Recommendation for Vietnam Banking Industry in Application of Corporate Social Responsibility

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Abstract:
Currently, corporate social responsibility is no longer a new concept to the Vietnamese banking community. However, social responsibility activities at the majority of banks are only understood as charitable contributions, community sharing or voluntary social work of the bank. The article clarifies the role of Vietnamese banks in implementing social responsibility and suggests a number of suggestions for enhancing the social responsibility of Vietnamese banks in the current deep integration context.

Keywords: Corporate Social Responsibility, Banking, Vietnam.

1. Introduction

Government-led trade liberalization and market-oriented reforms drive industrialization in Vietnam. Increasing regional and inter-regional cooperation leads to integration to the global economy. As a consequence, Vietnam is faced with the impacts, both positive and negative, of globalization. Recently, the Government and the U.N defined as a priority to achieve an economically, socially and environmentally sustainable development model. Besides, the EU – Vietnam Free Trade Agreement includes a chapter on Trade and Sustainable Development, listing obligations from both the European Union and Vietnam regarding labour and environmental issues. Social responsibility is becoming a new standard for companies in Vietnam. In 2019, the Chamber of Commerce and Industry France- Vietnam and KPMG carried out a survey to understand companies’ perceptions regarding the state of CSR in Vietnam. Results are very encouraging, showing a willingness from businesses to improve their impact on society and the environment, as well as to demonstrate the efforts implemented. The survey consists of a sample of 80 business leaders from companies operating in Vietnam, 54% of MNCs, 35% of SMEs and 11% of other structures, from various industries: consumer goods, business services, construction and engineering, tourism, ITC, retail, transports and logistics, agriculture, energy… etc.

Regarding to the management of CSR: only 8% of surveyed companies reported to have a dedicated CSR department. Not many of them have a budget dedicated to CSR. It is more commonly managed by CEO or General management and HR department. This demonstrates that CSR tends to be considered as a management challenge rather than a mere marketing tool. 95% of interviewed businesses stated that they have implemented CSR activities. Related to CSR reporting in Vietnam: reporting refers to measuring the organization’s performance to achieve goals related to sustainable development, and to communicate these information to stakeholders. Only half of the respondent declared doing CSR report. Among them, businesses interviewed in Vietnam are producing CSR reports related to carbon footprint (21%), Human Rights (16%), UN Sustainable Development Goals (13%), and climate-related risks (12%).

With the participation of Vietnam into WTO in 2008, along with being a young market with a cheap and available labor force, Vietnam has been welcoming various multinational corporation outsourcing and setting up their official branches, choosing the Vietnamese to be one of their strategic market. Some notable names include Honda Corp, Unilever Corp, KPMG Corp and many others. These international giants have been playing an enormous role in setting up the example for big Vietnamese corporation as well as SMEs by adopting their Code of Conduct into the Vietnamese market (Hamm, 2012). When Multinational Corporations (MNCs) invested in Vietnam, they applied CSR in their countries to subsidiary companies in Vietnam. However, not only do MNCs’ board of directors, managers and governments concern about CSR, but also Vietnamese customers do. Besides quality, promotions, advertising of products, customers also consider CSR
aspect when making decision consuming any products. Clients willingly boycott products of a firm if they know any unethical behaviors from the firm that are against CSR’ standards.

This development trend accompanied by many serious environmental issues in 2016 have forced the Vietnamese government and the local community to focus and demand businesses to adhere to social responsibilities and operation transparency more, which will undoubtedly lead to a better and more thorough understanding of CSR in the future (Trung Tin Tran, 2017). With the increasing pressure on banking CSR programs, the understanding of Vietnamese consumer reactions to CSR initiatives could assist banks with developing CSR strategies that are optimal from the perspective of this key stakeholder group.

This will also be legal basis for the country to realise its commitments to the international community, responsibility contribute to global efforts towards sustainable development, and create a driving force for Vietnamese business to enhance their competitiveness, build brand names, and integrate into the global market of free trade. Sustainable development is a forecast to remain a common trend around the world in the next 10 years. As a member of the United Nations, Vietnam has been striving to achieve the SDGs. In July 2019, the UN Sustainable Development Solutions Network and the Bertelsmann Stiftung foundation of Germany released in the fourth annual report on the SDGs implementation progress, which assessed the SDGs implementation outcomes of 162 countries and territories around the world. Vietnam rose three places to the 54th position of the rankings.

