**Abstract**—In today’s competitive business environment, it is impossible to survive for the organizations which concentrate only on profit. As businesses are social entities, they have to go beyond ensuring profit and serve those who directly or indirectly get benefited or worsened by the organizations. Hence, publicly traded companies tend to perform Corporate Social Responsibility (CSR) and report this information. This paper investigates whether CSR amount reported in annual reports of companies has any significance as far as profitability and valuation of those companies are concerned. Linear regression analysis of three models under study incorporate five years’ data of 30 listed banking companies, the results of which reveal that CSR has no significant impact on neither the profitability nor the share price of the banking industry of Bangladesh. Therefore, the notion that supports CSR’s correlation with profitability, firm performance, and stock performance does not hold true in Bangladesh.

**Keywords**—Bangladesh; Banks; Corporate Social Responsibility; Firm Performance.

**Abbreviations**—Corporate Social Responsibility (CSR); Earnings Per Share (EPS); Gross Domestic Product (GDP); Market Value of Shares (MVS); Return on Assets (ROA); Return on Equity (ROE).

**I. INTRODUCTION**

The idea of corporate social responsibility was developed in the early 1930’s; however, in Bangladesh, the field of corporate social responsibility has grown exponentially in last few years that can be seen from the reported CSR amounts expended by the publicly listed companies in the stock exchanges of Bangladesh. Corporate social responsibility has been defined by Business for Social Responsibility as “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment.” The simplest and perhaps one of the earliest definitions of CSR given by Frooman [7] says “An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder’s welfare.” CSR is commonly viewed as a broad policy of a company that, apart from business activities, relate to ethics, community development, environmental concerns, governance, human resource development, and the benefit of the whole society as well as the workplace where society includes, total business environment including the government, legal authorities, customers, stakeholders, investors, creditors, share holders and even the competitors. CSR has been studied and associated with business organizations by many researchers and academicians in different ways. Some have associated financial performance with Corporate Social Responsibility, whereas, some have discussed the dimensions of this CSR.

Being a developing nation with its GDP (Gross Domestic Product) growth of above six percent a year, Bangladesh is in the midst of attracting investors within the country and also from abroad to enhance its economic growth now more than ever before. Banks are the part and parcel of this progress. The banking industry is considered one of the largest business industries that consist of five state owned banks, thirty-nine local private commercial banks, nine foreign banks and three specialized banks. Besides, the industry dominates in the secondary market with its thirty enlisted banks in the stock exchanges.

The banking companies are the largest contributor in the society in terms of performing CSR activities. As per the Review of CSR activities of Bangladesh Bank, published on June, 2015, total annual direct CSR expenditure by banks in 2014 increased by Tk. 633.97 million from 2013, when CSR expended totaled Tk. 4471.49 million. Although there are several studies on the CSR activities of banks in Bangladesh,
most of the studies highlight the disclosure pattern of CSR that contributed towards indexing of CSR disclosure. Unlike other studies, this particular study examines whether the amount of the total CSR spent on a year by the banks has significant relation with the financial performance in the following year. To be specific, the research objectives include:

1. To identify whether CSR influences organizational performance in terms of profitability
2. To identify whether CSR influences the market value of the firm’s share.

II. Literature Review

According to Friedman [6], in a free society, “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” He urges that business entities address social problems because they take money and resource that otherwise go to owners, employees, and customers. He also suggests businesses distribute money to the minority. Without profit it is impossible for business organizations to exist. Today’s organizations behave to ensure not only return to shareholders, wage to employees, and outputs to customers, but also value to the society [Solihin, 21].

