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# THE SOCIAL PERFORMANCE OF CREDIT INSTITUTIONS

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ABSTRACT

This paper analyses the social performance the different Portuguese credit institutions, namely, their conduct in terms of financial inclusion, job creation and social responsibility. Results show “stakeholders view” banks superior performance in promoting economic and social development. Cooperative banks, in particular, mainly located on low density regions have a crucial function in the territorial and economic financial inclusion of those populations. That role was not affected by the current crisis. Moreover, banks are aware of their social responsibilities and making efforts to become more sustainable. The public bank proved to be the most socially responsible institution. Further, bigger and more internationalized banks adopted international principles regarding sustainable financing and show good environmental protection performances, contrary to the cooperative and mutual savings banks which have a better performance for social conduct.

KEYWORDS: Credit institutions, social-economic development, financial inclusion, corporate social responsibility, crisis

## 1 - Introduction

The recent financial (and economic) crisis and the general loss of confidence in the State and financial institutions encourages the debate about the role of banks and other credit institutions, as rational economic agents responding to society needs and central actors in the present challenges of economic and social development. After the massive bailouts, society has understandably expected financial institutions to adjust their behavior to reflect the wider public interest and not, necessarily, shareholder interests; demanding self-awareness by bankers of their social responsibilities and the acknowledgement of the crucial role banks are playing in society (Groeneveld, 2011). On the other hand, the 2008 crisis had the positive effect of reorienting banking activity to their origins, retail banking. This requires a change in the banking business. Bankers now understand that their wealth and survival is connected to their markets prosperity, so to promote their development is to protect their own future.

The European banking is a mix of different types of banks: public, cooperative, mutual, savings and private banks. A particular distinction is made between stakeholder and shareholder view banks. The distinction is ultimately about the banks’ bottom line objectives and the extent to which profit maximisation is the central focus of business models. As with savings and public banks, cooperative banks can be categorised as ‘dual-bottom line’ institutions, while profitability is one of the objectives of the bank, it is not the primary objective. It is more an issue of balancing different interests of the various stakeholders in the company (notably customer-members in the case of cooperative banks, the regional economy and the society in the case of savings and public banks) (Ayadi *et. al.*, 2010). And, in this sense these types of credit institutions appear to be more in line with society needs. Furthermore, cooperative principles, particularly, the “concern for community” principle, takes cooperative banks beyond the traditional realm of member servicing (Levi, 2001), into a more outward-community orientation (Gijselinckx & Develtere, 2007). In addition, it should be noted that in several countries, including Portugal, the area of operation for cooperative banks is geographically restricted directly/indirectly by the government. In these cases, cooperative banks have no other choices except for developing in their own geographically restricted area of operation, and thus, promoting local economic growth (Guiso *et al*., 2004).

Cooperatives stand out for their ability to remain rooted in their territories, combining jobs security with business flexibility, acting as a driving force of regional and local sustainable development. Credit

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cooperatives, in particular, demonstrated, over more than a century and a half of history, that they play a crucial role as promoters of the development of their communities, with special emphasis on its role of territorial and social financial inclusion, responding to the financial needs of certain publics neglected by the remaining banking system, especially low-income families, SMEs (small and medium enterprises) and micro enterprises, supporting the local economy and job creation (Shawn, 2007).

Chaves & Soler (2004) refer that credit cooperatives contribute to the inclusion in financial circuits of certain publics that have difficulties in access to them. This is done either at social level, by serving the lower social strata (Palomo & Valor, 2001) or at territorial level, being present in economically disadvantaged areas. Cooperatives proximity banking business approach makes the function of inclusion even more significant if considering that the lower social strata are also those that make less use of the more "modern" banking services (as ATM or Internet banking) and are the less knowledgeable of banking practices (Chaves & Soler, 2004). Cooperative banks "dual-bottom line" character able them to develop a physical or institutional infrastructure that facilitates the financial intermediation in low density regions (e.g., a branch network), even at the expense of profitability. Contrary, their IOF counterparts may have a small incentive to develop such infrastructure because of the public good nature of information about the quality of potential customers (Hellmann *et al.*, 1997, 2000).

The protection and creation of employment is, in the current crisis, a main concern for public authorities as unemployment levels are unprecedently high. Chaves & Soler (2004) mention that the contribution of credit cooperatives to job creation is twofold, referring to the employment in the institution itself and the promotion of employability of local communities through the support of corporate job-creating projects. Additionally, cooperative banks are important employers of qualified labour; being rooted in rural regions, mainly on low density small towns, where the job opportunities offered by local cooperative banks (coupled with state employment in local public services) are often the only qualified employment available.

Finally, in the current crisis scenario corporate social responsibility (CSR) based management is increasingly important, as it has to do with the bank's responsibility in its relationship with customers, employees and community. Universal banks are usually excellent in communicating about CSR but their commitment is often only for "greenwashing" purposes (Paulet & Relano, 2010). Other credit institutions CSR performance is often unnoticed given their minor marketing skills. Gijselinckx & Develtere (2007) refer that cooperative banks add social value in following (and to some extent leading) the movement for CSR in their territories, trying to go beyond the minimum social agenda of social responsibility and work towards "cooperative social responsibility" (Develtere, Meireman & Rayaekers, 2005).

Currently, Portugal struggles with a severe financial and economic crisis that threatens to become a political and social crisis, and civil society expects that banks and other credit institutions play the role of boosters of economic development, supporting productive activities investment. Institutions such as public and mutual savings banks and agricultural cooperative banks, given its non-profit nature and unique business approach, are a powerful force for national economic recovery, acting as a stabilizing factor in the banking sector and local development boosters, particularly in low density regions, in which the local economy is supported by agriculture.

