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Determinants and Effects of Bank Social Responsibility

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Abstract

The thesis analyses the theme of corporate social responsibility (CSR) in the banking industry. In particular, drawing from the theoretical foundations of corporate social responsibility (CSR) and considering the peculiarities of the banking business model, the work provides empirical evidence on the determinants and effects of bank social responsibility (BSR). The work is organized in five chapters.

The first chapter aims to frame the concept of CSR, providing an overview of its historical and theoretical evolution. In particular, the work discusses the conceptualizations and definitions that authors and institutions have proposed between the 1950s and the 2000s. Afterward, the chapter describes four of the most adopted theoretical foundations of CSR, namely agency theory, stakeholder theory, resource-based view, and social legitimacy theory. Moreover, chapter 1 discusses the potential benefits of CSR engagement. In particular, it analyses the positive effects that firm's engagement in CSR has in terms of better relationships with customers and employees, eco-efficiency, risk reduction, lower cost of capital and better corporate reputation. Finally, the chapter refers to the concept of corporate social performance and its relation to financial performance.

Chapter 2 focuses on the characteristics of the bank's engagement in socially responsible initiatives. It describes the motives that make the investigation of bank social responsibility (BSR) a peculiar and relevant issue in the field of study on business sustainability. More in particular, in the first part the chapter discusses the role of BSR as a means to restore the bank's reputation and stakeholder trust. In the second part, it analyses BSR in light of the role that banks assume for the socio-economic development of countries. Finally, in the last part, the chapter provides a review of the previous empirical investigations conducted in the field of study on CSR banking.

Chapter 3, instead, describes the overall structure of the empirical analysis adopted in chapters 4 and 5. The chapter also describes the data collection method and the sample of 148 banks, adopted to perform the analysis.

The purpose of Chapter 4 is to demonstrate the existence of a relationship between financial performance, bank's corporate governance characteristics and BSR. In particular, drawing from slack of resource theory, the study argues that prior bank's

financial performance positively affect the BSR. On the other hand, in light of the agency theory and stakeholder theory perspectives, the research aims to demonstrate that several characteristics of the bank's board of directors affect the bank's propensity to engage in CSR. The study adopts a panel data methodology for doubly censored variables to test the research hypotheses. The results show that the higher is the Net interest income and the Margin of interest, the higher is the bank's propensity to engage in CSR. On the other hand, the study finds that the activity intensity, diversity, independence of the bank's board of directors positively predict BSR.

Finally, chapter 5 aims to verify the relationship between the banks' engagement in CSR activities and client loyalty (CL). The work considers several dimension of CSR engagement. In particular, in addition to an overall indicator of BSR, the empirical analysis evaluates the impact that the "community-related" dimension of CSR and the socially responsible profile of the bank's product have on CL. In order to verify the research hypotheses, the chapter adopts a descriptive, univariate and multivariate analysis. With reference to this latter, the study applies a two-step Heckman model to treat the endogeneity bias. The results show the existence of a positive impact of CL on the overall measure of BSR and on the bank's product responsibility, whilst no statistically significant relations are found with reference to the community dimension of CSR. The work also shows that the socially responsible profile of the bank's products matters more for large banks rather than small banks.

Keywords: Corporate Social Responsibility, Banking Industry, Financial Performance, Corporate Governance, Client loyalty.

INTRODUCTION

Over the last decades, the world community has been paying increasing attention to sustainable development. This latter includes global relevant issues, related to economic development, social equity, environmental protection (Drexhage and Murphy, 2010), which involve the interest of the scientific arena, governments, and international institutions. The United Nations sustainable development goals, for the period 2015-2030, address challenges concerning poverty alleviation, environmental degradation, prosperity, peace, and justice. In this sense, among the most relevant initiatives, the Paris agreements (COP21) have set new stringent criteria to reduce greenhouse gas emissions. The International Trade Center reports more than 230 sustainability standards, applicable in more than 80 sectors and 180 countries, covering worker and labor rights, food safety and business ethics[1].

This changing and evolving environment have heightened the expectations towards the business world, conducting to rethink to the role that corporations should take in addressing global challenges. Business is shaping and responding to these changes. In particular, several initiatives regarding the concept of corporate social responsibility (CSR) have emerged as a response to the growing global attention to societal and environmental issues. In 2003, the World Bank stated that CSR is the commitment of business to sustainable economic development working with stakeholders and society to improve the quality of life.

As recognized by Reverte (2016), the objective of CSR is to make corporate activities sustainable from the economic, social and ecological point of view. In this sense, CSR becomes for companies an increasingly relevant item to design more sustainable corporate strategies. In this context, among the various economic sectors, the banking industry assumes a special position to foster sustainable economic growth. In 2011, the European Commission in its communication on CSR explicitly refers to the inclusion of ethical and socially responsible criteria in the business models of financial institutions. By its very nature, banking industry assumes a central role in the socio-economic development of countries (e.g. Levine, 2005). Banks finance businesses, supporting the

[1] http://www.intracen.org/itc/market-info-tools/voluntary-standards/standardsmap/

growth of the economy at the local and national level. Orienting the allocation of capital, banks have the responsibility to take into account the social and environmental implications of their lending decisions (Thomson and Cowton, 2004). Moreover, banks provide their financial and non-financial support across several areas, including community care, education, and many other fields (EBF, 2013). In line with these arguments, bank engagement in CSR activities appears a timely and highly relevant topic. However, despite the relevance of the phenomenon, the amount of papers investigating the CSR banking is still moderate (McDonald, 2015).

Thus, the aim of the current thesis is to contribute to the understanding of how banks integrate the principles of CSR within their business models. In particular, the work is organized in five chapters. The first chapter provides an overview of CSR conceptualizations. In the first part, it discusses the historical evolution and the definitional aspect of CSR. Afterward, the chapter focuses on the perspectives that have been most widely adopted in literature to theoretically frame CSR engagement. Finally, the chapter examines the concept of corporate social performance and its relation with financial performance.

The second chapter describes the peculiarities that characterize the implementation of CSR programs within the banking industry. Firstly, the chapter analyzes the role of CSR as a means to rebuild the loss of confidence towards the banking system in the years following the financial crisis. Secondly, the banks' engagement in CSR activities is examined in light of the connections between banks' activities and economic growth. Finally, the chapter proposes a review of the previous empirical works conducted on bank social responsibility.

The third chapter, instead, indicates the main characteristics of the empirical research conducted in chapters 4 and 5. Furthermore, it reports the data collection procedure and the description of the examined sample of banks.

Chapter 4, instead, focuses on the empirical analysis of the factors determining the bank's engagement in CSR activities. In particular, drawing from the slack of resource theory, agency theory and stakeholder theory the chapter investigates the impact that financial performance and several characteristics of the board of directors have on bank's engagement in CSR.

Finally, considering different theoretical perspectives, such as the legitimacy theory, social legitimacy theory, signaling theory, chapter 5 investigates the impact that several dimensions of CSR have on bank customers' loyalty.

CHAPTER 1 – Corporate Social Responsibility: Historical evolution and theoretical perspectives

Summary: 1.1. Introduction; 1.2 Origins and evolutions of Corporate Social Responsibility; 1.3 Definitions of Corporate Social Responsibility; 1.4 Theoretical perspectives of Corporate Social Responsibility; 1.4.1 Agency Theory; 1.4.2 Stakeholder Theory; 1.4.3 Resource-Based View; 1.4.4 Social Legitimacy Theory; 1.5 Benefits of Corporate Social Responsibility; 1.6 Corporate Social performance; 1.7 The Relationship Between Corporate Social Performance And Financial Performance.

1.1 Introduction

The objective of this chapter is to provide an overview of the concept of corporate social responsibility (CSR). In particular, in the first part (Section 1.2) the chapter proposes a decade-by-decade historical examination of CSR conceptualizations. The analysis describes and discusses the contributions that have marked the evolution of CSR between the 1950s and 2000s. Section 1.3, instead, discusses the definitional issues that characterize CSR, providing some of the most relevant CSR's definitions proposed in recent years by academics and institutions.

The central part of the chapter (Section 1.4) analyzes the theories that have been most frequently adopted to frame and explain CSR. Each theoretical perspective is described and discussed in connection with CSR.

Section 1.5, on the other hand, focuses on the possible benefits that the implementation of CSR programs can generate. Specifically, it analyzes how CSR activities are perceived by customers and employees, the effects of CSR on the cost of capital, on the reduction of risk, on corporate reputation and on the eco-efficiency of corporate processes and products. Finally, the last part of the chapter analyzes the concept of corporate social performance (Section 1.6) and its relationship with financial performance (Section 1.7).

1.2 Origins and evolutions of Corporate Social Responsibility

The idea that business has responsibilities towards society going beyond wealth maximization has been around for centuries (Carroll, 1999; 2016). The social responsibility of business has long been a particular interest to many Puritan and Protestant writers (Lee, 2008). Some authors argue that the first traces of socially responsible actions, at the firm level, date back to the mid-1800s, during the Industrial Revolution, when some corporations undertook welfare policies towards their employees (Visser, 2010). However, despite these first signals of social concerns, a more evolved form of "corporate social responsibility" represents a relatively modern concept. In fact, it began to develop remarkably only during the years following World War II, gaining particular momentum during the 1950s and 1960s. Therefore, the objective of this section is to provide an overview of corporate social responsibility conceptualizations over time, providing a decade-by-decade examination.

The 1950s

Previous literature converges in considering the work of Bowen (1953), as the first systematic conceptualization of the relationship between corporations and society (e.g. Carroll 1979, Preston 1975). In 1999, Carroll described Bowen as the "Father of Corporate Social Responsibility". According to Bowen, even though CSR is not a panacea for society, it may play a key role in business decisions. In particular, among the several questions posed in his seminal book, two appear of special note, namely, (1) what are the responsibilities that businesses have towards society and (2) how society can promote CSR. With reference to the first question, the author defined social responsibility as the obligations of businessmen in pursuing activities and in taking decisions that are desirable, in terms of objectives and values for society. On the other hand, he argued that institutional changes may persuade and favor corporate managers' involvement in socially responsible initiatives.

In 1954, in the wake of Bowen's work, Drucker in his book "The Practice of Management" included public responsibility among the eight main business objectives. Frederick

(2006), instead, noted that the three core concepts about CSR in the 1950s included (a) the idea of the manager as public trustee, (b) the balancing of competing claims to corporate resources, and (c) business support of good causes.
At the end of the fifties, in parallel to the theses supporting CSR, some authors began to challenge the usefulness of social responsibility for business. In this direction, for instance, Levitt (1958) warned the business world about the potential dangers of CSR.

The 1960s

The common argument, of the theses in opposition to the CSR, suggested that engagement in social issues occurs to the detriment of organizations' economic results (Ackerman 1973). In this sense, Milton Friedman (1962; 1970) proposed one of the most prominent criticisms. He claimed that the sole responsibility of a corporation is to generate profit for its owners. According to Friedman's perspective, CSR engagement represented a threat to the achievement of the firm's main objective.
However, despite the contrasting viewpoints, the CSR conceptual constructs have continued to grow in popularity, fueling a considerable debate, driven by academics and social movements. The CSR literature expanded significantly, focusing on what social responsibility actually meant for business and society. At beginning of the 1960s, Davis (1960) defined CSR as "businessmen's decisions and actions taken for reasons that go, at least partially, beyond the firm's direct economic or technical interest". The author also referred to the concept of "iron law of responsibility", according to which companies that ignore social responsibilities may lose their social power. In the same year, Frederick (1960) argued that firms should invest resources also for broad social goals. McGuire, within the book "Business and Society" (1963), confirmed that the company must go beyond the mere wealth maximization, explicitly formalizing that it has economic, legal and social obligations to society. A few years later, Walton (1967) contended that managers must keep in mind the close relationship that exists between corporation and society in pursuing corporate goals. The author emphasized that corporate social responsibility is not limited to the fulfillment of legal obligations, since it also includes a certain degree of voluntarism, which does not necessarily lead to direct measurable economic outcomes.

The 1970s

Alongside with the conceptual development of CSR, big corporations began to introduce the first important applications of CSR principles, through the definition of corporate ethical rules or CSR codes (e.g., the Sullivan Principles at General Motors in 1971).
Also institutions began to formalize their interest in the phenomenon. For instance, in 1971, the Committee for Economic Development provided its definition of CSR, articulated in three concentric circles. The inner circle includes the basic responsibilities that the business need to fulfill, in order to execute the economic function. The intermediate circle considers the exercise of the economic function, with a certain degree of sensitivity to social values. Finally, the outer circle, which includes the two previous circles, encompasses the responsibility that the firm should assume, in order to contribute to the improvement of the social environment.
During the seventies, also academics provided some relevant conceptualizations. For instance, Johnson (1971) suggested that companies should include economic, social, environmental, and employee-related considerations in strategic decision-making. Steiner (1971) recognized that the company, even remaining a fundamentally economic institution, has a responsibility to help society to achieve its goals. According to Steiner, social responsibilities should be included in the way managers approach the decision-making process. He also argued that larger a company becomes, the greater is its responsibility toward society. Two years later, Davis (1973) intervened in the CSR debate. He asserted that CSR refers to the consideration of aspects that go beyond the narrow economic function and involves responsibilities not limited to the fulfillment of legal obligations. Consistently with Steiner (1971), Davis contended that managers' decision-making process must take into account, not only economic results but also the impact that business decisions have on the external social system. Fitch (1976) defined CSR as an approach to solve social issues caused by wholly or in part by corporations. Zenisek (1979) revisited the conceptualization of CSR continuum proposed by Walton (1967), according to which the CSR varies from minimum responsibility to maximum responsibility. In particular, the author stated that Walton's model lacked any basis for empirical investigation. Based on these considerations, Zenisek developed an advanced

model of CSR continuum, which attempted to take into account the degree of congruence between business ethics and private sector expectations. More specifically, the author proposed a framework that, dividing the managerial attitudes into four phases of growing commitment towards social issues, would have facilitated the CSR measurement and research in the future. Other authors stressed that it is important, not only that companies were socially responsible, but also how they were responding to the social environment (Ackerman, 1973). In this sense, Frederick (1978) proposed a distinction between CSR and corporate social responsiveness. The first refers to the socially responsible profile of the company, while the second refers to the company's ability to respond to social expectations.

The 1980s

During the eighties, grew the awareness that CSR is not only a range of responsibilities, that companies are called to respect, but also a choice that can reward in terms of economic outcomes (Rusconi, 2007). Based on this idea, in this decade, several authors began to be interested in empirically investigating whether socially responsible firms were also profitable firms (e.g. Cochran and Wood, 1984; Aupperle et al., 1985).
However, even though these years were mostly characterized by empirical research, authors also proposed a few alternative CSR conceptualizations (Dalton and Cosier, 1982). For instance, Jones (1980) argued that CSR should not be framed as a set of outcomes, but as a set of processes. The author suggested that CSR processes should be fair processes, in which the interests of all the parts have the opportunity to be heard. A few years later, Strand (1983) proposed a systems model, of organizational adaptation and response to the social environment, which considers simultaneously the concepts of social responsibility and social responsiveness. A further relevant contribution is provided by Epstein (1987). Combining the constructs of business ethics, corporate social responsibility, and corporate social responsibility, he introduced the concept of "Corporate Social Policy Process". The latter is defined as the institutionalization of processes that favor the inclusion of moral considerations within individual and organizational choices. According to Epstein's perspective, the definition of such

processes should allow the firm's leaders to anticipate and to proactively respond to the evolving expectations of internal and external stakeholders.

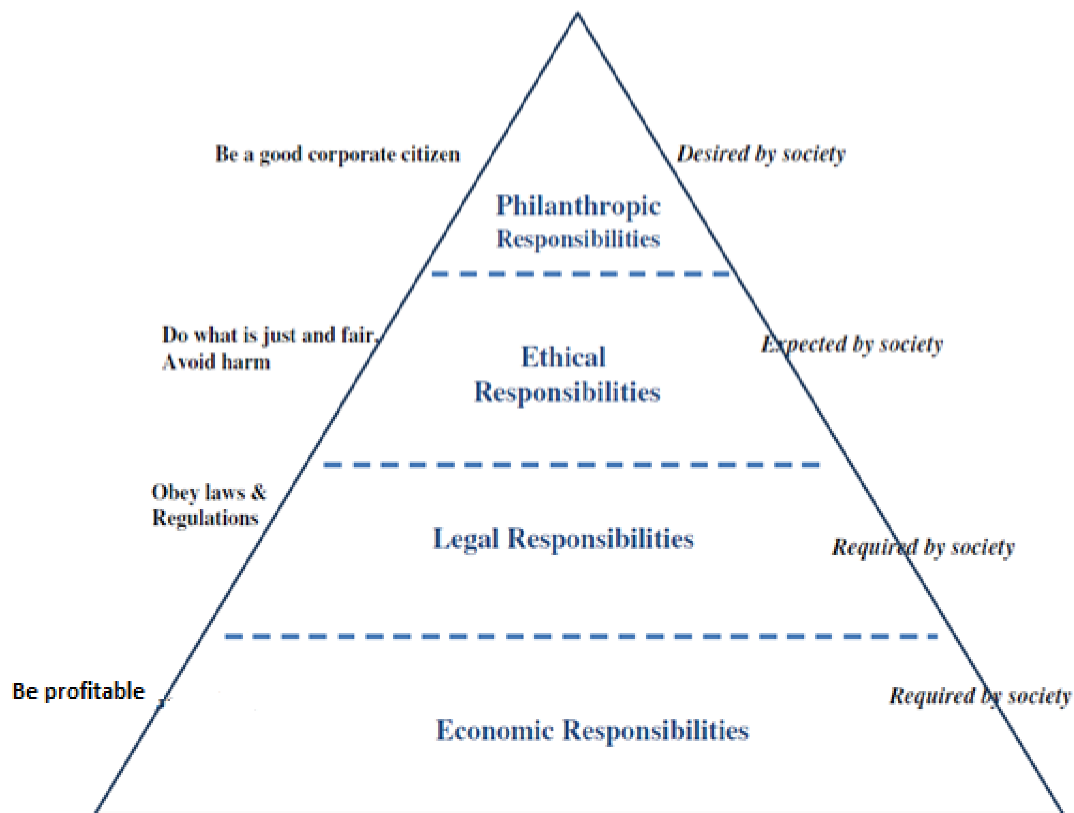
However, in this decade, a breakthrough in the evolution of CSR was the emergence of stakeholder theory (Freeman, 1984). This latter has become one of the dominant theoretical paradigms to explain the companies'engagement in CSR initiatives. As recognized by Carroll (1999), stakeholder theory has allowed to better define social expectations, identifying the individuals or groups of individuals that the company should consider in its CSR programs. The stakeholder model has represented a response to the lack of practicality of previous theoretical models (Lee, 2008). More narrowly indicating the members of the social system to whom the company must be responsive, the stakeholder theory approach provides a fundamental contribution in terms of operationalization and orientation of companies' engagement in CSR.

The 1990s

The 1990s began with one of the models that has marked the historical evolution of the CSR concept, the Carroll's CSR pyramid (1991). In particular, based on his previous four-part definition of CSR (Carroll, 1979), the author proposed a graphical representation in the form of a pyramid (Figure 1), in which at each level corresponds a specific responsibility of the business. Carroll's four categories of responsibilities have been adopted both for further theoretical developments (e.g. Wartick and Cochran 1985; Wood 1991) and empirical analysis (e.g. Burton and Hegarty 1999; Clarkson 1995). At the first level of the pyramid, Carroll (1991) placed economic responsibility, since it is a fundamental requirement for the existence and survival of the organization. Although it may appear unusual to include the economic dimension in a CSR model, as suggested by Carroll in a later contribution (2016), society expects that business organizations are able to sustain themselves and be profitable. The second level of the pyramid reported legal responsibilities, since society defines the laws and regulatory boundaries within which the company is expected to operate. The third level, instead, includes ethical responsibilities. Carroll argues that businesses should operate in a fair way, adopting those decisions that, even if not required by law, are expected by society. At the last level of the pyramid, the author proposes philanthropic responsibilities. These latter refer to the

activities that the company undertakes discretionally to address social issues. Philanthropic responsibilities are not strictly required by the community, they appear to be driven by the organization's intent to do what is good for society.

Figure 1. Carroll's pyramid of CSR.



Over the 1990s, stakeholder theory has gradually moved to the center of the debate on CSR. Clarkson (1995) distinguished between social issues and stakeholder issues. The former are those issues involving public interest, to the extent that they require legislative regulation. On the other hand, those issues for which there is no legislation or regulation are likely to be stakeholder issues. The author argued that only after identifying the type of issue, managers can choose the appropriate approach to address it. In the same year, Jones (1995) suggested that the adoption of a CSR approach in stakeholder management helps to create trustworthy, cooperative relationships and not opportunistic relationship, which in turn foster the achievement of a competitive advantage. Other examples include

the work of Rowley (1997), who proposed a network model of CSR to examine the characteristics of company's stakeholders; Berman et al. (1999) who distinguished between a strategic and intrinsic stakeholder model, based on business logics of CSR and on moral aspects of CSR, respectively.

Scholars' attempts to explain CSR through the lens of stakeholder management (e.g. Rowley, 1997; Berman et al., 1999) have led to identify multiple categories of CSR, depending on the stakeholders to which are directed socially responsible initiatives (Lee, 2008).

The 2000s

The 2000s began with several corporate scandals (e.g. Enron, WorldCom, Adelphia Communications, Parmalat) followed by the Wall Street's financial scandals of 2008. These events, on the one hand, have highlighted the existence of a questionable business ethics, on the other hand, have fueled the need to devote further attention to the moral standards adopted within business models and financial transactions. The interest of the academic world to CSR, also fueled by these events, has continued to grow in the 2000s. During these years, scholars have proposed alternatives and overlapped concepts to CSR (Carroll and Shabana, 2010).

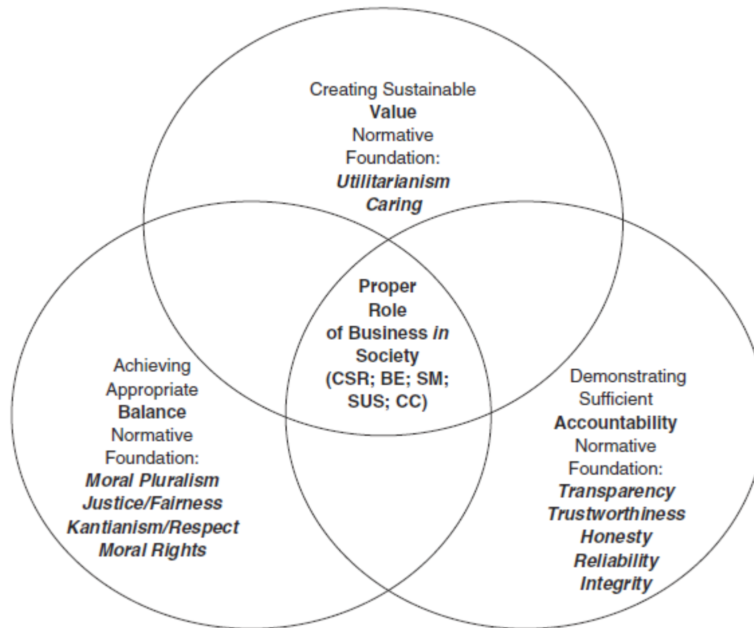
Carroll and Schwartz (2008) proposed an attempt to systematize several concepts within a single integrated framework, defined as VBA model (Figure 2). In particular, the authors argue that the five most common constructs referred to the relation between business and society (i.e. corporate social responsibility, business ethics, stakeholder management, sustainability and corporate citizenship) have three common concepts in common.

According to the authors, all these constructs require that the organizations are able to (1) create social value, (2) balancing the interests of the various stakeholders and (3) demonstrating a sufficient degree of accountability[2]. Carroll and Schwartz suggested that the adoption of a proper role of business in society stems from the business's ability to

[2] For accountability the authors refer to the business’s capability to acknowledge responsibility for their actions and decisions and take steps to rectify failures or prevent them in the future.

combine these three elements. The main contribution of the VBA model consists in being able to bring together several concepts, in a single framework, based on aspects common to each of them.

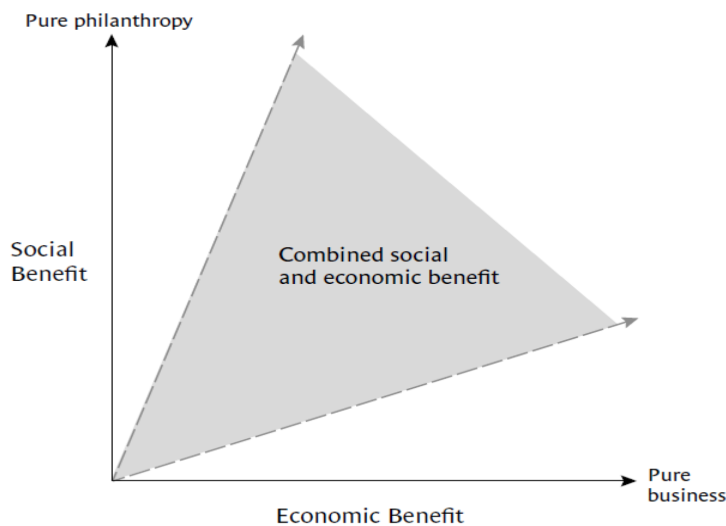
Figure 2. Carroll and Schwartz's VBA model.



Other authors have proposed different categorizations of CSR. For examples, Husted and De Jesus Salazar (2006) distinguished between strategic, altruistic and coerced CSR. Wu and Shen (2013), instead, in addition to the strategic and altruistic approach referred to greenwashing CSR. Among the other categories, scholars have shown particular interest to strategic CSR. This latter, which has already been studied in the late 1990s (e.g. Porter and van der Linde, 1995; Russo and Fouts, 1997), finds a conceptual consolidation in the 2000s.

In this area, Baron (2001) suggested that strategic CSR represents a profit-maximization strategy. The author argued that the firm should seize CSR opportunities in the same way that it seize other opportunities to increase profits. In their essay "The Competitive Advantage of Corporate Philanthropy", Porter and Kramer (2002) argued that corporate expenditures often produce benefits only for business, while charitable contributions generate only social benefits. The authors contended that only when corporate expenditures produce both economic and social benefits, creating a "convergence of interests", corporate philanthropy can be defined as strategic (Figure 2).