Moreover, recently, with the environmental disasters and the negative consequences on the society caused by enterprises, the social responsibility has become urgent. In Vietnam, the implementation of CSR is fully in conformity with targets of sustainable development strategy. In other words, Vietnam government, Vietnamese business owners and customers have been recognizing the importance of CSR now and activities of reactions of consumer in recent years have reflected that the term Corporate Social Responsibilities is an issue getting a lot of attention from communities. For example, the “The Corporate Social Responsibilities Award” is organized annually to appreciate corporations which perform well Corporate Social Responsibilities.

2. CSR activities in Vietnam banking sector

Nowadays, Vietnam banking systems has realized the importance of CSR and started conducting many activities to deal with social issues. Significant achievement are the contributions in community, environment and customer responsibility.

For community responsibility, many banks have pioneered in the implementation of policies from Government and the State Bank of Vietnam (SBV) to support enterprises to overcome difficult periods via reduce interest rate, preferential programs for SMEs. In 2019, The Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank) has reduced lending interest rate in three times, maintained the lowest interest rates in the market by 5% to help companies in difficulty. Recently, after SBV issued Circular 01/2020/TT-NHNN which effective from March 13, 2020 to support businesses affected by Covid-19, many banks have offered preferential credit packages, supported and reduced interest rate such as Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV), Vietcombank, VP Bank etc. BIDV has announced a reduction of 2% interest rate in comparison with the same loan on December 31, 2019. Vietnam Prosperity Joint Stock Commercial Bank (VP Bank) has reduced 2% lending interest rates for SMEs, including existing customers and new borrowers. In addition, a number of banks have actively contributed to the community through social security activities, volunteering, charitable activities, supporting the development of education, health care, culture and sports. Vietcombank has sponsored approximately VND171 billion for welfare and social security programs, focusing on education, health, houses for the poor, etc. Program sponsored by Vietcombank such as building Son Ca Kindergarten, Tan Hung Commune, Cai Nuoc District, Ca Mau Province with the amount of VND8.5 billion, building Tran De District hospital, phase II for VND12.5 billion, etc (Vietcombank report, 2018). In 2018, BIDV continued to deploy a lot of social charity activities which focused on Education, Health Care, Building solidarity/ gratitude houses, Disaster relief, Tet gifts for the poor, etc. The
total amount this bank commit to implement social charity activities was more than VND200 billion (BIDV report, 2018). Also, since its operation in September 1996, Vietnam International Bank (VIB) has constantly implemented different community-oriented activities (CSR) in many localities across the country, apart from banking operations. In 2019, VIB has been actively involved in significant social programs, focusing on 3 areas: Education, Environment, and Enrichment. For instance, the bank has donated money to support victims of Can Tho Bridge collapse, construction of hospitals for poor people of Kien Giang province, the Operation Smile Fund. Specially, VIB has sponsored the Academy of Banking’s “Future Bankers” program and the program “Glorify Vietnam”, and Vietnamese talents nurturing program for poor primary school students with high achievements across the country, etc.

Regarding to environment responsibility, green banking activities are implemented in Vietnam through green credit, green banking products and services.

