

Banking on Shared Value: A Study on IBBL in Bangladesh

Md. Rabiul Islam¹, Syed Zabid Hossain², Rashidah Abdul Rahman³

¹Department of Humanities, Rajshahi University of Engineering and Technology, Rajshahi-6204, Bangladesh; rabi54mba@yahoo.com

²Department of Accounting and Information Systems, University of Rajshahi Rajshahi-6205, Bangladesh; syed6205@gmail.com

³Department of Economics, King Abdulaziz University, Jeddah, Makkah Province, Saudi Arabia; rabdulwahid@kau.edu.sa

Abstract

Objectives: The paper strives to generate deep insights into the shared value practices of Islami Bank Bangladesh Limited (IBBL). The specific objectives are to examine the extent to which IBBL is creating shared value through its innovative products and to comprehend the motives for such value creation.

Methods/Statistical Analysis: The study is founded on case study research design. The case study has used published financial information as well as interviews with practicing managers and customers of IBBL to triangulate data and validate the results.

Findings: The study reveals that IBBL, to some extent, has been creating shared value in all the three areas of Porter and Kramer's shared value concept but mostly in the areas of re-conceiving products and markets and redefining value chain to improve productivity. Although shared value is practicing at IBBL, its managers hardly acquainted with Porter and Kramer's shared value model. The study also demonstrates that the main motivating factor behind pursuing shared value at IBBL is to reach market resources in the form of goodwill and brand image. Bank customers also appreciated the shared value effort as they are truly benefiting from the shared value practices of IBBL.

Application/Improvements: The way IBBL is performing its banking business (taking social problems as business opportunities to create shared value) will be a role model for other banks both in developed and developing countries.

Keywords: Banking on Shared Value, Creating Shared Value, Islamic Banking Shared Value, Shared Value Practices, Sharia'h-Based Banking

1. Introduction

Recently a new approach to socially responsible business practices has been evolved, which is Creating Shared Value (CSV). The idea of 'CSV' was initially explored in a Harvard Business Review article¹. The concept was further developed by the same authors in 2011 in their follow-up article (p. 6), wherein they defined shared value as "policies and operating practices that enhance the competitiveness of a company while simultaneously

advancing the economic and social conditions in the communities in which it operates" In² maintained that companies can create shared value in three basic ways: reconceiving products and markets, redefining productivity in the value chain, and enabling local clusters² used the three mechanisms of CSV to explain how banks can make profit from social purpose and emphasized that banks should work across all three mutually reinforcing areas to achieve shared value at scale³. Furthermore, "to make the organizations scale up faster simultaneously as

*Author for correspondence

the economic growth does, the literature has encouraged the social entrepreneurs be innovative in choosing CSV, not just creating social benefit as CSR does”².

In line with shared value concept, we can define banking on shared value as the policies and operating practices of the bank that take into account social and/or environmental needs and challenges as a business opportunity in order to create shared value- value for both the society and the bank concurrently. In practice, the social and/or environmental problems that provide opportunity for bank to create shared value includes but are not limited to: providing banking access to the unbanked people, providing credit to rural agricultural and Small and Medium sized Enterprises (SMEs), women entrepreneurs, launching environmental friendly investment practices, 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 and challenges.

After the war of independence in 1971, the banking industry in Bangladesh started its new journey with 6 nationalized commercial banks, 2 State-owned specialized banks and 3 foreign banks. Since the introduction of Banking Companies Ordinance in 1983 banking industry has achieved significant expansion with the entrance of private commercial banks. At present, two types of banks are operating in Bangladesh- scheduled banks and non-scheduled banks. At the end of July 2016, there were a total of **56 scheduled** banks and 04 nonscheduled banks in Bangladesh. Of these 56 scheduled banks, six are state-owned commercial banks, 39 Private Commercial Banks (PCBs), nine foreign commercial banks and two specialized banks⁴. In addition to scheduled banks, there are four nonscheduled banks. All these banks are operating under the full control and monitoring of Bangladesh Bank, the central bank of Bangladesh.

Bangladesh is the 8th largest populated country in the world with hardly any natural resources. According to the census 2011, the total population of Bangladesh is 144.04 million (currently approx 160.5 million) of which 72.11 million male and 71.93 million female; 76.7 percent of the total population live in rural areas and 23.3 percent live in urban areas⁵. The above information suggests that balanced economic growth and prosperity of a develop-

ing country like Bangladesh largely depend on active participation of banks in reducing rural-urban disparity through satisfying unmet social needs and challenges. The mentionable unmet needs of the country include but are not limited to food security, greater financial security, better health, better housing, quality education, improved nutrition, support for the disable and aged, support for the disaster-prone communities, support for the agriculture and SMEs, support for the women, access to formal banking for the unbanked people, and environmental protection. Arguably, “these are the highest unmet needs in the global economy and corporate entities have a leading role in fulfilling these needs”². To satisfy these unmet needs, an appropriate agriculture, SME, environmental risk reduction, women entrepreneurship development, and rural credit policy with institutional and policy support of banks along with government involvement is a must.