This paper questions the role of the different Portuguese credit institutions in the social and economic development of the country, particularly in its economic recovery. To this end it investigates the role and importance of these institutions in economic and social development, through the analysis of their behavior, in particular, in terms of financial inclusion function, job creation, social responsibility policies, and community involvement, as well as the potential behavioral change in response to the crisis. Specifically, taking as reference the five major Portuguese credit institutions, with an accumulated market share of more than 75%, namely, a public bank, three private (or investor owned firms- IOF) banks, a mutual savings bank and an integrated cooperative banking system. The period considered 2006-2011 and the data collected from the annual and sustainability reports, press releases and other information published by the institutions in question; annual reports of Bank of Portugal and Portuguese Banking Association; and other publications about the Portuguese financial system.

The remainder of paper consists of 2 sections: section 2 shows results of the empirical work, namely, presents the sample and analyses the role and importance of the various credit institutions in country's the social and economic development, and section 4 concludes.

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## 2 – Empirical work

There is abundant literature that assesses how banks affect the economy; their main finding is that the banking system appears to play an important role in economic development (Levine, 2004). But credit institutions have also a huge impact on society, not only because of their economic functions (of pricing and value financial assets, monitor borrowers, manage financial risks and organize the payment system (Greenbaum & Thakor, 2007)) but also, and specially, because of their social functions, namely, territorial and social financial inclusion, job creation, social responsibility and community involvement.

### 2.1 - Sample

The sample includes data regarding a state owned bank (Caixa Geral de Depósitos – CGD), three IOF banks (Banco Espirito Santo - BES; Banco Millenium BCP; and Banco BPI), a (mutual) savings bank (Banco Montepio) and an agricultural credit cooperative banking system (Crédito Agrícola), holding more than 75% of the market share. The period considered is mostly 2006-2011 and the data are collected from the annual reports and accounts, sustainability reports, press releases and other financial information published by these banks; annual reports of Bank of Portugal and Portuguese Banking Association; and other publications about the Portuguese financial system.

Table 1 presents some figures regarding balance sheet, income, solvency and profitability of our sample, in 2011, and its weight in the overall banking system. The table illustrates how the sample is highly representative, especially regarding total assets, deposits or loans to costumers. The state owned bank, CGD, is the biggest credit institution followed by the Millenium BCP and BES. The total assets or gross loans of other remain credit institutions together are inferior to the third major bank, and regarding costumers' deposits are inferior to the second major bank. Individually, Crédito Agrícola stands out for their disproportionate retail network for its size, higher solvency ratio -Core Tier 1- and low transformation ratio, the only one bellow 1, indicating that Crédito Agrícola is the only credit institution in the sample having a saver profile.

**Table 1 – Main indicators of Portuguese retail banks, in 2011**

| | Banco BPI | Millenium BCP | BES | Crédito Agrícola | CGD | Montepio | Banking sector | Overall sample |
|---|---|---|---|---|---|---|---|---|
| **Total Assets (million €)** | 42,956 | 93,482 | 80,237 | 14,241 | 120,565 | 21,495 | 516,716 | 372,977 |
| Market share | 8.31% | 18.09% | 15.53% | 2.76% | 23.33% | 4.16% | 100.00% | 72.18% |
| **Deposits (million €)** | 2,4671 | 47,516 | 34,206 | 9,821 | 70,587 | 13,702 | 246.742 | 200,504 |
| Market share | 10.00% | 19.26% | 13.86% | 3.98% | 28.61% | 5.55% | 100.00% | 81.26% |
| **Gross Loans (million €)** | 28,995 | 71,533 | 51,211 | 8,507 | 81,631 | 17,477 | 313,952 | 259,354 |
| Market share | 9.24% | 22.78% | 16.31% | 2.71% | 26.00% | 5.57% | 100.00% | 82.61% |
| **Equity (million €)** | 822 | 4,374 | 6,192 | 1,047 | 5,337 | 1,259 | 27,110 | 19,033 |
| **Net Return (million €)** | -285 | -849 | -109 | 55 | -488 | 45 | -1.508 | -1,631 |
| **Branches (#)** | 693 | 872 | 672 | 690 | 860 | 499 | 6,305 | 4,286 |
| Market share | 10.99% | 13.83% | 10.66% | 10.94% | 13.64% | 7.91% | 100.00% | 67.98% |
| **Employees (#)** | 6,502 | 9,714 | 6,116 | 3,845 | 9,509 | 3,910 | 57,069 | 39,596 |
| Market share | 11.39% | 17.02% | 10.72% | 6.74% | 16.66% | 6.85% | 100.00% | 69.38% |
| **Core Tier 1 ratio** | 9.2% | 9.3% | 9.2% | 12.68% | 9.5% | 10.2% | 9.5% | - |
| **Transformation ratio** | 117.52% | 150.54% | 149.71% | 86.62% | 115.64% | 127.55% | 127.24% | 129.35% |
| **ROA** | -0.66% | -0.91% | -0.14% | 0.39% | -0.41% | 0.21% | -0.29% | 101.66% |
| **ROE** | -34.64% | -19.40% | -1.76% | 5.26% | -9.15% | 3.58% | -5.56% | 7.34% |

Source: Portuguese Banking Association Statistical Bulletin, Bank of Portugal's Statistical Interactive Database and Banks' Annual Reports and Accounts, own calculations.

Additionally, Crédito Agrícola and Montepio are the only credit institutions that present positive returns in 2011, the remaining banks, together with the overall banking sector, presented losses. Given these institutions particularities, namely their activity restrictions derived from their specific legal framework and unique business approach, they seem able to deal with the present crisis better than their IOF counterparts.

