THE EFFECT OF CSR ON BANK FINANCIAL PERFORMANCE: EVIDENCE FROM BANGLADESH

SUMITTED TO

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Date of submission

2nd June, 2023

LETTER OF TRANSMITTAL

Mohammad Tariq Hasan, Ph.D.
Associate Professor,
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United International University.

Subject: Project report on "The Effect of CSR on Bank financial performance: Evidence from Bangladesh"

Dear Sir,
I am pleased to submit the report entitled "The Effect of CSR on bank financial Performance: Evidence from Bangladesh". The report is a result of extensive research conducted on the relationship between Corporate Social Responsibility (CSR), and firm performance in the banking sector of Bangladesh. The objective of this report is to investigate the impact of CSR on the financial performance of firms. The study was conducted in the banking sector of Bangladesh, which is a highly visible and influential industry that can play a significant role in promoting social and environmental sustainability. The report provides an in-depth analysis of the findings and draws conclusions on the relationship between CSR, and firm performance in the banking sector of Bangladesh. It is our belief that this report will be useful to researchers, policymakers, and industry stakeholders who are interested in the topic of CSR and its impact on firm performance.

I want to convey my gratitude to the research team that worked on this project as well as to our research partners who contributed insightful observations and useful data. I'd also like to express my gratitude for considering this report for evaluation; we hope you'll find it useful and interesting.

Sincerely,
Zahid Uddin Moon
ID: 114 151 026

DECLARATION OF THE STUDENT

"I, **Zahid Uddin Moon**, declare that this work presented in this paper is my own original work and has not been submitted for assessment or published elsewhere. All sources have been appropriately cited and referenced in accordance with the academic referencing standards required by my institution.

I understand that plagiarism is a serious academic offense and I take full responsibility for the originality and authenticity of this work.

Signed by

Zahid Uddin Moon

ID: 114 151 026

ACKNOWLEDGEMENT

Please accept my deepest thanks and appreciation to everyone who helped this project be completed successfully. I want to start by expressing my gratitude to my boss, **Mohammad Tariq Hasan, Ph.D.**, for his invaluable direction, encouragement, and input throughout the project. His skills and experience have been crucial in determining the course of this study. A special thanks goes out to all of the study participants, without whom this investigation would not have been feasible. They offered our study with invaluable information by being ready to share their experiences and ideas. Additionally, I would want to express my gratitude to my students for their encouragement and support during the project. Finally, I want to express my gratitude to my family and friends for their constant support and inspiration along this trip.

Thank you, sir, for your contributions, support, and guidance in making this project a success.

Sincerely,

Zahid Uddin Moon

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ABSTRACT

This study investigates the relationship between Corporate Social Responsibility (CSR), and firm performance in the banking sector of Bangladesh. The objective of this study is to determine whether CSR activities have a positive impact on the financial performance of firms. The study utilizes a quantitative research design and data was collected from a 2017 to 2021 annual report of banks in Bangladesh. Multiple regression analysis was used to analyze the data and test the hypotheses. The findings reveal that there is an insignificant negative relationship between CSR and financial performance in the banking sector of Bangladesh. The study concludes that CSR activities do not have a significant positive impact on financial performance. The findings provide valuable insights for policymakers, industry stakeholders, and researchers interested in the topic of CSR and its impact on firm performance in the banking sector of Bangladesh.

Keywords: Corporate Social Responsibility (CSR), CSR expenditure, Bank financial performance, Ownership structure.

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LIST OF ABBREVIATION

CSR = Corporate Social Responsibility.

FP= Financial Performance

CL = Classified Loan

FS = Firm Size

AQ = Auditor Qualities

GRI = Global Reporting Initiative

MNC = Multinational Corporation

CHAPTER ONE: INTRODUCTION

1.1 Background of the Topic

Corporate Social Responsibility (CSR) has become a significant aspect of modern business practices. Companies are now expected to not only prioritize profits but also act in socially and environmentally responsible ways. The banking sector, being a highly visible and influential industry, has a crucial role to play in promoting social and environmental sustainability The purpose of this study is to investigate the impact of CSR on the financial performance of firms and to determine whether this relationship is influenced by the type of ownership structure. (Cochran & Wood, 1984; Hasan, Molla, & Khan, 2019). Bangladesh is an interesting case to study as the country has experienced rapid economic growth in recent years, with the banking sector being a significant contributor to this growth. However, the country also faces significant social and environmental challenges, making it crucial for companies to adopt CSR practices. This study aims to contribute to the existing literature on the relationship between CSR and firm performance and to provide insights into the role of ownership structure in this relationship. The findings of this study will be relevant not only to the banking sector in Bangladesh but also to policymakers, industry stakeholders, and researchers interested in the topic of CSR and its impact on firm performance (Molla, Hasan, Miraz, Azim, & Hossain, 2021).

1.2 Study Objective

This study's primary goal is to examine the effect of CSR on the financial performance of businesses in Bangladesh's banking industry. The study specifically seeks to accomplish the following goals:

1. To examine the relationship between CSR and financial performance in the banking sector of Bangladesh.
2. To determine the role of ownership structure in the relationship between CSR and financial performance.
3. To provide insights into the current CSR practices of banks in Bangladesh and their impact on financial performance.
4. To identify areas for improvement in CSR practices in the banking sector of Bangladesh.

5. To contribute to the existing literature on CSR and firm performance, particularly in the context of the banking sector of developing countries.

The attainment of these objectives will contribute to a better understanding of the relationship between CSR and financial performance and the role of ownership structure in this relationship. The findings of this study will also provide valuable insights for policymakers, industry stakeholders, and researchers interested in the topic of CSR and its impact on firm performance in the banking sector of Bangladesh. The primary objective of the study "The Effect of CSR on Firm Performance and the Role of Ownership Structure: Evidence from Bangladesh Banking Sector" is to examine the impact of corporate social responsibility (CSR) on the performance of banking firms in Bangladesh (Acquier, Gond, & Pasquero, 2011; Molla et al., 2021). The study also aims to investigate the moderating effect of ownership structure on the relationship between CSR and firm performance. Specifically, the study seeks to explore how the presence of different types of shareholders (institutional, individual, and government) affects the relationship between CSR and firm performance. Overall, the study aims to provide insights into the importance of CSR and ownership structure in enhancing the performance of banking firms in Bangladesh.

