

AN APPROACH TO THE CSR ACTIVITY OF FOREIGN BANKS IN JORDAN

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ABSTRACT

The companies' social responsibility (CSR) gains an increasing importance in Jordan after the State abandonment for many of its economic, social and service roles, where numerous companies seek to adopt social responsibility active programs taking into account the conditions and challenges facing the society. There is no doubt that the social responsibility is the main pillar and a significant instrument to alleviate the globalization dominance and financial and economic crises, also the interest in social responsibility has become a prerequisite for reducing poverty through the economic institutions engagement. In this study we intend to focus on the CSR activity from a general point of view of the state and also to emphasize its importance through the practice of some foreign banks in Jordan. The study found that foreign banks sector focuses on activities in the health and education areas where it took the largest share of support and take the partnership character with governmental organizations and specific local institutions with lack of mechanism for final assessment.

1. Introduction

There is no doubt that the social responsibility is the main pillar and a significant instrument to alleviate the globalization dominance and financial and economic crises, also the interest in social responsibility has become a prerequisite for reducing poverty through the economic institutions engagement's and ensures trade off between economic and social goals to encourage the efficient use of resources. These activity is often realized in relationship with NGOs and civic organizations inside, some specification of which were examined: the correlation between human background and social capital, specialities of expectations regarding human resources, its labour market natures, and the role of motivation factors.

The lack of the government role in Jordan in the economic operations due to the globalization, economic transaction and the privatization of the public sector reduce the governmental instruments and ability to carry out all the needs of the nation without supporting and contribution from the private sector. The role of the private sector is considered in Jordan as strategically partner to the government in the social responsibility and in achieving the sustainable development. The government believes that when the private sector is acting ethically in the decision making and in their working process then it will insure more effective and productive utilizations of economic resources, corporate behaviour effects responsible and proper economic and institutional improvement, consequently it will be also resulting in all society and common benefits. The contribution of financial institutions including banks in this regard is of higher importance considering their vital role in financing the economic and developmental activities. A responsible banking sector is mandatory for societies to advance economically. In addition, they are such business organizations, which are not immune from developments that took place on the concept of social responsibility, so it is very

important for banks to achieve their social responsibility, especially in such developing country as Jordan that prove the interest of the society with human and environment.

The soul of the social responsibility is concealed in its voluntarism and selective nature whereas the companies do that according to self-boost comes from their belonging to their societies, and the social responsibility must be on that form and has not to be obligated by the law because the laws are established to prevent the mistakes not to obligate to do something right. However, the absence of laws that obligate the companies to practice their social responsibilities doesn't mean that companies stay out of their social responsibility, because it also means ethical duty and moral obligation.

The importance of this study is to highlight the role of foreign banks operating in Jordan in the adoption of the topic of social responsibility, where the banking sector is a centre for the development process of all Jordanian economic sectors. Furthermore, we try to identify if those banks' adoption of social responsibility comes within a non studied random initiatives or it is considered mainly part of their strategies. We examine and search the reality of social responsibility in Jordan and its distribution between the different sectors with a general look at banks sector in Jordan, its role and the total sum of its contribution of social responsibility.

We hope that we succeeded in highlighting the social role of the foreign banks in Jordan and we were able to obtain and cover the role of the foreign banks in implementing the social responsibilities' concept in their activities with the shape that clarifies the range of sponsoring the social responsibilities in all sides and fields.

2. Literature review

Literature on CSR is enriched by the researchers of developed nations. There is more research on corporate social responsibility in industrialized nations than in developing nations, but the need for CSR is greater in developing nations. It was stated in 2010 that further research was necessary on CSR in Asia, Africa, and Latin America. However, so many surveys and research studies have been also conducted by the researchers, scholars and institutions in Jordanian context. A few research organization and professional bodies have also shown similar effort to study the status of CSR and its activities in the Jordanian corporate sector. The study of the social responsibility of the banks operating in Jordan for the second half of 2010 prepared by Vision Institute for the Civil Society studies has confirmed that Jordanian banks enjoy a high level of transparency in terms of periodic disclosure, periodic and accurate declaration about their initiatives and social work compared to other sectors, and consistent with the bank's commitment standards to international and local disclosure and transparency. From the previous century, this concept of companies' commitment in understanding the results of their activities on the society has increased, especially after the expansion of the multi-national companies. Globally, the importance of their responsibility towards the society has been started to be understood internationally through establishing some of sustainability indicators, such as: *The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines*; etc. These indicators replaced the traditional environments of reporting with sustained reports which also included aspects of social attitudes. Similarly, currently defined by the World Business Council of Sustainable Development as persistent commitment for businesses to behave ethically and contribute to economic development, while they also increase the quality of life of employees, their families, and the community.

