THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE ON BANK PROFITABILITY

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Abstract
Nowadays, the society expects economic performance from companies, but also a social commitment. Our observations will offer to the banks a perspective on the degree of their CSR Disclosure and will help the central bank to develop a corporate sustainability framework and guidelines for the improvement of the transparency and the reduction of the informational asymmetry. The objective of our work is to explore the amplitude of the information on CSR from the annual reports and the reports of the Administrative Councils of the banks, and also to examine the impact of the CSR Disclosure on the bank performance. The study uses an econometric model to analyse the effect of the CSR Disclosure on the profitability of the Romanian banks. Related to the banking field of activity, a specific feature in the behaviour of the customer was observed. The customers are more involved, analysing attentively the information and also have the tendency to establish a long-term relation with the financial institution.

Key words: *CSR; bank; profitability; regression analysis.*

JEL Classification: *G21; L25; M14.*

I. INTRODUCTION

The origins of the social responsibility are tracked back in the 19th century. At that time, some employers already acted in a "social responsible" manner, offering benefits to their employees, as taking responsibility for the children's education, social services, etc. This type of behaviour is described sometimes as paternalistic, permitting the employees' maintenance and, especially, avoiding the social unrest. This "responsible" consciousness was far from being unanimous at that time. Only at the end of the 20th century, the new concept of CSR began to develop and be accepted. The origins of the concept are in the USA and started to be promoted in Europe at the middle of the 80's.

Until the beginning of 1970, the companies were preoccupied by their economic performance. The corporate social responsibility has its roots in a combination of different factors: the social unrest from the 70's, the environment accidents from various states, with global effect, and the appearance of climatic phenomena in all countries, cause by environmental problems (the global warming, the destruction of the ozone layer, the massive deforestation, etc.). In the same time, the globalisation of the industries and of the commerce generates a more profound reflection of the social responsibility and the environmental responsibility. Some companies are inspired, until 1990, to adopt CSR related policies and to become active in this direction. From the end of the 90's, the concept of corporate social responsibility (CSR) became part in the international debate. Several international organisations contributed to the development of CSR to a global level: The Organisation for Economic Co-operation and Development, International Labour Organisation (ILO) and the United Nations (UN). Starting in 2000, the corporate social responsibility became an important topic in the business field.

It stands to reason that any social responsible corporation is interested in developing a profitable activity, but this profitability must be evaluated simultaneously with an analysis on the positive and negative effects with social, economic and environmental impact. The present companies have understood the enormous benefits derivable when they provide to readers these social reports on how they are dealing with the environmental, social and governance aspects of their operational activities (Idowu and Papasolomou, 2007).

Thus, the development of the company is represented by the highlighting of the following objectives: the economic objective (creating welfare for all, based on production and durable consumption modalities), the ecologic objective (the conservation and the management of the resources), and the social objective (equity and the participation of all social groups). Therefore, the sustainable development of the companies is determined by three main factors, described in general as 3P or TBL (Triple Botton Line) – People, Planet and Profit.

TBL is concentrated on the necessity to maintain equilibrium between the above-mentioned objectives:

P1: the base line of the business – generating profit for the company and its shareholders (the traditional business 'bottom line') (Porritt, 2007);

P2: the social line – ensures the fact that a larger community is not affected negatively by the activities of the company;
P3: the environmental line, for the protection of the planet and the environment – ensures the fact that the activities of the company does not harm the environment, through greenhouse gas emissions, aspects related to biodiversity, etc. (see figure 1).

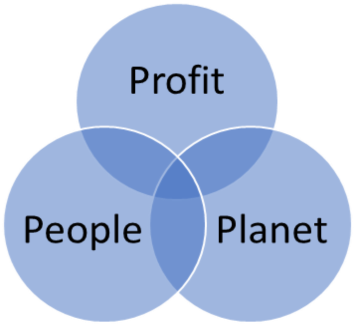

Figure 1: The 3Ps (Triple Botton Line) approach

„The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants." (According to Principle 12: Disclosure and transparency - Basel Committee on Banking Supervision, Guidelines Corporate governance principles for banks, July 2015, Bank for International Settlements, 2015).

