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**CSR commitment and performance during the 2008 credit crisis:
an analysis of US banks**

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INTRODUCTION

During the 21st century, Corporate Social Responsibility (CSR) has started to take hold, and there has been a huge increase in the demand of CSR information, both at the corporate and public media level. In fact, issues such as human rights, biodiversity, climate change, business ethics, and corporate governance are at the forefront of political and public attention.

Companies' approach to these issues has become an important matter when evaluating corporate performance and plays an important role in investors' decision-making process. Especially, because of the financial scandals and the public debate raised during the last decade, nowadays investors do not rely only on economic and financial information and key indicators when taking their decisions.

For this reason, companies have recognized that disclosing information about the impact of CSR activities may yields numerous advantages , and CSR reporting has become one of the principal means through which companies inform and/or maintain a dialogue with the members of society about their commitment to CSR (Branco and Rodrigues, 2008). Therefore, there has been a significant increase in the amount of CSR information disclosed to shareholders and stakeholders in general (Scholtens, 2009).

Lately, many companies have become well aware that making efforts to put sustainable practices into action not only helps the society and the environment, but it can also positively impact corporate image, reputation, and economic performance. In fact, more and more consumers expect companies to generate a positive social or environmental impact on society. (AFD Group, 2009). Almost 60% of global consumers interviewed by Nielsen¹ in 2014 declared to be willing to pay an extra for products realized by socially and environmentally responsible companies. Furthermore, the trend in these types of firms has been increasing: in 2011 they were 45%, while in 2012 they increased to 50% . In this sense, it has to be noted that CSR may also be used by companies to manipulate stakeholders' view and obtain legitimacy, by building a good corporate image, stimulating brand awareness and improving competitiveness (Cho and Patten, 2007), thus raising questions about the rationale behind this type of disclosure, and on its effects on financial performance.

Many theoretical and empirical research has been conducted to clarify the potential relationship between CSR and financial performance. These studies have tested the direction,

¹ Nielsen Global Survey of Corporate Social Responsibility, conducted between February 17 and March 7, 2014, more than 30,000 consumers in 60 countries interviewed.

the strength and also the causality of the relationship, producing contradictory results. However, only a limited amount of research has investigated the relationship between CSR commitment (proxied by disclosure) and financial performance in the banking industry (Platanova *et al.*, 2016).

Moreover, the 2008 financial crisis has affected the society's expectations about the relationship between business and society, but whether this impacted the relationship between CSR commitment and financial performance has rarely been tested.

Here stands the contribution of this research. This work aims at investigating, in a group of US banks whether, in the period of the 2007-2008 economic crisis, financial performance is related to a (previous) CSR commitment.

Specifically, it attempts to verify whether the issuance in 2006 of an *ad - hoc* media for CSR disclosure - i.e. CSR section of the Annual Report or Standalone CSR Report - (which is considered as a proxy of CSR commitment) is significantly related to the banks' financial performance during the 2008 financial crisis. The sample is composed of 90 U.S. financial institutions belonging to the industry "Banks", according to the Thomson Reuters Business Classification.

Following signalling theory, companies issuing Standalone CSR Reports are more likely to have higher CSR commitment and performances than companies that do not issue Standalone CSR Reports (Lizzeri, 1999).

Following the signaling theory, CSR disclosure is used as a proxy for CSR commitment. Thus, CSR disclosure is measured looking at the issuance of a Standalone CSR Report or the presence of a CSR section in the banks' 2006 Annual Report. According to this theory, companies issuing standalone CSR reports are more likely to have higher CSR commitment and performances than companies that do not issue Standalone CSR Reports (Lizzeri, 1999). Banks' financial performance is measured first considering cumulative abnormal returns from July 1st, 2007 to December 31st, 2008, and then computing Return on Equity and Return on Assets from the second quarter of 2007 to the second quarter of 2008.

The choice of focusing on CSR disclosure practices of the banking industry has several motivations. First of all, banks are among those firms that commonly publish CSR Reports, and the issuance of these documents has been increasing during the last years (Viganò and Nicolai, 2009; Laidroo, 2015). Thus, it should be interesting to investigate whether the efforts made to report CSR commitments are appreciated. Secondly, studies about CSR reporting by banks are still very limited (Menassa 2010), despite the fact that some associations show significant attention on this topic, and propose guidelines and frameworks for banks having to compile sustainability reports (*Associazione Bancaria Italiana*, European Banking Federation,

and GRI). Lastly, banks perception towards CSR has changed (Scholtens, 2006); nowadays, they are more interested in managing the risk arising from lending to companies exposed to social and environmental problems. Banks have been more conscious about social responsibility issues because they became more aware of their reputational risks². Moreover, this kind of risk arises both directly through the relationship with stakeholders, and indirectly when dealing with other firms (Bebbington *et al.*, 2008).

The thesis is structured as follows. Chapter 1 provides a definition of Corporate Social Responsibility, summarizing the main theories related to this topic, and provides an overview of CSR in the banking industry. Chapter 2 provides a brief view of the disclosure of CSR information, and it focuses on the issue of companies' standalone CSR report, and on banks' CSR disclosure. Chapter 3 proposes a literature review of previous research studying the relationship between CSR information disclosure and financial performance. Chapter 4 presents the research methods and Chapter 5 shows the results of the analysis.

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² The connection between banks, reputational risk and CSR reporting can be deduced through the social-political theories, which sees CSR as a mean through which companies increase their “transparency” toward investors, and improve their legitimacy toward stakeholders (KPMG, 2008).

CHAPTER 1: CSR LITERATURE REVIEW

This first chapter will provide a view on what is Corporate Social Responsibility (CSR), which are the main related theories emerging from a literature review. Finally, a focus on CSR in the banking industry will be provided.

1.1. CSR definition

Corporate Social Responsibility (CSR) definitions have emerged, both from pertinent literature and from dedicated organizations.

Dahlsrud (2008) identifies 37 definitions of CSR. In his work the author states that there have been many attempts to develop a CSR definition, recognizing the work of Carroll (1999)³ one of the best-known overviews of what is meant and commonly understood by CSR. Carroll allocates the first formal CSR definition to Bowen (1953): “Social responsibility is the obligations of businessmen to pursue those policies, to make those choices, or to follow those action lines which are desirable in terms of the objectives and values of our society”.

Then, Carroll’s review moves to other works that, following Bowen, played a significant role in developing the social responsibility concept: McGuire (1963) and Manne and Wallich (1972). The former underlines that “the idea of social responsibility supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations” (McGuire, 1963 p. 144). The latter adds that “another aspect of any workable definition of corporate social responsibility is that the behavior of the firms must be voluntary” (Manne and Wallich, 1972 p. 5).

Carroll reports then, another approach to defining CSR: it involves simply listing the areas in which organizations are viewed as having a responsibility. For example, Gray *et al.*, (1976, p. 15-16) suggest as related areas: pollution, poverty, racial discrimination, and consumerism.

Professionals, like Davis (1973), focalizes on an approach that sees social responsibility not only as a result of individual actions but as an objective of companies as wholes.

³ Carroll, A.B., 1979, A three-dimensional conceptual model of corporate social responsibility. *Academy of Management Review* 4(4), 497-505.

Indeed, Kok *et al.* (2001) define CSR as the obligation of a corporation to use its resources in such a way to benefit society, accounting for the community as a whole and improving society welfare independently of direct gains of the company.

At the end of his study, Dahlsrud (2008) find out that the dimensions most frequently cited in the CSR definitions are social, stakeholder, economic, voluntariness, and environmental dimension.

CSR definitions are also given by international bodies that are focused on sustainability.

ISO 26000 “Guidance on social responsibility” (2010) defines social responsibility as the responsibility of an organization for the effects of its choices and doings on the environment and the society, through translucent and ethical actions that:

- contribute to sustainable development, together with health and wellbeing of the social order;
- take into account stakeholders expectations;
- follow applicable law and are reliable with international norms of behavior; and
- are integrated all over the organization.

ISO 26000 was drafted by the ISO Working Group on Corporate Social Responsibility using a multi-stakeholder approach. The preparation involved specialists from more than 90 countries and 40 international organizations involved in social responsibility, from different stakeholder groups (as non-governmental organizations (ONGs), consumers, labor, industry, government, academics and research and other).

Although ISO 26000 admits that there is not a final and exhaustive series of principles of social responsibility, it tries to list those an organization should consider:

- accountability: the organization should be accountable for its impacts on the economy, society, and environment;
- transparency: the organization should be transparent in its pronouncements, decisions, and activities affecting society and environment;
- ethical behavior: the organization should behave ethically;
- respect for stakeholder interests: the organization should consider and respect stakeholder interests;
- compliance with the rule of law: the organization should consent that the respect of the rule of law is mandatory;
- compliance with international norms of behavior: the organization should be respectful of the international standards of behavior;

- respect for human rights: the organization should appreciate and respect human rights and observe both their universality and their importance.

In exercising social responsibility, the organizations should address seven core subjects:

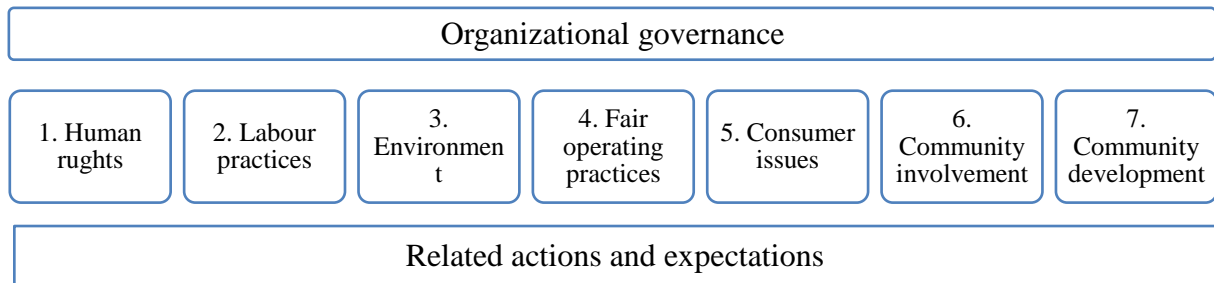


Figure 1: schematic overview of CSR core subjects from ISO 26000 – page ix

The inner characteristic of social responsibility is the organization's willingness to incorporate environmental and social considerations when taking decisions and be accountable for the effects of its activities and choices on environment and society. Social responsibility assumes an understanding of the widespread expectations and demands of the society that goes beyond legal obedience, it recognizes the existence of obligations that are not lawfully binding.

Corporate social responsibility is also known as “Conscious capitalism”, “Corporate citizenship” and “Triple Bottom Line Framework” which incorporates three dimensions of commitment: social (e.g. human rights and impact on local communities), environmental (e.g. recycling, natural resource and waste management, green products) and governance (e.g. employee relations, board compensation and composition).

According to GRI,⁴ (Global Reporting Initiative) the three dimensions are economic, environmental and social. The economic one is about the organization’s effects on the economic and financial conditions of its stakeholders and on the economic systems at global, national and local levels; the environmental dimension concerns an organization’s effects on the natural systems (land, ecosystems, water and air), covering an organization’s inputs (e.g. water, energy, material,) and outputs (e.g. waste, effluents, emissions); the social dimension is about the organization’s impacts on the social systems within which it operates, using as social indicators product responsibility, labor practices, society, and human rights.

⁴ The Global Reporting Initiative is a non-profit organization that provide sustainability reporting guidance to promote a sustainable global economy.

The United Nations explains CSR as a management concept through which companies integrate environmental and social concerns within their business operations and their relations with the stakeholders.

Summarizing, it can be said that CSR refers to transparent business practices based on compliance with legal requirements, ethical values, respect for the environment and people as stakeholders and communities. CSR is an approach through which a company can achieve a balance of environmental, economic and social practices while at the same time fulfilling the expectations of its shareholders and other stakeholders, therefore, managing its engagement with society. The purpose of a responsible company is to produce goods and services to meet not only economic but also social needs, to create rewarding and pleasant employment, to earn returns for shareholders and investors, and to positively contribute to the physical and social environment in which it operates.

The following paragraph will provide a review of the main theories developed around CSR.

1.1.1. CSR theories

A lot of schools of thought about corporate social responsibility do exist: here first reported the neoliberal. Other theoretical approaches, here briefly stated, explain the possible reasons why an organization may decide to commit to CSR; these are institutional theory, legitimacy theory, and stakeholder theory.

Neoliberal theory

The neoliberal writers see CSR as the adoption of voluntary guidelines, codes, and policies by the corporation. The first version of the neoliberal view has developed around the vision articulated by Milton Friedman on September 13, 1970 in the New York Times: “[...] there is one and only one social responsibility of business: to use resources and engage in activities to increase its profits so long as it stays within the rules of the game”. Friedman argued that CSR produces costs superior to profits, lowering corporate financial performance. These costs arise from geographic and business areas constraints, the engagement of additional human resources, and the increased expenses for activities or processes done to satisfy stakeholder requirements.

Nowadays the neoliberal view has moved, and most neoliberal supporters take the view that, while Friedman was correct, the implementation of CSR policies can be rational and profitable, as it is an important way to minimize risks from adverse media coverage, harmful government intervention, and shareholder or consumer reaction to corporate behavior. However, the neoliberal statement is that CSR is only a minor component of business strategy.

Institutional theory

Institutional theory is useful to frame the adoption of socially responsible practices. The work of DiMaggio and Powel (1983) is considered the primary reference. In their study, they investigate what makes organizations so similar, and they try to find out the reasons why there is a surprising homogeneity in organizational forms and practices.

The idea at the base of the institutional theory is that when a set of organizations come out as a field⁵, a paradox arises: actors make their organizations progressively similar to each other as they try to transform them. This means that once a field is established, there is an unavoidable push towards homogenization. Therefore, organizations may try to vary constantly, but then, after a point in the structuration of a field, the total effect of individual changes is to lower the diversity within the field. The concept that best captures this homogenization process is isomorphism.

Hawley (1968) explains isomorphism as a compelling process that forces a unit in a population to look a lot like other units that face the same set of environmental circumstances. According to Meyer (1979), there are two forms of isomorphism: competitive and institutional.

Competitive isomorphism assumes a system rationality, of open competitive markets, which stresses fitness measures, niche change, and market competition. Such view is important for those fields where there is open and free competition. Aldrich (1979) argues that the main factors that an organization must consider are other organizations. Organizations compete not just for customers and resources, also for institutional legitimacy and political power, for financial fitness as well as social.

The perception of institutional isomorphism, instead, is a useful instrument for understanding the ceremony and politics that permeate much modern organizational life. The fundamental idea of institutional isomorphism is that the environment pushes organizations to assume specific processes and practices to survive (Washington and Patterson, 2011, p.3). The starting point is that organizations check their surroundings to look for evidence of what are proper actions and practices. There are three mechanisms over which institutional isomorphic change takes place:

- coercive isomorphism moves from the problem of legitimacy and political influence. It results from informal and formal pressures exercised on organizations by other organizations upon which they depend, and it is also the result of cultural expectations of the society within which organizations work. In some situations, organizational change is a direct response to government directive (for example, directive to fulfill tax law requirements; for manufacturers to implement new pollution control technics);
- mimetic isomorphism is the standard respond to uncertainty arose because not all institutional isomorphism derives from coercive authority. Uncertainty is a force that

⁵ Organizational field: those organizations that, in the aggregate, establish a recognized area of institutional life: resource and product consumers, key suppliers, regulatory agencies, and other organizations that produce similar services or products". Di Maggio and Powel (1983, p. 148).

inspires imitation and modeling is an answer to uncertain. When organizational knowledge are poorly understood (March and Olsen, 1976), when the environment generates symbolic uncertainty, or when goals are unclear, organizations may take as model other organizations and in this way shape themselves on them;

- normative isomorphism is related with professionalization. According to DiMaggio and Powel (1983), the professionalization is the mutual struggle of members of a job to define methods and conditions of their work, to corroborate a cognitive legitimation for their occupational independence. The professionalization has two aspects which are valuable sources of isomorphism. One is the resting of legitimation and formal education in a cognitive base formed by university specialists; another is the development and expansion of professional networks that span organizations.

Campbell (2007) offers another institutional view of the circumstances in which a corporation is likely to behave in socially responsible ways. Campbell argues that several institutional situations mediate the link between corporate behavior and basic economic conditions:

- financial performance: firms which are less profitable have fewer incomes to spare for socially responsible actions than those which are more profitable;
- economic environment: corporations will be less expected to act in socially responsible ways where they are performing in a relatively unhealthy economic environment where the possibility for near-term profitability is partial;
- competition: corporations will be less likely to performance in socially responsible ways if there is either too much or too slight competition; which is, the connection between competition and socially responsible corporate behavior will be curvilinear;
- legal environment: corporations will be more willing to accomplish socially responsible behaviors if there are solid and well-enforced state protocols in place to guarantee such behavior, particularly if their development process was based on negotiation and consensus building among government, corporations, and other relevant stakeholders;
- private regulation: corporations will be more likely to take socially responsible action when it is present a system of well-organized and effective industrial self-regulation to secure such behavior, mostly if based upon the alleged threat of state intervention or wider industrial crisis, and if the state offers support for this form of industrial governance;
- independent organizations: corporations will be willing to take some socially responsible actions if there are private, independent organizations, including

- institutional investors, NGOs, social movement organizations and the newspapers, in their environment, who monitor their behavior and, if necessary, organize to change it;
- business education environment: corporations will act in socially responsible ways whether they operate in a situation where normative demands for such behavior are established, for example, in business school curricula, influential business publications, and other educational sites in which corporate managers contribute;
 - business communication: corporations will be more likely to be socially responsible if they are engaged in institutionalized dialogue with employees, unions, investors, community groups, and other stakeholders.
 - corporations will be more willing to engage in socially responsible behavior if they belong to employer or trade associations promoting socially responsible behavior.

