IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 19, Issue 9. Ver. II. (September. 2017), PP 28-34
www.iosrjournals.org

From Corporate Social Responsibility to Creating Shared Value: Opportunities and Challenges for the Banking Sectors in Bangladesh

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Abstract: *The concept of 'creating shared value (CSV)' has gained credibility, legitimacy and momentum in the world as a new way of doing business and formed the core of recent business research. The main theme of CSV is creating economic value through creating social value by taking into account social needs and challenges as business opportunities. The aim of this paper is to evaluate the significance of replacing CSR by CSV and to identify challenges and opportunities of creating shared value in the perspective of banking corporations in Bangladesh. The study has found that replacing the deep rooted CSR is a major challenge because of the present social reality. In order to get desired results of CSV, leadership commitment, appropriate regulatory framework, employee skills & creativity, and identifying and evaluating appropriate indicators to measure business and social outcomes are necessary. Finally, the paper argues that huge unmet needs in a developing country like Bangladesh open up the door for the banking corporations to adopt CSV and to build early brand image in the industry.*

Keywords: *Banking on Shared Value, Banking Sector, Corporate Social Responsibility (CSR), Creating Shared Value (CSV), Shared Value.*

Date of Submission: 14-08-2017 Date of Acceptance: 05-09-2017

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1. Introduction

Corporate social responsibility has become a commonplace of business entities across the globe. Many corporations all over the world including Bangladesh are engaged in CSR or philanthropic activities such as giving to charities, donations, and promoting community services, healthcare, education etc. Corporations perform these activities voluntarily and at the expenses of their stockholders and as such Porter and Kramer (2011) termed it as a cost center [1]. Moreover, this approach of CSR has little or no integration with the firm's profitability, strategy, or competitive advantage [1]. There are tremendous debates concerning the form as well as the efficacy of giving back to society. Now the question arise how corporations balance between their business interest and social interest concurrently as there is no way for the firms to avoid their social responsibility. In 2011, a new approach of doing business being socially responsible has been introduced–the concept of CSV, which implies creating economic value through creating social value. It is a new, challenging view on the social and business issues and the connection between the two. Companies worldwide have started to look into the newly introduced concept and are trying to become accustomed to the idea. In these circumstances, it is necessary to address the following research questions: Why is shifting from CSR to CSV? What are the challenges and opportunities to take up CSV instead of CSR? In this paper, the authors strived to answer all the above stated questions using Bangladesh setting with special emphasis on banking sectors. The subsequent of the paper is organized as follows: section 2- case background, section 3- methodology of the study, section 4- evolving concepts relating to responsible business practice, section 5- significance of shifting focus from CSR to CSV, section 6- responsible business practices of banking sector in Bangladesh, section 7- opportunities and challenges for adopting CSV, and section 8- conclusions and recommendations.

2. Case Background

In order to determine the creation of shared value of banking sector it is important to understand the economic and social development issues of Bangladesh. Bangladesh was independent in 1971 from the Pakistan regime. After the independence, banking sector in Bangladesh started its journey with 6 nationalized commercial banks, 2 state owned specialized banks and 3 foreign banks. In the 1980's banking industry achieved significant expansion with the entrance of private banks. At present, two types of banks are operating in Bangladesh- scheduled banks and nonscheduled banks. The banks that get license to operate under Bank Company Act, 1991 (Amended in 2013) are known as Scheduled Banks, while, the banks that get license to operate for special purposes and operate under the acts that are enacted for meeting up those purposes, are known as Non-Scheduled Banks [23]. Non-Scheduled Banks cannot perform all functions like scheduled banks. At the end of July 2016, a total of 57 scheduled banks and 06 nonscheduled banks were operating. Of the 57 scheduled banks, there are 6 state owned banks, 40 private commercial banks (PCBs), nine foreign commercial banks and two specialized banks [23]. All the banks operate under full control and supervision of Bangladesh Bank (BB) which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991 (Amended in 2003). PCBs are operating in two different modes. As of December 2016, out of 40 PCBs a total of 32 PCBs are conducting 'interest based' operations and 8 are conducting their operations on 'profit/loss sharing' mode. From the inception, the PCBs are contributing in the socio-economic development of Bangladesh, which is the 8^{th} largest populated country in the world. The total population according to the census 2011 is 144.04 million (currently approx 16.5 million) among which male is 72.11 million and female is 71.93 million; 76.7% of total population live in rural and 23.3% of them live in urban. PCBs are mostly expanded their operations in the urban areas as a result rural people are out of the reach of the commercial bank's services. At present, there are 49.56 percent adult people are unbanked [24].

