

# Corporate social responsibility in banking

[Finance](#), [Banks](#)



Abstract: In today's global economy, corporate social responsibility (CSR) is a core component of corporate strategy. As a result CSR emerge as a safeguard to protect financial scandals and diminish reputation of the banks. It also advocates and works to minimize the conflicts with stakeholders. Corporate Social Responsibility (CSR) designed to respond to huge unmet needs of the society in the achievement of long term and persistent business value. Especially commercial banks play an important role in implementing various social and philanthropic programs to help disadvantaged people of the country. To reinforce, CSR activities, banks have focused the area of market place, work place, community and environmental policy. The analysis in the study was targeted to understand the overall corporate responsibility status in the banking sector of Bangladesh.

Keywords: Corporate Social Responsibility, Commercial Banks, Bangladesh.

## **Introduction:**

Now-a-days corporate strategy planner focuses their concentration on wealth maximization rather than profit maximization. The main cause is the intense market competition. So, they divert mentality from conventional business to social business. In addition, recent financial scandals eg, Enron, Parmalat, Worldcom etc have forced corporate executives, globally, to contemplate a broader strategy beyond the focused view of stockholders wealth maximization.

The impact of business on the society has become a crucial issue. As a result, banks are emphasized on social, ethical and environmentally responsible approaches to business activity. Bank examine the

environmental effect of projects in loan approval process and no projects are approved which are detrimental to the environment. Commercial banks are well aligned with Bangladesh Banks guidance on this aspect. They believe in the need to focus on poverty alleviation through education and health care, for long run benefit of the nation.

Recent theories of CSR (Baron (2001), McWilliams and Siegel (2001), Bagnoli and Watts (2003)) assert that firms engage in “ profit-maximizing” CSR. That is, companies are assumed to be socially responsible because they anticipate a benefit from these actions. The World Business Council for Sustainable Development (WBCSD) has given the following definition of CSR:

“ CSR is the task of a business to contribute to sustainable economic development, working together with workers, their families, the local community and society in general to improve quality of life.”

Barnea and Rubin (2005) demonstrate that the decision to invest in CSR is negatively related to insider ownership, and interpret this finding in the light of an overinvestment hypothesis. CSR is good for shareholder value, up to a given level, but insiders may have an interest to overinvest in it to improve their reputation, and they are more likely to do so when their ownership share is lower.

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## Literature Review:

There is a growing trend for investors to direct their money towards explicitly socially responsible organizations. According to Peter A. Heslin and Jenna D. Ochoa (2008) "The amount invested in "green" mutual funds in the U. S. rose 695% in the last six years. During the last three years, the amount of money invested in clean energy has reached U. S. \$70. 9 billion globally."

The primary goal of any economy is to maximize the material wealth of nations (Adam Smith), production and distribution of wealth (John Stuart Mill), to maximize material wealth and material welfare (Alfred Marshall), satisfaction of the human needs with the scarce means (Lionel Robbins). But now a day, the objective of a firm is not only consistent with those scholars but also incorporates social, ethical and environmental concerns. Therefore the primary objective, the purpose or use for which, firms exist is to ensure the subsistence of mankind and sustenance of the Earth containing the mankind.

Some authors have argued that the stakeholder perspective of CSR ought to extend to the concept of accountability. Drawing from the works of other academics (e. g. Gray et al. 1987; Williams 1987; Roberts and Scapens, 1985), Swift (2001: 17) broadly describes accountability as '... the requirement or duty to provide an account or justification for one's actions to whomever one is answerable' and narrowly as '... being pertinent to contractual arrangements only,... where accountability is not contractually bound there can be no act of accountability'.

According to Lantos (2001), ethical CSR is a firm's mandatory fulfillment of economic, legal and ethical responsibilities. It is akin to the first three components of Carroll's typology. Altruistic CSR is the same as philanthropic responsibility of Carroll's typology but differed from it in the sense that Lantos argued that it would only be possible for private firms to be philanthropic and irresponsibility on the part of public corporations since they do not have the rights to use the funds of shareholders (who might also be involved in private philanthropy) for public philanthropy.

