



## Enhancing the CSR of the Banks for Growth and Performance Improvement: A Theoretical Perspective

Edem Okon Akpan

Department of Accountancy, School of Business Studies, Federal Polytechnic, Bauchi, Nigeria

### Abstract

This theoretical paper explores CSR and enhancement of growth and performance in the banking sector in response to call by previous study to explore CSR as a way to enhance bank's growth and performance. The paper examines several literature on CSR with particular reference to the banking industry. It establishes that banking industry appears to be more prone to the impact of CSR activities than most other segments of the economy. This is as a result of the need to satisfy a larger spectrum of stakeholders to achieve its economic objective and to maintain an equitable and working balance condition among its employees and the public at large to gain legitimacy to improve its overall corporate performance. In this regard, the paper suggests that banks should go beyond provision of education, hospitals, sports, competitions, community development in their CSR to socio- economic development, healthcare services as well as environmental initiatives. By so doing, they can achieve better growth and performance. However, the paper also observed that large banks are likely to achieve better growth and performance through CSR than the small banks due to the fact that they commit much resource to CSR in return to earned greater equity.

### Introduction

It has been argued that organizations cannot survive without the community while on the other hand; the community cannot survive without the organization (Arowomole, 2003). This means that both the community and the organization depend on each other for survival. While the community provides both human resources and raw materials to the organization, the organization in turn provides some services to the host community. In the quest for growth, companies go global and then encountered new challenges that impose limits to their growth and potential profits. One of these challenges is CSR. Companies must gain public supports in both local and the global market as a way of gaining a competitive advantage, increase growth and enhance performance through their social contributions to the host communities (Fry, Keim, Meiners 1986, 105). This suggests that the entire supply chain of the company should also be examined from the CSR perspective if the organization wants to gain competitive advantage over its competitors.

Study has shown a significant correlation between CSR and the organizational performance (e.g. Kostyuk, Mozghovyi, Riabichenko, Govorun and Lapina 2012; Yeung, 2011). For instance, the study conducted by Yeung (2011) revealed that banks have significant roles to play in ensuring CSR in the host communities. For example, they noted that CSR would assist the banks in many areas such as understanding complex financial services, conducting risk assessment, strengthening business ethics, implementing strategy for financial crisis, protecting rights of customers, and setting up channels for customers to address complaints. This reflects that organization that gives back the society from what the business has taken is more likely to gain a competitive advantage, increase their growth and enhance performance. However, until this time, many organizations such as the banks are yet to realize that one of the ways to enhance growth and performance also depends on the CSR policy. For instance, Yeung (2011) observed that enhancing performance and growth through the allocation of resources in banks for CSR activities is a crucial issue that has remained unexplored, and therefore suggested that studies should explore this area of study in order to help the bank's growth and performance through optima allocation of bank resources for CSR.

Similarly, the HSBC bank in China has recently agreed that there is a significant link between their success and CSR policy (<http://www.hsbc.com.cn/1/2/hsbc-china/hsbc-china/community>). For instance, they concurred that Corporate Social Responsibility (CSR) is critical to HSBC's long-term success in China that CSR is not only about charitable donations, the environment or society, but also about making decisions that maintain the right balance between the environment, society and the Bank's business.

Most people have also criticized CSR's relationship to the fundamental purpose and nature of business and questionable motives for engaging in CSR, including concerns about insincerity and hypocrisy. Besides, it has also been observed that there is lack of CSR framework for the banks that would enable to effectively implement and execute their CSR policy to the host communities. For instance most organizations such as the banks only formulate CSR policies without a special framework to guide their CSR. This has therefore hindered some of the CSR implementations within the banking sectors. For instance, the study conducted Kostyuk, Mozghovyi, Riabichenko, Govorun and Lapina (2012) using the Ukrainian Academy of Banking of the National Bank of Ukraine, Sumy revealed that there is no basic models of CSR in pure form but CSR models seem to depend on the historical peculiarities of different countries, as well as the financial condition of individual banks and banking systems as a whole. They further noted that since every bank is unique in nature, objective and operation, this should also reflects in their CSR, as most CSR models that are widely spread across the world are American CSR models which are assumed to be simple in terms of its implementation in the short term. Given this scenario, it is therefore, crucial for Malaysian banks in particular CIMB bank to develop a CSR model that best suit and promote their business objectives for effective growth and performance.

