

Corporate Social Responsibility and Full Disclosure: Relationship to Financial Performance of Commercial Bank

R.F. Dimaala

Our Lady of Fatima University, Valenzuela City, Philippines

ABSTRACT: The purpose of this paper is to examine whether the practice of Corporate Social Responsibility (CSR) in the Philippines is going beyond philanthropy and public relations. This will obtain a snapshot of how companies practice what they preach about doing good. It will further examine how CSR disclosure positively increases brand recognition while promoting sustainable relationships among their partners, customers, and key stakeholders, including the government. Therefore, this study aimed to determine the relationship between CSR and full disclosure of the financial performance of commercial banks in Valenzuela City. It was concluded that most of these commercial banks are disclosing their CSR practices in four sub-dimensions, namely, environment and energy, human resources, products and customers, and community involvement. Firms appear to disclose CSR information to increase competitiveness rather than reduce the potential impact of additional regulation, taxes, and other activities that may negatively affect the firm's value. Furthermore, all of the commercial banks in Valenzuela City agreed that their CSR is affected by these types of stakeholders (customers/clients, international partners, and regulatory agencies); and they all viewed these factors on the same level. Finally, the study recommends that commercial banks in Valenzuela City must continue to comply with additional requirements of the law for social responsibility and continuously monitor the perception of banks' customers toward banking corporate social responsibility and build up positive linkage with them. Commercial banks in Valenzuela City may engage themselves more in social and charitable activities geared towards benefitting the people around them and observe the application of CSR in the management system of banks to improve their transactions among their clients and employees further.

Keywords: corporate social responsibility, disclosure, corporate social performance, financial performance, credit institution, compliance

1 INTRODUCTION

Through the years, the subject of corporate governance has begun to take an ever-increasing prominent space in the public sphere as a result of high-profile corporate failures. Such organizational shift incorporates ethical considerations and values in the business strategy of corporations, including banks, making it necessary for corporations to be considerate of the broader environment within which their organizations operate and prioritize Corporate Social Responsibility (CSR). Banks as corporations understand and address stakeholders' demands through their CSR practices as it is believed that CSR connects to governance at the values level, determining the boundaries and accountabilities of banks and financial institutions concerning a broad universe of stakeholders and its social and environmental responsibilities. In the Philippines, the concept of social responsibility has become more and more a hotly and debated topic. Firms believed that CSR consists of merely

sharing a portion of their profits with the less fortunate, a simple philanthropy—a misconception which is a product of a failure to understand the real concepts of CSR and its relationship to their financial performance.

Nowadays, bank leaders express their bank's commitment to social development in their core banking principles and practices. An image of the concretized institution, which religiously practices social responsibility—a responsibility that is dynamic and evolves in accordance with modern business practices and the expectation of society, government, and stakeholders. ISO 26000 states that social responsibility is the "responsibility of an organization for the impact of its decisions and activities on society through transparent and ethical behavior that contributes to sustainable development, including health and 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 and practiced in its relationships.”

The concept of CSR and Full Disclosure has become the global trend for banks and financial institutions and spreading very fast because of its benefits in its operations. Its main objective is to recognize their responsibility to society in their every business activity. Their projects are directed for the advantage of the environment that can contribute to the successful innovation of the society and the bank as well.

In the Banking Sector, key elements of CSR are understanding of financial services complexity, risk management, strengthening ethics in the banking business, strategy implementation for the financial crisis, protection of customer rights, and channel setting for customer complaints (Burianova & Paulik, 2014).

This trend for locating corporations within a broader stakeholder group through CSR activities is believed to yield positive results for banks and financial institutions through increased customer loyalty, willingness to pay premium prices, and lower reputational risk. For banks, reputation is a significant factor in retaining old customers, and enticing new ones—thus CSR is a key to the bank’s success. Through positive publicity, it increases brand recognition and promotes sustainable relationships among partner organizations and customers.

The positive association between corporate social performance and financial performance can also be explained by ‘good management theory’, which is, in essence, another articulation of stakeholder theory. ‘Good management theory’ implies better relationships with key stakeholders that, in turn, will result in improved performance (Waddock & Graves, 1997). The simple idea advanced by this theory is that social responsibility can be an intangible asset that results in more efficient use of resources, which in turn positively affects financial performance (Surroca et al., 2010). By having a socially responsible agenda, banks or any institution can mitigate the potential damage of their reputation from negative information they may face in the future and therefore protect their profits and financial results. Thus, a good CSR program can help to generate valuable goodwill, which will protect companies from unexpected issues and open doors to new prospects that cannot be accessed by companies that are not as socially active. Consequently, good stakeholder management may lead to a

competitive advantage (Barnett & Salomon, 2006).

