

## **Impact of Corporate Social Responsibility (CSR) Expenditures on Financial Performance of Islami Bank Bangladesh Ltd.**

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**Abstract:** The study mainly examines the impact of Corporate Social Responsibility (CSR) expenditures on financial performance of Islami Bank Bangladesh Ltd. (IBBL). The study then attempted to scrutinize the responsibility of the bank authority to various interest groups to assess the performance of CSR activities to analyze the performances in terms of ROE (Return on Equity) and DPE (Deposit per Employee) and to measure the impact of CSR expenditures on bank profitability and productivity. The study covers IBBL and a period of 5 years ranging from 2008-2012. Secondary data are collected from the annual reports of the bank. The study found that disaster management, education, health, sport, art and culture, environment and other activities have negative correlation with ROE but positive correlation with DPE. It is further found that these factors have influenced to the extent of 35.3% variations in ROE and 11.2% variation in DPE. The study concludes that the bank authority should invest more in CSR expenditures in order to improve the DPE of the bank.

**Key words:** Corporate social responsibility, financial performance, disaster management, deposit per employee, return on equity, Islami Bank Bangladesh Ltd.

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### **INTRODUCTION**

Corporate Social Responsibility (CSR) has evolved greatly both in concept and practice over the past few decades mostly due to the ever changing society. In this period, the relationship between business and society has changed radically. Business firms have changed their approaches, philosophy, nature and objectives in different time to time. As a result, the concept of CSR is not unambiguously defined. Banking industry is in general, characterized by majority of assets being monetary and the transaction times varying from very short to very long. Many banking decisions are based on accepting risks in return for rewards (Anthony and Govindarajan, 2004). These special characteristics mark also the CSR of banking companies. The industry faces different challenges compared to industries where environmental and social aspects are more material through manufacturing, logistics and different stages of the value chain.

As in many developing countries, banks play a vital role in Bangladesh economy as the dominant financier for the industrial and commercial activities. Despite the expansion, the operational efficiency of the banking institutions has continued to be dismal. The sector witnessed decreasing profitability, increasing non-

performing assets, provision and capital shortfalls, eroded credit discipline, low recovery rate, inferior asset quality, managerial weakness, excessive interference from governments and owners, weak regulatory and supervisory role, etc. Internal control system along with accounting and audit qualities are believed to have been substandard. Many of the problems have been attributed to lack of sound corporate governance as well as corporate social responsibility among the banks.

Thus, CSR activities are yet to be mainstreamed into corporate practice in Bangladesh in the banking sector or elsewhere. The initiatives taken by various regulatory agencies such as Bangladesh Bank, National Board of Revenue (NBR) and international aid agencies like International Finance Corporation (IFC) are expected to develop accountability and related CSR practices within the banking industry in Bangladesh. Bangladesh Bank encourages commercial banks to perform dynamic CSR activities that might tend banking sector to become more structured on the ideas of CSR issues. The Government of Bangladesh (GOB) has approved a proposal of tax exemption facilities for firms at the rate of 10% on a part of the corporate income to be spent for CSR to encourage its CSR activities. Bangladesh Bank has issued guidelines for main streaming CSR in the financial sector in Bangladesh,

encouraging banks and financial institutions to embrace CSR voluntarily in their management strategies, objective and practices. Bangladesh Bank also directed the banks to include their CSR activities in their Annual Report as a part of fair disclosures. Bangladesh Bank has recently come up with the specific regulations with the bank's lending policies and as a proposal to protect environment and combat climate change; it has decided to limit credit facilities for those industries involved in pollution.

There has been increasing pressure on national and multinational corporations in Bangladesh to consider the social implications of their actions (Belal, 2001). To guide the banking sector particularly, this pressure has also been increased from international body to follow the most popular two voluntary standards, namely, Principles for Responsible Investment (PRI) and Equator Principles (EP). Traditionally, banking industry in Bangladesh has not been considered strongly committed to CSR. Nevertheless, the CSR requirements addressed for banks by various stakeholders have been increasing due to financial crisis. An in-depth study of the said CSR activities in banking sector in Bangladesh may reveal a completely different facet of unsatisfactory performance of the present management policy. The problem of the study, therefore, urges to make a comprehensive analysis of present scenario of CSR activities in banking sector in Bangladesh. This will reveal the extent of awareness and concern regarding the need of the managerial efficiency in general.

