying motivation behind managers providing such disclosures.

Using content analysis, this chapter explores the disclosure practices of governance information relative to the disclosure practices of general CSR information. Consistent with previous CSR research that investigates CSR disclosures generally, this chapter provides evidence that the textile and garments companies of Bangladesh disclose information about their governance practices in order to secure/maintain legitimacy and/or to meet community expectations. This chapter, however, suggests that the governance disclosures still fall short of what it appears the international community expects, and despite ongoing international concerns about workplace conditions and associated safety, the results suggest limited accountability and transparency of Bangladeshi supply companies in relation to social and environment-related governance practices within the developing country context.

This chapter has the following structure. The next section (Section 5.2) provides the motivation for this component of the research, followed by a brief review of relevant literature (Section 5.3). Section 5.4 provides the underlying theoretical foundation of this part of the thesis. Section 5.5 delivers the research methods adopted in this part; while Section 5.6 offers the findings and Section 5.7 provides a conclusion for this section.
5.2 Motivation and objective for this part of study

In recent years there has been a spate of regulatory action pertaining to the development and/or disclosure of corporate governance structures in response to financial scandals resulting in part from governance failures (Webb et al., 2008). Corporate governance has shifted from its traditional focus on agency conflicts to address issues of ethics, accountability, transparency and disclosure (Gill, 2008). Corporate social responsibility (CSR), on the other hand, has increasingly focused on corporate governance as a vehicle for incorporating social and environmental responsibilities into business decision-making processes, benefiting not only financial investors, but also employees, consumers and communities (Gill, 2008). Although, Jamali et al. (2008) argued that corporate governance and corporate social responsibility should not be considered independently, there is very little literature that covers the disclosure of corporate social and environmental governance practices. The dearth of research in this particular area is noted by Solomon (2010, p. 156):

One area of corporate disclosure which has, until now, been largely neglected, and which has lagged significantly behind the agenda for corporate governance reform in the UK (or elsewhere), is that of governance reporting.

Moreover, there have been relatively few comprehensive studies of CSR-related governance disclosure practices, particularly from a developing country’s perspective. That is, prior studies have tended to focus on CSR disclosures generally rather than focusing on disclosures pertaining to the CSR-related governance practices in place. This part of the thesis, however, explores the social and environment-related governance disclosure practices of individual textile and garments companies operating within Bangladesh, and how these disclosure practices have changed and evolved over time.

Western clothing brands (for example Gap, JC Penny, PVH, H&M, Wal-Mart) source many of their products from developing countries like Bangladesh. Over time, they have directed increasing concern towards the safety records and working conditions of the garments factories in various developing countries such as Bangladesh. Heightened levels of concern would imply that various stakeholders, including multinational buying companies, NGOs and the media, expect accountability and/or transparency pertaining to corporate governance.
Thus, this part of the thesis investigates how Bangladeshi textile and garments companies disclose their social and environment-related governance information and how these disclosure practices have changed over time.

Bangladesh, the focus of this research, is a developing country that specialises in labour-intensive industries such as garments and clothing. There has been limited prior research attention directed at the social disclosure practices and/or CSR-related governance disclosure practices within the Bangladeshi context. Previous studies in the context of Bangladesh have focused mainly on the pattern of disclosing social and environmental information (see for example Imam, 2000; Belal, 2001) and motivations behind social disclosures (see for example Belal & Owen, 2007; Islam & Deegan, 2008). The highest profile sector within the country is the textile and garments industry. This industry is economically significant and contributes around 80% of national export earnings (The New York Times, 2010) with direct employment of four million people, of which about 85% are women (BGMEA, 2011). As such, the accountability and/or transparency of organisations’ governance practices arguably warrants research attention, as these matters are of concern to Western consumers and therefore to Western clothing brands that source products from Bangladesh. Various local and international NGOs and the media will also have related concerns. Moreover, people in developed countries often purchase products produced in Bangladesh; hence the findings regarding the accountability of the clothing sector here is relevant to stakeholders outside Bangladesh.

In addition, prior research reveals that this sector has been the subject of much negative publicity due to their employment of child labour, human rights abuse, and inadequate health and safety measures resulting in frequent accidents and deaths (Islam & Deegan, 2008). Nevertheless, there is lack of research regarding this sector’s disclosure of governance practices. As noted elsewhere in the thesis, social and environmental governance disclosure includes disclosures about particular rules, regulations, plans, policies or procedures that organisations have in place to address social and environment-related performance issues. These

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42 A detailed discussion about the textile and garments industry of Bangladesh is provided in Chapter Two.
plans and policies could be part of organisations’ broad corporate governance practices.

Since this chapter addresses an issue (disclosure) which is part of broader study investigating the internal governance practices of organisations in a developing country, this part represents the descriptive component, which explores the governance disclosure trends of the textile and garments companies over the period of analysis. The results from this part of the thesis will then be used in subsequent chapters that investigate the motivation behind corporate managers’ disclosure of social and environment-related governance practices. Central to the broader study, the next chapter utilises in-depth interviews with various stakeholders to understand their expectations regarding the disclosure of social and environment-related governance practices. This thesis locates corporate governance reporting in its broader social and environmental context.

The primary motivation for this part of the thesis is the gap in the social and environmental accounting literature regarding the issue of social and environment-related governance disclosure practices in developing countries. There has been limited research by social accounting researchers in the context of a developing country, and even less research that investigates disclosures pertaining to governance practices. Second, as the Bangladeshi garments sector is highly dependent on foreign buyers, especially Western customers, local producers need to satisfy global societal expectations regarding their social performance initiatives (see for example Chapter Three and Four). If they do not formulate their internal governance mechanisms according to the demands or expectations of broader global community including multinational buying companies, their business survival may be threatened.

Islam and Deegan (2008) found that powerful stakeholders, such as multinational buying companies, NGOs and the media, motivated the disclosure of social information by the Bangladesh Garments Manufacturers and Exporters Association (BGMEA)\(^{43}\). On the basis of their findings, and the concerns

\(^{43}\) Chapter Two provides a note on BGMEA.
expressed by major consumers of the industry’s products, it is expected that the governance practices of the textile and garments industry would be centred around issues like child labour, working conditions, health and safety, community, environment, and treatment of human resources. Powerful stakeholders are believed to exert pressure in relation to these issues. The introduction of the Harkin’s Bill (Child Labor Deterrence Act, 1992) to the US congress and the NBC Date Line Coverage (in 1993 and in 2005) ignited serious criticism over the textile and clothing sector, with both initiatives proposing a ban on the importation of goods manufactured using child labour in Bangladesh. In this part of the thesis, the disclosure practices of social and environment-related governance issues (including child labour and human rights) of the textile and garments companies within Bangladesh, and how (if at all) they have changed their governance disclosure practices over the years is explored.

Furthermore, in Bangladesh every year many garments workers die because of poor working conditions, collapsed buildings and fires in the garments factories. For example, since 1990, more than 1900 people have lost their lives in different garments factory fires and factory building collapses in Bangladesh. Such loss of life highlights the dismal state of these factories’ preparedness against fire-related accidents where flammable materials are housed and poor quality construction materials are used in construction. As a result, Western clothing brands have to confront concerns about the poor safety records as well factory building safety of the garments industry (Birchall & Kazmin, 2010). Such incidents also pose serious questions about the effectiveness and transparency of related governance practices.

The garments companies are expected to comply with the existing factory acts and labour laws in relation to maintaining safe and healthy working conditions within their factory. In addition, the International Labour Organisation (ILO) convention (ILO, 2008) and the United Nations Global Compact (2010) provide extensive guidelines regarding labour practices to be followed in the garments factories.

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44 During the late 1990s there were emerging pressures from NGOs, trade unions and Western consumers on supply factories regarding child labour, poor working conditions, and basic human rights (Islam & Deegan, 2008).

45 Statistics are provided in Chapter Two, Section 2.6.3.
although these are not mandatory. Given local and international compliance issues, it seems curious that corporate regulatory authorities like the Securities and Exchange Commission (SEC) of Bangladesh do not require particular social and environment-related governance information to be disclosed considering that Western clothing brands expect this. Failure to provide such information has potentially negative implications for maintaining important supply contracts (and therefore negative implications for the financial prosperity of Bangladesh).

The mandatory corporate governance statement (Corporate Governance Compliance Status Report) released by the SEC in 2006 does not contain any provisions regarding the disclosure of social and environment-related governance practices (SEC, 2006)46. However, it is expected that many textile and garments companies disclose information beyond the SEC requirements. For example, if Western clothing brands are conscious of the risks associated with being linked to suppliers with poor social and environmental performance, then failure by organisations within Bangladesh to provide appropriate disclosures may result in lost customers. Because poor social practices in the supply chain can have significant implications for multinational buying companies, they not only want information about supply organisations’ social performance, but more importantly also require information about the policies and procedures that organisations have in place to mitigate the risks of negative social or environmental incidents.

Social and environment-related governance practices should form part of an organisations’ broad corporate governance practices, because in the absence of incorporating these issues into corporate governance systems, organisations are less likely to practice CSR in a ‘true sense’ (Chowdhury, 2012) and thereby insufficiently demonstrate their accountability and transparency regarding governance.

46 The SEC requires companies to place a tick for compliance (or non-compliance) under the broad corporate governance variables such as board size, independent directors, Chairman and CEO’s independence, directors report to shareholders, appointment of CFO, head of internal audit and company secretary, audit committee and external audit. All these mechanisms adopt a ‘shareholder primacy’ perspective and ignore many social performance issues which have been of concern to multinational buying companies and Western consumers.
Given previous research that has identified increasing concerns being raised by multinational buying companies, it is expected that the findings in this part of the thesis will show an upward trend in the disclosure of social and environmental governance information. Again, an earlier study by Islam and Deegan (2008) looked at the association of various classes of CSR disclosures with particular social pressures being raised within the international community. In contrast, this part of the thesis restricts the analysis only to disclosures that relate specifically to corporate governance practices. It is predicted that the disclosure of governance information might lag behind CSR disclosures in general. Although the textile and garments companies were subject to international pressure\textsuperscript{47} in relation to their social performance in the late 1990s and in early 2000, and they changed their CSR disclosures shortly thereafter (as a legitimising reaction – Islam and Deegan, 2008), they might take time to change their internal governance practices; thus related social and environmental governance disclosures will lag behind other social and environmental disclosures. If pressure is sustained over a period of time, it can be anticipated that, whilst a first reaction might be to provide legitimising disclosures, ultimately a firm that seeks to survive will need to put in place appropriate mechanisms. The next section provides a brief review of the relevant literature\textsuperscript{48}.

5.3 Prior research

Consistent with earlier discussion provided within this thesis, the early 1970s is generally regarded as the period when social and environmental accounting research first became established as a substantial discipline in its own right (Mathews, 1997). Most of the studies on corporate social and environmental disclosure in the 1970s and 1980s concentrated on the industrialised countries of Europe, the US and Australia (see for example Dierkes & Preston, 1977; Trotman, 1979; Brockhoff, 1979; Ernst & Ernst, 1978; Hogner 1982; Guthrie 1983; Guthrie & Parker, 1989). However, studies of social and environmental disclosures in developing countries emerged in the late 1980s and early 1990s (see for example Singh & Ahuja, 1983; Teoh & Thong, 1984; Andrew et al., 1989; Tsang, 1998).

\textsuperscript{47} Chapter Two provides a detailed list of pressures on the textile and garments industry of Bangladesh since the 1990s.

\textsuperscript{48} The literature review is intentionally shortened in this section as Chapter Three provides a detailed discussion about the relevant literature.
Most of the early researchers focused on the nature and frequency of disclosures, which were descriptive in nature and documented social and environmental disclosure practices via content analysis (Owen, 2008). However, there is limited research aimed at understanding the governance disclosure practices pertaining to social and environmental issues.

Some researchers have attempted to establish a relationship between corporate governance variables and disclosure practices in general (see for example Eng & Mak, 2003; Said et al., 2009; Haniffa & Cooke, 2002; Cormier & Gordon, 2001; Donnelly & Mulcahy, 2008; Webb, Cohen, Nath & Wood, 2009; Ho & Wong, 2001; Tsamenyi, Enninful-Adu & Onumah, 2007) ignoring non-financial disclosures such as social and environment-related governance information. However, only one study so far has been found, conducted by ACCA (2010) in collaboration with Net Balance Foundation Limited, that analyses the disclosure of corporate governance information by the top 50 Australian Securities Exchange (ASX) listed companies. It found that the governance disclosures fell short of upholding fundamental values of transparency, accountability, fairness and responsibility.

As the Western clothing brands source their products from developing countries like Bangladesh, they are arguably concerned about the safety records and working conditions of the garments factories of Bangladesh. Failures in these areas can create significant costs to the brands in terms of lost legitimacy (and reputation). This would imply that various stakeholders, including multinational buying companies, NGOs and the media expect accountability and/or transparency in their governance practices. However, no known study focuses on the social and environment-related governance practices and related disclosures of organisations operating within developing countries. Thus, by investigating how Bangladeshi textile and garments companies are disclosing their social and environment-related governance information, and how these disclosure practices change over time, the researcher hopes that this thesis bridge this gap in the

49 Some of the early research includes Ernst & Ernst, 1978; Hogner, 1982; Guthrie & Parker, 1989; Andrew et al., 1989; Yamagami & Kokubu, 1991; Patten, 1992; Gray et al., 1995; Deegan & Gordon, 1996; Adams et al., 1998; Tsang, 1998.
literature. The results would have implications for CSR managers in formulating their corporate governance practices and for the stakeholders, particularly the multinational buying companies that could then assess the risk of sourcing their products from organisations operating within a developing country. While investigating CSR-related governance disclosure practices of organisations within a developing country, this part of the study embraces a particular theoretical perspective discussed in the next section.

5.4 Theoretical perspective

Since the 1990s a number of theories such as legitimacy theory, stakeholder theory and institutional theory have been used with the aim of explaining rather than simply describing social and environmental accounting and reporting practices (Owen, 2008). These theories were described earlier in this thesis. Parker (2005a) noted that the most pervasive theory used in the social and environmental accounting literature is legitimacy theory, which relies on the writings of such authors as Schocker and Sethi (1974), Dowling and Pfeffer (1975), Hogner (1982), Lindblom (1993), Patten (1992), Deegan and Rankin (1996), Deegan and Gordon (1996), Gray et al. (1995), Deegan et al. (2000), and O’Donovan (1999, 2002).

As already noted in an earlier chapter, it is presumed within legitimacy theory that society allows organisations to continue operations to the extent that they generally meets society’s expectations by complying with the ‘social contract’\(^{50}\) (Deegan, 2011, p.325). The implied social contract provides that as long as the company’s activities are consistent with society’s values, the company’s legitimacy and survival are more assured. The legitimacy of a company is called into question when society’s expectations do not match perceived corporate behaviour (Henderson, Peirson, Herbohn, Ramsay & Borg, 2011). As social expectations change overtime, it is anticipated that successful business corporations will react and attend to the human, environmental and other social consequences of their activities (Heard & Bolce, 1981). Deegan (2011) also notes that as community expectations change, organisations must also adapt and change

\(^{50}\) The notion of ‘social contract’ has been explained in Chapter Four.
and need to anticipate and understand the trends in society such as new regulations, heightened societal expectations and improved knowledge. Based on these societal expectations, legitimacy theory asserts that organisations constantly seek to ensure that they are perceived as operating within the bounds and norms of their respective societies and to ensure that perception, they attempt to engage with the activities that are perceived by outside parties as being ‘legitimate’ (Deegan, 2011, p. 323). Legitimacy theory would suggest that whenever managers consider that the supply of the particular resource is vital to organisational survival, they will pursue strategies to ensure the continued supply of that resource (Deegan, 2011, p.324) and that strategies could be aimed to gain, maintain or repair legitimacy (O’Donovan, 2002).

Legitimacy theory is used in this part of the thesis as it is believed that an organisation maintains its ‘license to operate’ in society by complying with the community’s expectations. An organisation is deemed to be ‘legitimate’ to the extent that there is “congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are a part” (Dowling & Pfeffer, 1975, p. 122). “When disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy” (Lindblom, 1993, p. 2). A detailed discussion about legitimacy theory, legitimacy threats and potential managerial strategies is provided in Chapter Four.

Based on the discussion in Chapter Four about legitimacy theory and its application to the broader social and environmental accounting discipline, it is argued that legitimacy theory provides a useful foundation to explain the disclosure of social responsibility information. Within legitimacy theory, ‘legitimacy’ is considered to be a resource on which an organisation is dependent on for its survival (Dowling & Pfeffer, 1975; O’Donovan, 2002). However, unlike many other resources, it is a resource that the organisation is considered to be able to impact on or manipulate through various disclosure-related strategies (Woodward et al., 1996). Hence, while investigating the disclosure practices of social and environment-related governance information, the researcher applies a
legitimacy theory perspective to explain the findings. The reasons for using this theoretical paradigm are further discussed below.

Prior research reveals that the textile and garments companies of Bangladesh were facing emerging pressures in the late 1990s and early 2000s from NGOs, trade unions and Western consumers to ensure basic human rights and to ensure adequate health and safety measures in supply factories (Islam & Deegan, 2008). Islam and Deegan (2008) found that the BGMEA directly responded to pressures by disclosing social responsibility information in their annual reports. As noted earlier, although, the supply companies receive the same pressures for the disclosure of general CSR information and CSR-related governance information, it perhaps does seem logical that the disclosure of governance information will lag behind the CSR disclosures in general. The reason why disclosures about CSR-related governance practices might lag behind other more ‘general’ CSR-related disclosures is that initially companies might make ‘symbolic’ disclosures in relation to their social and environmental performance; should these social pressures be sustained (as appeared to be the case with social pressures being exerted in relation to products sourced from developing countries) then ultimately real (or substantive) changes in processes and practices would be expected – and related disclosures would follow. The textile and garments companies would need time to change their internal governance mechanisms before providing related disclosures.

Changing internal governance mechanisms could also take relatively more time in a developing country where available expertise might be less available than in a developed country. Further, over time, the supply companies might understand that merely disclosing social and environmental information (as identified by Islam & Deegan, 2008) might not be enough to satisfy powerful stakeholders, including multinational buying companies, NGOs and the media, in terms of their projected accountability and/or transparency. Rather they may need to bring about real changes in their governance and disclose such information in order to discharge their required accountability and/or transparency.
It is argued in this part of the thesis that given the global nature of the textile and clothing industry, it is the global community’s expectations that shape the governance disclosures practices of the garments and textile companies of Bangladesh. It is further argued that the pressure that the garments companies receive create a legitimacy crisis for the whole garments industry of Bangladesh. Islam and Deegan (2008) highlighted that ‘threats’ to an entity’s perceived legitimacy are predicted to lead to responsive actions by management (through disclosures) who endeavour to minimise the impacts of such legitimacy threats. Based on this, it is further argued that the Bangladeshi textile and garments companies might disclose social and environment-related governance information in an effort to minimise the potential legitimacy threats arising from the pressure by the global community.

In fact, there was much pressure during the late 1990s and early 2000s in relation to their social performance as revealed by prior study such as Islam and Deegan (2008). At such a point in time, when it would seem that the survival of the Bangladeshi textile and garments companies was at high risk, and consistent with legitimacy theory, it is expected that the textile and garments companies would undertake action to reduce that risk through disclosures of information about their governance policies and practices. Chapter Four provides the justification for legitimacy theory and a diagram (diagram 1) to demonstrate how different theories work together in the context of this thesis. Based on the discussion provided in Chapter Four it is argued that disclosures in publicly available media (such as corporate annual reports) by the garments companies of Bangladesh are aimed to maintain their legitimacy.

Since the pressure from stakeholders is initially imposed on the industry body, the BGMEA (Islam & Deegan, 2008), which ultimately shifts this pressure onto the individual garments companies, it is predicted in this part of the thesis that the individual garments company’s disclosures of general CSR information might lag behind the BGMEA’s disclosures. Hence the changing governance disclosures and related peaks might come later relative to the disclosures reported in Islam
and Deegan (2008). The researcher also predicts that there could be some time lag between CSR disclosures generally, and CSR-related governance disclosures by individual supply companies. The next section provides the research methods adopted for this part of the study.

5.5 Research methods

This part of the study uses annual report content analysis (Krippendorff, 1980) to measure social and environment-related disclosures in general, and social responsibility-related governance disclosures in particular over the study period (from 1996 to 2009). Krippendorff (2004) stated that content analysis aims to reduce the raw data into manageable amounts for analysis and defined it as “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use” (p. 18). Content analysis involves codifying qualitative and quantitative information into predefined categories in order to derive patterns in the presentation and reporting of information (Guthrie, Petty, Yongvanich & Ricceri, 2004; Guthrie & Abeyeskera, 2006). For content analysis purposes, the researcher used annual reports from the Dhaka Stock Exchange (DSE). As of the 30th June, 2009, there were 30 listed textile and garments companies in the DSE and the top five listed companies were selected on the basis of size (market capitalisation) for the purposes of the study; this constitutes almost 86% of the total market capitalisation of the industry. Size, in terms of market capitalisation, has also been used by Guthrie and Parker (1990) and Hackston and Milne (1996).

The five companies selected were Beximco Textile Limited (BEXTEX), Square Textile Limited (SQUARE), Monno Fabrics Limited (MONNO), Metro Spinning Limited (METRO) and Prime Textiles Limited PRIME. The annual reports were collected from 1996 to 2009. This period was chosen to provide insights into how the disclosure of social and environment-related governance information has changed over time and during a period where there were changing pressures being

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51 Islam and Deegan (2008) reviewed the disclosures of BGMEA rather than the disclosures of individual supply companies. In contrast, this study focuses on reviewing the disclosures of governance practices of individual supply companies.

52 There are some new companies which have been listed recently, but due to the non-availability of their annual report, those companies are excluded from the current study.
exerted on the industry. SQUARE and METRO were first listed in 2002, hence their annual reports were collected from this time onwards. Thus a total of 58 annual reports were collected and analysed.

For practical reasons, this part of study aims to concentrate on the listed companies, as their annual reports are publicly available. Of course, governance disclosures could also be made in places other than the annual report. For example, Webb et al. (2008) noted, governance disclosures might also be made in the proxy statement (SEC, 1999), sustainability report (KPMG, 2005), annual report (Patel & Dallas 2002) and corporate investor relations websites (Radner, 2002). While exploring the websites of the listed companies, it was found that BEXTEX and SQUARE disclosed some social and environment-related governance information on their websites. But as such information can be seen at one point in time, and it is difficult to judge how it has changed across time; this part of study elected to ignore web-based disclosures. This needs to be acknowledged as a potential limitation of this part of study. This part of study also did not use sustainability reports, as none of the sample companies produced sustainability reports during the period of study.

Certain technical requirements, for example, the unit of analysis and the basis of classification have to be clearly defined for content analysis to be effective (Guthrie et al., 2004; Guthrie & Abeyeskera, 2006). The common units of analysis used by accounting researchers include word counts (see for example Campbell, 2003; Deegan & Gordon, 1996; Deegan & Rankin, 1996; Islam & Deegan, 2008), sentence counts (see for example Buhr, 1998; Patten & Crampton, 2004; Perrini, 2005; Hackston & Milne, 1996), page proportions (see for example Gray et al., 1995; Unerman, 2000), frequency of disclosure (see for example Cowen, Ferreri & Parker, 1987; Ness & Mirza, 1991; Haque & Deegan, 2010) and high/low disclosure ratings (see for example Patten, 1991).

‘Word counts’ and ‘frequency of disclosure’ were used as the unit of analysis for CSR disclosures and CSR-related governance disclosures respectively. ‘Word counts’ was used to measure the general CSR disclosures of individual garments companies. It has also been used by Islam and Deegan (2008) to measure the CSR
disclosure of BGMEA. Using the same measurement technique would provide an impetus to compare the disclosure of general CSR information of the individual supply companies with that of the BGMEA (Islam and Deegan (2008) provided the results of the BGMEA’s CSR disclosures as noted elsewhere in this thesis). The comparison is necessary to understand whether individual supply companies’ disclosures of general CSR information vary from the BGMEA’s disclosures. The comparison would also provide an understanding about the potential lag in disclosures of governance information compared to general CSR information. For governance disclosure, the ‘frequency of disclosure’ was used as the unit of analysis as it primarily focused on the presence or absence of disclosures about particular governance practices. If a company disclosed particular governance information (either the specific presence or absence of a particular practice) it was assigned a score of 1, otherwise 0.

For CSR disclosure the researcher has adopted the same themes used by Islam and Deegan (2008) which were originally adopted from Hackston and Milne (1996), with some adaptations. These are environment, product and safety, energy, community, human resources and ‘other’. For CSR-related governance disclosures, a unique ‘Social and Environment-related Governance Disclosure Index’ (SEGDI) was developed in order to categorise the governance issues related to the social and environmental aspects of an organisation’s operations. This development was required as no such disclosure index is known to exist. In undertaking the development of the SEGDI, the researcher referred to a number of documents released by various NGOs and international monitoring bodies for the garments and textile industry. While they did not necessarily focus on disclosure, these documents typically identified the types of governance practices that would be expected to be found within organisations actively engaged with the manufacturing of textile and clothing. The documents reviewed are presented in the table below:
### Table 5: Documents reviewed in preparation for SEGDI

<table>
<thead>
<tr>
<th>Document Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sustainability Reporting Guidelines Apparel and Footwear Sector Supplement (GRI, 2008).</strong></td>
<td>This includes reporting guidelines for the apparel and footwear industry in a pilot version form, which was released in 2008 and was therefore developed in accordance with the G3 Guidelines (2006). The Supplement was developed to be globally applicable to brands and other buyers as well as to manufacturers in the apparel and footwear sector.</td>
</tr>
<tr>
<td>The ILO Convention (ILO, 2008)</td>
<td>Eight ILO conventions have been identified by ILO’s governing body as being fundamental to the rights of people at work, irrespective of level of development of individual member states. These include freedom of association, the abolition of forced labour, the elimination of child labour and equality.</td>
</tr>
<tr>
<td>Clean Cloth Campaign (CCC, 2008)</td>
<td>Clean Cloth Campaign (CCC) is an NGO based in the Netherlands, and is dedicated to improving working conditions and supporting the empowerment of workers in the global garments and sportswear industries. It released a document in 2008 titled ‘Full Packaged Approach to Labour Codes of Conduct’ consisting of nine codes of conduct, which are referred to as ‘CCC Model Codes’.</td>
</tr>
<tr>
<td>The Fair Labour Association (FLA, 2008)</td>
<td>FLA, a non-profit US based labour rights organisation, released nine Workplace Code of Conduct in 2008. The FLA was established in 1999 and evolved from a task force created by President Bill Clinton that came together to end the use of child labour and other ‘sweatshop’ practices in apparel and footwear factories. The FLA developed its Workplace Code of Conduct based on ILO standards.</td>
</tr>
<tr>
<td>The ETI Base Code (2009)</td>
<td>The Ethical Trading Initiative (ETI) Base Code was founded on the conventions of the ILO and is an internationally recognised code of labour practices. Released in June 2009, this document consists of 24 specific items/codes regarding labour practices.</td>
</tr>
<tr>
<td>The Association of Chartered Certified Accountants (ACCA, 2010)</td>
<td>The ACCA has developed an instrument on ‘Reporting Trilogy-Research on Reporting Disclosures: Part 2, Disclosures on Corporate Governance’ by using eight key areas of governance disclosures.</td>
</tr>
</tbody>
</table>

In addition to this, the researcher also reviewed United Nations Conference on Trade and Development (UNCTAD, 2006) Guidance on Good Practices in
Corporate Governance Disclosure and the OECD (2004) Principles of Corporate Governance. The intention of using these two documents was to identify any corporate governance issues pertaining to social and environmental aspects. Thus the researcher reviewed a total of 10 documents.

Drawing from these sources, the SEGDI was developed in this part of the thesis to examine social and environment-related disclosure practices of the selected companies over the chosen time period. The basis for including a particular item in the disclosure index was that at least two of the 10 documents reviewed referred to the item. Again, these various documents identified particular governance practices that would be expected to exist in organisations that produce clothing or textiles within the context of a developing country. The view taken here is that if particular stakeholders wanted to assess whether a company was addressing various social issues within its factories, then they would find information about the respective governance practices useful in their assessment process.

A limited number of additional disclosure items were identified in the annual reports and these have been incorporated in the index. Thus SEGDI has a total of 60 specific social and environment-related governance issues (meaning a maximum score of 60 in any particular year) under six general themes: Board Oversight; Management Strategies; Human Rights and Child Labour; Labour Practices and Decent Work; Community/Society; and Environment. Thus being a descriptive component, this part of the study seeks to provide an understanding of the current disclosure practices, and trends therein, in relation to social and environment-related governance practices. Appendix A contains further details about the index.