Figure 2. Porter and Kramer (2002).



A few years later, Bagnoli and Watts (2003) argued that the company's propensity to strategically engage in CSR is inversely related to the intensity of market competition. Porter and Kramer (2006), instead, suggested that the definition of a strategic corporate social agenda looks beyond the community expectations, in order to achieve both social and economic benefits. Several other authors have recognized that strategic CSR engagement supports the achievement of competitive advantage (e.g. McWilliams and Siegel, 2001; Galbreath, 2006). The underlying idea is that CSR may generate benefits ranging from the creation of productive relationships with stakeholders (Bhattacharya and Sen, 2004) to the improvement of corporate reputation (Fombrun and Shanley, 1990) and financial performance (e.g. Waddock and Graves, 1997), which in turn may conduct to competitive advantage.

1.3 Definitions of corporate social responsibility

Despite the huge amount of research dedicated to CSR, there is still no strong consensus about its definition (McWilliams and Siegel, 2006). The difficulties, encountered in identifying a univocal CSR definition, may be attributed to several reasons. First, CSR is an internally complex (Moon et al., 2005) and dynamic phenomenon (Carroll, 1999), whose contents may change depending on the contest of application (Matten and Moon,

2008). Secondly, over the years, several terms have been used to identify the same construct (Sprinkle and Maines, 2010) or, in other cases, CSR has been used as a synonymous for other types business-society relations (Matten and Crane, 2005). This terminology inconsistency has made even harder to converge towards a common CSR definition. Examples of the most frequently adopted CSR-related terms include corporate citizenship (Matten and Crane, 2005; Carroll and Buchholtz, 2008), business ethics (Epstein, 1987), corporate social responsiveness (Frederick, 1978; Wartick and Cochran 1985; Wood 1991), sustainability (Matten and Moon 2004). The lack of a definitional convergence is evident by looking to the numerous attempts made by scholars and institutions over the years (Dahlsrud, 2008).

In general, the early definitions made a generic reference to the impact of the company's activities have on society (e.g. Davis, 1973). In recent years, despite the definitional issues, some prominent definitions have been provided by institutions and academics. For instance, the World Business Council for Sustainable Development (2000) refers to CSR as “the commitment of a business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve the quality of life”.

A few years later, the European Commission (2002) argued that “Corporate social responsibility is about companies having responsibilities and taking actions beyond their legal obligations Environmental and economic/business aims”. Among scholars, for examples, Hopkins (2003) suggested that CSR concerns with treating the stakeholders of the firm ethically or in a responsible manner; Renneboog et al. (2008), instead, identifies CSR in the corporate decisions fostering social, corporate governance, ethical and environmental issues. In summary, even though each CSR definitions presents its own peculiarities, as recognized by Dahlsrud, 2008, the main part of them relates to the way companies manage relationships with stakeholders.

1.4 Theoretical perspectives of Corporate Social Responsibility

The current paragraph intends to provide an overview of some of the most adopted theoretical perspectives to explain and firms' engagement in CSR. In particular, the

subsections 1.4.1, 1.4.2, 1.4.3, 1.4.4 discuss agency theory, stakeholder theory, resource-based view, and social legitimacy theory, respectively.

1.4.1 Agency Theory

Agency theory is one of the most dated theories in the fields of study of management and economics (Frynas and Yamahaki, 2017). It analyses the relationship between principals (individuals or organizations that confer a mandate to other subjects) and agents (individuals or organizations appointed to carry out the mandate received). In particular, it focuses on the so-called agency problems, which occur when principals and agents have different goals or not cooperative behaviors (Ross, 1973), and on how agency problems can be overcome through governance mechanisms (Jensen and Meckling, 1976; Eisenhardt, 1985). As argued by Jensen and Meckling (1976), if both principals and agents are utility maximizers, there are good reasons to believe that the agent will act to pursue his/her objectives that might be not consistent with those of the principal.

Following Eisenhardts's (1985) literature review, scholars identify two possible interconnected agency problems. The first refers to the possibility that the objectives of principals and of agents conflict. The second refers to the difficulties or costs that the principal must sustain to verify that the objectives and the actions of the agent are consistent with the mandate conferred.

The previous literature identifies two conditions related to agency problems: moral hazard (Arrow, 1970; Ross, 1973) and adverse selection (e.g. Arrow, 1985). Both concerns the agent's behavior. In particular, moral hazard refers to the possible lack of commitment of the agent. In fact, he/she might execute his/her mandate by not proposing the agreed effort (Holmstrom, 1979). The adverse selection, instead, concerns the misrepresentation by the agent of his/her abilities. For instance, when the parts define the mandate agreement, the agent may claim to have skills and competencies that he/she does not actually possess.

Both moral hazard and adverse selection are linked to the existence of information asymmetry. The principal, in fact, is often unable to completely verify the agent's abilities at the hiring time and to adequately monitor the agent's work over time.

In this context, the principal has to sustain costs, namely agency costs, in order to reduce or eliminate the effects of the agent's opportunistic behavior. The more are the

information available to the agent compared to the principal the higher are the agency costs (Deckop et al., 2006). These latter may embrace the costs linked to the research of an adequate agent, to the control of the agent's behavior, to the loss due to the inefficient choices of the agent. Following Jensen and Meckling, there are three main categories of agency costs: monitoring costs (costs associated with the controlling of the agent's performance), bonding costs (costs sustained to set up the systems that regulate the relationships between principal and agent) and residual loss (costs due to inefficient agent decisions).

The literature identifies several mechanisms to address agents' behavioral opportunism, such as incentive structures, monitoring mechanisms, and governing structures. These mechanisms should allow reducing the opportunism to an efficient level, in which the benefits of delegating are higher than its costs (Jones, 1995). Following Eisenhardts (1989), two main approaches may be adopted to address agency problems. On one hand, principals may use information systems, such as reporting procedures, budgeting systems, the board of directors. Investing in these systems allows the principal to monitor and be regularly informed about the agent's behavior. The adoption of such mechanisms, improving the information available to the principal regarding the activities actually carried out, should limit the potential opportunistic behavior of the agent. On the other hand, the principal may adopt "outcome-based" contracts, which allow connecting the agent's remuneration to the achievement of specific objectives. The adoption of such contract, aligning the preferences of agents to those of principal, may help to reduce the conflicts of self-interest between them.

Over the years, the agency theory perspective has been used to theoretically frame several principal-agents relationships such as employer-employee, lawyer-client, buyer-supplier, corporate's owner-manager (Harris and Raviv,1978). Even though it has found application in several areas of study such as accounting (e.g., Ronen and Balachandran, 1995), marketing (e.g., Tate et al., 2010), political science (e.g., Hammond and Knott, 1996), sociology (e.g., Eccles, 1985), most frequently agency theory has been applied in finance (e.g., Jensen, 1986) or to organizational phenomena such as board relationships (e.g., Fama and Jensen, 1983), ownership and financing structures (e.g., Jensen and Meckling, 1976).

In particular, among the several studies, that have analyzed agency theory at an organizational level, a significant contribution has been provided by the authors who have examined the relationship between corporate's owners (principal) and managers (agent). In this case, the problem of agency between owners and managers refers to the separation of ownership from control. In particular, the owners delegate the managers to manage the firm in the interests of the owners. However, managers may be more interested in their personal objectives, such as the maximization of their compensation. The lack of consistency, between the interests of owners and those the managers, generates agency problems. This type of principal-agent relationship has attracted the attention of scholars since the time of Adam Smith (1776). He noted that the managers of an organization may pursue different objectives from those of the owners. Recent literature converges in identifying the work of Berle and Means (1932) "The modern corporation and private property" as the seminal study investigating the agency problems existing between firm's owners and managers. During the sixties and seventies, the literature analyzed the agency problems in terms of the division of risk between owners and managers (Arrow, 1970). Specifically, authors argue that owners invest their wealth and take risks in order to obtain economic benefits, managers, instead, are risk-averse and work to maximize personal benefits. The agency theorists assert that this different risk aversion creates the conditions for the emergence of agency problems. Jensen and Meckling (1976) defined the company as a set of contractual relations between the people involved in the organization. From this angle, the agency relationship represents a contract between owners and managers, in which each of the parties works for their own self-interest, laying the conditions for the existence of agency problems. Fama and Jensen (1983) studied agency problems from the perspective of the firm's decision-making process. In particular, they noted that agency problems may arise since who take decisions within the organization are not the real risk bearers of their decisions.

With reference to CSR, Friedman (1970), one of the most prominent agency theorists, states that social issues are not a concern of firms. They should be solved by free market forces or by governmental institutions. According to Friedman's positions, the only responsibility of the managers is to increase the shareholders' wealth.

Following this reasoning line, CSR may underly an agency problem between managers and shareholders (e.g. McWilliams et al., 2006). In fact, managers may undertake CSR

activities, at the expense of shareholders, in order to pursue their own interests (Barnea and Rubin, 2010).

In this sense, CSR would represent a waste of resources that would be better spent on increasing firm efficiency. Some studies, over the years, have supported this thesis. For example, Galaskiewicz (1985) demonstrated that CEOs adopt philanthropy strategies only to gain support from the local community. Atkinson and Galaskiewicz (1988) confirmed the negative relationship between ownership and corporate philanthropy. They show that the higher the proportion of stocks owned by the CEO, the less the company engages in philanthropic causes. Wright and Ferris (1997) interpreted as agency problem the negative relationship between the announcement of divestment of assets in South Africa and the stock price reaction. Considering CSR engagement from the perspective principal-agent relationship, Barnea and Rubin (2010) demonstrate that managers tend to overinvest in CSR to improve their reputation as good citizens. One of the major criticisms to the agency theorists' view of CSR comes from stakeholder theory (Freeman, 1984). This latter, differently from the agency theory perspective, contend that CSR initiatives support the development of trust relationships with stakeholders, which in turn favor the achievement of better economic results.

Also several empirical studies have challenged Friedman’s position. For instance, Oh et al. (2011) highlighted that institutional shareholders with long-term orientation tend to support the firm’s CSR engagement. Deckop et al. (2006) argue that planning CSR activities requires long-term decisions characterized by high information asymmetries between principal and agent. Given these characteristics of CSR investments, the authors assert that a properly structured CEO remuneration system is fundamental to incentivize CEO to improve corporate social performance. In their empirical analysis, they find that the short-term CEO remuneration is negatively related to corporate social performance, while the long-term CEO remuneration is positively related to corporate social performance.

1.4.2 Stakeholder Theory

The term stakeholder seems to have been introduced during the 1960s to indicate that there are other parties, in addition to shareholders, that hold a "stake" in the decision

making of corporations (Goodpaster, 1991). Nevertheless the first relevant ideas related to stakeholder management date back to the work of the Standford Research Institute (1960), a formalization of the stakeholder theory was proposed only during 80', with the contributions of and Freeman (1984).

Freeman (1984), in his pioneer book on stakeholder theory, entitled "Strategic Management: A Stakeholder Approach", defines stakeholders as any individual or group of individuals who can affect or is affected by the achievement of the organization's objectives. Clarkson (1995), instead, after defining the stakeholders as groups of individuals who have interests, claims or ownership rights in a company, distinguishes between primary stakeholders and secondary stakeholders. The first are stakeholders whose presence is necessary for the survival of the company. Secondary stakeholder, instead, are firm's constituents that influence, or are influenced by the company, but are not decisive for its survival. In an effort to understand which stakeholders do really count, Mitchell et al. (1997) proposed that the relevance of stakeholders depends on three attributes: power, legitimacy, and urgency. Sirgy (2002), considering the organization boundaries, identifies external, internal and distal stakeholders. He argued that the survival of the organization depends on the extent to which it is able to organize its internal stakeholders (i.e. management, staff) and to exchange value with external stakeholders (e.i. customers, shareholders, distributors, suppliers, creditors, local community).

The central tenet of stakeholder theory is that firm's duties are not limited to shareholders since they include responsibilities towards the multiple stakeholders' groups (Freeman, 1984). Following Donaldson and Preston (1995), stakeholder theory presents three perspectives. First, it is descriptive, since it identifies the corporation as a constellation of interests and describes how to manage stakeholder relationship. Second, it is instrumental, since it identifies a framework for analyzing the links between stakeholder management and the achievement of business results. Finally, it is normative, as it requires the acceptance that stakeholders are individuals or groups of individuals having interests in the corporation, which deserve attention.

As acknowledged by Lee (2008), due to its emphasis on the relational aspect, the stakeholder theory presents several connections with CSR. Prior literature recognizes that investments in CSR activities are one of the most important mechanisms through which

the company may develop good relations with stakeholders (Barnett and Salomon, 2012) and create stakeholder value (Peloza and Shang, 2011). Also Bhattacharya et al. (2009) identify CSR policies as crucial part of the dialogue between organizations and their community of stakeholder. Freeman and Velamuri (2006) assert that the adoption of a stakeholder-oriented approach to CSR implies the integration of business ethics and societal considerations in the management decision-making process, which may create value for investors, customers, employees, suppliers, communities.

Numerous contributions argued that CSR can be a means to reshape corporate strategy and to effectively address stakeholder claims (e.g. Peloza and Shang, 2011). For examples, good social performance may favor the retention of valuable employees (e.g. Greening and Turban, 2000), favoring their identification with the firm (e.g. Kim et al., 2010). Other empirical studies demonstrate that CSR may attract customers (e.g. Bhattacharya and Sen, 2004), creating a positive perception of corporate's image and products (e.g. Romani et al., 2013) and improving corporate reputation (e.g. Brammer and Millington, 2005).

However, CSR is a heterogeneous concept (Godfrey et al., 2008), that may have a different meaning in different places and in different times (Campbell, 2007). Thus, CSR initiatives may be positively perceived by some stakeholders and negatively by others (Aguilera et al., 2007). In this sense, it appears crucial for firms to understand stakeholders' expectations and to adequately address them, in order to benefit from CSR investments (Barnett and Salomon, 2012).

1.4.3 Resource-Based View

The intellectual origins of the resource-based view (RBV) date back to Edith Penrose (1959), who identified the firm as "a pool of resources". Looking at its historical evolution, RBV takes its first steps in opposition to previous studies in the strategic management field, based on the structure-conduct-performance paradigm, according to which the success of a company entirely depends on its interactions with the external environment (Porter, 1980). Conner (1991), in its comparison between RBV and the major theoretical streams related to industrial organization economics, avers that the

resource-based perspective presents a strong heritage from previous theories, but also some relevant differences. For examples, the RBW identifies the firm an input-combiner as in the neoclassical perfect competition theory, however, differently from this latter resource-based perspective rejects the assumptions of perfect resource mobility and divisibility. Similarly to transaction cost theory, asset specificity represents a critical aspect of RBW; however this latter focuses on deployment and combination of specific inputs rather than on avoidance of opportunistic behaviors.

RBV theorists propose a strategic perspective that mainly refers to companies internal resources and capabilities (Prahalad and Hamel, 1990). Rumelt (1984) in its comments on RBW asserts that the firm's competitive position is defined by a bundle of unique resources and relationships, and the task of management is to renew and to adjust resources as time and competition erode their value. In this sense, managers are called to assemble and develop the capabilities needed to capture as much as possible from the available resources (Mathews, 2002).

In 1986, Barney attempted to identify under what conditions the company's resources become valuable. In particular, he noted that the definition of a viable competitive strategy needs not only the possession of valuable resources but also their appropriate application to the external environment.

In its simplest interpretation, RBV examines the relations between a firm's internal characteristics and its performance. In particular, this theoretical view argues that the possession of valuable, rare and inimitable resources can lead the firm to a sustainable competitive advantage (Barney, 1991). According to Collis and Montgomery (1999), resources cannot be evaluated in isolation, because their value strongly depends also on the interplay with market forces. In order to investigate the extent to which internal resources can contribute to the attainment of competitive advantage, Barney (1997) proposed the VRIO framework. This model asks if the resources of the company are valuable, rare, difficult to imitate, and exploited by the organization. The author states that the presence and combination of these four requirements increase the contribution of internal resources to the firm's performance. According to this reading key, the firm's capabilities to acquire and to adequately manage resources conduct to superior performance and competitive advantage.

Following Mathews (2002), resources are the basic elements through which companies transform inputs into outputs. However, resources are not productive on their own, and they can favor the achievement of competitive advantage to the extent to which they are used by firms to perform their business activities. Russo and Fouts (1997) argue that it is necessary to consider the firms' capabilities to assemble, integrate and manage the bundle of resources. Barney (1995) defines capabilities as the skills that firms develop to manage resources. Resources and capabilities are used by companies to develop their strategies and to pursue their objectives. As recognized by Conner (1991), for any given input the degree to which it will be specific changes across firms because firms themselves are unique. Thus, considering that each firm presents its own bundle of resources and capabilities, the ability to implement strategies will thus vary across firms.

According to Grant (1991), the firm's resources can be classified into tangible resources and intangible resources. These latter are non-physical factors that are used to produce goods or provide services. They include intellectual property assets, organizational assets, and reputational assets. Tangible resources, instead, are physical or financial assets that are easier to imitate or substitute than intangible ones, even if they are valuable and rare. In fact, intangible resources and capabilities are built within the organization over time and cannot be acquired on markets, making them difficult to imitate and highly relevant to achieve the competitive advantage.

With reference to the business sustainability literature, the number of studies on CSR which adopt a resource-based lens has grown in recent years (e.g. Russo and Fouts, 1997; Brik et al., 2011). In general, these studies argue that capabilities related to investment in CSR can lead to firm-specific economic benefits for firms (e.g. McWilliams and Siegel, 2006). The undertaking of CSR initiatives can be considered as an investment in capabilities that may allow the firm to differentiate itself from competitors. In this sense, RBV may help to better explain how firms strategies contribute to developing and using internal capabilities related to social issues to obtain superior economic results (Frynas and Yamahaki, 2016). Among the others, these CSR-related capabilities include green innovations (Chen et al., 2006), stakeholder management (Torugsa et al., 2012), positive reputation (Laurenco et al., 2014).

Russo and Fouts (1997) assert that RBW represents a relevant theoretical reading key for analyzing how CSR engagement influences company results for two main reasons. First

of all, RBW has a strong focus on firm performance. Second, the resource-based perspective explicitly recognizes the high relevance of some intangible resources that are closely related to CSR activities, such as corporate culture (e.g. Brammer et al., 2007) or firm's reputation (Bhattacharya and Sen, 2004).

Within the field of studies on CSR, authors have also frequently discussed the RBW to explain the relationship between CSR engagement and financial performance (Orlitzky et al. 2003). Following Branco and Rodrigues (2008), the investment in CSR activities may develop relevant firm's intangible resources, which in turn may favor the achievement of superior financial performance. In this sense, for example, socially responsible engagement may enhance corporate reputation (Dell'Atti et al., 2017; Forcadell and Aracil, 2017), which can help to create strong and trust relationships with external stakeholders (De Castro et al., 2006; Kim et al., 2010). Engagement in CSR activities has also relevant consequences on the improvement of internal resources and capabilities related to know-how and corporate culture (Collier and Esteban, 2007). However, despite the growing adoption of RBV as a theoretical perspective to frame firms' engagement in socially responsible issues, only a few studies empirically demonstrate that CSR-related capabilities can lead to competitive advantages for firms (e.g. Chen et al., 2006; Lourenco et al., 2014). Moreover, as recognized by Frynas and Yamahaki (2016), it is not obvious that CSR engagement leads to a sustainable competitive advantage since socially responsible activities are visible and imitable by competitors.

1.4.4 Social Legitimacy Theory

According to Suchman (1995) legitimacy can be defined as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions'. Oliver (1996), one year later, argues that legitimacy can be understood as the conformation with social norms, values, and expectations.

The basic assumption of the legitimacy theory is that companies operate on the basis of a social contract with society (Donaldson, 1982). The objective of the firm is to act

congruently with social values and community expectations (Branco and Rodrigues, 2008) to obtain the approval of society, necessary to generate rewards and ensure the survival of the organization (Deegan and Rankin, 1996). Following this theoretical line, firms do not have their own right to exist, they exist to the extent to which society attributes them the legitimacy to operate. Therefore, in this perspective, companies attempt to fulfill the social contract in order to legitimize their existence, and society allows companies to continue to operate to the extent to which they meet social expectations (Cormier and Gordon, 2001).

As argued by Dowling and Pfeffer (1975), since organizations are heavily dependent on acceptance by the environment, they engage more in activities that allow "to connect" the organization with its environment. The firm's research for legitimacy represents a continuous process aimed at aligning the objectives of business with those of society (Deegan, 2002). In this sense, an important specification is offered by Lindblom (1994), who distinguishes between legitimacy and legitimation. The author states that the former represents a static status or condition that exists when the value system of an entity is consistent with that of the social context to which it belongs. When there is a disparity between the two value systems, the legitimacy to operate of the entity can be threatened. Legitimation, instead, represents a dynamic process underlying the static condition of legitimacy, constituted by the actions that the company carries out to develop its legitimacy to operate.

In line with the evolution of social values over time, businesses are continuously called to show that their operations are legitimated and that they are good corporate citizens (Deegan 2000). In literature, the discussion of social legitimacy theory is usually divided into two macro areas: institutional and strategic. The institutional perspective (Di Maggio and Powel, 1983; Westphal et al., 1997) adopts a normative approach, in which legitimacy is understood as a set of beliefs (Suchman, 1995). According to this approach, legitimacy is not the result of interactions between business and society, rather, external institutions define beliefs, behaviors, customs that permeate the organization in every respect (Suchman, 1995). Through the absorption of "institutional myths", organizations become isomorphic with the institutional environment and acquire legitimacy (Meyer and Rowan, 1977). Within this approach, legitimacy and institutionalization appear as synonymous, since both phenomena empower organizations by making them seem natural and socially

accepted (Suchman, 1995). However, one of the main criticisms of this perspective is that it presents a static and constrained vision of legitimacy (Di Maggio and Powell, 1983). Scholars assert that institutional forces play a key role in directing and constraining organizations to prioritize certain values rather than others (Sonpar et al., 2009). From a strategic point of view (Oliver, 1991; Suchman, 1995), legitimacy is understood in a more dynamic and instrumental logic. Legitimation, according to this view, is purposive and calculated (Suchman, 1995). The strategic approach to social legitimacy theory present connections with other theoretical perspectives, such as the resource dependence theory or the stakeholder theory (Sonpar et al., 2009). Gray et al. (1995) argue that legitimacy theory and stakeholder theory present overlapping perspectives. Legitimacy theory refers to the interactions between the firm and society in general, stakeholder theory refers to interactions between the firm and a particular group of individuals within society (Deegan and Unermann, 2006). The higher is the relevance of stakeholders, the more the company has to adapt its conduct. In this context, the engagement in CSR activities may represent a successful means for negotiating relationships with key stakeholders (Roberts, 1992). Pfeffer and Salancik's (1978) resource dependence theory proposes that organizations depend on their surroundings to obtain the resources necessary for survival. The more critical and important the resources are for the firm, the greater the dependence it has on the subjects who have the resources. From a strategic point of view, managers should provide rationalizations and explanations of corporate activities to constituents within and outside the organization's boundaries, in order to acquire, maintain and develop legitimacy (Pfeffer, 1981). In other terms, organizations through the assumption of behaviors, decisions, communication policies, that are consistent with symbols and values shared in the environment in which they operate, legitimate themselves within society (Dowling and Pfeffer, 1975).

However, the organization's environment can provide not only resources but also threats (Perrow, 1970). In fact, firm's legitimation to operate may be threatened by the external actors that consider the organization's social values and norms not consistent with those of the environmental context in which it operates (Pfeffer and Salancik, 1978; Dowling and Pfeffer, 1975). Firms that conflict with their environment may be difficult to enter into processes of social exchange since their partners do not rely on their compliance with social rules (Palazzo and Scherer, 2006). Examples of negative reaction by external firm's

constituents may include a boycott of the company's products; boycott by suppliers of labor and financial capital; definition of laws that prohibit the business activities, which do not conform to the expectations of the society (Chan et al., 2014). Lindblom (1994) identifies four strategies that the company may adopt to develop its legitimation. First, when the organization recognizes the existence of a legitimacy gap, it may try to inform relevant stakeholders about the change in performance or activities. Second, if the legitimacy gap has developed on the basis of misperceptions, the organization may try to modify the perceptions of the firm's constituents, without actually modifying its behavior. Third, when the organization is aware of having legitimacy gaps in certain activities, it may try to shift the attention of the social context on other issues. For example, if the firm is involved in pollution-related issues, may try to manipulate the attention of the public highlighting its involvement in charitable associations. Fourth, if the organization realizes that the expectations of the social context in which it operates are incorrect, it can try to modify external expectations, in order to better align them with its performance. As argued also by Ashfort and Gibbs (1990), several mechanisms can improve substantive or symbolic legitimation. For example, the organization may change the role of performance (i.e. attempting to meet the performance expectations of key constituents); alter resource dependencies (i.e. modifying the mix or the degree of resource dependence upon its constituents); conform to institutional paradigms; expose socially acceptable goals. Authors recognize that the adoption of CSR initiatives may represent a mechanism to restore corporate legitimacy (Deegan et al., 2002; Chen et al., 2008). Empirical studies, adopting a legitimacy theory perspective, suggest that CSR can bring benefits, in terms of better corporate ratings, stakeholder appeal, and better reputation (Chan et al. 2014). Within the field of studies on CSR, corporate social disclosure has often been considered as a means to reinforce corporate legitimacy, providing the opportunity to communicate to stakeholders that the company strategies are in line with societal expectations (Clarke and Gibson-Sweet, 1999). According to Brennan et al., (2013), CSR communication can be conceptualized as means that trigger an interactive dialogue of reciprocal influence between the company and its audience.

Other authors also suggest that CSR communication may be useful to respond to the corporate crisis (e.g. O'Donovan 2002). Corporate crisis involves a conflict between the firm and its constituents and may stem from several factors, such as the violation of norms

and values, the failure to meet stakeholders' expectations, scarce social or environmental performance. In this compound, corporate social disclosure may be used to persuade the community of stakeholders that the company is realigning its conduct to the norms and values shared in the society (Elsbach, 2001).

