

# THE USE OF CORPORATE SOCIAL RESPONSIBILITY IN COMBATING FINANCIAL EXCLUSION AS AN INDICATION OF ENTREPRENEURIAL APPROACH OF BANKS

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## **Abstract**

In this article the author show how banks, by pursuing corporate social responsibility concepts, contribute to fighting financial exclusion and why this may be regarded as a demonstration of their entrepreneurial approach. To fulfil this goal at first it is explained the general issues concerning the banks' actions carried out as part of their corporate social responsibility policies. In further part of the text the attention is drawn to those forms of banks' activities which may contribute to curbing financial exclusion in society. Particular attention is paid to the activities of banks in the process of economic education. The author strives at demonstrating that by pursuing the actions analysed herein the banks may also obtain extra benefits for themselves. The final paragraphs of the article identify reasons for which activity in this area may, or even should, be regarded as a demonstration of entrepreneurship. The considerations in the article shall primarily be of a theoretical nature.

**Key words:** financial exclusion, corporate social responsibility, banks.

**JEL Classification:** A20, G21, L26.

## **1. Introduction**

The starting point for the considerations made herein may be the statement that the social and economic system should not only be well-organised and effective but should also boast features that would allow institutions operating within that system to adjust to the surrounding environment. One of the prerequisites for that is communication between the system entities. Thus, the system should resonate

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within the society (Mizdrak, Pogodzińska-Mizdrak, 2013: 53). Ensuring rational and effective coordination of actions largely depends on entrepreneurial attitudes taken by members of the society. However, the concept of corporate social responsibility developed globally is evidence that the achievement of business goals and actions for the benefit of the society are not necessarily insolvably contradictory concepts.

Given a special role assigned to banks in social and economic systems, as well as belonging to the financial sector, both the perception of entrepreneurship and pursuance of corporate social responsibility in these situations are different from the approach adopted by other commercial companies. On the one hand, banks operate in an environment with multiple competitors, where the conditions of operations are commonly fierce and one of their primary goals is to generate positive financial results and expand their own property and capital resources. On the other, these entities may be referred to as institutions of public trust, which – in the social and economic system – perform an ancillary role and additionally, are responsible for the safety of funds the society entrusted them with. Banks constitute elements of communities they function within and that functioning is based on demand for financial capital generated by that community. In addition to that, one may notice that the community expects banks to provide wider and wider access to financial products and services, which is to enable individuals to fully and freely participate in the social and economic system and give them an opportunity to improve the quality of their lives. All of the above results in a peculiar limitation of banks' actions to become involved in entrepreneurial initiatives and to undertake corporate social responsibility initiatives. One of the symptoms of this phenomenon is banks' commitment to combating financial exclusion, particularly by carrying out economic education activities.

The purpose of this article is to answer the question how banks, by pursuing corporate social responsibility concepts, contribute to fighting financial exclusion and why this may be regarded as a demonstration of their entrepreneurial approach. To fulfil this goal the author will first consider banks' actions carried out as part of their corporate social responsibility policies. Particular attention shall be drawn to those forms of banks' activities which may contribute to curbing financial exclusion of society members. Finally, the author will strive at demonstrating that by pursuing the actions analysed herein the banks may also obtain extra benefits, both for themselves and for the entire financial system. The final paragraphs of the article identify reasons for which activity in this area may, or even should, be regarded as a demonstration of entrepreneurship. As a result, the article should reflect the adoption of the interdisciplinary approach. According to the author's assumptions, the article is to reveal interdependences between social (including, in particular, exclusion of individuals) and economic (corporate social responsibility concept and corresponding material benefits) phenomena and processes. Only against that background, will the reader be presented banks' adoption of the entrepreneurial approach.

Given the issues touched upon, the considerations herein shall primarily be of a theoretical nature. The main method used is an in-depth analysis of literature of the subject, based on available literature items, articles and other papers (including published reports) dealing with the issues discussed herein. An important supplement shall be a review of web sites and an analysis of secondary data comprising corporate social responsibility strategies in banks. This review shall serve as the basis for verifying actions they undertake within their CSR concepts, with particular regard to initiatives to combat financial exclusion.

## 2. Corporate social responsibility in banks

Both in the European Commission's *Green Paper on CSR (Green Paper...*, 2001) of 2001 and in *A renewed EU strategy 2011–14 for Corporate Social Responsibility (A renewed EU strategy...*, 2011) of 2011 the concept of corporate social responsibility in company management provides for companies' voluntary consideration of social interests and environment protection when undertaking corporate actions, as well as starting relationships with various groups of stakeholders. What is important is that institutions which are able to fulfil such assumptions not only increase their financial results, gain better conditions for development or improve their images but also become more attractive to potential investors. This also seems to be a good response the enterprises have to the challenges posted by sustainable development policies.

