Banking reputation and CSR: a stakeholder value approach

Abstract

Purpose
Following the sub-prime crisis, Corporate Social Responsibility (CSR) and Corporate Reputation (CR), have been receiving increasing attention from academics and practitioners, especially in the banking sector. In this context, our paper intends to: 1) carry out a review of prior studies both on reputation and CSR of banks, in order to identify determinants and dimensions of such concepts; 2) to explore the relationship between CR and CSR within the banking services; 3) to propose a conceptual framework aimed at clarifying how responsibility and reputation interact with all stakeholders of banks.

Methodology approach
The methodology adopted is a review process of literature, based on three stage procedure: data collection, data analysis and data synthesis. Our study follows a logical inductive approach that is an essential part of scientific reasoning and of academic research, especially in studies of management (Marshall and Rossman, 1999).

Findings
The paper identifies two main findings. Firstly, it argues that CSR is an important reputational driver, able to create economic value over time. The second finding is the bi-directional relationship that links CSR to the CR of banks, which is very important in satisfying all stakeholders expectations.

Originality/value
The value added of our research concerns the proposal of a theoretical model through which: a) understanding connections, dissimilarities and logical implications between CSR and CR, b) integrating CSR and CR approaches in the banking services and c) strengthening all stakeholders' relationships.

Keywords: *corporate reputation, corporate social responsibility, financial institutions, stakeholder theory, stakeholder value, theoretical model*

Classification paper: *conceptual paper*

1. Introduction

In recent years, Corporate Social Responsibility (CSR) and Corporate Reputation (CR) are receiving increasing attentions from academics and practitioners, coming from multidisciplinary perspectives (Fukukawa *et al.*, 2007; Holder-Webb *et al.*, 2009; Lamberti and Lettieri, 2009).

Nevertheless, several key-research areas of CSR and CR have remained under-explored and existing studies point out the need for further investigations. In particular, there is an evident gap in strand of inquiry on the interrelation between CSR and CR, therefore, further detailed researches relating to connection between the such concepts with different type of corporate entity are encouraged (Hillenbrand and Money, 2007). The closing of this gap represents an important objective because of several useful implications for practitioners, regulators and academics.

Such issues are very important in the case of financial firms, and, in particular, of banks (Chih *et al.*, 2010). The subprime crisis has highlighted the mistakes made by financial firms and the failure of prudential regulation (FSF, 2008): several banks, in fact, have come under fire owing to their irresponsible behavior.

As a result, regulators and supervisors are reorganizing the regulatory architecture of the financial industry (FSA, 2009; BCBS, 2010), while theorists are trying to elaborate a new models for banking sector and financial markets.

It is interesting to note that during the financial crisis several banks have been involved in reputational crisis (Gabbi *et al.*, 2009; Uslaner, 2010); indeed, the comparative analysis of well-known cases have highlighted the importance of CSR in managing of such crisis, suggesting to look into the relationship between CSR and corporate reputation.

Starting from these remarks, the aim of this study is to explore the relationship between CR and CSR, in the case of banks. The work attempts to identify linkages and differences helpful to explain the interface between reputation mechanism and CSR.

In light of those above aims, the research follows three related steps:

1) to carry out a review of prior studies on corporate reputation in banks, in order to identify determinants and implications of such concept;
2) to systematize the literature on CSR in the banking sector with the purpose of exploring key-issues and gaps proposed by scholars and practitioners across different research streams;
3) to discuss the main findings and to propose an original conceptual framework aimed to clarify how responsibility and reputation interact.

The methodology adopted is a review process of literature, based on three stage procedure: data collection, data analysis and data synthesis. Our study follows a logical inductive approach. Although the inductive process can not propose laws (construed as mandatory rules), it is an essential part of scientific reasoning and, in studies of management, is an essential part of research (Marshall and Rossman, 1999).

The value added of our work can be identified in an effort to suggest an original framework that better suits banks: the framework can provide to scholars and practitioners a working basis for understanding connections, dissimilarities and logical implications between responsibility and reputation.

The paper is organized as follows. The next section (section 2) examines the literature on corporate reputation. Section 3 carries out a review of prior studies on the reputation and reputational risk in banks, in order to identify main dimensions and implications of such concepts. Section 4 proposes an analysis of CSR in the banking industry. Section 5 discusses the major open issues that emerge from the literature review. Afterwards, in section 6, we propose a conceptual framework useful to understanding the main relations between CSR and CR in banking sector, specifying the role of responsible behavior in shaping reputation. Finally, section 7 presents some conclusions.

2. Corporate reputation: concept and dimensions

Corporate reputation is a crossroads of different disciplines (Fombrun and Van Riel, 1997) and it is a complex concept to define and quantify. Moving from various assumptions that underlie the disparate ways of reputation, several researches look into the meaning of "corporate reputation" (Fombrun and Shanley, 1990; Fombrun, 1996; Fombrun and Van Riel, 1997, Bennet and Kottatz, 2000). Among the existing interpretations, there is one that seems to better incorporate the various considerations emerged in the international literature.

It defines CR as: "*an amalgamation of all expectations, perceptions and opinions of an organization developed over time by customers, employees, suppliers, investors and the public at large in relation to the organization's qualities, characteristics and behavior, based on personal experience, hearsay or organization's observes past actions*" (Bennett and Kottasz, 2000).

Therefore, such definition points out that: a) there is no one reputation, indeed, this multidimensional concept differs according to the stakeholder group investigated; b) reputation is built over time; c) CR is based on company behavior and activities carried out; d) reputation is influenced by the stakeholders' experience with the company. Furthermore, extant studies highlight the contradictory definitions of reputation (Gotsi and Wilson, 2001) stressing that it is an important under-explored area of research. Indeed, in their study, Fombrun and Van Riel (1997) summarize key-arguments of debate and discuss contributions from different disciplinary perspectives.

In *psychology,* reputation (at individual level) is a system useful to evaluate the risk of interaction (Dalton and Croft, 2003), instead, at organizational level, corporate reputation is utilized by stakeholders to evaluate risk of interacting with the company.

Following the *sociological* approach, corporate reputation is an "indicator of legitimacy" of company activity in relation to expectations and rules of society (Fombrun and Van Riel, 1997). While, from an *economic perspective* the concept of reputation has been studied by scholars of *game-theory* (Weigelt and Camerer, 1988; Lahno, 1995) and *signaling theory* (Fombrun and Van Riel, 1997), for its information content.

