The Romanian Banking System –Key Dimensions and Visibility of CSR Practices

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Abstract

The concept of corporate social responsibility has received broad attention from both academics and business sector during the past decades. The field has grown and so have the theories and specific terminologies on CSR. Moreover, the approaches on CSR cover several perspectives such as, but not limited to marketing, public relations, stakeholder relation, strategy, or impact on financial performance. The concept has also permeated different economic sectors. Without receiving as much attention as other sectors, the research results on CSR in the banking system revealed interesting findings. In this paper, we aimed at briefly reviewing the evolution of CSR and its application in the banking system, with a particular focus on the case of Romania. Subsequently, we conducted a concise analysis of the evolution of the banking system in Romania, and examined the CSR practices of the first three banks, ranked according to the value of assets and market share.

Keywords: corporate social responsibility, banks, impact, visibility, reporting
J.E.L. classification: M14, M31

1. Introduction

The concept of corporate social responsibility (CSR) has received broad attention from both academics and business sector, following the groundbreaking work of Bowen in the early 1950's. The increased interest in CSR led to a proliferation of theories, approaches, and related terminologies, as well as to its application to different sectors. The notion is still largely under debate however, it is widely embraced today as common business practice. CSR and CSR related issues in the banking and financial sector were less approached than in other sectors, however, there are a few notable contributions, especially following the financial crisis. This paper aimed at briefly introducing the CSR notion and its application to the banking sector, with a particular focus on the case of Romania. Subsequently, the general context of the Romanian banking system was presented and finally, there were examined and discussed the current practices of corporate social responsibility of the first three banks in Romania, ranked according to their market share and value of assets.

2. CSR in the banking sector

Although the CSR concept is still largely under debate, it is generally accepted that it represents the voluntary initiative of companies with regard to environmental or social issues.

In the dedicated literature, Bowen's *Social Responsibilities of the Businessman* (1953) is considered the first important work on the relationship between corporations and society (Carrol, 1979, p.497).

Following Bowen's pioneer work, the subject attracted considerable interest. However, not all debate concerning social responsibility of companies was favorable. A notable exception is Milton Friedman who argued that the sole role of companies is “to make as much money for their stockholders as possible” (Carrol, 1979, p.497). Indeed, corporate social responsibility seems to have gone through a transformation and evolution process from an irrelevant or even an unpopular to a widely accepted concept (Lee, 2008, p.53).

However, the vast dedicated literature and the considerable interest of the business community did not lead to an articulate and generally adopted definition of the concept. During its existence, the concept has evolved, as well as have the theories and models of CSR. In the early days, especially after the debate initiated by Friedman in the 1960’s the dedicated literature tried to accommodate the concept within the traditional activity and objectives of businesses. Some authors considered that social responsibility referred to objectives adjacent to the economic ones, others considered it only related to voluntary acts, while there were also opinions regarding social responsibility as ranging from economic production to voluntary actions (Carrol, 1979, p.498). From a different perspective, social responsibility was perceived as implying the assumption of an obligation, and therefore social responsiveness was thought to be a more suitable alternative (Ackerman and Bauer, 1976, p.6 in Carrol, 1979, p.498). An illustrative and comprehensive definition of corporate social responsibility, which stood up to the test of time, is that proposed by Carrol (1979, pp.449-500). In this view, social responsibility encompasses economic, legal, ethical, and discretionary (later renamed philanthropic) responsibilities.

As the field has grown, so have the theories, approaches, and terminologies; new related concepts have been proposed, such as corporate citizenship or corporate sustainability (Garriga and Melé, 2004, p.51). While the field still lacked a clear and generally accepted definition, studies have addressed the CSR notion also from several different perspectives – marketing, public relations, strategy, stakeholder relation, leadership theory, impact on financial performance etc., and within different economic sectors.

