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Financial openness and CSR: Banks in Greece, Italy, Portugal and Spain

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Abstract

Since the global financial crisis of 2008, the practices of the European banking sector have come under public scrutiny. Considered as a source of external shocks, the opening of European banking markets is particularly questioned. Following this trend, this article aims to provide an original study by examining the effect of banking sector openness on the CSR of banks. It focuses on the case of Southern European banks, which are the most vulnerable in the European system. The study highlights a significant effect of banking sector openness on banks' social performance. However, the financial performance of banks moderates this effect.

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1. Introduction and theoretical background

Public trust in banks was shaken after the 2008 global financial crisis (GFC), giving rise to intense debates about unethical and irresponsible financial practices (Gaies 2021). For Southern European banks, achieving high social performance is one of the main challenges to restoring their credibility (Ziogas and Metaxas, 2021), as they are particularly vulnerable to systemic crises due to their large foreign loans and their unstable openness (Detragiache et al., 2018).

According to the theory of financial instability (Minsky, 1982), foreign banks could import external financial shocks from the home market to the host market, contaminating domestic banks that are susceptible to financial resource damage. In such a context of banking sector openness, investment in corporate social responsibility (CSR) may be limited, especially in banks with relatively low profitability, such as Southern European banks (Ziogas and Metaxas, 2021). In addition, the presence of foreign banks, financial services, and flows could increase competition in the domestic financial market by reducing profits, costs, and net interest margins (Claessens et al., 2001; Gaies and Nabi, 2021). These increased competitive pressures act as a barrier to investment in social performance because they tend to reduce both financial resources and the supply of CSR. Moreover, banking sector openness induces knowledge transfer in terms of financial tools, products, and practices from foreign to domestic banks. This could be at the expense of domestic CSR of banks, when these new financial arrangements allow for high short-term financial performance without social value added (Bayraktar and Wang, 2008). Taken together, these theoretical arguments suggest that the opening of the banking sector does not promote CSR in Southern European banks (H1).

In contrast to financial instability theory, financial development theory (Shaw, 1973) stipulates that the presence of foreign banks enhances the domestic banking sector in terms of efficiency and competitiveness, contributing to improved auditing, accounting and rating organizations. Thus, domestic banks tend to integrate CSR activities and programs to achieve a non-price/cost competitive advantage (Waddock and Graves, 1997). This indicates that the opening of the banking sector is synonymous with increased banking competition, which strengthens CSR since its payoff is higher in terms of competitiveness. Bradbury (1991) shows that in foreign-owned companies, CSR disclosure is often higher due to both owner demands and internal strategies. Since CSR represents a part of the strategic knowledge of foreign banks, it can be transferred to the local banks and help them improve their social performance. In addition, domestic banks can take advantage of systemic financial shocks and increase their social performance to regain lost trust (Saïdane and Ben Abdallah, 2021). From this perspective, it seems that the opening of the banking sector promotes CSR in Southern European banks (H2).

This paper is the first to examine whether banking openness encourages or discourages bank CSR (H1 versus H2). It also examines how financial profitability can moderate this relationship asymmetrically, as international competition and CSR transfer can impact low-profit local banks and high-profit local banks differently (Kolk and Van Tulder, 2010). The study focuses on the case of Southern European banks, as the most exposed banks of the European system, which is one of the most open banking systems in the world. The rest of the paper is organized as follows. Section 2 presents the data, sample, and variables. Section 3 outlines the models and discusses the estimation results. Section 4 concludes.

2. Data, sample and variables

Our sample includes 19 listed Southern European banks[1] from Greece, Spain, Portugal and Italy, covering the period 2002–2018. Data are extracted from the Thomson Reuters Asset4 and

[1] Alpha Bank SA, Bankinter SA, Banca Carige - Cassa di Risparmio di Genova e Imperia, Bper Banca SpA, Caixabank SA, Banca Monte dei Paschi di Sie SpA, Eurobank Ergasias Services and Holdings, Banca Popolare di Sondrio ScpA, FinecoBank Banca Fineco SpA, Banco Bilbao Vizcaya Argentaria SA, Intesa Sanpaolo SpA,

