EMPOWERING AND ENRICHING BANKING CUSTOMERS THROUGH SUSTAINABLE CORPORATE SOCIAL RESPONSIBILITY LED COMMUNITY INVESTMENT

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Introduction

Defined broadly as "a commitment to improve societal well being through discretionary business practices and contributions of corporate resources" *(Kotler and Lee 2005),* Corporate Social Responsibility (CSR) occupies a prominent place in the global corporate agenda in today's socially conscious market environment. More than ever, companies and institutions world over allocate substantial resources to various social initiatives, ranging from community outreach and environmental protection, to socially responsible business practices.

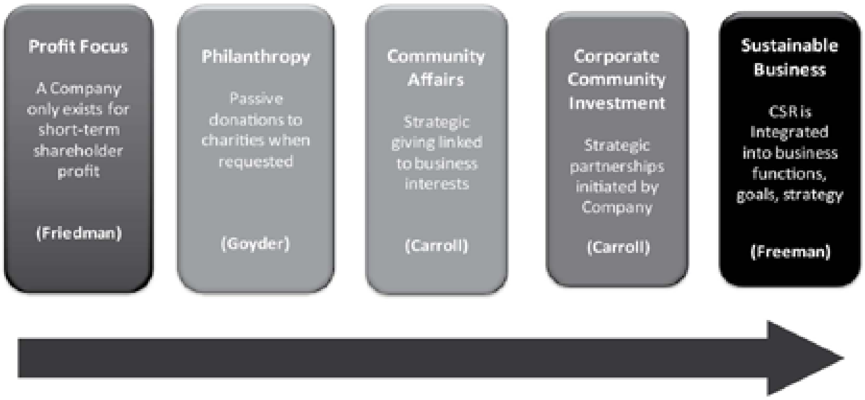
"Social responsibility is the responsibility of an organisation for the impacts of its decisions and activities on society and environment through transparent and ethical behaviour that is consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders is in compliance with applicable law and consistent with international norms of behaviour; and is integrated through the organisation." – *Working definition, ISO 26000 Working Group on Social Responsibility, Sydney, February 2007.*

CSR efforts in global organisations are driven not just by ideological thinking that organisations can be a powerful and positive force for social change, but more by the multifaceted business returns that corporations can potentially reap from their CSR endeavours. Findings from both academic and market research denotes that key stakeholders such as customers, employees and shareholders are increasingly likely to take actions to reward good corporate citizens and punish bad ones. A coherent CSR strategy, based on integrity, sound values and long term approach, offers clear business benefits to organisations and helps a firm make positive contribution to the society.

Corporate Social Responsibility to Sustainability

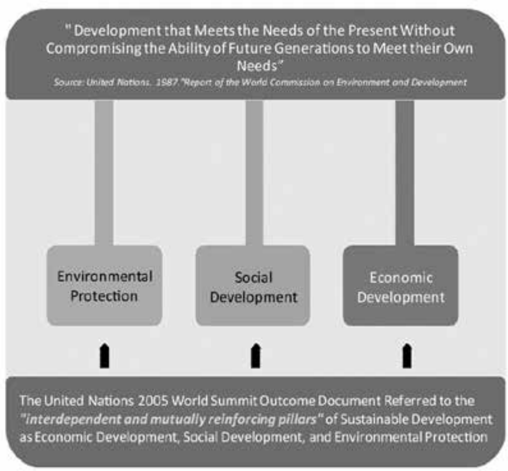
In the early stages, CSR meant mere doing good to the society or being a philanthropist. However over a period of time organisations around the world have recognised the importance of going beyond being a philanthropist in order to sustain its business. Therefore we see a shift in CSR strategies of organisations where they focus on doing responsible business and thereby being responsible corporate citizens. The organisations also have realised that good corporate citizens enjoy a competitive advantage in their market place.

