Effect of Corporate Social Responsibility Expenditures on Financial Performance in Banking Sector of Bangladesh

A H M Yeaseen Chowdhury and Md. Nader Nehal

Abstract—Corporate Social Responsibility (CSR) refers to a company’s sense of responsibility towards the community and environment in both social and ecological. CSR activities have positive impact on firm’s performance with banking sector no exception to it. Companies have their own choice of areas/fields for such CSR investments in order to have desired performance outcome. This research aimed at finding out the relationship between CSR expenses and financial performances of banking sector of Bangladesh. The financial performance measured by Return on Asset (ROA), Return on Equity (ROE), Earning per Share (EPS) and price Earnings Ratio (PER) have been considered as dependent variable where as Expenditures is CSR activities in Donation (DN), Social Welfare (SW), Education (EDU), Health and Hygiene (HH) and Environmental Protection (EP) have been considered as independent variables. Independent variables explain 57.42% of ROA, 66.1% of ROE, 77.8% of EPS and 58.01% of PER.

Index Terms—CSR, banks, financial performance, expenditures on CSR.

I. INTRODUCTION

The concept of CSR, originally referred to as Social Responsibility (SR), was discussed as early as in the 1930’s [1]. They argued that, it was not until the publication of Bowen’s Social Responsibilities of the Businessman in 1953 that the concept became popularized and discussed in similar terminology as it is today. [2] defines CSR as the “obligations of businessmen to pursue those policies, to make decisions, or to follow lines of action which are desirable in terms of the objectives and values of our society.” From this publication and through the research that has followed onwards, the true definition of what CSR entails has been heavily debated [3]. European commission defined CSR as “a concept which shows the contribution of various companies towards the society and a cleaner environment”. [4] discussed how the focus of CSR has shifted from acknowledgement of social interest to becoming an important part of a company’s overall strategic approach in their research.

CSR depicts the strategies by following which different organizations; business firms run their business in such a way that is ethical, profitable as well as society friendly. CSR may consist of a range of activities for example doing something in partnership with local communities, social investment, developing good relationships with every level of employees, clients and their families. It also consists of involving in different kind of activities in order to conserve the environment. Like other companies, financial institutions, for example banks, have a responsibility towards community to serve them satisfactorily. Hence, banks also perform CSR activities in the process of operating in the country in an effort to become socially responsible.

No company can grow and have sustainability in the long run without having concern for community around them. The community covers both people and the broader environment where we live in. Hence, every business managers should invest rationally excluding the projects or investments where the potential for environmental damage might outplay the economic benefits, by ensuring the benefit of different internal and external stakeholders.

The practices of CSR is increasing in Bangladesh which is surely a positive indication, but the state is not yet up to the mark. However, there is pressure from various agencies on businesses to act responsibly and to become accountable for the impact they have in the overall environment. Bangladesh bank has also imposed some rules for the banks to conduct required CSR activities.

CSR is important not only because it is helpful to the community but also because it influences all aspects of operations from sourcing to reach the ultimate consumers. Most of the consumers want to buy from known companies with trust they have in them. Suppliers want to build business relationship with the companies they can rely on. Employees want to work for the companies where they can have respect and honor. Different reputed investors want to support companies those who are perceived to be socially responsible. Different NGOs want to work together with the companies to achieve the common shared goal. This study tries to state a broad view of CSR, its evolution in Bangladesh and practices and implementation in Bangladesh by banking sector. It also looks at the impact of CSR activities on the financial performance of the banking companies operating in Bangladesh.

Financial performances are measured in terms of how efficiently a bank utilizes its resources and goes for greater income. The financial statements and the annual reports are the basic tool to measure the performance of any company as well as banks. Though the most important component is net income for measuring ultimate company performance, there are other elements available for judging the financial condition of any company. There are some measurements of financial performance which are: Return on Asset (ROA), Return of Equity (ROE), Earning per Share (EPS) and Price Earning Ration (PER) etc.

This study mainly focuses on the effect of expenditures in
CSR activities on financial performance of the banks operating in Bangladesh. The objective of this paper is to study the CSR activities of selected banks operating in Bangladesh and find out the impact on the banks’ financial performance. The broad and specific objectives of this study have been stated below:

A. Objectives of the Study

Board Objective: To observe the impact of CSR activities on financial performance of the banks operating in Bangladesh.

