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A State of the Art of Corporate Social Responsibility in Financial Institutions

Stefano Dell’Atti, Francesca Donofrio and Grazia Onorato

Abstract

Corporate social responsibility originates from the company’s behavioral problems. Corporate governance can be considered an environment of trust, ethics and moral values and in recent years has gained enormous importance. In addition, other factors that have been responsible for the new corporate governance paradigm are a stricter respect for the environment and the demand for greater corporate responsibility towards its shareholders and customers. Ecosystem load capacity is described with resource consumption input–output models. In line with this, the company should not use more than one resource that can be regenerated. Considering an organization as part of a broader social and economic system implies that these effects must be taken into account, not only for the measurement of the costs and value created in the present, but also in a future perspective for the company. In this context banks, which carry out the fundamental role as financial intermediaries, are linked with different stakeholder interests, both in economic and social field. This chapter analyzes the main novelties which has influenced corporate governance of them by reviewing its main phases. The chapter secondly addresses the specific features of board of directors by analyzing a sample of 25 banks defined as Global Systematically Important Institutions in 2018 following the EBA guidelines.

Keywords: corporate social responsibility, corporate reputation, financial institutions

1. Introduction

1.1 Banks’ commitment to corporate social responsibility

The concept of Corporate Social Responsibility (CSR) stems from the need for companies to interconnect the needs of the community with the various sources of profit. The growing interest in CSR issues, especially in banks, is the result of a cultural journey that sees the company react to market changes and to be the protagonist of an increasingly sustainable future.

Corporate social responsibility is understood: “*companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*” [1]. In other words, the company integrates social and environmental interest among its strategic objectives. Together with the financial and environmental aspects, the ethical value of banks is more important for the development of both productive and marketing strategies, representing a new tool

of competitiveness [2]. At the beginning of the 1970s, the first CSR studies were born to analyze the correlation between social issues and economic performance. However, it was in the 1990s that there was a real explosion of the CSR issue [3, 4].

The prevailing approach up to this period was that there was a negative correlation between the ethical and social orientation of the investor and the economic performance. It was believed that investing in good behavior practices would reduce the number of available investment alternatives and possibly damage economic performance.

The spread of sustainable investments in financial markets, the development of ethical stock market indices and ethical rating methodologies, has helped to affirm the belief that there are economic benefits related to the assumption of corporate social responsibility. In fact, investing in socially responsible behaviors can also bring economic benefits.

In line with these considerations, CSR is not a follow-up to profit, but sees it as a profit-making option. In banking, CSR is an important aspect of the company's strategy and it must have a substantial value in its business. In other words, it is necessary to integrate CSR into strategies, processes, operations as well as daily relationships with stakeholders. If sustainability enters these areas, then it can effectively contribute to the resilience of the economic and social fabric, foster confidence in the market and the acceleration of the recovery from the crisis [5].

Since the last economic crisis, the deteriorating economy along with numerous banking scandals has provided a new and challenging environment for the banking sector. At the beginning of the crisis, scholars discussed its impact on social investment [6, 7]. Some predicted a sharp reduction in CSR budget costs if they were perceived as non-core assets, while others believed that companies strategically engaged in CSR would continue to spend in this area, despite the challenging economic environment. Banks are blamed primarily for the financial crisis that caused economic turmoil [8, 9].

Corporate scandals, lack of transparency and subsequent government bailouts have undermined public confidence in the banking sector. Several authors argued that the positive results of the CSR be particularly remarkable in the banking sector, as banks have had a reputation tarnished in the wake of the financial crisis [8, 10]. Transparency is very relevant in restoring bank reputation, which may explain why financial companies report significantly more information about CSR than other industries [11]. CSR acts as a protection of the company's market value in times of crisis [12, 13]. While general mistrust in the financial sector has had a negative effect on reputation and therefore performance, CSR strategies could mitigate these results. In this way, CSR can be considered preventative in times of non-crisis because it improves reputation. However, it is also interesting to consider the effect of CSR in a post-crisis situation as a tool to restore reputation and mitigate a reputational crisis following corporate scandals [14, 15].

