THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: EVIDENCE FROM THE PALESTINIAN BANKING INDUSTRY

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ABSTRACT

The current study investigated the existence of a relationship between Corporate Social Responsibility Expenses (CSRE) made by banks operating in Palestine during 2013-2018, and their respected Financial Performance (FP) using several financial indicators including, Return On Asset (ROA), Return On Equity (ROE), and Net Profit (NP). The study found a positive relationship between CSRE and all FP indicators, and that CSRE varied during the same period. The main areas of CSRE were special needs, sports, and health. On the other hand, the results indicated that education and development improved the least within the same period. The study recommends that banks operating in Palestine should focus on CSRE as it leads to gaining better corporate image, and obtaining and retaining customers, and thus; making revenues. The banking industry should focus on improving their CSR strategy so as to keep legitimate in the community and overcome competition from other industries. The study was limited by both the scope of Palestine, and the need for input from management about the reasons for focusing on certain CSRE during the study period.

Keywords: CSRE, FP, Palestine, Banks, ROA, ROE, NP

1. INTRODUCTION:

In recent years, many studies have been conducted on the existence of a relationship between Corporate Social Responsibility Expenses (CSRE), and Financial Performance (FP) of corporate (Cornett et al, 2014). Researchers have agreed that CSR is generally related to doing good to the community (Wright et al, 2007, and Belkacem and Ladraa, 2015), and that CSR contributes largely to corporate reputation, and their ability to pool customers and sustain revenues (Abu Jamia and Wafi, 2016, and AlNajjar, 2016). Research recently focused on the different types of CSRE and how CSR strategy is evident in the financial performance in different industries. The focus shifted to discussing how the private sector could add value to the community through socially contributing to community development (Garriga and Mele, 2004). The studies have shown a significant increase in the financial donations by banks to the local community, especially in emerging economies (Belkacem and Ladraa, 2015, and Zaidi et al., 2012). Recently, the studies showed that banks (as part of the financial services industry) have excelled in this area, and many local and international organizations are following their footsteps in the process of socially contributing to the community (Cornett et al, 2014). Palestine have witnessed a high increase in the level of CSRE during the past few years. Banks (both conventional and Islamic) has increased their donations in different areas during 2018 to more than 6.0 million dollars, which is almost 7% increase from 2017[1]. The increased awareness about the importance of spending more and its impact on corporate image resulted in shifting the attention of corporate towards non-financial activities that could bring higher revenues (CSR among others) (Mirrewijk Werre, 2003, and Cornett et al, 2014).

Many considered CSRE as having a negative impact on a corporate, and that it led to decreasing profits, whereas others stated that it is a long term investment that leads to higher returns on the medium and long runs (Garriga and Mele, 2004, and Belkacem and Ladraa, 2015). This is a result of giving stakeholders higher attention, and investing in better relationships with them (Cornett et al, 2014, and Wright et al, 2007). The current research focuses on the relationship between CSRE and FP using data extracted from the annual reports of banks operating in Palestine during 2013-2018. The primary analysis, as well as statistical tests, have been conducted to demonstrate the variability of CSRE and its relationship to some financial indicators of banks during this period.

2. SIGNIFICANCE AND OBJECTIVES:

The current research is a contribution to the limited literature on the relationship between CSRE and FP of the Palestinian banking industry. Contributing more to society is important in many emerging economies, especially where countries are occupied, and the public sector is limited by budget deficits and lack of resources to contribute to society overall welfare (Maqbool and Zameer, 2018, and Zaidi et al., 2012).

The significance of the study is also in the fact that it is the first of its kind to link CSRE to specific FP indicators within the Palestinian context. Based on this, the current research attempts to introduce the concept of CSR of banks in Palestine. The concept is introduced by discussing a brief background of banks in Palestine, and then the different areas of CSRE and motivations of these expenses. The study also focuses on listing some financial performance measures used by recent literature to explain the relationship with CSRE in the Palestinian banking industry.

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[1] Data extracted from the Association of Banks in Palestine website www.abp.ps

Finally, the study aims to establish a relationship between CSRE and FP of banks, by explaining which CSRE areas have contributed more to total CSRE and which FP indicators help banks contribute more towards CSRE.

