

Assessing Impact of Corporate Social Responsibility on Bank Performance in Bangladesh: A study on Some Selected Banks

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ABSTRACT

The objective of this study is to examine the relationship between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP), bank size, the level of risk in the bank and Advertising Intensity (ADINT) in the Commercial Banks in Bangladesh. Sample selection has been made as per the purposive sampling process. The study is based on the secondary data and uses quantitative analysis approach. Data are collected from “Review of CSR Initiatives in Banks” brought out by the Central Bank of Bangladesh, annual reports of the respective banks and reputed Journals. The study period has covered from 1st July, 2012- 30th June, 2013. The study found that there is a significant relationship between levels of CSR and CFP, bank size, the level of risk in the bank and ADINT commercial banks in Bangladesh.

Key Words: Corporate Financial Performance, Corporate Social Responsibility, Corporate Social Performance, Commercial Bank.

I. PREAMBLE

The role of business worldwide and specifically in the developed economies has evolved over the last few decades from classical ‘profit maximizing’ approach to a social responsibly approach, where businesses are not only responsible to its stockholders but also to all of its stakeholders in a broader inclusive sense. One can identify so many reasons for shifting the role of business from classical concept to a responsible business concept, but negative impression of stakeholders on the enterprise would get a higher priority among others. One the hand, enterprises create wealth and job opportunities for the

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society and on the other, they pollute and destroy environment and ecology with devastating impact on human health and biodiversity worldwide (Alimullah, 2006). Corporate social responsibility (CSR) has become an important issue of concentration among companies. A recent global survey shows that 76 percent of managers believe that corporate social responsibility contributes positively to long-term shareholder value, and 55 percent of them agree that sustainability helps their companies build a strong reputation (McKinsey, 2010). A socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders. CSR is viewed, then, as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply chains, and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace. In the broadest sense, the net effect of social responsibility is to improve the quality of life, which is determined by the society. It also harmonizes business actions aimed at achieving the performance of business (such as profit and growth) with the society's want (social benefit). Keeping this in mind, the aim of this study is to examine the relationship between CSR and CFP, bank size, the level of risk in the bank and ADINT in the banking companies of Bangladesh.

II. LITERATURE REVIEW

The debate on the relationship between Corporate Social Performance (CSR) and Corporate Financial Performance (CFP) involves two important issues: direction and causality of the relationship (Preston & O'Bannon, 1997). Based upon the literature review, the relationship between CSR and CFP could be positive, neutral, and negative. Curtis (1998) examined the 500 largest public U.S. companies that make a commitment to their stakeholders to deal with their interest with a code of ethics. The researcher finds it for the first time that it takes this scale of companies and the result showed that the financial performance of the companies stated commitment in their reports does higher than those not report or didn't make any reference to ethics. McWilliams and D. Siegel (2000) study CSR due to the impact of CSR on financial performance, they used two models to study this equation; the first is "the relationship between CSR and CFP and they used the statistical regression to emphasize the correlation between corporate social responsibilities and corporate financial performance through including R&D and advertising intensity to the second model they found that

there is a high correlation between CSR and R&D. when they use the R&D the CSR shows a natural effect on CFP. Jong-Seo Choi, et al (2011) studied the empirical relation between CSR and CFP in Korea, they used a sample of 1222 firm during the years 2002-2008, and they measured CSR by both equal weighted CSR index and stakeholders weighted CSR. And they measure CFP by ROA, ROE. They used cross-sectional regression model using four factors model, they analyzed whether investors can obtain abnormal returns by employing socially responsible screens. They founded a positive and significant relationship between CFP and stakeholders weighted CSR index but not the Equal weighted CSR index. Abdul (2011), the purpose of the study was to provide deep understanding of the practices of CSR of PCBs in Bangladesh. The study has been taken to observe different regulatory framework (CSR areas) of CSR of Private Commercial Banks (PCBs) and its contribution. This study found CSR practices of PCBs are quite scant. The study reveals that PCBs were trying to swell their contribution in accordance with Bangladesh Bank proper guidelines. Surroca et al (2010) investigated wither the relationship between CSR and CFP dependent on the level of the corporate size. Castro et al (2010), this article deals with the specific issue of the endogeneity of strategic decisions through studying the relationship between Social Performance and Financial Performance.

III. SIGNIFICANCE OF THE STUDY

The financial statements are the main tool for external and internal stakeholders to measure the management performance. An important component in the financial statements which are often used as a tool to inform management performance is the net income. Therefore, profit is an indicator of the Corporate Financial Performance and it might also be used by stakeholders as a basis for economic decision making and to ensure the continuity of their main interests in the company. The past study found that there was a positive relation between Corporate Social Performance and Corporate Financial Performance; the results cannot be generalized to all markets and sectors. This study will examine its relation in the banking sector in Bangladesh.

