

## **THE PATTERN OF CORPORATE SOCIAL RESPONSIBILITY EXPENDITURES: A STUDY ON SELECTED COMMERCIAL BANKS OF BANGLADESH**

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### **Abstract**

This paper focuses on the pattern of corporate social responsibility (CSR) expenditures of banking sector as a means of socio economic development of Bangladesh. The study describes CSR into two streams- socially responsive and socially responsible activities. To understand the pattern of CSR practices of CBs.- relation with after tax profit and major sectorial distribution of CSR activities are critically tested through hypothesis testing along with descriptive analysis. After analyzing the pattern of CSR expenditure it is found that diversification in CSR practices is necessary for the long term welfare of the society.

**Keywords:** Corporate Social Responsibility, Social Responsiveness, Commercial Bank (CB), Central Bank, Bangladesh Bank (BB), After Tax Profit

### **Introduction**

Corporate Social Responsibility (CSR) is the commitment of businesses towards the society to contribute to sustainable economic development by working with employees, the local community and society at large to improve their lives that are good for business and for development. Nowadays and gradually it is achieving huge popularity among the businesses. For this reason CSR is one of the most crucial topics to the business world. Almona, C. P. (2005) alleged that the role of business worldwide and specifically in the developed economies has evolved over the last few decades from classical 'profit maximizing' approach to a social responsibly approach, where businesses are not only responsible to its stockholders but also to all of its stakeholders in a broader inclusive sense. Banking industry nowadays plays a vital role and has large contribution to the society. The economy of Bangladesh is largely dependent on banking industry. The banking sector of Bangladesh includes nationalized private banks, specialized banks, private commercial banks, and foreign banks where there are more than fifty six commercial banks operating in Bangladesh. Not only the private commercial banks are concerned with the CSR activities, but also the Bangladesh Bank (The central bank of Bangladesh) is giving its strong focus on facilitating CSR in the banking industry. The Bangladesh Bank is now very concerned about the CSR activities and various steps have already accumulated by Bangladesh Bank for the improvement of CSR activities such as encouraging private commercial banks in CSR activities. Despite the fact, corporate actions in social causes are not as per desired levels. But continuous efforts on part of the corporates are there to pose themselves as the socially responsible enterprises. Corporate houses devoting considerable space in their annual report for panting their CSR initiatives

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and image of sustainable enterprise in an attractive and convincing manner. Thus, considering these, CBBs have been chosen in the present study as its areas of interest. As such the paper shall endeavor to look in to the pattern of CSR practices of CBBs as well as shall take an inside views how they are discharging their social obligations.

### **Review of Literature**

Many researchers have written a good number of articles and papers on various aspects of business-society relationships. The idea of CSR being a social obligation was first advocated by Carroll (1991). His CSR pyramid, one of the best known CSR model, presents company's social obligation as comprising economic, legal, ethical and philanthropic responsibility. Carroll noted that business were created as economic entities driven by a profit motive, thus economic performance undergirds the other three CSR components. Legal responsibility involves businesses complying with laws and regulations. Ethical responsibilities reflect a concern for what consumers, employees, shareholders and the community regards as fair, just and respectful of stakeholders moral rights. Finally, philanthropic responsibility was the expectation that business be the good corporate citizens, actively, engaging in program to promote human welfare and goodwill.

Duarte and Rahman (2010) has reported the findings of an exploratory study which examined perceptions in relation to CSR by a heterogeneous group of Bangladeshi managers from Dhaka. They found that some of the responses also showed a common misconception that the notions of CSR and philanthropy are equal with each other. Yeung (2011) tried to explore the perception of respondents on Corporate Social Responsibility (CSR) and banking practice of major banks in Hong Kong. His study identified from quantitative analysis on collected questionnaires into four main factors for a CSR framework for banks. That study can help banking managers understand what should be done for the benefit of customers and the community for sustainability.

According to Belal (2001), in Bangladesh, CSR is still voluntary with the exemption of disclosure under the company's act of 1994 and exchange rules of 1987. A focus on CSR in Bangladesh would be useful not only for imposing corporate governance, labour rights, work place safety, fair treatment of workers, community development and environment management but also for industrialization and ensuring global market access (Miyan 2006, Mondal 2009). Here the emphasize point is on using CSR as a tools to access global market.

