

AN EMPIRICAL STUDY ON CORPORATE SOCIAL RESPONSIBILITY IN THE BANKING SECTOR

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ABSTRACT

The banking world has spread meticulously over time soaring through the horizons to serve customers all around the world. The aim of this research is primarily to examine the roles of Corporate Social Responsibility (CSR) initiatives in the banking sector and how customers perceive this effort, what they expect and how they would benefit from the implementation of CSR activities as a whole. The cause of why CSR initiatives are on the low is explored and a few recommendations to help publicize CSR initiatives are listed as well. The rest of this paper is divided into eight sections, namely: 1.0) The introduction which talks about a general outline of how CSR has been defined and a brief elaboration on the definitions. 2.0) The overview discusses the status of CSR in real world banking in different countries. 3.0) The analytical study comprises four case studies each separately critically analyzed. A comparative evaluation of the case studies is then discussed in Part 4.0. Part 5.0 contains factors that contribute to the awareness of CSR to the society from a bank's perspective. Part 6.0 lists some recommendations based on the evaluation done in Part 3.0. Part 7.0 conveys the future of CSR in times to come. The paper is lastly sealed with a conclusion in Part 8.0. Journals and academic research papers relevant to CSR and the banking sector were limited. However, the little information that was gathered was able to provide an informative insight about the current CSR implications in the banking industry.

1.0 Introduction

The banking sector has grown drastically over-time by introducing enhanced services and e-banking efficiency. The sensitive nature of banks that value and price property, monitor borrowers and manage financial risks make banking an important body that contributes largely to the economy of a country (Scholtens, 2009). CSR holds an important role in the banking sector to provide a clear-cut differentiation to enhance the competitiveness among banks. It is essential for banks to ensure the quality of their services by providing specific initiatives via CSR to gain customer faith and trust. Because CSR is vast, there are several definitions that explain what CSR really is. Among many relevant definitions are those of Brown *et.al* (1997) that defines CSR as a communal obligation by means of the company's status and activities. Where Brown *et.al* (1997) called it an obligation, Carroll *et.al* (2003) said CSR is an "economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time". Although there is no standard definition of CSR in books, it basically means delivering positive impact of an organization's behaviour or approach towards the society.

2.0 CSR In Real World Banking

Implementing reasonably good CSR activities could be a key value to boost the name and status of an organization. CSR activities could simply be a voluntary service like making humanitarian contributions, providing business seminars for natural disaster victims for rehabilitation works, and providing financial advices to single mothers. In terms of financial institutions, many banks are known for almost the same nature of services as they typically deal with more or less the same resources.

It can be said that banking organizations have philanthropic, moral and ethical responsibilities coupled with earning a fair and good return for investors putting into consideration that they also have to abide by the rules, laws and regulations of the land in which the organization is situated. Australia was said to achieve the utmost CSR prospects in business (Enviroics, 1999) in a 23-nation poll of public attitudes, followed by the American region with 86% and the UK, 74%. The respondents indicated that an organization's behaviour in terms of ethical sales and marketing strategies would influence their purchasing decisions (Pomeroy *et.al*, 2009).

“If consumer awareness is low, the effect of CSR initiatives on purchasing behaviour is only of theoretical, not practical, relevance” – Alan Pomeroy et.al (2009)

It can be depicted that the customer and consumer awareness on an organization's CSR activities is equally important as the nature of the business background of the organization itself to achieve the quality and attain a height in the market. This belief gave rise to the need of conducting a case study to determine the exact level of consumer understanding on CSR as well as investigate the knowledge gap which is discussed in the future sections of this paper.

3.0 Analytical Study

This section discusses various CSR criterion implemented in different banks in India, Australia, Thailand and a comparative study on international banks including banks in the UK and EU countries. Four analytical studies are divided according to respective countries as discussed below.