Absent or incorrect CSR policies have a much greater negative effect on performance than the positive effects of correct policies. However, the recent recession in the world economy, particularly in Europe, has shed light on some management scandals and the lack of integrity in the European banking sector. This has had a negative impact not only on bank returns but also on bank reputation. Banking governance plays a crucial role in the implementation of CSR practices. It is believed that sustainable measures lead to reputation and performance improvement when management demonstrates strong ethical leadership [16, 17]. In the banking sector, some sustainable policies have not been able to improve reputations and returns since the start of the financial crisis [18]. Unethical practices and mismanagement in several European banks have caused anger, and distrust of the sector that has received public bailouts, while some bank executives have been paid exorbitant

bonuses. As a result, the ethical leadership and credibility of the banks were called into question, resulting in a major loss of reputation, as the public perceived discrepancies between the CSR directives of bank executives and their effective behaviors [19]. In this scenario, investments in CSR have failed to improve reputation due to weak business leadership. After one of the deepest economic crises in history, banks perceive CSR as a means of restoring their image and credibility [20–23]. The banking sector's commitment to more sustainable practices has interesting implications. In fact, banks can play an important role in economic development [24] because they decide how to allocate financial resources to different companies and sectors. Non-responsible companies pay an additional cost on bank financial income than the companies responsible because investments in CSR reduce risk and are more attractive to lenders [25]. Therefore, the involvement of banks in CSR practices should benefit the bank itself and promote the adoption of sustainable practices by potential borrowers, thereby having a positive impact on sustainable growth [26]. This makes the financial sector unique when considering the effects of CSR practices. In the banking sector, CSR covers many activities such as lending, wealth management, the operation of payment systems and risk management [27]. All of these factors are able to significantly influence society and its surroundings. For this reason, banks should fully integrate CSR into their business strategies and see it as a strategic tool that can improve relationships with stakeholders, resulting in positive impacts both in terms of consensus and confidence and performance. If a bank acts in a socially responsible way, it creates the basis for consolidating its long-term presence in the market, emphasizing its contribution to environmental quality and society. CSR's business affects all stakeholders involved in the business with different capabilities and with different expectations [28]. The CSR is taking on a crucial role among academics and researchers, thanks to its ability to jointly consider all aspects of operations: economic, environmental and social [29]. This is the approach of the so-called triple bottom line [30], according to which the assessment of benefits must cover not only the economic aspects, but also the environmental and social aspects.

Undoubtedly, there is the need for integrated communication between the criteria for implementing CSR practices. Disclosure of CSR is regulated by national and international self-regulatory measures. It is a voluntary disclosure and this faculty is linked to the very essence of ethics, inevitably influenced by specific business activities and difficult to define without proper contextualization.

Among the most relevant CSR provisions are the OECD Guidelines [31], which suggest that integrated relationships should be adopted. In addition, the Global Reporting Initiative (GRI) guidelines for sustainable reporting include the principles needed to define report content (Materiality, stakeholder inclusion, sustainable context and comprehensiveness) and relationship quality. They also include standard disclosure: organizational strategy and profile, management approach and performance indicators (economic, environmental and social).

European banks are more concerned about environmental, social and governance issues than their competitors based in other parts of the world. This can be confirmed, for example, by the proportion of signatories to Equator Principles [32], with European institutions accounting for 42% of all adopters compared to North American, Latin American and Asian entities, representing 17%, 12% and 9% of all signatories respectively [33].

European banks, as the first to adopt sustainability practices, can be a benchmark for their peers in other regions. In addition, in Community area the banking sector is known for the relevance of bank income in overall financial intermediation compared to other regions, such as the United States, where capital markets are the main source of financing. In fact, in the European banking-based financial system [34], banking is three times the EU's total GDP [35], unlike other advanced

economies, namely the United States, where a market-based system prevails that derives in a lower percentage of banking intermediation in the economy, where bank assets roughly correspond to GDP.

