CSR's role within banking in the post financial crisis

By Simona Mihai Yiannaki

As the financial crises seems to be subsiding, Simona looks ahead and addresses the role that Corporate Social Responsibility can and should have on banks within Europe in the future.

Are European banks facing new problems? Or is it the same Mary with a different hat?

At current, the problems existing within the E.U. banking system are made more visible, probably as a result of European governmental elections taking place in many European countries that cause lobbyist to emphasize problems rather than solutions. This paper sheds some light on the debate and provides some solutions to separate troubled banks from performing ones.

From an investor's standpoint, apart from investing money in big banks that have been bailed out, possible choices for good deals looks broadly like this:

1. On the investment banking flank, the geography of the market is still important and dependant on the ABS (asset based securities) or on other derivatives and structured products playgrounds (e.g. Latin America, U.S. or Asia usually). Latin American banks will continue to experience trouble for many decades to come, the Asian markets are on steady growth, while the entire U.S. banking system does exhibit quite a few recovery signs. Further, if we take a look at European banking operations in Central and Eastern Europe plus Russia, then these banks investment payback looks fast, too. But, when rumors indicate that the German and French banks are getting into deeper trouble this may have a push effect on those banks' share prices. Such rumors benefit those investors who sold before (or want to buy now) and hence can buy back their shares at cheaper prices. In other words, there is more room for speculative transactions.

2. If you target the commercial banking side, your investment success depends on the way these banks refinance their business and on the degree of write-offs they still have (Something no one actually knows exact figures of). Yet, in this area things look better since refinancing cost is reaping at only 1%, but new business is growing slower as most former performing commercial banks sit on the bailout cash for now, waiting to see new regulation changes on capital requirements. Still trouble may be pending if bailed out banks continue with their mistakes on either commercial or investment areas or if they are exposed to deals in those industries and markets most affected by this financial crisis.

3. If European governments prefer to make more funds disappear into bank bailouts, then they will not show a disadvantageous picture of their banking system as they will not want to discourage investors/electorate and general clientele. However, the worst thing these governments can do is to pick up some almost-fallen banks as this gives the impression of financial distress that would further discourage investors.

Are customers' needs identical all over Europe?

Business is guided by the "garbage in garbage out" rule; people want to take credit anywhere it is feasible possible providing that the bank has achieved a certain level of trust. For centuries banks' trustworthiness has been a very important trait and for the past few decades it has been fostered by the corporate social responsibility concept (CSR), nowadays enhanced through sustainable development strategies. If banks do not push for lending deals it must imply that they are doing something else more profitable. The question then becomes, what other deals are they pursuing and why were these banks then bailed out in the first place?

French bank bailouts are no different than German, Swiss or British ones. The trouble for them all started with engaging in toxic assets transactions. Now, there is a normal temptation to stay away from such deals origination. Also, it is a fact that the latest financial crisis has affected both good and bad portfolios of customers, but there are several basic proper risk management appraisals still available. So, what should investors do next? Do we go for the good guys and leave apart the bad ones, either customers or banks or choose only the corporate socially responsible ones?

Certainly, in this respect customers' needs may be similar across cultures, but customer service is quite different between the U.S. and the European cultures. Based on recent academic related research and work in Europe (countries including Austria, Germany, Hungary, Greece, Romania and Switzerland) we found significant differences in customer service and customer satisfaction patterns. These differences are interesting enough to encourage and explore a potential research study in this area in the near future. Customer service seems to have much lower value in Europe compared to the US, where "the customer is king" and the attitude of "the customer is always right" seems to have little value in Europe. We tend to provide evidence that the American attitudes, perceptions, values, benefits, and significance related to customer service should be given more attention by European business in order to enhance their business profits, customer loyalty, repeat sales, and eventually corporate social responsibility.

Apart from the value-significance perspective, the financial perspective is not sufficient to evaluate the level of neither CSR nor any other perspective individually. A bank or any company may have outstanding employee benefits but if they go into financial distress, those benefits become null.

The literature review exhibits differences pivoting around relationship management in banking starting from the early 1970's and it is likely to continue to exist since the cultural and economic environments between these two continents are extremely different. An interesting idea for research would be not to try to change this situation, but rather to understand its causes and effects and be able to predict some future actions on it. Hence, perhaps a customized approach, despite being an expensive managerial tool, will yield higher profits eventually and provide an enhanced image for the bank, bringing back the most needed element of trust, at least.

Does regulation makes things tick in banking?

In any free market economy, the private sector must be left to its own mechanisms to operate efficiently, with reasonable government intervention when needed. It is the overregulation of the past several decades which has ironically caused the current economic crisis; too much regulation has lead to deregulation, which has been randomly used and manipulated. Politicians need to understand that it is only by reducing regulations that the global economy will be able to avoid a full scale economic meltdown, rather than by adding new draconian prohibitions to an already overregulated industry. Then, who should change things and situations? Sadly, no one had a look at CSR in terms of banks and customer relationship and in connection to specialized banking and financial services regulations.

Some may look at CSR as "the policy and practice of a corporation's social involvement over and beyond its legal obligations for the benefit of the society at large" (Enderle and Tavis, 1998), while others (Lerner and Fryxell, 1988) suggest that CSR describes the extent to which organizational outcomes are consistent with societal values and expectations. But for simple people and for the retail business, as an extension, being socially responsible identifies very much with the rationale that businesses are more likely to do well in a prosperous society rather than in a crisis affected one (McIntosh *et al.*, 1998).

There are various terminologies associated with CSR, such as: corporate philanthropy, social disclosure, company's environmental record, workforce diversity, financial health and tendency to grow, community involvement, ethical lending, all depending on cross-cultural differences. What it is interesting is that when defining CSR as 'financial health and tendency to grow', Stanwick and Stanwick (1998) provide evidence that profitability of the firm encourages managers to implement programs that enhance the level of CSR.

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Instead, strong banks, just like companies, are alleged as more pro-social as they can offer employees more advancement chances (Fombrun, 1998). Considering this normative aspect of CSR, it is noticeable that this concept is of 'no single value state' (Frederick, 1991) neither in bank relationship management nor in banking generally. Moreover, it becomes redundant to regard it as a cause of failing relationship management skills within financial crises context, but more of a compulsory moral etiquette for all banks and corporations that take the lead in applying such a concept. So, in the end, the questions becomes: to be or not to be small or big, and to be or not to be regulated and display high levels of corporate socially responsible?

Eventually, the essence of the answer relates to:

1. Trouble may still be pending if any bank continues in making mistakes in either commercial or investment areas or if it is exposed to deals in those industries and markets most affected by this financial crisis. Regulations should clarify these aspects, since the repercussions of the financial crisis are still being felt on both sides of the Ocean.
2. Although the financial crisis has affected both good and bad portfolios of customers, there are still proper risk management methods available that banks should not be discouraged from using.
3. In order to reap business opportunities and recreate links, do not try to change cultural differences in rela-

tionship management between countries, but rather understand their causes and effects while being able to anticipate innovative solutions.

4. A customized relationship management approach, despite being expensive, will yield higher profits and provide an enhanced image for the bank boosting trust related issues.
5. Banks' financial health and tendency to grow is likely to do well in a prosperous and in a socially responsible society, so choose CSR organizations to either invest in or work for.
6. In the end it is advisable to target investments in strong larger banks, which are alleged as more pro-social and hence better investments from both internal and external stakeholders' viewpoints.

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