

# Investigation of the Corporate Social Responsibility Practices at OTP Group. Evidence from the Subsidiary – Parent Relationships

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## Abstract

*The present paper starts from the leading position of OTP Bank according to the Global Reporting Initiative framework, extending the analysis at the group level. The main purpose of this paper is to investigate the relationship between the financial group and the subsidiary, providing a broad picture of the corporate social responsibility (CSR) development based on the influences of the group. The present case study is an ambitious example of how to improve the corporate social responsibility agenda through a positive communication on sustainability topics among the parent-group and the corresponding subsidiary, establishing some synergies between activities, major stakeholders, CSR objectives and reporting practices. The main results highlight the increasing role of the non-governmental sector for the CSR development and its evolution to foundations attached to the group, being an appropriate example of best practices for other subsidiaries that activate in the Romanian banking system.*

**Key words:** corporate social responsibility, influence, subsidiary, financial group

**J.E.L. classification:** G21, M14

## 1. Introduction

The corporate social responsibility concept has gained a significant increase in terms of practice and theoretical insight, influencing the economic environment worldwide. Its evolution puts more pressure on some companies from sensitive economic sectors which depend on the approval of key stakeholders for their presence on the market. One of the most sensitive field is the financial sector, engaging economic transactions of high dimensions due to the development of the globalization process. The stakeholders' trust in the financial services provided by the credit institutions depends, in a certain degree, on the bank's public image, shaped by the recent expansion of the CSR activities.

The corporate concern for CSR was translated in the Romanian market by a set of marketing tools and patterns from the parent-group CSR strategies, the banks implementing an adjusted form of corporate social responsibility. This paper presents the OTP Group case study in connection with the sustainability strategy of OTP Bank Romania, suggesting a close liaison with the main CSR fields integrated in a unitary vision of social responsibility.

## 2. Literature review

In the context of a wide CSR exploration by both academic and practitioners, the fundamental mechanism of the corporate social responsibility concept is still ambiguous, being required a more in-depth analysis on its comprehension in different economic sectors and a focus on the psychological effects of sustainable behavior on stakeholders. “From a public perspective of transparency, banks live actual confused times” (Tamas-Szora and Socol, 2015, p.39), searching from an optimal point between financial and non-financial disclosure. The banking sector is a proactive investor in sustainable actions (Truscott *et al*, 2009) due to the high interest for a positive customer rating. Even if there is still unclear how clients relate to the corporate social responsibility

concern of the banks, the "purchase intention level were greater among the CSR aware group than the unaware group" (Fatma and Rahman, 2016, p.217), the consumer awareness being considered a prerequisite to obtain a positive impact in the acquisition process.

In a study conducted by Mocan *et al* (2015), the main CSR practices identified at the banks operating on the Romanian market were: environment, education, social involvement, art and culture. In Romania, there is "a certain degree of progress and maturity in comparison with the situation encountered before the crisis" (Iamandi, 2012, p.43) regarding the sustainability disclosure, the OTP Bank Romania being an illustrative example of coherent CSR communication in line with the corresponding parent-group selected tools in transmitting the social responsibility messages.

### 3. Research methodology

Four companies from the Romanian market have been listed on the Sustainability Disclosure Database of Global Reporting Initiative (GRI) before May 2019: BCR, OTP Bank Romania, Provident Financial Romania and Raiffeisen Bank Romania. OTP Bank Romania has the largest CSR reporting period, presenting such a report between 2007 and 2014. This was the first reason to choose OTP Bank Romania – OTP Group case study, exploring the relationship subsidiary-parent group in the corporate social responsibility framework and the highlighted influences. In order to achieve this goal, the option for the present case study has a high relevance as the efforts to implement the CSR strategies were doubled by the communication results, becoming an appropriate example of good practices for the Romanian banking environment. The last year when a CSR report was available for OTP Bank Romania was 2016, conducting to a comparative analysis of the *CSR reports 2016* for OTP Group and OTP Bank Romania which reveals various common points and asymmetries. The research was extended to the analysis of the official websites and complementary documents, such as codes of ethics or corporate governance reports.