3. Methodology of the Study

To achieve the objectives of the study, a descriptive research design is adopted to have greater accuracy and in-depth analysis of the issue. The paper is based solely on secondary sources of information. The sources of data include publicly available company information at the websites of the banks, published corporate annual reports, relevant books, articles, and dissertations published on CSR and CSV at home and abroad.

4. Evolving Concepts Relating to Responsible Business Practice

4. 1 Concept of CSV

The idea of 'Shared Value' (SV) was initially explored in a Harvard Business Review article by Porter and Kramer in December 2006 [2]. The concept was further expanded by the same authors in their follow-up article in January 2011 (p. 6) whereon they defined "shared value is the policies and operating practices that enhance the competitiveness of a company while simultaneously advance the economic and societal conditions in the communities in which it operates"[1]. Shared value creation focuses on identifying and expanding the connection between societal and economic progress [1]. Similarly, Aakhus and Bzdak (2012) and Porter and Kramer (2006) defined shared value is a meaningful benefit for the society that is also valuable to the business [2] [3]. Dubois and Dubois (2012) maintained shared value is the creation of organizational value while simultaneously adding value to society and to the environment [4].

Porter & Kramer (p.4) maintained 'value' as benefits relative to costs, not just benefits alone [1]. They further noted that business has long been recognized value creation is an idea, where profit is revenue earned from customers minus the cost incurred. The authors however argued that, businesses have not approached societal issues from a value perspective but have treated them as side-line matters (Ibid). This has obscured the connection between economic and social concern [2].

The focal point behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Recognizing and capitalizing on these connections between societal and economic progress as the power to unleash the next wave of global growth and to redefine capitalism [1]. The authors maintained that a business can create shared value by reconceiving its products and services, by redefining its value chain to improve productivity and by enabling its local clusters. Porter and Kramer (2011) defined reconceiving products and services as satisfying unmet needs of the society and serving disadvantaged communities. To mean unmet needs they maintained fundamental needs of the society such as health, better housing, improved nutrition, help the aging, greater financial security and less environmental damage. The second mechanism is redefining productivity in the value chain. The authors noted that the productivity increases when businesses approach societal issues from a shared value perspective and discover new ways of doing to address those [1]. The final mechanism is enabling cluster development. Porter and Kramer (2011) held that productivity and innovation are strongly influenced by clusters or geographic concentration of firms, related businesses, suppliers, service providers and logistical infrastructure in a particular field [1]. They also identified that clusters not only include businesses but also institutions such as academic programs, trade associations, and standard organizations. They viewed clusters are prominent in all successful and growing regional economies and play a crucial role in driving productivity, innovation, and competitiveness [1]. The CSV concept argued that the more a company will address societal needs that are less addressed or not at least addressed, the more shared value will be created. In a clearer form, shared value will result when company will focus on needs of the bottom of the pyramid. This concept, however, contradict with the so called

CSR or philanthropic approach as CSR or philanthropy distracted companies from profitability and few people are benefited from this practice. Rather the CSV concept holds that if companies consider shared value at the core of their business choice, the total pool of economic and societal benefits will be the result [1].

4.2 Concept of CSR

CSR is a multi-disciplinary subject and definitions vary with regard to perceived scope or boundaries of the corporation's responsibility. Bowen (1953, p. 44, in Carroll 1999, p. 269) was given an initial definition of the social responsibilities of businessmen: "it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" [5]. Davis (1960, p. 70) defined CSR as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic and technical interest" [6]. More precise definition of CSR was given by McGuire in his book *Business and Society* (1963, p. 144), whereon the author stated, "the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations" [7]. Fitch (1976, p. 38) stated "Corporate social responsibility is the serious attempt to solve social problems caused wholly or in part by the corporation" [8]. According to Carroll (1991, p. 43), "the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen" [9]

