

# FACTORS OF CORPORATE SOCIAL RESPONSIBILITY AFFECTING THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS REGISTERED IN THE STOCK EXCHANGE OF THAILAND.

Natnichar Kleebbuabarn\* & Vithaya Intaraphimol\*\*

*Faculty of Management Science, Suan Sunandha Rajabhat University, Thailand.*

*E-Mail: \*nusnichar.kr@ssru.ac.th, \*\*vithaya.in@ssru.ac.th*

## ABSTRACT

Abstract— This research was aimed to 1) study the implementation of corporate social responsibility, 2) study the correlation of corporate social responsibility and financial performance, and 3) study the corporate social responsibility affecting the financial performance. The research is quantitative; the sample group was 330 branch managers of the commercial bank in Bangkok by using the proportional stratified sampling. The data were analyzed by using the Pearson product-moment correlation coefficient and Stepwise multiple regression analysis.

The findings revealed that 1) commercial bank has the most corporate social responsibility on community, environment, and education respectively, 2) the corporate social responsibility on human rights are highly positively correlated with financial performance, and 3) the financial performance is affected by the corporate social responsibility on community, environment, and education at 58%. These findings support the manager of commercial banks to arrange the development plan of the corporate social responsibility for higher financial performance.

Keywords— Corporate Social Responsibility, Financial Performance

## INTRODUCTION

The business-environment interaction and exchange is an implement of corporate social responsibility, and on the other hand, society has to take the same responsibility. Stakeholder Theory (Social Contract) said that firms have a corporate social responsibility and all stakeholders as both society and stakeholders are parts of business survival (O'Brien, 1996). For this reason, firms have to improve the economic satisfaction of customers and employees without affecting the environment. Corporate social and environmental responsibility drives a firm to create a positive impact on society, it is a commitment of the economic and environmental sustainability including considering the profit of all stakeholders (Carroll, 1991), the success of corporate social responsibility depends on the social and ethical commitment and value. (Logsdon and Yuthas, 1997)

Although corporate social responsibility is for the business's survival, there is a controversy on how many resources should be implemented. Nevertheless, the corporate social responsibility could gain profit practically (Hmoh, 1983) by creating a positive impact on stakeholder perception towards the performance, value, and reputation that presents the profitability, cost, and stock price of the firm (Salama et al., 2011; Ghoul et al., 2011; Cormier et al., 2011; Lourenco et al., 2012). Consequently, corporate social responsibility is a side effect of profitability, and then the researcher has shown that the firm with corporate social responsibility has always highly gained profit. (Harrison & Freeman, 1999; Barrett, 1998)

A bank is a highly competitive organization with the responsibility to stakeholders for corporate social responsibility is accepted by the financial service industry nowadays (Scholtens, 2009). In the past, financial institutions have been under the pressure from the subprime mortgage crisis and the credit crisis that forced all banks to consider the long-term benefits of their investments and their commitment to society. (Grove et al., 2011). Thai commercial banks perform different management strategies but focus on the same social and environmental responsibility with good governance, risk management, consideration of the impact on the environment including creating value-added and maximum profit to all stakeholders.

As referred above, corporate social responsibility has a key role in either small firms or large firms to profits all stakeholders that leads to the business survival as it improves the long-term competitive advantage of the firm which presents the positive correlation between corporate social responsibility and financial performance.

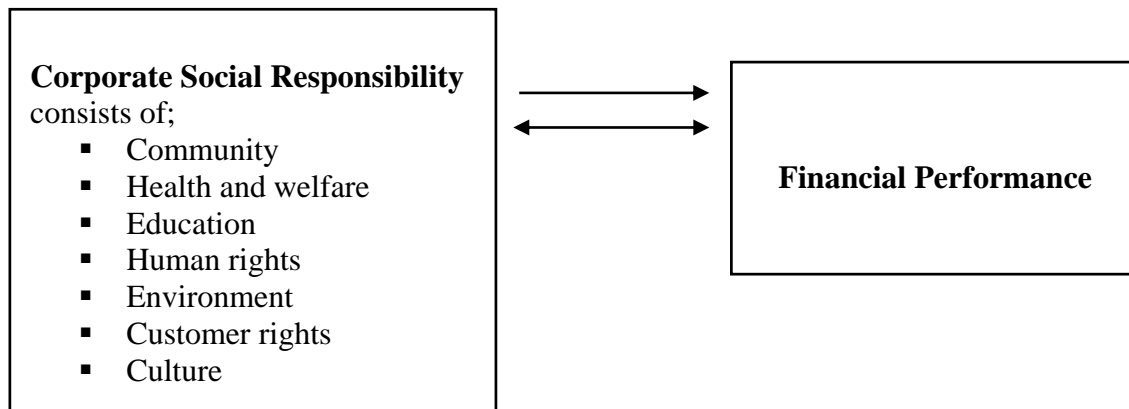
Consequently, all Thai commercial banks registered in the Stock Exchange of Thailand focused on defining the strategy of corporate social responsibility to profit all stakeholders, financial performance, and sustainability. The researcher is interested in a study of factors of corporate social responsibility affecting the financial performance of commercial banks registered in the Stock Exchange of Thailand for planning the strategic management of corporate social responsibility and improving the financial performance.