Legitimacy theory

Many authors propose the legitimacy theory as an explanatory frame for the implementation of social and environmental practices (Brown and Deegan, 1998; Milne and Patten, 2002; Deegan *et al.*, 2002).

The idea of “legitimacy” is related to the concept of “social contract” existing between business and society: society allows organizations to exist and expects them to fulfil its expectations. When the society is not satisfied by how the organization is operating (i.e., not in harmony with social norms and values) a breach of the social contract exists, and a legitimacy gap may emerge. Then, the society will revoke the “social contract”; for example, customers could reduce or eliminate the demand for the organization’s products, suppliers could stop supplying, and the government could prohibit those actions that do not match with community expectations. This condition will force the entity’s managers to engage in plans for obtaining, maintaining or repairing legitimacy (Suchman, 1995).

Lindblom (1993) describes four legitimation strategies:

1. social disclosure may be used to reveal changes in the corporation’s production, methods, and aims which have been made in response to shifts in the public’s expectations;
2. the organization tries to demonstrate the correctness of the output, methods, and goals educating and informing to the public; this does not require a modification in society expectation or in business performance but, rather, requires just a change in perception;

3. associating organizational methods, output, and goals with the widespread perception of what is appropriate. This alternative does not modify business performance, nor the expectations of the society. Instead, the corporation tries to associate itself with symbols that have a high legitimate status;
4. the organization attempts to make the popular views conforming with its methods, output, and aims. Here the focus is on education and information: the corporation is not internally adjusting to reduce the legitimacy gap but, somewhat, seeks an alteration in societal expectation.

A legitimacy gap may also emerge from the changes in the beliefs of the society, not only because of weak social performance of an organization (Laidroo, 2015). In fact, the period pre and post the 2008 financial crisis had seen a chain of events that led to a change in beliefs regarding innovative financial products and the role of banks. After the 2008 global credit crisis, the financial sector has faced strengthened regulatory pressures and public attention. The banks' challenge has seen the need to restore public trust and re-establish transparent and clear business models. In this view, CSR disclosures can be a way to repair the legitimacy gap of banks both in the eyes of the general public as well as in the eyes of particular stakeholders. Researchers have revealed that CSR is one of the most effective ways for improving a company's public image. Its significance in stakeholder management has been supported in the banking industry as well (Laidroo, 2015).

Stakeholder theory

According to the stakeholder perspective organizations are accountable not only to the owners but also to the stakeholders (Nielsen and Thomsen, 2007).

The stakeholder concept is used as a basis to study those groups to whom the company should be responsible. As described by Freeman (1984), a company has as a series of associated stakeholders that the managers attempt to manage. The classic description of a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p.46).

Stakeholder theory is strictly related to CSR to the extent that stakeholder theorists describe inappropriate and appropriate corporate behavior in conditions of how corporations act vis-à-vis their stakeholders (Driver and Thompson, 2002, p. 117). By suggesting that the requests of shareholders cannot be encountered without satisfying some requests of other stakeholders, this approach turned attention to facts beyond straight profit maximization.

In a few words, stakeholder theory suggests that disclosures are, at least in part, connected to a desire to accomplish certain stakeholders (Neu *et al.*, 1998) who provide capitals to organizations and consequently can affect their capability to operate. In accordance with Ullmann (1985) when stakeholders handle resources critical to the company, it is likely that the corporations will behave in a way that pleases the demands of these stakeholders. Thereby, stakeholders' power is inclined to be positively linked with social performance. Conversely, whether the power of stakeholders is little, their claims lean towards to be ignored by the firm.

In this paragraph were reported few of the theoretical approaches explaining why an organization may decide to adopt CSR initiatives. Legitimacy and stakeholders theory seem to be the most cited.

The following paragraph will provide insight about how the banking industry implements CSR.

1.2. CSR in the banking industry

As the sample of the empirical research of this work is composed of U.S. banks, it is worthwhile to review how the banking industry is related to CSR and which the trends of CSR development in this industry are.

The sustainable and ethical orientation is increasingly considered as relevant by the different stakeholders: lender and savers would like to know how the bank channels their money; NGOs want banks to indicate which are the economic sectors financed by banks; investors are concerned about share value decreasing if banks finance “bad” companies (for instance companies that damage the environment or violate human rights) or if banks are involved in financial scandals (Jeucken 2004). The consequences of the financial crisis and the slow economic readjustment have increased skepticism and scrutiny on banks’ motives and actions (Cornett *et al.*, 2016). In this wave, after the “Wall Street Reform and Consumer Protection Act”⁶ of 2010 big banks are put under close scrutiny as the Act states that financial institutions should improve their social responsibility.

A bank’s commitment to CSR can take different forms, mostly focusing on three main CSR aspects: society, environment, and workplace. Firstly, banks contribute to the society development through CSR practices regarding health care, poverty lessening, charity activities, education, partnerships with NGOs, youth development, cultural enrichment, patronizing sports and music, women empowerment, microcredit providing, scholarships in the form of grants to universities, salaries, bursaries, and loans (Alam Shafiul, *et al.*, 2010). The second issue is the environment. Banks themselves, unsurprisingly, do not discharge contaminated pollutants in the environment nor produce hazardous chemicals, so they do not seem to be involved with environmental issues. In any case, many banks use recycling equipment for environmental protection. However, through their lending activities, banks are indissolubly connected to industrial and commercial activity that damages the natural

⁶The “Wall Street Reform and Consumer Protection Act”, known as “Dodd-Frank”, was signed by President Obama on July 21st, 2010. The goal is to sustain the financial stability of the U.S. improving transparency and accountability in the financial sector, to safeguard American taxpayer by ending bailouts, to end “too big to fail”, and to prevent abusive financial services practices. Among other requests, the Act asks to all the firms in the financial sector to be more socially responsible through risk prevention practices. For example: it imposes more severe prudential standards on financial firms whose failure could intimidate the stability of the U.S. financial system; it calls for more transparent trading of derivatives; it requires lenders, banks, and others, every time they securitize an asset, to hang on to a portion of the credit risk.

environment. So banks can apply policies allowing granting only environment respectful organizations. Finally, the workplace is the side that a bank focus on when executing CSR activities due to the vital role of employee. If a bank wants to attract skilled human resources and increase their productivity, it has to improve the workplace conditions (Muthuri, Matten and Moon, 2009). The CSR values centering on the marketplace are assimilated into all procedures and policies implemented by a bank.

More, socially responsible investments (SRI)⁷ and responsible products (e.g. green bonds⁸) are the key mechanisms through which banks can influence the socially responsible behavior of the other economic agents. In many OECD countries, dedicated banks offer savings accounts to the customers while promising that those savings will be used to finance environmentally responsible projects or to facilitate the access to credit of entrepreneurs that with difficulty get funds by conventional institutions.

Seen the importance that customer relationship and trust have for banks, they may be more inclined than most companies to address CSR involvement. Responsible lending, transparency, support to local economies via small-business loans, volunteerism and environmental care strengthen customer relationships and business growth.

According to the AFD Group (Agence française de développement) the implementation of CSR within the banking industries brings a number of benefits that are summarized below:

⁷ Integrating personal values and societal concerns with investment decisions is called Socially Responsible Investing (SRI). SRI considers both the investor's financial needs and an investment's impact on society. With SRI, you can put your money to work to build a better tomorrow while earning competitive returns today. (OECD roundtable on corporate responsibility, 2007)

⁸ A "green bond" differ from a "regular bond" by its label, which indicates a commitment to use the funds raised exclusively to finance or re-finance "green" projects, assets or business activities; where "Green Projects" are defined as activities and projects that promote progress on environmentally sustainable activities. (ICMA, 2015).

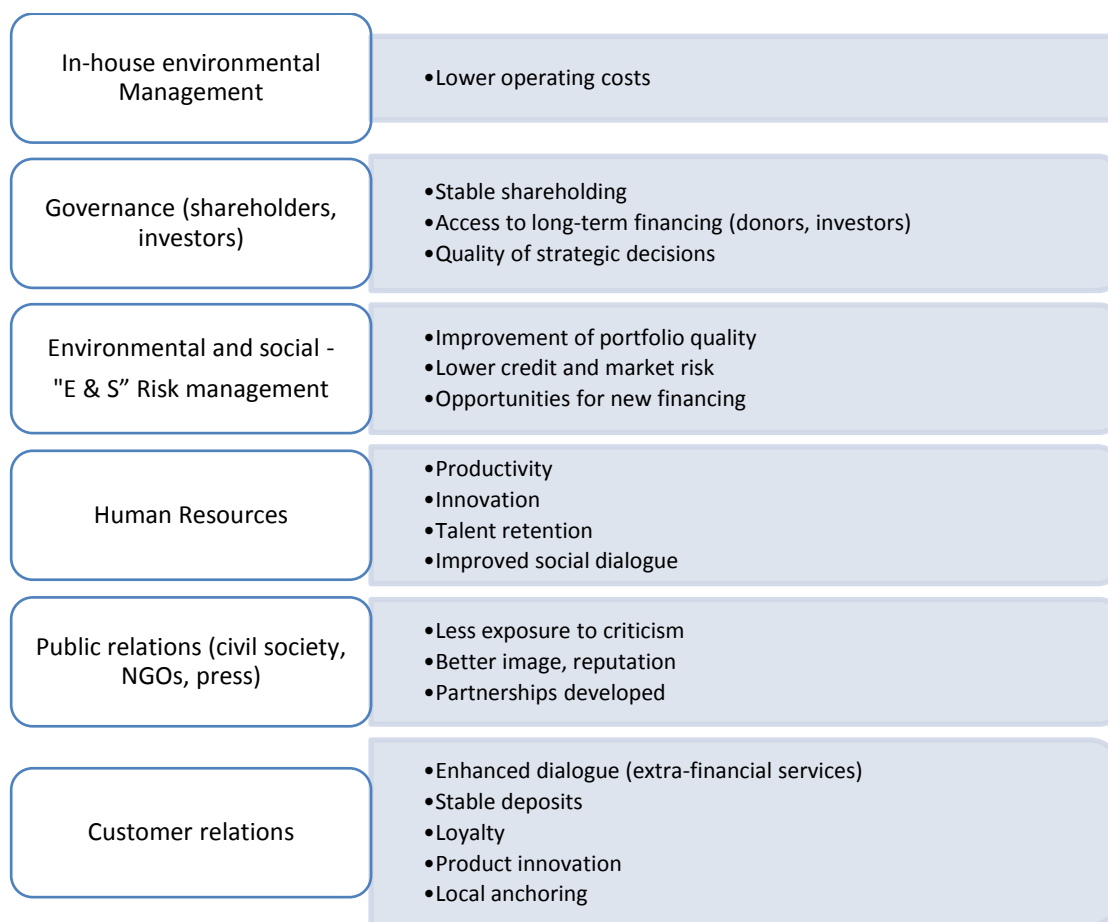


Figure 1: CSR benefits - AFD Group 2009 – page 2

A significant CSR benefit in banks is to improve banks' reputations, which is a determining factor to capture new clients and retain old ones, eventually enhancing bank's financial status. More, if a bank also concentrates on socially responsible activities, it can get profits through employee loyalty and better risk management (Tran, Yen Thi Hoang, 2014).

With the aim to analyze the existing literature can be said that, unfortunately, although the economic importance of international banks in the global context is highly visible, banks' CSR practices have received very limited attention in previous empirical research (Laidroo, 2015). In facts, it is a frequent methodology to remove financial organizations from the analyzed sample in any study because of their different accounting systems and financial structure (e.g. Reverte, 2016).

Prior and Argandona (2009) argue that the concept of CSR in the banking industry refers banks' responsibility for the consequence of their actions on stakeholders and also to their role as financial intermediaries. Banks through pricing and valuing financial assets, monitoring borrowers, managing financial risks and organizing the payment system, act as financial intermediaries in the society. By performing these tasks and through their

investments and lending activities, banks have an enormous impact on society typically requiring households and firms to assume certain behavior to raise the probabilities that these lenders will pay interest and repay debt. The banking industry is at the heart of society playing an important part in economic development; consequently, its role goes far beyond bringing financial stability to the economy. Banks are expected to be more socially responsible, establish new strategies and trends, reduce financial exclusion and provide necessary services to customers.

According to De la Cuesta-González *et al.* (2006), CSR affects the financial sector both from an internal and an external perspective.

The internal perspective implies the application of socially and environmentally responsible initiatives within the entity's internal management processes. Thus it should lead to the incorporation of social and environmental considerations into the designing of the financial products, investment strategies, and credit policies. Accordingly, the risk management and the business strategy should take CSR into account. Besides that, the GRI issued in 2010 the GRI-FSSS (Financial Services Sector Supplement), a sector supplement with the aim to provide financial institutions stakeholders with higher quality information, according to the specific risks and complexities of the industry.

Instead, the external perspective implies the integration of the CSR view into the entity's role of financial intermediary and investor in the financial markets. It is particularly relevant because the effect that financial intermediaries have on the society does not only depend on their sustainable performance, but also on the conduct of loan receivers and investment projects' managers that receive funds from financial institutions.

Yeung (2011) tries to explore the awareness on CSR of major banks. Data are collected through questionnaires from finance/banking academics and practitioners in Hong Kong, Scotland and the US. The key CSR-associated elements identified from the analysis of the collected questionnaires are: conducting risk assessment, implementing strategies for financial crisis, understanding complex financial services, protecting rights of customers, strengthening business ethics and setting up channels to address costumers' criticisms. Yeung (2011) concludes using an internal/external approach as De la Cuesta-González *et al.* (2006). The author suggests that a bank, to become socially responsible, has to establish a mindset of business ethics, risk management, and corporate social responsibility; this can be achieved through the internal management of process and people and external management of economic situation for the benefit of stakeholders.

Milestones in sustainable development in the banking industry

As support for the increasing attention devoted to CSR, several initiatives, worldwide, have promoted the implementation of CSR principles in financial institutions:

- 1992: at the “U.N. Earth Summit” in Rio was introduced the UNEP-FI, a public-private partnership between the United Nations Environment Programme (UNEP) and the private financial institutions (FI). The purpose was to stimulate the creation of links between environment and sustainability performance from one side and financial performance on the other and to promote the adoption of upgraded environmental and social practices by financial institutions;
- 1998: International Finance Corporation (IFC) - World Bank group - published the document “Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information”.
- 2002: GRI developed a first pilot version of the “GRI – Financial Service Sector Supplement” (see Chapter 2).
- 2003: Equator Principles (a risk management framework adopted by financial institutions based on IFC’s performance standards). They list common policies and indications that require co-signer financial institutions to ensure that the activities they finance are realized in an environmentally respectful and socially responsible manner.
- 2006: UN published “Principles for socially responsible investment” (SRI)
- 2011: started a new process of reviewing the Equator principles to make the EP a benchmark in the banking industry.

U.S. banking industry

For the purpose of this analysis, something has to be said about the CSR practice in the U.S. . After the first movement of CSR behavior by the end of the 1970s, American businesses began to think about philanthropy in a more pragmatic way (A. N. Kostyuk, 2012). The government was afraid that banks no longer would take care of the needs of the community, for this reason in 1977 the United State Congress adopted “The Community Reinvestment Act (CRA)”⁹, with the intention to encourage depository institutions to help the communities in meeting their credit needs (including low-and-moderate-income neighborhoods).

⁹ The Community Reinvestment Act, enacted by the U.S. Congress in 1977, is thought to encourage depository institutions to help the communities in which they operate in meeting their credit needs, including low-and moderate income neighborhoods.

Kostyuk (2011) gives an international overview of CSR in banks. The study identifies the distinctive features of the CSR of banks in different countries, moving from the assumption that a basic model of CSR does not exist and that CSR practices depend on the historical peculiarities of the country, the financial condition of the individual bank and the banking systems as a whole. The study reveals that an approach to CSR focused on the interests of major stakeholders' groups is not common in American banks. The majority of them are orientated on community benefits: charity and philanthropy are the most common instruments for implementation of CSR policies. The American law does not provide penalties for the lack of social component into the business strategy. In any case corporations, banks included, are used to support the community through social programs as it has a positive effect on their reputation.

In conclusion, the purpose of encouraging CSR in banks is not only to help them to strengthen their CSR policy but also to increase awareness among their clients of the need to implement CSR practices. Banks and all financial institutions are in this way seen as an important and unique vehicle in developing CSR in companies.