Matten and Moon (2004) conceptualized CSR in a European context and differentiated between explicit CSR and Implicit CSR. By explicit CSR they refer to corporate policies to assume responsibility for the interests of the society. They mentioned explicit CSR consisted of voluntary, self-interest driven policies, programs and strategies by corporations addressing issues perceived as being part of their social responsibility. By implicit CSR they referred to the sum of a country's formal and informal institutions assigning corporations an agreed share of responsibility for society's interest and concerns. Implicit CSR consists of values, norms and rules which result in (mostly mandatory but also customary) requirements for corporations to address issues stakeholders consider a proper obligation upon corporate actors [10].

The World Business Council for Sustainable Development (WBCSD) defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"[11]

CSR, therefore, can be characterized as voluntary activities, giving back to society, corporate citizenship, philanthropy, isolated from core business activities and company profitability, it is done by external pressures, and it is done at the expense of the shareholder's money.

4.3 Difference between CSR and CSV

The organizations that are disclosing, advancing and advocating Porter's and Kramer's shared value concept include: Business for Social Responsibility (www.bsr.org), the Shared Value Initiative at FSG Social Impact Advisors (http://www.sharedvalue.org/), Business in the Community (http://www.bitc.org.uk/), the Clinton Global Initiative (http://www.clintonglobalinitiative.org/), the World Business Council on Sustainable Development(http://www.wbcsd.org/home.aspx),Heifer International (http://www.heifer.org/partners/corporate-partners/index.html) and the Aspen Network of Development Entrepreneurs (http://www.aspeninstitute.org/policy-work/aspen-networkdevelopment-entrepreneurs) [12]. From the available information of the aforementioned links the CSR differ from CSV in the following manner.

- CSV focuses on redesigning products and market that meet unmet social and environmental needs while simultaneously delivering financial returns. CSR focuses on improving corporate goodwill, image, or citizenship through spending money the corporation has already earned.
- CSR is done voluntarily and is isolated from the direct profitability, productivity, strategy, and competitive advantage. While, CSV is integrated with the firm's core business choices therefore, directly linked to corporate profitability, productivity, strategy, and competitive advantage.
- CSR is done in response to external pressures and personal preferences of the corporations. CSV, on the other hand, is internally generated and company specific.
- CSR is separate from profit maximization but CSV is integral to profit maximization.
- The CSR approach defined value is 'doing good' but the CSV approach defined value as economic and social benefits relative to cost, not just the benefit alone. Value creation is an idea that has long been recognized in business, where profit is revenue earned from customers minus the cost incurred. However, businesses have rarely approached societal issues from a value perspective but have treated them as peripheral matters. This has obscured the connection between economic and social concern [2]. Regardless of the distinctions both approaches assumed that corporations will comply with laws and ethical standards and reduce harm from corporate activities.

4.4 Clarification of Shared Value

Shared value is not the corporate social responsibility, philanthropy or even sustainability nor is it the personal values, or sharing of value already created by firms. The concept of shared value focuses on the association and inter-dependability between societal progress and economic growth. Societal problems help identify business opportunities for the firm, while business opportunities solve social problems. That means shared value is created when business undertake various unmet or less addressed social needs and challenges as business opportunity. Hence, earning fair profit from social purpose is justified. This concept takes into account philanthropy only when it creates shared value. This concept also assumes that if poor and disadvantaged section of the society is directly benefited from the products and service offerings of the corporations, shared value is created. Shared values are core to business strategies or choices but not at the margin or periphery. It is integrated with company profitability and competitive advantage, and consequently, enhances total pool of economic and social value.

