

# CORPORATE SOCIAL RESPONSIBILITY IN THE ROMANIAN BANKING SECTOR

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**Abstract:** *The research paper aims to emphasize the strategic importance of corporate social responsibility (CSR) for the European Banking Sector, in general, and for the Romanian Banking Sector, in particular. After a concise presentation of CSR in the two sectors mentioned above, the authors analyze the main directions envisaged by the Romanian financial institutions in the research field. The main purpose is to conclude whether the social and environmental actions taken by the Romanian banks are in line with the ones of the European banks.*

**Key-words:** *CSR, banking sector, stakeholders, European market, Romanian market*

## **Introduction: CSR and its importance in the Banking Sector**

The European Multistakeholder Forum defines *corporate social responsibility* (CSR) as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis” [2], meanwhile Kotler & Lee consider that “CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources” [5]. The most important idea behind these two definitions is the discretionary nature of CSR, not mandated by law or imposed by external forces, but undertaken by the companies “in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of business” [13].

In an era characterized by debates on globalization and sustainability, companies in all sectors of activity are proving their corporate social responsibility in order to comply with the society’s expectations, on one hand, and to attract a positive implication from all the stakeholders, on the other hand. Business executives are starting to see CSR as a sustainable growth strategy: CSR is no longer viewed as just a regulatory or discretionary cost, but an investment that brings financial returns for the companies promoting it [6].

Taking into account the above mentioned context, the banking sector has been quite slow in considering the consequences of the issue of sustainability, despite of its high exposure to risks having an intermediary role in the economy. Referring to the relevant literature from 1990 to 2000, banks began addressing the issue of sustainability by firstly considering environmental and then social issues and attempting to incorporate them by establishing policies for the environment and the society [3].

As a consequence of the emphasis on banking and the environment, research interests focused initially on the “direct risks” banks were running, i.e. the risks of banks being held liable for polluting activities. Only in the later years, the “indirect risks”, such as reputation and responsibility of banks related to lending activities (clients’ solvency/continuity or collateral), were taken up and investigated in the sector. Risk management, which was usually focused on the potential financial risks, involves nowadays also the environmental and social consequences of lending money to clients with dubious sustainability performances.

The ethical and sustainable orientation of the banking sector is more and more considered by different stakeholders: lenders/savers would like to know how banks channel their money; NGOs ask banks to indicate what are the economic sectors financed by them; investors are worried that the value of their shares can decrease if banks are involved in financial scandals or if banks finance “bad” companies, for instance damaging the environment or violating human rights. An evident sign of the progressive environmental care is the growth of the market for funds that invest exclusively in responsible companies [4].

## Present situation in the Romanian Banking Sector

Following the waves of mergers, acquisitions, privatizations and green-field investments that marked the Romanian banking sector after 1990, the present situation is relatively stable in this area, although the banking sector has not reached its full maturity yet. A classification of the Romanian banks in Sept. 2007, considering their market share in total assets, looks like this [15]:

Position in 2007	Bank	Comparing with December 2006	Position in 2007	Bank	Comparing with December 2006
Market share higher than 5%			19.	Italo-Romena Bank	ascends 1 position
1.	RO Commercial Bank	stagnates	20.	MKB Romexterra Bank	ascends 1 position
2.	RO Development Bank - SG	stagnates	21.	SanPaolo IMI Bank	ascends 1 position
3.	Raiffeisen Bank	stagnates	22.	Egnatia Bank	ascends 1 position
4.	Alpha Bank	ascends 4 positions	23.	Bank Leumi	ascends 3 positions
5.	Transylvania Bank	stagnates	24.	ProCredit Bank	stagnates
6.	UniCredit Ţiriac Bank	descends 2 positions	25.	Libra Bank	ascends 3 positions
Market share between 1% and 5%			26.	Anglo-Romanian Bank	descends 1 position
7.	Bancpost	descends 1 position	27.	GarantiBank	stagnates
8.	Volksbank	ascends 3 positions	28.	ATE Bank	ascends 2 positions
9.	C.E.C.	stagnates	29.	RO International Bank	ascends 2 positions
10.	ING Bank	descends 3 positions	30.	Emporiki Bank	descends 1 position
11.	ABN AMRO	descends 1 position	31.	C.R. Firenze Bank	ascends 1 position
12.	RO Bank	stagnates	32.	Raiffeisen Housing Bank	ascends 2 positions
13.	Piraeus Bank	ascends 5 positions	33.	Blom Bank Egypt	stagnates
14.	Credit Europe Bank	ascends 2 positions	34.	Porsche Bank	ascends 2 positions
15.	Citibank	stagnates	35.	Banca di Roma	stagnates
16.	OTP Bank	descends 2 positions	36.	Millenium Bank	new entry
17.	EXIMBANK	stagnates	37.	Bank of Cyprus	new entry
Market share lower than 1%			38.	HVB Housing Bank	descends 1 position
18.	Carpatica Bank	ascends 1 position			

