Journal of Business Studies Quarterly
2015, Volume 7, Number 1 ISSN 2152-1034

Journal of Business Studies Quarterly jbsq.org

Social Awareness and Global Concern for Sustainability Initiatives in the Financial Sector

Dr. Justin Bateh, Florida State College at Jacksonville
Dr. Barry Thornton, Jacksonville University
Dr. Gordon W. Arbogast, Jacksonville University
Dr. James E. Farah, Jacksonville University

Abstract
Sustainability and corporate social responsibility have gained much relevance and importance in the modern business environment. This study is focused on sustainability in the financial sector, which consists of banking, insurance, real estate, and financial services industries. Mean scores on a major sustainability index have risen significantly from 2012 to 2015. This seems to reflect a decided increase in awareness over the past several years within the financial sector as it pertains to corporate social and environmental conscientiousness.

Keywords: Organizational sustainability, accountability, transparency, social responsibility, ecological sustainability

Introduction

Determining the sustainability level of a company is an enormously complex process. According to Staff (2015), “not only is there no single, universally accepted definition of ‘corporate sustainability,’ publicly traded companies are exceedingly complex institutions, often spanning multiple geographies and industrial sectors” (para. 1). However, Corporate Knights Capital have managed to establish a process of thorough screening of companies through various indicators in order to rank the top 100 most sustainable companies in the world, creating the Global Knights Top 100 list. This process starts every year on October 1st by gathering information on market capitalization of those companies with at least US $2 billion in revenue. Companies disclose information on their energy, carbon, water and waste productivity, innovation capacity, percentage tax paid, CEO pay relative to average worker pay, pension fund status, safety performance, employee turnover, leadership diversity, and clean capitalism pay link (Corporate Knights Research Group, 2013). This first screening is called sustainability disclosure; companies that fail to report sufficient information are eliminated. Then, the remaining companies are screened through nine financial tests called the Piotroski F-Score. The third screening is product category, where additional requirements should be met depending on nature of sub-industry. These stages lead to the Global 100 shortlist; all the companies in this list are ranked against competitors from the same industry. The final selection then is categorized by the Global Corporate Knights Group that includes overall sustainability score, company name, industry sector, country, and the score for each factor (Corporate Knights Research Group, 2013).

Literature Review

There are many reasons why companies would want to engage in sustainability and social responsibility. However, the main reasons for companies to engage in corporate social and environmental responsibility are that it enables them to gain competitive advantage in the market place, minimize overall company's exposure to risk, and gain higher productivity and value through improved reputation (Hoang Yen & Thanh Tu, 2014).

In the banking industry, corporate social responsibility awareness is globally increasing. According to Fatma, Rahman, & Khan, 2014), "banks are increasing their CSR spending by implementing CSR into practices with initiatives such as financial inclusion, microcredit schemes for the deprived, and credit access to the poor" (p. 10). Success is demonstrated through improved relations between banks and their stakeholders such as employees, governments, and customers. Because these stakeholders have a huge impact on a bank's reputation, banks engage in programs that are concerned with society's development. According to Tran and Yen Thi Hoang (2014), these programs include "environmental protection policies such as use of recycling equipment, investments to poverty alleviation, healthcare, education, charity activities, cultural enrichment, youth development, women empowerment, patronizing sports and music, as well as improved workplace that is achieved through recognition of human rights beyond labor rights" (p. 7)

Anne Finucane stated, "over the past four years we've deepened our dialogue with a wide range of stakeholders —from employees and customers to community leaders and regulators—to better understand their concerns and share our plans for responsible business growth" (Bank of America, 2014, p. 3). According to Finucane (2014), Bank of America has established the Global Advisory Council, Global Corporate Social Responsibility Committee, launched a new SafeBalance account and BetterMoneyHabits.com, and deepened relationships with nonprofit partners. All these tools are designed to improve their corporate social responsibility involvement.

In the insurance industry, the global financial crisis became one of the main motivators for improved involvement in corporate social responsibility among insurance companies, as repercussions from the crisis had drastically impacted their reputations (Rose, 2013). According to Rose, trust in leading insurers has decreased due to their non-insurance operations, as some activities were mainly concentrated on profit generation. This led to a new course of action for improving the image of insurance companies through engagement in corporate social responsibility. Among these actions is risk minimization control, a strategy of setting higher requirements for projects that take place in countries with low corruption control, high human rights abuse, and armed conflicts. Strategic philanthropy is another action where insurers partner with charity and non-profit organizations, providing additional services that support employee's engagement, disaster relief donations, and programs that decrease crimes and improve safety. For example, IAG engaged in a partnership with St. John Ambulance, with the target objective of safety improvement and injury reduction. Another type of corporate social responsibility initiative by insurance companies is the modification of life insurance packages. According to Javaid Ahmad Bhat (2014), Life Insurance Corporation of India offers packages with low premiums and simple insurability conditions. It also offers coverage for people below the poverty line through campaigns that improve education levels, life quality, plastic usage reductions, medical facility accessibility, and cancer treatment.

