



Corporate Social Responsibility and Corporate Governance (Case Study on Grameen Bank)

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Introduction :- Corporate Social Responsibility is the corporate form of self-regulation integrated into the business model to create a positive impact on the stakeholders and the environment. Whereas Corporate Governance broadly refers to the mechanisms, relations, and processes by which a corporation is controlled and directed. It involves balancing the many interests of the stakeholders of a corporation. Both CSR (Corporate Social Responsibility) and CG (Corporate Governance) focus on the ethical practices in the business and the responsiveness of an organization to its stakeholders and the environment in which it operates. CG and CSR result in a better image of an organization and directly affect the performance of an organization.

Objective :- My assignment investigates the role played by Corporate Governance (CG) and Corporate Social Responsibility (CSR) in business expansion. Further, it examines how CG and CSR can bring about growth in a business. For a better understanding of the theories, here I have used a case study approach and chose Grameen Bank (GB), a Bangladeshi Bank because of its tremendous success and growth over the years even in the middle of the turbulent financial crisis. Here I wish to find out the role CG and CSR have played in this success critically. We shall see how a bank like Grameen Bank (GB) has deviated from conventional banking models and how this has influenced its growth.

Methodology :- Grameen Bank has revolutionized banking by deviating from the conventional banking models and being a banker to the poor with a primary objective of alleviating poverty. This part of the study shows the method used to bring out the role Corporate Governance (CG) and Corporate Social Responsibility (CSR) has played in the expansion of this bank.

After going through the detailed annual reports of Grameen Bank (GB), I have tried to establish the growth trend of some key performance indicators (like number of branches, number of customers, credit groups etc). The performance indicators chosen for this research are linked to CG and CSR. We shall see a big picture out of these indicators by employing descriptive statistical tables and histograms in order to illustrate expansion.

Data collection is a hard and complex work while doing case study and it is because of the absence of routine formulas and routinised processes in this type of research. A strong literature review was done to raise the validity of the research.

The analysis was on the secondary data gotten from the annual reports of Grameen Bank (GB), and I have tried to link it to existing literature on CG and CSR in order to have a clearer view of CG practice in Grameen Bank and how it has contributed to the rapid expansion of Grameen Bank over the years.

Literature Review :- There is no general definition of corporate governance, but rather each institution defines it to suit its objectives. Cadbury (2000), for example, regards Corporate Governance to be concerned with holding a balance between economic and social goals and between individual and communal goals. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently.

The two theories to be considered in this paper are the agency theory and the stakeholder theory. The agency theory according to Mallin (2010) identifies the agency relationship where one party, the principal delegates work to another party, the agent. Applying this theory to corporate governance will mean that good governance should be geared towards maximizing shareholders' wealth. This theory's inclination to corporate governance is very visible in the USA and the UK since their corporate governance is premised on publicly owned corporations with the shareholders of the business being regarded as the principal and the directors being the agent (Mallin, 2010).

Stakeholder theory on the other hand looks at corporate governance beyond the spectrum of just shareholders and directors, by taking into consideration the importance of other stakeholders – a stakeholder is any person or group of individuals that are affected directly or indirectly by the activities of the company, for example, employees, creditors, suppliers, customers, local communities, environmental groups and government. This theory with respect to corporate governance is widely practiced in civil law countries like France and Germany where employees' rights are highly protected (Mallin, 2010).

It is impossible to disconnect from business ethics and it is necessary to take all stakeholders into account, and CSR is seen as a sound investment and theoretically, the stock market reacts to firms' actions and socially responsible behaviors will be rewarded by the market. Hence many businesses are trying as much as possible to adopt the triple-bottom-line approach to business. In the triple bottom line approach, economic values are related to quality, price, and cost (that is, value for money). Secondly, environmental values are linked to ecological protections, improvements, and responsibility. Lastly, social values are associated with ethical and community responsibility and benefits.

But Md. Yunus questions the integrity of many businesses who claim to adopt this system by saying that most often it is just a show-off and their primary motive is always linked to profit maximization. Hence Yunus thought that when talking about reaching out to the needy, less privileged, and poor; social business still remained the ultimate.

