

# THE SOCIETAL RESPONSIBILITY OF COMMERCIAL AND SAVINGS BANKS

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If we wanted to categorise the stakeholders of banks, we could distinguish probably between direct stakeholders - such as owners or shareholders, employees and customers - and indirect stakeholders. The latter, which are the focus of this article, would include society in general and institutionalised society (see chart 1). The institutions, groups and individuals brought up for discussion here are of immense importance for

both the commercial and savings banks. Not only do they represent potential customers or even new fields for business activities, but they also are the source of certain external effects: from the state comes the law, the markets bring competition, the media is the source of image-forming factors and from people and community initiatives come counterweight and protest.

Chart 1: The stakeholders of commercial and savings banks

Indirect stakeholders		Direct stakeholders	
Society in general	Institutionalised Society	Individual society	Bank-internal society
<ul style="list-style-type: none"> <li>• National and international public</li> <li>• Social groups</li> <li>• Politics</li> <li>• Media               <ul style="list-style-type: none"> <li>- press</li> <li>- radio</li> <li>- television</li> <li>- internet</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• State(s)               <ul style="list-style-type: none"> <li>- government / legislator</li> <li>- central bank (ECB)</li> <li>- control boards</li> </ul> </li> <li>• International Organisations</li> <li>• Markets               <ul style="list-style-type: none"> <li>- finance</li> <li>- goods</li> <li>- technology</li> <li>- information</li> <li>- consulting</li> <li>- human resources</li> </ul> </li> <li>• Other institutions               <ul style="list-style-type: none"> <li>- municipalities</li> <li>- churches</li> <li>- associations</li> <li>- universities, schools</li> <li>- trade unions</li> </ul> </li> <li>• Temporary interest groups               <ul style="list-style-type: none"> <li>- local / community initiatives</li> <li>- single interest groups</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Clients               <ul style="list-style-type: none"> <li>- investors</li> <li>- borrowers</li> <li>- issuers</li> </ul> </li> <li>• Owners               <ul style="list-style-type: none"> <li>- shareholders</li> <li>- cooperative members</li> <li>- partners</li> </ul> </li> <li>• Supervisory boards, advisory committees etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Management</li> <li>• Employees</li> <li>• Internal advisors</li> <li>• Works council</li> <li>• Pensioners</li> </ul>

The difficulty of a society-orientated banking policy is to satisfy, if possible, all of the stakeholders as it is they who determine the societal acceptance of a bank and, on the base of this, its reputation. Banks need reputation as bank services are based on trust, i.e. they are to a large extent businesses of confidence. If a bank loses society's confidence, for any justified or even unjustified reason, it will have severe consequences and, in extreme cases, could come to a run on this bank. A loss of confidence that affects the bank sector in general usually leads to government intervention, be it in the form of financial or good will support measures - as recently in Japan - or through new and tighter regulations, as in the case of the European Union's banking directives.

The reason why banks are so exposed to society is due to their specific functions vis-à-vis businesses and the economy as a whole. Their commercial instruments are cash, credit and capital, whose distribution to the economy and society gives to the banks a determining control over goods and services. This puts banks into a privileged position, which makes them to be considered sometimes as quasi-public institutions.

Beyond that, banks (specifically in Germany) have further power potentials in the form of delegated voting rights, holdings in the capital of enterprises and the personal relations and networks through supervisory board mandates. This potential is the more effective, the more of these factors are used combined. Additionally, there are authority functions the banks fulfil on behalf of the government, e.g. retaining taxes in order to pass it