After this Chapter defining what is CSR, introducing the main theories developed about this concept and providing a brief insight about how CSR is implemented in the banking industry, the attention of the following Chapter will focus on CSR reporting practices.

CHAPTER 2: CSR INFORMATION DISCLOSURE THROUGH CSR REPORTS

This Chapter will provide a brief view about the disclosure of CSR information, and it will focus on why and how companies issue Standalone CSR Report. A focus on CSR disclosure by banks will follow.

In addition to conduct activities congruent with social values, companies are also supposed to communicate that their operations are in line with such values. According to Deegan *et al.* (2002), corporation disclosure practices represent an important way through which management can influence the external perceptions about the organizations.

There are many ways through which an organization can disclose information about CSR initiatives and strategies and issuing a Standalone CSR Report is just one way. Some dedicate to CSR a section in the Annual Report, and other CSR communication means are the corporate websites, stakeholders meetings, articles in magazines or newsletters, labeling (for product-related communication), advertisements, participation in public events, forums, letters, podcasts, and blogs.

In particular, nowadays internet has become a significant tool through which companies, banks included, disclose piece of information; therefore some recent studies have been evaluating companies' websites or use of the social as Facebook and Twitter as social responsibility disclosure media (e.g. Branco e Rodrigues, 2006; Laidroo, 2015; García, 2016). The relevance of the contributions of the Internet and its related instruments (e.g. corporate website, social network, NGOs websites) in the information communication to stakeholders is linked to the option of broadcasting more information less expensively and in a timelier fashion. One of the more attractive qualities of the Internet is that it permits companies to provide information aimed to reach different stakeholders and to acquire their feedback. Therefore, corporates' websites perform an important role in communicating companies' CSR procedures.

This analysis (see Chapter 4 and 5) will use the CSR information disclosure, through Standalone CSR Reports or CSR section of the Annual Report, as a proxy of CSR commitment, to test whether banks with a CSR commitment in 2006 performed better than banks without during the first years of the 2008 financial crisis. In this sense, the presence of

Standalone CSR Report will be used as an indicator of CSR commitment. For this reason, the following paragraph is entirely dedicated to sustainability disclosure through standalone reports: its motives and guidelines. It will also provide support to the choice of use the issuance of a Standalone CSR Report as a measure of CSR commitment.

In fact, standalone reports are significant because they provide a clear and explicit representation of the corporation engagement with the issues of businesses sustainability and social and environmental responsibility. According to Mahoney *et al.* (2012), Standalone CSR Reports appear to signal a superior firms' commitment to social and environmental issues. The following Chapter will provide support to this sentence.

2.1. Standalone CSR Reports: why, what, and how

CSR reporting (or sustainability reporting, non-financial reporting, triple bottom line reporting) consists of “public reports issued by companies to provide stakeholders with a picture of the corporate position and activities on environmental, economic, and social dimensions. These reports attempt to describe the company’s contribution toward sustainable development” (World Business Council for Sustainable Development 2002).

Unfortunately, nowadays a compulsory framework for CSR reporting is still missing, but some dedicated bodies have developed some guidelines. A problem is also the absence of a common terminology and understanding in the CSR area that makes it difficult for organizations to develop reliable strategies in CSR information disclosure regarding information categories to communicate, media, rhetorical strategies, etc. (Nielsen and Thomsen, 2007).

CSR reporting has progressed from information on the social policies and corporate environmental contained in Annual Reports to standalone reports that include economic/financial, social, and environmental information (Milne and Gray, 2007). The emission of these sustainability reports has nowadays become almost a benchmark amongst the world’s hugest corporations.

Even though CSR reporting is principally a voluntary activity, it has become a common practice among large companies. (KPMG International 2013). The last KPMG Survey of Corporate Sustainability Reporting (2015) indicates that the current rate of standalone reporting among the Global Fortune 250 (G250) companies is 92%. (Over the last four years, the rate has been fluctuating between 90 and 95%, primarily caused by a changing in the composition of the G250 list).

2.1.1. Why does an organization choose to disclosure sustainability reports?

Empirical research investigating the reasons why organizations issue Standalone CSR Reports have produced mixed results (e.g. McWilliams and Siegel, 2000; Adams, 2002; Matten *et al.*, 2003; Ballou *et al.*, 2006). These research have adopted different theoretical perspectives for investigating and explaining the reasons for CSR reporting, such the adoption of stakeholder theory and the most cited legitimacy theory and signaling theory. (All the three approaches can be seen as the motive to disclose CSR information through any instrument).

Stakeholder theory suggests that companies should balance a variety of stakeholders' interests that can influence or be influenced by the firm's actions and CSR disclosure is part of the discussion between the organization and its stakeholders (Adams, 2002). According to the stakeholder theory, the expectations of stakeholders with stronger influence in the corporation are more likely to be fulfilled and affect the disclosure practices of the company (Gray *et al.*, 1996). In the literature, there is evidence that government regulators and financial stakeholders can be most effective in asking for Standalone CSR Reports (Neu *et al.*, 1998).

Legitimacy theory is one of the most used theoretical approaches to explain social and environmental disclosures (see for example Lindblom, 1994; Cho and Patten, 2007). Based on legitimacy theory, companies facing greater exposure to the public and companies with poorer social performance are expected to disclose more off-setting or positive CSR information, to protect against loss in legitimation. In other words, according to many (e.g. Lindblom, 1994; Milne and Patten, 2002), the amount of social and environmental disclosure is a function of the exhibition of the organization to the public pressure in the political/social situation.

In particular, according to this theory, similarly to stakeholder theory, firms issue Standalone CSR Reports to lower their external costs, reduce pressures by regulators or external stakeholders and maintain or restore healthy relationships with the relevant public (Adams, 2002). It is straightforward that a company has interest in showing itself as a good one, even when it is not, informing that it is consuming part of the resources to benefit also the community, and not only its shareholders. Academics suggest that organizations use Standalone CSR Reports trying to influence (and even manipulate) stakeholder perceptions (Deegan, 2002). For this reason, the so-called greenwashing policies fit into legitimacy theory (Clarkson *et al.*, 2011). Greenwashing is the practice of issue misleading or false information on environmental and social issues. Greenwashing is possible when the stakeholders are not able to distinguish between organizations that are actually good and those that are only apparently friends of the society and the environment (Greer and Bruno, 1996). In the

legitimacy view, the manipulation of organization image is seen easier than the modification of the company's sustainability performance level. This means that voluntary CSR disclosures in general, may not be corresponding the actual social performance of the company (Cho, Patten and Roberts, 2010).

Studies embracing a signaling approach suggest, instead, that organizations issue CSR reports with the aim to specify their social and environmental values and to make sure that stakeholders are conscious of the suitability of the companies' behavior (e.g. Clarkson *et al.*, 2011). Signaling theory moves from the assumption that in the case of missing information or information asymmetry, stakeholders will assume the worst (Milgrom, 1981). Consequently, organizations that have a commitment to CSR will take advantage from the issuing of Standalone CSR Reports, through mitigating the information asymmetry. Therefore, companies with a higher CSR performance level will disclose their outcomes more often than those with lower level, who instead are inclined to hide or only partially disclose their outcomes; this positively links CSR performance and the corporation's predisposition to disclose social and environmental results (Clarkson *et al.*, 2011).

In other words, the signaling theory suggests that companies issue Standalone CSR Reports when their "good news" more than offsets their "bad news", which include the costs of litigation, environmental cleanup, and other compliance costs (Li *et al.*, 1997) Instead, when "bad news" outweighs "good news", companies tend not to signal. Thus, companies issuing Standalone CSR Reports are more likely to have higher CSR commitment and performance than companies that do not issue Standalone CSR Reports (Lizzeri, 1999).

Previous research about the CSR disclosure, through Standalone CSR Report, level finds a positive relationship between disclosure level and CSR commitment and performance (e.g. Gelb and Strawser, 2001; Toms, 2002; Mahoney, 2012)

Mahoney's (2012) research examines whether Canadian firms issuing Standalone CSR Reports are really more socially responsible, or if, instead, they are simply trying to persuade stakeholders that they are. The sample is obtained from the CSID database, the Canadian Social Investment Database (CSID) which provides social, environmental, and governance performance information of 300 Canadian companies, summarizing them into a CSR score. A company, to be considered in the sample, needs available CSR scores for each year from 2003 to 2008, ending up in a sample of 120 Canadian companies. A t-test is used to verify the hypothesis that the CSR score of the companies issuing a Standalone CSR Reports is higher than the one of the companies that do not issue such reports. The results support this hypothesis. Additionally, is found that companies, which issued a Standalone CSR Reports in

any of the considerate years, have higher CSR score than companies that have never issued Standalone CSR Reports.

These results support the idea that companies who issue Standalone CSR Reports, do so to signal their higher commitment to social responsibility.

The signaling theory is the underlying assumption of the scoring method adopted in Chapter 4 and 5 of this analysis, for this reason, the presence of a Standalone CSR Report will be used to score the CSR commitment of the banks of the sample.

2.1.2. How should an organization disclosure Standalone CSR Reports and what should they contain?

As said above, there is no binding framework to adopt in CSR disclosure, but only guidelines. A variety of auditing procedures and certificates about social and environmental performance, beyond financial accounting, has emerged. The major providers of sustainability reporting guidance are:

- GRI (GRI's Sustainability Reporting Standards);
- the Organization for Economic Co-operation and Development (OECD Guidelines for Multinational Enterprises);
- the United Nations Global Compact (the Communication on Progress);
- the International Organization for Standardization (ISO 26000, International Standard for social responsibility).

Here are reported the main features of the GRI standards and ISO 26000.

Global Reporting Initiative (GRI) Sustainability Reporting Standards

The Global Reporting Initiative is an international autonomous body that helps governments, businesses, and other organizations to comprehend and communicate the effect of their activities on critical sustainability issues such as human rights, corruption, climate change and many others.

According to GRI, a CSR report is a report issued by companies and organizations that helps them to measure, understand and communicate their environmental, social and economic impacts caused by them everyday activities.

CSR reports also include organizations' governance model and values and exhibit the link between their commitment to a sustainable global economy and their strategy. A sustainability report is a crucial platform for communicating CSR commitment, performance and effects, whether positive or negative. CSR reporting enables companies to consider their powers over a wide range of sustainability problems, enabling them to be further clear about the opportunities and risks they face. GRI recognizes that the importance of the sustainability reporting practices is that they permit organizations to consider their influences on sustainability problems and allow them to be transparent about the opportunities and risks they challenge. This more transparency heads to develop a better decision-making process that helps keep and build trust in governments and businesses.

GRI gave birth to the first global accepted standards for sustainability reporting: the GRI Sustainability Reporting Standards. They started to be recognized on the late 1990s, moving from being a niche practice to be, today, accepted by a growing number of companies. Thousands of companies, public authorities and non-profit organizations among all sectors have made public reports that mention GRI's Sustainability Reporting Guidelines. According to GRI, a well-organized sustainability reporting rotation, which includes a regular data collection and communication program, should benefit all reporting business, both externally and internally.

External benefits of sustainability reporting can contain:

- mitigating of governance, social and negative environmental impacts;
- increasing reputation and corporate loyalty;
- allowing external stakeholders to comprehend the organization's actual value;
- exhibiting how the organization impacts and is impacted by, forecasts of sustainable development.

Internal benefits for companies and organizations can contain:

- improved understanding of opportunities and risks;
- stressing the connection between non-financial and financial performance;
- avoiding being implicated in publicized environmental, social and governance failures;
- influencing long-term management policy, business plans, and strategy;
- reducing costs, improving efficiency and streamlining processes;
- benchmarking sustainability performance on codes, performance standards, voluntary initiatives, norms, and laws;
- evaluating performance internally and among sectors and organizations.

The GRI Standard "101 – Foundation" states that the Reporting Principles are essential to achieving excellent quality sustainability reporting. It specifies the minimum content that should be present in a sustainability report, listing the three different types of disclosures:

- strategy and profile information to set the overall context useful to understand the organization performance;
- management approach to explaining how the organization addresses a given set of issues;
- performance indicators to enable the comparison with other organization about environmental, social and economic performance.

There are two groups of Reporting Principles: principles for defining report content and principles for defining report quality.

Principles for defining report content:

- stakeholder inclusiveness: the organization shall detect its stakeholders, and clarify how it has answered to their reasonable interests and expectations;
- sustainability context: the report intends to display the organization's performance in the broader context of sustainability;
- materiality: the report means to cover topics which reproduce the organization's environmental, social and economic impacts; or the substantively influence on the decisions and assessments of stakeholders;
- completeness: the report ought to include coverage of their Boundaries and material topics, sufficient to reflect substantial environmental, economic, and social impacts.

Principles for defining report quality:

- accuracy: The reported information need to be sufficiently detailed and precise;
- balance: the reported information shall indicate negative and positive aspects of the organization's performance to qualify a reasoned assessment of global performance;
- clarity: the reporting organization shall generate information available in a manner which is accessible and understandable to stakeholders use such information;
- comparability: The reported information should be shown in a manner which enables stakeholders to evaluate changes in the organization's performance throughout time, and which could support analysis about other organizations;
- reliability: the reporting organization shall collect, record, assemble, analyze, and inform processes and information handled in the organization of the report;
- timeliness: the reporting organization shall report on a standard schedule.

ISO 26000

According to the ISO 26000, in sustainable reporting, an organization should provide a complete and fair picture of its achievement in social responsibility, including accomplishment and the ways in which the deficits will be addressed. In drawing up social responsibility reports, an organization should consider:

- the scale and scope of an organization's report should be proper of the magnitude and characteristics of the organization;
- the level of detail may reproduce the extent of the organization's experience in such reporting. Sometimes, organizations introduce their efforts with limited reports

involving only a few aspects, and in following years, raise coverage as they increase experience and have satisfactory data on which to base a larger report;

- the report should illustrate how the organization determined upon the issues to be covered and the technique those concerns would be addressed;
- the report should exhibit the organization's operational performance, goals, products, and services in the perspective of sustainable development; and
- a report can be made in a diversity of forms, depending on the nature of the organization and the requests of its stakeholders (hard copies, electronic posting of a report or web-based interactive version, stand-alone document or an organization's Annual Report).

The following paragraph will focus on the banking industry. First, it will provide a review of permanent literature about CSR disclosure by banks; second will report some guidelines that banks have to follow in structuring Standalone CSR Report.

2.2. CSR disclosure by banks

Banks, most commonly, disclose information on what they are doing in helping their customers to take informed decisions through a transparent communication of information about financial products and services, how they guarantee that their lending and investment policies do not facilitate industrial events harmful for the environment, and most of all they disclose information about their community involvement. (Viganò and Nicolai, 2009).

If the literature about CSR in the banking industry is scant, especially in comparison to the one dedicated to non-financial industries, the number of studies about banks' CSR disclosure is even less. The cause of this lack can be the perception that banks have a limited role in socially harmful events, as energy shortages, environmental pollution or occupational accidents (Kiliç *et al.*, 2016).

Research interests concentrated initially (around 1990) on the “direct risks” banks were running, that is the risks of banks being held liable for polluting activities. The “indirect risks” were taken up and investigated only in the later years (around 2000), which refers to the reputation and responsibility of banks related to their lending activities (Jeucken 2004).

This lack could also be a consequence of the fact that the banking industry has begun to concern about sustainability issue slowly and late, but the trend is increasing as demonstrated by Scholtens (2009) and Laidroo (2015).

As previously mentioned (see paragraph “CSR reporting: why, what, and how”), also banks use different media to communicate about their CSR initiatives. Nowadays, the Internet is a useful tool for CSR communication. In fact, some studies focus on the banks' sustainability disclosure through their websites (e.g Branco and Rodrigues, 2006; Vilar and Simão, 2015; Kiliç, 2016;).

For example, Vilar and Simão (2015) examined the websites of 110 major banks from distinctive regions of the world to establish their corporate social responsibility disclosure level. Information is collected from their websites visited during the first quarter of 2012, and a content analysis is performed, using a disclosure index that varies from 0 (no information) to 5 (very detailed information). The banks of the sample show to disclose most on environmental management and socio-economic programs. This is not surprising: environmental impacts have been getting attention from every activity sectors, and economic problems with impact on the community are strictly linked with the bank's activity and may be seen as an attempt to associate the CSR policies with the bank's strategy. Other frequent themes are the support to workers' welfare, education, corporate ethics, fight against corruption and the presence of codes of conduct.

Branco and Rodrigues (2006) analyze the website of 15 Portuguese banks to discover whether they use their websites to divulge social responsibility information.

The analysis of the website was performed in 2004 and was then compared with the banks' disclosure in the Annual Reports in 2003.

Four classes of CSR information are examined: environmental, community relation, employee-related, and products and consumers issues. The findings indicate that the choice whether to disclose through the website or the Annual Report depends on the target the bank wants to reach. Human resources and environmental information are more present in Annual Reports, which is in fact directed at investors and human resources; on the opposite side, as websites are intended for a wider public, including customers, it is straightforward that banks will give more importance to products, customers, and community involvement information. The results of Branco and Rodrigues (2006), concord with the legitimacy theory, giving evidence that also better known Portuguese banks seem to show more concern for improving corporate image through CSR information disclosure.

