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Exploring Underlying Dimensions of Business Benefits through Corporate Social Responsibility: A Study on Commercial Banks

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The paper is an attempt to explore business benefits by practicing corporate social responsibility (CSR) initiatives. This study has been started by investigating the outcomes associated with the implementation of corporate social responsibility initiatives and then exploratory factor analysis has been conducted to explore the underlying dimensions of the perceived business benefits of corporate social responsibility. Initially twenty two items were identified from the extant literature on CSR. Five dimensions (factors) were acknowledged after conducting exploratory factor analysis and a significant correlation was found among the items.

Field of Research: Marketing

1. Introduction

Corporate Social Responsibility (CSR) is a subject of much current interest within the managerial world. Management teams, board members and front-line employees, and industry association personnel who work with businesses from large corporations to small and medium-sized enterprises, banks, financial institutions as well as micro-businesses have considered Corporate Social Responsibilities (CSR) as inevitable and valuable. CSR is the responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behavior that is consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behavior; and is integrated throughout the organization. Recent theories of CSR (Baron (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. Examples of such benefits might include reputation enhancement, the ability to charge a premium price for its output, or the use of CSR to recruit and retain high quality worker. Moreover, CSR helps to build up corporate image and thus can help get favorable treatments from government policy decisions, easy and favorable access to funding, favorable media attention, healthy social license to operate amongst local communities and enjoy favorable customer choice.

Present study is an attempt to explore the underlying dimensions of the perceived business benefits of corporate social responsibility. This study examined the interrelated benefits derived from CSR initiatives and then analyzed the benefits to determine the

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factors underlying business benefits through CSR. The paper has been organized in the following way. Apart from the introduction, the literature review and the methodology of exploring underlying dimensions of business benefits from CSR initiatives have been described. After that the results have been analyzed along with some interpretations. Concluding remarks of this paper have been put forward in the final section of the paper.

2. Literature Review

CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way 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. CSR is an "essentially contested concept," being "appraisive" (or considered as valued), "internally complex," and having relatively open rules of application (Moon, Crane, & Matten, 2005: 433–434). At the core of CSR is the idea that it reflects the social imperatives and the social consequences of business success. CSR involves commitment towards the employees of the organization, environment and society at large.

Pani (1997) observed that with the growing educational level and awareness among the people there is growing acceptance of the plea that the business should be responsible for the society. This requires companies to improve on the economic satisfaction of the consumers and employees without impairing the environment, depleting natural resources, nor subjecting their employees to dehumanizing working conditions. CSR is an entry point for understanding sustainable development issues and responding to them in a firm's business strategy. Broadly defined, CSR is an organization's commitment to operate in an economically and environmentally sustainable manner while recognizing the interest of all its stake holders (Carrol, 1991). The stakeholders' theory (social contracts) maintains that companies have social responsibility to all stakeholders for allowing their existence, based on social contract (O'Brien, 1996). It has been shown that the success of CSR in any organizations is dependent on its corporate social orientation and values, and largely, on its ethical orientation (Logsdon and Yuthas, 1997).

2.1 Corporate Social Responsibility in Banking Sector

CSR is generic to all organizations. Relatively, however, in recent years it is observed that banking organizations seem to be the most sensitive to the impact of CSR. This is because an outstanding feature of the banking industry is that it is subject to a more diverse and complex publics than most other sectors of the economy. The banking system is the fulcrum of socio-economic development in any country. As a result corporate social responsibility (CSR) issues have become increasingly integrated into modern banking practices. The decisions and activities of banking sectors have significant effect on employees, customers, communities, environment, competitors, business partners, investors, shareholders, governments and others. It is also becoming increasingly clear that banks can contribute to their own wealth and to overall societal wealth by considering the effect they have on the world at large when making decisions. Apparently, business leaders react to CSR issues forced by exogenous factors rather than truly understanding the advantages that CSR will bring. To explain this problem, the existing research focuses on identifying the underlying dimensions of implementing CSR activities. A bank has a corporate social obligation to satisfy all these complex publics.