Recent development has shown that communities have started questioning organization about their CSR. In this regard, education, dialogue, internet and globalization have helped to create awareness about the organizations and what

they are supposed to do for the host communities, hence, the communities are challenging the organization and their CSR policies. This demonstrates that it is not just enough for the organizations to have CSR policy but must go further by ensuring the implementation of CSR policy in order to affect the lives of the community people, and by so doing, organization can gain public supports in both local and the global market as a way of gaining a competitive advantage for growth and performance improvement. In view of this, this study therefore seeks to examine how banks can utilize the CSR for competitive advantage leading to growth and performance improvement.

## Literature Review

Votaw (1973) asserted that corporate social responsibility corporate can be conceived by people in different ways but generally demonstrate activities that communicate business obligation to all constituent stakeholders including it host community.

According to the proponent of stakeholders' theory as first expanded by Johnson (1971), conceive CSR as firm's ability to balances multiplicity of interest groups, in the quest of growth and larger profits for its shareholders, it should exercise duty of care for the communities and nation at large. CSR can also be understood from the legitimacy perspective as express by Moir (2001), envisage that firms' engage in socially responsible activities in order to establish and maintain legitimacy by involving in activities that will make them gain public supports. According to Bowen (1953), a famous contributor of CSR initiative, construe CSR as business intent and programs which have positive on the societal values and norms. Backman (1975) considers social responsibility as part of those objectives crafted by business, that are not directly related with the business economic objectives, but rather address its negative externalities that improves employee's conditions and the societal quality of life. CSR denotes an intentional integration of public aspiration into the organization's corporate decision making and strong recognition of triple bottom. Therefore, CSR can serve as a component which a firm's subscribe to integrate all relevant element such as community employees, environment and it product in order to enhance the values of the relevant elements while building reputation of being perceived as philanthropic corporate citizens. From the above discussion, it can be deduced that organizations need to induce their stockholder to actively participate in CSR activities to maintenance of good relationship between the organizations and all relevant stakeholders socially and environmentally because the way and manner an organization manage it CSR can have a potential consequence on its reputation and overall performance.

## CSR in the Banking Industry

Studies have evidence that in most countries of the world, Banks CSR activities are discharged on self regulatory system. Discretionally, banks showed concern on how best to carryout voluntary corporate social responsibility due to flexibility and wider range of factor that determines the need and expectation of community and company objectives (Hamburg, 2004). Joseph (2008) postulate that corporate social responsibility is basic to all organizations. Although banking industry appears to be more prone to the impact of CSR activities than most other segments of the economy. This is due need to satisfy a larger spectrum of stakeholders to achieve its economic objective and to maintain an equitable and working balance condition among its employees and the public at large to gain legitimacy to improve its overall corporate performance. Also the study conducted by Tan and Komaran (2006) found that CSR engagement help banks in building strategic benefit that allows them improve their service offering and reduces their operating cost due to increase recognition from the community for being perceived as socially responsible.

