



CHARTING THE COURSE OF SOCIAL BANKING: ANALYSING THE THEORETICAL AND EMPIRICAL UNDERLYING SOCIAL CRITERIA

Yolanda Cotelo
Universidade da Corunha

Abstract

This paper delves into the evolving landscape of sustainability in banking, particularly exploring the growing relevance and institutionalization forms of social banking. To this end, it first introduces a dynamic multi-theoretical framework, incorporating legitimacy, stakeholder, and institutional theories, to analyze the rise of social commitment of financial institutions. Secondly, two contrasting approaches are discussed to understand their different institutionalization forms and evolution – the corporate social approach adopted generally by mainstream banks and the tension perspectives approach of social banks. The former often engages in adjustments of determinate banking practices to meet societal expectations, while the latter, embraces tensions inherent in sustainability. To conclude this article advocates for considering the dimensions of social banking, rather than exclusive definitions, as an unlocked potentiality to overcoming the claimed debate surrounding the definition of social banking. The proposed framework and outlined dimensionality aim to contribute to advancement in understanding the evolving role of banks in society, especially in the context of sustainability.

Keywords: Social Banking, Sustainability, Legitimacy, Corporate social approach, Tensions approach.

TRAÇANDO O CURSO DO BANCO SOCIAL: ANÁLISE DOS FUNDAMENTOS TEÓRICOS E EMPÍRICOS DOS CRITÉRIOS SOCIAIS

Yolanda Cotelo
Universidade da Corunha

Resumo

Este artigo explora o cenário em evolução da sustentabilidade no setor bancário, especialmente investigando a crescente relevância e formas de institucionalização do banco social. Para isso, introduz inicialmente um quadro dinâmico multi-teórico, incorporando teorias de legitimidade, stakeholders e institucionais, para analisar o aumento do compromisso social das instituições financeiras. Em segundo lugar, são discutidas duas abordagens contrastantes para compreender suas diferentes formas de institucionalização e sua evolução – a abordagem social corporativa adotada geralmente pelos bancos convencionais e a abordagem de perspectivas de tensão dos bancos sociais. O primeiro frequentemente se envolve em ajustes de determinadas práticas bancárias para atender às expectativas sociais, enquanto o último abraça as tensões inerentes à sustentabilidade. Para concluir, este artigo defende a consideração das dimensões de banco social considerando suas dimensões, em vez de definições exclusivas, como uma potencialidade desbloqueada para superar o debate em torno da definição de banco social. O enquadramento proposto e a dimensionalidade delineada visam contribuir para avançar na compreensão da evolução do papel dos bancos na sociedade, especialmente no contexto da sustentabilidade.

Palavras-Chave: Banca Social, Sustentabilidade, Legitimidade, Abordagens sociais corporativas, Abordagem de tensões.

1. Introduction

The activity of receiving deposits from the public and providing credit on their own has been the traditionally defining credit institutions' business. However, nowadays, their scope embraces a full range of financial services, from payment to insurance services, among others. Economic and social challenges, together with the evolution of technology and innovation, have shaped the ongoing evolution of the financial system's structure.

This paper focuses specifically on the recent transformation, heightened by the aftermath of the 2007 economic crisis, related to the adoption of banking practices and discourses including ethical and environmental objectives (Paulet et al., 2015).

The rise of sustainability i.e., "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Bruntland, 1987), has raised the importance of these concerns. The role of financial institutions as intermediaries between society and finance situates them as a key sector in determining society's success in achieving sustainable development (Scholtens, 2009). They hold the capacity to foster the features necessary to enable both, their customers and business models to adopt a sustainable path.

In this context, a new form of organization concerned with the ability to effect positive social and environmental challenges has emerged. Different concepts such as triple bottom line, blended value, values-based, mission-driven, or hybrid organizations have been used in literature to refer to them (Haigh & Hoffman, 2012). Their business model differs from traditional entities in its sustainability-driven character as holding social and environmental missions while generating the needed profit to accomplish them.

In the investment world, they have introduced changes on individual and institutional levels through socially responsible investing. In finance, microfinance organizations have risen rapidly while in the banking sector, social or ethical banking has gained prominence.