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**2.2 – Results**

To assess banks social functions a statistical analysis is applied to the balance sheet and other quantitative data complemented by an analysis of contents regarding banks social performance. Data is tested for normality (Kolmogorov-Smirnov or Shapiro-Wilk tests depending on the sample size) and, for independent samples analysis, whenever normality applies it was used the statistic t test for two samples comparisons and the one-way Anova for more than two samples comparisons; if normality was violated it was used the Mann-Whitney test to compare two variables and the KrusKal-Wallis test for more than two samples comparisons. When the samples were related it was used Sign or Wilcoxon tests depending on the variables skewness. To minimize type I error (rejecting a hypothesis when it should be accepted) or type II errors (accepting a hypothesis when it should be rejected) it was adopted a significance level of 0.05 (Spiegel, 1977).

**4.2.1 - Financial inclusion**

Local presence is still the credit institutions main form of contact with customers, despite the increasing use of virtual channels, like the internet, ATMs or call centres. Table 2 shows the evolution of banks retail network in Portgugal continental, in the 2006-2011 period.

Generally, the number of branches presents a positive evolution in the period prior to the 2008 crisis, after 2009 the behavior shift and the institutions began to rationalize their branches network, in the first 2 years after the crisis only the IOF banks reduced the number of branches, and, in 2011, the Cooperative and State owned banks followed the trend. The exception was the mutual savings bank that saw its branch network increase due to the incorporation of another credit institution. However when it is analyzed the statistical significance of the banks' retail network downsize it proved not to be yet statistical significant

**Table 2 – Bank branches evolution in Portugal Continental (2006 - 2011)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **Banco BPI** | 608 | 691 | 740 | 737 | 736 | 679 |
| Annual growth rate | - | 13.65% | 7.09% | -0.41% | -0.14% | -7.74% |
| Market share | 11.18% | 11.84% | 12.49% | 12.20% | 12.07% | 10.99% |
| **Millenium BCP** | 839 | 859 | 893 | 887 | 866 | 858 |
| Annual growth rate | - | 2.38% | 3.96% | -0.67% | -2.37% | -0.92% |
| Market share | 15.43% | 14.72% | 15.07% | 14.68% | 14.20% | 13.89% |
| **BES** | 602 | 670 | 704 | 698 | 695 | 669 |
| Annual growth rate | - | 11.30% | 5.07% | -0.85% | -0.43% | -3.74% |
| Market share | 11.07% | 11.48% | 11.88% | 11.55% | 11.40% | 10.83% |
| **Crédito Agrícola** | 661 | 669 | 697 | 714 | 724 | 723 |
| Annual growth rate | - | 1.21% | 4.19% | 2.44% | 1.40% | -0.14% |
| Market share | 12.16% | 11.47% | 11.76% | 11.82% | 11.87% | 11.71% |
| **CGD** | 767 | 788 | 810 | 830 | 851 | 843 |
| Annual growth rate | - | 2.74% | 2.79% | 2.47% | 2.53% | -0.94% |
| Market share | 14.10% | 13.51% | 13.67% | 13.74% | 13.95% | 13.65% |
| **Montepio** | 275 | 278 | 298 | 304 | 307 | 485 |
| Annual growth rate | - | 1.09% | 7.19% | 2.01% | 0.99% | 57.98% |
| Market share | 5.06% | 4.77% | 5.03% | 5.03% | 5.03% | 7.85% |
| **Overall banking sector** | 5,440 | 5,834 | 5,925 | 6,042 | 6,099 | 6,176 |
| Annual growth rate | - | 7.24% | 1.56% | 1.97% | 0.94% | 1.26% |

Source: Portuguese Banking Association Statistical Bulletin, Banks' Annual Reports and Accounts, own calculations.

In terms of market share the credit institutions represents, in 2006, almost 70% of the retail network, experiencing in general, a decrease during the period in study, excepting, again, the mutual savings bank, for the previously mentioned reason. The individual market shares are relatively balanced, with values between 8% and 14%, roughly speaking. The Cooperative bank presents a disproportionate branches network to their assets size, but is the base of its "relationship based conduct" promoted by close proximity (literally and figuratively) with their customers (Cabo, 2012).

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**Table 3 – Banks´ branches by time period and type of bank**

| | Investor owned bank | | Cooperative bank | | State owned bank | | Mutual savings bank | | Overall banking sector | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation |
| **Before 2008 crisis** | 744.44 | 112.045 | 647.00 | 17.692 | 809.67 | 21.502 | 305.00 | 13.229 | 5569.67 | 666.005 |
| **After 2008 crisis** | 769.67 | 90.714 | 687.67 | 4.933 | 859.00 | 10.536 | 384.67 | 99.027 | 6243.67 | 59.585 |
| **t** | -0.525 | | -3.835 | | -3.569 | | -1.964* | | -1.091* | |
| ***Significance*** | *0.607* | | ***0.019*** | | ***0.023*** | | ***0.050*** | | *0.275* | |

*Z statistic

Table 3 shows that despite the cut in IOF banks branches exposed in Table 3 it was no statistical significance, on contrary, the only statistical significant changes signals an increase in cooperative, state owned and mutual savings banks branches.

In order to understand the financial inclusion role of the different Portuguese credit institutions it was studied the branches evolution with special attention to their presence in low density regions. Table 8 presents the Spearman's correlation matrix between banks branches and consumer purchasing power and population density [number of inhabitants per square kilometre ($Km^2$)] and number of inhabitants per county, in the 2006-2011 periods. It shows that there are a positive statistically significant correlation between consumers' purchasing power, population density, number of inhabitants and the number of banking branches per county.

