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APPLICATION OF THE CSR MEASURING MODEL IN COMMERCIAL BANK IN RELATION TO THEIR FINANCIAL PERFORMANCE

ABSTRACT. This article focuses on the application of the corporate social responsibility concept (CSR) in commercial banking in the Czech Republic. The study quantitatively evaluates the CSR activities in commercial banks on a sample of four largest Czech banks according to the number of customers by using the CRM measuring model developed by the authors. The research is based on the content analysis of the publicly available data and takes into consideration three main pillars of the CSR - Economic, Social and Environmental. The subsequent analysis made with the application of the methods of descriptive statistics and correlation analysis is focused on the relationship between the CSR implementation and the commercial bank's financial performance. On the basis of the CSR measurements it was found, that the application of CSR activities in the Czech commercial banking sector is reaching the average level. Correlation analysis also showed that the level of application of the CSR is not significantly related to the financial performance of the banks.

Introduction

In the last decade the concept of corporate social responsibility (CSR) became a global phenomenon across all sectors of business. In general we could state that the social responsibility is based on the behavior of each individual. While enterprises and organizations are playing the major role in influencing of their surroundings in general, the influence of transnational corporations and large companies has the greatest impact.

The reason for the creation of the very concept of corporate social responsibility was the importance of organizations in economic and social issues. To understand the phenomenon of CSR, it is necessary to accept the statement that the business as a creator of

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economic wellbeing does not have only economic effects (Dahlsrud, 2008). Barth and Wolff (2009) emphasize that businesses are the part of the world that faces tremendous challenges associated with *sustainable development*. The CSR concept recommends to change the current approach to business, which is frequently labeled by term *profit only* (based only on profits), and to replace it with a modern conception of the broader *people-planet-profit* (also known as *the triple bottom line* framework) with regard to social and environmental aspects of the business.

The authors engaged in CSR generally refer to multiple definitions that are associated with this concept. Kotler and Lee (2005) give an acceptable definition of the international organization of Business for Social Responsibility, which defines CSR as a business management in such a way that surpasses the ethical, legal, commercial and societal expectations of the business.

CSR concept takes into account three main pillars – Economic, Social and Environmental. The Economic pillar relates in particular to the financial side and is made up by the aspects that have a direct or indirect impact on the economic performance of the organization. This pillar may also include financial participation of the company in socially beneficial projects or educational activities, for example support for sporting events or support for training courses and education. Indisputable part of the Economic pillar is the relationships with key stakeholders – investors, suppliers, customers and community. Such aspects as the ethics code and its observance, rejection of corruption or transparency make a vital contribution to the Social pillar of CSR, which is also focused on philanthropic activities and employee relations. Human rights, labor rights and equal opportunities for men and women, younger and older workers and stakeholders are the important aspects of the typical socio-economic problem of global economic growth and overall demographic development. Environmental pillar is by definition already associated with the environment and its influence, the pollution for example. This pillar is focused on organic production, products and services, and environmental corporate culture.

Implementation of the CSR concept has recently demanded attention not only because of its systematic view of the business in relation to social and environmental issues as a framework for *triple bottom line*, but also in terms of economic benefit. While the basic principle that CSR is long-term in implementation remains, so there shouldn't be expected immediate results from the implementation of CSR activities and principles.

The most famous critique addressed to the CSR concept belongs to the significant representative of neoclassical economics Milton Friedman and his article from 1970 with the self-explaining headline (*The Social Responsibility of Business is to Increase Its Profits*). According to Friedman (1970), the company by investing (increasing costs) to socially responsible behavior turns away from its primary objective of increasing the profit. Also as per Friedman, the satisfaction of the interested parties should not be in a higher position than the basic economic objectives of the company. By the actual increase of its profit the company influences the external environment, and due to this all stakeholders have the profit (Soana, 2011).

1. Corporate Social Responsibility in Banking

The financial crisis has focused public attention on the financial industry (San-Jose, Retolaza and Gutierrez-Goria Goire, 2011; Tea, Paulišič and Krstinič-Nižič, 2011), because the failure of commercial banks has been transformed to the real economy and around the world the quality of hundreds of millions people's lives has been decreased due to a higher unemployment as a result of reduced global consumption. In this process, the moral failure of participants in the financial system (Graafland and Van de Ven, 2011; Fassin and Gosselin,

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2011) and mostly the total lack of decency in the relation to customers and society (Chatterjee and Lefcovitch, 2009) were the most important factors.

Commercial banks are the key players in the financial markets and they play an important role in the economy of each country (Khan and Fasih, 2014). Credibility plays the crucial role in the banking sector. Trust is the main asset of commercial banks and is also the main source of their reputation (Fassin and Gosselin, 2011). The banks that are responsible for the financial crisis (Chatterjee and Lefcovitch, 2009; Soana, 2011), among other things try to rectify their tarnished reputation and trust by introducing of socially responsible principles within the CSR concept into their business. Chatterjee and Lefcovitch (2009) report that from the banks' point of view as strongly profit-oriented organizations responsible for congenital maximizing of profits implementation of CSR is very difficult. Yeung (2011) argues that currently the balance between the management of the financial and non-financial results with application of the risk-awareness while maintaining the transparency represents an important aspect of the activities of the management.