Global Financial Development databases. As dependent variable, we consider alternatively the ESG score (ESG) and the combined ESG score (ESGC) to measure banks' CSR (El Ghoul and Karoui, 2017; Jahmane and Gaies, 2020; Gaies and Jahmane, 2022; Saïdane and Ben Abdallah, 2021). As explanatory variables of interest measuring the openness of the national banking sector (OPEN), we use total net offshore bank loans as a percentage of GDP (OFFSHLOAN), outstanding offshore bank loans as a percentage of GDP (EXTERLOAN), the ratio of foreign bank assets to total bank assets (FOREIASSET), and the ratio of foreign-owned banks to total banks (FOREIBANK). These variables are proposed by Beck et al. (2010). As Detragiache et al. (2018) and Ziogas and Metaxas (2021) argue, restoring not only economic but also social credibility is an important challenge for Southern European banks. Indeed, these banks have adopted a fragile and unstable openness based on large foreign loans making them vulnerable to systemic risk. For example,[2] on average between 2002 and 2018, their outstanding foreign bank loans were more than half of their GDP, with a standard deviation of 17 %. Following recent studies on the determinants of corporate social performance (e.g., Green and Peloza, 2014; Sheikh, 2019), we select bank size (SIZE), bank leverage (LEVE), bank age (AGE), and bank financial performance (ROA) as control variables.

3. Models, estimations and results

In order to study the effect of banking sector openness on the CSR of banks, we start by estimating the following fixed-effects panel data model[3]:

$$CSR_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 LEVE_{it} + \alpha_3 AGE_{it} + \alpha_4 ROA_{it} + \alpha_5 OPEN_{it} + \zeta_{it} \qquad (1)$$

Table I reports the results of the fixed-effects model (Eq. 1) estimations. It shows a positive effect of banking sector openness (OFFSHLOAN, EXTERLOAN, FOREIASSET and FOREIBANK) on CSR (ESG or ESGC). It seems that greater openness of the banking sector to foreign banks and external banking flows enhances bank CSR (H2 seems to be confirmed). Furthermore, while larger SIZE seems to increase bank CSR, an increase in AGE and LEVE decreases it. Furthermore, Table I shows an intriguing and unexpected result indicating a non-significant effect of ROA on bank CSR. Before interpreting it, it is crucial to see whether it embodies a symptom of an endogeneity problem in Eq. 1 (Ketokivi and McIntosh, 2017; Lahouel et al., 2019). Following Ketokivi and McIntosh (2017) and Lahouel et al. (2019), we check and control for endogeneity employing two-stage fixed-effects least squares (2SLS/FE) modeling. The Hansen test statistics (Hansen J statistic) in Table I indicate the validity of the instruments and then the consistency of the 2SLS/FE approach at the 1% level of statistical significance. According to the table, the results of the 2SLS/FE approach are consistent with those of the OLS/FE approach.

Banco, BPM SpA, Mediobanca Banca di Credito Finziario SpA, Banco Comercial Portugues SA, National Bank of Greece SA, Banco de Sabadell SA, Piraeus Bank SA, Banco Santander SA, UniCredit SpA.

[2] The mean and standard deviation (m;sd) of our variables are as follows: ESG (54.04; 22.58), ESGC (52.47; 21.56), OFFSHLOAN (0.66; 1.90), EXTERLOAN (54.64; 17.58), FOREIASSET (11.91; 8.28), FOREIBANK (6.33; 5.40), SIZE (total assets in logarithm :18.66; 1.19), LEVE (net total debt to total equity: 0.29; 0.14), AGE (91.68; 61.72), and ROA (0.70; 1.56).

[3] The model (Eq. 1) includes three dummy variables of individual bank effects, country-specific effects and time-specific effects. α represents the vector of the parameters. ζ is the vector of error term. i indexes cross-sectional units and t indexes time periods.