But PCBs in Bangladesh have mostly expanded their operations in the urban areas, where prospects for profit is higher, therefore, rural people remained isolated from the commercial banking services for so long due to low savings and high-cost transaction. Besides, PCBs seem to have built-in maximizing profit in the short run by providing loans to superfluous areas. Moreover, the PCBs strive to address societal issues through ‘philanthropic approach’ what they termed as ‘CSR’ rather than integrating societal issues into their core business choices. The philanthropic approach of addressing societal issues is getting huge media coverage and government attention. However, scandals are not uncommon in performing this type of corporate social responsibility⁶. With the intention of improving competitive edge-through banking on shared value, a bank has to be both innovative in product development that meet the unmet needs and challenges of a broad range of customers and efficient in banking operations through supply chain management and cluster development. The sound business mix of banking industry should be developed in a way that ensures economic success for the banks on the one hand and best serve the society on the other. The concurrent value creation model is practicing by IBBL without referring to the CSV model developed. The present study, thus, aimed to generate reflective insights into shared value initiatives exercised by IBBL in the context of Bangladesh. The specific objectives of the study are:

1. To examine the extent to which IBBL is creating shared value through its innovative products; and
2. To comprehend the motives for banking on shared value.

The remainder of the paper is organized as follows: Section-2: Literature review, Section-3: Methodology of the Study, Section-4: Case Study on IBBL, Section-5: Motives for Involvement in SV initiatives, and Section-6: Conclusion.

2. Literature Survey

The CSV approach has been evolved as a supersede approach to CSR as in CSV, social and environmental benefits are integrated into the core business choices of firm; it is done internally rather than external pressures; it directly enhances the competitive positioning without distracting firm from profitability; and it changes the standpoint of business organization in a way that social welfare is a prerequisite for doing well in business². The CSV approach has gained credibility, and legitimacy and popularity in the world as a new way of doing business and formed the core of most recent business research. The concept is now 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 have spread quickly beyond the private sector to government sectors, Non Governing Organization (NGOs), civil society, and academia⁷.

Bank and financial institutions around the globe are also implementing the CSV concept. They include but are not limited to 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 Vancity⁸.

Despite its legitimacy and popularity in corporate and philanthropic circles, CSV theory, like any other social relationship theories, is not beyond criticisms. In view the CSV approach merely advances the conventional rhetoric that what is good for business is good for society². The authors argued that "shared value approach narrows what counts as a social value and avoids the friction between business and society and as a consequence, the approach is problematic as a framework for addressing sustainability and development, and an insufficient

basis for decision-making about philanthropy and CSR"⁸. Similarly, maintained that the CSV concept is unoriginal; it ignores the tensions inherent to responsible business activity; it is naive about business compliance; and it is based on a shallow conception of the corporation's role in society¹⁰. In highlighting that although 'shared value' has been spread into the language of multiple disciplines; its current conceptualization is unclear¹⁰. The authors also noted that CSV concept presents discrepancies in the way it is defined and operationalized, thus, they concluded that CSV is more of a buzzword than a substantive concept¹¹. In criticized by saying that "companies need to develop moral capabilities and specific skills to be both "fit" for and contributing to new societal contexts that demand legitimate business practices, which cannot be realized with a one-trick pony approach embodied in overly narrow economic perspectives of CSV"¹².

Although we have no disagreement about the necessities of social responsibility in business, we have no unanimous opinion as to how these activities bring highest benefits to the society, as well as how extensive these activities should be. "CSV provides some insight into this by strongly linking the societal activities to company goals and positioning social responsibility as an internal function rather than an external obligation to society"¹³. CSV is a superior way of integrating social goals with business practice because the concept does not distract a firm from its primary purpose of achieving profit².

Empirical studies suggest that shared value concepts propagated, to some extent, are found in practice. Have found that WEG Electric Corporation has been creating shared value on the three levels of CSV mechanisms and also indicated that the company has linked its core business to four social dimensions: energy efficiency, renewable energy, electrical products for human care, and technical education¹⁴. Similarly, found that shared value has been created along the entire value chain for different stakeholders in the form of sustainability awareness, reputation building, brand awareness, and reduction of environmental footprint¹⁵.

In¹⁶ conducted a case study on collaboration between BASF, Andre Maggi Group and Fundacio Espaco Eco in Brazil to evaluate whether the applied strategy could be considered as a case of shared value creation. The researchers found that the collaboration can meet the criteria as a shared value strategy, more precisely as a case of redesigning productivity in the value chain. The study demonstrated that shared value strategies do enhance

financial as well as socio-environmental performance and build stronger client relationships. They also investigated the extent to which the concept of customer Shared Value is relevant for the restaurant industry¹⁶. The authors have found that restaurant companies in Sweden actually work to create economic benefits and social values. In¹⁷ concluded that shared value is created by Pakistani oil, food and pharmaceutical companies through sustainable corporate entrepreneurship. The research suggested that sustainable corporate entrepreneurship toward various social problems coupled with corporate social responsibility help creating shared value. In¹⁸ aimed at contributing to the development of CSV theory by investigating two firms in the Mexican Educational sector through social impact organizations. The study demonstrated that CSV is strongly applicable within the Educational field in Mexico¹⁹. In²⁰ conducted a multiple case study to describe and investigate shared value creation in SMEs. The study disclosed that SMEs have good potential to create shared value even though this sector lack access to resources and risk-taking capabilities than those of large corporations.

Several studies on shared value issues are also conducted in the banking sector. A landmark case study research has been conducted to demonstrate how banking sector is making a profit by rethinking their purpose⁸. The authors used the three ways of creating shared value developed. The research gives practical explanations regarding how banks are profiting- by furthering its client prosperity; by fueling the growth of regional economies; and by financing solution to global challenges. The research has been conducted on a global context and does not reflect rigorously on how Bangladeshi banks, particularly IBBL, are creating shared value by rethinking their purpose. Another study revealed four factors of invisible bank service value experienced by customers: shared moral value, responsibility value, and relationship value and heritage value²¹. The purpose of the study was to explore value formation in the customer-bank relationship outside the line of visibility of service encounters. The study conceptualizes bank service value as realized in the customer's own contexts and thus highlights previously hidden sources of value in banking. The study has been conducted on the eighteen online communities where Bangladesh is absent. Thus, the result cannot be generalized in Bangladesh context because of the socio-economic differences. Moreover, the research only focused on customer shared value. Other stakeholders such as employees, stockholders, gov-

ernment, environment or even rural customers, are out of the scope of the research.

