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2010 Annual, published in November

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Effect of Corporate Social Responsibility on Profitability of Banks Working in Palestine (Case Study 2013-2014)

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Abstract

This study aims to identify the relationship between the corporate social responsibility of banks and profitability measured by return on assets and property rights. To fulfill this purpose, the simple regression analysis was utilized. This study covers the period between 2013- 2014 and includes all the banks operating in Palestine. The findings of the study showed donations have a positive impact, which is statistically significant on the returns on assets and equity. The study recommended that banks should not only focus on economic and legal issues but also on social ones.

Keywords: social responsibility, fixed effects, bank, Palestine, ROA

1. Introduction

New human concepts in societies, like corporate social responsibility, create a healthy business environment which makes the public sense that businesses are aware of their problems and concerns. Thus, this contributes to put the right solutions to these problems, and as a result this will cause society integrate with such establishments. In Palestine, we consider corporate social responsibility as a national obligation on the part of businesses regardless of their political, economic perspectives or the environments they work in. So, corporate social responsibility is still a necessity that we count on to assess the Palestinian establishments.

Assessing the organizations of the private sector is no longer dependent on their profitability only. Moreover, organizations are no longer dependent on their reputation or financial status. Recently, new concepts have surfaced and these help create a business environment which is capable of dealing with the accelerating administrative, technological, and economic developments all over the world. (Eiran, 2015)

The role of companies in society was discussed long time ago, but the modern concept of corporate social responsibility appeared in the 1950s when Howard Bowen's authored a book in 1953 in which he raised some questions about the responsibility of firms to contribute positively in society. What gains businesses can make out of this responsibility, and what steps should be followed to encourage them to maximize their social responsibility. (Beal, 2013) Still, the question is "What is social responsibility?"

The gist of social responsibility is about the way that organizations should run their relationship with society. This includes all the legal forms of schemes, and this is not only pertaining to international or multinational organizations but it has to do with small and medium projects.

1.1 Problem of Study

Banks are important economic entities in society. For this, there are indispensable in society's problems and interests, and they are a key in the way this society safeguards its economic and social environment. Despite the fact that some banks pay attention to their social responsibility, the tough economic circumstances in Palestine weaken this responsibility among these banks bearing in mind the huge discrepancy between what our banks offer in comparison with their counterparts in the developed countries in spite of the great profits that these international banks make in the poor countries. For this, it has become obligatory on the part of banks to allocate some of these profits, decided by the Palestinian Monetary Authority. This will certainly ensure some social justice that can help with relative stability of the Palestinian society needs and increase engagement between the Palestinian society and these banks.

Because of all of this, the researcher raises the following question of this study: "To What extent is bank's social responsibility realized in the Palestinian society?"

1.2 Objectives

1. Recognizing the social responsibility of the Palestinian banks .
2. Analyzing and discussing the relationship between the social responsibility of banks and profitability.

1.3 Significance

1. Improving society's view of banking business.
2. Highlighting the contributions of banks to society.
3. Encouraging banks to carry on with offering services to society, and increasing sense of responsibility towards society and protecting the environment.
4. Seeking to make social responsibility a constant trend in the banking business and making banks interact with society's needs.

2. Review of Literature

Al-Hayyasat, et al (2015) investigated the impact of internal and external social responsibility on the corporate performance of "Al-Rai" Daily in Jordan. The researcher used the following hypothesis: "To achieve this, the following two hypotheses were selected. The first one was "There is no statistically significant effect of internal social responsibility on corporate performance." The second hypothesis was "There is no statistically significant effect of external social responsibility on corporate performance." The study found there is an effect of the independent variable, internal responsibility, at $(0.01 \geq \alpha)$ of the dependent variable, corporate performance. Also, it found that there is an effect of the independent variable, external responsibility, at $(0.01 \geq \alpha)$ of the dependent variable, corporate performance. This study recommended that the role of the internal and external social responsibilities of Al-Rai should be enhanced to improve the corporate performance through choosing the best staff.

(Nwaneri, 2015) in his study, aimed to increase understanding of the social responsibility of the company as a strategic tool to get into a competitive advantage for the company and increase its profits. The study used earnings data and the amounts spent on social responsibility in Nigeria during the period 2005-2014. The results showed that there is a positive relationship between corporate social responsibility and profitability.

While (Yeung, 2011) aimed to identify the opinion of the respondents with regard to corporate social responsibility and the practices of banks in Hon Kong. Data were collected by questionnaire. The study made clear that the understanding of the basic elements of social responsibility of the company is likely to develop a level of customer satisfaction, leading to increased market share and increase profits.

Also (Fauzi and Idris, 2009) used a questionnaire to find out about the nature of the relationship between corporate social responsibility and financial performance in light of different administrative systems. This questionnaire included questions about the social responsibility of the company, the financial performance of the company, the business organization structure of the environment and control systems. The results showed that there is a positive relationship between corporate social responsibility and financial performance under different administrative systems.

