Literature Review of Corporate Social Responsibility

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Abstract:
The evolution of Corporate Social Responsibility (CSR) has an impressive history since the 1950s. The roots of the concept indicates that the business domain have paid increasing attention to the concerns of society. However the term CSR is viewed in different concepts and still searching for a universally accepted definition.

Keywords: Corporate Social Responsibility, Vietnam

1. Introduction

The globalization and social development require all corporations, big or small, local or international, to take their Corporate Social Responsibility (CSR) into account by improving the social and environmental performance (Qi Lai, 2006). In keeping with global movement, the concept of CSR is rapidly spreading in all sectors of the economy including banking (Omur et al., 2012). Moreover, under destructive impacts of the global financial crisis and strong competitiveness in the financial market, banking sector, one of the vulnerable, plays a crucial role in facilitating the nation’s economy and leading the nation to apply CSR (Singh et al., 2013).

Although lacking the consensus of CSR definition among academicians and practitioners, it is obvious that CSR can bring many advantages for the banking sector (Tran, 2014). Firstly, it helps to enhance bank’s reputation. In banking industry, reputation is a very important factor to retain old clients and attract new ones, which eventually enhances banks financial status. Besides, if a bank pays attention to social responsibilities, they can get profits for themselves through better risk management, employee loyalty and higher reputation. Therefore, banks are now supposed to become more responsible for social issues.

2. Literature review of corporate social responsibility

2.1. CSR concept

According to Paladino (2004), the evolution of ideas and thinking around social responsibility has started in the decade of the fifties with the definition proposed by Bowen (1953). In the book “Social Responsibilities of the Businessman”, Bowen, who has been referred to as the “Father of CSR” due to his groundbreaking research in the field (Carroll 1999, pp.268-270) had introduced CSR as a definitional construct. In this book, the author defined CSR as “the obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society”. The book aimed at educating executives the values “considered desirable in our society”.

CSR grew in popularity in the 1960s due to the social movements of the time and various academics who sought to further identify what benefits CSR could bring to business overall (Levitt’s, 1958). Most of these movements took place in the US and included the environmental movement, consumer rights, rights of women as well as the civil rights movement (Carroll et al., 2010). Milton Friedman (1970) chooses a different conception of CSR as advanced by his predecessors. By that, the author considers the social responsibility of any business as the achievement of gains for shareholders “The social responsibility of business is to increase its profits”.

In 1971, the Committee for Economic Development of the United States defined CSR as a business function to serve constructively the needs of society (Carroll, 2008). In the 1970s, the first widely accepted definition of CSR emerge is Archie Carroll’s 4-part concept of economic, legal, ethical and philanthropic responsibilities, and then developed as a CSR pyramid (Carroll, 1979). Carroll distinguished four types of obligations: economic (be profitable, manufacture goods complying with quality standards, ...), legal (compliance with laws and...
regulations), ethical (act according to moral principles shared by society) and philanthropic (benevolent actions and charity). According to the author, CSR is “the set of obligations that the company has including economic, legal, ethical and discretionary categories”.

In the 1980s, stakeholder theory, business ethics, sustainability and corporate citizenship are complementary themes which received significant attention. Stakeholder theory was possibly the most significant of these complementary themes. It suggested that companies should consider not only those individuals and groups who have shares in the company, but also any individuals or groups that have a ‘stake’ in the company (Mele, 2008), such as employees, suppliers, community…etc.

The end of 20th century observed noticeable changes in corporate strategy and management towards sustainable thinking which sustainability was integrated in company’s business strategy in order to obtain the triple bottom lines: economic, social and environmental (Elkington, 1997).

In 2000s, the definition of CSR was revisited by scholars like Dahlsrud (2008), through content analysis, analyzed thirty-seven definitions of CSR from twenty-seven authors and covered a time span from 1980 to 2003. He was able to develop five dimensions of CSR (i.e., environmental, social, economic, stakeholder and voluntaries). According to While Rahman (2011), dimensions of CSR are presented as below : (i) Obligation to the society (ii) Stakeholder’s involvement (iii) Improving the quality of life (iv) Economic development (v) Ethical business practices (vi) Law abiding (vii) Voluntariness (viii) Human rights (xi) Protection of Environment (x) Transparencies and Accountability.