3. LITERATURE REVIEW

3.1 CSR IN PALESTINE

Palestine has been recognized by many studies as having a potential for CSR growth within the foreseeable future (Mirrewijk Werre, 2003). Many consider CSR as the new strategic tool all corporate have to adapt (Griffin, J. 2000, Wright et al, 2007). Whereas companies used to focus more on making profits, nowadays, CSR became an evident of a shift towards strategic long-run profits made through the positive impact of CSR on society (Haron et al, 2009). Many tried to advance a definition to CSR based on several criteria: types of CSR activities, areas of engagement, targeted stakeholders, and even types of the corporate which adapts CSR (Abu Jamia and Wafi, 2016, and AlNajjar, 2016). The broadest definition for CSR is that commitment of organizations towards the overall welfare of community by doing good beyond the general laws and achieving the community's expectations (Griffin, J. 2000, and Zaidi et al., 2012).

The importance of CSR in Palestine is based on the fact that corporate should support good moral in community (Amro, 2018), and that if such moral is not evident in individuals' actions, a threat to the sustainability and development of society exists (Griffin, J. 2000). CSR leads to more cooperation among individuals and corporate to improve society, it leads to improving the quality of community life (Haron et al, 2009), developing the socio-economic status of people (Wright et al, 2007), and providing a good image about the organization to the community in general (Griffin, J. 2000, and AlNajjar, 2016).

In Palestine, the focus of CSR is seen in four main areas: humanitarian issues, legal issues, moral, and economic (Amro, 2018). A combination of these elements is seen in each CSR activity performed by individuals and organizations (Wright et al, 2007). The nature of the Palestinian economy is evident in the fact that it is an emerging economy which is occupied, and the role of the government in improving peoples' life is seen in general areas like general services rather than supporting and promoting specific areas of concern to the Palestinians (Abu Jamia and Wafi, 2016, and AlNajjar, 2016). This paved the way for the private sector to engage in society by spending on specific areas of concern to their customers (Maqbool and Zameer, 2018), whereas a focus is made on both: scale or impact of expenses made, and improved corporate image (Wright et al, 2007, and Cornett et al, 2014). The following parts further discuss the areas of CSRE after presenting a brief overview of the banking industry in Palestine and how it evolved to be the strongest segment within the private sector.

3.2 PALESTINIAN BANKING INDUSTRY:

Today, there are 15 banks operating in Palestine. There is no doubt that the banking sector is considered a major player in developing the Palestinian economy. This is a result of the nature of their work, as well as their engagement in the life of almost all Palestinians. Still; this did not permit this industry to focus on contributing more towards the society and provide financial aid to its many needy individuals and organizations. The banks contributed more than $6.0m to the Palestinian community in 2016 (AlNajjar, 2016). This is expected to continue as the following table suggests some of the main indicators of this industry's growth in the past few years:

Table (1) Some indicators of banking industry growth in Palestine[2]

Indicators	2017	2018	% change
Net interest and commissions	%86.2	%86.8	%0.7
Return on assets	%1.3	%1.1	-%15.9
Return on equity	%9.1	%10	%9.6
Net direct credit facility/net assets	%54	%59.6	%10.3
Net direct credit facility/equity	%328.2	%390.9	%19.1
Retained earnings/equity	%8.8	%10.9	%18.8
Net profit for the year	$168.579m	$176.356m	%4.6

Although the above table shows a fluctuating performance of the banking industry in Palestine, still, previous records show that this segment is growing consistently and is receiving more accreditation from local and national agencies (AlNajjar, 2016, Amro, 2018). It would be interesting to test whether such fluctuation correlates with the CSRE made by the banks in the same period, and what areas are most affected by such deviations in performance if these are expected to continue into the near future.

