Impact of Corporate Social Responsibility Expenditure on Profitability: A Case Study on Mercantile Bank Limited

Fariha Tasneem

Lecturer, University of South Asia, School of Business, House No- 78, Road No- 14, Block- B, Banani, Dhaka-1213, Bangladesh

Abstract: *In Bangladesh, the banking sector has a glorious history of getting engaged themselves in different kinds of social activities which is formally known as CSR (Corporate Social Responsibilities). Banking is a business which runs on the confidence and the trust of people that enables the bank to mobilize funds from various sources. The profitability of a bank always depends on the efficient management of fund and exploring the genuine avenues in which its resources are invested to produce the maximum income. The purpose of the study is to discover the impact of Corporate Social Responsibility (CSR) expenditure on the profitability of Mercantile Bank Ltd (MBL) which indicates the fundamental picture of the overall banking industry of Bangladesh. MBL is one of the non-government commercial banks in Bangladesh, for this study purpose CSR expenditure is taken as the independent variable and profit after tax (PAT) as the dependent variable. The study used annual reports of MBL for the year 2011 to 2016. Ordinary least square (OLS) model of regression was analyzed using SPSS 17. to assess the impact as well as test the hypothesis of the study whether there is a relationship and the extent of the relationship between the independent variable (corporate social responsibility expenditure) and the dependent variable (profit after tax). Above all, the analysis revealed that 16.3% of the variance of profit after tax of MBL has been explained by the benefit accrued from corporate social responsibility. The hypothesis that was formulated was tested and the result shows that there is positive relationship between corporate social responsibility and profitability in case of MBL.*

Keyword: Corporate Social Responsibility, Corporate Financial Performance, MBL, Profitability.

1. Introduction

Since the 1950s, CSR (Bowen, 1953) along with the related notions of corporate social responsiveness, corporate social responses (Strand, 1983), and corporate social performance (Carroll, 1979; Wood, 1991), have been the subject of many conceptualizations originating mainly from the management literature. In Bangladesh, the banking sector has a glorious history of getting engaged themselves in different kinds of social activities which is formally known as CSR like donations to different educational and social organizations, country beautification, patronizing cultural activities, health etc. But in some recent years there is tremendous growth in this involvement, because in the 2008 Bangladesh Bank guideline suggested the banks to involve in these activities in a more structured way. After that all banks have embraced CSR with a decision at the highest corporate level have formed separate foundations or trusts as non-profitable institutions solely devoted to the cause of charity, social welfare and other benevolent activities towards the promotion of CSR objectives. The majority of banks in Bangladesh has committed to specified percentages of their pretax profit/net profit each year towards CSR activities. Corporate Social Responsibility (CSR) is gaining fast global acceptance as a standard to assume environmentally sustainable and socially equitable business practices. CSR then is not only a topic for business, but equally a subject for government and civil society or the NGO sector. Driving forces behind this evolution is pressure from various stakeholders (Importers, Environmentalists) while slow progress is attributed to lack of good governance, absence of strong labor unions, consumer forums and above all lack of understanding by business houses, specifically non-exporting ones, that CSR is not charity but is rather an instrumental PR investment. The role of business world-wide and specifically in the developed economies has evolved 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. As a member of the global economy, Bangladesh is also aware of the need to take positive initiatives to establish an image of environmentally and socially responsible businesses. However, these efforts were hardly recognized and labeled as CSR activities since most of the financial institutions have not integrated CSR in their routine operation; rather these were in the form of occasional charity or promotional activities. Bangladesh Bank will monitor CSR adoption and CSR performance of banks and financial institutions, as an additional dimension of their management performance. The banking community has responded sensibly to the call for CSR and sustainable social development.

This paper in basically focused on the CSR activities of the MBL and how it is related to profitability and to what extent banks are eager to involve in these sorts of CSR activities. Banks are profit based organizations, so in this perspective they surely want to spend money in those sectors which will directly or indirectly bring money for them, so obviously there are some positive relationships between CSR and bank's profitability. The rest of the paper is structured as follows. Here I first present a basic framework to capture the notion of CSR as a tool in maximizing profits. In section 2, I explain the literature review and data sources I use. Section 3 highlights research objectives and section 4 explores the research methodology and model development. Finally, in section 5 and 6, I address analysis, hypothesis testing and conclusion of CSR choices.

