BANKS' SOCIAL INVESTMENT AND MARKET SHARE

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Abstract

This research examined probable relationship between banks' social investment and market share of selected banks in the JSE SRI Index. Using data from the sustainability report of three selected banks, the research applied the panel data approach to conduct a simple regression analysis between cooperate social investment and banks' market share (represented by bank deposits). Findings from the analysis suggest that, whilst keeping other factors constant, within the sample banks, a relationship exists between corporate social investment and banks' market share. The paper thus recommends that further study should include more banks across many years to probe for further relationships between banks' social investment and market share; such robust study would provide a more generalizable finding that may enhance a broader understanding and inference about the effect of banks' social investment on banks' market share.

Keywords: Social Investment; Social Responsibility; Market Share; Corporate Governance; South African Banks

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1 Introduction

Corporate Social Responsibility (CSR) involves the entire spectrum of responsibility initiatives whereby firms strive to operate their businesses in an ethical manner – making profit in consideration of the lives of employees and society (Fasset, 2012). Whilst corporate social responsibility emerged in the 1960s (Maignan and Ferrell, 2004); the bourgeoning of corporate social responsibility campaign has garnered greater momentum since the early 1970s. This has even lead to a new concept of social marketing (Maignan and Ferrell, 2004) with a conviction that the market's view about a firm's operations and/or behaviour is paramount to attracting a larger market patronage or share. The current corporate penchant for corporate social responsibility assumed an increasing trend apparently after a stimulation by a renewed market dissatisfaction about corporate social and environmental responsibility during the Brent Spar and Shell Nigeria decommission saga (Livesey, 2001). Consequently, corporate social responsibility research by academics and practitioners has soared to encourage business to appreciate potential benefits accruable from corporate social responsibility (CSR). Whilst CSR-benefit research has focussed attention on financial benefits, less research has looked into the CSR and market share relationship. Furthermore, existing research in the area of CSR-market share relationship has sparsely looked into the banks, especially within the South African context. However, current research show that, although banks fall under the low emission impact industry, banks financial service to high emission intensity industries bestows some social and environmental obligation on banks (Rainforest Action Network and BankTrack, 2012). Hence, banks have begun engagement in various forms of social responsibility; South Africa is a typical example of a country where banks are investing in social responsibility (The Banking Association South Africa, 2015). Few research have shown that corporate engagement in social responsibility may improve firm's market share (Owen and Scherer,1993; Cheng et al. 2014); but, to the best of authors' knowledge, research on market share relationship with banks' corporate social investment in South Africa is not known in South African literature. Therefore, the aim of this paper is to examine a possible relationship between banks' corporate social investment and banks' market share using a sample of banks from the Johannesburg Stock Exchange Socially Responsible Investing Index (JSE SRI).

This paper is organised as follows: the following section after the introduction reviews the related literature; the next section presents the research methodology and data analysis; the last section draws conclusions.

2 Related literature

The concept of corporate social responsibility refers to an amalgam of various initiatives that firms engage in to improve the social and environmental aspects of their business environment and to obviate negative image and costs that may be associated with business impact on society and environment (Clapp and Rowlands, 2014). Firms are motivated toward corporate social responsibility, not only to legitimize their operations, but also because it has been proven as good business strategy (Chin et al, 2013) which improves the competitive dexterity of business (Juščius and Snieška, 2015), and also attracts low cost of capital for a responsible firm (El Ghoul et al., 2011). However engagement in corporate social responsibility has cost implications. substantial amounts of money form part of the budget line items of socially responsible firms (Di Giuli and Kostovetsky, 2014) ; therefore by virtue of such gargantuan amounts that most firms plough into societal and environmental wellbeing, firms can be seen as investing in society, and hence the concept of corporate social investment. Although such huge investments may not necessarily resonate with current profits, research indicates that corporate social investment may offer future stream of positive financial performance and/or growth opportunities to firms that engage in social investment (Holland, 2002; Di Giuli and Kostovetsky, 2014).