As argued by Konz and Ryan (1999: 200): " People are searching for meaning in work that transcends mere economic exchanges between isolated, autonomous individuals. '(and)' a way to connect their work lives with their spiritual lives, to work together in community, to be unified in a vision and purpose that goes far beyond making money".

In modern era, business activities moving around the society visualizing sustainable development. It is not only a promotional activity but also an ethical dilemma. Some of the authors' findings are given below:

Author

Findings

**Sethi (1975)**

- corporate activities should be stable over time
- definitions of various categories should be applicable across firms, industries, or even social systems, making comparative analysis possible.

**Carroll (1991, 2004)**

CSR is made up of the following components in a bottom-up order:

- (1) economic responsibility - ' be profitable'
- (2) legal responsibility - ' obey the law'
- (3) ethical responsibility - ' be ethical'
- (4) philanthropic responsibility - ' be a good global corporate citizen

Lantos (2001)

Identified the following strands of CSR:

- (a) ethical CSR,
- (b) altruistic CSR and
- (c) strategic CSR

CPD (December, 2002)

Following issues have been identified under corporate responsibility framework:-

- Sustainable Development
- Business Ethics
- Human Rights
- Legal Compliance
- Corporate Governance

- Fair Employment
- Health & Safety
- Labor Standards
- Community Relations
- Environmental Responsibilities

### **Objectives of the Study:**

The objective of the study is to investigate a definite structure and concept of Corporate Social Responsibility (CSR) in the area of banking sector. It deals with early history of corporate social responsibility, banking mission, and the area of social welfare. Besides these, it has some special objectives.

These are:

- To get an idea of banking role in sustainable development.
- Evaluate transparency and accountability of corporate as well as public entities.
- To learn business ethics, safety and ergonomic issues.
- To learn banks responsibility to community.
- To know standard conduct that includes employment fair policy and all core labor standards.

### **Methodology of the study:**

The paper is constructed to synchronize theoretical and practical exposure of CSR in Banking perspective. As a result, the paper is descriptive in nature.

Most of the information are generated by evaluating “ Secondary Sources”

like:

- Annual report of different commercial Banks

- Study related books and journals
- Web sites

Collected data have then processed & compiled with the aid of MS Word, Excel & other related computer software. Necessary tables have been prepared on the basis of collected data and various statistical techniques have been applied to analyses on the basis of classified information.

### **Evaluation and Findings:**

In Bangladesh, there are forty eight scheduled banks and out of them forty six had engagement in CSR practices in some form or other in 2009 (Review of CSR Initiative-2008-09). Due to intense competition in the banking sector, it is essential for a bank to behave in a responsible manner towards the society. This sense stimulates business activities in a long term and persistent social value. To attain this intrinsic quality banks should:

Focus on vision based strategy (wealth maximization rather than profit maximization).

Draw their attention to internal and external components of the CSR activities like; fair salary structure, employee benefit, corporate governance, labor standards etc. They need to trust their shareholder-customers, shareholders, employees and society. Behaving responsibility towards society and the environment strengthens this trust.

Their commitment has always been to behave ethically and to contribute towards changing the quality of life of their people, the local community and generally the society. Corporate social responsibility focuses on:



Figure 3. 2: Area of Social Responsibility

## **Work Place**

## **Environment**

## **Market Place**

Area of CSR

## **Community**

Source: Annual Report of National Bank Ltd (2009)

In 2004 and 2005, several banks adopted meticulous CSR policies to limit lending related to destructive projects. The intense pressure from environmental activists and shareholders, different banks agreed to not finance projects in endangered or high conservation value forests or where illegal logging is occurring. Environmental concerns have grown steady during the past several decades. Goldman Sachs was the first global investment bank to adopt a comprehensive environmental policy. The natural environment is the major worldwide issue facing the business and the public. World concern continues to mount about the depletion of the Earth's ozone layer and the resulting "green house effect", a dangerous warning of the Earth.

