

# The effect of corporate social responsibility disclosures on financial performance in the banking industry: empirical study on Egyptian banking sector

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## Keywords

Egypt, Corporate social responsibility, corporate financial performance, corporate financial disclosure, Environmental, Community, Employee and customer

## Abstract

*The aim of this paper to establish the relationship between corporate social responsibility disclosure and financial performance in the Egyptian banking sector. Only three banks were included in the study because Corporate Social Responsibility is a new concept that has not yet been fully established in the banking sector in Egypt. Secondary data were obtained from the annual financial reports of the banks for the period from 2008 to 2011. Corporate social responsibility score was obtained using content analysis of reports of the companies on various components of corporate social responsibility as reported in their annual financial reports. The present study identified four dimensions in the pilot study: Environment, Community, Customer, and Employee. Descriptive analysis was used to describe data collected such as Pearson correlation method. The authors used regression analysis to study the relationship between the dependent variables and the independent variables and the bank age and bank size were used as control variables in the analysis.*

*The results indicated an insignificant relationship between the independent variables (corporate social responsibility toward environment, community, customer, and employee) used in the model and the dependent variables Corporate Financial Performance as measured by (ROA, ROE, NPM, and EPS). The results of the study proved the absence of a significant relationship between the dependent and the independent variables as a whole. Yet, some relationships were found concerning individual measures.*

*The major limitation of this paper is the sample size. In addition, failure of corporations to disclose CSR in the annual reports will have a material effect on these findings.*

*The findings of this paper have practical implications on the management of Banks in Egypt to re-think and re-strategize their CSR policies that incorporate social and economic performance to improve their CFP.*

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## 1. Introduction

The academics and business managers have noticed how corporate social responsibility (CSR) has been transformed from an irrelevant and doubtful idea to a high - ranking topic on research agendas. CSR has also become one of the most established and widely accepted concepts in the business world during the last years (Carroll and Shabana, 2010). While there is no single, commonly accepted definition of corporate social responsibility, it generally refers to business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment (Douglas et al. 2004). Davis and Frederick (1984) stated that CSR is an organization's obligation to engage in activities that protect and contribute to the welfare of society, including general communities, customers, shareholders, the environment and employees. Their point is that these groups have come to expect something more from businesses than products and services (Davis and Frederick, 1984). According to Nuryaman (2013), CSR could be stated as a company's commitment to integrating social and environmental considerations into business operations in a sustainable manner in order to

balance the interests and welfare of stakeholders. Research within the scope of CSR generally explores the application of such activities in the company within a context of disclosure in the annual report. CSR themes include (1) Community, (2) Consumer Products (3) Employment and, (4) Environment (Nuryaman, 2013). Furthermore, corporate social responsibility has focused on corporate governance as a vehicle for integrating social and environmental concerns into the business decision-making process, benefiting not purely financial investors but employees, customers, and communities; as well. Moreover, the ground rules of any corporate governance structure should reflect such societal norms as ethics. The concept of corporate governance, largely, is contained in the ethics of care, justice, rights and utility (Tuan, 2012). Along similar lines, Freeman (1983) referred to an organization's corporate responsibility in terms of its stakeholders (Freeman, 1983). Some scholars have expanded understandings of CSR by developing corporate social performance (CSP) frameworks that incorporate CSR principles, theoretical frameworks and indices (Wood, 1991). Wood's (1991) conceptualization of Corporate social performance (CSP) involves a business organization's configuration of principles of social responsibility, process of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships. This view was supported by the economist Milton Friedman's long-standing belief that while these social issues existed, it was the state's role to address them (Margolis & Walsh, 2003). Navarro and Martinez (2009) argued that CSR would be performed if a business is operated in a manner that meets or exceeds the ethical legal, commercial and public expectations that society has of business. This definition seems to be in harmony with the triple P concept of People, Planet and Profit, which is conceived by many people in business as the basis of CSR (Navarro and Martinez, 2009).

However, this transition has not been without its critics. Social responsibility was argued as a natural outcome of the business-employee-society relationship. Firms had long provided jobs, placing profits in the hands of employees (as wages) and this serves as social responsibility, furthering the betterment of the economy, communities and society as a whole (Margolis & Walsh, 2003). Opponents of CSR argue that the aim of any business is making money and that a company's only responsibility is to maximize profits for its shareholders. Why then, are so many organizations seeking a socially responsible reputation and publicizing their activities? (Douglas et al. 2004). Although the distinction between social and economic activities is applied in several studies, the distinction between them is thin. The firm's main goal is to survive by means of achieving a competitive advantage in the economic market. CSR mechanisms exist to sustain firm survival and efficiency. Therefore, CSR activities may be related to the performances of the organization (i.e. activities which result from the company mission and aim at profit making) (Navarro and Martinez, 2009). Tsang (1998) defined corporate social reporting (CSRep) as "The process of how the organizations' economic actions' effects on society and environment will be communicated to particular group within the society and to the society as a whole (Tsang, 1998). It was also introduced as the manner in which a company manages its economic, social and environmental relationships with various stakeholders (Gardberg & Fombrun, 2006) and the putting of business and ethics together (Wicks, Freeman & Parmar, 2004). The common theme was the expectation that business must address and answer to multiple stakeholders and serve as good corporate citizens (Windsor, 2001; Gardberg & Fombrun, 2006). Thus, CSRep was concerned with understanding and managing a company's social performance, which is all of those economic, environmental and social impacts on society, positive and negative, actual and potential (Douglas et al. 2004).

