A case study at the hsbc

Chapter 1

Literature Review

1. 1 Overview of Corporate Social Responsibility

The notion that business has duties to society is firmly well-established, despite the fact that in the past there has been a revolution in the way people view the relationship between business and society. Numerous researchers suggest that companies which indulge in corporate social responsibility obtain consumers' positive product and brand evaluations, brand choice, brand recommendations, good attitude to firm, good image of the firm, purchase intention and even enjoy a premium price.

Spurred at least in part by such evidences, more companies than ever before are backing CSR initiatives such as corporate philanthropy, cause-related marketing, minority support programs, and socially responsible employment and manufacturing practices with real financial muscle. Not surprisingly, this trend is also reflected in the pervasive belief among business leaders that CSR is an economic imperative in today's national as well as global marketplace.

However despite the increasing importance of CSR, there is little research available about CSR's impact on consumers. According to Yoon (2003), it is not clear when and how CSR activities influence consumer evaluations. Recent researchers have suggested that a CSR activity might backfire on the company if the consumers have become suspicious and infer that the company's true motive for the CSR activity is only to improve its image to sell more products without trying to act for the sake of consumers

1. 1. 1 Defining Corporate Social Responsibility

According to Kotler (1991), Corporate social responsibility is about doing business in a way that maintains or improves both the customer's and society's well being; Fombrun and Gordberg (2000)'s point of view is that, corporate social Responsibility is something that no sane chairman should be without.

On the other hand, Petkus and Woodruff (1992) believe CSR includes both avoiding harm and doing good. Corporate social responsibility is viewed as a company's commitment to minimize or eliminate any harmful effects and maximizing its long run beneficial impact on society.

Corporate social responsibility activities include numerous factors; namely meeting customer expectations, demonstrating commitment to environmental responsibility, improved environmental performance, staying ahead of the legislation, and increased employee motivation.

Mohr, Webb, and Harris (2001, 47) define CSR as " a company's commitment to minimizing or eliminating any harmful effects and maximizing its long-run beneficial impact on society."

Though, Angelidis and Ibrahim (1993) define corporate social responsibility as corporate social actions whose purpose is to satisfy social needs, Lerner and Fryxell (1988) suggest that CSR describes the extent to which organizational outcomes are consistent with societal values and expectations.

While some view CSR as an obligation, others, namely: Enderle & Tavis (1998) define corporate social responsibility as “ the policy and practice of a corporation’s social involvement over and beyond its legal obligations for the benefit of the society at large”.

1. 1. 2 Dimensions of Social Responsibility

The dimension of social responsibility was propounded by Carroll (1979). It was proposed that organisations have to have 4 pillars that must be fulfilled to be good corporate citizens. They are:

Economic Dimension. Economic responsibility is to be profitable for principals, by delivering a good quality product, at a fair price, is due to customers.

Legal Dimension. Legal duties entail complying with the law and playing by the rules of the game.

Ethical Dimension. Ethical duties overcome the limitations of legal duties. They entail being moral, doing what is right, just, and fair; respecting peoples’ moral rights; and avoiding harm or social injury as well as preventing harm caused by others (Smith and Quelch, 1993).

Philanthropic Dimension. Interest in doing good for society, regardless of its impact on the bottom line is what is called philanthropic CSR that is “ giving back” time and money in the forms of voluntary service, voluntary association and voluntary.

1. 2 Evolution of the CSR concept.

Even relatively contemporary, a theory of CSR can be divided into four eras based on several conceptual shifts (Lee, 2008). The first dominant theme emerged during 1950s and 1960s concentrating on ethics and social obligation of business. A pivotal study by Bowen (1953) contended that CSR is an obligation of businessmen to act in line with the objectives and values of society. CSR was posited as a complementary and corrective measure for some social failures in the laissez-faire economy. Friedman on the other hand was concerned with the insufficient skills of corporate managers to solve social problems and potential cost from uncertain outcomes that would reduce the maximization of shareholder wealth – a true responsibility of business. Such an intellectual stalemate contributed to the shift from the emphasis on macro-social effects of CSR to an organizational-level analysis of CSR's effect on financial performance.