1.5 Benefits of Corporate Social Responsibility

Previous literature shows that the company's investment in CSR initiatives may provide numerous opportunities and may create favorable conditions for the achievement of a competitive advantage (e.g. Porter and Kramer, 2006; Carroll and Shabana, 2010; Barnett and Salomon, 2012). Despite prior studies have mainly focused on the effects that CSR engagement has on financial performance (e.g. Waddock and Graves, 1997), there are many other ways for businesses to benefit from CSR (Burke and Logsdon, 1996).
The current paragraph aims to provide an overview of the main benefits that CSR can generate for business. CSR engagement has been frequently considered a valuable means to improve the dialogue with the community and to establish long-term fiduciary relationships with stakeholders (Clarkson, 1995). In line with these arguments, a significant number of previous studies has investigated the effects that CSR policies have on stakeholders (e.g. Bhattacharya et al., 2009).

- **Customers responses to CSR**

  As argued by Bhattacharya and Sen (2004), among the various stakeholders' categories, customers represent a stakeholder group that appears to be particularly susceptible to companies' CSR programs. Sen and Bhattacharya (2001) found that customers are willing to pay a higher price for products of socially responsible companies and pay less for products of companies not engaged in CSR. Creyer and Ross (1996), instead, asserted that individuals tend to punish unethical corporate behaviors. Romani et al. (2013) through an experimental setting show that CSR induces to show positive opinions about the company and to actively

participate in the firms'actions. Other authors indicate that undertaking CSR initiatives have a positive impact on consumers' purchase intent (e.g. Mohr and Webb, 2005) and customer satisfaction (e.g. Bhattacharya and Sen 2004). Recent studies also empirically demonstrate a positive relationship between CSR and customer loyalty (Garcia de los Salmones et al., 2005). CSR can be used to differentiate products or services, creating a positive image of the company brand (e.g. Tang et al., 2012). Peloza and Shang (2011), in their literature review, noted that the relationship between CSR and consumer responses is mediated by other variables. In this sense, for examples, Brown and Dacin (1997) revealed that CSR engagement affects consumers' perceptions through influencing consumers' evaluation of the firm; similarly Garcia de los Salmones et al. (2009) highlighted that CSR initiatives improve consumers' general evaluation, which in turn affects their loyalty; Marin et al. (2009), adopting a sample of real customers, demonstrated that CSR allows the development of a positive image of the company, which leads consumers to develop greater loyalty to the company's products.

In this area, a substantial part of literature identifies the consumer identification with the company as mediating factor between CSR and consumers' responses. In particular, scholars argue that CSR initiatives may induce customers to develop a sense of connection and to identify with the company (e.g. Curras-Perez et al., 2009). Individuals tend to identify themselves with those organizations that share with them common values and traits (Sen and Bhattacharya 2001). Previous studies show that the adoption of CSR programs may enhance the corporate identity's attractiveness and favor the customers' identification with the firm (e.g. Lichtenstein et al., 2004). The identification with the company represents a form of emotional connection between the client and the organization (Deng and Xu, 2017). This emotional connection may trigger the consumer's willingness to contribute to the achievement of the company's objectives, for examples: being loyal to the company's products (Bhattacharya and Sen 2003; Lichtenstein et al., 2004); spreading favorable information on the company (Alsop 2002); providing suggestions for the development of the company (Wu and Tsai 2007).

- **Employee responses to CSR**

Even though to a lesser extent than external stakeholders (Larson et al., 2008), the effects of CSR on internal stakeholders have been widely investigated in recent years (Kim et al., 2010). Among the different categories of internal stakeholders, many studies have treated the effects that CSR policies have on employees. As argued by Aguilera et al. (2007) employees are essential to any discussion regarding antecedents and consequences of CSR. In particular, previous literature acknowledges that employees' CSR perceptions are closely related to their commitment within the organization (Brammer et al., 2007) and job satisfaction (Valentine and Fleischman, 2008). Greening and Turban (2000), drawing on social identity theory and signaling theory, show that firms may use CSR initiatives to attract quality and talented workforce. The authors argue that job applicants do not have complete information about the working environment within the organization, therefore they interpret the information they receive as signals of the working conditions. Greening and Turban suggest that CSR engagement may influence job applicants' perception of the organization and may increase the attractiveness of the employer. In addition, they argue that undertaking socially responsible initiatives may favor the consumers' self-identification with the values of the organization. Most empirical studies have shown that CSR engagement favors employees' identification with the organization (Farooq et al., 2013). Kim et al. (2010) demonstrate the relationship between CSR and employees' identification with the organization is mediated by external prestige and organizational trust, respectively. Hameed et al. (2016), instead, observe that internal and external CSR, operating through different mediating mechanisms, positively affect employees' identification. Other studies have found that CSR perceptions positively influence job applicants' propensity to choose the company (Brammer et al., 2015).

Bhattacharya et al. (2008) state that CSR can be understood as a form of internal marketing that allows to acquire and retain employees. In particular, they assert that considering employees as internal customers, CSR may be used to define a "job product", which includes the salary, benefits, and responsibilities. In this

sense, the real challenge for managers is the understanding of employees' needs and consequently to orient the CSR initiatives in the right direction. Rodrigo and Arenas (2008) show that company's undertaking of CSR activities develops several attitudes among employees, such as greater identification with the organization, greater importance attributed to the work performed, a sense of social justice. Du et al. (2015) recognizing that employees have multi-faceted job needs argue that CSR activities may be an effective mechanism to fulfill their needs. They confirm that CSR programs increase job satisfaction and reduce turnover intention. Caligiuri et al. (2013), instead, found that the employees' perception of the firm's commitment to volunteerism programs enhances their work engagement. Finally, several recent researchers have shown the existence of a positive relationship between CSR perceptions and work engagement (e.g., Lin et al., 2010).

- **CSR and corporate reputation**

Over the last two decades, authors have frequently considered CSR as a strategic tool to improve corporate reputation (e.g. Fombrun, 1990). This latter is closely related to the perceptions stakeholders have of corporate image. Scholars argue that corporate reputation may be understood as the collective opinion of an organization held by its stakeholders (Brammer and Millington, 2005). Fombrun (1990) defined corporate reputation as "A perceptual representation of a company's past actions and future prospects, that is, the firm's overall appeal to all of its key constituents when compared with other leading rivals". The key element of the Fombrun's definition is the stakeholder perceptions of corporate's actions (Wartick 2002). Companies are continuously and increasingly evaluated on both financial and social performance. This growing attention to corporate conduct, combined with the greater information available via electronic channels, puts companies under considerable scrutiny by stakeholders (Waddock, 2000). In this context, more than ever, corporate reputation appears as one of the most valuable intangible assets (Hall, 1993).

Previous literature widely recognizes that the undertaking of socially responsible initiatives may be a strategic lever to build the corporate reputation (e.g. Turban and Greening 1997).

Fombrun et al. (2000) suggest that CSR initiatives may be considered as real options. The author states that socially responsible initiatives, on the one hand, act as "safety net" that protects companies against reputational risk, on the other hand, they act as "platform opportunities" since they generate reputational capital, loyalty and social legitimacy. Gardberg and Fombrun (2006) document that engagement in socially responsible activities can encourage the development of intangible assets for two reasons. First, they state that investments in CSR, acting similarly to those in R&D and advertising, represent a differentiation strategy that helps companies to build brand image and reputation (e.g. Varadarajan and Menon, 1988). Secondly, the authors assert that socially responsible initiatives favor the integration between the company and the stakeholders, creating sociocognitive connections between them.

Recent empirical investigations confirm that CSR represents an essential strategic resource to achieve competitive advantage (Deephouse 2000), through the building and the maintaining of positive corporate reputation (e.g. Lee et al., 2017). For examples, Bramner and Millington (2005) point out that companies more engaged in philanthropic activities have a better reputation than less engaged ones. Lai et al. (2010) find that corporate reputation partially mediates the relationship between CSR and brand performance. Taghian et al. (2015) demonstrate that a positive relationship between the CSR constructs and corporate reputation, which in turn influences market share.

- **Eco-efficiency**

Corporate environmental performance is widely considered a relevant component of CSR (Renneboog et al., 2008). Previous literature recognizes that environmental performance can be an important source of competitive advantage (e.g. Porter, 2002). Guenster et al. (2011) define corporate eco-efficiency as the

approach through which companies create more value with fewer environmental resources. Other things being equal, scholars argue that firms engaged in environmentally responsible practices may reach higher levels of operational efficiency than peers (e.g., Marti-Ballester, 2015). Several studies document how the adoption of eco-friendly practices may conduct to cost saving, due to the reduction of the material utilization per unit product, reduction of energy and water consumption, use of recycled materials, introduction of alternative source of energy (e.g. Reverte et al., 2016). According to Porter and Linde (1995), the company's attention to the environmental domain of performance triggers eco-innovation processes, whose benefits may offset the costs associated with environmental standards' compliance. Following the OECD' s (2009) classification, eco-innovation refers to four areas: natural resource management, pollution management, adoption of clean technologies and the supply of eco-friendly products and services. Some studies suggest that environmental regulations can stimulate companies to carry out eco-innovations, which in turn can take a key role to support the achievement of a competitive advantage (Porter and Linde, 1995). For instance, Kemp and Horbach (2007) recognize how effective product and process-innovations may reduce the number of resources needed for production, generating cost advantages. Arundel and Kemp (2009) suggested that the effect of eco-innovations on competitiveness varies according to the type of innovation. In particular, product eco-innovations can bring benefits in terms of product differentiation on the market (Kammerer, 2009). On the other hand, process eco-innovations aim to increase production and logistics efficiency, thereby generating cost savings.

Finally, the key role of the environmental dimension of business performance in pursuing competitive advantage is supported by ample empirical evidence that demonstrates the existence of a positive relationship between eco-efficiency and financial performance (e.g. Dong et al., 2014; Marti-Ballester, 2015; Reverte et al., 2016).

- **Risk reduction**

In the last three decades, several studies have investigated the impact that CSR policies have on risk exposure (e.g. McGuire et al. 1988, McWilliams and Siegel 2001). In this area, most of the works supported the hypothesis that CSR is negatively related to firm risk (e.g. Orlitzky and Benjamin, 2001). Among the perspectives adopted to explain the existence of a negative relationship, the authors have often argued that CSR programs can generate moral capital, understood as the relational goodwill of the company (Adler and Kwon, 2002), which in turn provides some sort of insurance against risk exposure (Godfrey, 2005).

At the foundation of this view, there is the argument that certain business activities may have a negative impact among the various stakeholders, who can react by "punishing" the company with actions ranging from boycotting products to badmouthing. Against this backdrop, CSR activities may dispose of stakeholders to hold beliefs about the firm which mitigate their reactions to negative events (Godfrey et al., 2008), thereby reducing a firm's risk exposure. Thus, according to this reasoning line, firms more engaged in CSR initiatives, mitigating the stakeholders' assessment of corporate actions, benefit from a higher protection against risk exposure.

In recent years, among the most significant works proposed on the theme, it is noteworthy to mention the Orlitzky and Benjamin's (2001) meta-analysis, according to which firms with better corporate social performance are less risky. Also Salama et al. (2011), adopting a sample of UK companies between 1994 and 2006, show that companies with better environmental performance present a lower systematic financial risk. A few years later, Cai et al., (2016), analyzing a U.S. sample from 1991 to 2012, confirm that CSR engagement is inversely related to firm risk. Bouslah et al., (2018), drawing from a sample of non-financial U.S. firms covering the period 1991–2012, demonstrate that social performance reduces volatility during the financial crisis.

- **Cost of Capital**

An emerging line of research in the field of study on business sustainability refers to the impact that CSR has on the firm's cost of financing. In fact, over the years, several empirical studies have investigated the relationship between CSR and the cost of both equity and debt capital. For instance, Bassen et al., (2006), considering a sample of 44 companies, document that the undertaking of socially responsible initiatives reduces the firm's risk exposure and the cost of capital. Menz (2010), analyzing a panel of 498 bonds over 38 months, found a positive relationship between CSR and bond spreads in Europe. Goss and Roberts (2011), instead, using a sample of 3996 loans, show that firms with social responsibility concerns pay higher interest rates on private bank debt than more socially responsible firms. Cheng et al., (2014) demonstrate that better stakeholder engagement and higher transparency on corporate social performance assume a key role in reducing the market frictions that may complicate access to funding.

With reference to equity capital, El Ghoul et al. (2011) propose two main reasons that may support the existence of an inverse relationship between CSR and equity financing. On one hand, they assert that the companies more engaged in CSR are characterized by less severe information asymmetries, since socially responsible firms tend to disclose more information to promote their image of good citizen to stakeholders (Hong and Kacperczyk, 2009). Based on this argument, the authors sustain that higher information availability may lead to a cheaper cost of equity capital.

On the other hand, considering that the cost of equity represents the rate of return that the market applies to the company's future cash flows, and drawing on the thesis that CSR reduces the level of the company's risk (e.g. El Ghoul et al. (2011) expect that socially responsible companies to benefit from lower equity's costs.

Attig et al. (2013), instead, investigating the relationship between CSR and firms' credit rating, identify three lines of reasoning that may explain the relationship between CSR and the cost of capital. First, drawing from the assumptions that socially responsible activities (1) favor the creation of favorable relations with stakeholders (e.g. Waddock and Graves, 1997), (2) enhance company reputation (e.g. Fombrun and Shanley, 1990), (3) support the pursuit of a competitive advantage (e.g. Porter and Kramer, 2006) and (4) improve financial performance

(e.g. Barnett and Salomon, 2012), they state that companies engaged in CSR should be perceived more positively by credit analysts, that thereby should be induced to assign to a lower probability to default. Secondly, since companies invest in socially responsible activities using internal financial resources, Attig et al. (2013) argue that the engagement in CSR may reduce their perceived risk of financial distress, signaling an efficient allocation of resources. Third, the authors sustain that credit analysts may perceive CSR investments as a sort of insurance against the potential costs of being socially irresponsible (Herremans and Akathaporn, 1993). A few years later, also El Ghoul et al. (2018) have recognized that CSR may be viewed as a hedging device. In particular, they argue that CSR may be considered as a tool for reducing both the probability and the costs associated with adverse events.

1.6 Corporate Social performance

Alongside with the evolution of CSR, in the mid-1970s, the concept of corporate social performance (CSP) emerged with particular emphasis. The latter, unlike the broader reference to CSR, tends to focus more on processes and outcomes of socially responsible initiatives. In particular, one of the first systematic models of CSP was provided by Sethi (1975). In his model, Sethi identifies three levels of CSP. The first level, defined as "social obligation", refers to the conduct of the company in response to market forces and social obligations. The second level, namely social responsibility, concerns the consistency of the company's behavior with the prevailing social norms, values, and expectations of performance. Finally, the third level, defined as social responsiveness, includes the ability of the company to adapt its behavior to social needs.

In the late seventies, another landmark framework was provided by Carroll (1979). The author proposed a three-dimensional model, which included (1) social issues, i.e. the definition of social claims that the organization intends to satisfy; (2) corporate social responsiveness, i.e. the attitude that the company adopts to deal with social issues (reactive, defensive, accommodate or proactive); (3) social responsibility, i.e. the

responsibilities that the company is called to assume. In particular, with reference to this last point, Carroll divided the social responsibilities of the firm in four areas: economic, legal, ethical and philanthropic. With reference to the economic dimension, he refers to the responsibilities that the company has towards its shareholders, employees, and customers. The legal sphere of CSR, instead, requires that companies operate in compliance with the framework of the law. Finally, the areas of ethical and philanthropic responsibilities refer to the company's ethical conduct and to the voluntary commitment towards philanthropic issues, respectively.

One of the most appreciated aspects of this model, which made it a reference point for further conceptual developments (e.g. Wood 1991) and empirical investigations (e.g. Wartick and Cochran 1985) is its ability to combine different aspects of performance in a single integrative framework. As recognized by Lee (2008), Carroll proposes a model through which the company's strategic response to social issues can be identified and evaluated (Lee, 2008).

Moreover, over the years, CSR studies have been characterized by two conflicting lines of thought. On the one hand, some authors have claimed that the only responsibility of firms is to make profit (Levitt 1958; Friedman, 1962, 1970), on the other hand, others have suggested that they have broader responsibilities towards society (e.g. McGuire 1963). In this sense, Carroll's model, including economic and social responsibility in a single framework, represents a moment of convergence between two opposing theoretical perspectives.

The proposal of CSP models, over the years, can be interpreted as the attempt to operationalize the more generic concept of CSR, focusing more on the results that CSR engagement can generate. In this direction, new CSP conceptualizations were proposed during the 1980s. For instance, Wartick and Cochran (1985) presented an upgraded version of Carroll's three-dimensional model (1979). Differently from Carroll's framework, in addition to the identification of social areas to which the company must respond, Wartick and Cochran (1985) include the policies that the firm should adopt to address social issues. In 1991, Wood provided another model that has marked the evolution of CSP studies. She reformulated the concept of social performance, proposing a framework with three dimensions: the principles of CSR, the processes of corporate social responsibility and the outcomes of corporate behavior (Figure 4).

Figure 4. Wood's CSP model.

Principles of Corporate Social Responsibility
Institutional principle: legitimacy Organizational principle: public responsibility Individual principle: managerial discretion
Processes of Corporate Social Responsivness
Environmental assessment Stakeholder management Issues management
Outcome of Corporate Behavior
Social impacts Social programs Social policies

In the first dimension, Wood (1991) includes: (a) the principle of legitimation, according to which the organization through an appropriate use of power legitimizes its existence as an institution in the social environment in which it operates; (b) the principle of public responsibility, according to which companies are responsible for the outcomes related to their involvement in the society; (c) the principle of managerial discretion, which refers to the manager as moral actors of the organization. In the second dimension (the processes of corporate social responsibility), on the other hand, she includes the assessment of the environment in which the company operates, the management of relations with stakeholders and the definition of procedures useful for dealing with social problems. Finally, in the third dimension (outcomes of corporate behavior) Wood reports, on one hand, the social impact, on the other hand, the definition of the resources to be invested in social policies and programs. Over the years, a research area that has developed considerably concerns the relationship between CSP and financial performance (Orlitzky et al., 2003). The next section provides an overview of the investigations that have analyzed the connections between CSP and financial performance.

1.7 The relationship between corporate social performance and financial performance

The research regarding the link between CSP and corporate financial performance (CFP) arose convincingly up to the early 1980s (e.g. Aupperle et al., 1985). One of the main argument within this area of research refers to the direction of the causation. In fact, even more recent studies argue that it is still not possible to categorically state if better CSR drives better CFP or better CFP improves CSR (Branco and Rodrigues, 2008; Rivera et al., 2017). In this sense, a seminal study has been proposed by Waddock and Graves (1997), who hypothesized that social performance is both a predictor and a consequence of financial performance. On one side, drawing from the slack of resource theory, the authors assert that firms with a better financial performance are expected to have a greater availability of resources (slack), which provide them the opportunity to invest more in socially responsible activities and to improve the corporate social performance. In fact, as argued by McGuire et al. (1988), CSR investments often depend on the discretion of managers, whose decisions can be strictly related to the availability of excess resources. The perspective of the slack resource theory has been discussed and confirmed by other studies (Brammer and Millington, 2005; Julian and Ofori-Dankwa, 2013). Also several recent empirical works have adopted this theoretical view to investigate if and how CSR determine better financial outcomes. For instance, Amato and Amato (2007) hypothesized that the resource slack, measured with the ROA, contributes to increase the firm's philanthropic initiatives. Brammer and Millington (2008) argued that the availability of financial resources significantly contributes to corporate charitable donations.

On the other hand, Waddock and Graves (1997) state that CSR can be an antecedent of better financial performance. In particular, considering that attention to the social domain of business improves relations with stakeholders (e.g. Freeman, 1984; Donaldson and Preston, 1995), they expect a better CSP results in a better overall firm performance. Several empirical studies confirm that CSR represents a positive predictor of accounting based measures of financial performance (Orlitzky et al., 2003). For example, Turban and Greening (1996), adopting a sample of U.S. firms, demonstrate that CSR is positively associated with ROA. Similarly, Galbreath (2006) using a sample of Australian firms, highlights a positive impact of CSR on ROA and ROE. Other works also empirically

confirm the significant positive impact of CSR on market-based measures, such as stock returns, fund returns, and Tobin's Q (Seifert et al., 2003; Karpoff et al., 2005).
However, other studies argue that CSR can have a negative impact on the firm's economic outcomes (e.g. Wright and Ferris, 1997). These authors often referred to the agency theory (Friedman, 1970; Jensen and Meckling, 1976), to explain the existence of a negative relationship. In particular, agency theory argues that the sole objective of the company is to generate profit for shareholders. Therefore, following this logic, agency theorists claim that investing in social issues represents an unjustified cost, which subtracts resources to the pursuit of the main goal of wealth maximization. Barnea and Rubin (2010) provide a further explanation of the negative impact that CSR may have on financial performance. In particular, they sustain that managers might over-invest in CSR just to improve their image of "good citizens". According to the authors, this managers' behavior might lead to costs that are not strategically justified, thereby negatively affecting the wealth of the shareholders.
The relationship between CSR and financial performance can be explained also by looking at the way in which organizations understand and develop CSR. Kim et al. (2012) identify two main types of approaches to CSR. First, firms may strategically engage in CSR, investing a significant amount of resources in socially responsible initiatives. Alternatively, they may adopt a symbolic or a "greenwashing" approach (Christmann and Taylor, 2006) to CSR, aimed only to improve the corporate image or to address emerging social issues. With reference to this latter approach, according to Tang et al. (2012), the undertaking of sporadic CSR activities, without continuity over time, generates a negative effect on the firm's financial performance. As recognized also by Husted et al. (2015), socially responsible initiatives contribute to create value to the extent to which firms adopt a strategic approach to CSR. Following this reasoning line, companies not substantially and strategically engaged in the social domain may experience a negative effect of CSR activities on their financial performance.
Some empirical investigations confirm that the engagement in CSR initiatives may negatively impact CFP. In this sense, Cowen et al. (1987) find a negative relationship between CSR and ROE. A few years later, Dooley and Lerner (1994) and Turban and Greening (1996), using the KLD ratings, demonstrate that CSR negatively impacts on

ROA. Similarly, other studies adopting market-based measures also confirm that CSR engagement may have a negative effect on financial outcomes (Brammer et al., 2007).

Other authors have also highlighted the existence of mixed relationships. For example, Brammer and Millington (2007) demonstrate that firms with both unusually high and low social performance have higher financial performance than other firms. Barnett and Salomon (2012) suggest that the ability to profit from social activities stems from the firm's stakeholder influence capacity. In particular, the authors argue that for firms not equipped with the adequate capacity to influence stakeholder, the costs associated with the CSR investment are higher than their benefits. Accordingly, they find that firms with low social performance have higher CFP than firms with moderate social performance, but firms with high social performance have the highest CFP.

In summary, despite the extensive empirical evidence, previous studies have shown conflicting results on the relationship between social and financial performance (e.g. Orlitzky et al., 2003; Reverte et al., 2016).

The lack of convergent results has been attributed to several reasons. Some scholars have referred to the use of non-consistent and not reliable social performance measures (García-Castro et al., 2010; Surroca et al., 2010), or to problems of model specification (McWilliams and Siegel, 2000). Other authors have claimed that previous investigations are mainly focused on short-term indicators, while CSR needs a long-term perspective to influence financial performance (Ittner and Larcker, 1998). Another possible reason is that prior literature has mainly focused on financial performance measures, neglecting the non-financial outcomes of CSR such as corporate reputation, increased employee motivation, customer satisfaction etc. (Reverte et al., 2016).

However, a possible explanation, of inconclusive results, that is gaining momentum refers to the omission of variables that may mediate or moderate the relationship between CSR and financial performance (García-Castro et al., 2010; Rivera et al. 2017). In the last few years, several empirical works were proposed to address this point. For instance, Surroca et al. (2010), adopting a sample of 599 companies from 28 countries, find that the relationship between corporate responsibility and financial performance is mediated by the firm's intangible resources. More recently, Agan et al. (2016) suggest that CSR positively influences environmental supplier development, which in turn has a positive impact on firms' financial performance and competitive advantage. Reverte et al. (2016),

applying the structural equation modeling approach to a sample of 133 Spanish companies, show that in the manufacturing sector the innovation mediates the impact of CSR on financial performance. Rivera et al. (2017), instead, demonstrate that companies keeping a consistent approach to CSR, before and throughout the financial crisis, experience a positive impact of socially responsible engagement on CFP. Wang et al. (2017), defining the "CSR governance" as the control mechanisms through which firms engage in CSR and the "CSR outcomes" as the results that companies achieve in the social domain, demonstrate that CSR outcomes mediate the relationships between CSR governance and CFP.

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CHAPTER 2 - Corporate Social Responsibility in the banking industry

Summary: 2.1. Introduction; 2.2. Economic crises and bank social responsibility; 2.2.1 Technical and ethical aspects of economic crises; 2.2.2 Bank social responsibility and stakeholder trusts; 2.3 Banking industry and socio-economic development; 2.4 Previous literature on CSR banking; 2.4.1 Motives of bank social responsibility. 2.4.2 The impact of bank social responsibility on economic performance; 2.4.3 The effects of bank social responsibility on stakeholders; 2.4.4 Bank social disclosure.

2.1 Introduction

Despite the first traces of banking social responsibility (BSR) can be found since the fourteenth and fifteenth centuries (Soana, 2011), it still represents a timely and highly relevant issue. As argued by Sholtens (2009), bank social responsibility has become a well-established concept in the last few years. Goyal and Joshi (2011) suggest that socially responsible banking focuses on the satisfaction of the needs in the real economy and society, taking also into account their social, cultural, ecological, and economic sustainability.

In recent years, the banking industry is becoming increasingly aware of its role as a global system in service to society. Socially responsible banking initiatives include programs supporting financial inclusion (e.g. impact investing and microfinance), investments in clean energy, support for causes related to human rights (Lee, 2008; Prior and Argandona, 2009). In 2012, the Interfaith Center on Corporate Responsibility (ICCR) noted that banks are increasingly engaged in CSR, through initiatives ranging from the disclosure of their environmental and social risk assessment standards, the promotion of sustainable projects to the provision of sustainable products.

Several authors argue that, differently from other sectors that adopt a reactive approach to CSR (Decker, 2004), banks have become one of the most proactive investors in CSR

(Marın et al. 2009; Perez and Rodrıguez del Bosque 2012; Aramburu and Pescador, 2017).