Green credit policy directs the capital into environment-friendly projects, green production and consumption, clean and renewable energy. In 2015, the SBV has issued Directive No.03/CT-NHNN dated 24 March 2015 on promoting green credit growth and environmental – social risks management in credit granting activities. According to this Directive, banks are required to report about the implementation quarterly. In 2018, the SBV issued Decision No.1640/QD-NHNN approving the Scheme on the green bank development in Vietnam. According to SBV statistics, as of June 30, 2019, total outstanding loans for green project were VND310,660 billion, and increase of 29% in comparison with the end of 2018. Medium term and long term loans accounted for 76% of total outstanding loans. Broken down by sector, there are 46% for green agriculture, 11% for sustainable water management in urban and rural areas, 5% for sustainable forestry and 15% for clean and renewable energy. Besides, green banking activities include promoting technology application, developing electronic transaction and payment methods based on modern technology. Some example can be mentioned such as BIDV has provided online deposit products via Smartbanking and BIDV online, applied housing loans and online mortgage loans on BIDV Smartbanking, regularly upgraded electronic banking products and added digitalization to BIDV online, BIDV Smartbanking, Bankplus. Vietcombank has also constantly upgraded its electronic banking services (VCB Internet B@anking, VCB Mobile B@anking, VCB Pay, etc.) and applied the latest online transaction authentication method to bring the diversified, convenient, suitable for various types of transactions and customers such as SMS OTP, Mpin, Smart OTP. Sacombank, for another example, is the first bank to completely stop issuing card PINs in the form of printing on paper in order to contribute to environmental protection, and saving cost, time and limiting risks at the same time. It can be said that the application of technology is an activity that contributes to the development of green bank as well as shows the attention to various demands from customers to bring convenience for them when making financial transactions.

Limitations

Besides the above mentioned results, the implementation of CSR activities at Vietnamese commercial banks still have some limitations.

Firstly, green credit supports for projects that are environment-friendly technology and renewable energy which often require large amount capital in long duration and long payback period and therefore reduce economic efficiency. Moreover, most bank credit officers have not been trained in assessing environmental and social risks. There is a limited experience and expertise in appraising green projects. Although the SBV has issue a handbook on environmental and social risks assessment, some sectors have not been mentioned. According to SBV’s survey in 2019, only 13 credit institutions have integrated the content of environmental and social risk management in the process of green credit assessment.

Secondly, besides many benefits, the application of technology in banking activities also implies a lot of risks. It may be caused by using the software, technological supports, transmission line, systems which are provided by
difference suppliers or may be from systematic security, cyber-attacks (hackers), disruptions or unable to access data.

Thirdly, the information disclosure on CSR activities is not properly considered. Although the Ministry of Finance has issued Circular no. 155/2015/TT-BTC dated October 6, 2015 guiding the information disclosure on securities markets. Thereby requires listed companies integrate Assessment Report related to environmental and social responsibility in annual report. According to statistic from SBV, as of December 31, 2019, there are 4 Stated-owner Banks, 31 private Joint-Stock Commercial Banks and branches of Foreign Banks, Foreign Joint-Venture Banks. However only 18 banks have been listed on stock market. Moreover, analyzing annual report of some banks, CSR activities are not mentioned comprehensively which mainly focus on community responsible via donations or charity activities. For example, the content of sustainable development issue in Techcombank annual report 2018 includes people development, investment in technology, new products & solutions and CSR. All of these issues are covered in only 2 pages briefly, in which, CSR activities mainly mentioned the contribution to community via philanthropic activities and donations to education, public healthcare and poverty reduction. This situation may be caused by lacking a complete CSR strategy from banks and the lack of standards and regulations from the government enforcing the businesses to keep track and transparently report their CSR practices.

3. Recommendation for Vietnam banking industry

In order to facilitate the implementation of CSR in the Vietnamese market, efforts and inputs from all parties are equally important.

Lessons for commercial banks

First is regarding to CSR policy. Banks should integrate CSR into their business strategy and developed a complete CSR policy to clearly identify the goals and issues that need to be prioritized, thereby creating specific programs in a more active way. Nowadays, businesses practices have become increasingly transparent that all stakeholders have kept eyes on what businesses are doing. Banks are under increasing pressure from various stakeholders that they have to demonstrate they get plans and strategies for sustainable development. Therefore, the trend of having CSR practices is unavoidable. The above discussion provides good examples for banks which engaged in CSR practices. All of those banks have integrated CSR policy into their operational model. To implement and integrate CSR into the bank’s strategy, it is extremely important to raise the internal awareness of all employees, regardless of their positions. Furthermore, building the business around the long-term ultimate goal of sustainable development should be constantly considered by business leaders. Managers should align CSR with the company's vision and mission, organizational culture, environment, operation conditions and risk characteristics.