To organise and analyse data for CSR-related governance disclosures, the researcher used four Microsoft Excel spreadsheets. In the first sheet there were six columns and 61 rows, including headings. This spreadsheet provides a tally of years against a particular company/disclosure item in which a particular disclosure was made. To identify the disclosures within the annual reports the researcher used both manual reading and the computer search function ‘Control F’ to search
for a particular item. Since there are 60 specific items in the index, the researcher used keywords (codes) for each of these items to identify disclosures. Some of the items are ‘board committee’, ‘CSR policies’, ‘governance systems’, ‘remuneration policy’, ‘environmental policy’, ‘child labour policy’, ‘human rights policy’, ‘human resource development policy’, and ‘effluent treatment policy’. Once the researcher found that a particular annual report disclosed a particular issue, then the full sentence was read to make sure that it was related to particular governance practices. Thus, the first spreadsheet provides the total number of disclosures (in terms of years) by the sample companies. A snap shot of the first spread sheet is provided below:

Table 6: A snap shot of spreadsheet used to analyse annual reports

<table>
<thead>
<tr>
<th>Specific issue</th>
<th>Square</th>
<th>Bextex</th>
<th>Monno</th>
<th>Metro</th>
<th>Prime</th>
</tr>
</thead>
</table>

Then the researcher used a second spreadsheet to sort the disclosures corresponding to a particular year; this provided the total number of disclosures by each company against a particular year (Appendix B). The third spreadsheet provides the number of disclosures of each SEGDI item per year (maximum of 5) and this is provided in Appendix C. The fourth spreadsheet further summarises the data by categorising it into the six broad classifications noted above. That is, in this spreadsheet, the researcher analyses data in groups of 10 corresponding to each of the broad categories and years (Appendix D). Appendix E provides the amount of governance disclosures in terms of percentage (%) over the years.

For general CSR disclosures the researcher used keywords (codes) such as ‘human resource’, ‘energy’, ‘community’, ‘child labour’, ‘environment’, ‘product safety’, ‘working condition’, and ‘health and safety’. To analyse this data the researcher again used Microsoft Excel spreadsheets and summarised the data corresponding to each of the sample companies (Appendix F) and each of the broad categories/themes (Appendix G). Appendix H provides CSR disclosure index (general CSR) which has been adapted by the researcher based on prior
studies such as Islam and Deegan (2010), Islam and Deegan (2008) and Hackston and Milne (1996). Finally charts/figures were drawn from the spreadsheets to incorporate the findings in this chapter.

The reliability of the coding was addressed by applying a ‘test-retest’ method of reliability (Marks & Yardley, 2004). In this context, the researcher applied the same code to the same piece of text on two occasions a week apart. Thus the researcher recoded earlier work to ensure that the results were consistent. Although the coding might have been influenced by similar subjective processes on both occasions, consistent coding by the researcher at least indicates that the distinctions made between codes were clear in the researcher’s mind (Marks & Yardley, 2004). The researcher elected to ignore the pictures and graphs as a medium of disclosure, rather concentrating only on the text and also looking at the location where the disclosures were being made within the annual reports. The next section provides the findings of this part of the study.

5.6 Findings of this part of the study
The results of this part of study revealed that most the disclosures were made within the companies’ mission/vision statements, chairman’s reports, corporate governance reports, or in the directors’ reports. Overall, the results revealed an increasing trend in the disclosure of social and environmental governance information. In the late 1990s, the disclosure was minimal (less than 3% of the index). From 1999 to 2004 the disclosures increased and resulted in more than 60 out of a possible of 300 disclosures (60 items multiplied by five companies) in the year 2004 (Figure 1). From 2007, disclosure made up approximately 24% of the index.
The results support a view that the pressures and criticism that the industry received in the late 1990s and early 2000s arguably compelled them to change their governance disclosure practices pertaining to social and environmental issues. This may have been to satisfy the stakeholders within the broader global community. Given the global nature of the textile and clothing industry, the global community’s expectations (as discussed in Chapter Four) undoubtedly shaped the governance disclosure practices of the Bangladeshi garments and textile companies. Thus it could be argued that the social and environment-related governance disclosure decisions made by the garments companies of Bangladesh were intended to secure/maintain the legitimacy of their industry and to meet community expectations (Deegan, 2002; O’Dwyer, 2002). The findings in this part are consistent with the researcher’s expectations regarding disclosure practices. It was found that disclosure decisions appeared to respond to perceived legitimacy threats (as identified earlier in this chapter).

In reviewing the disclosures of individual garments and textile companies it was found that BEXTEX disclosed very little governance information up to 1999 (5% of disclosure items). From 2000 they started disclosing more, reaching a peak in 2003 with approximately 27% of the items in the index being disclosed. BEXTEX disclosed a total of 146 items of information during the period of the study, which is almost 29% of the total disclosure (Figure 2). As BEXTEX represents approximately 65% of the total market capitalisation of the garments industry of
Bangladesh, consistent with prior studies (see for example Adams et al., 1998) the researcher expected the highest disclosure from this company. But based on the index, the results suggest that the company’s disclosure of governance information could be perceived as falling short of the levels of disclosure if it were demonstrating a high level of accountability\textsuperscript{53} to the global community.

![Disclosure by Company](image)

Figure 2. Social and environment-related governance disclosures by individual garments and textile companies.

As indicated earlier, SQUARE was listed in 2002, therefore this company’s governance disclosure practices were analysed from 2002 onwards. Its disclosures increased from 2002 and reached a maximum in 2007, with approximately 37\% of the index items being disclosed in 2007 (22 out of 60). It provided the highest level of disclosure with a total of 157 disclosures during the period under study, which is about 31\% of all the recorded disclosures (Figure 2). From 2004, it continuously disclosed about 35\% of the governance information in each year while relatively the larger organisation, BEXTEX, disclosed only 22\% per year.

As SQUARE and BEXTEX hold significant market capitalisation (about 79\% in total) of the garments sector of Bangladesh, their governance disclosure patterns could be construed as relatively important to multinational buying companies and other stakeholders. These two companies jointly disclosed 60\% of the recorded disclosures during the period of study. This finding suggests that the relative size of the company does have some effect on its governance disclosure practices. The bigger the company, the more governance information they disclose, perhaps

\textsuperscript{53} Accountability has been defined in Chapter Four.
because they are receiving more pressure from multinational buying companies and from the international community. Also, larger companies may have the resources in place to actually set up particular governance practices and/or processes (which they can then subsequently report upon). These findings are consistent with those of Hackston and Milne (1996), who argued that both agency theory and legitimacy theory contain arguments supporting a size-disclosure relationship.

Compared with US and UK companies’ voluntary disclosures, Hackston and Milne (1996) found that New Zealand companies disclose less on average mainly because these companies are much smaller in size. They further argued that comparatively bigger companies put in more effort to satisfy the information needs of investors who wish to know about the companies’ potentially risky activities (agency theory perspective) and to mitigate the effects of large and noticeable impacts on the environment and society (legitimacy theory perspective); thus they attempt to ward off either perceived or real pressure from social and environmental activists. In addition, Cowen et al. (1987) also argued that since larger companies undertake more activities, have a greater impact on society, and have more shareholders who might be concerned with social programs undertaken by the company, their annual reports provide a relatively efficient means of communicating information.

While SQUARE and BEXTEX provided comparatively more governance disclosures, the other three textile companies in the sample (MONNO, METRO and PRIME) disclosed very little information until 2003. Also, their disclosure practices fluctuated over the period. For example, MONNO provided the highest amount of social and environmental governance information in 2004 (about 35% of the index), but it sharply fell after 2006 and remained consistent at around 12% per year thereafter.

One of the potential reasons for this fall could be that this company’s founder, Chairman H. R. Khan Monno, was arrested in early 2007 by the army-backed caretaker government amidst a state of emergency. The military government then suspended certain fundamental rights guaranteed by the constitution and detained
a large number of politicians, businessmen and others on suspicion of involvement in corruption and other crimes (The New York Times, 2007). Since H. R. Khan was a minister for the Bangladesh Nationalist Party (BNP), and was alleged for corruption while in the ministry, he was arrested and detained for a couple of months. Thus it can be argued that during the period of 2007-08, most of the executives of Monno were naturally busy defending their personal corruption allegations and placed less importance on corporate governance disclosures regarding CSR issues.

METRO provided about 33% of their governance information from 2007 onward. The least amount of governance disclosures were found in PRIME, below 8% (per year) up until 2006, and about 12% (per year) of the index from 2007 (see Appendix B for total disclosure by individual companies). However, the potential reason why PRIME’s disclosure was low for the whole time, could perhaps be that this company extensively used alternative media for governance disclosures and thus provided less importance of annual report disclosures.

In looking at the disclosure categories from an aggregated perspective, it is found that the most extensive disclosures were in the ‘Board Oversight’ category (175 disclosures), followed by ‘Labour Practice’ (96 disclosures). The results showed that there were 78 disclosures in the ‘Management Strategy’ category and the least amount of disclosures in the ‘Community’ category (21 disclosures). ‘Human Rights’ and ‘Environmental’ categories had disclosures of 73 and 65 respectively (Appendix C). Thus, a total of 508 disclosures (approximately 15%) related to social and environmental governance issues were found within the selected sample during the period of the study.

Figure 3 indicates that there are some fluctuations regarding the disclosure of social and environment-related governance information in terms of the disclosure categories. The rationale behind providing this figure is to understand what direction the different categories of governance disclosure took during the period of study. For example, up until 2002, all the six categories had less than five disclosures. From 2002, the ‘Board Oversight’ category sharply increased and reached a peak in 2004 (24 disclosures). After a slight decrease in 2005, it again
started to increase in 2007 and was maintained at the same level (25 disclosures) thereafter. The least amount of disclosures were found in the ‘Community’ category – fewer than five disclosures throughout the period under study – and the other four categories provided approximately 10 disclosures from 2002 to 2009, and less than five disclosures up until 2002 (Figure 3).

![Disclosure Trend by Categories](image)

**Figure 3. Aggregated disclosure of governance according to categories**

The finding that the highest number of disclosures is in the ‘Board Oversight’ category is interesting. This might imply that organisations see this disclosure category as relatively more important to various stakeholders than other categories. The potential reasons for the high levels of disclosure in the ‘Board Oversight’ category could be that the actions of the companies’ board reflect how the organisations fulfil their social contracts. It implies that companies provide this category of disclosure to demonstrate how they manage both the privileges and obligations conferred on them by society in return for the right to engage in commercial activity within the community. Given that many of the concerns regarding supply factories relate to issues such as child labour, rights of women, and safety (Islam & Deegan, 2008), it is somewhat surprising that the ‘Human Rights’ and ‘Labour Practices’ categories did not display the greatest levels of disclosure. The least amount of disclosures was in the ‘Community’ category, which might reflect that there was less pressure from stakeholders, particularly within Bangladesh, for community-related governance information.
The findings of this part of the thesis are in contrast (nature of the contrast is the timing of disclosures) with those reported in Islam and Deegan (2008), who looked at BGMEA’s CSR disclosures in general\(^{54}\). In order to make a comparison between the two studies, the same CSR themes (those used by Islam and Deegan, 2008) were used in this research to identify the CSR disclosures of the sample companies, which are, members of BGMEA. The results indicate that the CSR disclosures of the individual supply companies peaked in 2002 (Figure 4), whereas Islam and Deegan (2008) found that they peaked in 2001\(^{55}\). (There are two other peaks in figure 4; in 2005 and 2009; but these are not considered for comparisons with Islam and Deegan (2008) since the earlier study utilised annual reports up to 2005). This reveals a lag (of a year) in the disclosure of CSR information by the industry body (BGMEA) and the disclosure of information by individual garments companies.

\[\text{Figure 4: Aggregated CSR disclosures}\]

\(^{54}\) Since the BGMEA represents the whole garments industry of Bangladesh, it is argued that the pressure put on BGMEA ultimately is transferred to individual garments companies. Thus it is interesting to know, given the international pressures put on BGMEA (Islam & Deegan, 2008), and assuming BGMEA shifts this pressure onto individual garments company, how those supply companies react through disclosing their CSR performance; this is an area not covered by the study conducted by Islam and Deegan (2008).

\(^{55}\) As mentioned previously, this thesis used a different disclosure index to measure CSR-related disclosures in general, whilst the SEGDI has been used to measure CSR-related corporate governance disclosures. Total disclosure of general CSR information by individual companies (number of words) is provided in Appendix F and total disclosure of general CSR information by themes (number of words) is provided in Appendix G. Appendix H consists of the specific items used to measure general CSR disclosures of individual supply companies.
5.7 Discussion of the findings

As described in the previous section, this chapter reveals some interesting insights into the disclosure practices of CSR-related governance information. Some of these findings require further discussion. For example, the finding about the lag in disclosure supports the view that it takes time for BGMEA to shift the pressure placed on it to the individual member companies. The results also reveal that, the disclosure of governance information lagged behind CSR disclosures in general. For example, the disclosures of general CSR information is peaked in 2002 (Figure 4), whereas CSR-related governance disclosures peaked two years later in 2004 (Figure 1). This could be because the textile and garments companies need time to change their internal governance mechanisms before initiating and subsequently disclosing information about their governance practices. Changing internal governance mechanisms would arguably take more time in a country like Bangladesh, where available expertise and related resources might be harder to secure.

Also, it may take time for the garments and textile companies of Bangladesh to realise the importance of governance reporting since governance reporting is relatively limited both in the context of developed countries (Solomon, 2010) and developing countries. Particularly, in the context of Bangladesh, corporate governance reporting is still in its early stages (Siddiqui, 2010). Nevertheless, whilst the results in Islam and Deegan (2008) suggest that CSR disclosures tended to increase from about 1993 before reaching their heights in around 2001 (disclosures tending to stabilise thereafter), the results of this part of thesis show that the disclosure of governance-related information (a subset of the disclosures reviewed in Islam & Deegan, 2008) did not tend to reach maximum levels until around 2004 (figure 3)– about three years after the results reported in Islam and Deegan (2008). The lag in disclosure, however, might reflect the fact that initially the disclosures tended to be more symbolic (as a more immediate response to a legitimacy crisis) but as international concern increased, then real systematic change was necessary in the form of real changes to organisational governance practices.
The year 2004 was also after the period when major international concern was being directed at developing countries’ labour practices. This reflects the earlier findings that the textile and garments companies received major pressure regarding their social performance during the late 1990s and early 2000s (Islam & Deegan, 2008); the result of this pressure compelled the supply companies to adopt/change their governance practices and provide disclosures, which peaked in 2004. After 2004 supply companies still provided governance disclosures, but at a decreasing rate; perhaps by this time the industry had matured and was used to enduring international pressure.

The results of this part of the study also reveal that the garments and textile companies of Bangladesh disclosed various items of social and environment-related governance information despite the fact that these were not required by corporate regulatory bodies such as the SEC. This may be because the SEC embraces a ‘shareholder primacy perspective’ without broader consideration of the impacts of Western consumers and buyers, whereas the textile and garments companies are more directly concerned about multinational buying companies, NGOs and the media. It is also somewhat surprising that, given the dependence of Bangladesh on international markets, and given Western concerns about labour practices, the SEC does not require mandatory disclosure of governance information pertaining to work practices; it already requires other governance-related disclosures.

Although the garments and textile companies of Bangladesh are disclosing more social and environment-related governance information than required by corporate regulatory authorities such as the SEC, their governance disclosures are still fall short of what might be ideal from the international community’s perspective. The application of the disclosure index showed that, on average, only 15% of the items in the index were disclosed (see appendix E).

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56 The Securities and Exchange Commission (SEC) of Bangladesh was established on the 8th of June, 1993, as the regulator of the country’s capital market, with a mission to protect the interests of securities investors (SEC, 2006).
57 The SEC requirement in terms of corporate governance disclosures is discussed in Section 5.2 of this chapter.
As noted earlier, this chapter utilises a legitimacy theory perspective to explain CSR-related governance practices. This chapter establishes that as community expectation changed towards requiring more substantive disclosures of governance information, organisations within the developing country attempted to provide disclosures to satisfy the growing concerns. Organisations need to make sure that their activities are perceived by outside parties as being legitimate (Deegan, 2011). This part of thesis argues that since the garments and textile companies of Bangladesh are operating in a global environment they need to satisfy this global community’s expectations in order to avoid potential legitimacy threats. This was further substantiated by providing prior research evidence that indicated that the disclosure of CSR-related governance information by organisations in a developing country is frequently motivated by a desire to minimise the potential legitimacy threats arising from the pressures being exerted by the global community (see for example, Islam & Deegan, 2008). The researcher argues that the textile and garments companies undertook actions to reduce the risk of potential legitimacy threats through disclosures of information about their governance policies and practices. However, in this stage of the research, the researcher does not differentiate between powerful or less power stakeholders within the broader global community. The next section concludes this chapter by providing further discussions of the findings and links with the next chapter.

5.8 Concluding remarks
This part of the thesis provides some useful insights for CSR managers and researchers in relation to CSR-related governance disclosure practices from a developing country perspective. As the textile and garments industry is economically significant, particularly in a developing country such as Bangladesh, the findings of this part of the thesis could help Bangladeshi garments companies satisfy the multinational buying companies’ and other stakeholders’ demands for information regarding social responsibility-related governance. This is possible because it has developed an index of potential CSR-related governance disclosures and shown that there is clearly room for improvement in the governance disclosure practices employed within Bangladesh.
The findings of this part of study implies that when organisations provide detailed information about CSR-related governance practices this can assist stakeholders in determining the potential risk that a Bangladeshi company represents in terms of potential legitimacy threats. An organisation that can demonstrate the sound CSR-related governance practices that it has in place, could use this as a competitive advantage over other companies that cannot demonstrate such practices. Another significant contribution of this part of the thesis is the development of a disclosure index, SEGDI. The SEGDI is in itself a contribution to research, as it provides a measure of disclosure quality in relation to the disclosure of social responsibility-related corporate governance information. Such a measure was not otherwise available and this index might usefully form the basis for other researchers seeking to develop an instrument to evaluate the quality of social responsibility-related corporate governance disclosures. This index could also be used as a basis for comparing the governance disclosure practices of organisations in different countries, or perhaps in comparing disclosures made in developed versus developing countries.

This part of the study also provides a contribution to social and environmental accounting literature, as it offers an overview of corporate governance reporting in its broader social and environmental context. In this exploratory component of the research, there was a prima facie expectation that there might be an increasing trend of governance disclosure and that the disclosures might not be limited to the SEC requirements of corporate governance reporting. Consistent with the expectation, the findings suggest that there is an overall increasing trend of disclosure pertaining to social and environment-related governance information, and that the disclosures far exceeded the official requirements of the SEC.

Furthermore, it was found that the disclosure of governance information lags behind CSR disclosures in general. This is not a finding that has been demonstrated in any other research so far, but it does tend to indicate that early in the lifecycle of CSR disclosures, organisations might tend to provide symbolic disclosures that are consistent with a commitment to sound CSR-related performance. However, should stakeholder pressure be sustained, subsequent
disclosures will tend to be more substantive and include details about actual governance practices in place.

As indicated elsewhere, this component of the research represents the descriptive part of this thesis. Based on its findings, the next part (Chapter Six) will explore stakeholders’ expectations about CSR-related governance practices and related disclosures. Chapter Six will investigate whether the results found in Chapter Five (relatively lower disclosure of governance information) are consistent with satisfying stakeholders’ expectations, including multinational buying companies, NGOs and the media. That is, even though the disclosures tend to be symbolic initially and then become more substantive over time as stakeholder pressure is maintained, does this satisfy stakeholders’ expectations, given that the findings show only 15% (of the SEGDI items) governance reporting in the sample companies over the period. Thus, Chapter Six will investigate the demands that different stakeholder groups have for CSR-related governance disclosures, and whether stakeholders create any institutionalised effect that causes individual garments company to have similar governance reporting practices.
Chapter Six
Stakeholders’ Expectations of CSR-related Corporate Governance Disclosure Practices

6.1 Introduction
This chapter provides evidence of stakeholders’ expectations in relation to CSR-related corporate governance practices. Based on the findings from the previous chapter (Chapter Five), this chapter explores how stakeholders’ expectations potentially translate into the disclosure of information about CSR-related corporate governance practices. This part of the thesis utilises in-depth personal interviews with various stakeholders in an endeavour to understand their expectations pertaining to the supply of information about CSR-related corporate governance practices in the context of a developing country. This chapter also provides evidence of stakeholders’ dissatisfaction with the disclosure of governance information, which tends to be viewed as limited and symbolic in nature. Finally, this chapter explores if there is any institutionalised effect on the governance practices of the supply companies in the context of a developing country.

Section 6.2 provides the motivation and objective of this part of the study. However, some of the motivations are also described in Chapter Five, so these are not repeated in this chapter. Section 6.3 provides a brief review of relevant literature followed by research methods (Section 6.4). Section 6.5 offers the theoretical underpinning of this part of the thesis. Section 6.6 delivers the findings, Section 6.7 provides a discussion of the findings and Section 6.8 contains concluding remarks.
6.2 Motivation and objective of this part of the study

Sound corporate social responsibility-related performance and well-designed corporate governance practices are highly inter-related. Stakeholders who are concerned about management’s apparent commitment to corporate social responsibility (CSR), will consider not only an entity’s actual performance, but what structures or processes the entity has put in place to assist with this performance. However, the proper integration of CSR-related issues throughout a corporate governance system is often found to be lacking. A number of recent empirical studies note the importance of incorporating an analysis of governance practices in studies related to CSR commitments made by organisations (see for example MacDonald, 2007; Gulbrandsen & Moe, 2007). Frynas (2010) argued that the ‘CSR movement’ must address governance challenges, governance design, and associated accountability about governance systems in order for issues to be relevant to stakeholders, including those pertaining to CSR. White (2006) however, argues that stakeholder governance should be integrated into the formal governance structure of organisations and that the entire debate about business-society relations is usefully viewed through the lens of stakeholder governance.

According to White (2006), stakeholder governance includes empowerment of groups (including managers) to make decisions that balance the claims of key (and often competing) stakeholders. White (2006) also noted that corporations are responsible to multiple stakeholders, some of whom are integral to the success of the business. Companies who systematically engage with their stakeholders are in a better position to meet stakeholders’ expectations compared to organisations that do not have formal engagement processes in place. Further, failing to have formal mechanisms and policies in place to provide stakeholders with information about how an organisation is addressing sustainability issues, can lead to stakeholders misunderstanding the company’s ‘real’ position and performance (PwC, 2011), thereby imposing various implicit costs on the organisation.

Different stakeholders will have different expectations about corporate commitments to various CSR issues, and clearly, some stakeholders are more powerful than others in pressuring an organisation to respond to their expectations. For example, and of relevance to this study, Islam and Deegan
(2008) found that multinational buying companies are powerful stakeholders from the BGMEA’s perspective; they pressure the BGMEA to put in place formal processes for reporting information about social and environmental performance, and for ensuring that Bangladeshi supply companies satisfy various minimum standards of labour practices necessary to avoid negative consumer reaction.

The power of stakeholders is influenced by the nature of the business. For example, Deegan and Blomquist (2006) identified the WWF as a powerful stakeholder of the Australian Minerals Industry because of their apparent influence over society’s expectations in relation to the mining industry. Organisations tend to attribute relatively more importance to meeting stakeholders’ demands (including demands relating to aspects of social performance) the more influence the respective stakeholder has on the supply of resources necessary to the business (Huang & Kung, 2010). Some stakeholders, such as employees and customers, are critical for corporate survival (Lozano, 2005) as they provide the organisation with essential resources (Pfeffer & Salancik, 1978). These stakeholders are considered powerful by the organisations to the extent that the ‘resources’ they provide are relatively scarce58.

Organisations often perceive pressure from stakeholders regarding the supply of information about their social responsibility performance, and this pressure is often an important factor in motivating disclosure (Islam & Deegan, 2008). Disclosures are frequently made by way of publicly available documents such as annual reports, sustainability reports or stand-alone social and environmental reports (see for example Tilt, 1994; Belal & Owen, 2007; Islam & Deegan, 2008). However, the information can also be disclosed through alternative media such as special purpose reports, or social audit reports – media that are often not publicly available, and are typically neglected by social and environmental accounting researchers.

The information demanded by stakeholders over time is subject to change due to changes in the socio-economic conditions in which the business operates. These

58 For example, if there is an abundance of available employees with required skills or expertise, and they are not part of a collective (union), then they might have relatively low power (Lozano, 2005).
changes could be in the form of regulatory changes (Solomon & Solomon, 2006), changes in societal expectations (either domestically or internationally) (Newson & Deegan, 2002), or changes in economic conditions (Belal & Roberts, 2010). Accordingly, businesses frequently change their disclosure practices in order to satisfy changing demands and expectations. These reactive disclosures, however, are often ‘symbolic’ in nature rather than providing evidence of ‘real’ changes in corporate actions and processes (see for example Islam & Deegan, 2008). However, if pressure from powerful stakeholders is sustained over time, organisations are more likely to make ‘real’ changes in their internal governance structures, processes and/or practices and then subsequently make related disclosures of such changes (Kamal & Deegan, 2013).

In the absence of incorporating CSR issues within the formal corporate governance structure, organisations are less likely to practice CSR in a ‘true sense’ (Chowdhury, 2012). For example, ACCSR (2011) found that about 60% of respondent organisations had implemented CSR structures and systems, and had a CSR department or formal CSR policies; however, they found a gap between having formal CSR structures or policies and having CSR integrated throughout the organisation’s ‘strategic DNA’. They use the term ‘strategic DNA’ to refer to the formal corporate governance practices embedded within the organisations. ACCSR (2011) also provided an argument that a formal process of stakeholder engagement is one of the most important factors likely to lead to improved CSR performance. Stakeholder engagement assists in highlighting stakeholder concerns and creates a rationale for, and a pressure to, make changes to the corporate governance processes, and to provide accounts of such changes. Organisations often need to implement CSR-related corporate governance in their practices to satisfy the demands and expectations of particular stakeholders.

59 Symbolic disclosure implies that organisations disclose social and environmental information as an immediate response to pressure from powerful stakeholders and in most of the cases these disclosures are not continued over time. In other words, these disclosures are cosmetic in the sense that they disclose the information without substantive implementation of related policies and practices.

60 Since 2007, ACCSR has been conducting an annual survey of approximately 500 CSR practitioners across a broad cross-section of industries and organisations and have ranked the top CSR organisations in Australia. Based on their scoring system, BHP Billiton was deemed to be the leading organisation in terms of its CSR performance in 2010-2011 (ACCSR, 2011).
CSR-related corporate governance information is important for many stakeholders who need or want to know how stakeholder rights are respected and how an organisation’s corporate governance system addresses particular CSR issues (PwC, 2011). From a survival perspective, this can be even more important for an industry that is dependent on powerful stakeholders. For example, the textile and garments sector of Bangladesh is highly dependent on foreign buyers and these buyers are deemed to be powerful stakeholders – something noted by Islam and Deegan (2008). If organisations do not show that their governance practices are consistent with the demands or expectations of powerful stakeholders, there will be a potential threat to business survival. Jamali et al. (2008) argued that corporate governance and corporate social responsibility should not be considered and sustained independently, however there is still a paucity of evidence in relation to CSR-related corporate governance practices: what stakeholders expect from organisations; what disclosures stakeholders expect; what sources/media stakeholders currently use (if any) to obtain this information; and what the implications are (if any) resulting from a failure to provide such corporate governance information.

Chapter Five of this thesis shows that there is an increasing trend of disclosure pertaining to social and environment-related governance information, albeit that the disclosures were still considered to be low and perhaps below what might be expected by powerful stakeholders, such as multinational buying companies (disclosure levels are lower than expected, unless these stakeholders are able to obtain information from sources that are not otherwise public). Chapter Five also finds that the disclosure of governance information appeared to lag behind CSR disclosures in general and it finds that early in the lifecycle of CSR disclosures, organisations might tend to provide symbolic disclosures that are consistent with a commitment to sound CSR-related performance. However, should stakeholder pressure be sustained, subsequent disclosures will tend to be more substantive and include details about actual governance practices in place. Whilst Chapter Five explores the disclosure of information about CSR and CSR-related governance structures by a sample of Bangladeshi companies, this part (Chapter Six) investigates whether such disclosures actually appear to meet the demands of various stakeholders. This part of the thesis seeks to investigate the expectations
of stakeholders regarding CSR-related corporate governance disclosure practices within the context of organisations operating within a developing country, specifically Bangladesh. This part will explore how, if at all, stakeholders’ expectations translate into the disclosure of CSR-related corporate governance information and how, if at all, stakeholders obtain this governance information. In addition, this part will investigate the potential implications for Bangladeshi garments companies if they fail to have particular governance practices in place, as well as any failure to disclose information about governance practices. Furthermore, this part will investigate the institutional effect of stakeholders (if any) on the disclosure practices within organisations in a developing country context.

In brief, this part of the thesis aims to address the following five research questions.

1. In broad terms, and within the context of a developing country, what aspects of corporate social and environmental performance do stakeholders expect to be addressed by corporate governance practices?

2. What sources of corporate governance information – pertaining to corporate social responsibility – are used by various stakeholders?

3. To what extent do the expectations of stakeholders pertaining to the implementation of corporate governance practices subsequently translate into corporate disclosure of information about such governance practices?

4. What are the implications if companies within a developing country do not disclose information about their social and environmental governance practices?