The high interest devoted by prior investigations to bank social responsibility is also due to the peculiarities that characterize the banking business, that makes it worthy of special attention (e.g. Wu et al., 2017).

Acting as financial intermediaries, banks provide several services, such as the organization of the payment system, the pricing of financial assets, the credit distribution, the management of financial risks, which have a huge impact on society (Greenbaum and Thakor, 2007). Due to the relevance of banking activity for society and economic development, banks represent a highly regulated industry (Yamak and Suer, 2005). Banks are also frequently considered as knowledge-intensive organizations (Saengchan, 2008; Curado, 2008). Moreover, considering the intangible nature and the high technical content of the bank's products, the banking business is characterized by higher information asymmetries than other sectors (de Andres and Vallelado, 2008).

Thus, given that the banking sector differs from other economic sectors, also the relevance and the effects of CSR engagement are different (Lentner et al., 2015).

Banks through lending decisions influences the distribution of resources in the real economy. In this sense, being able to decide whether to finance more or less socially responsible companies, banks have also an indirect social responsibility. They have to monitor not only the socio-environmental impact of their operations but also the profile of the financed companies (Thompson and Cowton, 2004).

Moreover, given the high involvement of banking industry in activities such as low-income lending, monitoring of money laundering and corruption, it is straightforward that the concept of social responsibility assumes a different weight for banks compared to other firms.

However, in addition to the peculiarities of banking activities, there are several other reasons that make the study of BSR a particularly relevant issue.

First, the recent economic crises and corporate scandals have increased skepticism and scrutiny of the community towards the banking system. In this context, banks CSR engagement has frequently been considered a means to recover the stakeholders’ loss of trust.

Second, given the strong connections existing between banking activities and society (Levine, 2005; Shen and Lee, 2006; Beck et al., 2010), CSR engagement may represent for banks the opportunity to demonstrate that they are operating consistently with the societal values and beliefs.

Third, nevertheless bank social responsibility has become very popular among academics (Scholtens, 2009), the empirical evidence is still scarce (e.g. Wu et al., 2017) and it still appears a less investigated area compared to literature on CSR adopting non-banking data (Carnevale et al. 2012; McDonald, 2015).

Thus, in line with the abovementioned arguments, the current Chapter is organized as follows. Section 2.2 describes the characteristics of the recent economic crisis and discusses the role of CSR to recover the loss of confidence towards the banking industry. Section 2.2 illustrates the bank social responsibility in light of the socio-economic role of banks. Finally, section 2.3 reviews the main empirical studies on bank social responsibility.

2.2 Economic crises and bank social responsibility

A reason that has pushed financial institutions to increase their engagement in CSR sinks its roots in the financial imbalances that have characterized the global economy in the last years. The recent financial crisis and the growing number of banks bailouts have witnessed not only the failure of markets regulations but have also brought out the fragility of the beliefs and moral standards adopted within banks' business models. These events have posed more than ever the banking system under the scrutiny of a wide public, including regulators, policymakers, clients, employees, investors (Black and Strahan, 2001). In this context, the engagement in CSR activities may represent for banks the opportunity to reorganize their businesses and to regain the trust of stakeholder.

In line with these arguments, this section includes two subsections and has a twofold objective. First, the subsection 2.2.1 describes the main causes of two recent economic crises that hurt advanced economies, namely, the financial and sovereign debt crises. In particular, it provides a brief overview, showing that the causes of crises can be ascribed to several contributing and interacting factors, which involve technical, behavioral and

ethical aspects. The subsection 2.2.2, instead, discusses how banks' engagement in CSR can be considered a valuable strategy to recover the trust of stakeholders.

2.2.1 Technical and ethical aspects of economic crises

The financial crisis of 2008, which reached its apical point with the collapse of Lehman Brothers, was a complex event that is still affecting the global economic equilibrium. Among its most relevant causes, there was the combination of a credit boom and a housing bubble. As documented by Acharya and Richardson (2009), during the period 2002-2007, the ratio of debt to national income increased from 3.75 to 4.75. This trend was probably favored by the Federal Reserve's cut of interest rates and by some American Government's initiatives, such as the American Dream Downpayment Initiative (2003), which intended to subsidize the down payments and closing costs of first-time home buyers. These elements, coupled with the high use of leverage in housing purchase, and with the average scant ability of borrowers to pay back mortgages, laid the foundations for the explosion of the financial crisis.

Another factor that created fertile ground for the explosion of the crisis refers to the obsession of financial intermediaries for profit maximization, which has led them to finance borrowers with low creditworthiness, to increase financial innovation and risky speculation. These latter aspects, associated with the deregulation of the US capital markets (e.g. the removal of the Glass Steagall Act), have stimulated the abuse of derivatives for speculative purposes. In this sense, a further contribution to make even more severe the effects of crisis stemmed from the large use of collateralized debt obligations (CDOs), through which banks transferred the risk from the assets side of their balance sheet to other investors. In particular, the adoption of this technique, namely securitization, has had two main side effects. First, it has facilitated the widespread of the financial imbalances to the financial markets. Second, it has encouraged banks to further loosen the credit screening criteria.

In this context, the opacity of CDOs was another critical element. Some tranches of CDOs, containing low-quality loans, received positive evaluations by rating agencies, due

to modeling failures or probably to conflicts of interest, as rating agencies may have been more interested in generating fees than doing accurate evaluations. The CDOs' positive ratings appealed investors interested in the reliability of the investment, thereby further contributing to their widespread over the markets. The mechanism of securitization, which has the worthy purpose of avoiding risk's concentrations at the institutional level by distributing it among a large numbers of investors, has contributed to the explosion of the crisis to the extent to which financial institutions used it to run around capital adequacy regulations and to increase their level of leverage (Acharya and Richardson, 2009).

The succession of these events led to a loss of confidence and undermined the credibility of authorities, central banks and in particular towards financial institutions.

The mitigation of the effects of the financial crisis, such as the need to support troubled banks, required a vast amount of public funds. The aftermaths of these events contributed to generating high Government debts, especially among European countries, provoking what has been defined as the sovereign debt crisis. This latter began at the end of 2009 and reached its peak between 2010 and 2012. The possibility of default by some governments, coupled with the collapse of some financial institutions, generated a new wave of distrust, which contributed to the rising bond yield spreads in government securities.

However, even though technical causes have played a key role, they only partially explain the economic imbalances. In fact, a more complete understanding of the economic crises requires to go beyond the purely technical aspects, analyzing the ethical and behavioral issues that have contributed to their explosions (e.g. Lins et al., 2017).

In this sense, several authors have argued that unethical behaviors have emerged both at an individual level and at an organizational level during the last crises (Agle and Caldwell, 1999; Lewis et al., 2010; Gangi and Trotta, 2015). With reference to individual ethics, Argandona (2012) highlights how greed, excessive confidence in personal skills, lack of prudence, obsession for wealth maximization, moral hazard have been ethically questionable attitudes, that have frequently characterized the behavior of market operators in recent years.

However, individual behaviors influence and in turn are influenced by the ethical dimension of the organizations to which they belong. In fact, on the one hand, the

decisions and attitudes of individuals contribute to determine the ethics of the organization. On the other hand, the organization itself directs individual behaviors. In this direction, recent crises have highlighted, for example, a lack of organizational leadership, the lack of professional competence, the excessive trust of analysts in mathematical models of assets analysis, frequently difficult to interpret by managers.
Some authors argue that both individual and organizational ethical issues are not isolated events, they rather represent the manifestation of a shortage of ethical values, which involve the whole social system of several developed countries (Argandona, 2012; Lewis et al., 2010).

2.2.2 Bank social responsibility and stakeholder trusts

The last economic crisis, the deterioration of the economy along with numerous bank management scandals and ethically questionable behaviors has fueled a challenging environment for the banking sector. This latter has been assigned with the major responsibilities for the economic turmoil of the last years. The dynamics that characterized the recent economic crises have created skepticism towards the banks' business models, subjecting these latter, more than ever, to the scrutiny of the stakeholders and the community in general.
The adoption of unethical practices by several banks and the lack of transparency in government bailouts have generated anger and loss of confidence of stakeholders towards the whole banking system (e.g. Forcadell and Aracil, 2017). Banks have been frequently criticized for their inability to take account of the impact on society of their strategies and operations (e.g. Cornett et al., 2016).
These issues represent a priority agenda item for the G7, G20, International Monetary Fund (IMF), and central banks. The adoption of prudent business models by financial institutions is crucial to prevent destabilizing events (ICCR, 2012). The restoring of the eroded trust represents for banks an important issue that has attracted the attention of governments and industry committees. In this sense, some examples include the De la Rosière report of the European Commission (2009), the reports of the US Financial Crisis

Inquiry Commission (2011) and the Vickers Commission (2011) or the document "Restoring Trust" of the Advisory Committee on Future of banks in Netherlands.

In this context, CSR engagement may represent a means which favors financial sustainability and stability (Lenter et al., 2015). Prior literature widely recognizes how it can help to create social capital and rebuild trust in organizations (Benabou and Tirole, 2010; Kim et al., 2012; Gao et al., 2014). Several authors have pointed out how organizations with greater social capital present better economic results (La Porta et al., 1997; Knack and Keefer, 1997) [3]. The engagement in socially responsible initiatives represents for banks one of the most valuable ways to improve their image towards the public (e.g. Fassin and Gosselin, 2011; Mattila et al., 2010; Ruiz et al., 2014; Cornett et al., 2016).

In this sense, Lins et al. (2017) note how, during periods of crisis, CSR becomes even more relevant to improve the level of stakeholders' trust in corporations. The positive effects of CSR are particularly remarkable in the banking industry (Forcadell and Aracil, 2017; Mattila et al., 2010; Ruiz et al., 2014). In fact, the characteristics of banking activity and the intangible nature of banking products make their reputation one of the most important assets. More than other industry, banks need to be perceived as trustworthy (Fassin and Gosselin, 2011), in order to effectively carry out their business[4]. In this context, CSR programs are for banks a way to recover their reputation, signaling to the community that they are operating consistently with societal expectations (Chemmanur and Fulghieri, 1994).

2.3 Banking industry and socio-economic development

Another reason, that makes the analysis of the bank's social responsibility a relevant theme, refers to the role that the banking system plays in social and economic

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[3] Social capital here is intended as the propensity of economic agents to contribute positively to the develoment of community and social life (Putnam 2000; Scrivens and Smith, 2013).

[4] Previous empirical investigations acknowledge how better bank's reputation are associated to better economic performance, in terms of higher profitability and quality of borrowers (e.g. Bushman and Wittenberg-Moerman, 2012), or in terms of better stock returns (Ross, 2010).

development. The recognition of the positive effects that a well-functioning banking system can have on economic growth dates back to Adam Smith (1776).

Acting as intermediaries, banks favor the transfer of resources between operators, reduce information asymmetries, enforce contracts, reduce transaction costs. Following the previous literature (Levine, 2005, Merton and Bodie, 2004; Shen and Lee, 2006), it is possible to identify some fundamental functions that make the banking industry crucial for economic development. First, banks produce information and facilitate the allocation of capital. Indeed, there may be high costs associated with gathering and understanding of information on possible investments. The individual savers may not have the knowledge and resources necessary to evaluate companies, managers and market conditions and allocate capital. Banks reduce the costs associated with the collection and processing of information, improving the capital allocation choices and accelerating economic growth (Levine, 2005; Greenwood and Jovanovic, 1990).

Second, banks perform a monitoring and governance function on financed companies. As providers of capital, banks monitor and orient managers' investment decisions, potentially improving the efficiency with which firms allocate resources. Several previous studies argue that a well-functioning financial system, through the improvement of corporate governance mechanisms (e.g. Bencivenga and Smith, 1993), boosts firms productivity, favors capital accumulation and promotes economic development. As recognized by Levine (2005), the influence that the banking industry has on the performance of companies have broad ramifications on economic growth of countries. Third, banks take a central position in the reduction and management of risk. They provide the vehicles for trading and diversifying risk. Again, the ability of banks to pool, allocate and diversify risk favor economic growth, affecting resource allocation and savings rates.

Fourth, the banking system collects savings from a multitude of subjects and use them to finance the economy. Drawing from the fundamentals of banking theory, banks act as intermediaries between depositors and borrowers (Diamond 1984). The savers provide the resources to make loans and the banks, providing the expertise for the assessment of the creditworthiness of borrowers, proceed to allocate the collected capital. Banks that are able to effectively collect savings from individuals can have a huge impact on economic development (e.g. Levine, 2005; Sirri and Tufano, 1995). The collection of resources from many different individuals and the investment in diversified portfolios of

assets allows the reallocation of funds towards higher return investments, with positive effects on economic growth (Acemoglu and Zilibotti, 1997).

Fifth, several authors recognize that banks can promote labor specialization (Galetovic, 1996) and technological innovation (Greenwood and Smith, 1996). In particular, with reference to this latter aspect, banks can promote innovation by identifying those companies that are more likely to succeed in introducing new products and processes (Schumpeter, 1912; King and Levine, 1993; Galetovic, 1996; Blackburn and Hung, 1998; Acemoglu et al., 2003). This should improve the allocation of resources among competing firms, thereby generating positive ramifications on economic growth (De la Fuente and Marin, 1996).

Empirical studies also confirm the existence of a positive link between the development of the banking system and economic growth. In this sense, King and Levine (1993), for instance, using data on 80 countries over the 1960-1989 period, demonstrated that long-term growth is closely linked to the degree of development of the financial system. Beck and Levine (2004) adopting a panel dataset for the period 1976–1998 find that stock markets and banks have a positive influence on economic growth. A more recent study conducted by Akinci and Queralto (2014), on OECD member countries for the period 1980-2011, also find a positive long-run relationship between financial development and economic growth.

In light of the above arguments, it appears straightforward that the safety and well-functioning of the banking system can sustain economic prosperity and generate several benefits for society (Levine, 2005; Shen and Lee, 2005; Beck et al. 2010).

Given the close connections existing between banks and socio-economic development (Branco and Rodrigues, 2008; Scholtens, 2009; Achua, 2008), more than other sectors, the banking industry is called to respond to the community about the way in which the activities are carried out. Moreover, considering that the banks determine how public resources are invested, their capital allocation decisions are subject to high levels of attention by stakeholders. Authors recognize that bank's responsibility is highly scrutinized by Government, customers, shareholders, staff, community (Khan, 2010). As argued by Simpson and Kohers (2002) and Thomson and Cowton (2004), banks have not only direct responsibilities towards society but also an indirect responsibility to the extent to which they finance companies poorly engaged in socially responsible issues.

In this context, the undertaking of CSR activities for banks represents one of the most effective ways to demonstrate and communicate how they include social issues within their strategies and operations. Over the years, the general perception that the public has of banks' engagement in social and environmental issues has become increasingly important (Barako and Brown, 2008). Nowadays, scholars widely recognize how banks' undertaking of CSR policies allows to shape public perceptions and to build organizational legitimacy (e.g. Perez and Del Bosque, 2012).

2.4 Previous literature on bank social responsibility

The current section reports the empirical studies analyzing CSR in the banking industry. In particular, the section is organized in four subsections that review the previous empirical studies concerning: (a) the motives of banks' engagement in socially responsible initiatives; (b) the impact of BSR on bank's economic performance, (c) the effects that BSR produces on stakeholders, (d) the banks' disclosure of CSR activities.

2.4.1 Motives of bank social responsibility

In recent years, some studies have attempted to deepen whether banks' engagement in CSR is driven by regulatory constraints, or by other motivations (e.g. Pomering and Dolnicar, 2009). In this direction, for example, Angus-Leppan et al. (2010) suggest that the reasons that bring banks to engage in CSR can be linked to leadership style. More specifically, on the one hand, suggests that strategic CSR is preferred by autocratic leaders. On the other hand, they argue that implicit CSR, framed as the personal or organizational values and beliefs, is likely to be preferred by authentic leaders.

A few years later, Wu and Shen (2013), examining 162 banks in 22 countries, suggest that banks engage in CSR for three motives, namely, strategic, altruism, and greenwashing. In addition, they note that depending on the motivation behind engagement in CSR, it changes its impact on financial performance. In particular, the

authors find that the strategic, altruistic and greenwashing approach to CSR has a positive, non-negative and no impact on financial outcomes, respectively.

2.4.2 The impact of bank social responsibility on economic performance

The empirical analysis of the impact that the banks' engagement in CSR activities has on their economic results represents one of the most investigated topics in the field of studies on CSR in the banking industry.

In this area, a first set of studies refers to the effects that bank social responsibility has on financial performance. In particular, one of the first studies was proposed in 2002, by Simpson and Kohers. The authors, analyzing a sample of 385 US commercial banks, noted that the bank's engagement in CSR has a strong positive impact on its financial performance. A few years later, Soana (2011), considering a sample of 21 international banks rated by Ethibel, showed no statistically significant relationship between social and financial performance.

In 2013, Wu and Shen analyzed the relationship between BSR and financial performance taking into account the possible motivations that may induce banks to engage in CSR. More specifically, they suggest that the impact is positive, non-negative, and non-existent depending on whether CSR programs are driven by strategic, altruistic and greenwashing motives, respectively.

Among the most recent studies, it is noteworthy the analysis conducted by Cornett et al. (2016). They examine the relationship between social responsibility and financial performance of a sample of US commercial banks, around the years of the financial crisis. Contrary to the authors' expectations, the study shows that larger banks are significantly more engaged in CSR initiatives than smaller ones. Shen et al. (2016), instead, using a sample of banks from 18 countries, demonstrate that those engaged in CSR over perform banks not engaged, both in terms of profitability and in terms of quality of credit. Specifically, they highlight a positive relationship between CSR and profit indicators and a negative relationship between CSR and non-performing loans. Another relevant study was proposed by Esteban-Sanchez et al. (2017). Unlike previous studies, they examine the impact that specific dimensions of CSR have on financial performance. In this sense, the authors find that the adoption of CSR practices in corporate governance and within

the management of employees lead to better financial performance. On the contrary, they point out that the product responsibility dimension does not positively influence the financial indicators. Finally, they suggest that attention to the community's social issues also represents a positive predictor of financial performance during times of crisis. Wu et al. (2017), instead, after having classified a sample of 194 depository-type banks in four categories, based on their degree of CSR, show that the higher is the engagement in CSR, the better is their financial performance. Gangi et al. (2018a) focusing on a sample of 72 European banks, highlight that bank's engagement in socially responsible issue is a positively related to financial performance's indicators and negatively related to nonperforming loans. Fijałkowska et al. (2018), applying several panel regressions analysis focusing on a sample of 20 major public banks belonging to the central and eastern European countries, demonstrate that BSR does not determine changes in the banks' financial results. Gangi et al. (2018b), instead, considering the mediating role of the absorption of CSR-knowledge, show that BSR positively influences the bank's financial performance. Finally, Gangi et al. (2018c), adopting an international sample of 142 banks, document the positive impact of corporate governance mechanisms on bank's environmental management and a less exposure to risk among socially responsible banks. Unlike the studies cited so far that focus mainly on financial performance, Bouvain et al. (2013) investigate the impact that the CSR has on bank's brand value. In particular, focusing on a sample of 84 banks from East Asia and USA, the authors highlight that the brand value is positively associated with the adoption of CSR practices towards employees, in Japan and South Korea, with the attention towards community, in China, and with the respect for the environment and the "green" issues in the USA.

Goss and Roberts (2011), instead, analyze the relationship between corporate social responsibility (CSR) and bank debt. They find that businesses with CSR concerns on average tend to pay higher interest rates on bank debt.

In summary, despite some exceptions showing the existence of neutral link (e.g. Soana, 2011), it is possible to state that most of the studies conducted in recent years converge in suggesting the existence of a positive link between BSR and economic outcomes.

2.4.3 The effects of bank social responsibility on stakeholders

Another line of research on CSR banking refers to the analysis of the effects that bank's engagement in socially responsible initiatives has on its stakeholders. Accordingly, the current subsection reviews the empirical evidence produced in recent years with reference to the most investigated bank's stakeholder categories, namely consumers, employees and the community (McDonald, 2015).

- **Customers**

  In particular, among the abovementioned categories, previous literature recognizes how customers are particularly sensitive to CSR programs (e.g. Bhattacharya and Sen, 2004). In this direction, Chang et al., (2009) suggest that the promotion of bank's initiatives in the social domain, defined by the authors as "social marketing", influences the perception of customers in two ways. On the one hand, it increases the perceived quality of the bank's products, on the other hand, it reduces the level of perceived risk. Similarly, Poolthong and Mandhachitara (2009) and Mandhachitara and Poolthong (2011), focusing on the retail banking sector in Thailand and using a survey-based approach, show how the bank's engagement in CSR policies has a significant and positive impact on perceived quality of banking products and on customers' loyalty. Matute-Vallejo et al. (2011), instead, applying structural equation modelling to a sample of 300 customers of banks and saving banks in the Spanish context, demonstrate that the satisfaction and the commitment of customers mediate the relationship between bank social responsibility and customer loyalty. Also Alafi and Al Sufy (2012) confirm that in the Jordan banking industry CSR is associated with higher customer satisfaction. Moreover, they note that customer satisfaction mediates the relationship between CSR and financial performance. Other studies have investigated CSR influence on customers by distinguishing different CSR dimensions. For instance, Garcia de los Salmones et al. (2009), framing CSR as a marketing tool and administering a survey to a sample of real customers, highlight that the impact of ethical and philanthropic responsibilities of the bank on the

client loyalty are mediated by trust and corporate identification, respectively. A few years later, McDonald and Lai (2011) analyze whether consumers in the Taiwanese banking sector prefer CSR initiatives oriented towards them or those oriented towards the community and the environment. The authors find that behavioral intentions and customer attitudes are positively influenced by environmental policies and "customer-centric" policies, showing how these latter have a stronger significant impact. Other authors point out that customers' psychological features (Perez and Rodríguez del Bosque, 2013a) and motivational attributes (Perez and Rodríguez del Bosque, 2013b) assume a key role in explaining customers' perceptions of CSR policies.

Looking at more recent studies, Aramburu and Pescador (2017), analyzing 572 personal surveys in the Basque Country, show that corporate reputation mediates the relationship between social responsibility and customer loyalty. They also show how the type of bank does not moderate the relationship.

In summary, although research in this area is still scant (Deng and Xu, 2018), the abovementioned empirical investigations seem to indicate that the bank's CSR activities positively influence consumer perceptions.

- **Employee**

The influence that the undertaking of socially responsible practices has on internal stakeholders, and in particular towards employees, is gaining momentum among researchers and academics (e.g. Kim et al., 2010; Rodrigo and Arenas, 2008). Authors recognize that CSR engagement may play a crucial role in employee attachment to their firm (Lee et al., 2013).

With reference to the banking industry, Gilder et al. (2005) show that, within the Dutch ABN-AMRO bank, employee volunteering has positive effects on their attitudes and behavior towards the organization. Ruiz-Palomino et al. (2012), instead, using a sample of employees from Spanish commercial banks, find that the organization's ethical culture positively influences employee job satisfaction, their commitment and their intention to remain within the organization.

In a more recent study, Valentine and Godkin (2017), applying a mediation analysis to a sample of subjects employed in a southern regional branch of a national banking institution demonstrated that perceived CSR increased employee commitment and reduces their turnover intentions. In summary, even if the empirical evidence in this area is limited, the few previous investigations seem to suggest that the bank's engagement in social responsibility positively influences the attitudes of employees.

- **Community**

Some empirical studies have focused on the contribution that the banking industry can make to social issues. In this direction, for instance, Ragodoo (2009) focuses on a sample of 19 banks of Mauritius. The author finds that despite the local banking industry devotes about 1.2 percent of its profits to CSR, its contribution to alleviating poverty is lower than in other sectors, such as the hotel industry or sugar production. Barroso et al. (2012), instead, examine how a sample of Spanish savings banks contributes to international development. In this sense, the authors point out an increasingly relevant role of these savings banks in cooperation for development, mainly due to stakeholder pressures.

2.4.4 The banks' disclosure of CSR activities

A considerable amount of investigations, in the field of study on CSR banking, concerns the disclosure of banks' engagement in socially responsible issues.
The relevance of the bank's social disclosure is linked to the high visibility of the banking industry (e.g. Khan, 2010). In a historical period in which the credibility of the banking system has been severely undermined, banks are called more than ever to demonstrate their fulfillment of social obligations (Menassa and Brodhacker, 2017). Authors widely recognize that CSR programs are one of the main avenues for banks to re-engage with communities (e.g. Pomering and Dolnicar, 2009). In this context, the disclosure of CSR

initiatives becomes an important means to communicate with stakeholders (Menassa, 2010) and to legitimize their business.

In line with these arguments, in recent years, a growing body of studies has analyzed the CSR disclosure in the banking industry.

A first group of studies concerns the effects that the characteristics of the organization produce on the CSR disclosure of banks. In this sense, for instance, Hamid (2004) shows that size, listing status and age of Malaysian banks significantly influence their disclosure practices, while, profitability measures are not significantly related to CSR disclosure. Branco and Rodrigues (2008), instead, considering the size and the industry affiliation as proxy of the bank's visibility, show that banks with a higher visibility are more concerned with improving their image through CSR initiatives' disclosure than banks with less visibility. Barako and Brown (2008), focusing on the banking industry in Kenya, find that a greater presence of women and independent directors on board significantly improves social disclosure. In the Bengali context, Khan (2010), analyzing the annual reports of private commercial banks for the years 2007-2008, finds no significant relationship between the women representation on board and CSR reporting. By contrast, he demonstrates that non-executive directors and the presence of foreign nationalities on the board have a positive impact the CSR reporting. More recently, focusing on the annual reports of 11 Tunisian listed banks during the period from 2007 to 2012, Chakroun et al. (2016) highlight that age, financial performance, and state shareholding represent the main predictors of CSR disclosure.

A second group of studies, instead, analyzes the effects of CSR disclosure on the market value or performance of banks.

In this area, it is noteworthy the study of Carnevale et al. (2012). They show that, in the European context, only in some countries social reporting has a positive impact on the stock price, while in others it generates negative effects on the market value of the bank. Menassa (2010), instead, adopting a content analysis of the annual reports of 24 Lebanese commercial banks, suggests the existence of a strong association between the social disclosure, the banks' size and financial performance. Another relevant study, which applies a content analysis to the annual reports of 169 German banks, was proposed by Menassa and Brodhacker (2017). In particular, the authors find that the sampled banks dedicate more space, within their reports, to product, customers and human resource

disclosures than other areas. Moreover, they show that the bank's disclosure of CSR activities significantly affects both ROE and net profits.

