



Jahangirnagar University Journal of Management Research

Journal Homepage: <https://journals.juniv.edu/index.php/ujmr>

Corporate Social Responsibility (CSR) and Financial Performance: An Empirical Evidence on Listed Banks in Bangladesh

Rabeya Khatun Taniya¹

Md. Sohel Rana²

Mahade Hasan³

Shahad Bin Ashraf⁴

Article Info

Received: March 21, 2023

Revised: September 25, 2023

Accepted: October 23, 2023

Published: December 20, 2023

Keywords:

Corporate Social Responsibility,
Financial Performance, Banks,
Bangladesh

JEL Codes: Z23

DOI:

<http://doi.org/10.59185/ujmr.v6i1.469>

Abstract: Companies are under tremendous pressure from various stakeholders to increase their transparency by publishing in-depth reports detailing their corporate social responsibility (CSR)-related initiatives, plans, and strategies in recent times. The study's primary goal is determining which CSR disclosure variables are essential for financial performance. The overall CSR disclosure index was created and calculated for DSE-listed banks in Bangladesh from 2017 to 2021. This research uses regression models to investigate the relationship between corporate social responsibility and financial performance (Return on Asset, Return on Equity, and Tobin's Q). The study's findings imply that CSR boosts company value, except bank size, and all of the study's variables have a positive relationship with corporate financial success. The study fills vital research gaps in the academic literature on CSR disclosures, and the conclusions have relevant and useful implications for achieving economic growth and competitive advantage.

1. Introduction

The concept of corporate social responsibility (CSR) has played a significant role in the intersection of business and societal relations (Windsor, 2001). In recent decades, the academic literature has widely recognized and accepted the study of Corporate Social Responsibility as a legitimate and significant field of investigation. The relationship between corporations and their diverse stakeholders within the framework of social responsibility activities. Corporate social responsibility (CSR) has gained significant attention and has become a subject of interest among various stakeholders. The decision of

¹ Assistant Professor, Department of Accounting & Information Systems, Jahangirnagar University

² Assistant Professor, Department of Accounting & Information Systems, Jahangirnagar University

³ Assistant Professor, Department of Accounting & Information Systems, Jahangirnagar University

⁴ Post graduate Student, Department of Accounting & Information Systems, Jahangirnagar University

businesses to participate in CSR initiatives has been a topic of discussion and analysis in academic circles, as well as among investors, corporations, and consumers (Moskowitz, 1972).

Every organization has certain obligations to society because it functions inside society. Companies have an associated degree of obligation to act ethically and to lift the quality of living of their employees, native communities, and society as a whole. All these commitments are known as corporate social responsibility (CSR). Businesses reach out to their customers by meeting stakeholder expectations and acting as a bridge between the customer and the business. According to Last & Kneutgen, (1970), CSR had just four crucial tasks. Organizations should follow the law, be morally upright, and give back to the community. The first and second are asked for, the third is anticipated, and the last is desired. In this financial context, the first three are regarded as a heartfelt obligation to the corporation as its first pick. As a result, researchers have a responsibility to give back since they do it willingly and because neither Bangladesh's Banking Act of 1991 nor the Company Act of 1994 have any required laws or restrictions. Thus, the study focuses on determining how Carroll's two concepts of duty, economic responsibility, and altruistic obligation relate to one another. Philanthropic duty is carried out using the funds generated by exercising economic responsibility (Von Schnurbein *et al.*, 2016). The study's main focus is how charitable responsibility adds value to the company. This study is distinctive since it exclusively emphasizes the philanthropic aspect of corporate social responsibility, and the idea is novel because there has only been theoretical research on philanthropic responsibility. Still, this study will concentrate on the link between CSR's humanitarian and profitable responsibility, considering three factors: value creation, shareholder returns, and company size.

CSR may have developed in most developed countries during the past ten years (Jamali & Karam, 2016). With time, the corporation's many stakeholders are increasing pressure on it to deal with CSR concerns. Corporation growth and the drive for CSR are increasingly intertwined. Utmost businesses are increasingly emphasizing corporate liability to continuously ameliorate their social, ecological, profitable, and fiscal outcome. Shoukat Malik & Nadeem, (2014) asserts that socially conscious businesses always act in the best interests of their stakeholders. Several studies have examined the connection between social performance, a measure of commercial social responsibility, and fiscal success (Beliveau *et al.*, 1994). According to studies, companies that engage in more CSP generate more revenue and cash flow per share than those that operate close to the industry median. Only when the market becomes cognizant of the company's acts toward society does the cost of CSR have a positive link with firm value. According to Carnahan, (2010) the organization with a high degree of Corporate Social Performance (CSP) have cheaper capital costs due to dropped request threat (also known as methodical threat). Numerous empirical examinations have discovered a high affirmative linkage between CSP and fiscal success using ROA and ROE account criteria (Patel, 2019). In this study, CSP stands for a company's overall investment in fulfilling its social duty, and we sought to tie CSP to other account criteria, including book value, request value, earnings per share, and size.

The study will look at how corporate social responsibility benefits the company and explore how it does so. It will probe the effect of DSE-listed banking companies' corporate social performance (the portion of humanitarian responsibility) from 2017 to 2021.

