

Corporate Social Responsibility and Organizational Performance: Empirical Evidence from Banking Sector

Muhammad Shaukat Malik

Alfalah Institute of Banking & Finance, Bahauddin Zakariya University, Multan, Pakistan

Email: shoukatmalik@bzu.edu.pk

Huma Ali (Corresponding author)

Alfalah Institute of Banking & Finance, Bahauddin Zakariya University, Multan, Pakistan

Email: humaali2005@hotmail.com

Anwar Ishfaq

Alfalah Institute of Banking & Finance, Bahauddin Zakariya University, Multan,
Pakistan

Abstract

Number of studies conducted to investigate relationships between corporate sustainability, corporate social responsibility and corporate performance. This research has examined the impact of CSR activities and organizational performance in presence of organizational culture. This was an exploratory research based on primary and secondary data. The primary data of employees of banks collected while secondary data were collected from articles, reports and website of the corporation. The data were analyzed using correlation, regression and analysis of variance by SPSS version 16. The study found relationship between awareness of corporate social responsibility activities and organizational performance. In addition, the study found relationship between organizational culture and organizational performance for the banking sector of Pakistan. The results of this study are important for companies and future research on corporate social responsibility and employee performance.

Key words: Pakistan, corporate social responsibility, banks, employee.

1. Introduction

In the last few years Pakistan faced many natural calamities, like, earthquake, floods etc. and millions of people were affected very badly. Aids from international countries and companies as well as national companies were granted for affected peoples. Banks did not lack behind to help out, some banks built houses for flood-affected people and many of them granted financial assistance (a sort of CSR).

Banks are financial institutions which provide financial intermediary services on behalf of its customers and manage risks associated with borrowers (Greenbaum & Thakor, 2007). Banks have a huge impact on society because they are the main player of economy. Banks involve in all the economic activities of public and perform two types of corporate social responsibility (CSR) activities:

- Anti-monetary fraud
- Welfare of the society

CSR activities of anti-monetary fraud include anti-money laundering, black money, KYC (know your customers) policy. Anti-monetary fraud activities of CSR can be categorized in two categories: first includes legal obligations including code of conduct provided by State Bank of Pakistan (SBP). Second, bank's personal policies i.e. how much bank's own KYC policy will be strict that they can contribute in anti-money laundering activities, and this policy can affect the business of bank (SBP prudential regulations). Second type of CSR activities, welfare of the society, includes corporation's contribution in charitable and social responsibility purpose, it is also called corporate philanthropy. Researchers on corporate social responsibility have advised to use CSR to build strong employee bond with corporations and to achieve better employee and organizational performance. Committed employees are considered a source of organization success. This study addresses the impact of CSR on organizational performance in banking sector. Following are the research questions of this study:

- What is the perception of employees regarding CSR activities of banks?
- How CSR effects employee organizational commitment and organizational performance?

2. Literature Review

The concept of CSR is under discussion since 1953 when New Jersey Supreme Court permitted Standard Oil Company to provide financial assistance to Princeton University as a philanthropic action. Court decision was given against the suit filed by one of the shareholders of Standard Oil, believing that it would lessen the shareholder's wealth.

The CSR definition of Brundtland (1987) "Paths of progress which meet the needs and aspirations of the present generation without compromising the ability of future generations to meet their needs." Wood (1991) described CSR as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships." Deetz (2003) stated CSR actions as being reactive to the needs of the community. However the essence of these definitions is identical that the organizations are taking responsibility for CSR activities to better environment, create value for society, treating employees fairly and philanthropic. Researchers like Stanwick and Stanwick (1998); Maignan and Ferrel (2000); and Kashyap, Mir, and Iyer (2006) has suggested that corporations should perform CSR activities and to communicate these activities to their customers, public, government. Corporate social responsibility increases employee commitment level with the organization because CSR activities include welfare of the employees and their families (Ali et al., 2010). Dawkins (2004) stated that when an organization contributes towards social welfare, it enhance commitment level of existing customers and attracts the motivated potential employees. Brammer, Millington and Rayton (2007) stated when a company has CSR initiatives; employees are more proud of and committed to the organization. According to Stawiski et al. (2010) organization should involve their employees in decision making regarding which actions should be undertaken relating to community, environment and employees themselves so that organization can get maximum benefits of CSR. Employees will be motivated by organization's CSR activities and ultimately organizational performance will increase.