3.3 CSRE OF THE PALESTINIAN BANKING INDUSTRY

3.3.1 OVERVIEW:

The banking industry has witnessed a great expansion in the past couple of decades. This is a result of many factors including increased awareness about their role in the financial system, the improved legal framework of this industry, the increased dependence of the Palestinian Authority on this sector in order to ease the process of paying bills, salaries, and other payments (Mahmoud and Kader, 2012). Finally; the great need by international aid agencies to process funds through legal and official channels which would assure transparency of their work, and accountability of Palestinians to these international agencies (Abu Jamia and Wafi, 2016, and AlNajjar, 2016). This all led to boosting this industry and many financial indicators improved, especially during the last few years. The banking industry currently has 15 banks operating in Palestine, with more than 280

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[2] Sourced and organized through the official website of the Association of Banks in Palestine www.abp.ps

branches and more than 8,000 employees (Amro, 2018). The net asset reached $13billion, customer deposits $10 billion, and net direct financing facilities is almost $6 billion by the end of 2018.

Due to the uniqueness of the Palestinian situation, and the need to improve the social contributions made by the private sector to the Palestinian community, and as a result of the increasing importance of the Palestinian banking industry, banks went on contributing socially to the Palestinian economy in different areas (AlNajjar, 2016). The following parts highlight the different engagement areas within the Palestinian community. It is worthy to note that although these areas are separated in this research, still; they are all interconnected and related to achieve the overall promotion of the Palestinian welfare (Abu Jamia and Wafi, 2016, and AlNajjar, 2016).

3.3.2 AREAS:

During the past few years. A global trend towards adapting and spending on CSR is seen. This trend shifts between a number of popular areas including development, education, health, relief. Recently new areas of concern also emerged, including: youth and innovation, sports, childhood, and the environment. Some are considered crucial to the society itself, whereas others are considered more popular, and hence, are more important to gain a better corporate image (AlNajjar, 2016). The following figure (1) shows the different CSRE areas for banks in Palestine

3.3.3   FP INDICATORS IN THE PALESTINIAN BANKING INDUSTRY:

The following parts focus on specific financial performance indicators (FP) that are of interest to this study. The focus on these indicators is also seen in previous literature which correlated these with CSRE in different parts of the world and using a variation of time-series analysis. The following table demonstrates the different financial indicators used by this study as the dependent variables. These are further explained later on:

Table (3): Financial performance indicators of the Palestinian banking industry[3]

Indicators	2013	2014	2015	2016	2017	2018
ROA (%)	1.40	1.60	1.30	1.30	1.29	1.08
ROE (%)	10.8	12.7	9.8	10.5	9.05	10.01
NP ($M)	128.311	132.844	146.906	149.301	168.579	176.356

3.3.3.1 RETURN ON ASSETS (ROA):
ROA is a popular measure of financial performance used by banks and other financial and nonfinancial organizations (Cornett et al, 2014). It is calculated by dividing net profits made over the average total assets. It is used as a measure of fitness and the ability of the company to generate profits from what it already has. During the years 2013-2018 ROA fluctuated as a result of fluctuating profits made by the banks during that period. Some banks suffered losses and were liquated and others survived and managed to grow again. The overall trend shows a decrease in ROA. It is worthy to investigate how this correlates with CSRE and whether certain areas have witnessed an improved level of donations as a result of increasing/decreasing ROA.

3.3.3.1 RETURN ON EQUITY (ROE)
ROE is the percentage of net profits over stockholders' equity. It shows how much profits were made using the money invested by shareholders in the company. The equity is highly dependent on the issuance of new shares, which is a way of growing banks in Palestine (Al-Najjar, 2016). It is also sensitive to changes in dividends payout ratios. During the study period ROE fluctuated between 12.7 in 2014 and 9.05 in 2017. The overall trend showed a slight decrease which could be a reason of many factors including: increased equity of banks, fluctuating profits during the period, and fluctuating dividend paid to shareholders. It is very important to realize that ROE is a measure of performance which includes items from both income statement (profitability) and balance sheet (sustainability/wealth) and can highly be correlated with CSRE made by banks for the same period.