Literature on social responsibility performance of Bangladeshi enterprises in general is scanty in number and partial in contents. There is lack of research related to CSR activities of banking industry of Bangladesh. The fact is that many important aspects of banking sector of Bangladesh with respect CSR practices are yet to be explored. All these aspects of banking sector of Bangladesh deserve to be studied comprehensively. This present endeavor is therefore an attempt to make a comprehensive study to investigate impact of Corporate Social Responsibility (CSR) expenditures on financial performance of Islami Bank Bangladesh Ltd. and to this end the study attempted to examine the responsibility of the bank authority to various interest groups to assess the performance of CSR activities to analyze the performances in terms of ROE (Return on Equity) and DPE (Deposit per Employee) and to measure the impact of CSR expenditures on bank profitability and productivity and to provide strategies to address constraints associated with the findings. The study findings will have enormous academic value since no extensive study has been undertaken on this aspect of the problem. It will be helpful

to the bank management, government, researchers and national policy makers who have been making serious endeavor to protect the industry for its sustainability.

**Literature review:** Theoretical development of CSR in the last few decades is enormous, wide and multidimensional. Since, the publication of Bowen's book titled "social responsibilities of the Businessman" in 1953, the term Social Responsibility has evolved into corporate social responsibility. The importance of CSR has become an important issue for banks to address ahead of corporate scandals in the beginning of the century which have had resulted in a side in the level of trust that they used to enjoy. Dusuki and Dar (2005) identified several driving forces behind the growing trend towards CSR initiatives like growing market pressure on social and ethical issues, regularity pressure, increased power of communication, etc. This is true that banks are paying more to their CSR activities but not so much as their earning increase. Common CSR practices in Bangladesh by different organization are centered on mainly poverty alleviation, healthcare, education, charity activates, cultural enrichment, youth development, women empowerment, patronizing sports and music, etc. (Alam *et al.*, 2010). Sharma (2011) in a study named "CSR Practices and CSR Reporting in Indian Banking Sector" mention CSR recognizes an organization's commitment to operate in a socially responsible manner. But, CSR activities of developing nations are not so glowing. Particularly, in financial sector there is an absence of stringent provisions regarding compliances and reporting CSR. With special reference to commercial banks, Wise and Ali (2009) pointed out that CSR is associated with corporate governance and ethical business procedure. Good corporate governance is expected to under pin effective and efficient CSR within firms. Masud and Hossain (2012) conducted a survey on 100 commercial banks and found that only 10 banks reported their CSR activities but 60% banks participated in prescribe CSR area according to financial act. The literature recognizes that CSR practices differ from country to country and between developed and developing countries (Imam, 2000). Furthermore, the nature and patterns of CSR vary between types of industry. Alam *et al.* (2010) revealed out that CSR is still an evolving concept that enables corporate executives to create and apply selfdetermined policies to best meet the needs and demands of its stakeholders. The peculiar natures of CSR practices make their cross-border management difficult. Achieving consistent CSR practices across global operations involve not only the transfer of the CSR practice but also the transfer of its underlying value and meaning. Corporate social responsibility is not

the only ethical dilemma that financial institutions face in an atmosphere of corrupt corporate practice. These institutions are also concerned with commitment for sustainable development (Azim *et al.*, 2011).

Banks across the globe have received the considerable amount of pressure from its diverse stakeholders including shareholders, investors, media, NGOs and customers (Sen and Bhattacharya, 2004; Coupland, 2006) to carry out business in a responsible, social and ethical manner. In consequence, the initiatives promoted by governments and multilateral agencies emphasized more compounded role of the financial sector in contributing the achievement of sustainable development goals in conducting their operations. In achieving international standards, the country's corporate sectors responsibility towards community, investors and consumers increasingly heading towards a meaningful set of practices which is the dialogue of CSR today. With the changing socioeconomic environment of Bangladesh these issues are changing time to time. Thus, in the context of Bangladesh the relevant issues required to be examined as to status and need for further changes. The research problem, therefore is to find out the extent of corporate compliance with social responsibility expectations.