Arsoy et al., (2012) proved by their search in Turkish organizations that reciprocal positive relationship between CSR and financial performance and mutual influence; the existence of a variable can lead to the other. To put it simply, to make the relationship between CSR and financial performance. proposed a four-gradient model with four types of organizations from the best profit of the social and financial goals adopted at the worst, they do not achieve both. Different scholars like Saeednia & Shafeiha, 2012; Nikolaeva & Bicho, 2011; and Golob et al., 2008 that work in ethical and legal standards for a marketing Tool; improvement organizations reputation, and achieving a sustainable competitive advantage as rivals.

3. Research Gap

On the basis of literature given above, it became clear that impact of corporate social responsibility on organizational performance has been determined, but moderating effect of organizational culture in between them has not been determined. So, it is contribution of researcher's work.

4. Hypothesis

- **H₁**: Increased awareness of CSR activities will affect positively Organizational Performance.
- **H₂**: Organizational Culture will moderate the relation b/w CSR Activities and Organizational Performance.

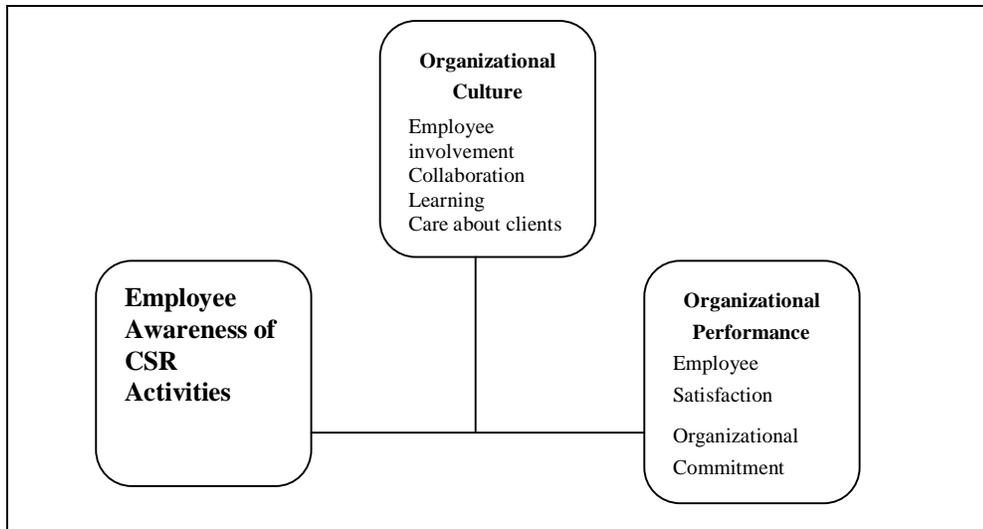


Figure 1: Corporate Social Responsibility in Pakistan

The concept of corporate social responsibility in Pakistan has been emerged from multinational companies. Initially Unilever's, Lever Brothers, Nestle etc started CSR activities and later on banks started sports marketing to contribute in talent grooming. Many corporations donating in health and education issues. Some companies donate for environmental protection and pollution prevention causes. Arial is one of the organizations which took steps to protect the environment. MCB realizes the importance of being a responsible entity and hence in order to streamline processes and to pay more

attention to sufficient initiatives, a new Group for CSR and Security has been established. Sustainability rests at the core of overall MCB vision and the Bank continued to make efforts to improve areas of market, social, operational, cultural and financial ideologies (MCB Sustainability Report 2011).