Other investigations have focused on how social reporting activitìes are perceived by stakeholders. For example, Khan et al. (2009) suggest that the users of banks' annual reports are in favor of reporting and they would appreciate more CSR reporting. Perez and del Bosque (2012), instead, conducting a qualitative research based on banking service providers, point out that due to the fear of a negative reaction from public or to a business tradition not oriented toward communication banks do not seem to fully take advantage of CSR disclosure.

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CHAPTER 3. Outline of the empirical research

Summary: 3.1. Introduction; 3.2. Characteristics and objectives of the empirical research; 3.3. Data collection method; 3.4. Sample description.

3.1 Introduction

This chapter aims to provide an overview of the empirical research. In particular, the chapter is organized as follows. Section 3.2 describes the characteristics and objectives of the empirical analysis performed within in chapter 4 and chapter 5. Section 3.3 shows the data collection procedure. Section 3.4 describes the adopted sample of banks.

3.2. Characteristics and objectives of the empirical research

The empirical analysis investigates the determinants and effects of bank's social responsibility (BSR). It is organized in two chapters, namely Chapter 4 and Chapter 5.

Chapter 4 analyzes the factors determining the BSR. In particular, drawing from several theoretical perspectives, such as slack of resource theory, agency theory, stakeholder theory the chapter proposes a descriptive and multivariate empirical investigation, which aims to identify if and how CG and FP affect several dimensions of BSR. On the other hand, Chapter 5 focuses on the effects of BSR. More specifically, considering different theoretical views, the study analyzes the impact that different measures of BSR have on client loyalty. The chapter intends to contribute to the recent and developing line of studies analyzing the impact of BSR on bank's economic outcomes (e.g. Cornett et al. 2016; Esteban-Sanchez et al., 2017). Given that loyalty of bank's client is frequently considered closely linked to banks's profitability (e.g. Bolton et al., 2004; Chiou and Droge, 2006), the study answers to the call by earlier studies for deeper investigations on the mechanisms connecting BSR to financial performance (e.g. Wu and Shen, 2013).

3.3. Data collection method

The bank-level data adopted to perform the empirical analysis come from several sources. In particular, data on CSR have been collected from Asset4-ESG database. Consistently with the objective of the work, the analysis excludes the banks for which the database does not report data on CSR. Asset4-ESG provides 229 scores, calculated through 645 data points, which indicate the level of corporate engagement in environmental, social and governance dimensions. As recognized by prior literature, Asset4-ESG provides transparent, auditable and objective information, that allow to measure the level of companies' engagement in CSR activities (Ferrero-Ferrero et al., 2015; Schafer et al., 2006). Moreover, as noted by Mervelskemper (2015; p.4), reflecting the information contained in corporate sustainability reports, news and questionnaires, the scores provided by Asset4-ESG allow to avoid the biases resulting from the use of only self-reported information. As recognized by previous literature (e.g. Griffin and Mahon, 1997), multiple sources of information allow to produce a more comprehensive metric of CSR engagement.

With reference to financial performance indicators, the study considers the data provided by Worldscope database. Finally, for macroeconomic data, the study refers to the World Bank' database.

3.4 Sample description

The empirical investigation focuses on an international panel of 148 banks from 2010 -2015, identified through Thomson Reuters Eikon. The adoption of panel data, to test the research hypotheses, makes empirical evidence more robust. Combining the characteristics of cross-section data and time series data, panel data improve the examination of companies' performance over time, through the analysis of observations of the same companies over several consecutive years. In contrast to time-series or cross-sectional data, they allow to capture unobserved heterogeneity and undetected differences among banks (Baltagi and Griffin, 1984).

Moreover, the decision to focus on a single industry may also enhance the reliability of the empirical evidence (Simpson and Kohers, 2002). In fact, since different industries may face with different stakeholder claims (Rowley and Berman, 2000) and considering that CSR conceptualizations vary across industries (Decker, 2004), multi-industries investigations may generate confusing and less reliable findings (Griffin and Mahon, 1997).

Looking at the composition of the sample, Table 1 shows the distribution by country of the sampled banks. The geographical distribution of banks appears homogeneous, since the 26.35 %

comes from Asia, the 33.79% from Europe, the 31.76% from North America and around the 8 % from the United Kingdom and Australia. At the country level, instead, USA and Japan and Italy present the largest number of banks, with the 25.68%, 14.86%, and 7.43%, respectively.

Table 1. Sample distribution by country.

Country	Freq.	%
Asia		
Hong Kong	3	2,03
Israel	4	2,7
Japan	22	14,86
Republic of Korea	7	4,73
Singapore	3	2,03
Tot.	***39***	***26,35***
Europe		
Austria	2	1,35
Belgium	2	1,35
Denmark	3	2,03
France	3	2,03
Germany	3	2,03
Greece	5	3,38
Republic of Ireland	3	2,03
Italy	11	7,43
Norway	1	0,68
Portugal	2	1,35
Spain	6	4,05
Sweden	4	2,7
Switzerland	5	3,38
Tot.	***50***	***33,79***
North America		
Canada	9	6,08
USA	38	25,68
Tot.	***47***	***31,76***
Australia	6	4,05
United Kingdom	6	4,05
Tot.	***148***	***100***

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CHAPTER 4 – Determinants of Bank Social Responsibility

Summary: 4.1. Introduction; 4.2 Theoretical background and research hypotheses; 4.2.1 Financial performance and bank social responsibility; 4.2.2 Corporate governance and bank social responsibility; 4.2.2.1 Board size; 4.2.2.2 Board independence; 4.2.2.3 Board diversity; 4.2.2.4 Board activity; 4.3 Methodology; 4.3.1 Variables; 4.3.1.1 Dependent Variables; 4.3.1.2 Independent variables; 4.3.1.3 Control variables 4.3.2 Tobit regression model; 4.4 Results; 4.4.1 Descriptive analysis; 4.4.2 Multivariate analysis; 4.5 Conclusions.

4.1 Introduction

Over the last decades, scholars have devoted a growing interest towards corporate social responsibility (CSR). The World Bank identifies CSR as the commitment of businesses to contribute to sustainable economic development by working with stakeholders to improve their lives, in ways that are good for the business and development (Starks, 2009). Following Renneboog et al. (2008), the core of CSR involves environmental, social, and governance issues. In its simplest form, CSR refers to the corporations' responsibilities towards society (Rao and Tilt, 2016, p.327).

The empirical research on CSR mainly follows two directions. On one hand, scholars examine the effects of engagement in CSR on business performance (e.g. Barnett and Salomon, 2012), on the other hand, they focus on the determinants of CSR (e.g. Surroca et al., 2010). The first line of studies represents the dominant focus of CSR research and it mainly aims to verify whether it is possible to profit from social responsibility (Wood, 2010). The second direction of research, which has been relatively much less investigated (Julian and Ofori-Dankwa, 2013), analyzes the factors that favor firms to do good for society.

The current study can be placed in this second stream. The purpose of the chapter is to investigate the antecedents that contribute to explain the CSR engagement in the banking industry. More in particular, the work investigates if and how (1) the financial performance and (2) the corporate governance (CG) characteristics of banks affect the

bank social responsibility (BSR). The study argues that the investigation of such relationships presents peculiarities for banks that require to be patterned distinctively from other industries.

With reference to the investigation of financial performance and CSR in the banking context, several studies, in the last few years, have empirically analyzed how banks engagement in socially responsible initiatives affects their financial outcomes. For examples, Bolton (2013) finds a positive relationship between CSR and banks'operating performance. Wu and Shen (2013) ascertain how the bank's strategical engagement in CSR is associated with higher profitability measures. Cornett et al., (2016) show that biggest banks invest more in CSR activities than smaller banks and that in general banks appear financially rewarded to be socially responsible. Shen et al. (2016) highlight that profitability ratios are higher in banks with better social performance. Esteban-Sanchez et al. (2017) find that during the periods of crisis banks with better relationships with community present better financial performance. Wu et al. (2017) considering various degrees of CSR engagement demonstrate that the higher is the bank's engagement in CSR, the better is the financial performance. However, while scholars, in general, converge that banks social responsibility favors the achievement of better financial performance, there are only a few studies investigating the banks' financial performance as antecedent of their engagement in CSR (Chih et al., 2010). In this sense, it can be said that the research agenda on financial determinants of CSR at bank-level is still in its infancy.

On the other hand, with reference to the CG, the current study argues that the analysis of the relationship, between the CG characteristics and banks' engagement in socially responsible initiatives, represents a highly relevant issue for several reasons. Haan and Vlahu (2016) argue that the investigation of the impact that CG mechanisms have on business performance may assume distinctive traits in the banking industry and, thus, worthy of special attention. In particular, they assert that some of the empirical regularities found in the previous studies on corporate governance of non-financial firms might not hold for banks, due to the peculiarities that characterize banks in terms of capital structure, high regulation, and opacity of the business. As recognized also by Fernandes et al., (2017), banks have unique attributes that interfere with the way in which the usual corporate governance mechanisms work. Moreover, the relevance of banks for the development of the economic system (e.g. Levine, 2005; Beck et al., 2010) and the

significant costs that the failures in bank governance can cause (Fernandes et al., 2017), make the investigation of the CG mechanisms in the banking context highly specific (Elyasiani and Zhang, 2015). There are many studies on corporate governance, yet only a few papers focus on banks' corporate governance (e.g., Adams and Mehran, 2005; 2012; Caprio et al., 2007; de Andres and Vallelado, 2008; Pathan, 2009) and even fewer studies analyze the relationship between CG and CSR (Rao and Tilt, 2016). In order to fill these voids, the current work investigates the impact that several characteristics of the bank's board of directors (size, independence, diversity, activity) have on bank's engagement in CSR. Thus, in an effort to advance research on CSR banking, this research contributes to the extant literature in several ways. First, considering the impact of several financial performance indicators (ROA, ROE, Net Interest Income, Margin of Interest) and several CG characteristics (board size, board independence, board diversity, board activity) on banks engagement in CSR, the chapter enriches the debate on CSR banking.

Second, in order to better capture the wide spectrum of responsibilities that CSR engagement may encompass, the empirical analysis considers several measures of CSR. In particular, consistently with the categorization of Jain and Jamali (2016, p.256), in addition to two measures of bank social responsibility (BSR), the study includes a proxy of bank environmental responsibility (BER). This approach allows to respond to calls of researchers to examine the link between various CSR activities and business performance (e.g. Maignan and Ferrell 2004; Aguilera et al. 2007).

Third, the current research adopts a more recent and longer panel of banking data (from 2010 to 2015) than similar previous studies (Chih et al., 2010). Moreover, the consideration of a large international sample allows to avoid the small sample biases, that can be linked to the analysis of specific geographical areas or periods, and to obtain more reliable results (Wu and Shen, 2013). Finally, because of the adoption of limited dependent variables, ranging from 0 to 100, the current work adopts the Tobit regression model. This latter, in this case, is considered the best econometric approach to obtain reliable results (Long, 1997).

The remainder of the chapter is organized as follows. Section 2 includes the literature review and the hypotheses. Section 3 explains the adopted empirical strategy. Section 4 shows the results. Finally, section 5 discusses the implications and limitations of the study.

4.2 Theoretical background and research hypotheses

This section is divided into two main subsections. Subsection 2.1, drawing from the slack of resource theory, intends to theoretically frame the relationship between banks financial performance and CSR engagement. In the recent few years, wide scientific interest has been dedicated to the influence that CSR has on bank's financial performance (e.g. Wu and Shen, 2013; Wu et al., 2017; Esteban-Sanchez et al., 2017), by contrast scarce evidence exists about the role of financial performance as determinant of banks engagement in socially responsible activities.

Subsection 2.2, instead, referring primarily to the agency theory and stakeholder theory reports the theoretical foundation of the relationship between CG characteristics and CSR. Nevertheless this latter relationship has already been investigated, the extant literature cannot be considered exhaustive (Jain and Jamali, 2016). In fact, despite the rich debate on the effects that board characteristics have on financial performance, much less attention has been devoted to how specific board attributes influence CSR (Rao and Tilt, 2016). Moreover, the main part these studies are referred to non-bank data (Chang et al., 2017), calling for further investigations analyzing the interconnections existing between CG and CSR in the banking industry (Fernandes et al., 2017). Figure 1 provides a representation of the theoretical and empirical framework.

4.2.1 Financial performance and bank social responsibility

The slack resources theory has been one of the main theoretical foundations to study corporate responses to stakeholder pressures (Xiao et al., 2018). Following Nohria and Gulati (1996), slack may be identified in the pool of resources that an organization has in excess to the minimum necessary to produce a given level of output. Firms may accumulate resources in terms of financial availabilities, experienced managerial and technical staff, technologies, unused capacity (Voss et al., 2008). In general, authors argue that the slack of resources may be used to solve organizational problems, to undertake expanding strategies, to pursue more risky and innovative goals (Bourgeois, 1981; Nohria

and Gulati, 1996). Voss et al. (2008), considering the degree of resource rarity and absorbability, distinguish four specific measures of exceeding resources: financial, operational, customer and human resources. Among these latter, authors have dedicated a particular attention towards the financial slack[5] as antecedent of CSR expenditures (e.g. Ullmann, 1985; Brammer and Millington, 2004; Julian and Ofori-Dankwa, 2013). The grounding tenet is that the availability of excess funds allows firms to consider CSR investments as expenses that they can afford (Waddock and Graves, 1997). Given that CSR is considered an area strongly subject to managers discretion, the undertaking of socially responsible initiatives often depends on the availability of excess financial resources (McGuire et al. 1988). Perez-Batres et al. (2012) aver that financial resources are a fundamental requisite to invest in socially responsible initiatives. Hence, in summary, the slack of resource approach asserts that better financial performance results in more available resources that enhance the firms' propensity to invest in the social domain (e.g. Preston and O'Bannon, 1997; Seifert et al., 2004; Surroca et al., 2010). Consistent with the previous arguments, the study hypothesizes:

H1. The bank financial performance positively impacts on the bank engagement in CSR.

4.2.2 Corporate governance and bank social responsibility

Beginning with the CSR conceptualizations, prior literature mainly refers to CSR as the impact that business activities have on society (Aramburu and Pescador, 2017). Following the definition provided by the European Commission (2011), CSR involves the process aimed to integrate social, environmental, ethical and human rights concerns into business operations and strategy in close collaboration with their stakeholders. A similar definition is provided World Bank's, according to which CSR refers to how business activities contribute to the sustainable economic development and how they

[5] Kraatz and Zajac (2001) define the financial slack as the level of liquid assets that is available to an organization. Profitability levels are generally considered asindicators of financial slack resources (Waddock and Graves, 1997; Xiao et al., 2018).

impact on the quality of life of stakeholders (Starks, 2009). McWilliams and Siegel (2001) identify CSR in those actions that generate some social good and that goes beyond the financial goals and the legal requirement. According to Hill et al. (2007), CSR concerns the economic, legal, moral, and philanthropic actions of firms that affect the quality of life of relevant stakeholders.

On the other hand, Cadbury (2000) defines CG as the system by which companies are directed and controlled. This definition of CG includes two main aspects, the first regarding how managers exert their functions, the second referred to the control and compliance aspect of business management (MacMillan et al., 2004).

The CG conceptualizations have been subject of a significant evolution. The traditional perspective, also known as narrow view, refers to CG as a system of laws useful to shape the relations among board members, shareholders and managers, to maximize firms' financial performance (Shleifer and Vishny, 1997; Saravanamuthu, 2004). This CG view may be theoretically linked to agency theory (Dalton et al, 2007). According to agency theorists, managers may have divergent interests from shareholders (Jensen and Meckling, 1976) and may act to pursue their own interest (Barnea and Rubin, 2010). In this context, CG becomes the system through which shareholders can monitor and lead managers' actions (Shleifer and Vishny, 1997). Thus, within the agency theory schemes, the primary objective of CG systems is to favor the shareholder wealth maximization (Gill, 2008). From this angle, the undertaking of CSR initiatives is justified to the extent to which they entail benefits in terms of economic efficiency (McWilliams and Siegel, 2001).

However, the recent literature appears more steered towards a broader view of CG (Gill, 2008; Windsor, 2006). The broad view of CG, in addition to legal and contractual frameworks that define the exercise of power within a company, encompasses the business responsibilities also towards non-financial stakeholders (MacMillan et al, 2004; Page, 2005). This perspective appears in line with one of the most adopted theoretical position to explain the relationship between CG and CSR – the stakeholder theory. The main argument of the stakeholder theory is that the survival of the firm depends on its capability to manage the relationships with stakeholder (Freeman, 1984). The theorists of the stakeholder view argue that corporation's managers have to satisfy not only the shareholders' claims, but also those of any other individual that affects or may be affected

by the organization's actions (Donaldson and Preston, 1995). Jones (1995), identifying the company as a nexus of contracts, states that the creation of good relationships with the various stakeholder groups allows to minimize the contracting costs. According to this theoretical interpretation, the objective of the company's managers is to go beyond the shareholders' wealth maximization and undertake those policies improving the stakeholder-company interactions (Post et al., 2002). Consistently with this view, authors assert that CG is a fundamental part of CSR and includes a set of mechanisms that allow to better satisfy the stakeholder claims (e.g. Jo and Harjoto, 2011). This position, also known as conflict resolution hypothesis (e.g., Calton and Payne 2003; Harjoto and Jo 2011), states that effective CG systems, along with CSR engagement, allow to mitigate the conflicts between managers and stakeholders. Jamali et al. (2008), in an effort to identify the possible overlaps between CG and CSR, drawing from the theoretical model of Hancock (2005) identify CG as a pillar of CSR. In this sense, CG represents one of the basic foundations to undertake solid and integrated CSR activities. Good CG system should favor the business management for the benefits of all stakeholders, financial as well as non-financial (Windsor, 2006).

With reference to the banking system, that represents a highly leveraged and regulated industry with high information asymmetries (Haan and Vlahu, 2016), the functioning of CG mechanisms is even more important than other industries (de Andres and Vallelado, 2008). Fernandes et al. (2017) argue that the analysis of the relationship between banks board attributes and business performance represents a highly relevant topic, even because the empirical regularities found among non-financial firms might not be confirmed in the banking context. Thus, identifying CSR as an outcome of boards' decisions, it appears relevant to understand if and how banks' board attributes influence the undertaking of CSR initiatives (Rao and Tilt, 2016).

In light of these arguments and consistently with the objective of the study, the next subsections review the literature linking various board characteristics with the engagement in CSR. Specifically, the subsections 4.2.2.1, 4.2.2.2, 4.2.2.3 and 4.2.2.4 discuss the prior literature referred to the impact on CSR engagement of board size, board independence, board diversity and board activity, respectively.

4.2.2.1 Board size

The board of directors is one of the most important elements of corporate governance mechanisms in overseeing that businesses are properly managed by their agents (Said et al., 2009). Two main schools of thought have been developed with reference to the possible effects that can be exerted by the size of the board.

On one hand, previous studies find that large boards may generate problems of coordination and control, less decision-making flexibility (de Andres and Vallelado, 2008; Pathan, 2009), lack of unanimity (Rao et al., 2012). In this sense, the agency theory perspective contends that small-sized boards are less likely to face free-rider problems (Dalton et al., 1998) and communication issues (Jensen, 1993). In this context, managers might be more oriented towards short-term profit, who can steer firms to reduce CSR investments (Jain and Jamali, 2016; Walls and Hoffman, 2013).

On the other hand, the authors argue that boards with more members are able to provide greater support for managers' decisions (Kent and Stewart, 2008). The higher numbers of directors on a board may reduce the discretionary power of managers and enhance the effectiveness of the decision-making processes (de Andres and Vallelado, 2008). The stakeholder theory logic predicts that large boards may better represent the diverse interests of stakeholders (Hillman and Keim, 2001; Kock et al., 2012). Larger boards imply better social capital (Pfeffer and Salancik, 1978) and increased CSR investments (Siregar and Bachtiar, 2010). This lack of a convergence regarding the relationship between board size and CSR engagement calls for further investigations. Given these premises, the study hypothesizes:

H2.1 The size of the bank’s board of directors affects the bank’s engagement in CSR.

4.2.2.2 Board independence

In the wake of the numerous recent corporate scandals, issues related to the control of corporate boards by independent directors has received considerable attention (Harris and Raviv, 2006). As for the size of the board, also with reference to board independence, the

existing literature has produced divergent positions (Bhagat and Black, 2002; John and Senbet, 1998). Indeed, a part of the previous studies argues that a higher portion of independent directors may bring several benefits. Outside directors have less conflict of interest in monitoring managers and may more effectively curtail agency problems (Harris and Raviv, 2006). They may also enrich the board decision-making with relevant external expertise. Authors find that a higher percentage of independent board members may help to ensure managerial compliance with a wider range of stakeholder responsibilities (Luoma and Goodstein, 1999). Prior literature, examining the relationship between board structure and CSR, has found that socially responsible firms present a higher portion of independent directors than non-socially responsible firms (Webb, 2004).

However, even though in general prior literature supports the existence of a positive association between board independence and CSR outcomes, there is also some evidence of mixed results (Jain and Jamali, 2016). In fact, other studies assert that appointing outside directors may also have some drawbacks. For examples, inside directors may bring to the board information that outside directors might find hard to collect (de Andres and Vallelado, 2008). Executive directors may also facilitate the flow of information between board directors and management (Adams and Ferreira, 2007; Coles et al., 2008).

The abovementioned theoretical positions and empirical investigations indicate a trade-off between the advantages and disadvantages related to the proportion of non-executive directors on the board (de Andres and Vallelado, 2008). In line with these arguments, the study hypothesizes:

H2.2 The higher percentage of external directors of the bank's board of directors affects the bank engagement in CSR.

4.2.2.3 Board diversity

Among the various board characteristics, the board diversity is gaining increasing attention of researchers and academics (Catanzariti and Lo 2011). According to Van der Walt and Ingley (2003), the board diversity refers to the combination of attributes,

characteristics, and expertise of the individual board members. A few years later, Kang et al. (2007) define board diversity as the variety in the composition of the board of directors.

However, despite this growing interest in the topic, prior literature has mainly investigated the impact that board diversity has on financial performance and reporting (Carter et al. 2003; Rose 2007), while, scant research examines how it affects CSR engagement (Buse et al. 2016; Rao and Tilt, 2016).

Following van Knippenberg and Schippers, (2007), diversity may have several dimensions ranging from age to nationality, from the religious background to political and sexual preferences.

In general, one of the main argument in favor of diversity of board members argues that it may bring heterogeneous perspectives to the decision-making process and may generate different and alternative proposals, that can play a crucial role in the definition and planning of complex decisions like those regarding CSR (Robinson and Dechant, 1997; Rao and Tilt, 2016). Other authors also argue that diversity may have a negative or null effect on decision-making processes (Westphal and Milton, 2000). However, despite some exceptions, the main part of prior investigations indicates that the benefits of diversity are more than the potential detriments (Rao and Tilt, 2016).

Among the others, one of the most discussed types of diversity in the boardroom decisions, at a practical and theoretical level, is the gender diversity (Carter et al., 2003). First of all, the several legislative and voluntary initiatives, undertaken in various countries (such as China, France, India, Italy, Norway, Sweden), to promote the female representation on board suggest that the presence of woman may have a significant impact on companies performance (Adams and Ferreira, 2009). Moreover, few recent empirical studies also confirm that having gender diversity of directors may generate benefits not only in terms of financial outcomes but also in the form of extra-financial performance. For examples, Bear et al. (2010) highlight a positive relationship between the number of female directors and CSR, due to an increased sensitivity and a more participative decision-making orientation. Kruger (2009) found that organizations with a higher number of female directors tend to be more committed to social and community-related issues. Braun (2010), instead, demonstrated that woman entrepreneurs are more likely to

be engaged in environmental issues than male entrepreneurs. Some evidence also show that female directors are more able to define trust relations with stakeholders and to better respond to their claims (Galbreath, 2011).

Thus, in light of the abovementioned arguments, gender diversity of directors represents a critical characteristic of a bank's CG, that may favor the bank commitment in socially responsible initiatives. Accordingly, the study hypothesizes:

H2.3 The greater diversity of the bank's board of directors positively impacts on the bank engagement in CSR.

4.2.2.4 Board activity

Another relevant aspect of banks CG is the internal functioning of the board (de Andres and Vallelado, 2008). In particular, among the several factors that may affect the board functioning, there is the attendance and frequency of board meetings (Vafeas, 1999). Once again, prior literature has found contrasting results between the intensity of board activity and corporate performance (Fernandes et al., 2017).
Authors assert that the intensity of board activity represents a crucial element to improve the effectiveness of boards (Conger et al. 1991). As witnessed by previous literature, a higher intensity of board activity would indicate a more effective monitoring of management, with beneficial effects on the performance of the organization (Grove et al, 2011). According to Adams and Ferreira (2007), the attendance at board and committee meetings is one of the most relevant things that directors can do to be diligent. Attending board meetings allows directors to obtain necessary information to better fulfill their functions.
Board meetings provide to directors the possibility to monitor the management, to discuss and exchange ideas about the business strategies. Consequently, the higher the meeting frequency and attendance, the more significant is the advisory role of the board. This is particularly true in the banking industry, where the complexities of the business require a more effective and active role of the board (de Andres and Vallelado, 2008).

By contrast, other studies argue that board meetings may have also some disadvantages. Because of their limited time they are not meaningful to effectively exchange ideas among directors or with managers (Jensen, 1993).Additionally, board meetings are not without costs, such as managerial time, travel expenses and meeting fees of directors (Fernandes et al, 2017). With reference to banks, their boards are on average larger, requiring a higher meeting frequency in order to be effective (Adams and Mehran, 2003).
In light of the aforementioned arguments, the study predicts:

H2.4 The higher attendance of the bank's board meetings affects the bank engagement in CSR.

4.3 Methodology[6]

4.3.1 Variables

The current section reports the description of the variables included in the empirical analysis. More in particular, it describes the dependent variables, the independent variables and controls, in the subsections 4.3.1.1, 4.3.1.2 and 4.3.1.3, respectively. Definitions of variables are also summarized in Table 1.