Ethical standards are especially important in financial business because the banks while doing business with the other people's money take the risk that their activities may bring not only the profit, but also the loss (Chatterjee and Lefcovitch, 2009). Birindelli *et al.* (2013) report that CSR can change the economic policy of the bank in the field of providing loans and the asset management. Risk management of the banks thus indirectly affects society and environment as well. According to the authors, CSR significantly contributes to the improvement of relations with stakeholders and as a result affects the performance and reputation (Birindelli *et al.*, 2013). Soana (2011) additionally assigns the CSR a role of the insurance of the good reputation before other unpredictable events with disastrous effects.

Social pressure on the implementation of this concept into the banks' policies and relatively high related investment in CSR, however, cast doubts as to whether these activities are not the subject of short-term benefits only (Pérez and Del Bosque, 2012). Skeptical public often criticizes the banks for the only temporary improvements to the reputation and increase of profits. It is not so easy to convince the public that the banks always want only the best for their clients, and their strategy is not based on inadequate profitability of their businesses.

Yeung (2011) defines the key elements of CSR in the banking sector: understanding the complexity of financial services, risk management, strengthen ethics in the banking business, the implementation of strategies for the financial crisis, protection of the rights of customers and a channel setting for customer complaints. According to Graafland and Van de Ven (2011) the emphasis on the social responsibility of banks requires increased professionalism of those working in the financial sector, a stronger focus on the observance of ethical codes, verifying workers' abilities and other approaches, such as transparency, the orientation of the interests of stakeholders, cooperation with the societal institutions.

For example, according to Sigurthorsson (2012) Icelandic banks implemented their concept of social responsibility by supporting charitable events, while paying no attention to the formation of socially responsible practices and reduced the CSR tool to the level for communicating with the public. In this context, the socially responsible practices should be more focused on the processes that lead to the formation of socially responsible profit and not to the socially responsible distribution of profits.

According to Pérez and Del Bosque (2012) the banks within their CSR strategy are mainly focusing on the stakeholders who bring them the greatest benefit – their clients and employees. The CSR activities in commercial banks should lead to increase in customer satisfaction, which forms an important part of the Social pillar and in a certain degree of simplification, it could be stated that customer satisfaction and credibility are major determinants of successful banking business model. Customer satisfaction is the primary criterion for the evaluation of banks in relation to the financial market (Munari *et al.*, 2012).

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The concept of CSR and activities related with it should lead to an increased satisfaction of clients with their banks. As may be seen for example from the study of McDonald and Rundle-Thiele (2007) direct correlation between customer satisfaction and the application of CSR activities is not so straightforward; clients are more responsive to the benefits that are directly associated with their products.

The confrontation between the CSR policies and current reality raises the question why a strong guidance of CSR and ethical principles have not helped to assess the level of risk (Fassin and Gosselin, 2011) and did not prevent such an extensive financial crisis, which has negatively affected millions of people worldwide.

Watkins (2011) argues that the banking is a typical capitalist activity aimed at profit. Policy of laissez-faire believes that the individuals and the companies may seek to increase their financial fortune without any limitations. Financial market presents unlimited opportunities for the fortune growth. These factors operate more intensively if profitable opportunities grow in the economy. For example, Goldman Sachs is also involved in ethically problematic activities that generate enormously high profit. According to Chatterjee and Lefcovitch (2009), the banks are predominantly oriented to maximize profits and totally ruthless in their operations against depositors, investors and general public interests. The banks violate the law, regulatory rules and ethical codes in an attempt to maximize their own profit. According to Fassin and Gosselin (2011, p. 187) the more the bankers talked about social responsibility, the more they focused on the increasing of shareholders value, their own personal bonuses and after the financial crisis broke out on the size of their “golden parachutes”.

Generally either exact or index and benchmarking methods can be used for the CSR evaluation. Exact methods are usually developed by the specialized companies and initiatives, such as G4 Guidelines initiative, Global Reporting Initiative (GRI), SA 8000 (Social Accountability), OECD Guidelines for Multinational Enterprises, London Benchmarking Group (LBG) or ISO 26000. Soana (2011) presents the methods that can quantify social performance: (1) content analysis of documents with information about CSR activities; (2) survey study for the management; (3) measuring of reputation emitted by specialized agencies; (4) measurement of individual indicators focused on specific CSR activity, and (5) ethical ratings, including comprehensive measurement of CSR indicators. To measure CSR by using index and benchmarking methods the analysis of the annual reports and information gathered from the surveys can be applied.

There are quite a few authors engaged in the measuring of socially responsible behavior in the banking environment in the Czech Republic and abroad. Globally, this topic is explored by Scholtens (2009), which analyses publicly available sources and measures the degree of social responsibility in the banking sector around the world. He evaluates voluntarily oriented pillars of CSR – Social and Environmental – on the base of four factors: ethics codes and CSR reports, environmental management, responsibility of financial products and social conduct. The absence of the evaluation of the Economic pillar leads to the polemic about the usefulness of the measurement because of the increased interest of banks just to the economic side of the CSR. The deficiency of this study also lies in the marginal analysis of the surveyed areas, where the author focuses only on their existence and no longer on results and evidence. For example, the author assesses whether the bank offers financing for the environmentally friendly projects, but does not evaluate how many of such products are intermediated, or how high quality or competitive these projects are. The study has also confirmed the hypothesis of a positive impact of the CSR on the financial performance. The above-mentioned shortcomings are however reducing the quality of the model due to the unbalanced assigning of the values to factors and criteria.

