REVISTA RELAÇÕES INTERNACIONAIS DO MUNDO ATUAL

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IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON THE PERFORMANCE OF THE BANKING SECTOR: *CASE OF UNITED ARAB EMIRATES*

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ABSTRACT
An enormous body of literature has suggested a contradictory relationship between Corporate Social Responsibility (CSR) and a firm's financial performance in the developed countries, but the link between the two is yet to be explored in emerging economies. However, there is no consensus on the measure of CSR in the extant research available. Therefore, the purpose of this study is to suggest a scale for CSR measure which encompasses a holistic approach and to establish a link based on the scale developed between CSR and financial performance of the Banking Industry in the United Arab Emirates (UAE) from 2012-2019. Findings suggest that both CSR expenditure and CSR commitment have a significant relationship with bank profitability. While CSR expenditure has a negative relationship, the latter is positively related to profitability.

Keywords: Corporate Social Responsibility, Financial Performance, CSR Scale, United Arab Emirates, Emerging Economies

1 INTRODUCTION

Corporate Social Responsibility (CSR) is a self-regulating model and makes a company socially accountable by contributing to the societal goals of philanthropy, volunteering, and charity while supporting ethical and sustainable practices towards all stakeholders and the public at large. UNIDO (UN Industrial Development Organization) identifies the critical measures of CSR as environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards, working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption. Firms have been encouraged to include social and environmental issues in their business activities. CSR is the way to balance economic, environmental, and social imperatives, better known as the 'Triple-Bottom-Line' approach (UNIDO, 2020).

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CSR is a well-developed concept in the western world; however UAE has shown good progress in adopting CSR in the region (Al-Jenaibi, 2017). UAE has the vision to be a global leader in CSR (CSR UAE Fund, 2019), for which, CSR UAE Fund has been set up. This platform encourages businesses to engage in socially responsible practices that lead to positive economic, social, and environmental goals. Their objective is to spread awareness, ignite sustainable partnerships, and reward corporations that align with the Sustainable Development Goals (SDGs). Furthermore, the Dubai Chamber of Commerce and Industry regularly honour companies for their CSR and sustainability efforts . In addition to these initiatives, UAE also has a CSR law, which came into effect as one of the strategies of the year 2017, to endorse the 'Year of Giving'. Under this law, companies are required to make full disclosure of their CSR activities and financial contributions. In addition, companies with healthy CSR practices, such as volunteering and contribution to society, either financially or in-kind, are rewarded with financial privileges and exemptions, including priority in government contracts (Entrepreneur Middle East, 2017). Best performing companies in the field are also honoured with a 'social responsibility passport' and 'social responsibility label' as prestigious recognitions towards their CSR efforts (Khaleej Times, 2017). It is evident that UAE encourages and promotes CR and ethical behaviour for sustainable growth (Anadol et el., 2015), making it one of the primary goals for businesses.

Banks in the UAE are divided into two main categories: (1) Locally incorporated banks which are public shareholding companies licensed in accordance with provisions of Union Law No. (10) of 1980 and (2) Branches of foreign banks that have obtained Central Bank's licenses to operate in the country as per provisions of the said law (CBUAE, 2021). The local banks can be further classified into Commercial banks and Islamic banks. The UAE banks have reported CSR undertaken in their annual reports from as early as 2011 (Mashreq Bank, 2021). However, the UAE Council of Ministers issued a new resolution, the CSR Law, concerning Corporate Social Responsibility only in February 2018 (Smith, Reeves & Boden, 2018).

Since the banking industry does not exist in isolation but within a society, it needs to be socially responsible and contribute positively to the development of society. In UAE, the Banking sector occupies an important key position in the economy. The commercial

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UAE banks are committed to their role in the community, underpinned by the belief that businesses must operate ethically and with integrity, and 70% of the domestic UAE banks provide information about their CSR initiatives (Georgiadou & Nickerson, 2020). The UAE banks contribute immensely to society in the fields of Health, Education and Financial Literacy.

Given the strong governmental thrust and support, most companies in UAE are involved in CSR activities; however, there is no scale to measure the contribution. This was our key motivation in setting up a Corporate Social Responsibility Scale (CSRS) that measures a company's CSR activities.

Objective 1: To develop a scale that encapsulates key CSR activities.

