

## **REVIEW OF CSR PRACTICES IN EMERGING ECONOMY: A CASE OF BANKING SECTOR IN BANGLADESH**

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### **Abstract**

This paper is intended to review the contemporary Corporate Social Responsibility (CSR) practices by the banking sector in Bangladesh and to examine its impact on the banks' profitability and also in socio-economic development of Bangladesh. Yearly data from 2008 to 2013 has been used to examine whether the current practice of CSR could contribute to the profitability of the banking sector along with an enhancement in the socio-economic indicators of Bangladesh. It has been found that the total as well as sector-wise CSR Expenditure by the banking sector is increasing with having a positive linear trend. The association between banks' CSR Expenditure and its profitability is positive but insignificant. In addition, banking sector contribution to CSR Expenditure significantly enhances the socio-economic indicators (i.e. HDI and Per Capita GDP) of Bangladesh.

**Key word:** Corporate Social Responsibility, Per Capita GDP, HDI.

### **1.0 Introduction**

Corporate Social Responsibility (CSR) is a duty to every corporate entity to protect the interest of the society at large. Even though the motive of corporate houses is to earn profit, corporates should take initiatives for welfare of the society and should perform its activities within the framework of ethical, legal, social and environmental norms. The concept and practices of Corporate Social Responsibility (CSR) has been getting foundation during the last few years in Bangladesh and today it is undoubtedly seen as the integral part of doing business efficiently. The basic concept of CSR is the realization of an enterprises that they are accountable for their impact on all relevant stakeholders that lead to continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. CSR generally refers to (i) a collection of policies and practices linked to relationship with key stakeholders, values, compliance with legal requirements, and respect for people, communities and the environment; and (ii) the commitment of business to contribute to sustainable development. It is now a common belief that a company cannot realize the full economic value of doing business, both now and in the future, if the operating environment is not environmentally, culturally, legally, politically, and socio-economically conducive to doing business (Rahman Atiur, 2013). In Bangladesh, many companies are demonstrating deep commitment for infrastructure development, local capacity building, health, job creation, disaster relief and many other socially responsible activities. All this goes beyond philanthropic concept.

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There were no precise policies on CSR in Bangladesh prior to 2008. In 2008, Bangladesh Bank took initiatives for formalizing CSR in the banking sector of Bangladesh and issued a detailed directive titled “*Mainstreaming Corporate Social Responsibility (CSR) in banks and financial institutions in Bangladesh*”. As a result of caring and supervision of Bangladesh Bank, the CSR practices in the banking sector of Bangladesh have been getting significant appreciation. The engagement of banks in terms of direct monetary expenditure, financial inclusion, environmental banking, community investment and CSR reporting have considerably increased (Halder and Rahman, 2014). As a result, banking sector of Bangladesh has emerged as the most significant player in practicing CSR activities. Their practices of CSR activities not only improve their own standard but also revolutionize the society responsible actions of other businesses. Banking industry itself also gains from these positive effects of CSR activities on the society as a whole, particularly on its clients. So the role of banks for pursuing appropriate CSR practices in the society, especially in a developing country like Bangladesh, need to be properly addressed. The recognition of appropriate CSR practices will explore many emerging need of the society, the satisfaction of which may bring expected development of the country. This paper is an attempt to recognize and measure the effects of CSR practices by the banking industry in Bangladesh. This paper will evaluate the current CSR practices of banking sector to magnify its effect on the corporate profitability as well as on individual and socio-economic development of the country.