From the above comprehensive review of related literature, it could be concluded that CSV has evolved as a mutually beneficial approach although criticisms of the newly developed concept are not uncommon. Few empirical studies are done to verify whether CSV approach is found in practice as mentioned earlier. Many of the world's leading corporations including banks and financial institutions are embracing the concept of CSV. Most of the researches in this field have been done covering various aspects of CSV in the developed world but no thorough study has yet been conducted on banking on shared value in Bangladesh context.

3. Methodology of the Study

The present study is a thorough appraisal of shared value performance of IBBL. The sample bank is the leader of both conventional (interest based) and nonconventional (profit-loss sharing) PCBs in terms of volume of transactions, amount of total deposits and lending, market capitalization, dividend payout, number of employees and clients, payment of corporate tax, paid-up capital, and more specifically in CSV activities.

The study has used both qualitative and quantitative information mainly related to share value practices of IBBL and the motive behind those initiatives. Information has been collected from both the primary and the secondary sources. Primary data are mainly collected through telephonic open-ended interview with the managers and customers of IBBL. A total of 58 interview schedules (23 managers and 35 customers) were conducted from May to July in 2016. The interview was conducted in the respondent's mother tongue Bengali. In addition to primary data, secondary data are also collected from relevant books, articles, dissertations, websites of Bangladesh Bank and IBBL, and annual reports of IBBL. In writing the paper, we gave special stress on the "impartiality, reliability, consistency, and appropriateness of both qualitative and quantitative data"²². The personal information of the respondents has been kept anonymous and denoted by alphabetical order.

In order to achieve the objectives, the present study has adopted the case study method^{18,16,23}. "Case study design is appropriate to explore research problems, where not much research has been undertaken to answer the

problem and theory is at its formative stage¹⁸. The case study has used published financial information as well as interviews with practicing managers and customers to triangulate data and verify the results.

4. Case Studies on IBBL

4.1 Overview

IBBL was established on March 13, 1983, in Bangladesh as the first Islamic Bank in South East Asia. It was incorporated as a joint venture public limited company engaged in commercial banking business based on Islamic Shari'ah (principles). Sponsor/director of the bank holds majority of share (57.76 percent) and the rest of the shares are owned by institutional shareholders 9.07 percent, foreigners 11.11 percent, and general public of the country 22.06 percent²⁴. The information depicts that IBBL is a full-fledged private sector commercial bank as government holds no share of it. The bank enlisted with the DSE in 1985 with paid-up of capital of Bangladesh Taka (BDT) 67.50 million (The exchange rate of USD 1 corresponds to BDT 78 as on June 15, 2016). At the end of 2015, IBBL increased its paid-up capital to BDT 16,099.91 million, a 238.51 times growth in just 32 years. Table 1 demonstrates the last five years growth in the paid-up capital.

Despite being a private commercial bank, unlike other PCBs, over the years IBBL has thrived and developed into a very profitable, entrepreneurial, socially and environmentally responsible business entity. It is evident from Table 2 that IBBL delivers its banking services to the highest possible number of depositors, which has rapidly grown over the years and IBBL is enriched with a large banking network by continuously increasing its branches all over the country including the rural area. As of December 31, 2015, the bank had a total number of 304 branches in important commercial places both in urban and rural areas. Among the branches, 22.61 percent are established in rural areas. Moreover, alternative delivery channels of the bank having 487 owned ATM booths, 6000 shared ATM booths, 51 Deposit Machines, and 4 service centers have expanded this network to the doorstep of customers. IBBL has also been recognized as 'the bank for the masses' in terms of creation of direct and indirect employment opportunities for the unemployed people. Table 2 reveals that IBBL has created huge number of employment opportunities over the years. Up to December 31, 2015, the bank has created direct employment of 13,622 persons, which is the highest number of employment opportunities created by any PCB in Bangladesh.

It is apparent from Table 3 that IBBL is also gradually increasing its contribution to national exchequer in the

Table 1. Growth in Paid-up capital of IBBL

Particular	Year					
	1983	2011	2012	2013	2014	2015
Authorized capital (Million BDT)	500.00	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
Paid-up capital (Million BDT)	67.50	10,007.71	12,509.64	14,636.28	16,099.91	16,099.91
Growth in paid up capital over the initial year (Times)	-	148.26	185.32	216.83	238.51	238.51
32 years growth (1983-2015) is 238.51 times						

Source: Compiled and calculated by the researchers from Annual Reports of IBBL, 2008-2015

Table 2. Growth Trend of customers, branches and employees

Particular	Year				
	2011	2012	2013	2014	2015
Total Depositors	60,04,731	70,31,297	85,38,969	95,87,458	99,26,354
Number of branches	266	276	286	294	304
Rural branches as percentage of total branches	17.67	19	27.27	23.81	22.61
Number of employees	11,465	12,188	12,980	13,574	13,622

Source: Compiled by the researchers from Annual Reports of IBBL, 2011-2015

form of income tax of employees, tax deducted at source, Value Added Tax (VAT), excise duties and corporate tax. The bank paid BDT 17,392 million in the year 2015, three times more in just five years.