All areas have reached the attention of experts and academics. Nevertheless, the social characterization

of credit institutions, defined by their pursuit of a triple social, environmental, and economic objective, has not yet been accompanied by a comprehensive approach capable of integrating the theoretical and practical levels of its definition and measurement (da Silva Inácio & Delai, 2022).

Despite the relevance and implications of their social factors, there is still no consensus regarding the nature of what a social bank is. Neither on how mainstream banking addresses sustainability nor on how previous banking traditions have dealt with it, evidencing the need for in-depth research.

This paper aims to contribute to filling these gaps, answering the question of how banking institutions face sustainability. To this end, first, we discuss the emergence of social banking and how long-held business norms and conceptions of the role of the corporation in society, have evolved. Secondly, we dig into the distinctive characteristics of social banks relating them to the way conventional banks adopt sustainability and the presence of social characteristics in traditional banking typologies. We do that under the corporate social approach and the tensions perspective of sustainability (Carroll, 1979; Van der Byl & Slawinski, 2015). Finally, we conclude that different institutionalization forms of social banks and levels of socialization, among other challenges surrounding social banking, as the clarification of its conceptualization, could be unlocked considering its dimensions as the first step forward toward its empirical analysis.

2. A dynamic multi-theoretical framework: legitimacy, stakeholder, and institutional theory

The field of social banking is still in the process of forming a consensus on its paradigm and establishing a recognized epistemology. Despite this, a plural set of theoretical approaches has been articulated.

This multi-theoretical framework is a response to the major changes in the banking sector that have pushed towards an analysis of financial institutions from a comprehensive perspective,

explaining financial institutions' function and significance in the real economy (Scholtens & van Wensveen, 2000)

Research efforts to explain the social commitment of institutions have tended to rely on a corpus of system-oriented theories – principally legitimacy theory, stakeholder theory, and institutional theory (Cormier et al., 2005). These approaches reinforce the idea that economic institutions cannot be analyzed independently from the social context and institutional framework in which they take place and which shape and influence them (Carnevale & Mazzuca, 2014; Deegan, 2002).

The key notions of each theoretical stream evidence the dynamic and overlapping nature of this multi-theoretical framework. First, economic organizations are shaped by definitions of appropriate legitimate forms of economic behavior which can vary across time and space. Legitimacy itself has been defined by Lindblom (1994, p.2) as “... a condition or status which exists when an entity's value is congruent with the value system of the larger social system in which the entity is a part”. This underscores how the extent to which stakeholders support corporate behavior or push to redefine their established goals can influence their effective functioning and performance, drawing upon the foundations of stakeholder theory (Freeman, 2010). At the same time, legitimacy plays an important role in processes of institutionalization, mainly, producing normative orientations. Consequently, this approach highlights the stakeholder's role in the configuration of social banking together with the relevance of legitimacy in the resulting different institutionalization processes.

2.1 The role of society's interest: A stakeholder theory approach.

The prevailing firm's desire to maximize short-term interests, disregarding the longer-term impact on society and stakeholders', highlighted the system's failure to take into consideration dimensions, such as ethics, transparency, and accountability (Benedikter, 2011). As a result, concerns arose about the functioning of money and finance, leading to calls

for social and sustainable action. These demands, advocate for aligning values with the pursuit of societal well-being beyond the explicit economic, technical, and legal interests of entities (Carroll, 1979).

2.2 The rise of ethical and sustainable commitment in banking: A legitimacy crisis approach

The concern for sustainable criteria in banking can be considered as a corporate response to a legitimacy crisis, motivated by the effects of the 2007 crisis and the evidenced detachment of the financial system from the general interest and the real economy (Fourcade & Healy, 2007). There is a legitimacy crisis when disparity emerges between social and institutional or corporate values (Lindblom, 1994). In this case, the desire of organizations to maximize short-term interests disregards the longer-term impact on society and stakeholders' interests.

In this context, society's legitimacy was increasingly relying on responsible behavior, understood as enhancing further social welfare beyond the more explicit economic, technical, and legal interests of the firm. In other words, social criteria were claimed to be factors for consideration (legitimacy). Consequently, as a way to recover the congruence between the sustained social values of the organizations and the values embraced by society, financial institutions started to include social and environmental commitments accompanied by a deeper disclosure of non-financial information around these goals.