### 4. Results and discussions

One of the main features of the CSR implementation within OTP Group was the limited visibility of the CSR actions at the international level due to the language barriers. Although the advanced searches have highlighted the existence of an official sustainability website and a CSR report for the group, the information is only available in Hungarian and reduce, in this way, the value of the CSR communication. Although until 2013 the CSR reports of the group were also published in English in the CSR section of the OTP Bank website in Romania, there was a deficiency on the CSR visibility in the period 2014-2016, being available only the CSR reports for OTP Bank Romania. Thus, the access to the *OTP Group Report 2016* - English version, was only available through the Hungarian website and reveals a compiled report according to the GRI standards very similar to the CSR report of OTP Bank Romania.

If OTP Group presented a CSR strategy dominated by three key priorities (providing responsible services, responsible employer and active citizenship), the CSR policy of OTP Bank Romania relied on improving the welfare of society through discretionary business practices and supporting the social causes. But one of the most significant directions in the common CSR approach is in the area of financial education, regarded as one of the most profitable investments for the future. Through the *OTP Fáy András Foundation* which was set up at the group level and through the *OK Educational Center*, the career development events and the finance courses were organized, being extended to Slovakia through *OTP Ready Foundation* or to Romania through the *Right to Education Foundation*. These foundations were established in accordance with the model of parent foundation *OTP Fáy András* from Hungary. Among the results of OTP Bank Romania in this field were the 1,368 young people who participated in the financial education events, while in Hungary the number of them was around 20,000 children.

It is also noteworthy the integration of the economic responsibility into the CSR vision of the group and the placement of transparency into the priority area of CSR as a result of the volume of assets traded on the Budapest Stock Exchange and the main objective of increasing the shareholder value. In the same vein, OTP Bank Romania reports responsibility towards the community in

financial terms. Thus, with 96 units in Romania and 1198 employees, OTP Bank Romania proved to be an important contributor to the state budget in 2016 (32.8 million lei). OTP Group numbered 1,316 units and 35,950 employees in 2016, totalizing 2.4 billion lei as tax liabilities. The sustainability report of OTP Bank Romania showed a significant increase of the investments in community taking the form of sponsorships and donations from 0.254 million lei in 2014 to 0.791 million lei in 2016, while at the level of the group the value of donations reached in 2016 the amount of 34.8 million lei. With a total capitalization of 33.8 billion lei and total assets of 165 billion lei, OTP Group has demonstrated its ability to gain a stable position on the market and an optimal liquidity level in 2016, while OTP Bank Romania has exceeded its planned profit level after the completion of the merger with Millennium Bank and the corresponding increase of the portfolio.

Regarding the innovation of the banking solutions, OTP Group has focused on the digital challenge with effects on both customer experience and banking operations through a well-balanced cost-efficiency ratio, an easy-to-use service and the easier adjustment to the legal provisions. In this context, it must be mentioned the online platform that facilitate the customer's access to the banking services in Hungary, the development of the first online credit product for SMEs in Romania, the quick and free transfer of funds from a debit account open to any bank in an OTP account through the *Money Magnet* option available in Romania, the mobile app *Simple* through which cinema tickets, theater, concerts or bill payment services can be purchased at the due date.

There were also strategies for rewarding the clients with points, turning them into prizes to the bank's partners on the Croatian market. These acts falsify the CSR concept, turning it from a voluntary mechanism through a practice with direct financial implications. The introduction of the electronic signature for both individuals and legal entities in Ukraine has facilitated a wide range of online transactions in a secure manner, significantly reducing the operating time. However, the CSR value of these actions is questionable due to the growth of the financial services consumption, the increased operability, satisfaction and profit.