The present study identified four dimensions to be used to develop a CSR index for quantifying purposes. This index was then used to identify the relationship between CSR and company financial performance (CFP) in the Egyptian banking sector, which was the main aim of this study. Therefore, the term CSR is defined, from developing country's point of view, with particular reference to the Egyptian context. The company on a voluntary basis to satisfy the expectations of its employees, customers, environmental, communities with a view to increasing CFP, carries out activities. The company expects to increase its CFP by investing in CSR projects to satisfy its employees and customers; by the same, the other interested parties will benefit as

well by expecting to receive something from the company other than normal products and services. Although CSR is voluntary, the motivation of the company to implement it is to increase sales, profit and popularity (Chapple and Moon 2005; Fernando, 2007).

## **2. Literature Review**

### **2.1 CSR and CFP**

The concept of CSR has been conceived by different people in different ways. Marquez and Fombrum (2005) concluded that early efforts to assess the extent to which some companies are socially responsible and others are not, have given way to more focused analysis of the business performance associated with specific production activities, service sectors and management practices (Marquez and Fombrum, 2005). Extensive research occurred over the last 30 years on the relationship between firm social actions and financial performance. Between 1972 and 2002, 127 published studies empirically examined the relationship between firm social conduct and financial performance with the bulk of the research occurring between 1990 and 2002 when over half of the studies were performed (Margolis & Walsh, 2003). Results of these studies were mixed with Margolis and Walsh (2003) reporting about half found a positive correlation between CSR and firm financial performance, seven found a negative correlation, and the remainder were of mixed results. Most of these studies assessed financial performance through single accounting or market measures; however, a major critique to this research is that both accounting measures and market measures to assess CFP should be used. Pava and Krausz (1996) examined 21 studies of corporate social performance and financial performance between 1972 and 1992, finding 12 demonstrated a positive association, eight showed no association, and only one study indicated a negative correlation. The results of these examinations indicate that there is uncertainty in predicting purely positive CSP and financial performance correlations. Pava and Krausz (1996) summed the findings well by stating that while not all studies prove high-CSR firms perform better, there is evidence that such firms perform at least as well as lower-CSR firms (Pava and Krausz, 1996). Similarly, another investigation of 100 large firms in the Spanish MERCO showed that the implementation of CSR did not have any financial soundness (Navarro and Martinez, 2009).

Ullmann (1985) reviewed 13 studies of US firms that were performed on the relationship between CSR and financial performance. The reviewed studies used different social performance scales. He found that no clear tendency could be detected. Ullmann based this argument on three factors, namely; a lack of theory, inappropriate definitions of key-terms, and deficiencies in the empirical databases currently available (Ullmann, 1985). These results disagree with Pava and Krausz (1996). Griffin and Mahon (1997) summarized 62 research results of the relationship between CSR and CFP in 51 earlier papers. They found that there were 33 research results support the positive correlation, 20 of them support the negative correlation, and nine of them got no definite results (Griffin and Mahon, 1997). Aupperle, Carroll and Hatfield (1985), like Ullmann, did not find any relationship between social responsibility and financial performance (Aupperle Et al, 1985). However, Waddock and Graves (1997) assert that CSP and financial performance are interrelated. They found a positive association between CSP and return on asset, return on equity, and return on sales of firms, and tested such association to be bidirectional. They argue that CSP is positively associated with future financial performance. However, they also believe that CSP is positively associated with prior financial performance (Waddock and Graves, 1997). These results agree with Chen and Yang (2011) who found a positive correlation between the companies undertaking corporate social responsibility and their financial performance as measured by return on assets (ROA), and return on sales (ROS) (Chen and Yang, 2011).

