Improving the Organizational Resilience during COVID-19. An Analysis of the Romanian Banking Sector

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Abstract

Organizational resilience refers to the firm capability to face unexpected shocks and recover after major changes in the business environment. The present paper focuses on the COVID-19 pandemic as the main external shock for the Romanian banking sector, developing a theoretical approach based on the corporate social responsibility mechanism. Starting from the stakeholder theory and the reputational implications of corporate social responsibility (CSR), the main effects of the COVID-19 pandemic for the banking institutions were analyzed. Thus, the stakeholder engagement was used as a prior feature of the resilient banks, suggesting that digital banking services have positively amplified the customer experience in terms of security, efficiency and transparency through CSR. The comparative case study of the Romanian sector leading banks explores the managerial implications of the health crisis for organizational resilience, investigating the CSR practices as response to the pandemic context.

Key words: organizational resilience, corporate social responsibility, stakeholders, digital banking
J.E.L. classification: G21, M10, M14

1. Introduction

Business environment challenges and external shocks, such as recessions or legislative changes, have highlighted the need to increase the organizational resilience through which firms can respond to the negative externalities without affecting their long-term financial performance. First, the paper explores the theoretical background of the organizational resilience, suggesting a strong relationship with corporate social responsibility through the stakeholder theory. Thus, the stakeholder perspective was depicted according to the materiality analysis of the leading banks from the Romanian banking sector, exploring the CSR practices as response to the pandemic context.

Since the COVID-19 outbreak in late 2019, both social and economic life has been affected by uncertainty, but the impact of the health crisis on the banking sector is particularly important. The COVID-19 pandemic has provided an opportunity for the development of the banking sector through digitization, but few papers have been concerned with the ability of the banking institutions to survive during the pandemic. Banks have an ethical responsibility to be prepared for disasters and to recover quickly. The banking sector plays a critical role in disaster situations as it provides many basic services that help build community resilience. In this context, it was essential to focus not only on the management of banking institutions during the COVID-19 period, but also on the role of these institutions in society through CSR.

2. Theoretical background

Resilience is an interdisciplinary concept, covering a variety of research fields, from physics and engineering to ecology, economics or psychology, referring to the ability of a system to recover or even overcome its initial state after a moment of discontinuity (Folke, 2006). In the applied sciences the term refers to the property of a material to return to its original shape after being temporarily subject to exogenous forces (Wendong et al., 2019), while new social innovation perspectives define *resilience* as a long-term growth based on permanent renewal, without a specific moment of discontinuity requiring recovery (Acquaah et al., 2011).

The term *corporate social responsibility* refers to a voluntary corporate action leading to the improvement of social or environmental conditions (Mackey et al., 2007). Although corporate social responsibility is not explicitly required by law, the social good it generates can at the same time bring benefits to the company. Thus, establishing an organizational relationship with a series of stakeholders and creating trust through CSR can contribute to strengthening organizational resilience. The stakeholder theory represents one of the main pillars in the CSR development, which was based on harmonizing the divergent interests of corporations with those of key stakeholders: government, customers, consumer representatives, suppliers, competitors, media, environmental associations, local and business communities (Freeman, 1984).

Corporate social responsibility facilitates organizational resilience through reputation (Gao et al., 2017), increasing the financial performance of a company by improving both customer (Singh, 2016) and employee (Bode et al., 2015) satisfaction. In the same time, the effects of corporate social responsibility translate into strengthening social image (Barakat et al., 2016) and innovative performance (Abdelmotaleb et al., 2018), being seen as a buffer against economic shocks, mitigating the negative impact and financial volatility (Godfrey et al., 2009). The engagement in CSR activities helps companies strengthen their reputation, which acts as an additional resource that activates the conventional resources of companies and allows them not only to mitigate cyclical shocks, but also to create business opportunities that can lead to increased financial performance. Positive relationships with different stakeholders contribute to building a wide network of knowledge, providing the organization with flexibility and efficiency and supporting innovation.

