Corporate social responsibility within the banking sector in Kuwait

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ABSTRACT
Corporate Social responsibility (CSR) has become a management field because of its influence on organisations. However, CSR practices in banks in Kuwait are not known and there is also no consensus on whether the financial crisis has resulted in reduction in CSR activities or not. This study, therefore, focuses on gaining a better understanding of how corporate social responsibility works in practice in the Kuwaiti banks using a qualitative approach in which data were collected through interviews. The study revealed that the financial crisis did not adversely influence CSR practices in banks in Kuwait. Several CSR activities being implemented by the banks in Kuwait were identified leading to a conceptualisation of a CSR framework. It is recommended that CSR should be integrated into every part of the bank and aligned with the vision and values of the bank. Furthermore, CSR budgets should not be compromised during crisis, but instead banks should be more strategic by focusing on the selection of projects, and using new tools for assessment to better measure project impacts.

Key Word: Corporate social responsibility, Kuwait, banks, financial crisis.

1. INTRODUCTION
Banks in Kuwait are not isolated institutions but have obligations to society that extend beyond mere profit-making and therefore should place corporate social responsibility (CSR) firmly on their business strategic agenda and demonstrate their commitment to economic, legal, ethical and social responsibilities. However, there is scant research on CSR as it pertains to Banks in Kuwait. CSR studies in Kuwait have tended to focus mainly on industries such as the Oil and Gas that are acknowledged as problematic in terms of environmental issues. The extensive literature on CSR has remained largely Western centred. This study, therefore, is aimed at obtaining a better understanding of how corporate social responsibility works in practice from the perspective of the decision makers of CSR in banks in Kuwait. The study will aid the understanding of the effect of global financial crisis on the way CSR has been implemented, which aspects are currently unknown.

2. BACKGROUND AND STUDY OBJECTIVES
The banking sector in Kuwait is composed of five conventional banks (National Bank of Kuwait, Gulf Bank, Commercial Bank, Burgan Bank, and Ahli Bank); ten foreign banks (BNP Paribas, Citi Bank, HSBC, Muscat Bank, Bank of Bahrain and Kuwait, Qatar National Bank, Mashreq Bank, Doha Bank, AlRajhi Bank, and National Bank of Abu Dhabi); and four Islamic banks (Kuwait Finance House, Boubyan Bank, Ahli United Bank, and Kuwait International Bank). These banks’ reputations were dented during the 2008 financial crisis, resulting in stakeholders losing their trust and confidence in the banks. As a result, stakeholders are demanding the banks in Kuwait to be socially responsible and to demonstrate their commitment to ethical and social responsibility practices. The Kuwaiti government intervenes excessively in the economy in general, and in the banking sector in particular, through administrative control, subsidised loans, equity injections and bail-outs (Limam, 2004).

Up until the financial crisis, CSR was considered trivial and as a result, little research had been conducted on CSR within the banking sector in Kuwait. It is therefore important to explore and understand the CSR approaches and practices by banks since then and also understand the influence of the financial crisis on the implementation of CSR in order to understand the characteristics of the CSR framework in the banking sector in Kuwait.
3. LITERATURE REVIEW ON CORPORATE SOCIAL RESPONSIBILITY

CSR is a cluster concept that overlaps with concepts such as corporate responsibility, corporate citizenship, corporate governance, corporate sustainability and business ethics (Matten and Moon, 2008). Moon et al. (2005) argue that CSR is an ’essentially contested concept’ because it is ’appraising’; ’internally complex’; and the rules of application are relatively ’open’. Aguilera et al. (2006) argue that CSR differs according to the region, nation, industry, and company. This makes the progress of developing a globally accepted and comprehensible definition and conceptualisation of corporate social responsibility even more challenging.

In this study, CSR is considered as ‘doing business that stands for transparency and stakeholder satisfaction, while fulfilling economic obligations and promising to integrate the social and environmental concerns in business operations, and by this means, creating shared value’.