## 2.0 Objectives

This study is intended to examine the current scenario of CSR expenditure by the banking sector in Bangladesh. The broad objective of this study is to critically recognize the expected role of CSR expenditure on the development of socio-economic indicators in Bangladesh. In this journey, the banking sector contribution of direct CSR expenditure has been examined with respect to their statistical trend over time and also examine the percentage growth of different sectors of CSR expenditure over the sample period. This paper finally attempts to identify the expected statistical association of CSR expenditure on the socio-economic development indicators of Bangladesh. Here, the broad objectives has been summarized to a more specific objectives in the following way:

1. Evaluate the current picture of CSR Expenditure by the banking industry in Bangladesh.
2. Analyze the trend of direct CSR expenditure by banking sector in Bangladesh.
3. Examine the sample banks contribution of CSR expenditures on their profitability measures.
4. Examine the role of direct CSR expenditure on the socio-economic development indicators of Bangladesh.

## 3.0 Review of Literature

A good amount of literature has been studies to examine the role and practice of CSR expenditure in financial sector of Bangladesh. Hassan M. Arif (2013) scrutinizes the practices of corporate social responsibility (CSR) by some selected commercial banks in

Bangladesh and attempted to assess the need to improve the CSR by such organizations. The author has observed by framework of CSR areas and found that the contribution of private commercial banks (PCBs) and state owned banks (SOBs) to CSR activities is very insignificant in proportion to their profit amount. The study suggested proper guideline by Govt. Regulatory, CSR contribution, involvement of large corporations in CSR activities and mandating CSR disclosure in the annual report will fulfill the intended goals of the corporate organizations.

McWilliams A. and Siegel D., (2000) have examined about why other researchers have found inconsistent impact (i.e. either positive, negative or neutral) of corporate social performance (CSR) on the financial performance of the firm. They have identified that flawed empirical analysis or misspecification of the model are the main reasons for this inconsistent outcome. They have suggested to have control for investment in R&D. After proper specification of the model, they have found that CSR has neutral impact on financial performance.

Haque M.S. and Ahmad M.M., (2011) have intended to examine the practices of CSR by some selected Islamic organizations in Bangladesh. They have inspired on the ground that the practice of CSR by Islamic organizations are different from that of conventional organizations. They have examined whether Islamic organizations practice of CSR could bring desired result in the society or not. According to their findings, with few exception like Islamic Bank Bangladesh Ltd, Al-Arafah Islami Bank Ltd, Ibn-Sina Trust, other Islamic organizations contributions to CSR are very poor.

Halder and Rahman, (2014) have attempted to focus upon how and in what ways the commercial banks in Bangladesh have been discharging their social responsibilities. By applying stratified sampling process 17 banks have been selected and Mann-Whitney Non-Parametric Test has been used to test the null hypothesis that there is no difference between peoples' perception and bankers' perception about overall CSR activities of sample commercial banks. The test evidence fails to reject the null hypothesis and peoples' perception and bankers' perception about overall CSR activities undertaken by the sample banks have found to be alike.

Habib A. and Monjur M. I. (2010) have examined CSR activities of 3 different banks (i.e. Janata Bank, Dutch-Bangla Bank, and Citi Bank) to make sure that their activities can effectively satisfy their employees and customers. They have used the opinion of 126 sample respondent (60 of them are employees, 33 are customer and the remaining 33 are society members) from each of the sample banks to compute different descriptive statistics and analysis. They have found that these banks are not giving concentration for their employees to maintain employees' sustainable satisfaction level. Two of these three banks are not satisfying their customers and society members enough.

## **4.0 Methodology**

### **4.1 Research Methods**

This paper is intended to capture the current practice of CSR by the Banking Sector of Bangladesh and whether they contribute effectively to the improvement of socio economic indicators of Bangladesh. In order to review and examine these

objectives, direct CSR Expenditure of banking sector has been analyzed by their growth percentage and trend. Different segments of CSR Expenditure have also been analyzed during the same sample time frame. In Order to examine the relationship between CSR Expenditure and the organizations' profitability, a random selection of six different commercial banks have been used to run linear least square regression analysis. Finally, the contribution of CSR Expenditure by the banking sector to bring effective development in the socio-economic indicators, two different parameter (i.e. Per Capita GDP and Human Development Index) have been examined. In this case, Wilcoxon - Mann/Whitney Test has been applied to examine their statistical difference between them. In addition, least square linear regression has also been used to examine their statistical association between them.

