

Association between Corporate social responsibility and performance: Evidence from Pakistan banking industry

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ABSTRACT

Keywords:

Corporate social responsibilities, Financial performance, Banking industry, Pakistan

This study is about to study the association between corporate social responsibility and performance in the Pakistan banking industry. Mainly focuses on Pakistan banking following three dimensions of CSR (social event, employee facilities, and environment). The present study focused on the sample size of the top 20 banks of Pakistan listed on the Pakistan stock exchange (PSX). The data obtained by annual reports issued by banks in 2015-2017. The content analysis shows that the large numbers of banks in Pakistan have their corporate social responsibilities (CSR) strategies and involves in social practices. However, the large number of banks reporting lies in the least frequency range, and few banks lies in high-frequency ranges. The year-wise trend is positive because most of the bank's reports are shifting to the highest frequency range from 2015-2017. Otherwise, after regression analysis by running SPSS the analysis indicates that CSR activities have a negative impact on the profitability of the bank. This study is limited to focus on the service sector (such as the banking sector) of Pakistan the other sectors are ignored like automobiles, cement, etc.

INTRODUCTION

The famous quote Howard Schultz about CSR "The corporate would not have any single assessment of profitability. They want to make equilibrium between their business activities and societal responsibilities. Organizations which are involved in CSR practices will wind up as the organization that earns or generates more profit". According to McWilliams and Siegel (2000), corporate social responsibilities defines as "those activities which are performed by the corporation and are not forced by the law of the country in which its business operates that are not for the benefits of business but the benefits of the society". According to another researcher Lea (2002), the CSR defines as, "all businesses and other organization perform responsibilities outside the legal requirements to manage the effect they have on the society and environment. This includes in what way companies interact with their society, communities, customers, employees, and suppliers, and how to protect the environment in which they are doing the business.

Most of the popular organizations wonderfully implement the concept of CSR around the globe, as a result, their financial performance boosts up more as related to those who do not believe CSR concept as a profit-boosting tool (Poddi & Vergalli, 2009). In the previous few years, among scholars of

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management science, CSR is one of the most argumentative and prominent research areas (Burton & Goldsby, 2009). According to a survey conducted by Price Water House Cooper's (WHC) International in 2002, international managers consider CSR is the key to the financial performance of the firm. Now a day manager believes that the financial success of the organizations is possible only when an organization performance their CSR activities (Rashid, 2014).

Pakistan faces many challenges nationally and globally due to corrupt administrative policies and activities, natural disasters, weak institutions, and weak governance. Consequently, there is an issue of governance and corporate governance is immature. Even though organizations get more benefits but their impact on society is less. The banking industry is the backbone of Pakistan's economy, because the capital generation, agriculture, industries, international trade, and expansion of business depend on the banks. CSR has not been clearer and discovered in emerging countries such as Pakistan. In developing countries, the focal point of CSR activities is profit maximization. The campaign of corporate social responsibility in Pakistan is not too familiar. Besides, in Pakistan, few corporations have their corporate social responsibility (CSR) strategies among these most corporations are international or multinational. So far, CSR is not mature in emerging nations (Bagh et al., 2017).

The knowledge about CSR is very known, and contain important characteristics that proved that the CSR helpful in the existence and success of the corporation. However, most of the previous researches investigate the relationship between financial performance and CSR but their results are still not clear, unexplored, and not well settled which opens the door for to perform more research on the study of this specific topic. Based on the above gap this study set two research objectives: First, to explore CSR practices in the Pakistan banking industry. And second, to evaluate the relationship between CSR and financial performance in the same industry. By achieving the above objectives this study has a practical implementation in banking industries, banks will able to assess the efficiency of their policies in terms of their contribution to the society in which it operates. Moreover, they are also able to identify their strengths and weakness and can improve by overcoming their weak points. This research also makes firms aware of the importance of corporate social responsibilities (CSR) as most firms in a less developed country like Pakistan are unaware of these responsibilities. Additionally, the recommendations of this study will be important to the people and the students who are interested in researching this topic.