2. Literature Review, Theoretical Framework, and Hypotheses Development

2.1 Literature Review

Firms benefit from corporate social responsibility (CSR) just as much as society does. Between 1971 and 2001, 122 studies on the linkage between commercial social liability and fiscal outcome have been published according to Walsh J P, (2003). McWilliams et al., (1999) reported a favorable association; Frynas & Yamahaki (2016) observed a harmful link, Teoh *et al.*, (1999), on the opposite side, discovered no association between company responsibility and monetary performance. In advanced nations, a great number of explorations on commercial sociable responsibility exposure have been conducted Teoh *et al.*, (1999). There are only a few research gathering data on developing nations in developing nations revealed Naser *et al.*, (2006). All of These studies showed that corporate social responsibility disclosure and customer practices differ significantly between established and emerging nations. The first justification given for this research is that shareholder activism is more developed in industrialized nations than it is in developing and emerging nations. According to Baumgartner (2014), a firm is profitable when the management actively monitors CSR.

In every nation, shareholders and investors are more interested in businesses' financial performance than other stakeholders concerned about the social acts of businesses. Consequently, it is essential to ascertain how CSR affects businesses' financial success, Lin *et al.*, (2009). Scholars have already examined the connection between an organization's responsibility and financial outcome. Evans & Peiris, (2012) state that corporate responsibility and financial performance are positively correlated. They also noted that the market-to-book ratio, ROE, and company size (asset) moderately impacted CSR. Inoue & Lee, (2011) claim that their study has produced confusing findings and associations that are either positive, negative, or neutral.

A moderate relationship with a company's stakeholders improves the reputation Lee & Heo, (2009), increases profitability and market performance (Khan, 2010), increases the company's access to capital sources, and strengthens the company's ties to key stakeholders like banks, investors, and government officials. (Ali, 2018)

On the other hand, it was once believed that businesses only had a duty to increase stockholder wealth, and engaging in CSR added to their costs and prevented them from allocating resources efficiently, which put them at a competitive disadvantage (Group *et al.*, 2007), supply and demand propositions alike support a nonpartisan relationship. The author again noted that the complexity of the business terrain precludes any simple, direct link between commercial responsibility and fiscal performance. The current study determines the firm's value utilizing book and market value, EPS, P/E ratio, and size while also resolving management's manipulation issue.

2.2 A Stakeholder Approach to CSR

The importance of a company's social responsibility is equal to its responsibility to its other stakeholders. Many argue that it is time for companies to take on social and financial obligations to their stakeholders. Maximizing shareholder value is a crucial tenant of the stakeholder theory, which develops connections between key parties, including consumers, employees, and shareholders. The necessary stakeholder proposition, according to Gherghina *et al.*, (2015), proposes a favorable connection between commercial responsibility and business values. According to Gherghina *et al.*, (2015), the applicable use of shareholder finances for CSR enterprise will raise the shareholder's earnings. The existence and performance of the company are more heavily dependent on its CSR efforts. A positive company reputation based on CSR initiatives is regarded as a benefit for the business. CSR develops a positive reputation for the business over time. According to M. et al., (2013), implementing CSR tactics could benefit businesses in terms of both macro and micro performance.

A company's ability to fulfill its corporate social responsibility can affect its level of respect and representation in society, which can indirectly impact its rate of return. The proposition also explains how companies bring gains to shareholders through properly operating coffers in the business. Therefore, the stakeholder proposition unites the society and the shareholders to achieve financial performance. According to the social exchange hypothesis, the corporation participates in CSR programs to give back to society and what society buys from it. The shareholder hypothesis explains the linkage between corporate social responsibility, ROE utilized, and market value. The social exchange proposition laterally explains the connection between corporate social responsibility and the firm's financial performance. Although the literature advises separating CSR into distinct corridor. Wood & Jones, 1995 argue that, the maturity of CSR in the banking sector studies has yet to distinguish between corporate responsibility's impacts when assaying CSR's influence on firm value. Using a stakeholder-driven CSR approach, we can understand how distant stakeholder-driven CSR enterprises affect a company's financial Performance.

2.3 Agency Theory

According to Grougiou *et al.* (2014), there is a relationship between the principal, who owns the firm, and the agent, who is given the power to make decisions. A conflict of interest between the principal and the agent may exist in an agency relationship. In order to show financial statements from the standpoint of agency and principal relationships, management must effectively manage earnings. According to Cortez *et al.* (2009), there are two substantial disadvantages in the long run: this company's expenditures might go up, and its earnings and shareholder wealth could go down.

2.4 Hypotheses Development

According to Lee & Heo, (2009), CSR measures might boost a company's performance by enhancing its reputation and reducing expenses, which is in line with (Kang *et al.*, 2010) assertion that the use of corporate responsibility practices brings positive change to a firm's value by saving costs. According to Hillman & Keim, (2009), a company's image can be improved when it takes into account the stakes of different stakeholders. This concern

positively impacts the company's productivity, financial results, and value creation. Friedman, (1970) counters that corporate social responsibility cannot change firm value despite emphasizing stakeholder interests. According to Lim, (2017), a company's investment in CSR puts it at a competitive disadvantage and has an unexpected effect on the outcome of the market. Orlitzky & Benjamin, 2001 noted that extra costs for social activities, such as significant philanthropic giving, significant community development plant promotion, and maintenance expenditures in low economic areas, could harm value as they reduce shareholder wealth. Von Schnurbein *et al.*, (2016) claimed environmental performance is negatively connected to performance, Frynas & Yamahaki, (2016) discovered an inverse correlation between social responsibility and organizational value for Swedish enterprises.