As far as CSR in the banking system is concerned, in our opinion, there are two perspectives to be explored. The first perspective regards the attitude of banks and other financial institutions with respect to CSR. One may easily notice an increased preoccupation and engagement of banks and other financial institutions in CSR practices. Several factors are of particular importance: the intangibility of services, the perceived risk and the impact on customer satisfaction, changes in consumer behavior, the general increased awareness regarding CSR, the social and economic dynamism, competition, as well as the natural consequences of the financial crisis of 2008, which affected consumer confidence and trust in the financial system.

The other perspective refers to studies focusing on CSR and CSR related issues in the banking system, which revealed interesting findings. The results of several empirical studies illustrated a positive relation between social and financial performance in the banking industry (Simpson and Kohers, 2002; Gadioux, 2011). At the same time, social responsibility contributes to customer satisfaction and loyalty (Mulki and Jaramillo, 2011). Undeniably, the severe and prolonged financial crises and its social consequences had an impact on consumer trust in financial institutions. Therefore, several studies on CSR in the banking sector focused on the aftermath of the financial crisis and on the banks’ concern with restoring the confidence in financial institutions (Lentner et al., 2015; Jurek, 2015). Special attention was also given to customer perception regarding the CSR performance of banks (Perez et al., 2013), or the impact on customer satisfaction and behavior (Perez and Rodriguez del Bosque, 2014). Yeung (2011) proposed and empirically tested a framework applicable to socially responsible banks addressing several related issues, such as establishing both internal and external management systems oriented toward the benefit of investors and community and protecting the rights of the customers. Other studies examined corporate social responsibility in banks and revealed the focus of CSR practices (Wong and Wong, 2015). Another direction for research concentrated on the determinants and antecedents of banks social responsibility (Ivanisevic Hernaus and Stojanovic, 2015; Djalilov and Holscher, 2016).

In Romania, generally speaking, CSR is a rather new topic, which came into attention after the EU accession in 2007 (Zaharia and Grundey, 2011, p.201; Dumitrascu et al., 2014, p. 620). The research on CSR in the banking system focused on examining the CSR activities conducted by banks in Romania (Joldes et al., 2011; Matei and Voica, 2013), their strategic approach to CSR

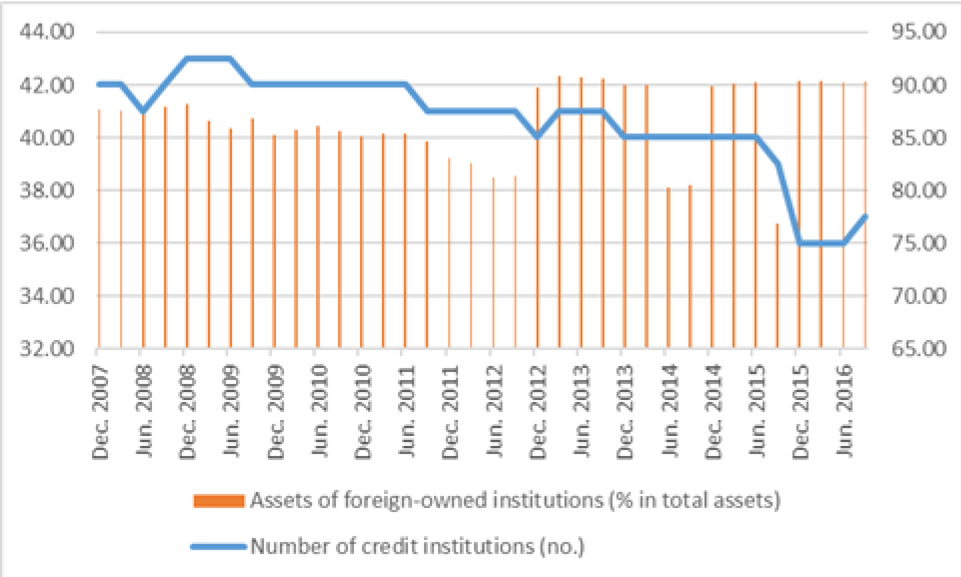
(Gligor-Cimpoieru and Munteanu, 2014), on green banking (Dumitrascu et al., 2014), or on proposing a CSR model for the industry (Mocan et al., 2015).