Likewise, it is believed that stakeholders are the central focus that motivates firms, commercial banks included, to disclose their CSR activities. Stakeholders include a wide range of people and interest groups who are involved in some capacity with organizations (Price & Murnan, 2004). The contemporary stakeholder literature can be traced back to the work of Freeman & Mcvea (1984). This theory has been used to support the reasoning of CSR disclosures. From an analytical perspective, a stakeholder approach can assist commercial bank managers by promoting an analysis of how this financial institution fits into larger environment of social context, how its standard operating procedures affect stakeholders i.e. customer depositors, suppliers, and even financiers; regulators i.e. government agencies, tax collections, bsp supervision, etc.; partners, suppliers including global business of banking alliance on account of internationalization in the banking industry.

This research aims to assess the impact of CSR disclosure practices on the financial performance of commercial banks in Valenzuela City. The dimensions and sub-dimensions of CSR were specifically examined to provide answer to the following objectives: to identify reasons why commercial banks in Valenzuela City provide full disclosure of their CSR activities; to determine the factors affecting the corporate social responsibility of the chosen commercial banks in terms of the top 3 focus stakeholders; Customers / Depositors / Debtors; Regulatory Agencies and Global Partners; to recognize the advantages of having CSR for banks; and to know how CSR is being applied in the operations of commercial banking. To prove that they are doing these beyond legal compliance.

2. RESEARCH METHODS

For this study, the proponents employed the quantitative descriptive research method and design. This emphasized the objective measurements of data collected through survey questionnaires using computational techniques. It focused on gathering numerical data and generalizing it across groups of people or to explain a particular opinion.

The respondents of the study were officers and employees of the top 4 commercial banks in Valenzuela City, with a total of 40 participants.

Determination of the top 4 commercial banks was based on the list provided by the Bangko Sentral ng Pilipinas, as stated on their site <http://www.bsp.gov.ph>. These commercial banks also have in operation in the city of Valenzuela for more than 10 years.

To gather data for this study, the proponents used a self-made survey questionnaire data gathering instrument to sort quantitative data for analysis. The tool aims to identify the factors affecting the corporate philanthropy of the sample commercial banks and eventually recognize the advantage of disclosing their regular CSR activities.

The questions were structured in a way that respondents were to answer it easily. A 4-point Likert scale or forced Likert scale was used, so the respondents are forced to form an opinion.

As earlier cited, a forced Likert scale has been used in determining the relationship of CSR and full disclosure in the financial performance of commercial banks in Valenzuela City. The composite mean was used to determine the extent to which CSR and full disclosure affect the operation of commercial banks in Valenzuela City, Philippines. The given scale was used to interpret the result of the study: 3.26-4.0 = Strongly Agree (SA); 2.51-3.25 = Agree (A); 1.76-2.50 = Disagree (D); 1.00-1.75 = Strongly Disagree (SD). Ranking was also used to rank the highest and lowest index based on its weighted mean.

3. RESULT AND DISCUSSION

The weighted mean of 3.70 and verbally interpreted as strongly agree, implies that commercial banks disclosed CSR activities primarily to increase competitiveness (competitive advantage) rather than to reduce the potential impact of additional regulation, taxes, and other activities that may negatively affect the firm's value. It meets moral obligations that go beyond industry laws and regulations. It builds goodwill with governments, stakeholders, employees, and customers by improving the image and reputation of the commercial banks. While it was recognized that there are a variety of factors that motivates commercial banks to disclose their CSR activities, respondents opined that the most foremost components that influence them to do this are competitive advantage then transparency with stakeholders and stakeholders (government) pressure. Reporting CSR initiatives can give the commercial bank a competitive advantage over its

peers. Improved brand reputation, increased consumer and investor trust, and better integration of CSR in business activities strengthens their position in the industry and frequently lead to new business.

CSR is useful for building a positive image of Commercial Banks. Disclosing CSR activities project a positive image of the commercial bank by showing that the bank is a responsible financial citizen. In countries like the Philippines, it is a legal requirement that the bank makes public their CSR activities to fulfill the law and be transparent to its stakeholders. For this study, the proponents focus on the 3 types of stakeholders as factors that has impact and relationship to their financial performance.