Table I. FE and 2SLS/FE estimates

Model:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable:	ESG	ESG	ESG	ESG	ESGC	ESGC	ESGC	ESGC	ESG	ESG	ESG	ESG	ESGC	ESGC	ESGC	ESGC
					FE panel data								2SLS/FE panel data			
ROA	-0.0146	0.0119	0.0186	0.0273	-0.0127	0.0122	0.0160	0.0262	0.0047	-0.0154	0.0268	0.1134	0.0058	-0.0138	0.0213	0.0853
	(0.0677)	(0.0527)	(0.0606)	(0.0490)	(0.0677)	(0.0527)	(0.0595)	(0.0488)	(0.0629)	(0.0503)	(0.0715)	(0.0841)	(0.0645)	(0.0519)	(0.0651)	(0.0772)
SIZE	0.2300***	0.2511***	0.1959***	0.1957***	0.1984***	0.2242***	0.1750***	0.1697***	0.2084**	0.2402***	0.1771**	0.1910***	0.1761**	0.2073***	0.1532**	0.1544***
	(0.0353)	(0.0300)	(0.0339)	(0.0209)	(0.0368)	(0.0319)	(0.0358)	(0.0226)	(0.0822)	(0.0804)	(0.0716)	(0.0504)	(0.0829)	(0.0801)	(0.0721)	(0.0481)
LEVE	-0.2586**	-0.2063***	-0.3070***	-0.2609***	-0.2583***	-0.2190***	-0.3189***	-0.2633***	-0.3466**	-0.2690*	-0.3600**	-0.3630***	-0.3417**	-0.2665*	-0.3480**	-0.3292***
	(0.0989)	(0.0651)	(0.0921)	(0.0541)	(0.0981)	(0.0661)	(0.0939)	(0.0552)	(0.1629)	(0.1474)	(0.1700)	(0.1015)	(0.1683)	(0.1534)	(0.1740)	(0.0947)
AGE	-0.1092***	-0.0473**	-0.0949***	-0.0914***	-0.1317***	-0.0669***	-0.1102***	-0.1110***	-0.1348***	-0.0978**	-0.1591***	-0.1237***	-0.1568***	-0.1200***	-0.1759***	-0.1395***
	(0.0261)	(0.0226)	(0.0267)	(0.0204)	(0.0279)	(0.0236)	(0.0274)	(0.0213)	(0.0464)	(0.0465)	(0.0478)	(0.0305)	(0.0468)	(0.0466)	(0.0462)	(0.0295)
FOREIASSET	0.1292**				0.1234**				0.1209***				0.1122**			
	(0.0505)				(0.0515)				(0.0434)				(0.0457)			
FOREIBANK		0.3042***				0.3023***				0.3924***				0.3824**		
		(0.0789)				(0.0800)				(0.1484)				(0.1526)		
OFFSHLOAN			0.0903**				0.0987**				0.1136**				0.1196**	
			(0.0449)				(0.0448)				(0.0491)				(0.0475)	
EXTERLOAN				0.4416***				0.4634***				0.8249***				0.7144***
				(0.0985)				(0.1018)				(0.1642)				(0.1724)
Individual effect	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Time effect	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Country effect	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Constant	40.1600	20.2235	-63.7280**	-18.7443	35.1826	14.0404	-69.7120**	-18.9222	15.2558	41.4419	-57.2724	20.5836	16.2144	41.9647	-57.2248	20.3191
	(37.6120)	(27.3302)	(29.0215)	(14.1475)	(37.0367)	(26.9793)	(28.7457)	(14.2444)	(42.4647)	(45.1533)	(38.6569)	(27.5867)	(43.3622)	(45.5770)	(38.4813)	(31.0855)
R-squared	0.5614	0.5736	0.5054	0.5557	0.5356	0.5499	0.4954	0.5324	0.5812	0.6538	0.5966	0.6846	0.5455	0.6198	0.5757	0.6176
Fisher	25.49	39.01	21.24	37.78	21.97	30.12	17.96	30.89	8.674	9.732	10.55	12.46	7.536	7.999	9.963	11.21
Hansen J statistic									0.465	0.690	0.992	0.117	0.427	0.605	0.167	0.395

Note: ***, ** and * denotes statistical significance at the 1%, 5% and 10% level, respectively. Robust Standard errors are reported in parentheses.

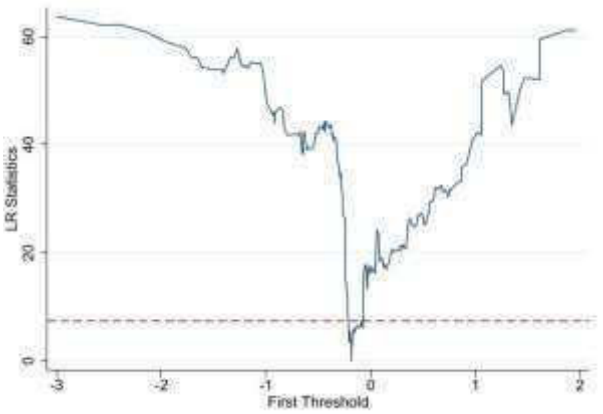
Overall, Table I indicates that our interpretations and conclusions are not confounded by endogeneity. However, given the persistent lack of a significant impact of ROA on bank CSR, we perform a final check regarding a potential asymmetric (threshold) effect of ROA on bank CSR and a potential moderating effect of ROA on the impact of banking sector openness on bank CSR. Following recent empirical studies based on threshold panel data models (e.g., Gaies, 2022), we employ the fixed-effects panel threshold estimator developed by Hansen (1999) to examine whether there is an asymmetric (threshold) effect of ROA on bank CSR and whether such an asymmetric effect influences the impact of banking sector openness on bank CSR. The model can be expressed as follows[4].