Today, banks pay attention to corporate social responsibility as an additional lever of innovation and development to better compete in the market in the medium and long term. Taking a CSR path is an opportunity for the bank to: (i) improve proactive risk governance by integrating social, environmental and government variables into their corporate governance system; (ii) listen to the needs of your stakeholders and innovate the development of products, services and business models; (iii) make explicit the implications that the role of money brokerage has on the company and maximize the creation of a shared value.

2. An empirical analysis of CSR in global systematically important institutions

This chapter presents the results of a survey of a sample of banks belonging to the Global Systemically Important Institutions (G-SII) universe, as defined by the EBA. The list of banks included in this section follows the EBA's guidelines on the dissemination of indicators of global systemic importance in order not only to increase the transparency of the G-SII identification process, but also to achieve a level playing field in terms of disclosure requirements between systemically important institutions and other large institutions. The EBA guidelines directly follow the Recommendations of the Basel Committee to identify global systemically important banks (G-SIBs) and provide data that help assess the systemic riskiness of EU banks.

In line with the EBA's guidelines, all European institutions with a leverage ratio of more than 200 billion euros are required to participate in this disclosure. Our sample includes 25 G-SII operating on European territory in 2018. The following table (**Table 1**) shows the banks included in the sample. Of the 25 banks, 5 are from the United Kingdom, 4 in Spain and Sweden respectively, 3 in France, 2 in Germany and Italy and 1 for Austria, Belgium, Denmark and the Netherlands respectively.

In terms of assets managed in December 2018 (**Figure 1**), UK banks are at the top of the ranking (36% of assets attributable to the entire sample). In second place are Spanish banks with 18% of assets managed, followed by German banks with 12% and Italian banks with 11%. Overall, French and Swedish banks manage 18% of the assets. Netherlands ranks seventh with only 3%, followed by Austria and Norway with a total of 4% of assets managed. Finally, the Belgian and Danish banks are included in the final part of the rankings, with a total of 0.02% and 0.01% respectively.

In order to ascertain the degree of integration of CSR practices by the selected banks, several areas of investigation were analyzed, selected because they were considered relevant according to an analysis of the studies on the subject.

The research focused on four areas of investigation, relating to the composition, size and configuration of the Boards of Directors of the 25 banks examined. In particular, they were examined for each company:

- The size of the board of directors
- The presence of independent directors on the board
- The presence of women on the board
- The presence of endo-council committees specifically dedicated to sustainability issues.

Financial institution	Country
ERSTE GROUP	Austria
KBC	Belgium
DANSKE BANK	Denmark
BNP PARIBAS	France
CREDIT AGRICOLE	France
SOCIETE GENERALE	France
COMMERZBANK	Germany
DEUTSCHE BANK	Germany
INTESA SANPAOLO	Italy
UNICREDIT	Italy
ABN AMRO	Netherlands
DNB	Norway
SANTANDER	Spain
BBVA.MC	Spain
LA CAIXA	Spain
SABADELL	Spain
NORDEA	Sweden
SEB	Sweden
HANDELSBANKEN	Sweden
SWEDBANK	Sweden
BARCLAYS	UK
HSBC	UK
LLOYDS	UK
RBS	UK
STANDARD CHARTERED	UK

Table 1.
Sample.

In order to achieve our goal, we analyzed all the bank’s official documents on governance and sustainability policies, as well as we used Datastream database with regard to some qualitative aspects.

