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

SUMITTED TO

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Mohammad Tariq Hasan,

Assistant Professor,

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Subject: Submission of project report on "*The effect of CSR on bank financial performance: Evidence from Bangladesh.*"

Dear Sir,

It is my great pleasure to present my project report on "*The effect of CSR on bank financial performance: Evidence from Bangladesh*." I put my maximum effort to finish the report with necessary and suggested information. I have learned a lot while preparing this report.

So, I therefore hope that, this report will fulfill the expectation and pray that you would be kind enough to accept the report.

Sincerely Yours,

Sayem Al Nahian

ID: 111 152 214

Declaration of the Student

I, Sayem Al Nahian, student of School of Business & Economics department of United International University, major in Accounting. Hereby declare that I have completed the project report on "*The effect of CSR on bank financial performance: Evidence from Bangladesh*" and it has been originally prepared by me.

I also declare that; this report is solely prepared for my educational requirement of my BBA degree and it has not been previously submitted to any other institution for any purpose.

Sayem Al Nahian

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Acknowledgement

At first, I like to show my gratitude to Almighty Allah who keep me in good health and give me strength and capability to complete my project report successfully. Then I like to thank my honorable supervisor "Mohammad Tariq Hasan, Assistant Professor, School of Business & Economics, United International University", who helped me with his knowledge and skill. Without his proper guidance and suggestion, it will be very difficult. to complete the report properly.

Abstract

Corporate social responsibility (CSR) become a global sensation in recent years. For the developed countries CSR concept were present in their business activity but for Bangladesh the concept was new. In Bangladesh, CSR is not mandatory for business but companies get different benefit from government by doing CSR activities. For banks, central bank issued guideline for CSR activities. The main objective of this report is to analysis relationship between CSR and bank profitability. To achieve the objective, at first this report explores concept of CSR, its history, why business involve in CSR and how it can be measure to compare it with profitability. After collecting all necessary information, all data were analyzed and from those analysis, it is documented that debt equity ratio has significant negative effect on ROA where growth has significant reverse relation. Another analysis shows that % of classified loans, loan to provision and growth have significant negative influence on firm performance in terms of Tobin's Q. However, there is no significant influence of CSR disclosure index and CSR expenditure index on ROA and Tobin's Q.

Keyword: Corporate social responsibility, CSR expense, CSR disclosure, bank performance, Bangladesh

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List of Abbreviation

CSR = Corporate Social Responsibility.

DSE = Dhaka Stock Exchange.

ROA = Return on Asset

ROE = Return of Equity

EPS = Earnings Per Share

GRI = Global Reporting Initiative

MNC = Multinational Corporation

US = United States

UK = United Kingdom

CHAPTER 1: INTRODUCTION

1.1 Introduction of the Topic

Earning profit is the main goal of a business. Businesses always try to minimize the cost to earn more profit. Friedman (1962) argued that social welfare is not an issue for the business, it's for the government. Business' one and only goal is to earn profit. Many other researchers reject Friedman's view on social welfare. Businesses are operated in a society. It uses resources from the society and survive because of the society. Because of that, many stakeholders expect some responsibility from the business. During 1950s debate over social welfare began. Many researches were conduct to find whether it is good for business or not. Some find that CSR negatively affect organization's profit and many other find that CSR is good for the organization. Despite these results of the researches, the importance and significance of CSR are growing day by day. At present time companies are more socially responsible. There are many benefit a socially responsible company enjoys. Like- a better public image, competitive advantage, employee & customer satisfaction etc. Because of these benefits companies are more likely more interested in CSR (Masum, Hasan, & Miraz, 2020).

In any economy banks play vital role in economic development. If money is the blood of country's economy, then banks are the backbone of it. Most of the other businesses are fully depend on banks for their financial functions. For expansion, international business, capital formation etc. banks are the most reliable organization. Because of the nature of the business, banks have to be more trustworthy to people than other businesses. People deposit their hard-earned money in the banks. That's why they are more cautious. To earn people's trust, CSR is the best weapon in bank's arsenal.

1.2 Study Objective

For a study, objective specification is very important. Because it guides researcher to correct path. The study has two types of objectives. The objectives are-

1.2.1 Primary Objective

The primary objective of this report is to understand the relationship between CSR and Bank profitability. To understand whether CSR add value to the organization or not. Achieving Bachelor of Business Administration degree is also a primary objective of the study. To earn Bachelor of Business Administration degree from United International University, submission of a report is a pre-requirement.

1.2.2 Specific Objective

Specific objective helps researcher to achieve primary objective by clearly mentioning what researcher will do in the study. Specific objectives of the report are-

i) Analyze the concept of CSR and profitability of a company.

ii) Analyze the CSR practice in Bangladeshi banking industry.

iii) Analyze the relation between CSR and bank profitability.