#### 4.2 Data and Data Sources

This study uses annual secondary data from different sources. Here, the data on CSR Expenditure and profitability of the banking sector have been collected from the annual reports of six private commercial banks (i.e. Janata Bank Ltd., Dutch Bangla Bank Ltd., Trust Bank Ltd., Mercantile Bank Ltd., Islami Bank Bangladesh Ltd., and South East Bank Ltd.) and CSR specific reports published by Bangladesh Bank. Per Capita GDP and Human Development Index (HDI) of Bangladesh have been collected from the official websites of World Bank and The Global Economy. In this case, annual data from 2007 to 2013 have been examined by the application of different statistical tools and techniques like trend analysis, least square linear regression, and Wilcoxon - Mann/Whitney Test.

### 5.0 Empirical Result

#### 5.1 Summery of Descriptive Statistics

Table 1 exhibits the amount of CSR Expenditure by the banking sector in Bangladesh during the period between 2007 and 2013. This yearly CSR Expenditure clearly depicts that the amount incurred in the area of executing CSR activities is increasing during this time frame. This table also incorporate the growth of CSR Expenditure during the same time period and found that the growth rate of CSR Expenditure by the banking sector significantly changes over time. The growth rate of CSR Expenditure is found to be the highest in 2010 (i.e. 320.69%) and negative in 2011 (i.e. -6.07%). This negative growth rate of CSR Expenditure may be due to lower amount of CSR Expenditure in that year in comparison to 2010.

**Table 1: Percentage Growth of CSR Expenditure by Banking Industry of Bangladesh**

Year	2007	2008	2009	2010	2011	2012	2013	Average
CSR Expenditure (Tk. In million)	226.4	410.7	553.80	2329.80	2188.33	3046.69	4461.8	1888.2
% Growth		81.40	34.84	320.69	-6.07	39.23	46.77	86.14

Note: Author's Own calculation

However, in 2008 Bangladesh Bank (BB) instruct all the listed commercial banks to incur CSR Expenditure on 7 essential headings which are humanitarian and

disaster relief, education, health, sports, art & culture, environment, and others. Table: 2 presents the empirical picture of different sectors of CSR Expenditure by the banking industry from 2007 to 2013. In 2007, the humanitarian and disaster relief sector got the highest amount of fund followed by health, education, sports and others. In 2007, no funds were provided to environment and art & culture segment. In addition, segment-wise growth of fund have also been computed. In humanitarian and disaster relief sector, the growth rate of fund is satisfactory except 2008 and 2011. Education sector has got a positive growth of fund during this time period. Health sector also have 55.48 percent average growth of fund with a negative growth in 2011 and 2012. Sports sector got a tremendous average growth of fund during this time because of having a very scanty amount of fund at the beginning of 2007. Art and culture sector got a negative growth of fund in 2009, 2011 and 2013. Because of having a very large growth of fund in 2010, the average growth of fund is found to be positive (i.e. 21881.83 percent). Contribution of CSR fund in environment sector has not been found very satisfactory whereas the others sector got a positive average growth of fund (i.e. 225.34 percent) during this period.