### **2.2 Hypothesis Development**

Over the last two decades, various theories had been used for the development of models for CSR implementation and reporting. These theories include agency theory, social contract theory, stakeholder theory, legitimacy theory, and political economy theory. Stakeholder theory is one of the most frequently used theories for explaining social and

environmental disclosures (Itotenaan et al, 2014). The authors will adopt the stakeholder theory and legitimacy theory framework to test the relationship between CSR dimensions and CFP. Based on stakeholder theory, it has been verified that success and survival of business concern largely depend on how well an organization can balance its economic (profit maximization) and non-economic (social performance) objectives (Saleh et Al, 2011). This theory implies that a company has responsibilities not only to their shareholders but also to all stakeholders. Managers' perceptions of three key stakeholder attributes including power to influence the company, legitimacy of the relationship with the company, and urgency of the claim on the company would significantly affect the degree to which managers give priority to competing stakeholder claims (Nuryaman, 2013). In addition, legitimacy theory assumes that organizations have a social contract with the society and meeting the content of these contracts legitimizes the organization.

Consequently, the authors expect a shared benefit between companies and commitment to interest parties such that companies with better and strong relationships with other interest parties can easily achieve its business objectives (Menassa, 2010). In the legitimacy theory framework, it is the general public that confers legitimacy to organization (Itotenaan et al, 2014). Legitimacy theory is defined as "a generalized perception or assumption that the actions of any entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" The entity, through its top management, seeks congruency between organizational actions and the values of its general and relevant public or its stakeholders. Any action performed by the management to convince its stakeholders that the organization is socially responsible is a legitimacy theory (Hanniffa and Cook, 2005).

### 2.3 Environmental CSR

Argument about the importance of environmental disclosure has gained a laudable discussion in recent times in relation to business performance (Saleh et Al, 2011). One stream of research evidenced that additional environmental CSR implementation, such as taking different measures to conserve energy and curb pollution problem, is likely to lead to better firm performance (Hanniffa and Cooke, 2005). Moreover, Shen and Chang (2009) concluded that firms with strong CSR environments do not perform worse, and generally perform better, than firms with weak CSR environments across a variety of financial metrics (Shen and Chang, 2009). Based on the argument, it is hypothesized that:

**H1:** There is a positive relationship between Corporate Social Responsibility towards Environment and Financial Performance indicators.

### 2.4 Community Involvement CSR

Disclosure of community involvement actions is one of the most important elements of social responsibility when assessing corporate responsibility of a company. Saleh, Pontianak, Zulkifli and Muhamad (2011) examined the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) of Malaysian public listed companies (PLCs). They found that there is positive and significant influence of the CSR on CFP. Two of the CSR dimensions, namely employee relations and community involvement, were found to be positively related to financial performance. This proves that CSR practices can be considered as a catalyst to enhance the financial performance of PLCs in Malaysia (Saleh et Al, 2011). Based on this argument, it is hypothesized that:

**H2:** There is a positive relationship between Corporate Social Responsibility towards Community and Financial Performance indicators.

### 2.5 Human Resource CSR

Human resources represent the intellectual asset and the driver of value in any organization. From resource-based perspective (RBP), corporate entity can improve its reputation and financial performance through CSR policies developed to effectively manipulate and control the valuable, rare and no perfect substitute for intellectual and skillful resources (employee) that reside in the company (Branco and Rodrigues, 2006). CSR related to human resources has been linked to high financial performance outcomes and organizational

effectiveness (Menassa, 2010). According to Saleh, Pontianak, Zulkifli and Muhamad, employee's relations were found to be positively related to financial performance (Saleh et al., 2011). Based on the argument, it is hypothesized that:

**H3:** There is a positive relationship between Corporate Social Responsibility towards Employees and Financial Performance indicators.

## 2.6 Customers 'Disclosure CSR

In 2007, a study of corporate social and financial performance was done by Mahoney and Roberts. They used empirical analysis on a large-sample of publicly held Canadian companies. Based on tests utilizing four years of panel data, they found no significant relationship between a composite measure of companies' social and financial performance. However, they found significant relationships between individual measures of companies' social performance regarding environmental and customer relation activities and financial performance (Mahoney and Roberts, 2007). Based on the argument, it is hypothesized that:

**H4:** There is a positive relationship between Corporate Social Responsibility towards Customers and Financial Performance indicators.

## 2.7 Company Size and Age

A relevant number of studies have evidenced that company size and age are important characteristic of firms and that it has also been used as a control variable to mitigate their effect as it influences company's capacity to undertake CSR actions. Branco and Rodrigues (2008) explored size-related measures as proxies for public visibility of Portuguese banks and proposed a spatial competition (SC) index based on the number of branches as a "variable which has potential to be explored". They concluded that banks with higher visibility and a greater number of branches attribute higher importance to CSD as part of their reputation management strategies (Branco and Rodrigues, 2008). El-Bannany (2007) investigated the determinants corporate social responsibility of the social disclosure level in UK banks over the period 1981-1996 and observed that market structure, investment in information technology and risk factors have a significant impact on the social disclosure level whereas the listing status and the age of the bank are insignificant. Maali et al. (2006) applied an Islamic perspective to develop a benchmark for social reporting by Islamic banks. Their results suggest that social issues are not of major concern for most Islamic banks due to the fact that most of them operate in less-developed economies. Another study by Abdul Hamid (2004) provided empirical evidence on the CSD practice by Malaysian banks and finance companies reported on the type, quality and determinants of social disclosures. He observed that products disclosures are the highest ranked among other social disclosures and that the firm size, listing status and age of business are possible determinants of the amount of the CSR activities (Abdul Hamid, 2004), whereas Douglas et al. (2004) reported a higher rank for human resource for Irish and Jordanian banks, respectively (Douglas et al., 2004). Based on the argument, it is hypothesized that:

**H5:** There is a significant change in Corporate Social Responsibility with respect to bank age.

**H6:** There is a significant change in Corporate Social Responsibility with respect to bank size.

Branco and Rodrigues (2008) related higher net profits to higher public visibility which exposes banks to more intense social scrutiny. This leads to more pressure on banks to legitimize their existence and activities and to evade undesirable attention drawn by high profits through more CSD (Branco and Rodrigues, 2008). According to Menassa, Corporate Social Disclosure CSD is widely used by Lebanese commercial banks as a mean of communication with their stakeholders. Moreover, results reveal that these banks attribute a greater importance to human resource and product and customers disclosures, whereas the availability and extent of environmental disclosure is still weak. In addition, a strong association is found between these disclosures, the size (as measured by annual revenue), the bank age and financial performance variables (Menassa, 2010). Based on the argument, it is hypothesized that:

**H7:** There is a significant change in Financial Performance indicators with respect to bank age.

**H8:** There is a significant change in Financial Performance indicators with respect to bank size.

### 3. Research Method

#### 3.1 Data

The initial sample in this study consists of 3 commercial banks, which are taken out of 41 commercial banks listed in the licensed banks list of the Central bank of Egypt during the period 2008 to 2011. The selection criteria is based on whether the bank undertakes or is involved in any corporate social activities and if this activity is reported in the annual report. This was done by checking the websites, mission statements, and annual reports of all the banks. The banks that engaged in corporate social activities and have a CSR report presented on their websites were selected for the study. Data for these banks were collected for the years 2008 – 2011. This time span is selected because year 2008 was the first year for QNB -one of the banks under study- to engage in corporate social activities and to report these activities in its annual report. Year 2011 was the last year for the study, because at time of the research, further data were not released to the public for one of the banks (QNB) that was under acquisition at the end of 2012 and the full acquisition was performed in the 1<sup>st</sup> quarter of 2013. Data are collected from the banks' annual reports. Annual reports constitute the main data for this study and were chosen because the annual report is the primary source of corporate environmental reporting (Stanton and Stanton, 2002). Mission statements, annual reports and websites reflect issues that are given top priority by corporations (Nyahunzvi, 2013). Hence, the researcher uses the annual financial reports extracted by CIB, HSBC, and QNB banks issued in the years 2008 through 2011. The authors use the content analysis with the mixed approach to determine all words, statements and phrases which refer to the dimensions under study. For example, the authors count the words "Community", "Society", "Social" ... to determine how each bank considers the dimension "Corporate Social Responsibility towards "Community" when considering financial performance. Content analysis is one of the several ways used to evaluate textual data. The main thrust of content analysis is to interpret the content or contextual meaning of text data (Douglas et al., 2004; Capriotti & Moreno, 2007; Nyahunzvi, 2013). The above analysis described let the authors determine how the banks under study consider the dimensions, which helps to determine the effect of that on different financial performance indicators. Most previous studies used accounting data to measure financial performance. For example, Waddock and Graves (1997) used three accounting variables which are return on assets (ROA), return on equity (ROE), and return on sales (ROS) (Waddock and Graves, 1997). Chen and Yang (2011) used return on assets (ROA), return on sales (ROS) and growth rate of sales (GRS) (Chen and Yang, 2011). Among the 251 studies Margolis, et al., reviewed, they found that 109 used accounting measures (i.e., return on assets, return on equity), 156 used market measures (i.e., stock returns, market to book ratio) and 14 used both (Margolis, et al. 2009). Nuryaman (2013) in his study of 100 manufacturing companies listed on the Indonesia Stock Exchange measured the company's operational performance by return on assets (ROA) and net profit margin (NPM), as well as the company's market performance as measured by its share price (Nuryaman, 2013). Accounting variables were also used by Tsoutsoura (2004) to measure financial performance. He used return on assets (ROA), return on equity (ROE), and return on sales (ROS) (Tsoutsoura, 2004). In a recent study, Han and Suk (1998) used stock returns as a dependent variable to measure financial performance and their model adopted the asset-pricing framework (Han and Suk, 1998).