Most governments worldwide recognise the value of CSR and encourage companies to adopt policies that benefit the community as a whole. However, there is no consensus on common approaches to CSR. This means that there are no rules or centrally governed laws that enforce or measure CSR activities. As a result, there is no globally (or locally) accepted scale/ index that measures CSR contribution.

Over the years, abundant literature has emerged concerning the link between CSR and profitability. Several pieces of research have shown that there is a positive relationship between CSR and profitability (Jo and Harjoto, 2011; Amole *et al.*, 2012), some have shown a negative impact (Iqbal *et al.,* 2012), and yet few other studies have demonstrated an insignificant relationship between the two (Apria, 2011; Mulyadi, 2012). This inconsistency may be due to flawed empirical analysis (Mcwilliams and Siegel, 2000) and limitations in measuring CSR. This may be due to the various control variables considered in the extensive literature without a uniform scale.

Objective 2: To develop a model that underpins the key determinants of profitability, including CSR.

As companies adopt the latest innovations and technologies, the competition for market share gets fiercer. Further, the consumer and public awareness and

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consciousness warrant the need for companies to be more socially responsible. A strong CSR concept can bring various competitive advantages such as increased access to capital, improved productivity and quality, improved brand image and differentiation, enhanced customer loyalty, and a better risk management process. However, these initiatives are likely to make the current processes more expensive, at least initially. While the ultimate goal for any business is to make profits enhancing shareholder wealth, it is imperative that the two goals are aligned. In the debate between economic performance and social performance, it is unclear if both can be achieved simultaneously or if one is achieved at the cost of the other. Although most companies embrace CSR's vision, its' implementation is hampered due to poor coordination and lack of motivation (Rangan *et al.*, 2015). This obstacle could be ousted completely if CSR activities were seen as giving the bottom line a boost. This deliberation motivated us to consider the relationship between the two goals in this research.

This study is organised as follows: section 2 on literature review, section 3 on methodology, section 4 on results and discussion, and section 5 provides a conclusion to the study, the practical implications, and future research avenues.

2 THEORETICAL FRAMEWORK AND LITERATURE REVIEW

The term CSR has evolved since the industrialization period (Ahuja, 2016). CSR is defined as activities undertaken by companies to contribute to social welfare beyond the usual business interests (Hopkins,2014, Harvard Business Review, 2019, Martínez & Bosque, 2013) in the economic, legal, and ethical domain (Masoud, 2017, Planken et al., 2013). CSR mainly focussed on the impact of social and environmental factors on the firm's performance (Cho et al.,2015). The undertaking of social responsibility by corporates is expected by the public thereby, forcing companies to notice it (Safwat, 2015).

Warhust (2001) has inferred three elements of CSR: (1) product used for the wellbeing and quality life of people, (2) business practices focussing on the environment, and (3) distribution of profits equally across different communities. There are several

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internal and external drivers of CSR(Babiak & Wolfe, 2009), such as cultural traditions, government initiatives, market priorities stakeholders initiative, etc. ((Pinnington, 2013). Porter and Kramer (2006) have also indicated that CSR is not just an ethical motivation, but it is a requirement to sustain in the competitive business environment. Dandago and Muhammad (2011) have suggested that CSR comprises of activities, which contribute to the growth and development of the community and the economy as a whole.

In many ways, the study by Berger (1995) pioneered the distinction between internal and external determinants and developed a theory of bank profitability. Their hypothesis states that better managerial efficiency in banks results in higher profits (Iacobelli, 2017). This theory has been extended, along with the inclusion of CSR as a plausible determinant. For CSR, building upon Clarkson's (1995) stakeholder framework, subsequent studies measured CSR using the Kinder, Lydenburg, Domini (KLD) data that reflects corporate attention to different stakeholder issues (Hillman and Keim, 2001; Kacperczyk, 2009). In the current study, we have developed from the KLD stats a measure for CSR and extended Berger's profitability determinants.

