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CSR in Commercial Banks - Comparison of the U.S and Swedish Market

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Foreword

After having written this essay, we would like to extend the utmost gratitude to one person in particular. The person has helped us through this whole process with immense patience, knowledge and feedback. Without his dedication and hard work, this would not have been possible. The person is our supervisor, Matts Kärreman.

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Abstract

Purpose:	To investigate how much the CSR of commercial banks in different nations coincide with a theoretical approach of CSR.
Methodology:	A qualitative approach has been applied for this thesis. We have made research on commercial banks in Sweden and the U.S. Consequently, we have primarily used secondary data of for commercial banks; meaning that we have looked at articles, annual reports, ethical conduct reports, CSR reports, citizenship reports and sustainability reports.
Theoretical Perspectives:	We present CSR through Carroll's pyramid in the theoretical framework to investigate how Swedish and American commercial banks apply and perceive CSR in their businesses and reasons that drive the corporations to engage in CSR activities. Additionally, we analysed CSR based on the risk management, stakeholder and shareholder perspectives.
Empirical findings:	From our analysis of the four commercial banks exhibit that American Banks (Citigroup and Bank of America) and Swedish ones (Nordea and Handelsbanken) have partially different actions in the expression and implementation of CSR policies, strategies and procedures. Nordea Bank has similarities to American banks though because of its global operations. In regards to risk management and implementation of CSR, Handelsbanken has a different practice from the other banks.
Conclusions:	Overall, it was found that one can be profitable as a commercial bank and still have a harmonic relationship with society in terms of CSR. Moreover, global companies indicate a convergence of CSR practices.

1 INTRODUCTION

1.1 Background

The increased presence of the topic of social responsibility for businesses has raised a debate and interest of companies over the last three decades. One of the underlying reasons is the changing trend in capitalism and global world, which have caused companies to take more responsibility for their business and effects on the environment.

Figure 1 - Source: The Economist (2008)

The above diagram taken from The Economist (2008) describes the change in business agendas that was just mentioned. If one on the other hand were to be more cynical, the diagram below shows an alternative explanation to why companies give more time and effort to Corporate Social Responsibility (CSR). By CSR at this point for readers' ease, we mean the social conscience of companies; meaning that an effort to influence the environment one operates in positively.

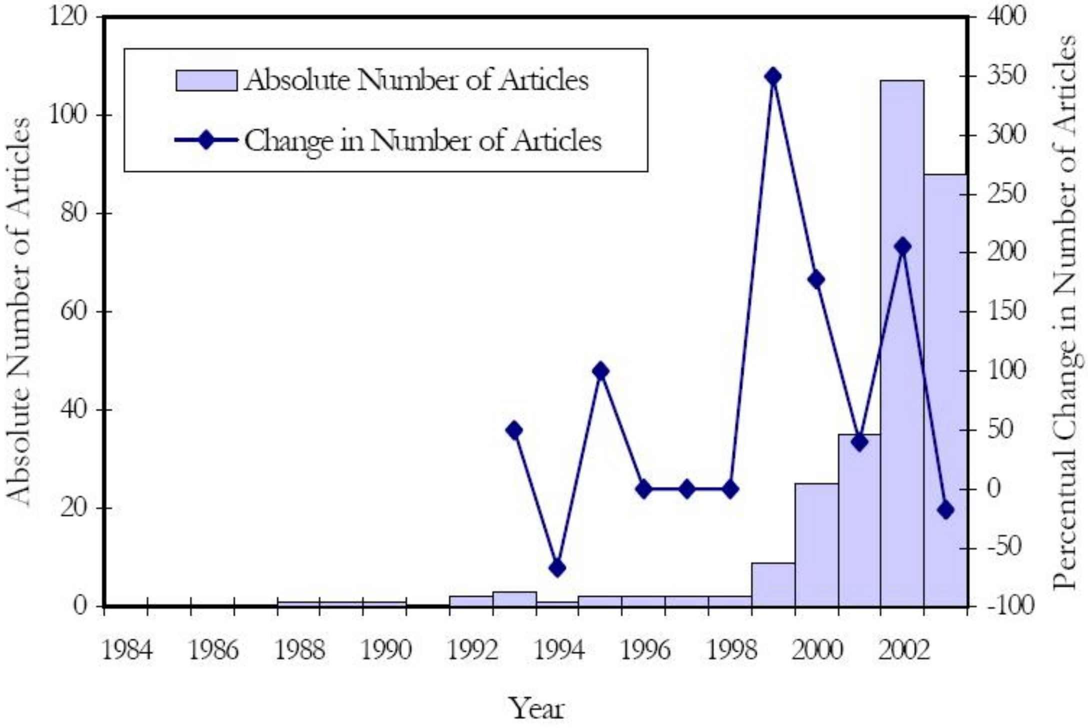

Figure 2 - Source: Buhr and Grafström (2004)

In other words the above diagram shows the amount of times CSR has been mentioned in the Financial Times. While it has obviously been mentioned more generally speaking, considering that this is a prominent business paper, the authors believe this to reflect a general business perspective. The cynicism touched upon before refers to the distinction of adapting to a new business environment and coping with the changes as opposed to superficially projecting a more CSR friendly image because of the media attention attached.

Although CSR issues are a great deal of our thesis, we are also focussing on a specific industry. That focus is financial firms and more specifically commercial banks, which are an essential part of the society. CSR in financial firms is as important or more important as other industries because of the influence on its operating environment and crucial results in their performance to survive in the market. Decker (2004) has claimed that in commercial banking CSR is considered as area of social issues.

Argandona (2009) stated that a commercial bank serves its customers different assets with various properties in according to obtaining maximum return on their wealth with the least transaction costs. As a result, the system makes a big contribution the prosperity of families and business by “enabling them to manage their wealth with acceptable liquidity, return and risk levels” (Argandona 2009). What this in other words means is that is that these firms have a significant influence on consumers’ modern economic life. With influence to that extent, Mayo (1997) argues that, at the very least, banks have a broad responsibility to understand the social impact of the major changes they undertake and to minimize the costs and benefits to society (cited in Decker 2004, page 7).

Looking closer at the financial firms, one can find another perspective. Alan Greenspan, former Federal Reserve chief so eloquently said – “the financial crises will happen again unless we succeed in changing human nature (News 2009).” Related to this, we have faced one issue which is beyond our understanding -“*Why is not the financial industry as regulated as other industries such as pharmaceutical industry?”* Even though one can find many more contrasts in terms of how well the consumers are protected in many other industries, there are not many industries where governments have firmly stepped in to alter the dynamics of the market to better serve the consumers. Pharmaceutical industry is an examples of industry where governments protect the consumers since governments set limits on prices for drugs, regulating how drugs can be marketed and sometimes even make employees at pharmacies recommend the cheapest drugs to consumers if it is serves the purpose. Certainly, one could pose that financial health is not as important as physical health. However, we beg to differ being the semi-capitalists that we are. More importantly, many people will probably agree if looking at this from a societal economic perspective.

1.2 Problem Discussion

We have come across three different themes that help us in analysis of our project.

- **First Theme – With the banks in our study being in different countries, are there any differences in CSR practices?**

Implication of CSR policy in U.S companies differs from what Swedish companies have. Is the main reason the governmental system or are there differences in their corporate governance structure? The U.S market has strategies to support socially and environmentally responsible business practices to enhance the life quality of society.

On the other hand, Maignan and Ralston (2004) have mentioned: *"Corporate donations are smaller in Europe than in the U.S, while Langlois & Schlegelmich (1990) observed that European companies are less likely to use codes of ethics than their U.S. counterparts."*

Maignan and Ralston (2004) have claimed that European firms have a tendency to explain CSR as a response to stakeholders' probe and pressures.

U.S corporations need to show that they obey social norms with desirable behaviour and act according to the standards for correct behaviour since in the U.S, the market have more social expectations from corporations (Vogel, 1992). Based on this, it is questionable that – "Do the standard of CSR in commercial banks reflect that national standard or is it different?".

Another reason why the U.S. has larger CSR implementation could be the corporate ownership structure in the U.S, since capital is more dispersed than in Sweden. This has made the investors more concerned about public images. And according to Maignan and Ralston (2004) "U.S. shareholder activists have placed resolutions and have voiced their concerns to advocate more socially responsible corporate behaviour ".

- **Second Theme – Is or can risk management be an extension of CSR?**

Carroll (1991) has in her work analysed CSR and its components. She has divided CSR into four different components. The most basic component of the four is "economic", which means that one should be a functioning economic entity in society. This means to not put negative pressure on society by going bankrupt. The rest of the components will be described later in the essay but for reader's ease, it was deemed necessary to briefly explain the first component of Carroll's model to explain why risk management should be a part of CSR, especially for financial firms. The first argument is obviously that it is an integral part of the business. Secondly, it ensures that the company adheres to a certain risk/return profile. Lastly, an essential benefit is that it should provide protection at any contingency. Thus not put any pressure on the government, society or its people. That would ultimately serve for a more harmonious society.

Third Theme – Do the banks in our study manage their risk profile in the same way and are they affected equally by a crisis?

In the aftermath of the financial crisis, it is our belief that not all banks were equally affected. Some examples of the effects of the financial crisis can be taken from the U.S where investment banks have made write-offs equivalent to several billions of dollars. Many firms have gone bankrupt, such as Bear Stearns, Fannie Mae and Lehman Brothers. Nassim Nicholas Taleb said in an interview with Jo Nocera (2009) that problem with the risk management practices today never see the greatest risks, which are the risks that one cannot see and therefore not measure. Taleb calls it ”fat tails” or ”black swans”; unique events that cause you to lose billions where you statistically speaking should not lose more than millions. According to him, this happens more often than humans are willing to contemplate. Gregg Berman of RiskMetrics said in the same interview with Jo Nocera (2009) that he is shocked by the attacks on the risk management practices today. He said the models are there to be used, and the people using it determine how it is used. In other words, the contributing factors for the financial crisis could be a flaw in risk management or a management problem. Probably it was both (Nocera 2009, page 4). So what we aim to do now is primarily to find at least one profitable financial firm from before/during/after a crisis and try to draw wisdom from that. Thereby potentially design some generalisations, in terms of corporate governance, that banks could think about in the future. We were also thinking about if our findings can be applicable in the respective contexts analysed by us? Finally, are there any financial organisations that encompass both corporate governance and CSR in a profitable way?

1.3 Focus of Discussion

> *“In the corporate economies of the contemporary West, the market is a passive institution. The active institution is the corporation ... an inherently narrow and short-sighted organization ... The corporation has evolved to serve the interests of whoever controls it, at the expense of whomever does not.” (Duggar, 1989 cited in Banerjee 2008, page 51)*

> *“Why should citizens, through their government, grant special rights, powers, privileges, and protections to any firm except on the understanding that its*

activities are to fulfil their purposes? Corporations exist because we allow them to do so." (Dahl, 1973: 11 cited in Banerjee 2008 page 57)

Our own interpretation of the quotes above is that the market is not enough to regulate businesses, as it is passive. Corporations often act in their self-interest with disregard to everyone who is not a shareholder. The second quote refers to the privileges firms obtain from society. Recently, this could be the financial aid many corporations received from the government during the financial crisis. It takes a very critical societal stand, and talks about corporations being at the mercy of societies.

Additionally, the quotes above concisely summarise our view of the corporation and how susceptible societies are to corporate influence as well how important society is to corporations. Both need each other to prosper.

This research will also show us how different governmental rules affect the implication of CSR policies in financial firms; specifically commercial banks. Additionally, it is questioned why the U.S companies seem to emphasize more on CSR activities than companies in Sweden. Some banks have therefore been chosen in the respective markets. It will help us to compare the U.S and Swedish market to clarify to what extent they apply CSR in their business and what are the dimensions that affect in the shape of their CSR approach. As mentioned, the attention given to CSR is booming, and the financial crisis has arguably contributed to fuelling its growth. Therefore we would discuss some of the issues revolving this in our thesis.

1.4 Purpose

The primary purpose of this study is to look into whether the communicated national practices of CSR in commercial banks reflects a theoretical approach of CSR, and then explore whether there can exist a benign relationship between commercial banks and societal welfare.

1.5 Content of chapters

The structure of our essay is as follows: firstly we talk about our methodology critically. Then we talk about the history of the firm and its relation to society historically. Consequently, a discussion on CSR follows with different theories and perspectives. At the end of that section is our own discussion of CSR from the theory and our reflections of it. Later we talk about the Swedish and the U.S market and its different structures and how it compares to each other. Afterwards an analysis of companies’ CSR practices and risk management follows. Lastly, we have discussion and conclusion. We hope this structure to be as pedagogic as possible, making it possible for non-academics to comprehend the weight of the critical issues discussed.

2 METHODOLOGY

The purpose as mentioned of our thesis was to shed light on several key issues concerning CSR. Some companies were analysed empirically in reaching our goal. Our hope was to produce an academically sound piece of writing, which is why the following is a discussion of our choice of methodology.

2.1 Research Approach

In our research of companies we have primarily used secondary data of the four commercial banks as mentioned; meaning that we have looked at articles, annual reports, ethical conduct reports, sustainability reports and risk management reports. We have also used other online resources such as news websites.

As for the theory of CSR, a qualitative analysis/literary review of theory has been done. Some theories were not included due to lack of resources. The theories that were chosen were seemingly fit for our purpose of the thesis the most though. Obviously, a wider study of companies would have been preferable, especially in comparing national concepts of CSR and the respective firms, but this again was not possible due to lack of resources.

Throughout the process of our thesis, we ran in to several obstacles. Much was solved by discussing amongst ourselves and doing simplistic research but other problems were not that easily surmounted. Our supervisor guided then stepped in and helped us. Not by giving us the answers but by helping us see different angles not considered by our rational minds that are limited in nature.

Many times in measuring a phenomenon, the way is often dependent on the operational definition of the phenomenon in question and the way one collects the data (Lundahl and Skärvad 1992, page 153). In our research admittedly, we have used an orientational qualitative method, meaning that we have not even pretended to be open-minded in our analysis in the search for grounded or emergent theories, nor did we present several perspectives (Patton 1990, page 89 and 266). Additionally, when one as a field worker collects data with an initial biased mindset, the collection more becomes a verification process of the initial premise rather than generation of new data. As one will notice, in our essay, we have been very critical towards commercial banks, claiming that they could have done more to prevent the financial crisis in 2008 amongst other things.

In the selection process of the commercial banks we looked through the banks position in their market, company structure and the scale of CSR in their organisations. The important keys for us were their popularity of and reputation in the industry, their financial positions and being stock-listed. These criteria helped us to choose the banks that we focused on.