Carroll’s (1979) important four-part definition of CSR suggests that there are four responsibilities that need to be fulfilled to have proper CSR. These four responsibilities are economic, legal, ethical, and philanthropic and at least two of these responsibilities have to be met for it to be considered CSR. Carroll (1979) illustrates the complexity and the categories of a broadly interpreted corporate responsibility in a pyramid, see Figure 1 below that shows how companies’ responsibilities increase over time.

Figure 1: Carolls’ (1979) depiction of Corporate Social Responsibility

According to Carroll (1979), the first two layers of the pyramid are required from all companies because they have to be profitable in order to stay in business and also have to obey laws and adhere to the country’s regulations. Whereas the fulfilment of ethical responsibility comes next, as society expects corporations to fulfil this responsibility, yet it is not a legal requirement of business. The final responsibility in the pyramid is the philanthropic responsibility, which is the highest level of responsibility that corporations strive for and it is the focus of CSR in the literature (Yotsumoto, 2010).

Philanthropic responsibilities are ‘expected’ or ‘desired’ by society, and involve corporations making monetary contributions to community development, community improvement programmes, youth development programmes and so forth. Employees of these corporations are also encouraged to participate in community
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programmes as volunteers. The third and fourth responsibilities in Carroll’s (1979) pyramid are not mandatory requirements, but are anticipated to meet society’s expectations. According to Aupperle (1982), Carroll’s (1979) pyramid has become a benchmark for defining the concept of CSR. Central to the amendment of Carroll’s (1979) pyramid is the argument that the pyramid structure suggests a hierarchy, similar to Maslow’s (1970) hierarchy of needs and that philanthropic activities are the most valued and the economic domain is the least, which could lead to the misunderstanding of the priorities of the four CSR domains.

At the company level, a number of factors affect the scope of CSR, such as internal conditions, strategic attributes, contingency attributes, stakeholder pressures and firm size (Brammer and Millington, 2002; Etzion, 2007; Henriques and Sadorsky, 1996). Thus, companies need to adapt their CSR strategies according to their business as well as these factors, since a ‘one CSR size does not fit all’ (Bhattacharya and Sen, 2004:10).

Friedman (1970) argues that CSR creates an agency problem because engagement in CSR may waste company’s resources. Friedman (1970) believes that the most beneficial way to help society is by making profit and hence, resources are best spent on value-added projects. Friedman’s (1970) view has been widely referred to as an illustration of the classic economic view that corporations only have one responsibility, which is to maximise profits. Friedman’s conceptualisation of CSR is further criticised because it implies that social investment is an unnecessary expenditure that has no positive benefit to the company.

A significant development of CSR was seen in 1980 when the global debate on sustainable development emerged. The World Conservation Strategy (1980) stressed the interdependence of conservation and development and was the first to conceptualise ‘sustainable development’ (Tilbury and Wortman, 2004). In 1987, the World Commission on Environment and Development (WCED) published the Brundtland Report, Our Common Future. The report states that ‘Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future’ (World Commission on Environment and Development, 1987).

The literature of the 1990s did not expand the definition of CSR. However, the concept of CSR was used as the base point, building block, or point-of-departure for other related concepts and themes, such as the corporate social performance (CSP) model, which was presented by Wood (1991) and was based on three dimensions: principles, processes, and policies as well as the Triple bottom-line theory by Elkington (1994), which suggests that the ‘bottom line’ of conducting business should be transformed into the ‘triple bottom line’ of people, profit, and planet, where all are of equal importance to management. Based on this theory, companies should be measured on their economic, environmental, and social performance (Elkington, 1994).

In the 2000s, corporations’ obligations to CSR became closely connected to their core business and stakeholders and more focus was placed on corporate citizenship, which describes the role of the corporation in administering citizenship rights for individuals (Matten and Crane, 2005). In actual fact, CSR is now regarded as an independent management field (Kakabadse et. al., 2005).