There are different typologies of stakeholders, including consumers, suppliers, community, government, employees, environment and investors. But one of the most common classifications according to the stakeholder theory suggests a distinction between primary and secondary stakeholders (Park and Ghauri, 2015). If the first mentioned category includes internal managers, employees, consumers, suppliers, investors and governments, secondary stakeholders have a strong involvement in increasing the credibility of a corporation: the local community, non-governmental organizations, the competition and the media (Maon et al., 2009).

During the COVID-19 pandemic, a special attention was directed to the rapid digitization of the banking sector as a social responsibility mechanism towards clients through the development of a dynamic portfolio. The digital payments were used even before the health crisis, which only amplified the process. The sudden increase in demand for digital banking services has posed a major challenge to many banks' ability to serve their customers. Focusing on the relationship between corporate social responsibility and customers, the paper explores the organizational resilience of banks in a flexible approach, investigating the CSR practices implemented in line with the need to reduce the negative effects of the coronavirus for the economy.

3. Research methodology

During the COVID-19 pandemic, banks mobilized and managed to face the critical periods. Since the beginning of the pandemic, the banks were part of the solution, not the problem, as happened in the previous crisis, and a positive effect resulting from this pandemic was the acceleration of digitization both in the banking field and in the other fields of economy. The COVID-19 pandemic has been a unique shock to the demand for digital banking, driven by a sudden drop in customers' willingness and ability to physically visit bank branches. The widespread mobility restrictions imposed by state and local governments, as well as the risk of infection, have led to substantial barriers to the direct banking services. The use of digital banking has grown substantially during the pandemic, prompting banking institutions to develop robust long-term strategies.

Despite the negative impact of the COVID-19 pandemic on all economic sectors, many banking institutions have engaged in various CSR initiatives and developed their strategies to fight the crisis, showing solidarity within local communities through innovation technology and improving digital services. The theoretical framework of the paper can be represented according to Figure no. 1, which relates the banks' CSR commitment and organizational resilience through stakeholder theory, with an emphasis on commitment to customers. Thus, the research question *What is the specific role of*

CSR in the banking sector? has become particularly relevant for two reasons: firstly, in the face of dramatic situations, CSR activities are particularly necessary, and secondly, these practices can contribute to improving the organizational resilience of banks, which is essential for supporting the national economy.

Figure no. 1. The theoretical framework of the paper

Source: author processing

A comparative case study was conducted in order to emphasize the patterns, similarities and differences between Banca Comercială Română S.A. (BCR), BRD – Groupe Société Générale and Raiffeisen Bank. The sample was chosen by applying three filters: (1) the activity sector; (2) the total assets, according to Top 100 SEE - Southeast Europe's Biggest Companies 2021; (3) the option for banks that belong to international financial groups. Thus, considering the findings regarding the banks' resilience during the COVID-19 context and adding the importance given to the reporting of CSR information by financial institutions according to the data provided by the Global Reporting Initiative, the scientific approach will be grouped around the most active banking institutions in Romania that belong to European financial groups.