Overall, as several perspectives were taken in consideration, both in terms of our analysis of companies and CSR both nationally and globally, we believed and still do that a qualitative analysis sets the best conditions for a successful research project. The definition of a qualitative analysis is:
"Qualitative research uses a naturalistic approach that seeks to understand phenomena in context-specific settings, such as "real world setting [where] the researcher does not attempt to manipulate the phenomenon of interest" (Patton, 2001, p. 39 cited in "Understanding Reliability and Validity in Qualitative Research")

Furthermore, it should be mentioned that like any other reports, our report as well includes a significant personal footprint, reflecting our judgements in different matters. These issues may range from categorising certain activities to discussing the meaning of social concepts, such as CSR. For example under chapter 5, which is "Analysis of Companies", we had to categorise different CSR activities according to Carroll's model. Lastly, in a research paper it is critical that the material used is current, reliable, accurate and conceptually correct (Goliath 2003). That is why we have used the Internet to find as current information as possible. As for risk management, the reference point itself is quite recent, which makes the research involving it by nature up-to-date. Many scientific articles have also been used. Examples of journals are Journal of Business Ethics, Managerial Auditing Journal, Accounting, Auditing and Accountability Journal, and Strategic Management Journal etc.

As we have solely relied on secondary data, we have decided to elaborate on it and its inherent disadvantages next to acknowledge potential errors.

2.2 Data Collection, Analysis

This category (secondary data) of data as defined by Goliath (2003):

> "Secondary data is facts and information gathered not for the immediate study at hand but for some other purpose."

The drawbacks listed in the quote are quite straightforward and intuitive. Secondary data is in other words, information that has been collected for another purpose than yours. Some other problems are that it carries biases and errors, which in turn reduces reliability of the source. For example, the annual reports we have used in our analysis, potentially has a significant bias present as companies are naturally reluctant to provide negative information about themselves.

One disadvantage of using secondary data is that the availability of information may be low (Scribd n.d.). This is something we expected to encounter, especially for our Swedish firms. Extending a bit on this line of thought – If something is not mentioned in a report, does it necessarily mean that it does not exist? Probably not we thought, which means that some carefully conceived assumptions have been taken in order to fill the gaps.

2.3 Literature Criticism

There are several behavioural biases, which managers might possess, that we may never know about. The best we can do and did is to acknowledge it. Behavioural finance can concisely be described as the psychological factors surrounding an investment decision. This could potentially pertain to corporate reports such as annual reports, sustainability reports, and ethical conduct reports etc. Some biases are herding, prosperity theory, risk aversion, overconfidence and heurism (Klaus 2006). All these affect the firm on a more fundamental level in terms of how the market perceives the value of the firm but what we suggest is that some of these biases contribute to painting an inaccurate picture of the firm. Thus, potentially creating a bias in our analysis ultimately.

Some of our literature, mainly for risk management, is from online news websites. It is not unheard of that news websites can be biased, and our sources are no exception. Biases can be in terms of language, emotions, opinions and stereotypical comments etc (Queensland Government n.d.). Thus making this a part of our literature criticism as the authors or creators of the websites could affect our research by communicating a certain position, leaving out some information or directing their information towards a specific group.

2.4 Validity and Reliability

The website, ”Qualitative Validity”, talks about four different criterions that one can judge a qualitative essay on (Research Methods: Knowledge Base 2006). The criteria is: credibility, transferability, dependability and conformability.

Credibility firstly is about whether the research paper is credible from the perspective of the researchers. This consequently means that only the researchers can legitimise the result of the paper.

As mentioned we have only relied on secondary data, which reflects what the companies have published, i.e. wants the public to know. In other words, there might be much more to investigate or worth mentioning which we do know about as we are relying on secondary data. A more investigative report including interviews with key people from the respective organisations would have given a better picture of their take on CSR activities.

Transferability refers to what extent the results can be generalised; meaning how will the fit of the results be in another context. In our case, as we have focused on two financial firms, respectively in Sweden and the U.S. The extent to which one can generalise might be limited to highly developed financial markets with sophisticated customers if even that considering our small sample.

Thirdly, dependability refers to what extent one has taken into consideration external factors that might affect one's result. In other words, the context in which the research has been done. In our thesis, we have analysed both Sweden and the U.S through the national business system. This gave us an idea of the different reference points the companies have when designing CSR activities. We also understood from this that one cannot directly compare two CSR activities when they are done in different countries, and thus also contexts.

Lastly, confirmability refers to the extent to which other researchers can confirm the results, even though qualitative research papers are recognised as being made out of the researchers' own perspectives. In our case, the impression of logic is subjective (Klaus 2006, page 11), which means that other people may not necessarily agree with our opinions. Like we said, we have used personal influences in determining CSR activities for instance, which potentially affected the end result. A better way might have been to interview representatives from the organisations and ask them how they would rank their CSR activities according to Carroll's model. This was not possible for us though due to limited resources.

2.5 Limitations

As we have focused on one industry, doubt remains of how much we will be able to generalise our findings. We are also limiting CSR to the components of CSR and the selected theories. Although not a limitation per say in our thesis as the ones selected serve our purpose, but with more resources a larger historical analysis and examination of all available theory would have been more interesting and exhaustive.

In our thesis, we have not probed in to the premise of corporate governance and its different forms in practice. Potentially, as a reader one will be able to make some inferences to corporate governance but that is only with the intention of contextualising the text. It is our belief that although corporate social responsibility arguably is a large part of corporate governance, it is our belief that it is for another thesis, and not ours.

Moreover, we would like to mention the limitations in the theory of risk management discussed in this thesis. As we became more knowledgeable about the subject, we realised that writing about risk management by itself could be a subject for a thesis, so limiting ourselves was key with our limited resources. Unfortunately, that means that many aspects were left out. The issues that are discussed are what we think are important and relevant to this research topic

3 LITERATURE REVIEW

3.1 Corporate Social Responsibility

3.1.1 Historical and Institutional Perspective

A historical view will shed light on the evolvement of society and the shifting power structures within it concerning economy, politics and society itself. For example, the legal environment during 1800 allowed the government to revoke rights to conduct business if one did not perform its public duties appropriately (Banerjee 2008, page 53).

The traditional industrial capitalist firms, which emerged late 19th century, existed with the sole objective of maximizing shareholder wealth subject to some (but arguably not many) constraints. The goal was the most important, everything else trivial. It was thought that this would ensure maximum efficiency of resources and therefore also welfare of society (Kristoffersen, Gerrans and Clark Murphy 2005, page 6). Not surprisingly, this was according to Perrow (2002:41 cited in Banerjee 2008, page 54) a well-designed plan by some individuals who needed a specific ruling for a particular form of organization. Without any regulations as such companies could now act just for shareholders.

Nonetheless, the idea of a self-regulated market and enterprises was fully embraced during the 19th century. People started condemning the autocratic power of the Church and the state. The revolution, one could arguably say, was fuelled on by changes in social attitude towards commercialization (Carroll 1981). From 1890 – 1933, many industries moved towards a trend of consolidation, which lead to some organizations having substantial monopoly power; this lead to a significant economic instability, at which time people started questioning Adam Smith's model "virtues of the invisible hand". The result of this instability was the Great Depression. Governments at this point came to realization of its importance and the need for regulations (Kristoffersen, Gerrans and Clark Murphy 2005, page 7).

Several laws were enacted to prevent undesirable behaviour such as anti-trust activity, monopolistic activity and false advertising. Consequently came legislations for specific industries. It should be noted that the improved business conduct by companies is awarded to legislation and not humanistic motivations. Fair treatment at this point was not a common practice by companies at the time labour unions came to be. Labour unions became a bridge between the government and companies in introducing social responsibilities towards its workers. Accordingly, governments saw this as an alternative to legislation (Kristoffersen, Gerrans and Clark Murphy 2005, page 7).

"The increasing role of the government as a regulator continued into the 1970s, at which point regulation reached a new level as the public became much more aware of social issues, demanding new legislation to restrain acts of inequality and discrimination based on race, gender, religion or ethnic background, as well as the negative externalities of consumption and production" (Carroll, 1981; Freeman, 1984; Krumsiek, 1997; Luthans et al., 1990 cited in Kristoffersen, Gerrans and Clark Murphy 2005, page 7).

3.1.2 Definition of CSR - *"What is CSR?"*

There have been different approaches for explaining CSR and it is not an easy task to define it. Recent research has show though that involvement of all stakeholders instead of focusing on only shareholders is important in the analysis of CSR concepts (Moir 2001). According to Business Impact the main principles of CSR on ethical basis are:

- to treat employees fairly and equitably;
- to operate ethically and with integrity;
- to respect basic human rights;
- to sustain the environment for future generations;
- to be a caring neighbour in their communities

These steps are essential for the organizations since *"businesses only contribute fully to society if it is efficient, profitable and socially responsible*" (Moir, 2001).
On the other hand, Saiful and Jan (2006) see the CSR as a company strategy that improves the profitability by enhancing customer loyalty and gaining a competitive advantage.

"Some argue that CSR is an excellent tool to market the firm and should therefore be led by marketers (Lantos, 2001) or be used to enhance the company's brand (Lewis,

2003). Others argue that firms should be socially responsible because that is the right way to behave (Novak, 1996; Trevino and Nelson, 1999)" (Saiful and Jan, 2006).

Another perspective is accepting CSR as thinking of the whole society. To Mintzberg (in Saiful and Jan, 2006) the reason why companies should implement CSR strategies in their business is because it serves society and is beyond self-interest and rapacity.

Some neoclassical economists, who are the opponents making CSR a business agenda, argue that CSR destroys the main target of market economy since they believe the main responsibility of business in the global world is an agent of economic progress and increasing profitability (Friedman, 1970 cited in Jan, 2006).

All in all, there is not a universally accepted definition of CSR. Thus, confliction and argumentation for the description of CSR is still contributing both in the academic and the business world (Dahlsrud, 2008).

3.2. Theoretical Framework

The following is an analysis of CSR from 3 different perspectives – Carroll's pyramid, Stakeholder and Shareholder. In conclusion we have included a discussion of the written theory to shed light on our stand in the issue.

Firstly, Carroll was chosen, as he is one of the most outspoken proponents of CSR with his own model of its constituents. He is also one of the most prominent academics in this field.

The stakeholder perspective was chosen as its theory involves the society as a whole. As mentioned in our introduction, we aim to probe on the relation financial firms have with society, and thus get an understanding for the obligations financial firms should have.

The shareholder perspective was lastly chosen, as it is the flip side of the stakeholder perspective; meaning that this theory focuses more on a specific group of people, which is the shareholders as the name suggests. Milton Friedman is a prominent authority of this view, and even though conventionally not combined with the shareholder perspective, is combined by us. We believe the theories to be intertwined.

3.2.1 Carroll's Four-part model of CSR

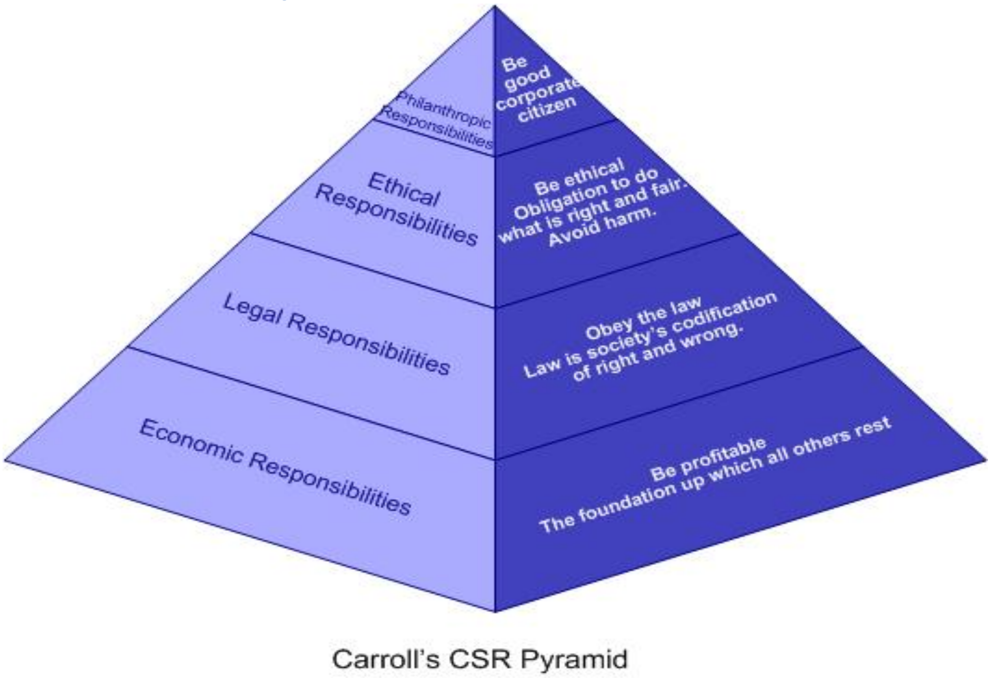

Figure 3 - Source: Crane and Matten (2007)

Crane and Matten (2007)**,** who have analyzed Carroll's pyramid, say that this may be the most accepted model of CSR. Breaking down the pyramid, one can see four components, which are economic, legal, ethical and philanthropic. "Economic" is the 1st level. The remaining components increase in levels according to its order in the pyramid; meaning that "Philanthropy" is the 4th level. Level 1 is seen as the foundation for being socially responsible, and as one evolves, one can think about going up the pyramid. To be truly socially responsible, one has to be active in all four levels. While the two first levels are *required* by society, the third level is *expected* and lastly philanthropy is *desired*.

Economic – This revolves around the responsibilities the company have towards shareholders, customers, employees and society as a general to be a functioning economic unit and to stay in business.

Legal – Simply means abiding the law and playing by the "rules of the game".

Ethical – To carry oneself in a fair and right way, even if it may be up and above what is required by law.

Philanthropy – The range of activities a company can do to be philanthropic is quite broad. What the company chooses to do is at its discretion. Common activities are benefits for employees, charity donations etc. Ultimately the aim is to improve society as a whole. This part also requires the firm to be a corporate citizen.

The upside of this model is that it is "fairly" pragmatic. The demands of firm are listed according to importance with "economic" being the most important. It shows that CSR is not purely limited to being philanthropic, but is merely a part (Carroll 1991). Some problems though are that it does not say what to do if two levels conflict. Lastly, the model is best understood in a U.S context (Crane and Matten 2007).

"The traditionalist might see this as a conflict between a firm's "concern for profits versus its "concern for society," but it is suggested here that this is an oversimplification. A CSR or stakeholder perspective would recognize these tensions as organizational realities, but focus on the total pyramid as a unified whole and how the firm might engage in decisions, actions, and programs that substantially fulfil all its component parts." (Carroll 1991, page 8).