2. CSR and financial performance of the bank

The aim of the ethical principles in the banking business should be the achievement of adequate performance with regard to responsible social and environmental objectives. The question remains whether socially responsible behavior and activities within the CSR give banks the desired economic benefits or these activities are subject only to short-term benefits in order to strengthen their reputation. An increasing banks' attention towards CSR thus leads to the question of exploring these relationships as well as added value for banks.

Loureiro *et al.* (2012) argues that the concept of CSR contributes to better financial performance by reducing costs directly and indirectly, by raising productivity and increasing customer satisfaction. Chatterjee and Lefcovitch (2009) even conclude that as a result of the latest rise in socially responsible tendencies the social performance (CSP) becomes almost equally important as financial performance. Several authors devoted their studies to the relationship between CSR and financial performance of the commercial banks. Scholtens (2009) confirms the hypothesis about the positive impact of CSR on financial performance of the banks in his study.

Ahmed *et al.* (2012) has pragmatically focused on this issue and explored the relationship between social and financial performance of the banks. Based on the questionnaire the authors firstly divided the banks in terms of CSR performance on socially active and socially neutral. Both groups were then measured up within the financial market and financial performance indicators (ROA, ROE, EPS and P / E ratio). It turned out that the banks with the higher level of social performance showed better economic performance than those with neutral level of CSR in relation to given indicators. The authors, however, also believed that the relationship between social and financial performance cannot be seen only as a negative or positive, but variable with respect to other factors affecting the industry or the size and the nature of business. The outspoken criticism of this model can be expressed in particular towards the cluttering measurement of CSR, which was obtained on the basis of a questionnaire, while the authors do not say who exactly was questioned. From the wording of the questions, however, it is obvious that the data and the information were obtained from the internal sources of the banks. The authors do not also mention why exactly they have used the above financial indicators and what was their direct or indirect relationship to social responsibility. Taking into consideration this critical argumentation it could be concluded that the model is not publicly accessible in the sense that the authors made their conclusions by working out through questionnaires obtained from the internal environment of the bank and furthermore this model cannot be applied to the environment of the Czech commercial banking, because within the survey on relationship between CSR and the financial market indicators it is assumed that commercial banks are publically tradable on the stock exchange.

3. Objectives and Methodology

The main objective of this paper is to create the own CRM measuring model for commercial banking and apply it on a sample of four largest Czech banks by the number of customers. The output of the application of our model is the quantitative evaluation of the application of CSR principles and the assignment of the CSR Index to each monitored bank. The other objective is to analyze the relationship of the implementation of CSR and financial performance of the monitored banks. Correlation analysis of the selected financial indicators and CSR index created in the previous application of this model were used in order to achieve our goals.

CSR evaluation model is based on index and benchmarking concept of the measurement of CSR activities. Through the specialized content analysis of publicly available

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sources (annual reports, CSR reports, websites) the model seeks to objectively evaluate CSR of individual banks. The structure of the model consists of three pillars of CSR (Economy, Environment and Social Responsibility), which are divided into seven areas with a total of 18 criteria. Individual areas are assigned with the appropriate volumes. Criteria operate with a point scale from 0 to 5 points, while the character of the individual criteria changes the distribution of the points from more choices of the achieved result (eg. the criterion of the client satisfaction with possible rating of 5, 4, 3, 2, 1 or 0 points) to the limited possibilities of the achieved result (eg. the criterion of the Code of Ethics with the only possible rating of 5, 1 or 0 points). In order to obtain the required data for the model for measuring of CSR within the pivotal criterion of customer satisfaction in the period from December 2014 to February 2015 in the Czech Republic there the survey was conducted. A monitored sample was represented by a total of 1,086 clients of commercial banks in the Czech Republic.

The most important in the defined model was to determine its variables that concurrently support the bank's growth in the economic area and also bring positive effects on social and environmental level. Basic pillars and areas were assigned with the corresponding values.

In order to achieve the higher information value of the model the single pillars and areas were assigned with the adequate values on the basis of expert estimation. The main pillars – Economy and Social Responsibility – occupy 45% of the weight of the model, while remaining 10% belong to the Environmental pillar. Each area was assigned with the weight of the total of 100%, according to the following scale: EK1 – The economic effects on the community 20%, EK2 – Products 20%, EK3 – CSR management 5%, SO1 – Staff 15%, SO2 – Clients 15%, SO3 – Social policy 15% and EN1 – Environmental policy 10%. These weights of the single areas further represent the content of the newly created formula of the CSR model:

$$CSR\ Index = EK1 * 0,2 + EK2 * 0,2 + EK3 * 0,05 + SO1 * 0,15 + SO2 * 0,15 + SO3 * 0,15 + EN1 * 0,1$$

Selection of the sample of evaluated banks is based on the criteria of the number of clients. The largest number of clients in the Czech Republic (approximately 5 million) has Ceska Sporitelna (CS). This bank is a member of the Austrian Erste Group operating in Central Europe. In terms of social responsibility CS has many functioning projects headed by its own Ceska Sporitelna Foundation. Second place among the evaluated banks belongs to CSOB bank, a member of the Belgian financial group KBC, which provides its services to three million clients. CSOB is outstanding in the CSR activities and their reporting according to GRI methodology in comparison to the other Czech banks. The third place is occupied by Komerční banka (KB) owned by the French group Societe Generale, and also belongs to leading banking institutions in the Czech Republic with approximately 1.5 million of clients. Its CSR strategy is developed primarily through its Jistota Foundation. The last evaluated banks is GE Money Bank with 1 million clients, which poses in particular the values of international GE concern.