**Table 4 - Correlation matrix between banks' branches, consumer purchasing power, population density and number of inhabitants by type of banks**

| | Investor owned banks | Cooperative bank | State owned bank | Mutual savings bank | Overall banking sector |
|---|---|---|---|---|---|
| **Consumers' purchasing power** | 0.573* | 0.308* | 0.535* | 0.546* | 0.603* |
| **Population density** | 0.421* | 0.091* | 0.363* | 0.419* | 0.430* |
| **Number of inhabitants** | 0.743* | 0.392* | 0.579* | 0.636* | 0,757* |

*correlation is significant at the 0.01 level (2-tailed)

Additionally, the results confirm the crucial function of territorial and social inclusion of the cooperative banks. The Cooperative bank exhibit the lower correlations for all the indicators considered. Indeed, their scores are ½, and in the population density case only 1/5, of the ones presented by the overall banking system, indicating that Cooperative banks are preferentially located in lesser density counties, where the population density is low and the purchasing power is more reduced. Other type of banks exhibits quite similar behaviours and very much in order to the overall banking system. An outcome expected in the IOF banks case, and consistent with their profit maximization purpose, but surprising for the Mutual savings bank given its not-for-profit character and the State owned bank, as their public ownership should reflect some political agenda, namely in terms of regional asymmetries and economic and social development.

Geographically restricted and rooted in rural local markets, the activity of the Cooperative bank suffers of a double downside. On one hand its potential market is smaller and more dispersed so it is harder to access to it. And, on the other hand, it is located in the poorer counties and consequently, the market segment is less profitable. To address this reality the Cooperative bank opted for opening small branches (see Table 5) in localities, in a strategy of banking proximity, and extending the range of products and services offered, betting on cross-selling of banking and insurance products and providing technical agricultural support. In fact, this technical support service is quite popular among small farmers, especially at the time of the applications for EU subventions (Cabo et al., 2009). Table 5 shows that Cooperative bank have much smaller branches than their counterparts, when measuring the branches' size by the number of employees.

**Table 5 – Number of employees per-branch by type of bank (2006 - 2011)**

| | Mean | Std. Deviation |
|---|---|---|
| **Cooperative bank** | 5.734 | 0.123 |
| **Investor owned banks** | 10.079 | 1.151 |
| **Mutual savings bank** | 9.157 | 0.785 |
| **State owned bank** | 11.632 | 0.505 |

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| | |
|---|---|
| **F** | 47.109 |
| ***Significance*** | ***0.000*** |

Homogeneous subsets of means in

Table 5 shows that Cooperative bank have smaller branches, with less than six employees, on average; the IOF and Mutual savings banks have statistically similar branch sizes, on average, 9 and 10 employees per branch; and, finally, the State owned bank holds the biggest branch size with more than eleven employees per branch, on average.

The county consumers' purchasing power (CPP) and the population density (PD) are used to classify the different regions of Portugal Continental in terms of attractiveness for the banking business. A value of 1 was assigned to a county if it presents a CPP inferior to ½ of the country mean; a value of 2 if it has CPP inferior to the country mean; a value of 3 if CPP is inferior to 3/2 of the country mean; and a value of 4 otherwise. The same method was used to classify the counties according to the PD. Then summing the scores of the two indicators [minimum of 2 and maximum of 8] and classify the county as: (a) low density if CPP+PD is less than 4; (b) moderate density if CPP+PD is less than 6; (c) high density if CPP+PD is less than 8; and (d) very high density otherwise. As a result the 278 municipalities are classified: (a) 121 as low density counties; (b) 105 as moderate density counties; (c) 40 as high density counties; and (d) 12 as very high density counties. Table 6 shows the distribution of banks' branches by class of county and by type of bank, in the 2006-2011 period.

**Table 6 - Distribution of banks' branches by type of bank and class of county**

| | **Investor owned banks*** | | **Cooperative bank** | | **State owned bank** | | **Mutual savings bank** | |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation |
| **Low density counties** | 0.827 | 0.794 | 1.96 | 1.738 | 1.22 | 0.673 | 0.23 | 0.513 |
| **Moderate density counties** | 2.582 | 3.390 | 2.46 | 1.597 | 2.68 | 3.076 | 1.20 | 1.962 |
| **High density counties** | 3.332 | 3.320 | 3.11 | 2.170 | 3.15 | 3.288 | 1.57 | 1.913 |
| **Very high density counties** | 18.718 | 22.906 | 2.61 | 2.243 | 19.36 | 25.889 | 8.36 | 10.196 |
| $\chi^2$ | 497.621 | | 87.883 | | 434.512 | | 506.119 | |
| ***Significance*** | ***0.000*** | | ***0.000*** | | ***0.000*** | | ***0.000*** | |

* mean values; Homogeneous subsets of means in

Table 6 shows that banks retail network presence increases as the county's density exhibits higher scores and, thus, the credit institutions analysed have a heavier presence in the very high density counties, except for Cooperative bank. The low density counties are mainly served by Cooperative and State owned banks, and Mutual savings banks have a trivial presence there. The presence of branches in the moderate and high density counties is quite similar across the different type of banks, if counting for the minor size of Mutual savings bank retail network.

For IOF and Mutual savings banks 4 statistically significant different groups were identified. This result indicates that these types of banks apply, to their retail network, a considerable segmentation of municipalities (accordingly to their CPP and DP) and have a statistically significant differentiated strategy for each category of them. For the State owned bank 3 significantly different groups were identified, as this bank type considers the moderate and high density counties in the same way. Regarding Cooperative bank only 2 statistically significant groups were identified: (1) low density counties; and (2) moderate, high and very high density counties, all handled similarly as only one market segment.

When matching up the existence of homogeneous subsets of means, before and after the 2008 crisis, to check the crisis potential influence in banks' retail network strategy it no changes were found. However, when testing for the differences by class of municipality it was found several statistically significant positive differences, as shown in Table 7.