The following two studies reviewed are more close to the argument of interest of this study. In fact, Scholtens (2009) and Laidroo (2015) analyzed the CSR information disclosure practices of banks through Standalone CSR Report.

The former aims to arrive at a framework to test banks' social responsibility able to transparently compare banks' conduct among several countries and to rank individual bank social performance. Scholtens' sample is composed of 32 banks (three for 15 countries) that in 2005 reported total assets of at least € 100 billion, similar to those chosen by Jeucken (2001) to allow time comparison. Social and environmental information are assessed through a content analysis of publicly available information as reports and bank's websites and getting information from NGOs and international organizations. The commitment is then measured on the adoption of international and ethics codes, reporting practices, external relations with the community, social conduct, availability of sustainable financial products, ending up in 29 indicators. The comparison of the CSR reporting in 2000 (from Jeucken, 2001) with the one in 2005, lead to several conclusions all in line with the idea that CSR is an increasingly central theme in the international banking industry. The research finds out that all the sample banks reported about their CSR in 2005, while only about one-third in 2000 and all banks had an explicit environmental policy in 2005, while less than 50% in 2000. In 2005 also increased the number of banks performing some environmental risk analysis: 40% of the banks of the sample were excluding firms from particular economic sectors (like alcohol, tobacco, gambling, pornography) from their lending programs. More, in 2005 the type and number of

responsible financial products had increased considerably from 2000: almost all banks were offering more and greener socially responsible financial products (75% offered socially responsible investing and 78% offered environmental loans). The transparency in sustainability and responsibility policies has increased too.

Following the methodology used by Scholtens (2009), Laidroo (2015) aims to determine the CSR disclosure level at the end of 2013 of 35 international banks to compare it with the 2005 level. The analysis is based on legitimacy theory (Suchman, 1995) and results show that CSR information disclosure by international banks in 2013 has improved compared to 2005 (in 2013 many of them have CSR disclosure levels very close to a maximum of 100 percent); this because banks had recognized the existence of a legitimacy gap and had taken actions to address it. But from another point of view, it appeared that a bit of the improvement in CSR disclosure might have been caused by stakeholder management attempts, not automatically reflecting an improved CSR awareness (Laidroo, 2015). Another interesting result of this study is that those international banks that embraced CSR practices sooner than others had higher CSR disclosure level in 2013.

Talking more about CSR disclosure practices by banks, Gambetta *et al.* (2016), try to link them with the banks' activities. The authors seek to verify the hypothesis that the banks' risk profile influences their propensity to issue a Standalone CSR Report (H1), in the first stage, and their tendency of including high-quality CSR-financial services sector specific information (H2), in the second. The sample of the research is EU-wide of financial institutions with public information for the period between 2011 and 2013 (212 observations). The first hypothesis is tested using a dummy variable which has value "1" if the bank issued a CSR report and 0 if it didn't. To verify the second hypothesis, the authors develop a Financial Service Sector disclosures Index (FSSI) through conducting a content analysis of the CSR report and the banks' websites. The results present that financial institutes with higher capital ratio, significant quantities of loans granted (which means a lot of clients), higher profitability in the banking business, and higher degree of interest bearing liabilities tend to publish a CSR report. Among the financial institutions issuing a CSR, those with lower profitability in the banking business tend to disclose higher quality CSR information related to the financial services sector, while those that do not submit their Standalone CSR Report to external assurance disclose lower quality CSR-financial sector specific information.

Another finding is that financial institutions with larger quantities of depositors and creditors are inclined to publish a CSR report. This means that financial institutions with higher

visibility are more expected to face higher demands from stakeholders to be socially responsible (see legitimacy theory).

Bank CSR reporting guidelines

Recent researches have presented that the disclosure of CSR in the banking industry has improved by time (Scholtens, 2009). This fact was caused partially by the initiatives of some organizations, for example, the United Nations and the Global Reporting Initiative, that have been proposing specific reporting standards for the banking industry.

The Financial Initiative of the United Nations Environmental Program (UNEP-FI) intends to help organizations recognize the impact of environmental and social matters in the performance of the corporation. UNEP-FI recommend in particular that financial institutions disclose a statement of their sustainability policy and occasionally report on the actions they have been taking to endorse the integration of social and environmental considerations in their operations.

In March 2010 GRI launched the “Financial Services Sector Supplement” (FSSS), a guidance that offers a tailored version of GRI’s Sustainability Reporting Guidelines.

The users are commercial, corporate and retail banks, insurance and asset management. The major considerations relevant for the sector are about investment and risk assessment, taking into account social and environmental issues.

The FSSS covers sector-specific issues, including:

- product portfolio;
- community investment strategies and programs;
- audit to assess the implementation of social and environmental policies;
- performance related to inputs (as energy, material, and water) and outputs (as waste, emissions, and effluents);
- practices and policies on accessibility to financial services;
- fair design and sale of financial products.

An example of the sector-specific issue contained in the supplement is the description of “community investment”. The supplement states that in some regions (such as North America), the name “community investment” refers to guarantee that a quota of the deposits collected from a community are provided back to the members of that same community in the form of loans or other financial services.

Another example: the principle 22 of the “Environmental Performance Indicators” section state that, in the sustainability report, it has to be indicated the total weight of waste by disposal method and type, specifying that financial service companies have to indicate the primary types of waste streams being paper or IT waste. More, the principle number 01 of the “Society Performance Indicators” section state that, in the sustainability report, it has to be indicated the effectiveness and scope of any practices and programs that impact on the communities, including the fact of entering, functioning and existing. The specification for the financial service institutions is that they have to indicate how they access economically disadvantaged or low-populated areas and which are the initiatives to increase the access to financial services of disadvantaged individuals.

Chapter 2 has proposed three theories that aim to justify the issuance of Standalone CSR Report: stakeholders, legitimacy and signaling theory. Recapping, stakeholder theory suggests that the expectations of stakeholders with stronger influence in the corporation are likely to affect the disclosure practices of the company. According to legitimacy theory companies facing greater exposure to the public are expected to disclose more CSR information trying to influence stakeholder perceptions, no matter whether these piece of information are correct or part of a “greenwashing” strategy. Signaling theory, instead, suggest that organizations with higher CSR performance levels will disclosure their outcomes more often than those with lower levels, who instead are inclined to hide or only partially disclose their outcomes.

This analysis takes signaling theory as a basic assumption, and Chapter 3 will provide a literature review of studies about the link between companies’ CSR disclosure practices and their financial performance; this link will be tested empirically in Chapter 5.

CHAPTER 3: CSR DISCLOSURE AND FINANCIAL PERFORMANCE

The aim of this analysis is to create a base, without being exhaustive, to analyze whether CSR commitment (CSRC), as proxied by CSR disclosure (CSR D) practices, of U.S. banks in 2006 had an impact on bank's financial performance (FP) during the financial crisis.

Unfortunately, just a few researchers have tried to explore the relationships between CSRC and financial performance (e.g. Reddy, 2010; Nollet, 2015, Carnevale, 2012, 2014).

Most of the studies concentrate their attention on the impact on financial performance of CSR performance, which is different from CSR commitment. Some of them found a positive relationship (e.g. Preston and O'Bannon 1997; Byus *et al.*, 2010; Carroll and Shabana; 2010), some a negative one (e.g. Karnani; 2011) whilst other did not find any relationship (see e.g. Waldock and Graves, 1997; Sanaa, 2011; Nollet *et al.*, 2015). Therefore, it is difficult to hypothesize the direction of the relation (if it exist) between CSR and financial performance.

Previous research involving CSR D focuses on:

- the motivations leading a company to communicate CSR information (see Chapter 2):
- what companies are reporting, thus which kind of social information a company disclose (e.g. Deegan, 2002; Solomon, 2006; Holder-Webb, 2009);
- how stakeholders react to environmental disclosures (e.g. Richardson *et al.*, 1999; Freedman and Patten, 2004; Prado-Lorenzo *et al.*, 2009)
- the relationship (if any) between CSR disclosures and business characteristics (e.g. Ullmann, 1985; Garcia-Sánchez, 2008; Mahoney and Roberts, 2007).

Nevertheless, despite these numerous studies on this topic, the significance of CSR disclosures has not been sufficiently investigated (Carnevale *et al.*, 2012).

Moreover, most of the works about CSR D make no industry distinction in choosing firms included in the sample, or even worst (for the purpose of this paper) companies belonging to the financial sector are eliminated during the sample selection process due to their particular accounting systems and financial structure (e.g. Reverte, 2016).

For this reason, attempts to hypothesise how CSR disclosure, thus CSR commitment, may impact on bank's financial performance rely only on few precedent studies attributable to C. Carnevale.

A useful framework to keep in mind when analyzing the sign of the relationship mentioned above is the one proposed by Ullmann (1985). He argues that when financial performance is measured by market returns, the preliminary question is whether the market reacts to CSR disclosure information, thus whether CSR information facilitates investment decisions. Clearly, firms that voluntarily disclose CSR information believe in the importance of this information. Thus, they deem that disclosure benefits outweigh the costs of collecting and disseminating this information. In his work Ullmann (1985) moves from the assumption that CSR disclosure reduces investors' informational uncertainty, and aims to verify whether a higher level of CSR disclosure is positively or negatively related to financial performance. To do so, Ullmann (1985) divides investors and customers into two groups: “Friedman-style” investors and “ethical” investors. Friedman-style investors (recall Chapter 1 for Neoliberal theory) allocate a negative premium to companies involved in CSR because they consider socially and environmentally respectful practices as being wasteful activities. Therefore, CSR disclosures may lower the company's stock price. Differently, “ethical” investors are willing to pay a premium for shares of socially responsive companies, making the price increase.

Restating the assumption that CSR disclosure is a good proxy for CSR commitment, this Chapter proposes a literature review of previous research that is closer to the purpose of testing whether CSR commitment, through CSR information disclosure practices, of U.S. banks influenced their financial performance from 2007 to 2008.

3.1. Literature review CSR disclosure and financial performance

Carnevale, Mazzucca, and Venturini (2012) conduct an empirical analysis focusing on the banking industry. Their research aims at comprehending whether investors assign a relevant value to the information contained in CSR Reports, thus whether they attribute a significant value to CSR reporting.

The authors' goal is to verify the presence of a direct relationship between a Standalone CSR Report and the stock price. This analysis is run observing a sample of 130 European-listed banks, during the period between 2002 and the second quarter of 2008 (to cut off the financial crisis effect). Moreover, the authors check whether CSR Reports indirectly influence stock prices, thus the capability of the document, through the information it discloses, to raise the significance of other accounting variables, e.g., book value per share and earnings per share, which traditionally influence the stock price.

The underlying assumption supporting the idea that CSR Reports influence firm's stock price, directly and indirectly, is that investors consider this document as increasing the disclosure level, therefore as complementary and further information source that helps to reduce information asymmetries (Cardamone *et al.*, 2012).

CSR disclosure is tested consulting the sample banks' websites and looking for Standalone CSR Reports. During the analyzed period, 73 banks (56%) publish at least one Standalone CSR Report. Among these banks, 25% were publishing Standalone CSR Report starting from 2002. The reporting frameworks most commonly adopted are those suggested by GRI, ABI and EBF.

To assess the effect of CSR Reports on stock prices, a series of regression models are estimated. The presence of these documents is measured including a dummy variable where 1 is assigned to banks issuing a CSR Report and 0 to those not publishing it.

The results show a complex reality. The relationship between CSR Reports disclosure and the stock price is statistically not significant. Thus it is demonstrated that the market does not assign a value to Standalone CSR Report disclosure.

The authors identify three possible reasons explaining this result. First, it can be argued that the non-significant relation can be because investors are not able to interpret the information contained in a Standalone CSR Report. Second, investors may understand CSR information, but they may think they are not relevant. Third, investors may not be interested at all in sustainability issues.

About the indirect effect of CSR report disclosure, again, the estimates of banks issuing a CSR Report are not significant compared to banks not issuing the document. This means that the content of the CSR Report is not able to elucidate the influence on profit and equity of latent future benefits and risks

The results change when moving to a cross-country analysis. In some countries (as Italy, Germany, Spain, and Ireland) CSR Reports publication have a positive and significant effect on the stock price. In other countries (such as France, Austria, and Portugal) this effect is significant but negative, while it is neutral in other countries. Therefore, the joint effect of specific countries leads towards the elimination of the significance of each relationship.

Carnevale and Mazzucca (2014) performed a similar analysis on a sample of 176 European listed banks. Analogously, the authors aim at testing the direct and indirect effects of disclosing a Standalone CSR Report on the stock price.

This paper differs from the previous work in the period analyzed: here it goes from 2002 to the second quarter of 2011, in order to account for the financial crisis effect. Again, data on CSR disclosure are collected investigating the websites of the sample banks to search for Standalone CSR Report.

After a series of regression models, results show that CSR disclosure has a positive effect on stock prices. This supports the assumption that investors value the complementary and additional information provided by sustainability reports, probably because it enables them to make more conscious decisions (in accordance with Greeves and Ladipo, 2004 and Schadewitz and Niskala, 2010). This result is in line with previous works (e.g. Skinner, 2008) stating that the explanatory power of the Annual Report is declining because in itself it is not enough to explain all the variables of the firm's market value.

Estimations of the indirect effects of the CSR Report on the stock price, prove, instead, that sustainability disclosure has a significant negative causal effect on book value per share, while the effect on earnings per share is not significant. The impact of the CSR disclosure on the book value per share can be clarified by the diverse natures of the data contained in the CSR Report regarding the evolution of capital risks. Contrarily, CSR disclosure does not affect the value of earning per share, because these are more concerned with annual/short-term results.

Carnevale and Mazzucca (2014) also analyzed an aspect that must be cited for the purpose of this analysis. They state that CSR disclosure has a central importance when considering the effects of the 2008 financial crisis. Results suggest that the loss of credibility and trust regarding documents released by banks have only slightly affected CSR reporting practices. Investors seem to recognize this voluntary disclosure as being worthy even in times of crisis,

and they deem CSR Reports as being more reliable compared to Annual Reports. Carnevale and Mazzucca's (2014) study confirm the legitimacy of European banks' management bodies which decided to increase CSR Report disclosure.

Markets' positive answer, also during the financial crisis, should stimulate banks that still do not disclose CSR Reports to begin this voluntary activity. According to the institutional theory (see Chapter 1), overtime, the situation should consolidate and improve. Thus, an increasing number of banks will issue Standalone CSR reports.

Cardamone, Carnevale, and Giunta (2012) apply the same model to a sample of 178 Italian companies listed on the Milan Stock Exchange, for the period between 2002-2008. As in previous works, their aim is to test whether the disclosure of a CSR Report influences, directly and indirectly, the stock price. The difference lies in the way CSR information is collected: here information is gathered from a survey conducted by means of telephone interviews or questionnaires, finding that 32 companies issued a CSR Report during the period in question.

Here, the results show a significant negative causal effect of CSR Report disclosure on the stock price.

Following Carnevale and Mazzucca (2014), also Reverte (2016) repeats the same analysis on a sample of listed Spanish companies for the period between 2007-2011. Recapping, he wants to test the value relevance of CSR disclosure by analyzing its direct impact on stock prices, and its indirect effect, on two main accounting variables (i.e., earnings per share and book value of equity).

CSR disclosure data are gathered from the Reports issued by the Observatory on Corporate Social Responsibility (OCSR)¹⁰. (Unfortunately), financial firms (banks and insurance companies) are excluded from the sample because of their particular accounting system. The author uses a modified Ohlson model (1995)¹¹, finding that CSR disclosures are relevant: companies with more CSR disclosures have higher stock prices. This shows that CSR Reports disclosure brings benefits to the companies because it can lead to a reduced risk of adverse

¹⁰ The Observatory on Corporate Social Responsibility (OCSR) provides a CSR disclosure rating for firms, listed on the Madrid Stock Exchange, included in the IBEX35 (the 35 largest firms according to their market capitalization). The OCSR performs a content analysis of Annual Reports, CSR Reports and Corporate Governance Reports, to assign a numerical rating (from 0 to 4) based on the quantity of information disclosed regarding guidelines or principles, as for examples GRI's Guidelines, AA1000 Accountability Principles (issued by the Institute of Social and Ethical AccountAbility), the UN Norms on the responsibilities of transnational corporations.

¹¹ The Ohlson model (1995) uses accounts variables in the firm's evaluation function. Firm value is proxied by market capitalization explained by net assets, operating income, size, and industry and firm fixed effects.

selection for investors, therefore a higher estimation of firms' shares by the market (Healy and Palepu 2001). Furthermore, results show, that CSR Reports have a positive and significant indirect effect on stock prices. In fact, evidence indicates that these documents lower economic uncertainty, yield more predictable earnings per share and book value of equity, and decrease the risk for investors. In other words, the release of CSR information influences the market's ability to anticipate future changes in earnings (Hussainey and Salama 2010).

Murray *et al.* (2006), studies whether CSR disclosure and financial performance are in some way related, by searching for a relation between CSR disclosure of large UK companies and both their environmental and social initiatives and their share price return.