CSR in the second period was central around enlightened self-interest in the 1970s. A conceptual breakthrough by Wallich and McGowan (1970) represented reconciliation between the social and economic interests of corporations. The authors argued that CSR supported the long-term interest of shareholders by strengthening the wellbeing of the society, which provided a crucial support structure and customer base for business operations. Most studies in this era focused on the content and implementation process of CSR to avoid conflict with business interests (Ackerman, 1973; Fitch, 1976; Murray, 1976). A major caveat in this conceptual reconciliation was the lack of a specific mechanism to identify a causal link between social responsibility and financial performance (Weick, 1976). In the 1980s, the tie between the economic and social goals of business became tighter in the corporate social performance model. The dominant theme represented the thirdgeneration of CSR.

The multi-dimensional model of corporate social performance was proposed in a pivotal study by Carroll (1979). This model suggested the integration of economic and social objectives in a total CSR framework, featuring economic, legal, ethical and discretionary aspects. The model was modified by Wartick and Cochran (1985) to include principles, processes and policies. Wood (1991) further formulated a more pragmatic model incorporating related theories, such as organizational institutionalism and stakeholder management theory. The limitation of the CSP model was the lack of objective and behavioral measurement to be able to compare the social performance of different companies (Wood and Jones, 1995).

An aim to generate business return from CSR is most prominent in the latest development of CSR through strategic management. In this perspective, the stakeholder model has become central to the new CSR paradigm (Jones, 1995). Based on the stakeholder theory (Freeman, 1984), Clarkson (1995) ameliorated the measurement problem in CSR through stakeholder identification, separation of stakeholder and social issues, followed by appropriate level of analysis. CSR becomes strategic when integrated into a company's core business competencies by serving as a filter through which strategic decisions are evaluated for their impact on the firm's various stakeholders (Werther and Chandler, 2006). Strategic CSR then matches internal core competencies with the external opportunities to complement corporate mission and vision related to social responsibility (Du et al., 2007; Werther and Chandler, 2006).

1. 3 CSR and Stakeholders

According to Smith (2003), stakeholder theory is based on the principle that companies need to consider the effects of their actions on all constituencies (e. g. shareholders, customers, employees, suppliers, the environment, and the community), even if profitability is reduced. On the contrary, shareholder theory argues that the only responsibility of a company is to (legally) make profits for its shareholders.

Mitchell (2001) argues that the shareholder approach increasingly dominates American companies. Furthermore, it is often interpreted as having one basic goal-maximizing stock prices. This, in turn, leads to a short-term perspective because growing proportions of Stockholders buy and sell stocks based on short-term information. Mitchell goes on to argue that companies are obligated to make profits, but there is nothing in the legal system that requires maximization of stock prices or that restricts the time frame to the short term. Nonetheless, a manager who does not produce sufficient earnings for shareholders risks his/her job and puts the company at risk of a takeover (Martin 2002).

Martin (2002) further argues that when responsibilities to the community are seen as being likely to come at the shareholder’s expense, managers usually side with shareholders. He suggests that most socially responsible corporate behaviors are done specifically to enhance shareholder value. These are generally activities undertaken to comply with laws, regulations, or norms. They entail simply meeting the baseline of society’s expectations; companies that do not meet basic expectations are likely to lose financially. On the other hand, there are many socially responsible actions taken by companies because managers believe they are the right things to do. Because these actions are outside the norms and may lead to financial losses, they are considered risky.

1. 4 Social responsibility, Business Ethics and Corporate Governance.

1. 4. 1 Social Responsibility and Business Ethics

Today, ethics has become more and more important with global business expansion. This is so, because of a raise in ethical and social responsibility concerns. There exists, however, according to Czinkota and Ronkainen (1998), a wide divergence in the level of importance attached to these two issues in different countries.

