Introduction

Reckless lending in the subprime mortgage market – as the apparent cause of the global financial crisis – has raised questions as to the responsibility of financial institutions. The financial sector has been assessed as at least partly responsible for the global financial crisis. Public pressure has affected the financial institutions, requiring changes in corporate social responsibility (CSR). CSR principles such as accountability and transparency are at the heart of regulatory efforts, aimed at the improvement of regulatory oversight, and corporate governance.

The irresponsibility of financial institutions that stood behind the global financial crisis proved that pre-crisis CSR concept had not been sufficiently comprehensive to prevent this distress. There is a need to clarify the background for the analysis of sustainability prerequisites in a financial institution, whose activity is fully consistent with the requirements of sustainable development and contributes to its implementation. This is the primary aim of this paper. The specific objective is to analyse the impact of the global financial crisis on the future evolution of CSR in the financial sector.

The paper is organised in a way that allows for addressing these issues. The analysis sets off in Section 2, which examines the social responsibilities of financial institutions and the fulfilment of these duties. Section 3 focuses on the links between the global financial crisis and CSR in the financial sector and on future trends in the social responsibility of financial institutions. The paper ends with concluding remarks.
1. Implementation of CSR by financial institutions

1.1. Social responsibilities and duties of financial institutions

Social responsibilities of every corporation can be divided into four categories: economic responsibility (paying for negative effects), legal responsibility (respecting rules), ethical responsibility (concerns values, social justice and sustainability), and philanthropic responsibility (search for social benefits and the global interest).\(^1\) Despite this, CSR in financial sector should be seen not only in terms of interactions between different stakeholders (shareholders, investors, depositors, borrowers, regulators) and financial institutions in these four fields, but also in the context of their distinctive function of financial intermediaries.

Financial markets are characterised by information asymmetry. Customers can hardly evaluate offers of financial institutions, if they lack full information. Therefore, financial institutions have implicit responsibility to provide clients with honest advice. Under the circumstances of information asymmetry and uncertainty trust is necessary.\(^2\) Hence, financial institutions have an inherent responsibility to know their customers and their needs. This requires a broader CSR action of financial institutions in order to prevent their clients from purchasing inappropriate or unsuitable services.

The importance of CSR in the financial sector stems from the crucial difference between functioning of companies in the real sector and financial institutions. Financial institutions are special market players as they are influencing the sustainable development in a direct and indirect manner. As a result, CSR in financial institutions not only affects these particular institutions or their services directly, but also has an indirect impact on the real sector of the economy. By taking account of social, ethical, and environmental conditions in the provisioning of funds, financial institutions formulate additional requirements, which clients, including companies, have to fulfil.\(^3\) This indirect impact on the real sector of the economy may be enforced by other CSR initiatives: organisation of microcredit or microinsurance schemes, community investing, ethical, social and environmental funds, low-income banking and

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removal of barriers to credit access, and last but not least – by socially responsible investment, combining the intentions to maximise both financial return and the benefits for the society.

Undoubtedly, financial institutions depend on their reputation, and they are very susceptible to clients’ assessment of their behaviour and performance. To be perceived as trustworthy is crucial for financial institutions. Therefore, financial institutions have to make choices in the gray areas of ethics and under high level of pressure that damage reputation may cause a financial loss.

The reputation of financial institutions is also crucial for the stability of the financial sector as a whole, so it has to be protected by appropriate legislation referring directly and indirectly to CSR. The rationale for regulation is often based on the market failures and negative systemic externalities in the financial sector. However, these are not the only reasons in favour of regulation. In some cases, governments extend the scope of regulation to a wider range of matters of social interest.

Presently, apart from formal regulations, financial institutions are also subject to self-regulations, which means that rules are self-specified, the conduct is self-monitored, and the rules are self-enforced by financial institutions. However, in nearly all countries self-regulation in the financial sector is subject to a considerable level of government direction and involvement. As a result, it becomes co-regulation, implemented in the financial sector by way of the government’s moral suasion and support for state regulations.

1.2. Involvement of financial institutions in CSR activities

Even though the financial sector is a relatively non-polluting one, it plays an important role by influencing the environmental and social activities of its clients. In 1990s, the impact of financial operations was recognised as particularly important in the field of sustainable development. Since then, implementation of CSR has appeared to be a necessity, as consumers in general have assumed that an ethical firm would offer them better quality. Customers have preferred to place trust in such institutions, expecting investments and CSR actions in their environment and taking into account in their decisions the social behaviour of the chosen financial institution.