1.3 Overview of Banking Sector of Bangladesh

The banking sector of Bangladesh has undergone significant changes and development over the past few decades. The sector has experienced a substantial growth in terms of the number of banks, branches, and customers Jiao, Y. (2010). The country's banking industry is governed and supervised by Bangladesh Bank, the nation's national bank. The banking industry in Bangladesh now consists of 60 scheduled banks, including 2 non-scheduled banks, 4 state-owned commercial banks, 5 government-owned specialized banks, 40 private commercial banks, and 9 foreign commercial banks. A wide range of financial services, including as deposit taking, lending, remittance, trade financing, and other auxiliary services, are offered by this industry. Additionally, Bangladesh's banking industry has made great strides in terms of digitization and financial inclusion. The government and the central bank have taken various initiatives to promote financial inclusion, such as opening bank accounts for the unbanked population, establishing agent banking, and providing mobile financial services. The sector has also embraced digitalization and finch innovations, with many banks offering online and mobile banking services, e-commerce payment solutions, and digital wallets. Despite the significant progress, the banking sector of Bangladesh faces several challenges, such as high non-performing loans, low financial literacy, weak corporate governance, and inadequate regulatory and supervisory capacity. Therefore, it is crucial that the sector handle these issues and carry on with sustainable development, supporting the nation's overall economic growth and development.

CHAPTER TWO: LITERATURE REVIEW

2.1 Theory

The theory of "The Effect of CSR on Firm Performance and the Role of Ownership Structure: Evidence from Bangladesh Banking Sector" suggests that corporate social responsibility (CSR) initiatives can have a significant impact on the performance of banks in Bangladesh, and that the ownership structure of these banks can also play a role in shaping the relationship between CSR and performance. The theory suggests that CSR can have a positive impact on firm performance through various mechanisms. For example, CSR initiatives can enhance the reputation and image of a firm, leading to increased customer loyalty and improved financial performance. Alhaddi (2015). CSR initiatives can also improve employee morale, productivity, and retention, which can lead to lower turnover costs and increased performance. Furthermore, CSR can contribute to the long-term sustainability of a firm by reducing risk, enhancing stakeholder relations, and improving access to financing. The theory also suggests that the ownership structure of banks can play a role in shaping the relationship between CSR and performance. For example, banks with a higher level of foreign ownership may be more likely to engage in CSR initiatives that align with the values and expectations of their global stakeholders. Similarly, banks with a higher level of government ownership may be more likely to engage in CSR initiatives that align with the priorities and needs of the local community. Overall, the theory suggests that CSR can have a positive impact on firm performance, and that the ownership structure of banks can play a role in shaping the relationship between CSR and performance. This has important implications for banks in Bangladesh and other developing countries, where CSR is becoming an increasingly important part of corporate strategy. By understanding the relationship between CSR and performance, and the role of ownership structure in shaping this relationship, banks can develop effective CSR strategies that enhance their performance and contribute to the long-term sustainability of their operations.

2.1.1 Stakeholders Theory

Stakeholder theory is a management theory that proposes that organizations have responsibilities to a variety of stakeholders beyond just shareholders or owners. According to this theory, stakeholders include not only shareholders but also employees, customers, suppliers, communities, and other groups that can be affected by the organization's activities. The theory suggests that an organization should consider the needs and interests of all its stakeholders, not just shareholders, when making decisions. This means that organizations should strive to create value not only for their shareholders but also for their employees, customers, and other stakeholders. In doing so, organizations can build stronger relationships with their stakeholders, enhance their reputation, and improve their long-term performance.

Stakeholder theory proposes that organizations have a social responsibility to their stakeholders and should consider the impact of their activities on the wider society. This means that organizations should not only focus on maximizing profits for their shareholders but also consider the social and environmental impact of their operations. Stakeholder theory has important implications for corporate governance, as it suggests that the board of directors should represent the interests of all stakeholders, not just shareholders. This means that the board should include representatives of employees, customers, and other stakeholders, and should be responsible for ensuring that the organization's activities are aligned with the interests of all stakeholders. Overall, stakeholder theory proposes a more inclusive approach to corporate decision-making, which takes into account the interests of all stakeholders, and can lead to better long-term performance for organizations (Aras, Aybars, & Kutlu, 2010; Hasan, Rekabder, Akter, & Sayem, 2009).

2.1.2 Agency Theory

Agency theory is a perspective in organizational theory that examines the relationship between principals and agents, particularly in the context of corporate governance. In this theory, the principal is typically the owner of a company or a group of shareholders, while the agent is the manager or executive who is hired to run the company on behalf of the principal. The central idea of agency theory is that the interests of the principal and the agent may not always be aligned. The principal wants the agent to act in the best interests of the company and to maximize its value, while the agent may have personal goals or incentives that are not aligned with the interests of the principal. The theory proposes that in order to align the interests of the principal and the agent, the principal must design a set of incentives and monitoring mechanisms that encourage the agent to act in the best interests of the company. These mechanisms can include performance-based compensation, performance evaluations, and oversight by a board of directors. The agency theory also recognizes that there may be costs associated with monitoring and enforcing the agency relationship. These costs can include the costs of designing and implementing monitoring mechanisms, as well as the costs of resolving conflicts that may arise between the principal and the agent. Overall, agency theory suggests that the relationship between principals and agents is characterized by a potential conflict of interest, and that mechanisms must be put in place to align their interests and ensure that the agent acts in the best interests of the principal (Hasan, 2020; Hasan, Hossain, Rekabder, Molla, & Ashif, 2022a, 2022b; Hasan & Rahman, 2020).