5. Significance of Shifting Focus from CSR to CSV

Concerns about corporate social responsibility have grown significantly during the last two decades [12]. The issue has not become a commonplace in the business but a body of academic literature evolved around it. Most researches on this subject have focused on investigating the interrelationship between corporate social responsibility (CSR) and corporate financial performance. Some of the researchers concluded that CSR engagement of firms improves financial performance [14] [15] [16]. Others have concluded that there is no correlation between CSR engagement of firms and improvements of financial performance [17] [18] [19] [20]. Although the researches show equivocal relationships, there is however no way of the business firms to avoid CSR because of the inter alia between business and society. Business enterprises depend on society for all sorts of resources, securities, recognitions, and customers for the products or services they offer. Conversely, society depends on business for products or services, employment and the like. Moreover, various business actions have negative social and environmental impacts that must be addressed by the business itself. The fact is that many companies try to hide all these irresponsible behavior doing some philanthropic activities in the society. These philanthropic activities get huge media coverage and government attention. Some companies engage in so called CSR activities with a hope of getting tax exemptions. Few companies try to boost corporate image through CSR activities, however, there is a debate of its effectiveness. In the present form of CSR practices, scandals are not uncommon especially in developing countries like Bangladesh. There is a chance of corruption, nepotism, tax evasion, and politicization. There are plenty of examples of firms that, in the pursuit of profit, have exhibited all sorts of socially irresponsible corporate behavior, such as deceiving customers, swindling investors, exploiting and even brutalizing employees, putting consumers at risk, poisoning the environment, cheating the government, and more [21]. However, many corporations do just opposite, by giving to charities, supporting community activities, treating their workers and customers decently, abiding by the law, and generally maintaining standards of honesty and integrity [13].

The present anomalies of the CSR practices can be solved through adopting enlightened attitudes toward CSV approach- a supersede approach to CSR [1]. Shared value approach ensures value for business and society concurrently since this approach give stress on serving social interests through the core business activities but not the noncore CSR activities. Both corporate entities and society can be effectively benefited if corporations operating in a particular society emphasize creating shared value through operating policies and practices that guide their core business activities. Shared value is essential to a company’s profitability and competitive advantage [2]. The shared value approach requires the firm to internally revise its core business activities to address the unmet or less focused social needs. It also requires the firm to comply rules and ethical standards [1].

6. Responsible Business Practices of Banking Sector in Bangladesh

6.1 CSR Practices

CSR has become a fashion of doing banking business in Bangladesh. All the sample banks reported CSR engagements in their annual reports. Some banks reported that they do not consider CSR as philanthropy but the pattern of CSR engagements and reporting tells us that it is the natural extension of the traditional practice of giving back to local communities rather than new ways of doing business. The PCBs have used words to define CSR include: responsible business, corporate citizenship, giving back to community, capacity building, sustainable performance etc. The reported areas of CSR of banking corporations include but are not limited to donations to relief funds; supporting sports, education, research, art & culture, health care; helping disables; protecting environment; and supporting various social projects. The following table shows that in the fiscal year 2015, banking sector expenditure in CSR activities was BDT 5,356.5 million of which major contributions were in Education (34.4%), Humanitarian & disaster relief (23.5%) and Health (21.8%) sectors.

Table 1: Sector-wise CSR Expenditure of Banks (Amount in million BDT)

Sectors	Amount Spent in Fiscal Year 2015	Sector-wise Share (in percentage)
Education	1845.2	34.4
Health	1165.3	21.8
Humanitarian & disaster relief	1257.2	23.5
Environment	189.6	3.5
Cultural welfare	445.0	8.3
Infrastructural development	27.0	0.5
Income generating activities	4.0	0.1
Others	423.2	7.9
Total	**5356.5**	**100**

Source: Annual Report of BB 2014-15, p.54

6.2 CSV Practices

Bockstette *et al* (p. 7) held that ‘shared value’ is rooted in a company’s strategy and competitive positioning in three ways: (1) reconceiving products and markets by extending their reach to new markets, finding new ways to improve the financial health of their clients, and developing new products and services that support social and environmental progress; (2) redefining a bank’s internal operations and processes to improve productivity; and (3) creating enabling framework conditions to move beyond small-scale projects to pursue shared value markets profitably and at scale. Achieving shared value at scale requires banks to work across all three of these mutually reinforcing areas [22]

The CSV concept has gained credibility, legitimacy and momentum as a new way of doing business. The concept has been embracing by many of the world’s leading corporations like Nestle, Intel, Unilever, Coca-Cola and Western Union, and the framework and language of shared value has spread quickly beyond the private sector to public sector, NGOs, civil society and academia [12]. Bank and financial institutions around the world are also implementing the CSV concept namely: Banco de Credito e Inversiones, Bank of America, Merrill Lynch, Barclays, Bendigo Bank, Citigroup, Credit Suisse, Dhaka Bank, Goldman Sachs, ING, Itaú Unibanco, JPMorgan Chase, National Australia Bank, Rabobank, Standard Bank, and Vancity [22].