(Rais, and Goedegebuure 2009) examined the same relationship but they used the relationship between related parties stakeholder as a measure of social responsibility and its impact on the company's performance. The questionnaire was distributed to companies in Indonesia. The results showed that there is a relationship between social responsibility and financial performance

(Fauzi, 2009) in his study, aimed to identify the relationship between corporate social responsibility and financial performance. Considering the size of the company's financial leverage and to achieve to the study objectives, the researcher used regression analysis. But the results showed that social responsibility does not affect the company's financial performance under different administrative systems.

In his study (Orlitzky, et al., 2003), used meta-analysis to analyze 52 studies. The sample size was equal to 33 878. observation. The results showed that the force or effect of the social responsibility of the company is likely to reach its objectives. The results also showed that there is a positive relationship between social responsibility and financial performance of banks.

(Kostyuk, et al.) gave an international overview of social responsibility of banks studied several countries. The results showed that the best system of social responsibility is the American system for its simplicity in application

3. Methodology

3.1 Models of Study

The fixed effects will be used. When employing panel data, it becomes possible to use Ordinary Least Square (OLS), but the problem with this method is that it doesn't take into consideration the individual differences among organizations. Whereas, the Fixed Effects Model takes into account such differences and the constant in this equation may change if a company changes.

The Fixed Effects Model is to be used as this study aims to identify how much effect variables have as they change over time. In this connection, the relationship of variables like companies and individuals will be checked as each of those has their own independent characteristics, which may or may not affect the dependent variable.

Also, it is proper to use FE in light of the fact that the observations are identical and our goal is to work out the size of general effect of a certain population rather than to be generalized over a another population.

The study model can be represented in the following mathematical equation:

$$y_{it} = X_{it}\beta + \alpha_i + u_{it} + \Omega_t + \mu_i$$

y_{it} is the dependent variable in the first model, a return on assets and the second model return on equity (ROE). i for Single during the time t . The independent variables (donations proportion to total assets. The Ω_t, μ_i expressed the special influence both cross sectional and annual data on the Consecutive (whether fixed or random influence) u_{it} reflects random error for each of the cross sectional data.

3.2 Hypotheses

The null formula was used to formulate the hypotheses.

HO: There is no statistically significant effect of the percentage of donations on the returns of assets.

Ho: There is no statistically significant effect of the percentage of donations on returns on equity.

3.3 Study Population

The population of this study is the banking sector in Palestine. Some statistical data, published by the Palestinian Bank Association, will be studied. These data represent the annual donations of each bank, return on assets and return on property rights in the period 2013-2014.

Following is a list of the banks working in Palestine:

Table 1

Bank name
Arab Bank
Bank of Palestine PLC
Cairo Amman Bank
Bank of Jordan
Bank of Jerusalem
The Housing Bank for Trade and Finance
Palestine Islamic Bank
Arab Islamic Bank
National Bank

Palestine Investment Bank	
Jordan Ahli Bank	
Commercial Bank of Palestine	
Egyptian Arab Land Bank	No donations during the study period
Jordan Commercial Bank	
Jordan Kuwait Bank	
Union Bank	No donations during the study period
HSBC Bank	
The Arab Palestinian Investment Bank	No donations during the study period

Source: Palestinian banks association

There are three banks that did not donate during the study period. Therefore, they were not included in the study. Thus, the total number of banks will be 15. The data of the study are the annual donations to total assets, return on assets and return on property rights.

Table 2

SO	ROA	ROE
0.000174	0.019	0.221
0.000164	0.016	0.189
0.00108	0.0172	0.16
0.000946	0.0166	0.144
5.13E-05	0.009	0.092
4.1E-05	0.012	0.0114
0.000151	0.008	0.069
5.43E-05	0.01	0.076
0.000232	0.009	0.073
0.000344	0.011	0.103
0.000107	0.011	0.088
0.00012	0.012	0.086
0.000796	0.013	0.103
0.002023	0.0127	0.112
0.001058	0.0075	0.056
0.000678	0.0073	0.061
0.000219	0.0086	0.065
0.000221	0.0065	0.055
0.00014	0.007	0.029
0.000239	0.009	0.041
6.9E-05	0.0137	0.057

0.000105	0.0139	0.058
0.000158	0.0005	0.004
0.000125	0.004	0.033
0.000117	0.009	0.025
9.78E-05	0.024	0.068
0.000105	0.009	0.02
7.96E-05	0.003	0.008
0.00077	-0.068	-0.243
0.003369	-0.055	-0.208

Source: Palestinian banks association

4. Methods of Data Analysis

The following tests will be used:

- _ Descriptive statistics represented by mean, median, highest and lowest values and standard deviation as a measure of dispersion.
- _ Phillips- Perron Test Equation
- _ Fixed Effects

5. Findings

5.1 Descriptive Statistics

It can be observed from table 3 that the value of percentage of return on assets mounted, in average, 0.0058. As for the highest value, it was the Jordanian Commercial Bank, and it hit 0.024 in 2014. Whereas, HSBC scored the lowest value and it was 0.068 in 2013, with 0.019 as standard deviation, which was less than the standard deviation of the percentage of return on equity.