The firms in the sample include 100 UK companies that have remained at least three over nine years (1988 - 1997) in the "top 100" of the Times 1,000 data set.

The CSEAR¹² Social Disclosure database provide the CSR disclosure information needed for the analysis. Murray *et al.* retrieve three indicators of CSR disclosure from this database: "CSRTOT" that is the CSR total disclosure (voluntary and mandated) and two of its components, which are "VOLTOT" (total voluntary disclosure) and "ENVTOT" (total environmental disclosure). The sample is composed of 660 (CSRTOT, VOLTOT, and ENVTOT) instances of disclosures (660 because some companies were not in the "top 100" for all the nine years).

Conclusions derive from examining both cross-sectional and longitudinal data over a period of nine years. Five statistical tests are conducted controlling for company size and industry sector. In the end, no direct relationship is found between "CSRTOT", "VOLTOT" and "ENVTOT" disclosure and share price returns. In particular, the relationships varied and were both positive and negative during the period, but none of these relationships were significant.

The literature reviewed so far attempts to find a connection between CSR disclosure and stock price. Differently, Gutsche *et al.* (2016) propose, an analysis of the effects of CSR performance and CSR disclosure on firm value. The authors analyze the companies composing the S&P 500 Index as of January 2014, and they investigate these firms from 2011 to 2014.

¹² The Centre for Social and Environmental Accounting Research (CSEAR) Social Disclosure database composed by a series of spreadsheets recording the volumes of environmental and social disclosure by UK companies in their Annual Reports. This database have been active from 1979 to 1999. The data were collected through a detailed content analysis of the Annual Report. The disclosure database gave information about the number of pages dedicated to CSR issue, the type of disclosure, the auditability, whether it was good/bad/neutral news. Murray *et al.* used ad CSR disclosure indicator the number of pages allotted to environmental and social issues.

CSR disclosure is ranked using the Bloomberg's ESG Disclosure Score¹³, which counts the CSR disclosure quantity (not quality) and goes from 0, for null disclosure, to 100. This score includes a sector adjustment, ensuring that companies are evaluated only on issues relevant to their particular industry. CSR performance is measured using data from the ASSET4 ESG by Thomson Reuters database, which scores CSR performance from 0 to 100. The database is assessed using Datastream and provides an overall CSR performance score in addition to a separate score for each one of its four dimensions: environmental, social, economic, and corporate governance performance.

The first hypothesis predicts that the overall CSR performance has an impact on firm value. The regression analysis results support this hypothesis, and predict that firm's value is positively associated with CSR disclosure.

For further investigations, the authors separate the disclosure effect on firm's value distinguishing between firms with high and low CSR performance score. It is verified that an upgrading in the CSR disclosure score of one index point for low CSR performing firms, increases their value by \$322 million, while an upgrading of the CSR disclosure score of one index point for high CSR performing companies increases their value by \$199 million. This means that the effect on firm's value of CSR disclosure is stronger for low-CSR performing firms.

The third hypothesis is that CSR disclosure has a larger effect on firm value than on CSR performance. The regression results confirm the hypothesis since the coefficients of the CSR disclosure effects are larger than the sum of the coefficients of the dimension of the CSR performance. Specifically, the average CSR disclosure effect brings \$260 million in firm value, while the total effect of CSR performance is below \$90 million. These two findings suggest that firms with low CSR performing can make grow their value by enhancing their CSR disclosure level.

The authors debate that if CSR disclosure level covers CSR performance, a question is raised on whether CSR information fairly represents CSR performance. Most CSR reports contain more than 200 pages, but present information that is only loosely connected to CSR performance, therefore they are not useful for either public or shareholders' questions. The authors' view is consistent with previous suggestions that managers may use CSR disclosure opportunistically to manage stakeholders' view of the company (e.g. Milne and Patten, 2002; O'Donovan, 2002; Deegan *et al.*, 2002).

¹³ It has to be noted that despite the advantage of the ESG Disclosure score, this dataset has not been widely used in the literature, given the fact that the score is available since 2009.

They conclude that “words speak louder than actions” (Cho, 2012) as CSR disclosure impact more on firm value than CSR performance.

Darmadi (2012) runs an empirical analysis of markets’ reaction when Indonesian listed companies disclose CSR information. The paper considers both aggregate and disaggregate disclosure measures over four dimensions: community involvement, products, environment, and employee relations.

Companies involved in the study are listed in the Indonesian Stock Exchange (IDX) and are from “high-profile industry” (classification is done considering whether the IDX regards the industries as high or low profile). Clearly, high profile industries have more public visibility, environmental sensitivity, and political exposure. Therefore the author includes only these kind of firms. Finance, trade and property sectors are three examples of low-profile industries excluded from the research. The author states that disclosing corporate reports that include information on CSR practices highlights companies’ awareness. Hence the first hypothesis states that the aggregate CSR disclosure significantly influences shareholder returns.

The CSR disclosure of each firm is determined using content analysis of information published in the Annual Reports. As suggested by Botosan (1997), the 2008 and 2009 Annual Reports are used to collect data on the degree of CSR disclosure. In fact, the author states that these Reports are the principal medium through which firms convey financial and non financial data. Then, the author builds a comprehensive checklist covering four dimensions: community involvement, employee relation, product, environment. In the end, the checklist includes 47 disclosure items derived from previous studies (for instance Saleh *et al.*, 2010; Haniffa and Cooke, 2005). Similar to these previous works, this approach assigns a score of 1 to disclosed items and 0 to non-disclosed ones. Moreover, all elements are equally weighted.

The formula is estimated constructing a regression for cumulative abnormal return and controlling for CSR disclosure index, leverage, firm size, and the market to book ratio. Results show that when using the aggregate measure, the market does not significantly respond to CSR disclosure. Therefore, these results confirm the previous studies’ hypothesis stating that, due to potential confounding effects, aggregate measures fail to explain the firm’s performance fluctuation surrounding the date of publication.

However, cumulative abnormal returns have a positive effect on environmental and community-related disclosure. Therefore, suggesting that investors consider these two dimensions as being advantageous and favorable. Differently, markets put less recognition in disclosing employee-related information, whereas product-related disclosure shows no significant effects on markets.

In order to understand why firms disclose voluntary CSR activities, Lyon (2007) explores the relationship between Corporate Social Responsibility disclosure and financial performance. The author uses Annual Reports from 125 companies listed on the New Zealand stock exchange which are divided into manufacturing and services industry. The first sector includes 44 companies whereas the latter comprises 76 firms. Data from 2004 are utilized to run a content analysis and assess a company's CSR score. Then, data from 2005 financial performance are retrieved from the firms' Annual Reports. The content analysis is performed looking for 77 keywords and other terms related to these words. Next, when the words occurs, they are recorded in a spreadsheet and counted (the CSR scores went from 1 to 738 CSR keywords). Furthermore, in order to assess financial performance, the author measures ROE and ROA. The relationship between financial performance and CSR disclosure was examined using Spearman's rank order correlation test on all 120 firms of the two industries. The analysis found a not statistically significant positive relationship between both CSR and ROA, and CSR and ROE. Furthermore, considering only the service sector, the financial performance variables are still not related to CSR. The production industry, however, had a positive and statistically significant relationship between financial performance and CSR. These results confirm the initial hypothesis that companies operating in the production industry presented a higher correlation between financial performance and CSR variables. The financial performance of these firms would increase by reporting more CSR.

Nollet *et al.* (2015) examine the relationship between CSR disclosure and FP using both market-based (excess stock returns) and accounting-based (ROE and ROA) performance indicators. They use the Bloomberg's ESG Disclosure score to approximate CSR performance in a sample composed of all the firms listed in the S&P500 during the period between 2007 and 2011. The regression examines both linear and nonlinear relationships, and considers the ESG Disclosure Score as the key independent variable. The authors also include in the model firms' leverage ratio (as a risk proxy), Sales Revenue and Research & Development expenditure as control variables, and a dummy variable that assumes value "1" between 2007 and 2009 (financial crisis period) and zero otherwise.

The results do not show any significant relationship between CSR and stock returns. Instead, the linear regression model suggests that there is a significant negative causal effect of CSR on ROE and ROA.

However, the nonlinear model recalls Soana (2011), provide evidence of a "U-shaped" relation between social disclosure and accounting-based measures of financial performance. The "U" shape means that CSR disclosure can initially cause a large increase in company expenses, which is then overturned in the medium-long term. Before the down point of the U

is reached, additional CSR expenditures decrease economic and financial performance. Thus, CSR will pay off once a threshold amount of investments in CSR have been made.

Considering that CSR is a multidimensional concept, may happen that the effects of one dimension cancel out the effects on the other; thus it is helpful to have disaggregated data available. Therefore, the ESG disclosure score is disaggregated into its three components: environmental, social and governance.

The main advantage of this disaggregation is that it enables to understand which is the CSR component that drives the effect on FP.

In this case, only the governance disclosure score shows a significant U-shaped relationship with financial performance; while no significant relationships are found for social and environmental components. This means that the governance component is the primary mechanism through which CSR commitment is translated into better financial performance.

The managerial implications of the results suggest that for CSR to serve the shareholders' interests, a long-run plan and significant resources have to be dedicated to this direction (given the "U" shaped relationship). Moreover, as governance is the key driver affecting the relationship between CSR disclosure and financial performance, CSR investments should be addressed to this component. The authors explain that CSR activities dedicated to governance benefit the company by adding CSR initiatives into firm's value creation chain and by being a signaling tool to stakeholders regarding the firm's commitment to CSR.

Concluding, previous literature on the relationship between CSR disclosure and financial performance does not give a hypothesis to test in this paper about the relationship CSRC-FP.

The lack of theories explaining this relationship makes any proof of causal relationship unclear and inconclusive (Murray, *et al.*, 2006).

Researchers propose that the contradictory results emerged from the literature review can be explained by both methodological and theoretical reasons (i.e., corporations have different reasons for embracing CSR disclosure). The methodological reasons, states that the contradictory outcomes may be produced by means of various statistical methods (regressions, t-tests, event studies), different choice of dependent and independent variables, dissimilar samples, and time spans are plausible as well (Wu and Shen, 2013).

It has to be noted, that the analysis method ideated by Carnevale, Mazzucca, and Venturini (2012) was applied also by Cardamone, Carnevale, and Giunta (2012), Carnevale and Mazzucca (2014) and Reverte (2014), and produced disaccording results which were respectively not significant, significantly negative and significantly positive in the last two cases.

Griffin and Mahon (1997) identified various matters in the CSR literature that are to be addressed in future empirical surveys. First, a huge majority (78%) of the studies they revised used samples made of companies from multiple industries. The problem that emerges is that the unique characteristics of any industry cause a unique nature of CSR disclosure, according to different external demands and internal characteristics.

In the end, the solution proposed by Barnett's (2007) literature review seems to be the most valid: the effect of CSR disclosure (and performance) differs from one firm to the other and from one industry to the other, thus reflecting inconclusive results from CSRD-FP relation researches. The author clarifies that such dissimilarity may be caused by specific factors implicit in each situation.

The next Chapter will illustrate the methodology employed to empirically test the presence of a significant CSRC-FP relationship between the 90 U.S. banks of the sample.

CHAPTER 4: RESEARCH METHODOLOGY

This research focuses on the investigation of the relationship between banks' CSR commitment and banks' financial performance during the 2008 credit crisis. In particular, it aims to assess whether U.S. banks' performance, in that period, relate to their commitment to CSR in 2006. The commitment to CSR is proxied by the issuance of a Standalone CSR Report or a CSR section in the Annual Report.

The research method employed by Fahlenbrach and Stulz (2011) in their work "Bank CEO incentives and the credit crisis"¹⁴ has been used as a reference in the sample and variables selection and the statistic tools used.

This chapter will show how the sample was created and which social and financial performance indicators will be used to investigate the CSRC-FP relation.

Sample selection

The starting point for the selection of the banks that will compose the sample is the Eikon by Thomson Reuters Database¹⁵ that is made available by the University of Padova.

Eikon provides a tool called "Screener" that can be used to select a particular group of firms. At the first screening, two filters are applied: the choice is between private or public companies, and it is chosen the country of the companies' headquarter. Between private and public companies, the public ones are selected, and as headquarter country, the U.S. is selected.

The second step is to select only banking institutions. For this purpose, it is applied the "Thomson Reuters Business Classification (TRBC)" to consider banks that provide similar services and that are subject to the same disclosure requirements and regulations. TRBC is a global and comprehensive industry classification system, which views each company at any

¹⁴ FAHLENBRACH AND STULZ, 2011. Bank CEO incentives and the credit crisis. *Journal of Financial Economics*, 99, 11-26

¹⁵ Eikon is a set of software products provided by Thomson Reuters that offers the access to real-time market data, fundamental analysis, financial estimates, news, and visual analysis through charting. It covers all the major financial markets and provides effective compliance and risk management, investment management and wealth management solutions. It is useful for financial professionals to analyze and monitor financial information.

of 5 levels: Economic sectors (10), Business Sectors (28), Industry Groups (54), Industries (136) and Activities (837).

For the purpose of this research are chosen: as Economic sector: the financial; as Business Sector: banking and investment services; as Industry Group: banking services; as Industry:

- banks (which includes the Activities: Banks (NEC¹⁶), Corporate Banks, Retail & Mortgage Banks, Money Center Banks, Private Banks, Islamic Banks¹⁷);
- consumer lending (which includes the Activities: Consumer Lending (NEC), Personal & Car Loans, Consumer Credit Cards Services, Consumer Leasing, Credit Unions, Microfinancing);
- corporate financial services (which includes the Activities: Corporate Financial Services (NEC), Commercial Loans, International Trade Financing, Factoring).

See Appendix A for more details about TRBC.

This screen ends up having 677 banks, which are ordered according to their market capitalization (provided by Eikon), as at the end of the fiscal year 2007.

This amount of 677 banks is further reduced by verifying the appropriateness of a bank to be part of the sample according to its Standard Industry Classification (SIC) code, following the method used by Fahlenbrach and Stulz (2011). The SIC code is used as reinforcement to the TRBC, in order to focus on banks that operate in the lending business. The SIC code is searched for the top 105 banks, which all belong to the TRBC industry “bank”. All the sample companies have a SIC code starting with the number “6”, which is the one used to identify the “Finance, Insurance, Real Estate” sectors. The two banks Synovus Financial Corp and BOK Financial Corp with SIC code 6282 (investment advice) are excluded as they are not in the lending business. Banks with SIC code 6211 (Security brokers and dealers) are checked manually because it also includes pure brokerage houses, but no companies of this type are found. The sample is at this point composed of 103 banks.

See Appendix B for the explanation of the SIC codes of the banks in the sample.

The CSR commitment scoring method used in this paper needs pre presence of Standalone CSR Reports or Annual Reports available for the fiscal year 2006 (see the paragraph “Measuring CSR commitment” for more details). Therefore, the sample is further refined by excluding banks, for whom no report is available. In this way, the sample ends up into 92 banks, but only the top 90 are considered in the sample.

¹⁶ NEC: Not elsewhere classified

¹⁷ Islamic Banks have been excluded, because social reporting by Islamic Banks is regulated by the *Sharia*, the Islamic law of human conduct.

Recapping: the final sample consists of the top 90 (by market capitalization as at the end of 2007) public banks with headquarter in the U.S., with a verified SIC code and with the available Annual Report or CSR Report for 2006. To increase transparency see Appendix C for the list of included and Appendix D for excluded banks from the analysis.

Selecting the sample in this way should remove one of the problems mentioned in Chapter 2 of having sample composed of companies from multiple industries and set in different countries. Considering only banks with headquarter in the U.S. the unique characteristics of the sector and the country won't bias the results.

Measuring CSR commitment

Although the literature on how to measure CSR is evolving, there is still no a general established and precise method of measuring CSR commitment, even if to have one could be useful for comparative studies (Gjølberg 2009). Theories consistently identify accounting and market indexes as good proxies of financial performance, but there is no such harmony in measuring CSR commitment.

The most common tool that has been used so far in attempting to measure CSR commitment is a content analysis of the CSR information disclosed by the company. The prerequisite of this technique is that social disclosure is a good proxy of CSR commitment. Thus, analyzing the CSR disclosure practices, it is possible to understand the approach that companies take on environmental and social issues (Jain, 2012). Furthermore, it is assumed that the quantity of information disclosed reflects its relevance (Yongvanich and Guthrie, 2005).

Content analysis is a method that measures the total amount of social responsibility information contained in publicly available documents. It can be done in the way of quantitative (i.e., merely counting the words, lines or sentences about CSR pieces of CSR information), or as a quality analysis. The content analysis presents, unfortunately, a series of limitations. First of all, there is not consensus about which unit should be adopted for the analysis: pages, paragraphs, sentences, or words. Then, another problem that has to be addressed includes the layout, font sizes, styles of writing, and other publishing features (Tilt, 2001). Additionally, content analysis is subjected to the non-objectivity of the person conducting it. In the end, the reliance on Annual Reports and other publications creates the potential for bias, as companies tend commonly to design reports that use graphics and terminology to paint a positive picture of their activities. For examples of studies using content analysis see, Tilt (2001), Yongvanich and Guthrie (2005), Adams and Frost (2007) and Guthrie and Farneti (2008).