Garriga and Mele (2004) maps CSR theories and argues that CSR can fall under one of the four groups: (1) instrumental theories, in which the corporation is seen as an instrument for wealth development and that social activities are only a means to achieve economic results; (2) political theories, which concern themselves with the power of corporations in society and the use of this power in the political arena; (3) integrative theories-i.e. how businesses integrate social demands, arguing that businesses depend on society for their existence and growth. Hence, the theories of this group focus on the detection and scanning of, and response to, the social demands that achieve social legitimacy and social acceptance; and (4) ethical theories, which are based on ethical responsibilities of corporations to society and are based on principles that express the right thing to do, or the necessity to achieve a good society (Garriga and Mele, 2004). These theories focus on four main aspects: (1) meeting objectives that produce long-term profits, (2) using business power in a responsible way, (3) integrating social demands, and (4) contributing to a good society by doing what is ethically correct.
3.1 Global Financial Crisis and CSR

The global financial crisis weakened the Kuwaiti banks significantly. The banks have suffered from liquidity pressure and losses on account of higher provisions (Singh, 2010). Despite the positive signs of recovery, the banks have continued to clean up their loan books, but their performance is still affected by an undiversified operating environment which is heavily dependent on the oil sector (Singh, 2010), which has seen the price of oil continue to tumble. The global financial crisis has led to economic recessions in many countries around the world. Many countries introduced austerity measures and accordingly, companies started cutting their budgets, including the budgets for CSR, which has produced a challenging environment in which to operate. What makes this research even more significant is that little was found in the literature about the relationship between CSR survival and recession in any country and whether corporations tend to sweep CSR aside during that time or treat it as a necessity.

Many authors have highlighted that the CSR budget should be reduced during a crisis phase because businesses will have difficulties in finding resources for their social responsibility projects (Karaibrahimoglu, 2010; Özkan, 2009). As Özkan (2009; 2) stated: ‘the greatest social responsibility this year is to keep companies alive’ and stressed the importance of the survival of business in order to maintain profitability, which is in line with Carroll’s (1979) CSR pyramid and the economic dimension of the pyramid. Furthermore, Karaibrahimoglu (2010) indicated in her research of the top 100 companies chosen from the 500 list, that there was a significant reduction in the number and size of CSR projects during the financial crisis. However, other authors (Yelkikalan and Kose’s, 2012) had different views perceiving the crisis as an opportunity for CSR. Hence, this is an area that is still lacking enough research and in-depth conclusive studies.

In conclusion, the remit of CSR has evolved over the years and today it is underpinned by a great proliferation of theories, leading to a variety of approaches and terminologies, as presented and discussed using the classification of Garriga and Mele (2004). The literature review suggests that the definition and implementation of CSR is country specific, with local context playing a unique role in how it is shaped in organizations.

4. DATA COLLECTION AND ANALYSIS

An exploratory research was deemed appropriate in view of the little prior knowledge to the problem. Interviews were used to ‘unravel the complexities of large-scale social change’ (Gerson and Horowitz, 2002: 201) by examining how individuals experience, interpret and shape their responses to these changes. Therefore, by talking to those involved in the development and implementation of CSR strategy, it was possible to better understand the CSR phenomena and obtain an insight into the meanings ascribed to it at an individual level.

In a study, the selection of respondents is of utmost importance, since the research can turn out to be invalid if the wrong person is interviewed (Miles and Huberman, 1994). Therefore, efforts were made to make sure that the most appropriate people to speak to within the banks were met. This was done by forming a purposive sample of 16 participants from six banks.

Interview data was analysed through the use of thematic analysis, which is defined by Boyatziz (1998) as a widely used qualitative analytic method for identifying, analysing, and reporting patterns (themes) within data. The three steps suggested by King and Horrocks (2010) to do the thematic analysis were followed, namely:

1. Descriptive coding: at this stage parts of the transcripts likely to be helpful in addressing the research questions were identified as well as highlighting anything that might help in understanding the interviewees’ views and opinions.

2. Interpretative coding: at this stage, the focus was on interpreting meanings of the codes and grouping codes that shared common meanings.
3. Defining overarching themes: at this stage a number of overarching themes that characterised key concepts in the analysis were identified.