In short, CSR is the responsibility of business for their impacts on society. Although, up to now, there is no universally accepted definition of CSR. The concept of CSR defers depend on the place, time of detail situations.

2.2. Theoretical approaches of CSR

Carroll’s CSR pyramid

Carroll’s four part definition of CSR was originally stated as follows: “Corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time” (Carroll 1979, 1991). A brief review of each of the four categories of CSR as bellows:

First, economic responsibility is to make money. It is the fundamental condition for the existence of every enterprises. It includes making profit and satisfying its stakeholders financial-wise (Claydon, 2011). There are special cases such as nonprofit organizations make money (from their own activities as well as through donations and grants), but take it back into their work. However the majority of operations have to be profits. Profits are necessary both for investors or owners’ benefit and for business growth when they are reinvested back for long term development. Regarding to economic responsibility, there are many business concepts which are directed towards financial effectiveness such as revenues, cost- effectiveness, investments, strategies and professional concepts focusing on developing long-term financial success of the companies. With the strong competitive in global business environment today, economic performance and sustainability have become urgent topics. Firms will go out of business if they are not successful in their economic area. Therefore, the economic responsibility is a baseline requirement that must be met in a competitive business world.

The second obligation is legal responsibility to related to rules and regulations. Society expects business to fulfil its economic mission within the framework of legal requirements set forth by the legal system. Society has not only take part in businesses as economic entities but also established the ground rules under which businesses are expected to comply. These ground rules reflect society’s view of “codified ethics” by that fundamental requirement for fair business practices are established by lawmakers. Companies are required and expected to
comply with these laws. In fact, recently, compliance officers seem to have an important and high level position in company organization charts.

The next element is ethical responsibility. In addition to what is required by laws and regulations, society expects businesses to operate in an ethical manner. Taking on ethical responsibilities means that organizations will involve in activities, norms, standards and practices that are expected or prohibited by society even though they are not codified into law. The goal of social expectations is that businesses will be responsible for and responsive to the full range of norms, standards, values, principles, and expectations that reflect and honor what consumers, employees, owners and the community regard as consistent with respect to the protection of stakeholders’ moral rights (Carroll, 1991).

The final obligation is philanthropic responsibility. Corporate philanthropy includes all forms of business giving such as voluntary or discretionary activities. These activities are guided by the desire of companies to participate in social improvement and not required by laws. They want to do what is good for the community. Besides, Philanthropy responsibility may not be in a literal sense, but it is expected by businesses and the expectation of the public as well. The public does have an expectation that businesses will “give back” to the society. When one examines the social relation between business and society today, it is found that the citizenry expects businesses to be good corporate citizens just as individuals are. To fulfill its perceived philanthropic responsibilities, companies engage in a variety of giving forms - gifts of monetary resources, product and service donations, volunteerism by employees and management, community development and any other discretionary contribution to the community or stakeholder groups that make up the community (Carroll, 1991).

The above four part CSR definition forms a conceptual framework which includes economic, legal, ethical and philanthropic expectations that society puts on enterprises at a given point in time. It could be said that the economic responsibility is “required” of business by society; the legal responsibility also is “required” of business by society; the ethical responsibility is “expected” of business by society; and the philanthropic responsibility is “expected/desired” of business by society (Carroll 1979, 1991). The author has indicated that as time passes what exactly each of these four categories means may change or evolve as well. Based on his four-part framework or definition of corporate social responsibility, Carroll created a graphic image of CSR in the form of a pyramid which has been said that “Carroll’s CSR Pyramid is probably the most well-known model of CSR” (Visser, 2006).

Taken in order from top to bottom, these four obligations are decreasingly less significant within the theory of corporate social responsibility. When companies follow to well perform with respect to their economic, legal, ethical and philanthropic responsibilities, tensions and trade-offs will arise. In this situation, the company have to decide how to balance these responsibilities goes a long way towards defining their CSR strategy and reputation. The economic responsibility to owners or shareholders requires a careful trade-off between short term and long term profitability. In the short term, companies’ expenditures on legal, ethical and philanthropic obligations may conflict with their responsibilities to their shareholders. This is when tensions and trade-offs arise and business should attempt to create a favorable situation (Chrisman and Carroll 1984).