A few researchers make use of questionnaires (e.g. Carnevzle *et al.*, 2012): they are sent to and completed by company directors and managers and then are analyzed by the issuing researchers to assess the company's CSR commitment level. The limitation is that the answer to the survey mainly reflect the respondent's perception of social responsibility.

Also, some rating agencies have developed indicators and benchmarks to determine whether companies commit to CSR. Adherence to standards, such as those laid down in the Equator Principles or GRI, indicates that companies fulfill a set of standards intended to promote socially responsible behavior (Jain, 2012).

Another way to look at CSR commitment is to check whether the company under scrutiny is listed in indices, such as the FTSE4 Good Index or the Dow Jones Sustainability Index. The fact to belong to these indices provides evidence that broader standards have been met, signaling a commitment. A limit of these indices is that they are not tailored for specific industry profiles (Jain, 2012).

For the purpose of this paper, a different methodology to measure CSR commitment has been used. The assumption in adoption such method is the signaling theory (see Chapter 2), according to which companies with higher CSR performance levels will disclosure their outcomes more often than those with lower levels, who instead are inclined to hide or only partially disclose their outcomes (Clarkson *et al.*, 2011). Thus, companies issuing Standalone CSR Reports are more likely to have higher CSR commitment and performance than companies that do not issue Standalone CSR Reports (Lizzeri, 1999).

With the purpose to measure banks' CSR commitment in 2006, each bank is assigned with a ternary score according to its degree of CSR information disclosure:

- "2" if the bank published a Standalone CSR Reports;¹⁸
- "1" if the bank did not publish a Standalone CSR Reports, but in the Annual Report was present a separate section about CSR activities and initiatives;
- "0" if no Standalone CSR Reports or CSR section in the Annual Report were present.

Each bank's website is investigated to find the reports manually and give the score. The exploration starts searching for a Standalone CSR Reports for the year 2006, and if it is not present the research moves to the Annual Report for the year 2006. Both types of research are done first visiting the bank's website, and then on other websites (as corporateregister.com,

¹⁸As the publication of a standalone CSR report show a special effort made by companies to publicize CSR information, the issuance of a Standalone CSR Report will get the maximum score.

annualreports.com, and morningstar.com). If both are not found (or in any case if only the Annual Report is present) an email is sent to the general @info address or the address of the specific department dealing with CSR, if present. The email asks for any published report about social responsibility and/or sustainability topics in 2006. In the case the Standalone CSR Reports is missing, the Annual Report of each bank is scrolled seeking for a CSR section. The search tool of Adobe Reader is used to find words as social, environment, diversity, sustainability, responsibility, foundations, ethic, philanthropy, community and communities, emission, energy, green, employee, woman, children and human rights. See Appendix C for the scored assigned in the year 2006. In particular, 9% of the sample banks obtained a score of “2”, 27% obtained “1” while the remaining 64% obtained a “0”.

The CSR commitment is searched for the year 2006 in line with the theoretical arguments supporting that current CSR initiatives have a long-term impact on financial performance (McGuire *et al.*, 1988).

Measuring bank performance

As in Fahlenbrach and Stulz (2011), and in Aebi, Sabato and Schmid (2011), this study collects economic and financial data for the year 2006, considered the entire last year before the start of the financial crisis. Table 1 delivers summary statistics for the banks of the sample at fiscal year-end 2006, obtained from Eikon by Thomson Reuters Database.

The median value of total asset is \$6,310 billion, while the mean value is \$85,706 billion; this shows that the study covers large banks, in fact, they are chosen according to their market capitalization in 2007. The sum of total assets of all the banks of the sample is \$7,713 trillion. The median market capitalization of the firms in the sample is \$1,372 billion, while the average is \$ 13,325 billion. No one of the banks reported a negative net income. The mean net income over equity is 13.48 %, while net income over assets is 1.22%.

The table also reports two indicators of capital strength: Tier 1 capital ratio and tangible common equity ratio. Eikon database defines Tier 1 capital ratio as the ratio of a bank's core equity capital to its total risk-weighted assets, and for this sample, it has a mean value of 11.73%. Basel I set the threshold for the Tier 1 capital ratio at a minimum of 4%; here, even the minimum Tier 1 capital ratio of 7.72% is greatly higher than the minimum required showing that the banks of the sample are well capitalized. The tangible common equity ratio measures how much losses a bank can take before shareholder equity is destroyed, and has a mean value of 9.52%.

| *in million | Number | Minimum | Lower Quartile | Median | Upper quartile | Maximum | Mean | Standard deviation |
|-----------------------------|--------|---------|----------------|--------|----------------|-----------|--------|--------------------|
| Total assets* | 90 | 1,648 | 3,541 | 6,310 | 14,857 | 1,884,318 | 85,706 | 298,944 |
| Total liabilities* | 90 | 1,407 | 3,254 | 5,814 | 13,578 | 1,764,535 | 78,713 | 276,452 |
| Company market cap* | 90 | 445 | 810 | 1,372 | 2,966 | 273,691 | 13,325 | 43,693 |
| ROA % | 90 | 0,29 | 0,92 | 1,21 | 1,49 | 2,68 | 1,22 | 0,42 |
| ROE % | 90 | 3,80 | 10,58 | 13,46 | 15,79 | 26,17 | 13,48 | 4,41 |
| Dividend per share | 80 | 0,00 | 0,56 | 0,95 | 1,37 | 60,00 | 2,20 | 7,15 |
| Book-to-market ratio | 90 | 0,21 | 0,42 | 0,49 | 0,58 | 1,21 | 0,51 | 0,15 |
| Tier 1 Capital % | 90 | 7,72 | 9,05 | 10,82 | 12,47 | 28,11 | 11,73 | 3,97 |
| TCE % | 90 | 3,19 | 7,65 | 8,88 | 10,08 | 24,15 | 9,52 | 3,37 |

Table 1: The table shows summary statistics for key variables as at the end of the fiscal year 2006 for the 90 banks of the sample. The data are from Eikon by Thomson Reuters Database (visited December, 1st 2016). Here Eikon definitions of the variables in the table:

- Total assets: represents the total assets of a company;
- Total liabilities: represents the sum of Total Current Liabilities, Total Long-Term Debt, Deferred Income Tax, Minority Interest and Other Liabilities, Total.
- Company market cap (company market capitalization) represents the sum of market value for all relevant issue level share types. The issue level market value is calculated by multiplying the requested shares type by latest close price. The default shares type is the most widely reported outstanding shares for a market, and it is most commonly issued, outstanding, or listed shares.
- ROA %: this value is calculated as the income after taxes for the fiscal period divided by the average total assets and is expressed as a percentage. Average total assets is the average of total assets at the beginning and the end of the year.
- ROE %: this value is calculated as the income after taxes for the fiscal period divided by the average total Equity of common shares and is expressed as a percentage. Average total Equity of common shares is the average of total Equity at the beginning and the end of the year.
- Dividend per share: are a corporation's common stock dividends on an annualized basis, divided by the weighted average number of common shares outstanding for the year. In the U.S. dividend per share is calculated before withholding taxes (though for some non-U.S. companies DPS is calculated after withholding taxes).
- Book-to-market ratio: manually calculated dividing total Equity by the company market capitalization, as provided by Eikon.
- Tier 1 Capital %: represents the ratio of Tier 1 capital as a percentage of total risk-weighted assets. The ratio represents high-quality sources of capital which banks and other financial institutions are required to keep to protect themselves against bankruptcy.
- TCE is the tangible common equity ratio: it measures how much losses a bank can take before destroying shareholder equity. Eikon database does not provide it, so it is calculated manually as total Equity reduced by intangible assets and preferred stock equity, divided by total tangible assets.

Following the above-cited papers, also in this research banks' performance are measured through two alternative means: a market and an accounting measure.

The market measure are the banks' Cumulative Abnormal Returns (CAR), calculated from July 1st, 2007 to December 31st, 2008, to correspond those during the crisis period. Undoubtedly, the crisis did not close in December 2008; however, during the considered period the banking industry has suffered losses not observed since the Great Depression (Fahlenbrach and Stulz, 2011).

The formula used to calculate the CAR of each bank, utilized in the regression analysis, is:

$$CAR_{it} = \sum_{t=1}^T (return_{it} - market\ return_t)$$

Equation 1: Cumulative Abnormal Returns formula, where “i” is a bank of the sample, “t” is the time that goes from “t=1” for July 01st, 2007 to “t=T” for December 31st, 2008.

The second alternative used in this research to measure bank performance is through two well-known accounting indexes of profitability: return on equity (ROE) and return on assets (ROA). They are two widely used indexes in research exploring CSR-CP relationship (e.g. Fahlenbrach and Stulz, 2011; Soana, 2011; Islam, 2012; Marcia, 2013).

The choice to use two different performance indicators also came from the review of Griffin and Mahon (1997) in Chapter 2, which argue that many measures of CP should be exercised, instead most of the prior investigations used just one measure of CP. The authors also preferred accounting measures over market measures, since market measures will be picking up more than only CP.

In Figure 3, is exposed the evolution of quarterly mean and median ROE and ROA from 2006Q2 to 2008Q4 for the banks of the sample. The trend is not surprising decreasing.

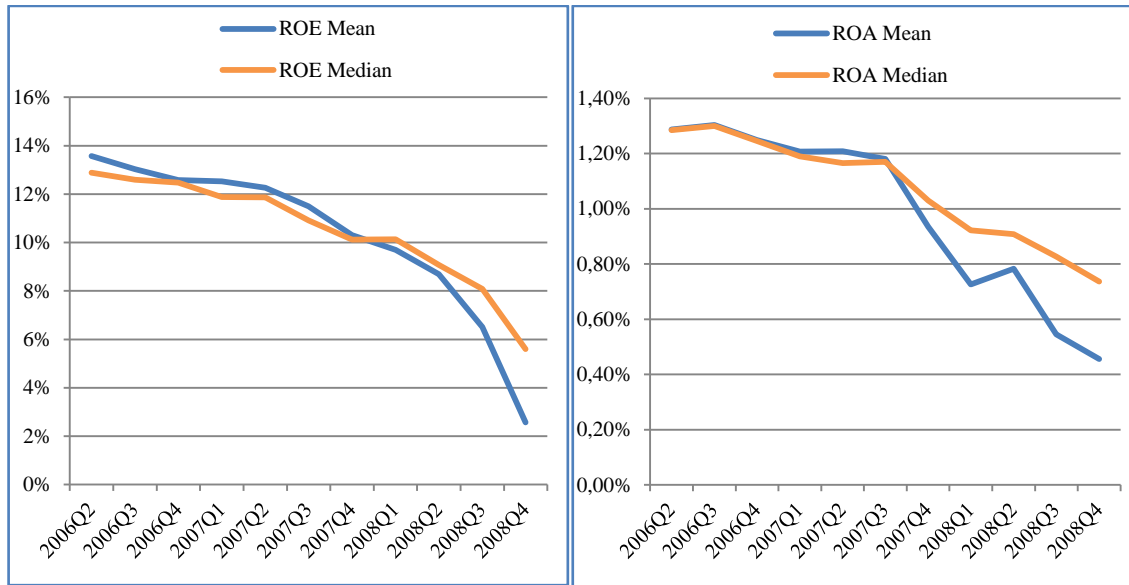


Figure 3: Evolution of mean and median ROE and ROA from 2006Q2 to 2008Q4 of the 90 banks in the sample

Following Fahlenbrach and Stulz (2011), in the statistical analysis, ROE is defined as the cumulative quarterly net income from 2007Q3 to 2008Q3 divided by book value of equity at the end of 2007Q2; similarly, ROA divides the cumulative quarterly net income by total assets at the end of 2007Q2. These ROE and ROA are manually calculated, using data downloaded from Eikon database.

4.1. CSR commitment and bank performance during the crisis

To catch a first impression on potential differences in performance between banks with a CSR commitment and banks without, a statistical t-test is computed. The banks that obtained a CSR commitment score “1” and “2” are grouped together and named as “banks with a CSR commitment”, while banks that received a score “0” are named “banks without CSR commitment”. Then, a standard t-test is conducted to determine whether the difference in mean of various bank characteristics is significant. The test will present a comparison of variables as Cumulative Abnormal Returns (from July 1st, 2007 to December 31st, 2008), ROE and ROA (as defined above), book-to-market ratio, the natural logarithm of market capitalization and Tier 1 capital ratio, these last four as at the end of 2008.

Following Fahlenbrach and Stulz (2011), this research examines, then, the determinants of the returns of individual banks using first a simple and then a multiple OLS regression of Cumulative Abnormal Returns (calculated from July 1st, 2007 to December 31st, 2008).

The multiple-regression model is as follows:

$$CAR_{it} = \beta_0 + \beta_1 CSR\ commitment_i + \beta_2 Stock\ return_i + \beta_3 Book\ to\ market_i + \beta_4 \ln(\text{market capitalization})_i + \beta_5 Tier\ 1\ capital\ ratio_i + \mu$$

Equation 2: in the model, the explanatory variables are calculated for the year 2006, and:

- “i” is a bank of the sample;
- “CAR” are Cumulative Abnormal Returns from July 1st, 2007 to December 31st, 2008;
- “CSR commitment” is the score of each bank;
- “stock return” is provided by Eikon. The stock return incorporates the price change and any dividends for the period. Compounded daily return of the specified period is used to calculate stock return;
- “book-to-market” and “Tier 1 capital ratio” are defined above;
- “ln(market capitalization)” is the logarithm of the market capitalization.

Each OLS regression is run with robust standard errors. The first specification is estimated with the Cumulative Abnormal Returns as the dependent variable and only the CSR commitment scores as the independent variable. This econometric specification denotes whether corporate CSR commitment in 2006 determines financial performance in 2007-2008, as Cumulative Abnormal Returns are the dependent variable in the equation.

In the second specification, a set of other determinants of stock performance is added as control variables. These are book-to-market ratio, the performance of the bank's stock in 2006, and the logarithm of the bank's market capitalization¹⁹. A log transformation is practiced to market capitalization because it reduces the influence of extreme values of the variable, making its distribution closer to a normal one. In the third specification also Tier 1 capital ratio is added. Further investigations repeat the same procedure, but with the CAR calculated from January 1st, 2007 to December 31st, 2008, and then considering only 2008, as it was done by Fahlenbrach and Stulz (2011).

The same regressions are done, then using ROE and ROA as dependent variables.

A correlation test is then conducted between the explanatory variables.

¹⁹ Size has often been found to be positively and significantly related with CSR disclosure, suggesting that bigger companies disclose more CSR information (Hackston & Milne, 2006; Cornett 2016).

4.1. Searching for a measure of CSR performance

This paragraph will briefly report the difficulties met while seeking for a CSR performance indicator. In fact, the initial idea for this paper was to test the impact of CSR on financial performance through the use of a CSR performance indicator. Unfortunately, this was not possible, in part because CSR performance information were not available back to the year 2006, and most of all because the banking industry is often not considerate (even excluded) by analysis about CSR.

This paragraph will show the difficulties met while seeking for a good CSR performance measure. These difficulties are the reason why, in the end, the choice was to change the reference variable. Instead of measuring “CSR performance”, a measure of “CSR commitment” is sought, moving from the assumption that the disclosure of CSR information through an ad hoc media or section in the AR is a reasonable proxy of CSR commitment.

Efforts in obtaining a comprehensive measure of social performance have relied mostly on indexes like the Dow Jones Sustainability Index, KLD Index, the Fortune Reputation Survey and the Domini 400 Social Index. One problem with these indexes is that they do not include enough firms to permit to have a large sample formed by companies of the banking industry. And in any case, these are costly information.

The research started from Eikon by Thomson Reuters database, used to determine the sample of banks, provides also ESG information. On November 30, 2009, Thomson Reuters acquired ASSET4, the leading provider of ESG data. ASSET4 provides to corporate executives and professional investors the access to an extensive database of ESG information, collecting data and scoring companies since 2002. Nowadays, Eikon provides ESG data on over 5,000 listed companies. The data sources are only publicly available sources such as CSR Reports, Annual Reports, corporations’ and NGOs’ websites. Then, Eikon helps to integrate environmental, social and governance factors into equity research, portfolio or quantitative analysis.

ASSET4 classifies first the ESG data in four pillars: economic, environmental, social and governance. The pillars are formed by a total of 278 key performance indicators, joined into eighteen categories (which serve as subcomponents of the four pillars).