Several studies in the economic field associate reputation to distinctive firm's characteristics (as skills, resources, etc.) that make the enterprise unique and allow it to keep competitive advantages (Hall, 1992 and 1993). In this light reputation is one of the biggest competitive advantages for company (Deephouse, 2000). Besides, empirical researches have analyzed the influence of reputation on financial performance (Deephouse, 1997; Roberts and Dowling, 1997 and 2002; Jones *et al.*, 2000); even though only a few number of researches explore the influence of financial performance on reputation construction (Fombrun and Shalley, 1990; Sobol and Farrelly, 1988). Such studies provide empirical support for both directions of the relationship: financial performance influence corporate reputation and vice versa (de la Fuente Sabatè and de Quevedo Puente, 2003a).

Another interesting research area tries to identify relationships among announcements of "reputational losses" events and the significant statistically negative effects in stock prices of the company involved (Murphy *et al.*, 2009; Murphy and Tibbs, 2010).

Instead, organizational studies have stressed the importance of culture and human resources to build a corporate identity and to contribute to the consistency of reputation (Meyer, 1982; Camerer and Vepsalainen, 1988).

In *marketing* discipline, in particular, researches on corporate reputation are focused on one group of stakeholders: the customers (Weiss *et al.*, 1999; Davies *et al.*, 2003; Ferris *et al.*, 2003; Walsh and Beatty, 2007). According to such studies, reputation is a force that has potential to attract customers and to influence selling-buying processes. Instead, for scholars of *business strategy* a good reputation represents a "mobility barriers" in the market that guarantees a competitive advantage (Grant, 1998; Dowling, 2001; Mahon, 2002). Under the *accounting* perspective, reputation is an intangible asset expression of gap between factual earnings of company reported in annual reports and its market value (Deng and Lev, 1997; Fombrun and Van Riel, 1997).

A more sophisticated approach involves the key-role of relationship between company and stakeholders (Shrum and Wuthnow, 1988; Jensen, 2001). This view highlights the importance of

stakeholder expectations and allow us to link reputation to economic value (Fombrun *et al.*, 2000; MacMillan *et al.*, 2005; Dowling, 2006). Other studies explain the correlation between corporate reputation and manager compensation (Cordeiro *et al.*, 1997; Winfrey and Logan, 1998), while Ballen (1992) argues that management quality is the main driver of reputation.
A recent study examines the influence of ownership structure on corporate reputation both in civil law countries and in common law countries (Delgado-Garcia *et al.*, 2010). Such research states that further investigations on corporate governance mechanism that favor corporate reputation are necessary (i.e.: increasing the number of independent director or avoiding CEO duality).
Nevertheless, some publications distinguish among different but related concepts as corporate reputation, corporate image and corporate identity (Fombrun and Van Riel, 1997; Schwaiger, 2004). Indeed, Barnett *et al.* (2006) propose a systematic review of definitional statement of reputation: they find various definitions and broad differences in the meaning. They identify several prior "facets" of reputation: reputation as perceptions, reputation as evaluation and reputation as asset. Scott and Walsham (2005) point out the importance of corporate reputation in a globalizing knowledge economy era and propose a re-conceptualization of reputation risk, stressing the notion of "reputable action" as a "*guiding principle for realizing active trust development in the practical management of reputation risk*".
The attempt to achieve a definition of *reputational landscape* can be combined with the efforts to realize a reputation measurement (Caruana, 2001; Caruana and Chircop, 2001; de la Fuente Sabatè and de Quevedo Puente, 2003; Walsh *et al.*, 2009).
Within the past few years, the research interest on measurement methods of corporate reputation is grown rapidly and several authors have proposed a review of methods and tool to measure corporate reputation (Schwaiger, 2004; Hillenbrand and Money, 2007) and reputational risk.
Summarizing, corporate reputation is a concept of extraordinary multidisciplinary richness and its interpretations varying among the academic disciplines. However, it is possible to pick out that corporate reputation is associated with unique firm's characteristics (culture, location, products, financial and economic performance) and it strongly depends on perception observers and expectations of company stakeholders.

3. Defining reputation and reputational risk in the banking sector: determinants and implications

As regards to the banking sector, several scholars recognize that reputation is particularly important, because the services provided are largely intangible (Fombrun, 1996; Wang *et al.*, 2003) and the financial operations are also based on trust.
Trust is identified as a prerequisite and a consequence of relationship between bank and customer (Scott and Walsham, 2004) and, at the same time, as an important mechanism for functioning of banking system.
Generally, these considerations are valid for financial industry in its entirety, for which it is often claimed that reputation is one of the most valuable assets for any financial firm and most of all for a global financial institution (Stansfield, 2006). Reputation is an intangible asset and it is particularly important in areas where the transactions are based on trust in the fulfilment of future promises. (Gaultier-Gaillard and Louisot, 2006).
Despite these evidences, reputation analysis in banking sector has been ignored by scholars, practitioners and regulators for a long time. However, additional close examinations are stressed on this theme by the fraud cases, corporate scandals and the effects of the subprime crisis that have highlighted the mistakes made by financial firms and the irresponsible behavior of several banks.
In particular, in the last decade, Basel II regulation and subprime crisis have placed under the spotlight topics relating to bank reputation, focusing mainly the attention on reputational risk.