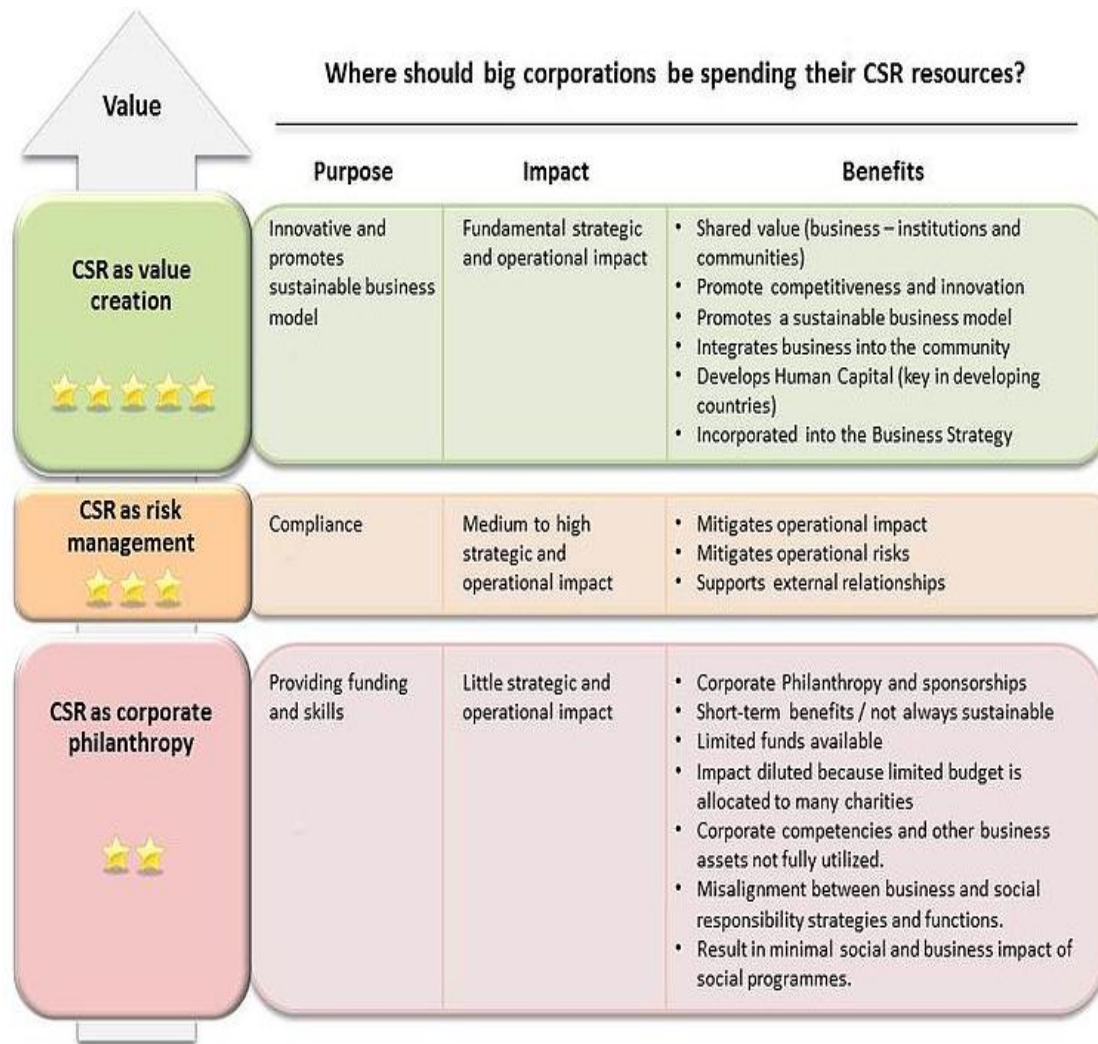
Joseph (2008) stress that the growing complexity of competition among banks for customers, uniqueness in brand development and better condition of service is not longer sufficient to sustain the company in the distant future because competitors can always imitate a successful product. Thus, creation of positive image in the eyes of the community is an important aspect of achieving corporate performance in the competitive industry. Financial institution such as commercial banks are beginning to craft CSR strategies to show commitment to the needs of the community from their business operation due to expected impact on their operating cash flow, return on asset and share prices that can improve or impair firm's corporate performance (Joseph, 2008). Banks has also benefits from CSR through integration of ethical value and CSR initiatives into to their corporate and business strategy, interestingly, businesses are increasingly making effort to link CSR initiatives to support their competitive advantage through creation of innovative capacity and human capital as intangible asset that have positive impact on the stakeholder and the organization Guadamillas-Gómez and Donate-Manzanares (2011)

The growing complexity of our communities requires consistent innovation in CSR activities especially in banking sector so as to appeal to large spectrum of customers in attempt to get a stable foothold in the market share. Banks are able to create customer loyalty and as the community exponentially placed emphasis on brand preference. Brand quality has been established to be significantly influenced by CSR initiatives Chomvilailuk and Butcher (2010). Undoubtedly, resource committed to CSR activities received exponential controversy as to whether it's reduced the company's value or the residual resource to be declared as dividend. But rather, dividend tends to increase as CSR commitment increases. Large banks commit much resource to CSR in return to earned greater equity Rakotomavo (2012).

According to Othman (2011), all publicly listed companies in Malaysia are required to disclosure their CSR activities in their corporate annual report whether by the company or its subsidiary starting from financial year ended 31<sup>st</sup> December, 2007. What to be disclosed still remains voluntary as such the organization has the option of what to be disclosed. This may more or less make organizations earned a proportionate commercial reward for been ethical, legal, social and environmental