CSR measure

Researchers have used several CSR measures in their studies; some of them are Moskowitz's social responsibility ratings (Cochran and Wood, 1984); company's initiative in controlling pollution as a proxy measure (Chen and Metcalf, 1980; Freedman and Jaggi, 1982), but this can lead to bias in results where there are differences between the industries in terms of pollution; measure developed from stakeholders' perspective such as the Kinder, Lydenberg, Domini Research and Analytics (KLD) database (Mishra *et al.,* 2010; Inoue and Lee, 2011); based on social and environmental disclosures (Ngwakwe, 2009; Aras *et al.*, 2010), Brine *et al.* (2007), coded as a dummy variable, depending on the availability of the sustainability report McWilliams and Siegel (2000); most popular measure is content analysis from the annual report (Bowman and Haire, 1975). Content analysis is done in several ways: based on CSR disclosure report (Montabon *et al.*, 2007; Riantani and Nurzamzam, 2015), using the number of CSR words (Gamerschlag *et al.*,

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2011), or CSR sentence count (Hughes *et al.*, 2001; Hall, 2002; Aras *et al.*, 2010; Ekatah, 2011).

CSR and Firm's Size

Many studies have been conducted to test the relationship between CSR and a firm's size; however, the findings have conflicting results. The study by Riantani and Nurzamzam (2015) and Aras *et al.* (2010) showed that the firm's size has positive effects on CSR; in contrast, the study conducted by Mulyadi (2012) proved that there is no significant relationship between CSR and firm's size.

CSR and the Firm's Performance

Griffin and Mohan (1997) reviewed several studies and have found 80 different types of financial performance measures, among which most of the studies used firm size, return on assets (ROA)[1], return on equity (ROE)[2], asset age, and return on sales (ROS)[3]. However, many researchers indicated ROA and ROE as the accurate measure of financial performance (Ajide and Aderemi, 2014; Brine *et al.*, 2007; Mulyadi, 2012; Aras *et al.*, 2010).

Several studies have been done across the globe to determine the relationship between CSR and profitability (Saeidi *et al.*, 2015; Inoue and Lee, 2011; Ajide and Aderemi, 2014; Mishra *et al.*, 2010; Brine *et al.*, 2007; Mulyadi, 2012; Riantani and Nurzamzam, 2015; Alafi and Hasoneh, 2012). Many companies consider adopting CSR for a competitive edge (Kim et al ., 2012). An awareness of CSR enhances customer and employee loyalty (lee et al., 2013a, 2013b), and job satisfaction (Lee et al., 2012). Similarly the studies have proved a direct relationship between CSR and retention of key employees, which will impact the company's performance (Vinerean et al. 2013; Pyszka & Gajda, 2015).

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[1] ROA is a measure of profit that a business generates from its total assets;
[2] ROE is a measure of financial performance that is calculated by dividing net profit by shareholders' equity;
[3] ROS is the financial ratio that calculates how efficiently a company is generating profits from its revenue.

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Montabon *et al.* (2007) study on the relationship between Environmental Management practices and CSR showed a significant and positive impact. Waddock and Graves (1997), using a simple multi-attribute rating technique and regression analysis, claim a positive relationship between CSR (employee, product, community relations, environment, military contacts) and performance (ROA, ROE, ROS). Studies have also shown a strong relationship between CSR and social performance (Beck and Hopkins,2017). Several studies have proved that better pollution performance leads to more profitability (Bragdon and Marlin, 1972; Spicer, 1978). Mishra *et al.* (2010) had similar results between CSR (employees, customers, investors, community, environment, suppliers) and ROA. This could be due to CSR-induced revenues, or CSR induced decrease in cost, leading to tax concessions, reduction of duties by the government to promote CSR activities or increase efficiency due to environment-friendly technologies. The unanimous argument for the positive relationship between CSR and performance is that the firms satisfy their stakeholders and communities. Their findings also concluded that CSR activities helped the organisation to sustain itself in the long run.

CSR disclosure may not only benefit the society but also lead to a competitive edge over other businesses (Rexhepiet al., 2013). Studies have also shown negative results while analysing the relationship between profitability and CSR disclosure. Abiodun (2012) study employed regression analysis to study the relationship between CSR and profit after tax. The findings indicated a negative relationship as the profit recorded was less than the amount invested in CSR. Bello (2012) findings indicated a negative relationship between ROA and CSR (environmental, pollution and prevention, donations, employment of disabled people, and health and safety). Bagnoli and Watts (2003) claim that CSR would reduce the firm's profitability when the firm is a price taker. Similarly, Baron (2001) has indicated that when the competition is very high, the firms will invest in CSR at the equilibrium. Foo (2007) has suggested that the CSR activities put social constraints, which conflict with the firm's financial goals.