**Table 7 - Differences in banks' branches, prior and post 2008 crisis, by class of county**

| | **Investor owned banks** | | **Cooperative bank** | | **State owned bank** | | **Mutual savings bank** | |
|---|---|---|---|---|---|---|---|---|
| | Significance | Signal | Significance | Signal | Significance | Signal | Significance | Signal |

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| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Low density counties** | ***0.000*** | + | ***0.003*** | + | *0.549* | + | ***0.000*** | + |
| **Moderate density counties** | ***0.000*** | + | ***0.000*** | + | ***0.006*** | + | ***0.000*** | + |
| **High density counties** | *0.230* | + | ***0.050*** | + | *1.000* | + | ***0.000*** | + |
| **Very high density counties** | *0.074* | - | ***0.044*** | + | ***0.004*** | + | ***0.002*** | + |

Table 7 shows after the 2008 crisis the Portuguese credit institutions maintain a statistically significant growth of their retail network in some specific regions, despite having engage in general strategy of branch rationalization its effects are not yet statistically significant. Indeed, the only negative difference detected was in the IOF banks branches located in very high density counties and it was not statistically significant. On contrary, the Cooperative and Mutual savings banks intensified its presence in the all the county types; the IOF bank bet in the low and moderate density counties, and, finally the State owned bank in moderate and very high density counties. As mentioned in section 3, the retail network is a crucial factor in Portuguese banking competition and the pressure for customers' deposits resulting from the difficulties of Portuguese banks to access to capital markets can explain this outcome.

### 4.2.2 – Job creation

In 2011 the banking sector employment contributed to 1.4% of total employment in Portugal. Current crisis instigated several structural changes, as in market employment. In view of firms economic and financial difficulties cost reduction policies were mandatory, with effects also on credit institutions' workforces. Table 8 presents the evolution of Portuguese banks' number of employees, for domestic activity, during the study period.

**Table 8 – Evolution of the banks' employees, for domestic activity (2006 - 2011)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **Banco BPI** | 6.654 | 7.323 | 7.458 | 7.147 | 7.032 | 6.502 |
| Annual growth rate | | 10.05% | 1.84% | -4.17% | -1.61% | -7.54% |
| Market share | 11.84% | 12.56% | 13.01% | 12.46% | 12.37% | 11.39% |
| **Millenium BCP** | 10.318 | 10.249 | 10.125 | 10.081 | 9.899 | 9.714 |
| Annual growth rate | | -0.67% | -1.21% | -0.43% | -1.81% | -1.87% |
| Market share | 18.36% | 17.58% | 17.66% | 17.58% | 17.41% | 17.02% |
| **BES** | 5.824 | 5.976 | 6.086 | 6.040 | 6.142 | 6.116 |
| Annual growth rate | | 2.61% | 1.84% | -0.76% | 1.69% | -0.42% |
| Market share | 10.36% | 10.25% | 10.62% | 10.53% | 10.81% | 10.72% |
| **Crédito Agrícola** | 3.717 | 3.738 | 3.861 | 3.908 | 3.876 | 3.845 |
| Annual growth rate | | 0.56% | 3.29% | 1.22% | -0.82% | -0.80% |
| Market share | 6.61% | 6.41% | 6.73% | 6.81% | 6.82% | 6.74% |
| **CGD** | 9.759 | 9.695 | 9.727 | 9.791 | 9.672 | 9.509 |
| Annual growth rate | | -0.66% | 0.33% | 0.66% | -1.22% | -1.69% |
| Market share | 17.36% | 16.63% | 16.97% | 17.07% | 17.01% | 16.66% |
| **Montepio** | 2.918 | 2.989 | 2.972 | 2.986 | 2.896 | 3.910 |
| Annual growth rate | | 2.43% | -0.57% | 0.47% | -3.01% | 35.01% |
| Market share | 5.19% | 5.13% | 5.18% | 5.21% | 5.09% | 6.85% |
| **Overall banking sector*** | 56.201 | 58.307 | 57.330 | 57.359 | 56.844 | 57.069 |
| Annual growth rate | | 3.75% | -1.68% | 0.05% | -0.90% | 0.40% |

*APB members' universe

Source: Portuguese Banking Association Statistical Bulletin, Banks' Annual Reports and Accounts, own calculations.

Table 8 shows that, overall, the 2008 crisis resulted in an unpronounced cut in the credit institutions' employment. The IOF banks felt its effects earlier than other banks and, in general, the number of employees began to decrease in 2009, other banks experience that impact only in 2010 (the unusual increase in Montepio figures, in 2011, are, as mentioned, due to the incorporation of another credit institution). However, when testing the statistical significance of that changes they proved to be not statistical significant, as shown in Table 9.

**Table 9 –Banks´ employees by time period and type of bank**

| Investor owned | Cooperative bank | State owned bank | Mutual savings | Overall banking |
|---|---|---|---|---|

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| | bank | | | | | | bank | | sector | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation |
| **Before 2008 crisis** | 7779.22 | 1922.460 | 3772.00 | 77.788 | 9727.00 | 32.000 | 2959.67 | 37.072 | 57279.33 | 1053.914 |
| **After 2008 crisis** | 7633.22 | 1743.502 | 3876.33 | 31.501 | 9657.33 | 141.571 | 3264.00 | 561.259 | 57090.67 | 258.187 |
| **t** | 0.169 | | -2.153 | | 0.831 | | -0.937 | | 0.301 | |
| ***Significance*** | *0.868* | | *0.098* | | *0.453* | | *0.447* | | *0.789* | |

### 4.2.3 – Corporate Social Responsibility (CSR)

To assess banks social responsibility it was constructed four groups of indicators, following WCED (1987); Van Gelder & Denie (2007) and Scholtens (2008) methodologies: (1) sustainable development principles; (2) responsible banking (3) environmental protection; and (4) social conduct. Table 10 shows the framework to assess Portuguese banks' CSR.