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[3] Sourced and organized through the official website of the Association of Banks in Palestine www.abp.ps

3.3.3.3 Net Profit (NP)

Recent literature suggest using different financial performance indicators to correlate with CSRE made by companies in different parts of the world. These studies used net profit as a measure of FP (Amro, 2018). This has increased during 2013-2018, and banks overall performance changed as a result of changing number of accounts held by the banks, fluctuating total number and amount of loans taken by customers, and the changes in the regulations which resulted in changing the percentages of commissions and revenues made by holding an account in banks. This could be positively or negatively correlated to CSRE as CSRE is usually made from revenues made by banks and is highly related to the value of income made during the previous years (Maqbool and Zameer, 2018).

4 HYPOTHESIS DEVELOPMENT:

4.1 DEVELOPING THE HYPOTHESIS ON THE RELATIONSHIP BETWEEN CSRE AND ITS AREAS:

Recent literature suggest that a focus of organizations on areas of CSRE is becoming evident in their focus on the areas where they spend their money (Ayobami and Eugene, 2012). Corporate seek higher impact on community and showing good relationships with stakeholders through contributing more to areas of concern to the general public (i.e stakeholders theory) (Maqbool and Zameer, 2018). The pressure made by stakeholders helped companies to become more sustainable. This made companies aware of the needs of the community to safe keep the limited resources, and build a better future for the next generations. According to literature, a sustained company is one which operates according to the Triple Bottom Line (TBL), where stakeholders are aware of their economic, environmental, and social issues, and where companies are making profits based on actions sustaining these resources (Saeidi et al, 2015). A focus from companies on certain areas of CSR and spending more means responding to stakeholders whether internal, community, and shareholders (Karagiorgos, 2010) . As mentioned earlier, some of the areas recently developed in Palestine include childcare, sports, youth and innovation, and environment. Still, this does not mean that other areas which have been the center of the banks' focus changed. For example, development, education, and health are still considered major players in the improvement of banks' image in the Palestinian community. Stakeholders theory suggests that as the stakeholders change their needs and views about CSR, it becomes even more important to banks to think and redirect their CSRE towards the areas of more concern to the general public (Saeidi et al, 2015). Based on this, the following is hypothesized:

(H.1) There is a significant relationship at level (0.05) between CSRE and the areas of CSRE spent by banks operating in Palestine at during 2013-2018

4.2 DEVELOPING THE HYPOTHESIS ON THE RELATIONSHIP BETWEEN CSRE AND FP

Many studies used legitimacy and stakeholders theories to support a relationship between these two variables (Copper and Schindler, 2011). Legitimacy theory suggests that companies used CSR in order to stay legitimate (accepted, and appreciated) within the community (Maqbool and Zameer, 2018, and Ayobami and Eugene, 2012). When an organization pays more on certain areas of CSR, it is actually thinking about its survival within the community (Heath and Wayne, 2004). Banks in Palestine seek customers and stakeholders satisfaction in order to promote their returns, and hence; they are willing to pay more in order to gain more in the future. The studies also used Stakeholders theory to explain such relationship (Maqbool and Zameer, 2018). If a company is engaged in CSR to seek stakeholders satisfaction (Heath and Wayne, 2004), improve its corporate image, and help promote society; This eventually would lead to better satisfaction from stakeholders, and hence would positively affect the company performance. Based on the above, the following is hypothesized:

(H.2) There is a significant relationship at (0.05) between CSRE and FP of banks operating in Palestine during 2013-2018

This relationship is further investigated using the following model, which links FP indicators (ROA, ROE, and net assets and commissions):

$$CSRD= \beta_0 +\beta_1 \ ROA + \beta_2 \ ROE + \beta_3 \ NP+ e$$

Whereas
Return On Assets = ROA
Return On Equity = ROE
Net Profit =NP
$\beta_{0,1,2,3}$ = Constants

5. METHODOLOGY:
5.1 DATA:

The current study investigates the existence of a relationship between CSRE and FP indicators of banks working in Palestine during 2013-2018. The study uses data extracted from the annual reports and evaluates the level of significance of such relationship through regression analysis. This is similar to work found in previous literature which discussed these in other countries (Zaidi et al., 2012).

5.2 SAMPLE AND METHOD:

The current study uses information from banks working in Palestine during 2013-2018. The data is extracted from 15 banks which are currently active in the industry (among these only 6 are listed in Palestine Securities Exchange, and all are listed in Association of Banks in Palestine). The method of analysis is based on correlating CSRE with multiple FP indicators using SPSS.