2.3 The normativization of sustainability: Institutional theory approach

As a result of the legitimacy crisis associated with the 2007 financial breakdown, banking institutions began to increasingly assess and explain their financial performance, articulated in the legitimate normative orientations, rather than simply the premises of profits and efficiency (Fourcade & Healy, 2007).

However, adopting normative orientations has a number of consequences within the market process. Aware of these implications, credit institutions manage the normative orientations in coherence with their business criteria and principles to avoid undesired consequences within the economic and market process. Consequently, the need to conform to society's requirements and expectations did not produce a general change in the structure and/or operations of credit institutions. Instead, particular strategies were formulated under business may continue "as usual".

Each of the several legitimacy strategies would result in different models of institutionalization for social principles and practices, depending on the stakeholders involved, the type of practices and operations developed, narratives and discourses, etc. Thus, normative orientations can contribute to determining different institutionalization forms (types) of banking. Nevertheless, legitimacy may not be the sole reason, as various interrelated motives can drive the adhesion of these orientations (Deegan, 2002). Yet, the complexities involved in distinguishing the underlying fundamentals of the strategies, which range from contributing to the community's expectations to capturing funds or taking advantage of the appearance to act correctly, conform to a challenge.

3. Different approaches to social criteria in banking

As presented at the beginning, what characterizes social banking is their guide from a triple bottom-line principle for a triple impact which identifies three areas of focus: profit, people, and planet (Fourcade & Healy, 2007). The existence of certain agreements around this definition helps to overcome the wide debate around its conceptualization, mainly driven by the interest in underlying different particularities of each business model configuration: ethical banking, sustainable banking, alternative banking, value-based banking, and green banking (Weber & Remer, 2011). The discussion based on these terms may foster

the differentiation of sub-types of social banking. However, it provides scant support, if not outright contradictions, to initiatives aimed at determining the criteria for distinguishing what qualifies as social banking and what does not.

Advancement in building epistemological consensus on the field, as presented in previous sections, requires understanding what normative orientations imply and how can they lead to the adoption of a variety of institutional forms. Hence, before delving into various business models that can serve to accomplish their pointed mission, it is crucial to differentiate how entities align with legitimacy. This distinction is essential to contrapose business models that fully address this perspective to strategies that may emulate it, tailoring goals, methods, and outcomes.

To this end, we deepen on what we have considered the main contraposed institutionalization forms of social criteria in banking. We address corporate social approaches (section 3.1) and the tensions perspective of sustainability (section 3.2). It is not aimed to be a comprehensive review of each of them as the space of this paper is limited, however, we will succinctly make use of them to advance the conceptualization of social banking to be able to point out characteristics and differences.

3.1 Corporate social (CS): responsibility, responsiveness, or performance.

Social banking is not the only term surrounded by a lack of clarity. Instead, the frequently shrouded discussion about definitions is one of the factors contributing generally to the ambiguity around the social commitment of the organizations. What follows evidence it.

"Corporate social" can be defined as encompassing the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll, 1979). When accompanied by responsibility it emphasizes the motivation of a corporation to address an issue. While responsiveness would highlight the managerial processes and performance would stand out the results and impacts.

The corporate social approach of business is economic in nature as it is the basic economic unit in our society. Business is expected to operate under laws and regulations. Furthermore, society has expectations of firms above legal requirements, the ethical responsibilities. Lastly, it has a discretionary component, about which society has no clear-cut message for business, instead, it is left to individual judgment and choice. The decision to assume them is guided only by the organization's desire to engage in social roles. The discretionary dimension is purely voluntary, although, societal expectations do exist for businesses to assume social roles over and above those described.

An organization doing most of all categories is usually characterized as proactive, problem-solving, and industry leader (Carroll, 1979). Having reached such, the corporate social approach would no longer be just the content of a group of policies, i.e., a retroactive addition to business. Instead, the pursuit of sustainability, despite it was not the reason why they were initially created would conform by then, their continuing *raison d'être*, i.e., their business model mission. Thus, a corporate social approximation could lead to a business transformation.

