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Effectiveness of CSR projects of financial sector companies

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In my paper, I aimed to present the basis of developing a practical decision-making methodology that facilitates the selection and application of CSR initiatives for financial sector companies, which makes the social responsibility projects effective for different stakeholders.

To achieve this goal, I plan on a step-by-step basis what are the most important factors of CSR projects (including practical points of measurement and application). I give particular attention to the conditions of choosing the particular initiatives to reach the largest possible impact. I include the most widely used types of CSR activities in Hungary in the banking sector and a specific area, the field of developing financial culture, financial knowledge and literacy will be explained in details.

Developing financial literacy of society (including the potential customers) may have significant impact but it is an essential commitment as well. Due to the lack of financial education students must gain enough financial and economic knowledge and practical skills from other sources and financial institutions can provide possibilities for them.

Introduction and topic selection

CSR in Hungary has been in the focus of attention intensively since the last decade. During my research I examine the application efficiency of CSR as a strategic management methodology. CSR activity itself can result in positive changes only in the medium or long run in the life of an organization, its market and/or social status or even in the financial performance of the organization. I particularly examine the financial sector as it has specific qualities in comparison with other sectors when applying CSR activities and projects.

„An important component of the economic system is represented by the financial institutions. They have an important role in attracting financial resources from the economy and their redistribution to businesses that are looking for financial resources to finance new projects. Similar to other companies, banking and financial institutions have a

certain conduct in dealing with the local community, labour and the environment, and their relationships can be used as key tools in imposing principles of sustainability to the borrowers.” (Matei & Voica, 2013:115)

„CSR in the financial sector should include the following elements: risk assessment, effective and efficient internal audit process with value added to stakeholders. Hence, in order to maintain competitiveness in the market and responsible to customers, bankers need to understand the economic situation, re-focus marketing strategy with prudent risk management system, identify the concerns of customers, implement fair operation procedures to protect customers and the community as a whole.” (Yeung, 2011:108)

„The concept of corporate social responsibility is not new in the banking sector, but nowadays, it becomes more significant as the financial crisis has highlighted the need for integration of moral principles in the banking business.” (Lenka & Jiri, 2014:50)

Choosing the CSR-project to be supported

In my opinion, the most important issue in the application and efficiency of a CSR project is the first step, ie the selection of the method to be supported. In the following, I would like to present the general recommendation of authors *Kotler and Lee (2007)* for companies regarding this essential question that can be applied to any sector:

- Select only some goals you want to support: It increases the chances of the company actually having an impact on a given social initiative as resources are focused and several initiatives are geared to the same purpose.
- Select a goal that appears as a problem in the community where the company is doing its business: It also helps reaching social and economic goals by serving the community in which we have premises, from where our future staff is hired and where our customers live.
- Select a goal that is consistent with the company’s mission, values, products, and services: Develop products and services that fit into the company’s mission and then promote and sell them to reflect the company’s values.
- Select a goal that potentially promotes the achievement of your business goals: Simultaneous support for business goals is a real, strategic question. Only corporate donations and shareholder interests coincide if the company’s expenditures simultaneously serve social and economic goals.
- Choose topics that stakeholders consider important: Support for social initiatives can be accomplished if social affairs are important for external and internal stakeholders as well.
- Choose long-term goals: The most significant advantage for the company is often the long-run engagement that requires long-term,