The bank is mobilizing deposits from individuals and institutions, and investing the accumulated deposits in various sectors, which include: Industry, SMEs, Agriculture, Trade and Commerce among others. As stated earlier, the bank operates on the basis of Islamic principles or profit/loss sharing mode and widening its philanthropic activities gradually to help the distressed/helpless poor people.

Table 3. Contribution to National Exchequer (BDT in Millions)

Particular	Year				
	2011	2012	2013	2014	2015
Contribution as VAT, excise duty, corporate tax etc.	5,476.00	8,106.11	10,963.07	11,465.00	17,392.00

Source: Compiled by the researchers from Annual Reports of IBBL, 2011-2015

4.2 Shared Value Products at IBBL

Over the years IBBL has been engaged in shared value initiatives through offering innovative banking products that meet the needs and challenges of the society and environment such as Rural Development Schemes (RDS), SME Banking, Women Entrepreneurship Development banking and Green banking. These products are selected for thorough and critical appraisal.

4.2.1 Rural Development Scheme (RDS)

4.2.1.1 Background and Process of RDS Investment

RDS, the first Islamic Microfinance Model in the Country, was introduced by IBBL in 1995 to cater to the microfinance needs of agriculture and other farming and off-farming activities in the rural areas. In addition to provide microfinance facilities to the rural poor, RDS also covers humanitarian assistance, education, training, health, and environment protection etc. as a part of its 'Integrated Development Approach'.

For extending microfinance, an IBBL branch select 4 to 6 villages for a project based on easy communication; availability of agriculture, off-farming activities; and abundance of low-income people. After primary selection of a project area, nearby branch conducts detailed baseline survey to identify the target group of people within the age limit of 18 to 50 years and the varieties of economic activities in those areas. Target group for RDS loan includes farmers having cultivable land of maximum 50 decimals; sharecroppers; persons engaged in very small off-farming activities; and destitute women and distressed people.

Generally, collateral security is not required against investment under RDS. However, group guarantee and deed agreement are required to secure bank's investment. Group guarantee states that each member of the group gives personal guarantee for other members of the same group and the members are jointly liable for repayment of investment. Hence, "group discipline is strictly followed and complied with so that only the right persons are selected and included as members of the group," according to Manager A. The members are provided investment with maximum amount of BDT 10,000 for the first time and the good performers are given enhancement, upon his requirement, by BDT 2,000 to BDT 5,000 in every next term up to the upper limit of a particular sector. Table 4 depicts sectors, duration, and ceiling of RDS microfinance.

The members of the group required to open Mudaraba Savings Account (MSA) in their individual names with the branch with a compulsory weekly savings of minimum BDT 20 only so as to create a savings habit among them. Additionally, each member of the group has to deposit minimum BDT 5 only per week as Centre Fund which is kept in a MSA in the name of the respective centre and operated by centre leader & deputy centre leader jointly and is utilized for the welfare of the members according to the decision of the centre in its weekly meeting. On the basis of the list submitted by the field officers, the investment committee (consisting of Manager, Project Officer and the Field Officer) of the Branch carefully scrutinizes the applications and approves investment projects at the branch level. Thereafter, the branch completes documentation formalities and then disburses the amount. In all the cases, "branch must ensure strict adherence to the banking and Islamic norms," According to Manager A.

Table 4. Sector, duration and ceiling of investment

SL	Sector of Investment	Duration	Ceiling of Investment (BDT)
1	Crop Production	1 year	25,000
2	Nursery and commercial production of Flowers & Fruits	1 year	50,000
3	Agriculture Implements	1 to 3 years	50,000
4	Live stocks	1 to 2 years	50,000
5	Poultry & Duckery	1 year	35,000
6	Fisheries	1 to 2 years	50,000
7	Rural Transport	1 year	20,000
8	Rural Housing	1 to 5 years	50,000
9	Off-firm activities	1 year	50,000

Source: Official Website of IBBL

4.2.1.2 Growth of RDS

Table 5 reveals that RDS has enjoyed continual growth over the years in terms of number of villages, RDS centers, RDS beneficiaries, and total volume of rural investment. As of December 31, 2015, a total of 923,250 members have enjoyed financial services under 28,822 centers in 18,615 villages. Total rural investment through RDS has increased from BDT 7,072 million in 2011 to BDT 20,799 million or about 3 times in 2015. It is worth mentioning that the ratio of male & female RDS members is 21:79, which suggests RDS is focused on providing credit to

vulnerable women those have almost no access to formal credit. The recovery rates are around 100 percent during the period of review. Thus it is safe to extend credit to the rural poor without collateral.

4.2.1.3 Increasing Rural Savings

Total savings, both voluntary and compulsory, by RDS members have been increasing gradually. It is evident from Table 6 that in absolute term total rural savings increased from BDT 2,340.45 million in 2011 to BDT 6,890.67 million. Thus there was a noticeable growth of 3 times during the short span of 5 years.

