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*CSR in banking – the pursuit toward repairing  
legitimacy and reputation  
A case study of Den Norske Bank and Danske Bank*



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## **Executive summary**

This thesis has issued how the banking sector use CSR in dealing with organizational crises, and how the concept can be useful in efforts to repair the legitimacy and reputation of banks. Norwegian bank DnB NOR and Danish financial service provider Danske Bank have been applied as case examples. The banks' size and visibility in the Scandinavian context, their recently damaged legitimacy and reputation, and their strategic orientation to CSR make them highly relevant to examine.

With banking being a relatively clean sector, it has not faced the scrutiny related to Corporate Social Responsibility (CSR) felt by other business sectors such as oil & gas, forestry and transportation. Recent high profile corporate scandals and accusations of irresponsible behavior, however, have led to organizational crises and are pressuring the banking industry to modify current practices of for instance lending, advising and investment. U.S. banks were the first designated scapegoats when the financial crisis hit in late 2007. However, it quickly became apparent that the banking sector globally, with few exceptions, had been engaged in risky and unsustainable business. Interviews with CSR managers of DnB NOR and Danske Bank indicate that the stakeholder expectations toward banks, in this thesis limited to public opinion and public policy, have risen immensely in recent years. The standing of banks is today under massive pressure, necessitating an adequate response in order to repair weakened reputations and legitimacy.

The business perspective on CSR is not only influenced by internal motivations and deliberate foresight, but is to a large extent guided by the way society defines standards of acceptable corporate behaviour. Therefore, the perception of stakeholder pressures toward CSR has been analyzed from the viewpoint of the case banks. Furthermore, strategic CSR responses made by the banks with the aim of repairing legitimacy and reputation have been dealt with. The latter point includes an assessment of the appropriateness of CSR standards and initiatives adopted by the case banks, and to what extent imitation of CSR strategies will affect the work of repairing the standing of banks, and simultaneously ensure competitive edge. The increased expertise that firms gain by joining these business coalitions may enable them to better advice clients and control risks. However, imitation may also lead to homogeneous CSR initiatives perceived as less sincere in a period of increasing pressure and expectations toward banks.

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# 1. Introduction

*“Banks must take on new responsibilities that go beyond a simple policy of “paternalism” vis-a-vis their suppliers, customers and employees, such as that practiced up until recent times” (Noyer, Governor of the Bank of France, 2008)*

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In the wake of recent high profile corporate scandals around the globe, the legitimacy and reputation of banks are under pressure. As Christian Noyer (2008) notes in the opening remarks, responsibilities of banks need to surpass “paternalism,” that being the concept of only partially serving the interests of stakeholders in order to pursue another agenda, which can operate in a manner that is opposite to their best interests. The financial crisis, irresponsible behaviour and numerous pressure groups have prompted firms to move away from *business as usual* social models in an effort to behave more responsibly. While negative publicity on Corporate Social Responsibility (CSR) related topics can tarnish a firm's reputation and thereby alienate customers, investors and employees, an increasing number of banks engage in strategic CSR in order to repair the legitimacy and reputation of their brands.

Archie Carroll (2003: 36) defines CSR as follows: “The social responsibility of business encompasses the economic, legal, ethical and discretionary [philanthropic or community leadership] expectations that society has of organizations at a given point in time”. European Commission (2001: 6) argues that CSR is “a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance...” The definitions are numerous and the number of related concepts, such as corporate responsibility (CR), adds confusion to the responsibilities of firms. It can for instance be a matter of charity, but CSR can also be linked to a firm’s core business activities. The open rules of application and the absence of one agreed upon definition makes it challenging for firms to respond to the numerous pressures introduced above. In addition, the concepts are understood differently depending on the context. What firms do as CSR in some countries, corresponds to legal requirements in others. As firms are embedded in different national business systems, they will experience divergent degrees of internal, external and lateral pressures to engage in CSR (Matten & Crane, 2005).

## 1.1 CSR trends in times of crisis

Within the business environment, changes are today occurring with greater frequency, constantly leaving firms in disharmony with its surroundings. Lately, corporate boards have cut back on spending as many firms are facing liquidity shortage (Placensia, 2009), which has resulted in multinational firms neglecting some of their corporate social responsibilities. Placensia (2009) argues that many firms peg commitments to CSR as a percentage of their revenue and thus even if the spending is less than before, it might still be higher as a percentage of total earnings. Indeed, Giving In Numbers, a report published by the Committee Encouraging Corporate Philanthropy (CECP) in 2009, found that even in challenging economic times, 53% of surveyed firms increased philanthropic giving from 2007 to 2008. This overall rise in giving came despite 68% of them experiencing profit declines (CECP, 2009). Corporate philanthropy has gone up despite the recession, but a trend seen among big firms is the increased “non-cash” component (CECP, 2009). Financial institutions have increased the supply of financial advice, workshops and seminars to their customers.

A poll from October 2008 by CSR International indicated that 44% of CSR professionals believed that CSR commitments would increase as a result of the financial crisis, while only 22% thought it would weaken (Placensia, 2009). This indicates that the majority of CSR professionals surveyed, recognize the potential contribution of this concept and may perceive CSR initiatives as a strategy to overcome the “pinch” of the crisis and hence as a tool to improve reputation and legitimacy. This has been certified by crisis scholars, who argued a decade ago that CSR communication might be an effective tool to counter the negative impact of a corporate predicament (Coombs, 1999). In this context, CSR professionals are defined as workers having CSR as their profession, for instance by being part of the CSR department of a firm. Rebecca Stratling (2007) notes that, in recent times, CSR policies have increasingly become incorporated into the strategic planning of firms. CECP’s survey (2009) also acknowledges that firms have become more proactive and strategic in their giving.<sup>1</sup>

## 1.2 Problem area

Many industries have felt the “pinch” as a result of the financial crisis but few have been harder hit than banks. Accusations of irresponsible banking have affected the reputation and legitimacy of the whole sector. *Legitimacy* can be defined as the endorsement of an

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<sup>1</sup> For the typical firm in 2008, 51% of giving was classified as proactive community investment (CECP, 2009).



organization by social actors, whereas *reputation* in this thesis represents comparisons of organizations (Suchman, 1995). It should be noted that a reputation can also be assigned to an individual firm without including a benchmark. Banks are generally large firms that have powerful impact on the society. Despite their central role in the economy, the bank sector has been lagging behind in the field of CSR compared to other sectors. However, there are certainly exceptions, such as Co-operative Bank, whose business model is built on CSR.

Research indicates that if a firm's actions or structures do not meet social expectations, a firm can have its legitimacy questioned and challenged, and, in extreme cases be judged as illegitimate (Meyer & Scott, 1983). An *organizational crisis* is a natural result of negative attention and is therefore an important concept to define in this thesis. Charles Hermann (1963: 64) argues that "an organizational crisis (1) threatens high priority values of the organization, (2) presents a restricted amount of time in which a response can be made, and (3) is unexpected or unanticipated by the organization." Scandals and certain accidents can, almost overnight, destroy the reputations of institutions that often require decades to build up. Weaver et al. (1999) claim that CSR programs can contribute to legitimacy by signaling that the firm conforms to societal expectations in its internal organizational processes and structures. However, it remains unclear what kinds of reactions are effective in dealing with organizational crises. This thesis links corporate crises arising from irresponsible behavior to the CSR initiatives taken to foster social legitimacy and reputation in the banking sector.

Strategic isomorphism is a concept that explains the similarity of a focal organization's strategy to the strategies of other firms in its industry (Deephouse, 1996). It is argued in institutional theory that isomorphism improves a firm's legitimacy (DiMaggio & Powell, 1991; 1983). In a study of U.S. banks from 1985-1992, Deephouse & Carter (2005) concluded that institutions with low reputations improved their reputation by imitating the common strategies of their industry. A current tendency of homogeneous CSR initiatives in banking may impact how customers and the public in general perceive banks' CSR accountability. This tendency is being enhanced through a number of standards and company networks that banks engage in. These common frameworks are indeed fruitful, but imitating the CSR strategies of competitors can be seen as less sincere, potentially undermining the pursuit toward repairing legitimacy and reputation. Porter & Kramer's (2006) concept of strategic CSR can be fruitful to incorporate in this discussion, as the researchers argue for choosing a unique position that goes beyond best practices.

