

IMPACT OF INVESTMENT IN CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCES OF SOME FINANCIAL INSTITUTIONS LISTED IN DHAKA STOCK EXCHANGE

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ABSTRACT

The study is on "Impact of Investment in Corporate Social Responsibility (CSR) on Financial Performances of Some Financial Institutions Listed in Dhaka Stock Exchange (DSE)". The main objective of this study is to critically analyze the impact of investment in CSR on the financial performance of some banks listed in DSE. The empirical analysis of the study covered a period of 7 years ranging from 2003 to 2009. The major findings of the study are: i) the study depicts that the sample enterprises discharge funds in the form of scholarship, free medical treatment, donation to the victims of natural calamity, sponsorships in talent hunt program, and sports and cultural program ; ii) employee motivation, learning and innovation, management's reputation, risk management, operational efficiency, access to capital, licence to operate, globalization, governments and intergovernmental bodies, advances in communications technology, increasing awareness of the limits of government legislative and regulatory initiatives lead to investment in CSR; iii) enhanced brand image, increased customer loyalty, product differentiation, improved reputation of the management, enhanced ability to recruit, develop and retain staff, greater productivity, improved competitiveness and market positioning, better access to capital, risk management, enhanced operational efficiencies and cost savings, and ultimately to improve financial performance; iv) the study shows that there has been a positive partial relationship between investment in CSR and market price per share as well as net asset value per share in case of the sample enterprise during the study period because the value of coefficient of determination (r^2) between the between investment in CSR and market price per share has been calculated as 0.728 , whereas between investment in CSR and net asset value per share has found 0.284. Therefore, the relationship between investment in CSR and market price per share is statistically significant; on the contrary the relationship between investment in CSR and net asset value per share is not statistically significant at 5% level of significance. All the findings signify that the performance of the sample enterprise in terms of market price per share and net asset value per share has been influenced by the investment in CSR during the study period.

Keywords: CSR, Market Price per Share, and Net Asset Value per Share

INTRODUCTION

Corporate Social Responsibility (CSR) is the way by which firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society (Kasturi, 2008). Building on a base of compliance with legislation

and regulations, CSR typically includes "beyond law" commitments and activities pertaining to corporate governance and ethics; health and safety; environmental stewardship; human rights ; human resource management; community involvement, development and investment ; involvement of and respect for aboriginal peoples; corporate philanthropy and employee volunteering; customer satisfaction and adherence to principles of fair competition ; anti-bribery and anti-corruption measures; accountability, transparency and performance reporting; supplier relations, for both domestic and international supply chains. CSR can involve a wide range of stakeholders, namely employees, investors, shareholders, non-governmental organizations, business partners, lenders, insurers, communities, regulators, intergovernmental bodies, consumers. There is considerable potential for problems when stakeholders perceive that a firm is just engaging in a public relations exercise and cannot demonstrate concrete actions that lead to real social and environmental benefits (*Industry Canada*).

Rationale of the Study

As assessment of investment in CSR of any firm, whether banking, non-banking financial institutions, manufacturing, trading and so on, is a must in order to know the impact of this investment on the financial performance of the given firm. This assessment needs to be made from time to time. An individual may donate to a non-profit due to reasons of philanthropy, or in memory of some person etc, but why does a commercial organization contribute for a social cause? The basic objective of a commercial organization is to make profits. Why will it divert substantial funds to a non-profit if there is no return on that investment(*Dsilya, 2008*)? If financial performance is unfavorably affected by investment in CSR, why the given enterprises make investment in CSR? This is also true in case of the selected enterprise. The present study is an effort in the direction.

Objectives of the Study

The main objective of the study is to critically examine the impact of investments in CSR on financial performances of some financial institutions listed in Dhaka Stock Exchange (DSE). In order to attain the basic objective of the study, the following are the specific objectives:

- i. To trace out the major social corporate actions taken by the selected institutions.
- ii. To identify the factors influence the investment in CSR.
- iii. To identify the potential benefits that can be derived by the firms implementing CSR.
- iv. To assess the amount of investment in the major social corporate activities during the study period.
- v. To measure the impact of investment in CSR modes on market price of share, and net asset value per share of the selected institutions.

Scope & Methodology of the Study

The scope of the study is limited to a total number of 4 commercial Banks which are listed in DSE. The empirical analysis of the study is limited to a period of 7 years ranging from 2003 to 2009. The sample units have been selected randomly using simple random sampling method without replacement. The study is the outcome of both the primary and secondary data. The primary data relating to the various heads of CSR investments have been collected on the basis of a questionnaire by using interview method. A total number of twenty five bankers, five for

each bank have been interviewed. The collected data have been processed with the help of the computer by using statistical software. 5 point Likert –Scale has been used to analyze the data. The secondary data have been collected from the sources, namely annual reports, websites etc of the samples. The collected data have been processed, analyzed and interpreted objectively in order to make the study more informative and useful to the readers and policy makers. The statistical regression model has been used to measure the impact of investments CSR actions on both the stock prices and net asset value of the firm.