Study related to Bangladeshi enterprises with reference to CSR activities is of recent origin in eighties. Hoque (1985) in an article titled "Social Responsibilities of Business: Myth or Reality?" explained the concepts of CSR, its major areas and the proper direction in which a firm can think of being socially responsible. Reviewing available literature in the field, the study identified the major areas to be focused for a business enterprise so as to be responsible to the different concerns of the society. Mahmud (1988) analyzed different aspects of the concept in a study to show the practice of social responsibility in public enterprises of Bangladesh. After a brief discussion of the aspects of social responsibility the study examined the performance of social responsibility in different public sector corporations of the country. The study pointed out that public corporations of Bangladesh should have some sort of obligatory responsibilities to the society. Murshed *et al.* (1999) argued that 'agency theory' which has highlighted the relationship of ownership and management in deriving the financial control of the organization is not focus much on institutional factors and ideological perspective of financial and managerial control. Chowdhury and Kabir (2000) argued that environmental marketing and management integrate all the three areas of business society environment interrelationships. But corporate social responsibility or corporate citizenship are attributed to be more extensive

terms than the business society environment relationships or the circle model. Arif (1990) conducted a study over ten private and ten public sector corporations in Chittagong. He found that employee welfare and national development were the objectives of a public sector enterprise management while the objectives of private business enterprises were profit, growth and selfsufficiency. But, the manager's conceptual understandings on the topic were found same in both the types of businesses. In case of employee welfare, the areas covered were same for the both sectors while the involvement was quite less in case of private sector enterprises. Public sector enterprises also performed better in human resource development programs and community development activities. Mannan (1986) discussed the concept of CSR from the organizational contextual changes. The study reviewed literature on the areas of social responsibility. It also tried to focus the arguments of both for and against the concept. Since, none of the studies discussed above focused especially on the CSR activities in banking sector in Bangladesh it therefore, may be assumed that the present investigation would reveal the scenario of CSR activities in banking industry in Bangladesh. It is expected that such an investigation would successfully indicate the reasons of the present level CSR practices and therefore would provide guidelines for successful implementation of remedial measures for enhancing the level of practices of CSR in Bangladesh specially Islami Bank Bangladesh Ltd.

## **MATERILAS AND METHODS**

The secondary data relevant to this study were collected from available publications including different text books, journals, magazines, research studies, websites, etc. by the researcher himself. Data relating to the bank's CSR activities available from published documents of sample banks' Annual Reports, corporate rules and regulations, Bangladesh Bank Research and Statistics Division, Ministry of Finance, IMF Reports, World Bank Reports, Economic Survey of Bangladesh, Statistical Pocket Book, etc. were also be consulted for the theoretical development of the study.

The collected data and information was processed through SPSS program. The appropriate statistical tools such as average, percentage, descriptive statistics and 5-point, testing of hypotheses, multiple correlations and regression analysis have been used in the study. The data have been analyzed critically in order to make the study more informative, useful and acceptable to the readers. In order to measures the impact of CSR expenditures bank Return on Equity (ROE) a profitability measure and

Deposit Per Employee (DPE) a productivity measures have been taken as dependent variable .On the other hand, CSR expenditures in terms of sectors such as disaster management, education, health, sports, art and culture, environment and others have been considered as the independent variables. For this purpose we have taken two dependent variables. So, two regression models have been developed which are as follows:

$$ROE = \beta_1 EDM + \beta_2 EE + \beta_3 EH + \beta_4 ES + \beta_5 AC + \beta_6 EE + \beta_7 EO + \mu(\text{error1}) \quad (1)$$

$$DPE = \beta_1 EDM + \beta_2 EE + \beta_3 EH + \beta_4 ES + \beta_5 AC + \beta_6 EE + \beta_7 EO + \mu(\text{error2}) \quad (2)$$

Where:

ROE = Return on Equity  
EDM = Expenditure of Disaster management  
EE = Expenditure of Education  
EH = Expenditure of Health  
ES = Expenditure of Sports  
EAC = Expenditure of Art and Culture  
EE = Expenditure of Environment  
EO = Expenditure of Others

For measuring the impact, only 5 years data ranging from 2008-2012 were considered.

## RESULTS AND DISCUSSION

This study presents the empirical findings of this study. The bank authority has responsibility to the major interest groups namely, shareholders, employees, customers, suppliers and community as a whole. The following sub points examine such as responsibilities:

**Responsibility to the shareholders:** IBBL has been discharging its responsibilities to safeguard the interest of the shareholders by complying with shari'ah, law of the land, building a strong and efficient management and enhancing shareholders value and financial performance. Detailed performance including results and important activities of the bank are communicated to the shareholders through annual report. Shareholders are also encouraged to evaluate bank's performance and to give their valuable suggestions in the AGM.