I have chosen Danske Bank and Den Norske Bank ASA (DnB NOR) as case examples in this thesis. They are the largest financial institutions in Denmark and Norway respectively and also among the largest in Scandinavia. Both are characterized by high social and political visibility due to their size and the fact that they are listed on stock exchanges. This surely does not only lead to economic and political power but also to vulnerability toward public perception. The Global Reputation Pulse presented by Reputation Institute (2010) and Edelman Trust Barometer (2010) indicate that financial institutions have been experiencing deteriorating reputations due to the financial crisis and cases of irresponsible banking. As there is not one single event causing the weakened reputation and legitimacy of the case firms, multiple factors will be introduced. Although the effects of the financial crisis will play major roles in this thesis as it has contributed to the weakening position of most banks and simultaneously the overall trust in the sector, I will also present other events caused by irresponsible behavior that I argue have been as damaging as the recession. A common thread among these events is that they all represent organizational crises that require an adequate strategic response in order to repair relationships between firms and stakeholders.

### **1.3 Research objectives**

I present the following research questions:

*How does Danske Bank and DnB NOR use CSR in dealing with organizational crises?*

*How can CSR be useful in efforts to repair the legitimacy and reputation of the banks?*

In order to give a comprehensive answer to the research question, I will focus on answering the following points;

*(1) How is the pressure from the state and public opinion with regard to CSR perceived by Danske Bank and DnB NOR?*

*(2) How has organizational crises such as the financial crisis and accusations of irresponsible behavior affected the banks' CSR commitments?*

*(3) Which CSR strategies and standards have been implemented by the banks and how can these initiatives affect reputation and legitimacy?*

*(4) How can homogeneous CSR initiatives impact the process of repairing legitimacy and reputation in the banking sector?*



\* It is necessary to note that the *banking sector* differs from the wider category of the *financial sector*, which includes banks, but also investment funds, insurance firms and real-estate. Banking is the focus area of this thesis, even though the case firms also operate within insurance and real-estate.

## **1.4 Structure of the thesis**

The next section will describe the methodological considerations forming this thesis. The research approaches and methods used when answering the research question will be presented, as well as a limitation of the thesis' focus and omitted areas of discussion. The last part of the introductory section provides a presentation of the case firms. Following the introductory sections, the thesis will be separated into three main parts, each being rather different from the other in terms of scope.

The first part presents the role of banks in the society, agency problems in banking, a critical viewpoint on the sector, and an overview of CSR milestones in the banking sector.

The second part consists of a theoretical discussion where the concepts and models applied will be presented. As the field of study lies within social responsibility, academic literature on CSR is reviewed. The other main theoretical frameworks presented in this section are the concept of organizational crisis, institutional theory, isomorphism, legitimacy theory and reputation theory. In this part I will present the institutional context in which Danske Bank and DnB NOR operate. Cross-national comparisons will be made with Europe in general and the U.S., with the aim of illustrating the specificities of the case banks' operational context.

The third part is an empirical analysis, which takes the form of case studies where the findings from the qualitative interviews are connected to the theoretical discussion and concepts from the second part. Because firms face both strategic operational challenges and institutional pressures, it is important to incorporate this duality into the analysis (Swidler, 1986).

Therefore, the analysis section takes a middle route between an institutional and a strategic perspective. The three sections will attempt to provide insight about how the banking sector use CSR in dealing with organizational crises, and how CSR can be useful in efforts to repair the legitimacy and reputation of banks.

A conclusion will attempt to answer the research question and summarize the main points put

forward in this thesis. In the concluding remarks I will also attempt to put the thesis into perspective by identifying implications of the findings and opportunities concerning future research.

## **2. Methodology**

### **2.1 Research strategy**

Saunders et al. (2007) and Brewerton & Millward (2001) introduce the concept of triangulation, which refers to the use of different data collection methods aiming to ensure credible and valid data. The way triangulation has been applied in this thesis is through studying the research question from different angles and viewpoints. Research method triangulation has been pursued by mixing qualitative interviews with different secondary sources to issue the concern from multiple angles. Several theoretical perspectives have also been used to illuminate the phenomena of CSR in banking.

Limited research has been conducted on CSR in the banking sector and especially with regard to how banks use the concept in dealing with organizational crises. As it represents a relatively new phenomenon which has gained strong awareness lately, due to the financial crisis and cases of irresponsible banking, the research design takes an explorative perspective. *Reputation* and *legitimacy* also show substantial theoretical overlap, but limited research distinguishes the complex concepts (Deephouse & Carter, 2005). The flexible and explorative strategy applied in this thesis has been undertaken by searching the literature and interviewing with the CSR secretariats of two banks.

The empirical analysis is based on the case studies of Danske Bank and DnB NOR. An advantage of applying a two-case study is the possibility to create a more critical and multilevel angle on theory and reality. This firm-specific analysis will build on the insight from the theoretical discussion. The use of qualitative research methods such as case studies is fruitful when examining contemporary situations and topics where limited research is available (Saunders et al., 2007). Case studies typically have a more general goal than does descriptive research (Thagaard, 1998), and its outcome may provide new directions and raise questions that might not have been asked otherwise (Brewerton & Millward, 2001). Critics however, claim that a study of a small number of cases can undermine reliability and the opportunity to generalize the findings, yet, the combination of methods and multiple sources

allows for a strong conclusion of the case study (Saunders et al., 2007).

## **2.2 Research approach**

I examine CSR from a firm- and country level, drawing on the concept of CSR, as well as other disciplines such as economic theories and strategy. As my approach has been open-ended and exploratory in nature, the inductive approach has been the most illustrious in this process. I began the research with specific observations and measures through conducting qualitative interviews. Subsequently, I detected patterns and regularities from the primary data, held these up against the existing literature, and finally ended up developing general conclusions. However, elements of the deductive reasoning process have also been applied. Before initiating the interviews, I had an idea about the theoretical framework I wanted to include in this thesis. The insight from primary sources necessitated modification and a tailored framework to fit the specific cases. This exemplifies the flexible and open-ended approach I have applied in the research process.

## **2.3 Data collection and source evaluation**

Multiple sources of people, institutions, texts and events to achieve an in-depth understanding have been pursued in order to provide a well-argued answer to the research question.

### **Primary data**

Primary data was obtained through qualitative interviews with representatives from the case firms. This is a commonly used primary data collection method in qualitative research. In addition, several follow-up questions on e-mail were sent to the same candidates. In the spring of 2010, interviews were conducted with the CR Manager of Danske Bank in Copenhagen and the CSR Manager of DnB NOR in Oslo. In addition, I attended Danske Bank's talk "The Future Bank" at Copenhagen Business School in March 2010. After the presentation I had the opportunity to interview the Head of Danske Bank Denmark. Being aware of the risk of asymmetric information, I have sought to stay critical toward the received material, presentation, and the face-to-face interviews with key employees in the firms.

## **Secondary data**

Research into the area of CSR relies heavily on internal documentation related to the banks' policies of CSR, in the form of annual reports, CSR reports and other publications. These documents are used to support the findings from the qualitative interviews. Articles from leading business journals, as well as books within the context of CSR, economics and strategy are also referenced in this paper. External documents in the form of media coverage are also used. A potential bias when collecting secondary data is that its specific purpose might differ from the purpose of the research project at hand (Saunders et al., 2007; Thagaard, 1998). In addition, internal CSR reports may have been written with the intent of appearing more socially responsible than what is actually the case. One could also question the objectivity of media data. Consequently, in order to overcome these biases, the credibility and quality of the secondary data have been considered. Based on secondary sources recommended by my supervisor, I conducted backward- and forward citation search in order to identify other relevant sources and in order to get familiar with the area of study.

## **2.4 Interview design**

The interview objects in this thesis were deliberately chosen because of their positions in the case firms. The interviews have been semi-structured, allowing for discussion on unforeseen subjects. As limited research is available on CSR in banking, an open-ended discussion was crucial from my point of view. The chosen approach entails that the interviewer commences with a set of interview questions, but with the notion that he/she may vary the order and ask new questions in the context of the research situation (Saunders et al., 2007). This corresponds well with the explorative approach. The purpose of the semi-structured interviews was to generate qualitative data in order to understand the interviewees' opinions and perceptions.