1.3 Overview of Banking Sector of Bangladesh

After the liberation war in 1971, banking sector of Bangladesh started its journey. At that time 18 scheduled banks are operated in Bangladesh. In this 6 were nationalized commercial banks, 3 state owned specialized banks and 9 were foreign banks. During 1980s government make ways for private entity to enter in this sector. From that time, bank in private commercial sector grew to 41 banks where 33 are conventional banks and 8 are Islamic shariah based banks (Hasan, Rekabder, Akter, & Sayem, 2009; Hasan, Ullah, & Huq, 2011-12). At present total 59 scheduled banks operated in Bangladesh in which 3 are specialized banks.

CHAPTER 2: LITERATURE REVIEW

2.1 Concept of CSR

CSR from an ordinary point of view is very straightforward. But according to scholars, defining CSR for every aspect is very difficult. According to them definition of CSR changes from people to people, place to place and time to time. Dahlsrud (2008) conducted a study on CSR definition. Author analyzed different CSR definition which used in different literature by different authors during year 1980 to 2003. Author found 37 different definition of CSR which are carrying similar meaning. After analyzing all 37 definitions author developed five area of CSR which all CSR definition should have. Voluntary work, meeting expectation of stakeholders, economic, social and environmental responsibility are the five area which was mentioned in of all 37 definition.

According to Davis (1973), CSR starts where laws of the country end. A corporation can't be socially responsible if they only follow the minimum law they require to follow. They must adjust their decision-making process in a way that, it not only accomplishes their economic goal but also benefit the society it operates. "Triple bottom line thinking" is a famous concept for explain the CSR. This concept was first introduced by John Elkington in 1997. This concept divided CSR into three area. Profit, People & Planet are the three area which represent economic responsibility, social responsibility & environmental responsibility respectively. Profit area of "Triple bottom line thinking" works with profitability and competitiveness of the business while ensuring expectation of stakeholder and society's economic wellbeing. Planet area focuses on environmental protection by using energy efficiently. It also emphasizes on recycling, using renewable energy source, reduction of greenhouse gas emanation. People area emphasizes on unbiased business practice for both own human capital and to the society. Business have to be morally good and also provide good compensation for the workforce with other benefit like- health insurance (Alhaddi, 2015; Masum *et al.*, 2020).

2.2 History of CSR

According to Carroll (2008), CSR practice or business' connection to welfare of society can be traced back to thousands of years. Nehme & Wee (2008) noted that scholars found evidence of CSR provision in Code of Hammurabi which is dated back around to 1754 BC. The Code of Hammurabi which contain 282 laws, was enacted during the sixth Babylonian king Hammurabi. Chaffee (2017) found elements of CSR in ancient Roman law. Author also found that different organization like, hospital, orphanage, shelter for poor, home for old etc. get help from businesses. Dutch East India Company or VoC in Dutch, was the largest public limited company in the world. At the peak of its business, its valuation was $7.9 trillion with inflation adjusted. The company was liquefied in 1800, started its journey in 1602. This company is more like a state, less like a for profit company. It has its own private military, can wage war, negotiate treaty, can mint coin etc. With this enormous power, Dutch East India Company is more famous for its monopoly over trade and violence. But it also paved way for people to think about social responsibility of business.

In 16th century and 17th century, many companies have emerged to do international business. These businesses were granted monopoly for specific business over specific region by the Crown of the respective country. But they were doing more violence than business. But as these company become wealthier; they want to be more powerful. Many companies for that reason, get in illegal business, like drug trafficking. In perusing more wealth and power, society loss their moral value. Also, during this time, first industrial revolution was knocking in the door. At that time small businesses and farmers face difficulty to keep up with the large companies.. During this time middle class people were worried about their religious and moral values. On the other hand, lower class people were worried about livelihood. To address these issues some small organization was created. But for involving business in social development the English Crown have to step in. He influences businesses to involve in social development. It might not make the large companies socially responsible but it was big step toward it. During colonial era, American colonies get its corporate law from English Crown. With this the concept of businesses' duty for social welfare. (Husted, 2015)

During 1810 owner of New Lanark Mill, Robert Owen initiated a social experiment. He was considered one the first business person who pay attention to the responsibility of a business toward society. He gradually decreases the working hour of his workers and pay above average wages. He invested a consideration amount of resources for training of the worker. According to Gorb (1951), Owen's business was profitable along with his positive social impact. According to Kastl & Moore (2010), Siemens and Halske, present day known as Siemens AG, first introduced pension plan for its workers in 1872, way before German chancellor Bismarck introduced it nation-wide in 1889. Kastl & Moore (2010) also pointed that many mining companies before 1870s give non-wage benefit, better employment security for businesses own good. Authors named these benefits as Welfare Capitalism. It first originated in Europe but this culture soon exported to US during early 20th century.