Sustainability initiatives in the real estate sector have also gained more importance over the past several years due to the global economic crisis and growing consumption of resources. In Germany, real estate plays a major role in the sustainability perspective due to huge investments in this sector that influence sustainable energy management and more consistent climate protection (Radermacher, 2013). In this regard, ZIA German Property Federation (2013) developed the Sustainability Code, which impacts real estate companies in the ways of self-obligating policies and voluntary commitment apart from mandatory legal requirements. It signifies companies' awareness of their influence on social and environmental sustainability issues, driving them to voluntary commitments. These committments highlight sustainable production methods, operation and information transparency, due diligence during investment and financing processes, and other features of real estate business.

Technopolis, a real estate company that provides business parks in the Nordic-Baltic region, also recognizes the importance of corporate social responsibility tasks and how this has a direct impact on their success. Their system of corporate social responsibility management offers Smart Parks and Smart Office campuses, sustainable efficiency, and a clear statement of ethics and values (Technopolis, 2014). These concepst help Techopolis to provide profitable long-term growth of its business and communities, provide eco-efficient, safe, and healthy spaces and services to their customers, as well as a risk-free and transparent value creation for stakeholders in the long term. The company has also created Green Procurement Guide which contributed to mixed waste reduction of 10% and increased waste utilization rate to a minimum of 60%. Their Corporate Social Responsibility Report states, "technopolis complies with the energy efficiency agreement for commercial properties (TETS) established at the beginning of 2011" (Technopolis, 2014, p. 11). The aim of this agreement is to reduce 6% of energy consumption of all properties by the end of 2016.

Financial services companies are also increasingly recognizing the benefits arising from involvement in corporate social responsibility and sustainability. The foundations for these efforts are focused on product innovation and sustainable business solutions, according to Infosys (2013). Infosys is a consulting company that helps its clients achieve a leading edge and outperform competitors, highlighting sustainability concern as one of the most important factors in this goal. It highlights six areas of interest of corporate social responsibility of financial services companies, which are energy conservation, environment, donation and sponsorship, emerging markets, education, and healthcare (Infosys, 2013). They claim that concentration on these areas would benefit in boosting brand image, rebuilding trust, and gaining higher financial return and business growth.

Gothberg (2011) noted that "in recent years, leading financial corporations have set up governance and management systems for CSR, creating specific departments responsible for handling environmental and social issues, and producing sustainability reports" (p. 12). According to Göthberg (2011), a major influence promoting engagement in corporate social responsibility in Sweden was the criticism of companies considered to be involved in national corporate scandals. The starting point for this concern was 2008, after which 60% of financial services firms listed on Stockholm Stock Exchange took part in corporate social responsibility and started to inform the regulatory agencies about these initiatives. She states that approximately 10% of the asset management industry in Europe as of December 2010 is represented by the socially responsible investment (SRI) market.

In conclusion, the literature review indicates increases in social awareness and global concern for corporate social responsibility and sustainability initiatives in the financial sector. Companies are realizing that sustainability initiatives and success have an impact on competition, business processes, and reputation, and therefore many companies are placing corporate social responsibility programs at the top of their strategic objectives. Various programs have been created globally among companies in banking, insurance, real estate, and financial services industries in order to facilitate this process from simple internal reporting procedures to foundations and councils. Growing societal concerns have helped create ranking systems such as Global Knights Top 100 list to incline companies to reveal information on their sustainability engagement and make this process more transparent.

Methodology

This study focused on the evaluation of the following research question: Is there a significant change in the average global sustainability score of the financial sector by each year from year 2012 to year 2015? Related hypotheses were stated as follows:

Null hypothesis: There is no statistically significant change in the global sustainability score of the financial sector by each year from year 2012 to year 2015.

Alternate hypothesis: There is a statistically significant change in the global sustainability score of the financial sector by each year from year 2012 to year 2015.

For this study, we used global sustainability ranking data for the years 2012, 2013, 2014, and 2015 published by Global Knights Group. For each year of the data, only companies belonging to the following industries were selected: banking, insurance, real estate, diversified financials, real estate management & development, and real estate investment trusts. These various industries make up what we refer to as the *financial sector*. The dataset included 18 financial sector companies in the year 2012, 20 financial sector companies in the year 2013, 22 financial sector companies in the year 2014, and 21 financial sector companies in the year 2015. The mean overall global sustainability score was computed for all four years and further evaluation was computed using analysis of variance. Tukey's post-hoc test was used to compare mean differences among consecutive years. Results were statistical significant at the 5% significance level.

Results

Table 1 shows that the mean global sustainability score was increased from 0.30 in year 2012 to 0.58 in year 2015. Analysis of variance showed that there is a statistically significant difference in mean global sustainability scores year by year ($F = 52.4$, $p < 0.001$).