It should be acknowledged that because of my role as an outsider of the firm, the informant's willingness to disclose sensitive information may be limited. Furthermore, one should be aware that the interviewees are likely to paint a favorable picture of the firm, and respond in a politically correct manner. This can undermine the credibility of my findings. It has been crucial to apply a critical mindset when analyzing the statements gathered through my primary research. In addition, the interview focus has been on representatives of the CSR secretariats. These CSR practitioners are likely to have a different perception of the concept

than other employees. A different sample of executives could potentially provide a different picture of CSR and the concept's position in the bank.

The interviews lasted between 60-90 minutes, depending on time availability of the interviewees. The time pressure of business professionals may have hindered the opportunity to get holistic answers in some cases (Thagaard, 1998).

## **2.5 Securing validity and reliability**

In order to obtain valid empirical data the asking techniques were designed to be of a descriptive nature. The interview questions were explorative as my objective was to investigate the phenomena of CSR in banking, where little specific research is available. In exploratory interviews there is a risk of asking leading questions as well as a danger of interpreting the answers in a different way than intended (Saunders et al., 2007). The impact of the researcher, the fact that no systematic control is done, and the absence of information from comparable situations, should be acknowledged (Brewerton & Millard, 2001). To mitigate the risk of subjective biases, the interviewees were asked a number of identical questions and the interviews were recorded. In order to diminish potential misunderstandings, citations were sent to the candidates for verification. In the three interviews conducted only one person from the firm was present. This means that the interviewees' answers and perceptions remain somewhat subjective and may possibly divert slightly from the views of the firm as a whole. However, conducting interviews on a one-to-one basis may also have led to the interview objects being more open and honest. Due to the high ranks of the interviewees I have to presume that their answers in general are in accordance with the firms' policies. However, as this thesis is based on two qualitative interviews, I am not able to generalize upon my findings.

## **2.6 Scope and delimitations**

It is necessary to make clear some limitations to my study. I have chosen to limit the geographical scope of the thesis to concentrate on the bank sector in Norway and Denmark, represented by DnB NOR and Danske Bank. Comparisons have also been made with other institutional contexts, mainly the U.S and Europe in general, which are based on secondary sources. I have referred to studies on European banks in order to build a stronger argument, as

well as identifying potential similarities and differences to my findings. I have however been careful with drawing conclusions from this material, as the studies may be based on different research approaches, strategies and most probably a different set of assumptions. To simplify, I have referred to EU as a whole when comparing CSR practices to the Scandinavian banks. However, one must be aware that it is a widespread form of political governance in Europe. Within the countries, there are significant differences in the forms and intensity of CSR.

The thesis at hand focuses on how the banking sector use CSR in dealing with organizational crises, and how CSR can be useful in efforts to repair legitimacy and reputation. It is important to note, however, that a firm can possibly gain reputation and legitimacy through other business processes and strategies than CSR.

In this thesis I do not intend to discuss underlying reasons behind the economic recession or financial antecedents in that matter. Furthermore, my aim is not to measure the link between financial performance and CSR. Another delimitation that should be noted is that a direct indicator of legitimacy has not been identified in this paper. A fruitful way of measuring legitimacy is to use the stakeholders' perceptions of each dimension of legitimacy (Wang, 2010). However, I will not dig into the consumer mode through questionnaires. When discussing the CSR initiatives put forward by the case banks, I will introduce the concepts of pragmatic, regulative, moral and cognitive legitimacy (Scott, 1995; Suchman, 1995). I will also incorporate Pava & Krauz' (1997) criteria for evaluating legitimacy.

## **2.7 Stakeholder identification**

A key step in defining the concepts of legitimacy and reputation are identifying relevant stakeholders pushing organizations to act in a socially responsible or irresponsible manner (Suchman, 1995). By stakeholder I mean "individuals or groups with which the corporation interacts who have a stake or a vested interest in the company" (Carroll, 1993: 22). Decker (2004) claims that there are considerably more stakeholders related to the banking sector than for an ordinary firm: Every borrower and lender for instance has a strong and continuing relationship with the firm due to the ongoing financial commitment by both parties. Pressures to develop a meaningful CSR response emanates from a number of stakeholders: externally from customers, transaction partners, existing and potential shareholders, government bodies, non-governmental organizations and local communities, internally from employees, and

laterally from salient business references groups such as competitors and industry associations. An ideal study would have sufficient time and resources to measure all dimensions. I have chosen to limit my research design to two pressure groups. One important set of actors includes government regulators who have authority over a bank through setting public policies. A second key factor is public opinion, which has the important role of setting and maintaining standards of acceptability.

In Denmark and Norway, the state serves collective interest and is a provider of public goods. In exchange for making use of these public goods firms provide material resources for the state to distribute, and it is expected that firms follow public policies related to CSR. Unlike public policy, public opinion is not a regulatory force. Public opinion can influence but not determine public policy decisions, as it is not mandated by the state power and the legal system (Vallentin, 2007).

Public opinion is important to incorporate in this thesis, as banks today are directly affected by opinion pressures that influence their legitimacy and reputation and subsequently their competitive position. However, as argued by Mitchell et al. (1997), an entity may have legitimate standing in the society, or it may have a legitimate claim on the firm, but unless it has either power to enforce its will in the relationship or a perception that its claim is urgent, it will not achieve salience from the firms' managers. Public opinion refers to media exposure and opinion climates, public debates, and representations of opinions that may be more or less qualified (Vallentin, 2007). However, public opinion is a concept that embodies variety and representativeness.

Dowling & Pfeffer (1975) argue that norms and values are reflected in the communications and writings of society. Hence, the media are active participants in the sound construction processes of the public. The focus on surveys and opinion polls are, however, not without its limitations. Nørholm et al. (2010) acknowledge the fact that firms tend to navigate based on general polls and reputation indexes rather than focusing on significant stakeholders. This is especially vibrant in crisis situations where firms are under intense pressure. However, it is also the case in many proactive initiatives where firms overestimate their own reputation (Nørholm et al., 2010). One significant stakeholder in the case of banks is obviously customers who deposit money and invest in the banks' products. However, as Hutton et al. (2001) note, reputation is a concept far more relevant to people who have no direct ties to a



firm, whereas relationships are far more relevant for the stakeholders of the firm. Focusing solely on public opinion could therefore represent an inaccurate measure. Consequently, in addition to media data, interviews with the case banks have provided me with the perceived CSR pressures of public opinion and public policy.

The choice of following surveys, opinion polls and media data as a measure of public opinion also has its strengths. First, it is the most common way for firms to relate to the general public. Second, it is viewed as an integral part of traditional market thinking in terms of legitimacy, which is one of the core areas of discussion in this thesis. Third, the mass opinion is more representative as it takes equal account of the opinions of all relevant individuals (see Vallentin, 2007).

### **3. Presentation of case firms**

The reason I find a comparative study of Danske Bank and DnB NOR to be particularly interesting is the firms' prominent status in their respective countries, their recent experience of legitimacy and reputational damage, and the fact that both are currently working strategically on repairing their weakened positions. In addition, large firms often have more resources allocated to CSR and explicitly report on their efforts, meaning that more secondary data is available. The main difference between the banks is that DnB NOR is a state-owned institution, while Danske Bank's largest shareholders are private foundations.<sup>2</sup>

#### **3.1 Danske Bank**

When measured in terms of total assets, the Danske Bank Group is the largest financial institution in Denmark and also one of the largest in the Nordic region. The largest shareholders in the bank are A.P. Møller and Chastine Mc-Kinney Møller Foundation and companies (22, 27 %), and Fonden Realdania (10, 07 %). Danske Bank Group provides a wide range of financial services, including banking, mortgage finance, insurance, real-estate brokerage and assets management services. Danske Bank primarily operates in Scandinavia, but is also represented in the UK, the Baltics, among others. The firm has approximately 23 600 employees (Danske Bank, 2010).

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<sup>2</sup> A private foundation is a charitable organization that, while serving a good cause, does not qualify as a public charity by government standards ([www.investopedia.com/terms/p/privatefoundation.asp](http://www.investopedia.com/terms/p/privatefoundation.asp)).

The financial crisis has affected the financial sector at both the business and the reputational levels. In the category related to the management's performance both before and after the financial crisis, Danske Bank dropped from a 1<sup>st</sup> to a 139<sup>th</sup> place (The Future Bank, 2010). In 2009, public surveys<sup>3</sup> indicated that banking customers in Denmark were among the least satisfied in Europe. On a scale from 0-100, retail customer satisfaction in Danske Bank Denmark dropped from 73 in 2008 to 67 in 2009 (Danske Bank CR report, 2009).