Many examples of social development can be found during the first half of 20th century. But until 1950s academician are not that much interested about social responsibility of business. During 1950s many authors publish books to address businesses' responsibility to the society. First of them was Howard Bowen, an American economist, published a book named "Social Responsibility of the Businessman" in 1953. In which Bowen explore the idea of business responsibility or morality from a point of view of Christian ethics. According to Bowen, businessmen who can be owner or top executives, are trustee of the business. As a trustee they are accountable to God and society.(Acquier, Gond, & Pasquero, 2011). Many scholar hail Howard Bowen as "Father of CSR". But his book about CSR is very difficult to find. Most of the information about his contribution came from secondary source. Acquier, Gond, & Pasquero (2011) thoroughly examine Bowen's work and mark it as a hidden treasure worth exploring. After Bowen's work many books and articles were published regarding CSR. Many of them advocated for CSR and other oppose the idea. One of the is Friedman (1962) who oppose the idea of CSR and wrote, businesses' only goal is to maximizing profit, social development is responsibility of the government. After 1950s many researches were conduct to find relationship between CSR and profitability. Despite different result from the research, at present day CSR became international business norm.

2.3 Why firm engage in CSR?

At the early stage of CSR, scholars who advocated for CSR, explains why a firm should engage in CSR activity. But during the past two decades, firms are more engaged in CSR activity. In that time scholars are more concern to find why so many firms are engaged in CSR activity. Scholars suggest many theories for what drives firm for CSR. These drivers can be external or internal.

2.3.1 External Drivers of CSR

Stakeholders Theory

Stakeholders are the group or individual that affected by decision taken by a company. Employee, suppliers, governments, investors etc. are few examples of stakeholders. Stakeholders can be primary and secondary. If person or business directly affected by business decision then, the stakeholders are primary. Employee, investors etc. are the example of primary stakeholders. But if the group or individual did not affect by the business decision primarily, then they are categorized as secondary stakeholders. Media, trade association etc. are the few example of secondary stakeholders. (Clarkson , 1995; Helmig, Spraul, & Ingenhoff, 2016). In traditional view, company only consider shareholder's interest which is profit maximization, in the decision making. But stakeholder theory suggests that, company operate in a society and so they have social responsibility, and that responsibility require them to consider interests of the other stakeholders.

For a company, stakeholders play a very important role. They expect many things from an organization. But organization have to prioritize stakeholders based on many factors, because of limited resources. Academicians found three important factors, *power, legitimacy and urgency*, based on which companies tend to prioritize its stakeholders.(Helmig, Spraul, & Ingenhoff, 2016). Many studies were conducted over the year to find out stakeholders' influence in companies CSR activities. Thijssens et al. (2015) conducted a study over 199 large corporation to find out influence of environmental stakeholders toward CSR disclosure. Authors found that legitimacy of environmental stakeholder affect the organization's disclosure. Authors also pointed out that, secondary stakeholders can also be as influential as primary. Ehrgott et al. (2011) uses sample data from 244 US and German company to find out how customers, employees and government influence companies decision making process. Authors pointed out that, government can influence corporate decision by making new rules and regulation. Employees can create pressure through employee association. Customers can create pressure through consumer association, government, online activism, social media etc. Surroca et al. (2013) conducted study using data from 110 multinational corporations (MNC) of 22 countries. MNCs are mainly from developed countries. Citizen of developed countries are more aware about their right and corporation's responsibility. That's why corporations face more pressure in these countries to do socially responsible behavior. Authors found that, MNCs tend to shift there socially irresponsible practices to developing or less-developed countries where they face less pressure from stakeholders.

Resource Dependency Theory

Resource Dependency Theory is very much similar with stakeholder theory. Because this theory also proposed that, stakeholders can influence the decision-making process. But this theory suggests that, not all the stakeholders can influence the company similarly. How much a stakeholder influences the company depends on how much control over critical resource that the company need, is in the control of the stakeholder. The higher the dependency, the higher influential that stakeholder will become. Pfeffer & Salancik (1978) argued that for a company to success in the long-term, they must have access and control on external resources which is in control of the key stakeholders. To gain a good control over external resources, company has to take decision strategically. In this point, stakeholder theory and resource dependency theory look similar but the main difference is in its assumption. Stakeholder theory assume that company will work with and for the benefit of both the company and stakeholders. But in resource dependency theory suggest that, company will work only for the benefit of the company. Mangers of the company will treat stakeholders according to company's self-interest or other word company will only do CSR activity to support stakeholders with critical resources to ensure the flow of the external resources.

For proving resource dependency theory, many studies were conducted by scholar of different countries and they found evidence to support this theory. Hafsi & Turgut, (2013) conducted a study on a sample of 100 companies randomly picked from S&P500 Index to find out relationship between board diversity and company's social performance. In this study authors found a significant relationship between board diversity and corporate social performance. Authors argued that, resource dependency theory is the root of the idea of board diversity. Board members from different background, age, gender and stakeholders, improve organization's access to critical resources. Abebe & Cha (2015) conduct a study and find out a positive relationship between corporate philanthropy and number female members on board of directors. This result was obtained by looking into data collected from 104 US companies. The authors argued that, companies build a very good relationship with some of the stakeholders and these stakeholders has a close connection with the board members from their personal or social background. Vafeas & Kassinis (2006) found some evidence based on which they argued that, companies that are very much dependent on a local community tend to show more interest in adopting environment friendly initiative for that local community.