Case Study: Analysis 1

Senthikumar *et. al* (2011) proposed a conceptual CSR model namely the BANKQUAL model for the banking services quality. This model is basically derived from the SQM-HEI model by Arulraj *et.al* (2009) and TNTOURQUAL model by Prabakaran *et.al* (2010). The Tsunami disaster affected close to 200,000 people in the Nagapattinam district, India, killing more than 8,000 people. This raised the call for CSR to provide social and ethical assistance to the victims in one way or the other. Senthikumar *et.al* (2011) conducted a survey covering nine banking dimensions; (1) Tangibles, (2) Deposit schemes, (3) Credit facility and interest rates, (4) Location and convenience, (5) People, (6) Service Quality, (7) Customer Satisfaction (8) CSR, (9) Technology. The survey comprised questions that asked about the above mentioned nine dimensions which were initially given out to 100 participants to check whether or not the participants understood the questions well. The piloted version of the questionnaire was then

distributed to a total of 1,200 customers of all public sector banks (e.g. Allahabad Bank), private sector banks (e.g. ICICI Bank) and cooperative banks (Adarsh Co- Operative Bank Ltd). Upon collating data from the completed questionnaires, the compiled data was measured using AMOS18 to identify the interceding factor that satisfied bank customers.

The results of the case study showed that aspects (7) and (8); customer satisfaction and CSR were the two most highly rated factors that were significant to customers. The findings of this case study concluded that the customer satisfaction aspect is an essential factor of banking service quality and growth. CSR on the other hand, highly influences customer satisfaction towards fair, prompt and content banking services. In this case, for instance, keeping into consideration the geographical location of Nagapattinam district and the natural disasters that could possibly hit the district, the occupants mostly depend on financial help to rehabilitate and improve the standards of living in the particular area. In order to adhere to customer satisfaction, Senthikumar *et.al* (2011) suggested that banks or government financial institutions could provide customers with sponsored credit facilities and special low rate financial loans in the name of CSR as a non- profit, non-service and ethical approach to portray responsibility. Besides, banks should focus on CSR initiatives with the intent of providing business guidelines and grievances meetings with importance on Tsunami rehabilitation work (Senthikumar *et.al*, 2011).

Case Study: Analysis 2

Pomeroy *et.al* (2009) claims that communication is the most important aspect of bridging the lack of awareness gap of CSR acknowledgement between customers and organizations. Based on the findings of some research materials on CSR activity awareness prior to carrying out the investigation, it was found that if at all CSR activities were communicated to their customers, it may have been assumed that customers may be somewhat aware of them for a singular reason that the organization has delivered and published their CSR criteria in the best way possible. A qualitative study on corporate communication and a quantitative study on customer awareness was carried out separately in two different stages to examine if the assumptions made by organizations were valid and practical. The study covered an in-depth analysis about the initiatives taken from the firm's view point. These interviews were to depict an in-depth knowledge of the CSR activities and communication strategies by four different banks in Australia. The means of CSR communication media like CSR reports, websites and employee newsletters were also looked at. The 2nd stage of the investigation was in the form of an online survey that was distributed to 1,000 members. A response target of 40% was set to facilitate the investigation. All participants were qualified for the survey as they were experienced bank users. The questions covered a range of dimensions that is believed to be essential in banking CSR which are further discussed in the next paragraph. The questions posed in the questionnaire were to gain considerable knowledge about the awareness of CSR activities in the banking sector.

From the interviews conducted in stage 1, it was discovered that banks realized that they could not develop without fulfilling the needs of customers and key stakeholder. It was learned that CSR was implemented via various domains like employee voluntary

work, sponsoring sports, conducting medical and arts researches as well as involving employees with environmental concerns. The interviewees concluded that staff support on CSR criteria of an organization was the first step into securing the proposed effort. Several interviewees also said that internal communication was highly important to be able to send the message across to banking customers. It was discovered that the employee– customer association could be strengthened via a value-driven personal selling intended to gaining faith from customers that could distinct one bank from another.

The questionnaire survey conducted in stage 2 comprised ten questions. Questions 1 and 2 tested the user's knowledge if they knew which CSR initiatives their banks were engaged in using verbal phrases and graphical logos. An alarming rate of only 10% respondents said they knew the CSR activities currently carried out by their banks. On a question about CSR awareness, only 7% said they knew about any CSR activities their banks were involved in at all. A vast majority of respondents indicated that they were only interested in knowing information about the basic banking products like account types and interest rates. Only 19% stated that knowing their bank's sponsorship activities was important. The majority of respondents said that they trusted sources that were not within the direct relationship with the banks played the key role in interacting the CSR initiatives of a bank to the customers (Pomeroy *et.al* 2009). Information published on news media's were believed to have a major impact in proving the CSR activities done by banks. It was discovered that there was a low level of consciousness of social issues reported and that only 9% reported very high awareness out of 12 social issues which originated from the bank's website.