The approach of the Corporate Social Responsibility to the level of the banking system seems to be closer to the theory of the stakeholders (Freeman, 2010). This situation derives from the special importance of the stakeholders, representing the engine of the financial activity, because the banks are extremely sensitive to the positive and negative reactions of the stakeholders.

The banks and the society are interdependent, and the banking activities can affect intensely the society. For the bank to be on the first place in the financial brokering, it must increase the trust of the society in its activities and actions. The last financial crises decreased the trust degree of the public opinion. There were recent cases of defective management of the bank assets, an irresponsible assumption of risks and fraudulent activities – all of them diminish the trust in banks. Thus, adopting a CSR strategy (as part of a better corporate management practice) could contribute to the improvement of the perceptions of the society on the banking industry and to the regain of the trust in banks.

The Romanian banks maintain their commitment to the Romanian society, being involved in significant social initiatives, through a series of various projects, from art and culture to innovation and technology. These are some examples of CSR activities:

- ✓ In the field of culture, there are supported the projects and the leaders of the new generations, and important theatre and music events.
- ✓ The banks contribute to the education of the new generations of IT specialists and entrepreneurs, in order to meet the challenges of the future digital society.
- ✓ The banks are also involved in social causes, contributing directly to various educational projects.

The role of each bank in the evolution of the Romanian society is presented in general in the Administrator's reports or in the Annual reports.

II. LITERATURE REVIEW

Most of specialists believe that the implementation of a firm policy of corporate social responsibility offer numerous economic, social and financial advantages to the companies, rewarding the efforts for the launch of this type of programs. Many times, the results appear late, but the studies show that the companies that had included CSR in their activity are less exposed to risks and the commercial advantages mirrored in the company image are a fact for the future.

The literature tries, in multiple forms, to highlight the importance of the corporate social responsibility for the business strategy. Some authors even consider that "the corporate social responsibility initiatives must be integrated and internalised by the organisation and placed to its core" (Dey and Sircar, 2012), in order to have benefits as: growing the corporate reputation, gaining the trust of the customers, growing the employees' motivation or the market share.

The literature pays a special attention to the relation between the strategy of corporate social responsibility and the social capital (Spence et al., 2003), between the CSR strategy and the trade image (Popoli, 2011), and between the CSR strategy and the business model (Teece, 2010).

There were performed empirical studies for the examination of the relation between CSR and the financial performance. The studies produced mixed results, some presenting positive results, some presenting negative results, and other showing no correlation between CSR and FP (McWilliams and Siegel, 2001).

Margolis and Walsh (2002) performed longitudinal studies for 30 years (1972 – 2002) on corporate social performance and corporate financial performance (CFP) relation, based on 127 published studies for that period. The results from the studies revealed 70 studies (55%) with positive direction, while only 7 studies showed negative direction; 28 studies indicated inconclusive results, while 7 and 24 were positive and negative respectively.

The study of Waddock and Graves (1997) reported that the improvement of the financial performance leads to an increase in the social performance of the (CSP). The study showed that the companies applying the CSR have good financial performance. Waddock and Graves (1997) hypothesized a positive relation between CSR and the financial performance, using the CSP as measure for CSR and the return of the costs (RO), the profitability of the assets (ROA) and the profitability of the equity (ROE), as financial performance of the company.

Roberts and Dowling (2002) affirmed that new empirical observations appeared related to the strong positive connection between CSR and the financial performance.

Keffas and Olulu-Briggs (2011) researched on the relationship between CSR and financial performance of banks in Japan, US and UK. The study showed a positive relation between the corporate social responsibility and the financial performance. The banks implementing CSR have a better quality for assets and are more efficient in managing the assets and capital portfolios. The result was in accordance with the previous studies that showed a positive correlation between CSR and FP.

We present as follows part of the studies that stated a negative correlation between the CSR and the financial performance: the studies performed by Aupperle et al. (1985), Moskowitz (1972), as well as the studies belonging to Alexander and Buchholz (1978) establish a negative correlation between CSR and the financial performance. The first studies establishing a negative correlation between CSR and CFP (corporate financial performance) belongs to Vance (1975).