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Institutions have assumed that pursuing such an activity allows for the improvement of relationships with their stakeholders, resulting in a decline of transaction costs. However, such improvement in reputation of financial institution may be expensive. The correlation between CSR and the financial performance is not clear-cut. Admittedly, recent research suggests there is evidence of an apparent relationship between CSR and profitability with potential reputational damage that can occur if CSR is not addressed; however, other analyses have produced opposite results.

Despite all the costs, pursuing CSR activities appears to be a sine qua non for being perceived as trustworthy and credible. However, CSR actions implemented by financial institutions differ from similar activities undertaken in the real sector of the economy. Financial institutions, in order to influence their image, have to create special customer centric initiatives aimed at covering areas critical for main stakeholders.

CSR initiatives are usually targeted at direct internal (shareholders, employees) and external (clients) stakeholders and at the whole society. In the financial sector, direct initiatives prevail. This stems from the need to create benefits for direct internal and external stakeholders, thus building the image of a socially responsible institution among them. Another reason why it is preferable to focus CSR actions on a narrower range of stakeholders is the fact that members of the society usually perceive CSR activities aimed at a wider part of this society in a negative way, if they are pursued by institutions that perform particularly well. Wide-ranging actions of financial institutions are considered to be a proof of window-dressing, carried out in order to hide something.

Obviously, just like in the real sector of the economy, different financial institutions do not take the same attitudes towards CSR. Diversity of approaches is explicit especially in the banking sector. In this sector, one can include commercial banks, whose CSR approach is usually based on what they say. They are very good in communicating about their CSR but are not ready to overhaul their traditional business model. In many cases there is a gap between what banks say and what they do in their day-to-day practice.

Then, there are cooperative or savings banks, in which the CSR approach is based on what they are and it emphasises their specific legal status and their commitment to the values of the social economy. They are committed to acting as responsible financial institutions.

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members of their communities, recognising that both the financial profit and the societal benefit of their involvement in the community are important. In such banks, CSR encompasses four fundamental areas: the set of rules and practices that allow for good governance, the social and environmental dimension of the internal and external relationships with various stakeholder groups, the social focus of financial activity, and social work.\(^{10}\)

Finally, there are banks whose approach to CSR is based on what they do, i.e. the so-called ethical banks. They do not emphasise a declaratory commitment to the principles of the socially responsible economy but in their practice, they go far beyond the other two types of banks in the objective of socially responsible finance.\(^{11}\) Ethical banks usually do not participate in speculative operations. Instead, ethical banks focus their activities on savings collection and credit distribution.

It has to be noticed that CSR in the banking sector is negatively affected by two phenomena. First, since the 1990s, the distinction has blurred. The processes of globalisation, deregulation, and liberalisation have imposed a number of constraints, inducing a general repositioning of large financial institutions and fighting for an increase of their market share. As a result, mainstream providers – usually large commercial banks – have increasingly dominated the financial sector.

Second, the number of purely ethical institutions is per se very small. These banks, created in the mid-1980s, since the very beginning have been designed to fill a market niche. However, it is impossible to satisfy, at least in the short term, the customers’ demand of increasing financial returns on the one hand, and greater ethical, social, and environmental involvement on the other. Therefore, ethical banks are condemned to perform worse than their commercial peers.

2. Global financial crisis and CSR in the financial sector

2.1. Discourses on CSR in financial institutions after the global financial turmoil: corporate irresponsibility or weak regulations?

Obviously, the awareness of financial institutions with respect to CSR issues had not been growing fast enough and CSR had not been an instrument that governments

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promoted as a solution for stabilising the financial sector. Consequently, well-recognised problems of asymmetry of information, moral hazard, negative selection, and irrational euphoria created the background for the global financial crisis. CSR programmes appeared to be unable to suppress the chain reaction that encompassed the global network of financial institutions, quickly resulting in the global turmoil.

