Academicia Globe: Inderscience Research

ISSN: 2776-1010 Volume 2, Issue 4, April, 2021

CORPORATE SOCIAL RESPONSIBILITY AND FIRM VALUATION: A STUDY BASED ON PRIVATE COMMERCIAL BANKS OF BANGLADESH

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Abstract
This study explores the impact of corporate social performance on the firm valuation. Using purposive sampling method based on the availability of information to select the sample size of nine private commercial banks of Bangladesh, it reviews the existing literature. It uses 10 years' data of the selected sample size and applies four denominators of firm valuation i.e. market value per share, book value per share, earnings per share and bank size. Multiple linear regression analysis and Karl Pearson correlation analysis are used to analyze data and test the hypotheses. This study focuses on the philanthropic portion of corporate social responsibility and suggests the authority how does users value corporate social responsibility in their decision making. The study finds that all the variables are positively associated with corporate social performance except bank size and the findings of the study suggest that corporate social performance enhances firm value irrespective of firm size.

Key words: Corporate Social responsibility, Firm Valuation, Private Commercial Banks, Bangladesh

Introduction
Every organization has some specific responsibilities towards society as it operates within the society. Business has responsibilities to behave ethically and contribute for the development of the quality of life of the workforce, community and society at large. These responsibilities are known as corporate social responsibility (CSR). Business tackles their customers through stakeholder's expectation and bridging the gap between and customer. Responsibilities like controlling power, enhancing welfare facilities and accomplishing demand of customers, business can enhance reputation and improves financial performance. Carroll (1991) stated CSR notched only four but pivotal responsibilities. Organization should be economic, legal, ethical and philanthropic towards society. Among these, first and second are requested, next one is expected and the last one is wanted. In this financing arena, first

three is credited as soulful duty towards organization as its first choice. Therefore, researchers' philanthropic responsibility because it is voluntarily performed and no mandatory rules and regulations exist in the Company Act 1994, Banking Act 1991 or any other act in Bangladesh. Therefore, the study is concentrated to find out the relationship between Carroll's two types of responsibility i.e. philanthropic responsibility and economic responsibility. The resources earned by performing economic responsibility are used to perform philanthropic responsibility. The focus point in the study is how philanthropic responsibility creates value for the organization. This study is unique because it highlights only the philanthropic portion of the CSR and the concept is new on the ground that only theoretical work has been performed regarding philanthropic responsibility. But this work seeks the relationship between philanthropic responsibility and economic responsibility of CSR, taking into account three measures i.e. value creation, earnings of shareholders and firm size.

Philanthropic responsibilities or voluntary responsibilities which organizations perform for the community well-being in different sectors like health, education, arts, environment etc. that are not imposed by any act. Philanthropic responsibilities reckoned as an invisible agreement between society and corporation as society think corporations will perform some activities for their welfare. Such activities are expressed in the form of cash grants, donations and in - kind services (Kotler and Lee, 2005). Study of different bank annual reports represents that organizations were reluctant to perform this responsibility as there is no obligatory requirement. However, the scenario of philanthropic responsibility has been changed in last fifteen to ten years as organization's involvement in philanthropic activities increases in a large scale in all the sectors. The rational is management thinks that corporate social performance is related to the image of organization that circulates economic responsibility. Economic responsibility means to make profit, wealth of the organization (Carroll, 1991) and these resources are used to perform philanthropic responsibility.

The term corporate social performance (CSP), a measure of CSR, is used in several studies to examine the relationship between CSP and financial performance (McGuire et al.,1988; Cochran and Wood, 1984; Griffin and Mahon, 1997; Waddock and Graves, 1997; Belkaoui, 1999; Richardson et al., 1999; Orlitzky, 2001; Orlitzky and Benjamin, 2001; Roberts and Dowling, 2002; Mahoney and Roberts, 2007). Studies indicated that organizations that perform more CSP acquire higher revenue per employee and cash flow per share than the organization near the industry median. Corporate social responsibility related expenses have positive relationship with firm value only when the market becomes sensitive about the corporate actions toward society. Sharfman and Fernando (2008) found that firms with a high level of CSP enjoy a lower cost of capital as having a lower market risk (also known as systematic risk). In several empirical study CSP is linked to financial performance using accounting measures i.e. ROA and ROE (Margolis et al. 2007) and showed a strong positive relationship. In the study, as we find the relationship between economic and philanthropic responsibility we select four accounting measures that represent the first one. In our study, CSP represents total investment of the firm in performing philanthropic responsibility towards society and we tried to relate CSP and different accounting measures like book value, market value, earnings per share and bank size.