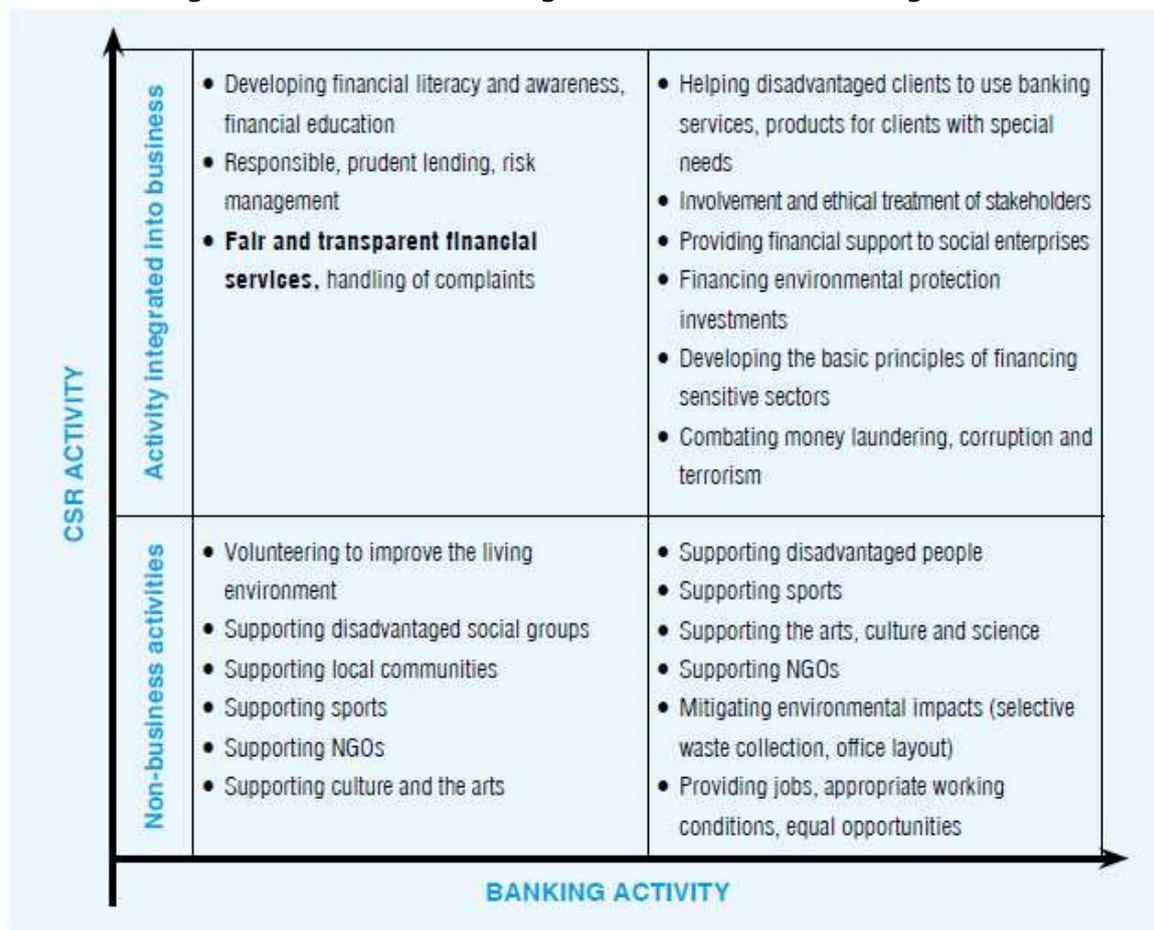
often 2-3 or more years of commitment (Kotler & Lee, 2007:248-251).

CSR activities of the financial sector in Hungary

In Hungary, financial sector companies apply many types of CSR activities, but unfortunately sometimes in an ad-hoc, not conscious way. In my opinion they tend to follow the practices of other companies, react to situations or plan CSR initiatives based on only their financial and technological resources.

Figure 1 indicates the list of CSR activities and banking activities of the financial sector regarding the typical applied CSR initiatives and projects. Banking activity is analysed in terms of the balance sheet total and the number of branches (i.e. the size of the financial institution), and CSR activity shows whether CSR projects are integrated into the core business activities of the bank or they apply only the philanthropic aspect. The following CSR map lists the CSR activities of Hungarian commercial banks which was made based on the information that can be found on their websites (Lentner et al., 2015).