Besides, the Basel Committee provides a first regulatory definition that connects reputational risk with particular types of "failures": "*reputational risk arises from operational failures, failure to comply with relevant laws and regulations, or other sources. Reputational risk is particularly damaging for banks since the nature of their business requires maintaining the confidence of depositors, creditors and the general marketplace*" (BCBS, 1997:22).
Further documents stress that reputational risk depends on: *"negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions"* (Board of Governors of the Federal Reserve System, 2002:4.1)and they pointing out the special attention that must be given to both reputational effects and variables of reputational risk.
Indeed, all latest regulatory definitions are directed to clarify that reputational risk depends on bank internal factors but also on important external factors: r*eputational risk can be defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding* (BCBS, 2009: 19*).*
Since 1997, the Basel Committee framework closely links reputational risk with operational risk, "*operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, but excludes strategic and reputational risk*" (BCBS, 2001: 2; BCBS, 2010a: 2).
In addition it is explained that the reputational risk is more complex and insidious of the operational risk. Indeed, the exclusion of strategic and reputational risks, as specified above, is due to evident difficulties in measuring such risks: "*although the Committee recognizes that "other risks", such as reputational and strategic risks, are not easy measurable, it expects industry to further develop techniques for managing all aspects of these risks"* (BCBS, 2004: 208).
Recently regulatory definitions settle the concept of reputational risk, receiving the prior indications from scholars of management studies. Such researchers conclude that reputation is a multidimensional concept derived from many different components and they recognize the importance of stakeholders perception and expectations (see section 2).
Therefore, in the banking industry, "r*eputational risk is a multidimensional and reflects the perception of other market participants*" (BCBS, 2009: 19).
The emission of new regulation on reputational risk have stimulated, obviously, the interest of scholars and practitioners, indeed, the researches on such subject are considerably increased in the last ten years. The lines of research developed have been influenced by the indications of the regulation.
In the wake of regulatory definitions, the banking literature emphasizes risks linked to reputation focusing mainly on issues related to reputational risk, always understood as downside threats and not upside opportunities. Thus, many analysis are concentrated on reputational risk , while the studies on the topic of reputation are numerically smaller.
In such a context, reputational risk is defined as a secondary risk because reputational losses are frequently derived from the manifestation of primary risk including operational risk (Eisenberg, 1999; Rayner, 2003; Economist Intelligence Unit, 2005; Walter, 2010).
As Walter (2010) has shown the reputational risk is usually the consequence of management processes rather than a discrete events and require *ad hoc* risk control approach. He suggests a hierarchical scheme of risks faced by banks and built according to their tractability; he has also identified reputational risk as the most intractable one, whereas the market risk is usually considered the most tractable one. There are bi-directional linkages among risks faced by banks. Atik (2010) proposes an extreme risk analysis, by clarifying the relationship among different risks and in particular with reputational risk, operational risk and systemic risk.
As we said, works on banking reputation are few and recent and chiefly focused on considering the reputation as a competitive advantage, by preserving and enhancing to create value. On this point, Xifra and Ordeix (2009) highlight that the success achieved by Banco Santander (Best Bank in the

World according to Euromoney 2008) during the subprime crisis is closely connected to "their well-established Reputational Risk Management Programs", bringing out the importance of reputation and dialogue with stakeholders. Central point in the case of Banco Santander is the CSR policy focusing on wealth and job, fostering the development of society and environment, and promoting sustainable growth, in line with the main results of research of Lin *et al.* (2009).

The main existing studies can be traced to three fundamental aspects that constitute the three major issues: 1) the identification of reputational risk drivers, 2) the identification and measuring of reputational effects, 3) the identification of relationships between reputation and performance.

As regards the first point, several authors have analyzed drivers of corporate reputation in the banking sector (Rayner, 2003; Gabbioneta *et al.*, 2007; Stansfield, 2006; Buckley and Nixon, 2009; Walter, 2010, Watson, 2010) and have identified the following factors: a) corporate governance and leadership; b) CSR policy; c) culture (individual professional conduct or workplace talent and culture); d) corporate disclosures practices (relations with regulatory authorities, regulatory compliance) and communications; e) strategic positioning of firm; f) financial and economic performance; g) risk management.

Concerning the second issue, a consistent part of researches on reputational risk are mainly focused on the measurement of reputational losses and the researches in this area have developed numerous case studies based on the "event study" method.

Relating to financial firms, there is a growing number of researches that investigate the reputational impact produced by the public announcement of operational losses. In particular, these studies analyze the firm's stock price reactions within a number of trading days before and after such announcement, verify the relationship with the reputational loss (Smith, 1992; Fombrun, 1996; Cruz, 2002; Moosa and Silvapulle, 2010; Walter, 2010).

Other studies have extended the investigation to different financial intermediaries, finding statistical significance (Perry and De Fontnouvelle, 2005; Gillet *et al.*, 2010). Cummins *et al.* (2006) conclude that firm's market value respond negatively to operational loss events and that such contraction is more strong for insurance companies than banks. Their results also reveal that a positive relation exists between losses and Tobin's Q, highlighting that operational loss announcements have a more significant market impact of financial firms with a better growth scenario. Perry and De Fontnouvelle (2005) have noted a greater market reactions (more reputational losses) in the case of banks with "strong shareholder rights". Chernobay *et al.* (2008) concludes, instead, that: 1) banks with higher growth prospects suffer of more operational losses; 2) operational losses events signal financial distress; 3) larger profits are associated with higher frequency of events, especially fraud and all internal events; 4) the human factor plays a key role in terms of improved incentives, training and supervision of staff; 5) macroeconomic environment plays a smaller role.

Nevertheless, some analysis have not found statistical significance between the variables investigated (Gabbi, 2004; Soprano *et al.,* 2009). Moosa and Silvapoulle (2010), for example, on the one hand confirm the reaction of market prices to announcements of operating losses but, on the other hand, do not notice systematic relation between losses and bank characteristics (such as size and leverage).

These results are going in the direction of emphasizing the importance of further studies on the logical relationships among drivers of reputational damage.

With reference to the third line of investigation considered above, some studies confirm a positive relationship between reputation and performance of bank. The reputation increases the probability to improve competitiveness or to enter in the most profitable segments (Greyser, 1999; Hutton *et al.,* 2001), to stabilize and increase funding opportunities (Fombrun, 1996; Rayner, 2003) or to reduce their cost of acquisition (Armitage and Marston*,* 2008; Smith *et al.* 2010) and, finally, to establish a positive relationship with the Authority Supervisor (Gabbi, 2004). Nevertheless, once again, definitive conclusions cannot be found; further studies are considered desirable (de la Fuente Sabate and de Quevedo Puente, 2003a) and necessary for providing more general conclusions.