Danske Bank has experienced scandals deteriorating their reputational image in the market. The most recent may be the IT-Factory scandal, where the bank admitted to be involved in the bail out of the firm. According to the media, the bank knew about the police report on the managing director when they supported the firm after their first bankruptcy (DR1 TV-avisen, 2009). Fokus Bank, a Norwegian subsidiary of Danske Bank, was in May 2010 convicted of violating the requirement of good business conduct legislated in the Securities Trading Act<sup>4</sup>. The bank was sentenced to repay 12 investors who invested in the loan financed structured product<sup>5</sup> *ING Senior Bank Loan Linked Note* marketed by the bank in 2007.

Another troublesome act was the controversial bonus system, introduced in 2006, where payout depended on a combination of the branch profit, customer satisfaction and employee behavior (Børsen, 2006). Danske Bank abolished the system in late 2009 (Børsen, 2009), which was done in order to create transparency and reduce remunerations in a period of slumping profits.

Cases like the ones mentioned above can be hard to swallow in times of crisis. In Denmark, the Group chose to take part in two bank packages provided by the state: The act on financial stability and the act on state-funded capital injections. In total, the Group's contributions to the financial stability package in 2009 amounted to Dkr 4.1bn. After the capital infusion in May 2009, the bank is paying an annual interest rate to the state (Danske Bank CR report, 2009).

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<sup>3</sup> Sources include the Epsis survey, with more than 50 000 interviews throughout Europe.

<sup>4</sup> LOV 2007-06-29 nr 75: Securities Trading Act ([www.finanstilsynet.no/archive/stab\\_pdf/01/04/10200042.pdf](http://www.finanstilsynet.no/archive/stab_pdf/01/04/10200042.pdf))

<sup>5</sup> There is no single, uniform definition of a structured product. In finance it is however known as a market-linked product, generally a pre-packaged investment strategy based on derivatives ([www.investopedia.com/articles/optioninvestor/07/structured\\_products.asp](http://www.investopedia.com/articles/optioninvestor/07/structured_products.asp)).

### 3.2 Den Norske Bank ASA

Den Norske Bank Group (DnB NOR) is owned by the Norwegian state and is currently the largest financial institution in Norway. Thore Johnsen, professor at Norwegian School of Economics and Business Administration, claimed in 2009 that the firm serves half of the Norwegian business market in addition to 30 % of the consumer market (Nettavisen, 2009). It offers various types of financial services and products, such as financing solutions, deposits and investments, insurance, e-commerce, commercial property brokerage, foreign exchange and fixed-income products, trade finance and corporate finance services. The group operates in Europe, the U.S. and Asia, and employs about 13,500 people (DnB NOR, 2010).

DnB NOR has experienced tough times with regard to weakened legitimacy and reputation in recent years. In a survey of the ten largest brands in Norway, conducted by Cisin in the 4<sup>th</sup> quarter of 2008, DnB NOR's position got unveiled as they fell seven places on the ranking compared to 3<sup>rd</sup> quarter the same year. The reasons behind the weakened reputation were, according to Cisin, the financial crisis and its impacts (E24, 2009). In autumn 2008, an investigation was instigated by ØKOKRIM<sup>6</sup> following allegations that the bank had traded treasury bills after receiving insider information in connection with the Norwegian government's stimulus package. The investigation was closed on 17 February 2010 and resulted in a fine of NOK 12 million and a forfeiture order of estimated gains of NOK 14 million (ØKOKRIM, 2010).

Like other financial institutions DnB NOR experienced huge losses during the crisis. From April 3<sup>rd</sup> 2008 to 21<sup>st</sup> January 2009 the Group lost NOK 87.8 billion. In the same period, the value of the firm went from NOK 108.6 billion to NOK 20.79 billion which is a loss of almost 80% (Nettavisen, 2009). The Global Reputation Pulse conducted by Reputation Institute in September 2008 found that DnB NOR weakened its reputation during the financial crisis. Out of the 50 firms examined, DnB NOR ended up on 45<sup>th</sup> place (DN, 2009ab). It should be noted that among the banks that have been suffering, DnB NOR seems to have suffered the worst.

In Norway the first bank package was launched in October 2008 and mounted NOK 350 billion in bonds. The plan was later changed as it was criticized for being tailored to DnB NOR.

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<sup>6</sup> The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime

## 4. The banking sector's role in society

In the last decades, the activities of banks have not faced the CSR scrutiny felt by other business sectors such as oil & gas, forestry or transportation. One reason for this may be that the products offered by banks are intangible: they buy, sell and borrow money to tell the simple story. However, the expectations from stakeholders are changing in society today. Banks can and do have serious indirect impacts on stakeholders through their credit and lending activities, investment policies, industrial portfolio engagement and asset management among other things. They are also crucial in ensuring financing to firms in other sectors.

### 4.1 The central role of banks

While efficient banks can stimulate the prosperity and growth of the economy (Levine, 2003), the current business environment shows that banking crises can destabilize the economic and political situation of nations. The financial crisis and the fall of Lehman Brothers in 2008 also illustrated the strong interconnectedness of banks as well as the *contagion effect*, explaining that failure of one institution can immediately affect other banks, firms and consumers. The central role that banks play in any economy makes the study of the sector not only relevant from a private viewpoint, but also from a public stance. According to existing research, different factors contribute to the specificity of the banking sector; the exhaustive regulation and supervision in the sector, the particular fiduciary relationship between the bank and its clients, its fragility, the systemic interest to avoid bank failure (Llewellyn, 2001) and the existence of the deposit insurance funds<sup>7</sup>.

There are various linkages between the operations of financial intermediaries and CSR: From a macro-perspective, financial intermediaries affect the amount of savings and investments. They affect the marginal productivity of capital by granting funds to particular projects and not to others, they affect the overall level of economic activity by providing and maintaining the payment system, and they affect the costs of intermediation (Scholtens, 2009). From a microeconomic perspective, intermediaries offer risk management to consumer and business households, they screen and monitor households and exert governance. As such, financial institutions give direction to the firms' operations, direct the economy (Scholtens, 2009) and conversely have a high potential to influence the behavior of their clients. Richard Nason (2010), professor at Dalhousie University, claims that the bank's role as a financial

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<sup>7</sup> Deposit insurance is a measure implemented in many countries to protect bank depositors, in full or in part, from losses caused by a bank's inability to pay its debts when due.

intermediary is very different from the perception of most people. Banks today are money centers rather than deposit taking institutions, according to Nason (2010). The fact that banks get their money by borrowing rather than financing operations through deposits indicates their vulnerability.

According to Vigano & Nicolai (2006), the banking sector has considered and reacted to the issue of CSR relatively slowly, despite its high exposure to relevant risks. Bouma et al. (2001) argue that banks first began to address sustainability by considering environmental issues, such as polluting activities. Responsibility toward social issues appeared in the later years as the indirect risks, such as reputation and the responsibility of banks related to lending activities, were duly considered by the sector. This can be a result of the rise of the risk management concept, which extended from a traditional financial focus to environmental and social risks related to the investments made (Vigano & Nicolai, 2006). It can be observed that the assignment of CSR is subject to variation: “as the perception of risk changes, due to evolving legislation or new market opportunities, the assignment of responsibilities can shift accordingly” (p. 99). Lending money to clients with dubious sustainability performances for instance constitutes a reputational risk and consequently negative repercussions throughout markets.

## **4.2 Agency problems**

One issue of relevance to all organizations is the governance issues caused by the agency problem (Becker & Westbrook, 1998). For financial intermediaries this problem is particularly profound. The relationship between stakeholders and the bank as an agent, and the incentive systems, are the ones receiving most attention from external scrutiny. The difficulties in establishing an incentive structure arise from either divergence of the objectives of principals and agents or the asymmetric information between principals (risk-bearing shareholders) and agents (specialized experts), and very often from both of these factors (Becker & Westbrook, 1998). In the case of banks the customers are mostly uninformed, dispersed and small agents (mostly households) that can only partially monitor the banks' activities.