$$CSR_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 LEVE_{it} + \alpha_3 AGE_{it} + \alpha_4(ROA_{it} \times f(ROA < \tilde{y})) + \alpha_5(ROA_{it} \times f(ROA > \tilde{y})) + \alpha_6(OPEN_{it} \times f(ROA < \tilde{y})) + \alpha_7(OPEN_{it} \times f(ROA > \tilde{y})) + \zeta_{it} \quad (2)$$

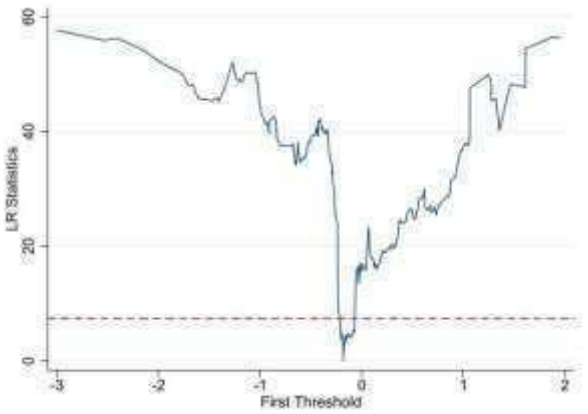
Where α_4 and α_5 capture the asymmetric effect of ROA on bank CSR, while α_6 and α_7 capture the asymmetric effect of ROA in moderating the impact of banking openness on bank CSR. $f(.)$ is an indicator function of the regime that is defined by the ROA threshold variable. $\tilde{y}$ is the potential threshold value at the 5% level of statistical significance.

Table II reports the results of the fixed-effects panel threshold estimates (Eq. 2) for the 19 Southern European banks listed. It indicates that there are single thresholds of ROA dividing the sample into two regimes of low and high financial performance banks. The threshold values range from –0.6 to 0.3 (threshold) and are significant at conventional levels of 1, 5 and 10%, as confirmed by Figure 1. According to Table II, in the low ROA regime, ROA has a negative and statistically significant impact on banks CSR at the 5 and 10% levels. On the contrary, in the high ROA regime, ROA has a positive and statistically significant impact on bank CSR. The negative effect of financial profitability on bank CSR for low financial performance banks could be explained by the managerial opportunism hypothesis (Preston and O'bannon, 1997), which suggests that growing financial profitability would lead managers to decrease CSR spending in the short term in order to rapidly increase not only the firm's profits, but also their own. On the other hand, if profitability is modest, managers might want to cover it by concentrating on the firm's CSR commitments. Moreover, the positive effect of ROA on bank CSR in high financial performance banks is in line with slack resources theory (Waddock and Graves, 1997). Another interesting result revealed by Table II is the positive and statistically significant impact of banking sector openness on bank CSR in the low ROA regime, while this effect turns weak or non-significant in the high ROA regime. In other words, high financial performance banks do not benefit from banking sector openness to enhance their CSR, contrary to low financial performance banks for which the presence of foreign banks and external banking flows promote their corporate social performance. This counterintuitive result could be explained by the fact that the transfer of CSR from foreign banks to low financial performance banks is likely to be based on an imitation process (Kolk and Van Tulder, 2010). Local banks with high financial performance appear to improve their social performance based on their internal process, which is facilitated by their higher ROA (Waddock and Graves, 1997). Accordingly, there is evidence that when characterized by low financial performance, local firms are more likely to experience CSR pressures from foreign banks through competition and knowledge transfer channels.

[4] Notations and conventions are in accordance with Eq.1.