### Objectives

1. To study the implementation of corporate social responsibility.
2. To study the correlation between corporate social responsibility and financial performance.
3. To study the corporate social responsibility affecting financial performance.

### Conceptual Framework

The researcher has integrated the concepts and theories by synthesizing the academic journal and related research from the literature review, then defined the corporate social responsibility as the independent variable, and defined the financial performance as the dependent variable that led to the new conceptual framework aimed at studying the corporate social responsibility affecting the financial performance as shown in Figure 1;



**Figure 1 Conceptual framework**

## LITERATURE REVIEW

### Concept of Corporate Social Responsibility

Netpanna Yawirach (2008) said that corporate social responsibility includes;

1. Corporate social responsibility on society and community – the firm should produce desired products or services to respond to the customer’s need, quality, and not intoxicate the customer.
2. Corporate social responsibility on health and welfare – the firm should not produce intoxicating products or services.
3. Corporate social responsibility on education – educating the customer and people about products or services.
4. Corporate social responsibility on human rights – personal rights of the employees and related people on expressing their comments.
5. Corporate social responsibility on the environment – avoiding harming the environment for such pollution, toxic chemicals, waste from the production process, reducing energy consumption, and global warming.
6. Corporate social responsibility on the customer – providing product warranty on returning the inferior products.
7. Corporate social responsibility on culture – considering the national culture and religious restriction.
8. Corporate social responsibility on community – volunteering for community and life quality development
9. Corporate social responsibility on ethics – avoiding producing intoxicating products or services.
10. Corporate social responsibility on legal – complying with law and regulations.

11. Corporate social responsibility on the economy – considering proper profit and business management.

Peerida Pakdeepanich (2011) said that 7 issues of corporate social responsibility include;

1. Corporate governance – considering transparency, ethics, profit of all stakeholders, complying with law and regulations, environment, natural resource, and mutual decision making.

2. Human rights – evaluating the organizational status in human rights and risk management; avoiding participating in human rights violations, defining a guideline of problem-solving in asking for justice, avoiding discriminating a group in need of special assistance, civil rights, political rights, economic rights, social rights, cultural rights, and basic rights of employees.

3. Labor practice – a practice to employees and work conditions, social protection by law and regulations, accepting the social inclusion of employees in types of association or organization, considering occupational health and work safety, and human resource development and on-the-job training.

4. Environment – pollution protection (water, air, and soil), sustainable resource use (water, energy, and other resources), climate change adaptation and reduction (greenhouse effect), and natural environment protection and rehabilitation (ecosystem).

5. Fair business management – protecting corruption, supporting and participating the political activities, fair competition, promoting corporate social responsibility for those affected by the organization, and respecting property rights.

6. Customer issues – implementing fair marketing, fact and non-distortion, and fair contract practice, considering customer health and safety, focusing on products or services development that benefits the environment, providing product returning process, keeping customer secret, educating the customer about products, and their awareness.

7. Community development and participation – participating in the community activities, promoting education and cultural activities, promoting a career in the local areas and skill development, earning and stability, promoting capacity building activities.

In conclusion of the literature review, 7 issues of scope of corporate social responsibility implementing useful activities for society and all stakeholders include;

1. Community – providing the community development center by charity donation for a natural disaster, project and financial services for local areas.

2. Health and welfare – supporting health and sport for employees and community, and providing a sanitary and safe workplace and one-stop service.

3. Education – supporting education and training for career development, scholarship, internship, and useful activities or projects for intern students.

4. Human rights – defining fair practice for employees and customers by considering providing equal rights of employee welfare, and avoiding religious segregation and discrimination to customers.