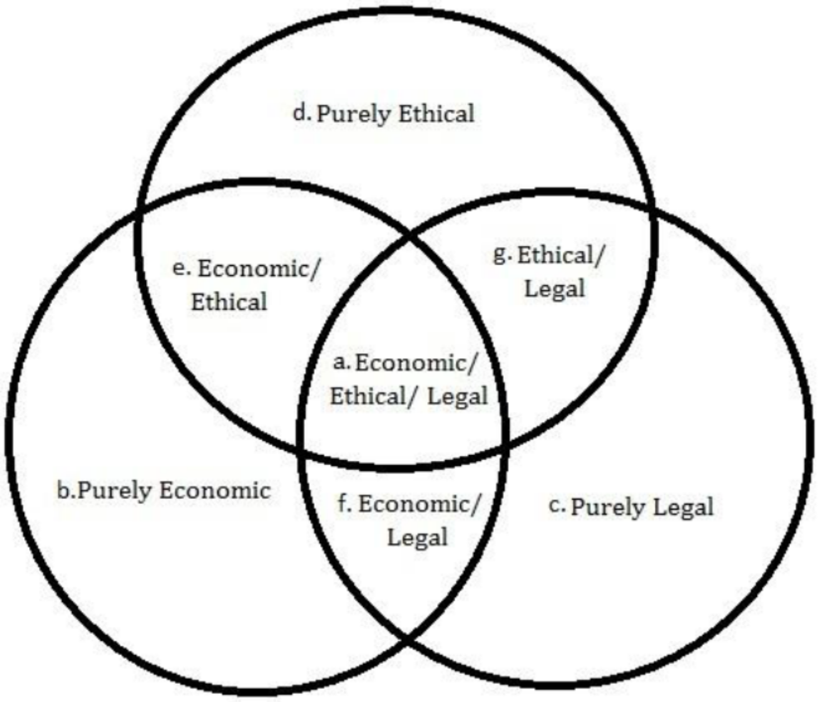

Figure 4 - The Three Domain Model of CSR, Source: (Carroll&Schwartz,2003)

"The discretionary element is omitted as the authors (Schwartz and Carroll cited in Wan-Jan 2006, page 5) believe that if an act that is supererogatory, then it cannot be called a responsibility." What this means is that one cannot call something that is expected from a business, philanthropic. Also, the above model represents the updated model of CSR by Carroll and Schwartz (1991) where they say that economic, legal and ethical are essential for business and should be where the focus lies. Moreover, according to the authors, most philanthropic actions are done with economic and ethical motives, which further supports the omission of "philanthropy" in the updated model.

Intuitively, one could say that the best position for the firm would be where the three circles overlap. In the picture that would be point A. Alternatively, Schwartz and Carroll suggested that a firm could focus on the economic and ethical domains while passively complying with law (Wan-Jan 2006, page 5). Consequently, that reflects point E.

3.2.2 Risk Management Perspective of CSR

To relate back to the previous theory we would like to motivate writing about risk management by posing that it is an integral part for financial firms, and therefore a key part of allowing these firms to exist as a functioning economic entity; more specifically, it represents the first level in Carroll's pyramid of CSR constituents.

It is believed that risk management needs to be incorporated into CSR to ensure that the firm adheres to a certain risk profile. In that way risk management becomes a control mechanism, which is our reference point in this essay. Consequently, CSR becomes more than an image enhancer but also a way of doing business in a responsible way (Kivivirta 2010, page 10). Durden (2007, pp. 676-677) states that one cannot claim to be socially responsible by merely publishing glossy CSR reports, and at the same time neglect its importance in terms of control within the company. Agreeing with this, Diffey (2007) says that CSR is about risk management, and vice versa; meaning that it is a two-fold result. The more CSR is integrated in to management systems the more it is embedded in the strategic thinking of the management (Diffey 2007, page 1). What further speaks in favour of CSR being integrated in to a wider extent is that most organisations could have done something to prevent or at least reduce the impact of the financial crisis just on an ethical basis (Argandona 2009, page 1). Noyer (2008) therefore believes the financial turmoil to provide new avenues for exploring and developing CSR in the financial industry (Noyer 2008, page 2).

The World Economic Forum amongst other authorities have emphasised the need for a risk management perspective in light of the recent financial crisis. It is obvious that a new system is needed both on a system-wide and institutional level. By any standard this recent crisis has been extraordinary. Chief Financial Officer of Goldman Sachs, David Viniar, commented to the *Financial Times*: “We are seeing things that were 25-standard deviation moves, several days in a row”In other words, assuming a normal distribution, this should happen once every 13.7 billion or so years (Haldane 2009, page 2). Of course there could be another explanation. The risk management models used were wrong. According to Haldane (2009, page 6) market failures falls into three categories, which are disaster myopia, network externalities and misaligned incentives. Firstly, disaster myopia refers to underestimating the probability of loss. This is often due to a long period of economic boom, which makes people believe even risky investments to be safe. According to Roszkowski and Davey (2010, page 45) this has to do with risk perception. For example, in the late 1990s, even risk averse investors would invest in tech stocks as they were perceived not to be risky. Obviously this was wrong as the tech bubble in year 2000 showed. Secondly, network externalities is about how interconnected the world economy is. It is not enough to know you counterparty but also the counterparty’s counterparty. For example, understanding the full consequences of the fall of Lehman Brothers would require a full understanding of the global financial system and how everything is interlinked. This of course is impossible even for governments, and cannot therefore be expected of individual firms when they design their respective risk management practices. Confirming this in light of the recent crisis, the World Economic Forum says that in a global world, a global scope is necessary, as the implications of the financial crisis in 2008 have shown (World Economic Forum 2010, page 7). It has been said that the financial crisis was just a result of a catastrophic failure of financial risk management, at all levels, from governments, regulators, supervisors to many of the financial institutions and their clients (Argandona 2009, page 13). Lastly, misaligned incentives covers a wide range of issues such as the Chinese Whisper’s game, competition and ”too big to fail”. Anyone who has played the Chinese Whisper’s game knows that when there are several parties between the two ends, information tends to be distorted. In reality, financial intermediaries packaging and repackaging to then sell it to final consumers means that the information in the end might be seriously impaired. ”Competition” refers to how individual behaviour is affected by the system it exists in. It is a struggle for firms to match its competitors in terms of profits, and the quest for more profit rarely has limits. Finally, banks that are too big to fail as the recent financial crisis showed, can use that as a comfort blanket. Taking medium risks are not enough. If it is small, it is the bank's problem. If it is big, it is the government's problem (Haldane 2009, page 12).

Diffey (2007) further talks about how to analyse the company to pinpoint significant exposures. This should not just be limited to corporate risks specific to the firm but also the risks to society. A "social" corporation not only considers its own direct stakeholders but also employees, communities, societies as a whole and future generations. When this mentality sinks into actions and policies of the firm, some opportunities may be excluded as they would be deemed 'immoral' but others will open up because there will be an element of trust with stakeholders (Argandona 2009, page 9).

Risk identification	Develop plausible adverse scenarios for each material risk and consider	Develop key risk indicators (KRIs), key control indicators (KCI) and key performance indicators (KPIs) for companies to report risk management performance.
Identify risks which the company is exposed to. Risk management information is often readily available in the form of risk registers, regular Management Information ("MI") reports and governance related documentation. Immaterial risk should been screened out. The risks should be reviewed to see if any significant risks have been excluded. Map risks identified to external benchmarks and other risk classifications. Companies need to demonstrate awareness of key industry risks, and how much (reputational) capital can be saved. Companies need to have robust identification and completeness review procedures, and these need to be documented.	Severity of scenarios considered. It is important to ensure that the scenarios considered are sufficiently adverse as to require the development of risk mitigation strategies. Granularity of scenarios: It is important to demonstrate that a robust bottom up approach has been used. Companies need to document detailed working to support their choice of operational risk scenarios. Risk mitigation: Develop mitigation strategies for each scenario or identify how much capital company needs to hold against each scenario. Consider diversification effects – i.e. company gets a benefit from the fact that all the adverse scenarios are not expected to occur at the same time.	This could include developing risk reporting "dashboards" and reporting tools to graphically present risk management information. Regular reporting format need to developed. These should be brief presentations targeted at investors and equity analysts summarising: Key risks Key adverse scenarios Key mitigation strategies KRIs, KCIs and KPIs What has changed: Progress in risk management since the last report

Table 1 - Risk Management in CSR, Source: Diffey (2007)

The framework above describes what financial firms should do in terms of risk management in CSR according to Diffey (2007).

The EU Basel II actually has developed a framework for financial services companies, which currently does not include CSR but can be extended to include it according to Duffey (2007). The problems companies are having are: risk management, risk measurement and embedding risk management in their businesses. One could conduct stress and scenario analysis to include events where the whole financial system collapses like in 2007 (Diffey 2007, page 6).

Arguably, informal controls such as corporate culture should also be a part of risk management, which in turn means that it also could be argued to be a part of CSR. Consequently, we will touch briefly on the importance of good corporate culture. Norris and O'Dwyer (2004, pp. 181) talk about employee socialisation, personal values of employees and corporate values playing a major role in influencing employees' decision-making. However, it was found in the research conducted by Norris and O'Dwyer (2004, pp. 182) that these informal mechanisms do not always work in harmony with formal mechanisms such as performance targets. An example is employees' salary being based solely on profits and turnarounds. Extremely alarming about this environment is that willingness to act responsibly is treated hostilely. Furthermore, according to the interviewees from the author's study, many organisations have a similar structure as just mentioned. In other words, being perceived as socially responsible through very expensive marketing campaigns but with nothing changed or improved within the business to be aligned with that image.

While the above framework presents the issues one should look at in terms of risk management, a way of incorporating risk management into everyday practice is presented in the following illustration.

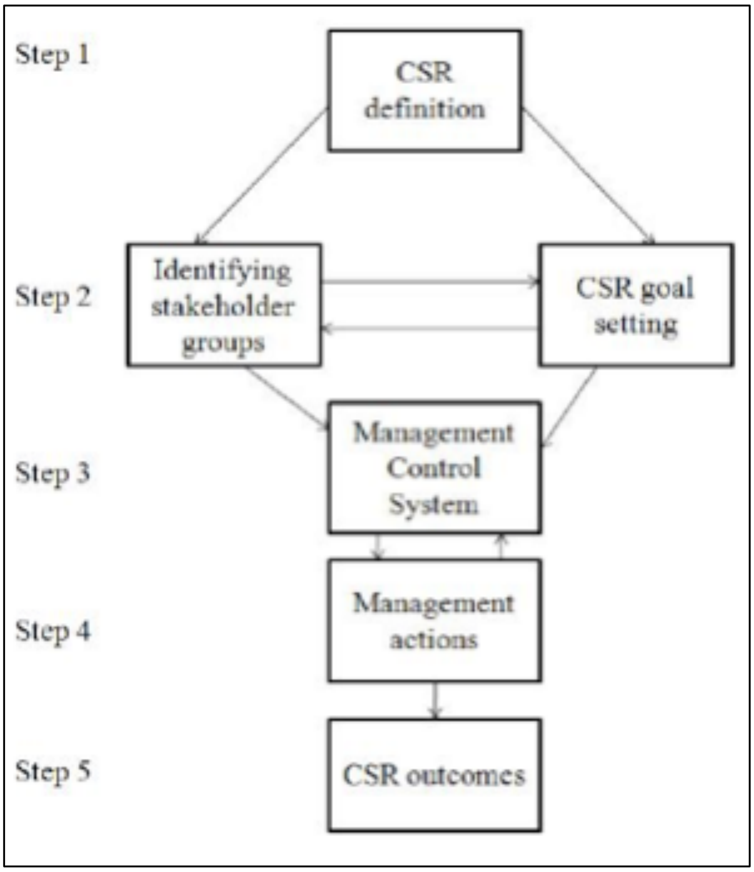

Figure 5 - Source: Durden (2007)

As the diagram by Durden (2007) suggests, the first goal is to conceptualise CSR according to one's business and industry settings. The rest is about having the CSR definition as a reference point in changing the conduct of business. It should be noted though that the table above is not an exact replica of what Durden proposed but an adaptation by Kivivirta (2010, page 33).

In conclusion, one would expect best practice CSR financial institutions to have a key role in engaging with stakeholders to solve complex sustainability problems, provide impact into business strategy and keep abreast of stakeholder concerns (Strandberg 2005, page 3. Employees and NGOs are also expected to play a significant role in keeping CSR high on the agenda. Additionally, one would expect more transparency in organisations, with less financial intermediaries, so that all employees better understand the implications of their actions. This is very important to detect disparities between investment philosophies and risk management practices of the organisation (Grant 2011).

In the future one can notice a push towards financial access and literacy issues dominating the CSR scene for financial institutions (FIs) (Strandberg 2005, page 4). Thus, financial literacy will be reflected upon later in this thesis.

3.2.3 Stakeholder Perspective

Jamali (2008) states that the stakeholder theory started to gain importance in 1980s. So did Freemans' focus on new external stakeholders rather than traditional ones- shareholders, customers, employees and suppliers. Stakeholder theory has also improved the organizational responsibilities by giving it a new dimension. It has paid attention to society more than profit maximization. Organizations' first target is serving its shareholders, but one cannot forget the significance other stakeholders have on successes. (Foster and Jonker, 2005).

Tyagi (2010) claims that social welfare nowadays is created by improvement realization across the globe with production process and industrial organization. Moreover, understanding of long-term commodity improvements, which is part of core responsibilities and competencies. Additionally, it is essential for critically investigating the industry. Tyagi (2010) has explained increasing importance of CSR: *"the greater media exposure environment, education and health related incidents that have caused public anxiety and local community conflict resulting from planning decisions have ensured that effective management of stakeholders has risen up the list of priorities."*

Clarkson's approach to CSR is based on operational and managerial point of view that emphasizes management of corporation's relationship with its stakeholders and managing relationships with specific stakeholder group rather than whole society. He claims that "social" manages who are working with daily business activities face problems in finding ways the organization can contribute to the whole society's benefit.

According to Hawhins, 2006; Philiphs, 2003 stakeholder orientation makes more commercial sense and enables the organization to maximize shareholder wealth and enhancement of total firm value. Papasolomou (2005) poses that the theory means focusing more on employees and consumers, which should in turn bring about moderate attention to the community stakeholder.