LITERATURE REVIEW

Corporate social responsibilities are a phenomenon that is currently facing by the business world everywhere. On a larger scale, the businesses are motivated to act as socially responsible businesses. However, the academic world and the businesses are both unclear about how CSR should be explained (Nadeem, 2014). The study of CSR started with Bowen. Bowen (1953) argued that companies should go beyond profits and losses and assume their responsibilities in a broader context, consistent with the goals

and values of society. What he called the corporate social responsibility implied that if companies voluntarily assumed this responsibility, many societal problems could be solved.

There are three primary motives of the business behind the CSR activities, shown by the previous Literature (Li et al., 2019). The first motive, businesses do CSR activities because they are realizing that these activities can give a competitive advantage in the market as well as increasing the legitimacy of the business among different stakeholders (Bansal & Roth, 2000). The second motive, the practices of CSR is driven by the external demand of the legal regulations and standards (Li et al., 2019). The third motive, the CSR initiative did because it increases the value of the business by a normative view, working on CSR can added value to the strategy of the business and fulfill the moral responsibility of the business (Aguilera et al., 2007).

CSR and financial performance

Financial performance measured the financial spot of a firm over a specific duration to know how efficient a firm used its resources to generate revenue. Net profit, return on equity, earning per share, return on asset, etc. are evaluated to identify the firm's finances. Financial performance is the blend of financial position and the capability of a business to encounter their policy requirements and commitment reported by Weber (2008) in his study. Along with this, Weber added that policy obligations and commitment show the outcomes of the projected activities with a specific period.

The association between CSR and the financial performance of the firm has become an intractable issue, debated amongst business executives and management theorists (Lu et al., 2014). The relationship between CSR and a firm's financial performance can be positive, natural, or negative, and it shows that there is no similar point of view of the researchers. Aigner, (2016) discovered the association between CSR activities and the firm's financial performance; he concluded the positive relationship between them. There is an affirmative association between the CSR activities and financial performance of the firm shown by many researchers (Peloza, 2009). The market value of firms goes up who show accountable behavior toward the society which increases the financial performance ultimately. The CSR and firm performance have a positive relationship, research conducted by (Mackey et al., 2014). The supporter of the negative link between CSR activities and a firm's financial performance is the neoclassical Economists e.g. (Simpson et al., 2014). They discuss that the corporations which are doing the CSR events will face a competitive disadvantage, as a result, the profit reduced because the CSR costs could be avoided or borne by a third party (e.g. the government). Scholars who examine the relationship between CSR and a firm's financial performance, most of them are agreed upon the positive affiliation between them. Furthermore, Many Authors agreed that employee improvement and customer benefits are the important outcomes of CSR (Davis, 1960).

Banks faced hurdles from the financial innovations a few decades ago, as a result, the funding costs become low. Research is conducted by (Murawski, 2017) to show the benefits of CSR initiatives for the banking sector, the European Union's become an efficacious and knowledge-oriented economy because of the CSR practices. Various scientific studies and European Union's recognize a positive effect of CSR on the firm's financial performance (Bagh et al., 2017). The banks all over the world started CSR activities to get that benefit. Pakistan's banking sector also follows CSR activities. They also choose different ways of investing in corporate social responsibility.

Theoretical framework

There are theories in the management literature which are explaining the importance of CSR activities. The stakeholder theory is best to explain the duties and responsibility of the business towards stakeholders. The business has to mention all the CSR initiatives in the annual report to make a good sustainable relationship with the stakeholders, according to stakeholder theory (Nobanee & Ellili, 2016). Stakeholder theory postulates that the primary objective of the organization to increase the values for its stakeholders. When firms can fulfill the expectations of their stakeholders they will get superior performance in the future (Ararat, 2009).

A legitimacy theory is basically about professional organizations act legitimately in their social relationships (Dowling, 2013). According to legitimacy theory, there is an absolute agreement between the firms and the society in which it operates, and the business has to show that it is fulfilling its part in the contract which is compliance with the social norms and values, the business must demonstrate its social, economic and environmental issues (Gray et al., 1995). This theory tells that institutions must exist with objectives in line with those of society in general (Zahid, 2015).

Development of the research hypothesis

Following are the hypothesis of this research.