2.1 CSR in bank’s corporate governance systems: *introductory notes*

The importance and efficiency of CSR practices in banks depends almost exclusively on the board of directors and the information provided to stakeholders. The CSR disclosure helps to increase the well-being of stakeholders and communicate information on the bank’s economic, social and environmental performance [36]. This reporting also reduces the information asymmetry between shareholders and bank executives [37]. In line with these considerations, CSR is a valuable tool to increase shareholder confidence and improve the bank’s ethical behavior. It is therefore one of the key factors in influencing the bank’s competitiveness and long-term success [38].

The growing interest in CSR has led many countries to introduce their respective regulatory frameworks. CSR regulations have been imposed for banks in different

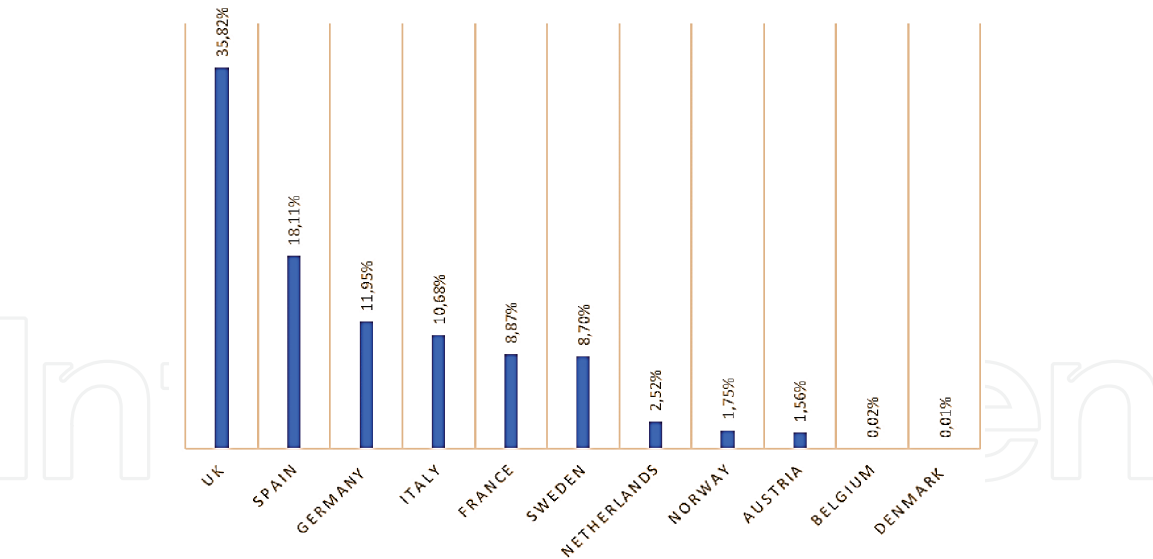


Figure 1.
Total asset by country.

countries over the years (e.g. 2003 in Austria, 2007 in Malaysia, 2009 in Sweden, 2010 in China, 2012 in Spain, 2016 in Belgium and 2017 in Hungary and Singapore). Other countries, such as Australia, Canada and Cyprus, have soft regulations in the form of recommendations to encourage the disclosure of CSR [39]. Banks should follow standards (e.g. GRI, designed for the financial services sector) or employ independent external auditors to ensure the quality and reliability of the information disclosed.

The efficiency of the banks’ board of directors is important to ensure their stability, compliance with regulations, the protection of stakeholders as well as to form long-term strategies that also include sustainability issues [37, 40, 41]. Diversity in the composition of the Board of Directors is considered one of the key elements to resolve complex issues and satisfy the interests of different actors. Diversity on company boards should improve good corporate governance. The diversity of the Board of Directors is examined in terms of the composition of the board of directors with a focus on the size of the board, the independence of the board of directors and gender diversity.

2.1.1 Board size

The size of the board of directors in banks is much larger than the boards of directors of non-financial corporations [42]. These differences in the size of the board of directors may depend on the complexity of banking activities and regulatory recommendations. Several studies examine the relationship between the size of the board of directors and the various performance measures of banks. The size of a bank’s board of directors has positive effects on performance; this is probably due to the fact that banks are complex businesses and the advantages of larger boards outweigh costs, improving monitoring functions and mitigating risks.

