THE STRATEGIC IMPORTANCE OF CORPORATE RESPONSIBILITY AND SUSTAINABILITY IN BANKING

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Abstract: The paper aims to highlight the strategic implication of corporate social responsibility (CSR) and sustainable development for the banking sector. A few years ago, banks did not give much importance to the social and environmental problems. Recently, the banks began to realize the major impact of the sustainable development over the way of ulterior development of the society and, implicitly over the banking system. In this context, the development of a bank management system based on sustainable principles is one of the current challenges. For this purpose this paper focuses on issues such as the importance and advantages of implementing sustainability bank management, international standards regarding sustainable banking management such as: Equator Principles for sustainable investment projects' financing or GRI principles for sustainable reporting. In addition, we have developed a practical case study about the implementation of sustainable banking management; the case study presents Romanian Commercial Bank as an example of good practice in the Romanian banking sector.

Keywords: sustainable banking management, environmental and social risks, Equator Principles, GRI Principles.

JEL Classification: G21

Introduction

In the literature, the concept of sustainable banking was first used by Bouma, J., Jeucken, M. and Klinkers, L. in 2001. The book they wrote includes case studies on how different changes in the financial environment direct banks to the sustainable banking. They define the sustainable banking in a broad sense avoiding to define clear boundaries. In order to understand sustainability in banking there are identified four stages: defensive, preventive, offensive and durable.

In 2006, JW Gelder member of BankTrack wrote one of the latest and most popular books in this field. Based on the six commitments falling in Collevecchio Declaration, this manual provides an overview of actions that can be taken in the banking sector in order to become more sustainable. Also presented methods for implementing sustainable banking principles and commitments.

A study on corporate social responsibility in the Romanian banking system, conducted in 2008 confirmed the theoretical assumptions that the first banks in terms of assets were those who applied the most effective sustainable development (Jaldeş, 2008). Other studies have indicated that the Equator Principles contribute to sustainable long-term investments (Seuren, 2009). Hoepner (2010) emphasized the importance of social, environmental and ethical risk management, and their impact on the reputation and performance of the bank.

Although banks initially responded more slowly to sustainable development issues in the current environment profoundly marked by globalization, deregulation and diversification of the financial industry, banks have become increasingly aware of their intermediary role and of their potential contribution to sustainable development. Lately more and more numerous banking groups started creating sustainable products, adapted internal policies and lending, prepared programs by requiring employees and partner companies to invest in social responsibility principles.

The concept of sustainable banking is increasingly emphasized in the present context "Current crisis emphasizes that sustainability is the core of building a healthy global economy" (Thunell, L. 2009). An increasing number of large financial institutions considere sustainable banking at the bottom of sources of business opportunities in the future. Sustainable banking is one of the challenges of the future and therefore must be treated with utmost interest.

1 Trends in sustainable banking management

Regarding the banking sector, sustainable development has two directions:

Corporate social responsibility (CSR) is the set of actions, principles and practices by which a company is involved a society in order to ensure a positive impact of its activities and contributes to the development of that society.

A sophisticated term used frequently in the language of business strategies, CSR is more than just a business tool. It's the closest thing to a code of ethics or ideology, in an area where it is assumed that profit is the ultimate goal.

Kotler & Lee believes that "CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources". The most important idea behind these two definitions is the voluntary nature of CSR, not required by law but performed by companies "in a manner that meets or exceeds the legal, commercial, public expectations ".
Integration of environmental and social responsibility CSR (Corporate Social Responsibility) in banking can be done by:

- Environmental initiatives

Environmental awareness and emergence of environmental protection trends in most Western countries were key factors that led banks to meet the challenges imposed by the environment. There are some industrial enterprises engaged in activities that may harm human health or cause environmental damage such as greenhouse gas emissions, industrial waste, overuse of natural resources and land contamination. Therefore banks dealing with these companies are confronted with a variety of environmental risks (EBRD, 2001). Banks began to pay increasing importance on environmental management systems, to launch green projects and involve their customers in these projects. In recent years banks also launched several innovative products that support sustainable development, provided green services of high quality and sustainable services. Was also payed particular attention to recycling programs, increase energy efficiency projects, reducing emissions, projects related to forest and nature, organic farming, sustainable construction, sustainable energy from wind, water, sun and biomass, and other environmental investments.