Evolution of the Corporate Social Responsibility Concept

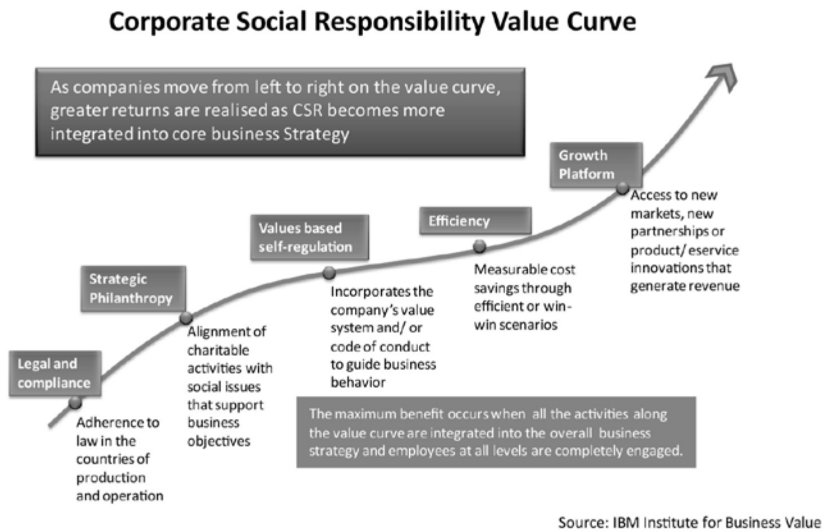


Conducting responsible business leads to sustainability of an organisation in the long run. Corporate sustainability is based on the "Triple Bottom Line" namely People, Planet and Profits. These three areas cover social, environmental and economic dimensions respectively. These three dimensions are interdependent where activities in each area impact other areas.

Sustainability



Apart from these three dimensions, some important external factors – Political (political environment), Environment (internal and external environment, competitive environment), Social (socio cultural aspects), Technology (new technology, technology adoption rate), Legal (regulations, human rights and labour laws) affect the three dimensions of the triple bottom line impacting on corporate sustainability.



As organisations go through the corporate social responsibility value curve, corporate sustainability becomes more integrated into the core business strategy of the organisation resulting in greater returns to the organisation, its stakeholders and the community at large. Maximum benefits occur when activities of all the phases are integrated into the overall business strategy of the organisation with employees at all levels completely engaged.

The importance of corporate social responsibility in today's business environment is well elaborated in below quotes.

"There is no way to avoid paying serious attention to Corporate Citizenship: The costs of failing are simply too high. There are countless win-win opportunities waiting to be discovered: every activity in a firm's value chain overlaps in some way with social factors- everything from how you buy or procure to how you do your research - yet very few companies have thought about it. The goal is to leverage your company's unique capabilities in supporting social causes, and improve your competitive context at the same time. The job of today's leaders is to stop being defensive and start thinking systematically about Corporate Social Responsibility" – *Michael Porter, Professor, Harvard Business School, USA*.

"We believe that leading global companies of 2020 will be those that provide goods and services and reach new customers in that address the world's major challenges- including poverty, climate change, resource depletion, globalization and demographic shifts " – *Niall Fitzgerald, former Chairman, Unilever and Reuters*.

Corporate social responsibility is also known by a number of other names. These include corporate responsibility, corporate ethics, corporate accountability, corporate stewardship, corporate citizenship, responsible entrepreneurship and "sustainability - triple bottom line", to name a few. Generally CSR is understood to be the way organisations integrate social, environmental and economic concerns in to their values, culture, decision making, strategy and operations in a transparent and accountable manner thereby establishing better practices within the firm and create wealth and improve society. As CSR issues become increasingly integrated into modern business practices, it is referred to as "corporate sustainability". As issues of sustainable development become more important, the question of how the business sector addresses them is also becoming an element of CSR.

The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development. Building a base of compliance with legislation and regulations, CSR typically includes "beyond law" commitments and activities pertaining to:

* Corporate governance and ethics
* Health and safety
* Conditions of work
* Human rights and labour rights
* Environmental stewardship
* Sustainable development
* Industrial relations
* Community investment
* Involvement and respect for diverse cultures and disadvantaged people
* Corporate philanthropy and employee volunteering
* Customer satisfaction and adhering to principles of fair competition
* Anti-bribery and anti-corruption measures
* Accountability, transparency and performance reporting
* Supplier relations and supplier chain management

These elements of CSR are frequently interconnected and interdependent, and apply to firms wherever they operate in the world.

Community Investment

Out of above mentioned elements of CSR, this article discusses the importance of community investment for the future growth of the banking industry. It is important to be strategic in community development in order to create a substantial impact benefiting the community at large. Community investments create sustainable societies and communities which in return help a sustainable banking industry. Banks can promote local development through community investment and thereby generate a wide range of stakeholder benefits.