Information asymmetry is normally divided into two concepts: Adverse selection is defined as hidden information, and may be exemplified by a bank advisor's suggested investment that in

fact may deviate from the interests of the customer. On the contrary, moral hazard means that the actions of the agents are hidden, for example the advisor's monitoring of an investment. Another conflict of interest in many banks is the supply of interrelated services, such as insurance and investment. These are operations with possibilities for biased advisory, thus stakeholders need to rely upon rating agencies to reduce information asymmetry. Recent assessments of rating agencies show that some have not been credible lately: Aras & Crowther (2009) claim that rating agencies have failed to demonstrate any ability to compensate for the information asymmetry.

### **4.3 The banking sector from a critical viewpoint**

Critics argue that the whole financial sector, where banks play a major role, causes problems. Payne (2007) & Baue (2005) claim that actions of financial institutions encourage unsustainable behavior and short-term thinking, with no interest in the social and environmental impacts of its lending or investment practices. With this in mind, there is a great risk of overexposure and lack of credibility. Since 2007, the Edelman Trust Barometer (2010) found that trust in banks has dramatically declined in most western countries. Unsustainable activities in the U.S. housing finance market, commonly known as sub-prime lending, was initially given the blame for the current financial crisis. It quickly became apparent, however, that the banking sector around the world had been engaged in what can be compared to gambling. Supposed assets had been packaged together into parcels for which even the most sophisticated models available could not calculate the risk; consequently risk was ignored in the naive assumption that these packages were safe investments. Even governments have been complicit in this by gradually relaxing regulations. The high degree of self-regulation seen in the banking sector may soon be replaced by a stricter regulatory system. However, even though the financial sector has been lagging behind on CSR, their engagement has increased substantially in the last decade.

During recent times several banks have been accused of acting irresponsibly and exploiting their central role. In many banks, risk has been systematically mispriced; credit has been systematically mis-sold; depraved incentive schemes and imprudent behaviour have been observed; and audit committees have failed to exercise any kind of proper scrutiny. One particular case of greed that has drawn considerable attention among banks is that of the lofty payouts for executives, financial advisors and analysts. What we can observe in the design

and implementation of these remuneration policies is imprudent conduct and signs of bad governance. The \$700-billion federal bailout from late 2008 rescued some major U.S. banks from near certain collapse, with the use of the tax payers' money. However, a big player like Lehman Brothers went bankrupt (LA Times, 2010). Now, the financial sector is getting back on track. In 2010 U.S. financial institutions are expected to harvest \$140 billion in bonuses despite the downturn the year before (Financial Times 2009). The decision to reduce bonuses in 2009 seemed like a sustainable solution, but it did not last for long.

These actions may exacerbate the already torn reputation of the financial sector and the customers' trust in banks. It can indeed impact the financial sector as a whole, even the banks that do not take part in the lofty payouts. In Scandinavian banks executives have refrained from these practices and in some cases bonuses have been abolished. The Norwegian Finance Ministry's (2010) investigation of bonuses in Norwegian financial institutions concluded that the level of commissions and the degree of risk taken had been justifiable. Banks and insurance firms in general have been accused and indeed found guilty, of other forms of inequality, most of which arise from unfair treatment of some of their clients. Insider trading, seen in the case of DnB NOR, is one example. The case firms' sale of loan-financed structured products is another irresponsible action where institutions with privileged access to financial information exploit this at the expense of their clients. Another example of unfair treatment is the case of Roskilde Bank where customers were manipulated to buying shares *in a sinking ship* (Møller & Parum, 2008). While these are indeed irresponsible actions, the banks cannot be held responsible for all the misery. Society as a whole may have fallen for this type of behaviour, but deregulation and control mechanisms have also failed. Fierce competition in the financial sector and pressure on achieving targets may have stimulated unethical sales practices, underestimating business ethics.

#### **4.4 CSR milestones in the banking sector**

Many banks ascribe to the social and environmental standards of the World Bank, the Equator Principles', UN's Global Compact, UN-PRI and UNEP-FI in an effort to increase social and environmental performance. In the empirical analysis, industry standards will be discussed with regard to their relevance in obtaining legitimacy and reputation. The table below aims at giving an overview of the most relevant and applied standards of the financial sector.



<b>Social and Environmental standards</b>
1992 – Launch of UNEP-Financial Initiative - a public-private partnership between the United Nations Environment Programme (UNEP) and the private financial sector that aims to promote improved environmental and social practices. Today it is the world’s largest voluntary CSR initiative.
1998 – Performance standards published by the International Finance Corporation – World Bank Group.
2000 – Launch of UN Global Compact – not a finance specific initiative, but a framework encouraging businesses worldwide to adopt sustainable and socially responsible policies, and report on their implementation.
2003 – Equator Principles published - a series of common policies and indicators that commit financial institutions to ensuring that the projects they finance are implemented in a socially responsible and environmental respectful manner.
2006 – Principles for socially responsible investment published by UN-PRI – stresses that environmental and social issues, such as climate change and human rights, can affect the performance of investment portfolios and should therefore be considered.

*Table 1: Milestones in sustainable development in the banking sector*

## **5. Theoretical discussion**

In the following section, I will present and discuss the theoretical concepts and frameworks used in this master thesis. The five main areas of discussion are: organizational crisis, CSR, institutional theory, isomorphism, and legitimacy- and reputation theory.

### **5.1 Organizational crisis**

As the case presentations in section three indicate, both banks have experienced organizational crises following the financial crisis and irresponsible actions. But what is the definition of an organizational crisis? Charles Hermann (1963: 64) presented one of the first definitions of crisis from an organizational perspective; “An organizational crisis (1) threatens high-priority values of the organization, (2) presents a restricted amount of time in which a response can be made, and (3) is unexpected or unanticipated by the organization.” Applying DnB NOR’s inside scandal as an example this definition clearly capture important elements. Keeping a strong reputation and legitimacy has a high priority for the firm. The need to react quickly on these accusations was essential in order not to completely ruin their brand. Even though this definition offers important guidance, my impression is that it does not capture all

elements of an organizational crisis. An element I find to be missing is the fact that a crisis is not an objective measure, but a social construction (Frandsen & Johansen, 2010). Therefore I find W. Timothy Coombs (2007: 2-3) definition useful to incorporate: “A crisis is the perception of an unpredictable event that threatens important expectancies of stakeholders and can seriously impact an organization’s performance and generate negative outcomes.”

A crisis certainly presents an obstacle or threat, but it also presents an opportunity for either growth or decline. Crises are often thought of as a sudden unexpected disaster, but a crisis can range substantially in type and severity. It can provide an opportunity for organizational learning, but may also provide the firm with a new start or turning point. Coombs (1999) divide the crisis concept into three faces; *Pre-crisis*, *crisis*, and *post-crisis*. Identifying a firm’s current position in the face model can be fruitful when deciding on which strategies to implement. However, the face model can be criticized for being too linear and sequential. It is not always possible to determine the time of the different faces, something that can be exemplified by the financial crisis and the way it has affected countries, industries and firms at different times. Some would be in the middle of it when others were reaching the end of it. Furthermore, the model does not account for the fact that large firms, like the case banks, often experience several crises simultaneously (Frandsen & Johansen, 2010).

In times of crisis the last thing a firm wants is to jeopardize its relationship with key stakeholders. It is to some degree expected that banks stick to their CSR strategies and implement new initiatives, but whether these campaigns are organizationally integrated or easily decoupled in times of uncertainty is questioned by Weaver et al. (1999). Easily decoupled CSR initiatives are typically not integrated holistically in the firm. These initiatives are likely to occur when demands of institutional legitimacy appear to conflict with other firm goals (Weaver et al., 1999) and are often termed *window-dressing*. Firms working strategically with CSR are more likely to implement the integrated approach where CSR has top management priority and where the concept is incorporated in strategy formulation. Integrated policies are likely to be supported by other firm policies and programs. As the researchers propose, negative media attention and critique from customers may lead to implementation of easily decoupled initiatives that potentially can worsen legitimacy (Weaver et al., 1999). This may be the case when firms have little time to respond to a crisis, and make rapid conclusions and initiatives without contemplating future implications.