Another study of 100 manufacturing companies listed on the Indonesia Stock Exchange (IDX) on period 2010 study showed that disclosure of Corporate Social Responsibility (CSR) has a significant effect on company profits as measured by ROA and NPM (net profit margin). Similarly, the results of measuring the effect of CSR on stock prices show that the CSR positively affect stock prices. These findings show that disclosure of Corporate Social Responsibility (CSR) have a positive impact on corporate performance (Nuryaman, 2013). Oeyono et al. (2011) used EPS (earning per share) as a measure of a corporation's financial performance because, according to them, it is an important indicator of a corporation's wealth. The EPS is measured by dividing the profit attributed to the equity holders (£) by the average shares in issue in period (Oeyono et al, 2011).

Firm financial performance is better measured by considering the impact on a number of financial measures beyond simple profitability (Lou & Bhattacharya, 2006). Some authors have used both accounting and stock market data to measure financial performance (McGuire et al., 1988; Yoshikawa and Phan, 2003). Another study of the effect of reporting CSR activities in some Croatian firms has shown that these enterprises achieve better financial results as measured by return on assets and equity and profit and price per share (Vitezic, 2011). According to McGuire, Sundgreen, and Schneeweis (1988), both accounting and market variables look for different aspects of performance, and each is subjected to a particular bias. Accounting-based measures only tap historical aspects of a firm's performance (McGuire et al., 1988). While short-term stock returns are very volatile for a reliable measure of corporate performance, long-term returns will capture corporate performance (Han and Suk, 1998).

Based on the objectives of this study the variables used and their measurements are widely adopted in the existing literature. The dependent variables namely are, return on assets (ROA), return on Equity (ROE), net profit margin (NPM), and earnings per share (EPS). The independent variables include; Corporate Social Responsibility towards Society, Corporate Social Responsibility towards environment, Corporate Social Responsibility towards Customers, Corporate Social Responsibility towards Employees. Those mentioned variables are measured using content analysis through which the words and phrases of specific dimension are counted to determine how banks care about each dimension through the period 2008 to 2011. The control factor used is the firm size and the firm type. The effect of those variables is measured on Financial Performance indicators which are ROA, ROE, NPM, and EPS. Those variables are quantitative variables that are documented as ratios in the annual financial report of each bank. The analysis uses both market and accounting measures in an effort to capture a more holistic assessment of financial performance.

The dependent variables are defined as follows:

-*Net Profit Margin (NPM)* is the mathematical percentage arrived upon when a firm's earnings after taxes are divided by total sales (Moyer et al., 2005).

-*Return on Stockholder's Equity (ROE)* is the mathematical percentage resulting from earnings after taxes divided by common stockholder equity (Moyer et al., 2005).

-*Return on Total Assets (ROA)* is the mathematical percentage resulting from earnings after taxes divided by total assets (Moyer et al., 2005).

-*Earnings per Share (EPS)* is the dollar-value calculated when dividing a firm's earnings after taxes by the number of shares of common stock currently issued and outstanding (Moyer et al., 2005).

The independent variables are defined as any volunteer activities undertaken by a firm towards the environment, its community, its employee, and its customer (Belal, 2001; Vitaliano, 2010; Mandhachitara and Poolthong, 2011).

The control factors (age and size) are defined as follows:

Size of a firm is measured by its annual revenue (Menassa, 2010) whereas the age is determined as the number of operating years (Abdul Hamid, 2004).

## 4. Findings and Discussions

### 4.1 Testing Data

The normality test of the dimensions under study was performed where it was found that all dimensions under study are found to be normal as  $P\text{-value} > 0.05$ , which means that the hypothesis of normality is accepted. Moreover, it was found that the Durbin Watson computed values are all greater than 2.0, which is the upper limit value of Durbin Watson test. This means that the computed value is greater than the table value implying that residuals are independent from each other. After that, Correlation Analysis was performed to detect any significant relationship between variables. However, the results indicated the insignificance in most of the relations of corporate social responsibility dimensions with financial performance indicators, there still a point that all correlation values shown to be negative, which means that as corporate social responsibilities increase, this affect negatively financial performance indicators. This could be justified by the idea that introducing corporate social responsibilities to banks will require more cost, which will not be associated with sufficient return from the corporate social responsibilities

introduced on the short run. This is due to the weak education of the importance of corporate social responsibilities in general in Egypt as well as insufficient communication and advertisements to present corporate social responsibilities importance.

## 4.2 Effect of CSR Disclosures on Financial Performance Indicators through Regression Analysis

### 4.2.1 Effect on NPM

In this section, a model is fitted between NPM as a dependent variable, and Corporate Social Responsibility dimensions as independent variables. It was found that the model coefficient of determination (R Square) equals 29.7%. This means that the model explains 29.7% of the variance in NPM. In addition, it is found that the model as a whole proves to be significant (P-value = 0.000). Regarding each dimension under study, it was found that there is a significant as well as negative effect of corporate social responsibility towards customers (P-value = 0.000). On the other hand, there is an insignificant effect of other dimensions of corporate social responsibilities on NPM at 0.05 significance level.