B. Specific Objectives

- To know about the CSR practices performed by banks in Bangladesh.
- To find out the major areas where CSR activities are performed by banks in Bangladesh.
- To analyze the contribution of CSR activities in the financial performance of the banks.

II. LITERATURE REVIEW

[5] conducted research on disclosure of CSR expenditures and financial performance in banking sector of India. The study explains a positive impact of CSR on all the firms’ performance. Again, [6] examined a relationship between CSR activities and financial performance of public listed companies in Malaysia for the time period 2009-2013. Researchers suggested that Malaysian top-100 companies are found supportive and involved in CSR activities and further found that CSR activities play critical role in enhancing financial performance of listed companies.

In another research, [7] describes the effect of CSR on non-financial organization performance in Yemeni banking companies. Their results indicate three component of CSR including economic, legal, ethical have a positive and significant relationship amongst each other. They also found that there was no statistically significant difference between state-owned and private enterprises concerning the level of adopting periodically CSR activities. However, [8] conducted a study on poverty eradication through the CSR initiatives and argued that CSR is unlikely to play significant role in reducing poverty in developing countries. [9] also investigated the CSR activities in Hong Kong and Shanghai Banking Corporation Limited and found that CSR expenditures have positive impact on performance.

[10] studied CSR disclosures in banking industry in Poland and results concluded that the quality of CSR disclosure in 2011 was higher as compared in 2005. [11] examines the effect between CSR and financial performance in UK companies. In this study, two most important theories social exchange theory and stakeholder theory have been critically reviewed. The findings indicate that through CSR maximization both wealth of shareholder and increase the financial perform — ance can be made positive. [12] conducted a similar study in turkey and analyzed the relation among CSR and banks performance. The result showed that bidirectional network among CSR practices and Turkish banks performance is very dominant.

[13] found that CSR is now not a baby of the developed countries only but it is getting increased attention in developing countries like Bangladesh too. A strong perception has developed in recent years among the business managers in Bangladesh that they need to manage their organizations in a socially responsible way for economic viability and long term sustainability in the competitive marketplace. [14] suggest that business all over the world have practiced only profit making actions initially, for long as the enterprise started to develop complexities in size and actions, they paid attention to CSR activities. Companies contribute for the community by number of ways; (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs, and (3) by earning adequate returns on the employed resources. The areas in where banks practice CSR activities include education, health, disaster, donation, sports and other sectors. [15] conducted the study on CSR activities and found that there is no difference in social disclosure behavior between listed banks and banks with an overseas presence and non-listed banks and those operating only in Lebanon. [16] identified the impact of CSR expenditures on firm’s profitability in Nigeria. Through ordinary least square analysis researcher found the negative relationship between firm’s financial performance measures with investment in social responsibility activities.

[17] examines the connection between social responsibility and firm performance of listed banking companies on India. Researchers used correlation analysis to find the cause and effect relationship between two CSR expenditures and firm’s performance. Researchers concluded that there is a positive relationship between the CSR expenditures and financial performance of the firms and spending on CSR positively influences the organizations for long term development. [18] examined that bank specific and macroeconomic determinants influence the Islamic banks profitability. They argued that banks with efficient management and large asset size lead to the greater return on assets. [18] determined the effect of managerial banks specific and macroeconomic determinants of bank profitability. They inspected the selected member states of the Organization of Islamic Corporation (OIC) through balanced panel data regression model. The result indicated that efficient management in an operating expense like CSR activities has a positive effect on profitability. After reviewing all important and relevant literatures, it is found that there are not enough studies conducted on the issue of finding out the relations between CSR expenditures and financial performances in the banking sector of Bangladesh.

III. CONCEPTUAL FRAMEWORK

This study has been conceptualized through identifying the areas of expenditures in CSR activities and indicators of financial performance measurement of the banking sector of Bangladesh. For measuring the relationship between expenditures on CSR and financial performance following areas of CSR activities have been considered:

Donation (DN): Donations show how much banks are...
paying for people living in society in different aspects. Donation in different areas helps banking organizations building good image in the society in an effort to become more responsible. Focused areas of donation include clothing, toys, food and vehicle elements etc [19].

Health and Hygiene (HH): Health and Hygiene is another sector where CSR expenditures are made by banking organizations. Almost all banks in Bangladesh invest in health sector including hospital and medical institution especially for needy people of the society. Through these expenditures banks intend to increase their goodwill. When goodwill increases it means it automatically enhances the financial wealth [19].