2. Theoretical Framework and Hypotheses Development

2.1. Theoretical Framework

The role of company in society is as significant as its role towards its other stakeholders. Calafell et al. (2006) stated that it is high time of moving towards a situation where a company has a social responsibility to its stakeholders instead of only having a financial responsibility to its stakeholders. Company's success and survival depend on its CSR activities to a greater extent. A good image of the company that is built on the CSR activities is considered as an asset for the company. CSR creates a good image for the company in a long term. Wu and Shen (2013) stated that the adoption of CSR strategies could be beneficial for companies in respect of both macro performance i.e. companies could contribute significantly in improving the environment and social values and micro performance i.e. companies could enhance their own reputation and recruit quality employees.

Several studies on CSR disclosure have been performed in developed countries (Ernst & Earnst, 1978; Oxibar, 2003, 2009). Just few studies digging out information on emerging countries in emerging countries (Hackston & Milne,1996; Haniffa & Cooke, 2005; Naser et al.,2006). These studied revealed that CSR disclosure practices and norms of customers are largely differ from developed country and emerging country. First reason stated of these studies is in well-developed countries shareholder's activism is more mature than in developing and emerging countries. Baumgartner (2014) stated that when the management actively monitor the CSR, the organization is financially successful.

In any country shareholders, managers, creditors and investors are more interested in firms' financial performance in one side but in other side a group of stakeholders concern about social actions on the part of firms. Therefore, it is indispensable to determine the impact of CSR on the financial performance of companies (Lee and Park, 2009; Lin et al.,2009). Scholers have already examined how CSR is related with financial performance. Peiris and Evans (2010), Peiro-Signes et al. (2013) stated CSR has a positive relationship with financial performance. They also observed that CSR was moderately affected market to book ratio, return on assets and company size. According to Inoue and Lee (2011) the literature has yielded mixed sets of results, including positive, negative, or neutral relationships, and thereby demonstrates no agreement on whether or not high CSR activity leads to improved corporate financial performance.

Positive relationship enhances company's image (Lee and Park, 2009), creating a good relationship with stakeholders increase the profitability and market performance (Bird et al.,2007), enhance the company's access to sources of capital (Chang, 2010), improve the relationship between the company and essential constituencies, such as banks, investors and governmental officials (McGuire et al., 1988). On the other side, it was thought that companies only responsibility is to increase wealth for the stockholders (Friedman's, 1970; Lee and Park, 2009; Kang et al., 2010; Lee et al., 2013) and performing CSR increase additional costs for the companies which hinders optimal resource allocation (Lee et al., 2013) that creates competitive disadvantage for the company (Bird et al., 2007). Further, Mahoney and Roberts (2007) stated that supply and demand theory may support the neutral relationship and he also added that firm's environment is so complex that eliminates any direct, simple relationship between CSR and financial performance.

Saeidi et al. (2015) claimed that these mixed results suggested inconsistent relationship which implies that the relationship between CSR and corporate performance is still far from well-established in the literature. Wang et al. (2014) argued that adding some intervening variables could enhance understanding of the relationship between CSR and company performance. The mixed results with respect to the relationship between CSR and company performance happens due to employing backward-measures for company performance i.e., ROA, ROE (Luo and Bhattacharya, 2006). The current study uses book value, market value, earnings per share, price earnings ratio and bank size to determine the value of the firm that also overcomes the manipulation problem of management through using.

2.2. Hypotheses Development

2.2.1. Value creation hypothesis

Kang et al (2010) stated that adoption of CSR strategies could improve a firm's value by saving costs which is also supported by Lee et al. (2013) and he stated that CSR actions could strengthen the company's performance by improving its reputation and saving costs. According to Hillman and Keim (2001), Donaldson and Preston (1995), Bowman and Haire (1975) when the firm give attention to the interests of the various stakeholders, it may improve firm image and this concern positively affect firm's productivity, financial performance and value creation and on the other hand, Friedman (1970) argues that CSR is not able to increase firm value in spite of giving importance to the interests of the stakeholder. Bird et al. (2007) found that investment in CSR create competitive disadvantage for the company and lead to a negative relationship between CSR and market performance. McGuire et al. (1988) commented that additional costs for CSR activities such as extensive charitable contributions, extensive promotion of community development plants, and maintenance plant expenditures in economically depressed locations could result negative impact on value as it decreases shareholder's wealth. Nilsson, and Nyquist (2005) stated that environmental performance has a negative impact on market value on the other hand Semenova, Hassel and Nilsson (2009) found a negative relationship for Swedish companies between CSR and value. Hassel et al. (2005) made a study using an accounting based valuation model developed by Ohlson in which they described that the market value of equity is a function of book value, accounting earnings and environmental performance and the results indicate a significant negative relationship between the market value of listed Swedish companies and their environmental performance. However, Cooper and Owen (2007), Belkaoui (1999), Carroll (1999) commented environmental performance is just one of the many dimensions of corporate social and ethical reporting. Hence, it is assumed that

H_1: There is an association between the firm's philanthropic responsibility and value creation.