This table presents the results of significance for the regression coefficients of the model fitted for NPM using 0.05 level of significance

Model	Unstandardized Coefficients		Standardized Coefficients	T	P-value
	B	Std. Error	Beta		
1 (Constant)	34.584	5.486		6.304	.000
CSR.Environment	.163	.332	.607	.492	.638
CSR.Community	-.111	.164	-1.457	-.680	.518
CSR.Employees	.100	.223	.482	.446	.669
CSR.Customers	-.561	.278	-.717	5.219	.000**

**Table 1: Model fit for NPM and CSR dimensions**

Source: SPSS calculations.

The results obtained support what were shown by the correlation analysis, as there was a negative significant relationship between NPM and CSR towards customers. This means that, as banks give chance for more CSR towards customers, this will cause a decrease in the values of NPM, which might be normal in the short run as more investment in CSR leads to decrease in the returns awarded by banks. This result contradicts with a study carried out by Amole, Adebisi & Awolaja (2012) on the impact of corporate social responsibility on the profitability of Nigerian banks. The study found that there is a positive relationship between banks CSR activities and profitability as measured by NPM (Amole et Al, 2012). Furthermore, Malik and Nadeem (2012) found a positive association of all CSR activities and NPM (Malik and Nadeem, 2014). On the other hand, This result agrees with Ullmann (1985) who argued that the amount of resources needed to obtain a high CSR level will ultimately have a negative effect on firm's financial performance (Ullmann, 1985).

### 4.2.2 Effect on ROE

A model is fitted between ROE as a dependent variable, and Corporate Social Responsibility dimensions as independent variables. It was found that the model coefficient of determination (R Square) equals 19.4%. This means that the model explains 19.4% of the variance in ROE. In addition, it is found that the model as a whole proved to be insignificant (P-value = 0.789). Concerning the dimension under study, it was found that there is an insignificant effect of all dimensions of corporate social responsibilities on ROE at 0.05 significance level.

This table presents the results of significance for the regression coefficients of the model fitted for ROE using 0.05 level of significance



Model	Unstandardized Coefficients		Standardized Coefficients	T	P-value
	B	Std. Error	Beta		
1 (Constant)	.466	.114		4.070	.005
1 CSR.Environment	.005	.007	.755	.655	.534
CSR.Community	-.003	.003	-1.550	-.774	.464
CSR.Employees	.001	.005	.171	.170	.870
CSR.Customers	.002	.006	.356	.264	.800

**Table 2: Model fit for ROE and CSR dimensions**

Source: SPSS calculations

The results do not agree with Ajide et Al (2014) who proved in their empirical study that banks' level of CSR disclosure score has a positive relationship with bank profitability as measured by (ROE) (Ajide et Al, 2014).

#### 4.2.3 Effect on ROA

A model is fitted between ROA as a dependent variable, and Corporate Social Responsibility dimensions as independent variables. It was found that the model coefficient of determination (R Square) equals 4.7%. This means that the model explains 4.7% of the variance in ROA. In addition, observing significance, it is found that the model as a whole is insignificant (P-value = 0.984). Concerning the dimensions under study, it was found that there is an insignificant effect of all dimensions of corporate social responsibilities on ROA at 0.05 significance level.

Table (3) presents the results of significance for the regression coefficients of the model fitted for ROA using 0.05 level of significance.

In general, results obtained by correlation and regression analysis are almost the same for both ROA and ROE. In both cases, it had been shown that there is insignificant impact of corporate social responsibility practices on ROA and ROE. The findings of this study are in agreement with the literature identified from different countries (Ullmann, 1985; Navarro and Martinez, 2009).

Model	Unstandardized Coefficients		Standardized Coefficients	T	P-value
	B	Std. Error	Beta		
(Constant)	.028	.006		4.873	.002
CSR.Environment	.000	.000	.438	.349	.737
CSR.Community	-2.657E-5	.000	-.340	-.156	.880
CSR.Employees	5.897E-6	.000	.028	.025	.980
CSR.Customers	-5.581E-5	.000	-.284	-.193	.852

**Table 3: Model fit for ROA and CSR dimensions**

Source: SPSS calculations

On the other hand, this result contradicts with Waddock and Graves (1997) who assert that CSP and financial performance are interrelated. They found a positive association between CSP with return on asset and return on equity (Waddock and Graves, 1997). These results also contradicts with Chen and Yang (2011) who found a positive correlation between the companies undertaking corporate social responsibility and their financial performance as measured by ROA (Chen and Yang, 2011). This result could be attributed to several reasons. First, CSR investments would show a positive relation with the CFP of any firm on the long run. On the short run the relation could be negative or insignificant (Lou & Bhattacharya, 2006). This might be due to the huge investment needed to establish a good CSR system. Moreover, the cultural environment within which these firms operate should be considered. Additionally, the annual reports that are considered the communication tool for the CSR activities to different stakeholders are not really accessible which leads to poor communication. Furthermore, it will be

helpful to identify the contribution of the intangible assets in the financial performance related to CSR activities. Moreover, the results could be attributed to the development stage of the countries where the firms under study operates.