2.1.3 Resource Dependency

According to the resource dependency theory of management, organizations must rely on outside resources in order that function & accomplish their objectives. These external resources can include financial capital, raw materials, technology, information, and human resources, among others. The theory proposes that organizations face two main challenges when it comes to managing their external resources. The first challenge is the risk of resource scarcity, which can occur when organizations do not have enough of a particular resource to meet their needs. The second challenge is the risk of resource dependence, which can occur when organizations become too reliant on a particular external resource and are unable to operate without it.

Resource dependency theory suggests that organizations can mitigate these risks by developing strategies to manage their external resources effectively. For example, organizations can develop relationships with suppliers and other external partners to ensure a steady supply of resources. Organizations can also invest in research and development to develop new technologies and processes that reduce their reliance on external resources. Resource dependency theory also has implications for organizational structure and decision-making. The theory suggests that organizations must carefully manage their relationships with external partners, and that this can require changes to the structure and culture of the organization. For example, organizations may need to adopt a more collaborative and open approach to decision-making in order to effectively manage their external resources. Overall, resource dependency theory emphasizes the importance of managing external resources effectively in order to achieve organizational goals. By understanding the risks of resource scarcity and dependence, and developing strategies to mitigate these risks, organizations can improve their performance and achieve long-term success.

2.2 CSR (Corporate Social Responsibility)

Corporate Social Responsibility (CSR) is a business concept that refers to a company's voluntary actions and initiatives to take responsibility for the impact of its activities on the environment, society, and stakeholders (López & Rodriguez, 2007). In other words, it is a company's efforts to go beyond its legal obligations and contribute to the well-being of society and the environment. CSR involves a wide range of activities that companies can undertake to demonstrate their commitment to social responsibility. These activities can include initiatives such as charitable donations, community service projects, employee volunteer programs, environmental sustainability programs, and ethical business practices, among others. The concept of CSR has evolved over time and has become increasingly important in the business world. Today, CSR is seen as an integral part of a company's overall strategy and is often used to build reputation, enhance brand image, and attract and retain employees, customers, and investors. While CSR is often seen as a voluntary initiative, it is also subject to legal and regulatory requirements in many countries. For example, some countries require companies to disclose their CSR activities in their annual reports, while others require companies to meet specific environmental or social standards. Overall, the concept of CSR reflects the growing recognition among businesses that they have a responsibility to go beyond their economic obligations and contribute to the well-being of society and the environment.

2.2.1 CSR’S History

The history of Corporate Social Responsibility (CSR) is extensive and ever-evolving. The origins of CSR can be traced back to the 18th century, when business owners such as Robert Owen and Titus Salt initiated philanthropic activities to improve the working and living conditions of their employees. However, the modern concept of CSR emerged in the mid-20th century. In the 1950s and 1960s, a growing number of business scholars and practitioners began to recognize the importance of businesses considering their social and environmental impacts. This was in response to concerns about the negative effects of industrialization on society and the environment, and the emerging social movements calling for greater corporate responsibility. In the 1970s and 1980s, the concept of CSR continued to evolve, with a growing emphasis on corporate accountability and transparency. This was in response to corporate scandals and environmental disasters, which raised public awareness and concerns about the impact of business on society and the environment. In the 1990s and 2000s, CSR became increasingly mainstream, as companies recognized the importance of considering their social and environmental impacts as part of their overall business strategy. This was driven in part by increasing pressure from stakeholders, including consumers, investors, and NGOs, who demanded greater accountability and transparency from companies. Today, CSR is an integral part of many companies' business strategies, and is often used as a tool to build reputation, enhance brand image, and attract and retain employees, customers, and investors. Many companies now have dedicated CSR departments, and CSR initiatives are increasingly integrated into core business operations.

2.2.2 Conceptual framework of CSR on Financial Performance

Several researchers have developed frameworks to justify CSR spending on sustainability. CSR areas involved in 5 elements (Ahmed Islam & Hasan, 2012). They found 30 score in value and transparency which was highest in their survey. They got 70 scores in workplace segment. In this segment internal worker participation and wages or salaries included. They found 50 scores in corporate government practices. Standard board structure and financial reporting help to institutional and financial sustainability. Environment is the burning question in 21st era. Now government and it polices focus on environment in vital role to achieve the sustainable position.

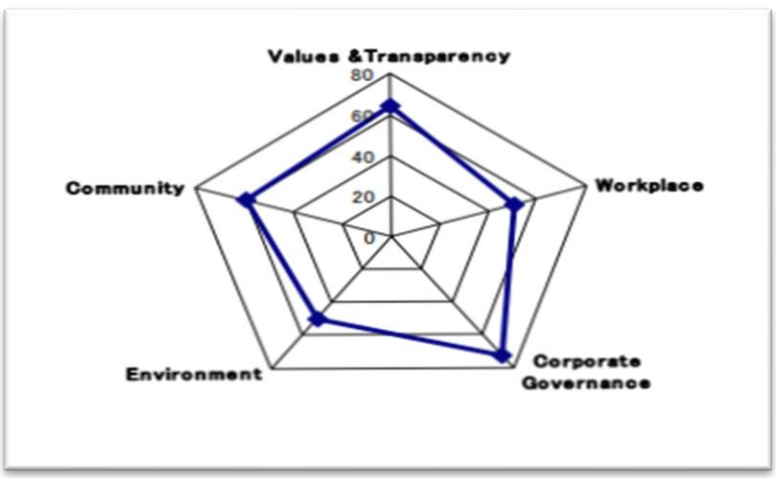

Figure 2.1: Sustainability of framework.

They found 40 scores in environment issues. The most important is community which is main topic in this thesis paper or study. Community level efforts can help the financial sustainability. In community level, social investment is the most important elements rather than others. The honourable researcher got 60 point in their survey. Tuhin (2014) creates a theory about forces which are reasons of affecting CSR activities.

