

Corporate Social Responsibility in Service Sector Perspective: Applications in Commercial Banking Sector in Sri Lanka

DileshaPerera- Doctoral Student, University of Kelaniya

The purpose of this study is to review the theories related to CSR, the role of CSR as an integral part of the strategy and business model of both Sampath and Commercial banks in Sri Lanka. Further sustainability of the business, stakeholder's interest and CSR effect on service recovery has been investigated with the support of secondary data such as annual reports and previous researches. The researcher has adopted deductive approach to review concepts, theories and previous literature in developing the case. Further this study has been developed as a mix strategy. It was noted that both banks are very focus on their CSR activities thereby achieve sustainability goals, financial and nonfinancial goals of the bank. In addition to create value for shareholders and stake holders.

Key words; CSR, business model, commercial banking industry, sustainability, stakeholder's interest, strategy, service recovery

1. Background of the study

1.1 Evolving of the concept of CSR

CSR is not a new concept although it became very prominent about 2 decades ago. In early days, most of the companies concerned about the social welfare of the employees. Therefore they had welfare societies and clubs formed within the company which the welfare of the employees were taken care of. Subsequently this concept was evolved and the companies started looking at social welfare whilst concerned about employee welfare as well. However, the consequences of this myopic corporate focus became evident from late 1970s.

Over the past two decades, the phenomena of CSR has increasingly attracted attention as an alternative business model to address social and environmental concerns. The empirical evidence from Johnson & Johnson suggest that profitability can be sustained for a long time if economic performance is effectively integrated with social and environmental goals into business strategic plans to benefit shareholders, consumers, society, and the community at large (Turcsanyi&Sisaye, 2013). Thus, the need for businesses to be responsible citizens, comply to corporate governance has gained new momentum in the global environment. In the international context, this became more popular due to the declining level of government involvement in providing basic services.

- DileshaPerera is currently pursuing a Doctorate in Business Administration in Marketing in the University of Kelaniya, Sri Lanka, PH +94773540254. E-mail: dileshaperera@gmail.com

Therefore many organizations such as not-for-profits (NPOs), non- governmental Organizations (NGOs) started addressing this social need. Then it became part and partial of the business by including it in the value system and structure of the company (Rathnasiri, 2003).

In today's context, the meaning of CSR concept is much bordered and can be outlined as a firm's commitment to contribute to sustainable economic development, environment concerns, working with employees, their families and society at large to improve the general quality of life. Thus many companies in Sri Lanka is concerned about their socio-economic and environmental impact as part of their responsibility while concentrating the financial performance of the company.

Further past studies have identify that there are two categories of CSR initiatives in the companies in Sri Lankan context, Firstly, CSR as an externally focused approach and secondly, CSR as an internal policy level approach (Rathnasiri, 2003).

External CSR approach can be describe as concentrating on externally focused CSR practices such as public awareness programs, preserving forests, island-wide school art competition with a view to enhancing the artistic skills of children, grade five scholarship exams, micro finance, entrepreneurial development programs, Eye vision of school children and other health concerns, Social welfare, programs for elders, water, and etc (Rathnasiri, 2003). While reviewing the CSR activities that has already launched. In contrast, CSR as an internal policy level approach have been developed according to the company's value system. Thus these initiatives include health and safety of the employees, ethical dealings, providing better working conditions for employees, gender equality, equal

opportunities, waste treatment, preserving immediate environment and etc (Rathnasiri, 2003).

It was noted that while some companies are only focused on external activities, specially commercial banking sector in Sri Lanka have adopted both policies to their CSR aspect. Apart from that this sector has begun to accept that the sustainable business activities leads to improved performance in terms of ethically and environmentally responsible contribution to the society. Further to sustain in the long run, shareholder value alone do not represent the value of the company. On the other hand, developing economies like Sri Lanka, CSR concept plays a vital role in the sustainable development discourse. As a result most of the banks have included CSR in their annual reports as well.