In order to analyse the reasons behind the failure of CSR in financial institutions, multidimensional discourses on linkages between CSR and the financial sector were formulated. In an attempt to identify these discourses in the aftermath of the global financial turmoil, Herzig and Moon analysed three British papers: Financial Times, Ethical Performance and Ethical Corporation for the period from September 2007 to August 2010. They distinguished four different discourses (see Table 1):

- **Market Rationalisation** of the fit or alignment between CSR and mainstream business operating in markets: get the fit right and business will act responsibly;
- **Moralisation and Ethical Leadership**: a moral or ethical element infusing business from top down is necessary in order to protect its responsible functioning;
- **Reconceptualisation and Professionalisation** of CSR and business: a critical analysis of the CSR concept and the re-evaluation of the awareness and capabilities of CSR and other professionals may ensure that business is conducted in a responsible way; and
- **Political Economy Restructuring**: there is a need for restructuring in the form of systemic power and governance re-alignments in order to ensure the responsibility of business.

Each discourse reveals different understanding not only of why the financial crisis took place and whether CSR is the problem or its resolution, but also emphasises wider issues concerning, among others, individual responsibility and leadership, the adequacy and professionalisation of CSR, and the necessity for more fundamental regulatory change.

The **Market Rationalisation** discourse underlines that in the light of the problems leading to crisis, institutions in the financial sector can and should better align CSR with their market contexts in order to ensure a more responsible and productive future performance. The **Moralisation and Ethical Leadership** discourse indicates moral and ethical shortcomings of the sector. The **Reconceptualisation and Professionalisation** discourse remains between the former two, encouraging a more thoroughgoing rethink of the scope and capacity of CSR in order to ensure responsible market operations. Last but not least, the **Political Economy Restructuring** discourse implies that re-conceptualisation and professionalism are not adequate for the task of ensuring more responsible market operations. Instead, regulatory change is required.
<table>
<thead>
<tr>
<th>Discourse</th>
<th>Basic assumptions and relationships</th>
<th>Agents and their responsibilities</th>
<th>Actions</th>
<th>Motives/value orientation</th>
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<tr>
<td><strong>Market Rationalisation</strong></td>
<td>- lack or insufficient integration of CSR into the core activities of financial organisations has contributed to the economic recession</td>
<td>- individual and collective initiatives should come from within the sector and drive the integration of CSR into financial businesses</td>
<td>- organisational and business changes towards a more responsible agenda are needed to realign financial institutions with their operating environment</td>
<td>- demonstration of wider institutionalisation of CSR</td>
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<td>• gradual evolution of CSR in core operations will positively impact on both financial and non-financial performance, and will help to avoid future crises</td>
<td>• self-regulation is a means to establish CSR as a serious factor in the operation of global financial markets,</td>
<td>• demands organisational integration of CSR across all functions</td>
<td>• increasing profitability through “streamlining” CSR, entering new markets and realising market opportunities</td>
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<td>• greater integration of CSR will follow the sector’s improvement efforts</td>
<td>• prescriptive approaches to the responsibility agenda are seen to be counter-productive</td>
<td>• cut “fluffy” CSR and focus on strategic, financially beneficial CSR</td>
<td>• legitimisation of financial sector’s response to the crisis</td>
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<td>• prevailing business logic is not questioned</td>
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<tr>
<td><strong>Moralisation and Ethical Leadership</strong></td>
<td>- time to recover a sense of what is right in order to avoid another crisis</td>
<td>- pressure for moving the responsible agenda forward comes from individual and institutional leaders of the financial sector</td>
<td>- ethical leaders to demonstrate responsibility in executive payment and deal responsibly with the negative effects of the recession</td>
<td>- ethical motivation to move responsible business agenda forward (“the right thing to do”)</td>
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<td>• ethical leadership in and after the recession is more relevant than ever</td>
<td>• ethical leaders can take a structural-political role</td>
<td>• provide an honest and visionary account of the achievements and objectives</td>
<td>• fairness and long-term thinking as an inherent part of the response to the crisis</td>
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<td></td>
<td>• cautious view on progress in responding to the crisis</td>
<td>• critical view on the reliability of CSR engagement of some financial agents (e.g. private equity)</td>
<td>• realise responsible business opportunities with solid long-term returns</td>
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<tr>
<td><strong>Reconceptualisation and Professionalisation</strong></td>
<td>- lack or dysfunction of CSR mechanisms and institutions casts shadow over the capacity of CSR to trigger the transformation process</td>
<td>- individual and institutional advocates of CSR need to coordinate the “reconstruction” of CSR</td>
<td>- reflects on necessity of conceptual reinvention of CSR</td>
<td>- self-reflection and self-criticism</td>
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<td></td>
<td>• critique of insufficient knowledge and capabilities of CSR and other professionals</td>
<td>• CSR and SRI professionals need to address fundamental issues (e.g. deep distrust) and long-term societal challenges</td>
<td>• demands better integrated, balanced, collaborative, thought-out approach to CSR in the financial sector</td>
<td>• instrumental to the survival of CSR as a concept and profession</td>
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Political Economy Restructuring