2.2.2 Shareholder's earnings hypothesis

According to Bernard (1987, 1989); Collins et al. (1999) and Lev (1989) stated that accounting earnings disclosures has significant effects on firm's equity prices even though the effect in some cases is small. But only the level of corporate social responsibility constrains the informativeness of earnings i.e. it has the ability to explain changes in stock returns. Karpik and Belkaoui (1989) stated that corporate social responsibility affects same firms' stakeholder's perception on the relevance of earnings to the determination of stock returns.

H_2: There is an association between the firm's philanthropic responsibility and shareholder's earnings.

2.2.3. Firm size hypothesis

Public always observes the activities of large companies towards its society which creates pressure for them and they found that firm's size significantly affects its disclosure about environment and energy. Similarly, Hackston and Milne (1996), Belkaoui and Karpik (1989) and Patten (1991) observed that firm size has a positive influence on social responsibility disclosure level. Branco and Rodrigues (2008) stated that large companies increase reputation engaging in performing activities towards the society and they find that firm's size has a positive influence on social responsibility disclosure. It is assumed that

H_3: There is an association between the firm's philanthropic responsibility and firm's size.

Methodology

3.1. Sample Selection and data collection

The study selected financial sector specially banks in Bangladesh as population of the study to better understand the relationship between philanthropic responsibility and economic responsibility. In Bangladesh, 57 scheduled banks are operated under the supervision of Bangladesh Bank and among these banks 9 private commercial banks were selected as sample size using purposive sampling method on the basis of availability of data for the period of 2008-2017.The selected banks are listed in Table 1. The data used for the empirical study collected from the annual reports of selected banks because corporations are increasingly using their annual reports to disclose information about their social actions (Holland and Foo, 2003).

Table 1: Name of the Selected Banks

Serial No.	Name of banks
1	Bank Asia
2	Dutch Bangla Bank Ltd
3	IFIC
4	Merchantile Bank
5	Trust Bank
6	Exim Bank
7	Prime Bank
8	Brac Bank
9	Eastern Bank

3.2. The Study Model

To analyze the relationship between corporate social performance and firm characteristics mentioned above, the study will test the following empirical model:

$$Y_{it} = \alpha + \beta CSP_{it} + \varepsilon_{it}$$

Y_{it} alternatively explains market value per share (MVPS), book value per share (BVPS), earnings per share (EPS) and bank size (BS) of firm i at year t. CSP refers corporate social performance of firm i at year t. Where α, β, and ε represents constant, coefficient of the explanatory variable and error term that captures the stochastic variables in the model respectively.

3.3. Measuring of Variables

Firstly, in the model we tried to build up a relationship between CSP and MVPS of the firm and it also determines whether CSP adds value to the firm maintaining CSR activities at a higher scale. Secondly, the model establishes whether CSP creates differences between the firms' BVPS that perform social activities very well. Thirdly, the model determines the relationship between CSP and EPS that determines whether increasing earnings have any impact on performing corporate social responsibility. Finally, it specifies whether bank size increase performing corporate social responsibility. Table 2 represents the definitions of variables.

3.4. Statistical Tool Used:

Multiple Linear Regression Analysis, Karl Pearson Correlations Analysis and other Descriptive Analysis were conducted. SPSS Version 20 was used to process and analyze data and test the hypotheses.

Table 2: Definition of Variables

Name of Variables	**Categories of Variables**	**Definition**
Corporate Social Performance (CSP)	Independent Variable	CSP represents the amount of philanthropic responsibility that the firms performed for the society that was used as independent variable. CSP includes quantitative contribution (measured in terms of BDT Taka which is earned by the firm in performing economic responsibility) to health, education, environment and charitable sector of the firm.
Market Value Per Share (MVPS)	Dependent Variable	The market value per share or fair market value of a stock is the price that a stock can be readily bought or sold in the current market place.
Book Value Per Share (BVPS)	Dependent Variable	BVPS is defined as the total share capital and reserves attributable to the ordinary shareholders at the balance sheet date, divided by the number of outstanding ordinary shares at the end of the company's fiscal year.
Earnings Per Share (EPS)	Dependent Variable	EPS are defined as the net profit for the year attributable to the ordinary shareholders after tax and extraordinary items, divided by the weighted average outstanding number of shares.
Bank Size (BS)	Dependent Variable	Natural logarithm of total assets.

