

## CSR and financial performance parameters of DBBL: An empirical analysis

*Md. Farijul Islam<sup>1</sup> and Md. Mostafizur Rahman<sup>2</sup>*

<sup>1</sup>Department of Marketing, Hajee Mohammad Danesh Science & Technology University, Dinajpur, Bangladesh

<sup>2</sup>Department of Management, Hajee Mohammad Danesh Science & Technology University, Dinajpur, Bangladesh

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**ABSTRACT:** The purpose of the current study is to show the statistical linkage between CSR expenditure of financial service firm mainly DBBL and its financial performance on the basis of some key parameters that attempts to contribute to the existing knowledge of corporate social responsibility initiatives by businesses and its ability to influence their financial performance. Consequently, the main objective is to examine the relationship between CSR and financial performance of the banking sector. For this purpose, various financial drivers are used such as EPS, DPS, NPAT, ROE, EVA ROA, MVA and, ROE and ROI. After getting all the relevant data from secondary sources like annual reports and reports from Bangladesh Bank, statistical tool like multivariate analysis in the form of Bi-variate Regression is used to depict the relationship and the developed hypotheses are tested by using Univariate analysis in the form of one sample t test under parametric test. The major finding of this study demonstrates evidence that there is a statistical significant linkage between CSR and Performance of the sample bank.

**KEYWORDS:** CSR, financial performance parameters, DBBL.

### 1 INTRODUCTION

Corporate Social responsibility (CSR) has emerged as a new phenomenon in the 21st century which appeals to a great extent for the betterment of the society and business people. This issue has become increasingly popular due to the fact that society is a key player in the arena of business. In the perspective of Bangladesh, it is not a very recent and new orientation because the financial service organizations are now shifting from profit generating activities to social welfare activities. Right now apart from generating profit for their survival, businesses have tremendous roles to play for society. Corporations are taking into consideration of the matter of CSR as it is a major concern of social marketing orientation and cause related marketing. CSR is responsibilities of the corporations to the society that incorporate the broad spectrums of the continuing commitments by businesses for the continues improvements of the society, the people of the society together with its surroundings while improving the standard of the life of the workforces and their families as well as of the local community and society at large. The impact of business on society is becoming an important topic in management practices [1]. The three dimensions are commonly known as the triple bottom line approach to CSR. The triple bottom line concept states that business entities do not only exist with the objective of making profits, but also they tend to have an objective of adding value to the environment and society as a whole [2]. A study asserted that there are some neutral relations in the connection that may indicate that a lot of variables in the relationship between CSR and financial performance make the connection coincidental [3]. Another study asserted that the manager of a firm can make CSR investments so as to increase profitability in the short term, and by extension, increase the compensation paid to them [4]. The notion that there is a negative relationship between CSR and financial performance focuses on empirical studies that make inferences from the managerial opportunism hypotheses [5]. Considering a study on financial performance and social responsibility in Indian scenario 37 companies were taken as sample size. Regression analysis was used to test the hypothesis. The result revealed that there is positive relationship between CSR and financial performance. 26 out of 37 companies spent lesser amount on social projects 11 companies spent more than their estimated budget of CSR [6].