Now this triple bottom line from a people, planet, and profit perspective. The three Ps according to Marrewijk (2003) are not very different from the above-mentioned financial, social, and environmental bottom line. It points to the fact that, while we do business today and make some profits we must not forget other people, be they employees or the

community and we must not degrade the planet and for this the availability of resources for future generations will be compromised. Therefore, for the sake of the study, CSR will mean the following:

CSR = Economic responsibilities + social responsibilities + environmental responsibilities + legal responsibilities + ethical responsibilities + philanthropic responsibilities

Let us now put our focus on business expansion. It can broadly be classified into two categories. The first category is internal expansion in which the business grows and expands by either increasing the size of the production plant or creating new production plants in order to gain economies of scale. The second category of expansion is called external growth which is gotten through the merging or integration of firms. Now for the purpose of this discussion, business growth or expansion will be limited to internal expansion. That is the growth of Grameen Bank internally seen through the increasing number of branches created over the years, increasing number of customers, increasing the number of credit groups, elevating profit figures, etc.

When we discuss the business of Grameen Bank, we can also look at the business beyond the spectrum of just profit and an indication of growth or expansion. Rather look at the business from a stakeholder perspective; a way of looking at a business that calls for more than just profits. The unconventionality of Grameen Bank makes it look more like a social business. According to Zeller et al. (2003), the social performance of an organization (whether a private-for-profit firm, cooperative, or NGO) comprises the relations of the organization with its clients and with other stakeholder groups.

Zeller et al. (2003) also distinguished major dimensions of social performance as follows

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1. Outreach to the Poor and Excluded: Mission and Targeting Strategies: According to them, "MFI has generally been developed to reach a population excluded from the classical financial System. MFIs can have the objective of reaching socially excluded populations or the poor, or simply offering financial services in a region where classical banking systems are absent. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population."

2. Adaptation of the services and products to the target clients. Zeller et al. (2003) also argue that it is not enough to decide to reach a target population. The MFI must learn about the target population and work on the design of its financial services so that they can fit with the needs and constraints of the clients. 'Pro-Poor' services are too often standardized. Social performance indicators can analyze the process leading to service definition and the extent to which the MFI knows about its' clients' needs.

Other indicators include:

3. Improving the social and political capital of clients and communities. For the MFI, trust between the MFI and the clients can reduce transaction costs and improve repayment rates. It thus can foster collective action and reduce free-riding.

4. Social responsibility of MFI: Social Awareness is a necessary pre-requisite for socially responsible corporate behavior. Social responsibility requires an adaptation of the MFI corporate culture to their cultural and socio-economic context, an adequate human resource policy, credit guarantees adapted to the local conditions, and balanced relationships between staff and clients (in particular in MFIs where there are elected clients who participate in decision-making).

Considering Poverty as a denial of human rights, Grameen Bank started its journey in 1976 with a view to fighting poverty and empowering the women of the most rural portions of Bangladesh. Grameen Bank used the 'micro credit' system as a tool to fight poverty. The definition of microcredit that was adopted in Microcredit Summit (1997) is – 'Programs that extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.'

With 2568 branches, today Grameen Bank provides services in 81,677 villages. Covering more than 93 percent of the total villages in Bangladesh. Since its establishment as a formal bank in the year 1983, Grameen Bank (GB) has given out cumulative loans of \$19.5 billion (USD). The repayment rate is currently more than 95 percent. Grameen Bank routinely makes a profit. In the year 2008, the total revenue generated by Grameen Bank was US \$ 174.61 million and the total expenditure was US \$ 155.62. Thus, the Grameen Bank made a profit of US \$ 18.99 million in 2008. 64 percent of their borrowers who have been with the bank for five years or more have crossed the poverty line (Yunus, 2007). Since then, Md. Yunus and his bank have won the Nobel Peace Prize and micro-credit has spread as an idea around the world.