HBL is committed to fulfilling its role as a responsible corporate citizen, and in that connection has formed the HBL Foundation, which has been mandated to promote development and advance the welfare and well-being of the people of Pakistan and of other countries of the world with the object of improving their quality of life.

Change in Accounting Policies. The Group has changed its accounting policies effective from January 01, 2009 in the following areas;

- Customer Loyalty Programmers
- Ijarah under IFAS 2
- Determination and Presentation of Operating Segments
- Presentation of Financial Statements (HBL Director's Report).

5. The Research Model

Related to our subject, we have constructed

a relationship between the concepts, and created a model. According to the model, organizational culture dimensions affect the organizational effectiveness. The model for this research (depending on these factors) may be seen on figure 1.

6. Methodology

This study is based on exploratory design to examine the awareness level of employees regarding CSR actions of banks and later on their linkage with commitment. This is an exploratory research based on primary data. Questionnaire is used for data collection. The primary data is collected from professional working in different banks of Multan City only. Results can be generalized to other population as well because there is a single regulatory body who is observing the functions of all banks of Pakistan. Operations of all banks are almost same throughout the country.

6.1 Scales

For data collection purpose, we constructed a questionnaire & Scales of different authors the scale of CSR Activities of was adopted form having 19 items. And the scale of Organizational Culture was adopted form Aydin & Ceylan (2008) having 22 items.

6.2 Sample and Data Collection

We drew our sample from the employees of banks of Multan in Pakistan. They are all profit organizations. After specifying the sample, we have formed the survey instrument and visited the banks physically and filled out the questionnaires. Some of the respondents refused to respond us. Some of them had missing values and were excluded from the analysis. Finally, the valid responses have reached to 80.

6.3 Analysis and Results

After gathering the data, we have entered them in SPSS (Statistical Package for the Social Sciences). These entered data have been analyzed by some of SPSS tools, which are descriptive statistics, reliability analysis.

Table 1: Correlation Analysis

		Culture	Performance	CSR
Culture	Pearson Correlation	1	0.598**	0.451**
	Sig. (2-tailed)		0.000	0.000
	N	80	80	80
Performance		0.598	1	0.490
		0.000		0.000
		80	80	80
CSR	Pearson Correlation	0.451	0.490	1
	Sig. (2-tailed)	0.000	0.000	
	N	80	80	80

These results show that organizational performance has high positive relation with CSR activities when organization culture moderates this relationship. The correlations of all the variables are given in the above table. The hypothesis of this research will now be discussed based on the findings of correlation analysis.

Table 2: ANOVA Analysis

Model	Sum of Squares	Df	Mean Square	F	Sig
1	3.515	1	3.515	24.625	0.000
2	6.134	2	3.067	27.737	0.000

- a. Predictors: (Constant), CSR
- b. Predictors: (Constant), CSR, CULTURE
- c. Dependent Variable: Performance

The ANOVA analysis showed the F value of 24.625 and 27.737 significant at .000 levels. It means that the above model is 100% fit, that is there is a significant relation between entered independent variables and the dependent variable.

Table 3: Model Summary of Analysis

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate						Durbin-Watson
					R Square Change	F Change	Df 1	Df 2	Sig F Change	
1	0.490	0.240	0.230	0.37781	0.240	24.625	1	78	0.000	
2	0.647	0.419	0.404	0.33253	0.179	23.686	1	77	0.000	1.494

- a. Predictors: (Constant), CSR
- b. Predictors: (Constant), CSR, CULTURE
- c. Dependent Variable: Performance

Table 4: Beta Coefficients

Model	Standardized Beta	T	Sig	Collinearity Statistics	
				Tolerance	VIF
1. CSR	0.490	4.962	0.000	1.000	1.000
2. CSR	0.276	2.839	0.006	0.797	1.255
Culture	0.474	4.867	0.000	0.797	1.255