IV. OBJECTIVES OF THE STUDY AND METHODOLOGY

The objective of this study is to examine the relationship between the Corporate Social Responsibility (CSR) and Corporate Financial Performance

(CFP), bank size, the level of risk in the bank and Advertising Intensity (ADINT) in the selected Commercial Banks of Bangladesh.

Methodology: Sample and Data

There are 52 commercial banks in Bangladesh comprising State-owned commercial banks (SCB), Private commercial banks (PCB) and Foreign commercial banks (FCB). At present every bank has been operating their CSR activities in and an extensive way and regularly reporting CSR initiatives to the Central bank. The Central bank i.e., Bangladesh Bank has been publishing “Review CSR initiatives in banks” since 2008. We have selected those commercial banks which are reporting CSR initiatives to Central bank regularly from 2008 to 2012. For this study, we have selected 17 commercial banks.

The study based on the secondary data. Data have been collected from “Review of CSR Initiatives in Banks” brought out by the Central Bank, Annual reports of the respective banks and reputed Journals. The study period has covered between 1st July, 2012- 30th June, 2013.

We have selected five variables from the sample banks annual report in 2013; one variable (Corporate Social Responsibility) is dependent variable and another four variables i.e. CFP, SIZE, RISK, and ADINT are independent variables. Here, CSR is the dependent the variable because banks CSR performance depends on various factors such as net income, ROA, ROE, SIZE, RISK etc. Every bank CSR performance is dependent on some factors for this; we have selected CSR as a dependent variable and others variables are independent variable.

The study determines the variables as follows:

Corporate Financial Performance (CFP): Independent variable, the financial performance is measured using the Return on Assets (ROA). ROA is the ratio of net income before tax to total asset value.

Corporate Social Responsibility (CSR): Dependent variable, it is measured in this study by the amount of the donation disclosed in the Annual Report of respective bank. In the opposite, earlier studies have used number of pages, number of sentences, number of documents, the proportion of a page proportion of total disclosure and the number of words. (Manasseh, 2004)

Firm size (SIZE): Independent variable, Size of company is measured by value of the total assets.

The level of risk in the bank (RISK): Independent variable is a source of corporate finance from third parties (i.e., deposits). Leverage is measured by the

ratio of total liabilities to total assets. Leverage of a previous period represents an enterprise risk that could affect the company's financial performance in the future.

Advertising Intensity of the bank (ADINT): Independent variable measured as (adv. Exp. / interest revenue).

Hypotheses

(1) ***H₀***: There is no significant relationship between the levels of bank CSR and the bank's CFP.

H_a: There is a significant relationship between the levels of bank CSR and the bank's CFP.

(2) ***H₀***: There is no significant relationship between bank size and CSR.

H_a: There is a significant relationship between bank size and CSR.

(3) ***H₀***: There is no significant relationship between the level of risk in the bank and CSR.

H_a: There is a significant relationship between the level of risk in the bank and CSR.

(4) ***H₀***: There is no significant relationship between the level of advertising expenditure in the bank and CSR.

H_a: There is a significant relationship between the level of advertising expenditure in the bank and CSR.

V. RESULTS AND ANALYSIS

Table 2 presents the results of the regression analysis through which to evaluate the impact of CSR expenditure on CFP, SIZE, ADINT and RISK in banks revealed. The R-square is 0.412 which accounted for about 41% of the variation in the CFP, SIZE, ADINT and RISK of bank. It is also indicating that CSR is important in achieving effective financial performance of banks in Bangladesh. The overall significance of the model is showed in the table (F-statistic= 5.100, $p < .05$) and the Durbin-Watson Statistic shows that the model is fit at 1.875. The value of ("r"= 0.642, $p < .05$) which stand for "r" calculated. This shows that there is positive correlation between CSR expenditure and the CFP, SIZE, ADINT and RISK of the bank. This is significant at the 0.05 level (2-tailed). This means that the null hypothesis is rejected thereby leading to the acceptance of the alternative hypothesis.