16 Decisions for Borrowers: Grameen Bank has developed a set of vows for its clients, aiming to generate social, environmental, and economic awareness amongst them as an integral part of its service. They put a great deal of emphasis on this and try to make it work. When provided with the loans, the borrowers are requested to collectively take the following sixteen decisions, which many take very seriously and which change their lives –

1. We shall follow and advance the four principles of Grameen Bank – Discipline, Unity, Courage, and Hard Work - in all walks of our lives,
2. Prosperity we shall bring to our family
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest

4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation seasons, we shall plant as many seedlings as possible
6. We shall plan to keep our families small. We shall minimize expenditures. We shall look after our health.
7. We shall educate our children and ensure that we can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit latrines. We shall drink water from the tube- wells. If it is not available, we shall boil water or use alum.
10. We shall not take any dowry at our son's wedding; neither shall we give any dowry at our daughters' wedding. We shall keep the center free from the curse of dowry. We shall not practice child marriage.
11. We shall not inflict any injustice on anyone; neither shall we allow anyone to do so.
12. We shall collectively undertake bigger investments for higher incomes.
13. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
14. If we come to know of any breach of discipline in any center, we shall all go there and help restore discipline.
15. We shall introduce physical exercise in all our Centers. 16. We shall take part in all social activities collectively.

10 Indicators of Poverty Elimination: According to Grameen Bank, a recent internal survey shows that 68 percent of families of Grameen borrowers have crossed the poverty line. The remaining families are moving steadily toward the poverty line from below. (Grameen Bank, 2010).

Grameen Bank uses the following ten indicators to identify the elimination of the poverty level of the borrower –

1. The family lives in a house worth at least Tk. 25,000 (twenty-five thousand) or a house with a tin roof, and each member of the family is able to sleep on a bed instead of on the floor.
2. Family members drink pure water from tube-wells, boiled water, or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.
3. All children in the family over six years of age are going to school or finished primary school.
4. Minimum weekly loan installment of the borrower is Tk. 200 or more.
5. Family uses sanitary latrines.
6. Family members have adequate clothing for everyday use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito nets to protect themselves from mosquitoes.
7. Family has sources of additional income, such as vegetable gardens, fruit-bearing trees, etc, so that they are able to fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of BDT 5,000 in her savings accounts.
9. Family experiences no difficulty in having three square meals a day throughout the year, i.e. no member of the family goes hungry any time of the year.
10. Family can take care of the health. If any member of the family falls ill, the family can afford to take all necessary steps to seek adequate healthcare.

Analysis and Discussion :- So far we have seen that Grameen Bank is not a conventional bank like other banks which aim primarily at profit maximization; rather its main objective is to alleviate poverty by being a banker to the poor. Going through the annual reports of Grameen Bank, we realized that this bank has recorded tremendous success since it was created as an NGO in 1973 except in 1983, 1991, and 1992, as a result of the famine and natural flood that hit Bangladesh in this period. This, therefore, means that had there been no disaster in these years, Grameen Bank probably would not have made any losses during those years, since ever thereafter, it has been growing and expanding very fast. The tables and figure below give more light with respect to this:

Performance Indicator	2004	2005	2006	2007	2008	2009
Cumulative Disbursement (All Loans)	4416.82	5025.61	5954.02	6685.51	7591.32	8741.86
Disbursement During the Year (All Loans)	430.36	608.79	724.96	934.94	905.81	1150.54
Year-end Outstanding Amount	312.96	415.82	471.19	529.53	646.05	791.82
Number of Houses Built Cum. Fig.	607415	627058	641096	650839	665568	679577
Total Deposits (Balance)	343.52	481.22	633.31	756.61	933.89	1200.49
Number of Groups	685083	877142	1086744	1168840	1210343	1253160
Number of Members	4059632	5579399	6908704	7411229	7670203	7970616
Number of Villages Covered	48472	59912	74462	80678	83566	83458
Number of Branches	1358	1735	2319	2481	2539	2562
Profit/Loss (For the Year)	7.00	15.21	20.00	1.56	18.99	5.38

Table 1:- Grameen Bank Historical Data Series
(Source – Grameen Bank Official Website)

The expansion of Grameen Bank can also be assessed in terms of the number of villages covered by the bank over the years. The tables and figure below show the upward trend in the number of villages covered by Grameen Bank from 2004 to 2009. Also, to obtain loans from Grameen Bank customers must belong to a credit group. A group is composed of at least three members. This, therefore, means that an increase in the number of credit groups signifies an increase in the number of borrowers and vice versa. Here we can clearly see that the number of credit groups in Grameen Bank showed an upward trend from 2004 to 2009; increasing from 685,083 credit groups in 2004 to 1,253,160 credit groups in 2009. This indicates that there was a massive increase in the number of borrowers as the years went by and this is an indicator of growth. The above table indicates that Grameen Bank witnessed an upward trend regarding the number of branches from 2004 to 2009. Any business that has a high clientele will easily increase in size and expand. Increasing the number of branches in Grameen Bank without a corresponding increase in the number of members of the bank cannot result in expansion. Rather it will mean that capital is tight down (considering the expenses needed to open a new branch). The above table shows an upward trend in the number of members from 4,059,632 members in 2004 up to 7,970,616 members in 2009. This, therefore, points to the fact that probably, the new branches created were meant to take care of the increasing number of borrowers. This is definitely an indicator of growth.