The Triple Bottom Line

The Triple Bottom Line concept was introduced in 1987 in Brundtland Commission and officially named by John Elkington in 1994. This theory also known as 3Ps or three pillars which states that a company should be responsible for three features: Profit, People and Planet, that is economic, social and environmental responsibility. According to the Triple Bottom Line theory, companies should be working simultaneously on these three bottom lines: profit stands for the traditional measure of corporate profit, people measures how socially responsible an organization has been via its operations, the planet measures how environmentally responsible a firm has been. As elaborated by theorists including John Elkington, here’s how the balance is defined and achieved economically, socially, and environmentally:
According to Uddin et al. (2008), the economic dimension in three aspects. Firstly, it is the consideration of the impact which the business has on a lot of people in the area work for a company such as its stakeholders, local communities, NGOs, employees, customers and suppliers. The higher profit of the company benefits everyone in the community. The higher economic performance of the company, the higher the salaries, which are spent on products and taxes. On the companies’ point of view, the bigger profits allow to put more money into socially responsible activities. The second feature of the economic dimension is contribution through taxes. If companies get higher profit, the more tax is paid to the government, which can spent on helping society. The last aspect of economic dimension is avoiding any activity that abuses trust. This is because the reputation of a company, once broken is very difficult to reclaim.

Regarding to social responsibility relies on improving the standard of living. CSR is a tool to develop the relationship between social and a company. The actions the businesses take to benefit local communities frequently focus on some forms of sponsoring, training, donations or recruiting (Idowu el at., 2010). CSR for employees require the best use of their skills, taking care for their well-being, providing education and training course as well as the best system of motivating. Moreover, the social responsibility covers not only individual living in the area, it also cover all the people affected by a company such as workers, customers, suppliers. For example a company respects the Triple Bottom Line concepts would not exploit people, stands against child labour and provides fair salary and fair treatment for its employees. Nowadays, customer have more interest in the other side of the company’s activity, not only to the products or services. Customers expect good quality but also require service during transaction and after sales services. Therefore, focus on all customers’ need is a potential driver of profitability (Golaszewska-Kaczan, 2009).

The last driver is environmental sustainability which begins from the affirmation that the planet is the habitat for a company and the people. Natural resources are limited. If large corporations pollute the environment with their actions and drive the planet to destruction, they will be equally effected as well. Protect natural environment is the responsibility of everyone, primarily of corporations due to the irresponsible usage of natural resources, producing waste or emission of polluting by-products lead to the negative impacts on the environment. Businesses can conduct to improve environment in plenty of ways such as implementing more environmental friendly thinking into company’s operations, reduction of waste, take necessary measures to diminish the level of toxicity, investing to environmentally friendly project. All these actions must be supported by companies not because they are legally required but because the preservation of a livable planet is a direct obligation within the triple bottom line model of business responsibility.

Together, three notions of sustainability: economic, social, and environmental - guide businesses toward actions fitted to the conception of the corporation as a participating citizen in the community.

The Stakeholder Theory

Stakeholder theory emphasizes that beyond shareholders, there are several entities that are interested in enterprises’ actions and decisions. Freeman (1984) defined a stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”. When applying Stakeholder Theory, the different stakeholders of an organization are seen as influencers and assessors of various actions undertaken by the organization. Freeman argues that not only the shareholders, but the stakeholders, must be taken into account in decision making in order to achieve superior performance (Freeman, 2010). Carroll (1991) continued to state that the main stakeholder groups are customers, employees, local communities, suppliers and distributors, shareholders of the company, and the overall society. He suggested that some of these terms raise significant issues regarding to the value of organizational accountability to stakeholders, especially “society at large” and the notion of community. Firms need to adopt suitable approaches to deal with primary stakeholders accordingly. Companies are unlikely to fulfill responsibilities (economic and non-economic) of some primary stake holders, therefore, stakeholder management is necessary (Carroll, A.B., Buchholtz, A.K. 2011). Although the stakeholder management practice has a long-established, its academic review started only at the end of 70s.
In a seminal paper, Freeman (1978) presented two basic concepts, which underpin stakeholder management. The first is that the central goal of the stakeholder management is to achieve maximum overall cooperation between all stakeholder groups and the objectives of the corporation. The second indicates that the most efficient stakeholder management policy involves efforts, which simultaneously deal with issues affecting multiple stakeholders. Stakeholder management tries to combine groups with a stake in the firm into managerial decision-making.