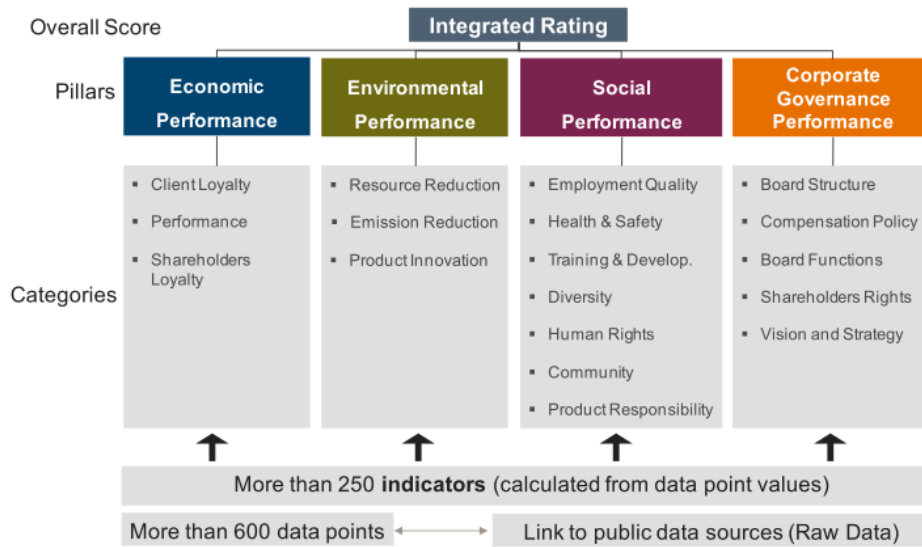


Figure 4: Overview of ASSET4 ESG Data and Framework. Over 250 indicators are rolled up into 18 categories scores, which are subcategories of the four pillars. The overall company score, called “Integrated Rating”, is derived from an equal-weighted blend of the four pillar scores. – Source: ASSET4 ESG score guide, p. 3.

Each of the eighteen groups receives a score between 0 and 1. The overall company score (the Integrated Rating), is the result of blending the four pillar scores. The Integrated Rating, as well as the score of each single pillar, has been searched for the banks of the sample when it was still composed of 105 institutions.

Unfortunately, for the year 2006, these data seem to be available only for 22 U.S. banks of the sample. To be sure, the ESG scores are searched for all the 677 U.S. banks, but the result is the same: data available only for 22 banks, which are spread in the top 90 positions according to 2007 market capitalization. For this poor data availability, Eikon database is abandoned.

Another index to measure CSR performance is searched in the second database made available by the University of Padova: the KLD index. MSCI ESG STATS KLD (formerly known as KLD database) is an annual dataset of positive and negative environmental, social (divided in community, human rights, employee relations, diversity, and product) and governance indicators, for a total of 70 indicators. In the end, ten “Controversial Business Involvement Indicators” are reported.

For the three categories, positive and negative indicators are presented. Positive (Strengths) indicators are designed to capture management best practices concerning ESG risks and opportunities; while negative (Concerns) indicators are based on MSCI ESG Impact Monitor controversies analysis, which timely provides consistent assessments of ESG controversies involving publicly traded companies.

KLD uses a binary scoring model to value ESG performance:

- when the company meets the assessment criteria established for the indicator, then this indicator is signed with a “1”;
- when the company does NOT meet the assessment criteria established for the indicator, then this indicator is signed with a “0”;

In the case that a particular ESG indicator is not researched for a company, then this is signified with an “NR”.

The first step is to download from the Moodle platform the KLD Excel spreadsheet containing the universe D²⁰ for the years 2006. Unfortunately, in the Excel spreadsheet is not present a query to select the companies’ sector. So to select the banks, the search tool of Excel is used to find out the cells containing the word “bank”, finding 48 results, with the awareness that not all the banks actually have the word “bank” in their name. To those 48 banks are added the first fifteen for market capitalization founded in Eikon database, during the sample selection process. Before going on seeking for the bank that will form the sample, an analysis of the indicators is conducted.

Even if it is a more comprehensive measure than the other, the problem with KLD is that it is subjected to interrogations about how the indicators should be weighted and the fact that a component can be both in the Strengths and Concerns (Griffin and Mahon, 1997). The common way to come to an overall KLD index (e.g. Hillman and Keim, 2001; Garcia-Castro, 2010) is to netting all Concerns from all Strengths. But doing so, the ESG index resulting from this operation will suffer from an aggregation problem. Thus, by subtracting all the Concerns score from all the Strengths score, a firm with two strengths and two concerns is believed to have the same CSR level of a firm with five Strengths and five Concerns. Erhemjamts *et al.* (2012) and Cornett *et al.* (2016), argue that a way to mitigate this issue is to decompose the ESG index into its strengths and concerns components, but the result will be a one-dimension indicator.

Another problem emerges due to the particularity of this sample: the KLD indicators are not that related to the banking industry (in fact, almost the 40% of the indicators are marked “NR”).

²⁰ Of the KLD STAT Universe, the only one available on Moodle is Universe D: it includes the top 3000 U.S. companies by market capitalization, as of December of each year. (Since the STATS-2013 Data Set, Universe D includes only the constituents of the MSCI USA IMI Index, as of December of each year).

For example, in twelve environment indicators over thirteen, all the banks of the sample do not meet the assessment criteria established, obtaining in this way a score of “0” both in the Strengths and Concerns indicators (some banks got “1” in “Clean Energy”).

Consider that a “0” in a Concern indicator is a good result, but doubts in interpretation come up when a bank has “0” in the Concern and in the related Strength. It should also be noted that the KLD environment indicators often refer to particular activities that have nothing to do with a bank’s ordinary activities; for example: “ENV-str-C: Recycling” refers to the manufacturing processes of the company, “ENV-con-E: Agricultural Chemicals” gives information whether the company is a substantial producer of agricultural chemicals; other indicators refer to electric utilities and transportation companies, and to the production of pollution. In general, a bank has a few changes to violate air, water, or other environmental regulations directly. To conclude, environmental indicators, as intended by KLD, do not concern the banking industry, making the “0” obtained in all the indicators by most of the banks meaningless. For the indicators about “product” can be said the same. They are mostly about products’ quality and innovative content, more applicable to manufactured goods than banks’ products.

Recapping, it is not clear how to interpret the KLD results: almost half of the indicators were not searched for the banks, and in any case the other do not concern at all the banking activities.

The last attempt to find another way to measure CSR performance is made researching in the “CSR-HUB” database. It offers a transparent rating of 16,891 companies from 133 countries, driven by 500 industry-leading ESG data sources. To access the database, they require the payment of a fee, so an e-mail to request information is sent. Unfortunately, in the answer CSR-HUB communicated to have started to collect ESG information only in 2008.

All these not successful researches, done trying to find a good CSR performance measure, are the reason why the choice is to change the reference variable. Instead of measuring “CSR performance”, a measure of “CSR commitment” is sought.

CHAPTER 5: RESULTS

This chapter will report the results of the statistical tools described in Chapter 4, trying to assess if a relationship between banks' CSR commitment and financial performance exist.

5.1. Tests for differences in group means

To obtain a first idea on potential differences between banks with a CSR commitment and banks without, a t-test analysis is conducted using the STATA 14 software.

Banks which obtained a CSR commitment score "1" and "2" are grouped together and named as "banks with a CSR commitment" forming "Group 1", while banks, which obtained a "0" CSR commitment score are named "banks without CSR commitment" and form "Group 0".²¹

Table 2 reports the results of the t-test.

| | GROUP | | Difference (0 - 1) | p-value | Number of observations | | |
|------------------------------------|--------|--------|-----------------------|---------|------------------------|----|-------|
| | 0 | 1 | | | 0 | 1 | Total |
| CAR | 0.402 | 0.168 | 0.234** | 0.011 | 58 | 32 | 90 |
| ROE | 3.463 | 13.214 | -9.750 | 0.181 | 55 | 31 | 86 |
| ROA | 0.038 | -0.034 | 0.073 | 0.438 | 58 | 32 | 90 |
| Book-to-market ratio | 0.958 | 0.950 | 0.007 | 0.988 | 55 | 31 | 86 |
| Market Capitalization (log) | 20.743 | 21.506 | -0.763*** | 0.005 | 58 | 32 | 90 |
| Tier 1 capital ratio | 12.426 | 11.832 | 0.593 | 0.205 | 58 | 31 | 89 |

Table 2: Comparisons of banks with a CSR commitment in 2006 and banks without. The equality of means of the variables is tested using a standard t-test. The difference is calculated subtracting the value of group "1" from the value of group "0". Cumulative abnormal returns (CAR) are calculated from July 1st, 2007 to December 31st, 2008. ROE (ROA) is defined as the cumulative quarterly net income from 2007Q3 to 2008Q2 divided by book value of equity (total assets) at the end of 2007Q2. The other variables are as at the end of the fiscal year 2008. Results from STATA 14.

* Significance at the 10% level.

** Significance at the 5% level.

*** Significance at the 1% level.

²¹ CSR commitment Scores: "2" if the bank published a standalone CSR Report; "1" if the bank did not published a standalone CSR Report, but in the Annual Report was present a separate section about CSR activities and initiatives; "0" if no standalone CSR Report or CSR section in the Annual Report were present.

The first t-test is conducted to look for the difference in mean of Cumulative Abnormal Returns between the two groups of banks. The results show that, on average, Group “0” has higher Cumulative Abnormal Returns than group “1” at a significant level of 5%, this means that banks with no CSR commitment in 2006 earned, on average, higher Cumulative Abnormal Returns for the period 07/01/2007-12/31/2008.

The difference in the mean of the ROE is highly negative, but not significant. The opposite happens in analyzing the difference in the mean of the ROA: it is positive, but still not significant. Looking at book-to-market ratio and Tier 1 capital ratio: the table shows a positive difference in mean, but the difference is not significant.

Then, there is a negative difference between the two average natural logarithms of market capitalization, showing that banks with a CSR commitment are significant (at 1%) larger than banks without. This result is in accordance with most of the literature (Branco and Rodrigues, 2006; Scholtens, 2009; Laidroo, 2015; Cornett *et al.*, 2016; Gambetta *et al.* 2016). According to Branco and Rodrigues (2006), the impact on communities of large firms is higher than the impact of smaller firms. Consequently, also big banks are inclined to be more exposed to the pressure of influential stakeholder groups representing, for instance, customers, employees, investors and public authorities; for this reason, they probably are subject to greater external scrutiny (Reverte 2016). Consequently, the size of the firm is expected to influence the quantity of CSR information the firm has to disclose to address the concerns of the various stakeholders (Branco and Rodrigues, 2006); this is also consistent with the stakeholder theory. Additional research tests the difference in mean between banks with a CSR commitment score of “2” and grouping together banks that obtained a CSR commitment score of “1” and “0”. Also in this case, banks engaging in CSR are, on average, bigger at a highly significant level smaller than 1%.

5.2. Regression results

Following Fahlenbrach and Stulz (2011), this analysis studies the determinants of banks' returns from July 1st, 2007 to December 31st, 2008 through a multiple regression conducted on a sample of 90 U.S. banks. Table 3 reports the results.

| (Dependent variable: CAR) | (1) | (2) | (3) |
|---------------------------------|---------------------|----------------------|---------------------|
| CSR COMMITMENT (2006) | -0.197** (0.081) | -0.081 (0.075) | -0.074 (0.077) |
| Stock return | | -0.269 (0.430) | -0.219 (0.441) |
| Book-to-market ratio | | -0.924*** (0.352) | -0.880** (0.355) |
| Company Market Cap (log) | | -0.099** (0.041) | -0.078** (0.042) |
| Tier 1 Capital ratio | | | 1.169 (1.052) |
| R-squared | 0.074 | 0.254 | 0.226 |
| Number of observations | 90 | 90 | 88 |

Table 3 The table shows results from cross-sectional regressions of Cumulative Abnormal Returns for banks from July 1st, 2007 to December 31st, 2008 on CSR commitment score and other bank characteristics measured at the end of the fiscal year 2006. These characteristics, used as control variables, include the stock return, the book-to-market ratio, the natural logarithm of market capitalization, and the Tier 1 capital ratio, all measured at the end of 2006. Robust standard errors are reported in parentheses.

* Significance at the 10% level.

** Significance at the 5% level.

*** Significance at the 1% level.

Column 1 shows the results for the first specification which regress the Cumulative Abnormal Returns (from 07/01/2007 to 12/31/2008) solely on the CSR commitment score obtained by the banks in 2006. The estimated coefficient is negative and statistically significant, thus confirming the presence of a negative causal effect of the CSR commitment on the dependent variable Cumulative Abnormal Returns. This negative causal effect suggests that banks engaged in CSR earned lower returns during the crisis period considered.

The results of specification 1 are not confirmed by the results of the specifications 2 and 3 when other control variables are included. In specification 2 these variable are elements known to be related to future returns: past performance of the bank's stock, book-to-market ratio and bank's market value. The coefficient, and thus the impact on CAR, of CSR commitment score is still negative, but no more statistically significant.

Also in specification 3, when Tier 1 capital ratio is included as a control variable, the coefficient remains negative and insignificant.

The coefficient of stock return in 2006 is negative, suggesting that banks with higher stock return in 2006 had lower CAR in the considered period, but this negative casual effect is not significant in both regression 2 and 3.

The coefficient on book-to-market is significantly negative and remains as such in specification 2 (at 1%) and specification 3 (at 5%). This means that banks with higher book-to-market ratio in 2006 have poorer performance during the crisis period, as it was in the study of Fahlenbrach and Stulz (2011).

Adding in specification 3 Tier 1 capital ratio as a control variable, the sign of the coefficients and whether they are significant does not change.

In regressions not reproduced here, Cumulative Abnormal Returns are calculated first from January 1, 2007 to December 31, 2008, and then from January 1, 2008 to December 31, 2008. Obviously, the coefficients and the robust standard errors are different, but the results found are the same regarding the sign of the causal effect and its significance.

So far, the research has focused on banks' performance measured by Cumulative Abnormal Returns. Following Fahlenbrach and Stulz (2011), now the research moves measuring banks' performance through two accounting measures of performance: return on equity and return on assets. They are two widely used indices in research exploring CSR-CP relationship (e.g. Soana, 2011; Islam, 2012; Marcia, 2013; Ofori, 2014). Table 4 and 5 report the regression results.

| (Dependent variable: ROE) | (1) | (2) | (3) |
|---------------------------------|-------------------|----------------------|---------------------|
| CSR COMMITMENT (2006) | -0.005 (0.014) | -0.004 (0.013) | -0.005 (0.013) |
| Stock return | | 0.132*** (0.042) | 0.130*** (0.043) |
| Book-to-market ratio | | -0.204*** (0.060) | -0.198** (0.061) |
| Company Market Cap (log) | | -0.002 (0.006) | -0.003 (0.006) |
| Tier 1 Capital ratio | | | 0.143 (0.213) |
| R-squared | 0.002 | 0.231 | 0.221 |
| Number of observations | 88 | 88 | 88 |

Table 4: The table shows results from cross-sectional regressions of the ROE on CSR commitment and other bank characteristics. Return on equity is defined as the cumulative quarterly net income from 2007Q3 to 2008Q2 divided by the book value of common equity at the end of 2007Q2. Banks characteristics used as control variables are stock return, book-to-market ratio, the natural logarithm of the market capitalization, and Tier 1 capital ratio, measured at the end of the fiscal year 2006. Robust standard errors are reported in parentheses.

* Significance at the 10% level.

** Significance at the 5% level.

*** Significance at the 1% level.

| (Dependent variable: ROA) | (1) | (2) | (3) |
|---------------------------------|--------------------|----------------------|----------------------|
| CSR COMMITMENT (2006) | -0.0008 (0.008) | -0.0008 (0.001) | -0.0008 (0.001) |
| Stock return | | 0.007** (0.004) | 0.007** (0.004) |
| Book-to-market ratio | | -0.012*** (0.006) | -0.012** (0.004) |
| Company Market Cap (log) | | -0.00008 (0.0004) | -0.00006 (0.0005) |
| Tier 1 Capital ratio | | | 0.0049 (0.021) |
| R-squared | 0.07 | 0.125 | 0.221 |
| Number of observations | 88 | 88 | 88 |

Table 5. The table shows results from cross-sectional regressions of the ROA on CSR commitment and other bank characteristics. Return on equity is defined as the cumulative quarterly net income from 2007Q3 to 2008Q2 divided by total assets at the end of 2007Q2. Banks characteristics used as control variables are stock return, book-to-market ratio, the natural logarithm of the market capitalization, and Tier 1 capital ratio, measured at the end of 2006. Robust standard errors are in parentheses.

* Significance at the 10% level.

** Significance at the 5% level.

*** Significance at the 1% level.

The results of Table 4 and 5 are similar. In the six specifications, CSR commitment has a negative, but not statistically significant causal effect over ROE and ROA.

Similarly to the regression using Cumulative Abnormal Returns, also in here, book-to-market ratio has a significant negative coefficient. This means that banks with higher book-to-market ratio in 2006, has lower both ROE and ROA between 2007 Q3 and 2008 Q2.

The difference with the regression using Cumulative Abnormal Returns is the significant coefficient of stock return. This means that banks with higher stock return in 2006, had higher ROE and ROA across 2007 and 2008. Company market capitalization, which before was significant, is still slightly negative, but not significant.

Summarizing: the effect of CSR commitment on banks' performance is different according to the financial performance measure used and the variables considered in the model. When regressing only CSR commitment on Cumulative Abnormal Returns, the effect is negative and significant, while when regressing only CSR commitment on ROE and ROA the effect is still negative, but not significant.