2. Literature Review and Conceptual Framework

The general signaling role of CSR was also studied by Goyal (2006). That study however is considerably different from the relative authors as it did not consider the brand-value of firms. Rather, Goyal (2006) investigated the signaling role of the CSR when firms considering FDI (Foreign Direct Investment) are interested in favorable terms. Some progressive companies in Bangladesh voluntarily provide some information with regard to social and environmental matters (Chowdhury and Chowdhury, 1996). CSR is one of the corporation's responsibilities to its stakeholder and also a voluntary contribution by a corporation to sustainable development (Crane and Matten, 2007). In addition, the view of CSR as an obligation fails to provide normative criteria to evaluate the extent to which actual business practices can or cannot be considered as socially responsible (Jones, 1995). In particular, as stated by Clarkson (1995), society is at "a level of analysis that is both more inclusive, more ambiguous and further the ladder of abstraction than a corporation itself". Clarkson (1995) argued that businesses are not responsible to society as a whole but only toward those who directly or indirectly affect or are affected by the firm's activities. This first perspective was launched by Bowen (1953), who defined CSR as the obligation "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". The view of CSR as a social obligation has been advocated in later conceptualizations (Carroll, 1979) and contemporary marketing studies (Brown and Dacin, 1997; Sen and Bhattacharya, 2001). As emphasized by Carroll (1979), different types of social obligations can be distinguished: (a) economic obligations (be productive and economically viable), (b) legal and ethical obligations (follow the law and acknowledged values and norms), and (c) philanthropic obligations (proactively give back to society). The companies have to satisfy the divergent number of stakeholders, the credible relationship is created through CSR reporting. It improves communication with the community and other stakeholders and results in competitive advantage (Anand, 2002). Imam (2000) has conducted a survey of CSR practices in Bangladesh which shows that the CSR disclosure level is not adequate. The current voluntary system of social reporting has failed to achieve either the goal of organizational transparency or stakeholder engagement. Instead, a fair assessment is that corporations have been able to co-opt a process designed for stakeholder accountability and turn it into a process of stakeholder management (Owen et al., 2000). A growing consensus is that firms are only disclosing social and environmental information when they are faced with some type of crisis that threatens their legitimacy (Deegan, 2002). Khan and Hossain (2003) made a short study on the environmental reporting practices in the annual reports of manufacturing companies of Bangladesh. Hossain et al. (2004) identified the nature of the voluntary disclosure on human resource in the annual reports in Bangladesh though it is not mandatory from a regulatory authority. Moir (2001) believes that the CSR's big impact in business may depend on two different causes. The first reason is associated with a kind of necessary ethics and morality. As companies have the resources, it is their role to solve social problems. Holmes (1976) examined this role and came to the following conclusion: "in addition to making profits, business should help to solve social problems whether or not business helps to create those problems even if there is probably no short-run or long-run profit potential" (Holmes, 1976). The second reason for CSR's impact is that companies have a vested interest to apply CSR. They have discovered that CSR can be used to strengthen their position in the market. By working with CSR, companies are getting a better reputation and achieving greater loyalty among employees (Moir, 2001). Martin (2002) believes that companies today face increasing demands to implement CSR from consumers or market forces, partly due to globalization and increasing demands for corporate responsibility. Smith (2003) also argues that various corporate scandals such as Enron and WorldCom have further damaged public confidence in the economy. A further reason for the requirement of CSR has increased is the growing realization among the public that government sometimes fails to resolve social problems. In the light of globalization and mistrust of large companies, there is increasing pressure on executives and their companies to deliver wider social values (Martin, 2002). Globalization has also meant that large companies have spread their operations to countries with lower living standards than in Western countries, places where there is no democracy and developed laws. In these countries, companies have an opportunity to compensate for the lack of laws by working with CSR (Smith, 2005). The relationship between CSR and financial performance has produced mixed results with some studies concluding for a positive others negative and even others for the existence of such a relationship (McWilliams and Siegel, 2006; Margoslis, Elfenbein and Walsh, 2007). The empirical studies conducted in developed markets on the relationship between CSR and financial performance is essentially of two distinct categories (Margolis and Walsh, 2007). Most of the prior studies found a positive relationship between CSR and financial performance (Simpson and Kohers, 2002; Graves and Waddock, 1994; McGuire et al., 1988). Moskowitz (1972) found a positive relationship between socially responsible business practices and corporate equity returns. Policies, strategies and programs that are associated with social activities can be used to indicate the level of CSR's commitment of an organization. Organizations too, need to meet the customer's demand and expectations. As to maintain good relationship and attract more customers, enterprises are taking initiatives to fulfill the demand of providing such information. Employees who feel protected and appreciated will increase their productivity in production and thus, will achieve economies of scale.