CSR and profitability (ROE)

As claimed by the authors, a powerful relation is established between the dependent and independent variables i.e, return on equity (profitability) and CSR facts explore by the bank in the CSR report (Singhvi & Desai, 1971; Wallace & Naser, 1995). From this fact, it is clear that if great the ROE (profit), the greater the amount spent on the charities and social responsibilities (Rashid, 2014). As stated by (Haniffa & Cooke, 2005), the firm that produces the profit constantly is keen on the CSR report and has drawn the attention of society. As stated by (Singhvi & Desai, 1971), a higher return on equity (profit) induces the top management through argument to show its capability to increase the shareholder's worth. So, based on the above literature the hypothesis of the current study are:

H1: There will a positive impact on social event practices over the ROE of the bank.

H2: There will be a positive impact on employee facilities over ROE of the bank.

H3: There will be a positive impact on environmental practices on the ROE of the bank.

H4: The previous year's CSR practices have a positive impact on the ROE of the bank.

Business size and profitability

An association between the business size of the firm and its profitability is an important part of the economic literature (Babalola, 2013). Simon (1962) was one of the first studies to assess the impact of business size on firm profitability. He was unable to find a statistically significant relationship between firm profitability and its business size. For their part, Hall and Weiss (1967) found a positive relationship between firm business and profitability of the firm in the study of more than 500 Fortune companies. Most studies measure the impact of business size on firm profitability has yielded results that show a positive connection between business size and firm profitability. According to the Velnampy and Nimalathan (2010) study 'the relationship between business size and profitability in Ceylon banks and Commercial Bank in Sri Lanka from 1997 to 2006', a positive connection between the size of the company and its financial performance (profitability) in the Commercial Bank, but there is no any connection between the business size and profitability in Ceylon banks (Niresh & Velnampy, 2014). So, from the above literature review the fifth hypothesis of this study:

H5: There will be a positive impact on firm size over profitability (ROE) of the banks

RESEARCH METHODOLOGY

The source of data for this research is the annual reports of the 20 banks listed on PSX (Pakistan stock exchange). The data will be collected by downloading the annual report from 2015-2017 from the websites of the bank. For the data collection, we use the post-positivism philosophy (collection of secondary data). The annual report is the most readily source for this required data. The approach of the current study is about the testing of the business case of corporate social responsibility (CSR) in the Pakistan banking industry. In this research, we have used the qualitative research method and we have collected secondary data through annual reports, which can be very effective and beneficial and can better check the business case of corporate social responsibility (CSR) in the Pakistan banking industry. The population of the current study is 20 banks registered on PSX (Pakistan stock exchange).

For analysis 20 banks have been selected as a sample that is listed on stock exchange Pakistan i.e. Allied bank limited, Bank of Punjab Limited, National bank of Pakistan, Silk bank limited, Alfalah bank, MCB bank limited, Faysal bank limited, Meezan bank limited, United bank limited, Askari Bank, Bank Al-Habib limited, Bank of Khyber limited, Bankislami Pakistan limited, Habib bank limited, Habib Metropolitan bank limited, JS bank limited, Samba bank limited, Soneri bank limited, Standard chartered bank limited, Summit bank limited. In this research data is used from 60 annual reports of 20 banks listed

on PSX. The data was collected from banks websites, annual reports, sustainability report, and CSR report.

RESULTS

This section of the research is consists of discloser of CSR banks wise, disclosure of CSR of bank year, and regression analysis.

Frequency of disclosures

Table 1 reports the frequency and %age related to CSR practices (social events, employee facilities, and the environment). This table reports the frequency and percentage of disclosures of CSR activities by banks of Pakistan, and trends of these closures' year wise. The table shows that most of the banks' reports and disclose their CSR practices in the first two range category (0-5), (6-11). It recorded the highest number of financial reports of banks (30 financial reports of 14 banks - 50.01% of the total sample) in the second range of 6-11 occurrences of disclosures. The second highest percentage is in the first category of 0 to 5 (13 financial reports of 9 banks with 21.68%). However, few of the banks are falling under the last two categories (12-17) and (18-23) with 18.23% and 10% respectively. The result shows that the overall percentage and frequency of disclosure is low. Table 1.1 shows that the year wise trend is positive because most of the bank's reports are shifting to the highest frequency range from 2015-2017. From two lower ranges, (0-5) and (6-11) banks are move to the next high-frequency ranges (12-17) and (18-23) that show a positive year-wise trend shown in figure 1.