**Table 10 - Framework to assess Portuguese banks' CSR**

| Group | Indicator | Operationalization |
|---|---|---|
| **Sustainable development** | 1. Institutional transparency policy: Sustainability report | Yes (1) or No (0); (2) External assurance |
| | 2. United Nations Environment Programme Finance Initiative:UNEP FI | Adopted Yes (1) or No (0) |
| | 3. Equator Principles | Adopted Yes (1) or No (0) |
| | 4. United Nations Global Compact | Adopted Yes (1) or No (0) |
| | 5. Sustainability Indexes | Yes (1) or No (0) |
| | 6. Codes of ethics and conduct | Yes (1) or No (0) |
| **Responsible banking** | 7. Customers' complaint management system | Yes (1) or No (0); (2) Ombudsman |
| | 8. Microcredit lending policy | Yes (1) or No (0) |
| | 9. Promote Entrepreneurship, Innovation and Social Economy | Yes (1) or No (0); (2) Performance |
| | 10. Environmentally and socially responsible products and services | Yes (1) or No (0); (2) Performance |
| | 11. Promote financial education and literacy | Yes (1) or No (0); (2) Prizes & awards |
| | 12. Include sustainability aspects in credit risk assessment | Yes (1) or No (0) |
| **Environmental protection** | 13. Environmental management policy | Yes (1) or No (0); (2) Prizes & awards |
| | 14. Quantitative environmental management targets | Yes (1) or No (0) |
| | 15. Environmental risk management in lending policy | Yes (1) or No (0) |
| | 16. Transparency of environmental performance | Yes (1) or No (0); (2) Carbon disclosure project |
| | 17. Promote environmental literacy | Yes (1) or No (0); (2) Prizes & awards |
| | 18. Include sustainability criteria in the selection of suppliers | Yes (1) or No (0) |
| **Social conduct** | 19. Community engagement policy | Yes (1) or No (0); (2) Foundation |
| | 20. Community involvement: donations and patronage | Yes (1) or No (0); (2) Performance |
| | 21. Promote volunteering | Yes (1) or No (0); (2) Performance |
| | 22. Human resources training, education and work-life balance policies | Yes (1) or No (0); (2) Performance |
| | 23. Equality of opportunities and no discrimination | Yes (1) or No (0) |
| | 24. Assessment of employees' satisfaction & expectations | Yes (1) or No (0) |

Source: Adapted from Scholtens (2008)

As to group 1, by adopting codes, publishing sustainability reports, and supply and development of "green" or socially responsible financial products a bank can signal its commitment to socially responsible behavior. How a bank actually takes care with regard to environmental issues can be based on its environmental policy and/or the management of its supply chain. Transparency about environmental performance allows us to assess how a bank operates in this respect. Taking care of the environment also is reflected in the ways in which banks account for environmental risks. Finally banks' social conduct assesses the bank's internal and external social commitment. Internal relates to the ways in which it deals with its workforce. External relates to its attitude and behavior with regard to society, for example, community involvement, volunteering, sponsoring. Taking these considerations it was adopted the following scoring table with regard to bank policies on social responsibility: 0 if the bank has no policy on this matter; 1 if the bank has a defined policy in line with international standards and guidelines for this matter; and 2 if the bank's policy for this matter is clearly superior, recognized by experts or specialized press, e.g., by prizes and awards distinctions. In order

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to assess individual banks' performance, it was considered the relative number of indicators on which a bank scores positive[1]. Accordingly to Table 12 it appears very clearly that the State owned bank is the most virtuous institution in terms of CSR. In fact, the CGD is the only institution publishing an annual sustainability report of more than 100 pages.

[1] We are aware of the fact that this type of research has several limitations. We heavily rely on the banks' websites, thus, when banks do not report to be active with respect to some issue/indicator, we assume that they are not. Additionally, there is no standard procedure for environmental or sustainable reporting and auditing and, therefore, we have to rely on information provided by the institutions themselves, which may suffer from the self-reporting bias. Additionally, our scoring system (0, 1 or 2) results in loss of nuances as a bank is said to comply or not or to perform or not, whereas the lack of proper and systematic socially responsibility accounting that makes difficult at this moment to accurately measure the degree or intensity by which the bank does so.

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**Table 11 - CSR Performance of Portuguese banks**

| Group | Indicator | Banco BPI | Millenium BCP | BES | Crédito Agrícola | CGD | Montepio |
|---|---|---|---|---|---|---|---|
| Sustainable development | 1. Institutional transparency policy | 1 | 2 | 2 | 1 | 2 | 1 |
| | 2. UNEP-FI | 0 | 0 | 1 | 0 | 1 | 0 |
| | 3. Equator Principles | 0 | 1 | 1 | 0 | 1 | 0 |
| | 4. United Nations Global Compact | 0 | 1 | 1 | 0 | 1 | 0 |
| | 5. Sustainability Indexes | 0 | 1 | 1 | 0 | 0 | 0 |
| | 6. Code of conduct | 0 | 1 | 1 | 1 | 1 | 1 |
| Responsible banking | 7. Customers' complaint management system | 0 | 2 | 1 | 2 | 2 | 1 |
| | 8. Microcredit lending policy | 0 | 1 | 1 | 1 | 1 | 1 |
| | 9. Promote Entrepreneurship, Innovation and Social Economy | 1 | 1 | 2 | 1 | 2 | 2 |
| | 10. Environmentally and socially responsible products and services | 0 | 1 | 2 | 0 | 2 | 0 |
| | 11. Promote financial education and literacy | 0 | 1 | 1 | 1 | 1 | 2 |
| | 12. Include sustainability aspects in credit risk assessment | 0 | 0 | 1 | 0 | 1 | 0 |
| Environmental protection | 13. Environmental management policy | 1 | 1 | 2 | 1 | 2 | 1 |
| | 14. Quantitative environmental management targets | 0 | 0 | 1 | 1 | 1 | 0 |
| | 15. Environmental risk management in lending policy | 0 | 1 | 1 | 0 | 1 | 0 |
| | 16. Transparency of environmental performance | 0 | 2 | 2 | 0 | 2 | 0 |
| | 17. Promote environmental literacy | 0 | 0 | 1 | 1 | 1 | 0 |
| | 18. Include sustainability criteria in the selection of suppliers | 0 | 1 | 1 | 0 | 1 | 0 |
| Social conduct | 19. Community engagement policy | 0 | 2 | 1 | 1 | 2 | 2 |
| | 20. Community involvement: donations and patronage | 1 | 1 | 1 | 2 | 1 | 1 |
| | 21. Promote volunteering | 0 | 1 | 1 | 0 | 2 | 1 |
| | 22. Human resources training, education and work-life balance policies | 1 | 1 | 1 | 1 | 2 | 2 |
| | 23. Equality of opportunities and no discrimination | 0 | 1 | 1 | 1 | 1 | 0 |
| | 24. Assessment of employees' satisfaction and expectations | 1 | 1 | 1 | 0 | 1 | 0 |