In order for the Board of Directors to carry out its functions efficiently, it is necessary to diversify the skills and experience of its members [43]. More board members are associated with better monitoring mechanisms for performing their functions as well as an improvement in CSR practices [44]. As more directors provide a more diverse and broader variety of skills and opinions, larger boards of directors are expected to focus more on the CSR [45, 46]. The banking sector, being subject to strict information disclosure requirements, is more transparent than non-financial companies.

2.1.2 Independent director

Also the independence of the Board of Directors is considered one of the most efficient governance mechanisms [47]. Independence is linked to the presence of non-executive directors who ensure the correct behavior of the company [37, 48]. Independent directors therefore act as guardians of the company's legitimacy by ensuring compliance with regulations and meeting the expectations of the external environment, including social and environmental concerns [49]. Non-executive directors can be guided by personal interests and consequently pursue goals that are misaligned with the company's strategy. Since CSR information is obtained by management, there is a risk of spreading misleading information [50]. In that case, independent directors may reduce that risk. Much of the existing literature is agreed that non-executive board members are positively associated with the disclosure of the CSR of banks or its quality [49].

2.1.3 Board's diversity

Nowadays a large part of CSR studies believe that a key success factor is represented by the diversity of the board in terms of gender, ethnicity or background. Diversity on boards, expressed in terms of the number of women on the board, should increase the independence of the board and focus on the interests of different stakeholders [40]. Leadership styles based on gender diversity suggest that women tend to be more democratic, showing more empathy for diversity [39, 51]. This indicates that women should have a positive influence on the functioning of the board of directors as they should promote collaboration and integration of more complex issues in discussions and decision-making. Much of the literature on the subject is in agreement in affirming the positive association between the number of women on the board of directors and the information on the CSR of the banks [43, 45, 48].

2.1.4 CSR committee

Finally, it is worth noting that in recent year companies, in order to achieve sustainability goals, more frequently choose to set up a committee. The CSR or Sustainability Committee assists the Board of Directors in overseeing the company's liability practices, but they can also play a key role in monitoring and evaluating the company's CSR performance by ensuring compliance with regulations that manage sustainability risks. In other words, the CSR Committee helps to improve the ethical culture of the company by ensuring that the potentially dangerous risks to the company's reputation are properly assessed [52, 53].

The CSR advisory committee periodically reports to the board on sustainability issues affecting the company, while managing public disclosure on sustainability issues. The existence of a CSR committee is evidence of the company's commitment to CSR and therefore to the pursuit of ethical and sustainable objectives [54, 55].

In line with these considerations, a company that decides to set up a CSR committee demonstrates not only its CSR commitment to stakeholders, but also its intention to make sustainability a key strategy to improve the extent or quality of sustainability disclosure [56–58].

2.2 Empirical results

The size of the board of directors as a lever to make the function of the bank's board of directors efficient is analyzed by several academics and scholars. In line

with the introductory considerations, a greater number of members of the board of directors is associated with better monitoring mechanisms for carrying out the functions of the board as well as an improvement in CSR practices. In line with these considerations, the analysis carried out revealed that the average size of Board of Directors is 13 members within a range that varies from a minimum of 6 to a maximum of 21 members. Although a positive correlation between the number of members of the Board of Directors and size - measured in terms of assets managed - can be detected, it does not however assume particularly significant values (correlation coefficient: 0,14) (**Figure 2**).

The second area of investigation concerned the examination of the number of independent directors. In line with existing literature, independent directors can reduce the risk of manipulation or distortion of CSR reporting. The boards of directors of the banks examined present an average of 64% of independent directors, in a range that varies from a minimum of 24% to a maximum of 64%. Only in one case is the board of directors made up exclusively of independent directors. However, it should be noted that most banks have at least 50% of independent directors (18 out of 25 banks), while in the remaining 7 banks the percentage of independent directors varies between 24% and 45% (**Figure 3**).