5. Environment – building consciousness in natural environment conservation by managing litter properly, waste reusing, using natural materials for services, and defining water saving policy.

6. Customer rights – considering the benefits of products and services, problem-solving in asking for justice, respecting customer rights, and defining safety measures for customers.

7. Culture – supporting cultural activities by participating in religious activities, dressing in Thai fabric costumes, promoting Thainess, and promoting Thai cultural conservation as supporting a good life quality for the community, customers, and local areas.

### **Concept of Financial Performance**

Financial performance evaluation of profit organization is for indicating the achievement by considering the financial aspect in 6 issues (Garrison and Noreen. 2003: 446-447) include;

1. Revenue growth – considering the revenue growth directly e.g. sales growth, total revenue growth, etc. as revenue growth affects overall organizational growth including the business stability and survival in the long-term by 2 factors;

1.1 Revenue Growth from New Products or Services – considering how do new products or services earning compared with the total revenue i.e. how the proportion or percentage of new products or services earning compared with the total revenue. In addition, considering marketing performance by new products or services compare with the total performance.

1.2 New Customers or New Markets - considering how do businesses earn from new customers compared with the total revenue i.e. exporting products, defining new target customers in the low-end market

which is an old target customer in the high-end market by calculating the proportion or percentage of exporting products compared with the total revenue. In addition, considering how do businesses gain profit from new customers or new markets as profit presents the efficiency and effectiveness of new market and customer development. Nevertheless, the comparison of revenue and profit from new customers or new markets should be compared by percentage as an amount or exchange rate could change the proportion of revenue and profit from new customers or new markets.

2. Cost reduction – considering the development and improvement of employee performance on how does it reduce cost and expense i.e. the improvement of production and performance as cost reduction affects both current and future organizational performances.

3. Productivity improvement – considering controlling of employee performance and capacity in earning and profit which is applied for service business or business where human resource is a part of the organizational cost to achieve the effectiveness and worthiness of employees.

4. Asset utilization – considering the effectiveness and worthiness of organizational property use and investment.

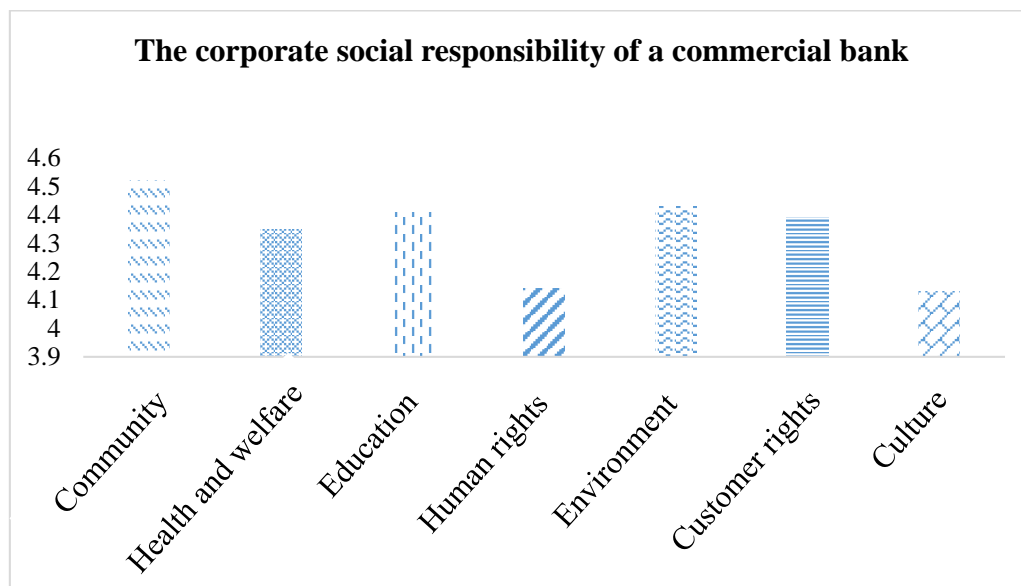
In conclusion of financial performance evaluation to indicate the organizational achievement, it has to consider the increase of income, cost reduction, and increase of productivity from the worthiness of employees and property.

## METHODOLOGY

The sample group was 330 branch managers of the commercial bank in Bangkok by using the proportional stratified sampling. The data were analyzed by using descriptive statistics including the percentage, mean, and standard deviation, and the referential statistics including the Pearson product-moment correlation coefficient and Stepwise multiple regression analysis.