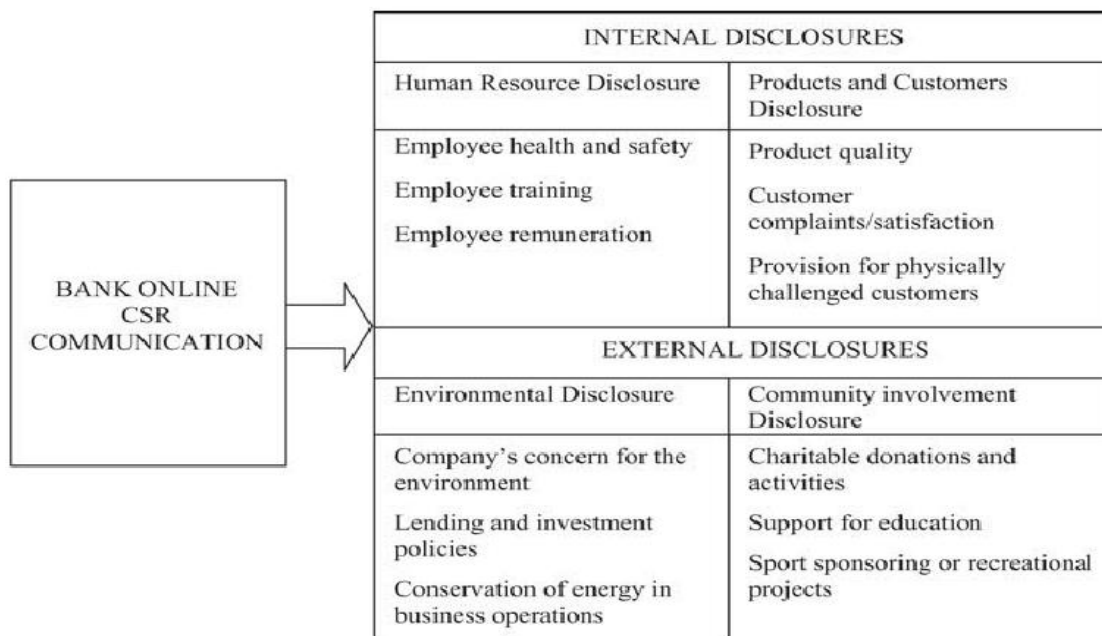
In the context of CIMB group, CSR activities are pertinent to the company due to believe on the long-term sustainability growth that can be achieved by given back to the society. Through the CIMB foundation, a non-profit oriented organization formed to implement CIMB Group's corporate social responsibility and philanthropic initiatives. The foundation carries out the company's CSR activities with focus on three particular areas which include Education, Community Development and sport activities. In 2011 CIMB group expanded her CSR activities to cover socio-economic development, healthcare services as well as environmental initiatives. In terms of CSR participatory rating, the

bank was recognized as a leader especially in workplace and community development initiatives. Assessment of CSR activities of the bank based on the CSR framework proposed by Branco and Rodrigues (2006) one can conclude that CIMB group is a corporate citizen.