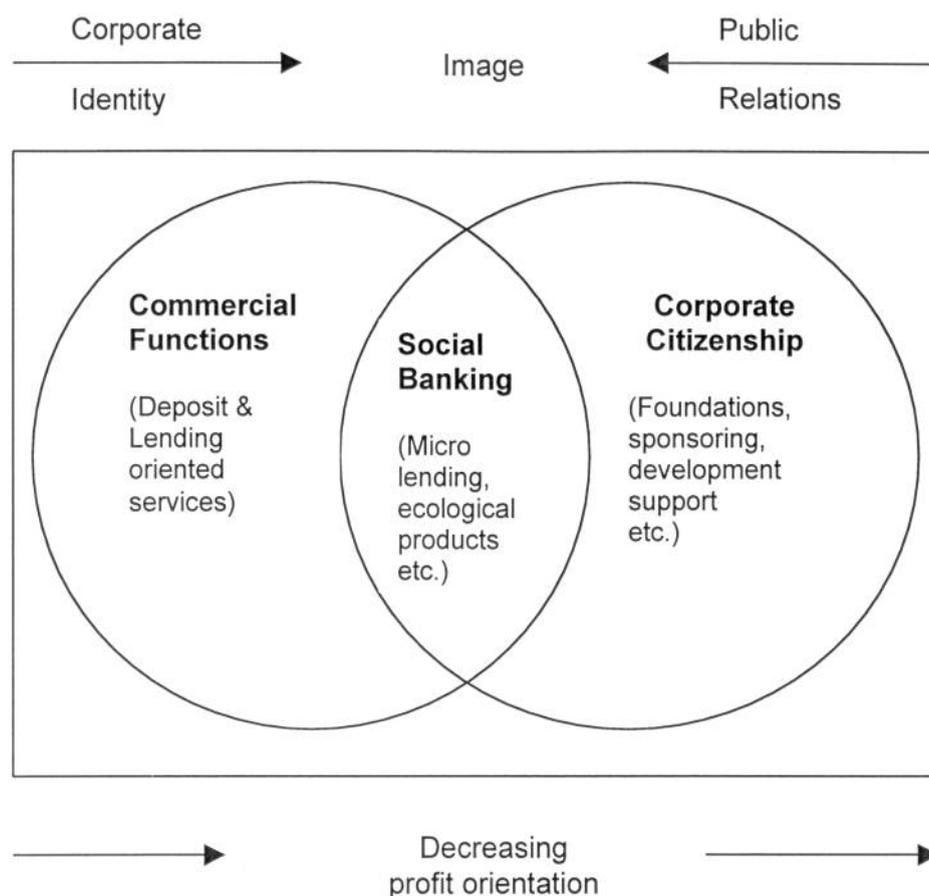
on to the treasury or, to use another example, assuming police functions in the form of reporting suspects under the directives against money laundering. In addition, the central bank carries out its interest rate and monetary policy by using the bank apparatus; i.e. it uses the financial institutions as instruments for economic and structural policy.

These mutual relations between society and its different parties as well as the banks are the subject of the "societal contract". It consists both of explicit rules, i.e. legal regulations, and implicit demands whose fulfilment is expected by society but cannot be enforced by taking legal actions. It seems as if the tensions between the banks and society, frequently revealed by opinion polls, are caused by the latter. Prejudices, e.g. that banks are making too big profits, are numerous. To some extent they are unjustified whilst in other cases they are due to fraud or dubious business. It cannot be denied that such accusations concerning the black sheep among the credit institutes are justified and should be condemned. However, due to the phenomena of the banking-specific collective reputation, the public verdict does not punish this particular institute but the entire credit business. In this way, the sin of one institute becomes the problem of the whole industry.

#### **Society-orientated banking policy**

Commercial and savings banks realised a long time ago not to concentrate their policy on owner-, market- and customer-related activities only, but to include and take into account the entire societal environment (see chart 2).

Chart 2: Functional framework of the society-oriented banking policy



This is known as "Corporate Citizenship" in the Anglo-Saxon world, where the concept is more developed than in German-speaking countries. It means the societal commitment of a bank beyond its actual business activity. Of course, Corporate Citizenship, if it wants to keep its credibility, must not be misused as a cover for non-serious business practices. Banks are not always very keen on it, sometimes even necessitating government intervention as happened in the United States where the Community Reinvestment Act was introduced in 1991. This law secures poorer neighbourhoods, largely Black or Latino communities in American cities, access to financial services with the support of banks. But there is also a whole range of specific schemes within the framework of "Social Banking", which serve the fight against the "new poverty", regional discrimination and economic decline. Thus the concept of "microlending" is becoming widely used, to qualify small credits up to e.g. \$2000 for initiative minded people to start their own micro-activity. By putting borrowers into joint liability groups the repayment rate can be kept at 98%,

thus making this sector interesting even from a profit perspective.

The basic idea of "Social Banking" results from the recognition that particularly among SMEs the boundaries between pure market-related activities and social commitment are moving towards the latter. Big banking institutes, driven today by a strong culture of shareholder value, cannot and do not want to devote themselves anymore to supporting existing or starting small and micro-businesses. Thus, it is important for them to operate in a diverse banking system where financial institutes respond to a variety of business philosophies, size and regional responsibility. In Germany, it is especially the co-operative banks and the (largely public owned) savings banks that have a strong role to keep in terms of regional and local responsibilities, a commitment they may keep provided they are not privatised or excessively concentrated through mergers.