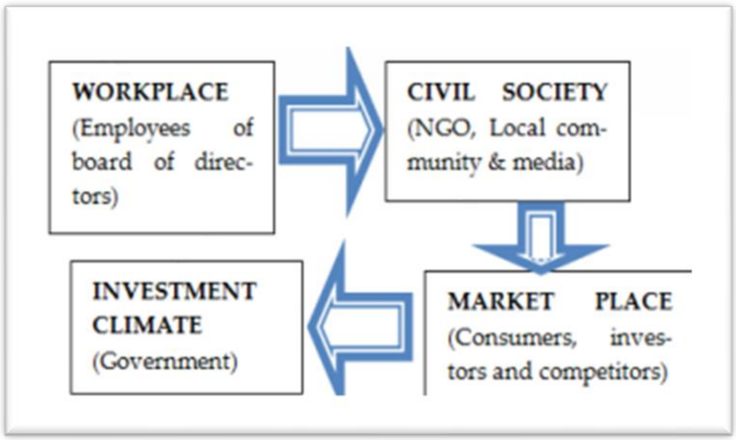

Figure 2.2: Forces of CSR

In the research paper Tuhin (2014) mentions that Investment in climate specially green banking activities lead a sustainable long term goal. To analyse activities of CSR and its spending sustainability Islam and Rahman (2017) evaluate that sustainability level via financial parameters.

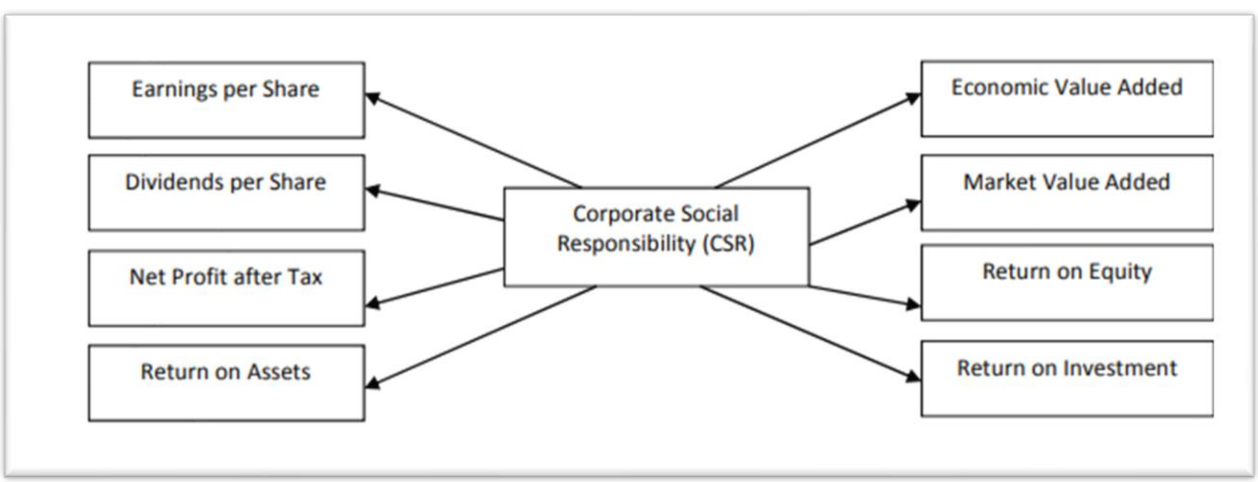

Figure 2.3: Parameters of CSR

2.2.3 Why firm engage in CSR?

Firms engage in Corporate Social Responsibility (CSR) for a variety of reasons, including ethical, social, and economic factors. Here are some of the main reasons why firms engage in CSR: Ethical considerations: Some firms engage in CSR because they believe it is the right thing to do from an ethical perspective. They feel that they have a responsibility to contribute to the well-being of society and the environment beyond their economic obligations. Reputation and brand building: Many (Saddique, & Khan , 2017). CSR activities can help to demonstrate a firm's commitment to social responsibility and can enhance its image among customers, employees, and other stakeholders. Employee recruitment and retention: Firms that engage in CSR can attract and retain employees who are motivated by a sense of purpose and a desire to work for a company that shares their values. Customer loyalty and retention: CSR activities can help to build customer loyalty and retention by demonstrating a firm's commitment to social responsibility and by aligning with the values of its customers. Access to capital and investment: Firms that engage in CSR may be more attractive to investors and lenders who are looking to invest in companies that have a positive impact on society and the environment. Risk management: Engaging in CSR can help firms to manage risk by avoiding negative social and environmental impacts that could harm their reputation or result in legal or regulatory sanctions. Overall, firms engage in CSR for a variety of reasons, including ethical considerations, reputation and brand building, employee recruitment and retention, customer loyalty and retention, access to capital and investment, and risk management.

2.2.4 Content Analysis

Content analysis is a research method used to study the content of various forms of communication, such as written text, audio, video, images, and social media posts. It involves systematically analyzing and interpreting the meaning of words, phrases, and themes in a piece of communication, in order to identify patterns and gain insights into the message being conveyed.

The process of content analysis typically involves the following steps:

1. Defining the research question: The researcher identifies the research question or topic they want to investigate.
2. Selecting the data: The researcher selects the relevant data to analyze, such as a set of written documents, social media posts, or video recordings.
3. Developing a coding scheme: The researcher creates a set of categories or codes to identify and classify the content in the data.
4. Coding the data: The researcher systematically applies the coding scheme to the data, assigning a code to each piece of content.
5. Analyzing the data: The researcher analyzes the coded data, looking for patterns and themes that emerge.
6. Interpreting the results: The researcher interprets the results of the analysis, drawing conclusions and making inferences based on the patterns and themes that were identified.

Content analysis can be used in a variety of fields, including media studies, marketing, psychology, and sociology, among others. It is a useful method for exploring and understanding the content and meaning of large volumes of communication data, and can provide valuable insights into the attitudes, beliefs, and behaviors of individuals and groups.

2.3 Financial Performance

Measuring financial performance is an important aspect of evaluating the success of a company or organization. There are various metrics that can be used to measure financial performance, including:

1. Revenue: This is the total amount of money a company brings in from its operations, including sales of products or services.
2. Net income: This is the difference between a company's revenue and expenses. It represents the profit the company earns after deducting all expenses.
3. Gross margin: This is the difference between a company's revenue and the cost of goods sold. It represents the profit the company earns after deducting the cost of producing and delivering its products or services.