#### 4.2.4 Effect on EPS

A model is fitted between EPS as a dependent variable, and Corporate Social Responsibility dimensions as independent variables. It was found that the model coefficient of determination (R Square) equals 60.9%. In addition, the model as a whole proved to be significant (P-value = 0.048 and a positive significant effect of the dimensions "Corporate social responsibilities towards community" on EPS was found. Furthermore, there was a negative significant impact of corporate social responsibility towards customers on EPS at 0.05 significance level. On the contrary, it was found that there is an insignificant effect of both corporate social responsibilities towards environment and towards employees on EPS at 0.05 significance level.

This table presents the results of significance for the regression coefficients of the model fitted for EPS using 0.05 level of significance.

Model	Unstandardized Coefficients		Standardized Coefficients	T	P-value	
	B	Std. Error	Beta			
1	(Constant)	-.235	.189		-1.247	.253
	CSR.Environment	-.015	.011	-1.038	-1.292	.237
	CSR.Community	.011	.006	2.721	21.951	.042*
	CSR.Employees	-.002	.008	-.168	-.239	.818
	CSR.Customers	-.020	.010	-1.927	-3.046	.040*

**Table 4: Model fit for EPS and CSR dimensions**

Source: SPSS calculations

The positive relationship of the CSR toward community with the CFP of the banks under study as measured by EPS agrees with the studies performed by Oeyono et al. (2011) and Malik and Nadeem (2014).

### 4.3 Comparing Mean

#### 4.3.1 Bank Age

According to the results obtained by ANOVA test, it was found that there is a significant difference between means of ROE as one of the financial performance indicators (P-value < 0.05) with different Bank Ages. This means that ROE differs in its value according to Bank Age. On the other hand, there is an insignificant difference between means of NPM, ROA and EPS as other financial indicators (P-value > 0.05) with different Bank Ages. In addition, it was found that there is a significant difference between means of corporate social responsibilities (P-value < 0.05) with different Bank Ages. This means that corporate social responsibilities differ in their value according to Bank Age. CSR value for CIB was always higher than HSBC and QNB.

#### 4.3.2 Bank Size

According to the results obtained by T test, it was found that there is a significant difference between means of ROE and NPM, as financial performance indicators (P-value < 0.05) with different bank size. This means that ROE and NPM differs in their value according to bank size. On the other hand, there is an insignificant difference between means of ROA and EPS as other financial indicators (P-value > 0.05) with different bank size. In addition, it was found that there is an insignificant difference between means of corporate social responsibilities (P-value > 0.05) with different bank size. This means that corporate social responsibilities do not differ in their value according to bank size.

#### 4.4 Results

Hypothesis one assumed the existence of a positive relationship between Financial Performance indicators and Corporate Social Responsibility towards Environment. The result summarized above shows that there is an insignificant relation between CSR of environment and financial performance indicators. This result contradicts with Shen and Chang (2009), who concluded that firms with strong CSR environments do not perform worse, and generally perform better, than firms with weak CSR environments across a variety of financial metrics (Shen and Chang, 2009). In addition, Mahoney and Roberts (2007) found significant relationships between individual measures of companies' social performance regarding environmental and customer relation activities and financial performance (Mahoney and Roberts, 2007). However, the results agree with Saleh, Pontianak, Zulkifli and Muhamad (2011) who proved the absence of any relationship.

The second hypothesis assumed a positive relationship between Financial Performance indicators and Corporate Social Responsibility towards Community. Nevertheless, after testing the hypothesis, the results proved the absence of any relationship. This contradicts with Saleh, Pontianak, Zulkifli and Muhamad (2011) who found that there is positive and significant relation of the CSR on CFP toward Two of the CSR dimensions, namely employee relations and community involvement (Saleh et Al, 2011). It is also, against what Simpson and Kohers (2002) found. Their results supported the hypothesis that the link between CSR toward community and financial performance is positive (Simpson and Kohers, 2002). The third hypothesis estimated a positive relationship between Financial Performance indicators and Corporate Social Responsibility towards Employees. Moreover, the results proved an insignificant relationship between the variables under study. This contradicts with the results proven by Saleh, Pontianak, Zulkifli and Muhamad (2011) who found apposite relationship between Financial Performance indicators and Corporate Social Responsibility towards Employees. The fourth hypothesis was related to the existence of a positive relationship between Financial Performance indicators and Corporate Social Responsibility towards Customers.

