



# Corporate Social Responsibility in the Albanian Banking System

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**Abstract:** *Corporate social responsibility is a new concept in Eastern Europe and particularly in Albania. Albania came out of the communist regime without any kind of heritage or experience in the field of conception and later in that of applying social policies. But after the '90-s, the opening of Albania to free trade brought dramatic changes. These changes had their essential influences and on the field of social policies.*

*The paper will make a presentation of the actual level of corporate social responsibility undertaken by each bank operating in Albania. The authors have built some graphs according to the number of initiatives in achieving each of the targets for each Albanian bank by analyzing and addressing the following in more detail each bank. The paper will be closed with some conclusions and recommendations.*

## 1. INTRODUCTION

A socially responsible framework requires that actors involved in socio-economic or major economic projects (i.e., governments, investors, and communities) share specific and shared responsibilities for the functioning of the system. A socially responsible system is not based on a framework where no one wins. A socially responsible system creates opportunities through the synergies it creates or that helps to identify. The goal is sustainability or consistent results and benefits for all. A socially responsible system is one where a host of interactions take place between different categories of actors (governments, investors, and communities) thus creating, among other things, an effective partnership. Banks are also very important actors in this field. Effective partnerships between banks and various non-profit organizations or institutions of a social nature are a prerequisite for having sustainable and long-lasting results in their business.

The topics of Corporate Social Responsibility (CSR) have been thoroughly studied by theoretical and empirical research since the 1950s, and CSR is growing more significant in the age of globalization. As a result, realizing the value of CSR, the majority of banks have undertaken social and environmental initiatives that benefit both them and society (Yen Thi Hoang, Tran, 2014). Global need for banks to practice corporate social responsibility (CSR) has emerged. Banks from all over the world now support programs for educational, cultural, environmental, and health efforts by recognizing CSR. Additionally, they take sponsorship initiatives for humanitarian nonprofits and needy communities (Persefoni Polychronidou et al., 2013).

The state of CSR in banks has actually been the subject of numerous studies. In contrast to individuals who work in the 21<sup>st</sup> century, management without consideration for the needs and desires of partners in a group won't be focused on. There is a greater demand for accountability

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and frankness from both the public and private sectors. In earlier times, management sought both profitability and survival. These days, management is concerned with controlling both financial and non-financial outcomes while maintaining transparency. In light of this, corporate budgeting execution and corporate social responsibility (CSR) have become increasingly important (Khaled Hossain, Rahat Khan, 2016). The purpose of this paper is to analyze the involvement in social responsibility of banks in the Albanian banking system, in order to show that banks are not just business units, but they are also members of society, living, feeling and contributing to the progress of society. More and more companies are trying to work in a way both to protect the interests of employees, consumers, suppliers and other parties, as well as society as a whole. Therefore, it will be analyzed how the social responsibility of Albanian banks affects the community where they operate and the comparisons between banks.

## **2. CORPORATE SOCIAL RESPONSIBILITY**

### **2.1. What is Corporate Social Responsibility?**

Corporate Social Responsibility (CSR) has seen a significant rise in awareness and control in recent years on a global scale. CSR was an attempt to connect business with society when it was first formed in 1960. According to Lee (1997), CSR refers to a company's commitment to operating in a way that is both economically and environmentally sustainable, while also taking into account the interests of various stakeholders and maximizing economic, social, and environmental value. CSR, according to Holmes and Watts (1999), is a company's ongoing commitment to act morally, promote economic growth, and enhance the lives of its employees, their families, the local community, and society as a whole. As a result of the enterprises' embeddedness in various national business systems, Matten & Crane (2005) highlighted the fact that the firms will suffer varying degrees of internal, external, and lateral pressures to engage in CSR.

Corporate social responsibility (CSR) refers to tactics used by businesses or organizations to conduct their operations in a morally upstanding, sociably responsible, and developmentally advantageous manner. By assuming responsibility for the effects of their actions on stakeholders, employees, shareholders, consumers, suppliers, and civil society, corporate organizations can demonstrate interest in societal and environmental welfare in addition to their focus on profitability and growth (Dhingra and Mittal, 2014). Businesses have a social duty to operate in a way that serves society as well as its shareholders, in addition to generating shareholder profit. For investors and consumers looking for investments that are not only profitable but also contribute to the well-being of society and the environment, social responsibility has become increasingly crucial. Socially conscious businesses must implement policies that lessen their negative effects while promoting society's and the environment's well-being. Companies can behave responsibly in a variety of ways, including by encouraging volunteerism, enacting environmental improvements, and participating in philanthropic giving.

