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CORPORATE SOCIAL RESPONSIBILITY IN RUSSIAN BANKING INDUSTRY

Elena Prosvirkina

ABSTRACT

Though there is a perception among managers that corporate social responsibility (CSR) is an important part of today business activity and it positively influences the organizational performance, several research conducted in 1970-2010s did not find any correlation or even found a negative one. In order to analyze the relationship between CSR and organizational performance of business organizations in Russia, the research among Russian banks was conducted. The sample of the research consists of fifty largest banks. The data on organizational performance, including total assets, return on assets and equity, earnings per share, and growth indexes was collected in annual reports of the 2011 year of banks. Information about corporate social responsibility was gathered in social reports, codes of ethics, and on websites of banks. The research demonstrates that the majority of banks in Russia are involved in CSR projects, but it did not find statistically significant correlation between corporate social responsibility and organizational performance of banks.

Keywords: Corporate social responsibility, organization performance, financial results, banking.

Introduction

Corporate social responsibility has become an important topic of research worldwide since 1960s. From that time the role of CSR has increased dramatically in business environment. As Barnett and Salomon (2006, p. 1102) point out increasing numbers of investors are not only looking at the financial performance in a corporation's portfolio, but are also valuing the way corporations meet their social responsibility.

There is a widespread belief that CSR has beneficial implications in terms of brand and reputation, the attraction, retention and motivation of staff. According to the latest survey among graduates in Great Britain 90% of them consider high ethical standards to be an important factor when deciding whether or not to work for a company. The important role of corporate social responsibility for today business can be proved at least by the fact that FTSE top 100 companies issue a Social and

Environment Report (Humphreys, Brown, 2008).

Whereas, the statement 'Good Ethics is Good Business' (Van Beurden, Gossling, 2008, p. 407) is the reality for the developed countries, it is quite new research area for the developing countries, including Russia. The majority of business organizations began to take into consideration ethical behavior and CSR only after the collapse of the Soviet Union in 1990s. Though there is several research on CSR in Russia, there are not many of them examined the relationship between corporate social responsibility and organizational performance, especially in the specific industry. Nevertheless, as Chand (2006) suggests the research on the link between CSR and performance ideally should focus on a single industry, because such a procedure will increase validity and accuracy.

There is no doubt that banking industry plays a central role in the economy (Moradi-Morlagh, 2011, p. 1). Due to the key position of financial industry, the present research focuses on analysis of CSR of top banks in Russia and its impact on organizational performance of banks. The main question of the research is: What is the relationship between corporate social responsibility and performance of banks in Russia?

The study consists of four parts. In the first part an overview of CSR, performance of banks and links between them is presented. Secondly, the methods used to investigate the possible correlations will be described and explained. Third part is devoted to the analysis of the empirical results. Finally, conclusion on CSR in Russian banking industry is made.

Literature Review

Many articles in the international literature are devoted to the analysis of the CSR influence on organizational performance of business organizations. Nevertheless, there are still debates on the existence of CSR positive or neutral correlation with financial performance.

In addition there is a lack research of corporate social responsibility in banking industry. In this article the relationship between CSR and organizational performance of banks is analyzed as well as the relevant articles on CSR performance indicators of banks are considered.

Corporate Social Responsibility

CSR has been studied in several areas, including economics, management, sociology, theory of organization, etc.. Each of the scientific field investigates different aspects of social corporate responsibility and there are different definitions of it. According to the earliest research CSR "encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at given point time" (Carrol, 1979, p. 500). According to Gosling and Vocht (2007) CSR can be described as the obligation of business organizations to be accountable for their environment and for their stakeholders in a manner that goes beyond mere financial aspects. Later the definition of CSR was presented at the World Business Council for Sustainable Development: "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as of the local community at large" (Van Beurden, Gossling, 2008, p. 408).

Though there are lots of definitions of CSR, McWilliams and Siegal (2000) argue there is a consensus that CSR actions are those that appear to further some social good, beyond the interests of the firm and that which is required by law. Taking into account the goals of the current research it is necessary to analyze publications devoted to the examination of the relationship between CSR and organizational performance.

Corporate Social Responsibility and Organizational Performance

According to Aupperle, Carroll and Hatfield

(1985) the first research examined the relationship between social corporate responsibility and organizational performance was conducted by Milton Moskowitz in early 1970s, who argues that companies with good social performance are good potential investments. Since that time lots of research appeared in the literature. An analysis of research conducted during 1970-1980s demonstrates there were found opposite correlations. Whereas some articles provided with the proof of positive correlation between CSR and organizational performance (Parket, Eilbirt, 1975; Sturdivant, Ginter, 1977), others found negative correlation (Vance, 1975) or no relationship between these indicators (Alexander, Buchholz, 1978; Abbott, Monsen, 1979).