3. Research Objectives

The general objective of this study is to examine the effect of CSR expenditure on MBL's profitability. But specifically, the study also sought to achieve the following objectives:
i) To find out how MBL carries its CSR.
ii) To investigate whether CSR guarantees the strong profitability linkage.

4. Methodology and Model Development

4.1 Methodology

Secondary data was the chief source of information for the study. The study used annual reports of Mercantile Bank Ltd. Data used include corporate social responsibility expenditure and profit after tax for the period of 2011-2016. An extensive literature viewed to grasp the concept of CSR and the relationship between CSR and the performance of banking business. Data relating to cost/investment/expenditure for the bank on corporate social responsibility and profitability was used to construct ordinary least square (OLS) model of regression to which was analyzed using SPSS 17. to assess the impact as well as test the hypothesis of the study; if there is relationship and the extent of the relationship if any between the independent variable (Corporate Social Responsibility Expenditure) and the dependent variable (Profit After Tax).

For this purpose the following hypotheses are tested to measure the relationship between CSR initiatives represented by CSR expenditure (CSR) and the profitability of Mercantile Bank Ltd. (MBL).

H0: there is no significant relationship between Corporate Social Responsibility expenditure and Bank Profitability.
H1: there is significant relationship between Corporate Social Responsibility expenditure Bank Profitability.

4.2 Model development

Regression model was used to examine the relationship between the independent variable CSR and the dependent variable PAT which is shown in equation (1):

$$P\,t = \alpha 0 + \beta 1 CSR\,t + \dot{\varepsilon} \qquad (1)$$

When P (Banks Profitability) is the dependent variable and CSR is independent variable. Where; t is the t-th year (time series annual data), Pt is the CSR of t-th year.

This study also attempted to use the Pearson correlation analysis method, this is consistently in line with previous studies (Heinze, 1976; McGuire et al., 1988; Stanwick, 1998; Preston and O'Bannon, 1997; Charles- Henri et al., 2002; Hull et al., 2008) and regression analysis (Fogler Nutt, 1975; Vance, 1975; Stanwick, 1998; McWilliams et al., 2000; Hull et al., 2008) to understand the CSR and Profitability link and its relational degree and direction.

5. Data Presentation, analysis and discussion

Table 1 represented the total amount of CSR which MBL spent through the year of 2011 to 2016. It shows that the changing value of CSR in every year with changes of the profit of the company.

Table 1: MBL data on CSR Expenditure and Profit after Tax

Sl No.	Year	*CSR (Tk.)	*PAT (Tk.)
1	2011	49,400,000	1,425,338,409
2	2012	85,900,000	1,755,727,337
3	2013	83,100,000	1,977,849,749
4	2014	53,000,000	1,171,806,155
5	2015	93,300,000	1,402,788,540
6	2016	66,900,000	2,227,905,261

Source: Annual Report (2011-2016)

In order to reduce magnitude of the data for easy elasticity, the data presented in the table 1, the data was logged for easy interpretation of the data. The logarithm of the magnitude of the data is presented in the table 2.

Table 2: MBL LOG data

S.N	Year	*CSR (Tk.)	*PAT (Tk.)	LOGCSR	LOGPAT
1	2011	49,400,000	1,425,338,409	17.7154610	21.0776751
2	2012	85,900,000	1,755,727,337	18.2686944	21.2861490
3	2013	83,100,000	1,977,849,749	18.2355553	21.4052761
4	2014	53,000,000	1,171,806,155	17.7858025	20.8818121
5	2015	93,300,000	1,402,788,540	18.3513307	21.0617279
6	2016	66,900,000	2,227,905,261	18.0187095	21.5243276

Source: Annual Report (2011-2016)

Using SPSS 17 to run the table 2, the logarithm data on CSR expenditure and Profit after Tax (PAT) of MBL for the period of 2011-2016. The output is presented in table 2. From the output the result shows high association or relationship between the two variables under examination.