The environment is only one of the numerous components of corporate social reporting, according to Hillman & Keim, (2009). The literature on CSR has a lengthy and mixed history regarding CSR and corporate performance (Mahoney & Roberts, 2007). Some studies have found inverse associations between social liability and corporate outcomes (Lim, 2017), while others have found no significant relationship (Resmi *et al.*, 2018). Research has discovered a significant affirmative association between corporate liability and accomplishment (Rahman & Masum, 2021). Such diverse findings from the past literature created a new research gap and cast doubt on the conclusions of the earlier investigations. These questionable debates from earlier literature are the foundation for more recent research on CSR and company performance. According to Khan, (2010), listed companies with positive financial outcomes tend to express more CSR data than non-listed ones. Even the organizations listed in the stock market with solid financial performance reveal more social activities on the front of the annual report than organizations with poorer performance. High-performing companies typically disclose more information because doing so will lower the risks connected with corporate performance.

To conduct this study, we further explore the effect of CSR on asset return, return on share-equity, and Tobin's Q due to the diversification of past findings (Resmi *et al.*, 2018). TOBIN's Q, return on equity, and the asset has been utilized as corporate performance since it is a major indicator of a company's performance (Rahman & Masum, 2021). It also yields a variety of results in the CSR and ROE literature. For instance, (Resmi *et al.*, 2018) discovered a favorable connection between ROA and CSR, while Arsad *et al.*, (2020) discovered a strong inverse linkage between organizations' responsibility practices and ROE. Other researchers have found no substantial differences and discovered a favorable correlation among ROA, ROE, and CSR (Ali, 2018). Other investigations have not discovered any connection between CSR, ROE, and ROA (Naser *et al.*, 2006). We have reexamined the connection between firm social responsibility and organizational performance in light of these varied viewpoints in CSR literature. As a result, we developed the following assumptions:

- ❖ *H1: CSR activities has positive and significant relation with **TOBIN'S Q**.*
- ❖ *H2: CSR activities has positive and significant relation with (Return on Asset) **ROA**.*
- ❖ *H3: CSR activities has positive and significant relation with (Return on Equity) **ROE**.*

2.5 Variables

2.5.1 Independent Variable

CSR is further separated into four major confines: environmental, employee, social, and community, and product liability exposures have been assumed as the independent variable. The number of words (Salehi *et al.*, 2020), sentences, pages, and content analysis are some methods for quantifying CSR activities (Akbar & Deegan, 2021). Each method has advantages and disadvantages (Saleh., 2010). To calculate the CSR score, we created a content checking of 52 pieces of content. The sample firms that do not reveal any specific material will receive a score of zero. In contrast, the relevant content will receive one point if it is provided in order to evaluate the quality of each piece of content. In this context, the CSR actions of the listed firms published in audited financial statements are considered. Using the formula below, we determined each company's total CSR disclosure score for each dimension:

$$CSR = \frac{\sum_{i=1}^n di}{n}$$

Here,

$di = 1$ if any relevant item has been reported by a firm in its annual report; otherwise, 0
 $n =$ the highest number of relevant items possible (52 items)

2.5.2 Dependent Variable

Three financial performance criteria —Return on assets (ROA), Return on Equity (ROE), and Tobin's q — were used in this study. The correlations between CSR and financial performance have been vindicated using these criteria. They were also utilized to document any variations in how CSR could affect other performance kinds. ROA and ROE are accounting-based metrics that illustrate a company's short-term profitability by illustrating how well it used its assets and equity during a particular fiscal year. Current CSR and performance studies have employed ROA and ROE (Rahman & Masum, 2021).

Tobin's Q

For measuring a company's financial performance, Tobin's Q is used. The request value of a pot divided by the relief cost of its means is the Q rate, generally appertained to Tobin's Q. Equilibrium occurs when request value and relief cost are equal. The Q rate stylishly demonstrates the link between request valuation and natural value at its utmost introductory. This is a system to determine if a certain company or a certain request is overrated or underrated. The Q rate is reckoned by dividing a company's request value by the means' relief cost. Another formula is constantly employed by judges to calculate Tobin's Q rate because it's challenging to prognosticate the relief cost of all means.

$$= \frac{(MVE + PS + DEBT)}{\text{Total Asset}}$$

Where TA is the book value of all means, Market Value Equity is the product of a company's stock price and the number of outstanding common shares, Preferred Stock is the liquidating value of outstanding favored stock, debt is the sum of short-run arrears less

short- term means plus long- run means and supplies, and PS is the liquidating value of short- run arrears less short- term means.

Return on Equity (ROE)

Based at the firm's percentage capital, the outcome on equity (ROE) is a profitability statistic that assesses how properly an organization could make a profit. And this is how it may be calculated:

$$= \frac{\text{Net Income After Tax}}{\text{Total Equity}}$$

Return of Asset (ROA)

Outcome on asset (ROA) is the ratio of total assets to the available net income for common shareholders.

$$= \frac{\text{Net Profit after Interest and Tax}}{\text{Total Asset}}$$

2.5.3 Control variables

As control variables, we have added firm assets such as size, board size, and financial leverage because they may be important to a business's success. Large enterprises typically outperform small ones because they are more operationally efficient (i.e., have more purchasing power and lower expenses) (Mkhaiber & Werner, 2021). Net income was used to calculate firm size; total revenue that takes these fees into account should more accurately represent the size of a business than total assets. The regression analysis thus included the natural log transformation of the entire income. Fiscal influence was added as a control variable to help manage the effect of an establishment's capital structure on its financial outcome. A company with considerable financial leverage may benefit from tax breaks, which would raise Tobin's Q (Mkhaiber & Werner, 2021). To calculate financial leverage, divide total debt by total assets.

3. Research Methodology

3.1 Sample and Data

The purpose of this study is to analyze the impact of CSR disclosure on bank's financial performance measured by ROA, ROE, and Tobin's Q. The sample of the study is drawn from the banking sector listed on the Dhaka Stock Exchange (DSE), which includes 33 commercial banks, covering five years from 2017 to 2021.

