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**IMPACT OF CORPORATE SOCIAL RESPONSIBILITY
 ON FINANCIAL PERFORMANCE OF A BANK**

The objective of this paper is to examine the nature of relationship between corporate social responsibility (CSR) and financial performance of a bank. In this study social responsibility in a bank it is because has been investigated important for a bank performance. Corporate social responsibility was measured through a questionnaire containing 52 questions to customers, employees, and the environment. The study sample included 110 employees, heads, and deputies of a bank in Iran, Rasht city and its subsidiaries, however, only 59 questionnaires, were completed. To analyze the data, the regression method is used. The results showed that return on assets (ROA) of CSR banks was higher when compared against the non-CSR banks. So, the P/E ratios of CSR banks are lower when compared to NCSR banks. It can be observed that CSR banks are performing better than the NCSR ones.

Keywords: social responsibility; financial performance; bank.

Jel Classification: L25.

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**ВПЛИВ КОРПОРАТИВНОЇ СОЦІАЛЬНОЇ ВІДПОВІДАЛЬНОСТІ
 НА ФІНАНСОВІ ПОКАЗНИКИ БАНКУ**

У статті досліджено взаємозв'язок між корпоративною соціальною відповідальністю (КСВ) та фінансовими показниками банківської установи. Продемонстровано важливість КСВ для фінансового успіху банку. Для збору даних використано анкету з 52 питань, що стосувались впливу КСВ на клієнтів, персонал та середовище. Анкету було розповсюджено серед 110 співробітників філії одного іранського банку, однак заповнили її лише 59 з них. Для аналізу даних використано метод регресії. Її результати виявили, що рентабельність фондів соціально відповідальних банків вища, ніж у банків, які не сповідують КСВ. Аналогічним чином відреагували й інші показники ціноутворення та прибутковості. У цілому, банки, що займаються проектами КСВ, є більш успішними, ніж ті, які не приділяють уваги корпоративній соціальній відповідальності.

Ключові слова: соціальна відповідальність бізнесу; фінансові показники; банк.

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**ВЛИЯНИЕ КОРПОРАТИВНОЙ СОЦИАЛЬНОЙ
 ОТВЕТСТВЕННОСТИ НА ФИНАНСОВЫЕ ПОКАЗАТЕЛИ БАНКА**

В статье исследована взаимосвязь между корпоративной социальной ответственностью (КСО) и финансовыми показателями банковского учреждения. Показана важность КСО для финансового успеха банка. Для сбора данных использована анкета из 52 вопросов о влиянии КСО на клиентов банка, его персонал и среду. Анкета была распространена среди 110 сотрудников филиалов одного иранского банка, однако заполнили её только 59 из них. Для анализа данных использован метод регрессии. Её результаты показали, что фондорентабельность социально ответственных банков выше, чем у тех банков, которые не придерживаются принципов КСО. Аналогичным образом отреагировали и другие показатели ценообразования и прибыльности. В целом, банки, занимающиеся проектами по КСО, успешнее тех, которые не уделяют должного внимания корпоративной социальной ответственности.

Ключевые слова: социальная ответственность бизнеса; финансовые показатели; банк.

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Introduction. Banking is among the world's major industries. Banks in developed countries act as helpful, professional consultants, specializing in raising funds collection and exchange of necessary information to serve customers in every country. Banks operating in different countries are often required to play significant roles in social life of nations according to government programs and regulations. Social responsibility can increase both long-term profitability and sustainability of banks as well as enhance organization's reputation. Bank is associated with numerous social and financial benefits. The objective of this study is to draw a conceptual framework for examining the linkage between corporate social responsibility and corporate financial performance and apply this framework in banking in order to examine the impact of CSR on CFP.

Literature review. In September 2012, J.P. Morgan Chase released a full set of corporate responsibility reports, highlighting the bank's global efforts to help grow the economy, strengthen the communities in which it operates, expand educational opportunity, and promote environmental sustainability. The empirical relation between corporate social responsibility and corporate financial performance is not well established in literature. Despite more than 30 years of research and more than 100 empirical studies on the issue, the results are mixed (see, for example, Griffin and Margolis and Walsh, 2003; Garcia-Castro et al., 2010; Dimson et al., 2013). While the relation between CSR and financial performance has not been extensively examined in banking, the existing few studies offer conflicting evidence (Chih et al., 2010; Wu and Shen, 2013). J.D. Margolis and J.P. Walsh (2003) suggested a positive relationship between social responsibility and financial performance while M. Friedman (1970) examined the connection between social and financial performance and reported a negative relationship between social responsibility and financial performance.