Community investment activity has a strong tradition based on philanthropy and has often been the starting point of CSR and business sustainability in most emerging markets. Community investment could be considered as a subset of overall social performance and corporate responsibility which is linked to competitiveness and to creating an environment conducive to bottom of the pyramid banking. In contexts where social risks and expectations are high, benefits channelled effectively through community investment programmes can help banks gain a social licence to operate, carry out business, reduce reputational risks, boost productivity, meet government / regulatory requirements and successfully expand the business to new geographical and customer segments.

Strategic Community Investment

Strategic community investment could be defined as voluntary contributions or actions made by companies, to help communities in their areas of operation which will address their development priorities, and take advantage of opportunities created by investments in ways that are sustainable and support business objectives.

World over organisations including banks are moving away from philanthropic donations and ad hoc practices to more sophisticated and strategic ways of planning and delivering their community investment programmes. There is greater emphasis on the business case - on viewing community investment through the lens of risk and opportunity, and on creating "shared value" by aligning business goals and competencies with the development priorities of local stakeholders. Other trends include a focus on building social capital and local ownership through multi-stakeholder processes; factoring sustainability and handover strategies into project plan; and measuring and communicating results to optimise the business value derived from community investment. Therefore community investment may be viewed as a strategic tool that can be combined with other efforts to generate value for both the business and its neighbouring communities.

The use of the term investment implies an expectation of a "return" and signals that an organisation's support for community development should be viewed like other business investments.

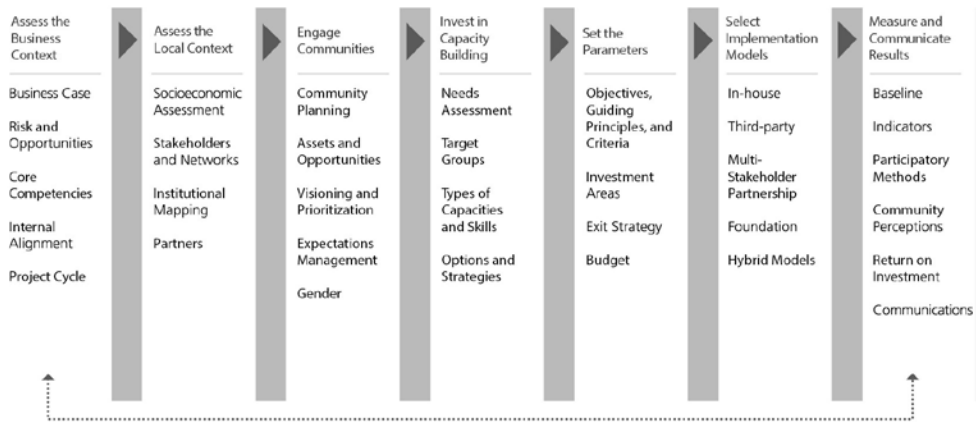
While the organisations which make the biggest contributions including banks normally make a positive impact on the business itself - through employment, contracts, its supply chain, and payment of taxes - voluntary community investment programmes also offer an important additional avenue for enhancing positive impacts and socio economic benefits. Through community investments, banks support empowerment and enrichment of local communities by way of capacity building, providing access to social services and infrastructure, livelihoods development, training and development, Small and Medium Enterprise (SME) development, microfinance etc.

Community investment goes hand-in-hand with an organisation's stakeholder engagement efforts. Experience shows that these types of up-front investments in relationship-building with local communities and partners can pay significant dividends during times of conflict or crisis.

Strategic Planning Framework for Community Investment

Developing a community investment strategy is an iterative, multi-step process with some steps taken internally by the organisation and others requiring engagement, feedback, and multi-stakeholder processes. There are seven key areas comprising a comprehensive strategic planning framework for community investment.

Seven Steps for Developing a Community Investment Strategy



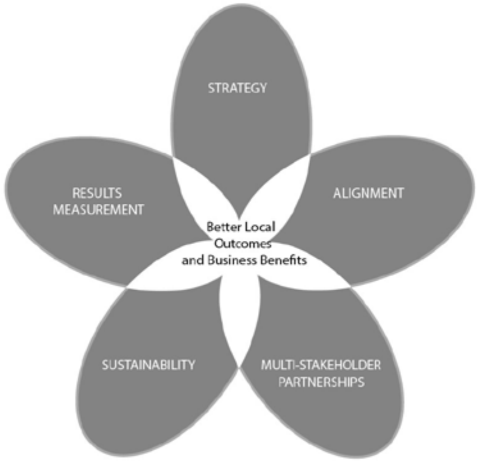
Source: Strategic Community Investment
A good practice handbook for companies doing business in emerging markets

Adoption of this seven step framework help organisations to develop communities it operates in. It is important to follow the steps in the framework and action every possible sub area for maximum results.