Ethics as defined by Hoffman and Moore (1990) define ethics as " what is good and right for people." An individual's perception about whether ethics and social responsibility contribute to organizational effectiveness is likely to be a critical antecedent of whether he/she even perceives an ethical problem in a given situation[1]. This is a practical view based on an argument that managers must first recognize that ethics and social responsibility to be imperative to organizational effectiveness before their behaviors will become more ethical and reflect greater social responsibility.

Intuitively, ethics and social responsibility should have a positive impact on the success of an organization, because consumers make ethical judgments that are likely to influence their purchases. Consumers recognize organisations that are responsive to ethical and social factors. Consequently, business should care about ethics because adopting the right behaviour helps acquire and preserve good reputation overtime; because ultimately, it pays to do so.

1. 4. 2 Social Responsibility and Corporate Governance

The definition of Corporate Governance differs depending on one’s view of the world. Shleifer and Vishny (1997) define Corporate Governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Taking a broad perspective on the issues, Gillan and Starks (1998) define Corporate Governance as the system of laws, rules, and factors that control operations at a company. Irrespective of the particular definition used, researchers often view Corporate Governance mechanisms as falling into one of two groups: those internal to firms and those external to firms. Of course, firms are more than just boards, managers, shareholders, and debt holders.

Over the years, Corporate Governance has evolved from the traditional “ profit-centered model” to the “ social responsibility model”. These two models illustrate the fundamental conflict that prevails today in Corporate Governance – the Profit-Centered Model and the Social Responsibility Model are mutually exclusive. Each focuses on an opposite half of the corporation’s domain, even though the economic and social aspects of business are closely interrelated. In short, governance is viewed as a zero sum game. Because the economic role of the firm is fundamental to its survival, profit often drives out social considerations. Because knowledge increases when shared, collaborative partnerships between management and stakeholders can be economically productive. Like all partnerships, stakeholder collaboration is a two-way, working relationship that combines the capabilities of partners for their mutual benefit.

According to Halal (2000), the wealth-creating role of business arises directly out of integrating stakeholders into a productive whole – a " corporate community" (Figure 1). The corporate community model views the firm as a socioeconomic system in which wealth is created through stakeholder collaboration. This is not done to be socially responsible, but because it is a competitive advantage. Drew et al. (2006) identified five integrated elements that underpin a firm's ability to manage risks, engage in effective Corporate Governance, and implement new regulatory changes: Culture, Leadership, Alignment, Systems, and Structure. Each of these elements relate to the others. For example, organizational culture is shaped by leadership practices. Systems support organizational structure and shape its culture. Alignment ensures each element is harmonized with the others so that, for example, explicit cultural norms are reinforced by leadership, and systems reinforce the culture. No one element stands alone. After engaging in an examination process, board members can map organizational challenges against these elements, identify areas in need of improvement, and plan change management programs. Superior risk management programs and stronger firm governance capabilities result. The elements of CG addressed in Figure 2 could be considered as the core (i. e. management) of Figure 1 (i. e. corporate community model). Combining the models therefore represents the influence of Corporate Governance on CSR or corporate community.

Figure 1

The basic cause of today's continuing conflict between profitability and responsibility is that managers do not seem to understand that these two interests can be united. Stakeholder collaboration is now the key to creating economic wealth. In the new perspective, stakeholder collaboration does more than gain resources and political support; it allows joint problem solving to increase the firm's store of valuable knowledge. Future research needs to focus on the stakeholder assessment process and its translation into CSR objectives and policies.

Therefore, adopting a process-based management systems approach as the foundation for a CSR management system will provide top management with a holistic view of the business that takes into consideration a single system approach to governance. This approach will provide management with internal control, clearly identify responsibility and will embed CSR in their organisation. This approach overcomes much of the criticism surrounding many current CSR systems approaches.

Figure 2

The leadership style is also found to play an important role in socially responsible organizations. In this respect, transformational leader seems to be more effective, comparing with manager and transactional leader. Thus corporate governance as a critical element for driving excellence in CSR can be a source of competitive advantage for firms in its own right.