Clients/Depositors/Debtors/Employees.

Data gathered implies that all those features in the highlighted types of stakeholders are considered factors that affect CSR of commercial banks. This was verbally interpreted as strongly agree with a composite mean of 3.63. Primarily, this builds a relationship with stakeholders and achieves a better understanding of their perspective and on key organizational issues, including CSR, and incorporates their perspective on bank strategies. Questions that were asked under this index, such as helping small business owners with funds to sustain their operation, got a weighted mean of 3.78. This is understandable as commercial banks offer a variety of loan products and financing services for small business owners. Furthermore, employees of these firms may enjoy special accommodations from commercial banks.

Apparently, respondents only agree on engaging in different kinds of social and charitable activities like donations, scholarships etc., which mean was only 3.35 and the lowest as ranked. Commercial banks must remember that an institution with an active community involvement geared towards higher profitability and employee morale. Commercial banks in Valenzuela City must start to appreciate charitable activities if they aim to improve their image internally and externally.

Regulatory Body (Government/Tax Regulators/Supervisory BSP)

Parties in charge of financial governance in institutions like commercial banks must ensure that it is communicating fairly and in accordance with generally accepted standards the economic reality of all its transactions and financial position. Seemingly, commercial banks have been capitalizing on confidentiality rules. They are not allowing public

viewing of documents due to the privacy of information, thus question on transparency among financial documents got the lowest mean value of 3.43. BSP needs to provide regulations that would ensure more transparency.

CSR, as a governance approach, enabled the government to create framework conditions that would allow voluntary efforts to complement their regulations in pursuit of good governance. Under this index, a composite mean of 3.48 is verbally interpreted as Agree. According to Colquit & Zipay (2015), justice and fairness are issues that affect everyone's life. Bank employees focus on the justice of key decisions and events in the workplace. Noting a weighted mean score also of 3.48 seems that respondents agreed to it. Perhaps, they feel that the government lifts the positive traits that help them foster good deeds in the workplace.

International Allies/Global Partners

With the emerging technologies that influenced the full automation of the banking industry, partnering with international banks and other financial alliances is needed to sustain the presence of commercial banks in the global environment. Commercial banks should disclose activities of CSR not just domestically but even internationally. Through technology, international connections between those who helped and being helped are now always possible (Chen, 2010). Respondents agreed that dealing with international banks and global financial allies somehow affect the CSR of commercial banks as it contributes to facilitating communication of local banks to international banks. This was verbally interpreted through a composite mean of 3.45.

Being fully equipped with knowledge, culture, and traditions of various international banks, commercial banks in Valenzuela can easily develop their own strategy for management. This is the reason why the factor in acting socially and responsibly within laws, customs, and traditions of countries got a high weighted mean of 3.55.

On the contrary, since not all banks can adapt easily to the changing trends because they need to increase their expenses, the factor that influences the banking sector and its financial condition and the economy showed a low mean of 3.40. Globalization is a risk to both political and economical because it challenges the banks' operational system and products beyond their core market. Table 1 presents the reason for the full disclosure of CSR activities for commercial banks in Valenzuela City. This dismissed the common myth that banks

only engaged in corporate social responsibility activities to avoid regulatory responsibilities and hide issues, which should not be known to the depositing public.

Table 1. Summary Table - Objective for Disclosure of CSR Activities

| Index | WM | VI | Rank |
|--------------------------------------|------|----|------|
| Increase Competitiveness | 3.70 | SA | 1 |
| Public Transparency | 2.00 | D | 4 |
| Avoid taxes & other regulations | 2.08 | D | 3 |
| Hide negative effect to bank's value | 2.28 | D | 2 |
| Composite mean | 2.52 | A | |

The findings of the analysis support respondents' perceptions indicate a positive link between CSR disclosure and financial performance in the commercial banking industry. Therefore, it can be assumed that the higher the level of CSR disclosure, the better a commercial bank's profitability.