Table 5. Expansion of RDS in the last 5 years

Particular	Year				
	2011	2012	2013	2014	2015
No. of villages	12,857	15,371	17,104	18,086	18,615
No. of Centers	22,206	24,623	26,887	27,874	28,822
No. of Member/beneficiaries	608,703	733,520	836,227	891,485	923,250
No of Clients	382,319	474,766	532,235	546,194	569,820
Total Outstanding (Million BDT)	7,072.03	10,390.71	13,730.92	16,859.18	20,798.82
Rate of Recovery (percent)	99.58	99.72	99.70	99.50	99.47
Male/Female Ratio	15:85	15:85	15:85	15:85	21:79

Source: Compiled by the Researchers from Annual Audited Reports of IBBL, 2011-2015

Table 6. Deposit by RDS Members during the last 5 years

Type of Deposit	Year				
	2011	2012	2013	2014	2015
MSA-RDS (Amount in million Taka)	2,204.89	2,895.05	3,750.86	4,572.49	5,273.42
MSS-RDS (Amount in million Taka)	133.95	427.47	780.60	951.55	1,617.25
Total Savings (Amount in million Taka)	2,340.45	3,322.52	4,531.46	5,524.04	6,890.67

Source: Annual Report of IBBL 2015

4.2.1.4 Customer Training

There are three types of training activities under the Program: (a) Skill Development Training (b) Self-employment Training and (c) Centre Leaders' Training. At a glance, activities under training program over the years are shown in Table 7.

Table 7 depicts that the number of training recipients had an uninterrupted increasing trend over the period, particularly skill development and self-employment training. As of 2015, a total of 169,277 persons received training in all three categories. Training facilities of RDS is creating shared value as the trained people know how to use resources efficiently, which is thus enhancing recovery rate of the invested amount.

4.2.1.5 Micro-Finance to the Agriculture

Table 8 discloses that in 2015, IBBL disbursed BDT 12,707 million in agricultural sector among 182,940 farmers. Despite being the private commercial bank, IBBL alone disbursed almost 9 percent credit of total national disbursement in every year except in 2015, in that year the disbursement fell down to 6 percent. Besides, under the special program of Bangladesh Bank (investment in cultivation of pulse, oil seed, spices & maize at subsidized rate of 4 percent profit), IBBL dis-

bursed BDT 10.16 million in the year 2015 as against the targeted amount of Tk. 10 million (100 percent achievement). As agriculture still remains the driving force of Bangladesh economy, satisfying the need of this sector creates shared value.

4.2.1.6 Micro-Finance to the Off-Firm Activities

As stated earlier, investments under RDS are extended especially in the agriculture sector. However, a significant investment has also been made in a variety of income generating off-farming activities, rural housing & transport. During 2015, IBBL extended 42 percent of its RDS investment in different sub-sectors of agriculture, 19 percent in rural housing & transport and 39 percent in different off-farming activities²⁵. According to Manger B,

"Since its inception IBBL has been giving due importance on agricultural/rural investment. To make it more convenient, four investment schemes like Agricultural Implements Investment Scheme, Rural Development Scheme, Micro Enterprise Investment Scheme and Solar Panel Investment Scheme have been introduced in 1992, 1995, 2005 & 2011 respectively".

Table 7. Training programs and total participants in those programs

Particular	Year-wise Number of Beneficiaries				
	2011	2012	2013	2014	2015
Leadership Training (Group Leaders)	41,400	-	-	42,743	29,808
Skill Development Training (Group members)	6,250	68,220	27,598	114,260	139,176
Self-employment Training (existing members)	-	-	60	184	233
Total	47650	68,220	27,098	157,187	169,277

Source: Compiled by the Researchers from Annual Audited Report of IBBL, 2011-2015

Table 8. Year wise comparative scenario of agricultural investment

Fiscal Year	National Disbursement (million BDT)	Disbursement by IBBL (million BDT)	percentage of National Disbursement by IBBL
2010-11	121,844	10,210	8.37
2011-12	131,320	11,703	8.91
2012-13	146,670	13,074	8.91
2013-14	160,368	13,199	8.23
2014-15	159,785	9,716	6.08

Source: Compiled and calculated by the Researchers from the Annual Reports of IBBL 2011-2015

4.2.1.7 Shared Value through RDS

Agriculture sector is considered as the driving force of socio-economic development because food security, employment opportunity and reduction of rural poverty are influenced by the expansion of this sector²⁶. RDS of IBBL has been creating shared value through investing in the agriculture and various off-farming activities in the rural areas. The investment scheme is creating business value for the bank as it is earning on an average 12.5 percent operating profit and the recovery rate of investment is almost 100 percent. Although the managers interviewed, agreed on the fact that operating expenses in this scheme is slightly higher than any other scheme because excess manpower is needed for group forming, training, supervision, reporting and evaluation. RDS is creating social value through mobilizing rural savings and providing access to banking for the rural masses that lack collateral. RDS is also creating social value through generating direct and indirect employment opportunities, helping the distressed and vulnerable people, and addressing unmet social needs and challenges.

The RDS members interviewed agreed on the fact that “this micro investment scheme is facilitating their agriculture and various off-farming activities, thus, mobilizing food supply, and promoting self employment in the rural areas.” The respondents opined that IBBL should extend its financial services to the less well-off segment of the rural community. They appreciated the efforts of IBBL’s collateral free micro finance for the development of their agricultural, housing, and various off-farming activities. All customers interviewed, agreed on the fact that IBBL’s required rate of return should be lower than that of its existing level; loan sanctioning time should be

faster, ceiling of microfinance should be increased considering to the needs of the borrowers. The borrower respondents opined that all banks including IBBL should extend more and more investment in cultivation of pulse, oil seed, spices & maize at a subsidized rate of profit, not above 4 percent.