- reveals a frayed social fabric between the financial sector, government and society
- questions the sustainability and ethicality of the current political economy,
- expects more irresponsible behaviour unless there is a change in the political economy
- draws attention to alternative framings of political economy to ensure responsible business

<table>
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<td>Reformist discourse</td>
<td>• several financial agents turned a blind eye to what had been happening in the past</td>
<td>• collective greed requires institutional response</td>
<td>• Reformist discourse: reform to enhance government and regulatory oversight and better embed CSR</td>
<td>• remedies for financial sector/regulatory failures</td>
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<tr>
<td>Radial discourse</td>
<td>• changes in interrelated governance factors to avoid future crises</td>
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Two variants:
- • reformist – regulation of business, corporate governance, trust relationships
- • radical – radical changes to the political economy


As Herzig and Moon underline, there is a dividing line concerning the ability of the financial sector to “heal itself”. The first three discourses see this as possible, prioritising the ethical component of CSR or analysing the whole concept in the broader context. The fourth, however, calls for change from the outside of the financial sector in form of hard law regulations as the prerequisite for a responsible behaviour of this sector. Obviously, while all the discourses emphasise a need for change, they differ in their views on the nature and extent of the amendments required to create more responsible financial institutions.

### 2.2. The future trends in the social responsibility of financial institutions

Since the beginning of the financial crisis, an increasing attention has been devoted to CSR. Financial institutions have been trying to demonstrate the inclusion of social and environmental concerns in business operations, and in interactions with stakeholders. Greater concentration on CSR in financial institutions has become an undeniable fact. A kind of wake-up call effect has taken place, as many economists and policymakers have started advocating stricter regulations as well as the implementation of CSR issues into the core business activity of financial institutions. In addition, the public evaluation of the financial sector has suffered, and the integrity and the competence of financial institutions have been both called into...
question. Demands for corporate action and accountability have translated into new forms of coercive pressure in exchange for continued legitimacy.

There is no doubt: financial institutions should engage more intensively in the CSR field, not only attempting to comply, but also trying to support the local economies where they operate. To work properly in this way, they should identify effective partners (local representatives, non-governmental organisations) able to support them in integrating CSR in their ordinary business model. The great opportunity that the crisis provided to financial institutions is the possibility to enlarge their presence in local economies and support them, gaining a better reputation. In order to accomplish this target, financial institutions must change their business strategies, answering to the social function they should fulfil. According to Prior and Argandoña, a first step on this rocky road could be to reorient financial institutions towards micro-financing.\textsuperscript{12} They support the view that a kind of “bankisation” should be given priority in order to overcome negative outcomes of the global finance turmoil, claiming that microfinance can help individual clients and small and medium business, which usually have limited access to financial services due to insufficient creditworthiness.

The global financial crisis has also revealed the inefficiency of the current CSR self-regulation and co-regulation framework, especially in multinational financial institutions and large investment banks. Optimisation of the trade-off between formal regulations and self-regulations is therefore of primary importance. As proved by Calveras, Ganuza and Llobet, if formal regulation is established by activist and non-activist consumers alike, then a majority of non-activist voters can take an unfair advantage. Due to the free-rider problem, they may prefer and favour a loose regulatory framework that allows them to buy goods and services at a low price and exploit the conscious approach of activist consumers to limit the externalities. Moreover, potential crowding out of strict formal regulation by looser self-regulation may lead to the situation in which only activists would carry the burden of a conscious consumption, whereas non-activists would enjoy the benefits of both a less regulated environment and the conscious consumption of activists. Consequently, an increasing reliance on the CSR self-regulation rather than on formal regulatory guidelines leads to a decline in social well-being.\textsuperscript{13}

Implementing new formal regulatory framework for CSR seems unavoidable. Disputes of governmental interference and regulation, perceived as “bad rhetoric” before the crisis, have now made it to the top of the agenda. It is widely accepted

\textsuperscript{12} F. Prior, A. Argandoña, op. cit., p. 253.