In Hungary, the waiting time in the use of the banking services was monitored, a situation that stimulated the development of the online chat service in Romania, which significantly reduced the response time for customer requests. OTP Group has taken measures to transform the waiting time into a relaxing time by creating childcare facilities, providing WiFi services and equipping the units with water cooling systems. The OTP Group's subsidiaries from Ukraine and Croatia have introduced the programming meeting function which is considered more satisfactory than the traditional system, according to customers' answers. These measures were important in assessing the customer satisfaction, the analysis of the questionnaires suggesting the main advantages for OTP Bank Romania: the customer loyalty (83%) and the high rate of bank recommendation to other potential clients (76%). Approximately 93% of the respondents were satisfied or very satisfied with the interaction bank-client, noting the professionalism of the employees, the inclination towards innovation and the general responsibility towards the clients. The customer satisfaction questionnaire has also been applied at the group level, adding the need for a policy in the field of complaints management and a set of recommendations formulated by the parent-bank regarding the complaints resolution process.

The group performance as a responsible employer has manifested by adapting the buildings to the employees/customers with locomotor disability, providing ATMs for the blind and informing them about their possibility to access the financial services. The OTP Group has encouraged the sustainable consumption by providing financial education services and including in its portfolio products with social or environmental benefits. In this sense, there have been included the basic accounts with preferential interest rates for disadvantaged and low-income people, the financial products for the young people or children, including savings accounts with higher interest rates.

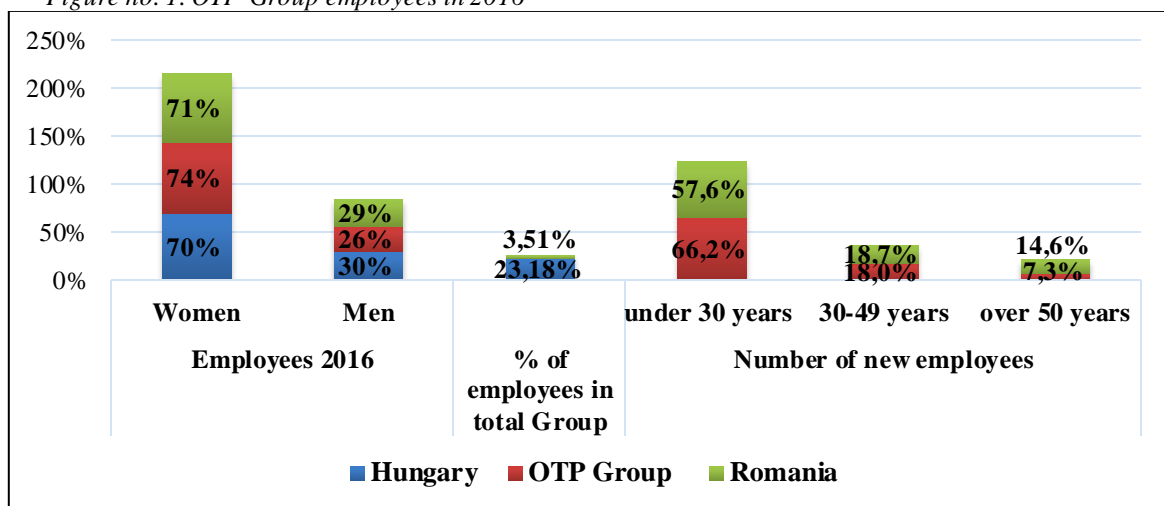
A dominant direction for both subsidiary and parent-group was the mortgage loans and those promoting the energy efficiency of buildings, while on the Romanian banking market a strong upturn was noticed in the case of the *First Home* program, supported by the Government and included by OTP Bank Romania under the CSR umbrella. According to the corporate portfolio of OTP Bank Romania, the main focus was on the medium-sized enterprises (43%), followed by the large enterprises (31%), the micro-enterprises and small businesses (23%). The bank increased by

approx. 86% of the volume of loans to SMEs in the agricultural sector and developed the *OTP Smart Start* package, which attracted more than 1,600 customers involved in a start-up or micro-enterprise. Although one of the most coherent policies at both subsidiary and group level was customer-related, the authenticity of the customer responsibility is questionable given the financial results of adjusting the portfolios to different customer segments, which make these direct efforts to increase the overall profitability.