**Responsibility to the employees:** The bank is always aware of continuous development of knowledge, competencies and attitude of the employees, comfortable and modern working environment as well as justified and competitive compensation packages for them. The recruitment process of the bank strictly follows "IBBL

recruitment policy." Develop professional knowledge, skill and attitude of the employees, the bank has established its own training academy named "Islami Bank Training and Research Academy (IBTRA)". The bank adheres strictly to the ILO labor practices and standards as well as local labor laws and regulations. Employees are allowed to operate trade union activities in the bank. The bank has developed a comprehensive pay-scale for the employees, the ratio of the highest and lowest level in the pay-scale has been maintained at a lower ratio of the 12:1 (DMD: MCG). Contributory provident fund 'Superannuation Fund' and 'Gratuity Fund' have been introduced by the bank for employees benefit. To meet-up housing need and ensure comfortable life, employees are provided with investment at a discounted rate under SHBIS and SHDS. The executives of the bank are provided with car either from bank management or under 'Car scheme for the employees of the bank'.

**Responsibility to the customers:** The most important contribution of the bank in this regard is the creation of huge employment opportunities in its financed projects as well as at IBBL. At present >12,000 employees are working in IBBL and millions in its finance projects. Though, its wide- ranged network of 276 branches and utilizing mobile phone technology, IBBL serves a huge number of rural families by channeling foreign remittance. Every branch of the bank keeps a 'complaint Box' to facilitate the customers, lodging complaints against services of the bank or particular employees. Regular meetings are held with the selected customers in different levels of management to discuss on their business issues and suggest them for further improvement. The customer of the bank have by now been extended to online ATM services. The bank has already started Web portal, SMS Banking and spot services. IBBL considered the customers as its partners and develops relationship through its employees as well as by organizing various programs in different occasions.

**Responsibility to the suppliers:** Suppliers play a fundamental role in the bank's micro environment. The bank develops its relationship with suppliers 'organizations on the basis of value and trust. The bank has a purchase committee which is responsible for procurements across the number of people instead of one of a few ensuring that the concerned employees and the bank are trusted and respected. All procurements follow a transparent tender procedure. Price negotiations are conducted by designated teams and committees. Supplier's information's is treated as confidential for fair dealings of the process. The bank recognizes responsibility to encourage suppliers to minimize negative

environment and social effects associated with the product and services they provide. To ensure an equitable share of wealth to a large numbers of suppliers, the bank invites fresh enlistment after every 2 years. Existing suppliers are also re-enlisted to evaluate their strengths and weaknesses as well as to categories supplier based on their historical performance. The bank follows a concerted policy of non-discrimination against small scale suppliers, whilst 76% of the suppliers' portfolio can be categorized as micro level entrepreneurs.

**Responsibility to the community:** The bank is very much conscious about its responsibility toward the communities within which it operates. The bank takes several initiatives in individual and organizational level for development of community. IBBL takes several programs to improve the lives of the people especially to the less fortunate segments of the community. An amount of taka 2525.74 million was spent for 100, 25,271 beneficiaries by IBBL during 1983-2012 for this purpose. IBBL contributed TK. 309.19 million for 11,48,525 beneficiaries this year. Bank's strategy towards discharging community responsibility focuses on Education, Health, Disaster management, Sports arts and culture and women empowerment.

**Responsibility to the environment:** The main theme of environmental responsibility is to create 'No Harm' to the environment in view of keeping it healthy for future generation. Now a day's climate change is addressed seriously all over the world. It is identified that Bangladesh, being a southern delta in under serious threat of natural disaster. In view of the above, the corporation is recommended to pay due attention to the followings:

- Reducing the use of non-renewable energy and materials (electricity, gas, fuel, paper, stationeries, etc.) and to increase use of the renewable or recyclable energy and materials (solar power, bio-gas, electronic media of communication, etc.