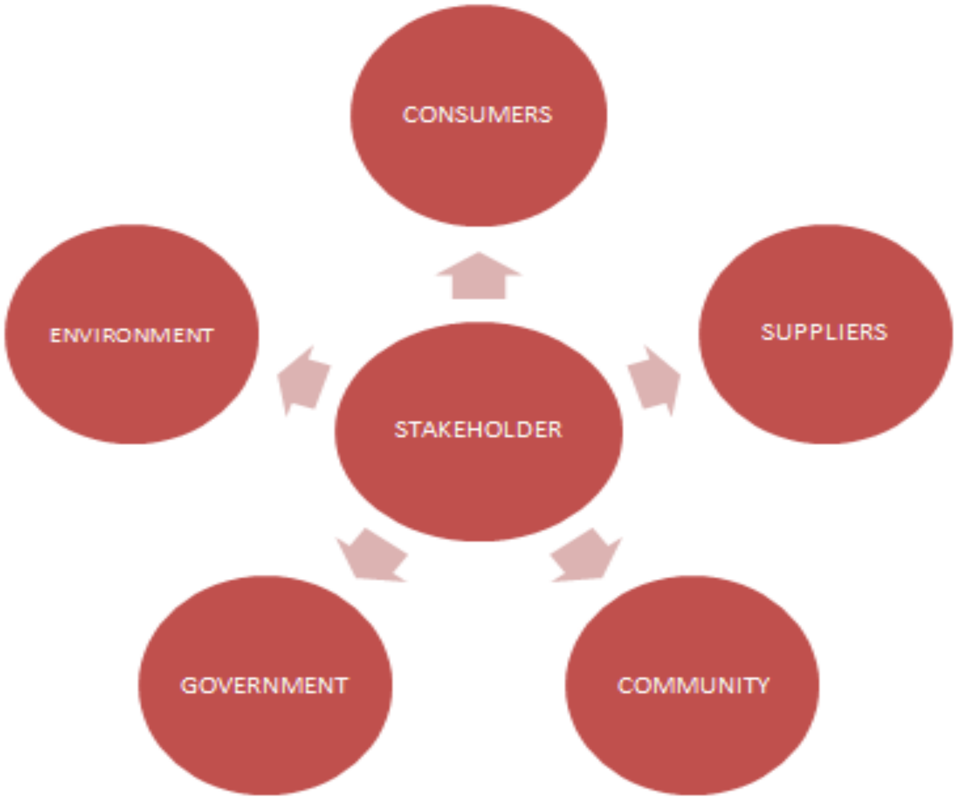

Figure 6 - Stakeholders Classification

Portugal, according to Abreu *et al*. (2005) has classified the stakeholder into five groups that are *consumers, suppliers, the community, the government and the environment as shown in the above figure* (cited in Jamali, 2008).

Jamali (2008) also states that the stakeholder theory can be categorized as instrumental and normative kind after an assessment of the literature. While the instrumental view accepts that the organisation as a tool for welfare with the assumption that CSR is a strategic measure to attain economic goals, the normative view emphasizes on moral obligation to stakeholders. Jamali (2008) says that *"organization find themselves constrained in practice by limited resources and bounded rationality and thus tend to prioritize their stakeholders according to instrumental and normative consideration."*

Sacconi *et al.* (2011 page 183), in contrast to the aforementioned figure divides stakeholders into three groups. The first group is people who have invested resources in to the company. Resources could be both time and money. The second group is people who have market-exchange relations with the company, such as customers and suppliers. Lastly, the final group consists of the community as a whole in which the firm operates.

3.2.4 Shareholder Perspective

A third view of CSR is the shareholder perspective, which states that being involved in CSR is actually the same as maximizing shareholder value. Research has shown that CSR and economic performance are not mutually exclusive. Many reasons lie behind the sudden engagement in CSR, but topping the list is definitely avoiding negative publicity, and thereby preserving shareholder value in the long run (Guay, Doh, and Sinclair 2004, page 4). This view is also shared by Godfrey *et al.* (2009) who say that CSR can have an insurance like protection, especially for some types of events (Godfrey, Merrill and Hansen 2008, page 18). The notion that investing responsibly is profitable has important implications for all businesses, especially financial institutions, which are inevitably involved in all financial crises.

Supporting this perspective is Milton Friedman (cited in Steurer 2009, page 14) who said that – ``The discourse of business and the discourse of ethics can be separated so that sentences like, `x is a business decision' have no moral content, and `x is a moral decision' have no business content." As the quote suggests, he thought that business and CSR are mutually exclusive. While this may be true for some firms, it is not for others, which is why even though Friedman is the biggest proponent of pure capitalism, in the wake of events such as the financial crisis, many authorities in the field of business are starting to reject this notion. That would consequently mean that people are starting to reject the notion of pure capitalism and promoting CSR even if it may be value destroying for firms.

Further disputing this theory are Barnea and Rubin (2010 page 14), who say that CSR expenditure might create a conflict with some shareholders. This conflict is mitigated though if the insiders own a large part of the shares, and thus also bear the costs of eventual CSR costs. Basically this notion is based on companies over-investing in CSR activities, and thereby reducing the firm value. From a general welfare perspective, the benefit depends on if the company has a relative advantage in contributing to society (Barnea and Rubin 2010).

3.2.5 Disputation of the CSR Concept

The disagreement of the definition of CSR goes beyond the concept of CSR and the firm, and refers to how we view the society we live in and the nature of agents who are part of it (Argandona 2009, page 4). Consequently, the definition of CSR according to us reflects our own opinion of what it should be. Honestly, after reviewing the preceding theory we are leaning more towards the stakeholder theory as it takes in consideration the whole society. By that we do not mean what is done in today's climate of opinion, where there is a way of earning good will as a by-product by engaging in activities with the most selfish of reasons. Our standpoint is that companies genuinely should operate in the common good of society and have a duty of care. Instead of considering stakeholders in different categories as we have done above, we have here tried to think of stakeholders as risk bearers.

> ”Voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human, or financial, something of value, in a firm. Involuntary stakeholders are place at risk as a result of a firm's activities. But without the element of risk there is no stake” (Clarkson, 1994:5; quoted in Mitchell et al., 1997:857 cited in Gossy, 2008:7).

Intuitively, one can start to see a beginning of a CSR context in the financial industry by interpreting the above quote in a broader sense. Although it is difficult to categorize all stakeholders, it is easier to say what stakeholders that are concerned when discussed. Therefore, we will not aim to group stakeholders. But based on the above quote, we would like to go as far as to say that CSR involves risk management and the welfare of society amongst other things.

Lastly, we have gone ahead with Carroll's pyramid of CSR in our analysis of the companies in chapter 5 despite the drawbacks because it is as told very practical in evaluating the CSR practices of companies.

4 CONTEXTUAL FRAMEWORK ANALYSIS OF CSR IN THE U.S AND SWEDEN

CSR covers different values, environmental issues, business strategies, relationship between company and societal activities. As it is mentioned in chapter3 besides being voluntarism, the pressure from stakeholders are important for the firms to provide good license to operate and therefore corporations should take into account their importance in implementation of CSR activities. This pressure has resulted in more integration of CSR into companies' decision-making process, acting more socially responsible and focusing more on being market-oriented. Thus, CSR has become more influential structural and operational part of the organisations. Based on this perspective, CSR is not a target of profit maximisation or self-interest of the companies in business activities (Maignan and Ralston, 2004).

The commission of the European Communities, 2002 emphasises on CSR as a dimension of companies - *"what constitutes CSR depends on the particular situation of individual enterprises and on the context in which they operate"* (Maignan and Ralston, 2004).

Countries have different governmental regulations that trigger changes in CSR policies. For example, while the United States has one of the largest institutional investment funds for socially responsible activities, European countries are less likely to mention CSR principles and processes in their firms (Maignan and Ralston, 2004). We would like to compare two different markets - the U.S and Swedish, and investigate how corporate social responsibility differs between these two countries and identify the main reasons of these differences. According to Matten and Moon (2008) U.S corporations have applied "explicit" behaviour for the application of CSR whereas European countries are disposed to a more "implicit" commitment of CSR. However, in Europe it has become more common to use the CSR concept in recent years because of philanthropic institutions for educational, social or environmental reasons and CSR topic has entered the management education in academic debate (Matten and Moon 2004).

Guler, Guillen and MacPherson (2002) state that *" the recent worldwide adaptation of CSR policies and strategies can be understood as part of global spread of management concepts, ideologies and technologies in some sort of " Americanization" of management practices".*

4.1 "Implicit and Explicit" CSR Concepts

The comprehensive distinctiveness between the U.S and Sweden have rooted in the differences of implicit and explicit CSR concepts since different business environment cause to take responsibility for social issues in different ways (Matten and Moon, 2005:10).

Addressing the matter of social responsibility of business explicitly is the method American corporations apply in company policies, programmes and strategies. On the other hand, in Europe and hereby Sweden, the social responsibility include the implicit way for formal and informal institutional environment business. Matten and Moon (2005) provide clear definition for the explicit CSR concept:

"C*orporate policies to assume responsibility for the interests of the society. Explicit CSR would normally consist of voluntary, self-interest driven policies, programmes and strategies by corporations addressing issues perceived as being part of their social responsibility by the company and/or its stakeholders"* and implicit CSR concept is expressed as "*the entirety of a country's formal and informal institutions assigning corporations an agreed share of responsibility for society's interests and concerns"(Ibid)*

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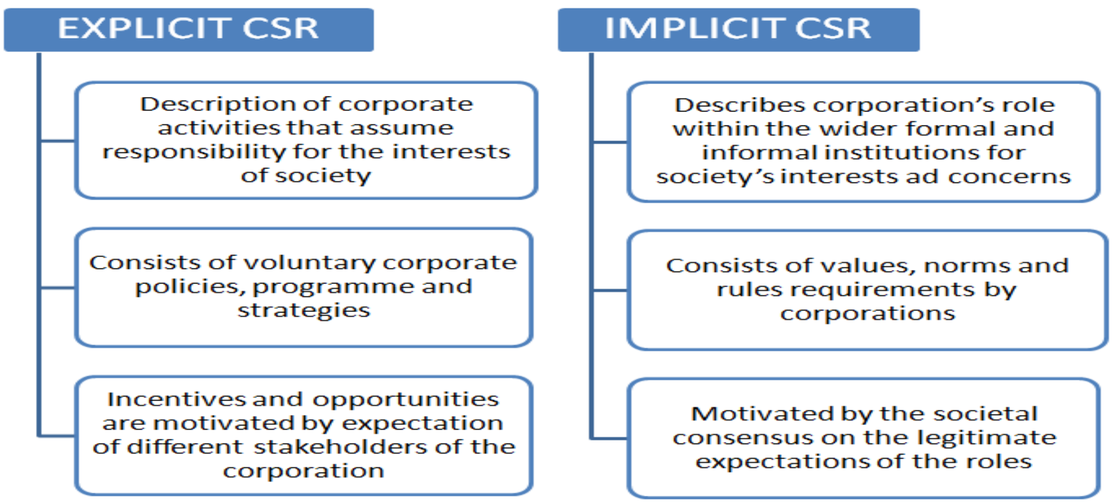

Figure 7 - Explicit and Implicit CSR, Source: Matten and Moon (2008)

4.2 The National Business Systems Approach

The main reasons between these two countries are that they have different systems of markets that influence their corporations, distinctiveness on customary ethics, social relations and culture that have resulted in different expression of social responsibility for corporations (Matten and Moon, 2008).

Whitley (1999) has categorised the national institutional frameworks into four groups: the political system, the financial system, the education and the cultural system (Cited in Matten and Moon, 2008). We have analysed the U.S and Sweden based on these criteria to comprehend their distinguishable properties on CSR.

Political Systems

Power of the state is the most important distinctive property of two countries. In Sweden the government power is greater than in the U.S since the governmental behaviour tend to be more active in economic and social issues (Heidenheirmer, Heclo and Adams, 1990 cited in Matten and Moon, 2008: 407). Whereas Sweden has the highest level of spending on social protection in the OECD (Spicker, 2004) , the United States government is less active in providing insurance system for health, pensions and other social commodities. Therefore, in the US *"...the creation of incentives to employers to provide social benefits via negative tax expenditures"* (Matten and Moon, 2008: 408)

Financial Systems

The stock market is the most important dimension of financial source for corporations in the United States and it is the way for publicly owned companies to obtain capital. Firstly, the ownership structures of companies are dispersed in the U.S. Consequently, companies have to show their transparency and accountability to their shareholders (Matten and Moon, 2008: 408). This reason makes the stock market in the U.S a very crucial place for corporations.

In Sweden, the shareholders are not as dispersed as they are in the U.S. "The Swedish ownership model" is where ownership is concentrated by one or two owners, who are often Swedish families (Veisland and Rahmqvist, 2010). The emergence of the Swedish ownership model is based on the taxation policy and the corporate law legislation, which is used as a guide by private investors. However, this model of ownership has decreased in size during the 1990s and 2000s because of the increased internationalisation of financial markets and the increased foreign ownership. Coffee (2001) has mentioned that ownership structure of Scandinavian companies consist of large amounts of direct ownership or alliance ownership or governmental actors. According to Fiss and Zajac (2004) stakeholders sometimes play an equally essential role or even more essential role than shareholders in the European business model.

Education and Labour Systems

The education system in Sweden has differed from the US ones in terms of government's responsibility and regulations on a national basis. In the U.S, education is not a governmental responsibility as a whole, thus it creates an area for corporations in the local community to support the education. Philanthropic activities are nature of the beast for US corporations that prove of explicit CSR is becoming a traditional part of the country (Matten and Moon, 2008: 410)

In respect to organizational structure of labour system, structure of business and labour interests disclose the national differences in terms of CSR. In Europe, and hereby Sweden, the labour market is regulated by the policies and have training systems which the corporations participate in. It is emphasized that "*in Sweden government has rationed entry to higher education according to national labour market planning objectives*" (Matten and Moon, 2008: 414). In Sweden labour market issues are related to the national level whereas in the U.S it is again an area for corporations to create its objectives and strategies (Matten and Moon, 2008: 408).

Cultural Systems

The U.S and Sweden have different cultural systems based on society, business and government.

"Compared to Europeans, Americans are regarded as having a relative capacity for participation (De Tocqueville, 1956/1835), a relative capacity for philanthropy (Bremner, 1988) and a relative capacity of business people for philanthropy (Dowie,

2001), relative skepticism about big government (King, 1973), and relative confidence about the moral worth of capitalism (Vogel, 1992)". (Matten and Moon, 2008)

The citation shows that American culture tends to be more *ethic of stewardship* and implement the policy that is *"giving back" to* society (Matten and Moon 2008: 408). This idea supports that social responsibility is based on the wealthy businessperson and it can be replaced by the U.S corporations (Heald, 1970). Therefore, that creates more pressure and responsibility on corporations to act in socially responsible ways for example; U.S companies need to show themselves in the community broadly in the way of CSR.

However, in terms of the European culture; including Sweden, representatives from organisations, unions, churches and the state have a greater role in being socially responsible (Lipset and Rokkan, 1967 cited in Matten and Moon, 2008).