In summary, the literature review allows us to make the following considerations:

- defining banking reputation is extremely difficult owing to three factors. The first issue is the multifaceted nature of bank reputation, where reputation itself is a complex concept to define. The second one is that, until now, the comprehension of banking reputation and, also, of reputational risk is not complete, since they are not clarified and the mechanisms that generate are not defined. The third factor is that scholar and practitioner efforts are mainly focused on the reputational risk, not exploiting the opportunity to look at reputation as a competitive advantage. This approach focused on potential losses leads to neglect and ignore potential gains (Fombrun *et al.*, 2000; Xifra and Ordeix, 2009).
- In the banking industry, the emphasis related to reputational risk rather than reputation, identifies a substantial difference between good reputation and bad reputation, the latter ascribable to reputational risk. A more detailed analysis of the good reputation it seems appropriate, mainly aimed at understanding drivers (ethical, relational and / or qualitative) and relationships (if any) with the performance.
- The services are intangible in banking industry and the trust is a prerequisite and a consequence of relationship between bank and customer and, at the same time, as an important mechanism for functioning of banking system. These features make reputation particularly important and ensure that the building and management of reputation is vital for bank's development in the system, but, at the same time, for the banking system stability.
- The specific features of banking industry influence the building and management process of reputation. Such characteristics require in-deep study of possible relation among reputation and: 1) regulation and compliance; 2) bank risks and interrelationships among these; 3) trust underlie of financial industry.
- The need for understanding all the mechanisms that create and raise bank reputation leads to explore the theme of reputation position: namely, what contributes to bank reputation and what extent? Who contributes to the process that determines the reputation and what extent? It is clear that from whatever perspective you look at the bank reputation - both by following a regulatory approach and by using a managerial approach - the role of stakeholders and the importance of expectations and perceptions are recognized. Therefore, banks that want to keep and improve their reputation must continually build strong and supportive relationship with stakeholders.
  These reflections allow us to highlight that if reputation is a multidimensional concept that also depends on the perception and expectations of the bank stakeholders, a useful key to understanding the reputational mechanism could be identified in a framework that analyze the complexity of reputational effects through the analysis of the dynamics of events, the conduct of managers and others key stakeholders.
- Finally, the main results of existing researches on the measurement of reputational effects indicate, on the one hand, that the market reacts and punishes banks in varying measure and it seems to depend on behaviour not in line with stakeholders expectations; on the other hand that the intensity of market reaction could depend on specific institution features and stakeholders expectations and perceptions.

4. The CSR in banks: the main streams of research

In analogy with the study of reputation the CSR (Corporate Social Responsibility) also has many contributions of both a theoretical and empirical nature. Overall, these studies refer to the broader stream of research on stakeholder theory (Freeman, 1984) that tests and affirms the importance of considering, in the corporate strategies, all key stakeholders by developing an integrated system of durable relationships with these individuals. In fact, as the European Commission (2006: 2) affirms,

the CSR is: "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*". It seems clear, therefore, that between CSR and stakeholder management there is a strong interdependence (Jamali, 2008) because both concepts are based on relational processes that the company is able to develop both internally and externally, and the ability to ensure, at the same time, the creation of economic, social and intangible value. More specifically, both issues relate to the following steps: a) the identification of the nature and type of relevant stakeholders (Mitchell *et al*., 1997), 2) the analysis of the ways in which these stakeholders are able to influence the decision-making processes (Rowley, 1997; Frooman, 1999), c) the identification of the strategies through which the firm involves and engages such stakeholders into the organization (Jawahar and McLaughlin, 2001).

At the same time, however, the scholars also emphasize the difference that exists between the two concepts. Highlighting, therefore, the view proposed by some authors (Carroll, 1991; Clarkson, 1995) which identified an instrumental relationship between CSR and stakeholder management. In fact, they propose that the main weakness of CSR lies in its vagueness and lack of practicality, aspects that may affect the identification by management of specific operational strategies in order to achieve their goals. In contrast, the stakeholder view has a more operational and application value, providing the necessary inputs to the identification of the relevant stakeholders, and the analysis of their needs, expectations and claims (Jamali, 2008). In other words, the stakeholder theory, not only defines the reference theoretical framework, but provides the CSR strategies with a *modus operandi* in order to effectively and equally distribute the social value amongst all key stakeholders. Ultimately, as argued by Carroll (1991): "*the concept of stakeholder personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation*".

In its individual dimension, however, the most investigated aspects of CSR, during the last two decades, concern: a) the determinants of social responsibility behaviour (Campbell, 2007), b) the relationship between financial and social performance (Pava and Krausz, 1996; Hillman and Keim, 2001; Simpson and Kohers, 2002; Brammer *et al*., 2006; Chand, 2006; Beurden and Gössling, 2008), c) the social reporting and the communication tools to stakeholders (Perrini, 2005). In the course of time, CSR issues have also been addressed regarding the banking industry, although, the research in this field is still at an early stage. It is interesting to note that there are a lot of literature reviews focused on CSR in firms (Chand, 2006; Beurden and Gössling, 2008; Peloza and Shang, 2011), but, at present, no similar literature review has been conducted exclusively on financial intermediaries.

In addition to filling a gap in the CSR bank literature, the aim of this section is to identify the findings from other researches in order to understand the main issues to be addressed, so that CSR will become a key driver in the banking business and in maximizing its reputation on the market. With particular regard to the banking industry, currently under considerable criticism for unethical management (San-Jose *et al*., 2009), in recent years, there was a growth of empirical studies on this research field, which ultimately can be classified into the following four areas:

a) the determinants and conditions for developing CSR strategies within banks (Calabrese and Lancioni, 2008; Chih *et al*., 2010);
b) the relationships between social and financial performance (Simpson and Kohers, 2002; Vitaliano and Stella, 2006, Scholtens and Dam, 2007; Callado-Muñoz and Utrero-Gonzalez, 2009; Chih *et al*., 2010);
c) the impact of CSR policies on cognitive processes and interaction with *stakeholders* (Zappi, 2007), on marketing (Ogrizek, 2002) and *pricing* policy carried out by a bank (Goss and Roberts, 2011; Matute-Vallejo *et al*., 2011);
d) the tools and methods of social accounting and reporting, analyzed in terms of quali-quantitative profile (Peterson and Hermans, 2004; Coupland, 2006; Adelopo and Moure,

2010), and with regard to emerging economies (Achua, 2008; Khan *et al.*, 2009; Khan, 2010).

4.1 The studies on CSR determinants and their relationships with economic performance

Concerning the determinants and conditions for developing CSR strategies, the study conducted by Chih *et al.* (2010) is very interesting because by adapting to banks the theory postulated by Campbell (2007), it tries to point out the endogenous and exogenous reasons in a socially responsible behaviour.

The empirical analysis involves 520 financial firms in 34 countries between the years 2003 and 2005. The main authors empirical findings regard factors that affect positively or negatively CSR of banks and factors that appear neutral. The first category of which includes: i) company size, ii) level of competition in the sector, iii) level of *legal enforcement* of home country (La Porta *et al.*, 1998), iv) *self-regulation* level of the financial sector. In contrast, the following determinants do not produce effects on CSR: i) economic performance; ii) level and intensity of stakeholders rights that characterize each country.