A bank undertakes to maximize profit for shareholders who contributed funds to set it up. It must maintain optimal liquidity to meet depositors demand. It is obliged to satisfy the legitimate deficit sector demand for credits. The bank must comply with regulators' requirements to continue in business. Above all, for the bank to be seen as a good corporate citizen, it has to contribute to the maximum development of the economy as well as satisfy its immediate community (Nwankwo, 1991, p. 26). In light of the known positive effects, CSR strategies have been embraced by the international banking Community. A total of 30 major international private banks, including Citigroup, JPMorgan, Bank of America, ABN Amro, Barclays, HSBC and ING, have recently signed the Equator Principles agreement which supports socially –responsible development (Yeomans,2005).

Banks have always tried to satisfy the yearnings of their social environments through a multitude of forms, structures, schemes as well as relationships (Hamburg, 2004). One study by Luo and Bhattacharya (2006) on Fortune 500 companies identified a direct positive path between CSR and customer satisfaction. Given that satisfaction also mediated the impact of CSR on firm market value (Luo and Bhattacharya, 2006), there is a need to better understand the relationship between satisfaction and CSR, especially as this study also highlighted instances where firms are not always able to benefit from CSR actions.

2.2 Business Benefits by Implementing CSR Activities

The topic of CSR has been the subject of much research over the past two decades. Researchers have identified the reasons why firms develop CSR strategies, such as reputation improvement, government regulations, competitive advantage, stakeholder pressures, critical events, and top management pressures (Hall and Vredenburg, 2004; Kassinis and Vafeas, 2006). Accordingly, a variety of CSR strategies have been introduced, including significant investments in innovative activities regarding products and management (Albino et al., 2009), investments in human and ecological capability (Griffiths, 2004), policies with integration of economic, natural, and social capital (Dyllick and Hockerts, 2002). Those studies show why corporations should undertake CSR initiatives as a strategy to flourish in a highly competitive environment.

Fombrum (1996;2005) wrote that CSR and other such initiative like Corporate Citizenship (CC) is undertaken by firm management as a strategic intervention to manage reputational risks from stakeholders and thus to enrich and enhance business opportunities. Effectively managing governance, legal, social, environmental, economic and other risks in an increasingly complex market environment, with greater oversight and stakeholder scrutiny of corporate activities, can improve the security of supply and overall market stability. Considering the interests of parties concerned about a firm's impact is one way of better anticipating and managing risk. According to Bhattachariya et. al., (2008), CSR initiatives can reduce the possibility of the firm being subjected to government, quasi government administrative regulations and also protect the firm from suffering from economic and financial losses (because of the firm business activities being affected) caused by socio-political unrest. Thus risk mitigation is another major benefit of strategic CSR.

In terms of the business case for CSR, various researchers analyzed the relationship between CSR and its impact on the financial bottom line in theoretical (e.g. Schaltegger and Synnestvedt, 2002; Steger, 2006) and empirical research (e.g. Argenti, 2004; Margolis and Walsh, 2003; Salzmann et al., 2005; Wagner et al., 2001). Margolis andWalsh (2003) present a meta-analysis of 127 multiple regression studies investigating the relationship between corporate social performance and corporate financial performance between 1972 and 2002. Although they find mixed results, they conclude that a positive relationship predominates. Furthermore, while measuring business impact of CSR, Drews (2010) classified CSR business benefits into monetary and non-monetary benefits. Monetary benefits include direct financial effects such as revenue increases and cost decreases. They also include benefits that do not directly lead to cash flows but can nevertheless be measured in monetary terms such as reduction of CSR-induced risks or an increase in brand value. CSR initiatives enhance operational efficiencies and cost savings. These benefits flow in particular from improved efficiencies identified through a systematic approach to management that includes continuous improvement.

Organizations are now under pressure to demonstrate initiatives that take a balanced perspective on stakeholder interests. Stakeholders designate the individuals or groups that can directly or indirectly affect, or be affected by, a firm's activities (Freeman, 1984). Marketing stakeholders can be viewed as both internal and external. Internal stakeholders include functional departments, employees, and interested internal parties. External stakeholders include competitors, advertising agencies, and regulators (Miller and Lewis, 1991).

Michael (2003) noticed the role of CSR as a market signal can also be seen in labor markets as well as in product markets. On the labor demand side, companies post their values on the employment web pages to encourage self-sorting of ethical employees. On the labor supply side, CSR signalling is seen both to influence the decision to join the company and to affect human resource policies of employees once inside the company. A number of corporations include descriptions of their corporate responsibility to attract labor – such as AES Corporation (Energy) or, more prominently, the Body Shop. Once in the company, human resource management decisions become important in the effectiveness of a CSR program. Three issues relate to organizational structure, training and motivation. Organizational structure is important because, as Murray (2002) notes, many companies have decided to create executive CSR posts – elevating CSR to a corporate function, much like accounting or marketing. And just as any other corporate function, these posts must draw talent and reassign human resources toward monitoring to ensure compliance with ethical standards – the Gap being one example.