4. Earnings per share (EPS): This measure how much money a business makes from each share of its stock? It is figured by dividing the total number of outstanding shares by the net income of the company.
5. Return on investment (ROI): This is a measure of the return on investment that a company earns. It is calculated by dividing the company's net income by its total assets.
6. Debt-to-equity ratio: This is a measure of a company's leverage, or the amount of debt it has compared to its equity. It is calculated by dividing the company's total debt by its total equity.
7. Market-to-earnings (P/E) ratio: This gauges the stock price in relation to the earnings per share of a firm. It is determined by dividing the stock price by the earnings per share of the firm.

(Ahmed & Hasan, 2012). The financial success of a corporation may be assessed using any one of these criteria alone or in combination. They offer a snapshot of the company's financial situation and may be utilized to help with strategic planning, financing, and investment decisions.

2.4 Relationship between CSR and Firm performance

The relationship between corporate social responsibility (CSR) and firm performance has been a topic of interest and debate among researchers and practitioners. CSR refers to a company's voluntary actions and initiatives to address social, environmental, and ethical concerns in its business operations and interactions with stakeholders.

The relationship between CSR and firm performance is complex and can vary depending on various factors, such as industry, company size, and the specific CSR activities undertaken. Here are some key points to consider:

1. Positive Impact on Financial Performance: Numerous studies suggest that adopting CSR practices can have a positive impact on a firm's financial performance. By engaging in responsible business practices, such as reducing environmental impact, improving labor conditions, or enhancing product safety, companies can enhance their reputation, attract

socially conscious consumers, and gain a competitive advantage, leading to improved financial performance.

2. Reputation and Brand Image: CSR initiatives can help a company develop a favorable reputation and brand image. Consumers, employees, investors, and other stakeholders often perceive socially responsible companies as more trustworthy and ethical, which can lead to increased customer loyalty, employee satisfaction, and investor confidence. These intangible benefits can positively influence a firm's long-term performance.

3. Risk Mitigation: CSR practices can help mitigate various risks for a company. For example, by adhering to ethical sourcing standards, a company can avoid potential legal and reputational risks associated with supply chain violations. Similarly, by investing in sustainability initiatives, a company can reduce exposure to environmental risks and regulatory changes. Effective risk management through CSR can contribute to improved firm performance by avoiding costly disruptions and legal consequences.

4. Cost Savings and Efficiency: Implementing CSR initiatives can lead to cost savings and operational efficiencies. For instance, adopting energy-efficient technologies can reduce utility expenses, implementing waste reduction programs can lower disposal costs, and enhancing employee well-being can reduce healthcare expenses and improve productivity. These efficiency gains can positively impact a firm's financial performance.

5. Stakeholder Relations: Engaging in CSR activities fosters positive relationships with stakeholders, including customers, employees, communities, and regulators (Kamal and Hasan, 2017). By addressing their concerns and demonstrating a commitment to social and environmental responsibility, companies can enhance trust and cooperation, leading to benefits such as customer loyalty, talent attraction and retention, community support, and regulatory support.

6. Long-Term Perspective: CSR is often associated with a long-term perspective, considering the sustainable development of a company. By integrating social and

environmental considerations into business strategies, companies can manage risks, build resilience, and position themselves for long-term success. This can include anticipating changing consumer preferences, adapting to evolving regulations, and addressing emerging societal challenges.

However, it is important to note that the relationship between CSR and firm performance is not universally consistent across all studies. Some researchers argue that the relationship may be contingent on contextual factors and industry-specific characteristics. Additionally, the nature and measurement of CSR and firm performance can vary, leading to differing results in empirical studies. Overall, while there is evidence to suggest a positive association between CSR and firm performance, the specific outcomes may vary depending on the circumstances and strategies employed by individual companies. It is essential for firms to carefully consider their CSR initiatives, align them with their business goals, and measure the impact to effectively leverage the potential benefits on firm performance.

CHAPTER THREE: METHODOLOGY OF THE STUDY

3.1 Measurement of CSR and Financial Performance

The measurement of CSR and financial performance can vary depending on the specific context and research questions. However, some common measures for each are:

3.1.1 Measurement of CSR

Corporate social responsibility index (CSRI): This index measures the level of social responsibility of a company based on various dimensions such as community involvement, environmental sustainability, and ethical behavior. Disclosure index: This index gauges how much information a firm makes publicly available, including in its annual reports, on its CSR initiatives. Stakeholder engagement index: According to Brammer and Millington (2008), this index gauges the degree of interaction and communication between a business and its many stakeholders, including clients, staff members, and community members.

3.1.2 Measure of Financial Performance

Tobin's Q

Tobin's Q is a financial measure that is used to evaluate a company's performance by comparing its market value to its book value. It is named after James Tobin, the Nobel Prize-winning economist who developed the concept in the 1960s. In simple terms, Tobin's Q compares the market value of a company's assets to the cost of replacing those assets. The market value is the current market price of a company's stock, while the replacement cost is the cost of rebuilding a company's assets from scratch. The Q ratio is calculated by dividing the market value of a company's assets by the replacement cost of those assets. If Tobin's Q is greater than 1, it suggests that the market values the company more highly than the cost of replacing its assets. This can be interpreted as a positive signal for the company's financial health, as it suggests that investors believe the company is likely to generate a higher return on its assets than the cost of replacing them. Conversely, if Tobin's Q is less than 1, it suggests that the market values the company less highly than the cost of replacing its assets, which could indicate poor financial health or poor prospects for future profitability. Tobin's Q is commonly used in financial analysis, particularly in studies of corporate performance and investment. It is often used in conjunction with other financial measures to provide a more comprehensive view of a company's financial health and future prospects. Tobin's Q is often used in financial research to evaluate a company's investment opportunities, profitability, and potential for growth. For example, a high Tobin's Q may indicate that a company is well-positioned to take advantage of new investment opportunities, while a low Tobin's Q may suggest that the company is struggling to generate returns on its existing assets. Tobin's Q is also commonly used in mergers and acquisitions, as it can provide insights into the relative value of companies being considered for acquisition or merger. For instance, if the Tobin's Q of the acquiring company is higher than the Tobin's Q of the target company, it may indicate that the acquiring company can generate more value from the target company's assets than the target company itself. There are some limitations to Tobin's Q, however. First, it relies on market value, which can be volatile and may not accurately reflect a company's true value. Second, it does not take into account the quality or efficiency of a company's assets, which can be a critical factor in determining its profitability and long-term viability. Despite these limitations, Tobin's Q remains a widely used financial metric, particularly in studies of corporate finance and investment. It is expected to be a crucial tool for investors and analysts going forward since it may offer insightful information about the fiscal condition and development prospects of a firm.

