

CORPORATE SOCIAL RESPONSIBILITY AND ITS POSSIBLE IMPACT ON FIRM'S FINANCIAL PERFORMANCE IN BANKING SECTOR OF PAKISTAN

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Abstract

The firm's motive is to maximize the wealth of owners by providing benefits to the society when society faces any trouble. There are lot of example in the world that many firms share the loss of society when there is natural or any other disaster came in that society. Here we take the banking sector in our study and see the impact of CSR on firm's financial performance. After analyzing the different studies in literature we concluded that there is positive relationship between CSR and Financial performance of firms. There are three variable in our study, we take Donation as a component of CSR as independent variable, Net Profit Margin and EPS as dependent variable. After studying the various literatures we recommend some suggestion that firms should follow. The firm should have a CSR policy that should reviews periodically and there should be proper implementation of that policy and that policy should be prepared and approved by the Board of Governors.

Introduction

People establish firms to allocate their resource for the purpose of common goal, to earn the profit. To achieve this goal, they also interact with society. On the basis of their motives, organization can be divided into Profit organization, Government organization and Non for Profit organization. Profit oriented organizations try to maximize owner's wealth, Government organizations define the regulations and structure of society in which firm continue its operations and not for profit organizations perform the social deeds when society need. In society there are such types of organizations exist. No doubt they perform different task but they are interdependent in well-organized society. Business impact on society is growing with the passage of time and the number of Stakeholders also increased.

CSR, this phrase consists of three things, Corporate, Social and Responsibility. CSR check the relationship between firms and society in which they operate and interact. Society is defined in broader sense and many levels which includes all stakeholders and groups that keep interest in the operations of the organization. Stakeholders include the customers, workforce, lenders,

supplier, Government, local communities and even the environment. Each firm should identify the stakeholders that can more influence the organization.

- In India TATA group is spending a huge amount on community development.
- Mahmood Textile Mill spends huge amount on Water Plants for people in different areas.
- 'Seeing is Believing' is the campaign of Standard Chartered Bank to help the people who suffered from water.

Firms are involved in socially responsible behavior or not, debate is continued on this topic. Economic arguments suggest that managers should make that decision which can increase the wealth of stockholders. On the other hand Sociologists suggest that, it is responsibility of firm to groom the society, and should make those decisions that go beyond the owner's wealth maximization. The firm performance has been defined many times by many scholars. All definitions are used to study the link of profitability with the firm corporate social responsibility. Many scholars are trying to understand how corporate social responsibility affects the financial performance of the firm.

We take Earning per share (EPS) and Profitability as performance measure in this study. When all Expenses are deducted from the Sales of company, the remaining value is known as Profitability. When this profit is divided on the number of shares outstanding the resulted value is known as EPS. No doubt green products are expensive to produce but extra cost can be bear by the consumer who use the environment friendly products.

Objectives and Gap

Developed countries like UK and USA focus Social Responsibility more as compare to the Developing countries. There is lot of research on this topic in the developed countries and they conclude different results of CSR on the financial performance of companies. But there is need to conduct this type of research in developing countries. So we decided to study this topic in the context of developing countries like Pakistan.

The objective of this study is

1. To identify the impact of disclosure of CSR on firm's Profit Margin
2. To identify the impact of disclosure of CSR on firm's EPS.

Significance of Study

No doubt there are numerous studies conducted on the relationship between CSR and Firm Performance. Many results of CSR and Firm Performance have been shown by different scholars. The significance of this study is twofold. As the literature review is not so much on this topic in the context of Developing countries like Pakistan, this study will contribute to the literature in the context of Developing countries. This study will fill out the gap that has been identified. This study will help to improve the knowledge and managerial practices. This study will also help to the investor for making investment in Banking Sectors because this study show the trend of Banking Sector where this sector is going on.

Literature Review

Khalid et al (2012) conduct the research on CSR and Firm performance and they find the positive relationship between CSR and Firm performance. They also concluded the mediating effect of customer satisfaction on firm performance and CSR services.

Sarwar et al (2012) conducted the research on Financial Performance linkage with the CSR in Bangladesh banks and find that the banks that focus on CSR practice have more ROA than those banks who does not focus on this practice.

Alison et al (2007) said that the market value of companies increase who shows the responsible behavior toward society which ultimate increase the financial performance of company.

Cliffrord et al (2011) suggested that there is significant positive relationship between Corporate Governance (as the corporate governance includes the CSR, Business Ethics and Board of Directors) and firm performance.

Margarita (2004) find the sign of relationship between the social responsibility of corporation and financial performance, he concluded the positive sign of relationship between them.