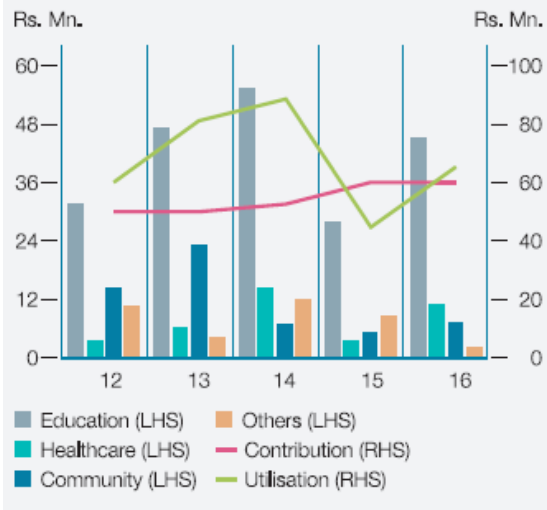
1.2 Commercial Banking sector in Sri Lanka

Sri Lanka's commercial banking sector is the backbone of the financial sector, accounting for 6.4% of GDP, recorded a strong growth of 19% in the first 9 months of 2016, above the five-year historical average of 11%, and among the top growth sectors in the country in 2016 according to Central bank data despite continued pressures from global markets and increasing local tax rates. Sector ROE remained attractive at 17% in the third quarter 2016 (Central bank, Sri Lanka, 2016)

Moving forward, 2017 seems to be another challenging year due to both domestic and external factors expected to have a negative impact on banking sector growth. Locally, the Central Bank would likely take prudential measures to control credit growth and fiscal consolidation. This will result curtailing excess demand and in the long run it will help to sustain and to have an average growth in the longer run. Internationally US/Europe economies and trade policies will have an impact on Sri Lanka export sector, oil prices, debt worries will be main concerns currently.

Presently there are more than 25 banks in the country with its branch network over 1000. Most of the banks does some CSR work to a certain level. However there are some banks in the industry where they have a focused CSR agenda which is links to their strategy and stake holder's interest. Although there are few banks who really focus on these aspect the author has selected both Commercial and Sampath bank for this study. due to the fact that both banks are considered as the 1st and 2nd largest commercial banks in Sri Lanka owing to the portfolio size in terms of assets and liabilities, profitability, contribution and customer base. Further they have done most no. of CSR activities compared to other banks in the country.

CSR Trust Fund Contribution and Utilisation



Source : Annual report Commercial bank , 2016

Exhibit 1 : Commercial bank CSR activities

Indicator	2016	
Corporate Citizenship		
Number of CSR projects	121	60
Employee volunteerism for CSR (Man Hours)	24,431	7,284
Total investment from CSR fund (Rs Mn)	20.30	15.26

Source : Annual report Sampath bank , 2016

Exhibit 2: CSR activities of Sampath bank



Source : Annual report, Sampath Bank, 2016

The objectives of this study is to review the theories related to CSR. CSR as an integral part of their strategy and business model, thereafter sustainability of the business, stake holder's interest and CSR effect on service recovery with special reference to Commercial and Sampath Bank.

Accordingly chapter outline covers the areas of background of the study, methodology, theoretical review in the context of CSR, the linkage to business strategy and model, sustainability, CSR effect on service recovery and conclusion with the support of previous literature and secondary data available.

2. Methodology

The researcher has adopted deductive approach to review concepts, theories and previous literature in developing the case. This study has been developed as a mix strategy. Although there are many banks in the commercial banking industry including the government banks who has different approaches towards the study area, the author has selected Commercial and Sampath bank for this study due to the fact that both banks are considered as the 1st and 2nd largest commercial banks in Sri Lanka owing to the portfolio size in terms of assets and liabilities, profitability, contribution and customer base. Further they have done most no. of CSR activities compared to other banks in the country.

Accordingly the study has followed a synopsis format of a literature review as well as template of case review to evaluate theoretical content together with case related examples from both Commercial and Sampath bank.

Further the case has been developed with the support of secondary data obtained from annual reports, web sites and other secondary sources.

3. Theoretical background of CSR perspective

In CSR standpoint there are many theories. Based on the stakeholders theory, Wheeler, Colbert and Freeman (2003) as cited in Omran&Ramdhony (2015) proposed that the main driving force at work is the creation of value in market economies although it considered differently by different performers. Therefore companies may have to relate their culture to their organizational attitudes towards stakeholders according to the culture of dominant stakeholders. This theory is most suitable for organizations in the developing countries because the organization can manage its stakeholders and the pressure to comply with existing regulation is less when compared to developed countries. The stakeholder theory is used to analyze those groups to whom a firm should be responsible. The stakeholder theory emphasize that business organizations must play an active role in society in which they operate.

