

# A Study on the Realization Mechanism of CSR

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**Abstract**—This paper is to study how to construct a realization mechanism for European banks to help them take social responsibilities. For this purpose, this paper uses textual analysis method to study the literature for banks and CSR in Europe and then summarize the functions of banks in European economics and society. This paper uses case study to construct a realization mechanism for European banks which contains three parts: for EU, for state and for other stakeholders. At last, this paper studies further details for every part about how European banks should take their responsibilities.

**Keywords**—CSR; EU; Bank; Realization mechanism

## I. INTRODUCTION

Bank, as one of the key financial institutions, makes capital flow in the market through acceptance of deposit from the public and creation of credit. As the formation and development of the modern financial system, bank, with other financial institutions, is play a more and more important role in modern economics. As the functions of banks are more complicated, more people begin to call them “financial institutions”. In principle, these various functions can be provided by banks or other financial institutions or directly through capital markets (Chris, H., & Alan, B. 2011). Nowadays, there are many banks in the euro area as shown in the following table 1.

TABLE I GENERAL STATISTICS OF EURO AREA FINANCIAL INSTITUTIONS<sup>1</sup>

Financial institutions	Euro area	European central bank
Number of credit institutions	4734	0
Number of MMFsa	583	0
Number of other deposit-taking corporations	202	0
National central bank	20	1
Total number	5539	1

MMF: money market fund

As we can see in table 1, there are total 5539 financial institutions, with 4734 credit institutions, 583 MMFs, 202 other deposit-taking corporations, and 20 national central banks. However, in the whole euro area, there is only one European Central Bank whose main task is to maintain price stability in the euro area and so preserve the purchasing power of the single currency.

## II. LITERATURE REVIEW

### A. Concept of CSR

At present, there are several concepts for corporate social responsibility (CSR). And Wikipedia (2017) states that CSR is a form of corporate self-regulation integrated into a business model. However, there is a complex set of definitions and conceptual arguments that seek to describe what CSR is and do in the business context (Manning, L. 2018). So far, there is no clear and unified conclusion about the concept of corporate

social responsibility in China and abroad, and the connotation of corporate social responsibility is changing with the change of social environment (Li, M., etc. 2016).

All the scholars insist that enterprises should not only be profitable tools, but also be responsible for citizenships (Tai, F.-M., & Chuang, S.-H. 2014). And there are two types of corporate social responsibility: a Traditional CSR and a Contemporary CSR (Salib, J., etc. 2015).

### B. Importance of CSR

CSR plays a very important role in economic development. And a relatively high level of CSR results in a more objective economic development, on the contrary, the economic development of the time when companies are not willing to take on the corporate social responsibility may be very general (Li, M., etc. 2016). Chapple & Moon (2005) consider that the emergence of CSR is a function of economic and social development. The definition of CSR by the World Business Council for Sustainable Development is the commitment of

<sup>1</sup>Data in table 1 is from the European Central Bank. The data this paper uses is renewed in February 2018. Website:  
[https://www.ecb.europa.eu/stats/ecb\\_statistics/escb/html/table.en.html?id=JD\\_F\\_MFI\\_MFI\\_LIST](https://www.ecb.europa.eu/stats/ecb_statistics/escb/html/table.en.html?id=JD_F_MFI_MFI_LIST).

business to contribute to sustainable economic development (WBCSD, 2002).

There is some correlation between corporate social responsibility and financial performance (Cochran, P. L., & Wood, R. A. 1984). McWilliams & Siegel (2000) find that CSR has a neutral impact on financial performance. A relatively high level of social responsibility information disclosure of enterprises tends to have a more objective financial performance, on the contrary, a company is not willing to disclose the Social responsibility information of the enterprise may be very general (Li, M. 2015).