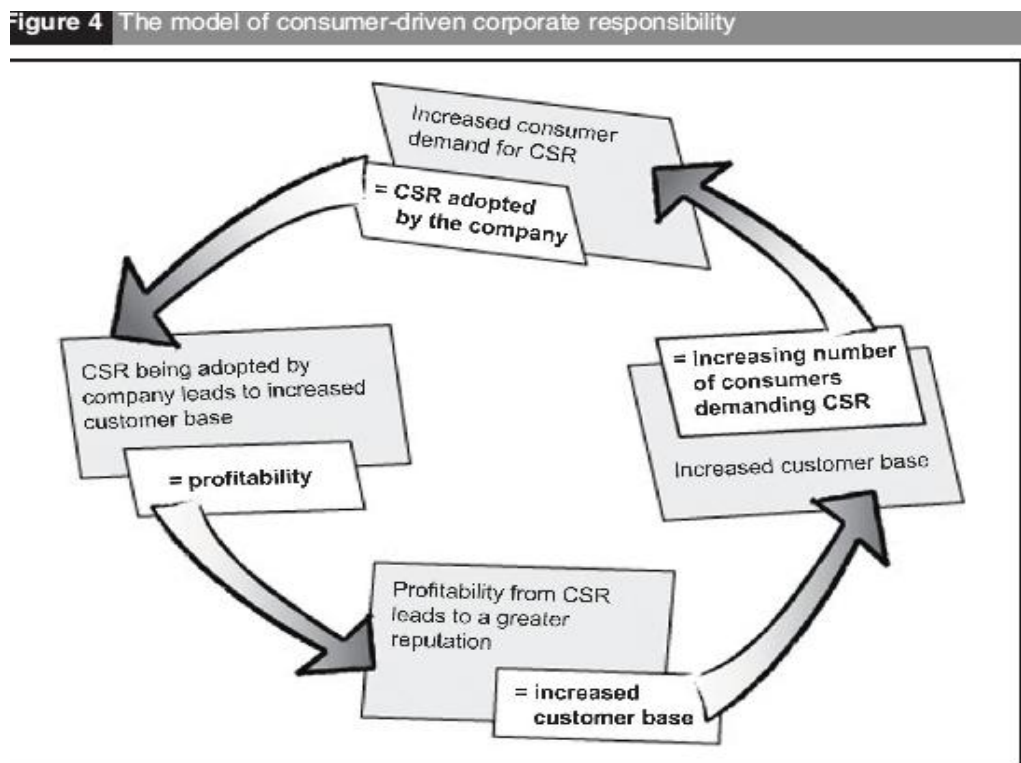
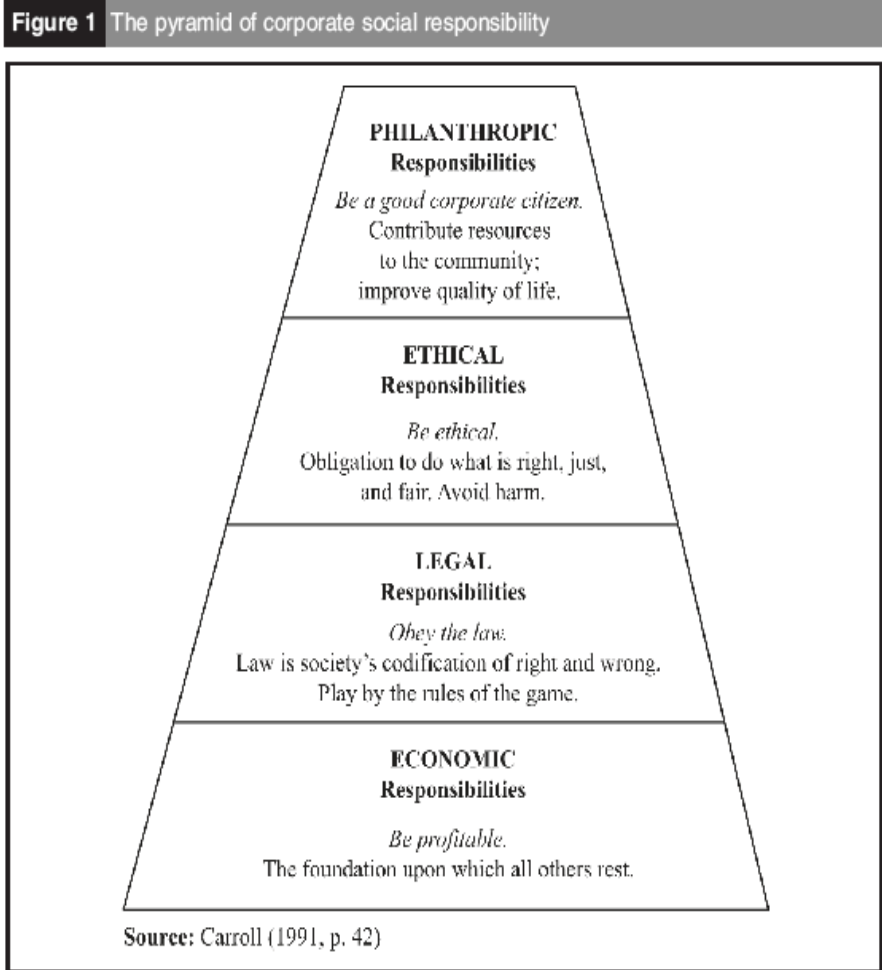
CSR framework by [Touro](#) (2010)

Hinson, Boateng and Madichie (2010) adapted a CSR framework to examine the communication of corporate social responsibility on the banks website among sixteen Ghanaian bank. The study found that one of the banks that had won the most CSR awards at the Ghana banking awards had the poorest CSR communication content on its corporate website. It was also noted that banks that had never won a CSR award previously seemed to have a better organized structure in respect of their CSR activities on their websites. See the model in the next page