TABLE 1
CSR PERFORMANCE OF SELECTED COMMERCIAL BANKS

Name of Bank	CSR	CFP	SIZE (Log Value)	ADINT	RISK
Dutch Bangla Bank Limited	785.45	1.2	5.268	0.021	1.5
Dhaka Bank Limited	27.25	1.39	5.161	0.017	1.87
Mercantile Bank Limited	143.47	1.32	5.16	0.031	1.15
Pubali Bank Limited	257.2	0.76	5.387	0.018	1.12
Premier Bank Limited	45.2	1.1	5.285	0.018	1.25
BRAC Bank Limited	54.82	0.75	5.235	0.021	1.12
Al-Arafah Islami Bank Limited	476.4	0.96	5.741	0.02	1.13
Bank Asia Limited	207.2	0.87	5.214	0.019	1.16
Jamuna Bank Limited	426.8	1.42	5.768	0.021	1.14
Eastern Bank Limited	61.15	1.72	5.167	0.017	1.15
Agrani Bank Limited	7.18	1.35	5.351	0.02	1.12
NCC Bank Limited	41.24	1.14	5.101	0.016	1.1
Bangladesh Commerce Bank Ltd.	2.4	1.1	5.012	0.014	1.12
National Bank Limited	153	1.15	5.231	0.017	1.13
HSBC	133	1.41	5.123	0.016	1.14
Standard Chartered Bank	101	1.21	5.341	0.018	1.15
State Bank of India	4	0.89	5.001	0.014	1.11

Source: Respective banks Annual Report, 2013.

TABLE 2
MODEL SUMMARY^B

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin - Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.642 ^a	.412	.216	187.14643	.412	5.100	4	12	.044	1.875

a. Predictors: (Constant), CFP,SIZE,ADINT, RISK

b. Dependent Variable: CSR

Source: Calculated by SPSS20 version.

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	205883.5882	73538.52911	2.799673922	0.023829487
Residual	12	420285.4263	35023.78552		
Total	16	714439.5427			

Source: Calculated by Statistical Tool.

COEFFICIENTS AND T –STATISTICS

	Coefficients	Standard Error	t Stat	P-value
CSR	3050.405921	1243.377825	2.453321797	0.030407841
X 1=CFP	471.9045704	185.3959306	2.545387964	0.036227464
X 2=SIZE	537.7942573	232.0652965	2.317426454	0.038948498
X 3=ADINT	34612.099955	12763.21783	2.711863138	0.0201581
X 4=RISK	889.08203513	248.2333105	3.581638714	0.011367951

Source: Calculated by Statistical Tool.

Evidence from the above results shows that in order to ascertain this acceptance of the positive relationship or correlation between CSR expenditure and CFP, SIZE, ADINT, and RISK of banks, a “t” test of the expected expenditure on the social responsibility over the years was conducted. Thus, the “t” = value for CSR (2.45) and CFP (2.54), SIZE (2.31), ADINT (2.71) and RISK (3.58) were found to be significant at 95% confidence limit. Therefore, there is significant positive relationship between CSR expenditure and banks CFP, SIZE, ADINT, and RISK.

The key findings of this study are as follows:

1. There is a significant relationship between the levels of bank’s CSR and the bank’s CFP.
2. There is a significant relationship between bank’s size and CSR.
3. There is a significant relationship between the level of risk in the bank and CSR.
4. There is a significant relationship between the level of advertising expenses in the bank and CSR.
5. CSR related to society’s needs and the nature of specific environment.

VI. Conclusion and Recommendations

CSR activities in Bangladesh have risen appreciably. The study indicates that most of the banks are trying to expose themselves as global standard companies in respect of CSR activities. Bangladeshi banking business firms are gradually moving from the strong economic and legal realm of CSR to the ethical and discretionary aspects. It is observed from the research that in most of the cases the CSR banks outperformed the Non-CSR banks; though some observations did not support statistical hypothesis. The banking companies should now consider their obligations to the society; they should be addressed in a sense so that it contributes to the social development and stakeholders benefits and also to the corporate financial performance (CFP). The CSR policies help boost business profile of a company. However, CSR should not to be regarded as a marketing strategy or public relation tool and the business of business should not just be about money. It should be concerned about public good, societal benefit and environmental protection.

On the basis of this study, we recommend the following:

1. Bangladeshi commercial banks should ensure that expenditure on social responsibility cost reflect responsive social responsibility policy as dictated by international best-practice. Such a policy should be implemented effectively by the banks in order to meet stakeholders' expectations.
2. The Financial Reporting Council (FRC) of Bangladesh should collaborate with other professional bodies, the academia and other stakeholders to produce a standard on social responsibility accounting and should ensure that there is compliance and transparency in the process.
3. Banks should take into their consideration the positive effect of CSR on their CFP, and stockholders should support the management to use CSR because of its great impact on the society.
4. Banks need to think beyond what is affecting them in the present time to what is going to happen in the future. This is not just about addressing changes to technology or the needs of customers, but also taking into consideration changes in society, governance and environmental aspects.

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