Banking sectors in Bangladesh are also engaged in creating shared value, although in a limited extent, through innovating their products and services to reach the bottom of the pyramid. Featured shared value initiatives include: mobile financial services for the unbanked people; credit to small & medium scale enterprise (SME), agriculture, and firms of women entrepreneurs'; micro finance or rural development schemes; agent banking; and school-banking among others. These investments practices have been creating business value providing incremental revenue for the banks and simultaneously creating social value through financial inclusion of the neglected segments into the mainstream banking services and economic activities. Banking sectors of Bangladesh are improving their productivity growth through technology based services: Automated Teller Machines (ATMs), Cash deposit Machine (CDM), fast track, online banking, short message service (SMS), mobile financial service (MFS), E-Commerce, and call centers etc. Productivity growth is also results from the introduction of agent banking, cash management services, locker, remittance, advisory, and brokerage services. Banks are also contributing to the regional development through introducing contract farming and cluster based financing. Furthermore, the banking sector is meeting the global challenges through direct green finances and in-house green practices. Some banks are taking into account of these shared value efforts as the core of their business choice, while others are merely following the directives of central banks.

7. Opportunities and Challenges for Adopting CSV

7.1 Opportunities

A landmark case study research has conducted by Bockstette *et al*. to demonstrate how banking sector is making profit by rethinking their purpose. In this study, the authors used the three ways of creating shared value developed by Michael E. Porter and Mark R. Kramer in 2011. The research identified shared value opportunities for banks exist at three levels: (1) Furthering client prosperity by improving the financial health of individual and business clients and extending banking services to the financially excluded, (2) Fueling the growth of regional economies by moving beyond individual transactions to proactively finance and strengthen entire ecosystems of players within an industry or community, and (3) Financing solutions to global challenges by working with socially or environmentally beneficial client segments and by structuring, placing, and/or investing in impact investments [22]. The research views that banks are leaving much of this value on the table. It maintained that banks have invested in CSR and philanthropy programs instead of serving growing market with products and services [22]. Reviewing the aforementioned concept, the following opportunities have been identified in the Bangladesh context:

1. As the number of middle class families is increasing in Bangladesh and the country is heading towards middle income group, the new needs are emerging in addition to huge unmet needs. CSV can address already created unmet needs and emerging needs due to socioeconomic changes of the country.

2. There is ample scope to develop the SME clusters and to redefine the productivity in the value chain of banks.
3. It is an innovative way to serve stakeholders' interest and to create best value for the stockholders.
4. Banking corporations that shifted their focus from CSR to CSV can create early brand image than their industry competitors.
5. The banks in Bangladesh can also invest their idle money to the neglected sector such as agriculture, SMEs (food processing industries) etc. at low interest rate. This effort will, at the one hand, help Bangladesh to attain food sufficiency and assists commercial banks to enhance their profit on the other.

7.2 Challenges

1. It is difficult to replace CSR by CSV in Bangladesh at least in the near future because it is already deep rooted. Moreover, the CSV approach seems to limit the company perspective on societal issues because the social realities of Bangladesh such as poverty, natural disasters etc demand private sector involvement along with government support. Banking industry is currently implementing a good number of CSR projects. Moreover, the philanthropic form of CSR is well accepted by the corporate entities and government. Academic literatures, NGOs and media are also appreciating the CSR.
2. The CSV approach is relatively new. Although measuring tools are identified to measure the business and social outcomes, the tools need to be revised for specific companies.
3. The banking corporations are regulated by the Bangladesh Banking Companies Act 1991 (Amended in 2003). The Bangladesh Bank (BB), central bank of Bangladesh, is the regulatory body of all banks operating in Bangladesh. It has already established rules and regulations to guide the CSR activities. The stringent regulations of BB might confine banking corporations to involve in risky investment to address societal issues.
4. As CSV approach requires creativity and innovation in the products and markets development, banking corporations may lack skilled employees and motivations for efficient and effective implementation of CSV and displacement of traditional skills by new skills may reduce employee productivity in short run.
5. Like CSR, CSV also requires corporations to comply with laws and maintain ethical standards, which are the major challenges for the success of the new approach in the developing country context particularly in Bangladesh as corporate scandals are not uncommon.
6. Changing the mindset of the board of directors, corporate management, government, NGO's and pressure groups from already established CSR to CSV is a major challenge. Effective change management is required both at the corporate level and at the government level.
7. Changing stakeholder's mindset is also important. In the present form of CSR some beneficiaries are directly benefiting from the ongoing CSR projects. Therefore, pressure groups might press the government not to stop CSR until and unless the outcome and benefits of CSV are evident.