**Table 2: Sector-wise Contribution of CSR Expenditure by Banking Industry of Bangladesh**

Year	2007	2008	2009	2010	2011	2012	2013	Average
Humanitarian & disaster relief	127.7	58.6	125.1	460.41	188.03	788.37	1385.83	447.72
<b>Growth (%)</b>	N/A	-54.11	113.48	268.03	-59.16	319.27	75.78	110.55
Education	14.3	30.5	94.8	400.79	612.48	983.69	1295.18	490.24
<b>Growth (%)</b>	N/A	113.28	210.81	322.77	52.81	60.60	31.66	131.99
Health	68.6	112.1	245.5	689.07	520.42	435.43	481.68	364.68
<b>Growth (%)</b>	N/A	63.41	119.00	180.68	-24.47	-16.33	10.62	55.48
Sports	2.7	49.8	1.2	265.23	359.07	183.85	384.02	177.98
<b>Growth (%)</b>	N/A	1744.44	-97.59	22002.5	35.38	-48.79	108.87	3957.46
Art & culture	0	0.8	0.3	328.91	171.52	213.31	124.75	119.94
<b>Growth (%)</b>	N/A	N/A	-62.5	109536.67	-47.85	24.364	-41.51	21881.83
Environment	N/A	N/A	N/A	59.78	138.07	140.23	106.59	111.16
<b>Growth (%)</b>	N/A	N/A	N/A	N/A	130.96	1.56	-23.98	36.17
Others	13.1	158.9	86.9	125.58	198.73	301.81	693.41	225.49
<b>Growth (%)</b>	N/A	1112.97	-45.31	44.51	58.249	51.86	129.75	225.34

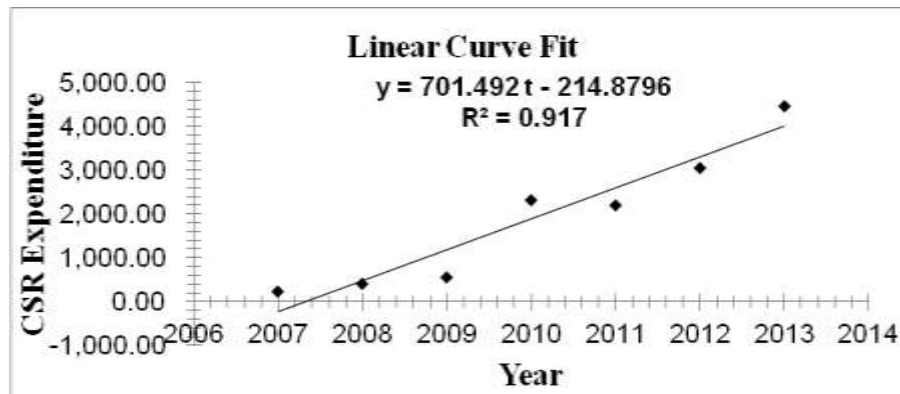
Note: Author's Own calculation

### 5.2 Trend of CSR Expenditure in Banking Industry

Figure 1 depicts both the trend line and trend equation of Banking Industry contribution on CSR Expenditure in Bangladesh. Yearly data from 2007 to 2013 on CSR Expenditures have been used to draw both the scatter diagram and the best

fitted trend line. The rising trend of CSR Expenditure by the Banking Industry in Bangladesh is found which is also indicated by having a positive slope (i.e. 701.492) in the trend equation. Here the coefficient of trend equation is 701.492 with the *t*-statistic of 7.432. This *t*-statistics fails to accept the null hypothesis of not having significant regression coefficient in the regression equation. This result alternatively implies that regression coefficient is statistically significant.

**Figure 1: Trend of CSR Expenditure by Banking Industry in Bangladesh**



#### Regression output

variables	coefficients	std. error	t (df = 5)	p-value
Intercept	-214.8796			
t-Statistic	701.4918	94.3851	7.432	.0007

Note: Author's Own calculation

Table 3 presents the contribution of CSR Expenditure of sample individual commercial banks on their respective profitability of the organization. In this case, net income before tax has been used as a measure of profitability and six different private commercial banks (i.e. Janata Bank Ltd.; Dutch Bangla Bank Ltd.; Trust Bank Ltd.; Mercantile Bank Ltd.; Islami Bank Bangladesh Ltd.; South East Bank Ltd.) have been randomly chosen to collect their CSR Expenditure. Then separate least square linear regression has been run to identify the contribution of CSR Expenditure on the profitability of sample commercial banks. According to the evidence of regression equation it has been found that all the sample commercial banks (except Trust Bank Ltd.) have positive regression coefficients in their respective regression equation. This evidence implies that CSR Expenditures have positive association with the profitability of the sample banks. But other than South East Bank Ltd., the *p-value* associated with the regression coefficients of other sample banks are found to be greater than 0.05. This result implies that the regression coefficients of all the sample banks (except South East Bank Ltd.) are statically insignificant.