6. DISCUSSION OF RESULTS:

In order to test for the hypothesis developed earlier, the current study utilizes SPSS facility to investigate and measure the relationships among variables, and try to further explain the reality of CSRE and FP indicators within the context of the Palestinian banking industry during 2013-2018. The following parts explain these further.

6.1 TESTING FOR (H1)

The following table shows results for correlation coefficient calculated to explain the relationship between the different areas of CSRE and total CSRE made during 2013-2018

Table (4): Correlation for CSRE areas and total CSRE

CSRE	Pearson correlation	Sig. (2 tailed)
Special needs	0.164	0.756
Sports	0.384	0.452
Health	0.420	0.407
Childhood	0.470	0.347
Environment	0.567	0.240
Development	0.626	0.184
Youth and innovation	0.728	0.101
Others	0.830	0.041
Culture	0.844	0.035
Education	0.971	0.001

Based on the above table, the different areas of CSRE were organized in order of significance. The highest score was that of expenses made to special needs, whereas sports came second, and health expenses scored third. this could be explained by the fact that Palestine is a developing country and such areas are of main concern to both public and private sectors. This is also could be explained by the fact that other areas of CSRE usually have national bodies supporting them (education and youth and innovation for example). The least expenses scores were those for both culture and education. As stated earlier, banks in Palestine do contribute to these areas, still; they are usually financed through other national and international agencies, thus banks turn their focus on taping needs for other expenses (areas which scored higher). based on the above significance levels, banks working in Palestine might show higher flexibility in providing sponsorship for the areas of special needs, sports, health, childhood, development, and youth and innovation. The other CSRE areas (education, culture, and others) are less attractive to banks, and hence; donating money for these areas might not be a part of banks' strategy.

6.2 TESTING FOR (H2):

In order to test for the existence of a relationships between CSRE and FP indicators, regression analysis was used. R square was calculated at 0.789 which meant that the variables are well fitted in the model. Adjusted R square was also high at 0.776, which also meant that the model presented earlier for the relationship between CSRE and FP indicators is acceptable to explain the relationship between variables. In order to explain the relationship between CSRE in total and FP indicators the following table shows the beta values calculated, and the model after making needed replacements for B values.

Table (5): Calculated coefficients for model summary

		Coefficients				
Model		Unstandardized Coefficients		Stand. Coeff.	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7501263.370	25725149.778		.292	.079
	Roa	7179073.299	5110447.161	.951	1.405	.029
	Roe	14936.939	846963.174	.015	.018	.048
	Np	26321.209	193391.458	.124	.136	.031

a. Dependent Variable: Total

CSRE= 0.292 +0.951 ROA + 0.015 ROE + 0.124 NP

Based on the above table, it is observed that ROA is the highest financial indicator which could help improve CSRE of banks. This was followed by both NP, and finally ROE. Based on the same table, the results show that all FP indicators have a positive impact on the ability of corporate to provide CSRE in the areas earlier discussed. The results show that all FP indicators significantly affect CSRE for banks within this period.

7. CONCLUSIONS AND RECOMMENDATIONS:

The current study investigated the existence of a relationship between CSRE and FP indicators for a number of banks operating in Palestine during 2013-2018. The analysis showed that banks operating in Palestine vary in terms of CSRE areas, as the money spent on CSR in general is consistently increasing. On the other hand, results showed a fluctuating financial performance of banks during the same period. Results also indicate that although financial performance is fluctuating, it is positively correlated to CSRE made by banks. The current study showed that among different CSRE made by banks, the most were related to expenses on projects related to special needs, sports, health. Whereas the least CSRE were those made to culture and education among others. The current study recommends that banks operating in Palestine should focus more on CSR as it helps gain a

better corporate image within the community, and that financial performance would improve over time as a result of spending more on CSR. The study also recommends focusing on new areas of CSRE (mainly environment and development) as these are gaining more popularity within the community, and are being sponsored by other private sector companies, as well as other national and international aid agencies.

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