A study by several authors (Retno and Priantinah, 2012; Wardoyo and Veronica, 2013) have indicated that profitability has an insignificant effect on CSR disclosure during their investigation. Brine *et al.* (2007) paper have concluded an insignificant relationship between CSR and financial performance (ROA, ROE, and ROS) using regression

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analysis. Mulyadi (2012) shows an insignificant relationship between CSR and performance using the double linear regression model and usage of GRI as a measurement of CSR activity.

Due to intense competition in the banking industry, banks have been forced to adopt CSR as a marketing strategy (Khan & Szegedi, 2020). Aarti and Sahu (2021) have highlighted that the UAE banking industry has been a pioneer in CSR initiatives. Nobanee and Ellili (2016) have studied the CSR disclosure in the UAE banking industry.Their findings reveal that the CSR disclosure is overall at a low level, with commercial banks having higher disclosures than Islamic banks. The study further suggested that CSR did impact the performance of the banking industry. Ahmad (2017) study on UAE Islamic bank shows a positive relationship between CSR and ROE; but an insignificant relationship between CSR and ROA. Rettab *et al.* (2008), study examined 280 firms in Dubai to test the relationship between CSR and firms' performance using a 1-5 point Likert scale from the primary data collected. The results indicated that CSR has a positive relationship with financial performance, employee commitment, and corporate reputation. Farouk and Jabeen (2017) findings have suggested a positive influence of ethical climate on CSR in the UAE public sector.

There are several studies on the relationship between CSR and the performance of the banking industry in an emerging economy, but no consensus measure for CSR activities in the extant research. Against this backdrop, the current research has been undertaken to fill the gap by suggesting a new CSR scale to study the relationship between CSR and the performance of the UAE's banking sector.

Research Questions:

1 *How can CSR be measured for the banking industry in UAE?*

2 *Do CSR activities contribute to higher profits in Banks in the UAE?*

3 DATA AND METHODOLOGY

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The CSR activities have been mapped for all the listed banks in the UAE (n=10) for a period of 8 years, from 2012-2019. The activities have been classified to develop the CSR Scale from the banks' annual reports and sustainability reports.

4 CSR SCALE (CSRS)

CSR activities and CSR disclosure vary tremendously across countries (Matten and Moon, 2008; Van der Laan-Smith *et al.*, 2005), and therefore, to develop a harmonised scale, it is imperative that companies considered share the same political and societal background (Gamerschlag *et al.*, 2011). Moreover, their opportunities and threats concerning the external environment should be similar. Thus, it was decided to study all the listed banks in the UAE. These banks follow the same central bank regulations and provide services in the same market. While the CSR law in UAE deems CSR voluntary, the disclosure of the same is mandatory.

The second step entails the identification of the unit of analysis. While some authors consider the superiority of word count over sentence count (Gamerschlag *et al.*, 2011; Abdolmohammadi, 2005), others suggest the reverse (Hermawan and Mulyawan, 2014; Aras *et al.*, 2009). The argument supporting the word count is that it can be replicated and will always yield the same results, whereas sentence count involves subjective judgement. Hackston and Milne (1996) argue that sentence count is far more reliable since words could get distorted due to print layout and page size. Furthermore, subjectivity is involved in deciding which words relate to CSR (Crowther, 2002). Brine *et al.* (2007) used neither words nor sentences; instead, they have coded CSR as a dummy variable, depending on the availability of the sustainability report, and reflected such companies to have adopted CSR practices. Adding to the inconsistency, Kang *et al.* (2010) have used KLD Stats rank to represent CSR activities.

Many different theoretical attempts have been made to justify the measurement of CSR. Each study has considered one or more measurements of CSR, but none of them has adopted a holistic approach by taking all the factors into account. The difficulty is further augmented by the fact that there is no clear or all-inclusive definition of CSR. The CSR umbrella can easily be broadened based on the situation. The onset of COVID-19

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once again transformed the concept of CSR as it now includes keeping employees protected and safe, both physically and mentally. The banks in UAE have contributed to the Community Solidarity Fund to combat the pandemic. Additionally, a number of volunteers have assisted the government in dealing with the ill effects of COVID-19 (Commercial Bank of Dubai, 2020).