4.3 CSR in the U.S

The U.S corporation culture is based on the Anglo Saxon Law (Tricker, 2008) that makes CSR to become a part of whole business for U.S corporations naturally. Less governmental interference into social activities and less legislative control on business create more expectation of philanthropic issues for the welfare of society from the corporations. Griffin and Vivari (2009) have mentioned that CSR in the U.S has been accepted as volunteerism and it is encouraged as a part of corporate culture because of the traditional understanding of the CSR concept.

Recently, American corporations have joined the "green" movement and they too incorporate this into everyday business, although there are not any regulations that are constituted by the government enforcing this (Griffin and Vivari, 2009: 235).

The existence of Non Governmental Organisations (NGO) puts pressure on corporations to implement CSR activities into their business. For example United Nations Environmental Programme (UNEP) has promoted standardisation of CSR by publishing CSR report internationally (Griffien and Vivari, 2009: 240).

"Financial disclosure regulations set by the Securities and Exchange Commission (SEC), international trade requirements set by the Department of Justice of Federal

Trade Commission or environmental regulations set by Environmental Protection Agency" that are governmental command and affect firms in different industries.

On the other hand, other stakeholders' pressure also impacts the US corporations to initiate CSR policies for unions, competitors, supply chains, customers and communities. These reasons make American corporations feel compelled to manage external and internal pressures and emerge the CSR activities in order to create more business value (Griffin and Vivari, 2009: 241). Thus, the common perception of CSR in the US market equals the sum of these stakeholder systems and innovative creativity that generate new demands (Griffin and Vivari, 2009: 235).

Motivation	Company	Industry	Issue	Outcome
Internal				
PR/Marketing	Sprint/Nextel and Motorola	Telecommunications	AIDS in Africa	Pledged to donate $17 from the sale of each RED MOTORAZR V3m phone to the (RED) campaign
Employees	Philip Morris	Tobacco/groceries	Employee morale	PM21, a program which – among other things – worked to improve morale by reshaping the company's image and participating in corporate responsibility programs
Executives	Whole foods	Grocery	CEO pay	CEO John Mackey reduced his own salary to $1 a year
Competitive advantage	Patagonia	Sporting goods	Sustainability	Since 1996 Patagonia has give 1% of total sales to environmental causes. They use organic cotton, and have extensive recycling programs. In 1989 Patagonia co-founded The Conservation Alliance, which encourages other companies to act similarly
External				
Stakeholder pressures	Wal-Mart	Retail	Competition	Wal-Mart has faced criticism from the press, NGO's, and union groups because of its effect on small business. Wal-Mart is able to drive out smaller businesses with lower prices and better selection, leading many family-owned businesses to close their doors
Shareholder pressures	Great Plains Energy Inc.	Utility	Carbon disclosures	In 2006, agreed to address their CO2 disclosure position before a resolution went to a vote before shareholders
NGO pressures	Nike	Apparel	Sweatshops in Asia	NGO's including Global Exchange and the Worker's Rights Consortium publicized the conditions in Nike's factory and led to more oversight by Nike and by the U.S. Government
Government mandate	All	All	Corporate accounting	The Sarbanes–Oxley Act was passed in 2002, requiring more disclosure on the part of American corporations, and setting minimum disclosure and oversight (e.g., audit committees)

Table 2: Examples of Internal and External Motivators for CSR activities, Source: (Griffin&Vivari, 2009)

Number of corporations that have initiated CSR reporting have increased exponentially in recent years. According to Socially Reporting Investing Trends (2011) in the U.S annual reports the value of funds that incorporate environmental, social and governance factors have increased by 90 percent from $260 to $493 billion.

In USA, three different strategies have been applied for the support of socially and environmentally responsible business practices to enhance the quality of society (Clarke, 2007). These are:

Figure 8: CSR Strategies of the U.S, Source: Clarke (2007)

- ***Screening:*** According to investors' point of view profitable firms that contribute to the society in a positive way has gained importance recently. Traded securities of investment portfolios are dependent on social and environmental criteria since investors are refraining from investing in companies that engage in harmful practices of products and business. For that reason, "the buy list" comprises of enterprises with good environmental practices, safety and useful products, operating its products based on respectful of human rights around the world (Ibid).

- ***Shareholder Advocacy:*** The investors that are conscious of the wealth of society behave as corporate America, which refers to the contribution of discussion with companies to fill out and defining the proxy resolutions. These proxy resolutions target to impact corporate acts positively towards creation of more responsible corporate citizenships, and orientate the management of the company to think more about the interests of all stakeholders, and at the same time enhancing social performance (Ibid).

- ***Community Investing:*** Traditionally, financial institutions have remained incapable of generating enough resources and opportunities for people who live in urban and rural communities in the US. However, "community investors make it possible for local organisations to create jobs, provide financial services to low income individuals, and supply capital for small business, affordable housing and community services such as childcare" (Social Investment Forum 2001:6).

According to analysts, shareholder resolutions are classified into two groups - Corporate governance and Social responsibility. While corporate governance resolutions include confidential voting, compensation of directors and executives and board performance; company policies and rules, its practices on society, health and safety are the components of the social responsibility resolutions.

Social Investment Forum show that socially responsible investing in the US has increased over the last decade. Griffin and Vivari (2009) have stated: *"companies participate in CSR to gain access to investors of socially responsible investment (SRI) funds and qualify for credit lines from banks requiring social investment data."*

Fig. B: Socially Responsible Investing in the United States 1995–2010

(In Billions)	1995	1997	1999	2001	2003	2005	2007	2010
ESG Incorporation	$162	$529	$1,497	$2,010	$2,143	$1,685	$2,098	$2,512
Shareholder Advocacy	$473	$736	$922	$897	$448	$703	$739	$1,497
Community Investing	$4	$4	$5	$8	$14	$20	$25	$41.7
Overlapping Strategies	N/A	($84)	($265)	($592)	($441)	($117)	($151)	($981.18)
Total	$639	$1,185	$2,159	$2,323	$2,164	$2,290	$2,711	$3,069

SOURCE: Social Investment Forum Foundation
NOTE: Overlapping assets involved in some combination of ESG incorporation, filing shareholder resolutions or community investing are subtracted to avoid potential effects of double counting. Separate tracking of the overlapping strategies only began in 1997, so there is no datum for 1995. Prior to 2010, assets subject to ESG incorporation were limited to socially and environmentally screened assets.

Figure 9 - Source: Social Investment Forum Foundation 2010 Report On Socially Responsible Investing Trends in the U.S (2011)

4.4 CSR in Sweden

As is mentioned before, Swedish companies are based on the Swedish model of ownership, which among other factors differentiates the countries from each other. In that model, corporations have more commitment to union workers and government. Emergence of this model is the result of drastic strikes that occurred in 19th century and it lead to negotiations, establishment of powerful unions and creation of welfare system that depends on mostly the public sector. There were not high expectations for social responsibility from corporations (Nilsson et al., 2008). On the other hand, when looking at today's business in Sweden, the country situation is not the same as in previous years. The market has become a more open economy for private enterprises with causes to oppose some part of the society.

Swedish corporations include CSR in their business in order to decrease their risks. However, recently they have started to involve CSR into a part of their business and a way of creating new business opportunities (Ibid). In recent times, according to information from Swedish official websites:

> "*Swedish business has a reputation for being fair, honest and transparent. Corporate social responsibility (CSR) is a core aspect of doing business in Sweden, which is why the environment, gender equality, human rights and anti-corruption are central issues for many companies here*" (Swedish Institute, 2011).

Swedish corporations have involved CSR into their decision-making process. They also conduct their business by taking responsibility and considering the environment, consumers, employees, communities and other stakeholders.

Beside the above, Sweden was the first country to provide sustainability reports from state owned companies, which is to say that the government considers and emphasises CSR. "Accountability's 2007 Responsible Competitiveness Index (RCI) ranked Sweden as the country that is doing most to increase its business competitiveness through responsible business practices" (Swedish Institute, 2008). The governmental structure of the country- democratic government-makes the government a big stakeholder and increases the importance of the corporations. The government supports the development of CSR and aims to create a positive relationship with Non Governmental Organisations (NGO). As a result of this, encouragement of NGOs by the government causes more aggressive reactions on companies CSR performance and bring about the creation of new policies that are more consistent with CSR

(Hawkins, 2006). Dow Jones Sustainability report also shows that Sweden has the highest standard in 2007 (Wiles, 2007).

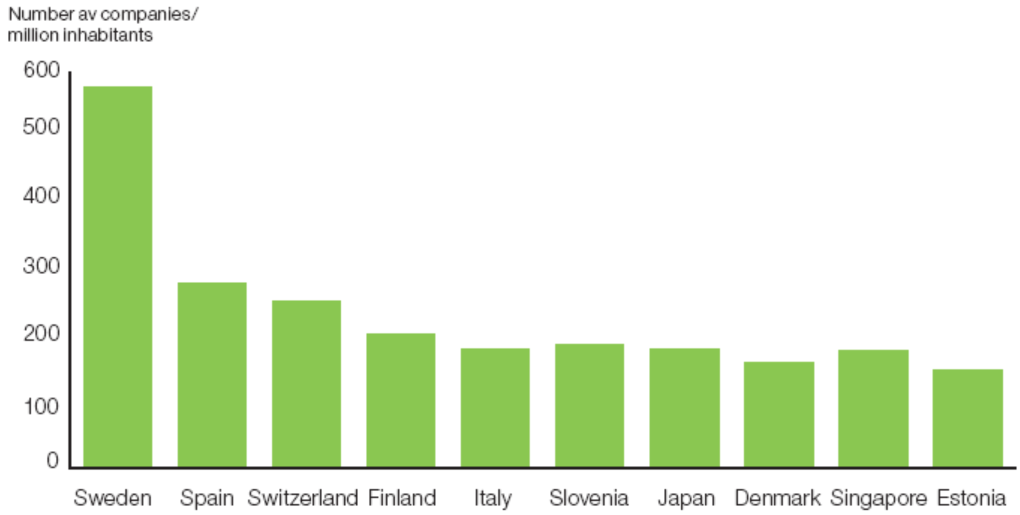

Figure 10 - Source: Swedish Institute (2008)

”*Statistics from the Swedish Agency for Economic and Regional Growth (Nutek) showed Sweden to be the world leader in terms of the number of environmentally certified companies per million inhabitants in December 2006/January 2007” (Swedish Institute, 2008)*

5 ANALYSIS OF COMPANIES

5.1 Criteria for Choosing Companies

This chapter covers the application of theoretical models into the practices. We have analysed four consumer banks - **Citigroup, Bank of America, Nordea and Handelsbanken** starting with their position in their market, organizational structure and the scale of CSR part in their organizations. We also emphasize on a comparative analysis of the U.S and Swedish financial industry. The reasons for choosing these banks are:

1. Commercial Banking
2. Prominent in their field
3. Their popularity and reputation in the industry
4. Strong financial positions
5. Stock-listed

Figure 11 - Common Properties of the chosen company

5.2 Presentation, Categorisation (according to Carroll's Pyramid) and a Risk Management Analysis of Companies

5.2.1 Citigroup

Citigroup is a global financial services as a holding company that run the business for consumer, corporations, governments and institutions with a wide range of financial products and services. Citigroup 2010 Annual Report (2011) shows that the company has served 200 million customer accounts over 1000 cities in more than 160 countries. The company has two main business segments that are *Citicorp*, which comprises of its Regional Consumer Banking (RCB) businesses and Institutional

Clients Group (ICG), and *Citi Holdings*, consisting of its Brokerage and Asset Management (BAM), Local Consumer Lending (LCL), and Special Asset Pool (SAP). A large portion (49%) of the company's revenue comes from Regional Consumer Banking, making it one of the most important business operations for the corporation (Citigroup 2010 Annual Report, 2011).

Carroll's CSR Model for Citigroup

Economic Responsibilities

"*After 1990s the importance of social responsibilities for financial services companies has started to increase because of economic actors. Moreover, worldwide, nongovernmental organizations and many other social activists have recognized that financial firms must have a responsibility in allocating financial resources since they believe that financial firms are the largest economic sector. Thus, financial firms such as "Citigroup" have duties on economy, environment and society at a large in CSR policy."* (SOMO: Citigroup a report on CSR policy and practices: 2004)

According to Citigroup CSR report (2009), their target is to become the global corporate and investment banking group which serves in financial sector to corporations, governments, institutional and wealthy individual investors. The speech of Citigroup CEO (2009) is emphasizing on the main purpose of Citigroup commitment to corporate citizenship. Some of them are defined as millions of people having economic hardship and the underestimation of risk has triggered the financial crisis. Moreover, he has stated, "Our sense of obligation has been heightened by the financial assistance Citigroup received from American taxpayers under the TARP program". Citigroup also operates its day-to-day activities in the direction of good citizenship. They have called their commitment to good citizenship as "Responsible Finance" which refers to contribution of economic improvement with large loaning to businesses of different sizes and industries that cover organizations in extendable energy and clean technologies. Citigroup has many years had high profitability, which means financial strengths, operating efficiency and strategic clarity as the prerequisite of the organization. Each of them supports the practice of responsible finance (Citibank 2009).

Legal Responsibilities

Carroll and Archie (1991) defines this as acting consistent with governmental rules and law, being law abiding corporate citizenship and providing goods and services that face minimum legal requirements are essential keys for companies to accomplish in business world. Citigroup has published four essential documents to show its corporate governance policy that are the Code of Conduct, the Corporate Governance Guidelines, the Code of Ethics for financial professionals and the Citigroup Initiatives on Corporate Governance and Business Practices. The code of “Code of Conduct” has mentioned tasks for employees that are

- Fair and free market approach
- Tied business dealings that refer to paying attention to make arrangements whereby one transaction is made a condition for another for employees,
- Antitrust compliance: Laws should be respected
- Environmental issues: Employees must be careful about their operational process and they must avoid the process that create risky for environment and society.(Citigroup a report on CSR policy and practices (SOMO): 2004)

Citigroup gives great importance to their alignment of legal vehicles with the US Home Mortgage Disclosure act (HMDA) and Fair Lending Regulations. In the Citizenship Report (2006), it is mentioned that “s*etting consistent goals, closely monitoring our progress and ensuring that we share best practices between our corporate centre and the local U.S. markets are the keys to our success”.*

In 2006 Citi co-authored and revised the Equator Principles for application of the social and the environmental standard of the World Bank Group to plan finance issues. According to its annual report (2006) Citigroup has the most durable practices, staffing and revealing of Equator Principles application. Citigroup also believe that their environmental and social risk management policy trigger to protection of nature and prevent the illegal logging (Citigroup Citizen Report, 2006)

Ethical Responsibilities

As mentioned by Carroll’s, ethical responsibility is important to companies to define and being respectful to ethical moral norms set by society. Citigroup has mentioned that one of the priorities is contributing to the improvement of the economy in the aftermath of the financial recession in 2008. In order to support the economic expansion Citigroup has provided credit to small and mid-sized companies. In 2009 Citigroup has worked on the U.S. Department of the Treasury and the Small Business Administration on different enterprises to be released for 2010.