To put it more precisely, in the case of banking entities (or speaking more broadly – financial entities) there was an additional stimulus – a strong increase of the entities' expectations of the analysed concept as a result of the global financial crisis in the early 21<sup>st</sup> century and the issue of trust in such entities arising from that crisis. As a result, the banks revised their previous attitudes and reoriented themselves to corporate social responsibility. What is more, before, banks used to perceive CSR largely through incurrence of expenditures on charity, sponsoring, or social aid (Róžańska, 2016: 132). That concept was clearly subjected to public relations requirements and initiatives undertaken within that concept were actually considered equivalent to cause related marketing. Now CSR more and more often constitutes an element of banks' strategies and is the subject of dedicated reports playing an increasingly important role in the assessment of these institutions. However, this does not mean that banks have an uncritical approach to these ideas, although changes in this context are clearly visible (the changes are only partly forced by pressure from the society, supervisory authorities or EU institutions, not always exerted in a direct manner). One of the indications of this approach is giving up the role of CSR activities as, first of all, the fulfilment of needs and expectations of shareholders or stockholders. Since the most recent crisis banks have been paying more and more attention to the social side of corporate responsibility when building social trust in

financial institutions, which means they focus on the fulfilment of expectations declared by stakeholders.

A concept sometimes used in this context is *responsible finance*, which – although close in meaning – does not fully seem to be equivalent to CSR approaches adopted by financial institutions (Solarz, 2012: 113–119). In a report prepared in 2011 for the World Bank titled *Advancing Responsible Finance for Greater Development Impact*, responsible finance is identified as coordinated actions undertaken in the financial sector, both by public and private entities, focused on exerting various types of influence on financial institutions and their customers in order to create a more transparent and fair market, additionally characterised by high inclusiveness (*Advancing Responsible Finance...*, 2011). Thus, three groups are the main stakeholders in the responsible finance-based approach: consumers supported by dedicated institutions, companies offering financial services and public entities related to the financial market. In the author's opinion, an assumption may be adopted that the concept of responsible finance narrows down the CSR approach not only to financial institutions ("subjective" limitation) but also to the areas of operations of these institutions – the broadly understood financial market ("objective" limitation).

There are several prerequisites for implementing the concept of corporate social responsibility in banks: a proper perception of complexity of financial services, strengthening of business ethics, performance of risk assessment, development and implementation of a relevant strategy to be pursued in case of a financial crisis, protection of customer rights and configuration of complaint channels (Yeung, 2011: 107–108). However, in the approach based on responsible finance, the following three areas of operations are particularly significant: consumer protection stemming from legal regulations, voluntary activity (for instance, through implementation of good practices or standards) of financial institutions operating within the free-market framework and initiatives to expand people's awareness and economic knowledge. This, to banks, represents a real possibility to become involved in two of the abovementioned areas, as legal regulations must anyway be complied with. Thus, undertaking economic education activities is one of the main manifestations of implementing CSR concepts in banks, understood through the perspective of responsible finance.

### 3. How banks combat financial exclusion

To be able to identify CSR activities which banks undertake to combat financial exclusion, one must first specify what precisely is understood as financial exclusion. According to the definition formulated in a report titled *Financial Services Provision and Prevention of Financial Exclusion*, prepared in 2008 for the European Commission, "financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream

market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong” (*Financial Services Provision...*, 2008: 9–10). It is worth adding that the access difficulties should be understood not only as the lack of physical access (resulting, for instance, from the absence of a local branch, the lack of equipment and technology or inability to use them), but also as the lack of possibility to use financial services and products at reasonable prices and, sometimes, because of their unsatisfactory quality or mismatched offer (Kempson, Whyley, 2000: 9). Another form of financial exclusion considered herein is self-exclusion, the causes of which one may either be aware of (such as lack of trust in financial institution) or unaware of (for instance, not knowing the offer).

As operations of banks are based on selling financial products and services to customers, banks themselves are actually predestined to undertaking actions aimed at curbing the problem of financial exclusion. The top priority of banks’ primary operations will obviously be to attract, to their offer, those customers who will generate high margins, use multiple products or be interested in long-term relations. From the perspective of the adopted CSR strategies, banks may turn to implementing solutions for potential customers, so far considered “unattractive” and thus excluded from accessing their services (including, in particular, those less affluent ones).

To prevent financial exclusion bank branches undertake various types of actions. Considering the specificity of the issue, some of the actions may be regarded as realizations of the corporate social responsibility approach, while in other cases, they may hardly be evaluated in a clear and unambiguous manner. The main obstacle in formulating clear assessments here is the inability to identify all target beneficiaries of the performed actions or to select only those people who would have not become customers had it not been for the banks’ actions (e.g. people in worse financial conditions). In other words, it is sometimes extraordinarily difficult to verify whether the bank, while applying solutions aimed at elimination of financial exclusion of society members, was driven solely (or, at least, primarily) by non-economic goals (according to CSR assumptions).