We know that one of the key factors that call for corporate governance in banks is risk. Since banks are financial leverage institutions that earn a return by taking risks, risk control is a key issue when we look at CG in banks. Unlike normal conventional banks, Grameen Bank gives out loans to the poor without collateral security which is almost the direct opposite of what is being held by banking models. This complicates the issue when one tries to link this to risk sensitivity of banks and other businesses as put forward by the Code of Corporate Governance for Bangladesh. Grameen Bank's credit risk sensitivity is more linked to ethics than rationality based on confidence and trust. Hence in corporate terms, other banks monitor risk both before giving credit and after the borrower gets the loan, and before a borrower obtains a loan, he or she must present acceptable collateral security so that in case of any default of payment, the bank seizes the asset that was set aside as collateral. Grameen Bank on the other hand monitors credit risk before a loan is given to a customer by giving loans only to customers belonging to a credit group as explained above. This means that there is no monitoring of borrowers. But the corporate measure that Grameen Bank takes to make sure that it does not have excessive loan losses is that it only gives out bigger loans to the same borrower after the previously smaller loan taken by the borrower has been repaid. So far, the repayment rate has been very high as shown in the following table

Year	Repayment Rate
2004	99.05
2005	99.01
2006	98.82
2007	98.02
2008	98.32

Table2:- Repayment Rate Over The Years

This very high rate of timely loan repayment in Grameen Bank as a result of its lending policy that safeguards against losses based mostly on ethics and trust than rationality reduces the mismatch between deposits and loans and hence makes liquidity readily available for future borrowing, and thus enhances the bank's expansion.

Regarding the CSR practice in Grameen Bank, we are relying on secondary data. Here we are going to consider two important indicators of CSR in Grameen Bank linked to social responsibility (the number of houses built and the amounts granted as scholarships to Grameen members).

Years	2004	2005	2006	2007	2008	2009
Number of Houses Built (Cumulative)	607415	627058	641096	650839	665568	679577

Table3:- Number of Houses Built(Cumulative)

The above table shows an upward trend in the cumulative number of houses built from 2004 to 2009. Building more houses is one of the key indicators of breaking the cycle of poverty and also one of the sixteen decisions found in the methodology of |Grameen Bank.

Years	2005	2006	2007	2008	2009
Scholarship (Amount In BDT)	7073492	8897681	29820708	36417945	41501506

Table4:- Amount of Scholarship Given

The above table illustrates the amount of loans given as scholarships to the children of the borrowers. Amount of scholarships has increased considerably between 2005 to 2009. Education for children is also considered one of the sixteen decisions of Grameen Bank. Both housing and education are treated as the basic need and are also associated with community responsibility and the benefits can easily be linked to social values.

Conclusion:- The main aim of this assignment was to look at the role of Corporate Governance and Corporate Social Responsibility in Business Expansion with special reference to Grameen Bank as a case study. At the beginning of the analysis, we tried to give a picture of the success that Grameen Bank has recorded over the years, has been given. The profit figures, number of borrowers, number of branches, number of villages covered, and number of houses built showed an upward trend over the years indicating that Grameen Bank has been growing and expanding.

Concerning CSR, Grameen Bank shows some degree of CSR as a social business. This is seen through the number of scholarships it gives to Grameen children. This has been increasing over the years as shown above. Another area of CSR that is visible in Grameen Bank is the housing loans it provides to members of Grameen Bank.

Using Corporate Governance to explain the expansion of Grameen Bank is more a question of ethics than that of rationality. We may therefore conclude by saying that, Grameen Bank practices Corporate Governance and Corporate Social Responsibility and these have contributed to its expansion over the years and possibly for many more years to come.