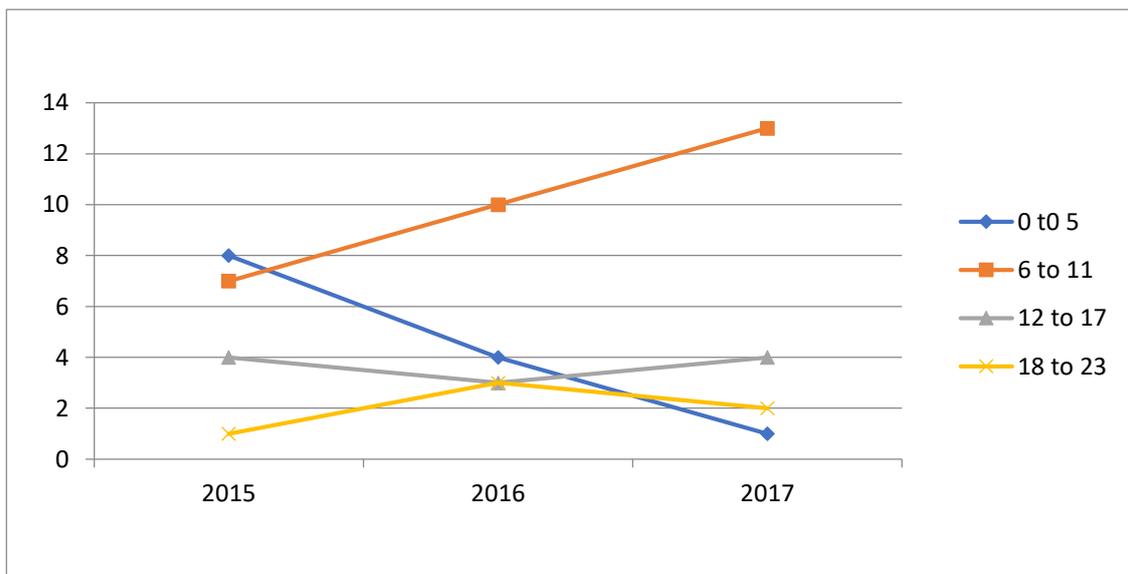


Figure 1: Frequency of CSR disclosures of banks year wise

Table 1: Frequency of CSR disclosures banks wise

Bank wise									
Bank name	0 to 5		6 to 11		12 to 17		18 to 23		Total
	Frequency of disclosure of CSR in financial reports	%	Frequency of disclosure of CSR in financial reports	%	Frequency of disclosure of CSR in financial reports	%	Frequency of disclosure of CSR in financial reports	%	
Allied bank limited	0	0.00	0	0.00	1	1.67	2	3.33	3
Bank of Punjab	0	0.00	3	5.00	0	0.00	0	0.00	3
National bank of Pakistan	0	0.00	0	0.00	0	0.00	3	5.00	3
Silk bank limited	1	1.67	2	3.33	0	0.00	0	0.00	3
Alfalah bank limited	1	1.67	2	3.33	0	0.00	0	0.00	3
MCB	0	0.00	0	0.00	2	3.33	1	1.67	3
Faisal bank limited	0	0.00	3	5.00	0	0.00	0	0.00	3
Meezan bank limited	1	1.67	2	3.33	0	0.00	0	0.00	3
Askari bank limited	0	0.00	3	5.00	0	0.00	0	0.00	3
Bank al-Habib limited	0	0.00	3	5.00	0	0.00	0	0.00	3
Bank of Khyber	1	1.67	0	0.00	2	3.33	0	0.00	3
Bankislami Pakistan	1	1.67	1	1.67	1	1.67	0	0.00	3
HBL	0	0.00	3	5.00	0	0.00	0	0.00	3
Habib metropolitan	1	1.67	1	1.67	1	1.67	0	0.00	3
JS bank limited	3	5.00	0	0.00	3	5.00	0	0.00	3
Samba bank limited	2	3.33	1	1.67	0	0.00	0	0.00	3
Suneri bank limited	0	0.00	2	3.33	1	1.67	0	0.00	3
Standard chartered	0	0.00	3	5.00	0	0.00	0	0.00	3