Gender diversity on boards of directors, usually expressed in terms of the number of women on the board of directors, should have a positive influence on the functioning of the board of directors and information on banks' CSR.

The empirical analysis shows that in 2018, the representation of women on the boards of directors of the banks analyzed was 35%. In three of the banks examined, the number of women on the board of directors is equal to the number of men. 18 of the banks examined have a percentage of women on the board of directors of more than 30%, while in the remaining 7 banks there is a percentage varying between 13 and 29% (**Figure 4**).

Establishing a committee dedicated to CSR is a widespread practice (92% of the sample). The analysis showed a strong heterogeneity in the behavior of banks. On the one hand, some banks decide to set up coordination committees that control other units dedicated to specific CSR issues. On the other hand, in other cases there is cooperation between officials at group level or committees focusing on specific issues relating to the environment, society and governance. The range of activities carried out by CSR functions include: stimulating CSR initiatives and increasing

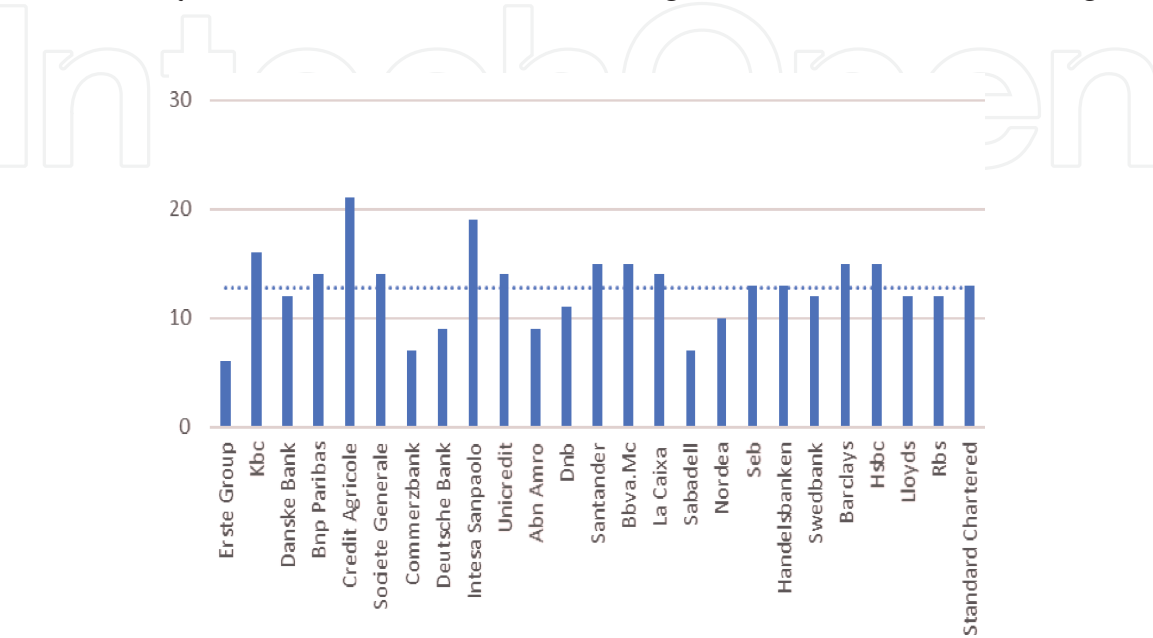


Figure 2.
Board size.