3. CSR practices in the Romanian banking system. Consistency, reporting, and visibility

The banking system in Romania has been the subject of many changes during recent decades that transformed it from a centralized system, consisting of Romanian institutions with public capital ownership, to a system of private banks with foreign origin capital. At the time of the financial crisis of 2008, the banking system in Romania consisted of 42 credit institutions of which 27 banks with majority foreign private capital, 10 branches of foreign banks, two banks owned by the state and three banks with majority domestic private capital.

The financial crisis has laid the groundwork for a new restructuring of the banking system. The consolidation process has led to a decreasing number of banks in the market, but also to changes in ownership. In 2015, four banks have ceased their activity in Romania, being either purchased by other institutions (Volksbank taken over by Transilvania Bank, RBS retail and corporate portfolios taken over by UniCredit Bank, and Millennium Bank bought by OTP Bank) or leaving the market (Montepio).

Figure 1. *The evolution of the number of credit institutions and share of foreign-owned institutions assets in total assets in Romania, between December 2007 and June 2016*



Source*: Processed based on data released by NBR*

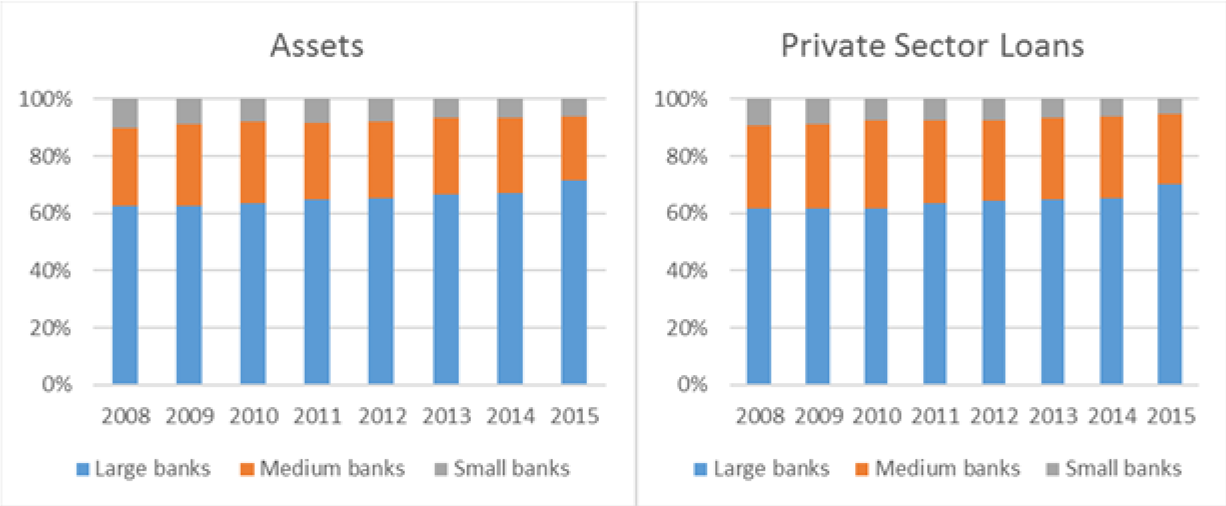
The two major trends in the evolution of the Romanian banking system are, on one hand, the reduction of the number of credit institutions and, on the other hand, the increase in the share of assets held by foreign institutions in total assets. In 2015, 36 banks operated in the Romanian market, foreign institutions holding 90.4% of total assets. Compared to 2008, the number of banks was reduced by six, and the share of foreign-owned banks' assets increased by 2.2%.