By analysing the issues of CSR in the banking sector, Calabrese and Lancioni (2008) have reached similar conclusions to Chih *et al.* (2010). In addition, they highlight the importance of relation among financial companies and major stakeholders as an essential prerequisite for such strategies to succeed. In other words, the authors think about the need for improved links between the management commitment in building a strong CSR and the perception of these strategies by key-stakeholders (customers and employees).

Otherwise, even if important and systematic investments in corporate social responsibility are made, they may prove ineffective because they are unsupported by a strong and satisfactory relationship between the bank and its main *stakeholders*. Therefore, in analogy with corporate reputation, we noted that a strategic variable for the success of CSR strategies is the quality and continuity of the relationships with all stakeholders (especially with employees and customers).

With regard to the relationship between CSR and social and financial performance, Simpson and Kohers (2002), Vitaliano and Stella (2006), Callado-Muñoz and Utrero-Gonzalez (2009), Scholtens and Dam (2007) show in their studies a positive correlation between social and economic performance of banks, in line with similar studies on non-financial firms.

In particular, Simpson and Kohers (2002) use the *Community Reinvestment Act Ratings* (CRA Rating) to measure social performance of banks, while, two ration (ROA and the ratio loan losses/total loans) are utilized as a *proxy* of economic performance.

In the same way, even Vitaliano and Stella (2006) use CRAs rating to detect the CSR of banks, although they did not analyze links with economic performance but, instead, with cost efficiency. The conclusions reached by these authors show that increased burden associated with obtaining a higher CSR rating is compensated by better rates of return.

However, Callado-Muñoz and Utrera-Gonzalez (2009) focus, in their study, on a sample of 300 retail banks in Spain during the period between 1999 and 2004. They assess the relationship between CSR policies and customers perceptions and highlight the increased spending in social activities which produces a positive effect on the amount of deposits collected.

Further methodological differences are found in the study conducted by Scholtens and Dam (2007) where the CSR of a bank is synthesized by the adoption of Equator Principles. In this study the main objective is to verify whether or not banks that have signed these principles will be evaluated differently from the market. The Authors discovered that the adoption of these principles, accepted mainly by larger companies, entails: a) better evaluation of banks social responsibility; b) higher costs offset, however, by an improvement of image and reputation in the market and, finally, c) absence of a negative reaction of stock returns. The last remark is interpreted positively as an expression of favourable market opinion towards the adoption of Equator Principles. Therefore,

such principles have a positive impact not only on the social responsibility profile of the bank, but also on its economic performance

4.2 A marketing approach and the studies on CSR disclosure

The studies of Matute-Vallejo *et al*. (2011) and Goss and Roberts (2011) fall into the third category of analysis (c), where the social responsibility of banks is linked to the pricing policies adopted. In both studies, the authors observe that a strong and decisive commitment of CSR policies have positive implications not only for the bank but also for customers.

In particular, the study of Goss and Roberts (2011) analyses the impact of CSR on the cost of bank loans, by investigating, specifically, the link between the CSR firms profile and the interest rates paid by them. Using a sample of almost 4,000 loans, the authors observe that firms with a low profile of social responsibility are required to pay higher interest rates (although only to a limited extent) than the most socially responsible companies.

This difference is most evident in the absence of guarantees and assigns to CSR a strategic value that can optimize the quality of the loan portfolio of a bank and the pricing policies adopted.

The Matute-Vallejo *et al.* (2011) study, instead, analyses the relationship between the CSR of banks and pricing policies from a marketing perspective. The aim of this study is to understand whether the CSR policies and the adoption of fair and transparent pricing strategies affect the behaviour of customers by increasing customer loyalty.

By analysing the responses from a sample of 300 banking customers through a structural equation model, the authors show a positive relationship between CSR, prices equity and customer loyalty. Moreover, they also show that the most responsible banks are perceived more equitable with regard to the formulation of cost services they provide.

Finally, unlike to previous avenue, the studies concerning the CSR reporting and disclosure area (d) appear to be, certainly, more numerous. These quantitative (Adelopo and Moure, 2010; Scholtens, 2009) and qualitative (Coupland, 2006) investigations, also related to emerging economy (Khan, 2010; Khan *et al*., 2009), show as banks have increased disclosure information on CSR, the CSR advertising (Peterson and Hermans, 2004) and qualitative diversification (Viganò and Nicolai, 2009) during the time.

At the same time, it is interesting to note that disclosure of such processes are not only a choice within the organization, but also depend on exogenous variables related to the legal and cultural characteristics of the country where the bank is located (Adelopo and Moure, 2010).

In addition, a significant relation is noticed with regard to corporate designation of financial firms.

Indeed, popular banks are not only more inclined to spread out specific information about their CSR profile, such as providing social reporting, but they also tend to make this information more accessible. Concerning this aspect, Coupland (2006) notes that acquiring the sustainability reports of cooperative banks through their website is easier acquiring them from the websites of public company banks.

4.3 The CSR of banks: implications from the literature review

In summary, the literature review allows us to make the following positive theoretical implications:

1. the interest of banks to develop the social report and to disclose their CSR policies is increasing (Scholtens, 2009). These reports have been improved both quantitatively and qualitatively in nature (Coupland, 2006; Scholtens, 2009);
2. the positive influence of CSR on bank customer loyalty (Matute-Vallejo *et al.*, 2011) and pricing policies (Goss and Roberts, 2011);
3. the positive impact of CSR on corporate image, on brand service (Ogrizek, 2002) and on bank reputation (Scholtens and Dam, 2007);

4. the positive impact of CSR on bank financial performance (Simpson and Kohers, 2002), on the amount of funding (Callado-Muñoz and Utrero-Gonzalez, 2009) and on stock price stability.

On the contrary, the negative implications are related to:

1. the structure and the accessibility of sustainability reporting by banks differs widely (Coupland, 2006; Scholtens, 2009);
2. the lack of coordination and effective linkages between corporate and operational levels in the implementation of CSR strategies. Low satisfaction and involvement of key bank stakeholders (customers and employees) (Calabrese and Lancioni, 2008). To this aspect, the following is related:
3. the need to develop an appropriate culture of CSR that involves the entire company organization and its stakeholders. Such culture, indeed, could facilitate the integration of CSR with corporate reputation, strengthening their interdependence.