Legitimacy Theory

Legitimacy theory for CSR was originated from organizational legitimacy concept which was first introduced by Dowling and Pfeffer (1975). According to organizational legitimacy theory, legitimacy is an informal status for the organization, which is given by the society which the organization operated. Deegan, (2002) argued that legitimacy theory is based on 'social contract', which is occurred between the company and the society, informally. By this 'social contract', companies accepted to follow society's norms and expectation. As society's norms and expectation changing continuously, the 'social contract' also changing. According to Suchman (1995), legitimacy theory can be approach from two different point of view. First one is strategic legitimacy, which is assumed that company has some control over legitimation process. Second one is institutional legitimacy, which assume that, company has no control over legitimation process, it only seeks to be legitimate.(Chan, Watson, & Woodliff, 2014). As strategic legitimacy suggests, companies try to legitimate by doing CSR activity. Many business activities hurt environment and reduce company's legitimacy and because of that company spend money to reduce environment pollution with some other initiative to save the environment to regain the legitimacy.

2.3.2 Internal Drivers of CSR

Agency Theory

Agent-principal structure mainly used by companies where shareholders or owners are the principal who appoint managers for business who act as agent and work for the principal in the company. As management and ownership are separate from one another, sometimes conflict of interest occurred. Friedman, (1962), pointed CSR activity as conflict of interest between principal and agent. Managers are appointed for running business and earn maximum profit possible but in pursuit of CSR objective managers hurt shareholders by generating less profit. Many studies conducted from point of view that CSR activity is a potential conflict of interest but some studies viewed CSR as favorable for a good financial performance. Barnea & Rubin, (2010) pointed that mangers can over-invest in CSR for increase their goodwill as a good citizen at a cost of owner's profit. Oh, Chang, & Martynov, (2011) also found similar result by examining 118 Korean company. The authors found a positive relationship between CSR and institutional & foreign ownership, but found a negative relationship between CSR and managerial ownership. The authors also argued that, different company's CSR activity affected differently by different owners. Gamerschlag, Möller, & Verbeeten, (2011) found that, when a company has a small number of shareholders with large number of shares hold by each shareholder, it provides less information about CSR activity than a with large number of shareholders with small number of shares hold by each shareholder. In another word, companies with large shareholder base tend to be more transparent than companies with small shareholder base (Hasan, Molla, & Khan, 2019; Hasan & Rahman, 2017, 2020).

2.4 Determinants of CSR

Many studies were conducted to find whether a relationship exists between different characteristic of company and level of CSR activity. Many authors found some characteristics have significant effect on CSR activity of the company. Some characteristics that affect CSR activity are- leverage, profitability, firm size, investment in R&D, ownership, board diversity etc.

Size of Company

Waddock & Graves (1997) argued that, firm size significantly affects CSR engagement of the company. Managing a company become complex as the size of the company increases. For very big company, maintaining society's norms and expectation along with stay profitable become very much hard for the business. Also, as company's getting bigger, it tries to expand business. With this expansion, society's expectation getting higher and higher. The big companies might not cop with the society's expectation. With this company's legitimacy can decrease. As legitimacy theory pointed, the big companies do more CSR activities to present the company as legitimate in the eye of the public. (Brammer & Millington, 2008; Hasan & Rahman, 2019, 2020; Hasan, Rahman, Sumi, Chowdhury, & Miraz, 2020)

Profitability

Ng & Koh (1994) argued that, more profitable firm tend to be more socially responsible. The authors pointed that; profitable companies tend to have mechanism for self-regulation. They have this kind of mechanism for ensuring public that the company is legitimate.

Leverage

Another firm characteristic which scholars argue to have a significant impact on CSR activity, is leverage. Reverte (2009) pointed that companies with low leverage faces less pressure from the creditor about manager's CSR choice. It reduces the agency cost as well as cost of capital. Purushothaman et al. (2000) also argued that, higher leverage has a negative relationship with company's CSR disclosure. Higher leverage means closer relationship with creditor and also creditors become more important influential stakeholder.

Investment in R&D

In recent year, some scholars argue about another determinant which is investment in R&D. Hull & Rothenberg, (2008) argues that companies with big investment in R&D likely to differentiate them by introducing CSR elements in their products and services. In another word, companies are spending money in R&D to introduce innovative products and services which will be more socially responsible. That's the reason many authors are use investment in CSR as a determinant of CSR.

2.5 Measuring CSR

No commonly established and applied method for CSR measurement is developed. The main reason for this situation is multidimensional and non-uniform definition of CSR. Because of this reason, difficulty arise for choosing variable and how much weight should put on a particular variable. It is also the reason for not having a uniform verdict whether CSR is positive for business or not.