- Social responsibility initiatives.

Social responsibility activity was seen by many companies as a marketing and communication tool. It should be regarded as one of the key lines of business strategies because it is the most valuable and visible in the relationship with stakeholders (customers, employees, authorities, business partners, media, NGOs). Concerning banks, this direction can be taken to another level, because employees and customers appreciate the work of the institution and especially its reputation and actions performed within the community to which it belongs. From this point of view, banks coordinate their strategy of community involvement, provide support for cultural events multiply HR activities and humanitarian donations. Also initiates projects to support financial literacy, entrepreneurship, various social causes, donate, build, organize, help, have a wide reaching presence in all age groups.
Integrate sustainability into the core business of the bank, by integrating environmental and social issues in product design, policies and strategies. Examples:

- Integration of environmental criteria in lending or investment strategies.

Banks have an important role in sustainable development and product marketing strategies will help create a sustainable society (Jequcken, 2005). Bankers need to be aware of sustainable development and if they do not pass on their opinion about responsible social behavior, will lag behind the best practices in the banking industry. As a consequence of the emphasis on banking and environmental, interests of researchers were initially channeled on "direct risks" that banks assume, that is the risk that banks are held accountable for polluting activities. Only in recent years "indirect risks" such as reputation and responsibility of banks' lending activities were taken and investigated. There is a close connection between bank performance and environmental performance of clients. This connection has a great influence on business strategy of banks, as well as on large customers.
In order to reduce exposure to environmental risks and to improve risk management, bankers began to give greater importance to the environmental performance of their clients. Thus banks developed mechanisms to protect themselves from potential losses and to assess their clients exposure to environmental risk.

- Developing new products that facilitate business access to capital based on sustainable development.

In recent years many international banks have used some innovative strategies to take advantage of the opportunities of sustainable development. They developed new products such as loans for treating diseases, student loans or loans to companies that protects the environment.

2. Importance and benefits of implementing sustainable bank management

In recent years the banking sector has gained an important role in global developments and hence in sustainable development, by virtue of which he holds on economic scene. Banks have unsuspected power of influence, they have gained increasingly more rights and govern lives of billions of people. Banks are one of the key players in sustainable development. This is because they play a fundamental role in economic performance, and in all forms of commerce and industry. Until recently, the major commercial and investment banks did not take into consideration social and environmental concerns. However today they agree that financers bear significant responsibility for environmental and social impact.

Sustainable development in banking has a lot of long-term benefits that society and the environment will have. Some of the advantages and opportunities that can bring sustainable bank management are:

- *Reduces risk* - by engaging in dialogue with stakeholders, by understanding the fears they have. Thus, banks can be permanently connected to the social environment and can more accurately predict the reactions that their actions will produce.
- *Investors* - seeking diversification of portfolios investing in leading companies in sustainability, thus leading sustainable banks are tempting because they prove quality management
- *A better reputation* - banks are held accountable for the impact of they have on offer financing socially and environmentally
- *Increasing bank popularity in the community* - through sustainable projects financed and through clear internal processes and employee benefit.
- Create a *competitive advantage* by entering new business niches, connected with sustainable development: the creation of new services, of new banking products to market groups ignored by most of the business community
- *Direct Reduction of costs* through proper management of human resources and a healthy organizational culture.

Canadian consulting company Strandberg Consulting conducted a study that analyzed 11 financial leaders in sustainable development (Strandberg: 2005). Worth following characteristics of these banks are:

- Incorporate sustainability criteria into core banking and consider it as a basic strategy of the bank (incorporating sustainability into the mission and values of the bank, creating specialized departments, including positions for sustainable development in the governance structure of the organization).
- Engage in dialogue with stakeholders and creation of multisectoral partnerships; CSR, Branding and Leadership.
- Leading banks make efforts to create the image of a company involved socially through reports and speeches, participation in various forums under the umbrella of sustainable development.
- Educating and informing in sustainable development - leading banking institutions allocate significant resources for information and education in sustainable development target groups: employees, customers, and the general public.
- Sustainable products - are made more and more investments in innovation, to expand the range of products for sustainable development and for creating a market area.
- Strategic Investment for charity - charity funding is not one of the most desirable actions in the field, but still one of the areas seen as an integral part of the institution's sustainability strategy, and can bring significant advantages and can a increase the positive impact of bank.