4.2.2 SME Sector Investment of IBBL

4.2.2.1 SME Financing Scenarios

Bangladesh Bank, the central bank of Bangladesh, directed commercial banks to invest in the SME sector. IBBL, since its inception, has been continuing SME financing for its development. As shown in Table 9, investment in SME sector has increased remarkably during the period of study. In the year 2011, total SME disbursement was BDT 108,670 million, which was doubled during the study period and stood at BDT 232,080 million. Over the years, IBBL has given special emphasis on the development of SME sector. This can be clearly understood by the SME exposure of IBBL to total general investment. As shown in Appendix Table 9, the bank maintained on an average around 40 percent SME exposures to its total general investment. IBBL is also providing a remarkable share of total national SME disbursement. The percentage of IBBL’s SME exposures to national SME exposures was 11.81 percent in 2011, reached to 20.60 percent in 2015. IBBL has been the number one SME finance provider in Bangladesh among the 39 PCBs. In 2015, the percentage of SME exposure of IBBL registered 30.90 percent of SME exposures of all PCBs, more than 12 percent increase since 2011.

Table 9. Year-wise SME Exposure by IBBL

Particular	Year				
	2011	2012	2013	2014	2015
Total SME exposure of IBBL (million BDT)	108,670	149,214	173,660	201,127	232,080
Total general investment (Million BDT)	305,841	372,921	403,195	463,475	530,194
IBBL SME exposure to total gen. investment (percent)	35.53	40.01	43.07	43.39	43.77
National SME exposure (million BDT)	919,662	974,593	1,158,840	1,325,820	1,126,150
SME exposure of PCBs (million BDT)	592,961	686,306	790,214	984,469	751,030
IBBL exposure to total PCBs exposure (percent)	18.32	28.2	21.97	20.43	30.90
IBBL exposure to national exposure (percent)	11.81	15.31	14.98	15.17	20.60

Source: Compiled and calculated by the Researchers from Annual Reports of IBBL, 2011-2015

In addition to individual SME credit disbursement, IBBL followed Cluster Approach and disbursed BDT 1,830 million in 40 clusters among 3,670 clients in 2015. “SME Investment of IBBL has created about 0.8 million indirect employment in Bangladesh”²⁵.

4.2.2.2 SME Financing to the Development of Women Entrepreneurship

Women Entrepreneurship has a direct and positive influence on women's social status, rights, and self-dependency. At the same time, it has a great impetus on the socio-economic arena as it helps enhance their earnings and economic freedom as well as helps create self employment opportunities and gear up the process of economic development²⁷. IBBL has also adopted Women Entrepreneurs' Investment Scheme for boosting up SME investment. It has increased the of Women Entrepreneurs Investment ceiling to BDT 4 million in which collateral free investment facility is up to BDT 0.5 million. The investment was made at 10 percent, which was lower than the required rate for the male entrepreneurs. During the study period, nearly 2,000 women entrepreneurs received a total amount of BDT 1,630 million, of which BDT 928 million was disbursed in 2015 alone.

4.2.2.3 Nonfinancial Initiatives to the Development of SMEs

IBBL undertakes various nonfinancial initiatives for the development of SMEs, which include: arranging training for the entrepreneurs; media campaign for creating awareness; and participating in fairs, road shows, seminars, and workshops etc. It is worth mentioning that in 2014, SME Foundation & Bangladesh Bank jointly awarded IBBL the ‘Small Entrepreneur Friendly Bank of the Year’ considering the performance of the year 2011, 2012 & 2013. The above mentioned performance indicators testimony that IBBL is creating shared value for the business and society simultaneously.

4.2.2.4 Shared Value through SME Investment

SME sector plays a significant role in supporting growth and creating employment in a country like Bangladesh. IBBL is creating shared value through heavily investing in SMEs. In addition to create business value, the bank is positively contributing to the development of this sector. According to Manager C,

“Investment in SME is risky because most of the SME borrowers’ can’t provide collateral and as such they are always neglected by traditional Banks. However, IBBL step forward to help those unprivileged, unbanked SME entrepreneurs through providing financial support with or without collateral”.

Manager D reinforces by saying that, “in order to expand the unexplored SME market, IBBL is continuously improving its efficiency standards in SMEs financing”. IBBL is also extending its SME investment toward the development of women entrepreneurs. Borrower B (One of women entrepreneur running her fabrics business successfully upon getting loan from IBBL) acclaimed the positive attitude of IBBL toward the women entrepreneurs. In her own words,

“Getting collateral free loan from IBBL I am running my fabrics business successfully. Currently, two salesmen are working in my business on a regular basis. My family is also become financially solvent although we faced hardship before starting this business. Both of my children are now studying in government high school. I hope all other banks will expand their investment for the development of women entrepreneurs”.

Like agricultural borrowers, SME borrowers also opined that the bank's required rate of return should be lower than that of the existing level and loan sanctioning time should be reduced.

4.2.3 Environment Friendly Banking

To reduce environmental footprints, a new approach to green banking or environmental friendly banking has been prescribed by Bangladesh Bank (BB) in 2011. In line with the BB's directives, IBBL has formulated policies for green banking operations. Green banking practices of IBBL are mainly concentrated in its internal operations, green investment, CSR, and automation. As part of the automation process, IBBL has introduced various new green products which ultimately reduce carbon emission, they include: i-banking, online banking, SMS Banking, Call Center and Banking through cell phone. These green products are allowing customers to do banking transaction without coming to the bank physically. Expansion of ATM network is greatly reducing the carbon emission. According to Manager E, “IBBL has been actively involved

in sustainable green investment. It conducts systematic assessment of environmental, social and ethical risks of a project.” All managers interviewed agreed on the fact that, “IBBL has ‘Green Office Guide’ that compel the bank to conduct its day-to-day operations in such a way that help minimize carbon emissions, reduce waste, efficient use of resources, and improve internal working environment”.