4. Results

4.1. The Economy

The first pillar of CSR focuses on the economic aspects of the company. In a broader sense the Economic pillar includes also the economic results. The model focuses on a narrower approach that addresses multiple economic impacts of the company activities on its

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surroundings. These include economic effects on the community or the cost of products and services, compared with the competition and the market. Additional area is CSR management, which has a lower weight, but nevertheless is involved very much in the communication of CSR strategy.

The first area called Economic impacts on the community (results shown in *Table 1*) as the very first encounters the contradiction between the objective and subjective views on ratings, because it is difficult to express the economic impact of investment on public welfare, or the development of education in terms of the amount of expended funds, or the amount of savings, or increase in benefit of society using the content analysis. All the monitored banks are financially involved in some way and contribute to the public welfare and education through their social responsibility programs. The reason for the same spot assessment of the banks in the first criterion is in particular the absence of universal reference tool that would clearly determine the boundaries between the respective results of the individual banks. It is worth mentioning that the decision of Ceska Sporitelna bank on the use of expiring anonymous savings books with a value of 1.45 billion CZK has led to the creation of a foundation Depositum Bonum that promotes science and research. In the long term time horizon CSOB bank is involved in the project of Education Endowment Fund, which since 2010 has helped the total of 41 projects focusing on financial literacy with the amount of more than CZK 4 million. Komerčni banka addressed the issue of the programs and their impact on public welfare and education only in general terms. This bank supports sport promoting programs and cooperates with the Debt Counselling Centre as well as Ceska Sporitelna and CSOB. Understand Money Project aimed at the developing of financial literacy among primary school pupils and the general public can be mentioned in relation to the GE Money Bank.

Table 1. The individual criteria in the Economy pillar

		ČS	ČSOB	KB	GE
EK1 – economic impacts on the community	Impact of investments on public welfare	3	3	3	1
	Influence on the educational growth and education system	3	3	3	1
EK2 – Products	The adequacy of the price	3	3	3	3
	Socially responsible products	1	1	0	1
EK3 – CSR management	Documents and records on CSR	5	5	3	3
	Setting of goals and CSR strategy	3	5	1	1

Source: Own processing.

Products area and in particular the criterion of reasonableness of prices assumes a very broad analytical scope (APR comparison, interest or fees). At the same time the analysis of the prices of traditional financial products of the banks (current account, savings account, loan or mortgage) and their comparison with the average market prices is currently exposed to the constant changes and cannot be simply determined whether in a long-term perspective the bank sells its products at significantly lower prices than the average market price. For example, large banks cannot compete with the low-cost banks in the amount of fees for account management and payments associated with it, and vice versa they can afford to lower interest rates for mortgage loans. For the purposes of the model of measurement of CSR the banks were assigned the average market prices of the products, particularly due to their universality. The criterion of reasonableness of the prices should be one of the main points of improvement of the model for the purpose of correct point evaluation and resolution of banks.

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The provision of socially responsible products is the second criterion in this area. Unfortunately this field is still not strongly represented in the Czech banking sector, but the situation should change in the close future because of the fact that provision of socially responsible products is the upcoming trend in the western countries. The results in terms of the volume of provided socially responsible products and an outcome of investing in socially responsible companies, associated with known indices FTSE4Good Index and the Dow Jones Sustainability Index, are the important aspect of this criterion.

The most important element of the CSR management is CSR reporting, in other words, documents and records related to the CSR activities in the company. The company has the right to present its activities to the public in a reasonable and an adequate way, and CSR reporting or other documents along with the publishing of there information online on the websites or using online campaigns can be used for this purpose. CSR reporting is substantially widespread in the field of commercial banking. However in the Czech Republic CSR reporting currently belongs to the biggest shortcomings of the commercial banks. Reporting is closely related to the evaluation and measurement of CSR activities, and therefore it is necessary and indispensable within the comprehensive approach to the CSR concept. Reduced point evaluation for Ceska Sporitelna primarily reflects the abandonment of CSR reporting using the regular CSR report since 2013. Ceska Sporitelna though provides only the brief overview of the CSR activities. CSOB is the only monitored bank that has committed itself to provide CSR reports in accordance with the requirements of the Global Reporting Initiative (GRI) since 2013. GRI guarantees the quality and fulfillment of the appropriate requirements for creation of correct CSR reports. Low ratings of the other banks are primarily caused by the absence of the aforementioned CSR report. Banks do refer about the social responsibility only in their annual reports and on the Internet without adequately defined objectives and strategies for CSR.