Table 2. Summary Table - Factor Affecting CSR (selected shareholders type) of Commercial Banks

| Index | WM | VI | Rank |
|--------------------------------------|------|----|------|
| Clients/depositors/employees | 3.63 | SA | 1 |
| Regulatory agencies/government | 3.55 | SA | 2 |
| International partners/global allies | 3.45 | A | 3 |
| Others | - | - | |
| Composite mean | 3.54 | SA | |

Table 2 presents the summary of factors affecting CSR for commercial banks. The overall composite mean of 3.54 and verbally interpreted as Strongly Agree implies that all enumerated factors are important to CSR of commercial banks because it helps to the strengthening and increasing brand loyalty through their depositor clients.

Factors affecting CSR of commercial banks to clients/depositors/employees ranked first with a weighted mean score of 3.63. Stakeholder's judgment is similar to the perception of depositor clients, employees, and owners of commercial banks. Therefore, it can be concluded that the involvement of these individuals creates a great impact on developing social responsibility.

Regulatory agencies/Tax regulators/Government ranked second with a weighted mean of 3.55. This means that the government is succeeding in regulating the operation of commercial banks. Rules, regulations, and documentary requirements are all in place to ensure good governance on commercial banks. While banks enjoy certain freedom, BSP, through its supervisory roles, ensures conformity and compliance with rules to prevent banking disasters.

International partners/Global financial allies take the lowest spot with a weighted mean of 3.45. Commercial banks still struggle to adapt to new trends in the banking sector and the diverse culture

that is now emerging. With upcoming generations of consumers and businesses fully embedded in mobile, digital, and social media as a way of life, interaction expectations are changing and commercial banks find it costly to cope. Diversity arises due to the global connection that exists in the banking and financing industries.

Table 3. Summary Table - Theme of CSR Disclosure by Commercial Banks

| Index | WM | VI | Rank |
|-------------------------|------|----|------|
| Human resources | 3.55 | SA | 6 |
| Environment | 3.63 | SA | 3 |
| Community development | 3.65 | SA | 2 |
| Enterprise development | 3.58 | SA | 5 |
| Fair business practices | 3.70 | SA | 1 |
| Energy | 3.53 | SA | 7 |
| Employee safety | 3.60 | SA | 4 |
| Composite mean | 3.61 | SA | |

Table 3 enumerates the themes of CSR disclosure of commercial banks in Valenzuela City. The composite mean of 3.61 and verbally interpreted as Strongly Agree, indicated a focus on Fair Business Practices, which is actually vital to increasing sales and financial performance. An ethical bank increases the reputation and therefore attracts more customers. Respondents from commercial banks strongly agree that it is really beneficial to prioritize ethics in CSR disclosure. It helps them get the interest of the public as well as enjoy a good reputation in the industry. To commercial banks, Fair Business Practices could translate to good business ethics and, therefore, could lead to competitive advantage. The respondents ranked this first with a weighted mean of 3.70. A CSR activity that is visible to the community can contribute significantly to recognition, which is also an indirect advertisement of Banks Services that could retain loyal customers and recognition from government units in their locality. The respondents ranked this second with a weighted mean of 3.65. While believing that energy conservation can reduce operational costs, respondents do not consider CSR activity theme foremost to affect their financial performance. This index got the lowest weighted mean of 3.53.

4. CONCLUSION

The proponent concluded that respondents agreed that CSR and Full Disclosure of their CSR activities have a positive relationship to its competitiveness and profitability. Commercial banks appear to disclose CSR information to increase competitive-

ness rather than to reduce the potential impact of additional regulation, taxes, and other activities that may negatively affect the firm's value. Additionally, all of the commercial banks in Valenzuela City agreed that their CSR are affected by stakeholders (i) customers/depositors/debtors, (ii) global partners/financial alliances, and (iii) regulatory agencies/ government; and they all viewed these factors on the same level.

CSR reporting can bring many benefits to the reporting institutions, commercial banks included, as well as its stakeholders. CSR reports are source of information on the organization's activities. CSR reporting allows the general public and concerned stakeholders to compare the economic, social, and ecological performance of companies, commercial banks included. It gives concerned parties and instrument to sanction institution that are performing poorly or do not take the adequate steps to improve performance. They can put pressure on companies to disclose and to improve, because after all, it is a competitive situation.

Finally, the study recommends that commercial banks in Valenzuela City must continue to comply with additional requirements of the law for social responsibility and constantly monitor perception of banks' customers toward banking corporate social responsibility and build up positive linkage with them. Commercial banks in Valenzuela City may engage themselves more to environmental and energy conservation activities that are geared towards benefitting the people around them and observe the application of CSR in the management system of banks to further improve their transactions among their clients and employees.

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