It is ironic that just as the society gets benefited from CSR done by businesses, the organizations get benefited as well. According to Margolis & Walsh [13], there have been one hundred twenty-two published studies between 1971 and 2001 that examined the relationship between corporate social responsibility and financial performance. While, Wright & Ferris [28] discovered a negative relationship; Posnikoff [18] reported a positive relationship. On the other hand, Welch and Wazzan (1999) found no relationship between CSR and financial performance. Inconsistent results were also seen in the findings of McWilliams and Siegel (1997) so far as the relationship between CSR and short run financial returns is concerned. However, long term financial performance has been found to be related with CSR in different studies. One of the early studies of this issue was of Cochran & Wood [5] who found positive correlation between social responsibility and accounting performance after controlling for the age of assets. One of the earliest literatures focusing on profit enhancing role of CSR was by Sturdivant & Ginter [22] who argued that social responsibilities have a positive impact on companies’ Earnings Per Share (EPS). Vance [24] compared 14 firms and his findings suggest similar correlation. Sandra A. Waddock & Samuel B. Graves [26], on the other hand, found significant positive relationships between an index of Corporate Social Performance and performance measures, such as ROA in the following year. Recent studies like that of Becchetti et al., [3], Van der Laan et al. [25], and Lindgreen et al., [12] also suggest that financial performance in terms of ROA, ROE, Sales growth rate, Leverage, Firms value etc have a positive relation with CSR.

There exist opposite views as well. Negative correlation of CSR and profitability has been defended by Friedman [6] and other neoclassical economists who believe that socially responsible firms have a competitive disadvantage [Aupperle et al., 1], because they incur costs that fall directly upon the bottom line and reduce profits. On the other hand, Ullmann & Arieh [29] thinks that there are so many variables that influence CSR and profitability that a relationship should not be expected to exist. In 2007, a survey by Tamoi Janggu et al., [23] was conducted to find out the level of CSR of industrial companies in Malaysia and it was found that CSR has positive relation with the firm profitability however the relation was found to be weak. Another finding of Saleh et al., [20] suggests a similar conclusion as they did not find any significant relationship between CSR and financial performance.

There lies problem in measurement of CSR and other parameters of the investigations. In some cases, subjective measures were used. In other cases, researchers employ official corporate disclosures—mainly annual reports. Despite the popularity of these sources, there is no way to determine empirically whether the social performance data revealed by corporations are under-reported or over-reported. Thus, information about corporate social performance is open to questions about management bias- Heineze [8]; Herremans et al., [9]; McGuire et al., [14]; Moskowitz [15]; Preston & O’Bannon [19]. Thus, although many researchers [Aupperle et al., 1; Mulyadi & Anwar, 16; Nelling & Webb, 17; Stephen L. Wartick & Phillip L. Cochran. 27; Ullmann & Arieh, 29] tried to propose conceptual frameworks for a causal relationship between CSR and Corporate Profit, they failed to do so.

Most of the researches on CSR have been centered on developed economies. The studies in Bangladesh mainly concerns the disclosure checklist related to CSR. Imam [10] says, CSR is generally being neglected [Imam, 10] in Bangladesh. However, there is considerable effort of companies to act sensibly and be responsible towards society and political & ecological environments [Azim et al., 2]. Belal [4] argued that, the banking sector needs to be more socially responsible because stakeholders have increasing demand for it. Also, it has been found in one research of Kabir [11] that CSR enhances the status of an organization, and improves stakeholder return.

III. Research Hypotheses

The following three null hypotheses have been set for examination in order to test the impact of CSR on firm performance.

H1: The amount spent on Corporate Social Responsibility (CSR) at year t has no significant impact on the ROE of year t+1

H2: The amount spent on Corporate Social Responsibility (CSR) at year t has no significant impact on the ROA of year t+1
IV. RESEARCH METHODOLOGY

4.1. Sample Design
For the purpose of this study, all the listed Banking Companies of Bangladesh have been selected. Besides, four years data of CSR from 2009 to 2012 and four years data of ROE, ROA, and average Market Value of Shares (MVS) from 2010 to 2013 have been gathered. Therefore, the population taken for study is 30 banks listed in Dhaka Stock Exchange. However, because 10 banks started reporting CSR after 2009, and one bank had continuous loss (negative values) for four years under study and thus was considered outlier, the firm year tested becomes 106.

4.2. Model Specification
This study examines the impact of Corporate Social Responsibility on the financial performance of the firms as well as market performance. It employs econometric method in formulating regression models which would be analyzed through the use of ordinary least square regression model. For the analysis, the following three models have been designed:

\[ M_1: \text{ROE} = b_0 + b_1 \text{CSR} + u \]
\[ M_2: \text{ROA} = b_0 + b_1 \text{CSR} + u \]
\[ M_3: \text{MVS} = b_0 + b_1 \text{CSR} + u \]

Where:
- ROE= Return on Equity of year t+1
- ROA= Return on Asset of year t+1
- MVS= Average Market Value of Share of year t+1
- CSR = Corporate Social Responsibility amount reported in the annual report of year t
- b0, b1 = Parameter of the Estimate
- U = Error term

4.3. Data Analysis
To find out whether the null hypotheses shall be accepted or not, we conducted a linear regression test, in which the significance level of .05 is used. The analysis was done with the help of statistical software SPSS 17.