5. FINDINGS AND ANALYSIS
Various CSR activities and processes were identified and are discussed below.

Community engagement and communication
All of the banks highlighted the importance of community engagement. For example, the National Bank of Kuwait (NBK’s) involvement in community engagement and communication is very well known in Kuwait and the bank is also known for the Holy Ramadan Charity campaign named “Do Good Deeds in Ramadan”, which involves setting up ‘Iftar’ tents in various locations across the city. The event set a record with more than 150,000 ‘Iftar’ meals being distributed under the supervision of hundreds of NBK staff volunteers all over Kuwait.

Burgan Bank also mentioned that the bank had built a computer laboratory at the Kuwait University’s Business School, where occasionally the bank organises seminars and sessions to communicate to the faculty and students about various aspects of the financial and business world. The Commercial Bank of Kuwait (CBK) mentioned on their website that they participated in lighting Yarmouk’s Mayor Building in the celebration of the National and Liberation Days as part of their community service and part of the commercial bank’s Yarmouk branch, in supporting the social activities of the area in which they operate.

Philanthropic programmes
All the banks handled philanthropic projects as part of their CSR activities and all were committed to allocating donations, time and/or effort for their philanthropic programmes. Ahli Bank of Kuwait (ABK) for instance, organised a series of lectures for university students to familiarise them with the nature and operations of finance and banking, while the Gulf Bank gave special attention to students with disabilities in schools where they celebrate the first day of returning to school with them. Boubyan Bank mentioned that a donation to Somalia was part of their philanthropic programme of that year. It is worth mentioning that the word ‘philanthropy’ was a recurring word in a notable way, as mentioned by NBK:

Locally, our deep commitment to the community by far exceeds the role normally expected from a banking institution and embraces a broad spectrum of social and philanthropic involvement. We proudly boast that we have fully shouldered this noble and sublime responsibility right from the earliest days of the Bank’s inception in

While CBK noted that:

In Commercial Bank of Kuwait, social outreaches and contributions to the philanthropic, social and humanitarian initiatives are of paramount importance.

Corporate governance and compliance with law
All banks mentioned corporate governance issues and compliance with laws and regulations especially with regards to compliance with the guidelines of the Central Bank of Kuwait and the Kuwait Stock Exchange. They provided information on how the banks are managed through presenting the governance structure that specifies the distribution of rights and responsibilities among different participants in the bank, such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders. It is worth mentioning that the Central Bank of Kuwait has taken the initiative – since the early nineties – to issue and update instructions to banks in regard to good governance, in line with relevant international control standards and advances in banking. Added to this is the fact that banks and financial institutions are governed by the laws and regulations applicable to Kuwaiti companies.
Risk Management
It was noted that all banks in Kuwait put emphasis on risk management as part of their CSR framework. ABK, for instance, has dedicated a considerable proportion of annual reports to risk management, and mentioned that risk management is considered to be one of the cornerstones of their success. The Kuwait International Bank (KIB) described in detail their compliance with Anti-Monetary Laundering (AML) law, as well as their policies and procedures that are formulated to ensure better compliance with AML laws in Kuwait. It is worth mentioning that proper risk management practices from all banks is not a surprise, as the Central Bank in Kuwait mandates all banks to have a dedicated department in charge of managing risk associated with banking activities.

Health and safety programmes
All the banks expressed the importance of health and safety programmes. NBK stated that it organised several successful health awareness campaigns for its staff, including the anti-obesity “We Care for Your Health” initiative, in collaboration with the Kuwait Obesity Association. To ensure the awareness of employees and customers of the Kuwait International Bank with regard to evacuation processes in case of emergencies, the bank conducted (in cooperation with the Ministry of Interiors and the Fire Service Directorate in Kuwait) mock drills at its head office to help in raising awareness of both employees and customers while dealing with similar cases.

Employee community involvement
All banks presented programmes that allowed their employees to volunteer for social activities during paid working hours, such as Ramadan events in NBK to feed needy people who cannot afford to pay for their Iftar meal, as well as the Gulf Bank’s activities that involve conducting events for children with special needs, and Burgan Bank’s staff visit to paediatric wards of several hospitals as part of their Corporate Citizenship Programme.