Some others noted that recent focus on social, environmental, ethical and trust issues in the banking sector are related to the three international initiatives: United Nation Envi-

ronmental Programme Finance Initiative (UNEP – FI), Equator Principles and Principles for Responsible Investment (PRI).

The CSR is a broad subject, which leads to verity of opinions and can be considered in a number of different ways. As a result of such uncertainty surrounding the nature of the CSR activity, its difficult to generally define it, so we will take the view that are composed of 3 basic principles:

1-sustainability: it means that resources will be no longer available in the future if they are utilized at the present. Therefore the society must use no more of a resources than can be regenerated.

2-accountability: it means the organization must recognize that its action influences the external environment and assuming the responsibility for the effect of its action

3-transparency: it means the effects of the organization, including external impact be apparent to all forms using the information provided by the organization reporting mechanism.

2.1. Banking Institutions and Corporate Social Responsibility

Banks are the most important financial institutions in the economy, which accept deposits, provide loans, and offer the widest range of services of all financial institutions. A bank is perceived to be an important economic entity that usually plays no part in the shaping of the social system. In the area of CSR activities, when we accept the argument that banks have a specific position in the socio-economic system, it is necessary to examine the issue of commercial banking in the broader economic and social context, and to require a higher level of social responsibility and the application of a higher level of moral principle in the banking business.

3. Methodology

The data for the study was secondary in nature and collected most particularly from concerned banks annual reports, web sites, newsletters and other secondary sources in order to conceive the reality of the social responsibility in this sector and to identify what was done and not done by the banks during the year 2015. An effort has been made to know the status of CSR in the banking sector in general and the practices of foreign banks in particular. Moreover, we have analyzed the value of their financial contributions to the different CSR areas for the total of foreign banks in Jordan amounting to nine banks, one of them is an Islamic bank.

4. Approach to the CSR in Jordan

Basic indicators of development in Jordan shows that poverty rate is 14%, unemployment rate is 12.2%, the rate of people who aren't healthy insured 30% and the rate of students who are covered by the supportive grant for poor student is 46%. In accordance to it the Jordanian government made great efforts to stabilize the concept of the social responsibility and offer various incentives to stimulate CSR activities, through inserting that concept in the strategic plan of the Ministry of Social development for years 2001/2009. In addition there are great efforts to improve the non-profit organization way of thinking to be development tools, and transferring the standard of work from supporting poor people into supporting the society in employing the youth and reducing the unemployment rates. For instance, the national company for training and employment of Armed forces as non-

profit private supportive company belongs to Armed Force and this company presents its services to youth to improve their employment abilities to achieve the concept of sustained development. Also, the government established the guide of social responsibility in 2007 by the Ministry of Justice, and the recommendations of the final meeting of the Gulf-Jordanian Economic Communication Concert, which was held in Amman in the past September 2014 to establish centre for social responsibility. Furthermore, the government believes in the partnership with the private sector to face the challenges of the economy, particularly the role of the private sector in CSR, and raised the issue by organizing national meetings and conferences since 2009. So we have the 1st, the 2nd, the 3rd and the 4th national meetings held in Amman discussing the role of the private sector in achieving the sustainable development as a new way of thinking in implementing the CSR practices.

According to the study conducted by The Jordan Modern Centre for Studies and researches about the case of social responsibility at the Jordanian companies till the middle of 2011, it shows that the total of social activities of the companies, achieved in the first half of 2011 were 283 activities, whereas the banks sector was on the lead in supporting the social activities with 108 activities as shown in the table 1.

Table 1: The CSR activities for the Jordanian companies in the first half of 2011

Sector	No. of companies	No. of activities	The percentage of activities according to total
Banks sector	16	108	38.1%
Communication sector	5	58	20.5%
Industrial sector	10	42	14.9%
Commercial sector	15	27	9.6%
Tourism and Housing sector	6	16	5.6%
Medical Care sector	4	12	4.2%
Insurance sector	4	11	3.9%
Others	6	6	2.1%
Transportation sector	3	3	1.0%
Total	69	283	100%

Source: Jordan modern center for studies and research 2011

The country has some incentives to foster CSR. For example, business firms of the country are already enjoying tax exemption on their actual CSR expenditure. Hopefully, by creating conducive environment the private sector of Jordan will come forward to do more CSR activities.