According to CSR disclosure theories, it is not sufficient for organizations to simply engage in CSR activities but it is also important and necessary to make this information available to stakeholders (Holder-Webb et al., 2009). Further the need for disclosure of non-financial information will omits salient information about the firm. On the other hand legitimacy theory suggests that CSR disclosures are part of a process of legitimation and the relevance of non-financial information has been increased significantly over the years. Accordingly, in comply with these two theories, both Sampath and Commercial banks has disclosed financial and non-financial information in their annual

report. In authors opinion the financial statement portrays a limited picture of the firm through providing merely financial metrics.

Further it proposes that there is a social contract between an institute and the society in which it operates (Deegan & Unerman, 2011). Hence the organization try to legitimize their corporate actions or activities by engaging in CSR and publication of same to get the approval from society (societal approach). In other words, the societal approach means that companies are responsible to society as a whole, of which they are an integral part. Therefore, business organizations operate by public accord in order to serve beneficially the needs of society and to the satisfaction of society. Social contract theory is appropriate for developed and emerged economies which denotes some indirect obligations of business towards society. The way the company manage their responsibilities will have an impact on the employee's decision about where to work. This is based on their perception. Consequently, publication of sustainability related information can play a vital role of positioning a firm as an employer of choice. As a result employee's loyalty enhances, staff turnover will be reduced. As such the firm will be able to attract and retain high quality employees. (Waddock et al., 2002). Consequently it was evident that according to the annual reports of both bank their staff turnover is less than 3% which is very low compared to industry average of 5%. Further staff vintage can be seen at a high level which means that the staff of both banks are very loyal to their organization.

Margolis and Walsh (2003) states that organization's engagement in CSR activities and its disclosure can foster corporate performance and according to the conclusion of their study, there is a positive relationship between CSR performance and financial performance (shareholder approach) Roberts (1992) proclaims that one way that firms consider CSR disclosure is to increase access to capital and shareholder value by satisfying stakeholder's expectation. Investors are choosing to invest in organizations that are demonstrating a high level of CSR. While reviewing the performance and share prices of both banks it was revealed that the share prices are always trade at higher prices and the shareholders are not willing to dispose their shareholding of both banks.

Signaling theory clarifies that why firms have an advantage to report or publish information about their CSR voluntarily to the capital market, accordingly voluntary disclosure is necessary in order for firms to compete successfully in the market for risk capital. People who are inside the company would know more details about a

company as to what they do and etc. and its future prospects than investors do; therefore, when investors know the true value of the company they will not offer a lower price for the company (Omran and El-Galfy, 2014; Thorne et al., 2014). Therefore it can be stated that the value of the company can be increased if the firm voluntarily reports or publish (signals) private information about the company and as a result reduces outsider uncertainty.

4. CSR in stake holder's perspective and sustainability

Commercial bank being the largest private sector financial services institution in Sri Lanka, serving over three million customers and only Sri Lankan bank to be ranked among top 1000 banks in the world for the 7th time and 6th consecutive year serving with ethics with good dose of heart to create value for their stakeholders. They are the only Sri Lankan organization who has been awarded at the Global Sustainability and CSR excellence and Leadership Awards. The following statement of the Managing director shows how committed they are for the sustainability in every aspect and how focused they are to create value for their stake holders.

"Sustainability is one of the pillars of our business, and every aspect of sustainability receives close attention at Commercial Bank," the Bank's Managing Director/CEO MrJeganDurairatnam said. "We are focused on sustainability indicators in our operations, in our business, particularly lending, in our engagements with the community and in our human resource management practices. We are therefore greatly encouraged by this award. The core business strategy of the Bank has been aligned with the triple bottom line approach and is in sync with the needs of society, the development needs of the country as a whole, with the concerns of its employees and with the Bank's obligations to stakeholders."