Limitations of the Study

The following are the shortcomings of the study:

- i. Only four commercial Banks have been considered as sample units.
- ii. The study period is limited to only 7 years.
- iii. There are a number of financial indicators, but only stock price per share and net asset value per share have been incorporated to measure the impact of CSR on financial performance.

LITERATURE REVIEW

Brine, Brown and Hackett found in their study that there is no statistically significant relationship between corporate social responsibility and financial performance; however, a number of opportunities for refining the research were identified. According to Dam (2006), there are in fact strong linkages between corporate social responsibility and financial performance. The linkages are intuitive: engaging in corporate social responsibility compromises pure profits, but it potentially leads to maximum firm value. As per an examination of Accounting Issues, there are three major economic benefits of CSR such as, firms avoid or mitigate impacts to financial performance arising from negative events and/or externalities, firms create goodwill and/or other intangible assets, favourably impacting financial performance, and firms gain efficiencies, reducing operating costs. Tsoutsoura (2004) found in his study that the sign of the relationship between corporate social responsibility and financial performance is positive and statistically significant; supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits. Dsilya (2008) argued that the important factors that influence the company to contribute are: customer oriented, ethical oriented, community oriented, humane oriented. Financial benefits in terms of tax benefits also are important, though the responses to this issue seem to be guarded. In addition, corporate social responsibility and cause related marketing is beneficial both for company and the society. Gunay (2010) found that top managers and directors believe that as the hierarchy in their firms increases, CSR activities will also increase. It is also found that there is a positive correlation among the variables of organizational behaviours of industrial firms in Turkey. Although these correlations among the variables of organizational behaviours are low, they are statistically significant. Vasal (2009) argued that the portfolio of stocks of socially responsible companies has not underperformed the market. Rather, as against the market, there are signals of positive excess return, though statistically not significant, for the shareholders of the socially responsible companies. Also, results of shareholder returns for the socially responsible companies are comparable with those observed for the 'Nifty' Portfolio ('S&P CNX Nifty Index'). These research findings have implications for socially-responsible investment decisions made by both the (activist) investors and corporate management.

FINDINGS & ANALYSIS

The Major Social Corporate Actions Taken by the Selected Institutions

The selected Banks give top most priority in discharging its responsibility to the society. The sample Banks make investment in CSR in the following forms:

- i. **Scholarship:** The selected Banks award scholarships for the meritorious & needy students at HSC and graduation level students. They also award fellowship for the M. Phil, Doctoral & Post-Doctoral researchers.
- ii. **Health Services:** The sample enterprises arrange Smile Brighter program for cleft-lip patients, cataract operation for underprivileged blind people, medi-care services for the rural people at free of cost. They also play an important role to the health Infrastructure development through donating to Obstetrical Gynecological Society of Bangladesh, and ICDDR'B etc.
- iii. **Standing by the Natural Calamity Victims:** They donate to the Prime Minister's Relief Fund for the natural calamity affected people.
- iv. **Tree Plantation:** They take initiative for tree plantations.
- v. **Sponsorship to the Talent Hunt:** They extend their financial support to the different talent hunt program arranged by the different Medias.
- vi. **Supports to Sports and Culture:** They sponsor a number of sports and cultural program to support different communities.

Factors Affecting Investment in CSR

Brine, Brown and Hackett argued that employee recruitment, motivation and retention; learning and innovation; management's reputation; risk management; operational efficiency; investor relations and access to capital; and licences to operate are the economic drivers which influence the companies to make investment in CSR. Moreover, globalization, governments and intergovernmental bodies, advances in communications technology, increasing awareness of the limits of government legislative and regulatory initiatives and so on also lead to investment in CSR. These are also the fact to recognizing that their corporate reputation is closely connected to how well they consider the effects of activities on those with whom they interact. As a result, reputation is an invaluable, albeit largely intangible, corporate asset that must be managed as carefully as any other.