## RESULTS

### 1. The corporate social responsibility of a commercial bank



The findings revealed that overall corporate social responsibility was at the highest level; the community, environment, education, and human rights respectively.

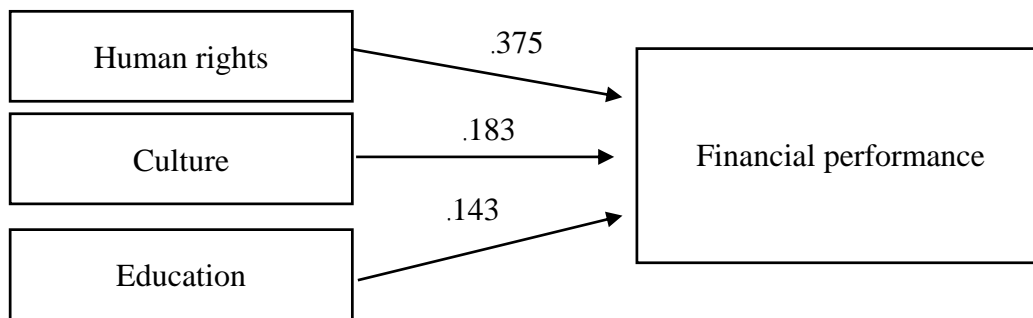
2. The correlation of corporate social responsibility and financial performance

Variable	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>	X <sub>7</sub>	Y <sub>3</sub>
X <sub>1</sub>	1							
X <sub>2</sub>	-0.053	1						
X <sub>3</sub>	0.095	-0.026	1					
X <sub>4</sub>	0.047	-0.001	.685**	1				
X <sub>5</sub>	0.024	0.085	.495**	.596**	1			
X <sub>6</sub>	.120*	-0.038	.335**	.340**	.257**	1		
X <sub>7</sub>	.113*	0.045	.655**	.783**	.509**	.420**	1	
Y <sub>1</sub>	.104*	0.022	.605**	.735**	.475**	.309**	.677**	1

\*\* The 0.05 level of significance

The findings revealed that human rights (x<sub>4</sub>) are highly positively correlated with financial performance (0.735), education (x<sub>3</sub>) and culture (x<sub>7</sub>) are moderately positively correlated with financial performance (0.605, 0.677), the environment (x<sub>5</sub>) and the customer rights (x<sub>6</sub>) are lowly positively correlated with financial performance (0.475, 0.309), and other factors are not correlated with financial performance.

3. The corporate social responsibility affecting the financial performance



The findings revealed that the variables that can predict financial performance (Y<sub>1</sub>) at 58% were human rights (x<sub>4</sub>), culture (x<sub>7</sub>), and education (x<sub>3</sub>).

Consequently, the researcher has defined the predictor coefficients as financial performance forecasting equation (Y<sub>1</sub>) by using the raw scores as follows;

$$Y = 1.253 + 0.375 (X_4) + 0.183 (X_7) + 0.143 (X_3)$$

**DISCUSSION**

The findings revealed that overall corporate social responsibility was at the highest level, especially the corporate social responsibility on the community by charity donation and helping victims of a natural disaster as it is the most traditional and simple. The commercial bank manager focuses on this issue which is consistent with Mehdi Kazemi, Sadaf Estanesti (2011) *Investigation of the Corporate Social Responsibility (CSR) Dimension in Private Financial Institutes (Case Study: Two Iranian Private Banks)*, a study of the perspective and importance of corporate social responsibility revealed that a vision of the executive is a key factor of corporate social responsibility that leads to the correction of workplace and community.

The corporate social responsibility on human rights has the most direct impact on the financial performance as the human rights management is an avoiding participating in human rights violations for such providing equal rights of employee welfare, and avoiding discriminating a group in need of special assistance that profits the stakeholders e. g. employee, customer, and community, etc., and leads to the sustainability and financial performance development. This is consistent with Ravi Kiran, Anupam Sharma, *Corporate Social Responsibility: A Corporate Strategy for New Business Opportunities (2011)*, a study on which types of investments create sustainable growth for global business, and how the implementation of corporate social responsibility creates

recognition and a worth investment benefit for the new generation of business enterprises. The data was gathered by using the interview compared with the western countries (i.e. Nestle) and eastern countries (e.g. India, China, Japan). The findings revealed that the new generation of business enterprises has gained profit from the corporate social responsibility as creating the customer perception on the organizational image including creating the correlation with the stakeholders.