4. Findings

4.1. Implications of the COVID-19 pandemic for banking institutions

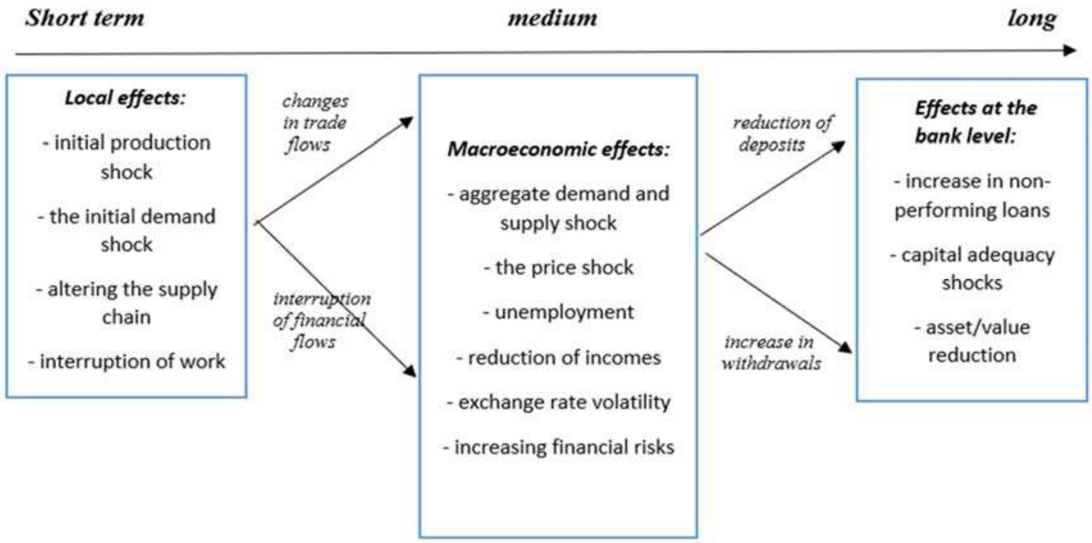
The crisis generated by the COVID-19 pandemic had multiple effects on different levels (social, economic, individual, biological, etc.), most of the measures taken affecting systems from various areas of the economy in a different way and putting banks in a delicate position towards both customers and partners. For banks in particular, the pandemic involves the risk to cause increases in default rates. As the pandemic led to reduced production, trade and economic activity and increased unemployment, financial institutions faced significant risks. Destabilization of macroeconomic indicators has threatened the sustainability of financial institutions and the financial stability of all countries.

Figure no. 2 outlines the possible implications of the health crisis for banking institutions in a scenario marked by no policy intervention. Banks traditionally face a wide range of risks, but the pandemic increases their severity by the liquidity crisis, reducing the credits, investment yields and loans, increasing non-performing assets, lowering market interest rates and inducing the contagion effects. Systemic events could have massive adverse effects on bank performance, leading to bankruptcy in extreme cases. The prolongation of the pandemic may cause a complete shutdown of the banking sector, pushing banking institutions towards a new crisis.

First of all, the pandemic had direct consequences for the population savings, due to the urgent social distancing measures taken by the authorities. Under these conditions, production stopped in some companies, demand for some non-essential goods / services decreased, transports was restricted, offices/factories were closed completely or partially, with direct effects on savings. These measures can generate severe macroeconomic costs, causing large reductions in aggregate demand

and supply, inducing massive price shocks, layoffs and adverse developments of the exchange market.

Figure no. 2. The effects of the COVID-19 pandemic on the banking sector



Source: author processing

The banking sector may experience a substantial rise in default risk due to reduced revenues of their borrowers determined by the economic slowdowns and forced closures, being more severe for the borrowers who rely on exports, as the global economy will feel the effects of the pandemic on a large scale. A similar effect can be also noticed for small businesses that need to generate enough operating cash inflows in order to survive. Under these conditions, banks with substantial exposure to loans offered to companies in export-oriented sectors and SME may experience a substantial rise in default rates. In addition, a liquidity shortage may be caused by the decision of depositors to withdraw their savings in order to support their basic expenses. Income is likely to decline under exogenous shocks due to reduced international trade, foreign exchange transactions and trading services. The cumulative result of the mentioned effects could be represented by increases in non-performing loans and reduction of asset quality for banks. Thus, such a persistent scenario could reduce the value of bank assets. A lower value of assets relative to risk will reduce banks' capital adequacy, threatening banks' financial solvency, but also their survival and sustainability.

4.2. The resilience of the banking sector during the COVID-19 pandemic

Since the outbreak of the pandemic, the real sector deposits have consolidated their dominant position in the liabilities of credit institutions and represented in September 2021 approximately two thirds of the value of the aggregate balance sheet of the banking sector in Romania, outlining the consolidation process of these sources of financing in the period since the beginning of the pandemic crisis. The banking sector was financed by the real sector at low costs, an aspect determined both by the prudent behavior of depositors and by the reduced role of other sectors in the financial system, which offer less promoted and assimilated investment alternatives by the real sector. Thus, post-pandemic saving has been predominantly focused on deposits at sight.