Earnings per share, also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding shares at the end of the year. Earnings per share or basic earnings per share is calculated by subtracting preferred dividends from net income and dividing by the weighted average common shares outstanding. Earnings per share are the same as any profitability or market prospect ratio. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders. A dividend per Share represents dividends paid per share to the primary common shareholders. When a company has more than one type of common shares, the DPS for the primary share, which usually equals the common stock with greatest shares outstanding for the company and is considered most actively traded in the market. Investors generally use dividends as a signal. If dividends per share drop, then investors take that as a signal that the company is not doing well financially. It could mean a drop in the company's market value as investors sell off shares out of fear. The opposite is true if dividends per share go up. Net profit after taxes is the net income of the organization less all taxes. It is the sum of all revenues less all expenses, including cost of goods sold and all taxes. While it is almost the same as net income, this terminology frequently appears on the company's financial statements in order to differentiate between profits before and after subtracting taxes. Managers and investors want to see the effects that taxes have on the company's bottom line. Often you will see the "earnings before interest and taxes" also appear on the organization's statement of income. This shows the true profits of the company before paying any interest on loans or bonds, and prior to paying taxes. If the company is paying a significant amount in taxes, management may look for ways to reduce tax payments. The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the ratio measures how efficiently a company can manage its assets to produce profits during a period. Since company assets' sole purpose is to generate revenues and produce profits and helps both management and investors see how well the company can convert its investments in assets into profits. In short, this ratio measures how profitable a company's assets are. EVA is the financial performance measure that comes closer than any other in capturing the true economic profit of an enterprise. It is the performance measure most directly related to the creation of shareholders wealth over time. The EVA model of measuring business performance in addition to cost of borrowed capital takes into account own capital cost, which depend alternative investment made by investors, bearing the same risk. EVA is the difference between NOPAT and the required return of the financing of debt and equity capital i.e. cost of capital employed/weighted average cost of capital. EVA, also known as "economic profit", indicates how profitable a company's projects have been, which also serves as a measure of company management's efficiency. The market value added concept derives the difference between the market value of a business and the cost of the capital invested in it. When market value is less than the cost of invested capital, this implies that management has not done a good job of creating value with the equity made available to it by investors which measures the operational capabilities of a company's management and represents the value of the company as a whole on the open market. The formula for return on equity, sometimes abbreviated as ROE, is a company's net income divided by its average stockholder's equity. The numerator of the return on equity formula, net income, can be found on a company's income statement. Return on equity measures the rate of return for ownership interest (shareholders' equity) of common stock owners. It measures the efficiency of a firm at generating profits from each unit of shareholder equity, also known as net assets or assets minus liabilities. ROE shows how well a company uses investments to generate earnings growth. ROEs 15-20% are generally considered good. Return on investment is the benefits to the investors resulting from an investment of some resources. A high ROI means the investment gains compare favorably to investment cost. As a performance measure, it is used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. Apart from this, the ratio measures for the operating efficiency for the company based on the firm have generated profits from its total assets.

## **2 RESEARCH OBJECTIVES**

- To examine the relationship between CSR and financial performance parameters.
- To determine the significance of CSR and financial performance of DBBL.
- To understand the dependency of CSR expenditure on overall profitability performance of the service firm.

## **3 RESEARCH QUESTION**

Is there any relationship between CSR and Financial performance parameters?

#### 4 RESEARCH HYPOTHESES

- H1: There is a statistically significant relationship between CSR and EPS
- H2: There is a statistically significant relationship between CSR and DPS
- H3: There is a statistically significant relationship between CSR and NPAT
- H4: There is a statistically significant relationship between CSR and ROA
- H5: There is a statistically significant relationship between CSR and EVA
- H6: There is a statistically significant relationship between CSR and MVA
- H7: There is a statistically significant relationship between CSR and ROE
- H8: There is a statistically significant relationship between CSR and ROI

#### 5 FORMULATION OF THE BIVARIATE REGRESSION MODEL

$Y = \beta_0 + \beta_1 X_1 + \epsilon_i$  where

Y = Performance Parameter (Dependent Variable)

X = CSR (Independent variable)

$\beta_0$  = Intercept of the line

$\beta_1$  = Slope of the line

$\epsilon_i$  = Error term

#### 6 CONCEPTUAL FRAMEWORK OF THE STUDY



*Fig. 1 Conceptual Framework of the study analyzing literature*

#### 7 MATERIALS AND METHODOLOGY

The research is exploratory in nature as the results and final findings are based on data collection from secondary sources. For the purpose of data collection annual reports from DBBL ranging from year 2010 to 2014 and reports from Bangladesh Bank are used and for literature review analysis other sources such as journals, periodic, books are used. Statistical tool like Univariate analysis one sample t test is used under parametric test in order to test the developed hypothesis and multivariate analysis such as Bivariate Regression is done for showing the relationship between dependent and independent variable. Lastly data were analyzed with the help of SPSS to get the desired output.

#### 8 ANALYSIS AND FINDINGS

Since the probability is (.000) and the significance level is (.05), we can conclude that H1 is accepted. As the alternative hypothesis is accepted, we can say that there is a statistical relationship between CSR expenditure and earnings per share of

the company. Since the probability is (.016) and the significance level is (.05), we can recapitulate that H2 is accepted. As the alternative hypothesis is accepted, we can say that there is a statistical relationship between CSR expenditure and dividend per Share of the company. As the probability is (.000) and the significance level is (.05), we can conclude that H3 is accepted. As the alternative hypothesis is accepted, we can say that there is a statistical relationship between CSR expenditure and net profit after tax of the company. When the probability is (.003) and the significance level is (.05), we can say that H4 is accepted. As the alternative hypothesis is accepted, we can say that there is a statistical relationship between CSR expenditure and return on asset of the company. Since the probability is (.066) and the significance level is (.05), we can conclude that H5 is not accepted. As the null hypothesis is accepted, we can say that there is no statistical relationship between CSR expenditure and economic value added of the company. Since the probability is (.041) and the significance level is (.05), we can illustrate that H6 is accepted. As the alternative hypothesis is accepted, we can say that there is a statistical relationship between CSR expenditure and market value added of the company. As the probability is (.004) and the significance level is (.05), we can conclude that H7 is accepted. As the alternative hypothesis is accepted, we can say that there is a statistical relationship between CSR expenditure and return on equity of the company. Since the probability is (.000) and the significance level is (.05), we can reveal that H8 is accepted. As the alternative hypothesis is accepted, we can say that there is statistical relationship between CSR expenditure and return on investment of the company.

