BANGOR BUSINESS SCHOOL

Learning lessons from 1758

Stephen Jones, Academic Director of the Chartered Banker MBA, Bangor University, foresees continuing emphasis globally on responsible provision of financial services. He contends that the resulting need for professional development at all levels of financial services organisations is best achieved by close links between professional associations and educational providers.

With evidence of increasing levels of attempted fraud around the world during the COVID-19 pandemic, it is timely to consider how the financial services industry can be encouraged to make "the kind of positive contribution to people and the planet that society expects... at a time when such ambition is urgently needed" (www.unepfi.org/banking/bankingprinciples/).

Some commentators have argued that the twin impacts of the pandemic and the Ukraine-Russia war will spell the end of globalisation – a phenomenon most of us have experienced to a greater or lesser extent since the middle of the 20th century. As the globalisation of production and the new need for shorter, more local, supply chains are being discussed, so too is the proposal for globalisation of regulation – if not regulation then principles of voluntary best practice. Surely this is something that all stakeholders would support? Well, perhaps not.

As at May 2022, the United Nations Environment Programme Finance Initiative (UNEPFI) reported "over 270 banks representing over 45% of banking assets worldwide have now joined this movement for change" on "a journey of unprecedented scale and scope".

But this is not a recent journey. It is reported that the origins of socially responsible investing date back to the Religious Society of Friends (Quakers), when, in 1758, the Quaker Philadelphia Yearly Meeting prohibited members from participating in the slave trade.

Where does responsibility lie?

So why, in 2022, are universally agreed guidelines still not embedded in industry practices? And which stakeholder should set the agenda for responsible financial services? Should it be providers, customers, national governments, professional bodies, or educational institutions?

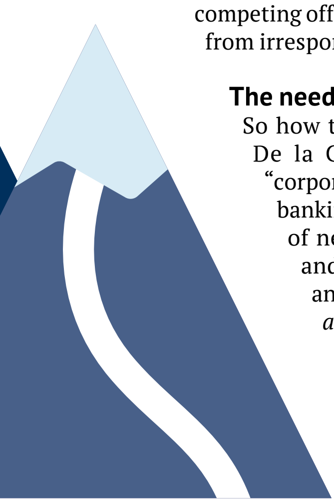
Perhaps governments should lead the way to 'protect' their citizens and societies? Regulatory arbitrage in the past has suggested a destructive race to the bottom in global regulations as governments seek to attract international bank flows to develop their domestic economy. On the other hand, some nations (e.g., China) may focus on dialogue platforms such as the G20, rather than global economic governance institutions like the World Trade Organization.

Wouldn't providers of financial services respond to commercial returns resulting from responsible behaviour? Studies have examined whether it pays to be green by linking corporate financial performance and corporate environmental performance; between corporate and country characteristics of sustainability and the cost of debt. But the relationship is complex. The question remains as to which characteristic comes first. It is suggested that corporate environmental performance and the business case for environmental commitment are only within the purview of already financially successful banks – but every bank has to start somewhere!

Furthermore, it is argued that specific sectors of financial services may already have inbuilt safeguards to avoid irresponsible behaviour. For example, that competing logics in the Islamic funds industry differentiate between a market logic and a religious logic.

Finally, customers of financial services would surely want potential providers to behave responsibly – wouldn't they? As a starting point, it is probably difficult to conceive of a situation where a customer would want irresponsible provider behaviour – unless perhaps a risk-free outcome was guaranteed.

It has been reported that customers who are not supportive of corporate social responsibility (CSR) represent a relatively small portion of the banking market – the influential characteristics being gender, age, educational level, and occupation. However, those with an interest in CSR are motivated by different CSR dimensions when evaluating corporate strategies. In addition, it should be recognised that many financial services are intangible in nature and it is therefore difficult for providers to explain them to potential customers, and for customers to compare competing offerings. Therefore, customers need 'protecting' from irresponsible claims.



The need for thought leadership

So how to construct the roadmap for this journey? De la Cuesta-González et al (2020) argue that "corporate responsibility at the sector level in retail banking is the product of context specific processes of negotiation between the sector, civil society and public authorities, on behalf of customers and other stakeholders". Their paper *Coalitions and Public Action in the Reshaping of Corporate Responsibility* certainly captures the parties considered above. They go on to say that such negotiation "has only limited momentum in enabling behavioural change beyond the initial catalysing events".

To conclude, the UN banking principles that introduced this discussion serve as an example of a coalition aimed at reshaping responsible behaviour. Ongoing thought leadership by professional bodies such as Chartered Banker Institute serves to maintain attention beyond any single catalysing events.

But how can individual financial service providers develop an organisation that behaves responsibly in the creation and delivery of financial services? It is argued that organisations need to first recognise the differences between potential absorptive capacity (to acquire and assimilate new knowledge) and realised absorptive capacity (to transform and exploit new knowledge). Then to use different organisational systems and socialisation processes, while also interacting continuously and proactively with the external environment.

And the role of educational providers is to work with professional bodies to support organisations to develop their workforces to maximise realised absorptive capacity.

As the saying goes, watch this space as the Chartered Banker MBA content refreshes to suit the post-pandemic world. CB