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## Corporate social responsibility reporting in financial institutions: Evidence from Euronext



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### ABSTRACT

The legitimacy, the identity and the social impact of financial institutions go beyond the generation of revenues for providers of capital, through financial intermediation. Financial institutions bear significant corporate social responsibility (CSR). We produce measures of CSR disclosure and explore the determinants of CSR disclosure practices in a cross section of financial institutions. Working with financial companies whose stocks are listed in the Euronext stock exchange, we find that the extent of disclosure of CSR practices is greater in large companies and also in companies of greater financial leverage. Therefore, increased corporate visibility and financial risk increase stakeholder demand for transparency on the social impact of financial institutions and their CSR practices.

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## 1. Introduction

Corporate social responsibility is discursive in that it is a field of antagonistic perspectives and thus constitutive and productive of reality (Cantó-Milà and Lozano, 2009; Dobers and Springett, 2010). Within this critical discursive terrain, corporate social responsibility (CSR) reporting is articulation, in the sense that it establishes “a relation among elements such that their identity is modified as a result of the articulatory practice” (Laclau and Mouffe (2001): p. 105). The reporting business entity, the concepts of social welfare, legitimacy and ethical business conduct are interrelated elements in

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the process of CSR reporting and their identity is fundamentally transformed through an articulatory practice such as CSR reporting: organizational identity bears significant influence on the structure of CSR reporting and also develops through CSR reporting (e.g. [Rolland and O'Keefe Bazzoni, 2009](#)); CSR reporting shapes perceptions of social welfare but is also driven by them (e.g. [Sklair and Miller, 2010](#)); corporate legitimacy is communicated and social coordinates of corporate conduct are redefined through CSR rhetoric ([Castelló and Lozano, 2011](#)). In this setting, we define CSR as discourse; as structured totality that results from articulatory practices, corporate, social and regulatory ones.

As practice of CSR articulation, CSR reporting can be explored with a focus on its elements. One of the constitutive elements of such articulatory practices is the reporting business entity. We focus on this element because of its fundamental importance in CSR reporting: CSR reports are, if anything, business reports and this is why we need to explore the organizational characteristics of reporting entities that influence the content and the extent of CSR reporting. Moreover, we study voluntary—rather than mandatory—disclosure in order to emphasize the decision-making aspect of the CSR process. Among the organizational determinants of CSR reporting, we focus on financial ones for two main reasons.

First of all, a major purpose of corporate disclosure practices is the reduction of information asymmetries among stakeholders and, thereof, the reduction of the stakeholders' perceived uncertainty about the consequences of organizational decision making; among the network of stakeholders, reduced uncertainty of providers of capital is associated with lower required rates of return and, therefore, increased business value ([Diamond, 1991](#); [Francis et al., 2005](#)). The effects of voluntary disclosure on the cost of financing and the financial value of a firm are not confined to the disclosure of the firm's financial performance; voluntary social disclosure also affects the cost of capital; the extent of voluntary social disclosure is negatively associated the equity cost of capital and, in this manner, the reduction of the cost of capital can be an incentive for the initiation of discretionary CSR reporting ([Plumlee et al., 2010](#); [Orens et al., 2010](#); [Dhaliwal et al., 2011](#)).

The second justification of our focus on the financial determinants of CSR reporting, originates in the plethora of evidence that the extent of CSR reporting depends on variables such as the size of the firm (approximated with market capitalization), the difference between the book value and the market value of a firm's equity capital, profitability and financial leverage; market capitalization is a proxy for firm size and firm size is positively associated with the demand for information on the firm's activities; profitability both generates the surplus needed to finance CSR reporting and also magnifies the need for corporate legitimacy; large differences between book values and market values necessitate a corporate explanation on uncodified sources of value such as CSR performance; increased financial leverage commits resources on the accomplishment of the firm's financial objectives rather than non financial ones, like reporting on CSR performance ([Tagesson et al., 2009](#); [Brammer and Pavelin, 2006](#)).

A business entity can report on CSR through a variety of communication platforms; hard copy reports, appearances in the mass media, corporate websites can all serve the purpose of corporate communication in matters of CSR. Our analysis of CSR disclosure, however, focuses on CSR reporting practices on corporate websites. We choose websites, among other platforms of corporate communication, for a number of reasons. First, information and messages on corporate websites are typically inclusive of information and messages through other media; annual reports, CSR reports, press releases and videos can also be found on corporate websites. Furthermore, unlike annual reports, corporate websites are structured in a way that is largely independent of regulatory requirements, and adapted to the diverse information needs of the firm's nexus of stakeholders; therefore corporate websites are more expressive of corporate identity as realization of the corporation's self representation to stakeholders through symbolism, communication and behavior ([Körver and van Ruler, 2003](#)). Such organization-specific structure of online CSR reporting is supported by the interactive technology of corporate websites as well as the frequent updates of online material and its immediate and extensive dissemination (e.g. [De Villiers and van Staden, 2011](#)).

We focus on CSR practices of the European financial industry, not only because it affects sustainable development through financial intermediation, but mostly because the social impact, accountability and legitimacy of the financially industry have been fundamental issues in public debate and regulatory reform, in the framework of the global financial crisis of 2007 and the sovereign debt crisis in the Eurozone over the past three years. In the following section, we review the literature on CSR reporting

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