**Table No: 1 Scenario of Financial Parameters and CSR Expenditure of DBBL**

Figure Year	CSR Expd. ( Million in Taka)	EPS (%)	DPS (%)	NPAT (Million in Taka)	ROA (%)	EVA (Million in Taka)	MVA (Million in Taka)	ROE (%)	ROI (%)
2010	108.0	10.0	3.0	2002.0	2.2	2260.0	38854.0	35.3	12.2
2011	339.0	10.8	4.0	2155.0	1.9	1828.0	23320.0	27.0	10.9
2012	528.0	11.6	4.0	2314.0	1.7	968.0	11996.0	23.4	11.6
2013	788.0	10.0	4.0	2000.0	1.2	59.0	8298.0	17.0	10.8
2014	1116.0	11.0	4.0	2207.0	1.1	271.0	6643.0	16.2	10.8

**Table 2: Hypothesis Test**

Name of the parameters and CSR	One-Sample Test					
	Test Value = 3					
	t	df	Sig.(2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
CSR and EPS	24.996	4	.000	7.68000	6.8269	8.5331
CSR and DPS	4.000	4	.016	.80000	.2447	1.3553
CSR and NPAT	35.170	4	.000	2132.600	1964.2444	2300.95
CSR and ROA	-6.624	4	.003	-1.38000	-1.9584	-.8016
CSR and EVA	2.511	4	.066	1074.200	-113.7375	2262.13
CSR and MVA	2.965	4	.041	17819.200	1135.1914	34503.2
CSR and ROE	5.917	4	.004	20.78000	11.0298	30.5302
CSR and ROI	29.652	4	.000	8.26000	7.4866	9.0334

Source: SPSS Analysis

In case of earnings per share, The Bivariate Regression analysis performed for testing the effect of CSR on earnings per share in the banking sector is shown in above table. The value of  $\beta$  is .255 (Which is positive), T-Value is .456 (which is less than standard 2.00) and P-value or significance level is .679 (Which is greater than 0.05). Results illustrate that there is a moderate positive relationship between CSR and EPS. It means when DBBL bank increases their spending on CSR, the earnings per share of the bank will also increase because of this positive relationship between CSR and EPS, The banking industry will spend more on CSR especially in the developing countries. In case of Dividend per Share, the Bivariate Regression analysis performed for testing the effect of CSR on Dividend per Share in the banking sector is shown in above table. The value of  $\beta$  is .667 (Which is positive), T-Value is 1.552 (which is less than standard 2.00) and P-value or significance level is .218 (Which is greater than 0.05). Results illustrate that there is a least positive relationship between CSR and DPS. It means when DBBL bank increases their spending on CSR the Earnings per share of the bank will also increase. Because of this

positive relationship between CSR and DPS, The banking industry will spend more on CSR especially in the developing countries. When we consider PNAT aspect, the Bivariate regression analysis performed for testing the effect of CSR on Net Profit after Tax in the banking sector is shown in above table. The value of  $\beta$  is .278 (Which is positive), T-Value is .502 (which is less than standard 2.00) and P-value or significance level is .650 (Which is greater than 0.05). Results illustrate that there is a moderate positive relationship between CSR and NPAT. It means when DBBL bank increases their spending on CSR the net profit after tax the bank will also increase. Because of this positive relationship between CSR and NPAT, The banking industry will spend more on CSR especially in the developing countries. At the time of considering return on asset, the Bivariate Regression analysis performed for testing the effect of CSR on Return on Asset in the banking sector is shown in above table.