Moreover, according to Citizenship report (2006) the company target is:

I. Increase number of borrowers who has low-income by rising the capacity of MFIs and mobilizing capital.
II. Focusing on protection of borrowers' assets through the savings, housing loans, remittances, insurance and financial education.
III. Giving importance to transparency by increase of industry commitment and standardization of performance dimensions to improve it.
IV. Global awareness that triggers the expansion of market access to capital markets is an influential tool for reduction of poverty.

Philanthropic Responsibilities

These responsibilities cover the programs to support human welfare and goodwill (Carroll, 1991). According to analysis of Citigroup annual report and its citizenship report between 2000-2010 Citigroup takes note of philanthropic activities and especially last five years Citigroup and its employees actively participate in volunteer projects. As Carroll (1999) has mentioned, contribution of both managers and employees for charitable or voluntary acts for their society is an essential tool of having good CSR policy and implementation of CSR. These are some of the good examples that Citigroup has acted in philanthropic activities: "More than 45.000 Citi employees with their friends act in voluntary activities on November 18, 2006 participated in volunteer activities in 475 cities in 100 countries. 500,000 lives were improved, 100,000 meals were served, 10,000 trees were planted, 8,000 tons of food was collected. All of it in just one day (Citizenship Report, 2006)". Furthermore, it supported Hurricane Katrina victims during the same year through "the Citi Pro Bono Legal Initiative" that is about 50 attorneys from US and Mexico has spent hour after hour work for individuals and organizations to provide legal assistance after Hurricane Katrina. They have defined different projects for the Gulf Coast region.

Risk Management of Citigroup

In its 2010 annual report, the bank has a list of principles, which are: a common capital model to evaluate risks, a defined risk appetite, accountability through a common framework, risk decisions based on transparency, accuracy and rigorous analytics and independent risk managers (page 81).

The culture that Citibank fosters consists of ”taking intelligent risks”, individual accountability and shared responsibility. The first term means to understand the total downside of all investments, appreciate risks and the risk/return relationship. Second term, refers to business management aiding in managing risks and influencing business outcomes. Lastly, individual accountability means that the bottom line is that all individuals have a responsibility to understand and manage risks (Citigroup 2011, page 81).

Citibank also has a risk management organisation. Main objective of the organization is to assess different dimensions of the business based on business, regions and critical products. Consequently, the respective divisions are headed by a Chief Risk Officer, who is responsible for setting risk appetite limits and approving transactions (Citigroup 2011, page 81). Additionally, the risk management organisation makes sure the divisions have the right governance structure for the corresponding risk profile.

5.2.2 Bank of America

Bank of America is the largest bank holding company in the U.S. The company serves approximately 57 million consumer and small business relationships with approximately 5,900 retail banking offices. The size of the company, gives the company scale benefits across different divisions. It holds the top tier position in the world across equities, fixed income, rates, currencies and mortgages (Datamonitor 2010).

With the wide variety of services that the company offers, its customers range from corporations, governments, institutions and individuals around the world in over 40 countries. Additionally, the bank offers several package solutions aimed at supporting its 4 million small businesses customers. Lastly, Bank of America Corporation stock (NYSE: BAC) is a component of the Dow Jones Industrial Average and is listed on the New York Stock Exchange (Bank of America 2011).

Carroll's CSR Model for Bank of America

Economic Perspective

The bank has the purpose of being an universal bank that serves the financial needs of different types of customers, and in the process attract the best employees to serve customers while at the same time supporting the communities it operates in and creating value for shareholders (Bank of America 2011, page 2). This was reiterated by the CEO in the letter to the shareholders in the 2005 annual report. In the letter, the CEO talks about deepening, retaining and attracting more customers by practicing relationship marketing and integrating value-enhancing activities from across the firm to deliver customised products to customers (Bank of America 2006, page 5).

As for being a functioning economic unit, the bank believes itself to better positioned than most peers to withstand an economic recession or downturn, and the accompanying credit downgrade that usually follows (Bank of America 2001, page 5).

Moreover, some steps that are taken to align the interest of both shareholders and associates are to lean bonus awards more towards being based on stock appreciation as opposed to time-based vesting. Also, shares are increasingly being distributed as restricted stocks (Bank of America 2001, page 6).

Lastly, in the 2001 annual report (page 32), Bank of America talks about the importance of managing risk. Governance procedures, analytical tools employed and diversity of credit exposures are mentioned. This is a permeating tone in the following annual reports where Bank of America claims that it continually aims to improve its procedures and tools.

Legal Responsibilities

Obviously, the management processes present at Bank of America are designed to ensure compliance of laws and regulations (Bank of America 2001, page 4).

Like any financial institutions, Bank of America also has an anti-money and anti-terrorism policy statement. In there, the bank states that any involvement with illegal activities, even unwittingly, is of great concern. Since financial institutions play a key role in laundering money, they are also in a great position to detect and prevent crime; therefore, Bank of America has a “Get To Know Your Customer” program. The bank also has a policy of not co-operating with customers who refuse to reveal their identity.

Related to this, Bank of America aims to conduct its business in conformity with the highest ethical standards in the countries in which it does business, and will adhere to all laws and regulations pertaining to financial institutions.

Ethical Responsibilities

Strikingly in the annual report, the bank mentions that it lends money to low- and middle-income families (Bank of America 2004, page 13). Additionally, Bank of America tries to help customers by offering repayment solutions (Bank of America 2006, page 13). This has come under ethical responsibility, as it is understood not to always make business sense to lend these customers (low and middle income families) money. The reason is that it usually carries a higher risk since most presumably these are the families that will lose incomes during financial downturns. On the other hand, it is in the interest of the bank to recover full repayment, which means offering repayments solutions makes intuitive sense. Although one cannot say how effective the repayment service is or how ”kind” the bank is, genuine help could be regarded as the ethical thing to do.

Even during the financial crisis, Bank of America did not freeze their community development program (Bank of America 2009, page 18). It was probably the most ethical thing to do considering the amount of money the bank received from the TARP program.

Moreover, Bank of America has a corporate culture in place that encourages the highest standard of ethical conduct (Bank of America 2003, page 4).

Lastly, the bank has several "green" initiatives as well, some being conserving energy, recycling programs and investing in a hybrid vehicle purchase assistance program for associates (Bank of America 2007, page 10). These amongst other things are attempted to being integrated into operations at every level (Bank of America 2006, page 3). Additionally, the bank has an environmental council that surveys new issues and keeps the bank on right track (Bank of America 2006, page 12).

Philanthropic Responsibilities

In 2003, Bank of America set a goal of investing $750Bn dollar in community development lending and investing. A charitable donation of this size is currently unprecedented in the world (Bank of America 2004, page 4).

This responsibility could come in two forms – time and money. Bank of America tries to invest both in communities (Bank of America 2006, page 8).

Bank of America actively encourages its employees to engage in the following:

- Responsible business practices
- Volunteerism
- Community development and lending
- Philanthropy
- Arts
- Environment
- Diversity and Inclusion (Bank of America 2011, page 11)

Risk Management of Bank of America

The different risks that are recognised at the bank are strategic, credit, market, liquidity, compliance, operational and reputational. Reputational, although mentioned separately here is regarded in all risk categories at the bank. The risk refers to publicity and such from different events that might affect consumers' perception of the bank (Bank of America 2011, page 63).

When taking on risk, it is evaluated against the bank's ability to take on more risks. By ability the bank means taking on risks and still able to weather tough economic times and take advantage of opportunities to grow. As a tool in this regard, the bank has a comprehensive risk management framework, which is continually evolved to reflect new challenges in the business world. Including in this framework is the bank's appetite for risks, which is approved annually by the Board of Directors (BoD). The framework is also designed to understand the different risk management activities, individual roles and accountabilities (Bank of America 2011, page 64). Additionally it tells how risk management is integrated into the core business and how it affects the governance structure and management's involvement.

Different committees such as credit, enterprise and audit have as a primary objective to overlook and oversee the decisions taken by the company to ensure compliance with the guidelines set (Bank of America 2011, page 65). Together the committees are believed to provide an integrated overview of the risks taken by the company and the returns in relation to these risks.

5.2.3 Nordea

It has operated in the Nordic and Baltic Sea region and it is the leader in financial services group with the having EUR 36 billion market capitalization, 11 million customers, 1400 branch offices, 6.2 million e-customers in net-banking position and 0.7 million active corporate customers (CSR Report, 2011). Nordea bank is a global company with leading positions not only in retail and private banking but also corporate merchant banking. Nordea has started to operated in new European markets; Russia, Poland, Lithuania, Latvia and Estonia and add 180 branches into its group that operate in these regions (Adekunle, 2008). The Nordea share is listed on the NASDAQ OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen. Ownership structure of the bank is not dispersed since Samplo Plc and Swedish state's ownership comprise of almost 40% of the market value (Nordea, 2011). Thus, Swedish government's guidelines for external reporting are applied in implementing CSR.

The shareholders (in the General Meeting), the Board of Directors and the President and CEO, pursuant to the provisions of the external framework, the Articles of Association and the internal instructions laid down by the Board of Directors are the constituent part of management and control of Nordea.

Corporate Social Responsibility is defined by Nordea Group as a concept whereby a company target to improve its relationship with internal and external stakeholders "that reach beyond just the purely financial performance of its business" (Adekunle, 2008). The company culture is based on having good relations with community, good citizenship and taking care of people and the environment. Corporate citizenship has not been reported explicitly before 2007 though. It published its first citizenship report in 2008 and afterwards citizenship report has gained ground more and become better articulated. The reports include the company activities and CSR policy, which are the indicators of the business strategy and values that is the guide of its operations. The policies are also defined to encourage long-term objectives and targets. In 2007 "there was an introduction of new Nordea values which translated into the initiation of a new CSR strategy" (Adekunle, 2008). New strategy in 2008 is to make CSR more tangible part of everyday work and to have more systematic measurements.

Carroll's CSR Model for Nordea

Economic Responsibilities

Nordea is the largest financial service group in the Nordic and Baltic Sea region. Nordea's CSR report (2009) stated that "I'm proud of our employees and I'm glad that we have earned the trust of new customers who have joined Nordea during the year, more than 12,000 Gold customers a month. We have been there during the hard times and increased loans to household customers by 13% and to corporate customers by 2%". Furthermore, the Nordea brand is built on the two components Nordic Ideas, "which reflect very much what we are and want to be". Nordea Bank has applied the strategy that is in parallel with strengthening its balance sheet.

Legal Responsibilities

Nordea's code of conduct applies to all personnel and everyone working on behalf of or representing Nordea (Adekunle, 2008).

Ethical Responsibilities:

The Nordea's Code of Conduct focuses on the ethical employee behaviour and corporate citizenship principles cover ethical norms. According to the company CSR report, Nordea bank is aligned to ethics, honesty and sincerity. One company principle it has is - "not to offer, request or accept unwarranted gifts and payment nor limit free and fair competition". It is the indicator that company perform within the ethical framework. One of the purposes of the bank is enhancing its tools for showing consideration of environmental, social and political risks.

Nordea started to publish an annual environment report 2002 and the Nordea Environmental Footprint (NEF) since 2006. The company also gives importance to employee feedback since employee satisfaction survey has been applied to understand what the employees expect from the company and whether the company motivates them or not. Their strategy is developing its employees into realising the corporate vision. Operating environmentally is also essential for the bank; "the CO2 emission of energy consumption of the bank decreased by 2 percents, while those of business travelling turned upwards, increased by 7% in 2008 due to an increase in business volumes" (CSR report, 2009)

Philanthropic Responsibilities:

"Nordea is extending the scope of the tools for evaluating environmental risks in corporate lending also to assess social risk. The extended tools will be implemented during 2008. The extended scope is also reflected in the credit policy and strategy as well as in the credit instructions." (Adekunle, 2008)

Nordea Bank operational CSR activities are based on:

- ❖ Electronic channels are replaced the paper communication for communication with the customers – the key of protecting environment.
- ❖ Focusing on more environmentally friendly products and enhancing them to become widely used
- ❖ Reduction of energy consumption for electricity, heating and cooling
- ❖ Providing more energy efficiency programmes in their IT.

Analysis of the CSR reports between 2008-2010 indicate that Nordea bank has applied different philanthropic activities, such as; in 2009 "employees in Russia played, drew and went horseback riding with 250 children from orphanages, correction schools and recovery centres in July 2009. The event at Multyashkino was organised by Lanit company in co-operation with Nordea and other corporations" (CSR report, 2009). In addition to this, Nordea emphasises on supporting children and teenagers to socialise and sponsoring young athletes and musicians.

Risk Management of Nordea

As is mentioned in Chapter 5, Nordea Bank started to publish its CSR report separate from the annual report in 2008. Although Bank CSR report 2008 and 2009 do not contain the risk management part of the company, in 2010 the company mentioned the risk management concept in their CSR report as well. It shows that the company see the risk management subject as a part of socially responsible activities.

The corporation has a "Group Risk Management" department that improve the company Credit policy and Strategy and it has also responsibility for consideration of overall quality of credit portfolio (Nordea 2010 CSR Report,2011:11). Nordea Bank has three principles for organisational control and reporting lines that are called "three lines of defence". The first line is the *business units* that refer to internal control checking by questioning the internal control mechanism. *The Group level control functions* in second line include specialists 'risk management' controls such as the independent risk and Compliance Officer. The last line of defence is *the Group Internal Audit*. In that line they apply the controlling and auditing on the Group's operations and reports results to the CEO and Board of Directors.

An individual and collective assessment of assets is done quarterly and evaluated against set criteria.

"Monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, on a monthly or quarterly basis for credit risk and on a quarterly basis for operational risk." - Nordea (2011, page 5)

5.2.4 Handelsbanken

Handelsbanken is a well-known Swedish universal bank and is also one of the big Four. ”It has approximately 11,000 staff operating in 457 branches in Sweden, 162 in other Nordic countries and Great Britain as well as units in 17 other countries. Handelsbanken has total assets of SEK1,859bn and in 2007 made an operating profit of SEK19.4bn” (Innovation leaders 2007/08).