More generally, recent surveys show that majority of CEOs believe that CSR can improve firm's competitiveness and is exigent to its future success (Accenture and UNGC, 2010; MIT Sloan Management Review, 2012). Alternative asset pricing models have been used in this study.

W.G. Simpson and T. Kohers (2002) studied in the research entitled "The link between corporate social and financial performance" the relationship between financial performance and social performance of companies in banking industry of the Netherlands. It had resulted in a positive relationship between corporate social and financial performance.

M. Tsoutsoura (2004) in her "Corporate social responsibility and financial performance" showed a significant positive relationship between social responsibility and financial performance of a company.

E. Nelling and E. Webb (2009) in their "Corporate social responsibility and financial performance" found a weak negative relationship between social responsibility and financial performance.

Also Vanderlaan et al. (2008) studied in the research entitled "Corporate social and financial performance" the relationship between financial performance and social performance of companies and that resulted in finding a negative relationship between corporate social and financial performance.

J.-S. Choi, Y.-M. Kwak and C. Choe (2010) researched 1222 companies in Korea and found a significant positive relationship between corporate social responsibility and corporate financial performance.

Conceptual framework of the research. In this research we have conducted a comprehensive literature review on both direction of relationship between CSR and CFP, and the ways to measure them. The result of this review might be concluded in the following manner to draw the conceptual framework:

1. Various empirical studies around the world have reported a positive, negative, mixed and neutral impact of corporate social responsibility (CSR) on corporate financial performance (CFP). Hence, rather than having any preconceived idea on this direction of the relationship, there needs to be an open view on this: the linkage between CSR and CFP depends on various factors.

2. Between two common methods of measuring CSR, to use a reputation index to measure CSP in a bank. The authors will have to develop a questionnaire and ask the knowledgeable observer to rate the firm on dimensions of social performance.

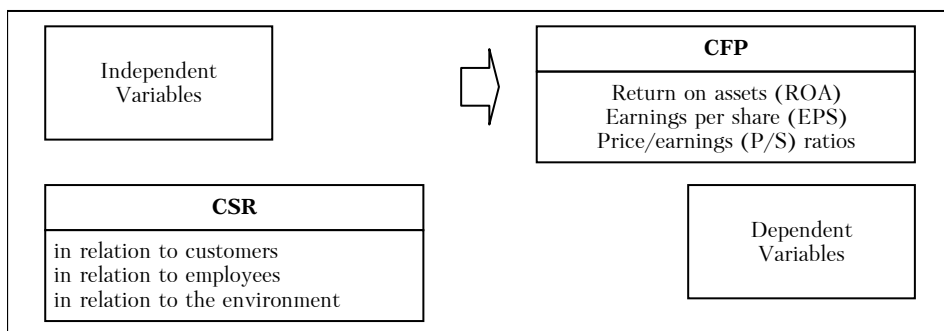


Figure 1. **Conceptual Framework**

Research objectives. The purpose of this study is to investigate the relationship between corporate social responsibility and financial performance; to investigate the relationship between company financial performance and corporate social responsibility in relation to customers; to investigate the relationship between company financial performance and corporate social responsibility in relation to employees; to investigate the relationship between company financial performance and corporate social responsibility in relation to its environment.

Hypotheses of the research:

Hypothesis 1: Between company financial performance and corporate social responsibility in relation to customers, there is a significant relationship.

Hypothesis 2: Between company financial performance and corporate social responsibility in relation to employees, there is a significant relationship.

Hypothesis 3: Between company financial performance and corporate social responsibility in relation to the environment, there is a significant relationship.

Methodology and data collection. This study is descriptive by its nature and with the aim of application. Regression analysis was used to test the research hypotheses. Preparation of the gathered data for Excel and SPSS software was used to test the hypotheses. In order to collect information from library collection, data from the questionnaire used in the field of CSR containing 52 questions and two options. The

sample included 110 employees, heads, and deputies of Tose'e ta'avon's Bank in Iran, Rasht city and its subsidiaries, however, only 59 questionnaires were completed.

Utilizing this questionnaire survey data was the way that the authors used to measure the corporate social performance (CSP) index. It has been done to grade the level of corporate social responsibility of banks at first. Now they could verify the relationship between CSR and CFP.

Considering the grades the banks were grouped into two categories: CSR banks and non-CSR (NCSR) banks. Conducting t-tests was helpful to find the difference between these two categories of banks with respect to their ROA, EPS and P/E ratio data collected from the published annual reports of these banks.