- Reduction of the industrial carbon emission
- The bank is directly in involvement in plantation activities at rural and urban areas along with distribution of the saplings in country areas to protect environment. For this purpose IBBL contributed an amount of Tk. 20.32 million for 5,09,065 beneficiaries from 1983-2012

**Assessment of performance of CSR activities:** At present the Bangladesh Bank as the regulatory body of all the banks both public and private have given guidelines to all the banks as regards the CSR expenditures. Each and every banks as to follow such guidelines. IBBL as one of the biggest Islami bank in Bangladesh has to incur CSR expenditures in every financial year. Table 1 shows the sector wise CSR expenditures of IBBL from 1983-2012.

Table 1 reveals that out of total amount of CSR expenditures during 1983-2012, Health sector expenditures have been the highest (39.72%) followed by education sector expenditure (19.52%), disaster management expenditure (15.50%), Sports sector expenditure (12.80%), others sectors expenditure (7.88%), art and culture sector expenditure (3.78%) and environment sector expenditures (0.80%) only. From this analysis, it can be said that expenditures on environmental sector have been the lowest since the establishment of the bank. Now a day's in order to get rid of the environmental pollution and also from carbon pollution, more and more expenditures should be made on environmental sector. Therefore, the bank authority needs to increase the expenditures of this sector up to satisfactory level that is at least 10% of total CSR expenditures.

Now the question arises to examine the share of IBBL in CSR expenditures as compared to total CSR expenditures in banking sector as whole. Table 2 shows the picture in this regards.

Table 2 shows that the shares of total IBBL in CSR expenditures as compared to total banking sectors have been 21, 10 and 19% in 2009-2011, respectively. The analysis of growth rate reveals that the share of IBBL in CSR expenditures has been decreased by 52% in 2010

Table 1: Sector-wise CSR expenditure of IBBL from 1983-2012 (in million taka)

Sectors	Amount (in million taka)				Total	Percentage
	1983-2009	2010	2011	2012		
Disaster management	217.61	64.06	21.79	87.93	391.39	15.50
Education	285.34	67.80	56.17	83.80	493.11	19.52
Health	873.62	64.11	25.78	39.75	1003.60	39.72
Sports	60.83	12.00	248.75	1.61	323.19	12.80
Art and culture	68.75	11.22	7.15	8.24	95.36	3.78
Environment	0.00	7.36	0.48	12.48	20.32	0.80
Others	61.31	11.87	50.55	75.38	199.11	7.88
Total	1567.46	238.42	410.67	309.19	2525.74	100.00

Annual Report (2012)

Table 2: Positions of CSR Expenditures of IBBL in Banking sector in Bangladesh (in million taka)

Particulars	2009	2010	Growth rate (%)	2011	Growth rate (%)
CSR expenditure of total banking sector	553.80	2329.80	321	2188.33	-6.00
CSR expenditure of IBBL	116.27	232.63	100	410.70	76.55
Share of IBBL in CSR expenditure (%)	21.00	10.00	52	19.00	137.00

Annual Report (2012)

Table 3: Share of IBBL in CSR expenditure out of the total investment of the bank during 2008-2012

Particulars	2008	2009	2010	2011	2012
Total investment of IBBL (in million taka)	187586.550	225752.410	275493.940	322772.83	399930.75
Share of CSR expenditure (in million taka)	96.120	116.270	232.630	410.70	309.19
Percentage of CSR expenditure (%)	0.051	0.051	0.084	0.13	0.08

Annual Report (2012)

Table 4: Positions of ROE and DPE of IBBL during 2008-2012

Specific measures of performance	2008	2009	2010	2011	2012	Average
ROE (%)	19.02	16.93	19.00	17.42	13.90	17.29
DPE (million taka)	21.51	25.48	28.21	29.82	34.28	27.86

Compiled from the data given in annual reports (2008-2012)

as compared to 2009. Again the growth rate has been 137% in 2011 as compared to 2010. Thus, it can be said that there has been upward and also downward trend in case of share of IBBL in CSR expenditures during 2009-2011. At this stage, it is also essential to examine the share of CSR position of IBBL, compared to total investment of the said bank. Table 3 presents the pictures in this respect:

Table 3 shows that the share of CSR expenditure out of total investment of IBBL has been very negligible during the period. It is observed that the share has ranged from 0.05-0.13% only. Therefore, it can be said that the share of CSR expenditures of IBBL as compared to its total investment has been too meager which needs to be increased by the bank authority.

