'Implicit' CSR in the banking sector: The role of Social Capital

Maria Paola Marchello, FEEM
Melania Michetti, FEEM

Fondazione Eni Enrico Mattei
Milan, 09 July 2009

Summary:

1. Approaches in Corporate Social Responsibility
2. CSR in the banking sector
3. Regulation and CSR in the banking sector
4. Cooperative versus corporation banks
5. Problem identification
6. Implicit vs Explicit CSR approaches
7. CSR in cooperative banking
8. The Role of Social Capital
9. Conclusions

Summary:

1. Corporate Social Responsibility: which approach?

Garriga, Melé (2004)

- **Instrumental approach**: corporation is an instrument for creation of wealth and this is its sole social responsibility.
- **Political approach**: social power of corporation is emphasized, specifically in its relationship with society and its responsibility in the political arena associated with this power.
- **Integrative approach**: business depends on society for its continuity and growth and even for the existence of business itself.
- **Ethical approach**: firms ought to accept social responsibilities as an ethical obligation above any other consideration.

Van Marrewijk (2003)

- **Shareholder approach**: "the social responsibility of business is to increase its profits" (Friedman, 1962).
- **Stakeholder approach**: organizations are not only accountable to its shareholders but should also balance a multiplicity of stakeholders interests that can affect or are affected by the achievement of an organization's objectives (Freeman, 1984).
- **Societal approach**: companies are responsible to society as a whole, of which they are an integral part.

Summary:

2. CSR in the banking sector: key features

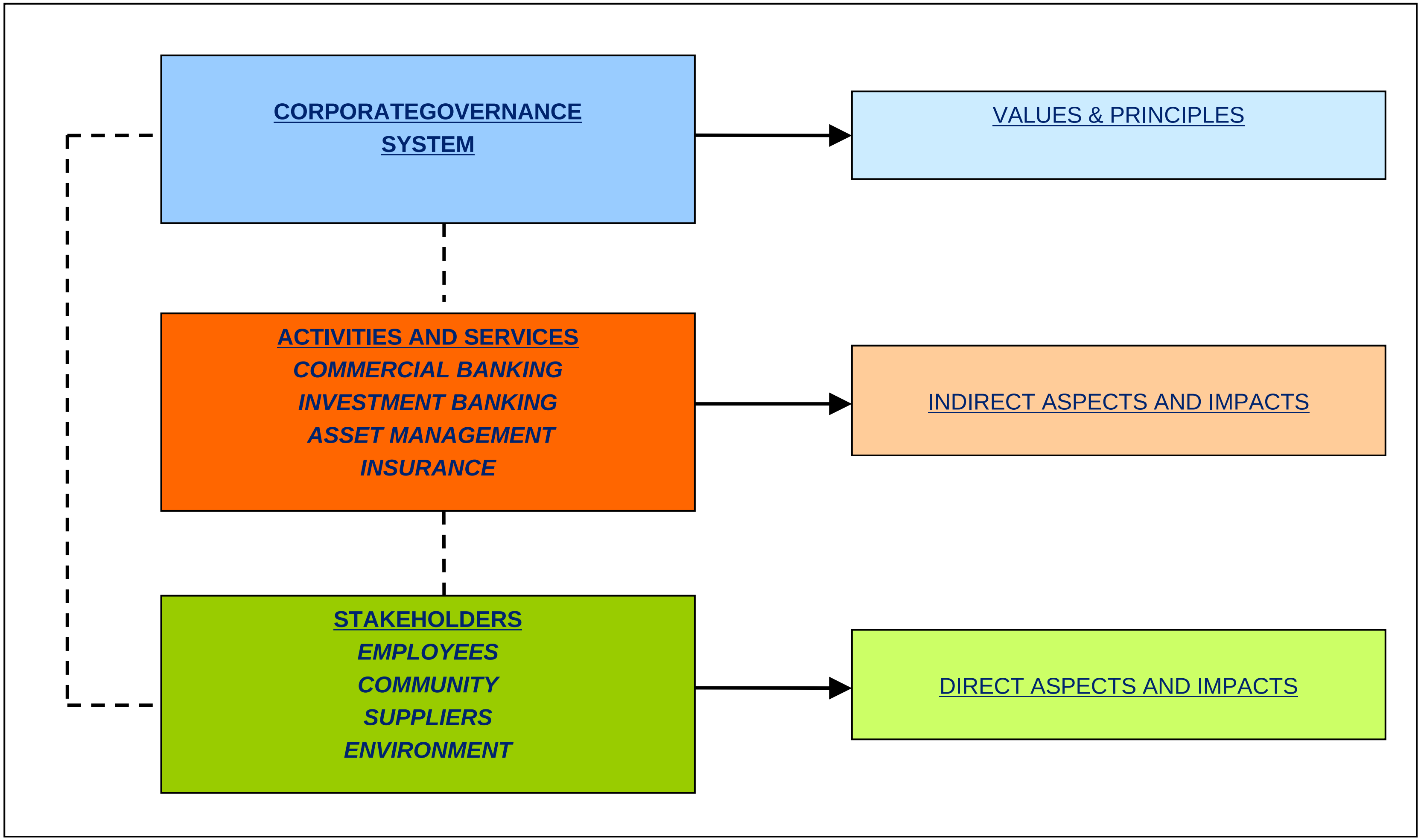
Premise: **banks ought to operate in a safe and sound manner**.