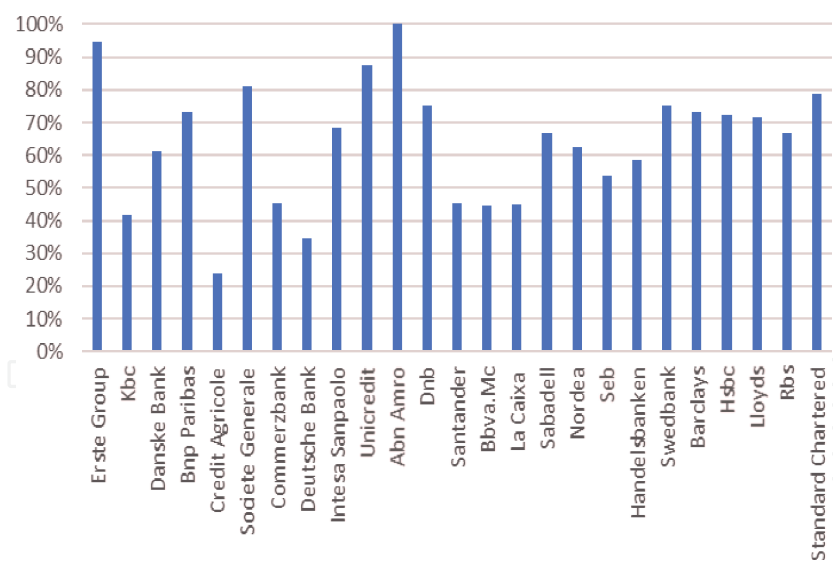


Figure 3.
Number of independent directors.

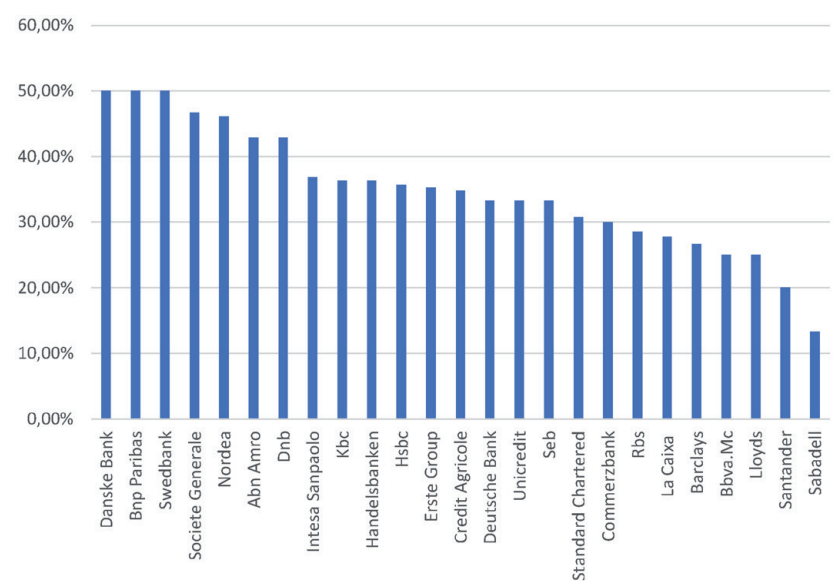


Figure 4.
Number of women on the board.

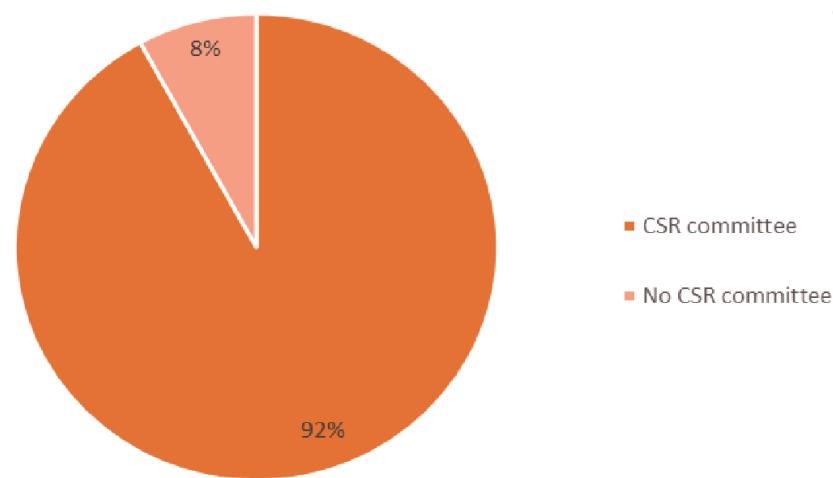


Figure 5.
CSR committee.