MrJeganDurairatnam, Managing Director/CEO, Commercial Bank

It was noted that this message consistent and has been reflected throughout the annual report starting from the first page. Further they have won many awards for their CSR initiatives, sustainability work and other humanitarian work done for the society throughout. Their sustainability agenda has been formulated using the GRI G4 Guidelines for Sustainability Reporting and the UN Global Compact Principles. Further they have established a CSR Trust Fund, screening loans for social and environmental compliance, introducing green loans and installation of solar panels at branches are few initiatives that reflects their commitment

to sustainability. Similarly Sampath bank is also believes that all their stakeholders are key partners in the journey of achieving their vision. Therefore it is vital to effectively manage the stakeholders to remain in a sustainable business in the longer run. The chairman's statement captured from annual report, 2016 shows how focused they are to become a sustainable bank among others and drive towards it.

"Becoming a more sustainable bank"

Our citizenship activities focus specifically on health, education, community infrastructure and livelihood development; all areas that have been featured in the UNDP's Millennium Development Goals and the 2030 agenda for Sustainable Development for Sri Lanka."

Chairman, ChannaPalansooriya, Sampath bank, Annual Report 2016



Exhibit 3 :Sampath bank Sustainability Vision - 3600 Approach to sustainability

Sustainability Principal is the fundamental principle that reflects the organization belief that it has a responsibility to uphold ethical values.

It was noted that both these banks have aligned their CSR initiatives to global sustainable development agenda 2030 planned out by UNDP for developing countries. Accordingly they are looking at many aspect and helping the society to achieve those goals in order to enhance the quality of life of under developed areas.

In Consistent with stakeholder approach, organizations are not only accountable to their shareholders but should also consider the contrasting interest of all other stakeholders that can affect or be affected by the achievement of organization’s objective (Freeman, 1984 as cited in Omran&Ramdhony, 2015). As such when you replicate this theoretical aspect, the author can suggest that the CSR approach of both Commercial and Sampath bank, in terms of creating value for stake holders and sustainability are in line with the theoretical aspect established in stakeholder’s theory.

5. CSR as an integral part of business strategy and business model

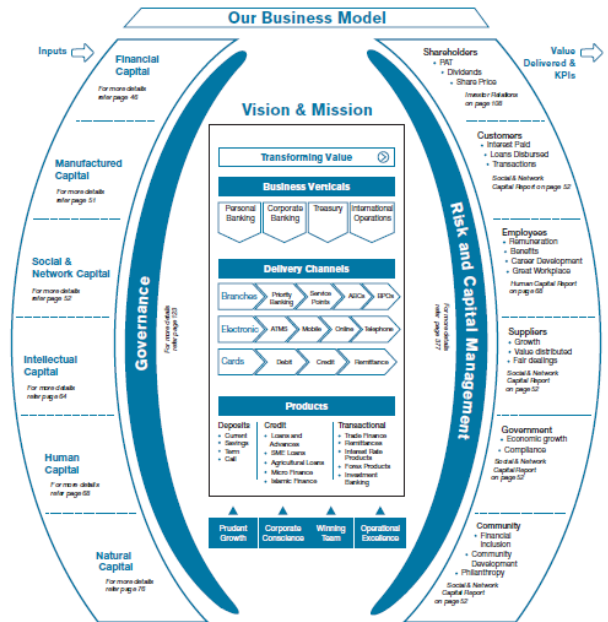
There are empirical evidences that when CSR is incorporated in business strategies of social and environmental performance, it complements economic profitability objectives. In other words, sustainability promotes transparency, adherence, and disclosure that incorporates and promotes social equity, environmental restoration/renewal, and financial performance. In the long run, organizations that have integrated CSR in their strategic planning processes are able to manage risks and take advantage of opportunities of programs that are safer, greener, and economical (Turcsanyi&Sisaye, 2013).

There are several strategic management studies and analyses that examine the positive nexus between social success and economic and financial profitability (strategic CSR approach). Porter and Kramer (2006) as cited in Vitolla et al, 2017 stressed the importance played by the integration of strategy and society. According to both annual reports of Commercial and Sampath bank it was noted that CSR has been considered as an integral part of their strategy and business model. Below statement of Sampath bank, chairman shows how serious they are on this aspect.

“Demonstrating our commitment to the concept of shared growth we have integrated such concerns into our business model.

Chairman, ChannaPalansooriya ,Sampath bank, Annual Report 2016

Please refer exhibit 4 for the business model of Commercial bank and exhibit 5 for the business model of Sampath bank which was extracted from annual report 2016 which is clear evident that they consider CSR initiatives as integral part of business model and strategy.