- i. **Employee Motivation:** CSR is an important factor in attracting and retaining a talented and diverse workforce. Companies that account for the interests of their employees by offering good working conditions will achieve better performance in terms of quality and delivery, and, therefore, experience higher levels of productivity.
- ii. **Learning and Innovation:** Learning and innovation are critical to the long-term survival of any business. CSR can be a vehicle for business to respond to environmental and societal risks and turn these into business opportunities.
- iii. **Management's Reputation:** CSR offers a means by which companies can manage and influence the attitudes and perceptions of their stakeholders, building their trust and enabling the benefits of positive relationships to deliver business advantage.

- iv. **Risk management:** CSR offers more effective management of risk, helping companies to reduce avoidable losses, identify new emerging issues.
- v. **Competitiveness and Market Positioning:** CSR branding can draw consumers away from competitors and thereby enhance market position.
- vi. **Operational Efficiency:** Corporate social responsibility can offer opportunities to reduce present and future costs to the business thereby increasing operational efficiency.
- vii. **Access to Capital:** The investment community is increasingly viewing CSR as akin to good governance practices. Recent surveys indicate that analysts place as much importance on corporate reputation as they do on financial performance.
- viii. **Licence to Operate:** Companies that fail to manage their responsibilities to society as a whole risk losing their licence to operate — a concept whereby a company's stakeholder's grant the company an unwritten authority to do business. This may be evidenced by favouring competitors, boycotts or calls for deregistration.
- ix. **Globalization:** Globalization with its attendant focus on cross-border trade, multinational enterprises and global supply chains - is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things.
- x. **Governments and Intergovernmental Bodies:** Governments and intergovernmental bodies, namely the United Nations, the Organisation for Economic Co-operation and Development and the International Labour Organization have developed compacts, declarations, guidelines, principles and other instruments that outline social norms for acceptable conduct.
- xi. **Advances in Communications Technology:** Communication technology, like internet, cellular phones and personal digital assistants, are making it easier to track corporate activities and disseminate information about them. Non-governmental organizations now regularly draw attention through their websites to business practices they view as problematic.
- xii. **Consumers and Investors' Interest:** Consumers and investors are showing increasing interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues.
- xiii. **Awareness:** There is increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that CSR addresses.

The Potential Benefits that can be derived by the Firms Implementing CSR

A positive approach to CSR can lead to enhanced brand image; increased customer loyalty; product differentiation; improved reputation of the management; enhanced ability to recruit; develop and retain staff; greater productivity; improved competitiveness and market positioning; better access to capital; risk management; enhanced operational efficiencies and cost savings; and ultimately to improved financial performance. If we look at all of these potential business benefits of corporate social responsibility, and take each one into account, the 'big picture' looks good. Although some of the benefits may be intangible and difficult to

measure in financial terms, they are each significant, and each in its own way can contribute to the bottom line: improved financial soundness of the company (*McKee*).

- i. **Brand Image and Customer Loyalty:** Probably the most significant business benefit of CSR is the positive effect it can have on brand image and customer loyalty. If a company is known to be responsible and ethical, and if it markets itself as such, then it will be well positioned in a competitive market. Consumers, weary of the tales of ruthless corporations doing everything in their power to maximize profits, are becoming more and more interested in supporting companies who are seen to be 'doing the right thing'.
- ii. **Product Differentiation:** Organizations that want to remain competitive and viable in today's marketplace need to offer differentiated products. Particularly, for organizations that implement socially responsible policies, product differentiation can satisfy the unmet needs of consumers offering both financial and business benefits to the firm. Firms that offer environmentally friendly products experience higher sales growth than firms that sell conventional products, and usually such products sell at a higher price.
- iii. **Improved Management's Reputation.** Organizations that perform well with regard to CSR can build reputation, while those that perform poorly can damage brand and company brands when exposed.
- iv. **Enhanced Ability to Recruit, Develop and Retain Staff.** This can be the direct result of pride in the company's products and practices, or of introducing improved human resources practices, such as "family-friendly" policies. It can also be the indirect result of programs and activities that improve employee morale and loyalty. Employees become champions of a company for which they are proud to work. Employees who work for socially responsible companies tend to be highly motivated in their jobs, partly because they take satisfaction in knowing that they are working for an organization that has the greater good of society and the planet at heart; and partly because their employers are treating them well. If an employee is motivated, then they will be more productive.
- v. **Improved Competitiveness and Market Positioning:** This can result from organizational, process and product differentiation and innovation. Good CSR practices can also lead to better access to new markets.
- vi. **Access to Capital:** Investors are becoming more and more interested in the CSR policies of the companies they invest in, particularly in issues relating to the environment and human rights. A good CSR policy will attract investors who will on principle no longer invest in companies who do not have a good reputation for CSR. This means that socially responsible companies will have access to a larger capital base.
- vii. **Risk Management:** There is one other important business benefit attached to CSR, and it is one that is based on public perception. A socially responsible company monitors and takes responsibility for its own actions. It strives to minimize its impact on the environment. It deals with all of its stakeholders fairly. If the public, the media, the governments and the regulators see that all these things are genuinely happening, then the company will be building itself a reputation that will be enough to carry it through any potential 'stormy weather'.
- viii. **Enhanced Operational Efficiencies and Cost Savings:** It may seem like a contradiction to state that CSR can lead to lower operating costs, but, in the long run, there are many