The results proved the existence of a significant but negative relationship. This agrees with Mahoney and Roberts (2007) who found significant relationships between individual measures of companies' social performance regarding environmental and customer relation activities and financial performance (Mahoney and Roberts, 2007). The results of testing H5 are in alignment with the hypothesis. The research asserted the existence of a significant change in Corporate Social Responsibility with respect to Bank Ages. This complies with Menassa (2010) who found a strong association between the amount of the CSR disclosure, the size of the bank, the bank age and financial performance variables (Menassa, 2010). The results of testing H6 disagree with the hypothesis. The study proved the absence of a significant change in Corporate Social Responsibility with respect to bank size. The results of testing H7 are with the hypothesis. The research asserted the existence of a significant change in Financial Performance indicators with respect to Bank Ages. This proves what Abdul Hamid (2004) who argued that the firm size and age of business are possible determinants of the amount of the disclosure (Abdul Hamid, 2004) previously mentioned. The results of testing H8 agree with the hypothesis. The study proved the existence of a significant change in Financial Performance indicators with respect to bank size. These results agree with Ajide et Al (2014) who found that the bank size has a positive and significant effect on profitability of banks. The higher is the expansion of bank size, the higher is the profitability of banks (Ajide et Al, 2014).

The results shown in Egypt prove that CFP is only related with CSR activities towards customers, while companies in Egypt do not care much about other dimensions of CSR. The reason for this could be that CSR practices cannot replace product attributes. Simply put, a poor product sold by a highly ethical firm will not gender loyalty levels needed to drive financial performance (Lou & Bhattacharya, 2006). It could also be attributed to the weak CSR education of the Egyptian stakeholders.

## 5. Conclusion and recommendation

Over the last 40 years, an extensive amount of academic research has been conducted with regard to the empirical association between corporate social responsibility and firm financial performance. The issue has received increasing attention due to the variety of different parties that find it to be both interesting and important. The definition, as well as the measurement of CSR, is very complex and over the years, there have been many proposed methodologies attempting to identify the connection between corporate social responsible activities and profitability, i.e., the stakeholder's perspective. Corporate Social Responsibility (CSR) is an issue, which has been discussed in the business literature for decades. The purpose of this study is to examine the effect of CSR which the company disclosed on annual reports on financial performance. The researcher performed a statistical analysis of the corporate social responsibility according to the four dimensions; environment, community, customers, and employees as well as its effect on Financial Performance indicators, which are; ROA, ROE, EPS, and NPM. The analysis aims to provide a study of the relationship between Financial Performance indicators and Corporate Social Responsibility.

As per the findings above, the current research studies the effect of corporate social responsibility practices on the financial performance indicators in the Egyptian banking sector. It was found that the effect of corporate social responsibilities varies in its significance with different indicators of financial performance. In other words, it was observed that corporate social responsibility practices have insignificant effect on both ROA and ROE. This means that the latter mentioned indicators of financial performance are not affected by any of the practices of corporate social responsibility towards environment, community, customers, and employees. It is worth mentioning that both measures of ROA and ROE are financial measures but not market measures. On the other hand, NPM was found to be affected by only corporate social responsibility practices towards customers. This means that NPM is not affected by any of the corporate social responsibility towards environment, community, and employees. In addition, EPS was found to be affected by only corporate social responsibility practices towards customers and community. This means that EPS is not affected by any of the corporate social responsibility towards environment, and employees. As a result, one can claim that both corporate social responsibility towards environment and employees have no effect on any of the financial performance indicators; NPM, ROE, ROA, and EPS. The findings of this study are in agreement with the literature identified from different countries. It agrees with Navarro and Martinez (2009) in their investigation of 100 large firms in the Spanish MERCADO. Their investigation showed that the implementation of CSR did not have any financial soundness (Navarro and Martinez, 2009). Moreover, Ullmann (1985) reviewed 13 studies, of US firms, on the relationship between CSR and financial performance. The reviewed studies used different social performance scales. He found that no clear tendency could be detected (Ullmann, 1985).

Based on the empirical findings, it can be, therefore, recommended that all companies need proper management of social responsibility towards the society in which they operate, namely; clean up all forms of pollution it has caused in its course of operation and also provide infrastructural facilities to the society as a way of giving back and developing the society. There is need for banks to demonstrate high level of commitment to corporate social responsibility as suggested by stakeholders' theory in order to enhance their profitability in the long-run. Finally, banks should improve and continue disclosing their social responsibility information in the annual report as disclosure media because banks with a higher visibility among consumers seem to exhibit greater concern to improve on good image through high Corporate social responsibility disclosure in annual report and on websites.

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