**Table 3: Bivariate Regression**

Model	Coefficients				Model
	Unstandardized Coefficients	Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta		
(Constant)	10.423	.660		15.795	.001
(Constant)	3.361	.331		10.162	.002
(Constant)	2080.11	129.349		16.081	.001
(Constant)	2.287	.104		22.051	.000
(Constant)	2368.87	375.391		6.310	.008
(Constant)	35565.8	5857.226		6.072	.009
(Constant)	11.932	.420		28.411	.000
(Constant)	34.720	2.482		13.988	.001
CSR Expenditure (Million in TK)	.000	.001	.255	.456	.679
CSR Expenditure (Million in TK)	.001	.000	.667	1.552	.218
CSR Expenditure (Million in TK)	.096	.192	.278	.502	.650
CSR Expenditure (Million in TK)	-.001	.000	-.975	-7.530	.005
CSR Expenditure (Million in TK)	-2.243	.557	-.919	-4.028	.028
CSR Expenditure (Million in TK)	-30.816	8.690	-.899	-3.546	.038
CSR Expenditure (Million in TK)	-.001	.001	-.734	-1.874	.158
CSR Expenditure (Million in TK)	-.019	.004	-.948	-5.160	.014

Dependent Variable: 1. Earnings Per Share (%), 2. Dividend Per Share (%), 3.Net Profit After Tax (Million in Taka), 4. Return on Asset (%), 5.Economic Value Added (Million in taka), 6. Market Value Added (Million in Taka), 7. Return on Equity (%), 8. Return on Investment (%).

Source: SPSS Analysis

The value of  $\beta$  is -.975 (Which is negative), T-Value is -7.530 (which is less than standard 2.00) and P-value or significance level is .005 (Which is equal to 0.05). Results illustrate that there is a neutral relationship between CSR and ROA. It means when DBBL bank increases their spending on CSR the return on asset of the bank will remain stable. Because of this neutral relationship between CSR and ROA, The banking industry will spend more on CSR especially in the developing countries. In case of economic value added, the Bivariate Regression analysis performed for testing the effect of CSR on Economic Value Added in the banking sector is shown in above table. The value of  $\beta$  is -.919 (Which is negative), T-Value is -4.028 (which is less than standard 2.00) and P-value or significance level is .028 (Which is greater than 0.05). Results illustrate that there is a positive relationship between CSR and EVA. It means when DBBL bank increases their spending on CSR the economic value added of the bank will remain stable. Because of this neutral relationship between CSR and EVA, The banking industry will spend more on CSR especially in the developing countries. The Bivariate Regression analysis performed for testing the effect of CSR on market value added in the banking sector is shown in above table. The value of  $\beta$  is -.899 (Which is negative), T-Value is -3.546 (which is less than standard 2.00) and P-value or significance level is .038 (Which is greater than 0.05). Results represents that there is a positive relationship between CSR and MVA. It means when DBBL bank increases their spending on CSR, the return on asset of the bank will remain stable because of this neutral relationship between CSR and MVA, The banking industry will spend more on CSR especially in case of Bangladesh. By considering return on equity, the Bivariate Regression analysis performed for testing the effect of CSR on return on equity in the banking sector is shown in above table.

The value of  $\beta$  is -.734 (Which is negative), T-Value is -1.874 (which is less than standard 2.00) and P-value or significance level is .158 (Which is greater than 0.05). Results illustrate that there is a positive relationship between CSR and ROE. It means when DBBL bank increases their spending on CSR the return on asset of the bank will remain stable because of this neutral relationship between CSR and ROE. In case of return on investment the Bivariate Regression analysis performed for testing the effect of CSR on return on investment in the banking sector is shown in above table. The value of  $\beta$  is -.948 (Which is negative), T-Value is -5.160 (which is less than standard 2.00) and P-value or significance level is .014 (Which is greater than 0.05). Results illustrate that there is a positive relationship between CSR and ROI. It means when DBBL bank increases their spending on CSR the return on investment of the bank will remain stable because of this neutral relationship between CSR and ROI.

## **9 CONCLUSIONS AND RECOMMENDATIONS**

The main focus of the study was to demonstrate the relationship and impact of CSR on the key parameters of financial performance of the banking service especially Butch Bangla Bank Limited in Bangladesh. Based on the analysis and interpretation in this study designed the research to answer the question of whether CSR spending influences bank's performance or not From the findings of the analyzed secondary data, it can be recapitulated that corporate social responsibility activities have positive relationship with the above parameters of financial performance. Based on what is shown and discussed above, it can be strongly agreed that financial service providers apart from making profit, should do their social responsibilities towards society and environment because it will improve the society, environmental conditions and overall socio economic development of Bangladesh which leads to create positive image of banks and all other stakeholders' regarding the organizations. Banks may portray themselves as socially responsible firms it will lead to improve the overall financial performance of the Banks. Bangladeshi government should play its pivotal role to motivate the banks to spend for the welfare of the societies, nations, environment where they operate their businesses and earn profits. Further research can be done in other sectors like telecom, automobiles, insurance companies, leasing firms etc. The findings of this study are based on limited data for a limited period of time. Further studies on this topic should utilize data with a longer period to obtain a more accurate and authentic output.

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