5. Is there any ‘institutionalised effect’ in relation to the disclosure of CSR-related corporate governance information (that is, do external pressures from stakeholders appear to generate relatively similar corporate disclosures)?
6.3 Prior research

Stakeholders’ interests need to be considered from an ‘enlightened corporate governance’ perspective (Jensen, 2001) because this view provides a way of keeping up with shareholder value management without neglecting legitimate stakeholder claims (Brink, 2010). ‘Enlightened corporate governance’ seeks opportunities beyond traditional compliance with laws and regulation and the practice of ‘enlightened corporate governance’ depends on personal leadership in the boardroom and corporate understanding and acknowledgement of the expectations and concerns of various key stakeholders (Jensen, 2001). It seeks to understand the consequences for board members (for their actions), and to promote the sharing of control and ownership (Brink, 2010, p. 641). To understand this ‘enlightened corporate governance’ practice, some researchers limit their analysis to board-related governance (see for example White, 2009; White, 2006), however this thesis regards corporate governance as a broader concept including corporate social responsibility. Although most of the initial research in the area of CSR reporting focused on the nature and frequency of disclosures, researchers in social and environmental accounting subsequently paid attention to methodological issues, stakeholders’ perspectives, and applications of theories to explain social and environmental accounting and reporting practices (Owen, 2008).

Investigating the influence of stakeholders on social reporting is an important area of research for social accounting researchers (see for example Deegan & Blomquist, 2006; Belal & Owen, 2007; Islam & Deegan, 2008). For example, Deegan and Blomquist (2006) found that there are some lobby groups like WWF that had significant power and influence in terms of shaping the mineral industry’s disclosure practices. They found that mineral companies of Australia were very receptive to the disclosure recommendations of WWF. They also found that WWF was able to influence revisions to the Mineral Council of Australia’s industry environmental code as well as the reporting behaviour of individual mining companies (Deegan & Blomquist, 2006). ACCSR (2011) also found that stakeholder engagement and strategic management are priorities for CSR

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61 This is an important area of research, as organisations need to consider the expectations of various stakeholders’ demands for social performance.
managers. However, there is fairly limited research in relation to various stakeholders’ expectations – including powerful stakeholders’ expectations – with regard to the specific types of CSR information they want, or require.

Within the context of Bangladesh, Belal and Owen (2007) found that there are powerful stakeholder groups who exert influence on corporate social and environmental reporting. The stakeholder groups identified by Belal and Owen (2007) include parent companies (in case of multinational subsidiaries), investors, international agencies (such as World Bank), domestic NGOs, and community bodies, trade unions and mainstream political parties (including government). The stakeholder groups identified as influential over corporate disclosure by Islam and Deegan (2008) include multinational buying companies, ILO, UNICEF, US Government, NGOs and the news media. Both of the above studies concluded that the extent of a stakeholder’s ‘power’ influences the social and environmental disclosure practices of the organisations within the developing country context. However, none of the paper identifies which stakeholders’ expectations are more likely to be responded to by corporate managers in a developing country context.

Traditionally, researchers have assumed or inferred that stakeholders obtain CSR-related information from publically available sources such as annual reports, sustainability reports or stand-alone social and environmental reports. However, there could also be alternative media such as special purpose reports which might not necessarily be publicly available. Powerful stakeholders could command these special purpose reports to satisfy their specific needs for information – information they could not obtain from general purpose reports, such as corporate annual reports or publicly available sustainability reports. A stakeholder could command, and receive, special purpose reports when it has relatively greater power to make decisions about the allocation of scarce resources necessary to an organisation’s survival (Henderson et al., 2011). This part of the thesis will show that, in the context of a developing country, social audit reports are being used as special purpose reports and stakeholder are using the relevant information from social audit reports to assess various risks associated with particular suppliers. Social auditing is the process by which an organisation determines its impacts on various stakeholders within society and measures and reports on these impacts.
(Owen et al., 2000). The social audit report is not a publicly available document; it is only being made available to a select group of (powerful) stakeholders, such as multinational buying companies. In the context of the garments industry of Bangladesh, some supply companies regularly conduct social audits in order for the outcomes to be available to stakeholders and some suppliers conduct social audits only when buyers require them to do so. The costs of social audit reports are often borne by the supply companies (Islam & Deegan, 2012).

Regardless of the source of, or specific nature of, the information, it is important for an organisation to understand the information needs of stakeholders, as failure to provide necessary information can lead to loss of vital support. As stated earlier in this thesis, and in relation to developing countries, multinational buying companies are not only interested in the social performance of their supply companies, but also in getting information about the corporate governance practices that the organisations (within the supply chain) have in place to avoid the risk of any potential negative social and environmental issues.

In practice it will not always be easy for an organisation to understand what the stakeholders expect in terms of governance information. For example, and very recently, PwC (2011) reviewed the latest public reports (April, 2011) of the top 30 companies listed on the ASX and concluded that it is difficult to form a view on whether companies understand their stakeholders’ concerns and expectations about CSR and related accountability (PwC, 2011).

In concluding this brief discussion on prior research it is noted that none of the research provides any evidence about the expectations of stakeholders in relation to corporate governance practices, what the potential sources of information for various stakeholders are, and how stakeholders’ expectation translates into disclosure of governance information, if at all. It appears that the research also does not address the implications if companies do not introduce appropriate governance practices, or disclose information about them. Hence, it is believed that the researcher has identified a gap in the social and environment accounting
literature which is worthy of investigation\textsuperscript{62}. Thus, this part of the thesis investigates the expectations of stakeholders regarding CSR-related corporate governance practices and how that expectation translates into the disclosure of such governance practices in a developing country context. The next section provides the theoretical foundation for this part of the thesis.

\textbf{6.4 Theoretical perspectives}

Chen and Roberts (2010) note that legitimacy theory, institutional theory, and stakeholder theory provide important theoretical frameworks for social and environmental accounting researchers\textsuperscript{63}. A detailed discussion of these theories is provided in Chapter Four. This chapter briefly focuses on the specific application of these theories, since they are used to explain the findings of this chapter. The following sections provide relevant discussions of the theories used to inform the investigation, and to analyse the findings of this part of thesis.

\textbf{6.4.1 Legitimacy theory}

As noted elsewhere in this thesis, legitimacy theory\textsuperscript{64} has been broadly used by the researchers in social and environmental accounting (Parker, 2005a). Patten (1992), Deegan and Rankin (1996), Deegan and Gordon (1996), Gray et al. (1995), Deegan et al. (2000), O’Donovan (1999, 2002), Belal and Owen (2007), and Islam and Deegan (2008) are among the others who apply legitimacy theory to explain social and environmental disclosure practices. Legitimacy theory is based on the assumption that an organisation maintains its ‘license to operate’ in the broader global society by complying with the expectations of the global community. Social and environmental accounting researchers use legitimacy theory to explain why organisations need to consider broader societal expectations and it is believed that from a legitimacy theory perspective organisations need to conform with existing societal expectations, and failure to comply results in potential legitimacy threats. The legitimacy theory perspective has been used in this part of the thesis for the reasons outlined below.

\textsuperscript{62} Further motivation to pursue this study is discussed in Chapter Two.

\textsuperscript{63} All these theories share a similar ontological view and the references of their terms are almost identical (Chen & Roberts, 2010, p. 652).

\textsuperscript{64} Legitimacy theory has been discussed in Chapter Four, and also discussed in specific applications to analyse the findings of Chapter Five.
Islam and Deegan (2008) explained that the textile and garments companies of Bangladesh were facing emerging pressures from NGOs, trade unions and Western consumers to ensure basic human rights, and to ensure adequate health and safety measures in supply factories during the late 1990s and early 2000s. The authors found that BGMEA directly responded to pressures by disclosing social responsibility information in their annual reports. Various high profile stories about workplace practices and incidents arguably created a legitimacy crisis for the garments industry of Bangladesh, thereby requiring that some form of legitimation process be implemented. Islam and Deegan (2008) also noted that when organisations perceive legitimacy threats, they try to minimise the threat by providing disclosures.

Over the years, the Western brands and customers become more aware of the social performance of the supply companies as they are not only satisfied with so called ‘symbolic disclosures’ of social performance, but they want substantial disclosures relating to the practice of corporate governance which includes CSR strategies, and provides pressure for the disclosure of governance information relating to CSR (Kamal & Deegan, 2013). Chapter Two of this thesis provides a detailed list of pressure and major pressure groups on the textile and garments companies of Bangladesh since 1990s. It is thus argued that these pressures might create a legitimacy crisis for the garment industry as a whole and garments companies attempted to provide governance disclosures to minimise that legitimacy threat. As discussed in Chapter Four, since NGOs and media influence global community expectations, it is argued that global community is not merely happy with the general CSR disclosures. They are interested to know the governance practices pertaining to CSR.

To comply with broader societal expectations, companies are expected to change their corporate governance practices in order to incorporate the CSR issues within the formal governance mechanism, but without communication or disclosure of the changes to the legitimacy-conferring stakeholders groups such as society or community, organisations can still face legitimacy threats. Legitimacy threats also arise when organisations comply or changes their corporate governance structure or processes with society’s expectations but fail to disclose the fact (de Villiers &
van Staden, 2006). Lindblom (1993) suggests possible changes in the direction and quantity of disclosure, when she notes that legitimacy is a dynamic concept, because societal expectations change over time. O’Donovan (2002) is more specific when he finds evidence to support the view that legitimising strategies may vary under conditions where legitimacy is sought to be gained, maintained or repaired. Thus the researcher of this study argues that since textile and garments companies of Bangladesh are subject to pressure from legitimacy conferring stakeholders such as multinational buying company65, NGOs, media and society in general, based on legitimacy theory perspective, these stakeholders might get the required corporate governance information. This form of disclosures is particularly important for stakeholder for their decision making, since it is argued that stakeholders are not merely happy with so called ‘general CSR disclosures’, rather they are interested to know about the corporate governance process/structures or mechanisms behind those CSR issues (ACCSR, 2011) and if these are not disclosed they (the supply companies) are being exposed to legitimacy threat. Also the sourcing company (multinational buying company) is being exposed to the legitimacy threats (see for example, Diagram 1, Chapter Four).

It is further argued that legitimacy is better achieved through governance disclosures as general CSR disclosures often seems as symbolic and provide an immediate response to stakeholder’ pressure. Also general CSR disclosures cannot satisfy the stakeholders’ demand as stakeholders want substantive governance information that supports company’s governance practices pertaining to CSR. It could also be argued that the textile and garments companies of Bangladesh disclose CSR-related corporate governance information to meet the global community’s expectations in general and to placate powerful stakeholders in particular. In this part of thesis, it is argued that, given the global nature of the textile and clothing industry, it is the global community's expectations that shape the CSR-related corporate governance disclosure practices of the garments and

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65 Although the supply companies of Bangladesh are getting pressure from multinational buying companies, it is actually the broader society that determines the ‘legitimacy’ and the multinational buying company react to that. The casual link here is since multinational buying companies are also operating in a broader global community/society, to protect their own ‘legitimacy’ they pressure the supply companies for particular social performance-related governance practices.
textile companies of Bangladesh. If supply organisations are not disclosing information about their CSR-related corporate governance practices then this has implications for multinational buying companies as they could be exposed to events that are potentially legitimacy threatening. Hence, failure to make appropriate disclosures potentially has implications for the survival of the Bangladeshi textile and garments companies. The researcher thus expects that the textile and garments companies of Bangladesh take action to reduce perceptions of risk through disclosures of their CSR-related corporate governance information – one of the legitimation strategies identified by Lindblom (1993)\textsuperscript{66}. Hence the findings of this chapter have been explained in the light of the application of Western-derived\textsuperscript{67} legitimacy theory within a developing country context.

The researcher also predicts that the textile and garments companies of Bangladesh would ensure that they had CSR-related corporate governance practices in place and that they disclose this governance information in order to satisfy the information demands of stakeholders who may otherwise be exposed to various legitimacy threats; the likelihood of having these processes in place would have increased over time as international awareness of poor workplace conditions in some segments of the industry increased. This part of the thesis has also effectively embraced some insights provided by stakeholder theory in addition to insights provided by legitimacy theory.

\textit{6.4.2 Stakeholder theory}

Researchers in social and environmental accounting use stakeholder theory framework to explain that organisations disclose particular types of information in order to gain or maintain the support of particular groups (see for example Deegan & Blomquist, 2006; Belal & Owen, 2007; Islam & Deegan, 2008). Stakeholder theory recognises that the impact of each stakeholder group on a given

\textsuperscript{66} Lindblom (1993) suggests that an organisation might institute one, or more, of the following legitimation strategies: a) educating and informing its ‘relevant publics’ about the changes of organisational performance; b) changing relevant public’s perceptions about the organisational performance; c) manipulating public perception by deflecting attention and d) changing external expectations, possibly by demonstrating that external expectations are unreasonable. A detail discussion about Lindblom’s (1993) legitimation strategies can be found in Chapter Four.

\textsuperscript{67} Most of the prior application of legitimacy theory was in the context of developed country such as USA, Canada, UK, Australia and so forth and it is believed that legitimacy theory could be better applied in the context of developed countries rather than developing countries.
organisation will be dissimilar, and the expectations of different stakeholder groups are not only diverse, but sometimes conflicting (Chen & Roberts, 2010). Thus, gaining the support/approval of different (and potentially influential) stakeholders rests on the organisation’s ability to balance conflicting expectations. Some organisations balance stakeholders’ different demands and expectations based on the potential impact on these stakeholders; other organisations consider particular stakeholders’ needs and expectations based on how this particular stakeholder’s (or stakeholder group) influence on the focal organisation (Freeman, 1984).

For the purposes of this thesis, it is argued that organisations in a developing country context prioritise stakeholders based on the stakeholders’ resource contribution (power). For example, suppliers (i.e. garments companies) in a developing country need to consider their sourcing companies’ (multinational buying company) demands, as the latter are seen as powerful stakeholders. This thesis, therefore embraces a managerial perspective of stakeholder theory; it specifically considers some of the situational factors affecting stakeholders’ power. For example, Mitchell et al. (1997) argued that stakeholder identification and salience is a function of stakeholders possessing one or more situational factor (relationship attributes): power, legitimacy and urgency. In this part of the thesis, it is argued that stakeholders’ expectations are based on these situational factors. Thus, the following sections discuss how these factors shape the level of influence that stakeholders’ have on the textile and garment companies of Bangladesh for CSR-related governance disclosure practices.

6.4.2.1 Multinational buying companies
From the survival perspective, the most important stakeholders in the textile and garments companies of Bangladesh are the multinational buying companies (Belal & Owen, 2007; Islam & Deegan, 2008). These overseas buying companies have significant power to influence supply companies. The supply companies of Bangladesh are deemed to be driven by business considerations rather than by

68 Deegan (2002) noted two branches of stakeholder theory: normative (ethical) branch and positive (managerial) branch. There is a comprehensive discussion of these two perspectives in Chapter Four.
69 Chapter Four discusses each of these attributes.
underlying ethical considerations (Islam & Deegan, 2008). The multinational buying company can exercise their power by stopping supply orders or blacklisting the supply companies that have poor social performance. The following quote from a representative of a multinational buying company provides further evidence:

Yes, we have the power to influence social disclosure practices, for example, we have already blacklisted seven factories due to non-disclosure of social compliance information. And these seven factories are huge factories in Bangladesh. This is not simply a superficial activity. We are doing about 200 million dollars of business a year in Bangladesh. We check things from needles to the use of large machines and we are very careful about reviewing the disclosure of various CSR-related issues (Interviewee no. 1470, MNBC).

Stakeholders’ power also influences management if the resources the powerful stakeholders control are essential for the survival of the corporation (Ullmann, 1985). The more critical the resources controlled by a stakeholder group the more responsive the organisation will be when meeting the expectations of that stakeholder group (Smith et al., 2005; Huang & Kung, 2010).

Since multinational buying companies control the necessary resources for the survival of the garments companies of Bangladesh, they are considered powerful stakeholders. Having the necessary resources, it is argued that these stakeholders have the necessary power to command governance information to reduce the risk of doing business with the garments companies of Bangladesh. For example, multinational buying companies know that Western customers are less likely to buy products from a company who source garments from a supplier with poor social performance. So they want to reduce the chances of their association with organisations having poor CSR practices. Furthermore, these multinational buying companies do not want negative media reports (such as the one broadcasted by ABC News in its Four Corners program, aired on June 25, 2013, accusing all the major brands of Australia that source garments from Bangladesh) to highlight their association with poor work practices and workers’ rights violations in the

70 This quote was from one of the representatives of a multinational buying company (MNBC). A detailed description of research methods and analysis of interview data is found in the next section, while the interviewees’ number, position and date of interview are provided in Appendix K.
factories they source their products from. ABC News (2013) also highlighted that often Western brands are more interested to make use of the cheapest labour in the world than looking after the poor work practices in their supply chain.

In terms of legitimacy (Mitchell et al., 1997), this stakeholder group (multinational buying companies) are vulnerable to the risk of potential legitimacy threats from the global community (as discussed in Chapter Four and Five). As such, this particular stakeholder group wants their supply companies to conform with the same norms, values and beliefs of broader societal expectations (legitimacy theory perspective). For example, Western consumers are less likely to investigate the social performance of supply companies, but they would blame the sourcing company if they knew that their products were being sourced from a supplier with poor social performance (this is explained in Chapter Four). When things go wrong (for example, the latest factory collapse in Dhaka) the media attacks the large labels rather than the suppliers. The large organisations are supposed to protect their legitimacy at the international level (Bucheli & Kim, 2010). Since multinational buying companies are often exposed to the risk of potential legitimacy threats because of the poor performance of their supply companies of Bangladesh, they are deemed to be powerful stakeholders in the garments companies of Bangladesh.

However, mere legitimacy is not enough; a stakeholder group should have the power to enforce its claims or the perception that its claims are urgent71 so that management gives priority to the claims of a particular stakeholder group (Mitchell et al., 1997). Islam and Deegan (2008) provided evidence that multinational buying companies have ‘urgency’ to demand immediate attention from the supply companies at times when they face international criticism pertaining to their association with supply companies that use child labour and have poor working conditions. Urgency, combined with either power or legitimacy, has the potential to increase the importance of the affected stakeholder group (Smith et al., 2005) to the organisation. Accordingly, in terms of ‘urgency’,

71 Urgency is the extent to which stakeholder demands require immediate attention by a firm (Mitchell et al., 1997).
multinational buying companies are arguably the most important stakeholders for the garments companies of Bangladesh.

Thus it is argued that multinational buying companies use their power, legitimacy, and urgency to motivate supply companies’ social performance-related governance disclosure. Hence multinational buying companies are considered as one of the powerful stakeholders of the garments industry of Bangladesh. Another powerful stakeholder in the garments companies of Bangladesh is the ‘BGMEA’; the next section will illustrate why.

6.4.2.2 BGMEA

Being an industry association, the BGMEA is considered another powerful stakeholder of the garments companies of Bangladesh. It is the ‘apex body’ of the garments companies of Bangladesh and it has absolute power over issuing the documents necessary to facilitate the import of fabrics and export of garments. Having the necessary power as well as representing the garments companies in the international market, the immediate pressure from the multinational buying companies is placed on this industry association, and accordingly the BGMEA shifts this pressure to the individual supply companies (Kamal & Deegan, 2013). However, Islam and Deegan (2008) found that the BGMEA only started focusing upon social issues such as child labour, factory working conditions, health and safety issues and human rights when they received pressure from the multinational buyers. Islam and Deegan (2008, p. 860) quoted a senior executive of the BGMEA:

The 1990 multinational buyers only wanted product, no social compliances were required and no restriction was placed on the employment of child labour. Now multinational buying companies have changed their attitudes towards us, perhaps because of the pressures from western consumers. We had to change ourselves following buyers’ requirements and to fit with global requirements and restrictions. Western consumers and human rights organisations pressured foreign buyers, and then foreign buyers pressured us.

Based on this quote, it is argued that the BGMEA considers profit and industry prosperity as a priority over ethical deliberations, as they are more inclined to respond to the buyer’s requirements. Accountability and ethical considerations do
not directly appear to be a major factor influencing the actions of the BGMEA\textsuperscript{72}. Thus, being the sole government recognised body that facilitates the export/import of all the member garments companies, the BGMEA has legitimate claims on the supply companies and has the power to enforce all member companies to follow some industry norms, values and beliefs.

In addition, it is found that the BGMEA only provides information about social performance when it is urgently required by the multinational buying companies (Islam & Deegan, 2008). Islam and Deegan (2008, p. 864) quoted a BGMEA official saying:

\ldots We take immediate affirmative actions and disclose it through newsletter and annual reports because we believe our affirmative actions and related disclosure are now the pre-condition of doing business with buyers.

However, it is argued that when the BGMEA receives this kind of pressure from multinational buying companies, they immediately require social performance disclosure and real substantive action from their member companies (Kamal & Deegan, 2013). Thus, considering stakeholders’ power, legitimacy and urgency (Mitchell et al., 1997), the BGMEA is also regarded as one of the powerful stakeholders influencing the governance practices and related disclosures of the textile and garments companies of Bangladesh. The next section provides further insights into some of the low-power stakeholders within the garments industry of Bangladesh.

\textit{6.4.2.3 Other low-power stakeholders}

Other stakeholders in the textile and garments companies of Bangladesh include NGOs, media, employees, and the government. However, these stakeholders are considered low-power stakeholders as they do not appear to have as the same degree of power as that which appears to be held by the BGMEA and multinational buying companies who arguably have greater power to influence the governance practices of supply companies. For example, international NGOs and media are likely to raise concerns when there is a catastrophe such as a fire

\textsuperscript{72} BGMEA officials are the leading garments factory owners among the supply companies. As the BGMEA is the association of garments manufacturers and exporters of Bangladesh, all the major garments factory owners are interested in leading the association, and they have an annual election to vote for the BGMEA officials.
accident or factory building collapse; this is when they target the large labels (international brands) rather than the supply companies. Particularly, in the context of Bangladeshi garments companies, NGOs and media are not considered as powerful stakeholders as multinational buying companies (these are further explained in Chapter Four). They might be powerful stakeholders for multinational buying companies as indicated in diagram 1, Chapter Four.

Employees are typically considered ‘low-power’ stakeholders within a developing country like Bangladesh (Belal, 2008), since within Bangladesh there is an abundance of cheap labour and the absence of collective bargaining (unions). This makes employees particularly prone to being exploited in relation to poor working conditions and wages. At the local level, with all the poverty, people just want a job; employees do not have the opportunity to switch employers if unhappy, and senior government officials often have more invested interest in supply companies rather than enforcing the relevant local laws in favour of the workers. Although employees are less powerful directly, they can be construed – indirectly – as important stakeholders because their rights and health and safety issues are of concern to other powerful stakeholders such as multinational buying companies. The implication of this, however, is that the powerful stakeholders need to insist that employees’ rights (to such things as safe working conditions) are respected; otherwise employee interests might be ignored. However, employees could gain power when there is scarcity of labour or when the demands of products increase.

Another potentially low-power stakeholder within Bangladesh is the corporate regulator – the SEC. The SEC is the government authorised body to provide corporate governance guidelines for the corporate sector of Bangladesh. However the SEC does not provide specific guidelines pertaining to CSR-related corporate governance, and therefore does not appear to have any particular focus on the social or environmental conditions associated with the various supply companies.

The researcher of this thesis sincerely acknowledges the findings of Islam and Deegan (2008) who found that NGOs and the media are also powerful stakeholders. Of course, it is the NGOs, perhaps who take the stories to the media and through the media people get to know what is really happening in the supply factories of Bangladesh. However, considering the stakeholders’ attributes according to Mitchell et al. (1997), this thesis considers them as less powerful stakeholders. While NGOs and the media are not considered as powerful as multinational buying companies and the BGMEA, the representatives from NGOs and media are still interviewed for the purposes of this thesis to get insights from the perspective of less powerful stakeholders.
In addition, SEC can only enforce the publicly listed companies to adhere to corporate governance compliance and they have no say over the vast majority of unlisted and privately-owned garments companies of Bangladesh.

Based on the above theoretical discussion, and the different levels of stakeholder power, legitimacy, and urgency, it is predicted that the individual textile and garments companies will respond to powerful stakeholders’ expectations with respect to CSR-related governance practices. In doing so, and to receive the support of the powerful stakeholders, supply companies not only need to implement expected CSR-related corporate governance practices, but also need to make disclosures pertaining to the implementation of these respective governance practices. If organisations do not formulate their corporate governance practices in line with the expectations of the powerful stakeholders, and do not provide disclosures about those governance practices, they might lose the support of these powerful stakeholders.

Based on the argument that organisations need to consider the powerful stakeholders’ demands for governance information, it is also predicted that the powerful stakeholders might receive the information from a variety of sources, for example, through publicly available corporate documents (such as corporate annual reports), or through special purpose reports (such as social audit reports) prepared specifically for an identified, and limited, set of stakeholders. ‘Powerful’ stakeholders would conceivably be more likely to have information to specifically fulfil their information demands (again, perhaps through some form of special purpose report). In addition to legitimacy theory and stakeholder theory, this part of the thesis also uses institutional theory, which is discussed briefly in the next section.

6.4.3 Institutional theory

Institutional theory provides a complementary perspective to both legitimacy theory and stakeholder theory to understand how organisations respond to changing institutional pressure (Deegan, 2011). This part of the thesis also applied
an ‘institutional theory lens’ to enlighten the understanding of institutions”74 effects in shaping the CSR-related governance disclosure practices of individual garments companies. Institutional theory explains that managers will be subject to pressures to adopt certain voluntary reporting practices and these pressures have been described as coercive, mimetic or normative75 (three forms of ‘isomorphism’) (Deegan, 2009, p. 366). One key aspect of institutional theory that has attracted the attention of social and environmental accounting researchers is the concept of ‘isomorphism’. According to Dillard et al. (2004, p. 509) ‘isomorphism’ refers to the adaptation of an institutional practice by an organisation. The greater the dependence of an organisation on another organisation, the more similar it will become to that organisation in structure, climate, and behavioural focus (DiMaggio & Powel, 1983). Organisations conform (to institutional pressures for change) because they are rewarded for doing so through increased legitimacy, resources and survival capabilities (Scott, 1987)76.

Deegan (2002) also noted that organisations change their structure or operations to conform to external expectations about what forms or structures are acceptable (legitimate). Of the three forms of ‘isomorphism’, coercive isomorphism is closely associated with the managerial branch of the stakeholder theory (Deegan, 2009). It is related to stakeholder power and implies that organisations change their institutional practices because of pressure from those stakeholders they are dependent on (DiMaggio & Powell, 1983). Thus, organisations are coerced by powerful stakeholders into adopting particular reporting practices, and such practices are deemed to provide an organisation with a level of legitimacy that

74 A definition of institution and institutionalisation is provided in Chapter Four.
75 Coercive isomorphism arises when organisations change their institutional practices because of pressure from those stakeholders whom they are dependent on. Mimetic isomorphism arises when organisations seek to emulate (or copy) or improve their institutional practices compared to other organisations, often for reasons of competitive advantage in terms of legitimacy. Normative isomorphism relates to the pressures arising from group norms to adopt particular institutional practices (Deegan, 2009). A detailed discussion about each of these isomorphic processes is provided in Chapter Four.
76 It should be noted that this perspective emphasises the strategic viewpoint of corporations responding to institutionalised pressures on the basis that managers respond to institutional pressures, rather than trying to create changes in those external institutions. This ‘looking in’ focus is often used to explain how organisations react, but a broader application of institutional theory over a longer period of analysis would also explore how organisations’ actions impact on institutions – the ‘looking out’ perspective. That is, not only do organisations react to institutional pressures, but across time, their actions can have varying influences on institutions (Aerts & Cormier, 2009).
would not otherwise be available if it was to deviate from ‘accepted’ organisational forms or policies (DiMaggio & Powell, 1983). In this part of the thesis, the researcher is particularly interested in investigating if there is any institutional effect of the powerful stakeholders on the supply companies of Bangladesh. ‘Institutional effect’ in this context refers to institutional pressures exerted by the powerful stakeholders over the various supply companies to adopt similar governance practices and provide similar disclosures.

Based on this notion, the researcher of this thesis argues that the textile and garments companies of Bangladesh might be subject to external pressure from powerful stakeholders, such as multinational buying companies and the BGMEA. As the BGMEA is an institution that is recognised by the government of Bangladesh to facilitate the export of garments, the BGMEA has the ability to impose a direct institutional effect on the individual textile and garments companies of Bangladesh. With institutional theory in mind, this institutional pressure would lead to similar governance practices and related disclosures being in place, whilst stakeholder theory would suggest that supply companies would respond to powerful stakeholders; the extra insight from the institutional theory is that the response could be expected to be similar across industry participants. Further, the BGMEA impose pressure on the individual textile and garments companies (for social performance-related policies and disclosures) when they themselves receive pressure from various multinational buying companies (Islam & Deegan, 2008). That is, multinational buying companies have both a direct (through the dealings they have with supply companies) and an indirect institutional effect (through the dealings they have with BGMEA) on the individual textile and garments companies of Bangladesh.