Empirical Results and Discussion:

4.1 Descriptive Statistics:

In this section descriptive statistics (table 03) of variables within empirical research are employed to look at the nature and validity of the data. All variables are based upon accounting values and are thus determined simultaneously. The result shows that average contribution towards CSP by banks is Tk. 137.66 million where minimum contribution is Tk. 1.00 million and maximum is tk. 1359.45 million. The high skewness (3.33) and kurtosis (11.23) indicates that contribution to CSP isn't normally distributed i.e. most of banks spent less than average contribution to CSP. The standard deviation is high also. If we calculate Coefficient of Variation at this point, we will find CV=1.77. As a rule of thumb (CV>=1), our results indicate a high variation of CSP of banks. The average firm's value is Tk. 55.49 which ranges from Tk. 10.70 to Tk. 431.10 under the market value per share measure. The standard deviation of Tk. 58.70 indicates that CSP can affect MVPS to that extent. The book value per share on average is Tk. 27.66 ranging from Tk. 15.70 to Tk. 97.40. Again, standard deviation of Tk. 14.81 implies that BVPS can be affected by CSP to that extent. Average Earning per Share is Tk. 4.06 which ranges from tk. 0.55 to Tk. 15.10. The standard deviation is tk. 2.74. The average bank size is Tk. 11.81 of natural logarithm. The high skewness and kurtosis value of all dependent variables indicates firm's value indicators are not normally distributed.

Table 3: Descriptive analysis result for annual contribution to CSP and the firm's value indicators.

	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
Corporate Social Performance	1.0	1359.45	137.66	243.71	59395.54	3.33	11.24
Market Value Per Share	10.70	431.10	55.49	58.69	3444.73	3.62	18.83
Book Value Per Share	15.70	97.40	27.66	14.81	219.46	3.11	10.28
Earnings Per Share	.55	15.10	4.06	2.74	7.51	1.82	3.62
Bank Size	10.14	12.72	11.81	.57	.32	-.70	-.12

4.2 Correlation Matrix

On correlation analysis (table 04), we attempted to find out the direction of relationship of among variables. Karl Pearson correlation technique is used to find the relationship between variables. From the result presented in table 2, MVPS (.329), BVPS (.770), EPS (.709) had a significant positive relationship with corporate social performance of banks at 99% level of significance. The natural logarithm of bank size is positively correlated with CSP but not in a significant level. However, the overall result portrays a strong connection and implies that corporate social performance has a strong and positive association with firm's value. The result also suggests that firm's value increases with increasing level of corporate social performance.

Table 4. Correlation matrix of firm valuation indicators with human resource cost

Correlations						
		Corporate Social Performance	Market Value Per Share	Book Value Per Share	Earning Per Share	Bank Size
Corporate Social Performance	Pearson Correlation	1	.329**	.770**	.709**	.137
	Sig. (2-tailed)		.002	.000	.000	.198
Market Value Per Share	Pearson Correlation	.329**	1	.438**	.605**	-.333**
	Sig. (2-tailed)	.002		.000	.000	.001
Book Value Per Share	Pearson Correlation	.770**	.438**	1	.801**	.002
	Sig. (2-tailed)	.000	.000		.000	.988
Earnings Per Share	Pearson Correlation	.709**	.605**	.801**	1	-.162
	Sig. (2-tailed)	.000	.000	.000		.127
Bank Size	Pearson Correlation	.137	-.333**	.002	-.162	1
	Sig. (2-tailed)	.198	.001	.988	.127	
**. Correlation is significant at the 0.01 level (2-tailed).						

4.3 Regression Statistics

Results of Regression Equations used in the analysis are exhibited in this section. The results are discussed separately that enables us to make comparison of the different firm's value indicators.

Equation 1:

In the first equation the relationship of CSP with the market value per share is studied. The positive coefficient of CSP of MVPS (.079) indicates that relationship is positive and p-value (.002) indicates significant relationship. The result indicates that the greater the contribution to CSP, the higher the market value per share. Moreover, the adjusted R square value (.098) shows that 9.8% variation of MVPS can be explained by CSP. F value (10.67) tells us that the model is slightly significant as a whole.