Environment Protection (EP): Banks operating in Bangladesh also invest in environment protection for social welfare of society. Environment protection includes different programs like: water cleaning program, cleaning the targeted area program, etc. This also influences on the financial performance of the selected banks.

Social welfare (SW): SW is another area where banking companies of Bangladesh do invest for achieving trust and confidence from the general people in the society. SW includes different sports programs, national and international; sponsoring for celebration of different national days etc. [19]. Some financial indicators have been used for measuring the performance of banks in these studies which are stated below:

Return of Asset (ROA):
[20] defined return on asset (ROA) as ratio between available net profits for common shareholders to total assets.

ROA = Available Net Profit for Common Shareholders/Total Asset

Return on Equity (ROE):
Return on equity (ROE) is the profitability ratio to measure the company ability to generate profit based on share capital owned by the company. And it can be calculated as follows [21]:

ROE = Net Income after Tax / Total Equity

Earnings per Share (EPS):
EPS is a management tool to measure the amount of profit that can be shared to shareholders. This ratio is a comparison of resulted income (net profit) and the amount of circulated share. [22] defined EPS as ratio between net profits divided by the number of circulated share.

EPS = Net Profit after Interest and Tax/Number of Circulated Shares

Price Earnings Ratio (PER):
The P/E ratio explains the relationship between the market value of a firm and its net profit. The ratio is used by both investors and analysts to determine if individual stocks are reasonable priced [23].

PER = Market Value per Share / Earnings per Share

IV. METHODOLOGY
This study has been conducted primarily on the basis of secondary data. A convenient sampling method has been used where six different commercial banks namely Dutch Bangla Bank Ltd (DBBL), Eastern Bank Ltd (EBL), One Bank, South East Bank, Social Islami Bank Ltd (SIBL) and Trust Bank Ltd (TBL) have been selected as sample for this study. Required data has been collected from the annual reports for the period between 2012 and 2016 from the said banks. Four dependent variables; ROA, ROE, EPS and PER have been used for measuring the overall financial performance and five independent variable mostly the area of expenditures for CSR activities; DN, SW, EDU, HH and EP have been used as independent variables. Correlation and regression analysis have been conducted between dependent and independent variables in order to find out the relationship. Use of descriptive analysis has also been made for understanding the different positions of expenditures in the CSR activities. For finding out the statistical significance in the relations between variables in order to make required suggestions for the banking sector regarding expenditures in the CSR activities following hypotheses have been formulated:

H1: There is a positive and significant relationship between CSR expenditures and ROA.
H2: There is a positive and significant relationship between CSR expenditures and EPS.
H3: There is a positive significant relationship between CSR expenditures and ROE.
H4: There is a positive significant relationship between CSR expenditures and PER.
H5: There is a positive significant relationship between CSR expenditures and financial performance.

V. RESULTS AND DISCUSSIONS

Table 1 below shows the results of descriptive statistics of the sample of banks used for analysis over time period of 2012-2016 on different dependent and independent variables. The table shows the mean and standard deviation value for different variables so identified. The mean for ROA is 2.427 and standard deviation is 13.308 which means that ROA is relatively lower with a high volatility. Three other dependent variables have moderate level of values with greater volatility that actually represents volatile situation on all four dependent variables in the banking sector of Bangladesh.

| TABLE I: DESCRIPTIVE ANALYSIS (PRIMARY) |
| Mean | Min | Max | S.D |
|------|-----|-----|-----|
| ROA  | 2.427 | -4.920 | 135.0 | 13.308 |
| ROE  | 10.192 | -259.94 | 47.570 | 29.906 |
| EPS  | 5.996 | -280.32 | 108.38 | 44.986 |
| PER  | 10.626 | 2.210 | 36.150 | 6.178 |
| DN   | 19.483 | 0.000 | 262.15 | 44.878 |
| SW   | 13.339 | 0.000 | 140.62 | 23.445 |
| EDU  | 40.639 | 0.000 | 513.18 | 82.691 |
| HH   | 25.509 | 0.000 | 412.77 | 50.520 |
| EP   | 12.444 | 0.000 | 193.25 | 27.428 |
Table II represents the correlation between independent and dependent variables of the study. It can be understood that the degree of relationship between variables differed ranging from very strong to weak relationship or may be no significant relationship. Investment in the SW has strong relations with banks profitability measured by ROA. On the other hand, expenditures in HH and EP have negative relations, weak though. Going to another dependent variable ROE, it has positive relations with two of five dependent variables including DN and EP and negative relations with three other dependent variables. EPS has negative relations with only EDU and positive relations with rest of the variables. On the other hand, PER has positive relations with DN and SW and negative relations with EDU, HH and EP.