From the perspective of the degree of concentration, the Romanian banking system is at a medium level, below the European average. At the end of 2015, the market share of the first five banks, classified according to assets, was 55.3%, below the EU average of 61.02%. The Herfindahl-Hirschmann Index for 2015 reached a value of 812 units, revealing the existence of a low market concentration and hovering below the EU average of 1137 units.

The distribution of assets by groups of banks shows the growth of the proportion of the group of large banks in 2015, which represented 71.4% of total assets, 4.3% more than the previous year. Medium-sized banks held 22.4% of the total system assets, 3.7% less than in 2014, while the share of small banks remained relatively constant around 6% of the total (figure 2).

Large banks have strengthened their position in the private sector loans market, granting in 2015 loans amounting to 152.97 billion Lei, representing 70.3% of total loans, about 7% more than the previous year. Medium-sized banks granted loans worth 52.9 billion Lei, representing 24.3% of the total. Considering these developments, one may conclude that the banking system in Romania is increasing its concentration degree, the group of large banks holding most of the system's assets and the bulk of the credit to the private sector.

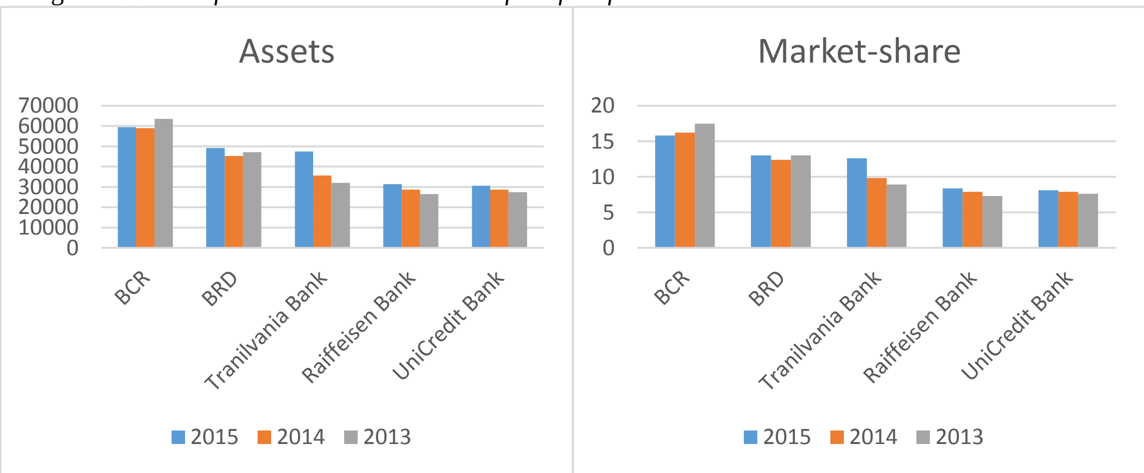
Figure 2. *Distribution of assets and private sector loans*



Source: *Processed based on data released by NBR*

In the past three years, there have been no changes in the top five banks in Romania in terms of assets and market share (Figure 3).

Figure 3. *Value of assets and market share of the first five banks in Romania between 2013 and* 2015



Source*: Processed based on data released by NBR*

In this paper, we aimed at presenting the practices of CSR in the first three banks in Romania, ranked according to the value of assets and market share. Our objective was to catalogue their practices in the field of CSR, between 2015 and 2016, and observe the visibility of these practices.

The first credit institution, in terms of assets value, number of clients, savings and crediting is Banca Comerciala Romana (The Romanian Commercial Bank -BCR) which owned at the end of 2015 net assets worth 59460 billion lei and a market share of 15.8%. Compared to the previous year, BCR assets decreased by 423 billion lei, and its market share by 0.4%.