## 5.2 The concept of Corporate Social Responsibility

### 5.2.1 Definition of CSR

Despite, or probably due to the abundant literature on CSR and related concepts, there is no one agreed upon definition of the concept. The fact that CSR has a number of sister concepts such as corporate responsibility, -sustainability, -accountability and the like, adds confusion to the responsibilities of firms. It is interesting to note that the case banks presented in this thesis use different terms. The concept of CSR has relatively open rules of application (Matten & Moon, 2008). In addition it is a dynamic phenomenon in continuous development (Carroll, 1991). Thus, the precise manifestation and directions of the responsibility lie at the discretion of the firm (Matten & Moon, 2008). Another reason why there is no single agreed on understanding of CSR is the institutional differences described by national business systems. Different national, cultural and social contexts imply that what firms do as CSR in some countries corresponds to the fulfilment of legal requirements in others (Matten & Moon, 2005). Archie Carroll's (2003: 36) definition of CSR, which is one of the most well-known in the field of literature make a distinction between four components: "The social responsibility of business encompasses the economic, legal, ethical and discretionary [philanthropic or community leadership] expectations that society has of organizations at a given point in time." These levels and the responsibility for each level are illustrated in the figure below:

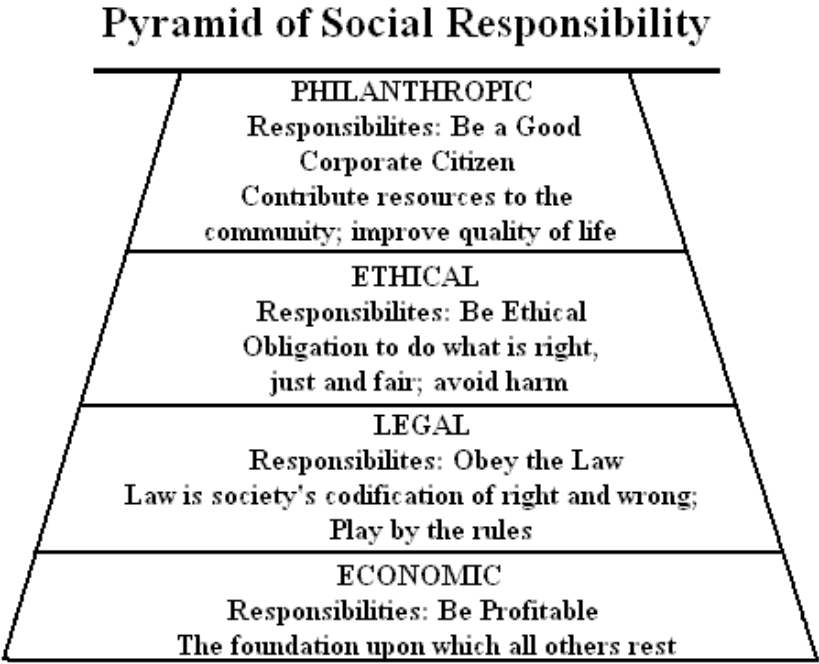


Figure 1: Carroll's CSR pyramid (Carroll, 1991)

Close attention should be paid to the expectations from society. This is due to the fact that banks have a noticeable presence which puts them in a position to fulfill expectations from the society that they directly or indirectly affect. Common for the *economic* and *legal* responsibilities is that businesses are required to possess both. In addition to the required components it is expected that firms are *ethical* in the sense that they meet not only the formal rules and regulations of society, but also the norms and standards. At the top of the pyramid, the discretionary responsibilities, such as *philanthropy*, are presented. Carroll & Buchholtz (2003) define these activities as discretionary because businesses may choose, or have discretion over the type, timing and extent of their involvement. This is also reflected in the definition of CSR offered by the European Commission (2001: 6): “A concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance...” As Matten et al. (2003) argue, the *ethical* and *philanthropic* areas of responsibility are central to CSR because of the differentiation between voluntary corporate behavior and compliance.

### **5.2.2 Stakeholder considerations**

A vast majority of CSR scholar articles incorporate Milton Friedman’s (1970) famous arguments emphasizing the importance of shareholder interest and the unethical features of CSR initiatives. Much has happened in the field since Friedman’s statement. Edward Freeman (1984: 46) for instance has claimed that “any group or individual who can affect or is affected by the achievements of the organization’s objective” can be defined as a stakeholder of an organization. This definition is broad and leaves the field of possible stakeholders open to include virtually anyone. Therefore it was necessary to define a set of stakeholders in the introductory sections to limit the scope of this thesis: Public policies and public opinion were chosen, as they are influential and pervasive elements of the external environment. Peter Drucker (1995:99-100) has claimed that it makes good business sense to have a program of CSR, as “it is an essential component of the political economy of running a large organization in a world where public opinion and politicians can have major effects on corporate values.”

Vallentin & Murillo (2009) acknowledge the increasing governmental interest in CSR by arguing that in the eyes of government, the concept of CSR has transformed from a matter of solving or alleviating social problems to more of a strategic advantage leveraging economic

growth and competitiveness. Keeping in mind the voluntary nature of CSR, suggested by Carroll (2003) and the European Commission (2001), we are increasingly observing governments acting as enabling and empowering facilitators of CSR (Vallentin & Murillo, 2009). Governments facilitating role can be perceived as hindrance to free flow of trade and competition by private firms. However, governments are today working to help private firms identify and act upon strategic opportunities (Vallentin & Murillo, 2009), as opposed to earlier when government intervention would be associated with additional costs on business (Friedman, 1970). Whether the current financial crisis or the irresponsible behavior of banks have had an impact on governmental approaches to CSR, will be further discussed in the empirical analysis.

### **5.2.3 Strategic CSR**

There are several reasons for engaging in activities that benefit society. Numerous studies have demonstrated that executives around the globe do perceive a strong strategic business case for engaging in social initiatives (see Aguilera et al., 2007). Porter & Kramer (2006) are in the forefront of strategic CSR and argue that it can create shared value if the society and business engage in win-win situations. The authors put forward the argument that firms' approaches to CSR are often fragmented and disconnected from business and strategy. This can result in missed opportunities and lost value if strategic CSR is not applied. Porter and Kramer (2006: 9) take the CSR definition one step further by developing a corporate social agenda which "looks beyond community expectations to opportunities to achieve social and economic benefits simultaneously". CSR moves from acting as good corporate citizens and mitigating harm from current business practices (responsive CSR), to finding ways to reinforce corporate strategy by advancing social conditions through strategic CSR (Porter & Kramer, 2006). Strategic CSR aims at aligning a firm's values, business plan and core competencies with a social agenda to benefit both the business and society. According to the literature, whether this actually occurs is debatable due to the lack of reliable CSR measurement tools (Lantos, 2001).

In Michael Porter's (1985) terms, a competitive advantage is obtainable when a firm sustains profits that exceed the average for its industry. Porter distinguishes between two basic types of competitive advantages: Cost advantage exists when the firm is able to deliver the same benefits as their competitors, but at a lower cost. The other element, differentiation advantage,

focuses on benefits exceeding those of competing products and services (Porter, 1985). Differentiation advantage is most relevant for this thesis, and especially so in connection with the CSR strategies' ability to repair legitimacy and reputation. According to Porter & Kramer (2006) it is through strategic CSR that the firm will make the most significant social impact and reap the greatest business benefits. Strategic CSR is about choosing a unique position by doing things differently from competitors in a way that lowers costs or better serves a particular set of customer needs (Porter & Kramer, 2006). Alyson Warhurst, chair of strategy and international development at Warwick Business School, claims that firms should look at CSR in terms of managing reputation and risk (Plasencia, 2009). The use of strategic CSR may provide an effective tool to counter the negative impact of a crisis especially so as a strategy to obtain, maintain or regain legitimacy and reputation.

## **5.3 Institutional theory**

### **5.3.1 Formal and informal institutions**

In this paper I present a broad distinction between formal and informal institutions (Di Maggio & Powell 1983; 1991). However, in order to capture the underlying elements of the broad concepts I have chosen to incorporate Scott's (1995) categorization: The most formal are the regulatory institutions representing standards provided by laws and other sanctions. The informal institutions can be divided into normative and cognitive groupings (Scott, 1995). In the context of the case banks normative institutions involve less formal systems or standards that are accepted in company networks. Cognitive institutions represent the most informal rules and beliefs that can be exemplified by social interaction between CSR practitioners. Banks typically emphasize the constraining nature of formal and informal institutions, for instance resulting from stricter regulation of economic exchanges, and limitation of business activity. Less commonly acknowledged is the institutions' ability to enable action and help pushing the firms' agenda forward within the field of CSR. To illustrate, common standards on CSR may create a number of constraints for banks, but it also enables sharing of knowledge in the sector. Thus, formal and informal institutions should not be viewed solely in terms of their constraining nature, as opportunities may arise for those who understand and use them.