One of the forms of preventing financial exclusion undertaken by banks is to combat geographical exclusion, which is very often twofold. First, new physical branches are open or innovations, such as mobile branches, are introduced. Second, with opportunities offered by new telecommunication technologies banks are introducing new distribution channels within their internet or mobile banking operations (a peculiar case here being the migration of entire banking operations to the virtual reality). At the same time, one must take into account that changes arising from ICT development in banking are one of the determinants of digital exclusion, which in turn frequently leads to financial exclusion. However, this problem seems to be gradually fading away along with society’s wider and wider access to the Internet and with the growing popularity of ICT innovations.

Another example of solutions which banks may employ in their fight against financial exclusion is the broadly understood change of their financial products and services. Firstly, this involves adjustment of products to consumers' expectations and true needs. An example of that may be a personal account for a specific social group (e.g. for senior people) or free or low-cost offers (partly resulting from Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features) of basic banking services, which are supposed to be available to anyone interested in them. Secondly, a desired process is simplification of procedures, particularly, the language of communication with the customers, while expanding the scope of information provided about the offer. This is, actually, partly forced by legal regulations that are becoming stricter and stricter, but at the same time is an indication of CSR activities. Thirdly, the risk arising from purchases of banking products must be known (understood) and accepted by the consumer (particularly in the light of problems revealed in the past decade or so, including, for instance, issues related to the options market, loans denominated in foreign currencies and securitization), and at the same time, must not exceed the level which might expose the consumer to excessive financial losses.

While the activities described above should not be underrated, one must have in mind that the most frequent cause of financial exclusion still remains too low awareness and insufficient economic knowledge. Thus, an exceptionally important form of banks' activities in preventing this problem is economic education, which means popularization of knowledge, development of skills and shaping positive behaviours required for rational management of financial resources, taking into account economic targets set in a given timeframe (Matul, Pawlak, Fałkowski, 2004: 7–8). This activity is addressed to three key target groups: those who have not had financial products before, those who use a limited number of these products and those who have not yet encountered financial products and are now entering the financial market (Atkinson, Messy, 2012). Actions undertaken by banks in this context are fairly diverse, however, one may identify several recurring solutions. They include, in particular: maintaining informational and educational web sites, provision of on-line tools for managing personal finance, involvement in educational media or social campaigns, running educational programs for children and youth and selected social groups, organising economic knowledge competitions, supporting micro-loan programs, participation in research and preparation of publications that present the levels of economic awareness of people and their knowledge of financial markets and products they offer. Additionally, banks offer financial support and become involved in joint initiatives, organised together with public sector entities or NGOs, the purpose of which is to popularise economic knowledge within the entire society or individual groups (Frączek, 2014: 256).



#### **4. Economic education conducted by banks as part of CSR activities from perspective of entrepreneurial operations**

Operating within an environment of more and more fierce competition (including competition from non-banking entities), banks are forced to implement new strategies that will make them gain advantage in their fight for attracting and retaining their customers. These solutions, among other things, must take into account society's needs and expectations, existing legal framework and possibilities arising from banks' operations. A concept that in this perspective is gaining importance is corporate social responsibility. Its unquestionable benefit is the possibility to perceive costs (of implementing CSR principles and standards, among others) through investments into stable and sustainable development of the company (Wilewska, 2009: 47).

However, in order for the CSR strategy to be perceived and bring benefits both to the bank and its stakeholders, it must not only be carried out in an appropriate manner but also presented to the public (for instance, as part of marketing activities). Only then may it exert a positive influence on the opinions that potential customers have not only about the bank as an institution. What is improved is also the perception of the quality of the services offered by the bank which is involved in corporate social responsibility projects. However, if the bank's products are deemed better than those of its competitors, the customers are even able to accept higher prices of those products. Additionally, the consumers' trust in such a bank is growing. Obviously, to achieve that the bank must ensure competent staff, truly reliable services, convenient location and time of delivering the services, as well as diversity of the products addressing the needs of individual customers (Mandhachitara, Poolthong, 2009: 418–422).

Therefore, the bank must demonstrate characteristics that confirm its ability to undertake actions which result in rational and effective coordination of resources and also to direct these activities in compliance with its interests (economic interests, in particular). Entrepreneurship, understood in this context, will then represent actions including identification, assessment and use of possibilities to introduce new products and services, new markets or modes of organisation (Shane, 2003: 2–6). Economic education, conducted within CSR activities, seems to be a good, though not that obvious, example of that as it fulfils both assumptions related to responsible finance and entrepreneurial search for opportunities to expand the market share and, at the same time, reduces the risk in the banking sector.