Social Responsibility in the banking sector involves **direct** and **indirect** aspects.

Direct aspects are related to sustainability issues beyond financial products and services (e.g. human capital, natural resources depletion).

Indirect aspects consist in the capacity of a bank to promote sustainability through its own products and services.

2. CSR in the banking sector: a conceptual model



2. CSR in the banking sector: a conceptual model

Corporate Social Responsibility guidelines and reports in the financial sector.

- EPI-Finance (2000).
- FORGE Group (2000).
- SPI-Finance (2002).
- GRI (2002-2005). *Financial Services Sector Supplement*.
- SAM (2007). *SAM Research - Corporate Sustainability Assessment Questionnaire 2007 (banking sector)*.
- GRI (2008). *Invitation for Comment Revised version of the GRI Financial Services Sector Supplement.*

2. CSR in Corporate Governance

Some issues in…

TRANSPARENCY and **GOOD GOVERNANCE**

Existence of specific committees (remuneration, sustainability, audit, etc.) within the corporate governance structure.

Independence of the Board of Directors and Committees.

CEO-Chairman duality.

Gender composition of the Board of Directors/Supervisory Board.

Application of instruments supporting and encouraging shareholders activism.

Application of instruments safeguarding the interests of minority shareholders.

External communication of the remuneration of the Board of Directors / Committees members.

2. CSR in Commercial Banking

Some issues in…

MORTGAGES

Responsibility in the ordinary management of mortgages.

Analysis of Environmental issues in mortgage approval procedures.

Social Inclusion Initiatives.

Offering of environmental friendly mortgages.

Responsible Marketing.

WHOLESALE LOANS

Analysis of Environmental, Social and Governance issues (e.g. risk assessment).

Existence of a special team for the assessment of relevant wholesale loans.

Integration of environmental and social indicators into the loan approval, management and control process.

Offering of environmental and social friendly loans.

Responsible Marketing.