Summit bank	2	3.33	1	1.67	0	0.00	0	0.00	3
Total	13	21.68	30	50.01	11	18.34	6	10.00	60

Table 2: Frequency of CSR disclosures year-wise

Years	0 to 5		6 to 11		12 to 17		18 to 23		Total
	No. of banks	%	No. of Firms	%	No. of Firms	%	No. of Firms	%	
2015	8.	13.33	7	11.667	4	6.7	1	1.67	20
2016	4	6.7	10	16.67	3	5	3	5	20
2017	1	1.67	13	21.67	4	6.67	2	3.33	20
Total	13	21.733	30	50.01	11	18.37	6	10	60

Table 3: Disclosure of CSR dimension

Bank name	year	Page number	CSR initiatives, contribution, and achievements	Focusing dimension
National bank limited	2015	97	<ul style="list-style-type: none"> Investment of total sum of Tk. 11.26 million on training and development of its human resources. 	Employee facilities
Alfalah bank limited	2016	54	<ul style="list-style-type: none"> Installing solar panels in 153 branches led to a reduction in electricity consumption by approximately 26%. 	Environment
Silk bank limited	2017	190	<ul style="list-style-type: none"> Organized football event 'Ronaldinho and friends', in Pakistan. 	Social event

Note: Banks name as per Pakistan stock exchange

Table 2 shows the key steps of Pakistani banks towards CSR in three dimensions (social event, employee facilities, and environment). In the year 2016, the Habib bank of Pakistan shows a greater contribution to

the health sector also in the donation. This bank provides huge support to the promotion of society by giving financial rescue. United bank limited has a major contribution to the education sector. This bank has contributed 50 million rupees to Namal University in 2017. In the social event, the silk bank is on top because this bank arranges an international event of football in Pakistan. This match helped promote international sports in Pakistan. Allied bank limited spends money on the customer's services to improve the overall performance of the bank. This bank spends Rs. 1.4 million on the exercise of Mystery Shopping. The National bank contributes to employee facilities it spent Rs. 11.26 million on employee training. Soneri bank limited is a member of the international women leader's summit in 2015. Faysal bank limited donated blood to human beings. Alfalah bank limited installs a solar system in their 175 branches and reduce the consumption of electricity.

Regression analysis

Table 4: Model summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.698 ^a	.487	.428	.6922154

a. Predictors: (Constant), years, environment, LagROE, social events, employee facilities, NLogAsse

Table 5: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.634	6	3.939	8.221	.000 ^b
	Residual	24.916	52	.479		
	Total	48.551	58			

a. Dependent Variable: NROE

b. Predictors: (Constant), years, environment, LagROE, social events, employee facilities, NLogAsse

Table 6: Coefficients

Model		Unstandardized		Standardize	t	Sig.
		B	Std. Error	d		
				Beta		
1	(Constant)	604.420	232.345		2.601	.012
	social events	-.264	.095	-.335	-2.766	.008
	employee facilities	.219	.095	.296	2.298	.026
	Environment	-.063	.093	-.084	-.681	.499
	NLogAsse	.427	.126	.445	3.380	.001
	LagROE	.038	.012	.340	3.120	.003
	Years	-.300	.115	-.269	-2.603	.012

a. Dependent Variable: NROE

It is obvious from the above regression analysis that social event has a significant negative impact over ROE of the bank i.e. square $R= 0.487$, $\beta= -0.264$, $F=8.221$, $Sig= 0.008$. Thus, hypothesis H1 is rejected,

It is also obvious from the above regression analysis that the employee's facilities have a significant positive impact over ROE of the bank i.e. square $R= 0.487$, $\beta= 0.219$, $F=8.221$, $Sig= 0.026$. Thus, hypothesis H2 is accepted. And environmental sustainability has a significant negative impact on the ROE of the bank i.e. square $R= 0.487$, $\beta=0.063$, $F=8.221$, $Sig= 0.499$. Thus, hypothesis H3 is rejected.