Yet, these human resource decisions require training – which also is supplied and demanded along market principles. Management plays an important role in promoting the program and creating incentives for the program through motivation and example.

Activities of sustaining strategic CSR are assumed to improve corporate image and increase motivation and loyalty primarily among employees and customers, but also others such as suppliers and retailers (Lantos, 2002). A firm is vulnerable to the weakest link in its supply chain. CSR activities improve the ability of a company to attract and build effective and efficient supply chain relationships. Like-minded companies can form profitable long-term business relationships by improving standards, and thereby reducing risks. Larger firms can stimulate smaller firms with whom they do business to implement a CSR approach. For example, some large apparel retailers require their suppliers to comply with worker codes and standards.

Drews (2010) noticed CSR can help to secure the acceptance of a company by the community or other important societal stakeholders. Qualitative benefits can also include the improvement of a company's access to capital by attracting or retaining investors that are sensitive to environmental and social concerns. CSR can help build "social capital." Qualitative benefits of CSR activities can also include the improvement of a company's access to capital by attracting or retaining investors that are sensitive to environmental and social concerns.

Financial institutions are increasingly incorporating social and environmental criteria into their assessment of projects. When making decisions about where to place their money, investors are looking for indicators of effective CSR management. A business plan incorporating a good CSR approach is often seen as a proxy for good management. Some empirical evidence suggests that CSR – and specifically another ambiguous label, 'socially responsible investing' – is important in attracting capital and promoting shareholder value in financial markets (Michael, 2003).

Apart from the access to capital CSR initiatives improves the relations with regulators. In a number of jurisdictions, governments have expedited approval processes for firms that have undertaken social and environmental activities beyond those required by regulation. In some countries, governments use (or are considering using) CSR indicators in deciding on procurement or export assistance contracts. In effect, the reason most companies take CSR actions is either for the purpose of complying with regulations (Wagner, 2005) or as a response to external constraints (Jaffe et al., 1995).

CSR helps in attaining competitive advantage, i.e. the CSR initiative should lead to better effectiveness and efficient in business function activities thus providing cost leadership or should differentiate the firm's products in the socially responsible features or environmentally friendly performance dimension (Bhattacharya et. al, 2008). Competitiveness plays a critical role that leads a company to sustainability. To be competitive, companies have to provide not only the quality of products or services, but also demonstrate the CSR management of business (Price and Newson, 2003). CSR is as much about seizing opportunity as avoiding risk. Drawing feedback from diverse stakeholders can be a rich source of ideas for new products, processes and markets, resulting in competitive advantages.

Research has shown that top global companies reveal part of their effective management through comprehensive social and environmental policies (Snider et al., 2003). Throughout these mechanisms, companies can have greater prominence in the minds of stakeholders and therefore build up a strong reputation (Rindova et al., 2005).

The social responsibility of a company is recognized as an aspect, an appeal and an activity that influences its reputation (Zyglidopoulos, 2001; Fombrun and Shanley, 1990; Carroll, 1979; all cited in Siltaoja, 2006). Deephouse (2000) and Fombrun (1996, 1998; all cited in Siltaoja, 2006) revealed that reputation is often defined as the most important competitive excellence a company can have. For Brown and Logsdon (1999; cited in Siltaoja, 2006), reputation is a long-term combination of an outsider's view of the organization, how well the organization executes its commitments and fulfills stakeholders' expectation, and how effective the organization's performance is according to its social-political environment. Accountability and sustainability are certainly used in assessing the company's reputation. For business world and community, the concepts of accountability and sustainability can be developed consistently to the power and capacity of the company, to act according to the company's and the world's interest together (Freeman, 2006).

In a marketing context, CSR is particularly relevant because of its focus on company benefits in relation to stakeholder groups (e.g. customers). Many surveys suggest a positive correlation between a company's corporate social performance (CSP) and consumer behaviour towards that company and its products (Smith 2003, Bhattacharya & Sen 2004, Pigott 2004). In particular, socially oriented companies should be able to distinguish themselves from competitors, enhance customer satisfaction and improve their reputation through positive stakeholder response to their actions.