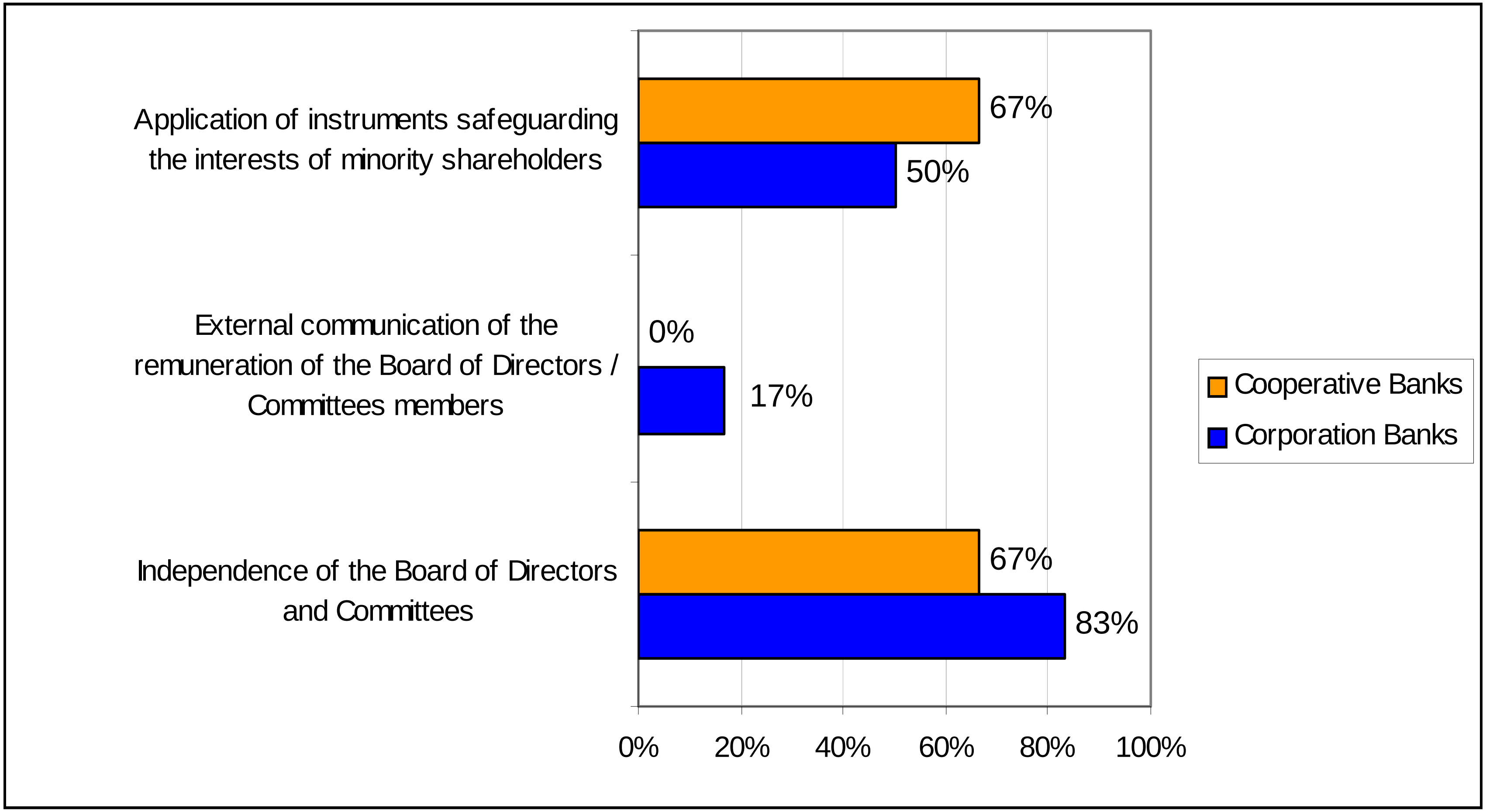
2. Benchmarking on Sustainability Reports

Sample Criteria:
Number of
Branches

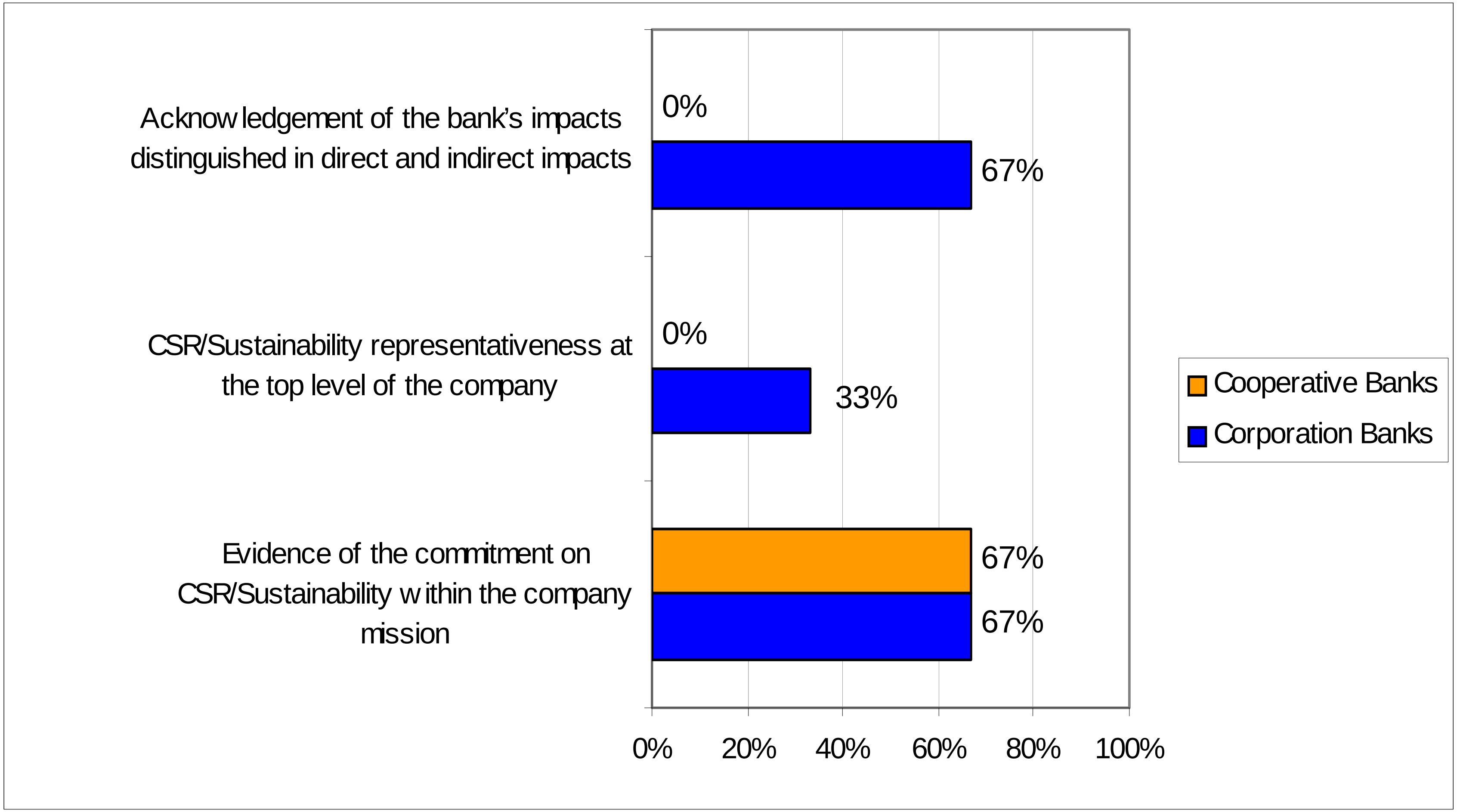
Source:
Italian Association
of
'Banche Popolari'