Although, a foundational start over is required. In the end, the transition to becoming a social credit institution forces any organization to align with a mission that shifts immediate, instrumental, self-interest towards the consideration of a broader context of benefits that include the social and natural environments of which they are a part. Yet, as far as we are aware, this ideal stage has not been reached by mainstream banking institutions. We concisely examine why.

Corporate social approaches and social banking share the aim to present a bridge between ends that has previously been seen as an incommensurable dichotomy (ex., profits vs. social and environmental mission). In both cases, the kind of issues they address, are in a transient state. As explained in the previous section by the dynamic character of orientations, as the times change, so does the emphasis on the range of social issues businesses are expected to address. Also of interest is the fact that particular social issues are of varying concern to businesses (here would relate the

discussion around the conceptualization of social banking commented previously). However, they discern their discretionary responsibility, strategies, and consequently, levels of performance, i.e., its characteristics.

Social banks take responsibility, even if not explicitly expected, to solve societal and environmental problems. They are fully designed to successfully serve the three goals, significant social and environmental missions maintaining economic viability. In contrast, the corporate social conceptualization does not require assuming the core responsibilities of such a triple mission. Consequently, under the corporate social approach, organizations manage the alignment with societal expectations throw add-on goals. They lay down managerial strategies as the alignment with symbols or institutions with a solid base of legitimacy, redirecting their public's attention to those aspects where their legitimacy is greater, or attempting to influence expectations surrounding their activity to boost their legitimacy.

As a result, changes do not fully affect the entity instead just imply the creation of certain products or participation in certain activities. An example of this is the current mainstream focus of banking on reducing negative impacts (such as carbon emissions) and implementing end-of-pipe initiatives (such as waste minimization and pollution control). They represent attempts to fix gaps not leveraging the potential to achieve high environmental impact.

Yet, their activity continues subordinated to conventional financial valuations, representing the added objectives, a superficial compromise that does not imply a profound change regarding their business (Relano & Paulet, 2014). As a result, there are important differences in performance among social and non-social banks, as higher as their social commitment.

Although entities may have acquired by implementation of some social characteristics, there are still constraints and important limitations. However, normative developments in mainstream banking evidence that socialization, i.e., widening banking institutions' scope on sustainability is not only desired but also possible.

3.2 Tensions perspective of corporate sustainability.

The adoption of a corporate social approach contributes to explaining the inclusion of social criteria. Nevertheless, as much of the research, relies on a win-win perspective assuming that the three goals mutually reinforce each other (Van der Byl & Slawinski, 2015). The emphasis on the financial benefits of pursuing also social and environmental objectives has supported its legitimation. However, it is an instrumental view, the same present in studies based on trade-off approaches that end up prioritizing one element over another. Therefore, it fails to explicitly consider the inherent tensions of sustainability (Bruntland, 1987).

Tensions can exist between competing elements of economy, society, and environment or the present and future temporal contexts. Consequently, given that sustainability encompasses several contradictory yet interrelated elements, two perspectives have been developed recognizing such tensions rather than simply avoiding them.

On one side, the integrative approach. This perspective of sustainability focuses on rebalances from instrumental to weighting (ideally equally) sustainability elements, shifting focus from just economic to social and/or environmental. It recognizes the tensions through its management (Van der Byl & Slawinski, 2015). This implies that an organization's business models may include practices, goals, and values that do not perfectly align instead that may contradict each other. It can be better understood by analyzing banking by making use of its traditional typologies.

Built on the base of its legal form different banking models have been traditionally identified. Various of them, such as credit cooperatives, savings banks, mutual banks, and not-for-profit banks, have played a relevant role in achieving social and environmental goals. For example, providing access to segments of the population financially excluded, driving regional development, or encouraging certain values and principles. As a result, they have been characterized by counterbalancing the traditional heavy focus on economics with an approach

that places more weight on environmental and social considerations.

Thus, they conform an example of the latent tensions between the three objectives being consciously present and managed through integrative balance. Moreover, these instances to be considered a crucial aspect when analyzing social banking. Introducing a social dimension to banking is not an entirely novel phenomenon, notwithstanding the significant momentum the move toward sustainability has gained (Relano, 2015).

