**Current Situation Draft:** The Relationship between Corporate Social Responsibility (CSR) and Financial Performance of the U.S Banks

Name

Institutional Affiliation

**Introduction**

Over the past 10 years after the 2008 recession, the majority of the U.S banks have experienced a sharp decline in profits. In the 2018-2019 financial year, profits of the U.S banks fall from $61.9 billion to $57.4 billion. Although the economic recession of 2008 is partly attributed to these worrying trends, studies have linked the sharp decline to the non-involvement of banks in CSR activities. Many of the U.S banks focus on maximizing profits and failed to invest in CSR. In other words, the majority of the banks are focusing on Friedman’s shareholder theory of profit maximization and ignores Freeman’s shareholders that encourage corporations to engage in CSR activities. The purpose of this paper is to highlight the causes, effects, and give possible solutions to avert the situation.

**Body (Narrative Approach)**

According to a print article written by Carew (2019), the cause of the decline in profitability of the U.S banks is largely attributed to poor investment in CSR activities. Before the 2008 recession, some banks used to engage in CSR activities, but after the recession, many diverted their efforts in profit maximization and little involvement in CSR activities with an intention of correcting the negative effects of the 2008 recession. After changing direction to profit maximization, it precipitated this issue at hand. Basing on a study by Carew (2019), the most affected banks are small banks.

An empirical article written by Yusoff & Adamu (2016) indicated that further decline in profits due to non-involvement by banks in CSR activities might trigger loss of jobs. Loss of jobs might trigger other issues such as homelessness, extreme poverty, depression, drug abuse, and people engaging in social crimes such as robbery and violence. Apart from causing loss of jobs, the U.S GDP is likely to fall because banks play an important role in economic growth and development. Moreover, the comparative advantage currently enjoyed by the U.S will also decline. Given that the anticipated consequences of non-involvement in CSR activities, the banks have no other options but to invest in CSR.

Considering the huge magnitude of this issue, failure by banks to engage in CSR activities is likely to worsen the situation. According to an electronic article by Schroeder (2020), the profits of banks will decline further in the next 5 years. Experts have predicted that the profits will continue to dip with the worsening global economy. If banks are to correct the impending issue, they need to be aggressive on CSR activities. Banks need to implement policies that encourage employees to engage in CSR activities. To foster a culture where employees are motivated to engage in community-based activities, employees who engage in CSR should be rewarded through job promotion, salary increment, or other intrinsic and extrinsic rewards.

**Conclusion**

The U.S banks are undeniable between a “rock-and-hard” place and thus need to act by engaging in the CRS activities. With the evidenced of the sharp decline in profits, the banks have no other options but to engage in CSR activities. Although people like Friedman might argue that CSR activities reduce the profits (dividends per share), they fail to understand that CSR creates goodwill from the stakeholders and trigger a buy-in from everyone.

References

Carew, S. (2019). *Wall Street Week Ahead: Bruised U.S. banks expected to report third quarter earnings decline*. U.S. Retrieved March 11 2020, from <https://www.reuters.com/article/us-usa-stocks-weekahead/wall-street-week-ahead-bruised-u-s-banks-expected-to-report-third-quarter-earnings-decline-idUSKBN1WQ1GH>.

Schroeder, P. (2020). *UPDATE 1-U.S. bank profits down 1.5% in 2019 - FDIC*. CNBC. Retrieved from <https://www.cnbc.com/2020/02/25/reuters-america-update-1-u-s-bank-profits-down-1-point-5-percent-in-2019--fdic.html>.

Yusoff, W. F. W., & Adamu, M. S. (2016). The relationship between corporate social responsibility and financial performance: Evidence from Malaysia. *International Business Management*, *10*(4), 345-351.