Bank Groups	
Public Companies	Gruppo Intesa San Paolo – 2007 Unicredit – 2007 MPS – 2007 BNL – 2006 Carige – 2006 CR Firenze – 2006
'Popolari'	Banco Popolare – 2007 UBI Banca – 2007 Banca Popolare di Milano – 2006 Banca Popolare di Vicenza – 2006 Credito Valtellinese – 2007 Banca Etruria – 2007

2. Results of the benchmarking: Corporate Governance (1)

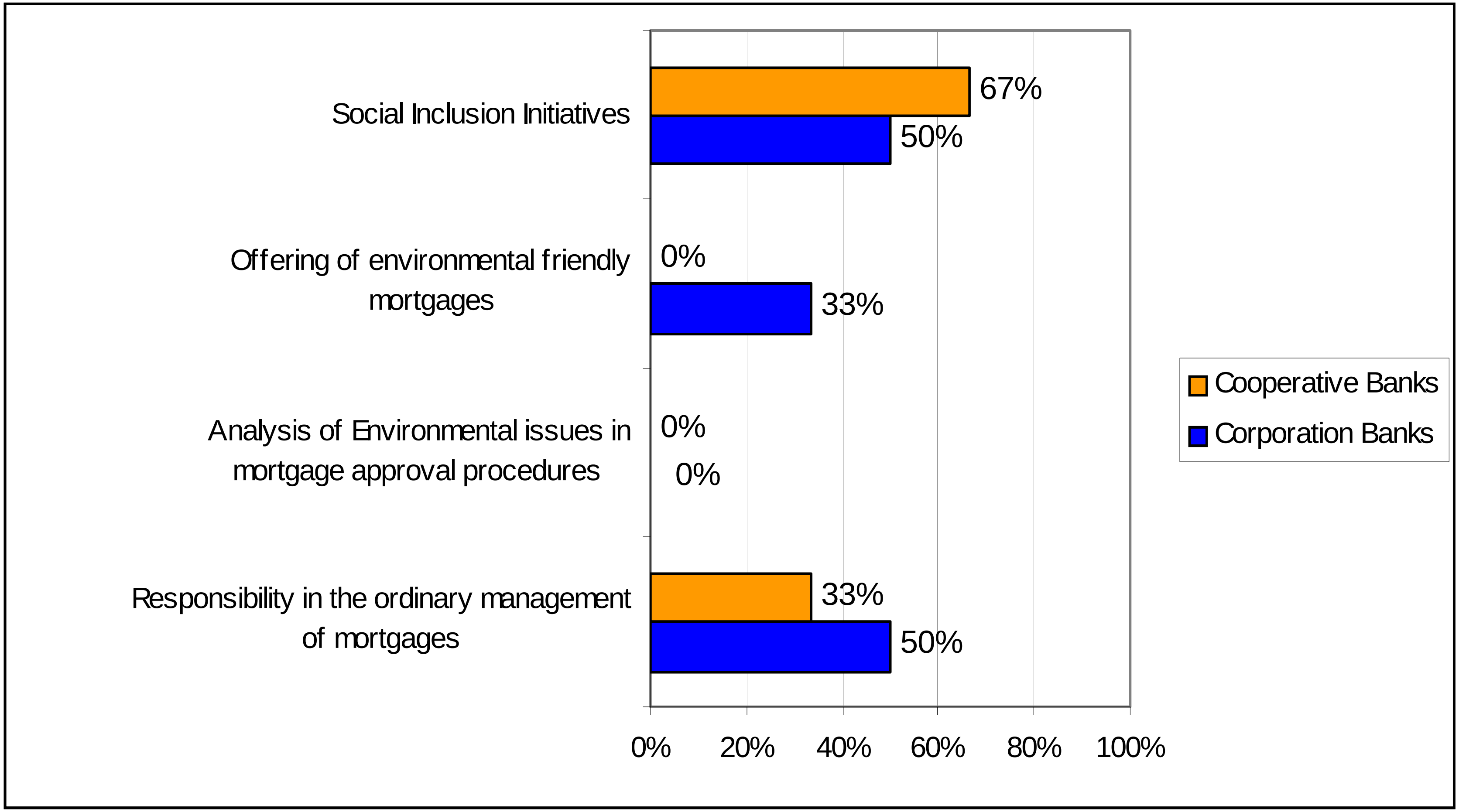


2. Results of the benchmarking: Corporate Governance (2)



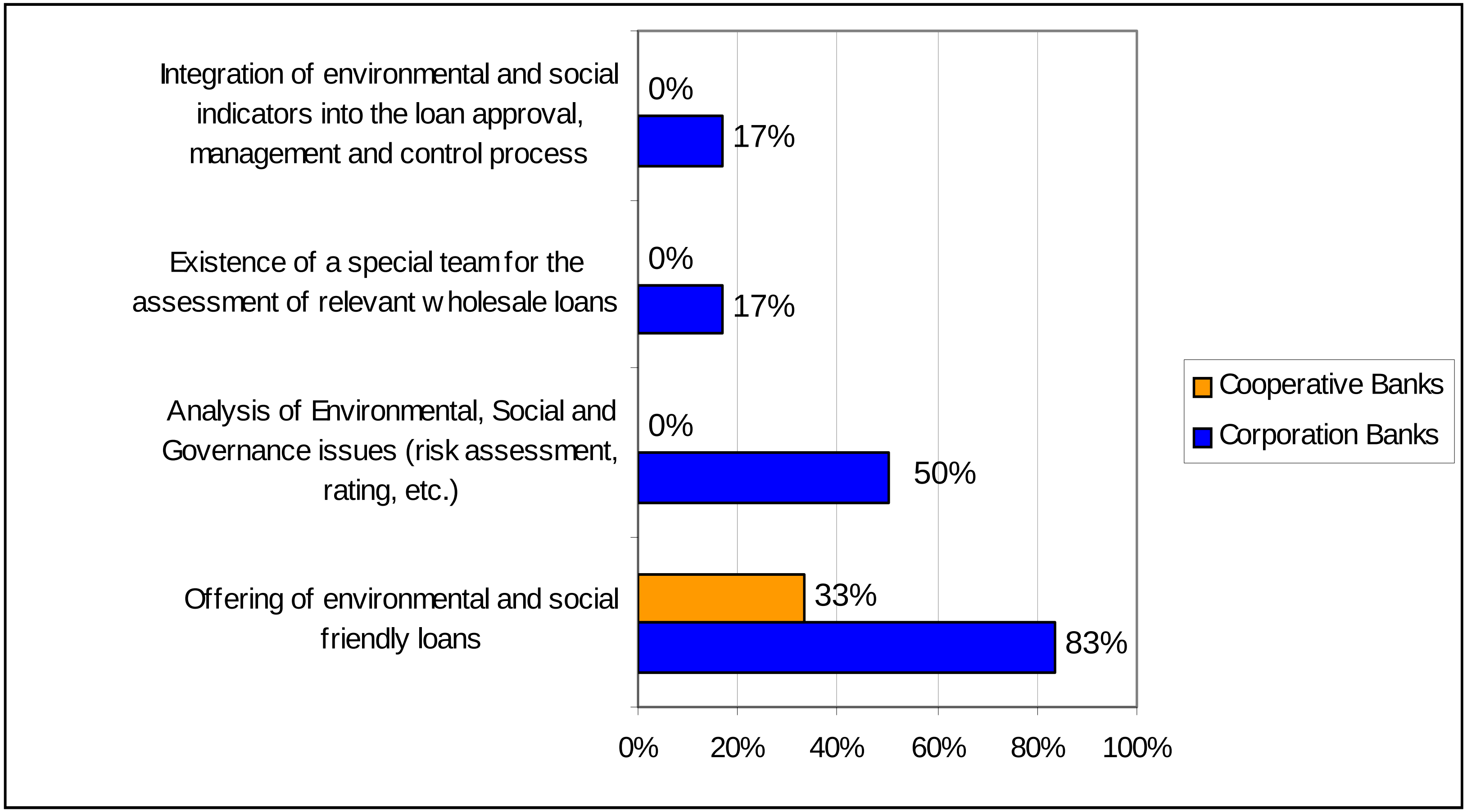
Fondazione Eni Enrico Mattei

2. Results of the benchmarking: mortgages



FONDAZIONE ENI ENRICO MATTEI

2. Results of the benchmarking: wholesale banking



FONDAZIONE ENI ENRICO MATTEI

Summary:

1. Approaches in Corporate Social Responsibility
2. CSR in the banking sector
3. Regulation and CSR in the banking sector
4. Cooperative versus corporation banks
5. Problem identification
6. Implicit vs Explicit CSR approaches
7. CSR in cooperative banking
8. The Role of Social Capital
9. Conclusions

3. Regulation and CSR in the banking sector

Corporate Social Responsibility is tipically acknowledged as a *self-regulation* tool.

Over last years, the regulative intervention on *self-regulation* initiatives related to CSR is perceived.

Such a phenomenon, renowned as ‘*meta-regulation*’, can assume the function of ‘guide’ or ‘incentive’ toward the adoption of sound social responsible practices within the corporate governance and management system.

In the financial sector, a ‘case study’ is represented by Socially Responsible Investment in Pension Funds. (OECD, 2006)

In Italy: CONSOB intervention.

Summary:

1. Approaches in Corporate Social Responsibility
2. CSR in the banking sector
3. Regulation and CSR in the banking sector
4. Cooperative versus corporation banks
5. Problem identification
6. Implicit vs Explicit CSR approaches
7. CSR in cooperative banking
8. The Role of Social Capital
9. Conclusions

4. Cooperative Banking versus Commercial Banking

Better results for direct aspects.