## SUGGESTION

### Suggestions for implementation

1. The commercial bank manager should promote and support the measure of corporate social responsibility on human rights and culture. Human rights management by avoiding participating in human rights violations, defining a guideline of problem-solving in asking for justice, avoiding discriminating a group in need of special assistance, and providing equal rights of employee welfare as these corporate social responsibilities affect the financial performance. Consequently, the commercial bank manager needs to enhance the measure of corporate social responsibility on human rights for financial profit.

2. The commercial bank manager should focus on corporate social responsibility on culture. The promotion of religious activities, traditions, and national culture preservation will create a customer perception of organizational image as it creates a good life quality for the community, employees, customers, and stakeholders. The non-profit organization is a business of corporate social responsibility by respecting the ethical value, people, community, and environment that leads to customer loyalty, sales increase, and financial performance as the long-term profit.

### Suggestions for future research

1. It should be studied the additional variable affecting the financial performance including reputation, image, capital access, cost savings, etc. to check and affirm that corporate social responsibility affects the financial performance by moderator variable.

2. The finding revealed that corporate social responsibility affects the financial performance of the commercial banks registered in the Stock Exchange of Thailand consistently at 63%. Consequently, it should be studied the importance of corporate social responsibility to create sustainable stability for commercial banks in the future.

## REFERENCES

- [1] Barrett, R. (1998), *Liberating the Corporate Soul: Building Visionary Organization*, Butterworth Heinemann, Oxford.
- [2] Carroll A. (1991), The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organisational Stakeholder *Business Horizons* 34(4), 39-49
- [3] Cormier, D., Ledoux, M., & Magnan, M. (2011). The informational contribution of social and environmental disclosures for investors. *Management Decision*, 49(8), 1276–1304.
- [4] Garrison, H. Ray and W. Eric. *Managerial Accounting*. 10th ed. Singapore :Mcgraw Hill Irwin, 2003.
- [5] Ghouli, S. E., Guedhami, O., Kwok, C. C. Y., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking & Finance*, 35(9), 2388–2406.
- [6] Grove, H., Patelli, L., Victoravich, L. M., & Xu, P. (2011). Corporate governance and performance in the wake of the financial crisis: Evidence from US commercial banks. *Corporate Governance: An International Review*, 19(5), 418–436.
- [7] Harrison, J.G. and Freeman, R.E. (1999), “Stakeholders, social responsibility, and performance: empirical evidence and theoretical perspectives”, *Academy of Management Journal*, Vol. 42 No. 5, pp. 479-85.
- [8] Hmoh, P.N. (1983), “Corporate goals and social responsibility in the Nigerian banking industry”, in Osaze, B.E. et al. (Eds), *Business Ethics and Social Responsibility in Nigeria*, Department of [1] Business Administration, Ahmadu Bello University, Zaria, pp. 148-58.
- [9] Logsdon, J.M. and Yuthas, K. (1997), “Corporate social performance, stakeholder orientation, and organizational moral development”, *Journal of Business Ethics*, Vol. 16 No. 1, pp. 213-26.
- [10] Lourenco, I. C., Branco, M. C., Curto, J. D., & Eugenio, T. (2012). How does the market value corporate sustainability performance? *Journal of Business Ethics*, 108(4), 417–428.

- [11] Mehdi K. & Sadaf E. (2011). Investigation of the Corporate Social Responsibility (CSR) Dimension in Private Financial Institutes (Case Study: Two Iranian Private Banks). *Interdisciplinary Journal of Contemporary Research in Business*, Vol. 3, No. 2, pp. 1129-1141.
- [12] Natepanna Yavirach. (2008). *Business Ethics*. Bangkok: Triple Group Co.,Ltd.
- [13] Ravi K. & Anupan S. (2011). Corporate Social Responsibility: A Corporate Strategy for new business opportunities : *Journal of business Ethics*, Vol. 4 : 10-18.
- [14] Salama, A., Anderson, K., & Toms, J. S. (2011). Does community and environmental responsibility affect firm risk? Evidence from UK panel data 1994–2006. *Business Ethics: A European Review*, 20(2), 192–204.
- [15] Scholtens, B. (2008). Corporate social responsibility in the international banking industry. *Journal of Business Ethics*, 86(2), 159–175.