The above discussions (Section 6.4 and related sub-sections) provide the underlying foundation for this part of the thesis. As noted earlier, this part of the study investigates in broad terms: what stakeholders expect in terms of CSR-related governance practices; what their perception about the disclosure of CSR-related governance information is; how various stakeholder source the relevant governance information; what the implications (from stakeholders perspective) are if organisations fail to implement CSR-related governance information and/or
fail to provide related disclosures; and whether there is any institutional effect of the stakeholders on the supply companies. The theoretical discussions in the above sections underpin the investigation of these issues. Further discussion about the joint consideration of these theories can be located in Chapter Four. The next section provides the research methods adopted in this part of the thesis.

6.5 Research methods

The evidence for this part of the study was collected using semi-structured in-depth personal interviews with 25 stakeholders during the period from September, 2011 to January, 2012. The primary objective of these interviews was to obtain detailed insights into the perceptions and/or expectations of the stakeholders about CSR-related corporate governance practices and related disclosures as identified in the research questions provided earlier in this chapter. The interviews were guided by a small number of broad open-ended questions (with these questions being provided in Appendix J) and were conducted by the researcher in-person at the interviewee’s office (with two exceptions). The interviews ranged from 30 minutes to one and a half hours in duration. The following sections provide details about the interviewees’ profiles, the interview conducting process, and the evidence analysis procedures (including the coding process).

6.5.1 Interviewee profile

Stakeholders, for the purposes of this thesis, are identified predominantly on the basis of earlier studies undertaken within Bangladesh, such as Islam and Deegan (2008) and Belal and Owen (2007). Based on the theoretical discussion in the preceding section, this part of study divides stakeholders into two separate groups: powerful and low-power stakeholders. While powerful stakeholder includes multinational buying companies and the BGMEA, and low-power stakeholders include NGOs, media, workers and government, it is important to understand their expectations and perceptions about CSR-related governance practices and related disclosures. Hence this component of research has been able to capture the views of the various stakeholders about CSR-related governance practices.

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77 The previous section (Section 6.4.2) discussed the powerful and non-powerful stakeholders in the textile and garments industry of Bangladesh.
As multinational buying companies are considered the most powerful stakeholders within the textile and garments sector of Bangladesh (as indicated elsewhere in this chapter), the researcher conducted seven interviews with the representatives of multinational buying companies. These representatives were selected based on a list provided by the deputy secretary of the BGMEA, who was directly contacted by the researcher via telephone. Based on this list, the researcher randomly selected 10 multinational buying companies that have offices in Dhaka, Bangladesh. Seven of these agreed to participate in the interview. The representatives of these multinational buying companies are denoted as ‘MNBC’ when quoted.

The researcher conducted six interviews with representatives of local and international NGOs. These NGOs were chosen based on a list provided by one of the BGMEA officials (2nd Vice President) who was directly contacted via telephone by the researcher. He provided a list of international, as well as local, NGOs that focus on social and environmental issues in the textile and garments sector of Bangladesh. Accordingly, the researcher contacted two international NGOs and six local NGOs, and one international NGO (International Labour Rights Forum) and five local NGOs agreed to be interviewed. The representatives of these NGOs are denoted as ‘NGO’ when quoted.

In terms of the news media, the researcher selected the two most popular English newspapers in Bangladesh: the Daily Star and the Bonik Barta. These two newspapers were selected as they specialise in reporting on the garments and textile industry of Bangladesh and are therefore assumed to be representative of news media within Bangladesh. Requests for interviews with these newspapers were met with a positive response; media representatives are denoted by ‘Media’ when quoting their insights in the text. Since Belal and Owen (2007) noted that the government of Bangladesh is also an important stakeholder (not as powerful as multinational buying companies) for garments and textile companies, the researcher elected to conduct interviews with the chairman of the SEC and one of the labour inspectors from the Ministry of Labour and Employment. Both of them were contacted via telephone and both agreed to participate. These government representatives are referred to as ‘Govt’ when quoting.
As the BGMEA is a ‘central player’ in the textile and garments sector of Bangladesh, four interviews were conducted with its high officials: the current President, ex-President, 1st Vice President (current) and 2nd Vice President (current). The BGMEA office bearers consist of one president and four vice presidents. The researcher contacted each of them but was only able to conduct interviews with three. The researcher also conducted an interview with one of its past presidents to gain further insights. These officials were personally contacted via telephone. For quoting purpose, these officials are referred to as ‘BGMEA’.

While conducting interviews with different NGOs, the researcher got to know some of the employee representative/trade union leaders. Specifically, three trade union leaders were identified and asked to participate – all agreed. These trade union leaders were well-known within the garments sector of Bangladesh, in part because they had gained notoriety as a result of being arrested for instigating labour unrest in relation to protests undertaken to increase worker wages. The researcher conducted interviews with these union representatives to get insights into their perspectives of being a low-power stakeholder. These union representatives are shown as ‘T/Union’ for quoting purpose.

While conducting interviews with the representatives of multinational buying companies, NGOs and trade union leaders, the researcher realised that some of the interviewees were talking about social audits and a particular social audit firm, Worldwide Responsible Accredited Production (WRAP), within Bangladesh. Some of the multinational buying companies argued that they require a WRAP certificate (social audit report) from the garments companies before placing orders. The researcher decided to conduct an interview with the country manager of WRAP and contacted him via telephone to set an appointment.

Therefore, the total interview participants consisted of seven multinational buying company representatives, representatives from one international NGO, five local NGOs, three trade union leaders, two media representatives, two senior government officials, four BGMEA high officials and one social audit firm. It is emphasised in this section that these stakeholders have varying degrees of ‘power’ (as discussed in the theory sections), nevertheless they are all relatively important
stakeholders from the perspective of the textile and garments industry of Bangladesh.

6.5.2 Conducting the interviews

Before conducting interviews, ethics approval was sought from RMIT College of Business, Human Ethics Advisory Network, and ethics approval was granted accordingly. A standard ‘plain language statement’ consisting of the objectives and ethical issues of the research was sent to the interviewees seeking an interview. This has been provided in Appendix I.

Before commencing each interview, the nature of the research was again outlined to each interviewee. Interviewees were asked to sign a consent form and they signed a waiver agreeing to attribution of any quotes. It was stressed that there was no quest for ‘right’ or ‘wrong’ answers, rather interviewees’ opinions were being sought and no prior ‘technical’ knowledge of any kind was either assumed, or required. A semi-structured interview is usually organised around an interview guide. This contains topics, themes, or areas to be covered during the course of the interview, rather than a sequenced script of standardised questions (Lewis-Beck, Bryman & Liao, 2004). The aim is usually to ensure flexibility in how, and in what sequence, questions are asked, and in whether there is a need to follow up particular areas with the interviewees (Lewis-Beck et al., 2004).

However, the researcher needed to be conscious not to directly put things into the interviewees’ minds (Patton, 1990, p. 278) and open-ended questions were used in order to invite the interviewees to participate in the conversation – albeit, a guided one (O’Dwyer, 2002). Interview questions are included in Appendix J. Most interviewees covered the areas in the interview guide without the need for much direction. Since the interviews were conducted by the researcher, with the same ethnic background and cultural orientation of the interviewees, this helped create stronger relationships and an understanding their local dialects. Almost all the interviews were conducted in a face-to-face setting, except one interview which was conducted via the telephone. The date and interviewee lists are provided in Appendix K. When using interviewee quotes, this part of thesis refers to the interviewees via a coded number such as interviewee 1, interviewee 2 (Arabic
numerals) and provides a particular category such as BGMEA, MNBC, NGO and so on. The interview order does not necessarily represent the same order in which they appear in the appendix, albeit shows the specific category that particular quote belongs to. Therefore, anonymity of the interviewees is maintained to as great a degree as possible, whilst still allowing sufficient information to be provided about the respondents.

The main issues that were addressed as part of the interview are summarised below:

- Stakeholders’ expectation about CSR-related governance practices.
- The sources that stakeholders use to obtain CSR-related governance information.
- Stakeholders’ perceptions about the disclosure of CSR-related governance information.

The following section provides further details pertaining to the analysis of the responses to address the above questions.

6.5.3 Evidence analysis

Out of 25 interviews, 22 were tape recorded and in cases where taping was not possible, extensive notes were taken during the interview. Three interviewees did not agree to be tape recorded. Most of the interviews were conducted in English, except for a couple where the participants felt uncomfortable speaking English. In these cases the interviews were conducted in the local language, Bengali, and then translated into English by the researcher. After translation and transcription of the interviews, a copy of the transcription was sent to the interviewee’s email for them to check and comment on the accuracy. The majority of participants stated that transcripts were accurate, except for two who provided minor corrections. No participants wanted to remove materials or withdrew their participation during the process. Following the final transcription checks, the coding of the interview data was performed. Coding is a fundamental analytical process that plays a vital role in analysing, organising and making sense of textual data (Tan, 2010). Saldana (2009, p. 3) states:
A code in qualitative inquiry is most often a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attributes for a portion of language-based or visual data. The data can consist of interview transcripts, particular observation field notes, journals, documents, literature, artefacts, photographs, video, websites, e-mail correspondence, and so on.

While coding data for this thesis, the researcher used manual coding systems (Saldana, 2009). This particular coding method requires that the researcher first transcribe all the data, print it out as a hard copy, then manipulate the qualitative data on paper and write codes in pencil. This way the researcher gets more control regarding the ownership of the work (Saldana, 2009). This coding process takes a lot of time and requires a large work area with multiple pages or strips of paper spread out at one time to look for particular issue; this is not possible on a computer monitor (Saldana, 2009). The researcher also used red pens and highlighters to highlight the codes.

While developing the codes, the researcher kept in mind the research questions outlined in this chapter. For example, to address the first research question about the expectations of stakeholders, the codes were ‘social compliance’, ‘environmental compliance’, ‘human rights’, ‘labour rights’, ‘child labour’, ‘factory working conditions’, ‘health and safety’, and ‘fire accidents’. To address the second research question pertaining to the sources of governance information, the codes were ‘medium of disclosures’, ‘annual report’, ‘web-sites’, ‘social audit reports’, and ‘special purpose reports’. The codes used to address the third research question, which focuses on the perceptions of stakeholders regarding the current state of disclosures about CSR-related governance, are ‘symbolic’, ‘substantial’, ‘limited’, ‘satisfied’ and ‘unsatisfied’. The codes used to address the fourth research question were ‘implications’, ‘disclosures’, ‘non-disclosures’, and ‘potential threats’. To get insights into the institutional effect, the researcher used codes such as ‘external pressure’, ‘institutional effect’ and ‘coercion’. Only a few codes needed to be changed as the researcher proceeded in the process. In this case the researcher went back and recoded some of the earlier interviews.
Since all the coding processes were performed by the researcher, who was closely supervised by an expert with vast experience in qualitative data manipulation in social and environmental accounting, efforts were undertaken to ensure consistency while coding the data. The process of coding facilitated the reduction of the transcript evidence and also provided a means of interacting with and thinking about the evidence, thereby encouraging the process of reflection (O’Dwyer, 2002).

After coding, the researcher categorised these codes as per the research questions; as Saldana (2009) states, to codify is to arrange things in a systematic order, to make something part of a system or classification, to categorise. Categorisation relates to the five research questions discussed above. These are ‘expectations of stakeholders’, ‘perception about disclosures’, ‘sources of governance information’, ‘implications for non-disclosures’ and ‘institutional effect’. An example of coding and categorisation is provided below:

Category : Stakeholders’ expectations
  Code   : Social compliance
  Code   : Environmental compliance
  Code   : Factory working conditions and health and safety
  Code   : Child labour
  Code   : Human rights and labour rights

Since these categorisations are directly tied with the research questions, the findings of these research questions are then analysed using the underlying theories discussed in the theory section. In addition to this, the researcher conducted ongoing analysis throughout the period of data collection. For example, while conducting interviews; ongoing analysis was aided by taking extensive notes during and immediately after interviews, frequently listening to the interview tapes while travelling, and maintaining a diary to reflect the abstracts of the interviews. This, in effect, provided a provisional running record of analysis and interpretation. The detailed field notes, tape-recorded reflections, interview summaries and personal diary were also reviewed and analysed to draft the interview findings using the interview guide questions as a loose framework. Quotations deemed to represent a particular code/theme were then selected from
the transcript in order to enrich the findings. The following section provides the findings.

6.6 Interview findings

The researcher has divided the findings of this chapter into a number of sections. For example, the first section (Section 6.6.1) discusses, in broad terms, what the stakeholders expect to be addressed by governance practices, thereby addressing the first research question. Thus, this section compares and contrasts stakeholders’ expectations. The comparison has been done between the expectations of various stakeholders, since there are power differentials among them (as discussed in the theory section of this chapter), and these differences might shape the extent to which they are able to exert pressure on the organisation. The next section (Section 6.6.2) identifies the sources that the stakeholders obtain/do not obtain the required information pertaining to CSR-related governance practices from. In Section 6.6.3, this chapter focuses on the current state of CSR-related corporate governance disclosure practices as perceived by the stakeholders. Section 6.6.4 provides the implications, from the stakeholders’ perspectives, if companies do not practice the expected CSR-related governance and provide disclosures for such governance practices. Finally, Section 6.6.5 provides the institutional effect of stakeholders on the disclosure of CSR-related corporate governance practices. These sections are related to the five research questions identified in Section 6.2.

6.6.1 CSR-related corporate governance practices

Broadly, stakeholders’ expectations about CSR-related corporate governance practices includes particular governance practices related to social compliance, health and safety issues (including working conditions), child labour, human rights and labour rights, and environmental compliance. These are the common themes derived from the interviews and subsequent analysis based on the coding and categorisation process. Thus, the following sections highlight each of these themes as they provide evidence about how stakeholders’ expectations vary pertaining to different aspects of CSR-related governance practices.
6.6.1.1 Social compliance

The majority of the participants believed that the main focus of the governance systems within the textile and garments sector should be on social compliance rather than environmental or other forms of compliance. Social compliance\textsuperscript{78} is a set of acceptable social standards that are made up of particular references to in-house codes of conduct/standards developed by multinational buying companies, ILO standards, SA 8000 and European standards such as Business Social Compliance Initiative (BSCI) (Islam & Deegan, 2012). Currently, there is no unique perspective of social compliance (as different multinational buying companies provide different sets of in-house codes of conduct) to be followed by the textile and garments companies of Bangladesh. A typical basis of social compliance, however, consists of compliance with respect to working conditions, health and safety, child labour policies, freedom of association and minimum wages as stipulated by the above standards.

Multinational buying companies are very concerned about social compliance, and want companies to have specific social compliance policies, as evidenced by the following quote:

We are very strict about social compliance. For example, first of all we select a factory based on our checklist conformity and then we provide them with ethical training. We do a technical audit and a social audit of the selected factory. If they pass every point in our checklist, then we can go for production (we will place the order to them). During the production period, our technical audit team frequently visits the factory to ensure compliance with required working conditions, health and safety and other social requirements (Interviewee no. 14, MNBC).

But the BGMEA officials provide a different perspective on social compliance. According to BGMEA officials, implementing ‘social compliance’ is often difficult for a supplier, as different multinational buying companies have different social compliance expectations and currently there is no ‘uniform social compliance’. Therefore, the BGMEA would prefer a ‘uniform social compliance’ system to be set up by the multinational buying companies so that it (BGMEA) can require member garments companies to follow this standard and to provide

\textsuperscript{78} Social compliance is a common term used by the people involved within the textile and garments industry of Bangladesh.
disclosures about how they are following the uniform ‘social compliance’ requirements. As there is no ‘uniform social compliance’ system, some garments companies use this as an excuse for not implementing governance practices related to social compliance:

The garment factory owners are producing garments items for 10-15 buyers at a time. There are different types of compliances required for different buyers. Suppose 15 buyers are identifying 15 different types of compliance requirements - it is not possible for the (garments) owner to comply with all the requirements. There is no universal compliance. Suppose one buyer wants workers to wear sandals, another wants employees to wear aprons, others want hi-commode toilet. But workers are not used to using such things. So it is very hard to follow for the workers and it is very hard to implement social compliance related governance within the industry (Interviewee no. 17, BGMEA).

Trade union leaders have different perspectives on necessary CSR-related corporate governance practices, for example, they are more interested in the implementation of local labour laws, and ILO conventions including the United Nations Declaration of Human Rights:

I am happy if the labour law 2010 and ILO convention are fully implemented within the corporate governance practices of the companies. If these are fully implemented then the controversial issues like child labour, working condition within the factories, human rights etc. will be covered later (Interviewee no. 9, T/Union).

While social compliance appears to be given priority by the stakeholders in general, some stakeholders are more concerned about the corporate governance practices pertaining to working conditions and health and safety issues. This is discussed in the following section.

6.6.1.2 Factory working conditions, including health and safety

NGOs, government officials and multinational buying companies are more concerned than other stakeholder groups about the governance practices related to working conditions. They believe that sub-contract factories are less compliant in

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79 However, BGMEA requires the member garments companies to follow a specific (similar) governance reporting pattern while submitting their social audit reports to the BGMEA, which is consistent with the notion of ‘isomorphism’ as discussed later of this chapter.
terms of working conditions than original factories\textsuperscript{80}, and that those working with some of the reputed brands such as GAP, H&M, Nike and Wal-Mart, are more compliant in terms of ensuring better working conditions (Interviewee no. 10, NGO). This implies that buyers such as GAP, H&M, Wal-Mart and Nike have significant brand reputation to protect and this compels them not to make any compromises regarding the social compliance of their supply companies.

Most of the stakeholders raised concerns about governance practices related to fire safety, as the majority of casualties in the garments sector of Bangladesh have been a result of fire-related accidents (until the most recent building collapse in 2013)\textsuperscript{81}. From 1990 to 2012, more than 800 workers were killed and 3,000 injured in different garments factory fires in Bangladesh (Claeson, 2012). ABC News (2013) broadcasted that there were 43 factory fires in last 18 months in the garments factories of Bangladesh, and the recent factory collapse was not an isolated incident. Thus stakeholders have a general expectation that fire safety issues should be incorporated within the formal corporate governance practices of companies.

All the stakeholders, except for the multinational buying companies, argued that part of these governance practices should be the responsibility of the multinational buying companies, as they cannot avoid their responsibility for fire causalities happening in their sourcing factories (Interviewee no. 7, T/Union). However, multinational buying companies do not perceive that they have a direct responsibility in relation to fire accidents; in contrast, they argue that it is the responsibility of the related factories and the unawareness of the workers:

If we accept responsibility for those incidents (fires), then actually there will be a negative effect. If they (factory managers) believe that buyers will take

\textsuperscript{80} Here, original factory means the factory that has the direct contract with the multinational buying company for a certain quantity and quality of products to be delivered at a certain time. However, often this original factory sub-contracts some of its jobs to other less-compliant factories, which the buyers might not be aware of. Original factories do this to attain the deadline of shipment in most of cases, or to hide some of their own factories that are less compliant and thus unable to obtain orders directly from buyers. A definition of sub-contract factory is located in Chapter Two.

\textsuperscript{81} On November 24\textsuperscript{th} 2012, 112 people were burned alive or jumped to their deaths when the Tazreen factory caught fire (Claeson, 2012). Just five month later on April 24\textsuperscript{th} 2013, 1127 more people were killed when the eight-story Rana Plaza building hosting five factories collapsed (The Wall Street Journal, 2013).
responsibility, then there will be negative effects, they might do it intentionally, who knows. Still some buyers took some responsibility like GAP and Wal-Mart in case of Hamem group fire accidents (Interviewee no. 15, MNBC).

At least 25 people were killed and 45 seriously injured by a fire that swept through a clothing factory of the Hamem Group, one of Bangladesh's largest exporters, where more than 10,000 people worked in the huge factory complex, on December 14, 2010 (BBC News, 2010). Many of the workers were out at lunch when the fire started, or the casualty figures would have been much higher. Many reputed brands across the world, including GAP and Wal-Mart source their products from this garments company. GAP and Wal-Mart were under international criticism about their role in maintaining fire safety in the sourcing factories, and different labour rights organisations pressured them to compensate for the loss of lives and for the treatment of injured workers; in the end both companies compensated in some way. Thus it is further substantiated that organisations like GAP and Wal-Mart require specific governance practices pertaining to the fire safety of the supply companies, including the working conditions of the factories. In addition to social compliance, factory working conditions and health and safety-related governance practices, stakeholders are also interested in the practices relating to the (non-) use of child labour in the factories.

6.6.1.3 Child labour

A substantial number of stakeholders expect the companies to implement child labour-related corporate governance practices, and they argued that those garments companies that formerly used child labour should have specific governance practices pertaining to rehabilitation of the child labour. Some interviewees argued that child labour has been a ‘non-issue since 1995’ and there is little need to include ‘child labour issues’ within corporate governance practices; others believes there is still the use of child labour in the garments factories of Bangladesh and that it is really difficult to eliminate 100%, because of the socio-economic conditions in Bangladesh. However, the majority of the stakeholders expect ‘strict governance practices’ related to the use of child labour (Interviewee no. 15, MNBC). Another important governance practice that stakeholders are interested in is human rights and labour rights.
6.6.1.4 Human rights and labour rights

About 70% of the stakeholders argued that they expect garments companies to implement human rights and labour rights-related corporate governance practices. These stakeholders believe that the overall human rights conditions are not satisfactory in the garments factories of Bangladesh. They pointed out that there is no freedom of association and that there are some symbolic ‘participation committees’ in some factories, which are dominated by management or ‘loyal employees’. Most of the local as well international NGOs and labour rights groups expect specific human rights policies in the corporate governance practices of the garments companies. “We expect very clear human rights-related governance practices from the garments companies” (Interviewee no. 1, NGO).

Multinational buying companies also argued that they are careful about human rights issues:

> We are very careful about this issue, but you need to understand that human rights is an ongoing process, and you cannot ensure 100% compliance of human rights overnight, you need to include this in your management process (corporate governance process) (Interviewee no. 15, MNBC).

Approximately 60% of the stakeholders across the groups expected the companies to have a separate governance practice related to minimum wages. There are some criticisms in the media that even the globally reputed sports and clothing brands such as Nike, Adidas and Puma are not maintaining the minimum wages in their supply factories of Bangladesh (War on Want, 2012). Currently the minimum wage of a Bangladeshi garments worker is BDT3,000, which is equivalent to US$35 per month.

This minimum wages are still in bare subsistence level of wages, and last year (2010) I heard a statement from the prime minister of Bangladesh that the wages of garments workers are inhumane (Interviewee no. 1, NGO).

NGOs, trade union leaders and media groups are more concerned about the governance practices related to minimum wages and the related disclosures. Trade union leaders expect particular governance practices related to the “living wage rather than minimum wage” (Interviewee no. 7, T/Union). Some stakeholders are

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82 The specific issues within human rights and labour rights categories are provided in Appendix A.
also concerned about environmental compliance, which is discussed in the next section.

6.6.1.5 Environmental compliance

More than 50% of the stakeholders across all stakeholder groups expected the garments companies to have governance practices related to environmental compliance, which consists of implementing effluent treatment plants (ETP), the conservative use of natural resources and other environmental issues. They argued that environmental compliance is crucial for some garments and textile companies that are engaged with dyeing and finishing activities, and that these garments and textile companies need to substantially implement specific governance practice pertaining to the use of chemicals and how or whether they are using ETPs. Some stakeholders argued that the recent Environmental Protection Act, 2010, by the government of Bangladesh, and the imposition of huge monetary punishment for non-compliance are important steps taken by the government to facilitate environmental compliance. But the BGMEA seems to have a different view regarding this governance practice. They argued that maintaining ETPs is costly and even unnecessary for some of the garments companies that are not engaged with dyeing or finishing. Sometimes, however, government officials impose strong penalties for not having ETPs.

Our government is taking severe action against those who do not have ETP by imposing a monetary penalty of BDT 5 million to 6 million, even closure of the factories and some entrepreneurs are frustrated as this is not actually acceptable by the entrepreneurs (Interviewee no. 12, BGMEA).

Although the BGMEA does not like this penalty system pertaining to non-compliance with environmental rules and regulations, other stakeholders, including multinational buying companies, NGOs and the media, perceive it as a necessary step for the companies.

Thus, Section 6.6.1 broadly discussed the expectations of different stakeholders regarding CSR-related corporate governance practices. From the information documented above, it is found that stakeholders often have competing and conflicting expectations (particularly in relation to human rights and labour rights, and environmental compliance) regarding what CSR-related corporate governance
practices should be in place within the organisations in a developing country. These conflicting and competing expectations are also noted by Brown and Forster (2013), who argued that it is really the managers’ challenge to understand when and how a company has to make the trade-offs among stakeholders, and how far the company should be expected to go in its pursuit of CSR activities to satisfy those competing stakeholders (Brown & Forster, 2013).

As indicated elsewhere in this chapter, there are power differentials among stakeholders and accordingly corporate managers might make trade-offs among the stakeholders when satisfying their expectations for CSR-related governance practices. Corporate managers might prioritise powerful stakeholders’ demands over low-power stakeholders. It is argued in this section that governance practices demanded/expected by the powerful stakeholder groups are the ones that might have been implemented in the corporate governance practices of the organisations. However, since this part focuses only on the stakeholders’ perspectives, it is not covered in this section; it will be provided in the next chapter. The result of this section implies that since stakeholders have different expectations pertaining to CSR-related governance information, they might receive governance information from a variety of sources. This also implies that corporate managers might respond to the stakeholders’ demands by providing CSR-related governance information through the media preferred by a particular stakeholder group. The following section discusses different sources of information for stakeholders.

6.6.2 Sources of information for various stakeholders
While asking the stakeholders about the sources they use to find relevant governance information, it was found that the sources used are clearly distinct among the stakeholders. The BGMEA and multinational buying companies find most of the required governance information from special purpose reports, such as social audit reports, Social Accountability (SA) 8000 reports, Social Accountability International (SAI) reports, and Social Accountability Accreditation Services (SAAS) reports, whereas NGOs, the media, government

83 This will be investigated in Chapter Seven as it is related to the exploration of the motivation behind corporate managers’ disclosure of CSR-related governance information.
and trade unions are dependent on general purpose reports, which are publicly available (for example corporate annual reports), since they have no access to the special purpose reports noted above. One of the interviewees from a multinational buying company stated that they get most of the required governance information through social audits.

Our social audit is so tight that we want 100% compliance. Through social audit we collect all the required information about this compliance. Often we conduct third party social audit by firms such as ITS, SGS and WRAP. In addition, we have our own internal audit team who regularly make unannounced visit to factory and look for issues like human rights and working condition (Interviewee no. 16, MNBC).

There are two types of social audits, third and first party audits. The third party audit is carried out by third party independent organisations such as WRAP, Buero Veritas, Société Générale de Surveillance (SGS), and first party social audits are conducted by the multinational buying companies themselves. In addition, the BGMEA has its own social audit team and social compliance department that regularly audit its member companies. It was also found that multinational companies often require the supply companies to pay for the audit fee conducted by a third party. This finding is consistent with those of Islam and Deegan (2012)\(^4\).

It is interesting that some stakeholders obtain the necessary CSR-related governance information through social audits, in the sense that this provides a potential reason behind the relatively limited governance disclosures reported in earlier chapter of this thesis. The previous chapter (Chapter Five) indicates that within the context of the garments and textile industry of Bangladesh, disclosures of governance information appear to be deficient\(^5\) based on the publicly available reports. However, this did not appear logical given the risks that poor social performance creates for multinational buying companies; it raised the likelihood that perhaps the buying companies were obtaining their information from sources that were not otherwise publicly available. This leads to the possibility that buying

\(^4\) Islam and Deegan (2012) found that the supply companies pay the audit fee as part of the cost of securing a supply contract.

\(^5\) It was considered deficient based on the SEGDI index which was prepared based on various international guides. Chapter Five provides details about this.
companies are getting information from alternative sources other than the general purpose documents. The results of this chapter help to solve this apparent ‘puzzle’ – the results from the interviews reveal that these alternative media include social audit reports, SA8000 reports or SAI reports, and often these are generated by a third party.

The limited governance disclosures made in the publicly available media (as found in Chapter Five) also consistent with the fact that about 95% of the garments companies are not listed (private companies) in the context of Bangladesh, and are not required to prepare annual reports (DSE, 2011) where they would disclose their CSR-related governance information. Since important governance information is not publicly released, and NGOs, media and other low-power stakeholders cannot enforce the preparation of reports to satisfy their information needs, they have to rely on publicly available data. On the other hand, powerful stakeholders such as multinational buying companies and the BGMEA get the required governance information from special purpose reports. Another quote from the BGMEA provides further insight:

In the BGMEA, we have our own compliance team. They regularly visit each and every factory and monitor them particularly in the area of health and safety, working conditions and other social compliance. In addition, every factory needs to provide us regular reports indicating that they have sound practices pertaining to all these CSR issues (Interviewee no. 25, BGMEA).

These special purpose reports are not publicly available since multinational buying companies and the BGMEA believe these reports are confidential and do not share them with workers, government agencies, or even other companies (Claeson, 2012). Claeson (2012, p. 26) provides an example of the effect of not sharing these social audit reports.