Indirect aspects: b*ank's difficulty in internalizing CSR and sustainable development policies in their core business.*

Either for direct or indirect aspects cooperative banks have a lack in the communication of their commitment in sustainability. (*Implicit approach with respect to CSR: it is a constitutive element of their mission and values; it is included in their core business).*

Summary:

1. Approaches in Corporate Social Responsibility
2. CSR in the banking sector
3. Regulation and CSR in the banking sector
4. Cooperative versus corporation banks
5. Problem identification
6. Implicit vs Explicit CSR approaches
7. CSR in cooperative banking
8. The Role of Social Capital
9. Conclusions

5.

Problem Identification

Representing social, environmental commitment of banks.

1. Standardized instruments are not always appropriated as tailored instruments (diversity of banks in terms of governance, mission & values, normative framework, history).

2. Need of comparison among different CSR measures and approaches(generally qualitative).

3. Several visions of CSR make easier theoretical research.

4. Redefinition of the Concept of CSR.

Summary:

1. Approaches in Corporate Social Responsibility
2. CSR in the banking sector
3. Regulation and CSR in the banking sector
4. Cooperative versus corporation banks
5. Problem identification
6. Implicit vs Explicit CSR approaches
7. CSR in cooperative banking
8. The Role of Social Capital
9. Conclusions

Implicit and Explicit CSR: *general concept*

CSR APPROACH DEPENDING ON CULTURE, HISTORY NORMS, ETC. ***(Moon & Matten, 2008)***

1. USA: MARKET ECONOMY, LOW LEVEL OF SOCIAL, ENVIRONMENTAL REGULATION COVERAGE

   (Development of consciouness of responsibility in agents' and firms' hands)

2. EU: MODERATED MARKET ECONOMY, GREATER REGULATION OF SOCIAL AND ENVIRONMENTAL ASPECTS

   (Agents and firms lower degree of freedom)

6. Implicit and Explicit CSR: *application to banking sector*

Corporation Bank (S.p.A.)