Case Study: Analysis 3

Rujirutana *et.al* (2011) pointed that CSR had been used in studies integrating customer loyalty model. As studied by Rujirutana *et.al* (2009) banks tended to increase their potential in gaining a positive impression from customers while engaging in CSR activities. The researchers conducted a survey to examine the role of CSR and service quality in shaping the behavioural loyalty of consumers in the banking sector in Thailand. The initial set of questionnaires was distributed to 63 participants to examine if the questions were interpreted in the correct manner. Based on the feedback, the questions were modified to provide a better understanding to participants. The piloted questionnaires were then distributed to both male and female respondents that were randomly approached in shopping malls, public buildings, offices, entertainment spots and other highly populated areas. Feedback from a total of 275 participants was gathered and the results were collated to illustrate a user priority group. The collated data identified that the largest group comprised an age group between 25-34, doing a full-time job and had achieved some post-secondary education. The results from the questionnaires were analyzed using a path modeling analytical approach known as PLS (Partial Least Square) because this is a variance-based structural equation model (Rujirutana *et.al*, 2011). The study covered an analytical examination of professed service quality, CSR, attitudinal loyalty and repeat patronage intention. Note that for the reason that these aspects were examined separately, the CSR aspect will be primarily focused on. However, the remaining three aspects will be discussed briefly as this paper progresses. Focusing on the CSR aspect of the research conducted by Rujirutana *et.al* (2011), the respondents were asked to specify the expectations from the CSR

activities carried out by respective banks.

The scores on the CSR questionnaire indicated that respondents strongly agreed that banks should take on a specific type of CSR activity. From the results analyzed using PLS, it was clear that CSR was highly influential by attitudinal loyalty and perceived service quality. The linkage between CSR expectations and service quality suggests that the CSR behaviour is important from the customer's point of view and holds a direct significance towards the valuation of a financial institution. It was shown that perceived service quality and attitudinal loyalty is prone to be effected by the CSR initiatives of an organization and its offerings.

Case Study: Analysis 4

Scholtens (2009), on the other hand developed a framework similar to the KLD and EIRIS that rates social conduct and performance of a bank. This experiment was done to evaluate the social responsibility of banks operating internationally including the big fives in the UK (Barclays, HSBC, Lloyds TSB, NatWest and RBS). A sample study was performed on 32 banks from three regions: Europe, North America and Asia Pacific. These banks were assessed on both environmental and social pointers.

The analysis of the assessment was done according to region, individual banks and countries. Due to the scope of this research, however, the analysis on CSR will be concluded as a whole concentrating on the European region and UK. It was discovered that banks in the Netherlands and Belgium were highly concentrated with socially responsible savings. A vast majority of the banks indulged in sponsoring activities for the local community and NGOs. Training facilities in the Europe appeared to have improved dramatically in a time span of five years in terms of engaging with a CSR initiative. Mostly all banks achieved a high rank with respect to their social conduct. Barclays and HSBC are the two banks in UK that ranked as the two most performing banks in CSR. It can be summarized that there is a considerable relation between a bank's CSR performance and their financial quality size (Scholtens, 2009).

4.0 Comparative Evaluation

Where Senthikumar *et.al* (2011) talked about customer satisfaction being influenced by CSR activities of an organization, Pomeroy *et.al* (2009) showed that customer awareness was essential in order to be able to gain customer support and faith via CSR activities applied by banks. This could be achieved through good communication medium like CSR reports, bank websites and volunteering services. The statistics from the survey showed that customer awareness on CSR activities by their banks was still on the low side. It is important for customers to be in the know of the measures taken by their chosen banks on social responsibilities efforts for their customers. Rujirutana *et.al* (2011) argued that CSR could directly or indirectly influence the reliability and confidence of customers of a financial institution. It was learned that CSR (non-service related concept) and perceived good quality (service related concept) (Rujirutana *et.al*, 2011) are closely connected. A similar stand was taken by Scholtens (2009) where various international banks were assessed from the social and environmental perspectives. It was observed that CSR performance in the banks from the UK showed a positive

improvement over time. From the studies illustrated in the previous section it can be concluded that CSR inventiveness does play an influential role in customer's attitudes and opinions towards organizations and their services/products. It will be of no use if a service is introduced by non-profitable and ethical means but not well delivered to favour customers.