Mahjabeen & Moniruzzaman (2013), described CSR as a means of gaining competitive advantage, customers and employees positive behavior & increase financial performance.

From the above discussion it is clear that commercial banks are fairly involved in CSR activities. CSR activities have a positive impact on the financial performance & operational efficiency of banks in long terms. However, the pattern of CSR activities relating to after tax profit of CBBs and the magnitude of such relationship has not studied yet. My present study focuses this area.

### Objectives of the Study

The proposed study has reviewed the following objectives:

- (i) To know the pattern of CSR activities undertaken by CBs
- (ii) To understand and measure the relationship between CSR activities with some independent factors through hypothesis testing and statistical analysis
- (iii) To give the idea of CSR diversification on the basis of findings for the long term betterment of the country

### Pattern of CSR Activities in Commercial Banks of Bangladesh

There are two different views dominate the thinking of CSR. On side, there is a purely economic view and on the other side is the moral and rational view. The economic view says that management's only responsibility is to maximize profit. An organization should be socially responsible but the extent of that responsibility is to maximize profit for stakeholder. On the other hand, the rational and moral view is that management's social responsibility goes beyond making profits to include protecting and improving society's welfare. Because, society expects and even encourages business to become involved in social, political, legal issue. In the rational view, corporate social responsibility divided in two things-one is social obligation, another one is social responsiveness. Social obligation is related with certain economic and legal responsibility of business. Social responsiveness is when a business engages in social action in response to some popular social needed. All the banks have been undertaking both socially responsive and socially responsible activities (*P.K. Haldar and S.M.Mahabubur Rahman, 2014*). Socially responsive activities signified short term popular activities while socially responsible action likely to be long term. These activities were addressing different need of the society i.e. disaster relief, education, health, art & culture, environment, entrepreneur development, sports, financial inclusion, farmers welfare. Most of these programs are very successful i.e. education, health, environment, entrepreneur development and financial inclusion.

**Table 1: Pattern of CSR activities in Commercial Banks of Bangladesh**

| Name of Bank                    | No. of total Activities | No. of Socially Responsive Activities | No. of Socially Responsible Activities. | CSR Expenditure in year 2013 | Investment area |
|---------------------------------|-------------------------|---------------------------------------|---|------------------------------|-----------------|
| Islami Bank Bangladesh Ltd.     | 20                      | 14                                    | 6                                       | 426,800,000                  | Rural 58%       |
| Agrani Bank Ltd.                | 15                      | 8                                     | 7                                       | 7,180,000                    |                 |
| BRAC bank Ltd.                  | 32                      | 19                                    | 13                                      | 54,828,800                   |                 |
| Bank Asia Ltd.                  | 14                      | 6                                     | 8                                       | 207,203,000                  |                 |
| First Security Islami Bank Ltd. | 22                      | 18                                    | 4                                       | 153,031,000                  |                 |
| Dhaka Bank Ltd.                 | 22                      | 17                                    | 5                                       | 27,256,000                   |                 |

|                             |    |    |    |             |              |
|-----------------------------|----|----|----|-------------|--------------|
| Dutch Bangla Ltd.           | 36 | 15 | 21 | 785,400,000 | Urban<br>42% |
| Jamuna Bank Ltd.            | 20 | 14 | 05 | 66,300,000  |              |
| Prime Bank Ltd.             | 19 | 16 | 03 | 257,200,000 |              |
| United Commercial Bank Ltd. | 25 | 12 | 13 | 101,209,000 |              |

Source: BB CSR Report 2013

Above table no.-1 shows that, a number of socially responsive and socially responsible activities have taken by the commercial banks. Banks CSR involves mainly on socially responsive activities which is 54% and 46% invested in socially responsible activities. Socially Responsible activities are mostly rural area concentrated. Majority of bank's CSR (58%) invested on rural areas especially in remote areas.

Bangladesh economy depends on agriculture sector. According to World Bank Report-2012, 72 percent people live in village and agriculture sector GDP contribution 19 percent in Bangladesh. The focus of the former is mainly found in the urban areas such as investment. Most of the socially responsive activities operated in urban areas. Socially responsible activities in remote areas are very negligible. In recent time, some Commercial Banks have taken different initiatives for increasing remote area social activities i.e. free supply pure water, Bio gas plant, and solar energy.