This matrix of relationships between dependent and independent variables shows that the degree of relations is varied. Understanding this dynamics of the relationship, banking sector will be able to select their right kind strategies for CSR expenditures in order to promote the financial performance.

In the regression analysis for ROA showed in Table III, the R² value is 0.52 which shows that all the variables that are included in this model could explain 52 percent variation of ROA. The global test through F-statistic in the regression analysis determines the overall significance of the model. The value of F-statistical is 0.25 and p-value is 0.006 showing that the variables those are included in the regression model have significant influence on ROA, thus, ensures the overall significance of the regression model.

About the regression coefficients, first of all, CSR expenditures in SW positively influence ROA at 5% significant level. Then, HH and EP have negative significant effect on ROA at 11% and 3% significant levels. However, EDU has positive significant relationship at 9% significant level.

On the other hand, ROE has been explained 58 percent by the included independent variables. The value of F-statistical is 15.41 and p-value is 0.0001 showing that the whole model is fit for the analysis. SW and EDU have negative influence on ROE at 0.5% and 0.9% significant levels respectively.
EPS, another performance indicator of overall financial performance which is modeled with the relevant variables and these could explain about 77 percent variation of EPS. The value of F- statistical is 177462.2 and p-value is 0.001 showing that the whole model is fit for the analysis. In this study Table IV shows that DN, SW, HH and EDU are significantly positively influencing the EPS. But ROE has significant negative influence on EPS. Finally, PER, another dependent variable which could account about 58 percent variation by the considered independent variables. The value of F- statistics is - 285.6078 and p-value is 0.001 confirm the overall significance of the model. The findings of the regression model showed that ROA, PER, and EP have significant negative influence on PER whereas DN and EDU have marginally significant (at 7 percent level of significance) influence on EPS.

The results of overall correlation matrix generally suggest that the performance indicators so identified are representative of overall financial performance for the banking sector of Bangladesh. Through empirical analysis we find positive and significant relationship between various dependent and independent variables as shown in respective Tables. Different performance indicators have moderately accepted level of value less ROA but with greater volatility evidenced form descriptive analysis. CSR expenditures in DN and SW have positive relations with all the performance indicators so identified namely ROA, ROE, EPS and PER. On the other hand, three other variables including EDU, HH and EP have negative relations with different performance indicators less ROA. Banks can consider more investment in DN and SW in order to have a positive impact on the financial performance comparing to investment areas which include: EDU, HH and EP. But however, banks must recognize that, they should operate not only for profit maximization but also they should consider community development and being friendly to the environment.

VI. CONCLUSIONS

Investing in CSR activities by different business organizations is nothing new. Evidence of such investment in CSR activities is very common even in primitive age. Business organizations including banks operating in Bangladesh also make such investment in wide areas in an effort of making a positive impact in the industry specifically and in the society at large. Intense market competition and awareness amongst general people influence the business organizations in behaving more socially responsive way. Companies, these days, increasingly are investing in different targeted CSR activities than ever before. These help organizations in responding for the call from the society. However, organizations should not become complacent of what they are doing in CSR activities; rather they must keep up their good work. In turn, government should also play a major role for the purpose of motivating the banks of Bangladesh to spend for welfare of the societies, environment where they operate their businesses and earn profit. Business organizations do operate in order to create value for the society at large sustainably. So in order to contribute for the society, banking sector of Bangladesh should keep investing in CSR activities more meaningfully through creating value.

CONFICT OF INTEREST

The Authors declare no Conflict of interest.

AUTHOR CONTRIBUTIONS

There are two authors in this research work. AHM Yeaseen Chowdhury conceived the research idea and formulated the research design and scope. On the other hand Md. Nader Nehal collected the required data from all sources (Primary and Secondary) to accomplish this research work. Mr. Nehal come up with first draft of the paper and Mr. Chowdhury revised and amended for it correctness and appropriateness. Finally both researchers as approved the final version of the research article.

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