2.5.1 CSR Reputation Indices

According to Turker (2009), CSR reputation indices is the most popular method for measuring CSR of an organization. In this method organization's CSR activity is analyzed by a reputable and knowledgeable third-party for rating them and ranking its social performance. Fortune's reputation index; Kinder, Lydenberg, Domini (KLD) index are best examples for this method because of the popularity. Using CSR reputation indices become more popular for number of reasons. All the companies are evaluated with same criteria, so company to company comparison become very much easier. Also, these indices are evaluated companies based on current social norms. So, it is possible to compare companies within identical period.

2.5.2 Content Analysis

This method of measuring CSR becoming more popular as companies are disclosing more and more information regarding CSR activity. (Gamerschlag et al. 2011; Sweeney & Coughlan, 2008). In this technique authors try to find specific words and concepts in a document. By analyzing content, researchers can gain two kind of information. One is extent of social information disclosure and other is quality of social of disclosure. For measuring

CSR using content analysis, researchers develop index using different CSR framework by different international organization or made a custom framework. In a custom framework, researchers might include CSR items from popular CSR framework. Framework like- ISO 26000 proposes different items which covers 7 areas of CSR. The 7 areas are- corporate governance, environment, labor relation, human rights, consumer, community involvement and fair operating practice. On the other hand, GRI guidelines emphasizes on 3 categories, which are- environment, social and economic.

2.6 Measuring Financial Performance

Financial performance definition is not very complicated as opposed to CSR. But different study measure financial performance differently and this different measuring technique create the main difference in this matter. All the different method to measure financial performance can be categorized in two measurements. First one is accounting-based and second one is market-based measurement. Accounting-based measurement relies on historical data and gave answer of the question, whether management is succeeded to create value or not.(Cochran & Wood, 1984). Researchers interested to use market-based measure rather than accounting-based measure, because accounting-based measurements are very much likely to be manipulated.(Uhlman & Steinke, 1985). Also because of its reliance of historical data it failed to predict future financial status. According to Kang, Lee, & Huh, (2010) mostly used accounting-based measurements are ROE and ROA. Tobin's Q and stock price are example for market-based measurement. Market-based measurement measure value of companies. Scholars argue that, market-based measurement has ability to predict the future value & cash flow and also it considers the value of intangible assets.(Jiao, 2010).

2.7 The Theoretical Relationship between Corporate Social Responsibility and Financial Performance

According to Lindstén (2018), after year 2000, around 1000 articles were publish regarding CSR. Before new millennium started, number of articles published concerning CSR were below 100, as claimed by Margolis & Walsh (2003). The reason behind this enormous increase might be, conflicting results found by different scholars. Some studies found positive relation(Endrikat, Guenther, & Hoppe, 2014), some found negative relation(López, Garcia, & Rodriguez, 2007), other concluded with statistically significant result (Aras, Aybars, & Kutlu, 2010) and some even find non-linear relationship(Lu, Wang, & Lee, 2013).

2.8 Previous Studies

Ullah (2013) uses data of 47 banks from period of 2007-2010 to assess the nature and magnitude of CSR practice of banks in Bangladesh and tries to find relation between CSR and key performance indicator. Total revenue, net income after tax, numbers of branches and deposit growth are the variable with which author tries to find relation of CSR expense. Author finds no statistically significant relation between CSR expense and other variables. Ahmed, Islam, & Hasan (2012) tries to examine the nature of relation between CSR and financial performance. 20 banks were select for research, then divided them into two categories based on corporate social performance (CSP) index which is prepared using questionnaire survey. Two categories are CSR banks and non-CSR banks. Then t-tests were conducted using ROA, EPS and P/E ratio data from both categories of banks to examine if there is any relation between CSR and financial performance. The t-test do not show any significant evidence that will conclude that CSR banks outperformed non-CSR banks. The authors indicate that as developing country, we might be needed a significant amount of time to find any statistical evidence that shows a relationship between CSR and financial performance.

Masud & Kabir (2016) uses a structured questionnaire for collecting primary data and secondary data are collected from annual report from 2010-2013. 10 traditional banks and 4 islamic banks of Bangladesh were selected to analysis the CSR policy and implementation and try to find out which banks are doing better. Total 41 employees including top, mid and junior level officials were completed the questionnaire. Author finds that, employees of Islamic banks tend to have higher understanding, satisfaction and overall commitment to CSR than traditional banks. CSR performance is also increasing for the Islamic banks year by year than traditional banks. Das, Dixon, & Michael (2015) aims to find if there is any effect of corporate governance and other variables on CSR disclosure. Authors use a self-constructed CSR disclosure index to analysis data of all listed banks in Bangladesh from year

2007 to 2011. A negative relation of CSR disclosure was found with firm's profitability and the age of the company. While a positive relation was found with firm size, ownership structure, board size and independent director in the board. Bagh, Khan, Azad, Saddique, & Khan (2017) finds a positive relationship between CSR and financial position. 10 years of data of 30 commercial banks were used in this study. CSR donation was used as independent variable and ROA, ROE & EPS were dependable variable. AKIN & YILMAZ (2016) taken a sample of 33 banks of Turkey to find out what drives CSR disclosure. 5 years of annual report was analyzed and scored CSR disclosure in five categories. CSR disclosure score is lower for non-listed banks than listed banks. Domestic banks are likely to disclose more than foreign banks. Commercial banks are likely disclosed more than other types banks.