Globalization, demographic change and climate change will continue to have an impact on the banking environment. Therefore adherence to international best practices regarding sustainable banking, risk management and compliance standards remain a necessity. Large banks understand these issues and are increasingly interested in the integration of environmental and social long-term strategies.

3 International standards on sustainable banking management

To adopt socially responsible practices banks must adhere to a set of internationally recognized principles and practices. One such set of principles is promoted by The International Finance Corporation of the World Bank Group as *Equator Principles*. The Equator Principles are a set of voluntary environmental guidelines created to manage environmental degradation that results from large scale developmental projects.

By adopting these principles it is pursued the prevention of negative effects that financed projects can have on various ecosystems and communities or, reduce or offset them in case of inevitability. Also by applying these principles it will improve banks ability to measure and manage risk exposure arising from the social and environmental projects it finances.

In July 2006, the Equator Principles were revised, increasing their scope and strengthening their processes. According to the revised principle EPFI (Equator Principles Financial Institutions) members are requested to identify and finance only the investment projects that comply with the following ten Equator Principles.

These principles have become the standard by which banks and investors are considering major development projects around the world. Equator Principles are a set of policies and procedures that banks should use to assess and manage environmental and social risks associated with financing projects. Based on these principles, the proposals recommended for funding are classified into three categories according to their potential environmental and community impact. These categories are A/B/C scoring system like “high, medium or low environmental or social risk”. Thus, projects that are made in a responsible way towards the environment and society will receive funding only. These principles are particularly relevant because of the high impact area ("Project Finance") in the banking sector.

In 2010, over 70 financial institutions and banks have adopted the Equator Principles, and began funding projects designed to promote in a social responsible manner and with increased environmental management activities. These institutions have understood that the adoption of these principles offers significant benefits to bank customers and all stakeholders. Equator Principles enhance the ability of these organizations to measure and manage risk exposure arising from social and environmental areas associated with the projects it finances. This capability allows banks to actively engage with stakeholders in sustainable development problems. Furthermore, by adhering to these principles, banks are able to work with their clients in managing environmental and social policies, which they have to deal with projects they conduct in this area.

Even if the environmental and social risks did not come into the attention of Basel Committee until now, in the next years, a new Basel Accord IV, will cover also issues regarding to sustainable banking, environmental and social risks measurement, monitoring, managing, and capital adequacy. I also belive that one of the main challenges of the future is sustainable development, by applying the principles of sustainable management banking institutions can provide many benefits not only for shareholders, but also for the economy, environment and society.

4 Principles for Sustainable Reporting

During the last decade the idea of transparency and accountability in terms of sustainable development has increasingly found the place in corporate social responsibility (CSR). Voluntary reporting enjoyed early support from a significant number of American companies and organizations which have realized the importance of transparency in CSR.

Global Reporting Initiative (GRI) aims to establish a set of rules and principles by which CSR reporting is done. It is a voluntary approach involving a triple reporting, economic, social and environmental. GRI standards aim is, on one hand, to guide organizations report and, secondly, to provide the public criteria for assessing corporate social policies.

Bold idea of developing the Global Reporting Initiative was launched in 1997 in Boston. It was designed to improve the quality and efficiency of reporting on social responsibility (CSR). In 1999 the United Nations Environment Program became a GRI partner, ensuring its global platform.

The first generation of social reporting standards was officially launched in June 2000, immediately after it began work for the next edition. Thus in august 2002 in Johannesburg it was suggested the next generation of social reporting standards in G2. Also in 2002, GRI became an independent organization, based in Amsterdam, present in over 60 countries, comprising more than 20,000 employees. The third generation of the reporting guidelines released in 2006. G3 triple standards proposed methodology reports, measures the performance of companies in financial terms but also in terms of economic policies and their social environment.

To ensure a high level of technical quality, of credibility and relevance, the reporting framework is continuously improved. In this improvement participate over 1000 organizations in over 60 countries that use this framework in annual reports on economic, social and environmental performance.