Wu and Shen (2013), as well as Husted and Salazar (2006) affirm that the nature of the results related to the connection between CSR and the performance of the bank can depend on the used methods and data, and also on the management of the banks in the field of the social responsibility.

The researchers (e.g. Wu and Shen, 2013) affirm that this correlation can be negative if the banks develop social activities based on altruism (when the banks are involved in CSR for their own interest and have a negative impact on the financial performance of the banks). Still, the relation can be positive if the CSR activities of the banks have strategic motives, when CSR improves the image of the banks and, finally, their financial (e.g. Husted and Salazar, 2006).

Bessong & Tapang (2012) aimed to determine the influence of the cost of the social responsibility on the profitability of the Nigerian banks. The study showed a negative influence of the social cost and the pollution cost on the profitability of the banks. Concretely, the cost of the social responsibility is equally vital to the other responsibility of the banks and requires an adequate management.

Crisostomo et al. (2011) examined the relation between CSR and CFP for the Brazilian companies for the period 2001-2006. The result of their econometric model led to a negative correlation between CSR and CFP. The empirical results of the study performed by Singh (2014) also proved a negative influence of the CSR on the CFP on short term.

Some authors mention the absence of the connection between CSR and the financial performance (e.g. McWilliams and Siegel, 2000). Aupperle et al. (1985) studied the correlation between CSR and CFP. They used the CSR indicators established by Carroll (1979): economic, legal, ethical and discretionary responsibility in business. Aupperle et al. (1985) reached the conclusion that there is no significant correlation between CSR and ROA (return on assets).

McWilliams and Siegel (2001) concluded that there is no relation between CSR and CFP. They argued by comparing a company using CSR and another company not using CSR, stating that they would be equally profitable; the company using CSR will have high expenses, while the other company would have low expenses, but also low incomes.

To sum, the studies on the relation between CSR and the financial performance are not conclusive yet. Many studies present especially a positive correlation (Simpson and Kohers, 2002, Griffin and Mahon, 1997, Frooman 1997, Waddock and Samuel, 1997).

Still, some studies proved a positive association between the profitability of the companies and the CSR expenses (see Olayinka & Temitope 2011; Amole, Adebiyi & Awolaja, 2012), while other studies prove a negative relation (e.g. Bessong & Tapang, 2012).

Murray et al. (2006) studies the existence of a relation between CSR and CFP in the largest UK companies. The authors concluded that the correlation between the two variables is different from one year to another and oscillates positively and negatively in time, thus no relation is significant.

III. RESEARCH METHODOLOGY

The two main research questions are the following:

✓ Firstly, in which degree are the Romanian banks disclosing their CSR activities?

✓ Secondly, is there any significant impact of the CSR disclosure on the bank performance?

Our observations will offer to the banks a perspective on the degree of their CSR Disclosure and will help the central bank to develop a corporate sustainability framework and guidelines for the improvement of the transparency and the reduction of the informational asymmetry.

The empirical results show that the CSR Disclosure degree of the Romanian banks is high. Moreover, it is significantly and positively connected to the bank performance. These results help the banks to disclosure optimally the information and to improve the quality of the information on the social responsibility.

The objective of our work is to explore the amplitude of the information on CSR from the annual reports and the reports of the Administrative Councils of the banks, and also to examine the impact of the CSR Disclosure on the bank performance. The data were manually collected by analysing the content of the above-mentioned reports from 2020, obtained from the websites of the banks. The study population is based on 12 Romanian commercial banks. The final sample includes a group of 12 banks running over 80% from the assets of the bank system in Romania. They are the first 12 banks as profitability.

The study uses an econometric model to analyse the effect of the CSR Disclosure on the profitability of the Romanian banks.

The first hypothesis analyses the amplitude of the CSR Disclosure by the Romanian banks. The second hypothesis aims to test if the disclosure activity has an influence on the bank profitability in the Romanian bank system. We applied the regression analysis using the Ordinary Least square (OLS) method.

There is a positive and significant association between the CSR Disclosure level from the annual reports, the report of the administrative council of the Romanian commercial banks and their profit.

The study uses the Branco & Rodrigues scoring system (2006) to analyse the social responsibility disclosure from the banks. The scoring system is organised on four themes, each theme presenting subtitles: environment (7), human resources (9), the quality of the products and the relation with the customers (4), and the involvement in community (5) (see Table 1).