According to Trotta et al. (2012), CSR is a key factor in any institution's reputation and builds up economic value over time. According to Holder-Webb et al. (2009), CSR can be used as a source to gain a competitive advantage, boost the company's trust with stakeholders, and establish a long-term reputation. Social responsibility plays a significant role in enhancing the organization's overall reputation. Giving back to the community, interested parties, and clients would not only elevate the company but also guarantee expansion and long-term success.

## 2.2 When do banks take social responsibility?

Masud and Hossain (2012) studied ten commercial banks and discovered that 100 institutions disclosed their CSR initiatives, while 60% of the banks showed interest in endorsing the CSR zone as required by the budgetary legislation. Another study by (Habib et al. 2007) shows that CSR is largely regarded as a strategically significant problem for the long-term expansion and competitiveness of companies today. Bank CSR initiatives not only raise their own standards but also have an impact on other companies' socially conscious actions. According to (Lentner, Szegedi and Tatay, 2015) The banking industry didn't react quickly enough to CSR concerns. It took into account social and environmental issues in that order (Vigano Nicolai, 2009). CSR appears to be the embodiment of the core concepts of business ethics and is used by the corporate sector as a tool to improve and legitimate the sector's economic performance (Scholtens, 2006). The 2008 financial crisis highlighted the need for CSR in this industry as well, driving home the importance of trust as well as the accountability and openness that lead to it. The need for ethical and responsible behavior has caused financial and investment processes to point beyond the protection of the legitimate interests of depositors and owners, which is traditionally thought of as the main social function of financial institutions. These processes include efficient allocation and risk management (Tzu-Kuan Chiu, 2013). The banking industry's CSR practices are distinct from those of other economic sectors due to this distinction. Here, there is a stronger focus on accountability in the sectors of bank lending, investment, and asset management operations, where bribery and money laundering prevention are crucial CSR initiatives for banks and where these concerns are of special importance (Vigano Nicolai, 2009). A bank that undertakes social responsibility is aware of the impact of its activities on society and acts accordingly. By providing sustainable products like green loans, ethical funds, and sustainable savings products, banking activities indirectly promote a sustainable society. Being a significant employer, the financial sector is also responsible for providing fair and equitable compensation, as well as long-term work that is both appealing and challenging. Due to staff mobility and the energy and paper usage in many branches, banks now directly affect the environment. Bank executives need to focus first on ensuring sound governance and fair business practices. Then they should look towards practicing social responsibility.

## 3. CRS IN THE BANKING SYSTEM

### 3.1. Some indicators of the Albanian Banking System

The banking system, in economies organized and operating according to free market principles, is divided into two levels. The division of the banking system into levels is done to identify the different functions performed by commercial banks and the central bank. At the first level is the central bank. The central bank is a constitutional institution which, in a broad sense, exercises "governing" functions. The Bank of Albania is the central bank of the Republic of Albania. Commercial banks stand at the second level. These banks are pure financial intermediaries, set up in the form of joint stock companies and aiming to provide profit for their owners. The Bank of Albania's intervention in the economy is always done in order to meet the objective of maintaining price stability. Monetary policy has interest rates as its main instrument. The central bank moves interest rate levels to bring inflation within its target. The Albanian banking system is the most important sector of the financial system in Albania, occupying about 85% of the financial system and implying the weak role of the capital market. This system has undergone a comprehensive transformation in the period from 1991 to 2021. In 1992 in Albania operated only three state-owned banks, while in 2021 the Albanian banking system operate 12 banks with private capital. The sources of financing of the Albanian banking system come mainly