One of its strength is that it has shown better profitability than its competitors. This is achieved through a very decentralized organisational structure with a bottom-up approach. Consequently, this means that most decisions are taken at bottom level. The bank believes in global banking with local presence, which may sound very cliché but works for Handelsbanken as it is able to keep down costs very effectively. The philosophy of the bank is to focus on customer profitability as opposed to product profitability. This is also reflected in the bank's focus on relationships with its customers, which also reflected many times in customer satisfaction surveys that the bank many times have topped. Proximity to customers have also helped the bank immensely in the credit lending process, and the close relations consequently allows the bank to adjust is risk assessment better to the environment. Result has been lower bad debts than competitors (Handelsbanken 2011).

Carroll's CSR Model for Handelsbanken

Economic

In its annual report 2010, Handelsbanken says it continuously strives to achieve a high enough standard to satisfy corporate customers as well as institutions and private customers.

The bank has a sustainability report. This has been categorized under “economic” because we think of it as a condition in operating a sound business.

Handelsbanken has as a goal to be present in so many places as possible, making banking very local and personalized. It seems to think of this as a community effort meaning that it is CSR. The logic behind that argument by Handelsbanken is that it is present where other banks are not because they neither have the same cost structure nor efficiency to compete on such as wide scale. We on the other hand think of their presence as a necessary business model to sustain competitiveness and not being socially responsible. Thus, being categorized here.

There are also many “green” initiatives in place. The interviewee claims that is was primarily to save money though, which is why it is considered “economic”.

As the bank is listed on the stock exchange, no differently from our other banks, it has responsibilities towards many stakeholders.

> “Sustainable business practice – to deliver better service and have lower costs than competitors – is a condition for the bank to have a higher profitability than other Nordic banks, and thereby continuously participate in commerce as one of Sweden’s largest taxpayers” (Handelsbanken 2008, page 119).

The accountability of both the risk and business lies with the same person. Consequently, making employees think twice before doing anything potentially careless. The local offices make assessments of all lending decision every three months while the national office does it annually. The decentralization both empowers employees and it also allows them to adjust credit rating systems to specific conditions of the customers and landscape of the business (Handelsbanken 2004). This is also a reason for why it tries to limit the reliance on matrixes by credit agencies. Additionally, the bank has a very low risk profile as mentioned (Handelsbanken 2009).

Finally worth mentioning, the bank regularly sponsors different local community activities. In fact, it prefers to do so over donating to charities (Lundgren and Sachs 2008).

Legal

Like all the other banks, in the terms of legal issues especially, Handelsbanken is no exception. On its website, it has mentioned anti money-laundering procedures and insider trading. Nothing is written about in detail but mentioned. Furthermore, the bank talks about abiding the regulations and rules set out by the supervisory financial authority in Sweden as well as other authorities (Handelsbanken 2011).

Ethical

Short-term and doubtful projects are rejected. This obviously reflects on the focus, which is long-term and sustainability even though short-term investments may carry higher returns. Consequently, risky investments are avoided.

Employees from the bank often also give lectures at Uppsala University. Although it could be seen as a marketing trick, we do not think so as the bank is one of the big four in Sweden, and most if not all students know about it.

No one in the board works with credit systems. Additionally, no one in the board receives any bonuses. From a shareholder perspective this may not be optimal but proponents of the stakeholder theory would with most certainty disagree.

On its website, Handelsbanken mention human rights and observing the FN standards prescribed. This according to the bank is something it demands of its customers as well (Handelsbanken 2011).

Philanthropic

Since 1960, the bank has donated money to two foundations, which in turn fund research within the field of business (Handelsbanken 2011).

Risk Management Analysis of Handelsbanken

Risks in Handelsbanken

	Description:
Credit risk	The risk that an individual borrower cannot fulfil his commitments
Market risk	The risk of price changes in the financial markets
Liquidity risk	The risk that the Bank cannot make its payments when due
Operational risk	The risk of human errors and errors in procedures and systems
Insurance risk	The risk in the outcome of an insurance that depends on the insured party's longevity or health
Business risk	The risk of unexpected changes in financial performance that are not releated to loan losses or market risks
Property risk	The risk of changes in prices of the Bank's property holdings

Figure 12: Description of Risks, Source: Handelsbanken 2008 Risk Management Report

The bank has since 2008 published a separate report for risk management. Included in the reports are a description of risk management, credit risk, market risk, liquidity risk, operational risk, risks in insurance operations, capital base and capital requirements, comprehensive risk by means of economic capital model and capital planning. The specifics of the different areas are not important but are mentioned to give an overall idea of the breadth and depth of risk management at Handelsbanken.

In the report one can see that the bank has a very low risk appetite, and this is also reflected in the low loan losses (Handelsbanken 2008, page 3). The bank also refrains from investing in high-risk transactions. Additionally, it has exceptional liquidity risk management, which was evident throughout the financial crisis.

Differently from many other banks, Handelsbanken chooses to retain all its risks; meaning that it carries all the different risks within the company (Handelsbanken 2008, page 4). Perhaps this makes the bank so efficient at handling risks as it is aware that being negligent could potentially have devastating consequences for the company.

The risk management practice can be divided in four levels - business operations, risk control close to operations, central risk control and capital planning (Handelsbanken 2008, page 5). *Business operations* are about the different branches being responsible for negative and positive outcomes of their business. This consequently means that people become very cautious in their ways as they are held accountable for every decision. Moreover, the personnel have credit limits, which they are not allowed to exceed without the approval of higher instances. Credit processes are also adjusted to the different environments of branches but with some common denominators that are mandatory for all branches. The close relations trough the decentralised structure of the organisation enables this. *Risk control close to operations* is about limiting loans and assessing loans at special credit organisation. The local control also means that surprises are avoided and a full awareness of risks is more likely. *Central risk control* identifies the risks are bank is exposed to, gauges them, and ensures the risk management at all levels are followed and measured to keep it in balance. The last level, *capital planning,* constitutes of having substantial capital at hand if all previous measures fail. Substantial capital means having enough capital enough even in extreme situations.

Exactly how much risk a branch is allowed to take is determined by the central board (Handelsbanken 2008, page 6). The credit risk situation is reported quarterly to the central board in terms of volume growth, non-performing loans, and information from the bank's credit risk model. (Handelsbanken 2008, page 7). Additionally the bank requires the branches to submit quarterly debt repayment reports of its customers. Normally risks are identified early and managed early. Many risks such as financial risks, mortgage business, liquidity risk and such is checked daily. Moreover, there is a more detailed report every month of all the risks (Handelsbanken 2008, page 7).

5.3 Summary Matrix

	Citigroup	Bank of America	Nordea	Handelsbanken
CSR Practice	Follows the principles of ”corporate citizenship”. Have a policy in place called ”responsible financing”, which is about lending money to different industries and companies focussing on extendable and clean technologies. Actively participates in volunteer projects.	Aims to serve the community it serves in as much as shareholders. Bonus packages of employees promoting long-term focus on investments. Claims to prioritise risk management. ”Get to know your customer” programme to prevent criminal activities. Even during hardship, the bank did not freeze its community development programmes. Several ”green” initiatives in place.	Defines CSR as relationship between internal and external stakeholders, and going beyond financial performance. Continually improves tools bearing in mind considerations for environmental, social and political risks. Environmentally conscious. Conducts various volunteer projects.	Has several ”green” initiatives. Sponsors different local community activities. Ethically speaking, short-term and doubtful projects are rejected regardless of the potential to make profits. The bank adheres to the human rights and other FN standards prescribed and demands the same of its customers. It also donates money to foundations, which in turn funds academic research.
Risk Management (RM)	”Taking intelligent risks”. Defined risk appetite. Common framework across the organisation for accountability and evaluating risks. A function in the organisation in place solely for managing risks.	Several risks recognised such as strategic, credit, market and etc. Risks are evaluated against bank's ability to take on more risks. A continually evolving firm-wide RM framework in place.	RM reported as part of CSR. The company has a ”Group RM” department. ”Three lines of defence” - business units, group level functions and internal audit.	Wide RM framework covering areas such as capital base and capital requirements. Low risk appetite. Refrains from high-risk transactions regardless of return. The bank retains all its risks. RM practice constitutes of business operations, risk control close to operations, central risk control and capital planning.
RM Structure and Autonomy of Local Offices	Centralised structure. Recognises the adaptive nature needed in the lending practice as every office has different operating environments, yet policies are set at a central office.	Central committees such as credit, enterprise and audit in place to provide an overview of risks across the whole organisation. Less autonomy to the individual offices.	The RM practice as mentioned above is central and the department is the controlling authority of risk assessment in the organisation. Less autonomy for the individual offices.	Decentralised function with a bottom-up approach. Bank believes in global banking with a local presence. Much autonomy to local offices and close relations with customers is prioritised. Credit risk caps are set by the central office. The central office also reviews the loans quarterly.
Financial Aid during 2007-2010	Total Assets 2008: $1938 Bn Aid: $45 Bn Aid/TA: 0,023	Total Assets 2008: $1817 Bn Aid: $45 Bn Aid/TA: 0,0248	Total Assets 2008: €474,1Bn Aid: SEK 5 Bn Aid/TA: 0,0011	N/A

6 DISCUSSION OF COMPANIES

6.1 Differences between CSR Practices of Different Banks

Having cross-national differences in corporate governance create separate approaches of CSR for the U.S and Sweden since managers, shareholders and other stakeholders have an impact on the way CSR is practiced (Matten and Moon, 2008:406). When we looked at our chosen companies another distinctive property of American and Swedish companies is the way of reflecting their CSR policies to the society and behavioural differences in implementation of CSR strategies.

As it is mentioned in chapter 4, the U.S corporations have CSR implementation practices naturally in their corporate culture and they act as an explicit way to demonstrate their CSR activities. Analysis of the four commercial banks – Swedish and American banks, supports that argument distinctively. As we have emphasized on the different ownership structure in the U.S and Sweden in the analysis of national business system, this distinctiveness has impact on the shape of perspective of banks in CSR. This research shows us the critical results for Swedish corporations in general in Europe for example; corporations tend to look for capital on the international stock markets and numbers of firms have increased in that way. These changes bring about the need for explicit CSR communication since if the corporations perform in international stock markets, showing their transparency and accountability has gained more importance for shareholders. Nordea Bank has performed in different nation market and it is listed on the "*NASDAQ OMX Nordic, the stock exchanges in Stockholm (in SEK), Helsinki (EUR) and Copenhagen (DKK)*" (Nordea 2010 Annual Report, 2011). Although the ownership structure of Nordea is concentrated with 19.9% belong to Swedish State and Sampo PLC having 20.6% of shares in 2010, the bank tends to expand and diversify the U.S ownership in the U.S market. In the company 2010 annual report shows that after the end of report the Swedish state decreased its holding to 13.6% (Nordea 2010 Annual Report, 2011). All in all, the company tend to become more dispersed ownership that trigger the company to shift to more explicit CSR. And we can see this changes in corporate practices as well.

As it is explained in Nordea's categorization part earlier in the thesis, year 2008 was a new turning point for the bank in regards to addressing new CSR strategies which are more tangible, reporting CSR explicitly and changing company values. Matten and Moon (2008) argue that implicit CSR has been replaced by explicit CSR in European countries, thereby also Sweden recently. We can see these changes in Nordea as an example of it. One of the reasons is that explicit CSR has started to be seen as a new trend in the management of corporations. Therefore Matten and Moon (2008) explain it: *"...explicit CSR is gaining new momentum across Europe and beyond"*. Additionally, Nordea Bank is a member of CSR Europe, a European Business Network for CSR that was established in 1995. Citigroup is also a member of this organization because of its operations in the European market. Jieyi and Hui (2009) European Union has an important role for defining international criteria of CSR and influence the corporation to spread the CSR approaches. The development of CSR activities in Nordea could be a result of pressure from the European Union and changes of global climate. Improvements of CSR policies and strategies have arisen from the expansion of global management systems, ideologies and development of technologies (Guler et al., 2002 in Matten and Moon 2008). Matten and Moon (2008) explain the change of CSR approaches in Europe with corporate governance reforms; more specifically a change from a shareholder-oriented corporate governance system, to a labour and cultural system.

However, the other Swedish bank, Handelsbanken is quite different from Nordea based on the implementation of CSR policies. For example, Handelsbanken do not prefer to publish its CSR report separately. It does not mean that company do not respect the stakeholders, environmentally responsible or not operating in a good way. On the contrary, after the analysis of this bank we have syllogised that the company target is to discharge the first level of Carroll's responsibility- *economic responsibility* since one of the bank priorities is the regulation of risk, which is better to the social environment. Thus, performing better in terms of profit than its competitors in 2008. Handelsbanken is one of the less affected banks comparatively speaking in our analysis by the crisis in 2008. However, it is challengeable if having the strong risk management system which decrease the possibility of customer losses and damages from external situations, means that financial firms are more responsible, or if CSR is beyond the risk management.

While Swedish banks face some changes in CSR approaches, the American firms also tend to develop their CSR policies in terms of changes global world and external pressures. Citigroup has quite strong CSR policies and the company CSR policies and strategies have developed over the last few years. According to Somo ‘s research (2008) the company has faced positive and negative ratings in the past. In 2000 and 2001 CSR ratings were negative in terms of Multinational Monitor however; 2003 and 2004 is positive rating by Dow Jones Sustainability World Index for the company (Somo, 2008: 15). The same research shows that Citigroup has the best CSR policies in its sector.

When we investigate the recent years, Citigroup have made some improvement in its CSR policy and strategies especially after 2008 crisis, which affected the bank deeply. As it is mentioned in the analysis of the bank based on Carroll’s model, the most important policy of the company on an ethical basis has become the contribution to economic development.

Porter and Kramer (2006) explain the importance of CSR as not only a benefit for society but also for the corporations since it leads the companies to new sources of opportunities, innovation and competitive advantages. Therefore, it is questionable if CSR is a new strategy for corporations to implement their policy in explicit way to gain competitive advantage in the market. While American companies, inclusive the already implement in that way, European corporations performing in an explicit way is a new management concept (Matten and Moon, 2008:411).

6.2 Risk Management Effectiveness and Can It Be Imitated?

To start off, we had to establish benchmarks for determining the effectiveness of risk management at these banks. We looked at how much money the banks asked their respective governments for during the financial crisis in 2008. The specific numbers can be found in the summary matrix and below in the text. The loans the banks have obtained from the government has been divided by total assets year 2008 to show in relative terms how reckless they have been. As one can see, according to our calculations Bank of America has been the most reckless closely followed by Citigroup. We viewed this benchmark as an indicator of how much of a ”burden” these banks are on society. A brief qualitative study was also done to evaluate the banks, which is what follows next.