The framework identifies six stakeholder groups: the company, employees, shareholders, customer, suppliers and public stakeholders such as the government and other interest group. Clarkson (1995) proposed that the performance of corporations in terms of the social activities can be measured more effectively by applying “... a framework based on the management of a corporation’s relationships with its stakeholders than by using models and methodologies based on concepts concerning corporate social responsibilities and responsiveness”.

3. CSR practices in banking industry

3.1. Commercial banks’ interpretation of CSR

There are a lot of researches on CSR, however, the banking industry is often excluded from the studies (Siregar and Bachtiar, 2010). It is a consequence of the general perception that the banks have limited contribution to various environmental and social issues such as pollution or product safety (Khan et al., 2011). Contrary to this general perception, banks are associated with a range of specific CSR related issues from management of their own business practices as well as the potential impact of the capital they supply and the provision of access to financial resources. Banks indirectly assist other companies’ negative impact on the environment by granting them finance (Simpson and Kohers, 2002), and directly by e.g. utilizing energy and producing waste (Branco and Rodrigues, 2006). As a result, nowadays most banks tend to include information regarding mentioned aspects in their CSR disclosures. For instance, information regarding the banks’ efforts in energy conservation and waste policies are common features in the banks’ CSR reports (Branco and Rodrigues, 2006). Common platforms for these disclosures are annual reports and sustainability reports. Applying the CSR model by Carroll (1991) to commercial banks, the specific topics of economic responsibility, legal responsibility, ethical responsibility and charitable responsibility are summarized as below:

Regarding to economic responsibility, the expectation of commercial bank owners include the maximization of shareholder’s value, the maximization of profitability, powerful competitive position, efficient operation, growth and long-term success. Based on Schoen’s analysis (2006), in some recent economic crisis, the insufficient regulation, fraud, the shameful banking practice of mortgage lending, the inappropriate compensation system and the assumption of enormous risks had a significant role. Downturn required commercial banks to take adjustment which shifted from short-term return to long-term return. This led to new priority in commercial bank practice: loan portfolio risk management, ensuring stable capital position and liquidity required for safe operation, and prudent provisioning. However, a study by KPMG (2016) showing that all these are insufficient for future success, and a new business model which focus on customer and application of modern technologies are key features. Customer focus means that products and services are instrumental in solving customers’ problems, and creating value for the customer is at the heart of the approach. For the new generation, all this must be implemented through mobile applications to facilitate their lives, supported by empathic bank employees.

Next element is legal responsibility. In order to ensure its stability, the banking sector is frequently subject to more strict regulation than the company of other sectors (Yamak et al.,2005). Regulation include both mandatory acts and statutes and voluntarily undertaken policies. The compliance function is wide-spread to ensure legal accountability, observation of the policies and to mitigate risks. Most banks that assign significance to CSR clearly consider compliance with the mandatory environmental and social regulation as a very important dimension of responsibility, and non-mandatory expectations as a fairly important dimension (Vigano and Nicolai, 2009). After the most recent financial crisis, regulation of the financial sector and more strict statues
could be experienced with the purpose to minimize risk, and ensure safety and confidence in the financial system. Recently, numerous banks have been heavily fined for misleading customers, for fraud, for money laundering and for collaboration in tax evasion through offshore companies (Clark et al. 2015). Besides, there are a lot of directives other than statutory regulations, given by various organizations, supervisory bodies and professional associations. Policies popular in the banking sector include the Equator Principle, The UN Responsible for Investment… etc. These regulations are related to the indirect environmental responsibility of banks through project financing, and many banks have also endorsed the anti-money laundering policy set out by the Financial Action Task Force (FAFT).

Ethical responsibility appearing in commercial bank included climate change, gender equality and bribery.