Taşkın (2015) using data of 11 private commercial banks to find relation between CSR disclosure and financial performance. Author uses only one year's data for the study. For CSR score author adopted Global Reporting Initiative's (GRI) sustainability report guidelines. ROA, ROE and net interest margin are use as financial performance measure. No statistically significant result was found between CSR score and ROA & ROE. But net interest margin increased by the banks which have higher CSR score. Author also point out that, CSR do not guarantee profitability and banks do not perform CSR only because they are profitable. Maqbool & Zameer (2018) collected data from 28 banks listed in Bombay Stock Exchange. 10 years of data has been collected to examine the relation between CSR and financial performance. This study finds evidence which verify that CSR positively affect profitability and market return. Author argued that as CSR gives organization a competitive advantage in corporate world, they should integrate CSR with long-term business strategy.

CHAPTER 3: METHODOLOGY OF THE STUDY

3.1 Introduction

This report is a descriptive in nature. This report is based on data collected from both primary and secondary sources. This chapter explains from where the data are collected, how the data are obtained and how it was analyzed.

3.2 Sample Size

According to Bangladesh Bank there are 41 private commercial banks. 30 of them are listed in DSE. According to Belal (2001), for descriptive study, sample should be more than or equal to 10 percent of the population. 20 banks were taken for the study. Five years data for each bank was collected for this study. The following 20 banks are going to analyzed in this study:

Table 3.1

Sample Companies used in Report

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

3.3 Study Design

Five years of annual report were collected for each of the banks from the study sample. Softcopy of the annual reports were collected from each of bank's website. From annual report financial data were collected and CSR disclosure index were made. CSR expense data were collected from Bangladesh Bank's half yearly CSR report.

3.4 Variable

3.4.1 Depended Variables

ROA

ROA is a profitability indicator by which a company's profitability against its total asset can be measured. ROA can be measured by total income divided by total asset. Many authors use this profitability indicator in their study. Some study that uses ROA for profitability indicator (Ahmed, Islam, & Hasan, 2012; Bagh, Khan, Azad, Saddique, & Khan, 2017; Hasan *et al.*, 2020).

Tobin's Q

Tobin's Q was first presented by Nicholas Kaldor in 1966 but it was popularized by James Tobin during 1977. Before that time, some text refers it as Kaldor's V. Q ratio suggests that, company's market value should be equal to its replacement costs. This formula is adopted from Ali, Mahmud, & Lima (2016). The formula for finding Tobin's Q is-

$$Tobin's\ Q = \frac{(Equity\ Market\ Value + Liability\ Market\ Value)}{(Equity\ Book\ Value + Liability\ Book\ Value)}$$

Most common practice for Tobin's Q is to assume market value and book value of liability of company is equal. Therefore,

$$Tobin's\ Q = \frac{Equity\ Market\ Value}{Equity\ Book\ Value}$$

Where equity market value is measured by number of share outstanding multiplied by market price per share at the end of the year. Equity book value can be found by subtracting total liability from total asset. For result interpretation, if ratio is higher than 1 than the company overvalued and if ratio is lower than 1 than the company is undervalued.

3.4.2 Independent Variable

According to Matuszak & Różańska (2017), for measuring CSR activity of banks, there is no uniform method. Some author uses questionnaire surveys, some emphasizes on CSR spending measures, many uses annual reports for content analysis of disclosed CSR information. This report uses content analysis to develop CSR disclosure index which is adopted from Matuszak & Różańska (2017). CSR disclosure is classified into four parts in this index. These are- Environment, Human Resource, Product & Customer and Community Involvement. Total 27 disclosure items were under these 4 categories. If any item was present in any of the sources of data, value 1 is assigned. Value 0 is assigned if item is absent from any of the data sources. After all item reviewed CSR disclosure index was calculate as follows:

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

Where,

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

n = number of items.

A second CSR index were made to check whether CSR disclosure and expense have same relation with financial performance. There are many a few authors use CSR spending measure method to find the relation between CSR and financial performance of organizations. This report's CSR expense index is similar to the study of Weshah et al. (2012). This index has 4 item and each items score is maximum 10. First item is CSR expense to net income ratio. If CSR 2% or more of net profit, a score 10 was assigned. Otherwise index value was proportionately calculated. Second, third and fourth items are CSR expense in education, health and environment to total CSR expense. According to

Bangladesh Bank, banks should spend 30%, 20% and 10% of total CSR expense for education, health and environment. In last 3 items these requirement was checked whether banks follow it or not. If CSR expenses of bank is according to Bangladesh Bank guideline, then it gets maximum 10 score for each of the item. If it does not meet the criteria fully, they get score proportionately. After all items reviewed CSR expense index was calculated as follows:

$$CSR\ disclosure\ index = \frac{\sum_{i=1}^{n} x_i}{n \times 10}$$

Where,

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

n = number of items.