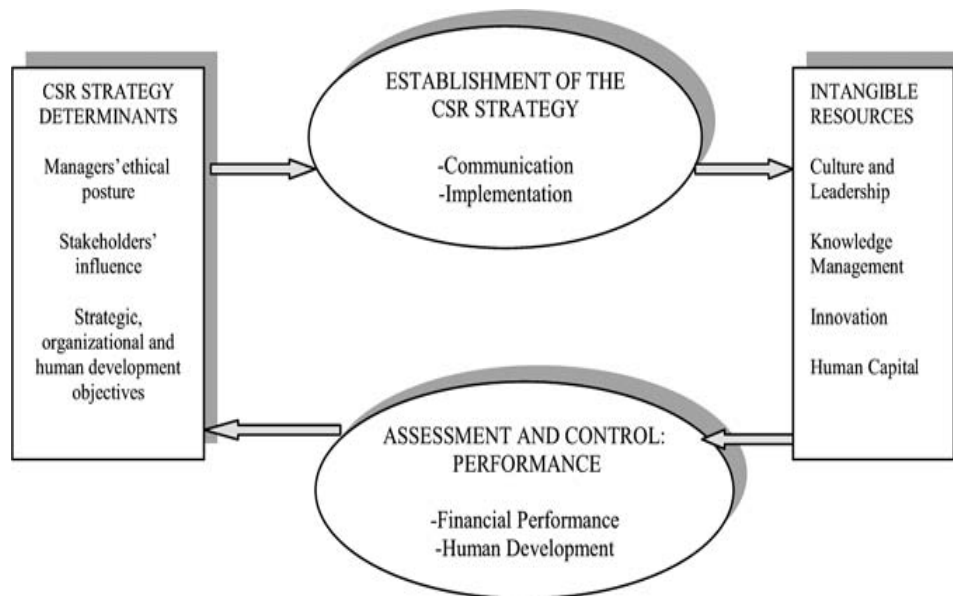


Source: Adapted from Branco and Rodrigues (2006)

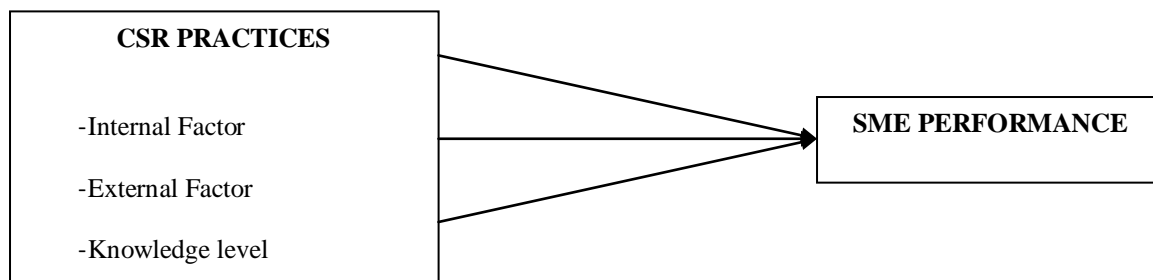
Carroll (1991) in expressing management responsibility that goes beyond profit maximization proposed a three dimensional conceptual framework for firm performance



Ethical principles may be compatible with the best long term economic performance (McWilliams et al., 2006) and with the company's profits (Steiner and Steiner, 2000, p. 129). This is only possible if these actions are developed from a previous knowledge of their advantages and the way these should be integrated into the strategies (McWilliams and Siegel, 2001). This integration would imply the development of the stages included in Figure 1



**CSR Model by Lucky (2015):** The proposed CSR model by Lucky (2015) linked CSR dimensions to a SMEs performance. Based on the Santos (2011), Lucky's model classified CSR as internal, external and knowledge factors. It implies that CSR should be viewed using internal, external and knowledge factors, these key factors are believed to have significant influence on SMEs performance. He argued that CSR model for Africa should take into consideration of internal, external and knowledge factors.



## Conclusion

This paper explores CSR in relation to banks' growth and performance. In other words, it explores how CSR could be utilized in achieving better growth and performance within the banking industry. The paper observed from the literature that many banks across the globe discretionally show concern on how best to carryout voluntary corporate social responsibility due to flexibility and wider range of factor that determines the need and expectation of community and company objectives (Hamburg, 2004). Joseph (2008) postulate that corporate social responsibility is basic to all organizations. Although banking industry appears to be more prone to the impact of CSR activities than most other segments of the economy. This is due need to satisfy a larger spectrum of stakeholders to achieve its economic objective and to maintain an equitable and working balance condition among its employees and the public at large to gain legitimacy to improve its overall corporate performance. Also the study conducted by Tan and Komaran (2006), found that CSR engagement help banks in building strategic benefit that allows them improve their service offering and reduces their operating cost due to increase recognition from the community for being perceived as socially responsible.

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