4.3.1.1 Dependent Variables

In order to measure BSR, the current research uses the scores provided by ASSET4-ESG database. This latter has been widely adopted by prior literature to investigate CSR-related topics (Veleva and Ellenbecker, 2001; Schafer et al., 2006; Ortas et al., 2013; Ferrero-Ferrero et al., 2015; El Ghoul et al., 2017). In particular, based on the ASSET4-ESG'scores, the study considers three measures of engagement in CSR.
The first indicator (BSR_1) is the average of the scores indicating the bank's performance in the environmental, social and governance issues. As robustness check, the empirical analysis also computes the BSR indicator leaving out the governance score. This second

[6] Data collection and sample description are reported in chapter 3.

indicator is labeled as BSR_2. Finally, consistently with recent literature, which devotes growing attention to environmental component of CSR engagement (e.g. Lisi, 2015; Maletic et al., 2015), the study proposes a third measure, namely bank environmental responsibility (BER), as proxy of banks' engagement in environmental related issues.

4.3.1.2 Independent variables

Consistently with the objective of the chapter, the study adopts as independent variables a set of financial performance measures and CG characteristics.

With reference to the financial performance indicators, the research uses a set of accounting-based measures. These latter, compared to market-based indicators are considered to better explain what is actually occurring within the organization (Lopez et al., 2007). In particular, in addition to the return on assets (ROA) and return on equity (ROE), in line with previous investigations (e.g. Wu et al. 2017), the empirical analysis also includes specific measure of bank's financial performance, such as the net interest income (NII_TA) and the margin of interest (MI_TA). As recognized by Barnett and Salomon (2012), the adoption of multiple variables of financial outcomes should allow to better capture the different aspects of performance.

On the other hand, in order to evaluate the impact that CG has on bank's engagement in CSR, consistently with previous investigations (Pathan et al., 2009; Fernandes et al., 2017), the study adopts a set of board of directors' characteristics as proxy of the functioning of the CG mechanisms. In this sense, first, the analysis considers the number of board members (B_size). Prior investigations argue that the board size is a key element in the decision whether or not undertaking CSR initiatives (e.g. Prado-Lorenzo and García-Sanchez, 2010; Fuente et. al 2017). Second, as a proxy of the board independence (B_ind), the study uses the number of independent directors divided by the number of board directors. Previous literature, on one hand, argues that a higher percentage of independent directors should better support the board decision-making process, representing the interests of different stakeholders (Harjoto et al. 2015). On the other

hand, previous studies suggest that internal directors may have access to information that independent directors might find hard to achieve (de Andres and Vallelado, 2008).
Third, the empirical analysis considers the number of female directors divided the number of total board directors (B_Div), because previous studies suggest that female directors present a more participative decision-making orientation (Bear et al., 2010) and a higher sensitiveness to social and environmental issues (Kruger, 2009). Fourth, the research includes the average overall attendance percentage of board meetings as proxy of the board activity (B_Act). Previous investigations consider the intensity of board activity closely linked to the effectiveness of the board's decision-making process (e.g. Conger et al., 1991; Kanagaretnam et al., 2007).

4.3.1.3 Control variables

Consistent with previous studies (Harjoto and Jo, 2011; Jo and Harjoto, 2012), the analysis includes several bank-level, institutional and macroeconomic control variables, in order to avoid biased results. In particular, with reference to the banks characteristics, the study controls for: the CEO compensation policy (CEO_comp), since it may be closely related to the definition of corporate objectives; the degree of bank's leverage (DebTc); and the log transformation of total assets (logTA) as proxy of the bank's size.
Moreover, in line with prior literature (e.g. Shen and Chang; Wu and Shen, 2011; 2013), the empirical investigation also considers a set of institutional controls, such as the degree of restriction of banks in securities (ResSec), insurance (ResIns) and real estate (ResRE) activities (Barth et al., 2012). Finally, the investigation includes the Herfindahl–Hirschman Index (H-index) as proxy of market structure (Bikker and Haaf 2002; Bikker and Spierdijk, 2010).

4.3.2 Tobit regression model

In order to investigate the determinants of bank engagement in CSR, the study proposes the following regression model:

$$CSR_{i,t} = \beta_0 + \beta_1 FP_{i,t-1} + \beta_2 Bsize_{i,t-1} + \beta_3 Bact_{i,t-1} + \beta_4 Bind_{i,t-1} + \beta_5 Bdiv_{i,t-1} + \beta_6 Bdiv_{i,t-1} + \beta_7 X_{i,t-1} + \beta_7 Year_{i,t-1} + \beta_7 Country_{i,t-1} + \varepsilon_{i,t}$$

where $CSR_{i,t}$ indicates the level of engagement in CSR of bank *i* at time t. With reference to independent variables *FP* denotes bank's financial performance; *Bsize* indicates the number of board members; *Bact* is the percentage of attendance percentage of board meetings; *Bind* indicates the number of independent directors divided the number of total board directors; *Bdiv* represents the number of female directors divided the number of total board directors; *X* is the vector of control variables; *ε* is the error term. All the independent variables included in the model are one year lagged.

This choice is consistent with previous studies suggesting the existence of a lagged relationship between firm characteristics and levels of CSR engagement (Ullmann, 1985; Waddock and Graves 1997, Orlitzsky et al., 2003).

Given that the dependent variables included in the empirical model take a value from zero to 100, similarly to previous investigations (e.g. Fuente et al., 2017), the current study adopts a panel data methodology for doubly censored variables. More specifically, the econometric analysis is based on a Tobit regression, which in contrast to ordinary least square regression allows for special consideration of both ends of the rating scale, indicating censoring at zero for the companies with less interest in engaging in CSR and 100 for those with the maximum engagement.

4.4 Results

4.4.1 Descriptive analysis

Table 2 shows the descriptive statistics of the analyzed sample, while Table 3 provides a descriptive comparison of the banks characterized by a low engagement in BSR with the banks characterized by a high engagement in BSR.

Table 3 reports significant differences between the two considered groups. In particular, except for ROE, low-BSR banks present (on average) higher indicators of financial performance (ROA, NII_TA, MI_TA) than high-BSR banks. Looking at CG characteristics, banks with low BSR are characterized by a lower number of directors on

board (B_Size), a lower percentage of meeting attendance (B_Act), and a lower number of independent (B_Ind) and female directors (B_Div), than high-BSR banks. With reference to control variables, it is noteworthy that banks with high CSR are on average bigger and with an higher leverage than low-BSR banks.

4.4.2 Multivariate analysis

Table 4 displays the pairwise correlation analysis. It shows that the coefficients of all the variables included in the regression models are lower than 0.7, indicating that multicollinearity does not affect the estimates of the research (Ratner, 2009).
Table 5, 6 and 7 show the results of the Tobit regression analysis. The objective of the empirical models is to determine the influence of financial performance and certain board characteristics on the bank's decision to engage in CSR. The F test is used to test the level of representativeness of the empirical models. The p-values are statistically significant at the 99% confidence level, indicating that the fitness of the equations adopted to explain the effects of financial performance and CG characteristics is accepted. T-statistics referred to variables' coefficients are adjusted for robust standard errors.
Looking at Table 3, the models (1) and (2) show that the indicators of profitability (ROA and ROE) are not statistically significant, while models (3) and (4) suggest that NII_TA and MI_TA are positive and significant predictors of bank's decision to engage in socially responsible initiatives. Thus, the analysis partially confirms the first research hypothesis (H.1). These findings support the theoretical arguments of slack of resource thesis (Nohria and Gulati, 1996). Moreover, the results are consistent with previous empirical investigations on non-banking data, suggesting that a higher availability of resources provide the opportunity for companies to invest more in the social performance domain (e.g. Waddock and Graves, 1997). The findings are, instead, not in line with Chih et al. (2010), who highlight that financial firms with poor ROA are more engaged in CSR and with Julian and Ofori-dankwa (2013), who demonstrate that greater financial resource availability leads to less CSR in sub-Saharan firms.
Considering the CG characteristics, the models included the Table 3 indicate that B_Size does not affect the bank's engagement in CSR. Thus, the analysis does not confirm the hypothesis H. 2.1.

The empirical models also suggest that B_Ind, B_Div have a positive significant impact on BSR, confirming the hypotheses H. 2.2 and H. 2.3, respectively. These findings are in line with the studies of Webb (2004) and Chang et al. (2017), who find that the board independence and the board diversity are positively associated with the firm's engagement in CSR. The results are also consistent with the investigation of Cornett et al. (2016), according to which banks with more females and minorities on the board of directors have higher overall CSR scores.

With reference to B_Act, the coefficients of the regression analysis suggest that the percentage of meeting attendance positively and significantly affects the bank's engagement in socially responsible issues, thereby confirming the hypothesis H. 2.4. It appears in line with the study of Grove et al. (2011), according to which the intensity of the board activity improve corporate performance.

As robustness check, the study provides additional evidence adopting different measures of CSR engagement (Table 4 and 5). In particular, the research highlights similar results considering as dependent variable BSR_2 (Table 4) and BER (Table 5), except for the board independence (B_Ind) which reports not statistical significant coefficients across all the performed regression models.

4.5 Discussion and Conclusion

Over last years, CSR engagement has become a strategic decision, due to the high relevance that environmental and social issues have acquired among the various stakeholder groups. This is particularly true in the banking industry, where the definition of trusty and long-term relationships with stakeholders is crucial to effectively carry out the business activities. CSR programs represent for banks the opportunity to improve their reputation, signaling that their activities are in line with societal expectations (e.g. Chemmanur and Fulghieri, 1994).

The current chapter analyzes if and how the availability of financial resources and several characteristics of the board of directors affect the banks' decision to engage in CSR activities. For this purpose, the research applies a descriptive and Tobit regressions to an international panel of 148 banks, from 2010-2015. The empirical analysis highlights that

the bank’s financial performance and some characteristics of the board of directors significantly influence BSR.

These findings contribute to a better understanding of the determinants of banks engagement in CSR activities. In particular, highlighting the positive impact of financial performance on BSR, the study supports the slack of resource hypothesis. These results suggest that banks with better financial performance tend to invest more in socially responsible initiatives. With reference to CG, the prior literature suggests that banks boards of directors assume a crucial role, in orienting managers-decision making processes (de Andres and Vallelado, 2008). Previous studies recognize that banks' business models may be characterized by higher complexity, opacity, and regulation, making the functioning of corporate governance mechanisms even more relevant than in other industries (e.g. Beck et al, 2005; Macey and O’Hara, 2003).

Looking at the empirical evidence referred to board characteristics, the study finds several significant relationships. First, the research demonstrates that banks with a higher percentage of independent directors on board are more engaged in CSR initiatives. It may be due to several reasons. External directors may support the interests of different stakeholders, thereby inducing the bank to engage in CSR activities to address a wider range of stakeholder expectations (Luoma and Goodstein, 1999). Independent directors have less conflict of interest in monitoring managers (Harris and Raviv, 2006). This may create more favorable conditions for the undertaking of CSR programs.

Second, the empirical analysis highlights that the higher number of female directors on the bank’s board favors the BSR. A higher gender diversity of board members may lead to more heterogeneous perspectives on board, favoring the definition of complex decisions like CSR (e.g. Rao and Tilt, 2016). Third, the study indicates that a higher percentage of meeting attendance has a positive impact on the bank’s CSR engagement. Given that board meetings provide the opportunity to board members to come together, it may allow to better discuss and exchange ideas on the bank’s undertaking of CSR strategies.

The findings have several implications. The results may interest banks’ depositors and investors interested in CSR profile of the bank. The better understanding on the functioning mechanisms of banks’ boards should attract the attention of regulators and policymakers that, through the definition of corporate governance codes and best

practices recommendations, intend to promote the banks' engagement in socially responsible issues. The results of the study are relevant also in light of recent legal reforms requiring to boards of directors of listed companies to know and approve CSR programs. The research has some potential limitations. First, it adopts only one source of data to measure BSR. Future investigations may adopt different indicators of bank's engagement in CSR activities, or alternatively may analyze the determinants of a specific dimension of BSR, such as the CSR policies undertaken towards the customers, employees and other stakeholder groups. Moreover, the study adopts only accounting-based indicators, further analysis may enlarge the empirical evidence, including market measures of financial performance. Future studies might also introduce mediating variables, verifying if the relationship between board characteristics and BSR is mediated by cultural or institutional factors.

Table 1. Variables description

Variables	Symbol	Source	Description
Dependent Variables			
Indicator 1 of CSR	BSR_1	Asset 4	The average between the Environmental score and the Social and Corporate governance score provided by Thomson Reuters.
Indicator 2 of CSR	BSR_2	Asset 4	The average between the Environmental score and the Social score provided by Thomson Reuters.
Indicator 3 of CSR	BER	Asset 4	The Environmental score provided by Thomson Reuters.
Indipendent Variables			
Return on Assets	Roa	Worldscope	Return on Assets
Return on Equity	Roe	Worldscope	Return on Equity
Net Interest Income	NII_TA	Worldscope	Net Interest Income divided by Total Assets
Margin of interest	MI_TA	Worldscope	Intermediation Margin (Net Interest Income + Non Interest Income) divided by Total Assets
Board Size	B_Size	Asset 4	The total number of board members.
Board activity	B_Act	Asset 4	The average overall attendance percentage of board meetings as reported by the company.
Board indipendence	B_Ind	Asset 4	The number of independent directors divided the number of total board directors.
Board Diversity	B_Div	Asset 4	The number of female directors divided the number of total board directors.
Control Variables			
CEO compensation	CEO_comp	Asset 4	Dummy variable equal to 1 if the CEO's compensation is linked to total shareholder return.
Size	logTA		Natural Logaritm of the number of Total Assets.
Leverage	DebTc		Total Debt divided by Total Capital
Herfindahl–Hirschman Index	H-index	World Bank	Higher HHI indicates less market competition and more monopoly or oligopoly.
Restriction Securities	ResSec	Barth et al. (2012)	The degree of restriction on banking activities in securities, ranging from 1 (less restriction) to 4 (higher restriction)
Restriction Insurance	ResIns	Barth et al. (2012)	The degree of restriction on banking activities in insurance, ranging from 1 (less restriction) to 4 (higher restriction)
Restriction Real estate	ResRE	Barth et al. (2012)	The degree of restriction on banking activities in real estate, ranging from 1 (less restriction) to 4 (higher restriction).

Figure 1 Conceptual and empirical framework.

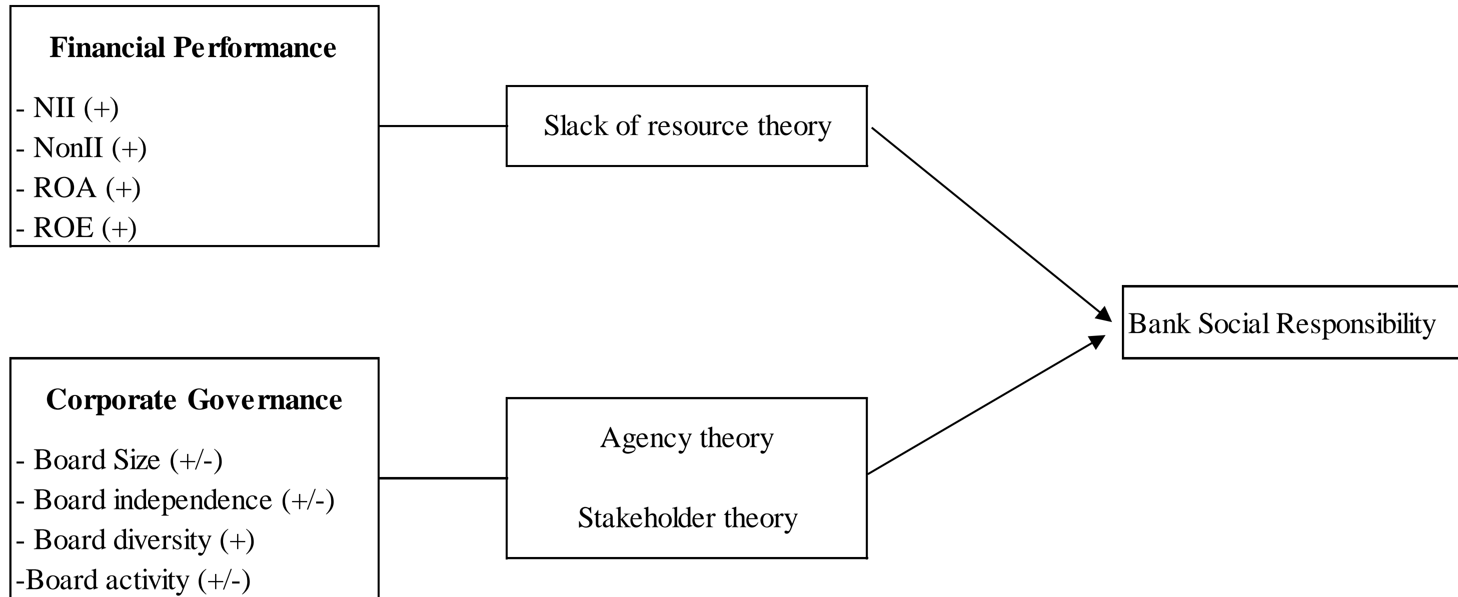

Table 1. Descriptive statistics

Variable	Obs.	Mean	Std.Dev.	Min	Max
BSR_1	878	54.099	27.544	4.480	95.580
BSR_2	878	55.175	31.777	6.100	96.055
BER	878	54.386	35.038	8.430	95.060
Roa	656	0.726	1.200	-12.420	8.430
Roe	717	0.665	0.11995	-0.88	0.98
NII_TA	727	1.854	0.966	-3.855	5.279
MI_TA	727	3.345	1.684	-0.948	17.214
B_Size	730	13.525	4.631	2.000	30.000
B_Act	514	88.029	10.754	50.000	100.000
B_Ind	730	55.739	32.188	2.080	95.300
B_Div	730	15.007	12.223	0.000	50.000
CEO_comp	730	0.412	0.493	0.000	1.000
logTA	740	19.816	2.574	14.839	26.546
DebTc	740	64.461	22.179	0.700	107.550
ResSec	696	1.974	0.933	1.000	3.000
ResIns	696	2.241	0.611	1.000	4.000
ResRE	696	2.767	1.110	1.000	4.000
H-index	888	0.546	0.208	-0.150	1.260

Table 2. Descriptive statistics (Banks with low/high BSR_1)

This table shows the descriptive statistics of the variables included in the study, grouped by the level of CSR engagement. Banks with low CSR are those that present a CSR indicator lower than the median of the full sample. Banks with high CSR are those that present a CSR indicator higher than the median of the full sample.

Variable	Banks with low BSR_1					Banks with high BSR_1				
	Obs.	Mean	Std. Dev.	Min	Max	Obs	Mean	Std.Dev.	Min	Max
BSR_1	439	29.55	13.85	4.48	55.21	439	78.65	10.89	55.40	95.58
Roa t-1	311	0.75	0.93	-3.30	8.43	345	0.71	1.40	-12.42	4.99
Roe t-1	354	0.05	0.11	-0.80	0.80	363	0.07	0.12	-0.88	0.98
NII_TA t-1	359	1.99	1.10	-3.86	5.28	368	1.72	0.79	-2.70	4.59
MI_TA t-1	359	3.45	1.98	-0.95	17.21	368	3.24	1.32	1.29	13.20
B_Size t-1	359	12.38	4.63	4.00	30.00	371	14.64	4.36	2.00	30.00
B_Act t-1	208	83.46	10.48	50.00	100.00	306	91.13	9.80	50.00	100.00
B_Ind t-1	359	49.72	33.75	2.08	95.30	371	61.57	29.49	2.08	94.90
B_Div t-1	359	9.71	9.84	0.00	41.67	371	20.13	12.13	0.00	50.00
CEO_comp t-1	359	0.27	0.45	0.00	1.00	371	0.55	0.50	0.00	1.00
logTA t-1	363	19.30	2.80	15.53	26.32	377	20.32	2.23	14.84	26.55
DebTc t-1	363	56.09	23.30	0.70	100.17	377	72.52	17.65	13.50	107.55
ResSec	307	2.30	0.94	1.00	3.00	389	1.72	0.85	1.00	3.00
ResIns	307	2.21	0.54	1.00	3.00	389	2.26	0.66	1.00	4.00
ResRE	307	3.24	1.03	1.00	4.00	389	2.39	1.02	1.00	4.00
H-index	439	0.52	0.18	0.07	0.92	449	0.57	0.23	-0.15	1.26

Table 3. Correlation analysis

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	BSR_1	1.000																	
2	BSR_2	0,966	1.000																
3	BER	0,937	0,976	1.000															
4	Roa	-0,058	-0,098	-0,108	1.000														
5	Roe	0,104	0,052	0,027	0,730	1.000													
6	NII_TA	-0,501	-0,571	-0,559	0,292	0,192	1.000												
7	MI_TA	-0,266	-0,332	-0,326	0,164	0,172	0,751	1.000											
8	B_Size	0,199	0,224	0,193	-0,095	-0,105	-0,071	0,089	1.000										
9	B_Act	0,473	0,478	0,460	-0,064	0,044	-0,529	-0,390	-0,004	1.000									
10	B_Ind	-0,001	-0,086	-0,084	0,217	0,371	0,307	0,239	-0,283	-0,071	1.000								
11	B_Div	0,397	0,325	0,325	0,102	0,259	-0,092	-0,076	-0,051	0,137	0,304	1.000							
12	CEO_comp	0,235	0,148	0,177	0,054	0,151	0,042	0,048	-0,153	0,051	0,375	0,256	1.000						
13	logTA	0,677	0,731	0,711	-0,004	0,075	-0,431	-0,232	0,177	0,322	-0,096	0,135	0,042	1.000					
14	DebTc	0,426	0,488	0,482	-0,182	-0,267	-0,552	-0,326	0,229	0,345	-0,359	-0,000	-0,214	0,4094	1.000				
15	ResSec	-0,467	-0,544	-0,529	0,312	0,260	0,745	0,492	-0,280	-0,466	0,542	0,010	0,177	-0,2826	-0,6069	1.000			
16	ResIns	0,190	0,205	0,185	-0,200	-0,205	-0,074	-0,027	0,315	0,096	-0,104	0,167	-0,127	0,3050	0,2507	-0,070	1.000		
17	ResRE	-0,456	-0,532	-0,525	0,177	0,050	0,695	0,512	-0,028	-0,500	0,339	0,024	-0,016	-0,3074	-0,4468	0,841	0,269	1.000	
18	H-index	0,212	0,235	0,196	-0,129	0,015	-0,163	-0,050	0,395	0,059	0,071	0,147	-0,046	0,0935	0,1739	-0,240	0,257	-0,136	1.000

Table 3. Tobit regression analysis.

This table presents Tobit regression coefficients and in parentheses associated t-statistics. The dependent variable in the Models 1-4 is the indicator 1 of Bank Social Responsibility (BSR_1).*, **, and *** denote coefficient estimates significantly different from 0 at the 10%, 5%, and 1% levels, respectively. A significant F-Statistic illustrates that the models are significant and the independent variables do affect the indicators of financial performance.

Variables	(1) BSR_1	(2) BSR_1	(3) BSR_1	(4) BSR_1
Roa t-1	0.113			
	(0.13)			
Roe t-1		0.0362		
		(0.53)		
NII_TA t-1			2.381***	
			(2.61)	
MI_TA t-1				1.336***
				(2.74)
B_Size t-1	-0.274	-0.250	-0.342	-0.340
	(-0.95)	(-0.92)	(-1.27)	(-1.26)
B_Act t-1	0.284***	0.226***	0.232***	0.231***
	(3.26)	(2.65)	(2.62)	(2.64)
B_Ind t-1	0.0793*	0.106**	0.108**	0.103**
	(1.66)	(2.35)	(2.27)	(2.13)
B_Div t-1	0.234***	0.307***	0.267***	0.266***
	(2.75)	(3.90)	(3.24)	(3.34)
CEO_comp t-1	4.595***	4.131***	4.268***	4.215***
	(3.77)	(3.56)	(3.63)	(3.59)
logTA t-1	9.393***	9.312***	9.987***	9.766***
	(19.14)	(19.67)	(21.15)	(21.16)
DebTc t-1	-0.0288	-0.0334	-0.0498	-0.0534
	(-0.66)	(-0.84)	(-1.27)	(-1.40)
H-index	-0.559	0.341	-0.147	0.0848
	(-0.19)	(0.12)	(-0.05)	(0.03)
ResSec	-18.67***	-18.50***	-20.42***	-19.79***
	(-3.92)	(-4.04)	(-4.23)	(-4.22)
ResIns	5.934	7.491*	5.741	6.534
	(1.48)	(1.89)	(1.33)	(1.49)
ResRE	8.019**	6.820**	7.415**	7.478**
	(2.38)	(2.05)	(2.16)	(2.26)
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
Intercept	-137.7***	-134.8***	-144.5***	-142.8***
	(-10.21)	(-10.36)	(-10.57)	(-10.40)
F	96,47***	98,25***	106,54***	104,67***
Pseudo R2	0,15	0,15	0,15	0,15
No. of Obs.	411	454	451	451

Table 4. Tobit regression analysis.

This table presents Tobit regression coefficients and in parentheses associated t-statistics. The dependent variable in the Models 5-8 is the indicator 2 of Bank Social Responsibility (BSR_2).*, **, and *** denote coefficient estimates significantly different from 0 at the 10%, 5%, and 1% levels, respectively. A significant F-Statistic illustrates that the models are significant and the independent variables do affect the indicators of financial performance.