3.2 Data Collection:

The study used secondary panel data to test the hypotheses, and data were collected from different published sources like annual reports, sustainability reports, official websites, relevant research articles, and relevant website information. Panel data provides better insights from individual-specific and time-specific impacts as this incorporates both cross-sectional and time-series data. Panel data transcends time series data, which analyzes a

single entity's temporal behavior and may miss important individual and dynamic characteristics.

Content analysis is a method that quantifies qualitative or descriptive data into a numeric form. It is a systematic process that quantifies the content per the predetermined categories. The study used the content analysis method to quantify corporate qualitative statements regarding the variable of Corporate Social Responsibility (CSR) issues, as it is a standard and widely used method. The CSR disclosure items were extracted from the annual report. The CSR disclosure index was constructed after combining CSR disclosure items disclosed in the annual report. The CSR disclosure score was calculated by adding all the items (58 items). The dichotomous method is used for the CSR, scoring "1," if the company discloses the items and "0," if it is not. The firm performance will be measured by ROA, ROE, and Tobin's Q. The data were analyzed using STATA 17 software.

3.2 Research Model

The connection between corporate responsibility and financial performance is examined in the paper using regression models. The invariable effect model (FEM) and the arbitrary effect model are two-panel data analysis methods employed to make a panel retrogression. The best model was chosen after analysis of each of these models. The coefficient and intercept of the linear regression that makes up the pooled regression model are calculated. The linear regression is based on the supposition that the explanatory variables are independent of the error term, the mean is zero, the variance is constant, and the residuals are normally distributed. To examine the data and test the suppositions, the following simple retrogression model is developed.

Where:

$$Y_{it} = \beta_0 + \beta_1 X_{it} + \varepsilon_{it}$$

- Y_{it} is the dependent variable,
- β_0 is the constant term,
- β_1 is the coefficient of the study's independent variables.
- X_{it} represents independent variable and
- ε_{it} the standard error term.

This model treats the bank's financial performance as a dependent variable and corporate social responsibility as the independent variable. Regression models are as follows:

$$ROA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \beta_4 BSIZE_{it} + \varepsilon_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \beta_4 BSIZE_{it} + \varepsilon_{it}$$

$$Tobin's_q = \beta_0 + \beta_1 CSR_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \beta_4 BSIZE_{it} + \varepsilon$$

3.3 Measurement of Variables:

Table 1 Variables measurement

Definition	Acronym	Source of data	Measurement	Reference
Independent				
CSR Index	(CSR INDEX)	Annual Report	An index of the overall score of corporate social responsibility disclosures. (Bhattacharyya & Rahman, 2020)	(Bhattacharyya & Rahman, 2020), (Garg, 2016), (Strouhal et al., 2015)
Dependent				
Return on Assets	(ROA)	Annual Report	Ratio between available net profits for common shareholders to total assets.	(Lim, 2017), (Strouhal et al., 2015), (Dewi, 2014)
Return on Equity	(ROE)	Annual Report	Ratio between available net profits for common shareholders to total equity.	(Hidayat, 2017), (Gémar & Espinar, 2015), (Lim, 2017)
Tobin's Q	(Tobin's Q)	Annual Report	A ratio of total market capitalization and total debt divided by total assets. (Abada et al., 2021)	(Inoue & Lee, 2011; Kang et al., 2010; Lee & Park, 2009).
Control				
Board Size	(BSIZE)	Annual Report	The Total Number of Boards Members	(Orlitzky & Benjamin, 2001), (I. L. Wu & Chen, 2006)
Leverage	(LEV)	Annual Report	The proportion of total debt to total assets	(Manchiraju & Rajgopal, 2017), (Bhattacharyya & Rahman, 2020)
Firm Size	(FSize)	Annual Report	Natural log of the total income	(Orlitzky & Benjamin, 2001), (I. L. Wu & Chen, 2006)

4. Results and Discussion

4.1 Descriptive Statistics

The descriptive statistics are shown in Table 2 for the variables employed in this study. Tobin's Q has an arithmetic average value of 0.106. As a result, the request value of the sample bank is generally 0.10 times its means' relief cost. The company's functional profitability (ROA) has a mean value of 0.996 and a range of 0.575 to 1.052. The CSR practices have a mean of 0.525 and a standard deviation of 0.596, with a lowest value of 0.096 and a high value of 0.741. When assaying the connection of interest, all control variables have the right quantum of friction to explain the corresponding factors

Table 2 Descriptive Statistics

	Obs.	Mean	Median	Std. Dev.	Range	Min	Max
Tobin's Q	165	0.106	0.05	0.305	2.912	0.014	2.925
ROA	165	0.996	1.006	0.063	0.477	0.575	1.052
ROE	165	1.112	1.101	0.068	0.455	0.988	1.443
CSR INDEX	165	0.525	0.596	0.171	0.615	0.096	0.712
Lev	165	0.957	0.93	0.843	9.737	0.004	9.741
Bsize	165	12.76	12	4.391	15	6	21
Fsize	165	9.311	9.31	0.123	0.435	9.067	9.502

4.2 Pearson Correlation

Table 3 displays the Pearson correlation matrix for the independent, control, and response variables and the variance inflation factor (VIF). It is frequently employed in empirical research since the validity of an OLS regression depends on the assumption that the explanatory variable is not linked.

The findings of the Pearson's correlation test, which was performed to examine the bivariate association among all of the variable pairs, are shown in table 3. CSR INDEX and LEV positively connect with Tobin's Q $r = .142$ and 0.059 , respectively. CSR INDEX and FSIZE significantly correlate with ROA $r = .271$ and $r = 0.414$, respectively. The association between ROE and the CSR INDEX ($r = .361$) and the FSIZE ($r = .596$) is substantial and positive.