Model 1



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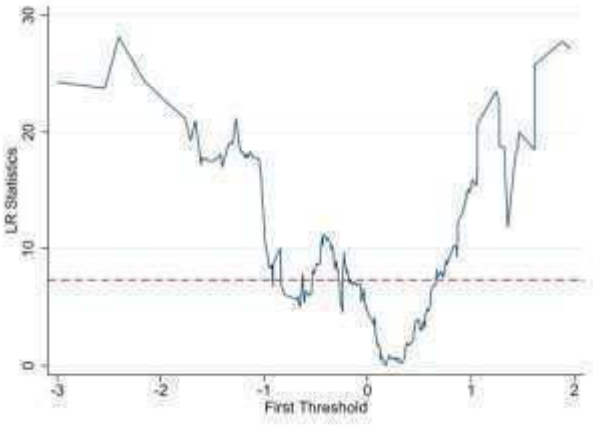
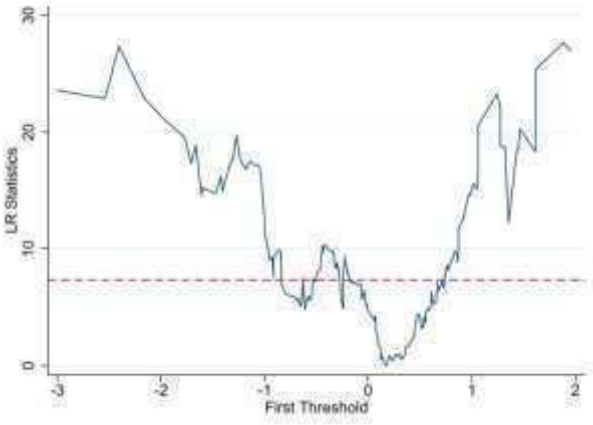
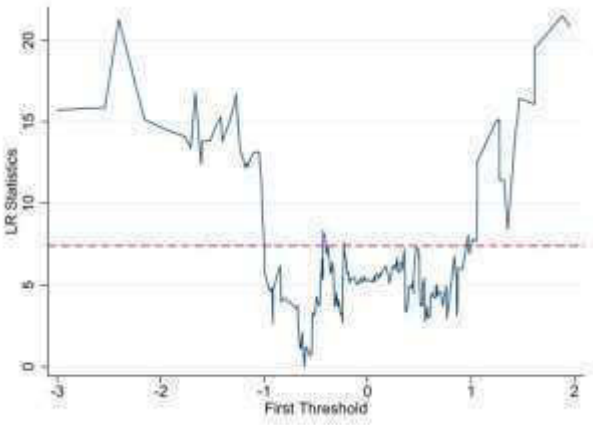