Variables	(5) BSR_2	(6) BSR_2	(7) BSR_2	(8) BSR_2
Roa t-1	-0.139			
	(-0.14)			
Roe t-1		0.00922		
		(0.11)		
NII_TA t-1			1.482	
			(1.53)	
MI_TA t-1				1.211**
				(2.13)
B_Size t-1	-0.350	-0.293	-0.380	-0.397
	(-1.04)	(-0.90)	(-1.15)	(-1.20)
B_Act t-1	0.312***	0.283***	0.285**	0.276**
	(2.86)	(2.66)	(2.58)	(2.54)
B_Ind t-1	0.0612	0.0715	0.0903	0.0867
	(1.05)	(1.33)	(1.57)	(1.50)
B_Div t-1	0.261***	0.333***	0.283***	0.285***
	(2.66)	(3.78)	(3.05)	(3.17)
CEO_comp t-1	3.794**	2.810*	2.906*	2.899*
	(2.42)	(1.84)	(1.86)	(1.88)
logTA t-1	11.88***	12.24***	12.91***	12.78***
	(21.18)	(21.91)	(22.63)	(22.67)
DebTc t-1	-0.0537	-0.0926*	-0.113**	-0.110**
	(-1.10)	(-1.80)	(-2.13)	(-2.19)
H-index	-0.670	-0.138	-0.503	-0.460
	(-0.19)	(-0.04)	(-0.16)	(-0.14)
ResSec	-32.37***	-32.79***	-34.81***	-34.62***
	(-5.34)	(-5.54)	(-5.65)	(-5.77)
ResIns	2.372	2.372	0.908	1.067
	(0.60)	(0.62)	(0.21)	(0.25)
ResRE	15.47***	15.05***	15.90***	15.99***
	(3.60)	(3.58)	(3.65)	(3.78)
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
Intercept	-171.5***	-174.2***	-183.4***	-182.5***
	(-11.34)	(-11.93)	(-12.14)	(-12.12)
F	158,06***	161,34***	166,51***	167,35***
Pseudo R2	0,16	0,16	0,16	0,16
No. of Obs.	411	454	451	451

Table 5. Tobit regression analysis.

This table presents Tobit regression coefficients and in parentheses associated t-statistics. The dependent variable in the Models 9-12 is the indicator 2 of Bank Environmental Responsibility (BER).*, **, and *** denote coefficient estimates significantly different from 0 at the 10%, 5%, and 1% levels, respectively. A significant F-Statistic illustrates that the models are significant and the independent variables do affect the indicators of financial performance.

Variables	(9) BER	(10) BER	(11) BER	(12) BER
Roa t-1	0.256			
	(0.23)			
Roe t-1		0.0303		
		(0.33)		
NII_TA t-1			2.325**	
			(2.06)	
MI_TA t-1				1.021
				(1.55)
B_Size t-1	-0.443	-0.516	-0.551	-0.537
	(-1.21)	(-1.45)	(-1.55)	(-1.51)
B_Act t-1	0.483***	0.478***	0.478***	0.483***
	(3.28)	(3.29)	(3.19)	(3.25)
B_Ind t-1	0.0583	0.0499	0.0533	0.0489
	(0.96)	(0.87)	(0.87)	(0.80)
B_Div t-1	0.355***	0.403***	0.388***	0.385***
	(2.72)	(3.54)	(3.17)	(3.20)
CEO_comp t-1	5.746***	4.277**	4.612**	4.539**
	(2.92)	(2.24)	(2.38)	(2.35)
logTA t-1	14.05***	14.54***	15.16***	14.94***
	(20.84)	(22.41)	(23.07)	(22.98)
DebTc t-1	-0.0742	-0.137**	-0.148**	-0.155***
	(-1.23)	(-2.40)	(-2.57)	(-2.76)
H-index	2.023	2.897	2.532	2.833
	(0.55)	(0.82)	(0.71)	(0.80)
ResSec	-33.39***	-33.72***	-35.65***	-34.88***
	(-5.26)	(-5.49)	(-5.46)	(-5.61)
ResIns	-7.957*	-7.601*	-10.67**	-9.646**
	(-1.86)	(-1.77)	(-2.29)	(-2.03)
ResRE	17.99***	17.20***	17.82***	17.84***
	(4.01)	(3.89)	(3.86)	(4.02)
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
Intercept	-216.3***	-218.8***	-226.6***	-224.9***
	(-12.11)	(-12.59)	(-12.72)	(-12.61)
F	159,1***	152,45***	162,94***	164,04***
Pseudo R2	0,15	0,14	0,14	0,14
No. of Obs.	411	454	451	451

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CHAPTER 5 – Effects of Bank Social Responsibility on Client Loyalty

Summary: 5.1. Introduction; 5.2 Theoretical background and research hypotheses; 5.2.1 Corporate Social Responsibility and Stakeholder management; 5.2.2 Corporate social responsibility and client loyalty; 5.2.3 Community relations; 5.2.4 Product responsibility; 5.3 Methodology; 5.3.1 Variables; 5.3.2 Two-step Heckman selection model; 5.4 Results; 5.4.1 Descriptive analysis; 5.4.2 Multivariate analysis; 5.5 Discussions and Conclusions.

5.1 Introduction

Over the past few years, banks have invested an increasing amount of resources in CSR (Peterson and Hermans, 2004; Marin and Ruiz, 2007). The directions of banks socially responsible policies are multiple. They include the supply of microfinance schemes, the removal of the barriers to credit access (Hermes et al., 2005), the community involvement (Decker, 2004), the reduction of the negative environmental impacts and the promotion of a sound environmental management (Lee, 2008), the financial support to causes related to human rights (Prior and Argandona, 2008).

Concurrent with the growing engagement of banks in socially responsible practices, the investigation of bank social responsibility (BSR) has gained the attention of academics and researchers (Sen and Bhattacharya, 2001; Maignan and Ferrell, 2004; McDonald, 2015).

A substantial part of the scientific attention has investigated whether adopting corporate social responsibility (CSR) may improve the banks financial performance (e.g. Simpson and Khoers 2002; Soana 2011; Wu and Shen, 2013; Shen et al. 2016; Esteban-Sanchez et al. 2017; Bussoli and Conte 2018; Fijałkowska et al. 2018). The main part of these studies highlights the existence of a positive impact of CSR engagement on banks' financial outcomes. However, as argued by Bhattacharya et al. (2009), a more precise understanding of the underlying processes that drive these returns is necessary. In this

sense, the current chapter intends to answers to the call by earlier studies (e.g., Wu and Shen, 2013) for deeper investigation on the mechanism connecting CSR to FP of banks. In particular, this work argues that a better comprehension of how CSR activities influence stakeholders may help to clarify how banks CSR engagement spread its effects. Prior literature recognizes how the positive stakeholder perceptions of CSR activities are instrumental to positive financial returns (Barnett 2007; Bhattacharya et al. 2009; Peloza 2009; Peloza and Shang 2011; Branco and Rodrigues, 2006). The stakeholder view argues that the good management of stakeholder relationships represents a fundamental part of CSR (Dahlsurd 2008). Organizations are dependent on stakeholders in order to obtain the necessary resources for their survival and prosperity (Wu and Shen, 2013). Barnett and Salomon (2012) highlight that the CSR engagement may conduct to benefits higher than its costs to the extent to which the organization owns the adequate capacity to influence stakeholder. Also Porter and Kramer (2006) recognize that the achievement of benefits from the implementation of CSR is circumscribed to the strategic management of stakeholder claims.

However, nevertheless the management of stakeholders claims appear as a central point in the literature on business social responsibility, scant empirical evidence exists on the effects that CSR produce on the different stakeholder categories within the banking industry (McDonald and Rundle-Thiele, 2008; Carnevale et al. 2012). The understanding of the impact on banks' stakeholders of CSR investments remains an important and still largely unresolved issue (Lacey, 2015; Aramburu and Pescador, 2017).

Against this backdrop, among the various bank's stakeholders, the present study focuses on clients. Specifically, the research empirically analyzes the impact that BSR has on client loyalty [7] (CL). For CL, the study refers to the tendency displayed by a large number of customers to keep buying products from the same organization over time and to associate positive images to firm's products (Jacoby and Kyner 1973; Keller 1993; Maignan et al., 1999).

The chapter contributes to the knowledge of the phenomenon for several reasons. First, by examining how CSR activities spread their effects towards banks clients, it enriches the literature that attempts to deepen the mechanisms linking the banks CSR engagement

[7] In this chapter the terms "client loyalty" and "customer loyalty" are used interchangeably.

and economic results (e.g. Shen et al., 2016; Wu et al., 2017). CL is considered closely related to the organization´s financial outcomes (Garcia de los Salmones et al. 2009). As argued by Brine et al. (2007) CSR branding can draw consumers away from competitors and thereby improve profitability. The comprehension of CL represents a key aspect in driving long-term corporate profitability (Bolton et al., 2004; Chiou and Droge, 2006).

Second, differently from previous studies, that have examined how CSR is perceived by stakeholder adopting cross-sectional, experimental, and/or artificial settings (Lacey and Kennett-Hensel, 2010), the current research enriches the empirical evidence through the analysis of an international panel of 148 banks, from 2010 to 2015.

Third, the empirical analysis considers the influence that several types BSR have on CL. This approach allows to respond to calls of researchers (e.g. Maignan and Ferrell 2004; Aguilera et al. 2007) to examine the differential effects of various CSR activities on business performance. Consistently with the literature arguing that the various stakeholder groups may have different expectations about CSR engagement (McDonald and Lai, 2010), this paper intends to verify how several dimensions BSR affect CL.

Fourth, the research assesses the impact that CSR on CL by differentiating for the banks' size. Prior literature recognizes that the size may influence the level of CSR engagement (Russo and Perrini, 2010). As argued by Cornett et al. (2016), large banks are more likely to be considered "too-big-to-fail". Consequently, they might take less attention to the aftermaths of their business policies and might be less oriented to undertake socially responsible practices. On the other hand, small banks might be more interested in engaging in CSR, in order to achieve the support of stakeholders, especially during periods of financial distress. Therefore, the current study further deepens the empirical analysis, to verify if the implementation of socially responsible practices matters more for small banks rather than for large banks.

Fifth, given that the relationship between CSR and banks performance may be affected by the endogeneity issue (Wu and Shen. 2013; Cornett et al., 2016). In line with previous investigations (Jo and Harjoto 2011, 2012; Wu and Shen, 2013; Shen et al., 2016), the current research mitigates the endogeneity bias, applying the two-stage Heckman model (1976, 1979).

The remainder of this chapter is organized as follows. Section 2 includes the literature review and the hypotheses. Section 3 explains the adopted empirical strategy. Section 4

shows the results. Finally, section 5 discusses the implications and limitations of the study.

5.2. Theoretical background and research hypotheses

5.2.1 Corporate social responsibility and stakeholder management

CSR definitions often refer to the impact that business activities have on society (Aramburu and Pescador, 2017). According to Renneboog et al. (2008), CSR can be broadly identified in the corporate decisions fostering social, corporate governance, ethical and environmental issues. The European Commission (2011) argues that CSR involves a process aimed to integrate social, environmental, ethical concerns into business operations and strategy. CSR has also been defined as the company's activities and status related to its perceived societal or stakeholder obligations (Luo and Bhattacharya, 2006). As noted by Dahlsurd (2008), the main part of CSR conceptualizations refer to the management of stakeholders issues.

The core of stakeholder theory argues that the survival and sustainability of the firm depend on its capability to manage the relationships with stakeholder (Freeman, 1984; Donaldson and Preston, 1995). Post et al. (2002) recognize how the several interdependencies existing between the firm and its stakeholder are critical to the successful functioning of the organization. Jones (1995), identifying the company as a nexus of contracts, argues that the creation of good relationships with the various stakeholder groups allows to minimize the contracting costs. From this angle, the objective of the company's managers is to go beyond the shareholders' wealth maximization and to undertake those policies improving the stakeholder-company interactions (Post et al. 2002). In summary, stakeholder theorists state that managers have to satisfy a variety of stakeholders (e.g. workers, customers, suppliers, local community, organizations, and media) who can influence or are influenced by the firm's objectives (Donaldson and Preston, 1995).

The logic that leads to identify the stakeholder view as prevalent theoretical framework in the CSR literature (McWilliams and Siegel, 2001; Dahlsurd, 2008) is that socially responsible practices allow to foster favorable and trust relationships with key

stakeholders (Barnett, 2007; Werther and Chandler, 2010; Barnett and Salomon, 2012). As recognized by Clarkson (1995), CSR initiatives can be considered relationship-building activities with stakeholders. Also Bhattacharya et al. (2009), identifies CSR policies as crucial part of the dialogue between organizations and their community of stakeholder. In this sense, the link between the undertaking of socially responsible practices and the firm's achievement of better economic results (Gallardo-Vazquez and Sanchez-Hernandez, 2014; O'Rourke, 2003) is represented by the valuable goodwill related to the trusting relations with stakeholders (Surroca et al., 2010).

However, nevertheless it is widely acknowledged that banks proactively engage in CSR (Marin et al. 2009) to address the stakeholders claims, there is a dearth of research analyzing the impact that BSR has on specific categories of stakeholder. It is still unclear how different stakeholder groups perceive CSR activities. Among the various stakeholder groups, the current work focuses on banks clients. Customers are considered to be particularly sensitive to CSR initiatives (Bhattacharya and Sen, 2004; McDonald and Lai, 2010) and have gained a dominant attention of scholars investigating how CSR generate value for stakeholders (Peloza and Shang, 2011).

Hence, consistent with the objective of the study, the subsequent three paragraphs (5.2.2, 5.2.3, 5.2.4) intend to theoretically frame the impact that BSR has on the loyalty of the clients. The study of this relationship represents a timely and hot topic within the banking industry, on which previous studies have produced less empirical evidence (Aramburu and Pescador 2017).

5.2.2 Corporate social responsibility and client loyalty

In parallel with the growing engagement of banks in CSR, academics and practitioners have dedicated relevant attention to the consumers' perception of CSR issues (Deng and Xu, 2018). For examples, Mandhachitara and Poolthong (2011) find that CSR has a positive impact on customers attitudinal loyalty in the Thai banking industry; Matute-Vallejo et al. (2011) highlight that socially responsible practices and price fairness may favor the achievement of customer loyalty; Alafi and Al Sufy (2012) find that the

customer satisfaction of Jordanian banking customers is positively influenced by socially responsible initiatives; Aramburu and Pescador (2017), through the administration of a personal survey to bank customers in the Basque countries, demonstrate that banks reputation partially mediate the relationship between CSR and customer loyalty.

However, nevertheless the academic research witnesses the generally positive influence of socially responsible initiatives on consumers´ company perceptions (Bhattacharya and Sen 2004), the favorable reaction to CSR initiatives is not so obvious, and in some circumstances, consumers may have negative responses (Deng and Xu, 2017). In this sense, authors argue that it is still unclear how consumers react to CSR initiatives (Oberseder et al. 2014), especially in the banking industry (Mc Donald and Lai, 2010; Aramburu and Pescador, 2017). Moreover, the abovementioned studies are often anchored to specific contexts, and empirical evidence at the global level is still missing.

In the last years, legitimacy theory has gained momentum in understanding how CSR is perceived among stakeholders (Stanaland et al., 2011). Drawing from the Suchman´s definition (1995), legitimacy can be defined “the perception that organization’s actions are desirable, proper or appropriate within some socially constructed system of norms, values and beliefs”. Organizations are called to undertake those activities that are consistent with the values and norms of society (Branco and Rodrigues, 2006), to ensure that their activities are legitimated by outside parties (Deegan, 2000). In this perspective, the undertaking and reporting of CSR initiatives may be read as an attempt to enhance their degree of legitimacy in the eyes of stakeholders (Stanaland et al., 2011; Perez and del Bosque 2012; Aramburu and Pescador, 2017). Branco and Rodriguez (2006) noted how organizations belonging to industries with high visibility, such as the banking system, exhibit greater concern to improve their social legitimization.

Another frequently adopted theoretical interpretation key to study the relationship between CSR and consumers´ behavior is the social identity theory (Tajfel and Turner 1985). According to this perspective, when individuals self-define their social identity, they classify themselves into social categories to which they feel a sense of belonging (Tajfel, 1988). The individual that considers the behavior and the values of an organization as part of self, identifies her/himself with the organization (Scott and Lane, 2000). Consumer-company identification occurs to the extent to which there is an overlapping between the consumers’ perceptions of themselves and their psychological

perceptions of the company (Du et al., 2007). As argued by Bhattacharya and Sen (2004), good consumer-company relationships often derive from consumer identification with that company. The identification with an organization generates psychological and emotional connections (Sen and Bhattacharya, 2001), that may trigger the consumer willingness to contribute and to pay more in order to realize the organization's goals (Deng and Xu, 2017). Scholars have frequently asserted that CSR engagement expresses the values of the firm allowing stakeholders to set up the self-identification process (Lichtenstein et al., 2004; Maignan and Ferrell, 2004; Sen and Bhattacharya, 2001). Marin et al. (2009) and Deng and Xu (2017), drawing on social identity theory and adopting a survey-based approach, find that CSR actions may generate higher customers' loyalty and a more positive evaluation of the company.

A further relevant link between CSR initiatives and corporate outcomes is represented by the reputation (Brønn and Vrioni, 2001). This latter, at the firm level, has been defined as the "cognitive representation" that stakeholders have achieved about the capability of the organization to provide valuable outcomes (Fombrun et al., 2000). From the resource-based view (RBW) perspective (Barney, 1991), reputation can be considered as an intangible asset that favors the achievement of the competitive advantage (Barney, 2002; Dowling 2004; Melo and Garrido-Morgado, 2012). Given the intangible nature of financial services, the correct management of the reputational goodwill appears particularly relevant for banks (Gaultier-Gaillarda and Louisot, 2006; Walsh and Beatty 2007). Researchers have recognized that socially responsible activities may help to improve reputation among stakeholders (McDonald and Lai 2011; Wu and Shen, 2013; Wu et al., 2017) and to enhance the customers' loyalty (Heikkurinen, 2010; Bhattacharya and Sen 2004; Bravo et al., 2009). As acknowledged also by Stanaland et al. (2011), the undertaking of CSR initiatives may strongly and positively affect the customers´ perceptions of the organization. In the perspective of the signaling theory (Connely, 2011), CSR initiatives can be considered as signals that the bank sends to stakeholders, in order to build a positive reputation (Deephouse, 2000) and customers´ loyalty (Hsu 2012; Aramburu and Pescador, 2017).

Accordingly, drawing from the stakeholder view, legitimacy theory, social identity theory, signaling theory and taking into account the benefits that CSR activities may generate in terms of increased reputational capital, the study hypothesizes:

H.1 The CSR engagement has a positive impact on client loyalty in the banking industry

5.2.3 Community relations

As witnessed by Netemeyer (2004), businesses engaged in social activities build a positive image, which in turn is likely to have a positive effect on customer loyalty. The community relations performance belongs to the social aspect of CSR. Esteban-Sanchez et al. (2017) argue that community relations involve elements such as philanthropic activities, avoiding bribery and corruption, respect of business ethics, protection of human rights and public health. The European Banking Federation (EBF, 2013) defines the community dimension of CSR as the contribution of banks to the community where their businesses are established.

Previous studies recognize that the investments in the social area may shape the perceptions of stakeholders, thereby guiding their behaviors (Aramburu and Pescador, 2017). With specific reference to the financial sector, the support to community represents a crucial area of CSR engagement and it is gaining great attention by banks, in terms of publications, discussions, advertising and public relations efforts (Garcia de los Salmones et al., 2009).

Considering the characteristics of banking business and its growing impact on society (Lauesen, 2013; De la Cuesta-Gonzalez et al. 2006), the bank's engagement in social related activities is likely to influence the consumers´ perceptions (Hassan et al. 2013; Marin et al. 2009). Lacey and Kennett-Hensel (2010) argue that the customers' perceptions of the organization's social responsibility drive their trust and loyalty. In light of these arguments, the second research hypothesis predicts:

H.2 The engagement in socially responsible policies towards community has a positive impact on client loyalty in the banking industry

5.2.4 Product responsibility

Authors demonstrate that CSR can positively affect customers' behaviors toward the firm and its offering (Lichtenstein et al. 2004; Mandhachitara and Poolthong 2011).
The consumer reactions to socially responsible products are not only rational but also emotional (Vallejo, 2011). Prior literature shows that consumers are willing to pay more for products provided by organizations socially responsibly engaged (Barone et al., 2000; Sen and Bhattacharya, 2001). According to the analysis conducted in 2018 by Findomestic - BNP Paribas Group - consumers are willing to spend up to 10% more, in order to purchase a sustainable product.
Other scholars argue that customers are more likely to buy products of firms that invest in CSR, as they attribute a better reputation to these firms (Brown and Dacin, 1997; Auger et al. 2008). Also Mohr and Webb (2005) demonstrate that clients´ purchase intentions are more favorable for products of companies perceived as committed in philanthropic and environmental activities.
The consumers' identification with the product characteristics will define psychological and emotional connections with the supplier organization, which will push them to put more efforts to achieve the goals of that organization (Deng and Xu, 2017). For some customers, the act of purchasing is not only a consumption experience but represents also an opportunity to be part of a community or social group with similar beliefs (Daub and Ergenzinger 2005). Peloza and Shang (2011) witness that socially responsible products provide a broader spectrum of value to customers, that goes beyond the materialistic aspects. The value that customers perceive depends on what they are looking in a product, and it affects the relationship between quality and price (Zeithaml, 1988). Maignan et al. (1999) argue that CSR may generate value for customers in several ways, such as attention to individual needs, transparency of products and services, respect of strict product safety standards. The higher perceived value by customers may favor their trust in the organization and enhance their loyalty. In line with these arguments, the study hypothesizes:

H. 3 Socially responsible products have a positive impact on client loyalty in the banking industry

5.3 Methodology[8]

5.3.1 Variables

The current section aims to describe the dependent, independent and control variables adopted in the empirical analysis. The description of the variables is also summarized in Table 1.

First, as dependent variable, the research adopts a measure of loyalty of banks' clients, obtained through Asset4-ESG database. This latter identifies the CL as the loyal relationship with clients that the bank defines through customer satisfaction programs, price policies and avoiding anticompetitive behaviors.

With reference to independent variables, the study refers to the CSR scores provided by Asset4-ESG. These latter are considered to provide transparent, auditable and comparable CSR information (e.g. Ferrero-Ferrero et al., 2015), that are widely used by academics and investment analysts (Cheng et al., 2014).

In order to test the research hypotheses, in addition to an overall measure of BSR, the empirical analysis includes two further dimensions of BSR, namely the community relations (Comm) and product responsibility (PrResp). In particular, the community relations dimension measures the bank's capacity to maintain its license to operate as good citizen, respecting business ethics and taking care of social issues, such as the protection of public health or the fight to bribery and corruption. The product responsibility, instead, refers to the bank's proposition of services integrating customer's health and safety, taking care of clients privacy, providing accurate product information and labeling.

Finally, the study also adopts several control variables, in order to avoid biased results. Similarly to previous investigations (Wu et al., 2017; Cornett et al., 2016), the first set of controls refers to bank-level data. In particular, the analysis controls for bank's profitability (ROA); degree of leverage (DebTc), computed dividing the bank's debt by its total capital; bank's size (logEmployees), considered as log transformation of number of employees; loan to deposit ratio (TL_TDep); capital expenditures (Capex); bank's

[8] Data collection and sample description are reported in chapter 3.

coverage (NPL_Lres), calculated as the nonperforming loans divided by the loan loss reserves.

The second set of variables controls for institutional and macroeconomic factors. In particular, considering the scores provided by Barth et al. (2012), the analysis includes the degree of restriction of banks in securities (ResSec), insurance (ResIns) real estate (ResRE) and auxiliaries (ResAux) activities. The study considers the Herfindahl–Hirschman Index (H-index) as proxy of market competition, and the gross domestic product per capita (GDPper) to capture country economic heterogeneity. The empirical models consider the banks' typology, including a dummy variable which classifies banks in four categories, namely, asset management and custody banks, diversified banks, regional banks, thrifts, and mortgage banks. Finally, the analysis includes year and country dummies to control for time effects and cross-countries differences, respectively.

5.3.2 Two-step Heckman selection model

In order to examine the impact of the BSR of the sampled banks on client loyalty, the study applies the two-step Heckman selection model (1979). The adoption of this empirical approach allows to address the bias of endogeneity. In fact, several previous studies have witnesses that the relationship between CSR and economic outcomes can be biased by endogeneity (e.g. Cornett et al., 2016). In other terms, for example, it is possible that better banks tend to engage more in CSR initiatives. These banks might present better relationships with customers, regardless of their commitment to CSR.

If this is the case, the analysis of the relationship might show the existence of a positive link with the indicators of economic performance, even in the absence of a real relationship. In this context, the application of an ordinary least square (OLS) regression analysis would not treat the endogeneity, thereby generating biased estimates. For this reason, in order to correct the bias of endogeneity, similarly to previous investigations (Jo and Harjoto, 2011, 2012), the present study applies the Heckman's two-stage estimation procedure (1979). Specifically, the first step of the Heckman model is characterized by the application of a probit regression, formalized as follows:

$$y_{i,t} = \alpha + Z_{i,t} + \beta_{i,t} + \varepsilon_{i,t} \quad (1)$$

where *y* represents a dummy variable which assumes value 1 for bank *i* that engages in high CSR (above the median value of the sample) in year *t* and 0 if it engages in low CSR (below the median value of the sample). Zit is the vector of explanatory variables, including firm characteristics. β i,t is the coefficients of the predictors, and ε is the random error term. The above probit regression model, namely "decision equation", estimates the probability that the bank *i* engages in high or low CSR.

The estimates obtained through the probit analysis are used to calculate the inverse Mills' ratio (IMR). This latter is included as an additional explanatory variable in the second step of the Heckman model (1979). In particular, the second step is an OLS estimation, namely "performance equation", formalized as follows:

$$y_{j,k} = \alpha + \beta\, CSR_{j,k} + \gamma\, X_{j,k} + \delta\, IMR_{j,k} + \varepsilon_{j,k} \quad (2)$$

where, $y_{j,k}$ indicates the client loyalty indicator of bank j at time k, $CSR_{j,k}$ is the corporate social responsibility measure of bank j at time k; $X_{j,k}$ represents the vector of control variables; and ε is the random error term. β, γ and δ are the coefficients of the explanatory variables.

5.4 Results

5.4.1 Descriptive analysis

Table 2 provides the descriptive statistics and difference tests of the variables included in the empirical investigation. In particular, the table compares banks with a low level of engagement in CSR with banks that present a high level of engagement in CSR. It is possible to note that high CSR banks present higher CL than banks with low CSR. This difference appears statistically significant, with a p-value of 0.00. High CSR banks are

also more indebted, larger and present a slightly lower percentage of total loans on total deposits. With reference to macroeconomic and institutional factors, banks with high CSR are collocated in countries with lower levels of restriction on securities (ResSec), real estate (ResRE) and auxiliary activities (ResAux) and characterized by higher levels of market competition (H-index) than low CSR banks.