• Maximization shareholders' value (shareholder Theory, *Friedman 1970*)

•If social-environmental aspects are considered (which are not regulated by internal or external norms) then they are included explicitly in their business agenda (after debating in response to external stimulus)

Cooperative Bank

• Expanded firm's responsibility, balance of stakeholders' interests (Stakeholder Theory, *Freeman 1984*)

•Social and environmental aspects form part of the Corporate Bylaws which characterizes the cooperative bank and gives the license to operate.

✓Implicit model of CSR which is impossible to distinguish from the governance itself
✓ Few social issues not regulated

Summary:

7. Strenghts of cooperative banking (1)

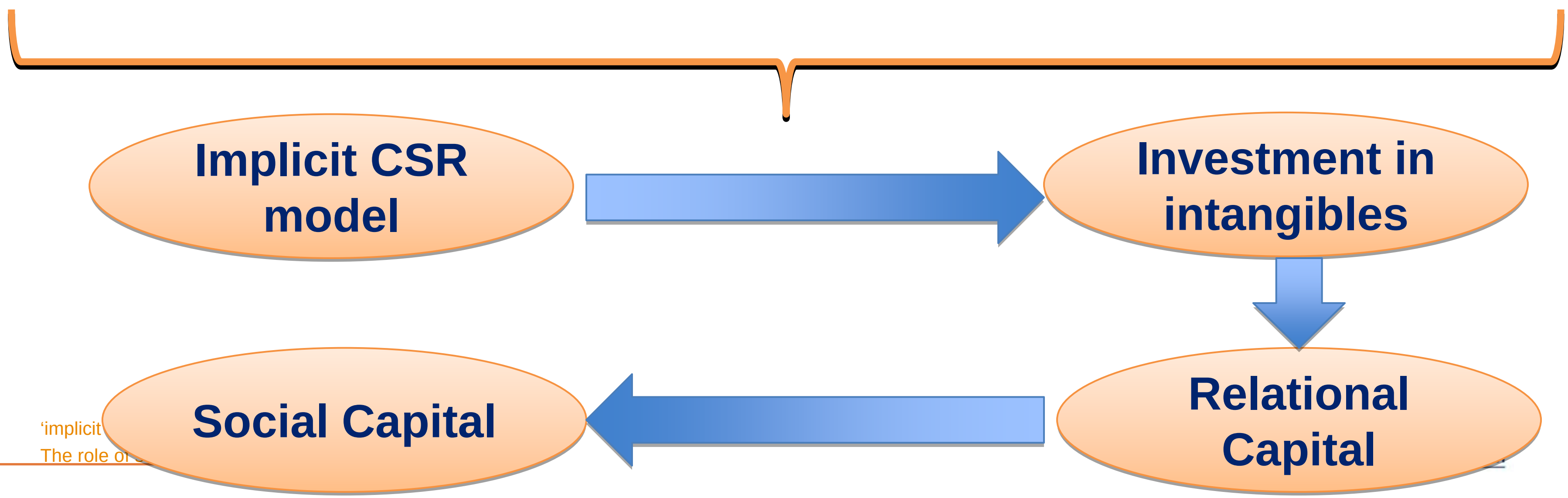
1. **GOVERNANCE:** values and social mission in the bylaws.
2. **COOPERATIVE STRUCTURE:** part of net profit addressed to promote and develop cooperation ***(art. 2536 cc)***.
3. **MOST CREDIT GRANT TO FAMILIES, SME, AND LESS DEVELOPED AREAS:** unlike the common trend characterized by high level of banking concentration which triggers credit rationing ***(De Castris e Michetti, 2007)***.
4. **CONTINUOUS INTERACTION WITH LOCAL ENVIRONMENT AND COMMUNITY, ITS SOCIAL VALUES AND CULTURE:** BOD composed by local entrepreneurs; higher level of strategic devolution.
5. **RELATIONSHIP BANKING:** long term relationship between members/clients and bank, based on reciprocal trust and collaboration.

7. Strenghts of cooperative banking (2)

6. **MANAGEMENT:** long-term approach ***(Hesse e Čihák, 2007)*** which favour financial stability. Managers are also judged on their ability to lead firm to positive social and environmental results.