**Table 3 : Linear Regression of CSR Expenditure of Sample Individual Banks on the Bank's Profitability**

<b>Janata Bank Ltd.</b>	<b>Regression Equation</b>	<b><math>Y = 2561.181 + 13.27198 X</math></b>
	Std. Error	(7481.87) (51.13)
	t-Statistics	(0.342) (0.259)
	<i>p-value</i>	(0.754) (0.812)
<b>Dutch Bangla Bank Ltd.</b>	<b>Regression Equation</b>	<b><math>Y = 3340.373 + 1.061566 X</math></b>
	Std. Error	(736.95) (1.118)
	t-Statistics	(4.532) (0.8932)
	<i>p-value</i>	(0.0106) (0.422)
<b>Trust Bank Ltd.</b>	<b>Regression Equation</b>	<b><math>Y = 2476.718 - 12.85716 X</math></b>
	Std. Error	(977.59) (12.22)
	t-Statistics	(2.5334) (-1.051)
	<i>p-value</i>	(0.0644) (0.3523)
<b>Mercantile Bank Ltd.</b>	<b>Regression Equation</b>	<b><math>Y = 1998.486 + 22.53823 X</math></b>
	Std. Error	(1197.39) (18.628)
	t-Statistics	(1.6690) (1.2098)
	<i>p-value</i>	(0.1704) (0.2929)
<b>Islami Bank Bangladesh Ltd.</b>	<b>Regression Equation</b>	<b><math>Y = 8718.292 + 4.454648 X</math></b>
	Std. Error	(2315.33) (5.7061)
	t-Statistics	(3.7654) (0.7806)
	<i>p-value</i>	(0.0328) (0.4919)
<b>South East Bank Ltd.</b>	<b>Regression Equation</b>	<b><math>Y = 2306.090 + 49.14571 X</math></b>
	Std. Error	(541.814) (8.760)
	t-Statistics	(4.2562) (5.6101)
	<i>p-value</i>	(0.0238) (0.0112)

Note: Author's Own calculation

Table 4 shows the Wilcoxon-Mann/Whitney Test output between CSR Expenditure of all the commercial banks and Per Capita GDP of Bangladesh during the period from 2007 to 2013. This t-test assumes under null hypothesis that the two sets of variables have no difference between them. Here the two tailed t-test statistics and its *p*-value are found to be 0.51 and 0.6093 respectively. Therefore, the test fails to reject the null hypothesis of no difference between CSR Expenditure and Per Capita GDP of Bangladesh.

**Table 4: Wilcoxon - Mann/Whitney Test between CSR Expenditure and Per Capital GDP of Bangladesh**

<b>Wilcoxon - Mann/Whitney Test</b>		
n	sum of ranks	
7	57	CSREXP
7	48	PCAPGDP
14	105	total
52.50		expected value
7.83		standard deviation
0.51		t
0.6093		p-value (two-tailed)

Note: Author's Own calculation

Table 5: shows the least square linear regression output of CSR Expenditure on Per Capita GDP of Bangladesh. The regression coefficient of CSR Expenditure is found to be 0.169466 with the t-statistics and *p*-value are 9.599620 and 0.0002 respectively. This test output rejects the null hypothesis of no significant association between CSR Expenditure and Per Capita GDP of Bangladesh. Therefore, according to the test statistics, CSR Expenditure have significant association with the Per Capita GDP of Bangladesh.