On May 16, 2011, Wal-Mart’s Ethical Sourcing Assessor gave Tazreen Fashions an ‘Orange’ rating, which means, the factory had violations and/or conditions which were deemed to be high risk’. If they had had access to this information, Bangladeshi unions and/or labour rights groups may well have pushed for the necessary repairs and could also have informed Wal-Mart (that) its product was being made in an unapproved factory.
However, this report was not published by either Wal-Mart or Tazreen Fashions until the 24th of November, 2012, when the fire accidents took place and claimed the lives of 112 people. While further investigating why multinational companies keep their social audit reports secret, Claeson (2012, p. 25) found that:

SA8000 audits are conducted on a confidential basis between the certification body and the audited company. … The contract between the certification body and the audited company is legally binding. Disclosure of this information by SAAS or SAI would be illegal.

He further states (p. 26):

Because audits are confidential, companies’ and auditors’ knowledge of problems is their private intellectual property. They have no obligation to share their deadly secrets even to save the lives of workers.

From the above discussion about the confidentiality of special purpose reports (for example social audit reports) it is argued that this kind of report contains important governance information which might be very useful for other stakeholders, including NGOs, trade unions, the media and government; such confidentiality clauses are not helpful in increasing the transparency and/or accountably of the supply companies.

As noted above, since low-power stakeholders have no access to the special purpose reports, they are not getting the required governance information to satisfy their information needs. Although there is lack of information available to these stakeholder group (with less power), it does not usually create a problem for companies, as the pressure from these stakeholders is very limited and they are not well organised like multinational buying companies. However, considering global societal expectations, the production and availability of this kind of report from the local supply companies or from the BGMEA are receiving increased Western attention. The implication of these findings is that powerful stakeholders use an alternative media source to obtain the required governance information, whereas other low-power stakeholders cannot use this same alternative media and thus have to depend on general purpose financial reports (such as corporate annual reports, sustainability reports or social and environmental reports), which provide limited governance information (Kamal & Deegan, 2013). Since the stakeholders obtain the required governance information from different sources, their
perceptions about the disclosures of CSR-related governance information varies. Thus stakeholders might have different perceptions about the current state of CSR-related corporate governance disclosures; this is discussed in the next section.

6.6.3 Perceptions about CSR-related corporate governance disclosure

Stakeholder’s expectations need to be translated into practices and associated disclosures so that stakeholders could access to the information. To comprehend how stakeholders’ expectations regarding the above governance practices translate into actual governance practices and disclosure by the companies, this section emphasises the perception of stakeholders about the current state of CSR-related governance disclosure practices. Some interviewees focus on CSR disclosures in general and some focus on CSR-related governance disclosures. The focus is different, as some stakeholders think that in the context of Bangladesh there is not much implementation of CSR-related corporate governance and they perceive both general CSR disclosures and CSR-related governance disclosures are the same. Also the corporate regulatory body (the SEC) does not require supply companies to disclose CSR-related governance information. Furthermore, multinational buying companies have not identified any uniform CSR-related governance practices to be followed by all the supply companies. One stakeholder argued that:

Look, I think garments companies should disclose whatever policies they have. If you are talking about their governance practices relating to CSR, I would say, this is a continuous process and we need to understand it in the context of Bangladesh (Interviewee no. 2, MNBC).

This interviewee is actually focusing on the socio-economic context of Bangladesh and the general trend of disclosures across the industry and companies within Bangladesh86, which is self-laudatory and kept to a bare minimum (Imam, 2000; Belal, 2001; Azim et al., 2009). NGOs, media and trade union leaders are not satisfied about the current state of CSR-related corporate governance disclosures, as they have access to a limited amount of information disclosures from the textile and garments companies.

86 A detailed review of existing literature supporting this statement is provided in Chapter Three.
One of the NGO representatives argued that:

The amount of disclosure about CSR and CSR-related corporate governance information is very limited (Interviewee no. 3, NGO).

This implies that since these groups of stakeholders obtain limited information from the publicly available sources, such as annual reports or sustainability reports, and due to their level of power cannot demand information via special purpose reports, they are missing out some of the important governance information. In other words, the garments companies ignore these groups, as they think these stakeholders are not as important to their survival as multinational buying companies or the BGMEA. This is supported by the following quote from one of the NGO representatives:

Well, of course, if we don’t know where the production is taking place and what are the policies and conditions of the factories then we can’t hold anybody directly accountable. If we know who makes what and where it is made, and if we know the level of cooperative relationship with the factory managers and workers, where we can see factories that are disclosing that these are the specific policies that we have in practice, then there is an opportunity for us to work collaboratively with the factories and with the workers and with the organisation to support that. We can, in certain circumstances, put some pressure on the buyers from the European base or North Americana base to procure their products from someone who is trying to do the right thing (in terms of CSR-related governance policies) and you should go there. But we actually cannot directly put pressure on a particular local factory as I think they would not be very much interested to hear from, or to engage with, us (Interviewee no. 1, NGO).

As these stakeholder groups appear to be currently restricted to obtaining information from publicly available sources there is a general desire for more substantive disclosures either via publicly available media (annual reports or social and environmental reports), or on company websites. For example, one media representative provided the following quote during the interview:

I think they should publish all of the governance policies relating to working condition, human rights, child labour etc. else it is difficult for us to understand their CSR practices (Interviewee no. 5, Media).
Another interviewee stated that:

Yes, definitely these policies and practices should be disclosed. It should be made public and it should be monitored by government officials regularly. This will reduce the rumours and people will get to know what is actually going on in these factories (Interviewee no. 4, Media).

From these quotes, it is argued that low-power stakeholders also want governance information. As noted elsewhere in this chapter, these stakeholders are also interested in the key CSR-related corporate governance practices and related disclosures of the supply companies, in order to assess corporate accountability and transparency.

However, the BGMEA and multinational buying companies are satisfied, as they believe the garments companies are disclosing enough CSR-related corporate governance information87. As noted earlier, these stakeholder groups are obtaining their required information through special purpose reports, and they could command special purpose reports as they are perceived as most powerful stakeholders by the individual textile and garments companies. Almost all of the representatives of multinational buying companies agreed that they obtain most of the required governance information pertaining to CSR through social audits; this was substantiated by an interview with the country manager of one of the social audit firm (WRAP88).

A WRAP certificate is one of the important documents required by the multinational buying company from the garments company. We provide the certificate after having confirmed all the required social and environmental compliances. We are the world’s biggest accreditation body for garments companies and our certificate is accepted by the leading brands sourcing products from Bangladesh such as Marks & Spencer, Tesco, Levi’s, Foot Locker, Sears, Kohl’s, and so forth. If they see a firm is WRAP certified, they do not conduct any further audit by themselves (Interviewee no. 18, WRAP).

87 These stakeholders believe that it is the garments companies’ disclosures, but the researcher of this thesis argues that since this information is generated by somebody else (for example, social audit firms), this is not a ‘disclosure’ generated by the company itself. That is, the information disclosed by a third party is a ‘disclosure’ but not directly generated by the company.

88 WRAP has certified more than 10,000 factories in 72 countries from 2007 to 2010 (Claeson, 2012).
Since multinational buying companies receive the required social and environment-related governance information from third parties as well as first party audits89, they seem to be satisfied about the current state of disclosures. The following quote from a representative of a multinational buying company highlights this:

As we are very careful about CSR issues, we conduct regular audits directly by our staff and sometimes by professional audit firms. Thus we are getting all the required information and based on the report if we get some deficiency we provide them with a corrective action plan (CAP) and then require them to fix it (Interviewee no. 21, MNBG).

Similarly, as the BGMEA has its own social audit department and it regularly conducts social audits to obtain required information, it seems satisfied with the information that it receives (see for example an earlier quote, Interviewee no. 25, BGMEA). However, the perceptions of the rest of the stakeholders are that they are not satisfied about the current state of disclosures. Some of these stakeholders argue that it is the duty of the garments companies to disclose labour rights and human rights-related rules and regulations as well as local labour law provisions related to working conditions and health and safety. The following quote from an NGO representative offers more insights:

I think it is the legitimate duty of the garment company to disclose labour rights and human rights related rules and regulations as well as local labour law provisions pertaining to working conditions and health and safety. This is important for workers as well as NGOs like us. You know that most of the garment workers, especially female workers, are not that much aware about their rights and responsibilities. We can use this information to create the awareness among the workers (Interviewee no. 6, NGO).

Participants from NGOs, trade unions, media and government representatives argued that the garments companies need to disclose their CSR-related corporate governance practices in order to be transparent and accountable to their stakeholders.

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89 The nature of third party and first party audit is explained in the previous section (Section 6.6.2).
Commenting on the current CSR-related governance disclosure practices of the textile and garments companies of Bangladesh, one of the senior government officials provides the following quote:

I think the garments company should have some more disclosure requirement than the SEC prescribed Corporate Governance Status Compliance report. But you know, we cannot force them, again we can only enforce for those who are within a listed company (Interviewee no. 11, Govt).

The SEC actually demands ‘corporate governance status compliance reports’ from the shareholders perspective and it is compulsory for the listed companies. There are less than 5% of the garments companies listed under the SEC of Bangladesh and the main stakeholders are multinational buying companies; therefore disclosures should be made to satisfy those multinational buying companies’ demands not merely the SEC’s. However, this does raise the question of why the SEC does not require disclosures pertaining to CSR-related governance practices given the reliance of Bangladesh on the clothing sector and Western consumers concerns about health, safety and working conditions of the supply factories.

Thus, the results of this part of study reveal that the disclosure of corporate governance information is limited, as perceived by some of the interviewees, and the amount of CSR-related corporate governance disclosure does not satisfy all the stakeholders’ demands (except multinational buying companies and the BGMEA).

The implication of this part of the findings is that garments companies give more priority to the powerful stakeholders, which is consistent with the managerial branch of the stakeholder theory (Deegan, 2002). In addition to this, both supply companies and multinational buying companies find social audit reports an important tool for assessing and reducing their risk, as these audits are often conducted by third party independent auditors such as WRAP. A third party social audit report can be considered as a tool for the local supply companies to secure their contracts.

The results of this part of the study emphasised that researchers need to consider other avenues of disclosure rather than simply reviewing general purpose reports,
as it is found that some stakeholders (multinational buying companies and BGMEA, in this context) use special purpose reports (social audit reports) to satisfy their needs. Other stakeholders, without such access, must rely on general purpose documents that are deemed to be less useful. The next section provides the implications if the supply companies do not provide publicly available disclosures pertaining to CSR-related corporate governance practices.

6.6.4 Implications for non-disclosure

This section explores the potential implications if supply companies fail to disclose their CSR-related corporate governance practices in the publicly available media. As indicated earlier, since multinational buying companies and BGMEA receive governance information from social audit reports, they are not primarily concerned about the publicly available disclosures of governance information. It needs to be emphasised here that the information contained in the social audit reports is not directly generated by the supply companies, but it includes information pertaining to their governance practices. As such, multinational buying companies and the BGMEA could see these as disclosures of governance information, albeit they are not coming directly from the supply companies.

The potential implication of non-disclosure of CSR-related corporate governance information, as perceived by other low-power stakeholders such as NGOs, media, government officials, and workers’ representatives, is that the latter could potentially pose legitimacy threats to the supply companies as they are seen to be failing to comply with global societal expectations. These groups of stakeholders believe that since the global community has an interest in the governance practices of these supply companies, it is necessary for them to disclose governance practices pertaining to CSR in order to satisfy the broader community’s expectations in publicly available media. The following quote from a well-recognised local NGO highlights this:

Our garments industry is now globally recognised. This is our prime source of foreign remittance and people around the world have an interest about this industry. These are not only the buyers. Several NGOs, and labour rights groups are active in this regards. We also arrange some seminars/symposiums about this industry from time to time (perhaps you know this from newspaper reports).
So we need to know various governance information about this industry. But actually there is lack of available information as the disclosure of such information is voluntary. I think this should be mandatory. If this information is not disclosed, I think they are not satisfying this global community’s expectations (Interviewee no. 10, NGO).

This quote further supports the view that low-power stakeholders have limited access to governance information and thus the interviewees (from the low-power stakeholder group) believe that the disclosure of governance information should be mandatory rather than voluntary. These stakeholders also argued that supply companies need to disclose their CSR-related governance information in publicly available media in order to satisfy broader societal expectations. However, it is discussed in Chapter Four (diagram 1) that global community does not necessarily know the local supply companies; they only know about these supply companies when NGOs or media highlight them.

The results of this section further reinforced that powerful stakeholders get the required governance disclosures from an alternative media, and the low power stakeholder needs to depend on publicly available disclosures, which is limited (as found in earlier chapter). However, the low-power stakeholders think that non-disclosures of governance information in the publicly available media pose a legitimacy threat, as this indicates a failure to comply with global societal expectations.

The results also suggest that as the garments sector of Bangladesh is totally dependent on foreign buyers, they need to consider the information demands of the foreign buyers either directly or indirectly through the BGMEA. This finding is also consistent with Deegan and Blomquist (2006) who found that organisations need to follow what their powerful stakeholders advise them to do. However, as the global community has an interest in the governance practices of these supply companies, the latter also need to consider the information demands of this group. Considering the theoretical framework embraced earlier in this chapter, it is argued that supply companies need to disclose CSR-related governance information via publicly available media as a risk-reduction strategy to maintain their legitimacy (legitimacy theory perspective), as the implication of non-
disclosure poses potential legitimacy threats. However, since the powerful stakeholders obtain governance information from an alternative source, it seems that local supply companies are more concerned about satisfying the information demands of powerful stakeholders than aiming at legitimacy. If powerful stakeholders do not receive the required governance information, the implication for the local supply companies is that they lose important supply contracts (stakeholder theory perspective). These perceptions are based on the views captured from the stakeholders; the view of the corporate managers regarding the disclosures of CSR-related governance information will be discussed in the next chapter (Chapter Seven). The following section provides the results of the investigation into the potential institutionalised effect of the stakeholders on CSR-related governance disclosure practices.

6.6.5. Institutional effect on the disclosure practices

‘Institutional effect’ in this thesis refers to how existing organisational operating, reporting and governance structures might be used by various organisations within an institutional field because certain groups of stakeholders expect to see similar reporting practices in place across the industry (Islam & Deegan, 2008). As discussed in the theory section of this part of study and also in Chapter Four, this ‘institutional effect’ needs to be explored in order to understand whether or not organisations in a developing country are adopting similar governance practices and providing similar governance disclosures due to pressure from powerful stakeholders. It is argued in this part of the study that organisations might employ certain governance reporting practices and provide disclosures due to the pressure from powerful stakeholders who expect to see particular (and somewhat homogeneous) practices in place. The more an organisation depends on another organisation, the more similar it will become to that organisation in relation to its structure, climate and behavioural focus; this process is referred to as ‘coercive isomorphism’\(^\text{90}\) (DiMaggio & Powell, 1983).

While investigating the institutional effect of stakeholders in terms of exercising their power, the findings show that the BGMEA has direct and the multinational

\(^{90}\) A detailed discussion about different forms of isomorphism and insights into institutional theory can be located in Chapter Four.
buying companies have an indirect institutional effect on the disclosure of CSR-related corporate governance practices. Although multinational buying companies are considered the most powerful stakeholders in the textile and garments companies of Bangladesh, the results of this part of the study show that they in fact have an indirect institutional effect on the disclosures. However, the findings illustrate that the BGMEA plays a significant role in shaping the governance structures or processes of the textile and garments companies of Bangladesh, and the researcher of this thesis finds a direct institutional effect of the BGMEA on the garments companies’ disclosures.

BGMEA’s institutional role is vital, as a member they (the garments company) must come to us to collect UD (utilisation document) to import fabrics and DC (departure certificate) for exports. As they are our members, they have to listen to us otherwise we will stop issuing UD and DC. In return, we expect them to practice our compliance requirements including disclosure of CSR-related corporate governance information. We are playing another role for the mitigation of arbitration. It could be with the workers or with the buyers. So we have the power to force them (garments companies) to change their governance structure or processes and related disclosures if that can help them to adapt with our institutional requirement (Interviewee no. 17, BGMEA).

Some of the issues from this quote need to be briefly explained. For example, every company that gets a license from the BGMEA needs to submit an annual report to the BGMEA (based on a checklist provided by the BGMEA). The BGMEA then compiles all these reports and publishes them as a singular report; however, it does not provide detailed information about individual supply companies, as there are more than 5,000 operating in Bangladesh, and it is apparently not feasible to disclose detailed governance information about each one within the BGMEA’s annual report. Another issue is that even though all the supply companies are coerced to follow similar reporting practices, this does not guarantee that all the supply companies have sound corporate governance practices in place. This is consistent with the findings of Uddin and Chowdhury (2008) and Siddiqui (2010), who note that given the socio-economic context of Bangladesh where there are many obstacles both in the private sector and government initiatives, there are lack of relevant regulatory frameworks necessary for the implementation of good corporate governance practices.
Nevertheless, since the BGMEA requires all its member companies to follow a similar pattern of governance reporting, it is consistent with the notion of ‘isomorphism’. The following quote provides further insights:

We enforce our members (garments companies) to follow the same governance reporting pattern while they submit their social audit reports to us (Interviewee no. 25, BGMEA).

As noted earlier, since all the member garments companies need to get approval from their industry association, namely the BGMEA, it is expected that these member companies follow the same governance reporting patterns suggested by the BGMEA. This institutional effect is also substantiated by another quote from a senior corporate manager\(^9\) who acknowledges that supply companies are getting institutional pressure from the BGMEA and they are forced to provide similar governance reporting in their social audit reports.

We get institutional pressure from BGMEA to adapt our governance structure or processes and to follow similar governance reporting throughout the industry. In fact they provide us some policy recommendations in the area of social compliance; environmental issues, fire safety issues etc. and they are interested to know how we are going with all these policies (Interviewee no. iii).

From the above quote it is further argued that the textile and garments companies of Bangladesh get external pressure directly from the BGMEA to change or adapt their governance structures or processes as well as related disclosures; this external pressure from the BGMEA appears to result in relatively similar disclosure responses from corporate managers. The BGMEA, as an institution, exerts pressure as it also faces the same pressure from multinational buying companies regarding the social performance disclosures of the textile and garments sector of Bangladesh. As the BGMEA puts these pressures on the individual textile and garments companies on a mandatory basis and as a precondition to provide UD or DC (to facilitate the import/export of fabrics and garments respectively), it is in other words one form of ‘coercion’ as perceived by the individual garments company. Thus the result of this part of the study finds that the ‘coercive’ form of ‘isomorphism’ is used by the BGMEA on the textile

\(^9\) Corporate manager’s viewpoint about disclosure of CSR-related governance information will be discussed in next chapter. Interview participants from corporate managers are identified by Roman numerals.
and garments industry of Bangladesh (Deegan, 2009, p. 366). Therefore, it is concluded in this section that managers of the garments companies of Bangladesh are subject to pressures to change, or adopt, certain voluntary reporting practices suggested by the BGMEA, and these pressures are ‘coercive’ in nature. While previous sections (6.6.1 to 6.6.5) specifically (and sequentially) addressed the research questions outlined in this chapter, the following section provides further discussions about the findings in this part of the study.

6.7 Discussion of the findings

This chapter provides evidence of stakeholders’ expectations regarding CSR-related corporate governance practices and their perceptions about the related disclosures within the garments and textile companies of Bangladesh. Through conducting in-depth personal interviews with 25 stakeholders, this chapter aims to provide an understanding of stakeholders’ expectations regarding CSR-related corporate governance practices in the textile and garments industry of Bangladesh. The interview participants included multinational buying company representatives, NGOs, media, the BGMEA, government officials and employee representatives. This chapter finds that major CSR-related corporate governance issues include working conditions, human rights, child labour, social compliance and environmental compliance. It also finds that stakeholders often have competing and conflicting expectations regarding the CSR-related corporate governance practices that should be in place within organisations in a developing country; this makes it difficult for corporate managers to make trade-offs among the stakeholders. Applying a joint consideration of legitimacy theory, stakeholder theory and institutional theory, this part of the study contributes to research by exploring stakeholders’ expectations and/or perceptions regarding the disclosure of CSR-related corporate governance practices.

The findings illustrate two distinct groups of stakeholders based on the stakeholders’ attributes outlined by Mitchel et al. (1987). Applying a relative simple dichotomous form of classification, the multinational buying companies and the BGMEA are considered powerful stakeholders and the NGOs, media, trade unions and government are considered low-power stakeholders. The results revealed that powerful stakeholders receive their required governance information
from alternative media that less powerful stakeholders cannot access. Thus, the findings of this chapter confirm the prediction that powerful stakeholders’ demands are taken into consideration by the supply companies (in agreeing to provide information indirectly by means of processes such as social audits) and low-power stakeholders’ demands are not.

The results of this part of the study also revealed that there are variations in where stakeholders expect to source governance information. For example, powerful stakeholders receive the required governance information from special purpose reports whereas the other stakeholders depend on general purpose, publicly available reports to get governance information. Thus, both groups are not equally satisfied with the amount of information they get from their respective sources. Multinational buying companies and the BGMEA are more satisfied, as they have considerable power to command special purpose reports and they sometimes force the supply companies to pay for this report often prepared by third party auditors. The other stakeholders, however, are not satisfied with the amount of disclosure as they believe the current CSR-related governance disclosures are very limited. As most of the garments companies are not listed, they have no pressure from a corporate regulatory authority to publish their annual reports. Accordingly they do not disclose their CSR-related governance information in the publicly available media. Therefore, the low-power stakeholders do not get required governance information. The results of this part of thesis reveal that low-power stakeholders want substantive disclosures of corporate governance practices via publicly available media (including websites) and suggest a change in the corporate governance structure/processes to incorporate CSR issues within the formal corporate governance systems.

While investigating the perceptions of stakeholders regarding the potential implications if companies do not disclose the expected CSR-related corporate governance information in the publicly available media, the results revealed that the low-power stakeholders believe that organisations are not complying with broader/global societal expectations if they are not disclosing their governance information, as the global community has an increasing interest in the governance practices of the garments companies of Bangladesh.
Finally, this chapter noted that the textile and garments companies of Bangladesh get direct external pressure from the BGMEA to adapt their governance structures or processes and CSR-related disclosures. However, it is worthwhile noting that the BGMEA also get the same pressure from multinational buying companies, and thus the findings of this thesis illustrate an indirect institutionalised effect of the multinational buying companies on the individual textile and garments companies of Bangladesh. The direct pressures are of ‘coercive’ in nature and thus the researcher of this thesis finds evidence of the ‘coercive’ form of ‘isomorphism’ within the textile and garments industry of Bangladesh.

6.8 Concluding remarks
This chapter emphasises that researchers, including Kamal and Deegan (2013) and Belal and Roberts (2010), need to be aware of the possibility that special purpose (and non-public) reports are prepared when making claims about the completeness of disclosures. The findings illustrate that some of these reports prepared by independent third parties are sufficient for the multinational buying companies, who do not need any additional information. However, in projecting a positive image to the world, perhaps there is a need for these general purpose financial reports to be produced in the publicly available domain by the supply companies and by the BGMEA. As NGOs, media and other stakeholders do not have the same power to get companies to provide special purpose reports, or perhaps they have not clearly identified what information they specifically want, they have to rely on general purpose reports that do not satisfy their wants. Hence, the researcher suggests that the BGMEA and supply companies provide some form of general purpose reports containing CSR-related governance information.

Although this chapter investigates stakeholders’ expectations regarding CSR-related governance practices and disclosures, it does not cover the managers’ perspectives regarding this. Thus, the next chapter investigates corporate managers’ motivation for CSR-related corporate governance disclosure/ (non-disclosures).
Chapter Seven
Motivation of Corporate Managers for Social Responsibility-related Governance Disclosure

7.1 Introduction
This chapter aims to explore the motivation of corporate managers’ disclosure (non-disclosure) of social and environment-related governance information. Specifically, this chapter aims to answer the questions: why are corporate managers in a developing country context less interested in providing publicly available governance disclosures; and why do they give priority to satisfying the information demands of the powerful stakeholders? Insights into corporate managers’ motivations are explored through conducting in-depth personal interviews with senior corporate executives of the textile and garments companies of Bangladesh. This chapter will show that corporate managers of Bangladeshi supply companies are motivated by financial returns and they want to make sure that buyers (powerful stakeholders) obtain the required CSR-related governance information; this is not driven by corporate accountability or transparency. Using the managerial branch of stakeholder theory the result of this part will show that corporate managers are influenced by powerful stakeholders when they make decisions about providing governance information.

This chapter has the following structure: Section 7.2 provides the motivation and objective of this chapter, Section 7.3 offers some prior research relevant to the investigation in this chapter, Section 7.4 delivers the theoretical basis, Section 7.5 provides the research methods, Section 7.6 provides the findings, Section 7.7 provides a discussion of the findings, and Section 7.8 offers concluding remarks.

92 A comprehensive definition of ‘CSR’ and ‘CSR-related governance information’ has been provided in Chapter Three.
7.2 Motivation and objective of this part of the study

This is the third part of the broader study investigating corporate disclosure practices of social and environment-related governance information from a developing country perspective. To substantiate the rationale of this part of the study, a brief review of the previous two parts is required. In the first part (Chapter Five), the researcher used content analysis to investigate the social and environment-related governance disclosure practices of the five largest textile and garments companies of Bangladesh. To measure and classify the disclosure practices, the researcher developed an index called the ‘social and environment-related governance disclosure index’ (SEGDI\(^93\)). Based on the index, the results revealed that the disclosure of governance information could be perceived as falling short of what might be disclosed if companies had high levels of accountability\(^94\). However, the researcher finds an overall increasing trend in disclosures pertaining to social and environment-related governance information, albeit that the disclosures were still considered to be low and perhaps below what might have been construed as demanded by powerful stakeholders.

Based on the results of the first part of the investigation, it seems worthwhile to further explore whether information disclosed by the garments companies of Bangladesh would be able (unable) to satisfy the stakeholders’ demand for governance information. Thus, the second part, Chapter Six, utilises in-depth personal interviews with various stakeholders to investigate whether the disclosures actually appear to meet the information demands of stakeholders.

The results revealed that among the stakeholders, multinational buying companies and the BGMEA are satisfied about the current state of CSR-related governance disclosures (having the governance information from an alternative media, not accessible by the low-power stakeholders), but the remaining less powerful stakeholders are not as they miss out on some of the most important governance information. While the second part of the thesis investigates stakeholders’

\(^93\) The index was developed by reviewing various international guides suggesting a number of CSR-related governance information for the clothing industry.

\(^94\) Accountability has been defined in Chapter Four as ‘the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible’ (Gray et al., 1996, p. 38).
expectations and perceptions of CSR-related governance practices and related disclosures, it does not cover the managers’ point of view about such governance disclosures. It is important to understand managers’ perspectives pertaining to the disclosure/non-disclosure of CSR-related governance information, given that earlier chapters provide a general understanding of CSR-related governance disclosure practices and stakeholders’ perspectives. The results of the first part of the study show limited disclosures pertaining to CSR-related governance information (which is 15% based on the index, as discussed in Chapter Five). Since local supply companies disclose limited governance information via publicly available media, on the basis of this all stakeholders might be dissatisfied. However, the results from the second part (Chapter Six) reveal that some of the powerful stakeholders get the required governance information from special purpose reports; hence they are ultimately satisfied by the desirable information they obtain from another source, typically compiled by people outside the supply companies. Since other stakeholders do not have access to these special purpose reports, they perceive that disclosures are limited (findings are discussed in Chapter Six).

Considering the results of the first and second part of the study, the researcher of this thesis argues that if researchers do not consider that disclosures may be accessed via alternative media, such as special purpose reports, it might be misleading for them to make comments about the state of governance disclosures in a developing country context. Being the last part of the broader study, this chapter investigates the managers’ viewpoints to provide further insight into the disclosure/non-disclosure of CSR-related governance information. The following section briefly focuses on some of the motivations for this part of the study.\textsuperscript{95}

Social and environment-related governance information disclosures are important, as they build on the understanding (of various stakeholders including multinational buying company representatives) of the structure, processes, activities and policies of companies with respect to social, environmental and ethical standards, and their relationships with the communities in which they

\textsuperscript{95} The motivation of this thesis has been broadly discussed in Chapter Two.
operate. As noted elsewhere in the thesis, organisations operating within a developing country are expected to disclose CSR-related corporate governance information. This is because their stakeholders (particularly the sourcing companies) are often exposed to the risk of being associated with suppliers that have poor social and environmental performance, and accordingly they want to know about the governance practices in place pertaining to health and safety, working conditions, child labour issues and so forth. This risk can lead to the loss of a brand’s reputation as a result of negative media reports (see for example, Wal-Mart, 2012).

A recent and the most devastating fire accident in the history of the garments industry of Bangladesh, caused the death of 112 workers. This fire accident happened on the 24th of November, 2012, in Tazreen Fashions Limited in Dhaka. This factory is one of the Wal-Mart listed factories where they source their products from (Manik & Yardley, 2012). After the devastating fire, Wal-Mart was strongly criticised by the Western media, NGOs and labour rights groups (Eidelson, 2012). Immediately after the fire accident and the release of global media reports, Wal-Mart, however, produced a media release in which they noted that they had cancelled their contracts with this factory. Wal-Mart (2012) provided the following media release titled ‘Wal-Mart Statement on Fire at Bangladesh Garment Factory’ immediately after the fire accident, on November 26, 2012.