Based on a consistent stock of liquid assets, credit institutions have been able to manage liquidity shocks and contribute to reducing risks from the real sector. In this context, the share of liquid assets in banks' balance sheets places Romania in the top banking sectors in the EU. Into the framework of the war in Ukraine, the quotations for most banks and financial institutions listed on the European stock exchanges recorded decreases that came close to those recorded during the pandemic. Related to the end of 2021, in March 2022 there were noted important decreases of the stock markets in Austria (-20.94%), the Netherlands (-11.77%) and Belgium (-9.49%). The resilience of the banking sector in Romania was superior to the other states included in the analysis, even in the context marked by high volatility and uncertainty (Figure no. 3).

Figure no. 3. Evolution of the financial sector by country (2018=100)

Source: https://asfromania.ro/ro/a/970/rapoarte

The significant contraction of lending since the outbreak of the pandemic was felt especially in the case of the population's consumer credit balance, with the annual variation entering on a negative territory. Later, the balance of these credits returned to a slightly higher level than the pre-pandemic one. At the start of the economic recovery process and supported by other government measures or programs, it increased to a significantly higher level than that recorded before the pandemic. Since the beginning of the pandemic, the Romanian banking sector has maintained a prudent position from the perspective of the balance sheet structure in order to favor an adequate management of liquidity risk.

4.3. Corporate social responsibility towards clients through digital banking

Since the beginning of the health crisis, the credit institutions have implemented a set of strategies to protect both customers and employees, trying in the same time to continue their business. According to the directions of the European Central Bank (ECB), banks were involved in actions related to: control the COVID-19 infections at the workplace, assessment of IT infrastructure and fraud risks in the field of cyber security. The social distancing measures led banks to promote digital channels and even to start cooperation with a number of Fintech companies in order to support clients. These initiatives can be considered a consistent part of responsibility towards employees, customers and community, given the fact that banking institutions have been implemented CSR initiatives aimed at these categories since the pre-pandemic period.

The health crisis has offered banks the opportunity to develop CSR programs that are truly tailored to the needs of clients caused by the COVID-19 pandemic. This section is based on the analysis of the main measures in the digital banking field implemented by the three best-performing banks in Romania during the COVID-19 pandemic: Banca Comercială Română S.A. (BCR), BRD – Groupe Société Générale SA and Raiffeisen Bank.

BCR recorded a net profit of 1,409.8 million lei (286.5 million euros) in 2021, from 814.1 million lei (168.3 million euros) in 2020. Adaptation and resilience were the dominant words, at the business level, for BCR in 2020, with 1.8 million internet banking and mobile banking users, of which over 1 million active George users, up 43% from of 2019. Thus, George became the digital ecosystem that offered 100% online a set of specific retail banking products. The number of transactions through George increased by 102% in 2020 compared to 2019.

Casa Mea (My Home) App, the platform that manages the document flow for standard mortgages from phone or tablet, was used for 40% of *My Home* mortgages in 2020. Thousands of customers received in 2021 financial intelligence advice in direct conversations through a digital platform that helps employees in the network provide personalized solutions. The capacity of the Contact Center has increased by over 50% to respond to requests more quickly, with the migration to a new digital platform and the opening of regional centers in Timișoara, Iași and Bucharest.

In 2020, the entrepreneurial education program BCR School of Business reached 10,000 users that participated on the platform and at the online training sessions. INNOVX-BCR accelerator included 62 start-ups and scale-ups that were incubated / accelerated, from all regions of the country. In 2021, Banca Comercială Română S.A. (BCR) had approx. 2 million internet banking and mobile banking users, of which nearly 1.4 million are active George users, up 33% from 2020. Moreover, approx. 100,000 companies have been enrolled in George for business, a platform that includes a complete package: Digital Onboarding, Digital Overdraft and unique sign-in for business and personal operations. Over 56% of personal loans in 2021 were granted 100% digitally.