**Table 5: Least Square Linear Regression of CSR Expenditure on Per Capita GDP of Bangladesh**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.406087	0.126562	42.71498	0.0000
LOG(CSREXP)	0.169466	0.017653	9.599620	0.0002

Note: Author's Own calculation

Table 6 presents the Wilcoxon - Mann/Whitney Test between CSR Expenditure and Human Development Index (HDI) of Bangladesh during the period from 2007 to 2013. The test assumes under null hypothesis that the above two variables have no difference with each other. The test provides t-statistics of 2.80 with *p*-value of 0.0051. This test result implies that the null hypothesis of no difference cannot be accepted at 5 percent level of significance. Therefore, it can be said that these two variables have significant difference between them.

**Table 6: Wilcoxon - Mann/Whitney Test between CSR Expenditure and Human Development Index of Bangladesh**

Wilcoxon - Mann/Whitney Test		
n	sum of ranks	
7	57	CSREXP
7	21	HDI
14	78	total
39.00		expected value
6.24		standard deviation
2.80		t
0.0051		p-value (two-tailed)

Note: Author's Own calculation

Table 7 presents the least square regression output of CSR Expenditure on Human Development Index (HDI) of Bangladesh during the period from 2007 to 2013. This test tries to examine the significant association between the above two variables. Here, the regression coefficient of CSR Expenditure is found to be 0.033933 with t-statistic and *p*-value are 6.755296 and 0.0066 respectively. Therefore, the test result clearly shows the significant association between CSR Expenditure and HDI of Bangladesh at 5 percent level of significant.



**Table 7: Least Square Linear Regression of CSR Expenditure on HDI of Bangladesh**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.868194	0.038287	-22.67599	0.0002
LOG(CSREXP)	0.033933	0.005023	6.755296	0.0066

Note: Author's Own calculation

## 6.0 Discussion and Findings

This study incorporates the assessment on the practice of banking sector CSR and its impact on the overall profitability and socio-economic development of Bangladesh. In this assessment it has been revealed that during the period between 2008 and 2013, the average amount and the percentage growth of CSR Expenditure by the banking sector is expanding which is also backed by having a positive slope in the linear trend line. CSR Expenditure on specific sectors is also found to be satisfactory. On the way to measure the association between CSR Expenditure by randomly selected 6 different commercial banks, except, Trust Bank Ltd., all other banks are exhibiting positive association between CSR Expenditure and the profitability of the respective banks. This would imply that there exists a statistical positive association CSR Expenditure and the profitability of banks. Finally, this study also examined the contribution of CSR practices by the banking sector on the per capita GDP and human development index (HDI) of Bangladesh. It is also found that current CSR practices by the banking sector have contribution on the overall development of per capita GDP and HDI of Bangladesh. But this contribution is found to statistically insignificant.

## 7.0 Conclusion

The banking sector of Bangladesh has already emerged as the most important player in practicing CSR in Bangladesh. CSR practices by them not only improve their own standards but also revolutionize the socially responsible actions of other businesses. But banking sector contribution to CSR Expenditure is still scanty. In one hand, banking sector should strengthen their role to effective CSR practices by properly following the guidelines of Bangladesh Bank, while arrangement should also be taken to get align other businesses of different industry to contribute to CSR activities. This study has attempted to examine and review the role of banking sector CSR practices to improve socio-economic development indicator of Bangladesh. As Bangladesh bank guideline to CSR practices for the banking sector was announced only a couple of years ago (i.e. in 2007), so this study fails to incorporate large volume of data set to examine the basic objectives of this study. This study found that the average growth rate of CSR Expenditure by the banking sector is 86.14 percent with an increasing trend during the period between 2007 and 2013. This study also reveal that the average association between the CSR Expenditure of sample individual banks to their profitability is positive but statistically insignificant at 5 percent level. In addition banking sector contribution to CSR Expenditure significantly improves the socio-economic indicators (i.e. HDI and Per Capita GDP) of Bangladesh. These test evidence seems to be convincing and calls for further effective research on the same relevant filed.

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