In an attempt to cover most bases under the CSR umbrella, in this study, a reference has been made to KLD STATS, a data set with annual snapshots of companies' environmental, social, and governance performance rated by KLD Research and Analytics in the USA. The index covers (1, 0) ratings for multiple indicators within seven qualitative issue areas, including Community, Corporate Governance, Diversity, Employee Relations, Environment, Human Rights, and Product. In this research, a similar format has been followed to understand 18 CSR indicators and expenditure on CSR-related initiatives.

Babbie (2011) and Spector (1992) state that a robust scale must include multiple characteristics. These could then be combined or summated, thereby converting a specific procedure into a single measurement scale. Secondly, these characteristics must measure the underlying traits on a measurement continuum where a higher value indicates 'more of' while a lower value indicates 'less of' the underlying trait.

The study aims to construct a scale that measures the full spectrum of CSR activities. This research uses content analysis to develop a comprehensive scale, first used by Bowman and Haire (1975), that analyses annual reports to identify CSR contribution. Annual reports are deemed suitable and reliable sources of information (Hughes *et al.*, 2001; Riantani and Nurzamzam, 2015; Aras *et al.*, 2009) since they are fundamental communication tools with stakeholders. The scale is constructed by combining the previous studies' strengths by assessing scores, recognising that some banks may score high on certain indicators and low on others, but other banks could be the reverse. The use of various measures ensures that a bank is not disadvantaged merely due to the selection bias of the researcher. A bank may be an avid contributor to CSR but may not publish a separate sustainability report. In such a case, content analysis with a number of words would give it a score above zero. Furthermore, this comprehensive approach ensures the scale is not biased or disadvantaged due to the researcher

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selection of scale dynamics. Thus, the scale takes advantage of any intensity structure that may exist among variables.

We have defined CSR measurement in a way that it stands on five pillars. All pillars are of equal weight as the difference in importance is not apparent, and these pillars have been used alike in the previous studies as a measurement for CSR. CSR measurement is done in two parts: the scale includes the first four pillars, and CSR expenditure is included as a separate variable.

Figure 1 here

1. *Number of Words*: We counted the number of words in the annual report pertaining to CSR, and the raw number was used to assess the level of commitment towards CSR. Based on the word count for all banks over all the years and using a five-figure summary, the series was coded from 0 to 5, where 5 depicts maximum commitment towards CSR. The calculation is justified based on equal spread using the box and whisker plot.

2. *Number of Sentences*: The number of sentences in the annual report pertaining to CSR was counted, and the raw number was used to assess the level of commitment towards CSR. Based on the sentence count for all banks over all the years and using a five-figure summary, the series was coded from 0 to 5, where 5 depicts maximum commitment towards CSR. The calculation is justified based on equal spread using the box and whisker plot.

3. *Sustainability Report*: The companies that issue a sustainability report get a score of 1 and others get a zero score.

4. *CSR Indicators*: The lack of a unified definition of the ever-expanding CSR term renders identification of clear indicators impossible. In an attempt to depict a comprehensive image of CSR, 18 indicators were shortlisted. The choice comes with careful analysis of the local environment, typical CSR activities, and commonly used CSR indicators worldwide, including KLD Statistics (KLD database). Following the identification of these indicators, each bank's annual initiatives were studied in detail to understand the categories to which they belong. Successful achievement of a category yielded a score of 1 and 0 otherwise. Accordingly, the maximum score possible for CSR indicators is 18.

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This is converted to a percentage and summarised in Table 1. Each of the 18 indicators have been defined in the appendix.

Table 1 here

5. *CSR Expenditure*: Since the UAE law mandates disclosure of CSR expenditure as a separate header, all companies have included it noticeably in the financial reports. In case such disclosure is not available, it can be assumed that there was none. The figure is measured in (000's AED) and is recorded as per the original value. This figure is considered separately and not included in scale calculation because CSR Expenditure is expected to work in the opposite direction of the CSR Scale. An increase in expenditure (CSR or any) will mathematically have a negative impact on profitability. Two variables will be considered separately to overcome this problem, namely the CSR Scale (4 pillars) and CSR Expenditure (5th pillar).