Good practice principles for Strategic Community Investment

Strategic community investment encompasses five elements that reinforce one another: strategy, internal and external alignment, multi-stakeholder partnerships, sustainability, and results measurement. The goal is to create lasting improvements in the quality of life for local communities, which in turn generate business value for the organisation in the form of broad community support and reputational benefits.

Key Elements of Strategic Community Investment



Source: Strategic Community Investment
A good practice handbook for companies doing business in emerging markets

Strategic

* Activities flow from a well-defined strategy (objectives, criteria, guiding principles) linked to a clear business case and assessment of risks and opportunities
* Addresses both short and long-term objectives through a strategic mix of investments
* Focuses selectively on a few key areas for the greatest impact where the company can most effectively leverage its unique role and competencies to address community priorities
* Looks beyond financial resources and considers how to make best use of company assets, resources, expertise, advocacy, and relationships to benefit local communities
* Evolves with the business phase and uses different approaches along the project cycle

Aligned

* To be aligned with organisation's vision, mission and objectives
* Aligns the strategic issues of the business with the development priorities of local communities, civil society and government to create "shared value"
* Coordinates community investment with other company policies and practices that affect communities, such as impact management, stakeholder engagement,

and local hiring and procurement

* Promotes cross-functional coordination and responsibility for supporting community investment objectives among all business units that interact with local stakeholders

Multi Stakeholder Driven

* Positions the company as a partner in multi-stakeholder processes rather than as the principal actor in promoting local development

* Recognizes that a multi-stakeholder approach reduces company control but adds value by building local ownership and bonding through shared interests

* Supports communities and local governments in defining and meeting their own development goals and aspirations through participatory planning and decision making

* Seeks to avoid dependency, encourage self-reliance, and create long-term benefits that can outlast company support

Sustainable

* Invests heavily in training and skills development, capacity building, participatory processes, and organizational development to enable local communities, institutions, and partners to take progressively greater roles and responsibilities

* Does not commence activities without a viable exit or handover strategy

* Reinforces, rather than replaces, local institutions and processes where feasible

Measurable

* Measures return on community investment to both the company and the community

* Uses outcome and impact indicators to measure the quantity and quality of change

* Tracks changes in community perceptions to gain real-time feedback on performance

* Uses participatory methods of monitoring and evaluation to build trust and local ownership of outcomes

* Proactively communicates the value generated by community investment to internal and external audiences

What a good Community Investment Strategy should do

* Establish the community investment strategy objectives that are linked to the business case

* Set out a short to long term plan with key objectives and milestones

* Be inclusive and identify target stakeholder groups and specify eligibility criteria

* Improve productivity, effectiveness and efficiencies in community activities

* Recognise and respect local and cultural context and understand the differences

* Link the community investment strategy to the local context by localisation, adaptation

* Establish an iterative process of engagement with local stakeholders and partners on community investment

* Visible and impactful value creation to community at large and all stakeholder groups

* Draw on the organisation's core competencies and resources to support communities

* Align internal functions to support community investment programmes

* Promote cross-functional coordination and accountability for supporting community investment objectives

* Integrate community investment programmes with other organisation programmes that involve communities (stakeholder engagement, environmental and social impact management, and local hiring and contracting)

* Set out criteria and guiding principles against which all community investment proposals will be screened