Table 3: Correlations between CSR and profit after Tax

		CSR	PAT
CSR	Pearson Correlation	1	.404
	Sig. (1-tailed)		.213
	N	6	6
PAT	Pearson Correlation	.404	1
	Sig. (1-tailed)	.213	
	N	6	6

**. Correlation is significant at the 0.01 level (1-tailed).

Table 4: Regression result on the impact of Corporate Social Responsibility on profitability model

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	.404[a]	.163	-.046	.2462110894	.163	.781	1	4	.427	2.013

a. Predictors: (Constant), CSR
b. Dependent Variable: PAT

This establishes relationship between CSR expenditure and PAT was found to be significant at 0.01 or 1%. To evaluate the impact of corporate social responsibility expenditure on profitability in Bangladeshi banks revealed (Beta= 0.404, p<.01), the results of the Ordinary Least Square regression analysis is shown in table 4. This means that for every unit change increment the CSR expenditure will lead to .404 or 40.4% increase in the profit after tax of the company. It also shows that R-square was 0.163 which accounted for about 16.3% of the variation in the profit after tax of MBL. It is also indicating that corporate social responsibility is important in achieving effective financial performance of banks in Bangladesh. The overall significance of the model is showed in the table (F-statistic= 78.1%, p<.01) and the

Durbin-Watson show that the model is fit at 2.013. Over all, the model states that 16.3% of the variance of profit after tax of MBL has been explained by the benefit accrued from corporate social responsibility.

From the above table 4, the value of ("r"= 0.404, p < .01) which stand for "r" calculated. This shows that there is a positive correlation between corporate social responsibility expenditure and the profit earned by the company which is significant at the 0.01 level (1-tailed). This means that the null hypothesis is rejected and leading to the acceptance of the alternative hypothesis.

Table 5: Regression Co-efficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	14.606	7.467		1.956	.122	-6.125	35.338
	CSR	.365	.413	.404	.884	.427	-.782	1.513
a. Dependent Variable: PAT								

Above are the un standardized and standardized regression weights for the regression analysis of corporate social responsibilities and profitability. The standardized regression coefficient (beta weight) for CSR is .404. What this weight means is that for every unit change in CSR, profitability will increase by a multiple of .404 standard deviations. Note that the beta coefficients are significant at p < .001.

The columns headed "95% confidence intervals" shows confidence intervals around the un standardized regression coefficients. Thus it can be said that, with 95% confidence the value of the constant lies somewhere between -6.125 and 35.338, and the value of the regression coefficient b un standardized lies somewhere between -.782 and 1.513.

6. Discussion of Findings

The results of the ordinary least square regression analysis as showed the impact of corporate social responsibility expenditure on profitability in MBL which revealed (Beta= 0.404, p<.01). This means that for every unit change increment the CSR expenditure will lead to .404 or 40.4% increase in the profit after tax of the company. The R-square was 0.163 which accounted for about 16.3% of the variation in the profit after tax of MBL. It is also indicating that corporate social responsibility is important in achieving effective financial performance of corporate organization in Bangladesh. The overall significance of the model is showed in the table (F-statistic= .781 or 78.1, p<.01) and the Durbin-Watson show that the model is fit at 2.013. Above all, the model revealed that 16.3% of the variance of profit after tax of MBL has been explained by the benefit accrued from corporate social responsibility. The hypothesis that was formulated was tested and the result shows that there is positive relationship between corporate social responsibility and profitability.

7. Conclusion

From the above analysis it is clear that CSR has an impact on the profitability of MBL. So the CSR expenditure provides good returns for the banks in the short run and in the long run it will provide better return surely. The study concludes that there is a positive relationship between CSR and profitability and the null hypothesis is rejected. It should be pointed out that this study has several limitations. First, the study is based only on the net profit after tax of the bank which is one of the major indicators of bank's financial performance but not the only one. Second, the study considers only one bank of Bangladesh which does not reflect the overall banking sectors of Bangladesh.

In Bangladesh, CSR initiatives by banks have risen significantly. So Bangladesh Bank should carefully monitor the activities of the Banks whether they are complying the mandatory involvement in the CSR activities from net profit which is now 10% or more from its previous year's net profit. Above all, new laws regarding CSR, legal restrictions, to do CSR activities for the betterment of the people not for profit making or marketing strategies will surely bring more sustainable growth in the banking sectors of Bangladesh.

References

[1] Alexander, G. J. and Buchholz, R. A. (1978) Corporate Social Responsibility and Stock Market Performance. Academy of Management Journal, vol. 21, pp. 479-486.
[2] Bangladesh Bank (2011) Review of CSR initiative in Bank- 2010. Bangladesh Bank Publication.
[3] Bolanle, O. (2012) Corporate Social Responsibility and Profitability of Nigeria Banks - A Causal Relationship.
[4] Research Journal of Finance and Accounting, Vol 3, No 1.
[5] D. editors. Corporate social responsibility volume 1: theories and concepts of corporate social responsibility.

London: Sage Publications.