8. Conclusions and Recommendations

Banking corporations in Bangladesh should create and cultivate shared value that goes beyond the corporate philanthropy and merely abiding by the rules set by the regulating body. It is generally accepted that business certainly has social responsibility but the way they perform and degree of performance has yet to fix in the context of Bangladesh. The statement that CSR improves financial performance is yet to be proven. Moreover, CSR is fragmented from the core activities of the business and performed by business as a way to boost reputation and tax exemption. Due to the voluntary nature of CSR, there is always a chance to engage in corruption and nepotism in the developing country. CSV can solve these anomalies of traditional CSR in many respects. Firstly, CSV is integrated with profitability and competitive advantage. Secondly, CSV is internally focused on reconceiving product and services, redefining productivity in the value chain, and enabling local clusters. Finally, through CSV approach society will directly be benefited from the core activities of business as it will satisfy unmet needs of the society. Banking corporations in Bangladesh partly engaged in CSV approach in addition to CSR. They are engaging in CSV unconsciously. If all companies consciously engage in CSV, many of the fundamental and unmet needs of the society can be fulfilled. And as such, both the business and the society will be truly benefited. However, as the CSR already deep rooted, its replacement will be a major challenge. Leadership commitment, appropriate regulatory framework, employee skills & creativity, and identifying and evaluating appropriate indicators to measure business and social outcomes are necessary to get the desired results of adopting CSV. Huge unmet needs of Bangladesh open up the door for the banking corporations to adopt CSV and build early brand image in the industry. In this regard, the CSV concept need to be fully implemented through the banking sectors of Bangladesh. To do so banking sectors have to consider several steps. Firstly, the banks have to set policies for greater financial inclusion of the bottom of the pyramid.
Secondly, they have to identify bankable needs of the bottom of the pyramid. In practice, the social needs that provide opportunity for banks to create shared value includes but are not limited to: inadequate banking access;

inadequate credit facilities for the SMEs, agriculture, and rural customers; difficulties in money transfer; inadequate banking knowledge of stakeholders; lack of customer trust in banking activities; unemployment situations in the country; environmental footprint; and so on. Thirdly, banks have to consider these social needs as business opportunity. This can be done through providing banking access to the unbanked or under-banked people, providing credit to rural agricultural and SMEs, providing credit to the women entrepreneurship development, launching environmental friendly investment, educating stakeholders, engaging in trust-building activities, boosting up productivity in the value chain, showing concern for employees, creating direct and indirect employment opportunities, helping the distressed and vulnerable people, and launching banking products to meet many other unmet and less addressed social and environmental needs. Fourthly, banks have to capitalize of those opportunities considering them as the core of their business choice but not as the periphery as the CSR or philanthropy does. Finally, banks have to set shared value goals, devise strategies to achieve them, keep ethical standards in place, and put effective monitoring and controlling mechanisms to create upscale shared value for sustainable socio-economic development. It is a fact that banking sector that are targeting big businesses and individuals will initially face challenges in terms of high operating costs involved in managing larger groups with small sized loans as well as low customer demand due to lack of collateral and quality entrepreneurs. Hopefully, as the economic activities of these segments are rapidly growing, banking sector will enjoy long term competitive advantage in terms of incremental revenue, profit, market share and growth.

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Md. Rabiul Islam. "From Corporate Social Responsibility to Creating Shared Value: Opportunities and Challenges for the Banking Sectors in Bangladesh." IOSR Journal of Business and Management (IOSR-JBM) , vol. 19, no. 9, 2017, pp. 28–34.