Secondly, banks should develop their HR policy. The development of financial products based on technology and green financing products require higher professional qualifications of banks’ staffs. Therefore, it is essential to development policy to build a high quality human resources via recruitment, training, promotion opportunities and other benefits to motivate employees. According to researcher Philip Mirvis (2012), CSR implementation gives the organization a competitive advantage in terms of recruiting, retaining and engaging employees. The social responsibility of the company would strengthen the motivation, the identity, the sense of purpose and meaning of the employee. The researcher has point out 4 tips to engage employees through CSR such as: understand employees’ perceptions and expectations, create and communicate organizational shared values, engage the company in community-oriented activities, set clear objectives and measure the impact. Clear goals are easily integrated and implemented by employees and simple to monitor.

The next related to risk management. Security risks related to the new innovation should be strongly minimized. Banks should search for risk-reducing strategies that might contribute to awake high confidence in prospecting customers. It is suggested to focus on the prevention of intrusion, fraud and identity theft through the
development of trust-building mechanisms to attract customers. It is necessary to build policy on system’s security. Some of activities could be conducted such as investing in equipment, developing a complete IT system and updated frequently, establish a backup center which uses backup main server system and storage technology to ensure the bank’s continuous operation in case of natural disasters or catastrophes. Besides, it is important to instruct consumers about how safeguard their private information to prevent any misuse in virtual transactions.

Additionally, CSR awareness need to be improved for all employees, specially managers. According Nguyen et al (2017), doing CSR activities is a critical intermediate step for any banks to gain customer trust. Trust was identified as a factor that positively affected intention to use financial services such as mobile banking which have significant development in banking sector recently. Non-cash payments based on the application of Technology 4.0 with a view to greening the banking operation is now a global trend. Mobile financial services provide convenience and promptness to customers along with cost savings. Banks are interested in expanding their market through mobile services. However, it is very challenging in building customer trust in mobile banking context. The authors’ findings suggest m-banking provider can gain customer trust by using mechanism including long term service, statement of guarantee for every transaction and digital receipts and enhancing security controls when designing and updating banking apps. Furthermore, CSR initiatives can help to build customer trust and the findings also suggest that customer trust serves as a mediator in the relationship between CSR and intention to use mobile banking service. This indicates that consumers’ positive perceptions of CSR lead to customer trust and that customer trust, in turn, influences intention to use mobile banking. Therefore, managers should recognize the influence of CSR on gaining trust of customer to make them adopt mobile banking services. Specially in Vietnam, a country with many environment crisis such as Formosa crisis and ThiVai River crisis, if a bank considers environment matter and economic matter, it will get a lot of attention of customer. Thereby it can build the reputation and improve customer trust which in turn improve the percentage of people to use bank service such as mobile banking.

Last but not least, bank should pay attention on information disclosure. Sustainable reporting and disclosure information should be improved by strictly follow regulations from local authorities and international standards. Thereby, CSR report need to be developed more comprehensively. For above mentioned banks in Europe, sustainability issues are published on the banks’ website, very often with a link to the home page to add prominence and sustainable report become a part of their annual report. The purpose of the sustainability reports is to reflect the bank’s main activities, material sustainability issues in relation to each of its stakeholders (shareholders, customers, employees, suppliers and the community). This exercise is in turn part of recognition in the sector that a good reputation depends on a bank fulfilling its commitments towards its stakeholder. Credible management of bank relations with multiple stakeholders is one of the most important means of generating sustainable value over time. Banks increasingly realize the need to manage stakeholder consent and confidence approval through practices aimed at more transparent behavior, clearer information, and greater fulfillment of stakeholder expectations/demands. European banks generally report according to the relevant standards such as in the form of a supplement to the Global Reporting Initiative (GRI) guidelines. As in any market-based system, CSR depends on accurate information flows in order for firms to receive a market reward for their CSR investments. Banks are keen to maintain active and transparent dialogue with their shareholders via the various channels of communication that have been established for this purpose. In European banks, the disclosure information issues are managed by numerous groups within the bank, such as the corporate unit for customers and quality, the shareholders area, investor relations, human resources, the risks area, integral management of spending, asset and capital structuring and the retail units of the bank. Furthermore, the bank’s sustainability group also maintains regular contact with stakeholders in the third sector to identify the matters of concern to them, their information needs, and the opportunities for improvement. Active dialogue with key stakeholder groups provides an excellent way for banks to identify concerns and generate opportunities and ideas for improvement. Information disclosure initiatives are also developed by banks in the following areas: data protection, compliance, anti-money laundering and counter-terrorist financing measures.
Recommendation for State Bank of Vietnam (SBV)