7. **STATUS OF MEMBERS:** they own limited amount of shares and they vote on the basis of “one member, one vote” ***(art. 30 TUB)***, recognizing the principle of “democratic participation” ***(Costa, 2007)***.

8. **MUTUAL INSTITUTION:** optimal client and member status tend to coincide as to result in a homogeneous interests and composition of stakeholders. Balance of stakeholders’ interests ***(Pipitone, 2008)***.



Summary:

8.

The idea of Social Capital

The idea rises since 80'.

(Bordieu, 1983; Coleman, 1988; Putman, 1993; Fukuyama, 1995; World Bank, 1999)

MULTIFACETED CONCEPT → **Interaction among different dimensions**

All the cognitive abilities traditionally gained by social system which produce a value added for the well-functioning of the overall system

- Association activity, networks, social cooperation, relational capital; "bonding", "bridging", and "linking" (*Woolcock, 2001*).

  (Abreu, 1988; Putman, 2000; Arrow, 1974)

- Civic Sense, social norms & level of democracy.

  (Dasgupta, 2000; Fukuyama, 1995 ; Becchetti and Pace, 2006)

- Trust and trustworthiness (institutions, political activity, people, etc.).

  (Putman 1993 and 1995; Kreps et al., 1982; La Porta et al., 1997 and 1999; Fukuyama, 1995; Knack and Keefer, 1997)

8.

The role of social capital, possible contributions

NOT ALL TYPES OF SOCIAL CAPITAL RISE SOCIAL EFFICIENCY, ECONOMIC PERFORMANCE, SUSTAINABILITY

(Alesina, Baqir and Easterly, 1999; Gradstein and Justman, 2002; Montalvo and Reynal-Querol, 2005; Coleman, 1988).

ASSOCIATIONS

- BRIDGING, LINKING

Members' & not members' wellbeing

- BONDING

Members' wellbeing

↔

- GENERALISED

(Stolle and Rochon, 1998)

- PARTICULARISED

(Knack and Keefer, 1997)

Cooperative banking wich promote trust, long-term relationships, civic and cooperation values is an example of *linking* organization, which creates rooms for social capital accumulation.

Fondazione Eni Enrico Mattei

Social capital in cooperative banking (first dimension)

Table 1: Dimension of membership and relational capital
- Size of the voluntary membership at social capital of the company (Valentinov, 2004)
- Democratic control through 'one bearer one identity' voting rule (Valentinov, 2004)
- Stakeholders engagement (Degli Antoni, Portale, 2007)
- Philanthropy (GBS, 2008)
- Social and cultural initiatives (GBS, 2008)
- Cooperation among cooperatives (Valentinov, 2004)
- Social network created through professional environment (GBS, 2008)
- Social network created through the affiliation to the organization (GBS, 2008)

Social capital aspects and indicators for banking (second dimension)

Table 2: Dimension of social norms and civic sense
- Internal training activities (Valentinov, 2004; GBS, 2008)
- External financial literacy (Valentinov, 2004)
- Student Grants (GBS, 2008)

Social capital aspects and indicators for banking (third dimension)

Table 3: Dimension of Trust and trustworthiness
- Satisfaction with level of information about local area issues (OfNS, 2001)
- Credit period (Berger e Udell, 2002)
- Breadth of a relationship in terms of the bank providing multiple services or multiple account managers (Berger e Udell, 2002)
- Exclusivity of the relationship (Berger e Udell, 2002)
- Mutual trust between the bank and the firm (Berger e Udell, 2002)
- Development of relational skills at work and empathy (Berger e Udell, 2002)
- Customer satisfaction (GBS, 2008; Berger e Udell, 2002)

Summary:

1. Approaches in Corporate Social Responsibility
2. CSR in the banking sector
3. Regulation and CSR in the banking sector
4. Cooperative versus corporation banks
5. Problem identification
6. Implicit vs Explicit CSR approaches
7. CSR in cooperative banking
8. The Role of Social Capital
9. **Conclusions**

9. Conclusions

❖ "Social responsible" financial institutions, together with political institutions and research centers should stimulate an effective integration of sustainability within the overall banking system.

❖ It is essential to encourage an integrated/ethical approach toward CSR, avoiding the association of responsible initiatives to a mere marketing strategy.

❖ A comprehensive CSR framework to assess bank sustainable performances should be established and supported by all bank groups.

Thanks!

Comments are welcome!

corso Magenta 63
20123 Milano - Italy

tel +39 | 02 | 5203.6975
fax +39 | 02 | 5203.6946
web http://www.feem.it