3.4.3 Control Variable

Firm Size

Firm size of this study is determined by the total asset of the corporation.

Leverage Ratio

Leverage ratio is also known as debt-to-equity ratio. This can be found by dividing debt by shareholder's equity.

Deposit Growth

Deposit growth is described in percentage form in this study. For finding deposit growth, pervious year deposit is subtracted from current year deposit and then divided it by current year deposit for getting the percentage.

Classified Loan Ratio

Classified loan amount was given in the annual report of the bank. Classified loan amount is divided by total loan to find classified loan ratio.

3.5 Research Model

In this study two dependent variables were used for measuring profitability namely ROA and Tobin's Q and another two variables were used to measure the effect of CSR, which are CSRDI & CSREI. Five more variables were used as control variables. These are- Firm Size, Leverage Ratio, Deposit Growth, Loan Provision Ratio & Good Loan Ratio. For understanding relationship total four models were developed. First two models were used CSRDI as independent variable and ROA & Tobin's Q as dependent variable and in the next two models CSREI used as independent variable and ROA & Tobin's Q were used as dependable variable. The reason behind making four models is to understand individual effect of both independent variables to the dependable variables.

Model: 1

$$ROA_{it} = \beta_0 + \beta_1 LTA_{it} + \beta_2 DER_{it} + \beta_3 PCL_{it} + \beta_4 LTP_{it} + \beta_5 GRT_{it} + \beta_6 CSRDI_{it} + \varepsilon_{it} \text{ ---- (1)}$$

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 LTA_{it} + \beta_2 DER_{it} + \beta_3 PCL_{it} + \beta_4 LTP_{it} + \beta_5 GRT_{it} + \beta_6 CSRDI_{it} + \varepsilon_{it} \text{ -(2)}$$

Model: 2

$$ROA_{it} = \beta_0 + \beta_1 LTA_{it} + \beta_2 DER_{it} + \beta_3 PCL_{it} + \beta_4 LTP_{it} + \beta_5 GRT_{it} + \beta_6 CSREI_{it} + \varepsilon_{it} \text{ ---- (3)}$$

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 LTA_{it} + \beta_2 DER_{it} + \beta_3 PCL_{it} + \beta_4 LTP_{it} + \beta_5 GRT_{it} + \beta_6 CSREI_{it} + \varepsilon_{it} \text{ -(4)}$$

Table 3.2

Variable Definition

Variable	Particulars
ROA	Return on assets
Tobin's Q	Ratio between market value and book value
LTA	Log total assets
DER	Debt to Equity ratio
PCL	% of classified loans
LTP	Loan to Provision
GRT	Growth in deposits
CSRDI	CSR Disclosure Index
CSREI	CSR Expense Index

CHAPTER 4: ANALYSIS

4.1 Descriptive Analysis

This study has two depended variables, one is ROA and another one is Tobin's Q. Table 4.1 represent the descriptive statistics of this study. Descriptive analysis of these variables shows that the mean ROA is 0.009 with standard deviation of 0.004. Minimum value for ROA is -0.008 along with maximum value 0.0202. A similar result was found by Matin (2017) by analyzing data of 47 commercial banks from year 2000 to 2015. The mean value of Tobin's Q is 1.188 with a standard deviation of 1.105, where minimum value is 0.429 and maximum value is 7.358. This result indicates that overall banking business are slightly overvalued but for individual banks, a very few banks are fairly valued as we have a large standard deviation.

Table 4.1

Descriptive Statistics

Variable	Mean	Std. Deviation	Minimum	Maximum
ROA	0.009	0.004	-.0008	.0202
Tobin's Q	1.188	1.105	0.429	7.358
LTA	5.444	0.168	5.118	6.057
DER	12.459	2.489	7.39	18.462
PCL	0.056	0.035	0.021	0.331
LTP	0.035	0.0116	0.003	0.059
GRT	0.111	0.054	-.051	0.251
CSRDI	18.45	2.833	13	23
CSREI	29.164	5.657	16.488	40

4.2 Correlation Matrix

In Table 4.2, the correlation matrix of this study was presented. In this table, the highest recorded positive correlation in this study is between growth of deposit and ROA, which is 33.99% and it is significant at level 1%. Also, growth of deposit is negatively correlated with loan to provision at level 1% significance. The lowest positive correlation is between Tobin's Q and debt-to-equity ratio which is 2.76% and insignificant.

Now, -51.89% correlation is the highest negative correlation in this study which is exists between ROA and debt-to-equity ratio with level 1% significance. This study failed find any significant correlation between ROA and CSR disclosure and expense. On the other hand, a positive correlation between Tobin's Q and CSR disclosure is present, which is 23.34% and level 5% significant.