reasons why this can actually be the case. On environmental issues, a company who is striving to minimize its carbon footprint will be looking at ways of minimizing fuel consumption. While this may involve initial investment in more energy efficient vehicles and appliances, it will ultimately lead to cost saving: if a company is using less energy, then its energy bills will be lower. If a company is minimizing water usage, then its water bills will be lower. The same is true for maximizing the use of recycled materials.

POSITION OF INVESTMENTS IN CSR OF THE SELECTED BANKS

The following table shows the position of Investment in CSR of the selected Banks:

Table-1: Position of Investments (million Tk.) in CSR of the Selected Banks

Banks	2003	2004	2005	2006	2007	2008	2009	Average
DBBL	19.105	24.951	85.00	70.00	189.00	183.00	206.00	111.008
Prime Bank Ltd.	5.00	32.30	29.00	52.60	3.06	2.6352	4.277	18.41031
Dhaka Bank Ltd.	10.20	12.66	15.36	19.00	37.36	26.90	24.726	20.88657
City Bank Ltd.	4.06	16.46	22.62	7.06	16.17	20.28	36.15	17.54286
Total	38.365	86.371	151.98	148.66	245.59	232.8152	271.153	

Source: Annual Reports of DBBL, PBL, DBL & CBL (2003 - 2009)

Table -1 depicts that the total investment of the selected Banks increased in 2004; 2005; 2007 & 2009, whereas decreased in 2006 & 2008.

Impact of Investment in CSR on Market Price per Share and Net Asset Value per Share

The impact of investment in CSR on market price per share may be shown with the help of the following equation: $\hat{Y} = 251.371 + 0.858X$

The results have been shown in Appendix- 02, 03, and 04. The value of intercept term of 251.371 indicates that market price per share would be Tk. 251.371 in absence of investment in CSR & the value of slope of 0.858 represents that the market price would be changed in 0.858% due to 1% change investment in CSR in the same direction i.e. there has been a positive relationship between market price per share and investment in CSR. Co-efficient of determination (r^2) equal to 0.728 indicates that market price per share has been influenced by investment in CSR to the extent of 72.80%. The remaining 17.20 % is explained by the error factors, which are not considered in our study. Therefore, it can be concluded that there exists a positive partial relationship between market price per share and investment in CSR.

Tabulated F value at 5 % level of significance with (1, 3) degrees of freedom equal to 10.10. As compared to table value of F, it is seen that calculated F value is lower than table value of F. This signifies that, null hypothesis (H_0) is not rejected, so alternative hypothesis (H_1) rejected, i.e. there is no linear relationship between market price per share and investment in CSR. This

means, there is positive partial relationship between market price per share and investment in CSR.

The impact of investment in CSR on net asset value per share may be shown with the help of the following equation: $\hat{Y} = 250.042 + 0.858X$

The results have been shown in Appendix- 02, 03, and 04. The value of intercept term of 250.042 indicates that net asset value per share would be Tk. 250.042 in absence of investment in CSR & the value of slope of 0.858 represents that net asset value per share would be changed in 0.858% due to 1% change investment in CSR in the same direction i.e. there has been a positive relationship between net asset value per share and investment in CSR. Co-efficient of determination (r^2) equal to 0.284 indicates that net asset value per share has been influenced by investment in CSR to the extent of 28.40%. The remaining 71.60 % is explained by the error factors, which are not considered in our study. Therefore, it can be concluded that there exists a positive partial relationship between net asset value per share and investment in CSR. .

Tabulated F value at 5 % level of significance with (1, 3) degrees of freedom equal to 10.10. As compared to table value of F, it is seen that calculated F value is lower than table value of F. This signifies that, null hypothesis (H_0) is not rejected, so alternative hypothesis (H_1) rejected, i.e. there is no linear relationship between net asset value per share and investment in CSR. This means, there is positive partial relationship between net asset value per share and investment in CSR.

