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Multi-Item Stakeholder Based Scale to Measure CSR in the Banking Industry

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ABSTRACT

In recent years, both academics and practitioners are paying more attention to CSR activities due to its significant influence on stakeholders. With regard to this, CSR includes the companies' responsibilities towards shareholders, customers, employees, environment and community. Despite numerous efforts to measure the consequences of corporate social responsibility (CSR), it remains unclear how stakeholders perceive CSR activities. This study aims at developing a measurement scale for corporate social responsibility activities in the Indian banking industry based on a stakeholder framework. A multistage method is applied to develop a valid and reliable scale. Items for the scale were generated from a qualitative research and literature review. The reliability and validity of the scale was confirmed through a first and second order confirmatory factor analysis. This study contributes to the literature by providing a valid and reliable scale to measure CSR and the successful implementation of the stakeholder theory in the banking industry.

1. Introduction

The concept of corporate social responsibility (CSR) has gained the attention both in academics and business practices (Maignan and Ferrell, 2004; Sen and Bhattacharya, 2001), because CSR investments lead to higher levels of credibility (Lin et al., 2011), improved image or reputation (Tewari, 2011), higher employee retention (Kim and Park, 2011) and build customer relationships (Peloza and Shang, 2011; Matute et al., 2010; Brown and Dacin, 1997). This increasing attention of CSR in literature has resulted in a proliferation of definitions for this concept (Carroll, 1979; Panwar et al., 2006; van Marrewijk, 2003). CSR refers to "*companies' activities demonstrating the inclusion of social and environmental concerns in business operations, and in interaction with stakeholders, also according to the ambition level of corporate sustainability*" (van and Marrewijk 2003 p. 1).

CSR is commonly measured as a one-dimensional construct (Marin and Ruiz, 2007; Lichtenstein et al., 2004) comprising of legal and philanthropic responsibilities. Few studies have adopted the multi dimensional perspective to measure CSR (Maignan, 2001; Decker, 2004; Garcia de los Salmones et al., 2005) which reflects more clearly the different theoretical dimensions; however, this approach is not without critics. In this regard, those studies which have taken this perspective are

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based on different approaches to define the CSR and result in lack of consensus (Turker, 2009). Furthermore, it has been stated that CSR does not mean the same thing for all the concerned stakeholders and its conceptualization varies among every industry (Decker, 2004). Thus, a more specific instrument is needed to understand the stakeholder point of view in the industry specific context.

As an example, the banking industry plays an important role in a nations economy (Beck et al., 1999) and proactively engages in CSR activities (Marin et al., 2009; Truscott et al., 2009) while the other industries are reactive to CSR due to external stakeholder pressure (Decker, 2004). The reputation of financial institutions relies on their socially responsible programs (Poolthong and Mandhachitara, 2009), this is why banking institutions tend to have a high ranking on the international CSR investment ranking index (Perez et al., 2013). Despite the increasing interest of CSR in this industry, no studies have measured CSR activities in the banking industry with a multidimensional perspective in a developing economy. In order to fill this gap, this study has chosen the Indian banking sector to study the association of CSR with its internal stakeholders.

The banking sector in India is intensified with competition and has started taking the CSR activity seriously (Fatma and Rahman, 2014). The Reserve bank of India (RBI) advised to all the banks to invest two percent of their profit on CSR activities. It becomes imperative for the organization to better know how their CSR activities are helping them in building the relationship with their stakeholders. In this study, the authors have propose a CSR measurement scale from a broader perspective based on stakeholder framework which has been used in recent studies (Turker, 2009; Mercer, 2003). Most of the studies on this issue are theoretical in their approach, allowing the researchers and practitioners to understand the normative case of CSR. However, studies based on internal stakeholder perception are scarce so far. In order to fill this void on this area, a scale is developed to measure the CSR activities of the Indian banking organization from the stakeholder point of view.

2. CSR in the banking industry

In today's scenario, CSR has become a well established notion in the financial service industry due to its huge impact on society (Scholtens, 2009). Banks are increasing their CSR spending (Truscott et al., 2009; Marin and Ruiz, 2009) by implementing CSR into practices with initiatives such as financial inclusion (Decker, 2004), microcredit schemes for the deprived (Hermes et al., 2005), socially responsible banking (Scholtens, 2009) and credit access to the poor (Prior and Argandona, 2008). As Thompson and Cowton (2004) suggested, banks are more likely to be influenced by the risk of reputation as compare to other companies and are more vulnerable to negative reactions from stakeholders. It is critically important for the banking sector to manage their reputation in order to differentiate themselves from competitors and maintain stakeholder confidence (Flavian et al., 2005). Retail banks are spending millions of dollars on CSR programs in order to strengthen their reputation (McDonald and Rundle-Thiele, 2008). The importance of building and managing a reputation in the service sector is high due to the intangible nature of the product and need of building trust among stakeholders (Perez et al., 2013).

They are considering the CSR activities into their strategic decision to improve their public image (McDonald and Lai, 2011) and customer related outcomes (Bhattachraya and Sen, 2004). Although, it is not clear which CSR activities is likely to build a positive stakeholder responses (Chomvilailuk and Butcher, 2013). Furthermore, the relationship between CSR activities and stakeholder responses has not been studied in a non western context (McDonald and Lai, 2011). It is apparent that CSR phenomenon is growing worldwide and Lindgreen et al., (2009) raises a question whether stakeholder responses to CSR in developing country will be the same as has been found in developed country. This study aim is to address this gap by understanding the relationship between CSR and stakeholder responses in a developing country.

The banking sector has made significant transformations in the last few years and has become one of the main proactive investors in CSR activities worldwide (Marin et al., 2009; Truscott et al., 2009) and the reputation of financial institutions rely on their socially responsible programs (Poolthong and Mandhachitara, 2009). Their approach to CSR has significantly changed and banks are now more vulnerable to social and environmental problems (Carnevale et al., 2012) they have a wider role in society and by putting CSR principals in their operations, their transactions are more transparent and they produce value for society (Prior and Argandona, 2008; King and Levine, 1993). Banks continue to publish their sustainability reports (Vigano and Nicolai, 2009) every year and present and account for 22% of their business in the Dow Jones Sustainability Index (CECA, 2008). Therefore, the proposed new measurement scale is a relevant and timely study. Nevertheless, 'nowadays the banking industry faces threats and opportunities resulting from the current worldwide economic crisis. One of these challenges stems from the negative effect of individual perceptions of financial institutions' (Matute et al. 2010).

Socially responsible practices plays an important role in this sector and an increasing concern is given by banks to communicate these activities through different communication forums (Peterson and Hermans, 2004). Despite the fact of greater emphasis on CSR in the marketplace, there is a scant investigation of stakeholder responses to these activities (McDonald and Rundle-Thiele, 2008). How the socially responsible activities of the banking sector are viewed by their stakeholders is unclear due to the limited amount of research on stakeholder responses to CSR (Rugimbana et al., 2008). So it is important to understand the efforts made by banks to report their socially responsible actions. Compared to other sectors, banks have more visibility in society (Mandell et al., 1981) and have a higher product involvement. Studies on CSR activities and banks are very limited (Carnevale et al., 2012), and no adequate framework is available to