In the context of corporate social responsibility, economic education leads to the narrowing of financial exclusion by raising awareness and economic knowledge of the society. Greater economic literacy promotes positive behaviours and contributes to households' making the right (rational) financial decisions. In this way banks obtain more, economically literate customers, to whom they may offer a wider

range of products. Additionally, greater economic literacy of people contributes to the stability of the social and economic system and constitutes a natural stimulus in the financial sector, particularly in terms of competitiveness and innovation, so that the entities operating in this sector – banks – could satisfy the expectations of more demanding customers. On the other hand, the lack of extensive infrastructure and difficulties people have starting their financial activity lead to the limitation of market trade, impair development of innovations, increase the risk (particularly, the risk of making irrational choices and their consequences) and disturb the process of savings accumulation.

Further, limited knowledge of the banking offer and financial market mechanisms promotes aversion to using financial services, results in unawareness of eligibility for a particular offer from among all offers available in banks, analyses focused only on the benefits of a given proposal (without assessing the risk involved), making erroneous decisions resulting in financial losses or finding oneself beyond the group of potential customers sought by banks (Penczar, Górski, Liszewska). Effective economic education activities performed by banks may, therefore, prevent reduction of banks' income and indirectly, contribute to the improvement of their image and reputation and prevent becoming unattractive not only to households excluded from the customer group, but to everyone who starts (or might start) a relation with these financial institutions.

Thus, economic education seems to constitute a good solution for banks, which must face the crisis of trust among potential customers, greater expectations of the society (involving fulfilment of sustainable development assumptions, with CSR as a part of it), stronger and stronger competition and the pressure of stricter legal regulations. At the same time, actions undertaken as part of economic education are translated into greater opportunities for generating higher profits that may be earned especially in a long-term perspective (Solarz, 2010: 247), which clearly qualifies such actions as entrepreneurial activities.

## 5. Conclusions

Among all the types of actions which companies (including banks) may undertake while pursuing their corporate social responsibility projects, the most effective, but also credible ones are those integrated with their strategic goals. In banks, one of these goals is undoubtedly the sale of financial products and services. On the other hand, as institutions of public trust, with their ancillary role towards the society and reputation undermined as a result of the most recent crisis of the early 21<sup>st</sup> century, banks are predestined to implement the CSR concept. Thus, one of natural directions of activities undertaken in this area by banks should be economic education (Ziemba, Świeszczak, 2014: 326). This is because economic education enables an entrepreneurial approach to boosting customers' loyalty and attracting new clients,



provides an opportunity for offering a wider range of services and also for improving security and stability of the financial system (some of the results being the formation of appropriate financial behaviours and teaching people to make rational financial decisions).

Responsible finance activities are reflected in solutions the role of which is to protect the consumer, create an image of a responsible provider of financial services and shape financial competence of customers. This article focused particularly on the latter group of solutions, meaning banks' activities in the process of economic education. This is a compromise, which allows banks to carry out positively perceived social activities, beneficial to individual social groups (and at the same time, contributing to counteracting financial exclusion, which is classified as an important social and economic issue) and at the same time, affects potential future results of banks. Despite a certain conflict of interest, which may emerge when banks give up the CSR concept to turn to cause related marketing activities, one may notice that economic education provides a number of additional benefits, independent of the actual intentions of banks.

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## **WYKORZYSTANIE KONCEPCJI SPOŁECZNEJ ODPOWIEDZIALNOŚCI BIZNESU DO PRZECIWDZIAŁANIA WYKLUCZENIU FINANSOWEMU JAKO PRZEJAW PRZEDSIĘBIORCZOŚCI W BANKACH**

### **Streszczenie**

Artykuł ma na celu umożliwić udzielenie odpowiedzi na pytanie, w jaki sposób banki wykorzystują społeczną odpowiedzialność biznesu do przeciwdziałania wykluczeniu finansowemu oraz dlaczego może być to uznane za przejaw ich przedsiębiorczości. Autorka zaprezentuje rozwiązania wykorzystywane w tym zakresie. Następnie pokaże, że banki prowadząc takie działania (m.in. z zakresu edukacji finansowej), mogą przyczynić się do zmniejszenia poziomu wykluczenia finansowego. Ostatecznie autorka chce wykazać, że dzięki temu osiągną również dodatkowe korzyści dla nich samych oraz dla całego systemu finansowego.

Ponadto, autorka zidentyfikuje powody, dla których aktywność w tym obszarze może, a nawet powinna być uznana za przejaw przedsiębiorczości. Z uwagi na podejmowane kwestie, rozważania będą miały przede wszystkim charakter teoretyczny.

**Słowa kluczowe:** wykluczenie finansowe, społeczna odpowiedzialność biznesu, banki.

**Klasyfikacja JEL:** A20, G21, L26.