Our thoughts are with the families of the victims of this tragedy. The Tazreen factory is no longer authorized to produce merchandise for Wal-Mart. A supplier subcontracted work to this factory without authorization and in direct violation of our policies. Today, we have terminated the relationship with that supplier. The fact that this occurred is extremely troubling to us, and we will continue to work across the apparel industry to improve fire safety education and training in Bangladesh.

The US media, however, raised questions about how a company that had long been rated in the ‘Orange’ category received orders from Wal-Mart (Manik &

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96 Wal-Mart categorises the factory’s compliance based on their Ethical Sourcing Audit (a form of social audit) with colours such as Green, Yellow, Orange and Red. Green is the most compliant factory. If a factory remains in the ‘Orange’ category in three assessments for two consecutive years, it automatically goes to ‘Red’, leading to a cancelled business deal for a year (Wal-Mart, 2012).
Yardley, 2012). The above insights also imply that Wal-Mart did not want to be linked with a supplier who did not maintain fire safety in the factory, since a resulting potential poor reputation would lead to a loss in sales. In addition, Wal-Mart’s own CSR policies and their corporate ethics were seriously criticised by Western media, NGOs and labour rights groups after it was revealed that they were sourcing from suppliers with poor fire safety policies (Eidelson, 2012). This is an example of why powerful stakeholders such as Wal-Mart are interested about the CSR-related governance practices of supply factories.

Since a multinational company such as Wal-Mart considers the broader global community’s (societal) expectations about the CSR practices of its supply companies and is concerned about potential sale losses, it could arguably want the supply companies to disclose their governance practices related to fire safety; this would help them not be targeted by negative media reports. As these international brands are conscious of the risks associated with being linked to suppliers with poor social and environmental performance, they try to reduce the risk by taking care to select and manage the suppliers within their supply chain (Wolf, 2011). Accordingly, it is imperative that they select those suppliers with sound governance practices pertaining to CSR issues. Thus across time stakeholders are interested in companies’ governance practices pertaining to particular CSR issues such as fire safety policies.

Wal-Mart (2012) further indicates on its website that it is striving to positively influence its global supply chain practices by continuously improving working conditions in countries where it sources its products from; it is concerned about the corporate governance structures or processes related to the improvement of working conditions and safety issues:

We collaborate with other retailers, brands, NGOs and government leaders to verify the products we sell are produced in a way that provides dignity and respect for workers in our supply chain. As the world’s largest retailer, we strive to positively influence global supply chain practices by raising our own standards and improving working conditions in the countries from which we source.
Thus it is argued that sourcing companies such as Wal-Mart consider the governance practices of their suppliers before making their sourcing decisions. These sourcing companies are more likely to know how corporate managers within their supply chain mitigate the risk associated with social and environment-related corporate governance practices. The reason is that these multinational buying companies are concerned about their reputation which might be compromised if there are negative media reports alleging their association with suppliers that have poor CSR performance. For example, Western customers are not likely to use products sourced from ‘sweatshops\(^7\) in developing countries (Crane & Matten, 2007).

As CSR is concerned with many aspects of a company’s business, from sourcing to service delivery or product disposal, and can affect a host of cost-based as well as reputational aspects of business (Roy, 2011), the disclosure of governance practices regarding working conditions, health and safety, and human rights are of importance for an industry that is hugely criticised in the West. Stakeholders need information pertaining to corporate governance structure/processes, since without this information stakeholders are not able to assess the risk of being associated with a particular garments supplier.

Chapter Two of this study broadly discusses the CSR issues in the textile and garments industry of Bangladesh; it emphasises that due to adverse social, environmental and ethical issues surrounding the use of child labour, lack of equal opportunities, and poor health and safety matters (Belal & Owen, 2007), stakeholders need/want information pertaining to the governance practices associated with these issues. The economic significance of the garments industry of Bangladesh and its contribution both in terms of employment and foreign currency earnings is discussed in Chapter Two.

This chapter investigates the motivation behind corporate managers’ disclosure/non-disclosure of CSR-related governance practices within the context

\(^7\) A definition of ‘sweatshops’ is provided in Chapter Two.
of the textile and garments industry of Bangladesh. Briefly, this chapter addresses the following three research questions.

1. What particular CSR-related corporate governance information do managers of Bangladeshi supply companies consider important to disclose?

2. What are the various mediums that managers use to provide CSR-related governance information to different stakeholders? (Stakeholders were also asked this question, so this is to check if any other new insights were gained from the managers’ perspectives).

3. What is the motivation behind corporate managers’ disclosure (or non-disclosure) of social and environment-related corporate governance information?

7.3 Prior research

The existence and scope of corporate governance and corporate social responsibility have been important issues for decades (Donham, 1927; Bowen, 1953; Whetten, Rands & Godfrey, 2002; Beurden & Gossling, 2008; Jamali et al., 2008; Baron, Harjoto & Jo, 2011; Garcia-Castro, Anno & Canela, 2010; among others). Corporate governance may be broadly defined as “the manner in which companies are controlled and in which those responsible for the direction of companies are accountable to the stakeholders of these companies” (Dahya, Lonie & Power, 1996, p. 71). Issues of governance include the legitimacy of corporate power, corporate accountability, to whom and for what the corporation is responsible, and by what standards it is to be governed and by whom (Worthy & Neuschel, 1983). Jo and Harjoto (2012) argued that there have been a remarkable amount of discussions over the last two decades among scholars and practitioners about what constitutes the best corporate governance practices and why firms engage in CSR. They found that CSR engagement positively influences CFP (Corporate Financial Performance), and firms’ CSR engagement with the community, environment, diversity and employees, plays a significantly positive role in enhancing CFP (Jo & Harjoto, 2012).

98 A comprehensive definition of corporate governance is provided in Chapter Three.
Although Jamali et al. (2008) argue that corporate governance and corporate social responsibility should not be considered and sustained independently, there is limited research pertaining to the disclosure of corporate social and environmental governance aspects. There are two studies from practitioner groups who incorporate social and environmental issues within corporate governance disclosures; these are ACCA (2010) and ACCSR (2011). ACCA (2010) found that the governance disclosures fall short of upholding fundamental values of transparency, accountability, fairness and responsibility, while ACCSR (2011) found that the majority of Australian companies have certain CSR policies, but these policies have not been integrated into formal corporate governance practices embedded within the organisations. As a result, interested stakeholders are not getting the required governance information for their decision making.

In light of the many corporate scandals, society’s commitment to social and environmental issues has increased considerably. This increase in social commitment puts pressure on companies to communicate information related to CSR (Arvidsson, 2010). Companies must integrate their business strategies with CSR in order to achieve sustainable growth, and CSR activities are no longer considered traditional philanthropic work (The Daily Star, 2012c). Over the past two decades, the pressure on businesses to become accountable and perform a social and environmental role has increased dramatically (Roy, 2011). However, major stakeholders are not merely happy with the disclosure of CSR-related information only (general CSR disclosures\(^\text{99}\)); to some extent this is cosmetic in nature (through glossy reports and websites) and is an immediate response (based on the legitimacy theory viewpoint) to powerful stakeholder pressure (Kamal & Deegan, 2013; Belal & Roberts, 2010), rather than the CSR issues being incorporated within companies’ corporate governance structures/processes.

Over the years, stakeholders’ expectations have changed towards more substantive disclosures\(^\text{100}\) of corporate governance practices and they are now demanding that corporations disclose information about their corporate

\(^{99}\) A definition of General CSR disclosure is provided in Chapter One. \(^{100}\) Substantiative disclosures include not only CSR disclosures in general terms, but the disclosure of related policies, practices and governance issues pertaining to CSR practices.
governance practices related to social and environmental issues (Kamal & Deegan, 2013). Stakeholders need to know how their rights are respected and how an organisation addresses CSR issues within the corporate governance systems (PwC, 2011). For example, Wal-Mart is a powerful stakeholder of the textile and garments companies of Bangladesh. The previous section emphasised that since it has been sourcing many of its products for years from Bangladesh, it has an interest in the governance practices associated with the health and safety and working conditions of the supply factories in Bangladesh. Accordingly, the researcher of this thesis argues that embedding CSR issues in the formal corporate governance mechanism is necessary to implement CSR in a ‘real sense’, and companies need to practice ‘real’ CSR before initiating and subsequently disclosing governance information pertaining to CSR. Hence, the significance of this information is important to the relevant stakeholders and the potential CSR managers.

However, there is paucity of research investigating how corporate managers respond to stakeholders’ demand for corporate governance information. Particularly, governance reporting seems to be largely neglected by contemporary researchers and it has lagged significantly behind the agenda for corporate governance reform in the UK or elsewhere (Solomon, 2010). Parker (2005a) also calls for the need for social and environmental accounting research in the area of corporate governance (p. 857):

There appear to be subject areas still under-researched that include the history of social and environmental accounting, the environmental management systems……and a revival of research in social responsibility including such areas as corporate philanthropy, corporate governance, professional and corporate ethics, and the private versus public interest.

Parker (2005b) specifically pointed to the lack of research in corporate governance from the Australian and New Zealand perspective (p. 387):

Just as social and environmental accountability have become high profile public issues internationally, so has corporate governance, and yet the silence of (ANZ) accounting academics’ response to both in terms of their teaching and research has, with notable exceptions, tended to persist.
Albeit, there are some studies that focus on the motivation for social disclosures, no known study found so far investigates managerial motivation for the disclosure of social responsibility-related corporate governance information. Most of the previous studies explore managers’ motivation to disclose CSR issues generally\(^{101}\). This chapter, however, investigates the motivation of corporate managers for the disclosure/(non-disclosure) of social responsibility-related corporate governance information. Most of the previous studies suggest that there are perceived pressures from stakeholders for disclosing social and environmental information (see for example Tilt, 1994; Belal & Owen, 2007; Islam & Deegan, 2008). In other words, corporate managers are motivated to provide social disclosures in order to respond to the pressure they receive from powerful stakeholders.

While exploring the motivation of corporate managers, in addition to social and environmental factors, some researchers include ‘governance’ as a third factor to describe the responsibilities of firms to their stakeholders (see for example Bassen & Kovacs, 2008; Coleman, 2011). Coleman (2011) argued that an increased interest in environmental, social and governance (ESG) research reflects pressures on management to explicitly take stakeholder interests into account when making strategic and operational decisions (Margolis & Walsh, 2003). Motivations for firms to adopt ESG initiatives are seen as coming from outside the organisation, particularly to enhance reputation and meet increased stakeholder expectations (Barnett, 2007). However, as an organisation is part of a broader environment with complex and dynamic relationships with its many stakeholders, who often have conflicting interests, it is really a challenge on the part of managers to make trade-offs among stakeholders (Brown & Forster, 2013). Some CSR activities benefit all stakeholders and therefore avoid violating the rights of any stakeholder. However, there are some CSR activities that might require trade-offs between certain stakeholder groups. To make this trade off corporate managers are likely to focus on more powerful stakeholders and accordingly the satisfaction of the two groups of stakeholders is not the same (as found in Chapter Six). In addition, to

\(^{101}\) See for example Deegan, 2002; O’Dwyer, 2002; Ullman, 1985; Arnold, 1990; Tilt, 1994; Deegan & Blomquist, 2006; Belal & Owen, 2007; Islam & Deegan, 2008; Belal & Roberts, 2010; among others. Some of these relevant studies are discussed in Chapter Three.
satisfy the information demands of key stakeholders, managers are motivated to disclose social information for other reasons such as getting awards, enhancing corporate image, receiving government support, obtaining funds and a bandwagon effect \(^{102}\) (Haniffa & Cooke, 2005).

As there is no known study so far that investigates the managerial motivation for the disclosure of social and environment-related corporate governance information, this study contributes to the existing body of research within social and environmental accounting discipline in general and developing country context in particular. Gray et al. (1996) also noted that social and environmental reporting in less developed countries is particularly necessary, given the presence of developed country multinational companies in these countries. Therefore, research on social and environmental disclosures in these countries is necessary. Thus, this chapter attempts to identify the underlying motivation of corporate managers for CSR-related corporate governance disclosures, and therefore responds to the call for research on governance reporting in the context of a developing country by researchers such as Gray et al. (1996), Parker (2005a), Parker (2005b), and Solomon (2010). The next section provides the theoretical perspective embraced in this chapter.

7.4 Theoretical perspective embraced in this part of the study

While investigating managerial motivations for social and environmental disclosures, researchers in the social and environmental accounting discipline have used different theoretical lenses such as legitimacy theory, institutional theory and stakeholder theory to explain their findings (Owen, 2008; Chen & Roberts, 2010). This thesis also used these theories in earlier chapters based on the particular research issues being explored in those chapters. While a detailed discussion about each of these theories is provided in Chapter Four, this chapter

\(^{102}\) The bandwagon effect is an observed social behaviour in which people tend to go along with what others do or think without considering their actions (Haniffa & Cooke, 2005). The likelihood of a bandwagon effect is greatly increased as more and more people adopt an idea or behaviour. The bandwagon effect can be seen at almost all levels of human interaction, and being aware of its influence on a person could help him/her to make calculated decisions which are based on one’s beliefs and values rather than the temptation to go along with a group. That is, corporate social disclosure is become part of accepted myths, which relies on a deal of literature on institutional theory (see for example Deegan 2002; Deegan, 2011).
provides a brief discussion about the managerial branch of stakeholder theory since this theoretical perspective has been specifically applied to analyse the findings of this part of the study. The discussion is provided to broaden the understanding of the motivation of corporate managers for the disclosure/non-disclosure of social responsibility-related corporate governance information.

7.4.1 Managerial branch of stakeholder theory
As Chapter Four of this thesis provides an elaborative discussion about stakeholder theory, a detailed discussion is not repeated in this section. However, as this part of the study applies the managerial branch\textsuperscript{103} of stakeholder theory (Deegan, 2011), some of the relevant discussions are provided. The managerial branch of stakeholder theory predicts that corporate managers prioritise the demands of those stakeholders who they believe are powerful in terms of controlling resources essential for the survival of the organisations. Based on the viewpoint embraced within the managerial perspective of stakeholder theory, it is argued in this part of the study that corporate managers are motivated by the powerful stakeholder groups to provide CSR-related governance information.

Chapter Six of this study identifies that the multinational buying companies are arguably the most powerful stakeholders in the textile and garments companies of Bangladesh. As a powerful stakeholder group, they want to know about what particular governance practices supply companies have in place to help ensure that there is limited risk when conducting business with them. Since the central research question in this part of the study is to explore the motivation driving corporate managers’ for the disclosure/non-disclosure of CSR-related corporate governance information, the managerial branch of stakeholder theory is used to explain whether the stakeholders’ power motivates managers’ decision. Accordingly, it is predicted in this part of the study that corporate managers are motivated to provide CSR-related corporate governance information to satisfy the powerful stakeholder groups. This is simplistically represented in the following diagram (diagram 2).

\textsuperscript{103} Deegan (2011) states two perspectives of stakeholder theory: the positive or managerial branch and the normative or ethical branch, these perspectives are also described in detail in Chapter Four.
Diagram 2: Application of managerial perspective of stakeholder theory

The diagram above presents a perspective that Western consumers do not see or deal with local suppliers, as there is effectively a ‘veil’ between the multinational buying companies and the local supply companies. That is, whilst Western consumers are aware of the existence and identity of the large global brands they typically have little direct knowledge of the activities of local supply companies who produce the products for the ‘big brands’. The global community (which is presumed to be influenced by factors such as media stories and the actions of global NGOs) puts pressure on multinational buying companies that affects expectations about the legitimacy of different multinational buying companies; subsequently multinational buying companies put pressure on the supply companies. For example, Western buyers do not necessarily know the name and
identity of those small suppliers unless something goes wrong and more specific investigations are undertaken by the media (for example, after the accidents, people knew that Mango sourced from Rana Plaza and Wal-Mart sourced from Tazreen Fashions).

The implication of such a ‘veil’ (obviously this ‘veil’ is a metaphor used by this researcher to simply describe how much of the supply chains’ activities are not directly ‘seen’ by Western consumers) is that the multinational buying companies directly respond to legitimacy threats (arising from a lack of alignment between the perceptions of society about how an organisation actually acts and how they believe it should act), but local suppliers respond primarily to satisfy the needs and expectations of the multinational buying companies not to satisfy the broader Western consumers’ expectations. Since multinational buying companies are the powerful stakeholders (as found in Chapter Six) they put pressure on the supply companies for particular governance information. However, it is noted earlier that this governance information are not directly generated by the supply companies, and multinational buying companies obtain this information from third parties that are more credible. Nevertheless, like Western consumers, NGOs, media and other less power stakeholders are not getting this governance information because of the veil underneath the multinational buying companies, and because the supply companies do not place much importance on the information needs of this group of stakeholders. The next section delivers the research methods adopted for this part of the study.

7.5 Research methods
To investigate the motivation of corporate managers for social responsibility-related governance information, this part of the study used constructionist ontological and the interpretivist epistemological position\textsuperscript{104} (Bryman & Bell, 2007). With this position in mind, the researcher conducted 12 interviews with senior corporate managers from the textile and garments industry of Bangladesh.

\textsuperscript{104} An epistemological position is described as interpretivist, meaning that, in contrast to the adoption of a natural scientific model in quantitative research, the stress is on the understanding of the social world through an examination of the interpretation of that world by its participants. An ontological position is described as constructionist, which implies that social properties are outcomes of the interactions between individuals, rather than phenomena ‘out there’ and separate from those involved in its construction (Bryman & Bell, 2007).
(this can be contrasted with the interviews undertaken in the last chapter which involved ‘external’ corporate stakeholders and not corporate managers). The main goal of the interviews was to understand the motivation of corporate managers for the disclosure of CSR-related governance information. The following sections provide discussions about the interviewee profiles, interview conducting process, and the evidence analysis procedures (including the coding process).

7.5.1 Interviewee profile
Since this part of the study intends to explore the motivation of corporate managers for the disclosure/non-disclosure of CSR-related governance information, interviews were conducted with a number of senior corporate managers from the garments and textile companies of Bangladesh. Hence this component of the research has been able to capture the views of corporate managers regarding CSR-related governance disclosures. While selecting the interview participants, first the researcher contacted one of the senior high officials of the BGMEA (2nd Vice President). He provided a list of garments companies listed on the Dhaka Stock Exchange (DSE) and another list of companies not listed on the DSE. All the garments companies, irrespective of whether they are listed or not (private), are members of the BGMEA.

Initially all the DSE-listed garments and textile companies from the list (30 companies in total) were selected and emails were sent to the company’s CEO or secretary inviting them to participate in an interview. However, only three responses were received with subsequent interviews conducted. After sending some follow up requests, the number of positive responses from this group did not increased. To select participants from the private companies (not listed) the researcher used the BGMEA website to find the biggest companies in terms of export dollars, line of operation and workers employed. Emails were sent to 30 companies based on the list. Some of these companies were subsequently contacted via telephone. As a result, there were 12 positive responses and finally nine of them agreed to participate in an interview. While contacting the interviewees, a standard ‘plain language statement’ consisting of the objectives and ethical issues of the research was sent to provide a general idea about the purpose of the interviews.
Thus, for the purposes of this part of the study, the researcher conducted a total of 12 interviews: three from listed companies and the remaining from unlisted companies[^105]. To understand the motivation of corporate managers to disclose CSR-related governance information, this part of the study focused more on private companies rather than publicly listed companies. It is evident that the Bangladeshi corporate culture is characterised by a concentrated ownership structure (Siddiqui, 2010) and there are many family businesses (private company) which are even bigger in terms of size, market share and volume of employment than the listed companies. More specifically, the garments sector of Bangladesh is mostly run by the private sector and almost 95% of garments companies are private, with only 5% listed (DSE, 2011). Since the total dollar value of exports from the private companies are substantially more than publicly listed companies (EPB, 2012), the selection of more representatives from the private companies does not affect the results.

Most of the interviewees were senior corporate managers, CEOs, Chairmans or Managing Directors of the companies, and in most of the cases (except in the publicly listed companies) they were the owners or majority shareholders (a table indicating the positions of the interviewees is provided in ‘Appendix M’). The in-depth interviews were conducted with these senior officials, with the assumption that they are involved in the formulation of internal governance mechanisms for their textile and garments company, and that they make decisions about disclosures. This also implies that these persons are responsible for corporate governance practices and disclosures. The next section discusses the interview conducting process.

### 7.5.2 Conducting interviews

Before conducting interviews, ethics approval was sought from RMIT College of Business, Human Ethics Advisory Network, and was granted accordingly. Before commencing each interview, the nature of the research was again outlined to each interviewee. Interviewees were asked to sign a consent form and a waiver.

[^105]: Bangladesh has only two stock exchanges: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). The researcher of this thesis did not consider CSE listed companies as most of the garments and textiles companies listed on the DSE are also listed on the CSE, with very few exceptions.
agreeing to attribution of any quotes from their interviews. To collect the managers’ view points, this part of the study used a set of semi-structured interview questions. The interview questions are provided in Appendix L. The interviews were conducted from December 2011 to February 2012. Having the same social, cultural and ethnic background provided the researcher with more access into the insights. However, it is understandable that conducting interviews with CEOs or Managing Directors of a company is difficult, as all of these people are very busy and it is hard to convince them to participate in an interview and then find a time to conduct the interview. All the interviews were conducted in Dhaka, the capital city of Bangladesh. The interviews ranged from 30 minutes to 1 hour 20 minutes.

All the interviews were conducted in a face-to-face setting. When using interviewees’ quotes, this part of the study refers to them by Roman numerals\(^\text{106}\) such as interviewee (i), interviewee (ii) and so forth; however, the number used in the text does not necessarily represent the serial number in the appendix. Therefore, anonymity of the respondents is maintained as much as possible, whilst still allowing sufficient information to be provided about the respondents. The main areas addressed in this part of the study as part of the interview process can be summarised as follows:

- Particular CSR-related governance information that seems important to the managers to disclose.
- Different mediums that managers use to provide CSR-related governance information.
- Motivation for disclosures/non-disclosures of CSR-related governance information.

The following section provides further details about the analysis of the responses.

### 7.5.3 Evidence analysis

Most of the interviews were tape recorded. Extensive notes were taken during the interview process irrespective of recording. Most of the interviews were conducted in English except where the participants felt uncomfortable and chose

\(^{106}\) Roman numerals are used in this part of the study as opposed to Arabic numerals used in earlier parts (Chapter Six).
to speak their local language, ‘Bengali’; the researcher then translated these into English. The audio recordings were then transcribed with additional notes and a copy of each interview transcript was sent to the interviewee’s email for them to verify before using the text in this research. After the transcriptions, the coding of interview data was performed; during coding, this part of the study also used the same coding and categorisation process explained in Chapter Six (Section 6.5). While developing the codes, the researcher kept in mind the research questions outlined earlier in this chapter. For example, to address the first research question, the codes ‘social compliance’, ‘environmental compliance’, ‘human rights and labour rights’, ‘child labour’, ‘health and safety’, and ‘factory working conditions’ were used. The codes used to address the second research question were ‘medium of disclosures’, ‘annual report’, ‘websites’, ‘social audit report’, and ‘special purpose reports’. The codes used to gain insights for the third research question were ‘motivation’, ‘to satisfy powerful stakeholders’, ‘profit’ ‘productivity’ ‘supply contract’ and ‘to satisfy others’. After coding, the researcher categorised these codes as per the research questions. The following is an example of coding and categorisation:

Categorisation: Medium of CSR-related governance disclosures

Codes: Annual reports
Codes: Websites
Codes: Special purpose reports
Codes: Social audit reports

Since the last research question in this part of the study is directly related to the managerial branch of stakeholder theory, the coding and categorisation are developed based on this theoretical underpinning. In the results section, some quotes are provided where they are considered to be reflective of the opinions of the group. The next section provides the results.

7.6. Findings

The findings of this chapter are divided into three sections. The first section (Section 7.6.1) discusses particular CSR-related governance information that managers believe are important to disclose and various mediums managers use to provide this governance information. The findings of this section are expected to be consistent with the findings of the previous chapter (Chapter Six), since
stakeholders were asked the same questions. The second section (Section 7.6.2) focuses on the motivation of managers for the disclosure/non-disclosure of social responsibility-related corporate governance information, and the third section (Section 7.6.3) provides some other insights into managers’ motivation.

7.6.1 CSR-related corporate governance information and the disclosure mediums used by corporate managers

The corporate managers of the garments and textile companies of Bangladesh believe that important CSR-related corporate governance information includes ‘social compliance’ and ‘environmental compliance’. They believed that the term ‘social compliance’ is an umbrella term used to encompass issues related to working conditions, health and safety, use of child labour, labour rights, human rights, and minimum wages. Most of the corporate managers thought that stakeholders, particularly multinational buying companies, are very interested in social compliance and most of the pressures they receive from the powerful stakeholders are concentrated on ‘social compliance’ issues.

Only a few corporate managers thought that they needed to disclose environmental compliance-related information. ‘Environmental compliance’ refers to conforming to existing local and international environmental laws, regulations and standards. Environmental compliance is important mainly for the textile sector, as they use chemicals for dying. Thus, they believe they should provide information relating to the use of toxic chemicals and the recycling of waste water, because these are the issues of concern to powerful stakeholders. Corporate managers from the garments sector believe they do not have much information to disclose about environmental compliance. The result of this section reveals that corporate managers’ views about CSR-related governance information are consistent with stakeholders’ views (see for example Section 6.6.1, Chapter Six). This implies that the particular CSR-related governance information that corporate managers believe are important to stakeholders, is what stakeholder see as important to their decision making.

107 Chapter Six provides a definition of ‘social compliance’.
While asking them about the medium of disclosures, it was found that there are mainly three different mediums corporate managers use to provide information pertaining to CSR-related governance practices. These are corporate annual reports; corporate websites and special purpose reports. However, only a few managers use other mediums such as leaflets and brochures, which are limited to a factory level and are targeted at workers. Apparently corporate managers have very specific motivation behind providing their governance information via these different mediums (this discussed in the next section). However, not all companies within the sample group necessarily used all these mediums simultaneously. Also, to some extent the disclosure medium used by a company depends on whether the company is listed or not. Based on the interview findings of different listed and unlisted companies, it was found that listed companies disclose some CSR-related governance information within annual reports. Some companies, irrespective of their listing, disclose some governance information on their websites. However, most of the corporate managers argued that CSR-related corporate governance information is actually disclosed by a third party via a social audit report and they want to make sure that their targeted stakeholders get the required governance information. These mediums are explained in the next sections.

7.6.1.1 Corporate annual reports
As listed companies need to follow the SEC requirements\textsuperscript{108} for corporate governance reporting, they provide some governance information (although not directly related to particular CSR performance) in their annual reports.

\begin{quote}
As we are a listed textile and garments company, the disclosure of corporate governance information is compulsory for us. So we are using annual reports disclosures to comply with the SEC requirement (Interviewee no. viii).
\end{quote}

This quote implies that listed companies use annual reports to disclose the governance information required by the SEC. As noted elsewhere, in the context of Bangladesh, there were no corporate governance guidelines until 2006 (SEC, 2006), so most of the companies were not aware about the requirements of corporate governance practices. However, after 2006, to comply with the SEC\textsuperscript{108} It is noted elsewhere in this thesis that the SEC requirements do not include any governance information related to CSR.
requirements, listed companies simply incorporated a page within their annual reports indicating their compliance of corporate governance status by ticking a check box. It is also noted elsewhere in this thesis, that the SEC directives do not provide any specific social or environmental information requirements for disclosure by the textile and garments companies, although this industry is very sensitive in terms of foreign currency earnings, providing employment within Bangladesh, and Western concern regarding the health, safety and working conditions of the factories.

Nevertheless, some listed companies use annual reports to disclose some governance information in addition to the SEC requirements\textsuperscript{109}, as they believe that information provided within the annual reports has also been used by other stakeholders such as NGOs, media and other low-power stakeholders who essentially depend on general purpose reports such as corporate annual reports. Since the SEC has no compulsion regarding CSR-related governance reporting, the voluntary disclosure of CSR-related governance information via this medium is very limited (this finding is consistent with the findings of Chapter Five). However, some corporate managers argue that there should be some form of guidelines either from the SEC or the BGMEA\textsuperscript{110} regarding CSR-related governance so that they can know what to disclose via publicly available media.

7.6.1.2 Websites
Chapter Five’s findings show that social and environmental disclosures through websites are not a common medium for organisations within developing countries such as Bangladesh. Chapter Six’s findings also show that stakeholders hardly look for CSR-related governance information on websites. However, this chapter reveals that some corporate managers provide limited disclosures through websites (not in the form of social and environmental reports, or sustainability reports) in the form of spontaneous disclosures. Companies use their websites to provide spontaneous disclosures when they are likely to get big orders from ‘big

\textsuperscript{109} The results of Chapter Five also reveal that the disclosures of governance information by the publicly listed companies (in the annual reports) exceed the official requirements of the SEC (see for example Section 5.7).