**Stakeholder:** Ethical responsibility

**Owners:** Responsible, transparent and prudent lending and risk management

**Employees:** Respect for human dignity, fair treatment, non-discrimination, the prevention of harassment, fair wages, management based on inclusion, respect for privacy and safe working conditions.

**Customers:** Responsible product improvement and marketing, fair and transparent financial services, complaints management, the involvement and ethical treatment of stakeholders, ethical financing funds, micro-credit offer, banking services for immigrants, financial instruments/initiative to help women, young adults and children, and other means of financial inclusion (e.g. for people with reduced mobility and the elderly).

**Suppliers:** Long-term relationship based on confidence, non-discrimination, support to disadvantaged companies, integration of environmental and social considerations in the supplier policy.

**Competitors:** Observation of the standards of honest competition

**State:** Honest tax payment, evasion of tax harbors.

**Local community:** Creation and maintenance of jobs, social innovation, social corporations, support to non-profit organizations.

**Natural environment** Mitigation of environmental impacts, reduction in energy use, separate waste collection, integration of environmental criteria in business decisions, financing environmental investments, evaluation of financed companies according to environmental considerations, sustainable products and environmental management.

**Society in general:** Improvement of the financial culture and awareness, training in finances; combatting money laundering, corruption and terrorism

Charitable responsibility includes programs that contribute to human development and improve life standards, as for example voluntary support to arts, training, sports or communities. In comparison to ethical responsibility, one of the essential differences is that philanthropic actions do not respond to moral or ethical expectations, they are optional and voluntary responsibilities (Carroll, 1991). Such activity is widespread among banks, as it contributes to the improvement of the reputation of a bank or the financial sector (Decker-Sale, 2009). However, it does not replace either economic, legal or ethical responsibility.

The positive impacts of banks’ CSR activities may be analyzed from the perspective of the bank or stakeholders and the society in a wider sense. Banks’ responsible activity assist efficient allocations, access to funds, the development of financial services, the improvement of financial culture and adequate risk management (Prior and Argandona, 2009). A study by Matute-Vallejo et al. (2010) highlighted that bank’ CSR policies along with fair and transparent price strategies increase customer loyalty. Other benefits of CSR activity include increase in employee commitment and the development of a beneficial relationship with the other stakeholders (Izquierdo and Vicedo, 2012). The financial sector is particularly proactive in CSR and a positive correlation can be shown...
between CSR activity and banks’ financial performance (Wu and Shen, 2013; Birindelli et al., 2015). According to study of Pérez and Del Bosque (2012) which focused on Spanish banking institutions, banks tend to promote only those activities through CSR from which generally the greatest benefit have. In the banking sector, there are three basic groups: customers whom banks try to meet their financial needs; employees whom banks try to create a perfect working conditions to achieve their satisfaction and at last community where banks contribute to a sustainable growth. In the area of CSR activities, Pérez and Del Bosque (2012) accuse banks of short-term improvement of bank’s image and profit increase. According to authors, it is necessary to incorporate a social responsibility into organization’s image and into a long-term strategy to reduce mistrust. CSR concept is perceived as the most effective tool to improve reputation.

3.2. The role of central banks in supporting CSR activities

Since central banks are specifically created in the interest of public welfare, their social responsibility is distinctive. Their objectives and duties are recorded in statutes. Thus, central banks are institutions facilitating the achievement of predetermined economic policy objectives. According to their tasks, they are organization also attending to a state authority’s duties. It can say that the citizens giving an authorization to the central bank, being a state-owned institution operating in a social environment, to use every means available for it to promote welfare in the community, naturally, without threaten its fulfilment of its primary objective and statutory duties. The peculiarities that make sense for central banks’ role in directing and supporting CSR activities as follows:

Firstly, central bank as an independent national authority that conducts monetary policy, regulates banks and provides financial services including economic research. In addition to the restrictions imposed by the objectives and duties, their nature is also peculiar. The objectives are macro-economic policy goals, while the tasks are special activities related to the operation of the financial sector (Lentner et al., 2017). For example, the fundamental role of the central bank of the United States of America (FED) in the economy covers four main areas: (1) Implementation of a monetary policy to influence monetary and lending conditions, in an effort to maximize employment, stabilize prices and keep long-term interest rates low; (2) Supervision and regulation of financial institutions, to maintain security and stability in the banking and financial system and protect customer rights; (3) Maintain stability of the financial sector and manage any systemic risk in financial markets; (4) Provide financial services to deposit management institutions, the US government and foreign official institutions, including a leading role in the national payment system (FED, 2005). The European Central Bank (ECB) can also be quoted as a characteristic example. Its main purpose is to maintain price stability, in other words, to preserve the value of the euro in public interest. General economic policy within the Europe Union can be supported without risk the primary objective. Another objective of the ECB is to facilitate the monetary integration of Europe. The ECB is responsible for the special tasks related to the prudential supervision of credit institutions seated in the participating member states. These duties are performed in the frame of a single supervisory mechanism comprising the ECB and the competent national authorities (Lentner et al., 2017 based on ECB, 2014)

Secondly, central bank has an important role as a legislation authority. Due to the peculiar role they play, it requires a more complex interpretation. The central banks attend to the supervision of financial markets and financial organizations as authorities. In this role they also act as legislators. They motion for legislation in the fields subject to their supervision, give their opinions on draft statutes, and also act as legislators themselves based on their authorization. Thus, in addition to compliance with the statutes, central banks’ legal responsibility related to the shaping and interpretation of the legal framework and the observation of statutory regulations. Several central banks have been assigned supervisory tasks.

Central bank also has important role in encourage ethical activities. Ethical responsibility beyond their economic and legal obligations facilitates legitimation and increase the confidence in economic system. This voluntary responsibility going beyond statutes may be indicated in several ways related to stakeholders. The role of culture in influencing behavior carries ethical values. An important role is assigned to the provision of
information and the improvement of financial culture through training. Central banks place great emphasis on increasing the awareness of the users of financial services and on reducing informational inequality (Csiszarik-Szigeti, 2015). A more developed financial culture protects the users of the services on an individual basis, but may also be helpful in preventing the evolution of systemic risks. Several central banks, including the European Central Bank have numerous ethical values in their mission statements. As an example, ECB assigns outstanding significance to trustworthiness, confidence, transparency and accountability in the course of achieving its objectives. It takes effort to establish efficient communication with Europe’s citizens and the media (ECB, 2014). Staff members’ conduct depends heavily on corporate culture, i.e. the standards and values characteristic of banks. Through their regular supervisory and regulatory activities, central banks can influence the attitudes of at last the top and middle management in case not the entire corporate culture (Tarullo, 2014). The central banks should more proactively communicate with other commercial banks and companies to support effectively.

Central bank also could conduct many voluntary actions that contribute to social development. For examples, due to its peculiar position, the European Central Bank does not set any charity objectives, while the member banks of FED proactively pursue community activities as good corporate citizens. Among others, there are many activities include voluntary house painting, toy collection, clothing collection, meals making, support to schools, scholarship programmes, blood donation and the collection of donations for AIDS, cancer and diabetes patients (Lentner et al. 2017).

In short, according to Lentner et al. (2017), the interpretation of CSR in banking sector are summarized as followings: (1) Economic responsibility of the commercial bank and central banks has been extended and prudential approach has become important; (2) Regarding legal responsibility regulation of the financial sector and more strict statutes could be experienced with the purpose to minimize risk, and ensure safety and confidence in the financial system. In this role, central banks also act as legislators; (3) Ethical responsibility is beyond compliance approach: culture of ethics and integrity must be rebuilt in the entire financial sector; (4) Certain banks are active in voluntary charitable responsibility which can contribute to the reduction of social problems but can not replace the economic, legal and ethical responsibility.

Among others, CSR in banking sector contribute to the reduction of poverty, the protection of human rights, non-discrimination, community development, the protection of the natural environment, and improving human welfare in general. At the same time, CSR management help to restore the credibility, confidence in the financial sector and therefore improve the reputation of the entire financial sector, contribute to the stable operation of the economy (Idowu et al., 2010). CSR of banking sector could be integration of economic, legal, environmental, social and ethical aspects into the business strategy.

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