BRD achieved a high level of profitability in 2021 by fulfilling the strategic objectives of the BRD Group in the field of digitization. In 2021, BRD developed in-house solutions and launched digital flows to facilitate 100% remote onboarding as a new bank customer, 100% remote lending for personal needs, 100% remote data update process, which were easily accepted by customers, especially in the context of the pandemic. BRD has invested in bringing more functionality to its first fully in-house developed mobile app to give customers better control over their accounts and transactions. YOU BRD has expanded with foreign payments and exchanges between BRD and other banks' accounts, authorized accounts, opening and closing deposits, opening current accounts and savings accounts and many other useful functions to make the application a banking partner of trust. The number of digitally active individual customers was 20% higher in annual dynamics in 2021 and 48% compared to 2019, while the number of transactions was 31% higher than in 2020.

In the field of technology and innovation, together with CSR in the field of financial education, BRD supported the training of key players for a digital society. The projects that BRD has developed focus on education in STEM subjects, R&D in AI, machine learning and tech entrepreneurship. Paper consumption is carefully monitored and specific projects are implemented in order to reduce it. For this reason, a project that promotes the electronic signing of documents and the electronic archiving process has started at the Group level.

In the context of the COVID-19 pandemic, Raiffeisen Bank became the first bank in Romania to fully digitize its relationship with the National Pension House in July 2021, thus meeting the needs of elderly people. In 2021, Raiffeisen Bank's strategy focused on the development of products and services with an emphasis on the digitization side and increased attention to the integration of sustainability and the development of green credits. Starting with the first quarter of 2021, all classic savings products were offered exclusively on digital channels, Smart Mobile and Raiffeisen Online. For the SME segment, Raiffeisen Bank launched the SME current account packages, with flexibility, modularity and adaptability to any customer profile, regardless of the stage of development or the industry it belongs to. In addition to the included trading operations, the new packages have been enriched with digital services such as RaiConnect, the application through which customers can benefit from a dedicated bank advisor, remotely, as well as the internet and mobile banking applications, Raiffeisen Online IMM and Raiffeisen Smart Business.

The process of simplification and digital transformation was also supported by the remote electronic signature solution offered free of charge to the Bank's customers on the Namirial SPA Italy platform, supporting a green alternative for signing documents in relation to the bank. These alternative channels for accessing remote banking services were complemented by the remote interaction solution - Interactive Voice Response through the call center or the ChatBot launched in 2020 and enriched in 2021 with new topics of interest and prompt answers to the SME customers' questions. From December 2021, Raiffeisen Bank offers the opportunity to become a customer of the bank on a 100% online flow, through the Smart Mobile application, without visits to the agencies.

Compared to 2020, transactions made by individuals with cards at merchants increased by more than 30% at the end of 2021, both in number and value. At the same time, the number of payments made by phone increased by 87%. In December 2021, 50% of the bank's individual customers were using Raiffeisen Bank digital banking services (an increase of 29% compared to 2020). Raiffeisen

Bank offers its customers a 100% digital process for contracting a personal loan. The number of customers accessing a digital personal loan increased by more than 100% in 2021 compared to the previous year.

5. Conclusions

All banking institutions included in the sample met a series of criteria regarding the visibility of CSR actions in the pre-pandemic period. In order to protect the individual customers, the banks' efforts were directed mainly on updating their online or to launching new versions of them. During the COVID-19 pandemic the banking institutions have been called upon to support efforts to mitigate the impact of the health crisis on both individuals and businesses and to support economic recovery. Before the pandemic, most customers relied, at least in part, on the banks' branches. The sudden increase in demand for digital banking services has posed a major challenge to many banks' ability to serve their customers. The banking sector must adapt to the new circumstances generated by the pandemic and use the necessary tools to allow clients, regardless of education, age, education or digital skills, to access to their services.

The three banks analyzed in this paper are part of the e-learning project developed together with the CPBR (The Council of Banking Employers in Romania) and with the representatives of the Trade Unions whose main objective is to develop the skills of employees so as to allow an easier adaptation to changes in the labor market and to the challenges of the digital future. The main themes that address digital technology in the current period are:

- ✓ Digital skills (digitalization awareness, PC and reporting skills, analytical and numerical skills);
- ✓ Collaboration through digital channels (sales, cashless operations, customer orientation from a digital perspective);
- ✓ Customer satisfaction and approach in the context of digitalization (remote work, messaging and collaboration tools such as video conferencing, distance learning, etc.).

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