Based on the five pillars, CSR Score was calculated for each bank in every year. The score was calculated and converted to a scale following Riantani and Nurzamzam (2015), Pallant (2010), Tonks (2009) and Spector (1992) and by using the number of words, the number of sentences, presence of sustainability report and CSR Indicators together. CSR Expenditure was included separately for reasons discussed above:

$$CSRS = \frac{\sum X_{ij}}{n_j}$$

Where: $\sum X_{ij}$ is the total score achieved based on the first four pillars

n_j is the maximum score of 29

The raw score out of 29 was re-coded into a scale of 0 to 5 and is summarised in Table 2. A score of 5 indicates major commitment towards CSR activities. It can be seen that most banks have mediocre to moderate commitment towards CSR.

Table 2 here

A scale's credibility is evaluated in terms of its reliability and validity. The last step entails scale validation, which can be achieved by calculating Cronbach's Alpha (α). α examines across the item responses, which comprise the scale, thereby providing a

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measure of internal reliability (Pallant, 2010). A value above 0.70 shows the acceptability of the scale. Our scale analysis return α value of 0.7120 thereby, affirming the scale's reliability, as shown in Table 3 (detailed output in appendix).

Table 3 here

Based on our CSRS, annual bank ratings and commitment towards CSR have been presented in Figures 2 and 3, respectively.

Figures 2 and 3 here

Even though the banks offer similar services and products, their CSR activities are far from similar. While some banks are associated with direct philanthropy in the form of donations, others recruit environmentally sustainable initiatives such as reducing carbon footprint. Some banks focus on ethical business practices and green loans. Due to the diverse nature of CSR initiatives, the bank management is free to choose the initiative that best aligns with their vision. It is apparent that ADCB is most committed to CSR as their initiatives have consistently been among the highest in the industry. RAK Bank, First AD Bank, and NBF follow, where their rating has steadily increased over the years. Mashreq bank has not shown commitment towards the cause and constantly rates low on both fronts.

5 CSR EXPENDITURE

The dataset includes ten listed banks in UAE for the period 2012-2019 (t = 8 years). During this relatively long period, some banks went through mergers and acquisitions. Therefore for some banks, the data is only available for seven years (or less for the newly formed entity). Nevertheless, results demonstrate the importance of CSR and other financial factors in generating profits. The summary statistics are presented in Table 4 below.

Table 4 here

Variables:

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All the variables have been considered in log form to normalise the dataset. Furthermore, log transformation has a more natural interpretation rather than its linear counterpart.

Dependent Variable

Two variables ROE and ROA, are considered as dependent variables. Both the variables can be used to develop models for a better understanding of the determinants of profitability.

ROE: Return on equity measures business performance based on the several studies (Mulyadi, 2012; Ajide and Aderemi, 2014). The ratio can shed light on firms' profitability and earnings from stockholders' equity. It is seen that ROE in our sample ranges from 6.5% to 50.8%, with an average of 19.96%. These figures seem relatively high for the banking sector but can be attributed to the robust economic recovery in the UAE, which resulted in higher profits, lower NPLs[4], and the improvement in asset utilisation and capital allocation (CBUAE, 2014).

ROA: Return on assets is another measure of business performance based on the sevral studies (Mulyadi, 2012; Inoue and Lee, 2011). The ratio measures how profitable a bank is relative to its total assets. The results show that ROA ranges from 1.14% to 10.62%. As a rule of thumb, a ROA above 5% is considered healthy; however, in this sample, the average ROA is below the benchmark, at 3.22%. This is because the bank assets expanded broadly in line with net profits (CBUAE, 2018). ROA is determined by the bank's choice of business activities and cost-efficiency, and since the banks belong to the same geography and have similar activities, the standard deviation is rather low in the sample.

Independent Variables

Age: The oldest bank is 53 years old (Mashreq Bank), while the newest is merely 1-year-old. However, the newest bank (First Abu Dhabi Bank) results from a merger between two old banks and therefore shows more robust financials and a positive outlook.

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[4] Non-performing loans, customers have not paid the interest or principal for at least 90 days or more

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The young age results in pooled resources and expertise. This is not a deterrent; instead, it is a strength.

Sales based on the study conducted by Al-Jafari, M. and Al Samman, H. (2015): represent the annual sales of the bank in 000's AED. The UAE dirham is pegged with the USD at a rate of USD 1 = AED 3.675. Therefore, while the original data is in UAE dirhams, it can easily be interpreted in terms of USD (Oanda, 2020). The data exhibits very high variation and could be due to many factors. The banks, while all listed, have a variety of products and services on offer. They provide banking products and services such as credit cards, personal accounts and loans, business loans, car loans, home loans, wealth management and Islamic banking services, among others (ADCB, 2020). These will dictate the sales in banks and hence the variability.