$MVPS_{it} = \alpha + \beta\, CSP_{it} + \varepsilon_{it}$

Table 5: Value of Firm (MVPS) Linear Regression Analysis Result

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	44.582	6.757		6.598	.000
	Corporate Social Performance	.079	.024	.329	3.268	.002
R Square: .108; Adjusted R Square: .098; F-value: 10.67;						
Dependent Variable: Market Value Per Share						

Thus, MVPS = 44.582 + .079CSP

i.e. If banks increase CSP tk. 1 million, MVPS will increase tk. 0.079.

Equation 2:

In the second equation the relationship of CSP with the book value per share is studied. The positive coefficient of CSP of BVPS (.047) indicates that relationship is positive and p-value (.000) indicates significant relationship at 99% level of confidence. The result indicates that the more the contribution to CSP, the higher the book value per share. The adjusted R square value (.588) implies that 58.8% variation of BVPS can be explained by CSP. It indicates that CSP effectively explain changes in BVPS. F value (127.820) implies that overall significance of the model is satisfactory.

$BVPS_{it} = \alpha + \beta\, CSP_{it} + \varepsilon_{it}$

Table 6: Value of Firm (BVPS) Linear Regression Analysis Result

Coefficient						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	21.223	1.153		18.403	.000
	Corporate Social Performance	.047	.004	.770	11.306	.000
R Square: .592; Adjusted R Square: .588; F-value: 127.820;						
a. Dependent Variable: Book Value Per Share						

Thus, BVPS = 21.223 + 0.047CSP

i.e. if banks increase CSP tk. 1 million, BVPS will increase tk. 0.047.

Equation 3:

The results given in the table 7 depict that empirically significant positive relationship exist between the CSP and EPS. The positive value of beta (.008) is significant at 99% confidence level further t value of (9.423) exhibit the relationship is empirically reliable. It dictates that CSP leads to increase in EPS. The adjusted R square value (.497) implies that CSP can explain 49.7% variation of EPS. F value (88.796) tells us that the overall significance of the model is good.

$EPS_{it} = \alpha + \beta\, CSP_{it} + \varepsilon_{it}$

Table 7: Value of Firm (EPS) Linear Regression Analysis Result

Coefficient						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.964	.236		12.575	.000
	Corporate Social Performance	.008	.001	.709	9.423	.000
R Square: .503; Adjusted R Square: .497; F-value: 88.796;						
a. Dependent Variable: Earning Per Share						

Thus, EPS = 2.964 + 0.008CSP

i.e. if banks increase CSP tk. 1 million, EPS will increase tk. 0.008.

Equation 4:

The results given in the table 8 depict that empirically neutral relationship exist between the CSP and bank size. The value of beta is .000 which indicates that the relationship bank size and CSP is neither positive nor negative. Adjusted R-square and F value (1.697) tell us that the overall significance of the model isn't satisfactory which supports the previous correlation results too.

Table 8: Value of Firm (Bank Size) Linear Regression Analysis Result

Coefficient						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.769	.069		171.124	.000
	Corporate Social Performance	.000	.000	.137	1.296	.198
R Square: .019; Adjusted R Square: .008; F-value: 1.697;						
a. Dependent Variable: Bank Size						

Thus, EPS = 2.964 + 0.008CSP

i.e. if banks increase CSP tk. 1 million, EPS will increase tk. 0.008.

Conclusion

The study examines and analyzes in what way philanthropic responsibility creates value for the organization. It has investigated the impact of corporate social performance (the portion of philanthropic responsibility) of nine private commercial banks for the period from 2008 to 2017 on four determinants of firm value i.e. book value, market value, earnings per share and bank size. The study results support a significant positive association between corporate social performance and firm value.

The analysis suggests that corporate social performance has a strong relationship with firm value irrespective of firm's size i.e. firm size does not make significant difference in performing philanthropic responsibility towards the community. The study further depicts that increasing the contribution towards the society increases firm's value. The findings also indicate that the two categories of responsibility i.e. economic responsibility and philanthropic responsibility has a strong relationship. The result proves that the resources earned through performing economic responsibility used in philanthropic activities which in turn increases the firm value.

It should be acknowledged here that the study is consist small sample size because the quantitative information of ten years about philanthropic portion is not publicly available. This analysis found that in recent years most of the banks provide numerical information but at the beginning they provide only the theoretical information about their social activities. Moreover, the use of only annual reports for analyzing the social responsibility disclosure constitutes another limit. In future researches, we suggest conducting similar studies on larger sample size and also include the nonfinancial sectors of Bangladesh. Further study can include other determinants of firm valuation and use other disclosures than annual reports like brochures, leaflets, articles published in the press, websites, etc.

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