Later Roman, Hayibor, and Agle (1999) presented a theoretical research on the analysis of studies in the field of linkage between CSR and organizational performance. The majority of the investigated studies (33) demonstrated a positive relation, 14 studies did not find any relation, and only five studies found a negative result. According to the similar research conducted by Orlitzky, Schmidt, and Rynes (2003) the majority of 52 articles published in 1990 or later support a positive relationship between CSR and performance of business organizations. Another theoretical research shows that the majority of the studies found a positive relationship between CSR and organizational performance (68%), while 26% show no significant relationship. Only 6% (two studies) show a negative relationship between CSR and corporate performance. (Van Beurden, Gossling, 2008) Ruf, Muralidhar, and others (2001) explain the reason for inconsistency in different studies on CSR in a lack of theoretical foundation, a lack of systemic measurement of CSR, a lack of proper methodology, limitations on sample size and composition, and a mismatch between social and financial variables.

Literature review on the relationship between CSR and organizational performance demonstrates that researchers use different performance criteria, including stock price increase, return on equity (ROE), return on assets (ROA), net income, earning per share (EPS). As the current research is devoted to the analysis of CSR in banking industry it is necessary to study if there are special measures of performance of banks.

Performance Indicators in Banking Industry

According to Van Beurden, Gossling (2008) there are two types of measures of organizational performance:

- 1) Market-based measures (stock performance, market return, market value to book value, price per share, share price appreciation)
- 2) Accounting-based measures (profitability, asset utilization, such as return on asset and asset turnover, and growth).

There are lots of methods of estimating firm performance depending on the level of analysis. Ketkar and Sett (2009, p. 1009) describe several approaches for determining firm level human, operational, and financial outcomes. Though it is possible to use the same approaches for analysis of banks, it is necessary to choose the most appropriate indicators as banking industry is very specific.

Luo (2003) proposes to use revenue, profit, market value, stock price, and earnings per share (EPS) as the main outputs of banks. At the same time Asmild and Paradi (2004) rely on deposits, loans, securities, deposits with other banks and other non-interest income. There are lots of different approaches, for example Fethi and Pasiouras (2010) have reviewed 196 studies in assessing bank performance and found out too many approaches. Literature review demonstrates that usually the main indicators, which are used for evaluating banks performance, include total assets, profitability,

return on investment, return on equity, sales growth, and financial stability. All of the mentioned indicators are included in the current research.

Methodology

The sample used in this study consists of top fifty banks based on total assets. Data was collected both on corporate social responsibility and organizational performance of banks. The following performance indicators of banks were included in the current research:

- 1) Financial indicators, including total assets, net profit, return on assets (ROA), return on equity (ROE), and earnings per share (EPS).
- 2) Risk factor (N1 Ratio – ratio of capital and risk-weighted assets).
- 3) Growth in the last three years, including sales, dividends and EPS.

The main sources of information for collection of this data are websites of the Central Bank of the Russian Federation and Thomson Reuters, and also financial statements of banks.

Data about corporate social responsibility in Russian banking industry was collected based on the analysis of social reports, codes of ethics, and official websites of banks. The current research is aimed to study not only the type of the projects in CSR in Russian banking industry, but also the number of projects which each bank arranges in this field. The key quantitative indicator of the CSR in the current research is the number of projects. All the indicators were entered in the SPSS program and then correlation between CSR and performance of banks was tested. The main hypotheses of the research are the following:

Hypothesis 1. Financially stable and more profitable banks are more socially responsible in Russia.

Hypothesis 2. Banks which publicly declare CSR as a corporate value are more socially

responsible.

Hypothesis 3. International banks are more socially responsible than Russian banks.

Hypothesis 4. Corporate social responsibility positively influences organizational performance of banks in Russia.

Results and Discussion

An analysis of data available in social reports, codes of ethics and websites of banks demonstrates that corporate social responsibility is a popular topic among top banks in Russia. The majority of top banks is involved in CSR activities and arranges at least one social project each year, 20,45% of the sample do nothing in regards to social corporate responsibility. The following table represents the data on the number of banks, which arrange different number of CSR projects.