5.0 Factors Contributing to CSR Initiatives to The Society

CSR initiatives do exist and are implemented by banks in one way or another. There are infinite dynamics that contribute to the success of CSR activities such as word-of-mouth, mass media, customer perception and impression towards their banks, customer emotional attachments to a particular bank, bank's CSR reports and other relevant factors (Senthikumar *et.al* 2011). However, customers lack the knowledge of the CSR activities that are put into practice by their banks.

Zhang *et.al* (2010) reported several contributing factors of which banks are deficient in broadcasting their CSR activities via CSR reports. In a quest to evaluate the level of CSR reports disclosure, a survey was done on 25 CSR reports of Chinese banks to exemplify the influencing factors of the CSR reporting inadequacy. The findings showed that large-scale, good performing banks disclosed great quality information on their CSR activities. This is because good performing banks gain well-off funds from the number of customers they gain from time to time. Investing in CSR initiatives will not be as hard as it is for non-performing banks.

6.0 Recommendations to Enhance CSR in The Banking Sector

Having a good CSR strategy will be of no good, if it stays within the four walls of a bank, to its management, stakeholders and its staff. Publicity and customer awareness are essential factors and are equally as important as promoting profitable products and banking services. Having increased awareness of present ethical values of banks being implemented via CSR, alongside high level customer support and services, is the key to distinguish one bank from another.

As mentioned in Pomeroy's research, customers trust resources that are not directly related to the bank in terms of non-profitable initiatives (Pomeroy *et.al*, 2009). This suggests that banks should increase public relation efforts as a stepping stone to publicize their CSR initiatives. Besides, funds allocated CSR activities should strictly be used to enhance and optimize the CSR efforts by banks to yield optimum benefits towards the customers, stakeholders and society (Bhattacharya *et. al*, 2009).

Above and beyond, banks should divert their attention towards educating not just their customers but the society as a whole, on how to prevent and avoid security intrusions in e-banking. This effort should be made compulsory by the government towards educating customers from as early as when a customer first register for e-banking. This measure should be taken in order to curb the alarming rate of fraud and identity theft by hackers.

7.0 Future of CSR in the Banking Industry

For the reason that bank products and services are non-distinct and the scope of banking has broaden its horizons on the international level, CSR aspects holds an important role to distinguish the degree of differences and competitiveness among banks not just locally but all around the world. Having improved profitable services like offering lower interest rates and elimination of extra charges on banking activities across borders is not enough to stand-out in the banking industry. In times to come, it can be concluded that profitable products and services will be seen as a thing of the past and CSR activities will hold an importance towards customers where an ethical and social approach will be valued dearly alongside the desired basic services one could obtain from any bank. CSR implementation could be a distinguishing factor that will attract customers when the banking industry will attain a height where competition on non-distinctive products and services will hold not much difference in the industry.

8.0 Conclusion

As an overview of the experimental analysis discussed in the previous section, it can be concluded that CSR activities are present in banks around the world. Banks lack the effort to ensure that customers are aware of their implemented CSR criteria both externally and internally. With the increasing rate of competition among banks in the real world, attracting new customers is no longer the sole objective of financial institutions. What concerns most is whether or not banks are able to maintain existing customers with a positive impression and improving rate of meeting desired expectations of customers. Reliability and satisfaction are vital elements to keeping existing customers to ensure they have a pleasant and good experience while enjoying what the banks have to offer in terms of services. For the reason that an organization is run by a team experts and professionals it cannot be disputed that services delivered are not prone to human errors. In this case, the awareness of CSR activities that a bank introduces as an ethical base could cause these errors to be overlooked for the singular fact that the bank has benefited the needy in one way or the other. This factor could help increase the customer's faith in an organization or bank. Implementation of a particular CSR activity could help an organization to maintain its status in the eyes of its customers.

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