Banks and the financial institutions have begun to pay more attention on CSR, adhere to international codes of conduct (The 3Cs for Responsible Banking in Asia and the Pacific: Corporate Governance, Corporate Social Responsibility and Corporate Sustainability of United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). According to a study on The Effects of Corporate Governance Requirements on Jordan Banking Sector shows that banking sector is the most regulated sector among all the sectors in Jordan, and corporate governance continues to gain attention and importance from parties concerned in the Jordan banking sector, due to many reasons such as the BCBS and other international requirements.

There are currently 25 banks present across the Kingdom; 16 of which are local banks (3 banks are Islamic Banks) and 9 Foreign banks (1 of them is Islamic). The assets of banks achieved great growth which reached as 7% annually average through (2010–2014)

and the total of assets reached 65 billion U.S dollars at the end of July 2015. With the increasing importance and demand of CSR, it is worth having a study on CSR practices in banking sector. The banks sector in Jordan provide a comprehensive group of services and products and banking solutions through network of branches which were 786 branches inside Jordan, in addition to 76 offices and 1488 ATMs. The banks in Jordan play vital role in the field of employment and trainings whereas the number of banks' employees reached to 20095 persons at the end of 2015, and the number of employees that participated in the training courses 43 thousands persons during 2015. Banks in Jordan (as well as in other countries) have their own ethical code by which they undertake to offer only services that meet customer requirements and interests. The Central Bank of Jordan (CBJ) issued Bank Directors Handbook of CG which has been developed with the objective of enhancing the CG of Jordanian banks. Beside issuing the Handbook, the CBJ is continuing its efforts to enhance CG by preparing the CG Code which is intended to promote international best practice in the CG of Jordanian Banks, and asked each bank to keep this code under review and be developed and amended as required from time to time to meet the changing needs and expectations of the bank and the marketplace. As a result, banks in Jordan comply with CG requirements acting in accordance with a request from the CBJ based on BCBS and OECD guidelines and requirements. The high transparency which the banking sector have in Jordan through frequent and accurate reporting (incorporates disclosures) about their financial performance and their annual works is the main aspect of social responsibility, whereas the banks in Jordan are the highest sector in the transparency indicator's in comparison with the other economic sectors. It also helps in judging about how far the banks are responsible for the different sectors as shareholders, employees, local society.

4.1. CSR Implementation challenges

The most important challenges that banks face during implementation the CSR initiatives according to the study of the banks association in Jordan are: the specified and limited budget, the lack of information in the market about the projects of the social responsibilities and about the organizations that need support, obviousness of demand. It is common that the supported organization thinks that fund is charity work.

The specified fund isn't enough and the need of making sure about the fair distribution of the fund by the charity organizations.

5. Recent engagements of foreign banks in CSR practices

The total amount that all banks in Jordan paid for the social responsibilities campaigns in all of their fields and forms during 2015 reached to 50 million US dollars, which achieved share from 7% to 8% from their net profits in 2015. In terms of direct monetary expenditure, engagements of banks in CSR initiatives are increasing, particularly following issuance of central bank of Jordan guidance.

Table 2: Contribution of the Banks Operating in Jordan in the Social Responsibility for the year 2015 in Jordanian dinar

Field	Amount
National institutions assistance	6322240
Environmental,	1039708
Education	4047385
Sports and health fields	1949816
Development and poverty field	629462
Cultural, artistic fields	995440
Social and charitable services	614300
Child, women and family	319502
Handicapped	109068
Others	19922449
Total	35949370

Source: Author's calculations based on the data reported by the Jordan banks' associations

Since the early 2000's the consolidated assets of the sector have tripled due to the fact that the Central Bank of Jordan relaxed the regulations for foreign banks to enter the market, which led to the entrance of new five banks into the market, where, Blom Bank / Audi Bank / National Bank of Kuwait have entered in 2004, the National Bank of Abu Dhabi has entered in 2010 and followed by Al Rajhi Bank in 2011. The total assets of the foreign banks have increased by the end of 2015 to reach 5.75 billion U.S dollars to constitute 8.7% of the banks total assets in Jordan. The foreign banks capital in Jordan amounts to 5.75 billion, representing 12.9% of the Jordanian banks total capital. In this study we observed that out of 9 scheduled foreign banks in Jordan 7 have more or less engagement in CSR activities in 2015. However, most of the financial institutions have not integrated CSR in their daily operations and most of the CSR activities by the banks in Jordan are present in the form of philanthropy. The Banks are involved in a multitude of programs from CSR on the following directions: national institutions assistance, education, poverty, cultural, artistic and vocational training programs, social and religious charitable services, environmental, sports and health fields, child, women and family, and the handicapped ones. In general, we can say that there are three levels of social responsibility exercised by the foreign banks in Jordan.