V. RESULT DISCUSSION
The regression test output after the values were put into examination can be found in the following tables.

Table 1: Model Summary for \( M_1 \)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>( R^2 )</th>
<th>Adjusted ( R^2 )</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.019</td>
<td>.000</td>
<td>-.009</td>
<td>.0850564</td>
</tr>
</tbody>
</table>

The R value (.019) represents the simple correlation between the dependent variable, ROE and the Independent variable CSR. The result indicates that there is a very low or no correlation between these two variables. The \( R^2 \) value (the "R Square" column) indicates how much of the total variation in the dependent variable, ROE, can be explained by the independent variable, CSR. In this case, \( R^2 \) designates that change in ROE cannot be explained by change in CSR data.

It is evident from the significance column of Table 2 (Sig= .844) that the value is greater than .05 suggesting that the regression model does not significantly predict the outcome of the variable, CSR as far as its impact on ROE is concerned.

If we look at the test results of Model 2 in Table 3 and Table 4, the results show that the correlation between CSR and ROA is also not significant as R value is only .053. The \( R^2 \) also tells us that only .3% change in ROA can be explained by change in CSR.

From Table 4, it can be seen that the relation between CSR and ROA is not significant (.588). Similarly, if we look into the tables, Table 5 and Table 6, we find that, there is a very low or no correlation between CSR and Market value of shares as R value is only .128. Also, change in the independent variable denoted by \( R^2 \) which is equal to 1.6%, does not cause significant change in MVS, Market value of share of a firm.

Table 5: Model Summary for \( M_3 \)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>( R^2 )</th>
<th>Adjusted ( R^2 )</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.128</td>
<td>.016</td>
<td>.006</td>
<td>40.14188</td>
</tr>
</tbody>
</table>
Table 6 constitutes the test result for model 3. The results show that the CSR amount reported in annual reports does not statistically significantly influence Average Market Price of Shares next year. Moreover, as Significance value in the table is equal to .217, the regression relation is considered insignificant.

VI. CONCLUDING REMARKS

Two contrasting pools of studies exist regarding the impact of Corporate Social Responsibility on firm performance. While some support the notion that CSR have significant impact on Earnings Per Share, Return on Equity, Return on ROA, Sales Growth, Stock Price and etc. of a firm, opposite views subsist that are supported by different studies. This study, directed towards finding significance of reported CSR on firm performance next year, finds that CSR has no significant impact on ROE, ROA, and average market value of shares of banking industry of Bangladesh. All three hypotheses hold true after the regression models have been run and therefore, I accept the null hypotheses and conclude that there is no significant relation of CSR reported and firm performance in terms of profitability and stock performance. The findings suggest that, in Bangladesh, CSR activity is still not considered a growth factor and thus does not reflect in a company’s operation, its bottom line profit or valuation of shares. However, as literature highlights that despite the popularity of annual reports in testing data, there is no way to determine empirically whether the social performance data revealed by corporations are under-reported or over-reported, the results found under this study may be subject to management bias.

REFERENCES

Tahmina Ahmed has been teaching Accounting in University of Dhaka for last two years. Previously she worked as a Lecturer of Accounting in Bangladesh University of Engineering & Technology (BUET) for a year. Tahmina completed BBA and MBA, both majoring in Accounting, from University of Dhaka as a topper of the batch and consequently received Dean’s Merit Award, Dean’s Honor Award, and Prime Minister’s Gold Medal. She is planning to pursue her PhD in one of the top tier Business Schools in the world next year. Her research interest includes Voluntary Reporting, Reporting Quality, Earnings Management, and Corporate Frauds. She has published 3 articles on Human Capital Reporting, Corporate Social Responsibility, and Financial Scandals in Banks respectively. Tahmina participated in two international Conferences, one in South Korea and the other one in UAE.