Table 4.2

Correlation Matrix

	ROA	LTA	DER	PCL	LTP	GRT	CSRDI	CSREI	Tobin's Q
ROA	1.000								
LTA	-0.2955*	1.000							
DER	-0.5189*	0.2879*	1.000						
PCL	-0.2934*	0.0712	-0.0573	1.000					
LTP	-0.1302	0.1141	-0.1111	0.2607*	1.000				
GRT	0.3399*	-0.0886	0.1260	-0.2343**	-0.2786*	1.000			
CSRDI	0.0100	0.0338	0.0603	-0.1675***	0.1578	-0.1481	1.000		
CSREI	-0.0045	0.0698	0.1291	-0.2116**	0.1450	-0.0658	0.2106**	1.000	
Tobin's Q	-0.1947***	0.0609	0.0276	0.2057**	0.0221	-0.1842***	0.2334**	-0.0374	1.000

4.3 Regression Analysis

After regression analysis it can be found that, ROA has a negative association with total asset, debt-to-equity ratio, percentage of classified loan & loan to provision in both model 1 & model 3. In these four variables, only debt-to-equity ratio has level 1% significance. Other variables provide a little or no evidence of association with ROA. Other variables of the models are deposit growth and CSRDI or CSREI. Both variables are positively associated with ROA and deposit growth is significant at level 1%. Overall r-squared for both model 1 & model 2 are .4901 and .4878 respectively, where Tobin's Q is dependent variable. From both model it can be found that, percentage of classified loan, loan to provision and deposit growth has a negative association with Tobin's Q at level 1%, 10% & 5% significant respectively. Total asset, debt-to-equity ratio & CSRDI or CSREI had a positive association but finding is statistically insignificant. Overall r-squared for both model are 0.0046 and 0.0050 where ROA as dependent variable. It implies that Tobin's Q as dependent variable is more appropriate than ROA.

Table 4.3

CSRDI regressed against ROA & Tobin's Q

Variables	Model 1a_ROA as DV		Model 1b_Tobin's Q as DV	
	Coef.	Std. Err.	Coef.	Std. Err.
LTA	-0.0021	0.002554	0.6153	0.680827
DER	-0.0008***	0.0001599	0.0097	0.041579
PCL	-0.0126	0.0088052	-6.9773***	1.966111
LTP	-0.0337	0.0358417	-16.0488*	9.122377
GRT	0.0197***	0.0051198	-2.4160**	1.108234
CSRDI	0.0001	0.0001863	0.0784	0.0669639
Constant	0.0288**	0.0133529	-2.5135	3.61163
R-Squared	0.4901		0.0046	
Observation	100		100	
No of Company	20		20	
Prob>chi2	0.0000		0.0001	
***p<0.01, **p<0.05, *p<0.1				

Table 4.4

CSREI regressed against ROA & Tobin's Q

Variables	Model 2a_ROA as DV		Model 2b_Tobin's Q as DV	
	Coef.	Std. Err.	Coef.	Std. Err.
LTA	-0.0021	0.0025051	0.6248	0.6737551
DER	-0.0008***	0.0001575	0.0155	0.0410864
PCL	-0.0136	0.0089648	-7.2142***	1.898284
LTP	-0.0299	0.0353895	-17.3372*	8.974947
GRT	0.0196***	0.0051563	-2.5278**	1.045868
CSREI	0.00001	0.0000528	0.0122	0.010975
Constant	0.0307**	0.0127923	-1.4779	3.376193
R-Squared	0.4878		0.0050	
Observation	100		100	
No of Company	20		20	
Prob>chi2	0.0000		0.0000	
***p<0.01, **p<0.05, *p<0.1				

CHAPTER 5: CONCLUSION

Profit is the main motivation behind doing business. Some scholar argued that, just like a human being, business should be responsible for the society and some scholar argued that, it's duty of the government. As a reason, many studies were conducted to understand whether CSR is good for business or not. Researchers found different result for different industry in different country. Despite that, at the start of new millennium, CSR become a global norm for the business. A part of global village, businesses of Bangladesh also taking notice of the new idea. At first only multinational companies are involved in CSR activity but at recent time local companies are also engage in CSR activity. No only businesses but also general public are becoming more aware about business's responsibility toward society. From the business point of view, business have to make profit to survive. So, it is important to find whether CSR cost translate into more profit or not.

This study is tried to find relationship between profitability and CSR in Banking sector in Bangladesh. According to Das, Dixon, & Michael (2015), banks of Bangladesh are involved in CSR activity because of central bank's recommendation, increase corporate image and tax benefit from the government. This study used 5 years data of the listed banks in Bangladesh which is collected from banks annual report. Two CSR indexes were created to compare it against bank profitability. First one is CSR disclosure index, which is common method among researchers for evaluating CSR activity. Second index is CSR expense index, which is created to understand the relationship between CSR expense and bank profitability and also understand whether a relationship exist between CSR disclosure and CSR expense. After analyzing all the variable, this report failed to present any statistically significant relationship between profitability and CSR. But this report finds statistically significant positive relationship between CSR disclosure & expense and Tobin's q & CSR disclosure.

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