1. 5 Consumer Behavior or Socially Responsible Consumer Behavior

It has been observed that several personality trait variables affect how a consumer reacts to a company's corporate social responsibility activities. One trait that has been identified is called socially responsible or socially conscious consumer behavior. The socially conscious consumer is a consumer who takes into account the public consequences of his or her private consumption or who attempts to use his or her purchasing power, to bring about social change.

According to Webster (1975, 188), the socially conscious consumer is " a consumer who takes into account the public consequences of his or her private consumption or one who attempts to use his or her purchasing power to bring about social change." Mohr, Webb, and Harris (2001, 47) define this behavior as " a person basing his or her acquisition, usage, and disposition of products on a desire to minimize or eliminate any harmful effects and maximize the long-run beneficial impact on society."

Over the years, socially responsible consumer behavior has been seen as a lasting personality trait that engrosses the consumer's self-concept. Persons, who are high on this trait, would not hesitate to modify their consumption behaviors in a variety of circumstances in order to struggle toward the ideal of improving society. Much research has been conducted on this trait. Measurement scales have not only been developed but related demographics and attitudes have also been explored.

Roberts (1995) used the method of cluster analysis to segregate a group of socially responsible consumers. He estimated them to constitute 32% of the American population. According to him, when one compares this group to most Americans, the latter is more broadminded and environmentally concerned and has higher levels of perceived consumer effectiveness (perceived ability of individual consumers to influence environmental problems).

1. 6 The Impact of CSR Activities on Consumer Behavior

Consumers need to be aware of the level of CSR of a company so that this factor can have an impact on their purchase. The reason why, building awareness constitutes one of the major purposes behind cause related marketing which is a subset of CSR. Also, consumers are more likely to respond to a company's social responsibility record when they identify with the company[2]. Identification is enhanced when consumer perceptions of the company's character are similar to their perceptions of their own character.

It is further argued that consumers judge a company's character based more on its CSR than on its business expertise. When consumers personally support the social issues that the company targets (called support for the CSR domain), they are likely to see greater congruence between themselves and the company. In two experiments, CSR was manipulated and its effects on the evaluation of the company were measured. They found that consumer support for the CSR domain significantly moderated the positive effect of CSR on evaluation.

Ross, Stutts, and Patterson (199091), who used a non-probability sample, found that 53 percent of the sample, could recall a cause related advertisement for a product, and Webb and Mohr (1998) found that 79 percent of a sample could describe a specific cause-related marketing campaign after the concept was explained to them. Since CSR is a wide and multifaceted concept, knowledge about the social responsibility activities carried out by companies is relatively low. As a result, it is hard for consumers to acquire and store such information. Lack of awareness, therefore becomes the major inhibitor of customer awareness to CSR.

Since 1993, according to reported surveys, firms supporting causes are enjoying a more positive image compared to other firms. Furthermore, the Cone Communications Press Release stated that two thirds or more of the sample said that they are likely to switch brands or retailers to those participating in cause related marketing.

Demand from socially responsible consumers may increase in line with increasing promotion of a firm’s socially responsible activities; research by Sen and Bhattacharya (2001) suggests that consumers sensitive to the particular cause supported by a corporation (such as environmentalism) are more likely to react positively towards that corporation. On the other hand, in interviews with a convenience sample of 225 people, Ross, Stutts, and Patterson (1990-91) found that 49 percent stated that a firm’s support of a cause had been a primary reason for them to purchase a product, and 54 percent said that they are likely to.

Also, “ most consumers do not understand the ethical dimensions of the products that they purchase” (Auger et al, 2003, p. 299) but experimental studies have shown that once consumers acknowledge a firm’s socially responsible initiatives their evaluation of that firm (and its products) increases (Brown and Dacin, 1997). Furthermore, it has been established that certain demographics are " increasingly likely to make consumption choices based on social grounds" (McWilliams and Siegel, 2001, p 121). A national telephone study by Smith and Alcorn (1991) found that 46% of respondents were likely to switch brands to a company that donates to non-profit organizations and 30% sometimes buy products based on the charitable causes that the manufacturer supports.