On the other hand, more recently, the paradox perspective of organizations has been used to deepen sustainability tensions. This approach argues that organizations face multiple paradoxical tensions, i.e., interrelated contradictions. Under paradox, tensions are embraced through exploration rather than a resolution perspective. In contraposition to the prior instrumental perspectives that understand elements as a conflicting objective function with a deal option. Paradox examines how to work through contradictions requiring innovation and creative approaches to be developed (Van der Byl & Slawinski, 2015). Therefore, it differs from the integrative lens view of managing tensions through counterbalancing.

Hence, the tensions approach may contribute to differentiating among institutionalization forms of social criteria. First, the one from mainstream banks reinforces the differences among social corporate approaches, underlying win-win and trade-off perspectives, and the social bank conceptualization. Secondly, the one of previous banking traditions with social and/or environmental missions, based on the counterbalance, characteristic of the integrative perspective. Third, the resulting innovative business models that embrace paradox tensions, i.e., new social banks. Yet, knowing if the paradox theory truly describes the reality behind the social banks that emerged from the 2007 legitimacy requires further investigation.

4. The dimensions of social banking

The theoretical framework developed to explain the rise, evolution, and institutionalization of social

banking, brings attention to the fact that more than an operational definition is needed to advance the field. The identification of social banking features has evidence key for understanding how the current spread of social and sustainable concerns, interact within the whole banking system and the theoretical framework lying around. However, due to the presented different underlying logics and subsequent institutionalization forms of social banking, characterization by itself has shown not sufficient to overcome some current limitations (Relano, 2015; San-Jose et al., 2011). Instead, being conceived as articulated wide groups of interlinked characteristics, social banking dimensions have the potential to fulfill this need, putting together a balance of the specificity of social banking and the generalization required to allow comparison. Therefore, their relevance is triple.

First, determining and analyzing the features of social banking clarifies its conceptualization. Secondly, it brings light into a black box. Until now, literature has tended to rely on external categorizations of banks as socials based on the criterion of institutional membership of private organizations such as the European Federation of Ethical and Alternative Banks and Financiers (FEBEA) or the Global Alliance for Banking on Values (GABV) (Paulet et al., 2015; San-Jose et al., 2011). The determined dimensions allow to establishment of a social typology based on transparent criteria. Finally, it contributes to solving the terminological debate around the definition by allowing its empirical measurement. This not only means that it is possible to address empirically social banking. It also possibilities to gain comparative insights for example on how traditional banks address sustainability, banking transformations, the evolution of previous banking traditions with social characteristics, or the determination of levels of socialization.

Thus, we believe that future work in this direction would contribute to fostering the advancement of the field. On top of being the dimensions of social banking, the answer to the gaps pointed at in this paper.

5. Conclusion

Defining social banking is still a matter of discussion, despite the growing social and academic relevance of the topic. The exposed theoretical and empirical underlying of social banking bring attention to its dimensions, interlinked characteristics of the phenomenon, instead of contrasting exclusive definitions of a normative nature, as a potentially relevant contribution to the advancement of literature in theoretical and empirical terms.

The multi-theoretical framework developed explains the key role of banking in and for society. It's able to successfully dip into the roots, rise, and spread of sustainability in banking. Furthermore, the different approaches to social criteria in banking evidence the different motivations, strategies, and performance levels behind the various forms of institutionalization of social criteria. Such perspectives can link the changes brought about by the 2007 crisis with the deep origins of the social characteristics of banking. All of it fosters the conceptualization of social banking. Yet, future investigation is required.

We conceive the research on social banking dimensions as an important step further to be able to address research gaps advancements. Especially, as it could be enabling its wider empirical measurement. Therefore, the dimensions have the potential to both, bring insights to current questions as well allow the formulation of new ones. Thus, we deem social banking dimensions as an opportunity to reconcile perspectives and advance sustainability.