Table 3: Correlation Matrix

	<i>Tobin's Q</i>	<i>ROA</i>	<i>ROE</i>	<i>CSR INDEX</i>	<i>Lev</i>	<i>B Size</i>	<i>F Size</i>	<i>VIF</i>
<i>Tobin's Q</i>	1							
<i>ROA</i>	.219**	1						
<i>ROE</i>	.325**	.601**	1					
<i>CSR INDEX</i>	0.142	.271**	.361**	1				1.273
<i>Lev</i>	0.059	0.118	0.137	0.124	1			1.143
<i>B Size</i>	-0.134	-0.087	0.11	.370**	-.243**	1		1.217
<i>FSize</i>	-.186*	.414**	.596**	.382**	-.308**	.276**	1	1.285

** and * indicate significance at 1% and 5% level (2-tailed).

4.3 Multicollinearity Test

Multicollinearity is a phenomenon in which one predictor variable can be linearly predicted from the others with a substantial degree of accuracy in a multiple regression model. Hair, Anderson, Babin, and Black (2010) stated that when the correlation coefficient between any two variables is above the threshold of 0.90, the multicollinearity problem exists. The

highest correlation coefficient in this study is between ROE and ROA, which is 0.601, presented in Table 3 is less than 0.90. So, the study has no collinearity problem. Furthermore, some authors have suggested the variance inflation factor (VIF) for multicollinearity. A variance inflation factor (VIF) exceeding 10 indicates the presence of multicollinearity. Table 3 also presents the variance inflation factor (VIF) test for measuring multicollinearity. We can see in Table 3 that all the values are smaller than the threshold value of 10. Thus, there is no multicollinearity problem between the variables of the study.

4.3 Regression Analysis

Table 4 shows how CSR practices generally affect a company's financial performance. The premise that CSR practices significantly influence a firm's financial performance is supported by the coefficient of CSR, which seems to be significant and positive with Tobin's Q ($\beta = 0.672$, $p < .05$). (*H1*). Lev, the control variable, does not have a statistically significant connection with Tobin's Q. Significantly positive relationships between BSIZE and FSIZE and Tobin's Q are present. Here, the R square is 0.568 and indicates that independent variables may account for 56.8% of Tobin's Q, which is acceptable.

Table 4 Panel Regression Analysis (Tobin's Q) Fixed Effect Model

Dependent variable- Tobin's_Q		
	Coefficients	P-value
<i>Intercept</i>	6.022	0.000
<i>CSR INDEX</i>	0.672	0.054
<i>Lev</i>	0.021	0.442
<i>BSIZE</i>	-0.038	0.000
<i>FSIZE</i>	0.626	0.000
R²	0.568	
Adj R	0.444	

Table 5 shows how CSR policies generally affect a company's financial performance. The relationship between CSR and ROA looks to be statistically significant and positive ($\beta = 0.062$, $p < .05$), supporting the idea that corporate liability activities have a favorable impact on a company's operational profitability (*H2*). In this case, the R square is 0.297, which suggests that independent variables may be responsible for a respectable 29.7% of ROA. Lev, the control variable, and ROA also correlate statistically significantly. There are strong positive correlations between ROA, BSIZE, and FSIZE.

Table 5 Regression Analysis (ROA) Fixed Effect Model

Dependent variable-ROA		
	Coefficients	P-value
Intercept	0.045	0.000
CSR INDEX	0.062	0.020
Lev	0.002	0.004
B Size	0.000	0.002
FSIZE	0.006	0.000
R SQUARE	0.297	
Adj R	0.277	

Table 6 shows how CSR activities generally affect a company's financial success. The coefficient of CSR's appearance supports the premise that CSR practices favorably influence firm operational profitability to be statistically affirmative and significant with respect to ROE ($\beta = 0.048$, $p < .05$) (H3). The control variables Lev and FSIZE do not have a statistically significant relationship to ROE. A very positive correlation exists between BSIZE and ROE. Here, the R square is 0.382 and suggests that independent variables may account for a reasonable 38.2% of ROE.

Table 6 Regression Analysis (ROE) Fixed Effect Model

Dependent variable-ROE		
	Coefficients	P-value
<i>Intercept</i>	<i>0.450</i>	<i>0.000</i>
<i>CSR INDEX</i>	<i>0.048</i>	<i>0.032</i>
<i>Lev</i>	<i>0.001</i>	<i>0.783</i>
<i>B Size</i>	<i>-0.001</i>	<i>0.102</i>
<i>FSIZE</i>	<i>0.059</i>	<i>0.000</i>
R SQUARE	0.382	
Adj R	0.365	

Hausman test

Hausman test was used to test the null hypothesis. If the P-value of the Hausman test's Chi-square statistic was higher than 0.05, this null hypothesis may be accepted. Consequently, applying the random effect model would be secure (Brooks, 2014). On the other hand, if the P-value is less than 0.05, the null theory is disproved. This shows that the inaccuracy is associated with the random effect (i.e., it is not efficient). In this instance, the fixed effects model was more effective than the random effects approach. The results of this study's Hausman test are shown below:

Table 7 Hausman Test

<i>Test Summary</i>	<i>Chi-Sq. Statistic</i>	<i>Chi-Sq.d.f</i>	<i>P-value</i>
<i>TOBIN_S_Q</i>	20.600307	4	0.0004*
<i>ROA</i>	13.441706	4	0.0093*
<i>ROE</i>	7.58995	4	0.00107*

*Significant at 1% level, **significant at 5% level, and ***significant at 10% level

4.4 Findings & Analysis

4.4.1 The Effects of CSR on Financial Performance

We found that CSR and financial performance would be appreciatively identified in line with other examinations (Ali, 2018; Rahman & Masum, 2021; Resmi et al., 2018). A favorable connection between corporate social responsibility and financial performance (Tobin's Q) is supported by Table 5, and is statistically meaningful (p,0.054).