Porter and Kramer (2002) believe that strategic philanthropy1 at its most sophisticated can be responsible for enhancing the reputation of a company by linking the admirable qualities of the supported cause to its corporate identity. Moreover, it is believed that concentrating charitable donations and funding on a popular cause through a ' deliberate selection process' may have a greater impact than generalized CSR (Porter and Kramer, 2002).

Research by McWilliams and Siegel (2001) has found that not all consumers place a high value on the socially responsible actions of a firm; the price of competing goods can affect the demand for goods provided by socially responsible corporations. Studies conducted at Marymount University (1999) reported that 75 percent of consumers would avoid shopping at a store if it was known that their goods were produced under poor social conditions.

Furthermore, it was found that the same consumers would be willing to pay $1 more for a $20 item given that the item was produced under ' good conditions'. These studies show that consumers are willing to pay more for goods produced in a socially responsible manner. Indeed, the University of Maryland (2000) found that approximately 75 percent of consumers would pay an additional $5 at least on a $20 item if it was known that the item was not manufactured in a sweatshop. However, It has been suggested that income has a significant impact on demand for products from firms with a good reputation for CSR; low-income shoppers are seen to be more price sensitive than affluent shoppers. This means that affluent consumers are more willing (and able) to pay a higher price for said products (McWilliams and Siegel, 2001).

A survey conducted by Creyer and Ross (1997) measured the attitudes of the parents of elementary school children towards ethical and unethical business behaviour. It was found that respondents expected companies to conduct business in an ethical manner and importantly, respondents stated that they would pay higher prices for products from an ethical company.

2. 1 An Overview of Corporate Social Responsibility in the Banking Sector

The Mauritian banking industry comprises of 18 banks, of which 5 are local banks, 8 are foreign owned subsidiaries, 1 is a joint venture and 4 are branches of foreign banks.[3]The banks are certified by the Bank of Mauritius to carry out banking business locally and internationally.

Banks provide several traditional banking facilities and card-based payment services such as credit and debit cards, internet banking and phone banking facilities. Other services such as fund management, custodial services, trusteeship, structured lending, structured trade finance; international portfolio management, private client activities, investment banking, treasury and specialised finance are also offered by banks.

The banking sector is now increasingly integrating CSR as a management strategy. External social activities are carried out to benefit the wider social community. The banking sector tops the list with a percentage of 1. 2 per cent of profits before tax. For example, the Mauritius Commercial Bank (MCB), the leading bank in Mauritius, has promised 1 per cent of its profits before tax (£460, 000) for social projects this year and Barclays Bank (Mauritius) has dedicated Rs 400, 000 for the fight against AIDS.

While the State Bank of Mauritius launched scholarships to help the brilliant but needy students of the Gandhian Basic School, the Barclays Bank has adopted the fight against diabetes as its flagship cause. Thus it can be seen that corporate social responsibility is very much present in the banking institutions of Mauritius. There is a belief that the growing of businesses and development of stakeholders must go together. Consequently, more and more companies are participating actively in corporate social responsibility.

2. 2 A Profile of HSBC Bank Mauritius Limited

HSBC Bank (Mauritius) Limited is part of an international banking and financial services organisation with a network of some 9, 500 offices in 86 jurisdictions. (MBA Profile of Banks, 2010)

The history of the HSBC Group in Mauritius can be mapped out from 1859, when the Chartered Mercantile Bank of India, London and China (the predecessor of the Mercantile Bank Ltd) established a branch in Port-Louis. It started with community investment back then with the financing of one well-known project that was the construction of the Port Louis to Curepipe railway network, in 1864.

In 1865, a decision was made to close the branch. The bank was represented by the Blyth Brothers and Co Ltd for the next half century. In 1892, the Chartered Mercantile Bank was renamed as The Mercantile Bank of India Limited and in 1916, it came back to Mauritius through the acquisition of not only the then Bank of Mauritius, which was previously a commercial bank but also its historic building in Place d'Armes.