Another common approach of OTP Bank Romania and OTP Group refers to the business ethics and banking security, going beyond the legal requirements. Among the most important risks faced by the banking system are those specific to the online environment, where cyber-attacks can seriously damage the customers and the bank, considering the negative effects on the bank's image. OTP Group focus on the deep connection between the services provided and the security need of customers, developing efficient solutions while maintaining an easy interface to the e-banking service user. However, the two reports present unfiltered information, ensuring a high level of transparency, with the inclusion of the negative aspects, such as the increase of compensation paid for legitimate complaints by almost five times between 2014 and 2016, from 105 cases in the year 2014 to 506 cases in 2016.

The human resource policy was based on career development opportunities, performance management and leadership development, while promoting active partnerships with higher education institutions for internships. Romania ranks fifth according to the number of employees at group level, after Russia, Hungary, Bulgaria and Ukraine, concentrating approx. 3.51% of total employees, compared to approx. 23.18% in Hungary. Regarding the gender balance, OTP Bank Romania aligned itself with the OTP Group figures, with a clear majority for female employees. In contrast, the comparative analysis of the number of new employees by age demonstrates a moderation in the employment phenomenon of persons up to 30 years of age in Romania, compared to the situation identified at the group level. Most of the difference is attached to the segment of new employees aged over 50, whose number in Romania is double that of the OTP Group employees. According to the Figure 1, the rate of OTP Bank Romania's new employees in the segment of persons over 50 years old was 14.6% (2016).

Figure no. 1. OTP Group employees in 2016



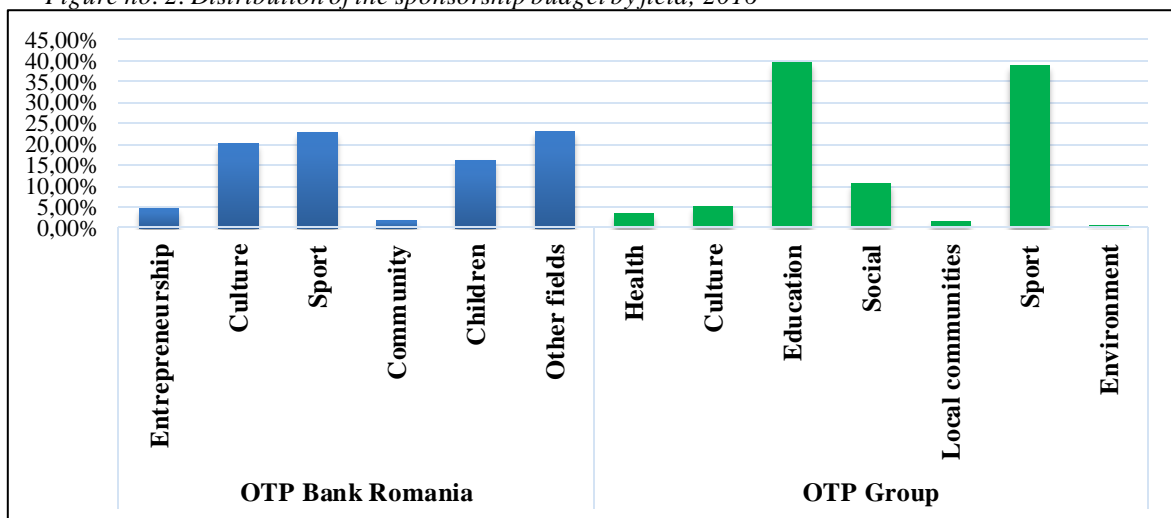
Source: processed based on data released by <https://www.otpbank.ro/en>, <https://www.otpbank.hu/portal/en/AboutUs/OTPGroup>

For the professional development of the OTP Bank Romania managers, it was created the *Leader Academy* program, the bank implementing in the same time transparent and performance-based evaluation systems and remuneration policies. At the group level, there were 762,000 hours of training per year and an average of 21 hours of training / employee. Except Russia and Ukraine subsidiaries, the reports have highlighted the principle of fairness in the distribution of benefits between employees with full-time or part-time employment contracts for medical services, special benefits (childbirth, death, and marriage), meal vouchers or recreational facilities. The safety and

health at work were key elements of employee responsibility, going beyond the regulatory sphere and leading to a reduced level of work accidents at OTP Group and OTP Bank Romania. The transparency of CSR reporting has been amplified by communicating both the positive and the negative aspects, the comparative situation between group subsidiaries showing a significantly higher absenteeism rate in Romania than other countries.