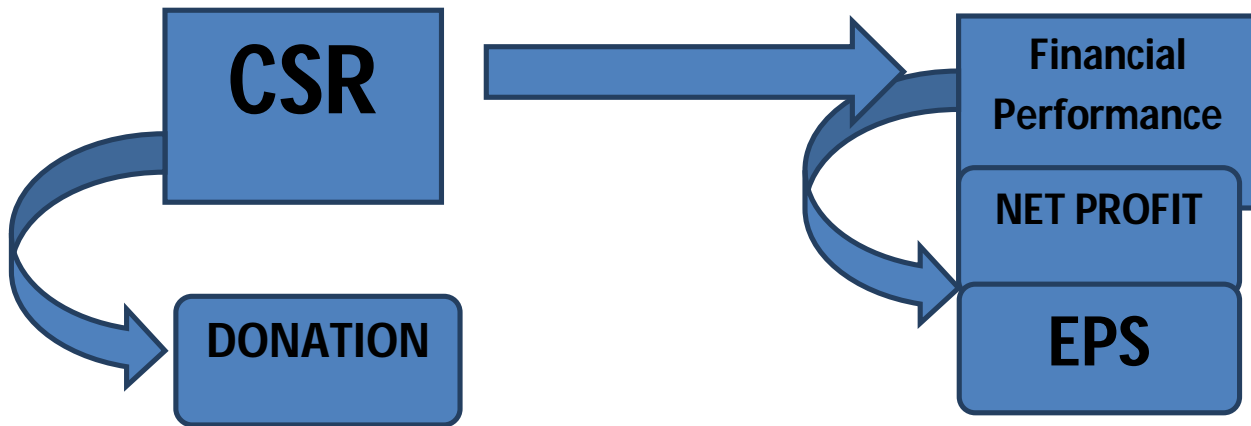
Bolanle (2012) conclude that corporate social responsibility spending in long run provides the better return. Banks in Nigeria should make some investment on corporate social responsibility. It reveals that there is positive relationship between CSR expenditure and banks profitability. So, there is causal relationship between corporate social responsibility and profitability of the banks. It is due to the fact that cost/expenditure on CSR will further reduce tax paid by banks. It makes business environment more friendly .Government should monitor organizations investment in social responsibility to avoid misleading in statements to reduce tax burden.

Azad et al evaluate the corporate social responsibility performance in some commercial banks in Bangladesh. They reveal that investment in CSR activities have positive impact on market price of the share(MPS).They also reveal that major factors affecting corporate social responsibility activities is sustainable development. The empirical analysis of study suggest that corporate social responsibility investment as percentage of total investment is low for this study period different sectors like health and education etc. It is also important tool to bring sustainable growth development of the organization. The Bangladesh's bank trying to invest more on corporate social responsibility and strictly supervise the other in selected banks commercial and national banks in Bangladesh for investment in corporate social responsibility.

Samina (2012) conduct the research on CSR practices in Islamic banks of Bangladesh. Islamic banking concept changes the views of most of the financial institutions of west. As the Islamic rules and regulations provides equality and benefits to all people. So it is also necessary for them to involve in social activities and to save nature. Similarly the concept of CSR is also emerging in both business and financial institutions. CSR provide to organization standardized rules through which they influence to society in positive and productive way. She saw that CSR expense on six Islamic banks is 24.29% of total CSR expense of commercial banks. This research found positive relationship between CSR expense and Islamic banks transactions. One limitation of this study was that it only considers the practices of full fledged Islamic banks.

Šťastná, et al (2012) conduct the research to show the importance of CSR practices for banking sector which for European union's become the cause for reaching successful and changing knowledge oriented economy. To overcome on financial and economic crisis European unions and various scientific study show positive effect of CSR on financial performance. This research considers three subjects of Czech banking which are on the top position at official corporate donor charts. It also shows when corporate donation is started and relationship between corporate donations, corporate profit and financial and economic crisis.

Conceptual Model



There are three variables in this model, we take Donation as independent variable and take Net Profit and EPS as a dependent variables. According to our Model, as the firms give donations to the society, the Net Profit Margin and EPS of the firm increases. Donation plays an important role for the development of society which ultimately leads to higher return to the company (Net Profit) as well as to the investor (EPS). There is a positive relationship between Corporate Social Responsibility and Financial Performance of the companies. As banks serves more and more to the society, the return of the banks will increase.

Results and Discussion

There is positive relationship between the firm disclosure of corporate social responsibility and the Firm's performance in terms of Net Profit Margin and Earning per Share. When the firm spends some money on the society (Donation), the society get benefit from it, but it does not mean that society will not pay to the firm. Society also pays to the firm in sense of Goodwill or Reputation or good image of company in the minds of customers as well as investors.

United Bank Limited (UBL)

Year	Donation Expense Rs.	EPS Rs.	Net Profit Rs.
2005	63361000	9.39	6168262000
2006	11350000	14.72	966878000
2007	13840000	8.87	9237015000
2008	11893000	8.26	8445251000
2009	55975000	7.51	9192687000
2010	82282000	9.12	11159930000
2011	53944000	12.66	15499663000

We can see that how the Profit Margin and EPS increases due to the donation. As the bank give good response to their societies and help to the society by giving donations, in response of that donation, Bank's net profit and EPS increases.

Suggestions

After watching the results of showing CSR policies and its impact on Financial Performance we suggest some points that can be adopted by all type of organization not only banks. The company should have a CSR policy so that when societies face any type of disaster then firm should be ready to help the society by giving many benefits to the society. The CSR policy should be established in a way that is also in the favor of corporation. The CSR policy must be approved from the Board of Director or Higher Authorities of company. The CSR policy should be in action not only in books. The CSR policy should be for a specific period and after that period CSR policy should be reestablished.

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