C. CSR and financial crisis

In China, Yang Miao (2014) thinks that CSR can reduce financial risk. That is to say that if a bank wants to take more CSR, the national economies will be of more security. CSR can help financial institutions to use financial tools and innovations much more carefully (Shaoqi He, 2010), so the financial risk can be decreased by this carefulness. Yan Cai and Xuehui Li (2010) talk more details about the importance of bank to take on social responsibility during the financial crisis, and they think that to build crisis management culture based on CSR is the best way to avoid or deal with the financial crisis.

In Europe, Giannarakis, G., & Theotokas, I. (2011) consider that the financial crisis has prompted companies to move away from the socially responsible behavior as it costs a lot to satisfy a stakeholder' expectations. And as the size and shape of the financial and economic crises have become clearer, the relationship between firms and society has begun to shift markedly (Kemper, A., & Martin, R. L. 2010). However, continued reliance on a voluntary framework for CSR is one of the lessons learned from the financial crisis (Erneseh, E., etc. 2010).

III. THE SIGNIFICANCE OF CSR REALIZATION MECHANISM IN EUROPEAN BANKS

A. For the European financial system

The EU's financial sector has been undergoing an almost continuous wave of de-or re-regulation since the late 1980s

(Lannoo, K. 2003), so this realization mechanism can help European Union to supervise its financial institutions better and more efficiently.

B. For European country

As far as I know, there is no CSR realization mechanism in the European country, and this realization mechanism helps to maintain a better relation among government, firms, investors and other stakeholders, especial when firms maintain more bank relationships, on average, in countries with inefficient judicial systems and poor enforcement of creditor rights (Ongena, S., & Smith, D. C. 2000). And the social responsibility of central banks is peculiar since these were established decidedly for the benefit of the common good in one country (Lentner, C., etc. (2017), so this CSR realization mechanism will be beneficial to the European country.

C. For other stakeholders

There are also other stakeholders in European banks, such as Chinese banks, especially when most of the debt assumed by the central budget was denominated in foreign currency (Lentner, C. 2014). The Single Market 2 and European Monetary Union may be interpreted as reducing the efficiency (Berger, A. N., etc. 2001), therefore, the entrance of Chinese banks in the European financial market can help to improve the competition and management efficiency, and this realization mechanism can help European banks and Chinese banks work together under the higher competition.

IV. REALIZATION MECHANISM OF CSR IN EUROPEAN BANKS

In order to study the realization mechanism of CSR in European banks, this paper firstly constructs a general realization framework of CSR in European banks. This general realization framework contains total four parts: for the whole European Union (for EU), for the state to which the bank belongs (for state) and for other public stakeholders (for OS).

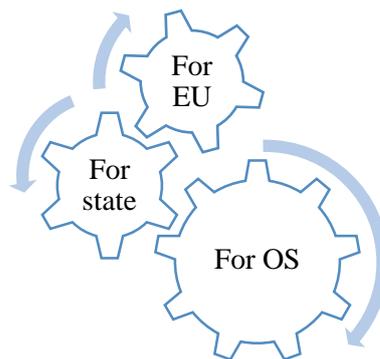


Fig. 1 General realization framework of CSR in European banks

2 The Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and

services. Source: European Commission. Website: [https://ec.europa.eu/growth/single-market\\_en](https://ec.europa.eu/growth/single-market_en).

Banks, work as a special role in European economics, should realize their CSR concerning for four of these parts.

#### A. For the EU

The first part of realization mechanism of CSR in Europe is the CSR of European banks for the EU. The EU values are common to the member countries in a society in which inclusion, tolerance, justice, solidarity, and non-discrimination prevail (European Union). Therefore, to make appropriate contributions to the EU to help the EU develop much faster and better should be the first social responsibility that all the banks in the EU need to take and realize. And this first social responsibility can be divided into three sub-responsibilities: to ensure economic security in the EU, to deal with the financial crisis and to maintain a certain economic growth.

Recently, all EU members have realized the importance to keep economic security which cannot be ensured by one European country independently because of the relatively weaker economic power. So EU banks have a social responsibility to work together to ensure economic security in the EU.