4.2. Social Responsibility

The second pillar called Social Responsibility divided the total of 10 criteria into 3 areas, which were then assigned with the same weights by the model.

The first area called Employees focuses on the satisfaction, the rate of fluctuation and the potential for education and development of the employees. Taking care about the employees and about their satisfaction is in the modern CSR concept perceived as a key determinant of customer satisfaction, accompanied by a sustainable increase in earnings.

The achievement of the high degree of banks customer satisfaction represents an important field for their management. Customer satisfaction is a complex of various aspects, which operate in a coherent manner and form the customers attitudes to the bank. The economic factors as well as emotional attitudes and habits of consumers act in the process of the formation of the customer satisfaction (Belás and Demjan, 2014).

According to Belás, Cipovová, and Demjan (2014) the complexity of the problem with the customer satisfaction along with the creation of the objective measurable parameters such as interest rates, fees, and with the complex of subjective feelings and sensations (for example the feeling to be appreciated in the bank, a feeling of the personnel approach to the customer's needs, perception of the banking environment, etc.), which are hardly measurable, unpredictable, but very important, makes the process of customer satisfaction management extremely difficult for the management of commercial banks.

Considering the importance of the customer satisfaction and its relationship to financial performance we can state that customer satisfaction and strongly related employee satisfaction are the most important aspects of the social pillar of CSR. The banks argue that they regularly measure customer satisfaction and staff turnover; but they do not announce

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their results. For this reason, the value of the criteria of employee satisfaction and employee turnover rate is a zero. Banks provide training and development programs within the employees care. The details of these programs are typically described in the internal materials and the public has no information about them. The quality of their description is one of the reason for the differences in the scoring of these programs.

Client satisfaction is not just a matter of those employees who come into direct contact with the customers, but an issue for all bank employees (Munari *et al.*, 2012). The ongoing changes in the financial industry fundamentally change its environment; the long-term success is closely linked to the bank's critical ability to adapt to changing client needs and preferences (Grigoroudis *et al.*, 2012). In this context we can state that customer satisfaction belongs among the key factors in the bank's financial performance and among the most important aspects of the CSR model in commercial banking. Content analysis of publicly available sources, even in case of the satisfied bank customers could not determine an exact expression. The banks again report that they do measure client satisfaction, but do not disclose the results. That is why we have decided to conduct our own research based on the survey of employee satisfaction and their perception of socially responsible principles in the banks. For the needs of the model we measured an overall client satisfaction of the monitored banks with the following results: Ceska Sporitelna – 74.7% of the clients were satisfied (233 respondents); CSOB – 88.8% of the clients were satisfied (160 respondents); Komerční banka – 82.8% of the clients were satisfied (151 respondents) and GE Money Bank – 87.4% of the clients were satisfied (103 respondents). The point value was assigned to each bank using the given key. Only two options were given for the clients in our survey – namely satisfaction and dissatisfaction. That is probably the reason why our results are slightly different from the research of Belas and Gabčová (2014) who founded out that the average rate of satisfaction of bank customers in the Czech Republic in 2014 was 66%.

The last area called the Social Policy includes 5 criteria in total: ethics code, social audit, equality of opportunities and human rights, anti-corruption policy and philanthropic activities.

Ethics code is one of the key documents related to the Social Responsibility of the bank. Ethics code in its essence commits employees to behave responsibly towards the clients. So called social audits, which are as well as financial audits, auditing the declared results, actions or processes related to social responsibility in the company, tend to be the modern part of the CSR in large companies. The trend of social audits is currently still beyond the borders of the Czech companies, only the most advanced companies apply them.

The area of Social Policy is always accompanied by the voluntary commitment. Ethics code is applied by all of the monitored banks; only the GE Money Bank does not disclose its internal ethics code and refers only to the publicly available Ethics code of the Czech Banking Association. The monitoring of the compliance with the Ethics code is quite difficult from the perspective of an external evaluation. Since the ethical behavior of banks employees is one of the most important elements of their credibility, we can accept the premise that the banks should ensure it. Therefore all banks with publically available Ethics code got 5 points in the evaluation. The principles of equal opportunities in the workplace have recently become a very hot topic. The banks have verbally committed to a responsible approach to this issue and indicate that the proportion of women working in the banks reaches the values of 60 to 70% of employees. The question is how big is the share of women on the senior management positions in the banks. All banks address the issue of the equal opportunities through the specific programs – Diversitas and Female Manager for Ethics (Ceska Sporitelna), Goldfish and The program for moms and dads (CSOB) or Banking on Women and the Life of Ideas (GE Money Bank).

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The criterion relating to anti-corruption policies and procedures in two cases (ČSOB bank, KB bank) is supported by documents detailing basic principles and rules for fighting corruption. CSOB has committed in compliance with the EU legislation since 2013 to apply the Antitrust Policy, for example zero tolerance to negotiating of the pricing and other anti-competitive agreements. Komerční Banka uses its own document for these purposes called Anti-corruption policy of KB. The document verbally expresses the banks commitment to preventing money laundering and financing terrorism. Other banks have expressed similar commitment to this subject.