IBBL made green investment (GI) both directly and indirectly. Direct GI means extending finance to businesses that promotes green products, establish green industry and transform existing traditional ones to environment friendly ones, whereas indirect GI means providing working capital to environment friendly plants /industry/products. Table 10 reveals that total direct GI of IBBL reduced over the years but total indirect GI gradually increased from year to year during the study period. Total GI increased about 3-time in between 2012 and 2015. In 2015, total GI increased by 42.46 percent over the previous year.

IBBL also form and use Climate Risk Fund (CRF). The bank has the options to either donate or invest at a reduced rate of return (rate of return is less than the weighted average cost of fund) to the climate change vulnerable people. The total CRF utilization in 2014 and 2015 were BDT 122.57 million and BDT 182.67 million respectively, which shows 49.03 percent growth in 2015. The percentage of CRF in 2015 in relation to the total CSR activities was 31.65 percent. It is worth mentioning

that, as per BB’s requirement, IBBL is required to allocate minimum 10.0 percent of its annual CSR budget as CRF²⁴.

IBBL also provides green banking training to its employees and customers through seminars, symposiums, discussion meetings, workshops etc. These training programs are arranged by all the branches, Islami Bank Training Academy, and Human Resource Division. Table 11 shows an increasing trend in the number of training programs, participants, and expenses from 2012 to 2015.

In addition to training and capacity building programs, IBBL, for marketing of its green products and for creating public awareness on environmental issues, undertakes several awareness development programs such as motivating clients for promoting environment friendly process, products, & packaging; advertising on green banking products/issues; publishing articles on green banking products and issues; and arranging public events on green banking.

4.2.3.1 Shared Value through Green Investment

These green banking initiatives of IBBL is creating business value in several ways: financial return on direct and indirect green investment, goodwill, branding, and efficient use of resources. The green banking initiatives of IBBL simultaneously creating shared value to the environment and community through reducing environmental pollution both by internal green practices and by customers’ scrutiny before sanctioning or granting of

Table 10. Year-wise Green Investment by IBBL

Particular	Year			
	2012	2013	2014	2015
Total Direct Green Investment (million BDT)	-	4815.28	3595.1	2550.29
Total Indirect Green Investment (million BDT)	27,007.60	39641.72	51156.02	75449.8
Total Green Investment (million BDT)	27,007.60	44457	54751.12	78000.09
Growth of Green Investment (percent)	-	64	23.15	42.46

Source: Compiled and Calculated by the Researchers from Annual Reports of IBBL 2012-2015

Table 11. Year-wise Green Banking training and expenses

Particular	Year			
	2012	2013	2014	2015
No of training programs	23	170	288	353
No of employee participants	1144	3463	7405	6581
No of customer participants	-	4533	3771	3841
Expenses (million BDT)	0.422	1.68	2.91	3.35

Source: Compiled by the Researchers from Annual Reports of IBBL, 2012-2015

loan. It is also creating long-term social value by providing green training to employees and through developing customer awareness on environmental hazards. Customer respondents also confirmed that IBBL is improving its way of doing business through integrating green banking practices. *According to borrower a (one of the industrial borrowers of IBBL),*

“I appreciate IBBL for environment friendly financing and hope that it will further strengthen its environmentally responsible practices within the organization and to scrutinize environmental and social impacts of our proposed undertakings before sanctioning loan

so that environment polluting projects do not come to light”.

4.3 Shared Value Initiatives along Three Areas of Porter and Kramer

The innovative banking initiatives along three areas of Porter and Kramer's shared value model are categorized in the Appendix Table 12, which testimonies that IBBL, to some extent, has been creating shared value at all the three mutually reinforcing areas of shared value model but mostly in the areas of reconceiving products and markets and redefining productivity in the value chain.

Table 12. IBBL's Initiatives at the three areas of CSV

Area-1. Reconceiving Products and Markets	
(How targeting unmet needs drives incremental revenue and profits)	
Areas of Action:	
› Agricultural Investment through RDS; SME Banking; Urban Poor Development Scheme (URDS); Micro Financing; Micro Enterprise Financing; Industrial Investment, Households Durable Scheme; Rural Housing Scheme and several other welfare oriented schemes.	
› Direct and Indirect Green Investment; Climate Risk Fund for the natural disaster prone people; Environmental Risk Management; Green Training and Capacity Building; Green Marketing Awareness Development	
› Personal Banking; Card Banking; Online Banking; ATM Services; SMS Banking; and Phone Banking to capture the unbanked.	
› Financing in education and healthcare under RDS programs	
› Skill development and self-employment training of customers for proper utilization of fund	
Area-2. Redefining Productivity in the Value Chain	
(How better management of internal operations increases productivity and reduces risks)	
Areas of Action:	
› Strict Shari'ah (Islamic Principles) based banking	
› Employee training and capacity building to operate efficiently	
› Conducting detailed baseline survey to identify the target group of people and the varieties of economic activities	
› Proper evaluation of investment risk and environmental risk in its business decisions	
› Strong supervision and monitoring systems	
› Customer training for better utilization of fund to enhance investment recovery rates	
› Reduced utility consumption as a part of internal environmental management	
› Ethical banking initiatives	
› Automation of banking transaction or paperless banking	
› Shared ATM (6000+)	
› Collaboration with cell phone providers to provide mobile banking services	
Area-3. Enabling Local Clusters	
(How changing societal conditions outside the company unleashes new growth and productivity gains)	
Areas of Action:	
› Emphasizing cluster based financing in case of SMEs and women entrepreneurship development finance	