Source : Annual report 2016

Exhibit 4: Business model of Commercial Bank

6 CSR towards Service Recovery

Service recovery refers to firm actions intended as a response to service failure (Gronroos, 1988). Well-executed service recovery remedies are essential to recovery satisfaction (Fornell and Wernerfelt, 1987). Recovery satisfaction, which also refers to satisfaction with complaint handling is the customer’s evaluation of how well a service provider handled a service failure. Recovery satisfaction is critical in that it helps maintain relationships with customers (Orsingher et al. 2010)

Choi & La (2013) indicates that perceived CSR has a significant impact on customer trust and loyalty and customer trust serves as a key mediating variable in service recovery. They further suggested customer attitudes with regards to corporate social responsibility (CSR) can change as a result of service recovery performance and that this is especially true for customer perceptions of the ethical and legal dimensions of CSR. Author believes this notion is somewhat true as many customers who are banking with both banks feel that these banks are not merely profit organizations but they build people, help small level business entrepreneurs to start/develop their business. Further while providing finance, they also extend their services upto advisory services, interest reductions when customers are in trouble, flexible payment systems, less stringent on their credit policy, grace periods and many more services which some of the other banks may not offer specially international banks do not think about on those

lines. They only get in to risk free lending. Therefore it can be stated that these 2banks are very customer centric. In addition customers are not so service seeking when it comes to these 2 banks as they expect a different role from the bank.

In contrast Lankoski, (2008) propose that if organizations are more transparent with stakeholders, this could help to improve customer loyalty and satisfaction, improve the firm's public image and attract additional customers that might not have known about products and services without the issuance of a sustainability reports. Author suggest when stakeholders are being very transparent, the general public will build the trust automatically and as a result the perception towards the organization is that this company is a "reliable" organization. Thus the company will progress in business volumes, company image, profitability, and etc.

Furthermore, consumers' perceptions of CSR are known to influence their behavior and attitude towards companies and their products (Brown and Dacin, 1997; Further Maignan and Ferrell, 2004 confirms that consumers become even more sensitive to firm ethics after service failure, a link between perceived CSR and loyalty is also anticipated after service failure and recovery. It was further confirmed by Luo and Bhattacharya (2006) stating that a direct link between CSR and customer satisfaction, showing that a firm's CSR initiatives increase customer satisfaction.

Any best service provider will have services failures due to inconsistencies in providing services. In author's opinion, this will be the same case with both Commercial and Sampath banks given the fact that they handle large portfolio of customers in and around the country with a larger branch network. However in line with above empirical evidence it can be stated that CSR initiatives that has been taken place in the past would have brought them a very positive image in terms of recovering the service lapses and bring a positive image to the bank.

7 Conclusion

The main objectives of this study is to review the concept of CSR in connection to sustainability of the business and stake holder's interest of Commercial banking industry with special reference to Commercial and Sampath Bank with the support of secondary data such as annual reports and previous studies on the said areas. Further it was noted that the role of CSR is as an integral part of the strategy and business models of both banks which connects to strategy. In addition the study focus on the impact of CSR in service recovery. The researcher has adopted deductive approach to review concepts, theories and previous literature in

developing the case. This study has been developed as a mix strategy. It was noted that both banks are very focus on their strategy in terms of financial and nonfinancial and promote sustainability, transparency, adherence, and disclosure that incorporates and promotes social equity, environmental restoration/renewal, and thereby financial performance and service quality. Further it was revealed that both banks have comply with many theories related to CSR such as stakeholders theory, CSR disclosure theory, legitimacy theory, Signaling theory and etc.

Due to time constraints and practical concerns the author has considered only two main players in the commercial banking industry in Sri Lanka for this study. However, future research is needed to get a feeling about the entire industry and to gain more insights about CSR approaches of other players in the banking industry. Further this study can be extended to entire private sector of the country to assess the impact and contribution made by CSR initiatives to entire country. Furthermore research is needed to examine whether those initiatives have achieved the objectives which they were intend to achieve. This research could be a guide for future CSR project to carry out successfully. In addition arguments built in this case also can be validated with a future research.