Mercantile Bank conducted business from its main office at Place d'Armes continuously. In 1959, the Hongkong and Shanghai Banking Corporation Limited purchased the Mercantile Bank and in 1983, the name of the Group's operations in Mauritius was changed from the Mercantile Bank Ltd to The Hongkong and Shanghai Banking Corporation Limited.

In 1999, the international brand name HSBC was launched. Finally in 2002, HSBC started on a campaign to distinguish its brand from those of its opponents by describing the unique characteristics that make out HSBC, abridged by the words " The world's local bank".

2. 2. 1 Mission

To be the world's leading financial services company. We want to be the first choice for our customers and for our employees. If HSBC can be the best place to bank and the best place to work, we will have built a sustainable business that will deliver for the long term for customers, colleagues, shareholders and society at large.

2. 3 Corporate Social Responsibility at HSBC Bank Mauritius Limited

At the HSBC, there is a culture to manage business in a responsible and sensitive manner. There is a belief to have a duty towards customers, investors and employees to promote an ethical, responsible and sustainable corporate philosophy.

The social initiatives undertaken by the HSBC are channeled into different levels, that is:

Investing in communities

Working together

Protecting the environment

Sustainable finance

2. 3. 1 INVESTING IN COMMUNITIES

The HSBC aims to make a positive impact in all communities it operates. The community investment at the HSBC is mainly focused on two pillars which are education and environment.

The educational support focuses on disadvantaged children such as orphaned children of the SOS Children's Villages, on environmental and business literacy and environmental education and understanding.

The HSBC Eco-Schools Climate Initiative was initiated in affiliation with the Foundation for Environmental Education. The intention of the programme is to encourage action on climate change by improving schools' environmental good organization.

2. 3. 2 WORKING TOGETHER

Employees

At the HSBC, employees are believed to be their greatest asset. There is a perception to look harder so as to understand things more deeply. Staffs are driven by the belief that they can form a better future. Their priority is to exceed customer expectation. There is neither labeling nor discrimination and customers are rewarded for their commitment.

Promoting Development

The HSBC aims at promoting development of its employees not only through e-learning courses easily available both at home and at work but also through exchanges and overseas assignments.

Committed to employees well-being

HSBC employees have access to its gym to promote healthy living. Also available is an internal library with a collection of books on well being, yoga, healthy living and stress relief. The aim of the organization of the Health Week is to create awareness on the prevention of non-communicable diseases and to contribute by donating blood.

Customers

Customers are treated fairly and with respect. Despite being strict, the lending criteria take into consideration the customer's ability to repay the loan. There is adherence to the MBA Code of Banking Practice. To maintain awareness about customer views, customer surveys are carried out.

Suppliers

Suppliers are required to abide by HSBC's policies and respect rights of employees. In case, after developing a plan to put a worry at rest, suppliers fail to improve, the HSBC stops working with them.

2. 3. 3 PROTECTING THE ENVIRONMENT

The HSBC is very committed to the environment. In 2005, it became the world's first carbon neutral bank. It is trying to optimize operations through environmental management systems.

Water Saving Campaign

In 2008, the HSBC teamed up with the Central Water Authority to launch a water saving campaign. It aimed to sensitizing the population about the scarcity of water and finding easy ways of saving water. Activities were organized; internally, through the theme of ' Be Part of the Solution' where staff got the opportunity to visit the Meteorological Station of Vacoas and externally, through billboards, daily radio advertisements and tips in local newspapers and distribution of 12000 educational leaflets.

Sustainability of Office Infrastructure and Internet Banking

All in one device are being used to save energy. Consequently, there is a cutback in amount of equipment, consumption of electricity, toner cartridges and paper and maintenance cost.

Through the use of internet banking, the HSBC is trying to provide its customers with their banking needs while at the same time trying to reduce printing outcomes.

2. 3. 4 SUSTAINABLE FINANCE

Through sustainable finance, the HSBC is trying to incorporate the environmental criterion in its lending policies. Consequently, the organization will be able to assist its clients in building environmentally sustainable busin