References

- Benedikter, R. (2011). *Social Banking and Social Finance*. Springer New York. <https://doi.org/10.1007/978-1-4419-7774-8>
- Brundtland, G. (1987). *Our common future*. World Commission on Environment and Development. <http://www.un-documents.net/wced-ocf.htm>
- Carnevale, C., & Mazzuca, M. (2014). Sustainability report and bank valuation: Evidence from European stock markets. *Business Ethics: A European Review*, 23(1), 69-90. <https://doi.org/10.1111/beer.12038>

- Carroll, A. B. (1979). A Three-Dimensional Conceptual Model of Corporate Performance. *The Academy of Management Review*, 4(4), 497-505. <https://doi.org/10.2307/257850>
- Cormier, D., Magnan, M., & Van Velthoven, B. (2005). Environmental disclosure quality in large German companies: Economic incentives, public pressures or institutional conditions? *European Accounting Review*, 14(1), 3-39. <https://doi.org/10.1080/0963818042000339617>
- da Silva Inácio, L., & Delai, I. (2022). Sustainable banking: A systematic review of concepts and measurements. *Environment, Development and Sustainability*, 24(1), 1-39. <https://doi.org/10.1007/s10668-021-01371-7>
- Deegan, C. (2002). Introduction: The legitimizing effect of social and environmental disclosures – a theoretical foundation. *Accounting, Auditing & Accountability Journal*, 15(3), 282-311. <https://doi.org/10.1108/09513570210435852>
- Fourcade, M., & Healy, K. (2007). Moral Views of Market Society. *Annual Review of Sociology*, 33(1), 285-311. <https://doi.org/10.1146/annurev.soc.33.040406.131642>
- Freeman, R. E. (2010). *Strategic Management: A Stakeholder Approach*. Cambridge University Press.
- Haigh, N., & Hoffman, A. J. (2012). Hybrid organizations: The next chapter of sustainable business. *Organizational Dynamics*, 41(2), 126-134. <https://doi.org/10.1016/j.orgdyn.2012.01.006>
- Lindblom, C. K. (1994). The Implications of Organizational Legitimacy for Corporate Social Performance and Disclosure. *Critical Perspectives on Accounting Conference*, New York.
- Paulet, E., Parnaudeau, M., & Relano, F. (2015). Banking with Ethics: Strategic Moves and Structural Changes of the Banking Industry in the Aftermath of the Subprime Mortgage Crisis. *Journal of Business Ethics*, 131(1), 199-207. <https://doi.org/10.1007/s10551-014-2274-9>
- Relano, F. (2015). Disambiguating the concept of social banking. *ACRN Journal of Finance and Risk Perspectives*, 4(3), 48-62.
- Relano, F., & Paulet, E. (2014). Differentiating between sincere and insincere corporate social responsibility. Post-Print, Article hal-01513917. <https://ideas.repec.org/p/hal/journal/hal-01513917.html>
- San-Jose, L., Retolaza, J. L., & Gutierrez-Goiria, J. (2011). Are Ethical Banks Different? A Comparative Analysis Using the Radical Affinity Index. *Journal of Business Ethics*, 100(1), 151-173. <https://doi.org/10.1007/s10551-011-0774-4>
- Scholtens, B. (2009). Corporate Social Responsibility in the International Banking Industry. *Journal of Business Ethics*, 86(2), 159-175. <https://doi.org/10.1007/s10551-008-9841-x>
- Scholtens, B., & van Wensveen, D. (2000). A critique on the theory of financial intermediation. *Journal of Banking & Finance*, 24(8), 1243-1251. [https://doi.org/10.1016/S0378-4266\(99\)00085-0](https://doi.org/10.1016/S0378-4266(99)00085-0)
- Van der Byl, C. A., & Slawinski, N. (2015). Embracing Tensions in Corporate Sustainability: A Review of Research From Win-Wins and Trade-Offs to Paradoxes and Beyond. *Organization & Environment*, 28(1), 54-79. <https://doi.org/10.1177/1086026615575047>
- Weber, O., & Remer, S. (2011). *Social Banks and the Future of Sustainable Finance*. Taylor & Francis.

Yolanda Coteló-Ouréns Yolanda Coteló-Ouréns is Ph.D. candidate and FPI researcher at the project Money in Transformation both at the University of A Coruña. Her research focuses on social banking, corporate social responsibility, financial innovation, and financial inclusion. She has been visiting researcher at the University of Porto from September to December 2023.
Email: yolanda.coteló@udc.es.
ORCID ID: <https://orcid.org/0000-0002-5683-6689>

Artigo recebido no âmbito da chamada aberta que decorreu até 15 de março de 2024. Aprovado para publicação a 18 de abril de 2024.