This shows that businesses with stronger financial performance also do more in CSR trials; therefore, we accept *H1*. In line with former investigations done on CSR, we found that CSR and financial performance would be appreciatively identified. Table 5 shows a favorable and statistically significant relationship between CSR and financial performance (ROA; p,0.020), establishing a link between the two. This shows that businesses with stronger financial performance also do more in CSR trials; therefore, we accept *H2*. As indicated by the value of 0.62, the findings indicated that the corporate responsibility variable positively impacts financial performance. This demonstrates how a company's CSR efforts may enhance business performance by enhancing performance. With a coefficient of 0.048, ROE and CSR have a strong connection (P 0.032). Therefore, *H3* is accepted.

This research found that corporate social responsibility has a considerable influence on ROE, ROA, and Tobin's Q of the Bangladeshi banking sector, which aligns with the study done by (Bin Latif *et al.*, 2015; Rahman & Masum, 2021; Resmi *et al.*, 2018). After the regression models have been run, all three hypotheses are confirmed, concluding that there is a meaningful linkage between CSR reported and company financial outcomes regarding profitability and performance.

5. Conclusion

The study looks at how corporate responsibility benefits the company and explores how it does so. It has examined the effects of 33 banks' social performance (the percentage of philanthropic duty) on three factors that affect business performance from 2017 to 2021.

There are two different groups of research on how corporate social responsibility affects business performance. Several studies support the idea that corporate responsibility substantially influences a company's success, including Return on Equity, Return on Asset, Sales Growth, Stock Price, and others; opposing opinions do exist.

This research intended to determine the relevance of corporate social responsibility on a bank's financial performance and discovers that organizations' responsibility has a considerable influence on ROE, ROA, and Tobin's Q of the Bangladeshi banking sector, which aligns with the study done by (Bin Latif *et al.*, 2015; Rahman & Masum, 2021; Resmi *et al.*, 2018). After running the regression models, we strongly support all three hypotheses, suggesting a correlation between CSR reporting and firm profitability and performance. Even if some listed corporations do not publish any CSR-related information in their yearly reports, these companies' CSR practices are far better than they were in the past. We also expect that publicly traded corporations view their CSR expenses as an investment rather than a cost. The study's findings will encourage businesses to invest more in CSR since doing so will improve the organization's short- and long-term performance (profitability) and solvency over the long term. The overall research results will persuade business people to view CSR spending as investments rather than costs.

The findings are significant for understanding the value of CSR in developing nations and the global banking industry for business professionals, scholars, and legislators. The study adds to the huge piles of information about entrepreneurship and the banking sectors and argues that CSR initiatives might enhance financial results and provide a possible competitive advantage. In this study, fresh perspectives are developed in the context of Bangladesh. In the contemporary global economy, national and international businesses may employ CSR methods to enable organizational slack, secure long-term survival, and even become market leaders as they engage in environmental and social initiatives and community partnerships.

5.1 Limitations and Future Research:

The findings should be taken cautiously due to various limitations, which can open avenues for future research. Owing to the data set's limitations, a sample of 165 businesses' years of observations from the study's five-year period, which ran from 2017 to 2021, were picked from among those selected enterprises listed on the DSE. Therefore, extrapolating the results over a large period to a broader population is exceedingly tricky. It is advised that future studies investigate additional data sources or utilize a primary data strategy that can accommodate a significant sample size and period for a more comprehensive perspective and straightforward generalization of the findings. This study was based on Bangladesh, a developing nation; its findings may not be generalizable. So, future research could investigate a cross-country analysis.

References:

- Abada, U. D., Ejiofor, E. O., & Anumege, S. C. (2021). Effect of Corporate Social Responsibility on Price Earnings Ratio of Consumer Goods Firms in Nigeria. *International Journal of Advance Study and Research Work*, 4(2), 1–7.
- Akbar, S., & Deegan, C. (2021). Analysis of corporate social disclosures of the apparel industry following crisis: an institutional approach. *Accounting and Finance*, 61(2), 3565–3600.
- Ali, M. M. (2018). Corporate Social Responsibility (CSR) of MNCs in Bangladesh: A Study on Nestlé Bangladesh Limited. *Global Disclosure of Economics and Business*, 7(2), 41–50.
- Arsad, S., Said, R., Yusoff, H., & Ahmad, R. (2020). Ownership structure and islamic corporate social responsibility disclosure: Empirical evidence from the Shari'ah compliant companies in Malaysia. *International Journal of Innovation, Creativity and Change*, 11(12), 26–42.
- Bhattacharyya, A., & Rahman, M. L. (2020). Mandatory CSR expenditure and stock return. *Meditari Accountancy Research*, 28(6), 951–975. <https://doi.org/10.1108/MEDAR-10-2019-0591>
- Bin Latif, W., Aminul Islam, M., Mohamad, M., Ahmed, I., Latif, W. B., & Abul Hossain Sikder, M. (2015). A Review of Corporate Social Responsibility (CSR) Theories and an Assessment of the CSR Practices in Banking Industry: Bangladesh Perspective. *12*(11), 1–16.
- Carnahan, S., Agarwal, R., & Campbell, B. (2010). The Effect of Firm Compensation Structures on the Mobility and Entrepreneurship of Extreme Performers. *Business*, 920(October), 1–43. <https://doi.org/10.1002/smj>
- Cortez, M.C., Silva, F. & Areal, N. The Performance of European Socially Responsible Funds. *J Bus Ethics* 87, 573–588 (2009). <https://doi.org/10.1007/s10551-008-9959-x>
- Dewi, D. M. (2014). Csr Effect on Market and Financial Performance. *El Dinar*, 1(02), 198–216. <https://doi.org/10.18860/ed.v1i02.2525>
- Evans, J. R., & Peiris, D. (2012). The Relationship between Environmental Social Governance Factors and Stock Returns. *SSRN Electronic Journal*, 1–17. <https://doi.org/10.2139/ssrn.1725077>
- Friedman, M. (1970). Business is to Increase its Profits. *Springer Berlin Heidelberg*, 173–178.
- Frynas, J. G., & Yamahaki, C. (2016). Corporate social responsibility: Review and roadmap of theoretical perspectives. *Business Ethics*, 25(3), 258–285. <https://doi.org/10.1111/beer.12115>
- Gémar, G., & Espinar, D. (2015). Communication about Corporate Social Responsibility practices and Return on Equity. *European Journal Of Family Business*, 5(1), 7–15. <https://doi.org/10.24310/ejfbefb.v5i1.5060>
- Gherghina, Ș., Vintilă, G., & Dobrescu, D. (2015). An Empirical Research on the Relationship Between Corporate Social Responsibility Ratings and U.S. Listed Companies' Value. *Journal of Economics Studies and Research*, July, 1–11. <https://doi.org/10.5171/2015.260450>
- Grougiou, V., Leventis, S., Dedoulis, E., & Owusu-Ansah, S. (2014, September). Corporate social responsibility and earnings management in US banks. In *Accounting Forum* (Vol. 38, No. 3, pp. 155-169).
- Group, L., Lowe, A., Momin, M., & Accounting, E. (2007). *The Absence of Corporate Social Responsibility Reporting in Bangladesh The Absence of Corporate Social Responsibility Reporting in Bangladesh*. July.
- Hidayat, W. W. (2017). The Influence of Size , Return on Equity , and Leverage on the disclosure of the Corporate Social Responsibility (CSR). *International Journal of Education and Research*, 5(8), 57–66.

- Hillman, A., & Keim, G. D. (2009). With greater power comes greater responsibility? Takeover. *Strategic Management Journal*, 25(August 2008), 261–258.
- Inoue, Y., & Lee, S. (2011). Effects of different dimensions of corporate social responsibility on corporate financial performance in tourism-related industries. *Tourism Management*, 32(4), 790–804. <https://doi.org/10.1016/j.tourman.2010.06.019>
- Jamali, D., & Karam, C. (2016). CSR in developed versus developing countries: A comparative glimpse. *Research Handbook on Corporate Social Responsibility in Context*, 89–110. <https://doi.org/10.4337/9781783474806>
- Kang, K. H., Lee, S., & Huh, C. (2010). Impacts of positive and negative corporate social responsibility activities on company performance in the hospitality industry. *International Journal of Hospitality Management*, 29(1), 72–82. <https://doi.org/10.1016/j.ijhm.2009.05.006>
- Khan, H. U. Z. (2010). The effect of corporate governance elements on corporate social responsibility (CSR); reporting: Empirical evidence from private commercial banks of Bangladesh. *International Journal of Law and Management*, 52(2), 82–109. <https://doi.org/10.1108/17542431011029406>
- Last, G., & Kneutgen, J. (1970). Schlafmusik. *Munchener Medizinische Wochenschrift*, 112(44), 2011–2016.
- Lee, S., & Heo, C. Y. (2009). Corporate social responsibility and customer satisfaction among US publicly traded hotels and restaurants. *International Journal of Hospitality Management*, 28(4), 635–637. <https://doi.org/10.1016/j.ijhm.2009.02.007>
- Lim, C. (2017). Relationship Between Corporate Social Responsibility and Corporate Financial Performance. *Walden Dissertations and Doctoral Studies Walden*, 110.
- Lin, C. H., Yang, H. L., & Liou, D. Y. (2009). The impact of corporate social responsibility on financial performance: Evidence from business in Taiwan. *Technology in Society*, 31(1), 56–63. <https://doi.org/10.1016/j.techsoc.2008.10.004>
- Mahoney, L., & Roberts, R. W. (2007). Corporate social performance, financial performance and institutional ownership in Canadian firms. *Accounting Forum*, 31(3), 233–253. <https://doi.org/10.1016/j.accfor.2007.05.001>
- McWilliams, A., Siegel, D., & Teoh, S. H. (1999). Issues in the Use of the Event Study Methodology: A Critical Analysis of Corporate Social Responsibility Studies. *Organizational Research Methods*, 2(4), 340–365. <https://doi.org/10.1177/109442819924002>
- Mkhaiber, A., & Werner, R. A. (2021). The relationship between bank size and the propensity to lend to small firms: New empirical evidence from a large sample. *Journal of International Money and Finance*, 110, 102281. <https://doi.org/10.1016/j.jimonfin.2020.102281>
- Moskowitz, M. (1972). Choosing socially responsible stocks. *Business and society review*, 1(1), 71–75.
- Naser, K., Al-Hussaini, A., Al-Kwari, D., & Nuseibeh, R. (2006). Determinants of Corporate Social Disclosure in Developing Countries: The Case of Qatar. *Advances in International Accounting*, 19(06), 1–23. [https://doi.org/10.1016/S0897-3660\(06\)19001-7](https://doi.org/10.1016/S0897-3660(06)19001-7)
- Orlitzky, M., & Benjamin, J. D. (2001). Corporate Social Performance and Firm Risk: A Meta-Analytic Review. *Business & Society*, 40(4), 369–396. <https://doi.org/10.1177/000765030104000402>
- Patel. (2019). Does it pay to be good . . . and does it Matter? A Meta-Analysis of the relationship between Corporate Social and Financial Performance. *15*(2), 9–25.