The analysis suggests a high level of community involvement through donations, to which was added the employee volunteering. The OTP Group employees were strongly encouraged to support social causes and to actively participate in blood donation campaigns. The OTP Group's vision to develop its CSR practice through sponsorships reflects a particular form of CSR, less invasive, acting more as sponsor than initiator of CSR actions. According to the Figure 2, OTP Bank Romania has maintained the same dominant line of the Group in the fields of culture, community and sport.

Figure no. 2. Distribution of the sponsorship budget by field, 2016



Source: processed based on data released by <https://www.otpbank.ro/en>, <https://www.otpbank.hu/portal/en/AboutUs/OTPGroup>

Compared to 2015, the OTP Bank Romania's CSR sponsorship budget increased by approx. 24% in 2016 and an important role in the CSR development was given to the *Right to Education* Foundation. At the group level, we note the establishment of the *OTP Fáy András* Foundation, with major objectives in the field of financial education and the *Humanity Social* Foundation, through which there were developed training programs for disadvantaged people, medical and financial support was provided to the vulnerable people or Christmas packages were donated to the underprivileged children. In addition to the blood donation initiatives or the production of handmade articles for charity purposes, the OTP Bank Romania employees have financially supported the *Right to Education* Foundation by redirecting 2% of the income tax to this organization.

OTP Bank Romania has also pursued the OTP Group's CSR policy in terms of measures taken to protect the environment, reducing the energy/paper consumption or the emissions from vehicle displacements. The data per employee provided a more comprehensive picture of the internal efforts made in this direction: 14.1 GJ / employee (2016) versus 16 GJ / employee (2014) for electricity and 2.8 GJ / employee (2016) versus 9.4 GJ 2016) for the natural gas consumed within OTP Bank Romania. In contrast, a reverse trend towards the group was found in terms of paper consumption, as the paper used increased by almost 3% in OTP Bank Romania, while the OTP Group data suggested a 12% decrease. OTP Group demonstrated a clear consistency in the CSR implementation and non-financial reporting, a strict alignment of subsidiary and group policies in this area, as well as greater transparency in providing the CSR data.

## 5. Conclusions

The two sustainability reports for 2016 highlight the same CSR directions, including: the focus on customers, the development of responsible financial products, the ethical conduct, as well as employee, community and environment. Moreover, the way the two reports are structured allows for easy comparisons, suggesting a transition area of CSR to the sustainability concept through innovative solutions tailored to the customer's needs. The CSR topics covered by both OTP Bank Romania and OTP Group address sensitive issues regarding the economic performance, the anti-corruption policy, the education theme, the unemployment issue, the diversity problem or the environmental concerns. The CSR report of the group suggests greater openness to the audience of the group's home-country, as it refers to the Hungarian sustainability website. This particularly situation of OTP Group is an evidence of a poor CSR management in reporting the sustainability matters on all the markets it operates.

OTP Group provides a model of social responsibility through foundations, which are the extension of the bank-NGO partnerships and involve in a more assumed way the institution. The Romanian subsidiary was described in the group's sustainability report as an actor involved in providing an educational model through the *OK Educational Center*, supporting sport clubs, museums and educational institutions. Even if there are steps ahead promoting long-term sustainability, there are still gaps in terms of the basic reasons for the online transactions and digital transformation, presented by the banks as a form of CSR. The customer-related services are also questionable, being perceived more as a marketing tool due to the economic returns for the bank.

The research illustrates a good practices example of OTP Group, creating a basis for other similar banks in performing CSR with the parent-group implication. The main contributions are in the CSR communication area, providing a coherent representation of appropriate elements to be included in the social responsibility reports as recommendations to consolidate their competitive position through corporate social responsibility.

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