In the year 2007, There is a greater concentration in the field of disaster relief, both in participation and expenditure wise, was observed mainly because of the cyclone 'Sidr'. Whereas, in the year 2009, the 'Education' and 'Health' sectors were getting more attention and appeared to be the most popular area for CSR activities as huge investments are being made by

several banks in these segments. These shifts point to the responsiveness of the banking community to the changing need of the society.

Despite progress made by many companies, adoption of CSR policies and reporting are still in its early stages at most corporations. Our Corporate Social Responsibility Program engages companies to adopt strong social and environmental policies, and follows us to ensure that commitments are kept.

Corporate social responsibilities may provide added advantages to the business like as Balanced Score Card. Because pushing incentives in the base level (Work Place, Market Place, Community and Environment) will increase bottom line figure (Profit) of the statement. The positive attitude towards the focused element (Table-03) is the way of getting added advantages from the society.

## **Major Areas**

### **Focused Element**

### **Added Advantages**

Work Place

Working Environment

Enhance employee satisfaction, confidence, productivity and loyalty

Employee Benefit

Training

Job Security

Gender Discrimination

Staff welfare

Day-care Center for children of bank employee

Market Place

Customer Service

Attain customer fidelity, and retention

New Product

Introduce new technology

Community

Education

Secure public confidence, interaction, positive attitude and devotion

Employment

Sports & Cultural Activities

Health Care

Disaster Relief

Environment

Forestation

Allure public attention through ethical behavior

Financing on eco-friendly firm

(Financial Inclusion)

Fig: Added Advantages received by practicing CSR

The Financial sector in turn can contribute hugely by catalyzing CSR practices in their real sector corporate clients, promoting inclusive economic and social development. In terms of direct monetary expenditure, engagements of banks in CSR initiatives are increasing, particularly following issuance of BB guidance (DOS Circular No 01 Dated 1st June 2008):

CSR expenditures of banks have thus far largely been in the form of passive grants and donations. Apart from one-off grants and giveaways, some banks have engagements in longer term continuing support commitments, in areas of education and healthcare. Besides the passive engagements by way of grants/donations (Table 1, Section B, page 2), banks are now getting actively engaged in socially responsible business operations, by way of increased lending to under-served economic sectors like agriculture and SMEs, towards fuller financial inclusion and faster poverty eradication.

The June 2008 BB Guidance circular suggested that banks could begin reporting their CSR initiatives in a modest way as supplements to usual annual financial reports, eventually to develop into full blown comprehensive reports in GRI format. Banks are yet to adopt separate reporting of their CSR activities in comprehensive formats such as the GRI format.

**Recommendations:**

The ultimate conclusion is that corporate responsibility is a changing philosophy of business. The demands for “ social responsibility” have provoked enthusiastic discussion and debate on what new roles, if any, business firms should play in the social system. Banks should not attempt to minimize the expectations of the society; rather they need to respond to them more efficiently. The corporate responsibility practices can play positive role in improving competitiveness in the corporate entities in Bangladesh as well as improve working and living environment for the workforce. Whether is for the government, the community, shareholders, directs, top management, employees or the general public, a corporate organization that intends to effect changes in the environment must always perform a number of socially responsible actions.

Formulate uniform rules and regulations: Government or regulatory bodies should formulate uniform rules and regulation regarding CSR practices in banking sector.

Tax Shield: All social contribution by the banks should be tax exempted. As a result, social contribution will increase gradually.

Change corporate values: In most of the cases, social contribution treated as enhance reputation only. But, they have to change their values and try to think it’s their responsibility too.

Improving Business and Social Productivity: A society’s productivity depends on how efficiently it uses resources. If the naturally human and financial

resources are combined and managed effectively by business forms then the productivity of both business and society can be high.

Balancing Ethics and Economics: A serious social challenge to business is to integrate ethics and economics. How much more profit is desirable and what cost to the customers? What about product quality? Is the customer being cheated through poor measurement or abrasive advertisement? Ethical behavior and economics are the opposite sides of a bad coin. There should be a balance.

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