- Rahman, M. M., & Masum, M. H. (2021). Extent of Corporate Social Responsibility Disclosure: Evidence from Bangladesh. *Journal of Asian Finance, Economics and Business*, 8(4), 563–570. <https://doi.org/10.13106/jafeb.2021.vol8.no4.0563>
- Resmi, S. I., Begum, N. N., Hassan, M. M., & Hassan, M. (2018). Impact of CSR on Firm's Financial Performance: A Study on Some Selected Agribusiness Industries of Bangladesh *American Journal of Economics*, 4(3), 74–85.
- Salehi, M., Mahmoudabadi, M., Adibian, M. S., & Rezaei Ranjbar, H. (2020). The potential impact of managerial entrenchment on firms' corporate social responsibility activities and financial performance: evidence from Iran. *International Journal of Productivity and Performance Management*. <https://doi.org/10.1108/IJPPM-06-2019-0259>
- Shoukat Malik, M., & Nadeem, M. (2014). Impact of Corporate Social Responsibility on the Financial Performance of Banks in Pakistan. *International Letters of Social and Humanistic Sciences*, 21(2005), 9–19. <https://doi.org/10.18052/www.scipress.com/ilshs.21.9>
- Strouhal, J., Gurvitš, N., Nikitina-Kalamäe, M., & Startseva, E. (2015). Finding the Link between CSR Reporting and Corporate Financial Performance: Evidence on Czech and Estonian Listed Companies. *Central European Business Review*, 4(3), 48–59. <https://doi.org/10.18267/j.cebr.132>
- Teoh, S. H., Welch, I., & Wazzan, C. P. (1999). The effect of socially activist investment policies on the financial markets: Evidence from the South African boycott. *Journal of Business*, 72(1), 35–89. <https://doi.org/10.1086/209602>
- Von Schnurbein, G., Seele, P., & Lock, I. (2016). Exclusive corporate philanthropy: Rethinking the nexus of CSR and corporate philanthropy. *Social Responsibility Journal*, 12(2), 280–294. <https://doi.org/10.1108/SRJ-10-2014-0149>
- Windsor, D. (2001). The future of corporate social responsibility. *International Journal of Organizational Analysis*, 9(3), 225e256. <https://doi.org/10.1108/eb028934>
- Wood, D.J. & Jones, R.E. (1995). Stakeholder Mismatching: A Theoretical Problem in Empirical Research on Corporate Social Performance, *The International Journal of Organizational Analysis*, Vol. 3 No. 3, pp. 229-267. <https://doi.org/10.1108/eb028831>

Appendix

Corporate Social Responsibility Index

A. Environment (17 items)	
1	Environmental Policies
2	Non-Polluting Operations
3	Compliance with Relevant Laws and Regulations.
4	Pollution Control and Reduction
5	Conservation of Natural Resources
6	Environment Restoration Program Recycling
7	Protect The Environment.
8	Air Emission Information.
9	Water Discharge Information.
10	Solid Waste Deposal Information
11	Contributions to Beautification
12	Conservation of Wildlife
13	Historical Buildings Restoration

14	Training Employee
15	Contribution in Research and Development for Environment
16	Internal Audit for Environment
17	Award For Environmental Protection E.G. ISO 14001, Carbon Label.
B. Employee (22 items)	
1	Health and Safety Standards and Regulations.
2	Employee Training on Health and Safety.
3	Accident Statistics.
4	Safety Award e.g., OSHAS 18000
5	Health Care Facilities to Employees
6	Educational Support for Employees and Their Family
7	Recreational Facilities for Employees
8	Accommodation Assistance
9	Support for Female Workers like Day Care, Maternity Leave, etc
10	Disclosing Remuneration Policies and Schemes.
11	Disclosing Employees Share Ownership and Profit-Sharing Information
12	Disclosing Employees Profile with Details.
13	Disclosing Recruited Employees Qualifications and Past Experience
14	Disclosing Information about Organizations Future Job Prospect
15	Disclosing Trade Union Relationships
16	Disclosing Information on Recruitment of Minorities/Women/Special Interest Group
17	Employee Turnover Ratios
18	Disclosure of Training Facilities
19	Research on Employees Work Safety
20	Reducing Hazards in Work
21	Company Policy on Child Labour
22	Internal Audit for the compliance of Employee Related Issues Settlement
C. Social and Community Service (07 items)	
1	Donations to Support Community Activities
2	Part-time/ Internship of Students
3	Sponsoring Community Health Care Facilities
4	Scholarships for Social and Community Support
5	Disaster Reliefs and Aids
6	Contributing in National Memorials and Days
7	Supporting Local and Indigenous Communities
D. Product (06 items)	
1	Disclosing Products Safety Standards Compliance Information
2	Disclosing Firm's Product Safety Information
3	Product Development and Improvement Information
4	Research and Development Information Related to Product Development and Improvement
5	Prizes and Awards Won for Product e.g., ISO 22000
6	Discussions of Major Products

Figure 1 CSR Index ((Chen et al., 2022; Rahman & Masum, 2021