Dependent Variable: Performance

5. Conclusion

The study analyzes the relationship between corporate social responsibility and corporate performance. The study also combines the effects of organizational culture and organizational performance. This study was conducted in the banking sector of Pakistan; the fastest growing sector is carried out in Pakistan. To this end, employees of banks were selected. This shows that the people in Pakistan consider Post Corporation to be the Company in its commitment to the organization. Significant relationship between organizational culture and organizational performance found. Organizational culture, including employee participation, collaboration, learning, care about customers. It shows that employees pay more attention to organizational culture as CSR activities of their organization. The results of this study are for the banks in the formulation of corporate culture in terms of CSR activities in Pakistan. The study has contributed to literature on CSR and employee performance. The study has some limitations; on the one hand to answers only banking sector employees have been selected and look at other sectors were know not receive. Second, the study was conducted only in Multan city of Pakistan, views from other cities of Pakistan can be obtained.

REFERENCES

- Ali, I., Rehman, K. U., Ali, S. I., Yousaf, J. and Zia, M. (2010). Corporate social responsibility influences employees commitment and organizational performance. *African Journal of Business Management*, 4(12), 2796-2801.
- Arsoy, A. P., Arabacı, O., & Çiftçioglu, A. (2012). Corporate social responsibility and financial performance relationship: The case of Turkey. *The Journal of Accounting and Finance*, 53, 159-176.
- Aydin, B., & Ceylan, A. (2008). The employee satisfaction in metalworking manufacturing: How do organizational culture and organizational learning capacity jointly affect it?. *Journal of industrial engineering and management*, 1(2), 143-168.
- Brammer, S., Millington, A. & Rayton, B. (2007). The contribution of corporate social responsibility to organizational commitment. *International Journal of Human Resource Management*, 18, 1701-1719.
- Brundtland, G. H. (1987). Presentation of the report of the World Commission on Environment and Development to UNEP's 14th Governing Council Session. World Commission on Environment and Development, Nairobi.
- Dawkins, J. (2004). Corporate responsibility: the communication challenge. *Journal of Communication Challenge*, 9(2), 108-119.
- Deetz, S. (2003). Corporate governance, communication and getting social values into the decisional chain. *Management Community Quarterly*, 16, 606-611.
- Golob. U., Lah, M. and Jancic, C. (2008). Value Orientations and Consumer Expectations of Corporate Social Responsibility. *Journal of Marketing Communications*, 14 (2), 83-96.
- Greenbaum, S. I. & Thakor, A. V. (2007). *Contemporary financial intermediation*. Forth Worth, Texas: Academic Press.

- Kashyap, R., Mir, R., & Iyer, E. (2006). Toward a responsive pedagogy: linking social responsibility to firm performance issues in the classroom. *Academy of Management Learning Education*, 5 (3), 366-376.
- Maignan, I., & Farrell, O. C. (2000). Measuring corporate citizenship in two countries: The case of United States and France. *Journal of Business Ethics*, 23(3), 283-297.
- Nikolaeva, R., & Bicho, M. (2011). The Role of Institutional and Reputational Factors in the Voluntary Adoption of Corporate Social Responsibility Reporting Standards. *Journal of the Academy of Marketing Science*, 39(1), 136–157.
- Saeednia, H., & Shafeiha, S. (2012). Investigation the Link Between Competitive Advantage & Corporate Social Responsibility from Consumer's View. *International Journal of Economics & Business Modeling*, 3(2), 177-182.
- Stanwick, P. A., & Stanwick, S. D. (1998). The relationship between corporate social performance, organization size, financial performance and environmental performance: an empirical examination. *Journal of Business Ethics*, 17(2),195-204.
- Stawiski, S., Deal, J. J., & Gentry, W. (2010). Employees perceptions of corporate social responsibility: the implications for your organization. Quick View Leadership Series, Center for Creative Leadership, USA.
- Wood, D. (1991). Corporate Social Performance Revisited. *Academy of Management Review*, 16 (4), 691-718.