Table 1: The Number of CSR Projects among Top Banks in Russia

The number of CSR projects	The number of banks*
No projects	9 (20,45%)
Less than 2	7 (15,91%)
2-5 projects	19 (43,18%)
5-10 projects	3 (6,82%)
More than 10	6 (13,64%)

* The sample consists of 50 banks

Lots of banks in Russia manage from two till five projects in CSR each year, and only 13,64% of the sample are involved in more than ten projects. Among them are the largest banks, including Sberbank and VTB. Their attention to CSR and such huge number of projects in this field can be explained by the fact that big and financially stable banks can allow themselves to invest much money in social activity.

In order to test the first hypothesis the correlation between financial indicators of banks and the number of projects in CSR was analyzed in SPSS program. The value of Pearson's correlation below 0,5 proved that there is no significant correlation between any of the performance indicators (total assets, ROA, ROE, N1 Ratio, EPS, and growth indexes) and the number of CSR projects. Thus, the hypothesis cannot be accepted and the activity in CSR projects does not depend on financial stability and profitability in Russian banking industry.

The research is also demonstrates that some banks are not only involved in CSR activity, but even declare corporate social responsibility as one of the main corporate value. Among fifty banks 33% of them position CSR as a corporate value, which is indicated in the Table 2.

Table 2: CSR as the Main Corporate Value in Russian Banking Industry

Corporate values	The number of banks declared a corporate value
Customer focus	15 (38%)
Teamwork	14 (35%)
Effectiveness	13 (33%)
Professionalism	13 (33%)
Corporate Social Responsibility	13 (33%)
Trust	12 (30%)
Moral values	12 (30%)
Openness	12 (30%)
Initiative and creativity	12 (30%)
Respect	9 (23%)
Perfectionism	9 (23%)
Partnership with Stakeholders	8 (20%)
Compliance with the law	7 (18%)

Respect for traditions	5 (13%)
Reputation	5 (13%)
Loyalty of employees	5 (13%)
High standards of doing Business	4 (10%)

The majority of the banks declared CSR as a corporate value are Russian financial institutions, including Bank VTB, GPB, VTB24, TransCreditBank, AB Rossiya, Russian Standard Bank, Zenit, Novikombank, and RGS Bank. Only few banks with international shareholder equity declare CSR as a corporate value (Rosbank and Credit Europe Bank).

It is supposed that if a bank declares corporate social responsibility as a corporate value, the management pays much attention to CSR and such banks should have more social projects. To test this hypothesis the correlation between declaration of CSR as a corporate value and the number of CSR projects were tested. The value of the Pearson correlation is presented in the table 3.

Table 3: Correlation between Declaration of CSR as a Corporate Value and the Number of CSR Projects

	The number of CSR projects
Declaration of CSR as a Corporate Value	
Pearson Correlation	,630**
Sig. (2-tailed)	,000
Number of banks	50
Number of banks	50

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Pearson correlation equals 0,630 and it is significant, which means that the second hypothesis can be accepted and banks which publicly declare CSR as a corporate value are more socially responsible. The research also shows that the most popular CSR projects are sponsorship of sport and cultural events, financial support of orphan children, and support of veterans and disabled people.

Taking into account that Russian banking industry appeared in 1990s, the majority of Russian banks are younger than international banks of the developed countries. Due to this fact it can be predicted that international banks are more social responsible than Russian. Nevertheless, the current research demonstrates that mostly Russian banks declare CSR as a corporate value and there is no correlation between the number of CSR projects and the origin of capital (local or international). That means the hypothesis should be rejected and the research did not find that international banks are more socially responsible.

Finally, based on the previous research on the relationship between CSR and organizational performance it was supposed that there is a correlation between CSR and financial indicators in Russian banking industry. In order to test this hypothesis Pearson correlation was analyzed in SPSS program. The research demonstrated that the number of CSR projects does not influence any of the financial indicators (total assets, ROA, ROE, N1 Ratio, EPS, and growth indexes). Thus, the hypothesis that CSR positively influences organizational performance of banks in Russia should be rejected.

Conclusion

The research of corporate social responsibility in the Russian banking industry proved that the majority of banks are involved in CSR activity. The most popular CSR projects are sponsorship of sport and cultural events, financial support of orphan children, and

support of veterans and disabled people. It was found that if a bank declares corporate CSR as a corporate value, it has more social projects. Data analysis also demonstrates that there is no statistically significant correlation between financial stability and profitability of banks and the number of CSR projects. Finally, the hypothesis that corporate social responsibility influences organizational performance of banks in Russia was rejected. Though the current research does not find a direct positive influence of corporate social responsibility on performance of banks, it does not mean that banks should not pay much attention to CSR. Social responsible banks have better reputation on the market and can easier attract potential investors and employees, which can influence an organizational performance indirectly.

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