In different countries there will naturally be different priorities and values related to CSR that will shape how businesses act. According to Matten & Moon (2008), explicit CSR refers to

corporate policies consisting of voluntary programs or strategies by firms seeking to combine social and business value. Explicit CSR may therefore be responsive to institutional pressure. Implicit CSR, on the other hand, is not a voluntary decision but rather a reaction to a firm's institutional environment (see Table 2). These reactions typically evolve from norms, values and rules that result in requirements to address stakeholder issues. Through their research on firms' CSR communication toward stakeholders in EU and U.S., Matten & Moon (2008) provide relevant insight. In the Scandinavian context CSR has until now been characterized as implicit and relatively sober in terms of communication. In the U.S., on the other hand, a more explicit communication strategy has been evident (Matten & Moon, 2008). The researchers argue that a reason may be that the European CSR has been implied in systems of wider organizational responsibility leaving narrower incentives and opportunities for firms to take explicit responsibility.

<i>Explicit CSR</i>	<i>Implicit CSR</i>
Explains the activities aiming at securing the interests of the society	Explains the firm's role and reaction to pressure from the wider formal and informal institutions
Consists of voluntary initiatives, strategies and policies	Consists of norms, values and rules resulting in requirements for firms
Incentives and possibilities are motivated by the expectations of the firms' stakeholders	Motivated by the consensus of society concerning expectations of all large groups, including firms

Table 2: *Explicit and implicit CSR*

### 5.3.2 The National Business System approach

In the following I will provide a theoretical framework with the aim of clarifying the differences in CSR among countries. Matten & Moon (2008) introduce the concept of National Business Systems (NBS) which evolves from differences in historic, legal and institutional structures. The authors define four sub-divisions, namely *the political system*, *the financial system*, *the education and labor market system*, and *the cultural system*. While researchers in the corporate governance field tend to regard the Scandinavian countries as a uniform group, Thomsen et al (2008) argue that they are fairly similar when it comes to macroeconomic issues but different in terms of ownership, market and corporate governance systems. Where they do find a great degree of similarity is in the softer issues like enforcement, political stability, government effectiveness, control of corruption,



accountability, labor regulations and newspaper circulation, painting quite a homogeneous picture and especially so in comparison to the U.S. Corporate governance is concerned with holding the balance between economic and social goals. In this section I will give a formal description of similarities and differences between Danish and Norwegian institutional systems. For comparison, I also present data from Europe and the U.S. Matten & Moon (2008) argue that their framework informs the understanding of corporate irresponsibility, and that scandals can be understood with reference to the NBS in which the firm operates.

### **The political system**

The most visible political difference between Europe and the U.S. is the role of the state. One of the underlying reasons for the history of implicit CSR in Europe is the role of the formal institutions. European firms' lack of philanthropic initiatives can stem from the more developed welfare states (Morsing & Beckmann, 2006), like Norway and Denmark, where the state undertakes responsibility for its citizens through programs in public health and housing, pensions, unemployment compensation etc. Both Denmark and Norway are small, but wealthy social democracies known for high government expenditure (Thomsen et al., 2008). The reliance on the government has hindered businesses in their development. In contrast, the U.S. market is based on different values and principles justifying the wider use of explicit CSR. A recent development, however, is the new health reform in the U.S., bringing down health care costs and expanding coverage.

### **The financial system**

In the financial system in Europe, firms are generally incorporated in networks consisting of few but big investors, like for instance banks that play an important role in providing financial aid (Matten & Moon, 2008). While European countries are known for having a large amount of direct- or alliance ownership for instance by networks of financial intermediaries, insurance firms or governmental bodies (Coffee, 2001), the U. S., on the other hand have been more reliant on contract-based ownership. Denmark stand out in the Scandinavian perspective, as about two thirds of listed firms are controlled by a majority shareholder. In Norway there is still a very significant state ownership component in commercial banking (see Thomsen et al., 2008). In the U.S, the stock market is the largest financial source and firms are therefore obliged to keep a high degree of transparency in order to attract investors. In Europe, the use of stock markets as a source of capital has increased substantially in recent years (Matten & Moon, 2008).

The current financial crisis has affected the actions of the formal institutions in both the EU and the U.S. In light of the bank packages, the banking sector is changing status in the community as they are now the ones receiving aid. Governments around the globe have been forced to intervene in the economy to a far greater extent than before. As a result of the financial crisis and the bank packages, the ownership structures in several firms have moved toward a higher government stake. Campbell (2007) argues that weak financial performance and an unhealthy economic environment is claimed to reduce the probability that a firm will stick to its CSR commitments.

### **The education- and labor market systems**

The education- and labor market systems also differentiate Europe from the U.S. The cooperation between the state and the private sector in Europe is more evident than in the U.S. as the state offers preliminary and secondary education. In the U.S., the private sector is shaping the guidelines and strategies (Matten & Moon, 2008). Privatization of European industry and public services has led to a substantial delegation of responsibilities to firms and has subsequently increased societal expectations of business (Matten & Moon, 2008). In recent years Norway and Denmark has experienced a higher degree of privatization (Norwegian Government, 2003). There is however an ongoing political discussion about the future reduction of public ownership.

### **Cultural system**

The U.S. and Europe adopt strikingly different positions that can be traced largely to history and culture. In 2005, Donaldson claimed in the Financial Times that “in the U.S., CSR is weighted more towards *doing business right* by following basic business obligations;...in Europe, CSR is weighted more towards serving – or at least not conflicting with – broader social aims, such as environmental sustainability.” It can be added that Europeans show a stronger faith in unions, labor organizations, political parties and the state itself (Matten & Moon, 2008). In 2008, Steen Vallentin claimed that CSR had experienced little progress in the financial sector in Denmark. He suggested, among other things, that it was caused by the degree of conservatism and the lack of external pressure from the state, markets and consumers.

In terms of informal institutions, the Scandinavian countries are relatively small, and trust, transparency and accountability (Thomsen et al., 2008) plays important roles. John C. Coffee

Jr. (2001) argued that trust can substitute formal law as a mechanism to protect minority investors in the Scandinavian countries, which are believed to be small tightly networked societies. Media exposure may also be important in uncovering unsustainable behavior of managers, board members, and brands.

#### **5.4 Neo-institutionalism in a CSR context**

In recent years, European firms have adopted a more explicit commitment to CSR, as the concept has been more widely accepted in formal and informal institutions. This trend is also seen in Norwegian and Danish banks, but even though they show a more solid commitment than earlier, the CSR communication can be perceived as relatively sober. The shift from implicit to explicit may have increased even more lately due to the effects of the financial crisis and accusations of irresponsible banking. Morsing & Beckmann (2006) questions whether the explicit commitment of firms potentially can create competitive advantages.

In order to understand the processes leading to more explicit CSR communication in Europe, the neo-institutional perspective may be fruitful. It explains how the society influences firms to become more homogeneous as the institutional changes come into play. Neo-institutionalism is more concentrated on the external forces in the environment than the firm itself. Matten & Moon (2008) claim that the increasingly explicit CSR approach in Europe can be explained by the fact that organizational processes has become institutionalized because societal actors perceive them as legitimate (Matten & Moon, 2008). Meyer & Rowan (1977) claim that concepts such as CSR are being adopted by firms because they are so-called *rationalized myths*. These myths are not, as often intended, including efficiency. The wish to work with CSR is therefore, according to this perspective, not a consequence of internal activities or demand driven consequence, but rather a reflection of dominant myths in the institutional environment.

Vallentin & Murillo (2009) acknowledge the emergence of a neo-liberal mindset that is not in opposition to CSR, but which operates within the concept, and which is becoming *governmentalized*. This trend is, according to the researchers, captured in the Danish government's Action Plan for CSR from 2008 which focuses on business driven social responsibility. As noted earlier, Porter & Kramer (2006) argue that firms should carefully choose social initiatives that create shared value for business and society.

## 5.5 Isomorphism in a CSR context

Isomorphism is a central and multifaceted concept of institutional theory, and is defined as the resemblance of a focal organization to other organizations in its environment (DiMaggio & Powell, 1983). According to DiMaggio & Powell (1991), institutional isomorphism can potentially secure the success of firms and their survival on the market. Proper strategic behavior diffuses across a sector in at least two ways (Di Maggio & Powell, 1983): First, organizations imitate other successful organizations in the face of uncertainty. Second, organizations learn about proper behavior through trade associations, director linkages and networks.