Tobin's Q Formula's

$$Q = \text{Market Value} \div \text{Total Assets}.$$

It may be used to assess the relative worth of a stock in a firm or the market as a whole.

3.2 Hypothesis

A hypothesis is a statement or proposition that is made as a tentative explanation for a phenomenon, based on limited evidence or previous research. It is an educated guess or prediction about the relationship between two or more variables that can be tested through empirical research. In scientific research, hypotheses are used to guide the research process and provide a framework for collecting and analyzing data. A hypothesis typically consists of an independent variable (the factor that is being manipulated or observed) and a dependent variable (the outcome or response that is being measured). The hypothesis predicts the relationship between the independent and dependent variables, and the research is designed to test this prediction.

Hypothesis 1: CSR on Financial performance

There is ongoing debate regarding the relationship between Corporate Social Responsibility (CSR) and financial performance. Some studies suggest that engaging in CSR activities can positively impact a company's financial performance, while others argue that the impact is either negligible or negative. One hypothesis is that engaging in CSR activities can positively impact a company's financial performance by enhancing its reputation, increasing customer loyalty, and attracting socially responsible investors. This is known as the "business case" for CSR. According to this hypothesis, companies that are seen as socially responsible may be more likely to attract and retain customers and employees, as well as to secure favorable relationships with suppliers, regulators, and other stakeholders. Additionally, companies that invest in CSR may benefit from improved operational efficiency, reduced risk, and enhanced innovation. However, some studies suggest that the relationship between CSR and financial performance is more complex and may be influenced by factors such as the industry in which the company operates the type of CSR activity, and the stage of CSR implementation. For example, companies in highly regulated industries may benefit more from CSR activities than companies in less regulated industries. Similarly, the effectiveness of CSR initiatives to boost economic achievement may be greater when they are in harmony with a company's vital business plan. Overall, it is evident that CSR may significantly affect an organization's credibility, stakeholder relationships, and risk management, which may eventually affect its financial performance, despite the inconsistent evidence supporting the "business case" for CSR.

3.3 Size of Data

There are 41 privately owned commercial banks, according to Bangladesh Bank. The DSE lists 30 of them. Belal (2001) asserts that the sample size for a descriptive study should be greater than or equal to 10% of the population. Twenty banks were used in the investigation. For this investigation, five years' worth of data for each bank was gathered. The 20 banks listed below will also be examined in this study:

Table: List of companies for the study

Sl. No.	Name of the listed Banks
01	Bank Asia Limited
02	AB Bank Limited
03	National Bank Limited
04	Al-Arafah Islami Bank Limited
05	EXIM Bank Limited
06	Islami Bank Limited
07	Prime Bank Limited
08	Pubali Bank Limited
09	One Bank Limited
10	Jamuna Bank Limited
11	Mutual Trust Bank Limited
12	Mercantile Bank Limited
13	BRAC Bank Limited
14	Premier Bank Limited
15	Eastern Bank Limited
16	City Bank Limited
17	Shahjalal Islami Bank Limited
18	Dhaka Bank Limited
19	Dutch-Bangla Bank Limited
20	IFIC Bank Limited

3.3.1 Design of Study

From the study sample, five years of annual statements for each bank were gathered. The annual reports were downloaded in electronic form from each bank's website. Financial information was gathered from yearly reports, and a CSR disclosure index was created. Data on CSR costs were gathered from Bangladesh Bank's semi-annual CSR report. Annual reports of 20 listed banks (2017–2022) listed in accordance with Bangladesh Bank's DSE and SEC regulations

3.4 Research Model

Model: 1

Tobin's $Q_{it} = \beta_0 + \beta_1 CSRI_{it} + \beta_2 FS_{it} + \beta_3 AQ_{it} + \beta_4 CLR_{it} + \beta_5 FL_{it} + €_{it}$

Model Variable	Detail
CSRI	Corporate social responsibility index
FS	Firm Size
AQ	Audit Quality
CLR	Classified Loan Ratio
FL	Financial leverage
INS	Institution ownership
FO	Foreign Ownership
FOW	Family Ownership

3.5 Research Model Variable

In the context of research, a variable is any characteristic, trait, or factor that can be measured, observed, or controlled. Variables can take many different forms, such as numerical values, categories, or labels. They are used to describe, explain, and predict phenomena of interest. There are two main types of variables: dependent variables and independent variables. Independent variables are manipulated or controlled by the researcher in order to study their effect on the dependent variable (Hasan et al., 2022b; Hasan et al., 2019; Hasan & Rahman, 2020; Hasan, Rahman, Sumi, Chowdhury, & Miraz, 2020). Dependent variables, on the other hand, are the outcomes or results that are being measured or observed and are dependent on the independent variable. In addition to independent and dependent variables, there may also be control variables, which are variables that are held constant or controlled in order to isolate the effects of the independent variable on the dependent variable. Control variables help to ensure that any observed effects are due to the independent variable and not some other factor.

3.5.1 Variables of Dependent

A dependent variable is a variable that is being measured or observed in an experiment or study, and its value depends on other variables in the experiment. It is the variable that is expected to change in response to changes in the independent variable(s) being studied.