**Financial performance of IBBL:** The financial performance of a bank can be measured from two perspectives, namely profitability and productivity. Profitability can be measured in terms of ROA, ROE, EPS, P/E ratio, dividend yields, dividend ratio, etc. Of all these profitability measures ROE has been considered in this study. Again there are also various measures of bank productivity, namely investment per employee, deposit per employee, income per employee, capital per employee, etc. Of all these measures deposit per employee has been considered in this study. Table 4 shows the positions of ROE and DPE of IBBL during 2008-2012.

Table 4 depicts that Return on Equity (ROE) has been 19.02, 16.93, 19, 17.42 and 13.90%, respectively in 2008, 2009, 2010, 2011 and 2012. The average ROE in the period has been 17.29%. All these figures reveal that the performance of the bank in terms of ROE has been satisfactory during the period since, these figures were higher than the standard norms of ROE equivalent to 15% (REF). Deposit per Employee (DPE) has been TK. 21.51, TK. 25.48, TK. 28.21, TK. 28.82 and TK. 34.28 million during the study period. The average DPE has been TK. 27.86

million. All these figures imply that DPE has also been satisfactory during study period. More over, the table shows that DPE has been shown an increasing trend during the study period. It is also seen that in 2012, DPE has been increased to the extent of 59.405 as compared to 2008.

#### Measuring impact of CSR expenditures on the performances of IBBL in terms of ROE and DPE:

It is essential to examine the relationship of the dependent and each of the independent variables. In order to measure the desire relationship, Pearson correlation along with t-values has been calculated. Findings show that correlation coefficients between ROE and each of the independent variables such as disaster management, education, health, sports, art and culture, environment and others have been -0.712, -0.665, -0.434, -0.443, -0.545, -0.944 and -0.780, respectively. The level of significance shows that are between ROE and Disaster management, ROE and environment, ROE and others have been significant at 10% level. Again coefficient of correlations between DPE and each of the above independent variables have been 0.404, 0.379, 0.088, 0.623, 0.213, 0.842 and 0.759, respectively. The level of significance shows that coefficient of correlation between DPE and environment and others have been significant at 10% level. All these values of correlations imply that ROE has negative correlation with each of the independent variables. This is because of the fact that the more expenditures on each of the items the less the ROE and vice-versa. Again the values of correlation signify that the DPE has positive correlation with each of the independent variables. This signifies that the more the expenditures on each of the items the more the DPE and vice-versa. Impact of independent variables on ROE and DPE: At this stage it is essential to measure the impact of the independent variables on ROE and DPE, respectively. It is to be mentioned here that in this study the simple regression

model has been estimated. This is because of the fact that sector wise expenditure on CSR expenditures have been taken as independent variables where as ROE and DPE have been taken as dependent variables. The results of regression model have been shown. The model summery shows that the value of  $R^2$  has been found out as at 0.353 which implies that 35.3% of variables in ROE have been explained by CSR expenditures. Again the next model summery shows that the value of  $R^2$  has been calculated as 0.112 which signifies that 11.2% of the variations in DPE have been explained by CSR expenditures. From this analysis, it can be said that the, the relevant bank authorities should invest more and more in CSR expenditures in order to improve their DPE, especially.

### CONCLUSION

The study point out that in spite of various responsibilities performed by IBBL to the shareholders, employees, customers, suppliers, community and the environment. The share of CSR expenditures has been too small ranging from 0.05-0.13% only out of total investment of the bank. The study also revealed that ROE and DPE have relationship with the share of CSR expenditures which implies that the more and more investment in CSR expenditures would lead to more and more DPE and ROE. This state of affairs demands that the IBBL authority should give the special attention to increase the CSR expenditures. From the result of regression models it is seen that the independents variable have influenced the dependent variables ROE and DPE to extent of 35.3 and 11.2%, respectively. Considering those main findings of the study the following policy implication may be recommended. The bank authority should give more emphasis on the responsibilities towards shareholders, employees, customer's suppliers, communities and environment, etc. In the annual budget of the bank, the authority should allocate much more funds in the various CSR expenditures, namely disaster management, education, health, sport, art and culture, environment and others. The Bangladesh Bank as the guardian of the commercial banks operating the country should pay special attention to the compliance of CSR activities and investments there in by the respected commercial banks of the country.

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