that existing voluntary or self-regulating CSR for financial sector is not enough, and a binding, coercive and enforced government-regulated CSR is needed.\textsuperscript{14}

**Conclusion**

The financial market has no morality. Very often, it does not pay to be socially responsible. However, as Relaño and Paulet put it, the more ethical behaviour, the better economic performance and social gains that increase social wealth for the entire society.\textsuperscript{15} In order to make this possible, an enforcement of CSR in the financial sector is necessary. The responsibility falls also on governments. They must not shun their regulatory duties when it comes to curbing irresponsible, excessive risk-taking behaviour of financial institutions. As confirmed by the global financial crisis, such behaviour can too easily create a background for the formation of price asset bubbles, the outburst of which causes financial crises that eventually decline social welfare of all the infected countries.

The proper regulatory environment is crucial to build sustainability of the financial sector and prevent social externalities of their improper functioning. Governments should be more proactive in creating a legal framework that would persuade or if necessary compel financial sector striving for profit to take under consideration also social, environmental, and ethical concerns that affect the well-being of the whole society. Public authorities should, on the one hand, regulate and supervise CSR in the financial sector, and, on the other, create favourable conditions for dissemination of social responsibility ideas and concepts among financial institutions, supporting the introduction of effective self-regulations.

**References**


\textsuperscript{15} F. Relaño, E. Paulet, op.cit., p. 391.


Relaño F., Maximizing social return in the banking sector, “Corporate Governance” 2011, Vol. 11, No. 3.


CSR in Financial Institutions in the Aftermath of the Global Financial Crisis

The primary aim of the paper is to create a foundation for the analysis of the prerequisites for a sustainable financial institution, whose activity is fully consistent with the requirements of sustainable development and contributes to its implementation. The specific objective is the analysis the impact of the global financial crisis on the evolution of CSR in financial institutions.

Conducted analysis indicates that the proper regulatory environment is crucial for sustainability of the financial sector and preventing social externalities of its improper functioning. Public authorities should regulate and supervise CSR in the financial sector and create favourable conditions for dissemination of social responsibility ideas and concepts among financial institutions that support the introduction of effective regulations.

Keywords: financial institutions, corporate social responsibility, CSR regulations

Acknowledgments: The research leading to these results has received funding from the European Union's Seventh Framework Programme (FP7/2007-2013) under grant agreement no. 266800.

La RSE dans les institutions financières au lendemain de la crise financière mondiale

L'objectif primaire de l'étude est de créer les fondations pour l'analyse des conditions préalables pour une institution financière durable, dont l’activité serait pleinement compatible avec les exigences du développement durable et contribuerait à sa mise en œuvre. L'objectif spécifique est d’analyser l’impact de la crise financière mondiale sur l’évolution de la RSE dans les institutions financières. L’analyse indique qu’un cadre réglementaire approprié est crucial pour la viabilité du secteur financier et pour prévenir les externalités sociales de son mauvais fonctionnement. Les pouvoirs publics devraient réglementer et surveiller la RSE dans le secteur financier ainsi que créer les conditions favorables pour la diffusion des idées et des concepts sur la responsabilité sociale parmi les institutions financières qui soutiennent l’introduction des règlements efficaces.
Mots clés: les institutions financières, la responsabilité sociale des entreprises, les règlements en matière de RSE

Remerciements: La recherche menant à ces résultats a été financée par le 7ème programme-cadre de l’Union européenne (FP7 / 2007–2013), le numéro de subvention 266800.

КСО в финансовых институтах в связи с последствиями мирового финансового кризиса

Главная цель работы состоит в создании основы для анализа предпосылок развития устойчивого финансового института, чья деятельность полностью согласуется с требованиями устойчивого развития и способствует его реализации. В статье намеревается исследовать влияние мирового финансового кризиса на развитие КСО в финансовых учреждениях.

Проведенный анализ показывает, что правильная нормативная среда имеет решающее значение для устойчивости финансового сектора и позволяет предотвратить внешние социальные эффекты, связанные с его неисправностью. Государственные органы должны регулировать и контролировать КСО в финансовом секторе и создать благоприятные условия для распространения идей и концепции корпоративной социальной ответственности среди финансовых институтов, способствующих внедрению эффективных регуляций.

Ключевые слова: финансовые институты, корпоративная социальная ответственность, правила КСО