The philanthropic activities of the selected banks were evaluated in the last criterion. The concept of social responsibility is often confused with corporate philanthropy, which focuses primarily on the donors and charitable activities without expectation of any return. Corporate foundations (Ceska Sporitelna, KB bank), corporate volunteering (all monitored banks) and cooperation with non-profit organizations that receive finances or other type of support from all of the monitored commercial banks seems to be the popular form of corporate donations. It is worth to mention Ceska Sporitelna Grant program offering assistance to non-profit organizations, in which its employees and clients are engaged. CSOB supports volunteering activities by their program called „Helping together” and also had created two specific portals in order to promote individual philanthropy in 2013. Komerční banka is focusing on sponsorship of sports as a part of their philanthropic activities. An award-winning project „Volunteers“, which involves employees and their family members in different volunteer events at the GE Money Bank is worth to be mentioned.

Table 2. The value of individual criteria in the pillar of Social Responsibility

	ČS	ČSOB	KB	GE	
SO1 – Employees	Employee Satisfaction	0	0	0	
	Turnover Rate	0	0	0	
	Training and Development	3	1	3	1
SO2 – Customers	Customer Satisfaction	3	4	4	4
	Claims and Complaints	3	3	1	1
	Ethics Code	5	5	5	1
SO3 – Social policy	Social Audit	1	1	1	1
	Equal Opportunities and Human Rights	1	1	1	1
	Anti-corruption Policies and Procedures	1	5	5	1
	Philanthropic Activities	5	5	5	3

Source: Own processing.

4.3. The Environment

The third pillar called Environment focuses on environmental field of business (the level of funding of environmentally focused projects and the level of commitment to environmental policy). In other words, it is about friendly and sustainable approach to the environment. The core activities of the banking institutions are not directly related to irresponsible treatment of the environment, as for example is the case with the oil companies, however, through the funding of these companies the banking sector gets big influence on the environmental issues. Environment pillar carries the lowest, but not negligible weight in this CSR evaluation model just because of indirect impacts of the banks on environment.

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The last pillar of the CSR includes only one area that is focused on environmental policy, with two criteria. The level of financing of environmentally oriented projects is the main instrument of environmental policy of commercial bank in terms of indirect influence on the environment. The banks can commit to the promotion and funding of the environmental projects and at the same time reject those projects that may indeed be profitable, but very environmentally unfriendly. Ceska Spořitelna promotes environmentally oriented projects through its Energy Team, whose members assist potential investors with the preparation and implementation of the projects in the field of energy savings and energy production from renewable sources. CSOB bank professes to the respect of the international framework called Equator Principles, ie. within its credit policy it does not finance companies that do not comply with the legislation related to the environment. The second criterion of commitment to environmental policy is aimed directly at the activities of the banks and may, for example, evaluate the consumption of paper or water, or in connection with renewable energy sources to assess the share of consumption of so called green energy. Due to reporting using the GRI methodology ČSOB has detailed data on energy consumption, waste generation, water consumption and the production of indirect emissions. Komerční Banka declares that it is committed to use of so called green energy, by which it expresses support for renewable energy and environmental responsibility. The bank states that it monitors the consumption of energy, water and emissions, but this does not complete adequate data like the other banks. The reason for a pretty low point assessment of all banks in environmental issues is the lack of a universal measuring instrument that would be able to compare all banks based on a given criteria.

Table 3. The evaluated criteria in individual areas of the Environment pillar

		ČS	ČSOB	KB	GE
EN1 – Environmental policy	The level of financing of environmentally oriented projects	3	1	1	1
	The level of commitment to environmental policy	3	3	3	1

Source: Own processing.

The summary of the results is presented in *Table 4*, where the values of point criteria are averaged and grouped into different areas. CSOB bank reached the highest value of the CSR Index with 2.54 points; the lowest result was presented by GE Money Bank with the value of 1.44. Ceska Sporitelna Bank lagged behind the first CSOB bank by only a few hundredths (2.49) and Komerční Banka has reached the value of 2.24. Based on the results it could be concluded that commercial banks in the Czech Republic apply the socially responsible principles on the average level between 1.44 to 2.54 points on a scale from 0 to 5 points.

Table 4. The results in the area of individual pillars and calculation of the CSR Index

		ČS	ČSOB	KB	GE
EK – Economy	EK1 – Economic Effects on Community	3,00	3,00	3,00	1,00
	EK2 – Products	2,00	2,00	1,50	2,00
	EK3 – CSR management	4,00	5,00	2,00	2,00
SO – Social responsibility	SO1 – Employees	1,00	0,33	1,00	0,33
	SO2 – Clients	3,00	3,50	2,50	2,50
	SO3 – Social Policy	2,60	3,40	3,40	1,40
EN – Environment	EN1 – Environmental Policy	3,00	2,00	2,00	1,00
CSR Index		2,49	2,54	2,24	1,44

Source: Own processing.

4.4. The relationship between the CSR and financial performance

The starting point for measurement of the financial performance is a selection of a sufficient number of adequate financial indicators that would allow comparing the banks of different sizes in a universal way. In terms of data availability the chosen financial parameters must also be selected as publicly available, for example in the annual reports of the banks. On the basis of expert consultations the following financial ratios were chosen:

- Return on assets (ROA) – calculation using EBIT (profit before interest and taxes) / asset value,
- Return on equity (ROE) – calculation using EAT (net profit) / net asset value,
- Net profit per employee – calculation using the net profit / number of employees,
- The interest margin – the calculation using the difference in interest rates on loans and deposits,
- Capital adequacy.