Growth based on the study conducted by Al-Jafari, M. and Al Samman, H. (2015): represents the year on year increase in assets, and over the eight years, there has not been much. Most of the banks have not expanded their assets but rather worked towards improving their performance.

D to E based on the study conducted by Al-Jafari, M. and Al Samman, H. (2015): is the ratio between debt and equity. The ratio is generally high for banks since all customer deposits are part of the debt. Furthermore, banks borrow capital to lend to customers, indicating an aggressive growth strategy. However, the average is higher than the accepted benchmark of 2.2 in the banking sector. High debt may bring down profitability due to higher interest costs.

CSR Expenditure based on the study conducted by Abiodun, (2012) and Amole & Muyideen, (2012): represents the money spent on CSR related activities and is in 000s AED. It is interesting to note that while some banks have spent very high amounts on CSR activities, others have not spent any, and hence the high standard deviation is seen. Interestingly, the maximum amount spent is that of AED 80 million (equivalent to USD 21.8 million) and is of the new entity First Abu Dhabi Bank. The merger of two giant banks created the entity: First Gulf Bank and National Bank of Abu Dhabi. The combined resources and customer base allow them to spend more on CSR activities.

CSR Scale based on the study conducted by Ajide and Aderemi (2014) : The scale shows an even spread through the measurements from 0 to 5, with an average of 2.94.

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This shows that different banks have varied levels of commitment towards CSR, and our sample has a good representation at all levels. Further analysis can show how banks at these diverse levels are impacted by their CSR initiates.

Data Analysis

Pre-estimation tests were conducted to ensure the suitability of the model and selected variables. The correlation matrix in Table 5 confirms low correlation among independent variables, thus confirming the absence of multicollinearity and affirming their use together in a model.

Table 5 here

A total of eight models were developed using the aforementioned variables and regression analysis. The first segment includes four models using ROE as the dependent variable, and the second segment includes the next four models using ROA instead. These models are displayed in Tables 6 and 7, respectively.

The first two models employ the POLS technique within each segment, while the next two employ Random Effects (RE) panel data technique. Variance Inflation Factor (VIF) is calculated post estimation, and the low value affirms the suitability of all independent variables.

Tables 6 and 7 here

The four models (1-4) have very similar results, particularly with coefficients' size and significance. Since our data is a panel and RE offers improvements over the POLS methodology, only models 3 and 4 are discussed for brevity.

The next four models (5-8) use ROA as the dependent variable. While the results are different from before, the significant variables here were also significant in the previous analysis. Besides, the sign and size of the coefficients of the significant variables are similar. However, the number of significant variables is much less in the case of ROA.

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Therefore, using ROA as a dependent variable does not reveal additional information but instead reiterates and affirms most of our findings from before.

The estimation confirms that the age of the bank has a positive impact on profitability. An older, more established bank generates more confidence and hence better performance. It can also be said that old banks have established their place in the market, along with customers, suppliers, and goodwill. Our findings are similar to those of Mulyadi (2012), who found a positive impact of maturity on profitability.

Sales is another significant variable, exhibiting a positive relationship with profitability. This is expected mathematically since profit is a by-product of sales. Our findings concur with those of Mulyadi (2012) and Ajide and Aderemi (2014), who state that a larger company (measured in terms of sales) is more profitable.

Growth reveals a significant but negative relationship with profitability. Since growth is based on asset size, it represents the use of resources, thereby decreasing profitability. It must be reiterated that ROA has been relatively low in UAE banks, pointing towards more investments in assets. If a bank invests in its asset base, the capital expenditure dilutes the profit. These findings are dissimilar to existing research on the relationship of CSR to firms' value and profitability, where Mulyadi (2012) do not find any significant relationship between the variables. Their study, however, is on the Indonesian economy and is not a fair comparison to UAE due to geographic and institutional differences.

While leverage (measured as debt to equity) was not significant in our analysis, it has been reported as a significant variable with the expected negative relationship by Mulyadi (2012) and Lopez *et al.* (2007).