* Identify the key programme areas in which the organisation will invest

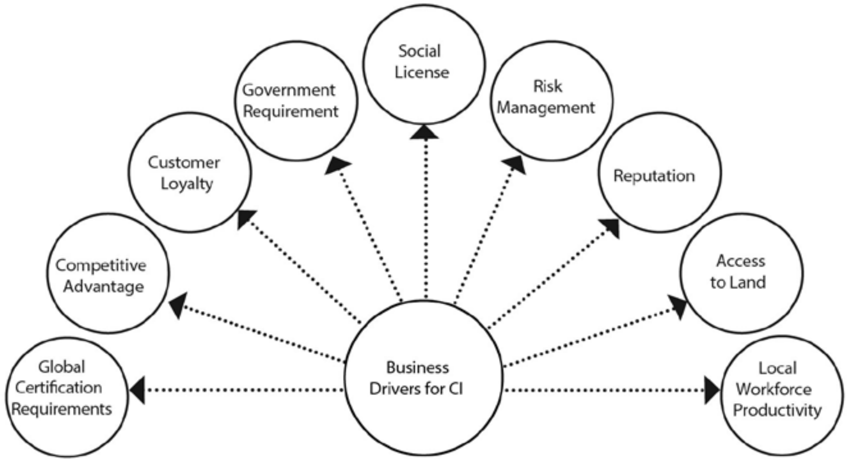
* Identify the implementation model and decision-making/governance structures

* Define roles and responsibilities, budget, scope, and timeline

* Describe the organisation's exit/handover strategies in the event of unexpected, unplanned exit from community investment activities

* Describe how project results will be monitored and measured
* Effective external and internal communications
* Be fair and transparent in decision making and follow good governance practices

Business Drivers in Community Development and Investment



Source: Strategic Community Investment
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Channelling development benefits to local communities through community investment can generate a wide range of direct and indirect business benefits. The pursuit of these benefits, or "business drivers," is what motivates organisations to support community investment programmes. Once an organisation identifies the key business drivers to which community investment can most readily contribute, it can effectively channel the resources towards it.

It can be argued that many of the business drivers for community investment are the same as those for "sustainability" or "social performance" programmes at a broad level. There is truth in this argument because in most cases community investment will not be the only, or even the primary, vehicle a company should use to address community issues; rather, community investment will be a supplementary, strategic tool for further enhancing local benefits.

Bank led areas of Community Investment

Micro Financing

Community investment in terms micro financing, leads to empowerment of bottom of the pyramid community. By developing the bottom of the pyramid, which accounts for a fair share in emerging economies, banks can create an inclusive approach where these marginalised communities contribute to the country's GDP and thereby fuel the economic engine.

Though micro financing essentially means lending, when conducted as part of CSR led community investing, banks need to strike a balance between business and CSR strategies without polarising the activity towards one extreme resulting in the activity becoming pure profit oriented or philanthropy.

Livelihood Development

By engaging in livelihood development, banks can not only support communities with financial support for their professions and businesses, the banks can also contribute by investing industry based and professional knowledge sharing and training. Banks also can help in arranging tie ups between large or small scale buyers and the small scale producers in the communities and help manage the income by way of loan and savings schemes.

Village Re-awakening

Through village re-awakening programmes, banks can invest in rural villages through infrastructure development by means of developing education, healthcare, transportation areas as well as by providing important utilities such as electricity and water. These facilities naturally improve the living standards of the community which in return help the country's social and economic standing. Village re-awakening programmes can also include supporting village based industries in terms of infrastructure development. To ensure the support of the community and the sustainable continuation of the programmes, village re-awakening programmes should be carried out with the coorporation of opinion leaders of the village.

Industry Based SME Development

Industry based SME development is another important community investment programme banks can engage in. By investing in identified emerging industries, banks can power the most important sector in a developing economy - the SME. Investments in SME sector could be in the form of lending at special rates and also could include infrastructure development and professional and technical training. Banks can also provide professional guidance and advice to handle the financial activities of the SMEs on one to one basis.

Entrepreneur Development

Entrepreneurs are important stakeholders in any economy. Entrepreneurs not only develop good businesses but also innovate new products and services, which later become the hallmark of their success. Banks as drivers of a country's economy consider investing in this important group who in return will contribute positively to the country's economy.

Training and Development

Capacity building in terms of professional training and development and knowledge sharing, support communities and sectors engaged in various professions and industries. These activities can ideally be conducted through training and development workshops, seminars and forums. This could be further supported by providing training material and literature and through online learning courses and modules with the support of information technology. It is also important to provide training on new product development, marketing and sales which are key to success of any business be it small, medium or large.

Another important area of training and development is to arrange hands-on training sessions with the government organisations and technical institutes which are directly involved in specific sectors to provide in-depth technical knowledge for SMEs engaged in these particular sectors.