Figure 1. CSR and banking activities of the banking sector



(Source: Lentner et al., 2015:100)

It can be clearly seen from the CSR map that the typical CSR activities strongly depend on the size of the financial institution and other, more subjective factors as well (such as the attitude towards charity events etc). Many various options and possibilities exist when engaging in a CSR-initiative, but we can distinguish them in two groups: those activities that are non-business activities (and not included to the core operations of the bank) and those which are consciously integrated into the main activities of the company.

Non-business activities are usually general charitable contributions: such as supporting sport and cultural events or local communities, even disadvantaged social groups. These activities are not special and are not connected to financial activities. Sometimes these are only donations or sponsorships, so they want to reach results with giving money to altruistic goals.

With larger banking activity some new types emerge, such as providing job opportunities and better working conditions, equal opportunities for employees (these are mostly legal issues related to labour force and can be regulated by laws).

In my opinion the emphasis regarding CSR activities should be on those projects that are connected to the core business and strategy of the companies. Regarding financial institutions new types of „missions“ appear such as fair and transparent financial services, responsible lending, risk management. These activities follow the usual practice of banks and are mostly reactive actions. Larger banks even have the commitment, liability and power to combat money laundering, terrorism and corruption.

However, I consider developing financial literacy and awareness and financial education the most essential among all CSR activities related to the banking sector. The reason behind my opinion is quite simple: it has a preventive, supplementary and promoting effect that might facilitate to meet the main objectives of the company with helping society as well. It can be significant for the younger generations, so I will analyse the importance of financial culture and education for this specific target group.

Financial culture

Financial culture is often narrowed down in the everyday use to financial knowledge and information, although the basic definition suggests that we are faced with a much more complex issue.

In the projection of financial culture, knowledge is only the „tip of the iceberg“. The section below deepens the factors, so the patterns of thinking and behaviour that have emerged in the past, convictions that are less visible, are more difficult to detect and thus complicate their impact. These elements, however, determine financial decisions on a long-term basis (Balázs, 2013:40). The components of financial culture are therefore:

1. Financial information and financial knowledge.
2. Financial literacy: abilities to properly process information and make good decisions.

The components of financial culture can therefore be regarded as competences that include knowledge, skills, abilities, motives and dispositions. Competence is a concept that refers to the system and the co-operation of these elements (Henczi & Zöllei, 2007:16-17).

The components of competence can be placed on five levels. The first three levels include the resources needed to work, knowledge (cognitive components) and skills that make it work. These competency components are easy to see and develop. Abilities are the fourth level, which is a prerequisite for creating the first three levels of components, which can be formed. The fifth, less visible layer includes the following components: values, attitudes, empathy, emotions, self-knowledge, and so on. According to Henczi and Zöllei (2007) competences provide the individual with the ability to apply knowledge and valuable behavior.

Competence also provides a source of energy for the holder of a stable and durable resource that enables the handling of powerful and infinite power mechanisms in the environment to answer the questions that arise. On this basis, it can be considered as the human resource of the individual.

For analysing financial culture (including financial knowledge and financial literacy) it is important to break down the target group by age groups because the relatively tied education system largely determines issues and problems affecting young people. So I created the following four categories:

- *12-14 years*: It covers the students of upper secondary school (about 5-8 grade students). The children's relation to money starts to come about (eg. spending pocket money, saving money) and an important event at the age of 14 is the decision about the future and further education.
- *15-16 years*: First years of middle school, when students get into new environments. This period may be the beginning of greater autonomy (cash management).
- *17-18 years*: Secondary school years are over, more responsibilities are associated with this period (school-leaving exam), and a decision-making situation again that is even more serious than before, since it has a higher stake! (Example: If a student living in the country starts to study at a university in the capital, moving to that city, commute every weekend, renting and paying an apartment, possibly doing extra work, it imposes greater financial burdens on them and the parents too.)
- *above 19 years*: Whether they are study in higher education or working, there is definitely an order in their lives, a daily routine is developed. It is the time when conscious planning for the future is significant - eg. opening a bank account, buying own property (these may be smaller expenses, such as phones, laptops, games

etc, or even more valuable properties such as a car). In many situations maintenance costs have to be taken into account and calculated in advance.