[6] Donaldson, T. and Preston, L. E. (1995) The stakeholder theory of the corporation: concepts, evidence and implications. Academy of Management Review. 20(1): 65-91.

[7] Fu-Ju, Y. Ching-Wen, L. and Yung-Ning, C. (2010) The linkage between corporate social performance and corporate financial performance. African Journal of Business Management Vol. 4(4), pp. 406-413.

[8] Graves, S. B. and Waddock, S. A. (1994) Institutional ownership and corporate social performance. Academy of Management Journal, vol. 37, no. 4, pp. 1034-1046.

[9] Chapple, W. and Moon, J. (2005) Corporate social responsibility (CSR) in Asia, Business and Society, vol. 44, no.4, pp. 415-441.

[10] Hall, P. L. and Rieck, R. (1998) The effect of positive corporate social actions on shareholder wealth. Journal of Financial and Strategic Decisions, vol. 11, no. 2, pp. 83-89.

[11] http://www.hgpub.com/jorm.html (January 11:9:30) Ahmed, I. H. (2012) Corporate Social Responsibility and Financial Performance Linkage- Evidence from the Banking Sector of Bangladesh. J. Org. Management 1(1): 14-21.

[12] Mahoney, L. and Roberts, R. W. (2007) Corporate social performance, financial performance and institutional ownership in Canadian firms. Accounting Forum. vol. 31, pp. 233-253.

[13] Margolis, J., Elfenbein, H. and Walsh, J. (2007) Does it Pay to be Good? A meta analysis and Redirection of Research on the Relationship Between Corporate Social and Financial Mimeo. Harvard Business School, Boston.

[14] Simpson, W. G. and Kohers, T. (2002) The link between corporate social and financial performance: Evidence from the banking industry. Journal of Business Ethics, vol. 35, no. 2, pp. 97-109.

[15] Teoh, H. Y. and Shiu, G. Y. (1990) Attitudes towards corporate social responsibility and perceived importance of social responsibility information characteristics in a decision context. Journal of Business Ethics, vol. 9, no. 1, pp. 71-77.

[16] Wright, P. and Ferris, S. P. (1997) Agency conflict and corporate strategy: Effect of divestment on corporate value. Strategic Management Journal, vol. 18, no. 1, pp. 77- 83.

[17] Yoon, Y., Giirhan-Canli, Z. and Schwarz, N. (2006) The Effect of Corporate Social Responsibility (CSR) Activities on Companies with Bad Reputations. Journal of Consumer Psychology, vol. 16, no. 4, pp. 377-390.

[18] http://escholarship.org/uc/item/111799p2#page-1 (February 12:10:50) Tsoutsoura, M. (2004) Corporate social responsibility financial performance.

[19] Islam. (2012) Corporate Social Responsibility (CSR) and Issue to Corporate Financial Performance (CFP): An Empirical Evidence on Dhaka Stock Exchange (DSE) Listed Banking Companies in Bangladesh. European Journal of Business and Management, Vol 4, No.11.

[20] Joyner, B. E., Payne, D. and Raibom, C. E. (2002) Building Values, Business Ethics and Corporate Social Responsibility into the Developing Organization. Journal of Developmental Entrepreneurship. Vol 7, pp. 113–131.

[21] McGuire, J., Sundgren, A. and Schneeweis, T. (1988) Corporate social responsibility and firm financial performance. Academy of Management Journal. vol. 31, no. 4, pp. 854- 872.

[22] McWilliams, A. and Siegel, D. (2001) Corporate Social Responsibility A Theory of the Firm Perspective.

[23] Moore, G. (2001) Corporate social and financial performance: an investigation in the U.K. Supermarket industry.

[24] Moskowitz, M. (1972) Choosing socially responsible stocks. Business and Society Review 1, pp. 71-75. Mudzamir, B. M. and Norfaiezah, B. S. (2003) Corporate Social Responsibility (CSR) Activities in Mobile

[25] Mulyadi, A. (2012) Influence of corporate governance and profitability to corporate CSR disclosure. International Journal of Arts and Commerce, Vol. 1 no. 7.

Author Profile

Fariha Tasneem is a Lecturer, Department of Business Administration, University of South Asia, Dhaka, Bangladesh. She has completed her BBA & MBA from Manarat International University (MIU), Major in Finance & Banking. She is in the list of achiever of Vice Chancellor Gold Medal award for the highest CGPA in his university. Now she is doing her second MBA in American International University-Bangladesh, major in Human Resource Management. She has highly exposure on analytical writing which has been reflected in her academic background and work scope.