Table 1. Distribution of global sustainability score by year among financial sector

Year	No. of companies	Mean (SD)	Min.	Max.	Median
2012	18	0.30 (0.10)	0.18	0.53	0.32
2013	20	0.50 (0.08)	0.41	0.68	0.47
2014	22	0.57 (0.55)	0.48	0.77	0.55
2015	21	0.58 (0.56)	0.50	0.71	0.56

Table 2 shows results of Tukey's yearwise comparison of mean global sustainability score. This suggests that there was a statistically significant increase in mean sustainability score from year 2012 to year 2013 (p <0.001). Similarly, there was a statistically significant increase in mean sustainability score from year 2013 to year 2014 (p value < 0.02). However, the increase in mean sustainability score from year 2014 to year 2015 was not statistically significant (p = 0.89).

Table 2. Yearwise comparison of mean global sustainability score

Year comparison	Mean score difference	Lower CI	Upper CI	p value
2013-2012	0.19	0.13	0.26	0.00
2014-2012	0.26	0.20	0.33	0.00
2015-2012	0.28	0.21	0.34	0.00
2014-2013	0.07	0.01	0.13	0.02
2015-2013	0.09	0.02	0.15	0.00
2015-2014	0.02	-0.04	0.08	0.89

Concerning the original hypothesis, the null hypothesis is rejected there is no statistically significant change in the global sustainability score of the financial sector by each year from year 2012 to year 2015 is rejected, and there may well be a significant difference in global sustainability scores in the financial sector from the year 2012-2015.

Conclusion

The mean global sustainability score index has risen significantly from 2012-2015 among companies in the financial sector. This increase was dramatic from 2012 to 2013 (0.3 to 0.5). Over the past two years, 2013-2015, mean scores have still risen significantly, but the rise has slowed noticeable over the last year, in 2014-2015. The interpretation of these results reveals a trend occurring recently in the financial sector. There seems to be a decided increase in awareness over the past several years within the cited sector as it pertains to corporate social and environmental conscientiousness.

Recommendations

This study needs to be extended in 2016 to determine if the increase in awareness of corporate social and environmental conscientiousness in the financial sector continues to slow or takes another increase upward. Secondly, this macro approach to the analysis can be refined to drill down to determine exactly which factors on the Corporate Knights Capital Top 100 Index are driving the most movement in the year Global Sustainability Index. In other words, is it occurring primarily in a) energy, carbon, water, waste productivity, b) due to the Piotroski F-Score test, or c) due to the product category screening? If the driving influence is in category (a) as outlined above, then which o the sub-factors are driving the largest change? Finally, another sustainability index should be uncovered (if it exists), and a comparison between the scores of the Corporate Knights Capital index and a second index would providing interesting information and help to validate the results of this study.

References

Bank of America. (2014). *Corporate social responsibility report 2013*. Retrieved from bankofamerica.com/assets/pdf/Bank-of-America-2013-Corporate-Social-Responsibility-Report.pdf

Bhat, J. A. (2014). Corporate social responsibility in life insurance. *Global Journal for Research Analysis, 3*, 19-21.

CK Staff. (2015). 2015 Global 100 methodology. *Corporate Knights.* Retrieved from http://www.corporateknights.com/reports/2015-global-100/methodology/

Corporate Knights Research Group. (2013). *Global 100 most sustainable corporations in the world*. Retrieved from http://global100.org/

Fatma, M., Rahman, Z., & Khan, I. (2014). Multi-item stakeholder based scale to measure CSR in the banking industry. *International Strategic Management Review, 2,* 9-20.

Göthberg, P. A. U. L. I. N. E. (2011). *Corporate Social Responsibility in the Swedish Financial Services Sector* (Doctoral dissertation, Doctoral Thesis in Business Studies, KTH, Stockholm, Sweden. Helgesson, Kjellberg, Liljenberg (2004). Den där marknaden).

Hoang Yen, T. T., & Thanh Tu, T. T. (2014). CSR in banking sector. *International Journal of Economics, Commerce and Management, Vol. II*, 6-10.

Infosys. (2013). *Rethinking corporate social responsibility (CSR) in financial services* [White paper]. Retrieved from http://www.infosys.com/industries/financial-services/white-papers/Documents/corporate-social-responsibility.pdf

Radermacher, W. J. (2013). *Recent and future developments related to GDP and beyond.* Retrieved from www.iariw.org/papers/2013/radermacherpaper.pdf

Rose, H. (2013). How insurance companies can become good corporate citizens. *Risk Management*. Retrieved from http://www.rmmagazine.com/2013/07/01/how-insurance-companies-can-become-good-corporate-citizens/

Technopolis. (2014). *Corporate social responsibility report 2014*. Retrieved from http://www.technopolis.fi/en/about-technopolis/investors/publications/other-publications/Documents/Corporate%20Social%20Responsibility%20Report%202014.pdf

ZIA German Property Federation. (2013). *Real estate industry perspectives.* Retrieved from www.zia-deutschland.de/index.php/tools/required/download.php