internal awareness of CSR issues; formulation and monitoring of policy and accountability programmes; responsibility for coordinating and implementing the company's sustainability strategy and action plan; measures to deliver the sustainability strategy and achieve agreed company-wide goals. In the cases examined, there is often a special committee for responsible investments in the asset management business area to ensure that banks' responsible investment policy is respected (Figure 5).

3. Conclusion

The concept of Corporate Social Responsibility stems from the need for companies to interconnect the needs of the community with the various sources of profit. The growing interest in CSR issues, especially in banks, is the result of a cultural journey that sees the company reacting to market changes and being the protagonist of an increasingly sustainable future.

Banks integrate social and environmental interest into their strategic objectives. Together with the financial and environmental aspects, the ethical value of the banks assumes greater importance for the development of both production and marketing strategies, representing a new tool for competitiveness.

Banks pay attention to corporate social responsibility as an additional lever of innovation and development to better compete on the market in the medium and long term. More precisely, CSR contributes to the improvement of proactive risk management, integrating it with social, environmental and government variables; improves the relationship with stakeholders, promoting an analysis of the needs of bank interlocutors and the development of products, services and commercial models. Finally, the CSR makes explicit the implications that the role of intermediation of money has on society and favors the creation of a shared value. In light of the above, this chapter has set itself the objective of exploring the level of integration of Corporate Social Responsibility in the banking system. To achieve this, we carried out an exploratory analysis on a sample of 25 banks, belonging to the universe of Global Systemically Important Institutions in 2018. All the bank's official documents on governance and sustainability policies were analysed, and we used the Datastream database for some qualitative aspects. Our study focused on four areas of investigation relating to the composition, size and configuration of the boards of directors.

The main results show a favorable attitude of banks towards the integration of sustainable policies. More precisely, with regard to the first area of investigation, a greater number of members of the board of directors (average of 13 directors) are associated with an improvement in CSR practices.

The examination of the number of independent directors (second area of investigation), as a tool to reduce the risk of manipulation or distortion of CSR relationships, showed positive trends. In fact, the boards of directors of the banks examined present an average of 64% of the independent directors.

A further crucial element for examining the implementation of CSR policies in banks concerns gender diversity on boards of directors. It is believed that more women on the board of directors positively influence the functioning of the board of directors and the disclosure on CSRs in banks. In 2018 the representation of women on the boards of banks of the banks analyzed was 35%.

Finally, the last area of investigation relating to the presence of a committee dedicated to CSR reveals a strong heterogeneity in the behavior of banks. On the one hand, some banks decide to set up coordination committees that control other units dedicated to specific CSR issues. On the other hand, in other cases there is

cooperation between group level officials or committees focused on specific issues relating to the environment, society and governance. In the cases examined, there is often a special committee for responsible investment in the commercial asset management sector to ensure compliance with the responsible investment policy of banks.

To sum up, the integration of CSR policies will allow banks to compete better on the market in the medium and long term, satisfy the requests of their stakeholders as well as protect the ethical and social values of the banks themselves.

This chapter represents an exploratory study on the level of integration of CSR practices in banks and in particular on the boards of directors of banks. The elements considered in this study may be further investigated, through future empirical analyzes. Future research could be oriented towards an in-depth examination of the sustainable investments put in place by banks over time.

Conflicts of interest

The authors declare no conflict of interest.

Author contributions

This article is the result of the joint efforts of the authors, who equally contributed to the work.

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