# Corporate Social Responsibility and Profitability: A Case Study on Dutch Bangla Bank Ltd.

**Suraiya Mahbuba**
Lecturer, Stamford University Bangladesh
Email: s.mahbuba@gmail.com

**Nusrat Farzana**
Lecturer, Stamford University Bangladesh
Email: nusrat_du@hotmail.com

## ABSTRACT

*In Bangladesh, the banking sector has a glorious history of getting engaged themselves in different kinds of social activities which is formally known as CSR (Corporate Social Responsibilities). The paper examines the relationship between CSR and profitability of Dutch Bangla Bank Ltd (DBBL) which is the initiator of CSR activities in the banking sector of Bangladesh. The study used annual reports of DBBL for the year 2002 to 2011. Ordinary least square (OLS) model of regression was analyzed using SPSS 16. to assess the impact as well as test the hypothesis of the study whether there is a relationship and the extent of the relationship between the independent variable (corporate social responsibility expenditure) and the dependent variable (profit after tax). Above all, the analysis revealed that 90.7% of the variance of profit after tax of DBBL has been explained by the benefit accrued from corporate social responsibility. The hypothesis that was formulated was tested and the result shows that there is significant positive relationship between corporate social responsibility and profitability in case of DBBL.*

**Keyword:** Corporate social responsibility, corporate financial performance, DBBL, profitability

## 1. Introduction

In developed economics the concept of business has changed from profit making activities to social welfare activities where businesses are not only responsible to it's shareholders but also to all of its stakeholders (Islam 2012). CSR (Corporate Social Responsibilities) is relatively a new concept in Bangladesh and all the institutions try to maintain this responsibility along with other responsibilities.

In Bangladesh, the banking sector has a glorious history of getting engaged themselves in different kinds of social activities which is formally known as CSR like donations to different organizations, country beautification, patronizing cultural activities etc. But in some recent years there is tremendous growth in this involvement, because in 2008 Bangladesh Bank Guideline suggested the Banks to involve in these activities in a more structured way. This paper in basically focused on the CSR activities of the bank and how it is related with profitability and in what extent Banks are eager to involve in these sort of CSR activities. Banks are profit based organizations, so in this perspective they surely want to spend money in those sectors which will directly or indirectly bring money for them, so obviously there are some positive relationships between CSR and banks profitability. To analyze how much impact CSR create on profitability DBBL (Dutch Bangla Bank Limited) has been choose. Dutch-Bangla Bank had adopted the policy of contributing to the social cause since its inception in 1996. During the last 15 years it has been continuing its effort as a pioneer in the banking sector and has become the leader much ahead of the other banks. The bank also wants to eliminate the impropriety in the society, to create fellow feeling among the citizens of the country, motivate people to do good works and conserve nature. Thus education, health care, human resource development, conservation of nature, creation of social awareness, rehabilitation of destitute people, communication and address human sufferings arising out of manmade and natural causes are some of the important areas where the Bank has been carrying out its social and philanthropic activities.

## 2.    Literature Review

CSR is one of corporation's responsibilities to its stakeholder and also a voluntary contribution by corporation to sustainable development (Crane and Matten, 2007). In the period of increasing corporate financial scandals CSR has become an important strategy for companies worldwide to improve their image as these activities can potentially create a brand image for companies and develop positive relations with stakeholders (Yoon *et al.*, 2006).Corporate social responsibility may be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change. The term generally applies to company efforts that go beyond what may be required by regulators or environmental protection groups. The recent globalization demand companies to be more engaged in CSR activities (Chapple and Moon, 2005). The concept of corporate social responsibility has been gaining importance in the past two decades. Recent studies suggest that corporate social responsibility is an instrument to increase firms' legitimacy in the eyes of their stakeholders and to develop positive social responsibility images to burnish their reputations (Maigan and Ralson, 2002). "CSR goes beyond philanthropy and is a comprehensive strategy to link core business strategy to issues of environment, human rights and labor welfare, good governance and sustainable social investment measures", said Shahamin S. Zaman, CEO, CSR Centre in Bangladesh at the launch.

Identifying the relationship between corporate social responsibility and corporate financial performance (Campbell, 2007) is the main attempt of the academicians. The relationship between corporate social performance (CSP) and CFP has been a topic of hot debate of scholars for a half century (Dodd, 1932; Jarrell and Peltzman, 1985; Hoffer et al., 1988; Preston and O'Bannon, 1997; Waddock and Graves, 1997; Griffin and Mahon, 1997; McWilliams and Siegel, 2000; and Simpson and Kohers, 2002).