It has to be noted that as other control variables are considered in the regression, the significant effect disappeared, concluding that CSR commitment in 2006, do not affect banks' performance during the crisis period considered. In other words, the fact that a bank disclosed CSR information in 2006, through a Standalone CSR Report or in a section of the Annual Report to show its commitment to CSR, did not affect that bank's performance in the second part of the year 2007 and 2008.

This result can be seen in accordance with part of the previous studies about CSRC-FP link supporting the idea of no relation between the two (e.g. Murray, 2006; Lyon, 2007).

This "no relation" may be caused by an endogeneity problem. Garcia-Castro *et al.* (2010) debate that the choice of the top management to engage in CSR initiatives is endogenous. This choice is likely to be correlated with other characteristics as the culture of the organization, management's ethical attitudes, the pressure of stakeholders, but these variables difficult to observe and measure. Therefore, it would be useful to solve this problem, to introduce in the model some instrumental variables able to approximate the effects of these unobservable factors, and run the regression by using a two-stage least square method. Unfortunately, instrumental variables to proximate variables as culture and attitude are difficult to find.

What it can be done in this study is to test for the multicollinearity of the control variables. Multicollinearity happens when in the model, there are control variables correlated not only to

the dependent variable but also to each other. This can be, for example, the case of book-to-market ratio and company market capitalization.

The severity of multicollinearity in an OLS regression is quantified by the variance inflation factor (VIF). It delivers an index that measures how much the variance of a control variable is increased because of collinearity. When the VIF index assume the value “1”, it means that the variables are not correlated; when the VIF level is between 5 and 10 the model can face a correlation problem; in the case that the VIF level is higher than 10, it can be said that the regression coefficients are poorly estimated because of multicollinearity.

Table 6 shows the VIF index for the control variables used for the regression of the Cumulative Abnormal Returns, ROE and ROA.

| Variable | VIF |
|--------------------------|------|
| Company Market Cap (log) | 1.45 |
| CSR COMMITMENT (2006) | 1.41 |
| Tier 1 Capital ratio | 1.12 |
| Stock return | 1.06 |
| Book-to-market ratio | 1.03 |
| Mean VIF | 1.22 |

Table 6: VIF index of the control variables of the sample.

In this case, the mean VIF of 1.22 indicated that the explanatory variables might be moderately correlated.

The following Chapter will draw up the conclusion of this analysis, connecting the results of this Chapter with the literature review of the first three chapters.

CONCLUSIONS

The purpose of this analysis was to provide empirical evidence on the relationship between CSR Commitment and financial performance in the banking industry. In particular, this work uses the presence of an ad-hoc media for CSR disclosure as a proxy of CSR commitment and investigates if there is a relationship between this CSR commitment (in 2006) and financial performance (in 2007-2008) in a group of 90 U.S. banks. In such a way, this paper enriches the existing literature on CSR disclosure in the banking industry, which is scant and mostly concentrated on other issues such as CSR policy and CSR strategy.

These researches have adopted different theoretical perspectives for explaining the reasons behind CSR reporting (in the form of a Standalone CSR Report or a section in the Annual Report). Specifically, the main CSR theories adopted were the stakeholder theory, the legitimacy theory, and the signaling theory. The latter allows the use of CSR disclosure as a proxy for CSR commitment, thus it is the basic theoretical approach underlying this empirical analysis.

Mixed evidence has emerged from reviewing previous research on the relationship between CSR disclosure and financial performance, some analysis show a positive relation, while others show a negative one, and still others do not found a statistically significant relationship. The sign and significance of the relationship between CSR disclosure practices of the sample banks in 2006 and their financial performance during the 2008 credit crisis, have been tested through a t-test and three regressions model which used Cumulative Abnormal Returns, ROE and ROA, as dependent variables.

The results do not show a statistically significant effect of CSR disclosure, as proxy of CSR commitment, on financial performance. This result complies with previous studies about CSR-D-FP link supporting the idea of no relation between the two (e.g. Murray, 2006; Lyon, 2007).

The most valuable suggestion arising from the results of this analysis concerns whether a bank should or not disclose CSR information. The answer seems to be “no”, as the results show a non-statistically significant relationship. Therefore, the fact that a bank revealed CSR information in 2006 are not related that bank’s performance in the second part of the year 2007 and 2008. Many are the explanations that can be behind these results.

Following Carnevale *et al.* (2012) three reasons can be identified. First of all, it can be argued that the non-significant relation can be because investors are not able to interpret the

information contained in a Standalone CSR Report. Support for this first hypothesis calls for an increase in the ability to interpret information in a CSR Report through a further international standardization and harmonization of the CSR reporting framework.(Kolk, 2003). Nonetheless, according to the second hypothesis, investors may understand CSR information, but they may think they are not relevant. If this is true, the market does not consider the sustainability report as a document including useful information. Consequently, a content revision of the CSR Report could be helpful. The third way to interpret the results is supposing that investors may not be interested in sustainability issues. This can happen, for instance, because they think that the impact of non-compliant CSR activities will only emerge over the long term, or if they believe that banks' financial performances are not affected by their CSR behavior or because a Standalone CSR Report does not meet their need of information.

Another cause may be related to the particularity of the banking industry, and recalls the second hypothesis of Carnevale (2012). It may be that in other sectors, more exposed to social and environmental risks because of to their specific activity, the significance of CSR disclosure is more than for the banking industry. Banks' customers are primarily concerned with the banks' capital adequacy and their assessment of risk profile (Carnevale, 2012). As a consequence, they will have more interest in reading information about the assessment of bank's risks, and they do not see in CSR reporting a way to get those information. Thus, to make market participants appreciate CSR Report, banks should provide them with information that can allow a better assessment of their capital adequacy and risk profile. At this point, a CSR Report containing information about CSR policies and about the level of environmental, social, and economic performance, will help to better define the risks to which the bank is exposed. For instance, information regarding the loans approved to non-CSR compliant companies may indicate a reputational risk to which the bank is exposed. (Thompson and Cowton, 2004).

Another reason can be identified in the fact that, through the signaling theory, CSR disclosure has been used as a proxy for CSR commitment. It may be that the reason for which banks are involved in CSR disclosure is more closely related to the stakeholder or legitimacy theory. According to the former, banks engage in CSR disclosure in order to maintain the expectations of most influent stakeholders. While, according to the latter theory, banks facing greater exposure to the public and banks with poorer social performance will disclose more off-setting or positive CSR information, in order to protect themselves against loss in legitimation, which may ending greenwashing practices.

It also may be that the mere presence of a Standalone CSR Report or a CSR section in the Annual Report is not a good proxy for CSR commitment because the information presented are only loosely connected to CSR, or CSR information may be hidden by irrelevant other pieces of information. For this reason, it would be more useful to look at the content of the disclosure.

This analysis is not free of limitations. First of all, Wood (2010), states that being CSR a complex phenomenon, it is hard to explain it through simplistic theories and instrumental approaches.

One limitation behind the non-significant results, may be the fact that market participants are more interested in one particular aspect of CSR. Therefore the CSR commitment scoring method adopted in this analysis may undo the possible positive impact of some aspects.

Another limitation is the use of a traditional OLS regression model, which has been criticized because it assumes a curvilinear relationship between CSR and financial performance, raising a problem of reverse causality (i.e. the presence of a virtuous cycle between CSR commitment and financial performance: good financial performance leads to good CSR commitment and vice versa. See e.g. Fernandez, 2015).

Concluding, further research could investigate the impact of CSR reporting on financial performance through a different estimation technique, and using a variable that takes into account the content of the document.

APPENDIX

Appendix A

This table shows the Thomson Reuters Business Classification (TRBC) used in the sample selection. The highlighted sections are those chosen for the purpose of this research.

Subcategories of the other economic sectors are not reported in this table.

| ECONOMIC SECTOR | BUSINESS SECTOR | INDUSTRY GROUP | INDUSTRY | ACTIVITY |
|--------------------------|-------------------------------|------------------|------------------------------|-------------------------------------|
| 1. Energy | | | | |
| 2. Basic Materials | | | | |
| 3. Industrials | | | | |
| 4. Consumer Cyclicals | | | | |
| 5. Consumer Non-Cyclical | | | | |
| 6. Financials | | | | |
| | Banking & Investment Services | | | |
| | | Banking Services | | |
| | | | Banks | |
| | | | | -Banks (NEC) |
| | | | | -Corporate Banks |
| | | | | -Retail & Mortgage Banks |
| | | | | -Money Center Banks |
| | | | | -Private Banks |
| | | | | -Islamic Banks |
| | | | Consumer Lending | |
| | | | | -Consumer Lending (NEC) |
| | | | | -Personal & Car Loans |
| | | | | -Consumer Credit Cards Services |
| | | | | -Consumer Leasing |
| | | | | -Credit Unions |
| | | | | -Microfinancing |
| | | | Corporate Financial Services | |
| | | | | -Corporate Financial Services (NEC) |

| | | | | |
|--------------------------------|--|------------------------------|--|--------------------------------|
| | | | | -Commercial Loans |
| | | | | -Import-Export Banks |
| | | | | -International Trade Financing |
| | | | | -Factoring |
| | | | Investment Banking & Investment Services | |
| | | Insurance | | |
| | | Real Estate | | |
| | | Collective Investments | | |
| | | Investment Holding Companies | | |
| 7. Healthcare | | | | |
| 8. Technology | | | | |
| 9. Telecommunications Services | | | | |
| 10. Utilities | | | | |

Appendix B

This table reports the description of the SIC codes of the banks in the sample.

| SIC CODE | Description |
|-----------------|---|
| 6021 | National Commercial Banks: Commercial banks and trust companies (accepting deposits) chartered under the National Bank Act. |
| 6022 | State Commercial Banks: Commercial banks and trust companies (accepting deposits) chartered by one of the States or territories. |
| 6029 | Commercial Banks, not elsewhere classified: Commercial banks (accepting deposits) which do not operate under Federal or State charter |
| 6111 | Federal and Federally-Sponsored Credit Agencies: Establishments of the Federal Government and federally-sponsored credit agencies primarily engaged in guaranteeing, insuring, or making loans. Federally-sponsored credit agencies are established under the authority of Federal legislation but are not regarded as part of the government. Their members or borrowers often own them. |
| 6035 | Savings Institutions, Federally Chartered: Federally chartered savings institutions (accepting deposits) operating under Federal charter. |
| 6141 | Personal Credit Institution Establishments: primarily engaged in providing loans to individuals. In this industry are also included establishments primarily involved in |

| | |
|-------------|---|
| | financing retail sales made on the installment plan and funding automobile loans for individuals. |
| 6159 | Miscellaneous Business Credit Institutions Establishments: primarily engaged in furnishing intermediate or long-term general and industrial credit, including the finance leasing of automobiles, trucks, and machinery and equipment. Included in this industry are private establishments primarily engaged in extending agricultural credit. |
| 6162 | Mortgage Bankers and Loan Correspondents Establishments primarily involved in originating mortgage loans, selling mortgage loans to permanent investors, and servicing these loans. They may also provide real estate construction loans. |
| 6211 | Security Brokers, Dealers, and Flotation Companies: Establishments primarily engaged in the purchase, sale, and brokerage of securities; and those, generally known as investment bankers, primarily engaged in originating, underwriting, and distributing issues of securities. |
| 6712 | Offices of Bank Holding Companies: Establishments primarily involved in holding or owning the securities of banks for the sole purpose of exercising some degree of control over the activities of bank companies whose securities they hold |

Appendix C

This table shows all the 90 banks in the sample and their CSR commitment score for the year 2006. They are displayed in order of their market capitalization as at the end of the fiscal year 2007.

| Company Name | 2006 |
|--|-------------|
| 1. Bank of America Corp | 2 |
| 2. Citigroup Inc. | 2 |
| 3. JPMorgan Chase & Co | 1 |
| 4. Wells Fargo & Co | 2 |
| 5. U.S. Bancorp | 2 |
| 6. Federal National Mortgage Association | 1 |
| 7. PNC Financial Services Group, Inc. | 1 |
| 8. SunTrust Banks, Inc. | 0 |

| | |
|--------------------------------------|---|
| 9. BB&T Corp | 0 |
| 10. Regions Financial Corp | 1 |
| 11. Fifth Third Bancorp | 2 |
| 12. KeyCorp | 2 |
| 13. M&T Bank Corp | 0 |
| 14. Comerica Inc. | 1 |
| 15. New York Community Bancorp, Inc. | 1 |
| 16. Huntington Bancshares Inc. | 2 |
| 17. People's United Financial Inc. | 0 |
| 18. Zions Bancorp | 0 |
| 19. Cullen/Frost Bankers Inc. | 0 |
| 20. Bank of Hawaii Corp | 0 |
| 21. Capitol Federal Financial Inc. | 0 |
| 22. First Horizon National Corp | 0 |
| 23. Valley National Bancorp | 0 |
| 24. TCF Financial Corp | 1 |
| 25. Astoria Financial Corp | 1 |
| 26. Fulton Financial Corp | 0 |
| 27. Bancorp South Inc. | 0 |
| 28. Washington Federal Inc. | 0 |
| 29. Webster Financial Corp | 0 |
| 30. SVB Financial Group | 1 |
| 31. First Citizens BancShares Inc. | 0 |
| 32. UMB Financial Corp | 0 |
| 33. Investors Bancorp, Inc. | 0 |
| 34. East West Bancorp, Inc. | 1 |
| 35. First Midwest Bancorp, Inc. | 0 |
| 36. Trustmark Corp | 0 |
| 37. International Bancshares Corp | 0 |
| 38. Cathay General Bancorp | 0 |
| 39. Westamerica Bancorp | 0 |
| 40. Prosperity Bancshares, Inc. | 0 |
| 41. Northwest Bancshares, Inc. | 0 |
| 42. United Bankshares, Inc. | 0 |

| | |
|---|---|
| 43. Hancock Holding Co | 0 |
| 44. PacWest Bancorp | 0 |
| 45. MB Financial Inc. | 0 |
| 46. Boston Private Financial Holdings, Inc. | 0 |
| 47. Glacier Bancorp, Inc. | 0 |
| 48. Signature Bank | 0 |
| 49. Old National Bancorp | 2 |
| 50. Umpqua Holdings Corp | 1 |
| 51. Park National Corp | 0 |
| 52. F.N.B. Corp | 1 |
| 53. CVB Financial Corp | 1 |
| 54. Provident Financial Services, Inc. | 0 |
| 55. First National Bank Alaska | 1 |
| 56. First Financial Bankshares, Inc. | 1 |
| 57. First Commonwealth Financial Corp | 0 |
| 58. Wintrust Financial Corp | 0 |
| 59. United Community Banks, Inc. | 1 |
| 60. TrustCo Bank Corp N Y | 0 |
| 61. NBT Bancorp Inc. | 0 |
| 62. First Busey Corp | 0 |
| 63. PrivateBancorp, Inc. | 0 |
| 64. S&T Bancorp, Inc. | 1 |
| 65. Brookline Bancorp, Inc. | 0 |
| 66. IBERIABANK Corp | 0 |
| 67. Community Bank System, Inc. | 1 |
| 68. Chemical Financial Corp | 0 |
| 69. Western Alliance Bancorp | 0 |
| 70. City Holding Co | 0 |
| 71. Bank Mutual Corp | 0 |
| 72. Central Pacific Financial Corp | 0 |
| 73. Columbia Banking System, Inc. | 1 |
| 74. Sterling Bancorp | 1 |
| 75. Capital City Bank Group, Inc. | 0 |
| 76. Texas Capital Bancshares, Inc. | 0 |

| | |
|-------------------------------------|---|
| 77. Banner Corp | 0 |
| 78. Sandy Spring Bancorp, Inc. | 0 |
| 79. Renasant Corp | 0 |
| 80. Bank of The Ozarks Inc. | 1 |
| 81. Dime Community Bancshares, Inc. | 0 |
| 82. First Financial Bancorp | 1 |
| 83. WesBanco, Inc. | 0 |
| 84. Flagstar Bancorp, Inc. | 1 |
| 85. 1st Source Corp | 0 |
| 86. Community Trust Bancorp, Inc. | 1 |
| 87. Waterstone Financial Inc. | 0 |
| 88. Tompkins Financial Corp | 0 |
| 89. Simmons First National Corp | 0 |
| 90. Towne Bank | 0 |

Appendix D

Here the list of the excluded banks from the group of 105, and the reason for their exclusion.

1. Synovus Financial Corp – 6282 SIC Code
2. BOK Financial Corp – 6282 SIC Code
3. TFS Financial Corp – missing Report
4. Associated Banc-Corp – missing Report
5. Commerce Bancshares Inc. – missing Report
6. First National of Nebraska, Inc. – missing Report
7. Farmers And Merchants Bank of Long Beach – missing Report
8. Beneficial Bancorp, Inc. – missing Report
9. BancFirst Corp – missing Report
10. F&M Bancorp – missing Report
11. WTB Financial Corp – missing Report
12. Oritani Financial Corp – missing Report
13. Marquette National Corp – missing Report

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