Table 1: CSR items

Environment	**Human resources**	**The quality of the products and the relation with the customers**	**The involvement in the community**
1. The environment policy of the bank 2. The management system for the environment and for the audit 3. Environment awards 4. The credit and investment policy 5. The conversion of the natural resources and recycling 6. Disclosure on energy and efficiency 7. Sustainability	1. Employee numbers 2. Employment remuneration 3. Employee share ownership 4. Employee consultation 5. Employee training and education 6. Disable employee 7. Trade union activity information 8. Employee health and safety 9. Employee assistance benefit	1. Third party attestation 2. Customer feedback on product and services channels 3. Customer satisfaction of the quality of the product 4. Customer complaint channels	1. Charitable activities and donation 2. Support for education 3. Support for art and culture 4. Support for public health 5. Support for sporting or recreation project

Source: Branco& Rodrigues (2006)

The scoring modality was established as follows: each theme has several items below it (see Table 1): environment (7 items), human resources (9 items), the quality of the products and the relation with the customers (4 items), the involvement in the community (5 items). The four themes have together 25 items. Each item is attributed with one point, meaning that, if an item is disclosed in several places, it is registered only once. When a disclosure contains information on several items, it was considered relevant for more themes. The annual reports and the Administrative Council Reports from 2019 were used to collect relevant information using the analysis of their content. The reports were obtained from the web sites of the following 12 banks: BRD Groupe

Societe Generale, Banca Transilvania, BCR, UniCredit, Raiffeisen Bank, ING Bank, CEC Bank, Alpha Bank, Garanti Bank, OTP Bank, Banca Romaneasca, and Eximbank.

IV. EMPIRICAL RESULTS

Table 2 contains the present summary statistics (the standard deviation, the median, the maximum, the mean, Skewness and Kurtosis) for the 2 variables used in the study. The table shows that the minimum score of CSR is 9, while the maximum is 22.

We also mention that the profit of the banks varies from 14809 thousands RON to 1380384 thousands RON.

With the help of the program Eviews, we performed a series of statistical tests in order to ensure a more correct image on the evolution of the profit and of the CSR Disclosure for the considered period. The tests present: the histogram, the distribution, the media, the median, the minimum and maximum values, the standard deviation, the asymmetry coefficient, the kurtosis of the series and the Jarque-Bera test. Jarque-Bera tests if a distribution is normal. The test measures the asymmetry coefficient and the kurtosis of the analysed distribution in comparison to the normal distribution. The test has as null hypothesis: the series is not normal distributed. The above test shows that the value of the associated probability is close to zero, meaning the null hypothesis is rejected, thus the series is normally distributed.

Still, the activity of financial intermediation is exposed to various forms of risk, as the risk of the interest and the credit risk. Thus, the profitability of a bank depends also on the attitude of the management toward risks.

Table 2: Summary statistics

	CSR	PR
Mean	15.75000	431353.3
Median	15.00000	310303.5
Maximum	22.00000	1380384.
Minimum	9.000000	14809.00
Std. Dev.	4.807664	442997.8
Skewness	0.155408	1.148418
Kurtosis	1.584854	3.150008
Jarque-Bera	1.049622	2.648979
Probability	0.591667	0.265939

Source: Own calculations

Table 3 presents the correlation between the variables used in the study: CSR Disclosure and Profit. It can be observed from the table that the 2 variables present significant correlations.

The linear regression model consists of two variables: the independent variable and the dependent (resulting) variable. We built an „ordinary least square” (OLS) regression model in order to evaluate the impact and to test the hypothesis of the study. Thus, the linear regression model can be read under the form of the following mathematical equation:

$$PR = c + b1 \times CSR + e \qquad (1)$$

Where:
CSR = Corporate social responsibility disclosure score. CSR is the independent variable
PR = Profit. Profit is the dependent variable.
c = Intercept (constant)
b1 = the estimate parameter
e = Error terms

Table 3: Descriptive statistics

Dependent Variable: PR				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	80022.45	14446.24	5.539326	0.0000
C	-829000.2	237046.1	-3.497212	0.0000
R-squared	0.754204	Mean dependent var		431353.3
Adjusted R-squared	0.729624	S.D. dependent var		442997.8
S.E. of regression	230348.5	Akaike info criterion		27.68359
Sum squared resid	5.31E+11	Schwarz criterion		27.76440
Log likelihood	-164.1015	F-statistic		30.68414
Durbin-Watson stat	1.154479	Prob(F-statistic)		0.000000

Source: Own data processing with the method of least squares.