### *Classification of Romanian Banks – September 2007*

Comparing with 2007, 2008 seems to be a turning point for the Romanian commercial banks, taking into account both the international context and the internal events in the sector. In 2007, many banks acting on the Romanian market financed their expansion through cheap credits allowed by mother-banks due to the high liquidity existent on the international markets. But this situation drastically changed in 2008, when the liquidity crisis stroked the multinational banks, and the financial institutions sharply decreased the number and value of credits they were offering. The present trend is to attract new deposits and this is also obvious in the Romanian National Bank's policy. 2008 could be a very difficult year for the new entered banks and for the ones that are putting a great emphasis on foreign currencies or on financing the real-estate sector; on the other hand, the banks with a balanced strategy (C.E.C., Transylvania Bank, Romanian Commercial Bank, Romanian Development Bank or ING, for example) could consolidate their top positions [1]. This is one more reason for the Romanian banks to consider a policy based on values and stakeholders' engagement – a strategic approach based on CSR.

## Trends on CSR in the European Banking Sector

A survey [7] conducted during May 2005-October 2006 in the European banking sector emphasized the main characteristics of CSR in the above mentioned sector. The analysis took into account four different kind of financial institutions, representing the most widespread European typology: commercial banks, co-operative banks, saving banks and public banks. In the entire spectrum of banks' sustainable activities, the analysis of RARE

project has focused on their understanding of CSR mainly related to three policy fields: ‘mitigating climate change’, ‘promoting gender equality’ and ‘countering bribery’.

The sample was formed by 17 (multi)national banks coming from European countries, where the sector has a high relevance: Germany (5: Deutsche Bank, Dresdner Bank, KfW Bankengruppe, West LB, Hypo Vereinsbank (HVB)), UK (2: Royal Bank of Scotland (RBS), Cooperative Bank), Switzerland (1: UBS), France (1: Caisse Nationale des Caisses d’Epargne (CNCE)), Netherlands (1: ABN AMRO), Italy (3: Unicredit Group, Gruppo San Paolo IMI, Gruppo Monte dei Paschi di Siena (MPS)), Belgium (2: DEXIA, KBC), Spain (2: Banco Bilbao Vizcaya Argentaria (BBVA), Caja Madrid). The main focus was on commercial banks (13), even though the sample also included two saving banks, a co-operative bank and a public bank.

The most important social and environmental issue areas specified by the surveyed European banks are the following (in a descending order of their importance): ‘indirect responsibility via customers’ (banks seem to be aware of the indirect role they play via their lending operations, management of assets, SRI funds, other financial products/services and consulting); ‘employees related issues’; ‘social specific issues’ (assistance to the elderly and dependent persons, corporate citizenship, socio-cultural activities, human rights, social and community support); ‘environmental specific issues’ (CO<sub>2</sub> emissions, climate change, nuclear power, energy consumption, bio architecture); ‘financial inclusion’ (this deals with the struggle against the social exclusion issue, a phenomenon involving above all both micro-small enterprises and households, in particular social categories such as immigrants, women, young and old people, i.e. the so-called non-bankable people); ‘combating bribery, money laundering and corruption’.

Looking at the strategic importance of the issue areas targeted by the RARE project, ‘countering bribery’ and ‘promoting gender equality’ score best, followed by ‘mitigating climate change’ issue area. The same strategic importance of the same three issue areas was noticed for the banks’ operations in the new EU member states.