It is also obvious from the above regression analysis that previous year CSR practices have a significant positive impact over ROE of the bank i.e. square $R= 0.487$, $\beta= -0.300$, $F=8.221$, $Sig= 0.012$. Thus, hypothesis H4 is accepted. And the greater firm size has significant positive impact over ROE of bank i.e. square $R= 0.487$, $\beta= 0.427$, $F=8.221$, $Sig= 0.001$. Thus, hypothesis H5 is accepted.

Table 7: Model summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.629 ^a	.396	.351	.7368941

a. Predictors: (Constant), years, LagROE, SumCSR, NLogAsse

Table 8: ANOVA

Model		Sum of CSR	Df	Mean Square	F	Sig.
1	Regression	19.228	4	4.807	8.852	.000 ^b
	Residual	29.323	54	.543		
	Total	48.551	58			

a. Dependent Variable: NROE

b. Predictors: (Constant), years, LagROE, SumCSR, NLogAsse

Table 9: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	610.636	242.929		2.514	.015
	SumCSR	-.022	.041	-.068	-.531	.597
	NLogAsse	.417	.133	.435	3.141	.003
	LagROE	.037	.013	.334	2.873	.006
	years	-.303	.121	-.272	-2.515	.015

a. Dependent Variable: NROE

Table 8 shows that the sum of CSR has a significant negative impact over ROE or profitability of the banks i.e. $R = 0.629$, $\beta = -0.022$, $F = 8.852$, $Sig = 0.597$.

CONCLUSION AND RECOMMENDATION

Corporate social responsibility is a new way to run your business. In which a business cannot harm society and society accepts it because this business gives benefits to its environment. So, businesses all around the world started CSR. In Pakistan, many businesses copy the trend of CSR activities. When the researcher studied the impacts of these social activities on the business financial performance, they find

out different results. Some researchers confirmed the positive impact of CSR activities on business's financial performance (Aigner 2016, Pelozo, 2009, Mackey et al. 2014 bagh et al. 2017). Others said that there is a negative association between them, (Simpson & Kohers, 2002) and some of them agreed upon on neutral association between them. This paper investigates the CSR activities in commercial banks of Pakistan which are listed on Pakistan Stock Exchange. All banks in Pakistan do CSR activities in different aspects. This paper covered social events, employee facilities, and the environment. The finding suggests that CSR reporting is improved in 2017. Banks realized the importance of CSR activities. This study also finds out that somehow these banks are involved in generating and utilizing CSR strategies throughout the years. However, the reporting of these practices somehow is good because some banks move to the upper scale 12-17 and 18-23 of CSR practices. But, still, there is a need that the banking sector of Pakistan should redesign its policies regarding CSR. Based on finding it is recommended that the banking sector and state bank of Pakistan should put more effect and reshape their policies related to the CSR practices. The analysis of this research shows that CSR has a negative impact on the profitability (ROE) of the bank and this result is supported by (Simpson & Kohers, 2002) research papers but firm size has a positive impact on the ROE of the firm. This indicates that banks need a proper check and balance system for CSR activities. The role of regulatory bodies (such as state banks) is very important to instruct these banks to provide a further push to CSR activities. The regulatory bodies should aware the banks to increase their interest to contribute to society- friendly activities. It provides value to corporate sustainability and corporate image as well. Moreover, this awareness compels firms to contribute to social responsibilities. On the basis of the above findings, the conclusion is that there is a tendency in the Pakistani banking sector to contribute to their social responsibilities; however, this trend shows that only a few numbers of banks lie in the upper scales of CSR disclosure. To boot this trend, the banking sector should strategize to invest in such activities and to report them to the broader stakeholder through their annual CSR reports. This leads to the implication for the concerned banks, stakeholders, top managers, policymakers, and regulatory bodies to perform in the favour of CSR strategies among the banking sector of Pakistan.

LIMITATIONS OF THE RESEARCH

The current study just focuses on the service sector like the banking sector of Pakistan. The other sector is ignored like automobiles, cement, etc. further research can be done in these sectors. The data in this study is from a limited period the further research should be done on a longer period to obtain valid results.

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