However, at the same time, this literature review evidences some important gaps of the studies regarding the CSR of banks. Overall, it requires a deeper discussion in particular to: a) the analysis of the relationship between the social responsibility and economic performance of banks during a financial crisis period, b) the study of implications that CSR strategies are able to produce in other important business corporate functions, including governance of banks (in this regard, it might be interesting to see if there are positive relationships between a more effective corporate governance system and a greater CSR profile), c) a more in depth study of CSR by utilizing a stakeholder theory in order to reconcile these two aspects especially at the application level. Indeed, further empirical research is required regarding the following management strategies: a) to enhance the stakeholders engagement of a bank, b) to create an integrated framework between the CSR and stakeholders engagement policies and c) to verify whether a greater stakeholder involvement can influence the economic performance of a financial intermediary, particularly in the long-term perspective.

5. Corporate reputation and CSR in banks: a circular relationship hypothesis

In recent years, scholars have wondered about the relationship between CSR and CR, as well as similarities and differences between these two concepts. Existing studies converge to consider CSR as an important driver in building a solid reputation (Fombrun, 2005; Schnietz and Epstein, 2005; Tucker and Melewar, 2005; Siltaoja, 2006; Brammer and Pavelin, 2006), especially in times of turbulence (Xifra and Ordeix, 2009). However, the two concepts are not completely overlapping, despite having significant elements in common.
To this end, the study of Hillenbrand and Money (2007) is interesting in that it provides a framework for a discussion about the links between responsibility and reputation. They show that, from a stakeholder perspective, corporate reputation and corporate responsibility are largely overlapping and expressed through corporate behaviors. They make clear, however, that the results of their research cannot be transferred to other similar concepts such as CSR. Indeed, they encourage studies that clarify relationships and interdependencies between CR and CSR.
Other scholars highlight significant differences between CSR and CR, whose analysis and identification enables us to understand their complementary interaction. The first major difference concerns the nature of the two concepts: while the corporate reputation is a multidimensional content (and is based on the stakeholders expectations and basic characteristics of the firm), the CSR, however, has a descriptive-objective nature, since it is based on the behavior carried out by the firm. More specifically, de Quevedo Puente *et al.* (2007) highlight that: "*CSP (that is corporate*

social performance) describes, from an "objective" point of view, the firm's performance with respect to stakeholders, the corporate reputation is the sum of stakeholders' perceptions of the firm's capacity to fulfill their interests".

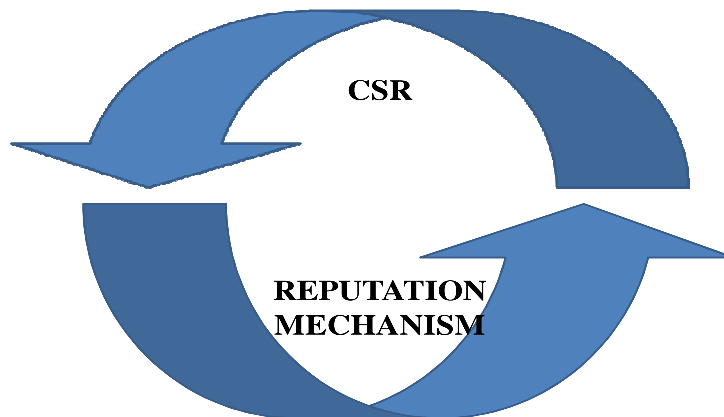
Another difference is related to the spatial and temporal dimensions of the two concepts: the corporate reputation is an inter-temporal variable (resulting from both the past performance and the stakeholders expectations of its future conduct), while CSR is characterized by more limited time and space boundaries. Indeed, its legitimacy, depends upon the environment and social context in which an organization lives, in a particular moment in time, and not upon the past or on the behavior expected in the future (de Quevedo Puente *et al.*, 2007).

Despite these differences between CR and CRS, they also have many important elements in common. The first is their recognition of fundamental drivers not only to create economic value over time, but also to protect the bank from adverse events, by acting as a safety barrier and by giving a competitive advantage (Xifra and Ordeix, 2009). Therefore, this characteristic does not appear separated, but highly interconnected. As shown by recent empirical research (Reputation Institute, 2009), there is also a strong direct relationship between CSR and CR, in that when CSR increases, CR value would also raise. The relationship is shown by a new social responsibility indicator which has been developed by the Reputation Institute and the Boston College Center for Corporate Citizenship, called *Corporate Social Responsibility Index* (CSRI). The comparison between this new indicator and the Global Pulse Score (the reputational indicator used by the Reputation Institute for several years) shows a clear and positive linear relationship. This evidence confirms that when the commitment to corporate social responsibility is greater, the reputation of a company tends to be higher.

In turn, this complementary relationship is strengthened by the fact that both CR and CSR are based on relationships with all stakeholders, without which they would remain abstract concepts. Indeed, like CSR, CR is also framed in the context of stakeholder theory and stakeholder engagement, the only ones able to "operationalize" these concepts by outlining a pragmatic framework for their practical manifestation. Otherwise, it is the strong link with stakeholder expectation that makes CR and CSR strategies dynamic, as opposed to static, by legitimizing the development of different approaches over time, their verification and regular updating.

At this point, if there isn't just a consequential relationship between CR and CSR (as before, the Authors who consider CSR one of the most important drivers of corporate reputation), but also a direct correlation (Reputation Institute, 2009) and if both concepts are based on stakeholders expectations, then it can be said that there is a clear bi-directional relationship between CR and CSR, as shown in Figure 1. More specifically, on the one hand, a higher CSR profile impacts positively on the reputational value and, on the other hand, the reputation stimulates the firm to continuously verify the validity and effectiveness of its social responsibility initiatives. This is especially true when the reputation is low: in which case the company is forced to analyze its CSR and to verify any management and/or reporting weaknesses, both internally and externally . Our paper emphasizes this bi-directional relationship that links CSR to business reputation. We assume, in fact, that the reputation influences the socially responsible behavior of the firm, leading, therefore to a virtuous cycle (Fig. 1).

Figure 1 – The relationship between reputation and CSR of banks



Although the literature review supports the hypothesis of a circular and deterministic relationship between CSR and reputation, it is not easy to identify how this circuit was created and through which actions or strategies it is possible to strengthen it. Indeed, the empirical evidences to analyze the relationship between CR and CSR are still limited (Hillenbrand and Money, 2007) especially with regard to financial intermediaries. In these companies most of the studies focus on the effects of reputational losses associated with the manifestation of reputational risk (section 3) and not on the processes to build a good reputation, to develop reputational drivers and to engage relevant stakeholders. With regard to the latter aspect, in fact, they are still limited the theoretical contributions aimed to propose and design an integrated system of stakeholders engagement in order to building a good reputation and effective CSR strategies. In other words, the links between stakeholder theory and corporate reputation and CSR strategies are still not supported by adequate empirical evidences and management proposals, particularly in the banking sector.