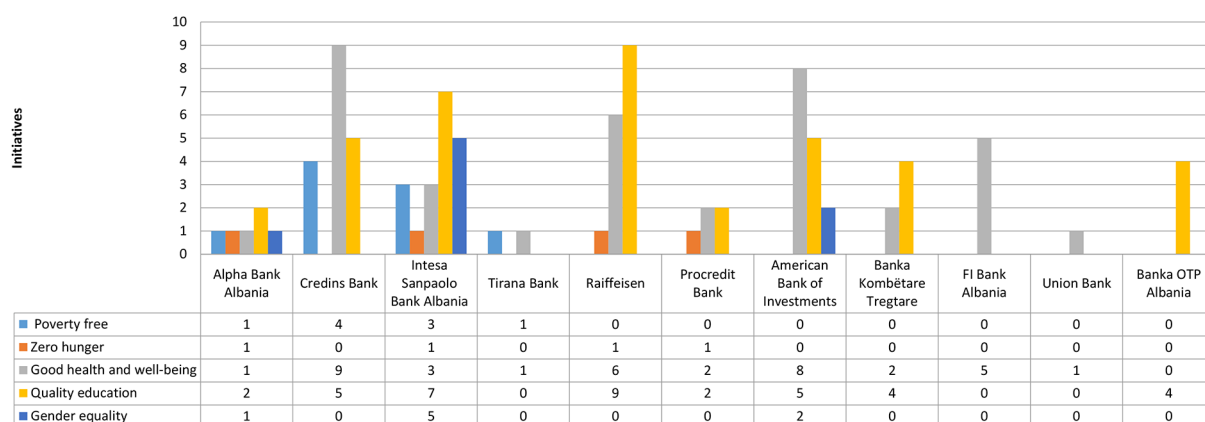
from deposit activity (82.3% of the total liabilities of the banking sector). In terms of total deposits, only 12% belong to different businesses, while household deposits have the overwhelming weight of the system at 88%. The net financial result of the banking system has a positive performance. This has come because of the improvement in the price of securities that banks have in their portfolios, as well as a less significant positive impact that has had the extraordinary income mainly from the execution of collaterals left with banks to guarantee loans taken.

According to European Banking Federation (EBF), by the end of December 2020, the Albanian economy had expanded by 3%. The preceding year's economic shocks, first brought on by the fallout from the November 2019 earthquake, then by the epidemic, were actively resisted by fiscal policy. Extension of tax duties, issuing of sovereign guarantees to safeguard employees' pay and lessen credit risk for borrowers, and an increase in public spending on earthquake-damaged building reconstruction and public health requirements, were among the actions implemented. As a result, similar to other nations' experiences, the fiscal deficit and public debt saw a sharp growth in 2020. By the end of 2020, it was predicted that the public debt would be climbed to roughly 80% of GDP and the budget deficit to about 7% of GDP (or about ALL 110 billion). Both foreign and domestic borrowing accounted for the majority of the budget deficit's funding.

### **3.2. Corporate Social responsibility undertaken by banks operating in Albania**

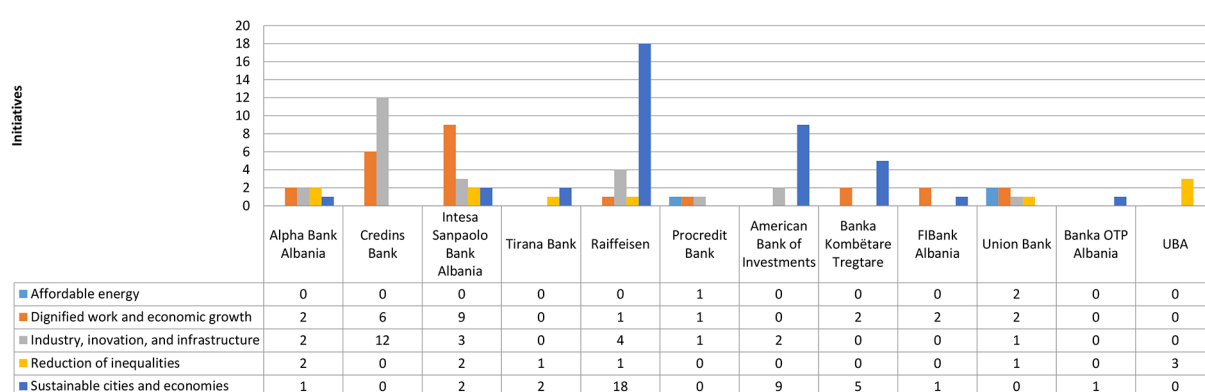
The banking system in Albania in the context of social responsibility aims to achieve the following objectives:

- 1) Poverty Free: Eliminate all forms of poverty worldwide;
- 2) Ensure food security, enhance nutrition, and advance sustainable agriculture to end hunger;
- 3) Good health and wellbeing: promoting and ensuring healthy lives for people of all ages;
- 4) Ensure accessible and equitable quality education while fostering chances for everyone to continue learning throughout their lives;
- 5) To achieve gender equality and to give all women and girls more power;
- 6) Affordable Energy: Provide affordable, secure, connection to modern, sustainable energy for all;
- 7) Promoting full, productive employment, decent work for everyone, and economic growth that is inclusive, inclusive, and sustainable;
- 8) Building resilient infrastructure, encouraging inclusive and sustainable industrialization, and embracing innovation are three interrelated concepts;
- 9) Lowering disparities: lowering disparities both inside and across nations;
- 10) Making cities and human settlements inclusive, safe, resilient, and sustainable is essential for sustainable cities and communities;
- 11) Ensuring sustainable patterns of consumption and production is responsible consumption and production;
- 12) Climate Action: Take immediate steps to mitigate the effects of climate change;
- 13) Underwater life: Responsible stewardship of the world's oceans, seas, and marine resources for a sustainable future;
- 14) Living in the wilderness: Protecting, restoring, and promoting the sustainable use of terrestrial ecosystems, sustainable forest management, combating the return of desert areas and stopping and reversing the process of land degradation and stopping biodiversity loss;
- 15) Partnership for Objectives: Strengthening the ways of implementation and reviving the global;
- 16) Sports, art, and culture: Sponsorship of cultural activities.



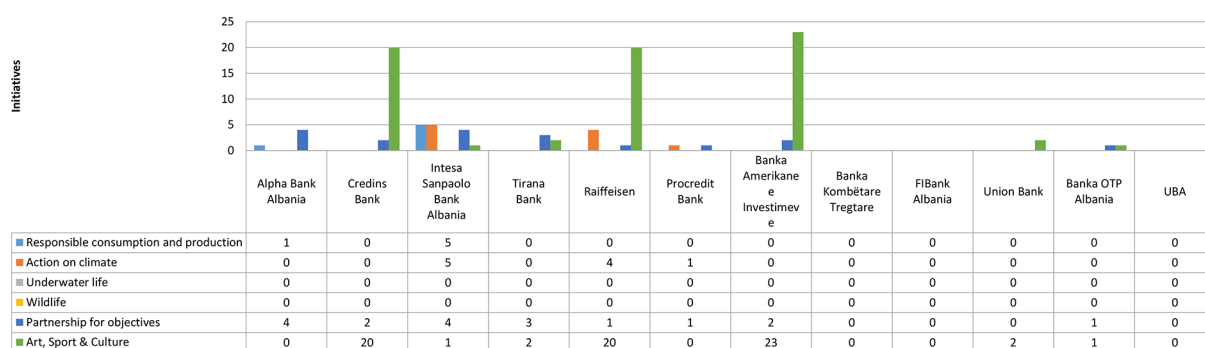
**Figure 1.** Number of initiatives for the first 5 CRS objectives

Source: Albanian Association of Banks (2020), refined by the authors



**Figure 2.** Number of initiatives for the second 5 CRS objectives

Source: Albanian Association of Banks (2020), refined by the authors



**Figure 3.** Number of initiatives for the last 6 CRS objectives

Source: Albanian Association of Banks (2020), refined by the authors

The graphs show the number of initiatives undertaken by each bank operating in Albania regarding each objective of social responsibility mentioned above. From the data and comparison in the figures above, it is noted that:

**Alpha Bank Albania** has contributed and undertaken initiatives in the realization of 12 objectives and has contributed to relatively small amounts among its initiatives in social responsibility. There are no activities that can help with climate action, fisheries and other nature-related activities and protection.



**Credins Bank** does not contribute to a wide range of social responsibility initiatives. It has helped with 7 targets, but, its contribution to those targets is relatively average and in some high. It has provided the greatest contribution to supporting cultural and artistic activities by supporting and financing several activities, concerts and festivals with material purchases.

**Intesa Sanpaolo Bank Albania** is the bank with the largest contribution to social responsibility, contributing in relatively high amounts to the achievement of almost all objectives except contributions for fishing, protection of natural ecosystems and connection to modern affordable energy. Its main contribution is to dignified work and economic growth where it has supported and developed programs that focus on reducing the unemployment rate in the country and constantly providing employment opportunities for various positions in the banking sector.