Financial Literacy Enhancement

Good financial literacy leads to better management of businesses. It also inculcates business and financial best practices amongst the communities especially engaged in SME, Micro and entrepreneurship sectors. Banks may consider providing financial literacy training to these sectors which will result in better financial and business management in their respective business thus creating a better banking environment and banking customer community.

Bridging the Digital Divide

The quest to enrich and empower the local talent pool by investing on methods to bridge the digital divide, thereby making them more competitive in the global context, is one of the national priorities for banks and other organisations. Specifically for banks, the benefits of bridging the digital divide and nurturing a tech savvy society are two fold. The first being recruitment of tech savvy employees and the second being migration of customers to electronic channels which are important objectives in future banking. The banking sector can also be the pioneer in bridging the digital divide between the village and the urban sector by investing in IT and English educational programmes.

Supporting Biodiversity Programmes

The environment in which communities live and banks operate is as important as social and economic dimensions in the Triple Bottom Line. Therefore banks being the most important business organisations in the country must contribute to biodiversity programmes through thier community investment. These initiatives could be in two folds- external and internal. The external initiatives could be in the form environmental and habitat conservation where communities live in, environmental education, green lending for environmental projects such as eco tourism etc. The internal initiatives could be in the form of go green activities through reduction of energy, paper and water usage etc.

Though banking is an industry where very little negative output is released to the environment, banks can still adopt systems and procedures that are designed to international standards to assess social and environmental impacts of businesses it lends to as well as its own activities. Effective systems should be put in place to monitor compliance with existing environmental laws vis-a-vis a check list.

Responsible Lending

Responsible lending is another vital aspect in community investment. Banks should evaluate the projects and their benefits to the society at large when lending. Also they should evaluate the repayment capacity of businesses and shouldn't be lend in excessive amounts as a mere business and profit making proposition.

Adopting frameworks such as Social and Environmental Management Systems (SEMS) which provide the policy framework, implementation process and a monitoring mechanism to ensure that the financing extended to the customers is used to fund operations which are economically and socially sustainable, eco friendly and do not harm the bio diversity is of paramount importance to the banking sector. These policy frameworks effectively determine that the operations funded and all major activities of banks will not harm the environment in any manner.

Benefits of CSR Led Community Investment for the Banking Industry

* Banking the unbanked bottom of the pyramid customer segments
* Achieve competitive advantage through creation of new markets and new business opportunities
* Empowered society and banking customer base resulting in larger business prospects, increased banking activity , revenue and profitability
* Better profitability contributing to higher shareholder value
* Creating integrated value and stakeholder value through key stakeholder engagement – customers, employees, government, regulator, management and shareholders
* Employee engagement and contribution leading to better employee satisfaction and motivation
* Increased employer branding to attracting better talent and retain existing talent
* Reduction in costs due to increased operational efficiencies, economies of scale due to larger customer base
* Low concentration risk due to risk spread
* Bigger corporate image, reputation and brand equity resulting in better business relationships and new customer attraction
* Employment creation both internally and externally
* Better transparency and economic governance
* Opportunity for innovation led product development – e.g. mobile based banking and micro financing

* Improved information flow and knowledge sharing

* Ability to attract and build effective and efficient supply chain relationships

* Enhanced ability to address and adapt to change having the “ ear to the ground” through community engagement

* Opportunity to acquire “Social License” to operate in local communities, enter new geographical areas

* Opportunity to build “Social Capital” and thereby engage the local community to a higher degree

Conclusion

Community investment is one of the most important aspects in sustainable CSR due to direct impact it makes to the communities and societies the bank operates in. By practicing a business strategy oriented CSR approach banks can implement successful and impactful community investment programmes. As explained in this article a well planned and executed inclusive and sustainable community investment programme will deliver substantial benefits both to the community and to the banks in the long term resulting in more empowered and enriched community who in return will contribute to the country's business environment, development and economy. This will also increase the quality of bankable society adding value to banking industry in the country.

Empowering and enriching banking customers through sustainable corporate social responsibility led community investment will re-shape the country's banking industry positively, helping to achieve national development goals and objectives.

Acknowledgement

The author wish to acknowledge the reproduction of sections from *“Strategic Community Investment- A Good Practice Handbook for Companies Doing Business in Emerging Markets”- International Finance Corporation, 2010* and *“Corporate Social Responsibility – An Implementation Guide for Business” - International Institute for Sustainable Development, 2007,* in this article.