Data analysis:

Measuring social responsibility. To assess social responsibility as an independent variable in this study we have used a questionnaire containing 52 questions. The general format of questions based on the ISO 26000 standard of corporate social responsibility published in 2010. In preparing the questionnaire, other standards (ISO 9000 and ISO 14000) have also been used in the preparation of some of the questions on corporate social responsibility.

Measuring financial performance. To measure financial performance as the dependent variable in this study, ROA is used to measure the earnings before interest and taxes divided to the average value of the total assets (the value of the total assets at the beginning of the period plus the value of total assets at the end of the period divided by two), and also Earnings per share (EPS) or price/earnings (P/E) ratios are used in the study as the most common measure of accounting returns.

Research Model Results. Multiple regression analysis was used to test the research hypotheses. In this research we used the t-tests analysis to determine the significance of the difference of CSR and NCSR. The results are shown in Tables 4–6.

$$M_i = \alpha_0 + \alpha_1(CSRCU)_{i1} + \alpha_2(CSRWO)_{i2} + \alpha_3(CSREN)_{i3} + \epsilon_i, \quad (1)$$

where M_i is the dependent variable that includes ROA, EPS and P/E; ROA – Earnings before interest and taxes divided by average total assets are worth; EPS – earnings per share; P/E – Price/earnings ratios; CSRCU – Corporate social responsibility towards customers; CSRWO – Corporate social responsibility towards workers; CSREN – Corporate social responsibility towards the environment.

Table 1. Regression analysis for the first hypothesis, authors'

Dependent Variable	Independent Variables	F	Sig.	Error	result
ROA	CSRCU	5.897	0.011	0.145	positive
	CSRWO	4.678	0.035	0.163	positive
	CSREN	2.456	0.041	0.213	positive

Table 2. Regression analysis for the second hypothesis, authors'

Dependent Variable	Independent Variables	F	Sig.	Error	result
EPS	CSRCU	2.677	0.125	0.145	negative
	CSRWO	3.567	0.298	0.134	negative
	CSREN	2.987	0.034	0.231	positive

The Tables 1–3 show the significance of the variables in 0.05. The results in Tables 2 and 3 show the different impact of EPS and P/E ratio on independent vari-

ables. In Table 2, *EPS* has a negative impact on *CSRCU* and *CSRWO*. In Table 3 *P/E* has a negative impact on *CSRCU* and *CSREN*.

Table 3. Regression analysis for the third hypothesis, authors'

Dependent Variable	Independent Variables	F	Sig.	Error	result
P/E	CSRCU	2.457	0.128	0.196	negative
	CSRWO	6.942	0.039	0.243	positive
	CSREN	3.865	0.326	0.324	negative

To measure CSR and NCSR among 17 banks and their branches we also prepared the questionnaire to be answered by a head. The results are as follows.

Table 4 shows that the t-test of *ROA* in CSR banks compared to that of NCSR banks is 1.576. Thus, we can state that CSR banks are performing better than the NCSR ones.

Table 4. Return on assets, authors'

	CSR	NCSR
Sample size (valid N)	6	11
Mean	2.72	1.93
S.D.	0.98	1.64
T-test of the paired sample		
Difference in sample mean: 0.725		T-test statistics: 1.576
$t_{0.05} = 1.475$		

Table 5 demonstrates that the t-test of *EPS* in CSR banks compared to that of NCSR banks is 1.814. Thus, we can say that CSR banks are performing better than the NCSR ones.

Table 5. Earnings per share, authors'

	CSR	NCSR
Sample size (valid N)	6	11
Mean	283.61	72.3
S.D.	602.75	55.6
T-test of the paired sample		
Difference in sample mean: 231.616		T-test statistics: 1.814
$t_{0.05} = 1.475$		

Table 6 shows that the t-test of *P/E* in CSR banks as compared to that of NCSR banks is 0.728. Thus, we can state that NCSR banks are performing better than the CSR banks.

Table 6. Price earnings ratio, authors'

	CSR	NCSR
Sample size (valid N)	6	11
Mean	7.21	12.6
S.D.	3.84	13.4
T-test of the paired sample		
Difference in sample mean: -4.742		T-test statistics: -0.728
$t_{0.05} = 1.475$		

Conclusion. Financial performance and social responsibility are both related to customers. It is suggested that the related aspects such as improved social perfor-

mance leads to better financial performance. It is also recommended to strengthen the social dimension in their efforts. In case of *ROA*, CSR banks performed better than the NCSR ones. In cases when comparing *EPS* and *P/E* ratio data CSR banks were performing better and in some other NCSR banks were. This study can be considered a model for future research. Suggestions to future studies could be related to other aspects of CFP and social responsibility interrelation. One can also use other measures of financial performance to assess its relationship with social responsibility.

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