References

- 1) Brown, T.J. and Dacin, P.A. (1997), "The company and the product: corporate associations and consumer product responses", *Journal of Marketing*, 61 (January), 68-84
- 2) Choi, B., & La, S. (2013). The impact of corporate social responsibility (CSR) and customer trust on the restoration of loyalty after service failure and recovery. *Journal of Services Marketing*, 27(3), 223-233. doi:10.1108/08876041311330717
- 3) Deegan, C., (2002). The legitimising effect of social and environmental disclosures- a theoretical foundation. *Accounting, Auditing and Accountability Journal*, 15(3), 282-311
- 4) Deegan, C., and Unerman, J., 2011. *Financial accounting theory*, McGraw-Hill, Sydney.
- 5) Fornell, C. and Wernerfelt, B. (1987), "Defensive marketing strategy by customer complaint management: a theoretical analysis", *Journal of Marketing Research*, 24(4), 337-346
- 6) Freeman, R. E., 1984. *Strategic Management: A Stakeholder Approach*. Pitman, Boston
- 7) Gronroos, C. (1988), "Service quality: the six criteria of good perceived service quality", *Review of Business*, 9, 10-13

- 8) Holder-Webb, L., Cohen, J., Nath, L., and Wood, D., 2009. The supply of corporate social responsibility disclosures among U.S. firms. *Journal of Business Ethics*, 84(4), 497-527.
- 9) Lankoski, L. (2008), "Corporate responsibility activities and economic performance: a theory of why and how they are connected", *Business Strategy and the Environment*, 17 (8) , 536-547.
- 10) Luo, X. and Bhattacharya, C.B. (2006), "Corporate social responsibility, customer satisfaction, and market value", *Journal of Marketing*, 70 (October), 1-18.
- 11) Maignan, I. and Farrell, O.C. (2004), "Corporate social responsibility and marketing: an integrative framework", *Journal of the Academy of Marketing Science*, 32(1), 3-19.
- 12) Margolis, J. D., and Walsh, J. P., 2003. Misery loves companies: Rethinking social initiatives by business. *Administrative science quarterly*, 48(2), 268-305.
- 13) Omran, M. A., &Ramdhony, D. (2015). Theoretical Perspectives on Corporate Social Responsibility Disclosure: A Critical Review. *International Journal of Accounting and Financial Reporting*,5(2), 38-55. doi:10.5296/ijaf.v5i2.8035
- 14) Omran, M.A., and El-Galfy, A.M., 2014. Theoretical perspectives on corporate disclosure: a critical evaluation and literature survey. *Asian Review of Accounting*, 22(3), 257-286.
- 15) Orsingher, C., Sara, V. and de Angelis, M. (2010), "A metaanalysis of satisfaction with complaint handling in services", *Journal of the Academy of Marketing Science*, 38(2), 169-186
- 16) Porter, M.E. and Kramer, M.R. (2006), "Strategy & society: the link between corporate social responsibility and competitive advantage", *Harvard Business Review*, 84(12), 78-92
- 17) Rathnasiri, H. (2003). Corporate Social Responsibility Practices of Sri Lankan Private Sector: An Exploratory Study', *Sri Lanka Journal of Management*, (8,3-4), 195-228
- 18) Roberts, R. W., 1992. Determinants of corporate social responsibility disclosure: An application of stakeholder theory. *Accounting, Organisations and Society*, 17(6), 595- 612.
- 19) Thorne, L., Mahoney, L., Manetti, G., 2014. Motivations for issuing standalone CSR reports: A survey of Canadian firms, *Accounting, Auditing and Accountability Journal*, 27(4), 686 – 714.
- 20) Turcsanyi, J., &Sisaye, S. (2013). Corporate social responsibility and its link to financial performance. *World Journal of Science, Technology and Sustainable Development*,10(1), 4-18. doi:10.1108/20425941311313065
- 21) Vitolla, F., Rubino, M., &Garzoni, A. (2017). The integration of CSR into strategic management: a dynamic approach based on social management philosophy. *Corporate Governance: The international journal of business in society*,17(1), 89-116. doi:10.1108/cg-03-2016-0064
- 22) Waddock, S., Bodwell, C. and Graves, S., 2002. Responsibility: The new business imperative. *Academy of Management Executive*, 16(2), 132-149

IJSER