If we take into account productivity, creativity, engagement and the ability of large companies to raise funds, it can be said that the Global Reporting Initiative (GRI) was successful. One of the key elements that formed the basis of this success was the ability to maintain a balance between individual and community interests, and the ability to build a new institution without challenging existing institutions and their power.

Regarding the banking sector in our country, CSR reporting is not mandatory, not even checking is practiced. Some companies have tried creating CSR programs, but within the Romanian law on sponsorship and mainly with clear objective of marketing and advertising. In light of this reality in our country and in the context of accelerated development of banking activity in the field of sustainable development, I believe that important steps must be taken from education and information in this area.

5 Implementation of sustainable banking management Romanian Commercial Bank. Case Study. Overview of sustainable development activity of BCR

Romanian Commercial Bank is a universal bank, member of Erste Group since 2006. It is the largest bank in Romania, in terms of assets. On the background of a dynamic environment characterized by increased competition, improving the functionality of the bank was a continuous process, especially given that privatization has had a strong impact on both the internal structure and the customers. Regarding sustainable development, BCR has a privileged position; it proved to be forefront in sharing, respect and promotion of sustainable development. For the bank this are more than just ordinary tasks and they represent the essence of its vision in business. This is why we chose BCR Group for case study of banking sustainable development in our country.

BCR published in November, 2009 a short report of CSR respecting the reporting standards of the Global Reporting Initiative (GRI). The report received the award for the best short Good CSR in Romania. In May 2011 the first extensive Corporate Social Responsibility (CSR) report was published, according to the most influential international standard in the field: GRI - G3 level B. The report covers the period January 2009 - September 2010 and presents the financial performance of BCR bank and the impact on Romanian society, namely the customers, employees, business partners, communities and, not least, the environment. This report is an important step for the bank as it provides for the first time, a clear vision of how BCR incorporates the principles of social responsibility at all levels of its business. It also demonstrates the stability, credibility and transparency in the reporting standards of the Global Reporting Initiative.

Besides Good CSR Award for Best Short Report CSR in Romania, BCR received many other awards in social responsibility as:

- Silver for Excellence awarded by the Romanian PR Awards for the "My Finance" category "Social responsibility and dialogue with partners", received in October 2009.
- Campaign Money School has received numerous gold medals in prestigious national and international competitions: Golden World Awards for Excellence. Money School has also received a nomination at Cannes.
- The trusted bank brand in Romania, awarded by Reader's Digest in 2010.
- Romanian Superbrand distinction offered by Superbrands Romania, during the Consumer Superbrands 2010.
- BCR was awarded Volunteer of the Year 2010 offered by Junior Achievement Romania (JAR) for most volunteers involved in educational programs JAR
- BCR was chosen to represent Romania in the Social Responsibility category in the prestigious European Business Awards 2010 competition

All these awards are due in some measure to the new business model adopted since 2008. It demonstrates a commitment to accountability, manifested at all levels of the company. Business philosophy is best expressed by pillars of activity, the 5 C:

- Colleagues (organization where people work with pride and pleasure);
- Customers (the bank from Romania recommended by customers);
- Company (stockholders are offered the best profitability on the market)
- Control (a bank which is always under contol)
- Community (active participant in community development).

All five pillars are subordinate BCR mission and purpose, which is to be the best bank in Romania and to help customers fulfill their aspirations.

BCR effective methods used to implement sustainable development

BCR actions regarding sustainable Banking considering two major directions: the social and environmental impact.

A. Action on Environment

- *Energy efficiency*

To reduce energy was released a draft of 650 feature of the bank branches illuminated with LEDs instead of neon signs. With internal communication campaigns, employers are informed and held responsible on heating, lighting and office use, all with the aim of creating better working conditions and promote sustainable development.

- *Recycling paper*

Since 2010, it was launched a recycling project in the six largest offices, the project was expanded in 2011 and recycling system was introduced in all branches in the country. Results in the two years of the pilot were surprising.

- *Improving water quality*

Projects were created to improve water quality: participation in the public tender organized by the water companyAries (local operator) for extension and rehabilitation of water and sewerage system in Turda, Cluj.