Firstly, green finance needs more support. The Government and the SBV have issued many important documents towards green growth and sustainable development which are actively implemented by financial institutions. However, there are still some difficulties need to be supported by the authorities. Due to large required amount and long payback period, the Vietnamese banks will have to make efforts in finding cheap capital to lend. Therefore, the capital sources for green finance needs to be mobilized from various channels. Besides stated budget, long-term preferential capital from international organizations, green bonds are also a potential tool could be in consideration.

Secondly, necessary actions should to be conducted promptly. Nowadays, the uncertainly of world caused by economic crisis, disaster of disease is increasing. The more sensitive the central bank are, the more decisively and in an innovative way to minimize negative impacts on the economy. For example, the social responsibility of central bank plays essential role in supporting businesses to overcome difficulty by issuing incentive policies in the form of asking commercial banks to lower interest rate. The SBV also contribute to protect environment and climate change by directing commercial banks to offer preferential mechanisms for enterprise in developing sustainable industry.

At the same time, banks need to be supported by introducing and training about the international regulations. Such activities related to corporate social responsibility such as the United Nations Environment Programme Finance Initiative (UNEP FI), Equator Principles (EP), UN Sustainable Development Goals (SDG), etc. It is very important to keep pace with requirements in the context of current international integration. The ECB have an important role in supporting and encouraging companies to conduct their business responsibility following international guidelines and principles. More specially, the EU’s policy is built on its 2011 renewed strategy for CSR, which aims to align European and global approaches to CSR. However, in Vietnam, there are lack of a comprehensive standards and regulations enforcing the businesses to keep track and transparently report their CSR practices. Therefore, the SBV, as an state-owned institution, should build public policy to promote CSR in banking activities, not only by legal framework, but also provides banks with aggregate sector data showing how the process of integrating CSR into the banking industry is progressing.

Last but not least, banking activities related to many industries and must comply a lot of regulations and law. Therefore, it is necessary to promote the SBV’s role in improving banking legal activities. The SBV should conduct more interaction activities, consultancy channels in understanding and implementing related laws. Issues after consulted and instructed by the SBV should be updated on the SBV’s website so that other banks can access and search easily.

Recommendation for the Government

The most important thing that the Government could do to encourage the implementation of CSR strategies is to supplement and perfect the national legal frame in order to close any shortcomings and inadequacies that might be used by businesses to avoid social responsibilities. It is necessary to apply strong sanctions and fines on projects that has negative affect to the environment or adversely affect to society. At the same time, environment-friendly projects should to be offered preferential policies on taxes, capital sources and investment incentives. These activities will have a synergistic effect so that businesses properly understand and better implement social responsibility towards sustainable development.

As a financial institution, the commercial banks plays an important role in supporting enterprises in environment-friendly, renewable energy sector via green financing products such as green credit. Coordinating activities of governmental agencies, departments and organization should also need to be in consideration. For examples, it is necessary to have close and effective corporation between banking sector and other sectors in the economy that is between the SBV, the Ministry of Finance and the Ministry of Natural Resources and Environment, the Ministry of Industry and Trade, Ministry of Planning and Investment, etc.
Next element is related to sustainable reporting and disclosure information. Circular no. 155/2015/TT-BTC dated October 6, 2015 by the Ministry of Finance guiding the information disclosure on securities markets applied for listed enterprises. Therefore, this provision needs to be extended to banks as well as other businesses that have a great impact on society and the environment but not yet listed on the stock market.

Finally, the Ministry of Education and Training should consider to incorporate CSR is to include this concept into undergraduate and graduate level education to improve the CSR perception for the young generation. The Government also may corporate with major corporations to organize workshops or talk shows to introduce and explain this topic to private SMEs.

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