The relationship between corporate social responsibilities and corporate financial performance has produced mixed results with some studies concluding for a positive others negative and even others for the inexistence of such a relationship (McWilliams Siegel 2001; Margoslis, Elfenbein and Walsh 2007; Tsoutsoura 2004).The empirical studies conducted in developed markets on the relationship between CSR and CFP are essentially of two distinct categories (Margolis and Walsh, 2003). The first category considers the short-run financial impact if the company is involved in either socially or irresponsible actions. The results are mixed. For instance, Wright and Ferris (1997) found negative relationships, while other researchers found positive relationships (Hall and Rieck, 1998; Posnikoff, 1997; Wright and Ferris, 1997 and Teoh *et al.*, 1999) and no relationship was evidenced in the study conducted by Teoh *et al.* (1999). The second category, examines the relationship of CSR and CFP in the long-run, using accounting and market based measurements. The findings are also mixed. Various studies report a negative relationship between CSR and CFP (Moore, 2001; Vance, 1975), while other studies reveal a neutral or no relationship (Mahoney and Roberts, 2007; McWilliams and Seigel, 2000; Patten, 1990; Alexander and Buchholz, 1978). Most of the prior studies found a positive relationship between CSR and CFP ( Simpson and Kohers, 2002; Roman *et al.,* 1999; Graves and Waddock, 1994; Roberts, 1992; McGuire *et al.,* 1988; Again, stakeholder theory suggests that Corporate Social Performance (CSP) is positively associated with CFP (Freeman 1984; Donaldson and Preston 1995). Moskowitz (1972) found a positive relationship between socially responsible business practices and corporate equity returns. The study of Muhammad, Saleh and Zulkifli reveal that CSR and all its dimensions are positively related to CFP.

## 3. Methodology and Model Development

### 3.1 Methodology

Secondary data was the chief source of information for the study. The study used annual reports of Dutch Bangla Bank Ltd. Data used include corporate social responsibility expenditure and profit after tax for the period of 2002-2011. An extensive literature viewed to grasp the concept of CSR and the relationship between CSR and the performance of banking business. Data relating to cost/investment/expenditure for the bank on corporate social responsibility and profitability was used to construct ordinary least square (OLS) model of regression to which was analyzed using SPSS 16. to assess the impact as well as test the hypothesis of the study; if there is relationship and the extent of the relationship if any between the independent variable (corporate social responsibility expenditure) and the dependent variable  (profit after Tax).

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

$H_0$: there is no significant relationship between Corporate Social Responsibility expenditure and Bank Profitability
$H_1$: there is significant relationship between Corporate Social Responsibility expenditure Bank Profitability

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

$$P_t = \alpha_0 + \beta_1 CSR_t + \dot{\epsilon} \tag{1}$$

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

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

### 4. Data Presentation, analysis and discussion

**Table 1: DBBL data on CSR Expenditure and Profit after Tax**

| Year | CSR Expenditure | Profit After Tax |
|------|-----------------|------------------|
| 2002 | 7,789,473 | 177,600,000 |
| 2003 | 10,055,000 | 210,160,000 |
| 2004 | 26,945,450 | 236,350,000 |
| 2005 | 36,200,880 | 367,820,000 |
| 2006 | 38,789,049 | 362,180,000 |
| 2007 | 39,206,500 | 479,810,000 |
| 2008 | 171,016,500 | 821,670,000 |
| 2009 | 159,206,500 | 1,137,698,057 |
| 2010 | 168,860,000 | 2,002,315,963 |
| 2011 | 339,447,674 | 2,154,888,510 |

Source: Annual Report (2002-2011)

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

**Table 2: DBBL LOG data**

| Year | CSR Expenditure | Profit After Tax | Log CSR | Log PAT |
|------|-----------------|------------------|---------|---------|
| 2002 | 7,789,473 | 177,600,000 | 15.8682830 | 18.9950444 |
| 2003 | 10,055,000 | 210,160,000 | 16.12358 | 19.1633797 |
| 2004 | 26,945,450 | 236,350,000 | 17.1093224 | 19.2808243 |
| 2005 | 36,200,880 | 367,820,000 | 17.4045930 | 19.7231043 |
| 2006 | 38,789,049 | 362,180,000 | 17.4736485 | 19.7076519 |
| 2007 | 39,206,500 | 479,810,000 | 17.4843531 | 19.9889008 |
| 2008 | 171,016,500 | 821,670,000 | 18.9572706 | 20.5268494 |
| 2009 | 159,206,500 | 1,137,698,057 | 18.8857127 | 20.8522728 |
| 2010 | 168,860,000 | 2,002,315,963 | 18.9445805 | 21.4175703 |
| 2011 | 339,447,674 | 2,154,888,510 | 19.6428304 | 21.4910048 |

Source: Annual Report (2002-2011)

Using SPSS 16 to run the table 2, the logarithm data on CSR expenditure and Profit after Tax (PAT) of DBBL for the period of 2002-2011. The output is presented in table 2. From the output the result shows high association or relationship between the two variables under examination.