Also for sustainable development and environmental protection were

- Developed tools to assess environmental risks
- Organized trainings on issues related to environmental risk

- Formed partnerships with universities and research institutes to conduct studies on environmental changes and also to develop technologies to overcome problems identified

B. Action on social involvement

BCR strategic directions in terms of community involvement are as follows:

- *Education, it has two sub components*:

Financial education. Starting from the premise that "education is the foundation of our society" BCR has developed various educational projects. Thus one of the banks projects is to help children and young people to understand the principles of sound money management. The main program in this area is "My Finance," a three years financial education program for the high school students.

Access to education for children from disadvantaged families. In Romania some children come from underprivileged families and BCR aims to help invest in these children and help them become future citizens, who will contribute to society. The "Second Chance" is the main program supported by BCR, this program is designed to integrate children from disadvantaged backgrounds in schools and society. So far, over 10,000 children have benefited from social counseling, material assistance, medical assistance, psychological counseling, integration of family housing, educational and social activities.

- *Entrepreneurship.*

Entrepreneurship education. Entrepreneurship is another method that the studied bank chose to imply in sustainable development. Like the other educational projects this is one that targets young people. "START! Business "is the education of entrepreneurship, developed with Junior Achievement. This project was made possible by employees who provided consultancy voluntarily.

Encouraging entrepreneurial initiatives of NGOs. A project that BCR encourage entrepreneurship among NGOs is Orchard BCR, developed together with the organization Mai Mult Verde. BCR volunteers planted orchards for the benefit organizations that care for disadvantaged people. Orchards are the property of the beneficiary, and then become a valuable source of fruit for the consumption or income from selling the fruits.

- *Social Solidarity*

BCR is the main partner of Food Bank project, initiated by the Red Cross Romania. Food Bank project involves collecting and distributing non-perishable food to vulnerable people. Those wishing to help can buy products from stores emblem Food Bank partners and can then donate in special containers located near the cash register.

Campaign support for people affected by floods. BCR identified flood affected customers and offered proactively solutions as reschedule payments rates for those who had loans. Moreover, BCR offered other customers an easy way to help: the opportunity to donate to rebuild homes through BCR ATMs and alternative channels: e-banking and phone banking.

BCR strategies and principles used to finance sustainable development

In addition to supporting social responsibility programs, the BCR objective is providing funding for certain projects with positive environmental impact. At the same time, equally, the bank can contribute to sustainable development by withdrawal financing for projects with negative impact on the environment and society. In response to this challenge BCR decided to implement a set of rules "principles of responsible finance" with the main objective of incorporating sustainability in its operations in major industrial sectors. Compliance with these regulations should allow the Bank to:

- focus on businesses that add value
- manage the reputational risk
- attract long-term investors

These regulations were designed to evaluate accurately the environmental, social and governance risks of transactions, the ultimate goal being to avoid the reputational risk.

Responsible financing principles were designed to have the group commitments on sustainable development and the Equator Principles respected. BCR goal is to ensure that human rights and the environment are all elements that underpin financing decisions. These principles are also designed to provide responsible funding to sensitive sectors to the environment.

The bank is aware of climate change as one of the main threats to our planet. The Bank recognizes the strategic importance of renewable energy and energy efficiency improvement projects therefore it is committed to support the energy sector to fulfill its key role in developing economies.

Conclusions

Our study on the implementation of sustainable bank management principles at BCR showed that the bank aims to be a model and an inspiration in this area. Sustainable bank management is a key aspect of corporate governance and one of the strategic objectives of the bank. BCR sustainable development as an important part of management strategy and its activity is aimed at promoting green credit, energy conservation and emission reduction. BCR demonstrated that the essence of sustainable development is to ensure that the planet, people and corporations are based on mutual benefit. In this respect, BCR developed risk management principles and social environment where the bank defined directions, commitments, financial credit policies.

The trend of social responsibility in Romania's banking system appears to be a positive one. The concept of social responsibility is relatively new but increasingly common especially in the banking sector where image and reputation are so important. However important steps are still to be taken in this area.

Romanian banking system must follow BCR model and take the whole concept of social responsibility. This concept must become an essential element in the revival and development of Romanian economy and society. Romanian banks must understand the current situation caused by the economic crisis is not a time to slow down social responsibility but also a time when sustainable development banking and society in general is extremely important and help in overcoming the current crisis.

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