Table 3

	ROA	ROE	SO
Mean	0.005883	0.055213	0.000461
Median	0.009000	0.063000	0.000161
Maximum	0.024000	0.221000	0.003369
Minimum	-0.068000	-0.243000	4.10E-05
Std. Dev.	0.019015	0.091948	0.000707
Skewness	-3.135399	-1.617221	2.803512
Kurtosis	11.93408	6.992391	11.16644
Jarque-Bera	148.9259	33.00100	122.6618
Probability	0.000000	0.000000	0.000000

The percentage of return on property rights was, in average, 5.5%. The lowest percentage was registered in 2013, and it was 24.3%. At the same time, the percentage of return on the total of assets was, in average, 0.00046, with a standard deviation that mounted 0.0007.

5.2 Philip-Perrin Test

It can be observed from table 4 that when the three variables, SO, ROA and ROE are at level, the calculated value of T Test is less than the critical absolute value, so we accept the null hypothesis. By this, the time series of the three study variables has the unit root problem.

Table 4

Study variables	the deference	calculated value	5%ADF	order	stationary or Non stationary
ROA	0	-0.981225	-2.9665	I(0)	Non stationary
ROE	0	-0.834686	-2.9665	I(0)	Non stationary
SO	0	-1.324583	-2.9665	I(0)	Non stationary
ROA	1	-5.802203	-2.9705	I(1)	stationary
ROE	1	-6.019548	-2.9705	I(1)	stationary
SO	1	-2.119646	-1.9535	I(1)	stationary

After using the first difference, the calculated value became greater than the critical absolute value. Therefore, we reject the null hypothesis. Thus, the time series gets stable, that is, it has no problem with unit root.

It can be observed from table 5 that the explanatory power of the model is higher, where the value of R-squared is higher than 99%. This measures the effect of the independent on the dependent one. From the table, it is noticed that the value of DW equals 3.75, which is an acceptable value.

Table 5

Dependent Variable: ROA				
Method: GLS (Cross Section Weights)				
Date: 11/08/15 Time: 17:08				
Sample: 2013 2014				
Included observations: 2				
Number of cross-sections used: 15				
Total panel (balanced) observations: 30				
Prob.	t-Statistic	Std. Error	Coefficient	Variable
0	11.16926	0.405478	4.528894	SO
Weighted Statistics				
0.166826	Mean dependent var		0.999969	R-squared
0.407851	S.D. dependent var		0.999935	Adjusted R-squared
0.000152	Sum squared resid		0.003293	S.E. of regression
			3.75	Durbin-Watson stat

Therefore, the null hypothesis was rejected, and the alternative hypothesis was accepted. This means that there is a statistically significant effect of donations on return on assets.

5.3 Second Model of Study

From table 6, it can be observed that the explanatory power of the model is higher, where the value of R-squared is higher than 99%. This measures the effect of the independent on the dependent one. This table shows that the value of DW equals 3.75%, which is an acceptable one.

Table 6

Dependent Variable: ROE				
Method: GLS (Cross Section Weights)				
Date: 11/08/15 Time: 17:04				
Sample: 2013 2014				
Included observations: 2				
Number of cross-sections used: 15				
Total panel (balanced) observations: 30				
Prob.	t-Statistic	Std. Error	Coefficient	Variable
0	13.96803	0.95101	13.28374	SO
Weighted Statistics				
0.220858	Mean dependent var		0.999823	R-squared
1.049065	S.D. dependent var		0.999634	Adjusted R-squared
0.005639	Sum squared resid		0.020069	S.E. of regression
			3.75	Durbin-Watson stat

Therefore, the null hypothesis was rejected and the alternative hypothesis was accepted. This means there is a statistically significant effect of the percentage of donations on the return on equity.

The three variables, SO, ROA and ROE, when they are at level, have the problem of unit root. After the first difference was used, the time series of the three variables got stable, that is, it doesn't have the problem of unit root.

It can be observed from the first model that the explanatory power of the model is high, where the value of R-squared is higher than 99%. Therefore, the null hypothesis was rejected and the alternative hypothesis was accepted, which means there is a statistically significant effect of the percentage of donations on the return on assets. In the second model, it is observed that its explanatory power is high, where the value of R-squared is higher than 99%. Because of this, the null hypothesis was rejected, and the alternative hypothesis was accepted. This indicates there is a positive effect of statistical significance of the percentage of donations on return on equity. These findings match those of other studies such as (Nwaneri, 2015) and (yeung, 2011).

6. Recommendations

1. Banks should be held accountable for short-term costs to deal to fix the social problems that may pose threat to the continuity of the establishment on the long run.
2. Banks should fix the negative social effect, which they sometimes cause.
3. The authorities in charge should take into consideration that social responsibility differs according to traits of the establishment like, size and work environment.

4. Managers should meet the legitimate needs of the concerned parties.
5. Banks should agree to an accountability measure by the concerned parties.
6. Banks should not only care about the legal and economic matters, but also they should pay attention to the social ones.
7. The parties in charge should establish an institution of social responsibility.

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