An independent variable is a variable that is manipulated or controlled by the researcher in order to study its effect on the dependent variable. In the context of "The Effect of CSR on Firm performance and the role of ownership structure: Evidence from Bangladesh Banking sector," the independent variable is corporate social responsibility (CSR). The researcher is interested in analyzing how CSR has affected Bangladeshi banks' financial success. CSR is a variable that may be impacted by a number of elements, including the management's values and beliefs, stakeholders' expectations, and the legal environment. The researcher's goal is to ascertain if CSR can be utilized as a strategy to enhance banks' financial performance by examining the link between CSR and financial performance.

After all item reviewed CSR disclosure index was calculate as follows:

$$CSR\ disclosure\ index = \frac{\sum_{i=1}^{n} x_i}{n}$$

Where, Xi = if item *i* is disclosure then 1,   otherwise 0.

n = number of items.

To determine whether CSR disclosure and expense have the same relationship with financial performance, a second CSR index was created. Many authors use the method of measuring CSR spending to determine the relationship between CSR and an organization's financial success. The study conducted by We Shah et al. (2012) and the CSR spending index in this paper are identical. This index comprises four elements, each of which has a maximum score of ten. The CSR spend to net income ratio is the first point. A score of 10 was given if CSR represented 2% of net profit or greater. Otherwise, the index value was determined proportionally. The second, third, and fourth items are CSR expenditures for the environment, health, and education, respectively. According to Bangladesh Bank, banks should dedicate 30%, 20%, and 10% of their overall CSR budgets to the environment, health, and education, respectively. In the final three elements, it was examined whether or not banks adhered to these requirements. If a bank's CSR expenditures follow Bangladesh Bank guidelines, it receives a maximum score of 10 for each item. If the conditions are not fully met, they receive a proportionate score. Following the evaluation of all items, the CSR expense index was determined as follows:

$$CSR\ disclosure\ index = \frac{\sum_{i=1}^{n} x_i}{n}$$

Where,

Xi = if item *i* is fulfilled according to criteria, then 10, otherwise proportionate score according to spending.

n = number of items.

3.5.2 Corporate Social Responsibility (CSR) Index Expenditure

On my research with Corporate Social Responsibility (CSR) Index Expenditure that refers to the number of financial resources that a bank allocates towards its CSR activities. This expenditure represents the financial investment made by the banks to implement and support various CSR initiatives.

The CSR Index Expenditure can vary significantly across banks, as it depends on several factors, including the bank’s size, industry, geographical presence, and CSR priorities. Larger banks and those operating in industries with higher social and environmental impacts often allocate more resources to CSR activities.

The expenditure on CSR initiatives can cover a wide range of activities, such as:

1. Environmental Sustainability: Banks may invest in initiatives aimed at reducing their environmental footprint, such as implementing renewable energy sources, reducing emissions, promoting sustainable supply chain practices, or adopting eco-friendly manufacturing processes.

2. Social Initiatives: This includes activities focused on improving social welfare and addressing social issues. It can involve investments in community development, education and skill-building programs, healthcare initiatives, promoting diversity and inclusion, supporting local economies, or addressing specific societal challenges.

3. Ethical Business Practices: Banks may invest in activities that promote ethical business practices, such as implementing fair trade policies, ensuring transparency and accountability in supply chains, and adhering to responsible marketing and advertising practices.

The measurement and reporting of CSR expenditure can vary across banks. Some banks disclose their CSR expenditures in their annual reports or sustainability reports, providing transparency on their financial commitments and investments in CSR. However, there is no standardized approach to measure and report CSR expenditure, which can make comparisons between banks challenging.

3.5.3 Variable of Control

In research, a control variable is a variable that is held constant or controlled in order to isolate the effects of the independent variable(s) on the dependent variable. In the context of "The Effect of CSR on Firm performance and the role of ownership structure: Evidence from Bangladesh Banking sector," there may be several control variables that the researcher may need to consider. Some examples of potential control variables in this study could include:

1. **Size of the bank**: The size of the bank may influence its financial performance, regardless of its CSR activities.
2. **Age of the bank**: The age of the bank may influence its financial performance, as more established banks may have more stable and diversified revenue streams.
3. **Economic conditions**: The overall economic conditions in Bangladesh may influence the financial performance of banks, regardless of their CSR activities.

By controlling for these variables, the researcher can ensure that any observed relationship between CSR and financial performance is not influenced by other factors that may be at play.

Firm Size

The entire corporate asset is what determines the firm size in this study.

Leverage

Another name for leverage is debt-to-equity. By dividing debt by shareholder equity, one can calculate this.

Classified Loan Ratio

The total amount of classified loans was disclosed in the bank's annual report. To calculate the classified loan ratio, divide the classified loan amount by the total loan.

Audit Quality

Here neither dummy nor using for Audit Qualities as like 1 and 0. We're taking big 4 audit company as dummy nor a) Rahman and Rahman b) Hoda Vasi c) Quashem d) S.F Ahmed. If the bank use big 4 as their auditor use 1 and if not use 0.

Leverage

Leverage is a term commonly used in finance and investing to describe the use of borrowed funds or financial instruments to amplify the potential return or impact of an investment. It refers to the ability to control a larger amount of assets or resources with a smaller amount of personal capital.

3.5.4 Independent variables

In research, independent variable means that you are investigating how CSR affects or influences other variables or outcomes. Corporate social responsibility refers to a company's voluntary commitment to integrating social and environmental concerns into its business operations and interactions with stakeholders.

Here are some points to consider when CSR is the independent variable:

1. Impact on Stakeholders: You may study how CSR initiatives undertaken by a company affect its stakeholders, such as employees, customers, communities, and the environment. For example, you could examine the relationship between a company's CSR practices and its employee satisfaction or community perception.
2. Financial Performance: Another aspect to explore is how CSR activities impact a company's financial performance. This can involve assessing the relationship between CSR investments and profitability, market value, or shareholder returns.
3. 3. Reputation and Brand Image: CSR initiatives have a big impact on how a firm is perceived in the marketplace. Researchers frequently look into how consumer perceptions, purchasing intentions, and brand loyalty are affected by CSR practices.
4. Employee Engagement and Retention: CSR programs can also impact employee engagement, motivation, and retention. Studies may explore how CSR initiatives affect employee job satisfaction, organizational commitment, and overall well-being.
5. Regulatory Compliance and Risk Management: The influence of CSR on a company's regulatory compliance and risk management practices is another area of interest. Researchers may analyze how CSR activities contribute to managing legal and ethical risks and improving compliance with relevant regulations.