CONCLUSION

It is depicted from the study that there exists partial positive relationship between investment in CSR and market price per share in case of the sample enterprise since 2003 to 2009. This is evident from the fact that the value of co-efficient of determination (r^2) between investment in CSR and market per share has been calculated as 0.728. This signifies that 72.80% of market price per share has been explained by the investment in CSR and remaining 27.20% has been explained by other factors and such relationship is statistically significant. Moreover, the results of the given study reveal that there is a partial positive relationship between investment in CSR and net asset value per share in case of the selected enterprise during the study period. This is evident from the fact that the value of co-efficient of determination (r^2) between investment in CSR and net asset value per share has found as 0.284. This signifies that 28.40 % of net asset value has been explained by the investment in CSR and remaining 71.60% has been explained by other factors and this relationship is not statistically significant. The findings of this indicate that financial performance of the sample enterprises has been influenced by the investment in CSR in terms of market price per share and net asset value per share during the study period.

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APPENDEX-1: Market Price per Share (Tk.) of the Sample Banks

Banks	2003	2004	2005	2006	2007	2008	2009	Average
DBBL	432	1853	2188	1840	6766	4311	1958	2764
Prime Bank Ltd.	374	880	682	529	924	540	653	654.5714
Dhaka Bank Ltd.	251	850	469	466	706	361	484	512.4286
City Bank Ltd.	277.76	877.76	769.00	390.00	725.25	451.50	725.55	602.4029

Source: Annual Reports of DBBL, PBL, DBL & CBL

APPENDEX-2: Net Asset Value Per Share (Tk.) of the Sample Banks

Banks	2003	2004	2005	2006	2007	2008	2009	Average
DBBL	391.85	506.53	667.16	821.36	1154.88	316.36	290.12	592.6086
Prime Bank Ltd.	233	224	201	221	232	235	330	239.4286
Dhaka Bank Ltd.	252.84	259.18	185.44	217.82	227.00	206.77	233.39	226.0629
City Bank Ltd.	332.17	295.31	272.00	234.34	241.95	308.70	373.25	293.96

Source: Annual Reports of DBBL, PBL, DBL & CBL

APPENDEX-3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858(a)	.737	.728	699.55274

a. Predictors: (Constant), CSR

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41063339.974	1	41063339.974	83.910	.000(a)
	Residual	14681220.890	30	489374.030		
	Total	55744560.864	31			

a. Predictors: (Constant), CSR

b. Dependent Variable: MPPS

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	251.371	156.727		1.60	.119
	CSR	21.019	2.295	.858	9.16	.000

a. Dependent Variable: MPPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.554(a)	.307	.284	175.32364

a. Predictors: (Constant), CSR

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	408539.698	1	408539.698	13.291	.001(a)
	Residual	922151.332	30	30738.378		
	Total	1330691.030	31			

a. Predictors: (Constant), CSR

b. Dependent Variable: Net Asset Value

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	250.042	39.279		6.366	.000
	CSR	2.096	.575	.554	3.646	.001

a. Dependent Variable: Net Asset Value

APPENDIX 4: Perception of Bankers Regarding Determinants of CSR

Determinants	Never	Seldom	Sometimes	Often	Always	WAC	Ranks
Employee Motivation	0	2	6	5	7	3.45	9.5 th
Learning & Innovation	0	3	6	5	6	3.70	8 th
Reputation Management	0	2	4	6	8	4.00	2 nd
Risk Management	0	3	5	3	9	3.45	9.5 th
Operational Efficiency	0	2	3	7	8	4.25	1 st
Access to Capital	0	3	4	7	6	3.80	6 th
Licence to Operate	0	4	3	5	8	3.85	4 th
Globalization	0	4	4	6	7	3.95	3 rd
Governments & Intergovernmental Bodies	0	3	4	5	6	3.40	11 th
Advances in Communications Technology	0	4	3	6	7	3.80	6 th
Consumers & Investors' Interest	0	5	6	4	5	2.95	12 th
Awareness	0	3	5	5	7	3.80	6 th

Source: Field Survey

APPENDIX 5: Opinion of Bankers Regarding Benefits of CSR

Aspects	Never	Seldom	Sometimes	Often	Always	WAC	Ranks
Brand Image & Customer Loyalty	0	3	5	5	7	3.80	5.5 th
Product Differentiation	0	2	4	8	6	3.90	3 rd
Improved Management's Reputation	0	4	3	5	7	3.60	8 th
Enhanced Ability to Recruit, Develop & Retain Staff	0	2	5	5	8	4.00	2 nd
Improved Competitiveness & Market Positioning	0	3	4	7	6	3.80	5.5 th
Access to Capital	0	4	4	6	6	3.70	7 th
Risk Management	0	2	4	5	9	4.05	1 st
Enhanced Operational Efficiencies & Cost Savings	0	1	6	8	5	3.85	4 th