The website, TARP results blog, says that the banks that were first to receive money from the TARP programme were the worst performers, weighted by their TARP investment, compared to other financial institutions. In this regard the worst performers were Citibank, which dipped 42,46%, and Bank of America, which slumped 34,09% (TARP Results Blog 2008).
According to David Ellis (2009), in an article about how the Citigroup spent the financial aid, Citigroup received $45 Billion from the Troubled Asset Relief Programme (TARP) in the U.S. Later 2009, the bank tried to repay its loan to the U.S government after Bank of America did so. Experts at this point were unsure if the bank could continue as a financially healthy entity if Citigroup did in fact repay the loan. It would according to many make the bank weaker, and not stronger. The stricter terms by the government at the time of the financial aid on Citigroup reflected the severity of the position Citigroup was in. This problem extended much to customers' waning confidence in the company, which ultimately affected business (Gandel 2009).

In January 2009, Fox Business reported that Bank of America would receive $20 Billion in addition to the $25 Billion already received from the TARP. According to the bank, this was money earmarked for the integration and digestion of Merrill Lynch into the bank (Barnes and Ossinger 2009). Although, this deal was made with the precondition that the U.S Treasury department provided this additional money, it was not a deal out of good will as it resulted in Bank of America becoming the largest U.S bank by assets. Huge success for Bank of America with a tab paid by American tax payers.

As a result, public's trust in businesses and other corporations around the globe is at a low level according to the World Economic Forum. Furthermore, consumers are believing that banks are more acting as agents trying to sell products instead of acting in the interest of the consumers. Consequently, Zogby International found that 14% of U.S adults are leaving their larger banks for smaller community banks to protest against their (U.S banks) behaviour (Woolhouse 2010). Reestablishing morality and integrity of the banks in the minds of the consumers will be a tough job but necessary job for the banks to survive in the long-run (Cremer 2010, page 1). Bank of America, while investing quite a lot in advertising, realises that advertising is not enough to reestablish trust in the bank by customers. What the larger banks in America will do to regain their former consumer power remains to be seen.

Swedish banks were not as affected by the financial crisis as the banks were in America. Reasons for that among others are that lending activities had been done more responsibly and the product portfolios reflected the climate of the economy (Woolhouse 2010). Additionally, Nordea, for example, drew wisdom from the previous financial crisis in Sweden through its senior employees and did not commit the same mistakes as last time, such as being inflexible about money collection procedures. A more long-term focus was emphasised this time around (Hansson and Ström 2009, page 18). Another reason was their (Swedish banks) lower exposure to structured financial products (Öberg 2009). Yet, Nordea had to ask the government for money. According to Dagens Industri (DI), a prominent business magazine in Sweden, Nordea was one of the first ones to ask the government for money. The amount given was SEK 5Bn in exchange for equity in the company (Svedbom 2009). While all the major banks (SEB, Swedbank and Nordea) in Sweden had to issue equity to raise capital, Handelsbanken paid dividends to its stockholders (Rolander 2010). During the financial crisis, the bank actually increased business from customers, in particular private customer who were looking for safe saving options. With strong results and high liquidity, Handelsbanken was in a good position even during the financial crisis (Privata affärer 2008).

The signs of the financial crisis were there to be seen for those who wanted to see it. Nordea saw the signs but did not think it would be as severe as it turned out to be. After the fall of Lehman Brothers there was no doubt in mind for Nordea though. Handelsbanken on the other hand sensed something was up in 2005-2006 already. Maybe because it had a very low risk appetite. Anyhow, the financial boom fuelled by falling housing prices and excessive use of financial intermediaries alienating the buyer from the seller just did not seem right to the bank (Hansson and Ström 2009, page 20).

After reviewing the four banks, we came to the conclusion that the ”best” bank is Handelsbanken. At Nordea, for example, the risks are evaluated on a more annual basis, whereas at Handelsbanken this is done quarterly. Nordea also seem to use the same framework for loans regardless of location, while Handelsbanken gives its branches the power to adjust to the specific environment. Another example would be Citibank, which like other banks also has a Chief Risk Officer. What is the alarming part about that is that this officer is responsible for managing, monitoring, and controlling risk exposure concentrations across the organisation (Citibank 2010, page 82). How is it possible for a centralised unit (that is the feeling we got from reading the annual report), to manage such a humungous task of monitoring a company, which is present in more than 160 countries? Interestingly, both Bank of America and Citibank think or thought that they were better prepared than their competitors to handle economic downturns. This obviously was not true.

Handelsbanken is in many ways unique compared to its competitors. One example would be the Oktogen foundation, where all members of staff have an equal stake. The foundation is allocated money when the bank performs better than peers. It should be noted that the foundation does not work as a bonus scheme and that everyone shares the profits. Consequently, there are no “superstars” in the bank but employees that think more in long-term for consumers and themselves as the employees know that they will receive a very competitive salary and pension once they retire (Kroner 2009, page 11). Another example could be the implicit life-time employment that a culture like Handelsbanken fosters. With a stable performance, it is easier to retain staff throughout the downs of the economy. Also worth mentioning is the decentralised structure of the organisation, of which one could see the increasing benefits of as we studied our case companies. The close presence of the bank with its customers and the local knowledge of the people who work at the firm put the bank in a unique position to recognise and manage risks on a higher level than all the competitors that we have studied to say the least.

According to Niel Kroner (2009), who wrote the book ”A blueprint for better banking: Svenska Handelsbanken and a proven model for post-crash banking”, the common objections for adopting Handelsbanken's model are that it only works in Scandinavian markets and for firms with a similar path dependency. The author continues by saying that the (soil?) the Handelsbanken model consists of values such as trust, long-term relationships, caution and constancy (Kroner 2009, pp. 151). This can also be found in other countries such as England and Poland where Handelsbanken has been successful. As mentioned the reward system at Handelsbanken is a bit different. By different we mean that the bank does not have a bonus system, which is questioned by some as it is traditionally believed that one attracts the best people with high salaries amongst other things. Still, there is no shortage of talented people who want to be employed at the bank (Kroner 2009, pp. 152). The second argument that it is not imitable because of path dependency might be true in the short-run but possible if the organisation really set out to change its ways. Lastly, we would just like to reiterate that Handelsbanken retains all its risks, which we think has a significant influence on the company's way of doing business; contrary to most competitors who repackage and sell their risks.

If there is any time one could implement Handelsbanken's model, it is now in the aftermath of the financial crisis with the sentiments of risk-averse investors (Kroner 2009, pp. 153).

7 CONCLUSION

The overall objective of this thesis was to investigate how CSR is approached by commercial banks in the U.S and Sweden respectively. We have therefore made a comparative analysis of the national differences in terms of CSR. This research was done by introducing and identifying dimensions that affect the CSR practices in each country. These dimensions have been analyzed based on the national business systems to comprehend the reasons of distinctiveness of CSR practises in different nations with focusing on the question "whether the CSR is more global than national". Secondly, we have done an empirical analysis of four commercial banks - Citigroup, Bank of America, Nordea and Handelsbanken. Their CSR approach has been evaluated against Carroll's CSR pyramid. The focus was whether there are any differences in CSR practices between commercial banks in different countries, *what* CSR policies and strategies these chosen banks implement in their business operations and *how* different national business system impact on application of CSR for commercial banks. The theoretical framework was applied in a way to understand from what perspective our banks apply CSR in their practise.

Firstly, our empirical analysis indicated that American Banks (Citigroup and Bank of America) and Swedish ones (Nordea and Handelsbanken) have partially different actions in the expression and implementation of CSR policies, strategies and procedures. However, to some extent there is a convergence for Nordea, as it is listed in America, in recent years because of changes in the trend of the global climate, changes of company's CSR policies and values. More specifically, all banks focus much on incorporating social and environmental considerations in their daily operations by emphasizing on stakeholders interests, but Citibank, Nordea and Bank of America tend to express their CSR behaviour much more publicly as opposed to Handelsbanken. Some differences were distinguished through the national business systems, and therefore we pose that CSR is a global issue with national differences. The other fact is that Nordea, is more global in its operations than Handelsbanken and listed in the U.S market bring about the distinctiveness of the CSR approach compared to Handelsbanken. Nordea's CSR strategies are more clear and stakeholder-oriented in comparison to Handelsbanken although they have the same national business system. As a result of this, we have come across a crucial point: the national business system does not work perfectly when the businesses analysed are global as opposed to national. Therefore, more globally oriented commercial banks such as Nordea, Citigroup and Bank of America are more similar in their way of CSR strategies, policies and corporate values because of its international presence.

In addition to national differences, we analyzed the banks in terms of risk management. It is worth mentioning that with exception for Handelsbanken, our other banks had very similar risk management practices. Handelsbanken is able to differ from mainstream through its corporate structure, which enables it to closer monitor its investments.

Kroner (2009) said that Handelsbanken's model only works in countries with values such as trust, long-term relationships, caution and constancy. What countries that have these values, and more importantly if the U.S have it is unclear to us though. Presumably, the U.S has these values since Handelsbanken is present there. So we know that the model can work in countries like the U.S, and many other countries here in the Europe where Handelsbanken is present. Given that, there is no reason for why other banks should not adopt many of the principles that Handelsbanken embodies and that were discussed previously.

Post-financial crisis 2008, it has been very obvious how pervasive banks' businesses are in our society. From our point of view, in light of the theory studied and our empirical results, we would like to say that risk management is indeed an extension of CSR; maybe not for all industries but definitely for commercial banks. This was supported theoretically by Carroll's pyramid, in which the first and most important function of a firm is to be a functioning economic unit. Later this was also supported empirically after evaluating Handelsbanken's relation to society throughout the financial crisis in 2008. Handelsbanken has in our opinion managed to balance being shareholder-oriented and at same time having a harmonic dyadic relationship with society.

So what can we expect in the future from the banks evaluated? According to Hansson and Ström (2009, page 27) not much has changed in terms of the organisational structure in the Swedish banks studied. Handelsbanken has had old truths confirmed, such as not to deviate from business decision models, and to always rely on high liquidity and strong cash flows. Both Nordea and Handelsbanken are also prioritising communicating accurate information to employees quickly and clearly. It is important that everyone knows what works and what does not from senior employees who have the benefit of longer experience to lean on. Confirming this is Grant (2011) who says that communicating a risk management philosophy both internally and externally should be the job of the risk management department. An ability to adapt to the fluctuating conditions of the market is also important. Lastly, some parting words from risk management:

> ”In the crisis leading up to the Great Recession, it was not risk management and quantitative financial modelling that failed the people; it was the people who were supposed to understand and implement them that failed the people.”
> - Grant (2011)

Much like the American saying, “guns do not kill people, people do”, this too but in a less dramatic way holds truth. According to Roszkowski and Davey (2010, page 42) it is a pre-requisite to recognise the risk appetite of the customers, but it is also important to understand that this risk tolerance, which is in fact most of the time risk perception is subject to situational influences. Roszkowski, in his article “Risk perception and Risk Tolerance Changes Attributable to the 2008 Economic Crisis: A subtle but Critical Difference”, writes that one as an investment advisor has to ask a series of questions to obtain a representative sample of past behaviours, current attitudes, and intentions regarding the future of the customers. Only that way can one curb the biases of risk perception and truly understand the risk tolerance of customers. This and a more consistent risk management philosophy throughout the organization as mentioned is what we expect and hope to see in our banks in the future.

As we have analysed only four companies, a wider study needs to be done about commercial banks for a more generalised picture of how the financial industry works in terms of CSR. Although this study was not extensive, it gave us some valuable insights. Some other issues that we found to be very interesting are discussed next in the essay. Due to lack of resources unfortunately, we could not undertake the necessary research.

All in all, Citigroup, Bank of America and Nordea are operating on an international basis, and are therefore affected by both national and international concepts of CSR. Handelsbanken on the other hand, differs from the other banks with its unique structure both in terms of risk management and application of CSR, and therefore also excels where others do not.

8 Final Recommendations and Suggestions for Further Research

8.1 Can CSR be imposed?

As we have become increasingly knowledgeable of CSR, it has come to our realisation that many firms that receive awards for being “good”, in reality is not that “good”. One example would be Enron, which received countless awards for anti-corruption and so on. In our minds, it is a great concern and something worth reflecting on. Although not being the main focus of our essay, we thought it was worth mentioning.

Not so surprisingly considering the heterogeneousness of businesses, it is practically impossible to impose rules unless one comes up with very customised regulations and legislations for every business. This of course may just be possible in theory but never in practice. Further supporting this is Robins (2008, page 8) who say that there are several hindrances. Firstly, one could mention the managers who take CSR decisions. These managers in the firm may not be from the same country as it works in, not aware of social policies in that community and most importantly, they are not elected representatives of wider society. It does not help either that CSR literature does not give any guidance on how to implement it. Furthermore, it carries high costs in terms of time, effort and money for the firms. Lastly, can the firm even contribute to wider society outside of its capabilities?

Regardless of the above, regulations and legislations can only go so far. The unwilling will always find ways to circumvent these. Robins (2007, page 8) in his article writes a mindboggling statement: ”The ethical standards of business will tend to be no better and no worse than the wider society of which it is part”. This would mean that we as a society (more specifically shareholders who are part of society) force companies to behave in a certain way, and then blame them when they fail to live up to what could potentially be impossible expectations. It is definitely worth thinking about.

8.2 Can more be done?

Carretta, Fiordelisi and Mattarocci (2009, page 183), in their book ”New Drivers of Performance in a Changing Financial World” talk about how increasing the financial capability of consumers might lead to an increased competition amongst retails banks. This is in turn would make the market more efficient by driving out less efficient banks.

The authors even go as far as to pose that more knowledgeable consumers would prevent over indebtedness and in turn reduce defaults. This as is known was the main driving wedge that contributed to the systemic failure during the financial crisis.

Furthermore, there is an inherent difficulty in comparing financial products because of its heterogeneousness. This problem is especially worsened when one only has superficial knowledge about financial products. The EU has tried to standardise mortgage products though. How effective this has been is difficult to say. Quite surprisingly, in the research conducted by Carretta, Fiordelisi and Mattarocci (2009, page 198) in Europe, only the Swiss mention financial capability explicitly when lending out money to consumers. In all other countries, it is only mentioned implicitly, indicating that it is not prioritised very highly. The Swiss even go as far as to make an analysis of consumers‘ living expenses. If one has money in excess of those expenses, and able to pay the mortgage expenses from that money, only then can one borrow money.

Then, one could ask if consumers will act rationally when aware of the implications if unable to pay its financial obligations?

Lépineux and Bettignies (2009, page 251) in their book ”Finance for a Better World” talk about ethical alienation. What they mean is that finance people often are insulated from their actions with the protection of ratios, percentages and technologies. All of which they themselves can manipulate and control. By not seeing or experiencing the actions of one’s decisions, one is safe from any moral qualms that might otherwise be developed when facing the consequences in person. The authors further say that finance people much like Marx workers are in pursuit of efficiency and profits, and being alienated from the end result almost inevitably develop ethical alienation as a habit - especially since the profits are so high.

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