Corporate Social Responsibility in the Banking Sector

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The concept of corporate social responsibility (CSR) extends the responsibility of companies beyond the interest of their owners to other stakeholder groups (including employees, customers, regulators, and community), highlighting the necessity to internalize the impact of business activities on the natural environment and the society. CSR is inevitably becoming an increasingly important part of almost every business. This is particularly true for the banking industry, which suffered substantial losses in reputation and public trust in the aftermath of the global financial crisis. Not surprisingly therefore, banks around the world have visibly intensified their CSR efforts.

Keywords: banks ; Corporate Social Responsibility

1. Introduction

The recent years have brought a significant increase in the interest in corporate social responsibility (CSR) and performance (CSP) on the part of all major stakeholder groups, including, in particular, equity investors, managers, and regulators. The concept of CSR extends the responsibility of companies beyond the interest of their owners to other societal stakeholders, including employees, consumers, government, community, and the natural environment, whereas CSP focuses on actual results achieved in the area of social responsibility [1].

CSR encompasses a wide range of proactive and reactive activities focused on both internal and external factors aimed at enhancing the economic, social, and environmental performance of enterprises, with respect to stakeholder expectations [2]. The above factors, ranging from external regulatory and market pressures to the individual sense of moral obligation, have gradually become crucial determinants of modern firms' behavior [3].

Being institutions whose existence and viability are almost entirely dependent on public trust in them, banks should naturally be inclined to follow the path of social responsibility and engage in CSR-related activities even more frequently and deeply than other businesses. Since banks are inherently more exposed to the risk of reputation than other industries, they are also more vulnerable to criticism from their stakeholders and customers [4]. Not surprisingly, therefore, they are highly sensitive to environmental, social, and governance (ESG) risk, as it may directly affect both their financial performance [5] and an overall operational risk exposure [6].

2. Importance of Corporate Social Responsibility in the Banking Sector

Given the role of banks as leading financial intermediaries and the worldwide interconnections between them, the scale of banks' social impact is undoubtedly meaningful. The results of their activities affect not only the well-being of their owners, employees, and clients, but also society as a whole through participation in the processes of capital accumulation and allocation and the impact of the banking sector's financial soundness and stability on the entire economy. Social responsibility of banks involves both the responsibility of individual institutions for the security of funds entrusted to them and the responsibility of the entire banking sector for the stability of the financial system and the economy. Moreover, the long-term nature of many bank products and services leads to the emergence of a complex system of relatively persistent relationships between them and their external stakeholders [7]. The business goals of banks should therefore not be reduced to the maximization of the benefits of their owners, but also encompass the needs of other stakeholders, and society as a whole. Given the above, banks should be more motivated to include the social responsibility dimension in their business decisions and to disclose information on the extent and actual outcomes of the undertaken actions [8]. Engagement in socially responsible activities offers banks additional opportunities to distinguish themselves from competitors and to improve the perceived quality of their services in the eyes of the public [9] (p. 45).

As pointed out by Zioło [5] (p. 186), banks generally respond to the challenges of social responsibility with a certain delay in comparison with the real sphere. In fact, the social performance of the banking sector gained a special importance in the aftermath of the global financial crisis (GFC), which was caused largely by irresponsible behavior of banks that massively exploited moral hazard to achieve their economic goals. The record-high fines imposed by the regulators for the revealed misconduct forced the banking industry to restore the public's trust and to develop new, more transparent business models, incorporating social responsibility as an integral component of their strategies.

Although more than a decade has passed since the onset of the GFC, the results of the recent *2021 Edelman Trust Barometer* report indicate that despite some improvement, the financial services sector still remains the least-trusted industry. On average only 52% of more than 33,000 respondents from 28 countries declared trust in it, which is 7 percentage points less than the second-worst-trusted entertainment sector, and 16 percentage points less than the leading technology sector [10] (p. 47).

It is also worth pointing out that due to significant explicit and implicit costs involved, a successful implementation of the principles of social responsibility and sustainability in banks' business models often depends on the soundness of their financial position [7]. In fact, there is strong feedback between banks' financial position and their social performance. On the one hand, long-run profitability that ensures banks' financial soundness depends on the key components of the CSR framework, such as compliance with ethical and sustainability standards, transparency of products and operations, and reliability of financial disclosures. On the other hand, public trust in banks, their reputation, and long-run viability are strongly determined not only by the perceived ethicality and responsibility of their business practices, but also their financial standing. These two-directional linkages strongly expose banks to a wide range of CSR-related opportunities and threats. Notwithstanding the above, the evidence from transition economies [11] suggests, however, that even banks with lower profitability may exhibit strong engagement in socially responsible activities.

One of the key areas of CSR regards the quality and transparency of the disclosed information. In general, socially responsible companies are expected to provide the public, and in particular equity investors, with the most comprehensive and reliable data. This issue appears to be particularly important in the case of banks, whose business models are usually highly complex and opaque [12] (p. 779).

A better access to reliable and value relevant information should contribute to limitation of investors' uncertainty about the expected economic performance of socially responsible banks, and to reduction of the required risk premia. This, in turn, ceteris paribus, would lead to increases in the perceived market values of such banks. More informed equity investors and stock market analysts should also be able to estimate the intrinsic value of responsible banks more accurately [13], thus improving the overall efficiency of the capital market in that area. From this perspective, compliance with CSR principles may become an important element of listed banks' business strategies aiming at sustainable growth of their market values.

Attempting to restore the sector's reputation, largely damaged by unethical and irresponsible business practices that ultimately led to the GFC, banks around the world have become increasingly active in the area of CSR and its reporting [14].

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