\textsuperscript{110} The BGMEA provides some guidelines for social audit reports, which is not a publicly available document.
brands’ such as H&M or Marks & Spencer or Zara. Spontaneous disclosures are those that are offered up as a declaration on the spur of the moment, particularly when companies have the potential to receive orders from reputed brands. Some garments companies provide these kinds of disclosures as a precaution and to convey the message that they have sound CSR-related governance practices implemented within their company. Thus, spontaneous disclosures means that they immediately update some information on their websites in anticipation of potential buyers looking at their websites to find out about their CSR practice and related policies.

We are very careful about the disclosures when we expect to get orders from big firms. We become more conscious about social and environmental issues and we believe they might check our websites to get the up-to-date information, so we immediately update our websites (Interviewee no. iii). However, the web-based disclosures might not be sufficient for ‘big firms’. So the next and most extensive medium the supply companies of Bangladesh are forced to use is special purpose reports.

7.6.1.3 Special purpose reports

Special purpose reports are designed to meet the information needs of a specific group or satisfy a specific purpose (Deegan, 2011, p. 5).

Some parties with an interest in the financial affairs of an entity might be in a position to successfully demand financial statements that satisfy their specific information needs.

For example, if multinational buying companies who source their products from Bangladesh or any other developing country demand, as part of their sourcing requirements, that a garments company provide information about its workplace conditions, labour rights and associated safety of the factory where they manufacture their products, such a report would be considered a special purpose report; in this case to satisfy the information demands of a multinational buying company (Deegan, 2011). Garments companies choose to have these special purpose reports as ‘not publicly available documents’; they are made available only if demanded by those stakeholders who have considerable power to request specific information. The previous chapter indicates that multinational buying companies are the most powerful stakeholders in the textile and garments
companies of Bangladesh, and accordingly they have the power to demand special purpose reports, such as social audit reports.

Social auditing is the process by which an organisation determines its impacts on society and measures and reports the same to the wider community (Owen et al., 2000). Multinational buying companies see it as more acceptable and authentic as in most cases social audits are conducted by an independent third party. However, garments companies might need a series of social audit reports for each different multinational buying company, as different multinational buying companies have different choices about the social audit firm. Since different multinational buying companies have different requirements, and currently there is no uniform social compliance code (which could form the basis of a social audit), garments companies need to provide a series of social audit reports, irrespective of the cost. As most of the social audit reports contain information pertaining to the CSR practices and related governance, some corporate managers think that it is a form of disclosure of information, albeit not directly generated by the supply companies.

We are providing most of our CSR-related governance information during our audit phase, as the auditors are interested to know each and every thing and it is done by third party sudden audit (audit without prior notice conducted by third party independent auditor). Debenhams, AGS, Tommy Hill, NEXT and TESCO, which are our main customers, have very extensive audit phase (Interviewee no. iii).

From the above discussion this part of the study documents that corporate managers within developing country organisations use corporate annual reports and websites to disclose limited governance information. However, the most important and substantive governance information is provided through special purpose reports or social audit reports. The next section discusses the motivation of corporate managers behind the use of each of these mediums.
7.6.2 Motivation for CSR-related corporate governance disclosure/non-disclosure

The results of this part of the study find a variety of motivations of corporate managers for non-disclosure of CSR-related governance information via publicly available media. The results reveal that corporate managers are primarily concerned about the information demands of powerful stakeholders. Corporate managers believe that powerful stakeholders want governance information from a credible source such as social audit reports. Since social audit reports are prepared by a third party who directly obtains governance information from the supply companies, the latter are not generally interested in providing disclosures via publicly available media such as corporate annual reports or websites. The underlying motivation for this is found to be profit driven rather than driven by broader social responsibilities, ethics or accountability.

Most of the interview participants argued that their primary concern is to satisfy the information demands of multinational buying companies. As such, they are interested in ensuring that multinational buying companies receive the required governance information. The results of Chapter Six of this study also show that multinational buying companies use special purpose reports such as social audit reports to obtain the required governance information. However, some corporate managers argued that they previously used annual report disclosures but now focused more on special purpose reports, as these are preferred by the multinational buying companies. They further argued that they used annual report disclosures when they got pressure from various stakeholders, including multinational buying companies, NGOs and media regarding their social performance.

We only disclose something when we get pressure to disclose. We are disclosing corporate governance information relating to social and environmental issues such as working condition, health and safety, labour rights and so forth. We have disclosed more information when we got scared about the phase out of export quota in 2005 as we thought that we are going to miss out the market if we would not disclose (Interviewee no. vi).
Panic spread throughout the entire garments industry of Bangladesh during 2005, as it was widely believed that due to the withdrawal of the export quota\textsuperscript{111}, Bangladesh might lose its export market; there was literally a threat to their survival as they were not likely to be able to compete with other sourcing destinations. During that time garments companies provided extensive disclosures of social information in their annual reports (Kamal & Deegan, 2013). In addition, there were increasing societal expectations (based on negative media publicity) that the supply companies needed to disclose CSR-related governance information to satisfy the broader community, including multinational buying companies (Kamal & Deegan, 2013). Thus it is argued that, to conform with increased societal expectations about poor health and safety and labour rights-related issues that emerged during the late 1990s and early 2000 (Islam & Deegan, 2008), they attempted to reduce their survival risk by providing CSR-related governance information via publicly available documents such as corporate annual reports.

As noted earlier, listed companies often disclose some governance information via their annual reports, believing that some stakeholders including NGOs, media, and other less powerful stakeholders, who do not have access to special purpose reports, might use this information (see the findings of Chapter Five). They often do this as perhaps this would not have any additional cost of providing some governance information.

As a listed company, we need to disclose corporate governance information as required by the SEC guidelines. However, we are disclosing some governance information in addition to the SEC requirement (Interviewee no. vi). This implies that corporate managers intentionally provide ‘some governance information’ via publicly available media that they see as not ‘confidential’ in nature. Perhaps the most important and ‘confidential’ governance information is provided in social audit reports\textsuperscript{112}. The above quote further implies that the targeted users of this governance information (which is limited and of course insufficient) include those stakeholder who use general purpose reports and who cannot access special purpose reports; these stakeholders include NGOs, media, media, and other less powerful stakeholders, who do not have access to special purpose reports, might use this information (see the findings of Chapter Five). They often do this as perhaps this would not have any additional cost of providing some governance information.

\textsuperscript{111} Bangladesh was granted an ‘export quota’ since 1985. However, as the global apparel market became more competitive, this ‘quota system’ was finally abolished on 31 December 2004, making worldwide textile and garments trade quota-free.

\textsuperscript{112} Chapter Six provides insights that the governance information within the social audit report is kept secret both by the supply companies and the multinational buying companies.
workers and the government. However, since these managers only provide limited disclosures, it does not necessarily satisfy the information demands of the less powerful stakeholders identified above (this finding is also consistent with the findings of Chapter Six).

Since the SEC or any other government department of Bangladesh (such as the Ministry of Labour and Employment) does not require any particular CSR-related governance information in publicly available media, there are a series of voluntary governance information disclosures to different organisations which seems to be inefficient governance reporting. This also implies that if the SEC of Bangladesh required the disclosure of CSR-related governance information in addition to what they currently require, then the other less powerful stakeholders could have access to the required governance information via publicly available sources; this would perhaps provide more efficient governance reporting.

As indicated elsewhere, CSR-related governance disclosures via annual reports are limited and powerful stakeholders use an alternative media such as social audit reports to obtain the required governance information. Sometimes, supply companies conduct regular social audits by engaging a third party auditor and get the reports ready for the multinational buying companies. In this case the social audit reports can be given to all multinational buying companies. However, in some cases, multinational buying companies are not satisfied with the social audits conducted by the supply companies and they force them to conduct further social audits carried out by their (brand) nominated audit firm; the cost is borne by the supply company.

We are bound to disclose the CSR-related governance information during our social audit phase and this information is extensively used by our buyers (Interviewee no. iii).

To uphold the brand’s reputation is one of the major motivations for corporate managers to provide CSR-related corporate governance information. They use the term ‘brands’ to indicate the multinational buying company for which they manufacture products. So ‘brands’ includes Wal-Mart, JC Penny, Tommy Hilfiger, Zara, Target, PVH, Marks & Spencer, H&M, Levi’s and so forth. They believe that the ‘brands’ will not source products from them unless they align
themselves with the social and environmental commitment of the brands, particularly in dealing with labour-related issues.

Our motivation for social compliance practices and related disclosures are for our brands reputation. We are working for global reputed brands, and we have some social as well as environmental commitment with our brands. To show our commitments, we need to provide disclosures (Interviewee no. x).

The brands’ reputations would be jeopardising if it is revealed by the media that a particular brand is associated with a particular supply company with poor CSR performance. As brands are more conscious about the global societal/community expectations, they are concerned about their legitimacy, whereas local supply companies are more concerned about the information demands of the brands. In addition to the brands’ reputations, corporate managers are motivated to provide substantial governance information when they believe there is a potential order from a big brand. Again, the motivation here is to satisfy the targeted ‘big brands’ such as H&M, and Marks & Spencer.

H&M and Marks & Spencer social requirements are next to impossible but we always admire their system. If we are not providing CSR-related governance information, we are not getting the contract (Interviewee no. vii).

This implies that corporate managers in a developing country context are not interested in providing CSR-related governance information via publicly available media, since they know that the powerful stakeholders use different media (social audit reports) to get the required governance information. The results also reveal that although some corporate managers previously used annual reports to disclose governance information, they now place more importance on social audit reports. The underlying motivation is to satisfy the information demands of powerful stakeholders and to secure supply contracts. It is noted elsewhere that supply companies do not actively generate information for the social audit reports in the form of disclosures, as often they are conducted by a third party. Nevertheless, the supply companies see social audits as a significant medium that they extensively use to convey information, particularly CSR-related corporate governance information, in order to satisfy the information demands of the powerful stakeholders such as multinational buying companies.

In addition, some corporate managers of the garments and textile companies of Bangladesh are now considering the importance of disclosing information for
their workers, as they believe the workers are now becoming more aware of their rights and responsibilities and they can easily switch factories as there is about a 30% labour shortage. However, this information about worker shortage is new in the textile and garments sector of Bangladesh, as researchers such as Belal and Roberts (2010) find workers as the low-power stakeholders because of their abundance. But after conducting personal interviews with the senior corporate managers it is revealed that due to an increase in order volume, export market and the shift of Chinese manufactures to Bangladesh, they need more workers and currently they face worker shortages.

We need to satisfy our workers, while we have 30% workers shortage. We need to implement labour related issues within our CSR and disclose it in the form of leaflets and brochures\(^{113}\) so that our workers could know what we are doing for them (Interviewee no. ix).

The underlying motivation here is also to indirectly satisfy the powerful stakeholders, since (as stated elsewhere in this thesis) the international pressure has shifted towards the labour rights/human rights issues, and powerful stakeholders are more concerned about this issue. Another explanation is that since this group of stakeholders is becoming powerful (being scarce), corporate managers need to react. This implies that attempts to satisfy workers are not directly related to ethics or accountability.

Some corporate managers take the labour-related issues seriously as most of the pressure they get from multinational buying companies is related to workers’ health and safety, labour rights and minimum wages. So they believe they should disclose this information via various mediums that are accessible to workers, such as leaflets, brochures and so forth. They believe that the disclosure of labour-related issues not only satisfies overseas buyers but also provides a form of motivation for workers which make them more productive; again this is tied to profit maximisation rather than the principles of ethics.

Our disclosure motive is very clear, the more open you are, it will be more transparent and you will get more incentive out of these from your employees (Interviewee no. i).

\(^{113}\) Disclosures in the form of leaflets and brochures are discussed later in this section.
Although it seems to be rhetoric\textsuperscript{114}, a good number of corporate managers argued that they are disclosing CSR-related governance information mainly to satisfy the buyers and then their workers. They need to satisfy their buyers in order to get further orders and they need to satisfy their workers to get the orders completed. Some CEOs are more careful than others about the workers’ rights and provide disclosures via medium stated above about their policies regarding health and safety, working conditions, labour rights and so forth; they are motivated to disclose this information to satisfy their buyers as well as their workers.

I have two motivations; first to give the message that I am respecting the workers rights and second to satisfy the buyer’s requirement. So I am disclosing the local labour laws and buyers’ code of conduct through a brochure. Brands has specific requirement, and we need to strictly follow these. So all these things we have in our governance practices and we disclose all of this information (Interviewee no. vii).

The researcher also noted a different perspective relating to the disclosure of CSR-related governance information. For example, some CEOs argue that they do not disclose governance information in the annual reports or in the special purpose reports; rather they disclose this information a factory level. They believe the workers are one of the main stakeholders and they respect their rights to receive governance information.

We are disclosing CSR-related governance information in the factory levels (through leaflets and brochures) and these are available for all the stakeholders including the workers. We believe that if the disclosures are done, people would know about these and these would bring our reputations. Workers are motivated if they know about all these disclosures (Interviewee no. ix).

Again the underlying impetus here is that increased motivation leads to harder work, more outputs, timely delivery and higher profits; it has nothing to do with social responsibilities. Since the majority of the workers are illiterate it is less likely that workers are really reading this information disclosed in the leaflets or brochures.

One such CEO notes that in Bangladesh, most of the garments workers are illiterate, they have no formal education and they come from very rural areas. It is

\textsuperscript{114} It is a general perception that garments companies’ managers do not care about the workers, thus finding some corporate managers who really care for workers might be seen as rhetoric.
less likely, therefore, that they read the disclosures made in the form of leaflets or brochures. In fact most of the workers are not actually concerned about the disclosures, but they are concerned about the practices of those governance polices related to their rights, welfare, and health and safety. Accordingly, some managers think they do not need to disclose governance information at a factory level (in the form of leaflets or brochures) as they believe that their workers are not able to understand these disclosures.

Even we have a formal governance practice, often we could not disclose these, because they (the workers) would not understand these and they hardly go through these. However, we are concerned about the governance practices related to CSR and we are conscious about our workers, most of them do not have any formal education. For example, we have a policy that our workers must use the gloves to do electrical functions or when they mix very toxic colours in fabrics; they must wear masks when they do their jobs, they have to wear ear plug for noise areas, and they must switch on the exhaust fan while working, but they are reluctant. As they do not have the education and they are not aware about the potential danger, they are not following this (Interviewee no. v).

So the important point here is that non-disclosure of CSR-related governance information via available media such as annual reports, or special purpose reports or websites and so forth does not necessarily represent a lack of CSR-related governance practices. However, supply companies are more likely to disclose this governance information when a particular multinational buying company requires it and use the media preferred by the latter.

7.6.3 Other insights into managers’ motivations

Some corporate managers believe that the disclosure of governance information helps them get their license renewed, since the authorities (such as the Department of Labour and Employment) are likely to get this up-to-date information about the practices and processes related to CSR.

We do some disclosures in our corporate websites, so that we could get our license renewed, easily from the regulatory body like Department of Labour and Employment as they could get the up-to-date information about our business practices (Interviewee no. iii).
Website disclosures provide a cost effective, readily available medium for communicating with everyone who seeks information, and this form of disclosures is particularly suited to situations where a quick response is required (de Villiers & van Staden, 2011). As noted elsewhere in this study, although web-based disclosures are not very popular in the textile and garments companies of Bangladesh, some corporate managers are motivated to use this medium to get their license renewed\textsuperscript{115} or to provide up-to-date information to the buyers. However the underlying motivation is profit/power related rather than responsibility or accountability driven.

The results from this part of the study also revealed that some organisations might have CSR practices, but these are not integrated with corporate governance systems (such as integrating business strategies with CSR). This means that they do not understand how to integrate CSR with corporate governance; in other words, they tend to focus on CSR generally, rather than having CSR incorporated into their corporate governance systems/processes/structures. This finding is consistent with those reported by ACCSR (2011). One of the interviewees argued that this mentality needs to be changed and that this will be possible when the new generation becomes leaders in these businesses.

Changing internal corporate governance practices takes time and truly speaking, in Bangladesh, none would be interested to take the responsibility to come forward that lead changes to CSR and governance practices. But the condition is now improving. The new generation will make the change definitely and will do for the welfare of society as well as for the environment (Interviewee no. viii).

The insight from this quote is also consistent with the findings in Chapter Five of this study. Chapter Five shows that in the context of a developing country such as Bangladesh there is a possibility that the disclosure of CSR-related governance information lags behind the disclosure of general CSR information, as there is a lack of available expertise and appropriate regulatory frameworks.

\textsuperscript{115} While the BGMEA provides the export license to factories, the Ministry of Labour and Employment provides licenses to the factories, and they need to renew their factory license every year after having it inspected by the ‘factory inspector’ of the Department of Labour and Employment.
The overall results of this part of the study emphasise that managers are motivated by financial incentives and make sure that powerful stakeholder (multinational buying companies) receive the information they need. While making this effort, it appears that the local supply companies are not really motivated to provide disclosures via publicly available media since they know that this information is of limited use by the powerful stakeholders. Thus corporate managers are motivated by profit consideration rather than driven by accountability or social responsibility. Because other stakeholders including NGOs, media and employees do not directly have power, supply companies are not concerned as to whether their information demands/expectations are met or not. This could change however if these stakeholders were to increase the impact they have on supply companies.

Thus, consistent with previous research, the results of this part of the study also find that the supply companies of Bangladesh provide CSR-related governance information in order to satisfy the information demands of powerful stakeholders such as multinational buying companies (see for example Islam & Deegan, 2008; Belal & Owen, 2007). However, the results provide some new insights about corporate disclosure of CSR-related governance information. For example, the results of Chapter Five find that there are limited disclosures (based on corporate annual reports), whereas subsequent research carried out by conducting interviews with key stakeholders and corporate managers, shows that corporate annual reports are not the only medium for disclosures used by managers of the textile and garments companies of Bangladesh. The results of this part of study also confirm that the supply companies extensively use other alternative media such as special purpose reports and most of the multinational buying companies satisfy their information needs with these special purpose reports such as social audit reports. This further reinforces that researchers need to consider the alternative media for disclosures when making claims about the completeness of disclosures pertaining to governance information. The next section provides additional discussion of the findings of this part of the study.
7.7 Discussion of the findings

From the above analysis this part of the study documented a number of facts. First, corporate managers confirm that the governance information that stakeholders believe is important for their decision making is what they believe is important to disclose. This governance information specifically includes social and environmental compliance.

Second, corporate managers use different media to communicate CSR-related governance information such as corporate annual reports, websites, special purpose reports and leaflets/brochures. While some of the corporate managers still use annual reports, websites and leaflets/brochures, which are publicly available documents, most of the managers are not interested in providing substantial governance information via these media. For example, some corporate managers provide governance information in annual reports, but the information they disclose via publicly available media is less extensive than that in the non-public reports such as social audit reports.

Third, since powerful stakeholders (such as multinational buying companies) use alternative media such as social audit reports, corporate managers are more interested in ensuring that these stakeholders get the required governance information. However it is worthwhile to note that multinational buying companies often get this report from a third party, which is not necessarily a form of corporate disclosure. This implies that researchers in the social and environmental accounting discipline need to understand that the traditional media for information disclosure, such as corporate annual reports, could have limited use in particular situations such as in the case of garments companies where there is a need to provide extensive governance information and the users of information find special purpose reports (for example, social audit reports) more comprehensive, credible and beneficial than annual reports.

Fourth, CSR-related governance disclosure decisions of corporate managers in a developing country context are primarily motivated by profit rather than complying with global societal/community expectations. This is because there is a veil between the global community’s expectations and the local suppliers (see for
example diagram 2). Global societal expectations do not directly affect the disclosure decisions of local supply companies. However, multinational buying companies do consider this broader societal expectation as they are more concerned about their reputation and lost sales in the global market. They are also concerned about the potential ‘legitimacy threat’ if they fail to comply with global societal expectations. Local suppliers, however, are more concerned about multinational buying companies’ information demands, since most of the corporate managers argued that they are more likely to provide governance information during social audits.

Finally, it is noted that corporate managers are more likely to focus on meeting the expectations of powerful stakeholders regarding CSR-related corporate governance. Most of the managers argued that these powerful stakeholders are the multinational buying companies, as the textile and garments companies of Bangladesh are mostly export-oriented and dependent on these buyers to sell their products. It is found that powerful stakeholders get priority in terms of having their expectations met and that corporate managers are likely to satisfy these expectations through providing governance information. Thus it can be concluded that corporate managers are likely to focus on meeting the expectations of powerful stakeholders regarding CSR-related corporate governance, which is consistent with the positive or managerial branch of stakeholder theory (Deegan, 2002).

The findings of this chapter are slightly in contrast with the findings of Chapter Five. The findings of Chapter Five revealed that organisations in a developing country context provide CSR-related corporate governance disclosures in order to maintain/secure their legitimacy and/to meet broader global community expectations. Whereas the findings in this chapter show that from corporate managers’ perspective, the motivation to disclose is more to secure supply contracts by satisfying the information demands of powerful stakeholders than to maintain legitimacy. However, this inconsistency can be explained by the fact that Chapter Five focuses only on the publicly available documents (corporate annual reports), which through further investigation, found to be of limited use to powerful stakeholders such as multinational buying companies. To reconcile these slightly different findings, it could be argued that the disclosures made by the
local supply companies via publicly available media could be targeted at maintaining legitimacy, whereas providing substantial governance information via special purpose reports (social audit reports) could be targeted at satisfying powerful stakeholders.

As discussed in Chapter Four, there is some overlapping of legitimacy theory with stakeholder theory mainly because of the ‘perception of resolution’. The researcher in this context argues that since Western buyers who buy from multinational buying companies look at the disclosures of multinational buying companies, as they do not know who the local suppliers are because of the veil noted earlier; the disclosures by multinational buying companies and perhaps the BGMEA could be regarded as legitimacy disclosures (although the BGMEA disclosures are probably still aimed at multinational buying companies), while the disclosures from local supply companies are really more about maintaining support from multinational buying companies than aiming at legitimacy.

7.8 Concluding remarks
This part of the broader study investigates the motivation of corporate managers for the disclosure/non-disclosure of social responsibility-related corporate governance information. It explores why managers of the textile and garments companies of Bangladesh disclose information relating to their corporate governance practices which are integrated with CSR. Through conducting 12 interviews with corporate high officials of the Bangladeshi textile and garments sector, the results of this part of the thesis show that their primary motivation is to satisfy the information demands of powerful stakeholders such as multinational buying company. The results reveal that corporate managers in a developing country context are driven by profit and the desire to secure supply contracts rather than by corporate ethics or accountability.

The results are consistent with Crane and Matten (2007) who found that pressure from stakeholders on Nike compelled them to disclose information about the working conditions, identity and location of their suppliers, although initially Nike was reluctant. This part of the thesis concludes that the disclosures being produced by local supply companies are targeted towards maintaining the support
of multinational buying companies rather than necessarily been aimed at increasing organisational legitimacy. Here the disclosure refers to the information that is disclosed via third party (special purpose) reports. However, the information disclosed by corporate managers in the publicly available domain (general purpose reports) is apparently targeted towards the less power stakeholders. Future research could further explore insights into this theoretical debate. The next chapter, Chapter Eight, provides the conclusion of the broader study and focuses on the research implications, research contributions, limitations of the research and further avenues of research.
Chapter Eight
Conclusion

8.1. Introduction
This study explores three inter-related research issues pertaining to the disclosure of CSR-related governance information in a developing country context; the textile and garments industry of Bangladesh has been chosen for this study. The reason behind this choice is this industry’s national as well as international importance in terms of economic significance and by the fact that many fashion multinationals have chosen to outsource to Bangladesh. The reason they are increasingly choosing Bangladesh as one of their favourite sourcing destinations is because of the low labour costs and weak regulatory environment. However, this industry has been the subject of criticism for many years, particularly by people, including the news media, in the West, for using child labour, having poor working conditions and health and safety issues, human rights violations and an assortment of other negative social issues pertaining to CSR. This broader study specifically addresses the corporate governance disclosure practices relating to these CSR issues. That is, the researcher of this study considers corporate governance reporting within the broader context of corporate social and environmental responsibility.

In explaining the findings of this research, the researcher applies legitimacy theory, stakeholder theory and institutional theory to provide a more holistic view of corporate disclosure of CSR-related governance practices in a developing country context.

The first part of this study explores the CSR-related governance disclosure practices of a sample of textile and garments companies operating within Bangladesh (Chapter Five). The findings of this part lead to an investigation of two related research issues which are then addressed in Chapter Six and Seven. Chapter Six explores stakeholders’ expectations in terms of the governance practices of organisations in a developing country, and how stakeholders perceive the adequacy of the related disclosure. Based on the finding of Chapter Six, the last component of this study (Chapter Seven) investigates the motivations driving
8.2 Findings and contributions
This broader study investigates three interrelated research issues. The first part explores Bangladeshi supply companies’ disclosure practices as they relate to CSR-related governance information. The findings of the first part then lead to an investigation of stakeholders’ expectations pertaining to CSR-related governance disclosure practices, and the motivations behind corporate managers’ disclosure/non-disclosure of CSR-related governance information. The findings of these three interrelated parts are described in Chapter Five, Six and Seven respectively. The following sections briefly summarise the findings and contributions of each part of the investigation.

1. The first part of this study explores the CSR-related governance disclosure practices of the garments and textile companies of Bangladesh. For the purposes of this part of the study, a sample of 58 annual reports (over a 14-year period) was collected. Using the content analysis method and through the development of an index (which the research has labelled SEGDI), the results of this part show that the supply companies provide a limited number of disclosures pertaining to CSR-related governance practices, and the disclosures tend to fall short of the international community’s expectations (based on the underlying assumption that the SEGDI reflects international expectations). The results also reveal that generally there was an upward trend in the disclosures of CSR-related governance practices over the 14-year period of analysis. In this part the researcher specifically also compares ‘general’ CSR disclosures with the disclosures of CSR-related governance information and finds that CSR-related governance disclosures tend to lag behind the general CSR disclosures.
The significant contribution of this part is the finding that early in the lifecycle of the CSR disclosure ‘journey’, organisations seem to provide symbolic disclosures as an immediate response to legitimacy threats (applying a legitimacy theory perspective), but if the stakeholders’ pressures are sustained, then the organisations will make substantive changes to their corporate governance practices, and then disclose this information. However, from a developing country perspective, this transformation process may take time, which results in the time lag identified within this study.

The development of SEGDI in this part of the study is also considered a contribution to research, as future researchers can use this index to measure the disclosure quality of social responsibility-related governance practices of organisations in developed or other developing countries, as well as using it to provide a measure of changes in disclosure across time.

2. The results of the first part of the findings led to subsequent investigation into whether particular stakeholders appear to be satisfied with the disclosures made by the supply companies, which tended to be limited. The study also explored which governance practices stakeholders appear to expect from organisations particularly in the context of Bangladesh – a county from which Westerns brands source their products. To investigate this research issue, 25 in-depth personal interviews were conducted with various stakeholders, primarily to obtain insights about their expectations and perceptions pertaining to CSR-related governance disclosure practices. The results indicate that stakeholders often have conflicting expectations regarding CSR-related governance practices, and they have different perceptions about the current state of disclosures pertaining to CSR-related governance practices.

The results also reveal that powerful stakeholders, such as multinational buying companies and the BGMEA, appear to be satisfied with the amount of information they are receiving in relation to supply
companies’ CSR-related governance practices, whereas other low-power stakeholders such as NGOs, media and trade unions are not satisfied. The potential reason identified in this part of study is that the powerful stakeholders obtain most of their required governance information from alternative sources such as special purpose reports (social audit reports). Whilst these reports provide important insights into supply companies’ governance practices (or indeed, potentially a lack thereof), these reports are typically not made publicly available. By contrast, low-power stakeholders tend not to know little about governance practices as they depend on general purpose reports such as corporate annual reports – reports which this study has shown typically provide low levels of information. Low-power stakeholders perceive that governance disclosures are symbolic in nature leading them to desire more substantive disclosures in publicly available media. The results of this part also show that the industry association (BGMEA) directly influences (coerces) its member garments companies to follow a similar pattern of governance reporting when they submit their social audit reports to BGMEA. Since this institutional effect is ‘coercive’ in nature, the researcher finds evidence of a ‘coercive form of isomorphism’ within the garments industry of Bangladesh.

A significant contribution of this part of the study is the finding that it would be misleading if researchers comment on the completeness of governance disclosure only on the basis of reviewing publicly available information. The findings suggest that powerful stakeholders (such as multinational buying companies) are satisfied with the amount of governance information they receive as they are obtaining the information from a third party. However, as the low-power stakeholders are not having access to some of the important governance information then, from normative perspective, this part of the study suggests the necessity for additional forms of governance disclosures to be made in publicly available media. Utilising legitimacy theory, stakeholder theory and institutional theory, this part of the study demonstrates that organisations in a developing country give priority to the expectations of
the powerful stakeholders over the less power stakeholders, while implementing corporate governance practices and undertaking decisions pertaining to the disclosure of CSR-related governance practices.