Source: Prepared by the Researchers from Annual Reports of IBBL, 2011 to 2015 and Findings of Interviews with IBBL Managers and Customers

4.4 Shared Value of Stakeholders at IBBL

Table 13 summarizes the shared value that has been created by IBBL toward different stakeholders along three dimensions: (1) economic, (2) knowledge and innovation, and (3) social or environmental development. The Table-13 reveals that IBBL has been sharing its created value toward major stakeholders such as customers, banking industry, employees, government and shareholders. For example, IBBL has been creating economic benefits for its customers in terms of access to banking through innovating need based products, providing customer surplus through low rate of return, rebate on early repayment, up-gradation to higher credit facilities to those who made regular repayment etc. The bank has been transferring innovation and knowledge to the customers on savings, self employment, group leadership and motivation, effective utilization of fund etc. The bank has also been contributing to the social and environmental development of its customers through entrepreneurship development (men & women) that

enhancing family solvency, reducing social disorder and enhancing child education.

5. Motives behind Involvement in Shared Value Initiatives

The motives behind involvement in CSV initiatives are clearly stated in the IBBL's mission statement, which is

"To establish Islamic banking through the introduction of a welfare oriented banking system and also ensure equity and justice in all economic activities, achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less developed areas of the country. To encourage socio-economic growth and financial services to the less-income community particularly in the rural areas"²⁵.

Table 13. Shared value of stakeholders at IBBL

Stakeholders	Economic	Knowledge and Innovation	Social/Environmental Development
Customer	Access to banking, Customer surplus (low rate of return, rebate on early repayment, up-gradation to higher credit facilities to those who made regular repayment)	Knowledge on savings, self employment, group leadership and motivation, effective utilization of fund	Entrepreneurships development (men & women) that enhancing family solvency, reducing social disorder and enhancing child education
Industry	Stimulating similar other PCBs to finance for rural and regional development	Transferring knowledge of profitable Islamic banking to other PCBs for becoming efficient and effective	Improving employees, clients, and environmental standards
Employees	Jobs and income for employees and their families (Direct Employment 13,622 persons up to 2015)	Training of employees (Average 8000 employees received training each year during the study period)	Social and workplace safety, job security
Government/ Communities	Taxes, donation, infrastructure, employment opportunity for citizens	Boosting rural savings, promoting self-employment	Rural development, cluster based financing, balanced economic and social growth
Shareholders	Increased shareholders' value through declaration of high dividend and increasing net asset value of shares (The bank paid on an average 22 percent dividend each year from 2011 to 2015)	Knowledge about the power of shared value banking stimulating them to invest more	Being part of social and environmental development

Source: Prepared by the Researchers from Annual Reports of IBBL, 2011 to 2015 and Findings of Interviews with IBBL Managers and Customers

The Managing Director and CEO of IBBL, in an interview published in *The Daily Observer* (July 23, 2015), opined that the philosophies of Islamic financial system are “risk sharing and the promotion of social and economic welfare, which extend beyond profit maximization”²⁸.

Manager C reinforces the above claim by saying that, “Welfare has been in the core of IBBL business.” Manager D claims that, “For more than three decades, IBBL has been offering need based financial services in compliance with the Islamic principles”. All managers interviewed agreed that shared value practices have enhanced goodwill of the bank over time, leading to improved brand image and subsequent increase in deposit and investment. Manager E asserts that “We are involved in innovative practices because the bank wants to create brand image amongst the general public by strictly following Islamic principles. As the bank has successfully created brand image, its financial performance has also improved”. The responses of other respondent managers from IBBL were similar.

Overall, the innovative products and services or in other words Shared Value practices improved brand image and, subsequently, financial performance. The result is consistent with the earlier work of ^{29,30,16,18} who found that improved environmental and social performance can significantly enhance the reputation and image of a business entity and thus lead to improved financial results. Indeed, IBBL has positioned itself as a need based, welfare oriented, and socially and environmentally responsible bank.

6. Conclusion

The paper aims at generating deep insights into shared value practices of IBBL in the context of Bangladesh. Two specific objectives have been set to examine the extent to which innovative banking practices of IBBL are creating shared value; and to understand the motives behind engaging in such practices. Case study research design has been adopted to attain the objectives. Open ended telephonic interviews with the practicing managers and customers of IBBL along with published information have been used to triangulate data and verify results. Several innovative products such as agricultural and rural banking through RDS, SME Banking, and Green banking have been selected for thorough and critical appraisal. The study results indicate that IBBL, to some

extent, has been creating shared value in all three areas of Shared Value Model (i.e., reconceiving products and markets, redefining productivity in the value chain, and enabling cluster development) but mostly in the areas of reconceiving products and markets and redefining productivity in the value chain. However, the study reveals that IBBL has been creating shared value with little or no knowledge regarding Porter and Kramer’s Shared Value Model. In addition, the study reveals that the financial performance of IBBL has been increasing gradually due to more and more engagement in shared value activities which are contributing to increase goodwill and brand image. The present study faces some limitations. The case study creates some evidence for banking on shared value; however, more research is needed taking both Islamic and traditional banks as samples to generalize the results. Furthermore, the study conducted open ended interviews only with managers and customers of IBBL. Future study can fulfill this gap by taking other stakeholders of IBBL such as shareholders, general public, government representatives, and interest groups along with managers and customers. Similar study can also be conducted among different sectors. Finally, the study recommends that although IBBL is creating shared value in practice, it should set clearly stated shared value goal, track progress, and take corrective action to make shared value at scale.

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