Considering the ‘commitment’ to society and environment, some banks also specified interest issues which were not encompassed among the RARE topics: ‘customer care and satisfaction’, ‘corporate values’, ‘business principles’, ‘fair business’, ‘promotion and protection of the environment’, ‘employee welfare or professional development’, ‘relations with suppliers’, ‘community investment’, ‘employee entrepreneurship’, ‘human rights’, ‘quality and ethic service to customer’, ‘providing the utmost value possible on a balance basis to all direct stakeholders’.

Another important aspect surveyed in the study considered the implementation of the banks’ CSR policies and strategies. Three elements should be analyzed here: the CSR instruments adopted by the European banks; the specific activities carried out by banks in the issue areas of the RARE project; the necessary resources to promote the effective implementation of CSR.

The CSR instruments more frequently used by banks are: ‘codes of conduct’ (company-specific codes, UN Global Compact, UNEP Statement by Financial Institutions on the Environment and Sustainable Development, Equator Principles, FATF on Money Laundering, Wolsberg Principles); ‘management systems’ (ISO 14000, company-specific management systems, EMAS, EFQM Excellence Model, SA 8000); ‘different forms of stakeholder engagement and cooperation’ (collecting information about/from stakeholders, consultation of stakeholders and dialogue, participation in multi-stakeholder initiative, including stakeholders into decision-making); ‘social and environmental accounting and reporting’ (GRI, GRI Financial Services Sector Supplements, National Standards, ISAE 3000, Internal Environmental Performance Indicators for the Financial Industry); ‘conformance with requirements of social and ecological product labels or awards’. In addition, European banks are considering ‘Corporate Citizenship’ such as donating or sponsoring, employee volunteering, establishment of foundations or cause-related marketing; the most referenced issue area involving community activities is ‘climate change’, followed, at some distance, by ‘gender equality’ and ‘countering bribery’.

The second element analyzed refers to specific voluntary activities carried out by banks in the issue areas targeted by RARE project. Considering the first issue area, ‘mitigating climate change’, three sub-issues areas could be identified: ‘reducing greenhouse gas emissions’ (direct impact – DI), ‘changing to renewable energy sources’ (DI) and ‘accounting for climate change in lending and investment policies’ (indirect impact – II). In what concerns ‘promoting gender equality’, this issue encompasses four main sub-issues: ‘promoting equal opportunities and equal pay for women and men’ (DI), ‘promoting work-life balance’ (DI), ‘ensuring anti-discrimination with respect to sexual harassment (DI)’ and ‘ensuring gender equality/diversity and equal treatment regarding access to and supply of banking services’ (II). Finally, voluntary activities related to the ‘countering bribery’ issue area were presented according to four main sub-issues: ‘countering the risk of bribery’ (DI), ‘countering money laundering’

(DI), 'countering the risk of bribery in asset management, lending operations and SR funds, including project financing' (II) and 'transparency in resource-backed lending' (II).

As regards to expenditures for the implementation of CSR instruments and voluntary activities, a significant number of banks do not have data and a significant number are increasing expenses to some extent from one year to another, especially for 'climate change'; no banks declared that expenditures decreased or that they are planned to remain stable in the years to come.

Regarding the performance measuring, all three issues targeted by RARE are internally measured and externally reported and verified by third parties, with an emphasis on 'climate change' and 'gender equality' performance ('countering bribery' is hard to measure). Banks were also able to demonstrate an improvement of performance for each issue targeted by RARE, measured on the basis of their own key performance indicators. Finally, another important result of the survey [7] was the fact that the social and environmental activities conducted by the European banks as part of their CSR policies had strong impacts outside the companies. All in all, the European banking sector has a consolidated tradition with regard to CSR activities and reveals a certain "maturity".

## **Top Romanian Banks in conducting CSR actions**

In order to analyze the main trends in CSR in the Romanian Banking Sector, will be presented the social, cultural and ecological actions voluntary undertaken by the top five banks:

**Romanian Commercial Bank**, first bank in 2007 and having as a majority shareholder the Austrian Group Erste Bank, is also a responsible organization, which addresses its clients, business partners and competitors with respect and honesty and cares about the health, security and prosperity of its employees, by offering them a complete range of career opportunities. The bank acts like a good corporate citizen in the local communities, having an active role in protecting the natural resources and the environment. It supports businesses and corporate actions that have a positive impact on economic, social, cultural and environmental terms, sustains the sponsorship activities and promotes culture, education, health and sports at high standards in order for a professional and personal "enrichment" of its stakeholders. RCB sustains financially or through the input of its employees the consolidation of the religious monuments of our country, the cultural development (theatre, literature, arts, music, dance, regional events, folkloric festivals etc.), the education and research (national and international competitions, conferences etc.), the economic environment (by offering support to SMEs, sustaining the investments in the agricultural sector and helping the unemployed people) and the humanitarian actions undertaken in the health sector (medical research, for example). A famous socio-cultural project developed last year by RCB in Sibiu was "BCR invites you to a cultural journey", which has gathered in the eight local branches of the bank different cultural époques and banking products.

**Romanian Development Bank – SocGen** is one of the most important actors on the Romanian market, with various activities during the past years such as social, cultural, artistic mecenate and educational or sport partnerships. CSR is part of the bank's development strategy, which aims at considering the needs of the community where it acts, by supporting it financially, through sponsorship, but also through supporting the direct and voluntary involvement of its stakeholders. Thus, RDB – SG is helping Romanian society through supporting local community events and people in need through social and humanitarian programs. The bank approaches its implication in the local community in collaboration with some foundations, public institutions or sport federations. The CSR actions undertaken by RDB on the Romanian field are in line with the CSR actions undertaken by Société Générale especially in France.

**Raiffeisen Bank** is another top responsible commercial bank that specifically supports sports and arts in correspondence with the social policies developed by its Austrian majority shareholder, Raiffeisen International Bank-Holding AG. Two recent events in the above mentioned areas are the sponsorship of the Romanian national football team in the 2008 European Championship and the financial support offered to Eurovision 2008. However, the majority of the responsible actions undertaken by the bank are reflected in its innovative banking products that are trying to satisfy even the most diverse needs of its clients and the continuous support it is offering to the Romanian education sector.

**Alpha Bank** represents the most spectacular ascension in top 5 Romanian banks. Its majority stakeholder is the Greek Group Alpha Bank, which closely coordinates the economic and social activities undertaken by Alpha Bank Romania. The bank is consolidating its responsible position on the Romanian environment by mainly focussing on specific – diverse and flexible – banking products, strong and committed shareholders, venture capital and international brand, innovation and creativity, operational efficiency, high quality employees and good Customer Service.

*Transylvania Bank* is one of the most important banking/financial Romanian institutions and, at the same time, a corporate responsible actor for the communities it is operating in. The bank invests in sustainable projects that are adding value for the community members, shareholders, clients and employees, but also for the company. The main interest areas of TB in the CSR field are: sport, culture, education, environment etc. However, the bank is not actively promoting its social and environmental commitment, no relevant information being posted on its site [8].

## Romanian versus European CSR in the Banking Sector

The Romanian financial sector should strategically approach the sustainable development due to the necessity of decreasing the economic and social gap Romania is experiencing comparing with the rest of the EU countries; this sector should take on responsibilities that exceed the legal frame and envisage the discretionary one, in order to comply with all the stakeholders' requirements.

Analyzing the main interest areas for CSR in the European and the Romanian Banking Sector, one could easily note that they are more or less the same, with a stronger focus on culture and sports for our national market. This could be explained, on one hand, by a severe need of funding in the education and culture sector and, on the other hand, by a strong visibility commercial sports (like football, for example) use to have, transforming the responsible company in an universally known brand.

The banks envisaged in the European study and that are also acting on the Romanian market (e.g. HVB, Unicredit Group, Gruppo San Paolo IMI, Caja Madrid, ABN AMRO) transfer their responsible practices on our market. This is how the influence of corporate culture could be easily identified in the way multinational banks manage their operations in different countries.

Although the Romanian banking sector is not a mature one, the responsible actions undertaken by the Romanian banks are in line with the ones of their European counterparts. The most obvious differences remain in the way European and Romanian banks report their sustainability, respectively in the reasons that are determining them to be socially responsible.

## Conclusion

Adopting different CSR measures and policies in the Romanian Banking Sector could represent a good opportunity for the companies in the sector of gaining strong competitive advantages. The experience of the top five Romanian banks confirms the theoretical assumptions: the highest rated banks considering their total assets are also socially and environmentally responsible corporate actors.

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