CSR Expenditure is an extremely significant variable exhibiting a negative relationship with profitability. This is completely in line with expectation since any expenditure mathematically will bring down the bottom line profits. Similar results have been seen by Abiodun (2012) where they analyse CSR in the context of the Nigerian economy. Contrastingly, Odetayo *et al.* (2014) find a positive relationship with the aforementioned variables, but their study is limited with a very small sample size of six banks only.

It is, however, interesting to note that while CSR expenditure has a negative relationship, CSR Scale has a positive relationship with profitability. This reasoning also

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justifies the inclusion of the two (CSR Expenditure and CSRS) separately and not as part of the same scale. The CSR scale reveals many interesting facts about motivation and profitability. It is clear from model 3 that if a bank has a strong commitment towards CSR, they are more 'likeable' and hence generate higher profits. When we break down the commitment towards CSR scale further, in Model 4, it is seen that a bank with a score of 1 (Minor) generates the lowest amount of profits. As the scores climb up from 2 to 5 (Marginal to Major), the profitability also increases consistently with each rung. In comparison to a bank at score 1, the results show that a bank with score 3 will generate 0.55% more profits; score 4 will generate 0.67% more profits, and score 5 generates 0.80% more profits, *ceteris paribus*. These findings are novel since such a scale has not been created previously, particularly for the context of banks in an emerging economy, such as the UAE.

The findings further contribute to the existing literature on profitability, adding to the direction of CSR. Banks and other companies realise the importance of CSR in a broader perspective, but its direct and positive relation to profitability can be a game-changer. If companies were to realise that their CSR initiatives bring about positivity and perhaps more customers that directly impact the bottom line, there would surely be more investment in the field. This is indeed a fine contribution to existing literature, particularly due to a large number of conflicting findings in the existing research. These have been summarised in Table 8 below.

Table 8 here

6 CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

The analysis confirms that age and sales positively impact profitability, while growth and CSR expenditure have a negative effect. CSRS has shown a positive and significant impact on bank profitability, affirming that CSR activities do contribute to higher profits in Banks in the UAE.

Furthermore, while several studies analyse the latent impact of CSR on profitability, there are none that develop a scale that can help better understand the contribution of

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CSR activities at different levels towards profitability. The scale from 1-5 shows clearly that a company with major commitment towards CSR (score 5) realises maximum profitability.

CSRS's advantage is that it is not one-dimensional and therefore does not discriminate against banks if their CSR initiatives are only of a particular kind. Further, the use of multiple indicators ensures all CSR activities are recognised with a score.

In comparison with other international studies, our results align with those from Indonesia (Riantani and Nurzamzam, 2015), where firm size has a positive impact on CSR while leverage is not significant. Results around profitability are diverse: while UAE (current study), Nigeria (Bolanle, 2012), and India (Mishra *et al.*, 2010) exhibit a positive relationship between sales and CSR, Indonesia (Riantani and Nurzamzam, 2015) and Australia (Brine *et al.*, 2007) do not indicate a significant relationship. One of the possible reasons for this anomaly could be in terms of domination in the banking industry. In Australia and Indonesia, very few banks dominate the sector and perhaps explains the incongruence in outcomes.

The findings of this study are expected to contribute to the existing CSR literature and management in the banking industry by providing strategic insight into CSR's beneficial impact on the organisations' value and profitability. More importantly, this study aims to contribute to the banking industry's decision-making processes by helping to measure CSR appropriately and to develop a well-suited CSR strategy. The study results confirm the positive effect of CSR on the banking industry; therefore, the primary action for banks should be to increase the CSR activities to leverage valuable opportunities. This study is also useful to the banking sector as CSR enhances the brand image, which can be a source of competitive advantage and help earn sustainable profits in the long run. It also has significant implications for policymakers, particularly in emerging markets, to set policies that protect the interest of the shareholders.

The study is not without limitations; the inadequacy of information about CSR and the lack of a consistent reporting format presented obstacles in the data collection process. The study provides evidence of a link between CSR and profitability but does not explain CSR initiatives or process which can impact performance. Moreover, this study

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is based only on UAE, and therefore prudence must be exercised before generalising the results to other economies.

In terms of future research, the current study can be extended to Islamic banks operating in UAE. We could further compare the CSR link with profitability in both Commercial and Islamic banks. Furthermore, it will be interesting to study the CSR practices and processes that have impacted the banking industry's profitability. The study may also be extended to include other sectors of the economy.

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