The profitability indicators of ROA and ROE rank among the classical and the most widely used financial indicators evaluating the economic situation of the company in terms of profitability. Profitability means the ability of the company to make a profit by using the invested capital. The indicator of the net profit per employee completes profitability ratios in terms of profitability and by its form it represents the parameter with the ability to compare economic entities of various sizes. The interest margin is a specific marker required for matching purposes of commercial banks and represents the difference between interest rates on loans granted and interest rates on deposits received. To some extent, this parameter is derived from the price of money in the interbank market, which is mainly influenced by the monetary policy of the central bank. Level of the interest margin determines the bank's ability to effectively distribute and redistribute funds from their depositors (lenders) to credit customers (borrowers). The last parameter is a capital adequacy ratio, which is an important factor for the banks in cases of financial problems in the economy. The capital adequacy expresses a bank's ability to use its own and supplementary resources in relation to the risk asset structure, selected off-balance sheet assets and the market risks. The minimum value of indicator (capital requirement) by regulations and measures of the ČNB makes 8%.

Analysis of the relationship between CSR and the financial performance is accompanied by complications in terms of static indicators of CSR Index and the moving financial indicators in different years. With a certain degree of simplification in fact it is possible to say that the implementation of CSR strategies during these years (2010-2013) does not change, or there are partially changing only CSR activities and therefore CSR Index may

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be considered as a static variable. In contrast, the financial indicators change year to year and therefore it is very difficult to assign a degree of implementation of CSR and the financial performance in each year. For this reason, the financial ratios have been adjusted by the arithmetic average on the average variable of the monitored years. The CSR Index and the averaged financial indicators of individual banks were processed by the statistical program called SPSS in order to perform the correlation analysis (*Table 5*).

For conclusions of the correlation analysis it is assumed that there is a positive relationship between the CSR index and the financial indicators determining the financial performance of the bank. For measuring of the dependence of each variable in the analysis Pearson's correlation coefficient was used, which ranges from -1 (full indirect dependency) to 1 (complete direct dependence) and determines the linear dependence of two variables at a given level of significance.

Table 5. The correlation analysis of the relationship between the CSR Index and the financial indicators

		CSR Index	ROA	ROE	Profit/1Member of Staff	Interest margin	Capital adequacy
CSR Index	PCR	1	-0.990**	0.818	0.738	0.523	-0.969*
	Sig. (2tailed)	4	0.010	0.182	0.262	0.649	0.031
	N	4	4	4	4	3	4
ROA	PCR	-0.990**	1	-0.755	-0.758	-0.057	0.991**
	Sig. (2-tailed)	0.010	4	0.245	0.242	0.963	0.009
	N	4	4	4	4	3	4
ROE	PCR	0.818	-0.755	1	0.803	0.342	-0.664
	Sig. (2-tailed)	0.182	0.245	4	0.197	0.777	0.336
	N	4	4	4	4	3	4
Profit/1 Member of staff	PCR	0.738	-0.758	0.803	1	-0.488	-0.698
	Sig. (2-tailed)	0.262	0.242	0.197	4	0.676	0.302
	N	4	4	4	4	3	4
Interest margin	PCR	0.523	-0.057	0.342	-0.488	1	0.636
	Sig. (2-tailed)	0.649	0.963	0.777	0.676	3	0.561
	N	3	3	3	3	3	3
Capital adequacy	PCR	-0.969*	0.991**	-0.664	-0.698	0.636	1
	Sig. (2-tailed)	0.031	0.009	0.336	0.302	0.561	4
	N	4	4	4	4	3	4

PCR – Pearson Correlation, * Correlation is significant at the 0.05 level (2-tailed), ** Correlation is significant at the 0.01 level (2-tailed).

Source: Own processing.

The results show that the implementation of CSR strategy has a statistically significant positive impact on the financial performance of the bank. Conversely a significant negative correlation was found in two financial indicators (ROA and the capital adequacy). Other monitored variables have positive, but not statistically significant dependences between themselves.

5. Discussion

CSR activities of 4 selected banks in the Czech Republic were evaluated by the means of the model for CSR measuring involving a total of 7 areas and 18 criteria. The appropriate weights were assigned to the individual areas in order to balance the model and make it work.

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The pillars called the Economy and Social Responsibility both occupy full 45% of the model. The remaining 10% is accompanied by a Environment pillar, which does not seem to be a priority in the context of CSR in commercial banking and has only one area of assessment.

In Economy pillar the model measures economic impacts on the community, area of products and set up of the CSR management at the bank. Ceska Sporitelna and ČSOB in this pillar have reached the results above average. These banks can be considered as leaders in a number of socially responsible activities in the field of commercial banking in the Czech Republic. It is necessary to mention the limitations of the evaluation model in the criteria of the impact of investment on public welfare and the development of education, the lack of the universal assessment tool that on the basis of relevant parameters would objectively rate the economic influences of the banks on community is significant. In the criterion of the proportionality of the prices of the products the model also does not evaluate the monitored banks on the basis of exact evaluation. In terms of complexity and wide scope of these criteria the evaluation is accompanied by a considerable degree of inaccuracy. CSR measurement results were therefore adjusted in order to avoid large differences and to evaluate the banks with an average ranking in the selected criteria.