6. The relationship between corporate reputation and CSR in banks: a theoretical framework

Stakeholders' view is an useful lens of analysis for understanding the relationship between bank reputation and corporate social responsibility. Starting from findings of literature review, in this section, we propose a framework aimed to detect the connections between bank reputation and its corporate social responsibility, in both descriptive and predictive terms. The goal, indeed, is to contribute to growing understanding of the potential benefits of CSR-based approach in reputational mechanism, by examining stakeholder interactions with reputational drivers in the case of the banking services sector.

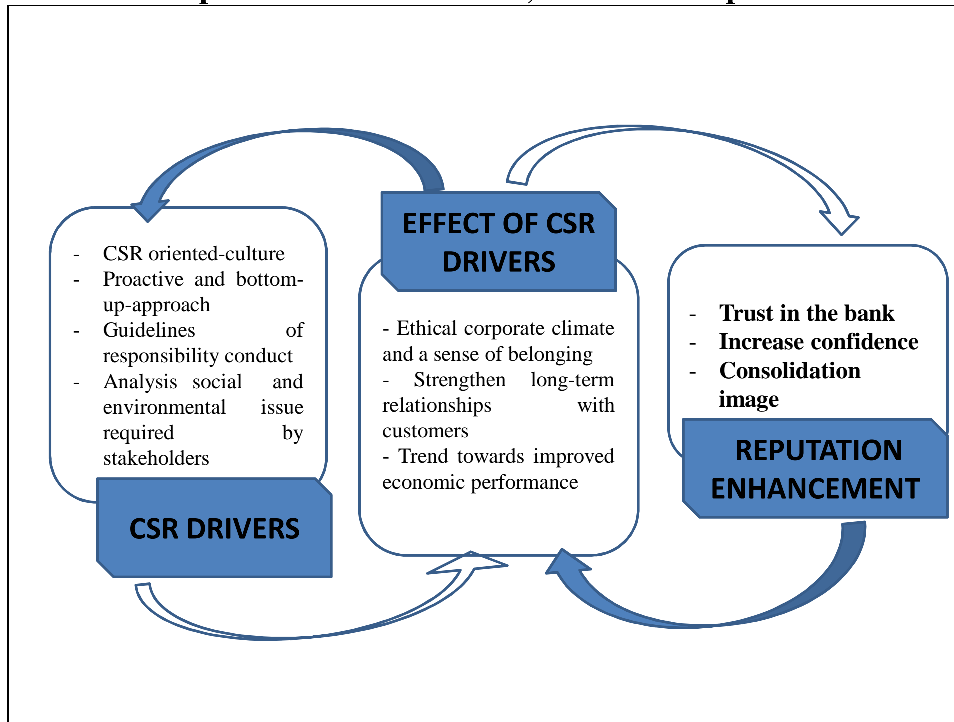
The specificity of the bank, as a supervised firm subject to significant regulatory requirements, leads to in-depth analyses of the relationship between CSR and reputation. One of these is endogenous and the other is exogenous to organization. Regarding the endogenous level, we can distinguish two distinct profiles of investigation: management and communications profiles. In other words, the construction of a sound relationship between CSR and banking reputation should be done both in terms of management and disclosure. With regard to management profile, in order to improve the link between CSR and banking reputation it is necessary to proceed through the following steps:

1. the identification of drivers so that the CSR strategies become more effective and efficient;
2. the recognition of the effects of the CSR drivers;
3. the identification of the impact of these drivers on reputation;

4. the measurement of the circular relationship between CSR and reputation, through appropriate reporting tools.

Figure 2 shows the relationships mentioned above, also specifying: what are the drivers used to strengthen CSR within the bank; the effects of each of them on reputation, and the implications of a good reputation on the socially responsible profile of banks.

Figure 2 – The relationships between CSR drivers, effects and reputation of banks



More specifically, Figure 2 illustrates both the impact of CSR on the CR and the influence of reputation on bank's social responsibility. Therefore, the "bi-directionality" between the two assets is clear: as CSR is a reputation driver, the reputation strengthens the drivers of CSR, by encouraging the recruitment of increasingly responsible behavior in order not to betray the stakeholders expectations, that in a situation of good reputation, are generally quite high.