3. While the second part of the study focuses on stakeholders’ expectations and finds differences in perceptions about the usefulness of disclosures of CSR-related governance information, the third and final part of the study explores managerial perceptions of, and motivations for CSR-related corporate governance disclosures. For this, insights were gathered through conducting personal interviews with 12 senior corporate managers. The results of this part of study confirm stakeholder’s expectations with managers’ considerations pertaining to the governance information and mediums of disclosures. That is, the governance information that stakeholder believe important for their decision making is the same that corporate managers also consider important to disclose. The results also reveal that corporate managers are primarily motivated to satisfy the information needs of powerful stakeholders. They are more concerned to secure their respective supply contracts and seem to be driven by profit considerations rather than driven by broader obligations to corporate social responsibility, ethics or accountability. The corporate managers believe that multinational buying companies are the powerful stakeholders and this motivates them to satisfy the information needs of these stakeholders whilst at the same time effectively ignoring the information demands of other low-power stakeholders (consistent with the insights provided by the managerial branch of stakeholder theory).

A significant contribution of this part of the study is that it highlights an alternative avenue of disclosures relied upon by corporate managers in a developing country context (special purpose/social audit reports); they appear to see this source of information as more useful for providing extensive governance information about their corporate governance practices pertaining to CSR. This shows that the traditional, publicly accessible media used for information disclosures (for example, annual reports) could be of limited use when stakeholders need substantive
information about an organisation’s processes/structures or governance practices. The incremental theoretical contribution in this part of the research is that stakeholder power is an important factor that influences corporate managers’ decision pertaining to providing information about their corporate governance practices (earlier research finds that stakeholder power influences the disclosure of general CSR information).

8.3 Implication of the findings

The findings of the study which constitutes this PhD has implications for a number of stakeholder groups, including corporate managers, low-power stakeholders, multinational buying companies, and the government of Bangladesh, particularly the SEC. The following sections discuss the implications of this study for these parties.

1. A dissemination of the findings generated by this thesis would enable CSR managers to better understand the expectations of major stakeholders regarding CSR-related corporate governance practices. CSR managers need to comprehend that stakeholders are not merely happy with so-called CSR disclosures in general, which are symbolic in nature and made as an immediate response to pressure from powerful stakeholders. Stakeholders generally need and expect to have access to CSR-related governance information. Nevertheless, this thesis shows that some stakeholders without power do not have access to required information while powerful stakeholders receive the required governance information from special purpose reports and/or social audit reports. In this respect, corporate managers accept the need to consistently comply with the expectations of powerful stakeholders such as multinational buying companies, but appear to fail to properly consider the interests of many other stakeholders.

The findings of this study could potentially help CSR managers improve their reporting by giving due consideration to what stakeholders (irrespective of power) might expect from them. In this case, and from a
normative perspective, CSR managers should not only consider the information demands of powerful stakeholders but also consider the potential information demands of other stakeholders such as NGOs, media, employees and the government.

2. Corporate managers could provide more efficient governance reporting if they considered the information demands of low-power stakeholders, by either providing general purpose reports that include such information, or through providing them with access to the special purpose reports which traditionally have been kept confidential. This implies that low-power stakeholders such as the media would receive the appropriate governance information, enabling them to also run positive rather than negative stories about these companies. Trade union leaders would know what was actually occurring in the factories rather than necessarily responding to the rumours about non-payment of wages or the violation of employment contracts, and NGOs would be aware of the labour practices or human rights issues within the factories. Bangladeshi corporate managers arguably need to consider and comply with stakeholders’ requirements and expectations in relation CSR-related governance if they are to expect to fully utilise the prospects (in terms of dollar value of garments exports) that the garments industry of Bangladesh has created in the global market.

3. The findings also imply that multinational buying companies need to be more proactive in maintaining CSR-related governance practices in their sourcing factories in developing countries including Bangladesh. It is found that in the absence of a uniform and prescribed governance reporting format by the multinational buying companies, different supply companies provide different types of governance reporting, which potentially results in inefficient governance reporting. A uniform governance reporting structure from the major buyers would provide more efficient governance reporting for the supply companies (they would not have to fund the provision of disparate reports for multitude of buying companies). Being proactive in this regard, buyers can continue
to acquire low-cost products for their brands and also uphold their brand’s reputation. They need to be proactive before the media runs reports about their association with supply factories that have poor health and safety issues, including fire-safety issues.

4. The policy makers within the government of Bangladesh could benefit from the findings of this study. The findings indicate that corporate regulatory authorities such as the SEC, or other government departments such as the Ministry of Labour and Employment, have limited requirements relating to the disclosure of CSR-related governance information. The resultant lack of information creates a deal of uncertainty in an environment that is dependent upon satisfying buyers’ (and Western consumers) expectation about appropriate social governance structures. Companies appear to respond to the lack of disclosure requirements and disclose less information via publicly available media such as corporate annual reports. If the Ministry of Labour and Employment or the SEC provides some mandatory guidelines to be followed by the supply companies regarding working conditions, health and safety including fire safety and human rights issues including child labour related issues, then supply companies would be unable to provide limited disclosures of governance information pertaining to the above issues. Such an action could further strengthen the overall economy of Bangladesh via new overseas investors and customers, thus further increasing apparel export to the global market. Fuller information will enable different parties to make more informed decisions about which entities to support and this has implications for the society of Bangladesh.

5. The overall implication of this study is that multinational buying companies, being the powerful stakeholders of the textile and garments companies of Bangladesh, can help to ensure more transparency and accountability of the governance information provided by the supply companies of Bangladesh. The findings of this thesis reveal that there are valuable sources of governance information for the multinational buying
companies. But this information is typically not made available to the people at ‘ground level’ (for example the workers). People ‘on the ground’ are not getting the governance information - not because there is no information - but because they do not have access to this important governance information. If multinational buying companies make the social audit reports public, this would enable more transparency and accountability to be demonstrated by supply companies. The disclosure of information within the social audit reports by the multinational buying companies would also enhance their accountability and transparency in the broader global community.

Currently within the social and environmental accounting literature there has been an absence of research that notes both that social audits are a widespread requirement that multinational buyers impose upon local suppliers (typically at the cost of the local suppliers), and that the information in these reports is not made publicly available on a systematic basis. Again, as noted above, this creates various inefficiencies in the Bangladesh garments industry. If different stakeholder groups knew about the governance practices of respective suppliers then more effective decisions about whom to support, whom the work for, and so on could be made. Also, NGOs and the media would be better equipped to direct their attention towards industry laggards and this would conceivably have implications for increase workplace practices across the industry.

The overarching findings of this thesis reveal that multinational buying companies clearly have power and influence. This implies that powerful stakeholders such as multinational buying companies can also use this power to ensure safer working environments within the supply factories and to improve the general level of accountability across the industry. In a sense, powerful stakeholders, such as multinational buying companies can – if they choose – use coercion to effectively institutionalise better governance practices and reporting mechanisms across the industry, again, should they choose to do so. However, the results of this thesis
seem to show that multinational buying companies are undertaking the activities simply to reduce their risk exposure rather than furthering the interests of the Bangladesh community.

8.4 Limitations of the research
Although the research has generated some useful insights, there are nevertheless some limitations and these are described in the following sections.

1. This study used the annual reports of five textile and garments companies over a period of 14 years. The first part of this study employs annual report content analysis to understand the disclosure practices of CSR-related governance information. There are several limitations in the use of content analysis (see for example Guthrie & Abeysekera, 2006; Gray et al., 1995; Milne & Adler, 1999; Unerman, 2000). Content analysis captures the quantity of disclosures (for example, frequency of disclosures) rather than quality, and is often subjective in that it captures various narratives as a representation of social and environmental reporting (Guthrie & Abeysekera, 2006). However, the investigator of this study combines content analysis with other methods of data collection, such as conducting personal interviews with various stakeholders and corporate managers to provide a richer empirical understanding of social and environmental governance reporting in a developing country context.

2. This study utilises interview instruments to collect data from the stakeholders and corporate managers. A total of 37 interviews were conducted during the period of study (25 from stakeholders and 12 from corporate managers). Inherent in all research using interviews is the issue of reliability. Although the interview method was applied to gain insights from stakeholders and corporate managers pertaining to their expectations and motivations respectively – which might not be possible by using any other research techniques – the interview responses cannot be claimed as 100% reliable. Interview responses could be influenced by factors such as interviewees’ willingness to provide an accurate account
of the past or potential influences of social, cultural, political or organisational factors (Easterby-Smith, Thorpe & Lowe, 1991). Therefore, the findings of this research need to be considered in the light of potential biases or inaccuracies in the responses.

3. As noted in Chapter Six, while coding the data, the researcher used manual coding methods rather than using software such as NVivo. As Saldana (2009) notes, there is something about manipulating qualitative data on paper and writing codes in pencil that give the researcher more control over and ownership of the work. However, this manual coding required a large work space with multiple pages or strips of paper, a lot of time, which could have been minimised by using NVivo. Nevertheless, software does not actually code the data – this is still the responsibility of the researcher; it efficiently stores, organises, manages, and reconfigures data to enable human analytic reflection (Saldana, 2009). There could have been some subjectivity while coding the data and using interpretations and judgement. Accordingly, there could be potential biases in the results.

4. Another potential limitation of this study could be related to data translation and transcription. The experience and knowledge of the researcher in terms of data translation and transcription may raise concern about data interpretation. The risk is high if this process is conducted by other people besides the researcher (Marshall & Rossman, 2006). However, in this study, the researcher himself translated the interviews that were in Bengali and all the transcriptions were conducted by the researcher. Since the researcher is fluent in both Bengali and English, while translating and transcribing data, such issues may not be of concern in this context. Nevertheless, data translation and transcription cannot be guaranteed to be error-free, even though utmost care was taken.
5. The researcher applied legitimacy theory, stakeholder theory and institutional theory to explain the disclosure practices of CSR-related governance information in a developing country context. While all these theories have been applied in a developed country context, with a few exceptions, the applicability of these Western-derived theories might need better research methods or collection of more substantive data than that gathered in this research.

8.5 Future avenues of research

This broader study has augmented some issues for further investigation.

1. While investigating CSR-related governance disclosure practices, the results of this study show that the ‘human rights’ and ‘labour practices’ category did not attract the greatest levels of disclosure, even though these are matter of concern for Western brands, NGOs, media and general people as end users of the Bangladesh clothing. Also, the ‘community’ category had the least amount of disclosures. Thus, further research could be conducted to investigate the potential reasons for these lower levels of disclosure. In the future, research could be carried out to compare CSR-related governance disclosure practices between developed and developing countries and could focus on some specific issues identified in this thesis within CSR-related governance practices. The disclosure index, SEGDI, could be used to further evaluate the governance disclosure quality of organisations in developed or other developing countries. Recently the only Nobel laureate of Bangladesh, Professor Dr Muhammad Yunus\(^{116}\), also argued that a Garments Industry Transparency Index (GITI) should be developed to measure the performance of a garments company. The index developed in this thesis could provide a basis for the development of GITI.

\(^{116}\) Muhammad Yunus won the Nobel Peace Prize in 2006 for his grassroots Grameen Bank, and the US Congressional Gold Medal in 2010. In a recent interview with Women's Wear Daily (WWD), he suggested the development of an index for the garments industry of Bangladesh called the GITI. This index would evaluate whether companies were doing a good job, particularly in terms of fire safety, work safety overall, and treatment of women, and also focus on setting principles, standards, requirements, memberships, penalties, oversight, monitoring, validation, etc. On the basis of this index, individual garments companies could be ranked and such an index could provide further transparency and accountability of the overall garments industry of Bangladesh (The Daily Star, 2013b).
2. Chapter Six of this study explores the expectations of various stakeholders about CSR-related governance practices and their perceptions regarding the disclosure of governance information. While the results reveal that powerful stakeholders receive most of their required governance information from special purpose reports and/or social audit reports, this study does not explore the content of or the procedures for providing information in these reports. Since this is not traditional media for disclosures – a point neglected by researchers in social and environmental accounting so far – further research could be directed at investigating the content, procedures and the reliability of these special purpose reports. In addition, research could be undertaken to investigate local stakeholder (such as trade unions or civil society) pressures (if any) on the disclosure of governance practices, and to explore how or whether these local stakeholders are empowered by the foreign stakeholders such as multinational buying companies or international NGOs to apply such pressures.

3. Fire accidents and building collapses are becoming common phenomena in the supply factories of Bangladesh (as shown in Chapter Two). Further investigation could be carried out to explore what particular governance practices the BGMEA and supply companies have to ensure fire safety and to prevent such building collapses, and how these practices are monitored by the stakeholders, including multinational buying companies.

4. Chapter Seven of this study investigates managerial motivations behind the disclosure of social responsibility-related governance information. The results indicate that the CSR-related governance disclosures are motivated more by a desire to maintain the support of multinational buying companies (stakeholder theory perspective) than by consideration of broader societal expectations (legitimacy theory perspective). As noted in Chapter Four, there is some overlap between legitimacy theory and the stakeholder theory; further research could be conducted to solve this
theoretical debate about the disclosure motives of local supply companies in the context of a developing countries.

5. As stated in Chapter Two, currently there are more than 5,000 garments factories in Bangladesh and the number is continually growing. The down side is that since most of these factories use generators (as there is a power crisis in the whole of Bangladesh), and these generators emit carbon, in the future this could cause a threat to the environment in terms of increased environmental pollution. Furthermore, the wastage in the garments and textile factories is not recycled properly, and in most of the cases it is thrown into the nearest canal or river; this results in serious sewerage blockages and water pollution in the surrounding areas. Further research could be carried out to gain more insights into this issue.

6. Future research could be directed at investigating how/whether (if at all) multinational buying companies (who source products from developing countries such as Bangladesh) provide CSR-related governance disclosures. This could be a worthy investigation since this thesis found that multinational buying companies seem to be more concerned about their legitimacy (the ‘legitimacy’ of the large clothing brands is influenced by Western consumers’ expectation) rather than necessarily about the welfare of workers in local supply companies, or the accountability of supply companies to their respective stakeholders.

7. In relations to research concerning CSR issues in a developing country, further research could be carried out to investigate the accountability of other sectors in Bangladesh that have attracted global media attention. One is the ship-breaking industry and another one is the tannery (leather) industry. Both of these industries have significant social and environmental impacts which need to be investigated from a broader CSR perspective.
Bibliography


BEI, 2004, The Code of Corporate Governance for Bangladesh, Taskforce for Corporeal Governance, Bangladesh Enterprise Institute, Dhaka, Bangladesh


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Appendices:

Appendix A: Social and Environment-related Governance Disclosure Index (SEGDI)

A. Board Oversight

1. Company has a board committee with explicit oversight responsibility for social and environmental affairs.
2. Board takes regular account of the significance of social and environmental matters to the business of the company.
3. There is commentary on behalf of Board regarding the "practice of good governance" throughout the organisation.
4. Board mentions that the governance systems encompasses of ethics, transparency and accountability.
5. There are commentary on behalf of Board regarding the quality of the company’s key relationships with employees, creditors, suppliers and other significant stakeholder parties.
6. Company has specific policy on the establishment and maintenance of appropriate ethical standards.
7. Company has a policy to promote corporate social responsibility amongst all.
8. Board has specific remuneration committee or performance (appraisal) review board.
9. Board has work environment committee.
10. Board has employee’s welfare and recreation committee.

B. Management Strategies

11. Chairman/CEOs report contains company’s view regarding social and environmental responsibility.
12. Senior manager’s compensation is linked to the attainment of social and environmental goals and social performance.
13. Company has specific policy regarding management/employee relationship.
14. Company has a policy to acknowledge its wider social responsibility through annual report, sustainability report or website.
15. Company has a policy to link its social performance with its future sustainability.
16. Company has a policy to conduct social audit.
17. Company has a public policy to support collaborative solutions (e.g. working with government and other NGOs to cope with potential social and environmental threat).
18. Company has a policy to establish it as an environment friendly organisation within the community through raising awareness about various social and environmental hazards.

19. Company has specific policy towards the investment in R&D regarding social and environmental affairs including reduction of pollution.

20. Company has a policy of formally acknowledge/recognise the contribution of its workers in the production and profitability of the company.

C. Human Rights and Child Labour

21. Company has specific policy regarding upholding the human rights.

22. Company has policy regarding the non-discrimination in the work place (e.g. wage rates).

23. Company has policy towards the right to exercise freedom of association and collective bargaining of the workers.

24. Company has specific policy regarding the employment of child labour.

25. Company has particular procedures about how they contribute to the elimination of child labour.

26. Company has specific policy regarding the employment of forced or compulsory labour.

27. Company has effective grievance redressal system.

28. Company has specific policy regarding minority employment.

29. Company has policy to comply with ILO labour standard and the Fair Labour Association Workplace Code of Conduct.

30. Company has policy to comply with the ETI Base Code.

D. Labour Practice and Decent Work

31. Company has a policy regarding the compensation of employees.

32. Company has policy regarding the rates of payments for injury, occupational diseases, lost days, and absenteeism.

33. Company has particular education, training, counselling, prevention, and or risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.

34. Company has specific programs for Human Resource development and training.

35. Company has specific policy regarding the retention rate of employee and employee share ownership plan.

36. Company has policy regarding the treatment of any harassment or abuse of any employee including physical, sexual, psychological or verbal.
37. Company has specific health and safety policy.
38. Company has specific gender non-discrimination policy.
39. Company has pension insurance, medical insurance and unemployment insurance policy for the workers.
40. Company has specific policy regarding the security of employment of the worker.

E. Society/Community
41. Company has a policy to provide greater benefits and add value to the common wealth of the society.
42. Company has policy to analyse the risks related to corruption in all its forms, including extortion and bribery.
43. Company has particular anti-corruption policies and procedures.
44. Company has public policy positions and participation in public policy development and lobbying.
45. Company has policy of disclosing the monetary value of significant fines and total number of non-monetary sanctions for non-compliance with existing laws and regulations.
46. Policies regarding economic and social development of communities and geographical areas of the vicinity.
47. Policies towards the disadvantages sections of the society.
48. Policies to provide education and training among trainee and interns from different educational/vocational institution.
49. Provide a concise disclosure regarding customer’s health and safety impact of products or services.
50. Company has policy to respect and protect the regional/local/national culture and the protection of personal information.

F. Environment
51. Company has specific environmental policy to take care of production ecology and human ecology.
52. Company has a policy regarding recycle, manage and reduce of waste (including efficient waste collection and disposal system).
53. Company has a policy regarding direct and indirect energy consumption.
54. Company has a policy to identify and measure total direct and indirect greenhouse gas emissions and emission of ozone-depleting substances.
55. Company has a policy to promote greater environmental responsibility.
56. Company has an environmental systems or plan.
57. Company has specific policy to cope with environmental challenges like climate change or global warming.

58. Company has policy promoting efficient use of energy and environment friendly technology.

59. Company has procedures regarding checking and prevention of pollution.

60. Company has particular effluent treatment procedures.

Appendix B: Total governance disclosure by company (number of governance practices)

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Appendix C: Number of firms disclosing each SEGDI item per year (maximum = 5)

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288
Appendix D: Total disclosure by category (number of governance practices)

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Appendix E: CSR-related governance disclosures in percentage form over the years

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Appendix G: Total disclosure of general CSR information by themes (number of words)

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Appendix H: General CSR disclosure index (Adapted from Islam & Deegan, 2010; Islam & Deegan, 2008; Hackston & Milne, 1996).

A. Environment
- Statement of pollution reductions in the conduct of business operations;
- Demonstrating compliance with environmental standard and regulation;
- Designing facilities harmonious with the environment;
- Wildlife conservation; and
- Training employees in environmental issues.

B. Energy
- Using energy more efficiently during the manufacturing process;
- Utilising waste materials for energy production; and
- Discussing the company’s efforts to reduce energy consumption.

C. Human Resources
- Home-based human resources – domestic;
- Ensuring employee health and safety in home country;
- Providing assistance for treatment of occupational illness;
- Providing training for employees on health and safety;
- Eliminating discrimination at work place;
- Giving financial assistance to employees in educational institutions or continuing education courses;
- Providing assistance or guidance to employees who are in the process of retiring or who have been made redundant;
- Disclosing workers’ compensation arrangements;
- Providing the number of employees in the company;
- Providing details of employee profiles;
- Expressing appreciation or recognition of the employees;
- Providing information on the stability of the workers’ jobs and the company’s future;
- Providing information on the availability of a separate employee report;
- Providing information about any awards for effective communication with employees;
- Reporting on the company’s relationship with trade unions and/or workers;
- Reporting on agreements reached for pay and other conditions;
• Reporting on any strikes, industrial action/activities and the resultant losses in
terms of time and productivity;
• Providing information on how industrial action was reduced /negotiated;
• Manufacturing working conditions – developing countries;
• Providing general information about working conditions and relationship with
suppliers and associates;
• Declaring sweatshop-free work environments in supplier’s or associate’s
factories;
• Disclosing accident statistics at manufacturing plants;
• Disclosing non-compliance with the health and safety law;
• Providing information about commitments that organisation does not use physical
and mental punishment;
• Identification of suppliers and associates who employ poor and vulnerable
women in third world countries;
• Providing information on the right to collective bargaining and freedom of
association under the ILO convention;
• Information about support for day-care, maternity and paternity leave;
• Information of working hours that must comply with applicable laws;
• Appreciation or recognition of the associates and suppliers who improve working
conditions in their factories;
• Providing wages which must be sufficient to meet the basic needs of workers and
their families;
• Effective auditing system to ensure that workers are working in humane
conditions;
• Elimination of child labour;
• Declaring suppliers’ policy regarding minimum age requirement of employment;
• Declaring child and forced-labour-free factory premises by applying ILO
convention;
• Giving financial and other support to help former child labour victims in school;
• Effective auditing system to ensure that suppliers are not using child labour ; and
• Information regarding penalty and sanctions for non-compliance with child
labour policy.
D. Products
- Product research and development by the company to improve its products in terms of quality and safety; and
- Information on the quality of the firm’s products as reflected in prizes/awards received.

E. Community Involvement
- Donations and community support activities;
- Community health projects and aiding medical research;
- Establishing educational institutions, funding scholarship programmes and sponsoring educational conferences, seminars or art exhibitions;
- Other special community-related activities, e.g. providing civic amenities, supporting town planning;
- Supporting national pride /government sponsored campaigns; and
- Recognising local and indigenous communities.

F. Others
- Corporate objectives /policies: general disclosure of corporate objectives/policies relating to the social responsibility of the company to the various segments of society; and
- Information about corporate governance practices.
Appendix I: Plain language statement for interviewee

Plain Language Statement for Interviewee

Project Title: Corporate Social and Environment-related Governance Disclosure Practices in the Textile and Garments Industry: Evidence from the Developing Country of Bangladesh

Investigator:
Yousuf Kamal (PhD degree student)
Email: yousuf.kamal@rmit.edu.au
Tel: +61 3 9925 5846

Research Supervisor:
Professor Craig Deegan, Professor of Accounting, RMIT University
Email: craig.deegan@rmit.edu.au
Tel: +61 3 9925 5750

Dear Participant,

You are invited to participate in a PhD research project being conducted by school of Accounting, RMIT University, Australia. The interview will take approximately 30 minutes. These three pages are to provide you with an overview of the proposed research. Please read these pages carefully and be confident that you understand its contents before deciding whether to participate. If you have any questions about the project, please ask the investigator or supervisor identified above.

I am currently a PhD student in the School of Accounting at RMIT University. I am also an Assistant Professor in the Department of Accounting & Information Systems, University of Dhaka. This project is being conducted as a part of my PhD Degree. My principal supervisor for this project is Professor Craig Deegan. The project has been approved by the RMIT College of Business, Human Ethics Advisory Network.

This study is designed to explore the social and environment-related governance disclosure practices of the Textile and Garments Industry of Bangladesh. Particularly, we
are interested in understanding the governance practices in place to address matters related to the social and environmental performance of the textile and garments sector of Bangladesh. We are conducting interviews with stakeholders and managers of this sector in an endeavour to understand what stakeholders expect in terms of governance practices of the textile and garments companies, and how managers respond through their reporting/disclosure.

There are no perceived risks associated with participation outside the participants’ normal day-to-day activities. The participants in this research are company managers or secretaries, CSR managers/representatives of multinational buying companies, local and international NGOs and representatives from Media organisations. The participants also include the Chairman/ CEO or President of BGMEA, and SEC. Your responses will contribute our understanding of CSR-related governance disclosure practices in the textile and garment sector of Bangladesh. The findings of this study will be disseminated in conferences and published in journals. However, I assure you that your responses will remain confidential and anonymous, and accordingly, your name will not be disclosed in those conference papers or journals.

If you are unduly concerned with your responses or if you find participation in the project distressing, you should contact my supervisor as soon as convenient. My supervisor will discuss your concerns with you confidentially and suggest appropriate follow-up, if necessary.

You can examine the questions to be asked before deciding whether you want to participate. The questions are open ended. Participation in this research is entirely voluntary and anonymous. You may withdraw your participation at any time, without prejudice. You also have the right to withdraw any unprocessed data and destroy it, provided that it can be reliably identified, and it does not increase the risk for the participant. There is no direct benefit to the participants as a result of their participation. However, I will be delighted to provide you with a copy of the research report upon request as soon as it is published.

I am requesting you to participate in this interview session so as to provide me with your opinions regarding CSR-related governance disclosure practices in the textile and garments sector of Bangladesh. Your privacy and confidentiality will be strictly maintained in such a manner that you will not be identified in the thesis or any publications. Any information that you provide can be disclosed to third party only if (1)
it is to protect you or others from harm, (2) a court order is produced, or (3) if you provide the researchers with written permission. Interview data will be only seen by my supervisor who will also protect you from risk.

The collected data will be retained for five years upon completion of the project and then the hard copy records will be shredded and placed in a security recycle bin and the electronic data (soft copy) will be deleted/destroyed in a secure manner. All paper records (hard copy) will be kept in a locked filling cabinet and soft data in a password protected computer in the office of the investigator in the research lab at RMIT University. Data will be saved on the University network system where practicable (as the system provides a high level of manageable security and data integrity, can provide secure remote access, and is backed up on a regular basis). Only the researchers will have access to the data.

If you have any queries regarding this project please contact me at +61 3 9925 5846 or +61 423572938 or email me at yousf.kamal@rmit.edu.au. You may also contact my supervisor Professor Craig Deegan (craig.deegan@rmit.edu.au) or Executive Officer, RMIT Human Research Ethics Committee (www.rmit.edu.au/rd/hrec_complaints).

Thank you very much for your contribution to this research.
I appreciate your cooperation.

Yours Sincerely,

Yousuf Kamal
PhD Candidate
School of Accounting, RMIT University,
Building 80, Level, 10
445 Swanston Street, Melbourne, VIC 3000
Australia.
Appendix J: Interview questions for stakeholder groups

Q.1. As a stakeholder for the textile and garments industry of Bangladesh, what do you expect, in broad term, in the governance of the textile and garments companies of Bangladesh?

Q. 2. What particular governance policies/practices would you be most interested in finding out in the textile and garments companies of Bangladesh? Why these particular policies are significant to you?

Q. 3. What are the different sources of governance information you are looking for? Or where do you get most of the required governance information for your need?

Q. 4. Are you satisfied with CSR-related governance disclosures currently made by the textile and garments companies of Bangladesh? Or do you want more substantive disclosure of governance practices?

Q. 5. What kind of risks do you think the garments company would assume if they do not disclose this information? Does anybody really care?

Q. 6. As a stakeholder do you actively seek information about the social and environmental governance practices of particular types of organisations? Or do you tend to seek such information only after a particular crisis or event occurs? Where would you typically look for such information?

Q. 7. What types of pressures (and from whom) do you think are applied to garments companies to ensure they have appropriate social and environmental governance practices? Or do you think there is a lack of pressure in this regard?

Q. 8. Who do you think the most powerful stakeholders for the textile and garments companies of Bangladesh and how do they exercise power to influence the disclosure decision of CSR-related corporate governance information?
Appendix K: Interview participants from stakeholder groups

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Appendix L: Interview questions for manager group

1. What are the key issues pertaining to CSR related governance practices that you think most important for your organisation?

2. Have you disclosed those key issues? Why or why not?

3. What are the mediums of disclosures you typically use and why?

4. What is your motivation to disclose CSR-related governance information?

5. Who determines what disclosures are made?

6. Have you got any pressure from any stakeholders regarding the disclosure of CSR-related governance information? Who are those stakeholders and how they are using the pressure?

7. Do you think corporate regulatory authority (like SEC and Ministry of Labour & Employment) needs to make some mandatory guidelines for the disclosure of CSR-related governance practices for the textile and garments companies of Bangladesh? Why or why not?
Appendix M: Interview participants from manager group

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<td>iii</td>
<td>General Manager, Operation, Shanta Garments</td>
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<td>iv</td>
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<td>v</td>
<td>Managing Director, Envoy group</td>
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<td>Chairman and CEO, Desh Group (Desh Garments Limited)</td>
<td>November 30, 2011</td>
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<td>Chairman and Managing Director, Prime Group of Industries (including Prime Textiles Limited)</td>
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