CSR builds up corporate image and thus can help get favorable treatments from government policy decisions, easy and favorable access to funding, favorable media attention, healthy social license to operate amongst local communities and enjoy favorable customer choice. Such CSR initiative can also mitigate negative corporate image caused by past corporate bad behavior and hence help in protecting the firm reputation from being tarnished. Further it helps the firm to protect from more stringent government investigations and regulations. A good corporate image from CSR initiatives can reduce the nature and extent of risks and threats which a firm faces from the external environment.

The above mentioned studies provide a large number of benefits that a company enjoys by taking CSR initiatives. Most of these benefits are correlated but past studies did not examine and represent the relationship among the sets of many interrelated business benefits. This study examined the interrelated benefits derived from CSR initiatives in terms of few underlying factors and then analyzed the benefits to determine the factors underlying business benefits through CSR.

3. Objectives of the Study

The study seeks to contribute to the enhancement of knowledge related to the understanding of the factors regarding corporate social responsibility practiced in banking sector of Bangladesh. Specially the study attempts:

1. To explore the underlying dimensions of perceived business benefits of corporate social responsibility
2. To identify the strategic role of corporate social responsibility
3. To investigate the outcomes associated with the implementation of corporate social responsibility initiatives strategically

4. Methodology

4.1 Data Collection

The population defined for this study is the total number of commercial banks in Bangladesh. Based on the study topic, this study was conducted on 18 selected private commercial banks as the research is intended to explore the business gains by using CSR initiatives. A sample of 100 executives was interviewed using a structured and self-administered questionnaire on the basis of nonprobability sampling namely convenience sampling technique to get an insight into outcomes through CSR initiatives. All the respondents were contacted while they were inside their banks, with a prior agreement with the selected banks by using a field force.

4.2 Questionnaire Design

Based on the intensive literature review, researcher has listed a pool of items as the outcomes to be achieved by carrying out CSR initiatives. The questionnaire is an integration of previous literature and own judgment related to the study in the context of Bangladesh. There were 22 statements to get relevant information about business benefit from the perception of executives .A five point likert scale ranging from (1)= strongly disagree to (5)= strongly agree, was used for all items. Different steps were taken to ensure the validity and reliability of the study. To ensure content validity a though review of relevant literature was made by the researcher. A pre-test was also conducted to eliminate the bugs from the research instrument.

4.3 Data Analysis

The research design adopted for this study is exploratory in nature. An exploratory factor analysis has been conducted to determine the underlying dimensions of business benefits of CSR initiatives. Initially five dimensions (factors) were identified from the extant literature on CSR. These five factors were retained after conducting exploratory factor analysis by maintaining the nomological consistency of the factors. In factor analysis, factor matrices are rotated by using *Varimax Rotation* technique. A statistical package of social sciences (SPSS) version 16.0 was used to analyze data from the questionnaire.

5. Analysis and Findings

This study attempts to find out the factors that are creating favorable outcomes from Corporate Social Responsibility initiatives. The factor analysis (Table 2) of the 22 items (see Appendix) suggests that five dimensions (factors) are chosen in terms of eigenvalue of larger than 1.0. These five factors can explain 66.74% of the total variability.

The statistics of Kaiser-Meyer-Oklin (KMO) and Bartlett's test of sphericity is used to clarify the appropriateness of factor analysis. High values of KMO (between 0.5 and 1.00) indicate factor analysis is appropriate (Malhotra, Naresh K., 2003). The KMO measure of sampling adequacy has a value of 0.793 which means factor analysis is suitable.

At the same time Bartlett's test of sphericity is highly significant indicating high correlation between variables and the null hypothesis that the variables are uncorrelated in the population is rejected (see Table 1).

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.793
Bartlett's Test of Sphericity	Approx. Chi-Square	1.216E3
	df	231
	Sig.	.000

The first factor can be called *benefits from Stakeholders* has the highest loading relate to seven items namely, positive media relations, building trust with community, improved relations with regulators, gaining competitive advantage, element of branding strategy, positive investor relations, and improved reputation management. This factor alone explains 32.63% of the total variability. The second factor exhibits largely loadings for five items which are improved customer retention, linked with customer satisfaction, enhanced growth in market share, improved market positioning and increasing number of customers can be considered as *benefits from Marketing Perspective*. This factor alone explains 15.47% of the total variability.