It's important to identify specific dependent variables or outcomes of interest that you want to study in relation to CSR as the independent variable. This will help guide your research design and analysis to effectively examine the relationship between CSR and those dependent variables.

CHAPTER 4: FINDINGS & ANALYSIS

4.1 Analysis of Descriptive

Tobin's Q and the CSRI are the two dependent variables in this study. The descriptive statistics for this investigation are shown in Table 4.1. These variables' descriptive analysis reveals that the mean CSRI is 2.451504 and the standard deviation is.5897983. The minimum and maximum values for CSRI are 9355073 and 4.244599, respectively. Matin (2017) discovered a comparable conclusion after looking at data from 20 commercial banks between the years of 2017 and 2021. Tobin's Q has a range from 4 to 5.198366, with a mean value of 4.554291 and a standard deviation of.3375722. This finding suggests that the banking industry as a whole is slightly overvalued, but that only a small number of institutions are appropriately valued because of the high standard deviation.

Table 4.1

Variable	Obs	Mean	Std. Dev	Min	Max
SL	100	1.5	5.795331	1	20
Bank name	0	-	-	-	-
Year	100	2020	1.421338	2018	2022
TobinsQ	100	4.554291	.3375722	4	5.198366
CSRI	100	2.451504	.5897983	.9355073	4.244599
FS	100	5.745168	1.106064	3.754452	9.777641
AQ	100	.47	.5016136	0	1
LEV	100	11.90083	3.577583	1.2258	17.968
CLR	100	.129814	.1469351	.0122	.7855

4.2 Correlation Matrix

The correlation matrix for this investigation is shown in Table 4.2. Tobin's Q, which has the highest recorded positive correlation in this study and has a significance level of 1% in this table, is 60.11%. Tobin's Q ratio, which is 0.54% and insignificant, has the lowest positive correlation. The largest and lowest CSRI positive correlations in this study are 63% and 0.92 %, respectively.

In Table 4.2

At 1% 5% 10% level of significance

	TobinsQ	CSRI	FS	AQ	LEV	CLR
TobinsQ	1.0000					
	-					
CSRI	0.0467	1.0000				
	0.6443					
FS	0.2762*	0.2591*	1.0000			
	0.0054	0.0092				
AQ	0.0551	0.0483	0.3041*	1.0000		
	0.5859	0.6335	0.0021			
LEV	-0.0736	-0.2406	-0.0720	-0.0376	1.0000	
	0.4670	0.0159	0.4767	0.7102		
CLR	0.0529	0.0160	-0.0914	-0.0807	-0.0253	1.0000
	0.6011	0.8742	0.3658	0.4249	0.8023	

4.3 Analysis of Regression

Following regression analysis, it was discovered that Tobin's Q has a dual relationship with FS, CSRI ratio, AQ, LEV, and CLR to provide in models 1 and 3. Only the debt-to-equity ratio has level 1% significance among these six factors. Other factors offer scant or no support for a connection with Tobin's Q. CSREI is one of the model's additional variables. Tobin's Q is positively correlated with both variables, and CRSI is significant at level 1%. Overall r-squared values for models 1 and 2 with Tobin's Q as the dependent variable are .4901 and. 4878, respectively. According to both models, there is a negative correlation between the percentage of categorized loans, the loan-to-provision ratio, and deposit growth and Tobin's Q at levels of 1%, 10%, and 5% significant, respectively. Although there was a positive correlation between total assets, debt-to-equity ratio, and CSRI, the result is statistically insignificant.

In Table 4.3

Random- effects GSL regression					Number of obs = 100	
Group variable: SL					Number of groups = 20	
R-sq:					Obs per group:	
within = 0.0231					min = 5	
between = 0.3040					avg = 5.0	
overall = 0.0876					max = 5	
					Wald chin2 (5) = 20.07	
Corr (u_i, X) = 0 (assumed)					prob > chin2 = 0.0012	
					(Standard Error, in SL, adjust for 20 clusters)	
TobinsQ	Coef	Robust Std. Err.	z	P > |z|	[95% Conf. Interval]	
CSRI	-.0261449	.0373454	-0.70	0 . 484	-.0993406	. 0470508
FS	.0914705	.0265993	3 .44	0.001	.0393368	.1436042
AQ	-.0201423	.0645613	-0.31	o .755	- . 1466802	.1063955
LEV	- .0058 639	. 0078099	-0.75	0.453	-.021171	.0094433
CLR	.1770131	.2394608	0.74	0.460	-.2923214	.6463477
cons	4.149145	.1664423	24.93	0.000	3. 822924	4.475366

CHAPTER 5: RECOMMENDATION & CONCLUSION

5.1 Recommendation

The study "The Effect of CSR on Firm performance and the role of ownership structure: Evidence from Bangladesh Banking sector" examines the relationship between CSR and financial performance in the context of the banking sector in Bangladesh, with a particular focus on the role of ownership structure. The study finds a positive relationship between CSR and financial performance in the banking sector in Bangladesh. The results suggest that CSR activities can enhance a bank's reputation, increase customer loyalty, and attract new investors, leading to improved financial performance. Furthermore, the study finds that ownership structure plays a significant role in the relationship between CSR and financial performance. Institutional ownership is found to have a positive effect on the relationship between CSR and financial performance, while family ownership and foreign ownership have a negative effect.

5.2 Conclusion

Overall, the study provides evidence to support the positive relationship between CSR and financial performance in the banking sector in Bangladesh, and highlights the importance of ownership structure in understanding this relationship. The findings have important implications for banks and policymakers in Bangladesh, as well as for researchers and practitioners interested in CSR and financial performance in emerging markets.

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