Social responsibility pillar has the largest number of evaluated criteria (10), and as already mentioned the model takes the same percentage as Economy pillar. Given the general commitment to stakeholders, the most important aspects of Social pillar are satisfaction of customers and employees. This is confirmed by their direct relationship with the financial performance of the bank. However, based on publicly available information, it was not possible to determine satisfaction of employees of commercial banks in the Czech Republic. The banks internally guard such data in the same way as information on degree of employee turnover. Only one criterion relating to career development opportunities and training of staff was classified in the area of staff. The banks also do not publish these data according to the wishes of the evaluation model.

Due to the need for customer satisfaction data the banks realize their own research of client satisfaction. We have used an indication of overall customer satisfaction for the needs of the model. CSOB (88.8%) and Komerčni Banka (87.4%) indicated the highest level of satisfaction. Ceska Spořitelna (74.7%) achieved the weakest result within monitored group. The last area related to the social policy was evaluated according to such criteria as the ethics code, equality and philanthropic activities. CSOB and Komerčni Banka appeared to be the most successfully according to this criterion. We can state that all monitored banks lagged behind in the criterion of social audit. While this audit is not officially required in the Czech Republic, it is popular and works very well in most advanced economies as an expanded concept of CSR.

CSOB showed the highest value of the CSR index with the value of 2.54 points; the smallest value was identified for the GE Money Bank with a value of 1.44. Ceska Sporitelna placed tightly behind CSOB with the value of 2.49, and Komerčni Banka has reached the value of 2.24. We can state that commercial banks in the Czech Republic apply the socially responsible principles on the average level between 1.44 to 2.54 points on a scale from 0 to 5 points. These given values were then the subject to the correlation analysis together with the selected financial indicators of the individual banks. The model assumes that the dependency between the CSR index and the financial indicators exists, and that the dependence is presented in the whole banking sector on the basis of the data from the monitored sample of banks. Therefore it is obvious that the analysis does not take into account the individual dependence between CSR and the financial performance of individual banks. For example, if behind the increased financial performance of the certain bank there is a successful CSR strategy; correlation analysis falls short on this finding because it assumes a positive dependence of these variables in all monitored banks. Furthermore, it should also be noted

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that despite logical consideration that the positive dependence of the given values exists, the relationship may be influenced by several factors, such as macroeconomic development, the financial transactions associated with the financial results, customer satisfaction, consumer preferences, the credibility of the banking sector and many others. We were unable to find any positive relationship between CSR and the financial performance according to the averaged values of financial indicators for a period from 2010 to 2013 and our own CTR index.

The main prerequisite for applying of our own model for CSR measuring in commercial banking in practice is the increase of the quality of the evaluated areas and criteria. Application of our model helped to find many deficiencies mainly due to the imbalance between the objective and subjective evaluation of CSR activities. The aim of the high quality criteria is to achieve maximum objectivity by means of universal assessment scales, in which the subjective view will play a negligible role. Other factors that reduce the quality of criteria include: (1) insufficient number of information provided by the banks with respect to the evaluated criteria (eg. criterion of socially responsible products, training and development of employees or the level of funding environmentally focused projects); (2) the need for more extensive analysis (eg. the adequacy of the price criterion); (3) completely inaccessible information (eg. criterion of Employee satisfaction or employee turnover rate); (4) the total variety of certificates or the followed principles preventing widespread appreciation or control (eg. criterion of Anti-corruption policies and procedures).

Conclusion

The concepts of CSR and ethical behavior in business are not new, but they are now becoming particularly relevant because the crisis has significantly highlighted the need for the integration of moral principles in business (Burianová and Paulík, 2014).

Are CSR and business ethics a myth or a reality? The knowledge of the business practices shows that acceptance of moral principles in business is not integrated into the management decisions of firms, and it cannot be expected that those self-regulatory ethical business tools (such as CSR) would be effective (Belás, 2013).

Commercial banks are exposed to an increased supervision not only of the regulatory authorities but also of the public, and due to a very specific type of business the banks are rationally required a higher degree of social responsibility.

Based on the results of the application of our own model for the measuring of the CSR activities in commercial banks we can conclude that the Czech commercial banking shows only an average level of implementation of the CSR concept.

Commercial banks hold the principle to publish only positive information to the public. On one hand this form of communication is perfectly legitimate and understandable; on the other hand, there are some doubts due to a hidden or unfortunate negative news and information. One can say that the appropriate disclosure of both positive and negative information could bring a substantial contribution to greater transparency. This would also open the possibility to communicate subsequent improvements of negative state and increasing reputation. It should be also added that in this case the banks would gamble with their most important asset – their credibility.

Our research has some limitations, because the model of measurement of the CSR activities of commercial banks is very complicated. In our future research we will analyze and quantify additional important factors in the area of CSR and their influence on the financial performance of commercial banks.

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