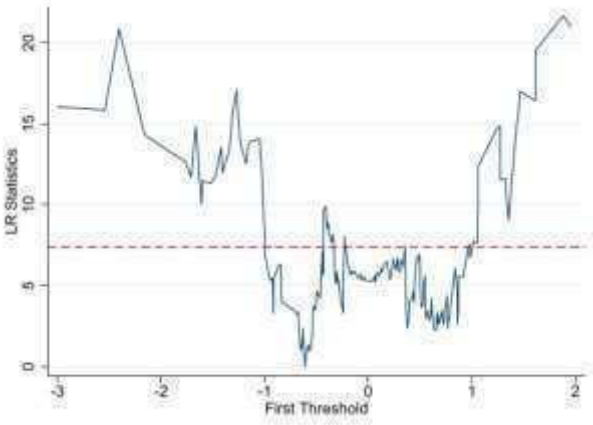
Model 2



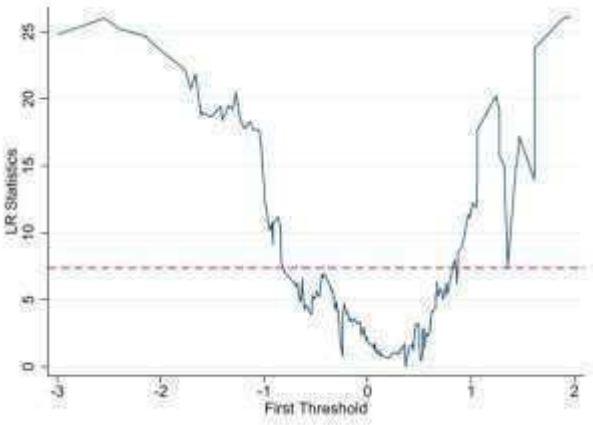
Model 6



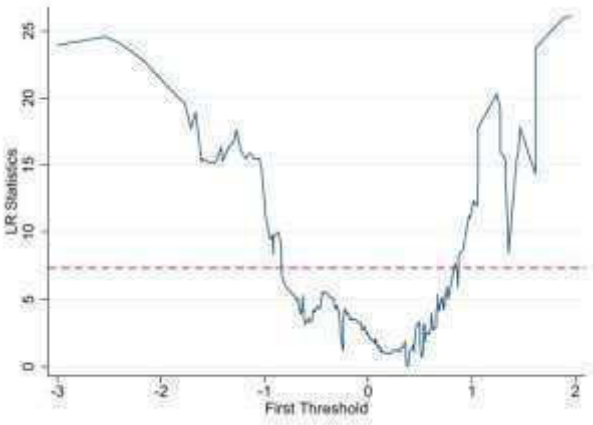
Model 3



Model 7



Model 4



Model 8

The dashed lines indicate the critical value of the LR statistic at the 95% confidence level, which is 7.35. All threshold values fall below dashed lines (x-axis), confirming the robustness of the single ROA thresholds.

Figure 1. LR statistics

Table II. Extended estimates – Threshold effect

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	ESG	ESG	ESG	ESG	ESGC	ESGC	ESGC	ESGC
SIZE	0.270***	0.290***	0.343***	0.188**	0.238***	0.282***	0.318***	0.167*
	(0.0730)	(0.0849)	(0.0934)	(0.0830)	(0.0733)	(0.0837)	(0.0918)	(0.0828)
LEV	-0.125***	-0.132***	-0.0874***	-0.131***	-0.125***	-0.137***	-0.0906***	-0.133***
	(0.0261)	(0.0325)	(0.0268)	(0.0343)	(0.0263)	(0.0319)	(0.0276)	(0.0346)
AGE	0.138	0.237	0.297	0.243	0.158	0.264	0.321	0.262
	(0.157)	(0.241)	(0.201)	(0.250)	(0.165)	(0.246)	(0.211)	(0.258)
ROA (low regime)	-0.0460	-0.135*	-0.124*	-0.160**	-0.0434	-0.130	-0.125*	-0.155**
	(0.0593)	(0.0731)	(0.0614)	(0.0691)	(0.0616)	(0.0758)	(0.0628)	(0.0705)
ROA (high regime)	0.243***	0.350**	0.148	0.314**	0.251***	0.369***	0.165*	0.323**
	(0.0827)	(0.123)	(0.0892)	(0.130)	(0.0817)	(0.121)	(0.0914)	(0.131)
FOREIASSET (low regime)	0.169**				0.173**			
	(0.0674)				(0.0681)			
FOREIASSET (high regime)	0.000596				0.00844			
	(0.0439)				(0.0424)			
FOREIBANK (low regime)		0.0987				0.0688		
		(0.103)				(0.108)		
FOREIBANK (high regime)		0.0236				-0.00807		
		(0.107)				(0.110)		
OFFSHLOAN (low regime)			0.0624**				0.0555**	
			(0.0252)				(0.0247)	
OFFSHLOAN (high regime)			-0.00692				-0.00882	
			(0.0186)				(0.0189)	
EXTERLOAN (low regime)				0.336**				0.328*
				(0.149)				(0.157)
EXTERLOAN (high regime)				0.314*				0.307*
				(0.153)				(0.159)
Constant	-2.143	-3.061*	-3.999**	-2.308	-1.651	-2.980*	-3.668**	-1.990
	(1.499)	(1.582)	(1.725)	(1.417)	(1.498)	(1.558)	(1.702)	(1.408)
Threshold/ R-squared	-0.1863/0.460	0.1740/0.384	-0.6074/0.377	0.3646/0.389	-0.1863/0.435	0.1740/0.355	-0.6074/0.352	0.3646/0.364

Note: ***,** and * denotes statistical significance at the 1%, 5% and 10% level, respectively. Robust Standard errors are reported in parentheses

4. Conclusion

This study aims to advance knowledge on the determinants of CSR in the banking sector. Its major novelty is that it examines whether or not local banks gain in CSR with more openness to foreign banks and cross-border banking flows and whether financial profitability can moderate this relationship since financial openness could have a different impact on low profitability local banks and high profitability local banks. Our main findings show that while banks with low financial performance take advantage of banking sector openness to improve their CSR, banks with high financial performance improve their social performance based on their internal process. These results are drawn from the case of Southern European banks, the most vulnerable in the European system, which is one of the most open banking systems in the world. They could therefore provide interesting policy insights for European regulatory institutions and open up new research perspectives. One future avenue of research could be to focus exclusively on certain periods of turbulence, such as the European debt crisis, the COVID-19 pandemic, and the Russia-Ukraine War, to see if financial performance would outweigh CSR objectives.

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