Sponsorships
All banks showed a high level of interest in sponsorships. In fact, all CSR programmes in banks in Kuwait started with sponsorship activities and have expanded over time. The main areas of sponsorship in Kuwaiti banks relate to sport, culture, and educational events. The interviews also revealed that sponsorship is a major contribution from CSR activities; one of the banks is known for its sponsorship of the major football team in Kuwait, while another bank is well known for its sponsorship of Kuwaiti public schools. Many of the sponsorship activities have a direct impact on the business, such as the sponsorship of schools and universities, where in return students and teachers will transfer their accounts to the sponsor. When looking at the management of environmental impact, it was noted that only three banks confirmed that they supported environmental causes although the support provided was not sustainable and involved short-term campaigns. The representative from the Kuwait International Bank mentioned the types of activities done that are considered environmental, all of which were internal within the bank, more tactical than strategic, and for a short period of time, such as a green week. The interviewee from Ahli United Bank justified the limited environmental activity by saying:

“I think the market is not yet ready for environmental causes and that is why we do not do a lot of environmental activities mainly because of the culture and not because we do not want to.

The interviewee from Burgan bank confirmed that environmental protection was not considered to be important by the banks when he stated that:

“I think the entire Arab world is late in believing in the importance of sustainability and protecting the environment.”
The representative from Ahli United Bank said that banks that do not have any environmental initiative justify the absence by stating that:

“We are a bank and there are no environmental degradation in what we do unlike in the oil and manufacturing sector”.

The impact of the financial crisis on CSR conceptualization and practices was explored as an area of interest. This is because it was unknown whether or not there was a negative impact that resulted from the global financial crisis of 2008 on CSR in general and its budget in particular in the Kuwaiti banks. When asked if the global financial crisis had any effect on CSR spending, surprisingly, a few banks decreased their CSR budget as a result of the financial crisis, while the rest either kept it as it was or increased it.

From the responses received, it was found that banks that were affected by the financial crisis generally increased their CSR spending, while banks that were not affected either kept the budget as it was every year or reduced it. This could be a reaction by the affected banks to emphasise that they could still be part of the society and gain trust, especially in light of the fact that financial institutes were attacked for being part of the causes of the crisis, especially in Kuwait, as one of the banks had dealt with derivatives in an irresponsible manner that caused severe losses to shareholders, hence this bank specifically needed to regain trust.

One of the decision makers of a bank that increased its budget despite a severe hit on its earnings stated that:

“We increased our spending to ensure that we were providing remedies to the financial crisis damages that occurred to the society, such as the increase in unemployment where we tried to find suitable jobs for those people. We also started conducting professional and international seminars that educated our high net worth customers and provided them with a better understanding of the crisis and how to deal with it”.

This confirms Yelkikalan and Kose’s (2012) view that although the uncertain environment created by a crisis creates a threat to organisations, it also brings along many opportunities. CSR activities can be also used to overcome some social problems caused by crises.

6. DISCUSSION AND CONTRIBUTION TO KNOWLEDGE

The findings revealed that Banks in Kuwait were very clear in defining their CSR activities which were aligned with their overall corporate strategy. Most of the time, guidance and directions are given by the Chairman of the Board, which reveals that CSR is given a high priority in Kuwaiti banks. It was seen that competition between banks has affected the way CSR is implemented; where banks tend to follow each other in terms of their activities. Moreover, it was evident that the national direction dictates the type of activities conducted by banks and also affects their strategic directions.

There were certain categories of initiatives that all banks tended to adopt, such as education, healthcare, and employment of nationals. Many CSR processes were being implemented but were not considered as part of the CSR programme, such as investor relations, risk management, and corporate governance. These processes were seen as part of compliance with external regulations, rather than being part of CSR. This suggests that the integrated concept of CSR is not yet fully understood in Kuwait.