Table 3, instead, provides the descriptive statistics and difference tests by size groups. In particular, it shows that large banks present higher CL and are more engaged in CSR. They are also characterized by lower profitability (ROA) and a higher degree of leverage.

5.4.2 Multivariate analysis

Table 4 reports the estimates referred to the decision equation (probit analysis) of the two-step Heckman model. The empirical models (1-6) aim to evaluate the bank's propensity to engage in CSR activities. In particular, the analysis shows that the size is a statistically significant predictor of the bank's decision to engage in BSR (1-2), in the community dimension of BSR (3-4) and of bank's product responsibility (5-6). These results are in line with previous investigations suggesting that the firm's size is positively related to the engagement in CSR activities (e.g. Cornett et al., 2016). The models 1 and 2 also report that the higher is the level of restriction on securities and other auxiliary bank's activities, the lower is the bank's propensity to engage in CSR. The models 5 and 6 also report that the total loans to deposit ratio (TL_Tdep) is a significant positive predictor, while, Capex negatively affects the bank's product responsibility.

Table 5, instead, reports the empirical analyses referred to the impact that bank's engagement in CSR initiatives has on client loyalty. In particular models 7 and 8 indicate that BSR has a statistically significant and positive impact on CL. These results, suggesting that the higher is the BSR the higher is the loyalty of banks clients, confirm the first research hypothesis (H.1). The findings are in line with previous empirical investigations demonstrating the positive reactions of banks' customers to socially responsible initiatives (e.g. Matute-Vallejo, 2011; Aramburu and Pescador, 2017).

Looking at models 9 and 10, it is possible to note that the community dimension of BSR does not affect CL. Thus the empirical analysis does not confirm the second research hypothesis (H.2). These results are not in line with the study of Esteban-Sanchez et al. (2017), according to which the bank's relations with community affect the banks' economic outcomes. Finally, the study confirms the third research hypothesis (H.3). In fact, the models 11 and 12 show that the bank's product responsibility has a significant positive impact on CL. With reference to control variables, the models 7 and 8 show a significant and positive impact of profitability on CL. Similar evidence is reported by models 9 and 10. Models 7, 8 and 11, instead, indicate that the more indebted and higher are the capital expenditures, the higher is the loyalty of bank's clients.
Finally, Table 6 and 7 report the empirical analysis referred to large banks and small banks, respectively. In particular, with reference to large banks, Table 6 shows that, among the CSR indicators, only product responsibility (Model 15) has a significant and positive effect on CL, whilst the overall measure of bank social responsibility (BSR) and the community dimension (Comm) do not affect CL. Table 7, instead, reports that both overall BSR (Model 16) and product responsibility (Model 18) have a statistically significant impact on CL, in small banks.

5.5 Discussion and Conclusions

The widespread of CSR within the banking industry makes it important to understand how the bank's implementation of socially responsible initiatives is perceived by stakeholders. Among the various categories of stakeholders, this chapter focuses on bank's clients, empirically investigating how various measures of BSR influence client loyalty. According to prior literature, loyalty is one of the most representative behaviors through which clients express their satisfaction with corporate performance (Garcia de los Salmones et al. 2009; Aramburu and Pescador, 2017). Moreover, as reported by Mandhachitara and Poolthong (2011), client loyalty is no longer just a marketing goal, but also a basis for the achievement of a competitive advantage.
The results show that the bank's engagement in CSR activities enhances client loyalty. Moreover, the findings indicate that the empirical evidence in small banks is stronger than in large banks.

The study contributes to the extant literature in several ways. It enriches the understanding of how the bank's engagement in CSR spreads its effects among the various stakeholder groups. Given that the understanding of client loyalty is considered a key element in driving corporate profitability (Bolton et al., 2004; Chiou and Droge, 2006; Garcia de los Salmones et al., 2009), the analysis answers to previous studies (Bhattacharya et al., 2009; Wu and Shen, 2013) calling for a better understanding on the mechanisms connecting CSR and financial performance. As recognized also by Barnett (2007) and Barnett and Salomon (2012), the possibilities to profit from CSR strongly depends on the firm's ability to generate positive stakeholder relations with stakeholders. Adopting several measures of CSR, the research also comes in response to calls to identify how specific socially responsible activities influence customers (Bhattacharya et al., 2009). Moreover, differently from previous investigations that examine how bank's customers react to CSR, in circumscribed geographical contexts (Matute-Vallejo et al., 2011; Aramburu and Pescador, 2017), the current chapter analyzes an international sample of 148 banks, from 22 countries. Finally, further developing the empirical analysis by banks size, the study helps to better understand if socially responsible activities matter more for small banks or large banks.

The study has several implications. First, the results confirm the role of CSR initiatives as a means to restore the corporate reputation. It provides important indications for managers who seek to maintain and develop the dialogue with customers. Second, the results should attract the attention of policymakers and authorities. The economic growth of countries is closely related to the well-functioning and competitiveness of the banking system. The study shows that economic benefits can result from the implementation of programs incentivizing BSR.

The research also has some limitations. First, it adopts a single measure of client loyalty. Further investigations may define other indicators of client loyalty through the administration of surveys to banks' client. Second, other variables related to customers' reactions can be included in future investigations such as customer trust, the perception of the bank's image or bank's reputation. Further research may also investigate how bank' engagement in CSR is perceived by other stakeholder categories, such as employees or shareholders. Finally, future studies may empirically analyze the mediating role of

stakeholders' reactions on the relationship between BSR and the bank's financial performance.

Table 1. Description of variables.

Variables	Symbol	Source	Description
Dependent Variables			
Client Loyalty	CL	Asset 4	Bank's client loyalty
Indipendent Variables			
Bank Social Responsibility	BSR	Asset 4	The level of bank's engagement in Environmental, Corporate Governance and Social areas.
Community Relations	Comm	Asset 4	Bank's socially responsible policies towards community.
Product Responsibility	PrResp	Asset 4	Integration of socially responsible considerations in banks' products.
Control Variables			
Return on Assets	ROA	Worldscope	Retrn on Assets
Leverage	DebTc	Worldscope	Totsl Debt divided by Total Capital
Size	logEmployees	Worldscope	Natural Logaritm of the number of employess
Loan to Deposit ratio	TL_TDep	Worldscope	Total Loans divided by Total Deposits
Capital expenditures	Capex	Worldscope	Capital expenditures normalized by total assets
Coverage	NPL_Lres	Worldscope	Nonperforming Loans divided by Loan Loss Reserves
Restriction Securities	ResSec	Barth et al. (2012)	The degree of restriction on banking activities in securities
Restriction Insurance	ResIns	Barth et al. (2012)	The degree of restriction on banking activities in insurance
Restriction Real estate	ResRE	Barth et al. (2012)	The degree of restriction on banking activities in real estate
Restriction Auxiliaries Activities	ResAux	Barth et al. (2012)	The degree of restriction on banking activities in auxiliaries activities
GDP per capita	GDPper	World Bank	Gross Domestic Product based on current price/population
Herfindahl–Hirschman Index	H-Index	World Bank	Higher HHI indicates less market competition and more monopoly or oligopoly
Banks Typology	Banks_type	GICS	Classification by banks type

Table 2. Descriptive statistics by BSR.

This table shows the descriptive statistics of the variables included in the study, grouped by the level of CSR engagement. Banks with low CSR are those that present a CSR indicator lower than the median of the full sample. Banks with high CSR are those that present a CSR indicator higher than the median of the full sample.

Variable	Banks with low CSR					Banks with high CSR					Diff.Test
	Obs	Mean	Std.Dev.	Min	Max	Obs	Mean	Std.Dev.	Min	Max	t-test
BSR	439	29.55	13.85	4.48	55.21	439	78.65	10.89	55.40	95.58	-58.39***
CL	439	44.51	25.14	3.37	96.48	439	82.55	19.42	13.19	97.94	-25.09***
PrResp	439	34.42	24.13	3.71	92.59	439	69.64	22.42	12.03	97.55	-22.40***
Comm	439	34.10	13.63	11.07	73.70	439	70.73	18.30	19.19	96.25	-33.63***
ROA	380	0.75	0.86	-6.04	8.43	49	0.73	1.32	-12.42	6.40	0.14
DebTc	439	55.95	22.71	0.70	104.71	449	72.49	17.13	13.50	107.55	-12.26***
logEmployees	410	8.44	1.06	3.87	11.14	439	10.19	1.55	3.47	12.59	-19.10***
TL_TDep	427	119.65	140.06	3.13	1,652.64	441	118.59	48.30	54.99	515.25	0.14
Capex	389	0.23	0.69	0.00	5.88	414	0.12	0.12	0.00	0.80	3.19***
ResSec	307	2.30	0.94	1.00	3.00	389	1.72	0.85	1.00	3.00	8.49***
ResIns	307	2.21	0.54	1.00	3.00	389	2.26	0.66	1.00	4.00	-1.13
ResRE	307	3.24	1.03	1.00	4.00	389	2.39	1.02	1.00	4.00	10.89***
ResAux	307	3.41	0.93	1.00	4.00	389	2.61	1.13	1.00	4.00	10.00***
GDPper	439	46,113.70	10,005.81	21,229.35	75,800.02	449	43,322.32	12,626.65	21,229.35	89,590.81	3.64***
H-Index	439	0.52	0.18	0.07	0.92	449	0.57	0.23	-0.15	1.26	-3.26***
NPL_Lres	369	168.45	100.90	0.00	859.07	397	171.10	97.07	6.74	764.02	-0.36

Table 3. Descriptive statistics by bank size.

This table shows the descriptive statistics of the variables included in the study, grouped by bank size. Banks with low CSR are those that present a CSR indicator lower than the median of the full sample. Banks with high CSR are those that present a CSR indicator higher than the median of the full sample.

Variable	Small Banks					Large Banks					Diff.Test
	Obs	Mean	Std.Dev.	Min	Max	Obs	Mean	Std.Dev.	Min	Max	t-test
CL	420	49.90	27.35	3.37	97.7	458	76.03	25.49	5.39	97.94	-14.65***
BSR	420	36.43	21.86	5.24	92.54	458	70.31	21.62	4.48	95.58	-23.07***
PrResp	420	37.70	24.44	3.71	95.65	458	65.17	26.95	4.85	97.55	-15.76***
Comm	420	37.85	18.09	12.19	95.23	458	65.77	21.67	11.07	96.25	-20.62***
ROA	362	0.86	0.09	-3.3	8.43	427	0.63	1.29	-12.42	4.99	2.85***
DebTc	425	56.36	23.54	0.70	98.08	463	71.62	16.87	3.84	107.55	-11.17***
logEmployees	425	8.06	0.99	3.47	9.38	424	10.63	0.91	93.87	12.59	-39.47***
TL_TDep	406	106.70	59.72	3.13	549.01	462	130.02	130.25	54.99	1652.64	-3.31***
Capex	372	0.24	0.70	0.00	5.88	431	0.12	0.12	0.00	0.80	3.44***
ResSec	309	2.18	0.94	1.00	3.00	387	1.81	0.89	1.00	3.00	5.41***
ResIns	309	2.15	0.58	1.00	3.00	387	2.31	0.63	1.00	4.00	-3.47***
ResRE	309	3.02	1.12	1.00	4.00	387	2.56	1.06	1.00	4.00	5.53***
ResAux	309	3.23	1.04	1.00	4.00	387	2.75	1.14	1.00	4.00	5.74***
GDPper	425	46451.15	11,190.15	21229.35	89590.81	463	43096.97	11530.12	21229.35	89080.12	4.39***
H-index	425	0.51	0.18	-.15	1.26	463	0.58	0.22	-.15	1.26	-5.16***
NPL_Lres	349	169.87	103.08	0.00	859.07	417	169.79	95.35	6.74	764.02	0.010

Table 4. Propensity to engage in BSR

This table shows the coefficient of estimates from the Probit model (columns 1-6). The dependent variable is represented by the bank social responsibility (BSR), community responsibility (Comm) and product responsibility (PrResp). In these models, the dependent variables BSR_0_1, Comm_0_1, PrResp_0_1 are dummy variables which are set on 1 if a firm exhibits a score above the median, 0 otherwise. *, ** and *** indicate statistical significance at 10%, 5% and 1% levels, respectively.

Variables	(1) BSR_0_1	(2) BSR_0_1	(3) Comm_0_1	(4) Comm_0_1	(5) PrResp_0_1	(6) PrResp_0_1
ROA	0.119	0.110	-0.0383	-0.0362	0.0724	0.0967
	(0.79)	(0.73)	(-0.48)	(-0.45)	(1.00)	(1.31)
DebTc	-0.00172	-0.00101	0.00196	0.000822	-0.00646	0.000298
	(-0.17)	(-0.10)	(0.33)	(0.13)	(-1.22)	(0.05)
logEmployees	1.278***	1.228***	0.660***	0.581***	0.245***	0.251***
	(10.08)	(8.74)	(8.23)	(5.81)	(4.63)	(3.21)
TL_TDep	0.000771	0.00149	0.00280	0.00364	0.0107***	0.0123***
	(0.23)	(0.45)	(0.93)	(1.21)	(3.86)	(4.13)
Capex	-1.255	-1.249	-0.328*	-0.369	-0.177**	-0.218**
	(-1.36)	(-1.35)	(-1.75)	(-1.55)	(-2.03)	(-2.56)
ResSec	-4.247***	-4.602***	0.777	-1.365	-1.365	-1.218
	(-2.92)	(-2.93)	(0.55)	(-1.01)	(-1.25)	(-1.08)
ResIns	-0.111	0.0102	4.164**	5.969***	-2.928*	-1.419
	(-0.06)	(0.01)	(2.29)	(3.29)	(-1.67)	(-0.76)
ResRE	5.088***	5.640***	-0.617	1.671*	-3.461***	-1.894*
	(3.06)	(3.35)	(-0.65)	(1.90)	(-4.16)	(-1.85)
ResAux	-3.017***	-2.910***	-1.485*	-1.458*	4.448***	2.798**
	(-2.93)	(-2.90)	(-1.81)	(-1.81)	(4.85)	(2.53)
GDPper	0.0000567	0.0000544	0.0000146	0.0000126	-0.0000447	-0.0000426
	(1.25)	(1.20)	(0.29)	(0.25)	(-0.95)	(-0.90)
H-Index	3.971**	3.697*	-0.500	-0.551	-0.439	-0.502
	(2.00)	(1.93)	(-0.63)	(-0.70)	(-0.71)	(-0.84)
NPL_Lres	-0.00802***	-0.00839***	-0.00119	-0.00144	-0.00205***	-0.00154**
	(-4.89)	(-4.39)	(-1.25)	(-1.39)	(-2.94)	(-2.04)
Country	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
Banks_type	No	Yes	No	Yes	No	Yes
Intercept	-11.39**	-15.57***	-9.582*	-18.88***	5610	-3158
	(-2.26)	(-3.07)	(-1.85)	(-3.68)	(1.13)	(-0.60)
No. of Obs.	448	442	462	459	489	489
Pseudo R-Squared	0,6369	0,6374	0,4627	0,4675	0,3376	0,3542

Table 5. Two-step Heckman model

This table presents 2-step Heckman (1979) regression coefficients and in parentheses associated t-statistics. In a 1st step, we run the probit model with same specification in Table 4. The Inverse Mills ratio estimated from the 1st-step regression is used in the second stage with the CSR indicator and control variables. The dependent variable in the second stage is the Client loyalty (CL).*, **, and *** denote coefficient estimates significantly different from 0 at the 10%, 5%, and 1% levels, respectively. A significant Wald chi-square illustrates that the models are significant and the independent variables do affect the indicators of financial performance.

Variables	(7) CL	(8) CL	(9) CL	(10) CL	(11) CL	(12) CL
BSR	0.277**	0.319**				
	(2.09)	(2.33)				
Comm			0.126	0.135		
			(1.51)	(1.56)		
PrResp					0.338***	0.338***
					(3.39)	(2.91)
ROA	3.275***	3.456***	3.632***	3.999***	1.456	1.044
	(2.90)	(3.04)	(3.23)	(3.43)	(1.01)	(0.6)
DebTc	0.199**	0.231**	-0.0454	-0.0412	0.294**	0.242
	(2.28)	(2.42)	(-0.42)	(-0.36)	(2.4)	(1.58)
logEmployees	0.548	1.18	-0.474	-1.114	0.5	0.0702
	(0.41)	(0.79)	(-0.35)	(-0.67)	(0.3)	(0.03)
TL_TDep	0.0292	0.033	0.00939	-0.000739	-0.129	-0.156
	(0.55)	(0.62)	(0.19)	(-0.01)	(-1.61)	(-1.58)
Capex	24.10**	23.45**	7.281	8.005	-13.49*	-13.39
	(2.32)	(2.23)	(0.71)	(0.73)	(-1.87)	(-1.61)
ResSec	0.273	-0.775	-21.68	-17.95	-2.738	-2.007
	(0.02)	(-0.04)	(-1.13)	(-0.93)	(-0.11)	(-0.07)
ResIns	-41.58	-31.25	-13.87	-28.8	-3.788	-10.4
	(-1.46)	(-1.06)	(-0.42)	(-0.80)	(-0.10)	(-0.22)
ResRE	7.968	9.229	5.31	0.403	10.11	10.75
	(0.67)	(0.78)	(0.46)	(0.03)	(0.69)	(0.64)
ResAux	-6.77	-7.22	7.367	10.58	-6.353	-7.7
	(-0.64)	(-0.69)	(0.66)	(0.94)	(-0.49)	(-0.51)
GDPper	-0.000621	-0.000645	0.000155	0.0000633	0.000294	0.000349
	(-0.80)	(-0.83)	(0.17)	(0.07)	(0.29)	-0.3
H-Index	8.202	8.35	5.67	7.455	5.991	7.004
	(1.03)	(1.05)	(0.65)	(0.83)	(0.48)	-0.48
Country	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
Banks_type	No	Yes	No	Yes	No	Yes
Intercept	132.9	102.3	105.1	151.1	49.59	71.22
	(1.64)	(1.22)	(1.11)	(1.51)	(0.48)	(0.56)
IMR	9.989**	10.32**	-6.409	-14.59**	-22.93**	-26.13**
	(2.32)	(2.31)	(-1.19)	(-2.30)	(-2.14)	(-2.02)
Wald Chi-square	151.89***	154.96***	179.21***	178.97***	106.46***	81.22***
No. of Obs.	509	509	509	509	509	509

Table 6. Two-*step Heckman model (Large banks)*

This table presents 2-step Heckman (1979) regression coefficients and in parentheses associated t-statistics for **large banks**. In a 1st step, we run the probit model with same specification in Table 6. The Inverse Mills ratio estimated from the 1st-step regression is used in the second stage with the CSR indicator and control variables. The dependent variable in the second stage is the Client loyalty (CL).*, **, and *** denote coefficient estimates significantly different from 0 at the 10%, 5%, and 1% levels, respectively. A significant Wald chi-square illustrates that the models are significant and the independent variables do affect the indicators of financial performance.

Variables	(13)	(14)	(15)
	CL	CL	CL
BSR	0.231		
	(1.14)		
Comm		0.157	
		(1.64)	
PrResp			0.321***
			(2.98)
ROA	3.356***	4.054***	2.850**
	(2.87)	(3.47)	(2.30)
DebTc	0.0182	-0.0320	-0.0264
	(0.12)	(-0.21)	(-0.15)
logEmployees	-1792	0.247	0.207
	(-0.69)	(0.08)	(0.09)
TL_Tdep	-0.0106	-0.00256	-0.0582
	(-0.17)	(-0.04)	(-0.71)
Capex	14.76	8788	-11.21
	(1.32)	(0.77)	(-0.96)
ResSec	-51.01**	-27.50	-48.72
	(-1.98)	(-0.95)	(-1.60)
ResIns	52.41	-0.536	41.36
	(1.13)	(-0.01)	(0.78)
ResRE	10.69	18.30	16.15
	(0.85)	(0.14)	(1.17)
ResAux	14.15	10.20	9302
	(1.02)	(0.70)	(0.61)
GDPper	0.00164	0.000387	0.00170
	(1.32)	(0.27)	(1.25)
H-Index	2.710	-5.936	-3.460
	(0.28)	(-0.53)	(-0.29)
Country	Yes	Yes	Yes
Year	Yes	Yes	Yes
Banks_type	Yes	Yes	Yes
Intercept	-59.19	74.15	-50.85
	(-0.46)	(0.51)	(-0.35)
IMR	12.86**	15.48*	-10.24
	(2.02)	(1.83)	(-0.79)
Wald Chi-square	154.50***	201.20***	143.57***
No. of Obs.	302	302	302

Table 7. Two-step Heckman model (Small banks)

This table presents 2-step Heckman (1979) regression coefficients and in parentheses associated t-statistics for **small banks**. In a 1st step, we run the probit model with same specification in Table 8. The Inverse Mills ratio estimated from the 1st-step regression is used in the second stage with the CSR indicator and control variables. The dependent variable in the second stage is the Client loyalty (CL).*, **, and *** denote coefficient estimates significantly different from 0 at the 10%, 5%, and 1% levels, respectively. A significant Wald chi-square illustrates that the models are significant and the independent variables do affect the indicators of financial performance.

Variables	(16)	(17)	(18)
	CL	CL	CL
BSR	0.839***		
	(2.86)		
Comm		0.027	
		(0.07)	
PrResp			0.64*
			(1.68)
ROA	-11,82*	-10.79	-24.70**
	(-1.86)	(-0.86)	(-1.99)
DebTc	0.46*	-0.62*	0.33
	(1.92)	(-1.95)	0.87
logEmployees	-14.49	14.99	-1.08
	(-1.51)	(1.57)	(-0.18)
TL_TDep	-0.027	0.31	-0.16
	(-0.19)	(1.23)	(-0.83)
Capex	95.37***	52.29	-17.81
	(3.70)	(1.32)	(-1.08)
ResSec	-23.67	-2.20	32.38
	(-0.64)	(-0.02)	(0.53)
ResIns	0.382	-72.75	43.86
	(0.00)	(-0.30)	(0.52)
ResRE	27.06	-19.87	42.79
	(0.26)	(-0.08)	(1.29)
ResAux	-2.52	19.45	-62.28
	(-0.002)	(0.10)	(-1.29)
GDPper	0.0009	-0.0008	0.0005
	(0.26)	(-0.12)	-0.25
H-Index	9.11	4.35	176.39*
	(1.06)	(0.23)	(1.65)
Country	Yes	Yes	Yes
Year	Yes	Yes	Yes
Banks_type	Yes	Yes	Yes
Intercept	37.96	146.51	-132.16
	(0.10)	(0.825)	(-0.54)
IMR	-8.18	-20.33*	-26.76
	(-1.50)	(-1.84)	(-1.49)
Wald Chi-square	168.53***	36.77*	37.96**
No. of Obs.	207	207	207

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CONCLUSIONS

The current thesis has had the objective to frame the theme of the CSR in the banking industry. In particular, in addition to the discussion of the theoretical foundations and peculiarities of the phenomenon, the work provides empirical evidence on determinants and effects of bank's engagement in CSR. There are several reasons that justify the analysis of bank social responsibility (BSR) and make it a timely and relevant issue.

First, the last financial crisis has strongly bumped the reputation of the banking industry. Banks have been assigned the main responsibilities of the financial turmoil. The adoption of ethically questionable conduct by some large banks has led to a loss of confidence towards the overall banking system. In this context, BSR may represent for banks a means to demonstrate that they are operating in line with societal expectations. Several authors argue that BSR helps banks to restore their image and reputation, and to build trusty and long-term relationships with stakeholders. Given the characteristics of banking activity and the intangible nature of financial services, the correct management of reputational goodwill appears even more crucial than in other sectors (Gaultier-Gaillarda and Louisot, 2006, Walsh and Beatty 2007).

Second, the investigation of the bank's engagement in socially responsible issues acquires relevance in light of the role that the banking industry assumes for the socio-economic development of countries. The execution of banking activities requires the use of public resources and collocates banks in the middle of several social connections. The most basic bank's function is the collection of funds among a large number of savers and their use to finance households and companies. The banking industry is also involved in activities with a strong social impact such as financial education, the inclusion and financial support to disadvantaged minorities, the fight against corruption and money laundering. For all these reasons, banks have higher responsibilities towards society and are subject to higher visibility than other sectors.

Finally, despite the relevance of the phenomenon, the investigation of CSR in the banking industry appears still scant compared to other sectors (McDonald, 2015, Wu et al., 2017). Thus, given the above arguments, the current work has aimed to enrich the knowledge on BSR.

In particular, the first chapter analyzes the concept of CSR, focusing on its historical evolution, definitional aspects, and theoretical perspectives.

The second chapter describes the peculiarities that characterize the CSR in the banking industry, discussing the aspects that justify the investigation of the phenomenon. The third chapter provides an overview of the characteristics of the empirical research proposed in chapters 4 and 5, describing the data collection procedure and the sample of banks examined. Chapter 4, drawing from several theoretical perspectives, analyzes the impact of the financial performance and characteristics of the board of directors on BSR. Finally, chapter 5 analyzes the impact that BSR has on the loyalty of bank's clients.

The work contributes to the extant literature in several ways.

First, the study shows that better financial performance favors greater BSR. These evidence, if considered together with previous investigations that have suggested the existence of a positive CSR impact on financial performance (Wu and Shen 2013; Cornett et al., 2016; Wu et al., 2017), suggest the possible existence of a virtuous circle (Waddock and Graves, 1997), in which BSR and financial performance feed each other.

Second, the results show that some corporate governance characteristics, such as board diversity, the presence of non-executive directors and a greater intensity of board activity favor BSR.

These findings should attract the attention of policymakers that intend to promote BSR through the definition of corporate governance codes and best practices. The results may be relevant also for investors and investors interested in the bank's socially responsible profile.

Third, the work highlights that BSR positively affects client loyalty. These results should encourage banks to invest in CSR programs in order to build loyal and long-term relationships with customers. Moreover, the study should also attract the attention of authorities involved in the definition of measures to promote the well-functioning and competitiveness of the banking system, since client loyalty is considered a key aspect in driving profitability (Bolton et al., 2004; Chiou and Droge, 2006), and a basis for the achievement of a competitive advantage (Mandhachitara and Poolthong 2011).