As observed, the probability for this model to be correct is very high – over 70%, a conclusion that can be formulated based on values determined with the help of Eviews program for the tests R – squared (0.754204) and Adjusted R – squared (0.729624). Durbin Watson statistic (DW) is a statistic test for the serial correlation of the errors; the test symbolised as DW refers to the hypothesis of least squares related to the non-correlations of the error. The DW test is constructed for the linear case related to the possible correlation. It implies the determination of the value, which is compared to the values from the table established by Durbin and Watson. The validity of the Regression model is confirmed by the values of the F – statistic tests (0.000000). The probability in our case is zero, indicating a high significance of the respective parameter.

Based on the above-mentioned elements, we can consider the regression model describing the correlation between the bank profit and the CSR Disclosure as a correct model, reflecting loyally the real evolution of the two indicators.

This regression model allows us to establish the existence of a positive relation between the disclosure score of the CSR and the bank profit.

Thus, it results that an increase of the CSR disclosure will enhance the financial performance of the Romanian banks.

V. CONCLUSIONS

There is no consensus on the relation between the financial performance and the corporate social responsibility; some studies show a negative correlation, some show a positive correlation, while others affirm that there is no correlation at all.

The companies must be aware that including the social responsibility objectives in the organisational strategy should not be determined only by the desires of building a positive image, increasing the operational efficacy or obtaining a commercial advantage; instead it should be a condition to build a sustainable business. Practically, adopting the responsibility strategies ensures for the companies the possibility to create and develop sustainable businesses, offering them competitive advantages and plus-value. Ultimately, the organisations are the ones possessing resources, technology and motivation for the implementation of the values that are specific to the sustainable development.

It is statistically observed that the companies that do not involve social and ecological aspects in their activities cannot remain competitive. Thus, a continuous adaptation of the strategy to the requirements of the market and of the society is necessary; the new stakes of the humanity must become key-factors for the success in a world of interdependencies and of the fight for supremacy.

Nowadays, the society expects economic performance from companies, but also a social commitment. It is expected for the companies to be responsible for their activities, the manner in which they function, the working conditions and the impact on the environment, inclusively for the way they choose the subcontractants and the suppliers. This report is addressing the shareholders, the customers, the employees, the public authorities, and the NGOs.

Analysing the behaviour of the consumer of financial services, it was observed that “the influence of CSR on the buying intention is more complex, and its effects can be direct or indirect” (Fatma, Rahman & Khan, 2015). Related to the banking field of activity, a specific feature in the behaviour of the customer was observed. The customers are more involved, analysing attentively the information and also have the tendency to establish a long-term relation with the financial institution.

Our observations offer to the banks a perspective on the disclosure degree of their sustainability and help the central bank to develop a corporate sustainability framework and orientations related to the development of the sustainability in order to improve the transparency and to reduce the informational asymmetries.

The positive relation between CSR and FP suggests that the bank managers can use CSR to improve the trust of the customers, to diminish the reputational risks and to create a value of the stakeholders on long term.

The robust regression of data from the dynamic panel is used to analyse the impact of the CSR Disclosure level on the bank performance. The empirical results show that the degree of CSR Disclosure by the banks is high enough. These results help the banks to develop optimally the information and to improve the quality of information on CSR.

Thus, we may conclude that the level of CSR Disclosure is a factor of influence on the evolution of the bank profitability, but it is not an exclusive factor.

The results show that CSR is first a strategy with a positive effect on the bank performance. Therefore, the CSR activities are necessary in order to establish the alignment with the strategies of the banks and are concentrated on long term. Based on the conclusions of the empirical observations, due to the fact that the disclosure of the social responsibility can increase the profitability of the banks, it is recommended an adequate management of the funds; each bank should and must offer modalities for the environment protection and the social development.

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