The first and second factor together can explain 48.10% of the total variability. The third factor is defined by two items relating to *benefits from Employee Policy*. One is enhanced ability to retain staff and another is enhanced ability to recruit staff both can explain 7.34% of the total variability. The forth factor exhibits largely loading for only one item relating to *benefits from Supply Chain* relationships and it can explain 6.02% of the total variability. The fifth factor can be called *benefits from Risk Management* has the lowest loading relate to two items specifically, better management of risk and better anticipation of risk. This factor only explains 5.22% of the total variability.

Hence it can be easily noticed that the first factor explains most of the total variance (32.68%), followed by the second factor (15.47%), third factor (7.34%), fourth factor (6.02%) and the fifth factor (5.22%). Five factors extracted in combination explain 66.74% of the total variability.

Table 2: Factor Analysis

Variables	**Factors**				
	Benefits from Stakeholders	**Benefits from Marketing Perspective**	**Benefits from Employee Policy**	**Benefits from Supply Chain**	**Benefits from better Risk Management**
Positive media relations	.826				
Building trust with community	.802				
Improved relations with regulators	.799				
Gaining competitive advantage	.703				
Element of branding strategy	.658				
Positive investor relations	.650				
Improved reputation management	.631				
Improved customer retention		.747			
Linked with customer satisfaction		.724			
Enhanced growth in market share		.656			
Improved market positioning		.654			
Increasing number of customers		.607			
Enhanced ability to retain staff			.848		
Enhanced ability to recruit staff			.827		
Improved supply chain relationships				.755	
Better management of risk					.885
Better anticipation of risk					.877
% of Variance Explained	32.683	15.474	7.342	6.020	5.221
Cumulative %	32.683	48.157	55.499	61.520	66.740

Note: Only the loading above 0.6 are presented in the component.

6. Conclusion

At present business organizations undertake CSR initiatives as a strategy to flourish in a highly competitive environment. From the above study it is clear that there are outcomes associated with the implementation of corporate social responsibility (CSR) initiatives. This study has been conducted to explore the underlying dimensions of business benefits through CSR activities. The most significant dimensions found in this study are benefits from stakeholders, marketing activities, employee policy, supply chain relations and better risk management. However, the study has some limitations. First, the sample of the study was confined to the employees of private commercial banks only, which necessarily does not represent the banking sector completely. Second, the study was conducted only in a metropolitan city of Bangladesh, though the banking sector is geographically concentrated in the rural areas as well. Third, no concept and analysis was given to build up a comprehensive framework of strategic corporate social responsibility. Despite these few limitations the researcher believes that the study would work as a stepping stone for future research initiatives. There are many interesting avenues for further research. The factors explored in this study can be used to find out how these factors vary with different levels of CSR investment.

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Appendix

The benefits that have been identified through practicing CSR are:

1. Corporate social responsibility (CSR) activities helps the bank to get better anticipation of risk
2. It is possible to manage the risk in a better way through CSR activities
3. CSR activities increase operational efficiencies of the bank
4. CSR activities improve cost savings
5. CSR activities enhance ability to retain staff
6. CSR activities enhance organization's ability to recruit quality staff
7. CSR activities improve ability to develop staffs' skill
8. Banks using CSR activities can enhance the ability to address change by detecting the changing regulatory, economic, social and environmental trends in the market
9. CSR activities improve ability to build effective and efficient supply chain relationships for example Larger firms can stimulate smaller firms to improve standards (that will require larger firms' suppliers to comply with worker codes and standards)
10. Building trust with community is possible through CSR activities
11. CSR activities provides positive investor relationships
12. Improved relations with regulators is a outcome of CSR activities
13. CSR activities provides positive media relations
14. CSR activities allow company to gain competitive advantage
15. Improved reputation management is an effect of CSR activities
16. CSR activities improve competitiveness
17. Improved market positioning can be achieved through CSR activities
18. Enhance growth in market share is a consequence of practicing CSR activities
19. Increase in the number of customers is possible through CSR activities
20. CSR activities can be seen as one element in a branding strategy
21. There is a direct link between CSR and customer satisfaction
22. CSR improves customer retention