**Tirana Bank** offers relatively low contributions in terms of social responsibility. It has the greatest contribution in the realization of the partnership for the objectives where it has donated some facilities to help the families affected by the earthquake in 2019. It has mainly supported activities related to disaster relief and cooperation with some foundations but does not carry out activities in nature protection, and ecosystems and does not even support employees as in the case of Intesa Sanpaolo bank. Also, with still small contributions in this field is the UBA that has not even published a program on the protection of social responsibility in the official program and its official website.

**OTP Albania Bank** has made the main contribution to quality education.

**Union Bank** has contributed and undertaken relatively few initiatives, mainly in support of cultural, artistic and sports activities, for dignified work and economic growth, affordable energy, and infrastructure.

**Fi Bank** has few initiatives within social responsibility where the contribution to good health and well-being can be singled out.

**Raiffeisen** is one of the banks that undertakes the most initiatives in the context of social responsibility in Albania. It has the greatest contribution to supporting cultural, artistic and sports activities. It is also among the only ones that have taken initiatives in climate action where for more than 10 years it has been continuously contributing to environmental issues and especially to the cleaning of coastal areas.

**American Bank of Investments** has relatively high contributions to social responsibility but not with a broad scope like Intesa or Raiffeisen. It has mainly invested in supporting social, cultural and artistic activities, but it also has focused on ensuring sustainable communities, good health, quality education (training, support of students, employees), etc.

**National Commercial Bank** contributes to relatively low average social responsibility. It has made the highest contribution to quality education and sustainable communities.

**ProCredit Bank** has a poor program and spends little in terms of social responsibility where the main contribution is to quality education and good health.

## 4. CONCLUSION

Social responsibility is the responsibility of an organization to maximize its positive impact and minimize its negative impact on society. Social responsibility is negative when the company with its behavior decides for large instant profits without thinking about the consequences. Social responsibility is positive when a company is established in a society, not as a parasite, but as an integral part of it, creating a relationship of mutual trust. This firm will stay there for a long time and will not be identified only as a business but as a point of reference and trust in the field where it operates.

Albania until the '90s came without any legacy or experience in the field of conception and then in the application of social policies. Lack of knowledge in this area, lack of awareness of social responsibilities as well as lack of a legal framework to promote the engagement of the business community in the social, environmental and ethical initiatives, are noted.

The banking system in Albania and in all organized economies that operate according to the principles of the free market is divided into two levels: the central bank (the main bank in charge of ALL issuance and monetary policy) and second-rate trade banks.

From the study and analysis done and organized on social responsibilities in the banking system between the realization of some objectives listed during the handling of the issue, it is noticed that banks in Albania (most) do not undertake effective well-thought-out and programmed initiatives around social responsibility. The banks that take the most initiative and pay more attention to this aspect are: Intesa Sanpaolo Bank, Raiffeisen, and American Investment Bank. Credins is more 'focused' and carries out relatively numerous activities but not with a wide scope in achieving the objectives.

Almost all of them focus on human rather than environmental responsibility. This fact and its exceptions are expressed in the analysis and results drawn in the last issue for each of the banks. It turns out that they are more concerned with creating a name and gaining short-term fame (most of their activities are in sponsoring cultural, artistic and sports activities) than in creating an effective social responsibility.

## 5. RECOMMENDATIONS

Creating and programming an effective well-thought-out and organized social responsibility with great attention and dedication to thinking about long-term achievements.

Greater focus on environmental responsibility that is almost unnoticed. This is probably a result of the lack of knowledge in this area, the lack of awareness of social responsibilities and the lack of legal framework to promote the engagement of the business community in social, environmental, and ethical initiatives. Regulatory facilities may be created by local authorities on companies based on the initiatives and contribution they make to social responsibility.

Most banks do not consider the development of this aspect, very important from the analysis made and the conclusions drawn. We would recommend a deeper study and programming with more detailed studies in social responsibility where it is most needed.

Since banks as enterprises are focused on increasing short-term and long-term wealth, it would be beneficial to create a magazine, website, application, or economic television media, where aspects and measures taken by each bank are presented in an organized and attractive way, making this aspect more transparent and understandable for future investors, interested in the field and not only, but also of the vast population that constitutes a future clientele. This has many advantages that flow in other directions as well, improving various issues.

Develop an activity that serves as a kind of training for each industry where successful companies with many years of experience are mentioned and the social responsibility they pursue is introduced. This would help not only in increasing the social responsibility of each company from diverse industries but also in understanding the regulations that promote this aspect and all the issues that prevent it.

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