Whilst some firms fall under the socially responsible classification, many firms are still apathetic to social investment or "non-socially responsible" (Blanco et al., 2013, p.67), apparently because of the cost implications of being socially responsible. Consequently, in an attempt to boost the motivation of firms' engagement in corporate social responsibility, several extant research has dwelt variously on the linkage between corporate social responsibility and firm performance (Zhu et al. 2014; Cheng et al. 2014). Different researches about this bourgeoning area of business strategy have found mixed results. Some find positive relationship between social investment and corporate performance (using different proxies of performance), others have found no relationship, yet some research have found that a relationship may exist under certain conditions, such as inter alia, the size and type of industry (Branco and Rodrigues, 2008). Corporate social responsibility research has largely focused much attention either on multinational firms, extractive companies or on national manufacturing or emission intensive companies (Droppert and Bennett, 2015; Ranängen and Zobel, 2014).). However corporate social responsibility research in banks, specifically, banks' social investment research perspective has not been as ubiquitous like the researches on corporate social responsibility. This apparent paucity of social investment research in banks might be understandable from a generally expressed sentiment that banks fall under the low emission intensive sector (Rainforest Action Network and BankTrack , 2012) . However, by virtue of their service, banks provide financial backing to the growth of emission intensive industries through banks' traditional role of capital provision (Rainforest Action Network and BankTrack, 2012). Therefore, from the perspective of financial support to industries that are notorious for environmental and social disquiet, banks become somewhat indirectly involved in social and environmental responsibility, with increasing societal expectations and/or demand for banks to contribute to healthy upkeep of society (Hu and Scholtens, 2014). Researches falling under corporate social responsibility of banks are more on the side of disclosure, such as the types of social responsibility disclosure by banks (Castelo & Lima, 2006); public visibility and social responsibility disclosure (Branco and Rodrigues, 2008) and social reasonability strategies of banks (Hu and Scholtens, 2014). Others have dwelt on the impact of banks' social responsibility disclosure on financial performance (Mallin et al. 2014; Nadeem and Malik; 2014) and comparative study of banks' corporate social responsibility (Ali and Rahman, 2015). However, research that links corporate social responsibility with market share are not as common in the literature as with other research focus areas about social responsibility. Little research relating social responsibility to market share includes inter alia Owen (1993) who found that corporate initiatives on social responsibility have strong influence on firm's market share; in the same vein, others find that corporate social responsibility may command brand loyalty from the market (Lai, 2010; Mirabi et al. 2014). Furthermore, Luo and Bhattacharya (2006) opine that corporate social investment attracts customer satisfaction and hence improves firms' market value. In the same vein, it has be found that corporate social responsibility attracts customer awareness about a firm's responsible business operations and thus builds customer loyalty (Servaes and Tamayo, 2013). Other studies such as (Kotler and Lee (2005) confirm that corporate social investment leads to increase in revenue and firm market share.

However, research on banks social investment and market share is not common in South Africa; hence, this paper uses three banks in the JSE SRI Index to examine possible relationship between banks social investment and market share, with the hope that an expanded study may emanate from this research.

3 Methodology

Data for this research were from the annual integrated reports of three JSE banks under the Socially Responsible Investment (SRI) index 2014. For confidentiality reasons, the banks' pseudo names are Bank A, Bank B and Bank C. Adopting the purposive sampling method, the three banks were selected from the group of banks in the 2014 SRI index; these three banks contained all the research data for the five years period. Data were analysed using panel data simple linear regression.

The paper used the following regression model:

$$\gamma = \beta_0 + \beta_1 \chi_1 + \varepsilon$$

Where:

γ= dependent variable (market share); β_0=constant; β_1=regression coefficient;

χ_1=independent variable: corporate social investment (CSI); ε = *error*

The proxy for market share is the bank deposits (see e.g.Filbeck et al. 2010). Other variables affecting the bank deposits are held constant in this analysis.

Data collection from the three banks' corporate social investment and market share covered a period of four years, which thus gives 12 observations in the panel data analysis; the output result appears in Table 1.

Table 1. The relationship between corporate social investment and banks' market share

Model 1: Fixed-effects, using 12 observations
Included 3 cross-sectional units
Time-series length = 4
Dependent variable: MktShr

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	13.6707	1.39218	9.8196	<0.00001	***
CSI	0.0513675	0.0195142	2.6323	0.03007	**

Mean dependent var	17.29167	S.D. dependent var	10.21954
Sum squared resid	4.408837	S.E. of regression	0.742364
R-squared	0.996162	Adjusted R-squared	0.994723
F(3, 8)	692.1978	P-value(F)	5.33e-10
Log-likelihood	-11.01949	Akaike criterion	30.03898
Schwarz criterion	31.97860	Hannan-Quinn	29.32086
rho	0.207998	Durbin-Watson	0.848507

The output in Table 1 analysed the relationship between corporate social investment and banks' market share. The data was analysed at a significance level of 0.05%. From the panel data regression output in Table 2, the p-value, $P = 0.03$, is less than 0.05; this therefore shows that, (whilst holding other factors constant), within the three banks studied, there is a significant positive relationship between corporate social investment and bank's market share.

4 Conclusion

This paper examined the relationship between corporate social investment and market share in the three JSE SRI selected banks. Social investment, revenue and market share data (represented by bank deposits) were from the annual integrated sustainability report of the three banks. Data were analysed through the application of panel data approach of simple regression statistics to examine the relationship between corporate social investment and market share within the three banks. Findings from the analysis indicate that (whilst holding other factors constant) there is a positive significance relationship between banks' social investment and market share within the three banks. These findings confirm previous research findings by Alniacik *et al.* (2010), Servaes and Tanayo (2013) who found a positive relationship between CSI and market share, this finding is in contrast with previous research findings by Alniacik (2010); Luo and Bhattacharya (2006) and Sankar (2001) who found a negative relationship between CSI and market share. This paper differs slightly from previous research since none of the previous research examined the relationship in the banking industry within the South African setting. The paper thus makes a moderate contribution to the South African literature on banks' social responsibility research. However findings of this paper is limited within the three banks, hence the paper recommends further research that may study all the JSE listed banks with an expanded number of years; it is likely that a larger sample with more number of years might produce a different result.

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