**Table 3 Correlations between CSR and profit after Tax**

|  |  | CSR | PAT |
|--|--|-----|-----|
| CSR | Pearson Correlation | 1 | .953[**] |
|  | Sig. (1-tailed) |  | .000 |
|  | N | 10 | 10 |
| PAT | Pearson Correlation | .953[**] | 1 |
|  | Sig. (1-tailed) | .000 |  |
|  | N | 10 | 10 |

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

**Table 4: Regression result on the impact of corporate social responsibility on profitability model**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
|-------|---|----------|-------------------|----------------------------|-------------------|---|---|---|---|---------------|
|  |  |  |  |  | R Square Change | F Change | df1 | df2 | Sig. F Change |  |
| 1 | .953[a] | .907 | .896 | .2943792 | .907 | 78.482 | 1 | 8 | .000 | 1.791 |

a. Predictors: (Constant), CSR

b. Dependent Variable: PAT

This establishes relationship between CSR expenditure and PAT was found to be significant at 0.01 or 1%. To evaluate the impact of corporate social responsibility expenditure on profitability in Bangladeshi banks revealed (Beta= 0.953, p<.01), the results of the Ordinary Least Square regression analysis is shown in table 4. This means that for every unit change increment the CSR expenditure will lead to .953 or 95.3% increase in the profit after tax of the company. It also shows that R-square was 0.907 which accounted for about 90.7% of the variation in the profit after tax of DBBL. It is also indicating that corporate social responsibility is important in achieving effective financial performance of banks in Bangladesh. The overall significance of the model is showed in the table (F-statistic= 78.48%, p<.01) and the Durbin-Watson show that the model is fit at 1.79. Over all, the model

states that 90.7% of the variance of profit after tax of DBBL has been explained by the benefit accrued from corporate social responsibility.

From the above table 4, the value of ("r"= 0.953, p < .01) which stand for "r" calculated. This shows that there is a positive correlation between corporate social responsibility expenditure and the profit earned by the company which is significant at the 0.01 level (1-tailed). This means that the null hypothesis is rejected and leading to the acceptance of the alternative hypothesis.

**Table 5: Regression Co-efficient**

| Model | Un standardized Coefficients | | Standardized Coefficients | t | Sig. | 95% Confidence Interval for B | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Lower Bound | Upper Bound |
| 1 (Constant) | 7.975 | 1.373 | | 5.806 | .000 | 4.808 | 11.142 |
| CSR | .682 | .077 | .953 | 8.859 | .000 | .505 | .860 |

Dependent Variable: PAT

Above are the (un standardized) and standardized regression weights for the regression analysis of corporate social responsibilities and profitability. The standardized regression coefficient (beta weight) for CSR is .953. What this weight means is that for every unit change in CSR, profitability will increase by a multiple of .953 standard deviations. Note that the beta coefficients are significant at p < .001.

The columns headed "95% confidence intervals" shows confidence intervals around the un standardized regression coefficients. Thus it can be said that, with 95% confidence the value of the constant lies somewhere between 4.808 and 11.142, and the value of the regression coefficient *b* (un standardized) lies somewhere between .505 and .860)

**4.2 Discussion of Findings**
The results of the ordinary least square regression analysis as showed the impact of corporate social responsibility expenditure on profitability in DBBL which revealed (Beta= 0.953, p<.01). This means that for every unit change increment the CSR expenditure will lead to .953 or 95.3% increase in the profit after tax of the company. The R-square was 0.907 which accounted for about 90.7% of the variation in the profit after tax of DBBL. It is also indicating that corporate social responsibility is important in achieving effective financial performance of corporate organization in Bangladesh. The overall significance of the model is showed in the table (F-statistic= 78.48, p<.01) and the Durbin-Watson show that the model is fit at 1.79. Above all, the model revealed that 90.7% of the variance of profit after tax of DBBL has been explained by the benefit accrued from corporate social responsibility. The hypothesis that was formulated was tested and the result shows that there is significant relationship between corporate social responsibility and profitability

**5. Conclusion**

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

In Bangladesh, CSR initiatives by banks have risen significantly. So Bangladesh Bank should carefully monitor the activities of the Banks whether they are complying the mandatory involvement in the CSR activities from net profit which is now 10% or more from its previous year's net profit. Above all, new laws regarding CSR, legal

restrictions, to do CSR activities for the betterment of the people not for profit making or marketing strategies will surely bring more sustainable growth in the banking sectors of Bangladesh.

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