From the lessons we learned from the Greek government-debt crisis, it is harder for one European country to deal with the financial crisis. To make regulations and to consider methodologies to deal with the financial crisis together is key social responsibility for EU banks.

The EU economy still has a lot of uncertainty from the global economic situation, and the global economic recovery is uncertain too and there are ups and downs in the world market (Xiu, etc. 2017). During this situation, how to maintain a certain stable and relative higher economic growth is really not easy for all the EU member. Therefore, banks should make their proposals to support the EU to try to reach this target.

The realization of CSR is a popular social theme, but it cannot be realized by one or two corporate (Zeman, Z., etc. 2016). The purpose of the EU is to create a peaceful, growing and prosperous community for the whole EU members. However, after the financial crisis in 2008, this community is facing several challenges, for example, BREXIT. The only method to deal with these challenges is to have a common development for every EU members. Only EU members, with the help of banks, can make better progress in common development by all the member governments, all the challenges facing the EU will be solved.

#### B. For state

The whole social responsibilities taken by banks to their states with the main target to pursue sustainable development. This social responsibility category includes keeping currency value stable, to support state industry policy and to mop up liquidity.

A stable currency is a currency which successfully performs its functions as a means of exchange, unit of account and a store of value because its purchasing power is stable (Banque National Bank). And a stable currency is an important requirement for the state's role as an international financial sector and the development of a large offshore banking sector (Chow, H. K. 2017). So the first CSR of European banks for

their state should be to keep currency value stable, of course, with great help from their states and cooperating with their states.

The industrial policy of a country, sometimes denoted IP, is its official strategic effort to encourage the development and growth of part or all of the manufacturing sector as well as other sectors of the economy (Graham, O. L. 1994; Wikipedia). Every country will make its own industrial policy according to its economic situation and development needs. What banks should do is to use interest rate and other loan regulations made by bank themselves or states to help the application of industry policy.

For the whole state, general liquidity means not only the speed of the capital flow but also the development level of economics. And, to some extent, liquidity is one of the methods to measure economics management efficiency of the state and the performance of banks in this state. Therefore, banks who help the whole economy to improve and mop up the liquidity are to improve their finance and capital management efficiency and performance.

#### C. For OS

Stakeholder orientation significantly reduces bank risk (Leung, W. S., etc. 2017). In European countries, the ownership of stakeholder bank groups is concentrated in the regional banks (Meriläinen, J.-M. 2017). Thus, stakeholders of banks would play an important role in the development and management of banks and other financial institutions. So social responsibilities taken by banks to these stakeholders are also making a difference.

The first important part of social responsibility to other stakeholders is to earn profits for stockholders because the profit is the only reason for the existence of the business. So banks, as one type of business, should try their best to survive in the fierce competition today and to make as many profits as possible to their stockholders.

A large body of empirical work documents the importance of human capital as a determinant of earnings (Stantcheva, S. 2017). For banks, the employee is also one core capital. To provide better and enough welfare for employees is the basic social responsibility taken by banks to employees and is also the best way to let employees work as an organizational citizen.

### V. CONCLUSION

All the EU members in the same community should be responsible for each other, and all banks in these members also need to take responsibilities to each other. This paper is trying to construct a realization mechanism for European banks to help them responsible for each other and further for the EU and their own countries.

In order to construct the realization mechanism, this paper analyzes the literature related to social responsibility and bank. And this paper summarizes the functions of banks.

The realization mechanism constructed by this paper contains three parts: for EU, for state and for other stakeholders. And this paper analyzes the details of the responsibilities of European banks for these three parts.

This paper is to study the realization mechanism for the EU for the first time. And there are still a few problems we need to

concern more. For example, the difference in economic development will affect social responsibility.

In the future, as mentioned by European Commission (EC), the European Commission will continue to encourage companies to apply fair employment practices that respect human rights, particularly where products come from outside the EU. That means CSR will be playing more and more role in the EU. On the policy side, among public CSR policies, the most important will be public procurement, subsidies and tax incentives, and CSR reporting standards (Kudłak, R., etc. 2018).

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