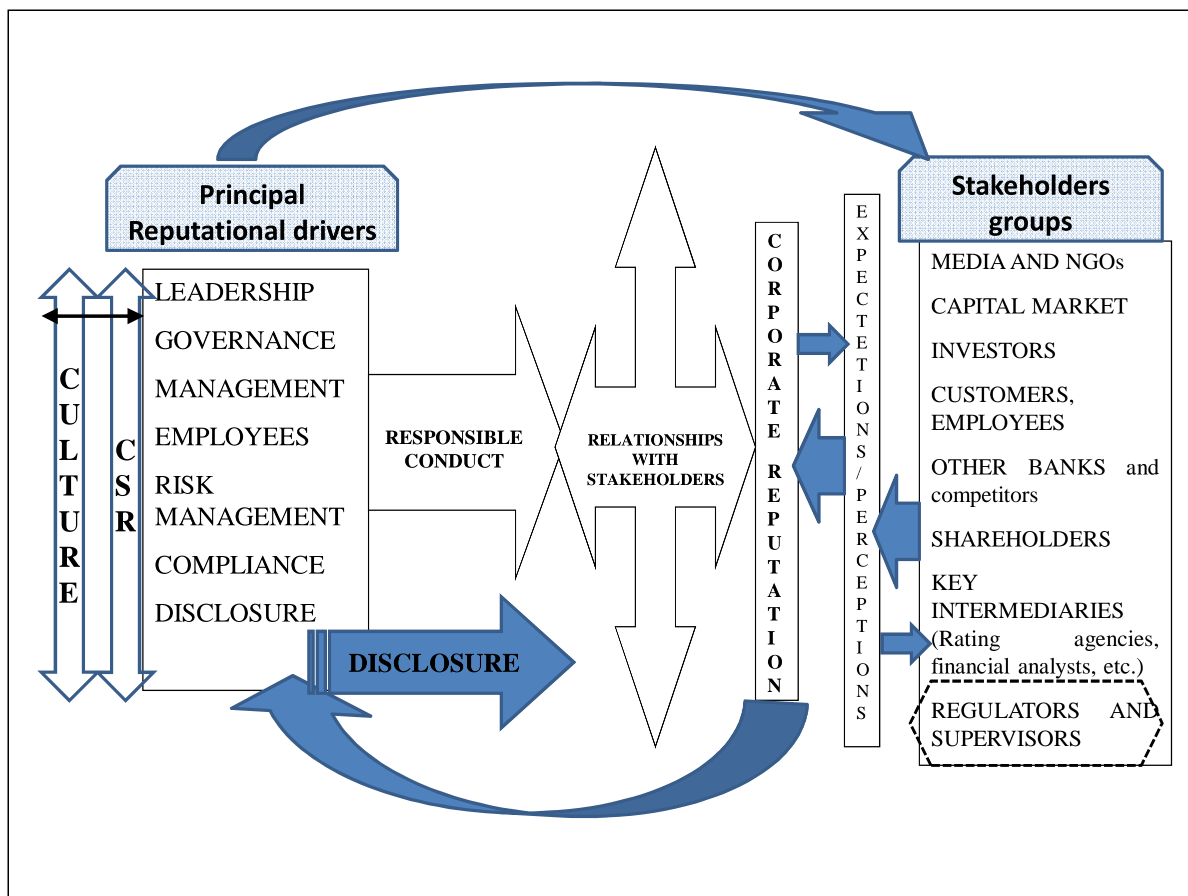
So in this context, a circular process that feeds on itself is thrown if the firm is able to accurately activate all more important CSR drivers. As regards the second profile connected to the information communication, the literature review emphasizes the importance of communicating externally the business conduct. From this point of view is crucial both to clarify the forms of relationships with various groups of stakeholders and the different instruments that the firm intends to use.

Amongst the major groups of bank stakeholders you can include: the investors (for whom the process of communication and voluntary disclosure, implemented through websites, social networks, reports, press releases, etc.., is very important), the shareholders, the media and NGOs, the key-intermediaries (rating agencies, financial analysts, etc..), finally the management and the employees.

Another important category of stakeholders is Regulators and Supervisors. Also the external regulation (exogenous level of the survey) can and should strengthen the link between CSR and reputation of financial institutions, by examining regularly the tools of social accountability and, of course, by supporting all the initiatives of self-regulation. Indeed, the latter can play a central role in strengthening the processes of bank CSR, through a broader formulation of codes of conduct, and the principles of behavior, that can affect the bank's core business. In this context, the more

significant is the mandatory disclosure, in which a central position is taken by the compliance and the external communication.
Consequently, it is possible to identify two major areas that connect the bank whit its stakeholders: 1) forms and relationships tools and 2) forms and instruments of disclosure.
To this end, Figure 3 shows the logical links between CR and CSR. The connections are identified by arrows that indicate possible “bi-directionality”. In particular, this figure shows the main reputational drivers and the connections between them and the most important groups of stakeholders. Among the reputational drivers, CSR assumes a central position because it permeates all the other drivers and, in particular, the organizational culture that defines the basic characteristics of the company, by contributing to the construction of a path of social and responsible conduct. The moment of the relationships with stakeholders, through communication and disclosure processes, is central because it contributes to the formation of expectations and perceptions of such individuals that affect corporate reputation. Amongst various stakeholders, the regulators and supervisors assume a different position, following up particular forms of communication and mandatory disclosure that should be taken against them.
The framework aims to highlight the multidimensional and perceptual nature of banking reputation and that objective of CSR. Moreover it emphasizes the “bi-directionality” that exists between CSR and reputation, by stressing the importance of first to determine the social and responsible conduct in all of the different reputational drivers, and the centrality of reputation as a mechanism able to strengthen such conducts.

Figure 3 – The theoretical framework of relationships between reputation and CSR of banks



7. Conclusions

In recent years the strengthening of relationships with all stakeholders has become increasingly important, in particular for financial intermediaries. In this context, the CSR and CR strategies acquire a predominant value. In fact, they are able to produce significant positive effects by allowing the greater stakeholders involvement of a bank and the satisfaction of their expectations.
For this reason, through the literature review on CRS and reputation of banks, we tried to identify the determinants and implications of two intangible assets, as well as their differences and similarities. It is emerged that CSR and CR have important elements in common and that these concepts are linked by a clear bi-directional relationship. That relationship creates a virtuous cycle which is able to improve economic and social performance for all stakeholders.
Moreover, starting from these preliminary considerations, we also proposed a framework aimed to detect the connections between bank reputation and its corporate social responsibility, in both descriptive and predictive terms. The framework emphasizes the "bi-directionality" mentioned above, by stressing the importance of CSR to determine the social and responsible conduct in all of the different reputational drivers, and the centrality of CR as a mechanism able to strengthen such conducts.
Overall, our research highlights the importance to study the effects of corporate variables of bank, including the CSR strategies. The main obstacle in this direction is due to incomplete disclosure of public companies and, especially, of banks. A lot of processes, variables and business issue are not analyzed because they are sensitive for the bank and, therefore, they often not publicized. On the contrary, as already argued, the consolidation of disclosure process is the first step not only to develop a strong corporate reputation over the time, but also to strengthen the link between this intangible asset and the CSR of the bank. Indeed the disclosure of a bank is a strategic choice, *condicio sine qua non* to improving relations with all stakeholders.
Finally, our paper suggests some indications to managers and to regulators. Concerning the managers, the study highlights the need to rethink the social reporting tools. These instruments must to externally communicate the importance that banks assign both to corporate reputation and bi-directional linkage between this intangible asset and CSR initiatives. For this scope, in the bank sustainability report, it might useful to including one section that not only explains how the bank manage and measure its corporate reputation, but also describes which CSR initiatives have been taken to strengthen the connections with reputation (*reputation report*).
Whit regard to regulation, instead, the main implications of our study address the need to continue to promote CSR in banks. Many initiatives have been taken, but further improvements are needed in order to encourage banks to manage their corporate reputation in a continuative way and to integrate this asset with CSR strategies. Indeed, this integration should have a positive impact on the banks reputation and also on the overall performance, allowing this virtuous cycle to increase more and more both intangible capital and the different drivers of value creation.

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Banking reputation and CSR: a stakeholder value approach[1]

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