The origins of the co-operative and savings banks are actually rooted in the provision of assistance to businesses in need of support and to the poorer parts of the population. Today, with over four million unemployed and the phenomenon of "new poverty", similar motives are back on the agenda even in Germany. Less wealthy parts of the population should be accepted as a customer group, for whom certain bank services are no less

essential. For people trying to find their way back to a job, a current account service (an "account for everyone") is all too vital. The idea is not to favour a "social fantasy" that would not fit with market mechanisms, but to respond sensibly to a customer segment with an adapted service and price strategy.

Although the term of "Corporate Citizenship" is less common in Germany, there is, however, a set of activities by the commercial and savings banks that fall within this area, such as donations, sponsoring of culture, science and education, support for economic development and other projects. Virtually all groups of banks have shown their commitment, especially through their general interest oriented foundations. Among the private banks, the *Alfred-Herrhausen-Foundation* of the Deutsche Bank and the *Jürgen-Ponto Dresdner Bank-Foundation* serve as good examples. The savings banks, which similarly to the credit cooperatives were founded 150 to 200 years ago specifically for reasons of financial security and access to credit, have since made societal responsibility their first ideal. This is expressed exemplarily by the 200 foundations of the savings banks and their initiative for boosting the regional business location ("Standort: hier") in Germany (see chart 3).

*Chart 3: Services of the savings banks for the economy and society*

- Extensive infrastructure
  - branches outside conurbations
- Regional economic and structural support
  - 33 own investment companies
- SME and start up support
  - business start-ups, innovation centres, follow-up fairs, foundations
- Stock market introductions
- Development support of new technologies
  - biotechnology
- Entrepreneur and innovation prizes
  - "Innovations-Oscar" (since 1993)
- Network for technology advice (NTG)
  - 350 consultants (semiconductor technology, multimedia, logistics, optics etc.)
- EU-information service (DSGV)
  - Eurocontacts, East-asia etc.
- Special credit programmes

The savings bank's commitment in the fields of environmental protection and ecology, which are part of the most urgent problems in our society, is particularly worth mentioning. Special

environmental and community banks had initiated this new banking orientation. The "mainstream" then followed. Nowadays, they check credit-worthy projects additionally on their environmental impact, carry out environmental audits and launch eco-funds, which invest in ecological (solar and wind energy) and socially sensible projects. Investment funds, based on ethical, environmental and social criteria are established, which in addition to the usual selection criteria - such as high yield on equity, healthy gearing ratio and competent management - take into account certain exclusion criteria (nuclear energy, tobacco industry, etc.). A special form of environment-friendly policy is represented by biodegradable credit cards, which have been developed by the English Cooperative Bank in co-operation with Greenpeace.

Adjusted Return on Capital" (SCAROC) for example next to the "Risk adjusted Return on Capital (RAROC). X 8

A constant problem for bank clients is to get their own way in regard to their ideas and complaints. Although the complaint management belongs nowadays to the total quality management in most of the banks, a neutral hearing is not always guaranteed. However, the German private banks have set up an arbitrator - the so-called *Ombudsmann* - who can make arbitral awards up to a value in litigation of 10 000 DM. The credit cooperatives and savings banks have created similar regional boards of arbitration. In this way disputes can be settled out of court, which positively affects the societal acceptance of the credit institutions.

From this essay it may be evident that the role of banks in our society goes far beyond mere commercial activity and that the industry increasingly thinks of itself as a societal player that has to ensure its existence through investments in society. It goes without saying that these various investments intend to positively influence both the corporate identity and the image of the commercial and savings banks and thus have a sales-promoting effect. This is because banks are primarily market economy organisations, for which profitability is a prerequisite in order to satisfy the desires and demands of customers, owners and society as a whole. Corporate Citizenship requires financial input but should also produce notional and material feedback. In this sense, I finally want to propose a "societal balance sheet" as an additional but no less important calculation. While today the societal costs are only partly recorded and thus hardly suitable for further calculation and controlling, the costs that result from societal responsibilities should in future be converted into a specific code, e.g. for the rating of banks, for benchmarking or - in the case of cooperative banks - as a proof of the fulfilment of their specific duties. This code should emerge as "Societal Costs