First Level-Philanthropy Practice: It is one of most common form among the foreign banks and takes the nature of financial donations and in-kind assistance to the civil society institutions and is published through the website and by press releases toward specific institutions in frequent manner.

Second Level: It has a semi-strategist character and the banks have a strategic orientation toward social responsibility in specific areas.

Third Level: It owns a clear orientation and policy toward social responsibility and is committed to issue annual reports on the achievements and has a dedicated team, leaflets on the site by using clear performance indicators.

**Table 3: Trend of sectoral pattern of CSR expenditure reported by foreign banks in 2015
(in Jordanian dinar)**

Bank and Contribution Size / Social Responsibility Fields	National Bank of Kuwait	Egyptian Arab Land Bank	Audi Bank	Al Rajhi Bank	BLOM Bank	Standard & Chartered Bank	Citibank	National Bank of Abu Dhabi	Rafidain Bank	Tota
Education	24000	500	31000	9000	23927	63699	20000	-	-	172126
Sports	-	-	3400	-	550	-	-	-	-	3950
Health	2700	770	-	-	2200	189830	-	-	-	195500
Art and Culture	20000	-	-	-	21750	-	-	-	-	41750
Religion	-	-	1650	-	-	-	-	-	-	1650
Environment	-	-	-	-	-	-	-	-	-	-
Tourism and Tradition	-	-	-	-	-	-	-	-	-	-
National Institutions Assistance	9234	2500	43429	-	656	7000	-	-	-	62819
Poverty	3000	-	15800	17000	13307	7414	-	-	-	56521
Handicapped	-	-	2850	-	700	-	-	-	-	3550
Child, women and family	-	-	-	-	350	-	-	-	-	350
Vocational training	5000	5000	-	-	20715	-	-	-	-	30715
Other Fields	-	-	-	5000	3748	-	-	-	-	8748
Total	63934	8770	98129	31000	87903	267943	20000	-	-	577679

Source: Author's calculations based on the data reported by the Jordan banks associations & banks annual reports

5. Results and discussion

There is a variable series of social responsibility practices carried out by the foreign banks in Jordan starting from the final non-practice to actual practice through clear strategies. It is clear that foreign banks contribution to the social activities is limited, but very active on the global level, so the banks such as Citibank and Standard & Chartered has a partnership with Injaz Institution, an independent, non-profit Jordanian organization, and banks such as Bank of Abu Dhabi, National Bank of Kuwait and BLOM Bank have a clear strategy and policy towards the social responsibility, but they failed to implement them in Jordan and suffer from slow procedures to obtain the necessary approvals for implementation. The health sector enjoys plenty of support from foreign banks, followed by the education sector. The Standard & Chartered bank is the leading bank in practicing his responsibility toward the local society with 46% of the total direct CSR expenditures. Furthermore, the foreign banks shows lack of the mechanisms for assessment and follow-up and rely for this purpose on the partner institutions. Good governance, which was organized by the Central Bank, has developed a number of instructions to all banks in 2007 have led to banks' commitment of issuing annual reports, including their social contribution. Alleviation policy of restrictions on the entry of foreign banks into the Jordanian market implemented by the central bank since 2000 have led to entry of 6 new foreign banks. Foreign banks exercise their social responsibility in partnership with the local official or semi-official institutions such as Citibank and Standard & Chartered Bank and in partnership with Tkiyet Um Ali (charity, non-profit organization), Injaz Foundation, the Royal Medical Services and the Federation of Chambers of Commerce. Cash donations to charity and beneficence is no longer an effective way and only acceptable from of the

banks social responsibility practices. The study also finds that no definite conclusion can be made about the relationship between CSR expenditure and total revenues, net income, and deposit growth of banks. In fine, it can be said that growing CSR practices in the banking sector will lead to sustainable development and establishment of an equitable society in Jordan.

6. Conclusions and recommendations

There is a positive movement from the banking sector in general towards investment in initiatives and social responsibility programs in Jordan, and that is related to the principles of good governance organized by the Central Bank, which have developed a number of instructions to all banks in 2007. It led to bank's commitment to issue annual reports with social contribution.

They adopted the concept and practices of the social responsibility in a visible manner and tried to help to get through the social challenges and contributed positively to the sustainable development. We believe that this vital sector has the ability to lead all other sectors to apply the concept of the social responsibility and to be an example for everyone. The foreign banks have to look for methods enabling them to create long-term opportunities valuable to the community as a whole, when planning for the implementation of their community contribution in parallel with their financial business to the extent that the banks increase their cash contribution in the field of the social responsibility. It would be of strategic, longer run competitive advantage for foreign banks and financial institutions in Jordan to embrace CSR in their management approaches and operations.

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