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The public bank presented the sustainability reports' external assurance statement and 2 IOF banks even present the GRI verification statement (A+). The Cooperative bank sustainability report follows GRI requirements but without any external verification (level B guidelines). Other banks sustainability report is just a five-pages-chapter of its corporate report. The former banks also outstand regarding the adoption of international principles, namely, UNEP FI, Equator Principles and Global Compact or by participate in the Carbon Disclosure Project.

In general, the CGD has an excellent performance in all groups considered, and the award of Portugal's Most Sustainable Financial Institution, by the New Economy's Sustainable Finance Awards reflects that. Being a public credit institution and simultaneously the biggest Portuguese bank brings great responsibility and demands leadership behavior and is good to see that, is this matter, good examples came from above. Initiatives as the Social Bank, the Savings Cycle website; the Caixa Fan Fund; the Caixa Carbono Zero 2010 Programme; the Voluntary Carbon Standard certification and Caixa Zero Carbon Forest project; the orchestral project; the Volunteers Pool or the breastfeeding corner, illustrate the commitment of this institution to CSR. Regarding the IOF banks, the performance of BES in the promotion of innovation and environmental matters with special care for biodiversity and nature conservation, deserves the acknowledgement from a number of independent sources, being included in the group of the 100 most sustainable companies in the world – Global 100, and in the Dow Jones Sustainability Indexes or the FTSE4Good sustainability index.

The Mutual saving bank stands out by its engagement with social economy, and solidarity. Being a bank but also an institution in the social economy sector, their commitment is to the principles of the social and solidarity-based economy, contributing to economic growth in line with social responsibility practice. The financial education and corporate volunteer programmes or the *Frota Solidária* project are internationally recognized examples it. In terms of environmental performance, IOF banks and State owned bank show much better results than Cooperative and Mutual savings banks, a outcome in part explained by the profile of their clients that explained by the profile of their clients that appear to be more adverse to the adoption of technologies of information and communication and, in this way, these institutions have more difficulties in control paper consumption and other related items. The option for recycled paper tries to minimize this handicap.

All banks have a defined community engagement policy, however, the State owned, Mutual savings and one IOF bank (BCP) differentiate themselves in this matter by creating foundations to carry out the mission of promoting culture (CGD Culturgest Foundation and Millenium BCP Foundation) and social solidarity (Montepio Foundation). Table 13 shows the evolution of the direct investment of Portuguese credit institutions in the community, including, donations and patronage. In terms of amounts the State owned bank stands out, however when considering the banks' size the Cooperative bank differentiates itself. Indeed, this type of bank proved to be more aware of the community social needs and really put their money where their mouth is, and, although they are not so good in advertising that as IOF banks, for example.

Table 12 shows the weight of donations and patronage expenses in total assets, by type of bank. Overall, in the 2006-2011 period, Cooperative bank dedicated a higher proportion of their assets to invest in community social needs via donations and patronage expenses. The local character of this type of bank confers it a superior bond to their community, reflected in its mission statement of contribute to economic, social, cultural and sport levels to the progress of local communities (Crédito Agrícola, 2013).

On the other hand, IOF banks dedicate the smaller proportion of their assets to solidarity and community social development. Being profit maximizing institutions this is a comprehensive behavior, it's good for their image to be associated with solidarity values but their commitment is rather superficial. State owned and Mutual savings banks statistically behave in a similar way and in-between Cooperative and IOF banks. They proved to be much more committed to social responsibility than IOF banks but their dedication is not as much of as the one demonstrated by Cooperative bank.

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**Table 12 – Evolution of direct investment in community of Portuguese banks (2006 - 2011) (thousand €)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **Banco BPI**[a] | n.a. | 40 | 50 | 700 | 925 | 650 |
| Annual growth rate | - | - | 25.00% | 1300.00% | 32.14% | -29.73% |
| As ‰ of Total Assets | - | 0.00‰ | 0.00‰ | 0.01‰ | 0.02‰ | 0.02‰ |
| **BES** | 2,700 | 4,000 | 3,200 | 4,000 | 4,800 | 3,300 |
| Annual growth rate | - | 48.15% | -20.00% | 25.00% | 20.00% | -31.25% |
| As ‰ of Total Assets | 0.05‰ | 0.06‰ | 0.04‰ | 0.05‰ | 0.06‰ | 0.04‰ |
| **Millenium BCP** | 3,951 | 4,022 | 3,940 | 2,400 | 3,800 | 3,200 |
| Annual growth rate | - | 1.80% | -2.04% | -39.09% | 58.33% | -15.79% |
| As ‰ of Total Assets | 0.05‰ | 0.05‰ | 0.04‰ | 0.03‰ | 0.04‰ | 0.03‰ |
| **Crédito Agrícola**[b] | 1,146 | 1,716 | 1,999 | 960 | 1,229 | n.a. |
| Annual growth rate | - | 49.74% | 16.49% | -51.98% | 28.02% | - |
| As ‰ of Total Assets | 0.11‰ | 0.16‰ | 0.17‰ | 0.08‰ | 0.09‰ | - |
| **CGD**[c] | 4,900 | 5,840 | 8,193 | 9,118 | 5,816 | 5,731 |
| Annual growth rate | - | 19.18% | 40.29% | 11.29% | -36.21% | -1.46% |
| As ‰ of Total Assets | 0.05‰ | 0.06‰ | 0.07‰ | 0.08‰ | 0.07‰ | 0.07‰ |
| **Montepio**[d] | 463 | 596 | 1,456 | 1,489 | 1,670 | 1,753 |
| Annual growth rate | - | 28.73% | -99.76% | 2.27% | 12.16% | 4.97% |
| As ‰ of Total Assets | 0.04‰ | 0.05‰ | 0.09‰ | 0.09‰ | 0.09‰ | 0.08‰ |