### **Trends of sectorial pattern of direct CSR expenditure reported by Commercial Banks**

In developing countries, there are various incentives and regulatory bindings to promote socially responsible behavior of business and a good number of financial institutions are responding positively towards the society through philanthropy, community investment, employee empowerment, equitable social practice, safeguarding environment and doing social and environmental reporting. The status of CSR has not been satisfactory in many developing and least developing countries largely due to lack of awareness, poor enforcement of existing laws and inadequate pressure from civil society and interest groups. In Bangladesh, the banking sector is doing well in this regard under the leadership of Bangladesh Bank. BB established a separate department called Department of Green Banking and CSR, which is steering BB's campaign on socially responsible financing. In 2008, Bangladesh Bank (BB) took initiatives for formalizing CSR in the Banking sector of Bangladesh and issued a detailed directive for providing guidelines for CSR in some factors like education, healthcare and sports. But recent trend shows that highest CSR in humanitarian and disaster relief. And education is second highest followed by sports and art and culture activities. The June 2008 BB guidance circular also suggested that banks could begin reporting their CSR initiatives in a modest way as supplements to usual financial reports, eventually to develop into full blown comprehensive reports in GRI format. All the commercial banks were asked to formulate their own CSR policy with the annual outlay for CSR programs and include them in their mainstream banking activities instead of short term social works like providing grants, aids and donations. In 2012, banking sector witnessed a healthy growth that has encouraged more CSR

practices by banks and helped them become an important part of their businesses. Banks involves more CSR expenditure which leads to higher total expenditures as well as higher profit also leads to higher CSR activities. But some banks are using it as a means of hiding their corruption. There prevails some misappropriation in terms of disbursement of fund under CSR. Recently, the government has temporarily suspended CSR activities of these four state owned commercial banks in a bid to arrest the misuse of funds. So these four banks are forbidden from spending any money under CSR until further notice. It has been observed that board members of some state owned banks have been spending a lot of money in the name of CSR. It has created a negative impact on the banks capital adequacy ratio and subsequently on provisioning.

**Table 2: Trends of major sectorial pattern of CSR expenditure reported by banks**

| Year | CSR expenditure | Major sectors of CSR expenditure |           |        |        |
|------|-----------------|----------------------------------|-----------|--------|--------|
|      |                 | Humanitarian & disaster relief   | education | Health | Sports |
| 2010 | 2329.8          | 460.41                           | 400.79    | 689.07 | 265.23 |
| 2011 | 2188.33         | 188.03                           | 612.48    | 520.42 | 359.07 |
| 2012 | 3046.69         | 788.37                           | 983.69    | 435.43 | 183.85 |
| 2013 | 4471.49         | 1335.36                          | 1295.18   | 481.68 | 384.02 |

Source: BB CSR Report 2013

## Methodology

### Sources of Data

Annual reports of banks, publications of Bangladesh Bank, periodicals, newspapers are used as the sources of data of the study. A list of related articles from various journals is also used to develop the basic idea about the particular study.

### Hypothesis

Banking industry is the largest profit maker in our economy. Society is the main source of bank's capital. It is rational that society expects Philanthropic activities from the banks, which is expensed at bank's profit. So, banks should expense more for the society's betterment with its increased profit. Considering this fact I assume-

*Hypothesis one:* CSR expenditure has a positive relation with total after tax profit of commercial banks.

Since 2012, banking sector witnessed a healthy growth that has encouraged more CSR practiced by banks. Recent trend shows that the highest CSR lies in humanitarian and disaster relief activities. Here the following hypothesis can be drawn-

*Hypothesis two:* Expenditures in humanitarian and disaster relief sector has a positive relation with total CSR expenditure

BB gives highest priority on CSR in education sectors. And in recent years education is the second highest CSR expenditures. Hence it can be assumed-

*Hypothesis three:* Expenditure in Education sector has a positive relation with total CSR expenditure.