We can see, therefore, that every age group has a different relationship to money, since they have different problems and they are in a different life situation. We can also make different groups based on their place of residence, family and financial situation, which further complicates the situation.

As I outlined above, young people's financial decisions have many factors to consider, so they require a clear analysis and transparency of situations. It is not a simple task, and alone, without any help, it is not possible or might be expected. In these age groups, the desire for self-reliance and self-management is gradually becoming a serious responsibility.

„The financial culture development project“ focuses on financial education, the concept of which is defined by the OECD as follows: „a process whereby a consumer/investor can better understand financial products through information, education and/or independent advice, concepts and risks. Creates abilities and trust in the consumer, helping to better understand financial risks and opportunities, based on appropriate information in decision making. The consumer knows who to ask for help or to use other effective means to increase financial well-being.“ (OECD, 2005) On this basis, three pillars of financial education exist:

1. *Provision of information:* When deciding on households' financial stability for many years, it is essential that they have the right information. Information that is easy and affordable, and easy to understand is appropriate.

2. *Counselling:* In financially-advanced countries, the importance of for-profit and non-profit companies in giving financial assistance to households increases. Financial counselling takes into account the current general financial processes and proposes products to help the consumer make the best use of their knowledge. The role of qualified consultants who are in the forefront of customer relations is increasingly appreciated, with high level of professional competencies and full transparency (commissions, interests and all relevant information).

3. *Education, training:* financial education aims to enable households to understand financial concepts and issues. According to the subject, three types of training should be distinguished: general monetary knowledge, general finance for individuals, targeted training programs: appropriate education for a predetermined target group (eg young married) and a financial goal (eg home purchase). (OECD, 2005)

Research results regarding financial culture

Several research results show that there is a low level of financial culture both internationally and domestically, and consumers are struggling to manage their finances. In the 2007 Statement of the European Commission, we can read that:

- Consumers find it difficult to understand finances: they increasingly recognize that they have fundamental shortcomings in the management and understanding of finances. A survey conducted in France, Spain and Italy showed that a significant proportion of low-income people do not pay attention to the difference between the fees and conditions of financial institutions and are unable to interpret them.
- Consumers often overestimate their knowledge of financial services: they are typically only receptive to financial education if they recognize that they are related to a topic directly affecting them. During the surveys conducted in the United States, respondents confidently stated their financial knowledge, but their knowledge of the test questions was scarce. According to an Australian survey, two-thirds of respondents considered themselves financially educated, although only a quarter of them understood the concept of interest-rate interest.
- Many consumers do not plan ahead or do not choose a product which is appropriate for their needs: According to a survey conducted in the United Kingdom, there are many people in the income category who do not make financial plans, and 70% do not provide a reserve to cover unexpected income losses (Commission of the European Communities, 2007:2).

Conclusion

It is important to mention the general importance of financial culture for the younger generation and to develop financial literacy through banking activities (even CSR activities). The problem is that if young people do not study economics in the framework of a vocational school or in higher education, then they have little chances of learning about finances. And even if they learn about it, education is too theory-oriented, it lacks realistic, practical methods. Many of them will experience the difficulties and weaknesses in making financial decisions later in their lives without relevant knowledge and with many confusing circumstances and sources.

Financial institutions should involve the younger generations in the analysis of financial implications of their own lives. They also have to take into consideration that due to the differences in the generations and the digital world, students today learn and understand the phenomena differently. They perceive the world around them otherwise, more practically and in a more creative and interactive way. They also have

higher stimulus thresholds, which means that a game, application (and an educational program) must be spectacular, innovative to catch their attention.

Financial institutions should try to focus on these new approaches to reach the youth. This will be an essential issue of the close future, and more applications will spread in connection with the approaches of „gamification” and „edutainment”.

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