BCR is currently a member of Erste Group, providing universal banking operations. It was established in 1990 by taking over the commercial operations of the National Bank of Romania. In 2003, BCR was privatized by the sale of the block of shares to EBRD and IFC. Since 2006, the Austrian bank Erste owns 61.8825% of BCR shares, bought from the Romanian Government, EBRD and IFC for 3.75 billion Euro. BCR's shares are listed on the Romanian capital market, the bank also being the first bank in Romania to trade securities in the secondary market.

The second largest bank in Romania is Banca Romana pentru Dezvoltare (The Romanian Bank for Development -BRD) with assets amounting to 49192 billion Lei in 2015 and a market share of 13%. BRD is one of the oldest banks active in the Romanian market. BRD's ancestor Societatea Nationala de Credit Industrial was created in 1923 as a public institution, held by the State, the National Bank of Romania and individuals. After the Second World War nationalization, Societatea Nationala de Credit became Banca de Credit pentru Investitii, and in 1958 was renamed Banca de Credit pentru Investitii. Throughout the communist period, Banca de Investitii held the monopoly in Romania for the medium and long term financing of all industrial sectors.

In 1990, Banca Romana pentru Dezvoltare was established as a commercial bank by taking over the assets and liabilities of Banca de Investitii. From 1998, Societe Generale became the owner of 51% of BRD's shares and in 2004 purchased the residual stock owned by the Romanian State.

Since 2001, BRD-GSG was listed on the Romanian capital market, becoming one of its most traded companies.

The third largest bank in terms of assets is Transilvania Bank (BT). At the end of 2015, it owned a total of 47382 billion lei in net assets, with an increase of 11763 billion lei compared to the previous year. This increase in the value of assets is due to the purchase of Volksbank's operations, which also increased the market-share of BT from 9.8% to 12.6%.

BT is one of the youngest banks in Romania. It was established in 1994, in Cluj-Napoca, by a group of Romanian businessmen, whose goal was to create a local brand. In 1997, BT became the first Romanian bank to be listed on the capital market. At present, the structure of BT's capital includes an 11.46% participation by EBRD, a 38.78% foreign participation, as well as a 49.76% participation from Romanian companies and individuals, making BT the only majority Romanian owned bank among the top three banks operating in Romania.

In order to observe the practices of CSR in the three banks mentioned above, we analyzed secondary data collected from banks websites, annual reports, and corporate social responsibility reports, between 2015 and 2016. The analysis led to several conclusions regarding the nature, the strategic approach to CSR, and the visibility and reporting of the CSR practices.

BCR focuses on education for the development of practical skills, on promoting leaders and role models, and on civic leadership. In the case of BRD-GSG, CSR follows as main directions culture, education, sports, and civil society. BT focuses on entrepreneurship, education, social issues, sports, healthcare, and environment.

All three banks analyzed in this study have initiated or supported numerous CSR projects and activities; however, the communication regarding these projects differs significantly and is generally of slender visibility. Some projects received a broad attention, some are presented in detail, while for others there are presented only general information.

Although the banks affirm their strategic commitment to CSR, the information on their CSR strategies is rather scarce.

The reporting of CSR practices was another focus of our study. The banks do not publish CSR reports regularly, thus compromising any kind of comparative analysis between banks or periods.

4. Conclusions

Banks have become increasingly preoccupied with CSR practices, and this is obvious in the case of Romania, as well. In this paper, we observed the CSR practices and reporting of the first three banks in Romania, ranked according to the value of assets and market share – BCR, BRD-GSG, and Transilvania Bank (BT). Our interest focused on the nature, the strategic approach to CSR, and the visibility and reporting of the CSR practices. Our observations led to the conclusion that the CSR practices of the three banks focus mainly on the people/community dimension. The main difficulty we identified refers to the visibility and reporting of CSR practices. Although the banks are obviously preoccupied with CSR and develop numerous projects, communication seems to be an issue. The reduced visibility combined with the irregular reporting hinders any type of rigorous analysis of their CSR performance, both at the level of any individual bank, and at the level of the entire system.

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