Notes: (a) Excludes patronage amounts; (b) The 2006-2009 values report to 59 local cooperative banks, the 2010 values involve 70 local banks and the Central cooperative bank and associated companies; the 2006-2008 values are conservative estimative based on 1/2 of total of donations, patronage and sponsorships annual costs (in 2009-2010 contributed to approximately to 40% of annual costs referred); (c) includes CGD Culturgest Foundation donations and patronage costs; 2007 values are estimative, based on the 90% of donations and subscriptions costs; and (d) includes Montepio Foundation donations and patronage costs.

Source: Banks´ Annual and Sustainability Reports

**Table 13 – Donations and patronage expenses by type of banks (2006 - 2011)**

| | Mean | Std. Deviation |
|---|---|---|
| **Investor owned banks** | 0.0342‰ | 0.00002 |
| **State owned bank** | 0.0662‰ | 0.00001 |
| **Mutual savings bank** | 0.0720‰ | 0.00002 |
| **Cooperative banks** | 0.1232‰ | 0.00004 |
| **F** | 20.224 | |
| ***Significance*** | ***0.000*** | |

Homogeneous subsets of means in

The 2008 financial crisis and subsequent economic and social crisis accentuated the government's budgetary difficulties in fulfilling its social duties and supporting the social economy, as a fundamental pillar for social balance and inclusion. On the other hand, as mentioned before, banks are dealing with adverse conditions, experiencing extraordinary losses, and under pressure for adjustment of their activity. Despite that no statistically significant change was found in their community involvement behaviour when comparing the amounts invested prior and post 2008 crisis (Table 14).

**Table 14 - Donations and patronage expenses by time period and type of bank**

| | Investor owned bank | | Cooperative bank | | State owned bank | | Mutual savings bank | | Overall Sample | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation |
| **Before 2008 crisis** | 0.036‰ | 0.00002 | 0.150‰ | 0.00003 | 0.060‰ | 0.00001 | 0.057‰ | 0.00003 | 0.064‰ | 0.00005 |
| **After 2008 crisis** | 0.033‰ | 0.00002 | 0.083‰ | 0.00001 | 0.072‰ | 0.00000 | 0.087‰ | 0.00001 | 0.055‰ | 0.00003 |
| **t** | 0.366 | | 3.472 | | -1.572 | | -1.992 | | -0.190* | |
| ***Significance*** | *0.719* | | *0.065* | | *0.191* | | *0.175* | | *0.865* | |

*Z statistic

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## 5 - Conclusions

In the current scenario of economic and financial crisis, banks social functions assume increasingly importance for the social and economic development of the country.

Portuguese financial sector has a diversity of credit institutions a state-owned and several privately owned banks, savings bank and agricultural credit cooperative bank system stand out. Their different economic objectives are reflected in their business approach and market segment focus.

Overall it was found evidence of stakeholder view banks superior performance in promote economic and social development. Cooperative banks in particular, being mainly located low density regions have a crucial function in the territorial and economic financial inclusion of those populations. That function was not affected by the current crisis and despite some rationalization of the retail network in response to the crisis, especially among privately IOF banks, the Portuguese, in general, increased their local presence, even in the less attractive (for banking activity purposes) counties. Additionally, regarding banking employment no statistical significant change was observed due to crisis, despite the overall decrease of the banking sector employment.

In terms of corporate social responsibility, the state owned banks stand out in this function and present good results in all items analyzed. Additionally, is noted that Portuguese banks, in general, are aware of their social responsibilities and are making efforts to become more sustainable. The bigger and more internationalized banks have adopted international principles regarding sustainable financing and have good performances regarding environmental protection. In this respect, cooperative and mutual savings banks have poor performance, despite their efforts. On contrary, regarding social conduct cooperative and mutual savings banks have in general, a better performance, although they are not so good in advertising that as their IOFs counterparts. Finally, despite the current crisis and the extraordinary losses that banks are experiencing they do not statistically reduced their direct investment in the community and state owned and mutual savings banks even increased (but not statistically significant) donations and patronage expenses.

Generally speaking, universal banks are normally very good in communicating about CSR, and although the annual sustainability report meets the Guidelines of the Global Reporting Initiative the information is not quantified in monetary terms and without a proper and systematic socially responsibility accounting system it is hard to make accurate assessments. On the other hand the credit institutions are the main source of information regarding CSR performance and here their marketing talent can be crucial to influence this assessment.

The short period of the analysis is a disadvantage and future investigation, able to wide it, will increase their findings robustness. Further research can also complement this study, namely, by the investigation of credit institutions customers profile to better comprehend financial inclusion function or the analysis of the relation between banks economic performance and CSR, thus including the three pillars (social, environment and economy) of sustainability in the analysis.

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