The global financial crisis was seen to have a positive impact on CSR as it prompted the banks to start being more selective in choosing initiatives. Although some Kuwait’s banks did not reduce their CSR budgets during the crisis, they started to be more selective in terms of the channel of spending, as well as their approach to giving. Focus was placed more on transparency, accountability, and governance. These terms were used by banks in Kuwait only after the financial crisis as they realised that scrutiny on responsible business increased by shareholders and media as a result of the crisis. This confirms that Kuwait banks are convinced that CSR is an investment and not expenditure and hence, should be taken seriously.
It was also observed that CSR in all banks fell under the Public Relations department, which comes under the Corporate communication department. This has helped in creating an aligned message to both external and internal stakeholders, since this department in all banks is in charge of communicating the CSR message as well as other initiatives. In most cases the Corporate communication department reports directly to the CEO, which makes decision making smoother, as well as being directly involved with corporate strategy. Unfortunately, it was found that none of the banks had a dedicated CSR department or a dedicated CSR professional, as public relations professionals tend to be the ones handling CSR activities.

It is worth mentioning that all banks in Kuwait had received awards and recognitions for their CSR programmes. However, what distinguished banks from each other with regard to implementation were three factors: budgeting and allocated spending – which affects the scope of CSR and its exposure; management belief in the role of CSR within the organisation and its impact on the brand value and corporate image; and having a clear identified framework for CSR that is communicated internally and externally. In terms of CSR programmes and activities, there were similarities among banks in what was implemented as CSR: education, employment programmes, and health initiatives were the three common directions followed by all banks. In terms of CSR processes, seven processes were followed by all banks: community engagement, philanthropic activities, corporate governance, risk management, health and safety programmes, employee community involvement, and sponsorships. Little attention was given to environmental initiatives where most of the activities were in the form of tactical campaigns, rather than sustainable and long-term initiatives. This was expected, as public awareness of environmental concerns is very low in Kuwait.

7. RECOMMENDATIONS

It is recommended that CSR should be integrated into every part of the bank and aligned with the vision and values of the bank. It should be embedded in the organisational culture and core business operations as well as the corporate identity. As banks in Kuwait are now moving away from asking whether or not to engage in CSR, they should be looking for the best way forward to craft CSR programmes that reflect their business values, while addressing social, humanitarian and environmental challenges. In addition, there should be a separate entity or department that should take the responsibility of developing and implementing CSR strategy, rather than having this as part of Public Relations activities. Furthermore, particular attention needs to be given to environmental issues.

CSR during crisis and uncertainty: In times of financial crisis and uncertainty, it is more urgent than ever to communicate effectively with stakeholders to gain trust and push reputation to the forefront. Hence, CSR should not be compromised during crisis, but instead should:

1) be more strategic by being more focused in the selection of projects, and using new tools for assessment to better measure project impacts
2) be more focused on transparency and accountability to regain stakeholders’ trust
3) apply best practices of corporate governance and raise standards to protect the wealth of millions of shareholders

National concerns: While developing their CSR strategy, banks should look at areas that represent a national concern. In Kuwait for instance, citizens are very concerned with the quality of the educational and health systems, youth development, and the increasing rate of unemployment among Kuwaitis. Therefore, banks are expected to intervene in those areas and facilitate sustainable solutions to the challenges faced by Kuwaiti citizens. By so doing, the public will feel that the banks are concerned with the problems of society and are solving them or contributing to the development of possible solutions. This could be done by providing scholarships to reputable schools, funding governmental schools that suffer from lack of resources, refurbishing hospitals, increasing awareness of certain diseases that are highly spread in the country, sponsoring youth initiatives, conducting summer training schemes for the young in the banks, providing job opportunities for Kuwaitis in the banks, as well as training and developing them. Also, banks should
not only rely on the media to know the national concerns. Rather, they should approach and be closer to their stakeholders and listen to them to understand their major concerns by conducting focus groups and surveys. By so doing banks will demonstrate that they are really aligning their strategy with the needs of the community.

8. REFERENCES