To test the above hypotheses I used t-test at 5% level of significance. The test statistics for t-test is-

$$t = \frac{r \sqrt{(n-2)}}{\sqrt{(1-r^2)}}$$

Where,

r = coefficient of correlation

n= no.of sample

To find out the relation between two variables I like to calculate coefficient of correlation. The test statistics is-

$$r = \frac{\sum X_i Y_i}{\sqrt{\sum X_i^2 + \sum Y_i^2}}$$

## Analysis and Findings

### Descriptive Analysis

**Table 3: Descriptive Statistics (Mean and Standard deviation) important CSR expenditures and important CSR activities**

|                                       | Minimum | Maximum | Mean     | Standard Deviation |
|---------------------------------------|---------|---------|----------|--------------------|
| Total CSR                             | 11.90   | 410.70  | 126.1755 | 120.26679          |
| Education exp.                        | 4.20    | 106.08  | 30.2215  | 31.38632           |
| Humanitarian and Disaster relief exp. | 3.50    | 79.63   | 27.1190  | 26.14363           |

Source: Author's calculation

The above table indicates that the commercial banks have given the more concentrations in the sector of education followed by Humiliates & disaster relief activities. The 'Education' sector getting more attention and appeared to be the most popular sectors for CSR activities as huge investments are being made by several banks in these segments.

### Testing Hypothesis

Hypothesis One-Whether Total CSR expenditure has positive relation with after tax profit.

Null hypothesis (H<sub>0</sub>): Total CSR has no relation with after tax profit.

Alternative hypothesis (H<sub>1</sub>): Total CSR expenditure has positive relation with after tax profit.

**Table 4: t-test of the correlation between total CSR expenditures and after tax profit**

| Correlation coefficient between total CSR and after tax profit | t    | p-value |
|--|------|---------|
| .783   | 5.34 | .000    |

Source: Author's calculation

From table 4, we have seen that p value (.000) of the test statistics is significant at 5% level of significance. So, we can say that the null hypothesis that is total CSR has no relation with after tax profit, may be rejected at 5% level of significance. So, from this result we can say that total CSR expenditure has positive relation with after tax profit, that is alternative hypothesis can be accepted.

Hypothesis Two: Expenditure in humanitarian and disaster relief sector has a positive relation with total CSR expenditure.

Null hypothesis (Ho): Expenditure in humanitarian and disaster relief sector has no relation with total CSR expenditure.

Alternative hypothesis (H2): Expenditure in humanitarian and disaster relief activities has a positive relation with total CSR expenditure.

**Table 5: t-test of the correlation between total CSR expenditures and humanitarian and disaster relief expenditures**

| Correlation coefficient between total CSR and humanitarian and disaster relief activities | t     | p-value |
|---|-------|---------|
| .955  | 13.66 | .000    |

Source: Author's calculation

From table 5, we have seen that p value (.000) of the test statistic is significant at 5% level of significance. So, we can say that the null hypothesis that is humanitarian and disaster relief activities has no relation with total CSR expenditure may be rejected at 5% level of significance. So, from this result we can say humanitarian and disaster relief expenditure has positive relation with total CSR, that is alternative hypothesis can be accepted.

Hypothesis Three: Expenditure in education sector has a positive relation with total CSR expenditure.

Null hypothesis (Ho): Expenditure in education sector has no relation with total CSR expenditure.

Alternative hypothesis (H3): Expenditure in education activities has a positive relation with total CSR expenditure.

**Table 6: t-test of the correlation between total CSR expenditures and education sector expenditures**

| Correlation coefficient between total CSR and education expenditure | t     | p-value |
|---|-------|---------|
| .933  | 10.99 | .000    |

Source: Author's calculation

From table 6, we have seen that p value (.000) of the test statistics is significant at 5% level of significance. So, we can say that the null hypothesis that is education expenditure has no relation with total CSR expenditure, may be rejected at 5% level of significance. So, from this result we can say education expenditure has positive relation with total CSR that is alternative hypothesis can be accepted.

### Recommendation and Conclusion

Corporate Social responsibility, needless to mention is regarded as an important business issue of banking sector of Bangladesh with both ethical and economic significance. Though CSR activities in Bangladesh are not yet reached in its pick position, the recent growth in this sector is sound. But it is not yet emerged as the obligation to the community rather a means for gaining familiarity. The study has attempted to reveal out the pattern of CSR expenditures and analyze the relationship with some factors. It also proved that, more profit leads to more CSR and increased CSR results increased expenditure in education, humanitarian and disaster relief activities. But it is high time for commercial bank to restructure the pattern of CSR. The banks should diversify their CSR activities and consider the other important areas of the society, such as women empowerment, sanitation in rural areas, rural development activities related to the poverty alleviation. For this reason, Bangladesh Bank is monitoring the CSR adoption and performance of banks and also gives directions to the banks and provides some priority areas for CSR practice.

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