Banks have experienced negative media attention, slumping trust and weakened legitimacy in light of the financial crisis and irresponsible behaviour. This creates a need for banks to work on strategic legitimacy in order to regain trust and enhance reputation. DiMaggio & Powell (1991) make a distinction between coercive-, mimetic- and normative isomorphism. These processes work as a means of creating legitimacy and homogeneity, according to the authors.

Coercive isomorphism is connected to the influence from formal institutions. In Europe, several governmental initiatives have been taken to foster CSR. In Denmark a new regulation on CSR reporting in annual financial reports was launched in 2010. The new legislation sought to promote stronger CSR awareness and transparency by prescribing the 1100 largest firms to inform about their practices, assessments, accomplishments and future plans with regard to CSR (Euractive, 2010). After years of voluntary practices, this initiative is also hurrying the process of shifting toward compliance in Denmark. Commenting after the introduction of the law, Danish Economic and Business Affairs Minister Bendt Bendtsen said in 2008 that:

*[..] many Danish companies are skilled in combining good business and responsibility. By introducing this action plan, we will help companies become even better – and not least more accomplished in spreading the message to customers, business partners and consumers". (Euractive, 2010)*

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It is interesting to note how the Danish government is working to help private firms identify and act upon strategic opportunities by functioning as enabling and empowering facilitators of CSR, which is acknowledged by Vallentin & Murillo (2009). The Norwegian government is also considering implementing policies connected to CSR disclosure, but regulation has not yet been imposed on Norwegian firms. With regard to sector-specific regulations, some steps

have been taken in the banking sector recently after a generation of relaxed policies: The Norwegian Financial Authority (2009) decided to suspend the domestic banks' supply of loan-financed structured products, which have long been criticized by the media. The new regulation was introduced in order to eliminate products that have inflicted billions in losses for customers, even though they were actually advertised as risk-free.

In the beginning of March 2010, the Norwegian Finance Ministry proposed new salary and bonus rules for key personnel in banks (DN, 2010). In Denmark new legislation aiming at tightening the rules for bank advisors is currently being developed (Børsen, 2010b). In the U.S., the government is considering a new tax on bonuses in the financial sector (SMH, 2010). In addition, the British banks will this year get 50 percent tax on bonuses. The news was not welcome by the financial sector, as JP Morgan Chase and Goldman Sachs responded by threatening to abandon offices in London unless the tax on bonuses was dropped by the British Government (SMH, 2010). The examples above illustrate the increasing government intervention in the sector. Most firms see regulation as a threat to freedom of operations and seek industry standards that potentially can offset future constraints. According to Matten & Moon (2008), voluntary efforts like UN's Global Compact can also be characterized as a coercive isomorphic process as the firms pledge to follow certain guidelines set by society. Both DnB NOR (2005) and Danske Bank (2007) are members of the network.

Mimetic processes are also highly relevant in this context and are by DiMaggio & Powell (1991) defined as a firm's reaction toward uncertainty. When the market is characterized by uncertainty, firms are inclined to imitate other successful firms within the same business area in order to obtain legitimacy (Matten & Moon, 2008). Morsing & Beckmann (2006) see a greater focus on the establishment of CSR secretariats, -strategies and -reports in the Danish context. These initiatives refer to mimetic isomorphism, which is also observed in the banking sector where firms inspire each other on the work and implementation of CSR. A mimetic process may even be present across institutional systems like the case of Danske Bank and DnB NOR show. A trendsetter, yet in a different sector is the pharmaceutical firm Novo Nordisk, publishing its first environmental report back in 1994.

Normative isomorphism is related to the influence gained from norms and rules in professional colleague networks (DiMaggio & Powell, 1991). Brønn & Cohen (2009) argue that pressures to engage in CSR initiatives are often generated by the corporate community

itself. In situations like these, managers perceive that their firm's viability may depend on their ability to respond effectively. An increasing number of financial institutions involve in CSR workshops and seminars through UN's Global Compact, the Equator Principles, UNEP-FI and UN-PRI. Pelozo (2006) has found that as the standard to engage in social initiatives by firms in salient reference groups is heightened, firms feel obliged to increase their social initiative participation to match that of competitors in their sector. Obtaining the same knowledge and tools can lead to a standardization of working methods, and may influence the process toward homogeneity.

In recent years, educational institutions have also played a major role in promoting CSR and setting standards for legitimacy. CSR has become an integrated part of the education in business schools and research centres across the world, implying that future business leaders may be more familiar with these concepts.

## **5.6 Legitimacy and Reputation**

### **5.6.1 Defining and distinguishing the concepts**

A fundamental consequence of institutional isomorphism is organizational legitimacy. The concept of legitimacy has similar antecedents, social construction processes and consequences as reputation (Deephouse & Carter, 2005). However, research indicates that unlike reputation, legitimacy emphasizes the social acceptance from adherence to social norms and expectations and is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574). Reputation emphasizes comparisons among firms, according to Deephouse & Carter (2005), and is founded on values such as trust, credibility, reliability, quality and consistency.

Large and old firms, like the position of the case banks in the Scandinavian context, have a substantial amount of social and economic ties to their environment (Meyer & Rowan, 1977). The general public may therefore hold higher standards for larger banks, because of their greater impact and visibility in the community. Thomsen et al (2008) also argue that it seems realistic to assume that reputation is more sensitive to firm performance, the larger and more visible the firm is. The bank sector is an appropriate setting to examine as it faces strong

institutional and competitive pressures. This indicates, according to Scott & Meyer (1991), that legitimacy and reputation is particularly important to manage. The stronger the institutional environment, the greater is the need for cognitive legitimacy and for moral legitimacy (Suchman, 1995). These effects are likely to be even stronger in a small context like Scandinavia, which is characterized by quickly shared and therefore common knowledge (Thomsen et al., 2008).

### **5.6.2 Dimensions of legitimacy**

Charles K. Lindblom (1994) argues that firms are perceived to be legitimate when their goals, methods of operation, and outcomes are congruent with the expectations of those who confer legitimacy. Weaver et al. (1999) further claim that CSR programs can contribute to legitimacy by signaling that the firm conforms to societal expectations in its internal organizational processes and structures. However, firms may occasionally depart from societal norms yet retain legitimacy because the initiatives are unique and draws no public disapproval (Perrow, 1981). It is also argued that a firm should avoid imitating the image of the environment, but seek to move beyond conformity toward other proactive strategies (Suchman, 1995).

The extant literature presents several classifications of organizational legitimacy. Scott (1995) recommends that legitimacy assessments should be restricted to those involving regulative, normative or cognitive dimensions. Regulative legitimacy is derived on the basis of compliance with and adherence to rules and legal requirements. It has a special status because it comes from actors who have sovereignty over firms. Normative legitimacy has a moral basis in that it mirrors perceived appropriateness in terms of norms, which govern what is important and how things should be done. Cognitive legitimacy reflects the extent to which a firm and its activities are culturally supported and conceptually correct, e.g., the degree to which a firm's actions are taken for granted (Scott, 1995).

Suchman (1995) identifies three somewhat different dimensions of organizational legitimacy: pragmatic, moral, and cognitive. Pragmatic legitimacy rests on individual utility functions or the self-interest of stakeholders. The concept can be divided into exchange-, influence- and dispositional legitimacy.<sup>8</sup> It is argued that pragmatic legitimacy boils down to exchange

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<sup>8</sup> *Exchange legitimacy*: stakeholders' support for a firm's policy is based on that policy's expected value. *Influence legitimacy*: support the firm because they see it as being responsive to their larger interests. *Dispositional legitimacy*: firms are being personified and are evaluated on attributes such as trustworthiness.



legitimacy (Suchman, 1995). The moral legitimacy reflects judgments about whether a certain activity is *the right thing to do*, which is conceptually equivalent to Scott's (1995) normative dimension (Wang, 2010). Cognitive legitimacy is directed by shared definitions and frames of reference. Wang (2010) therefore argues that there are four paramount dimensions of legitimacy: pragmatic, moral, cognitive and regulative. The empirical analysis will attempt to connect these dimensions to the CSR initiatives put forward by the case banks.

	<b>Regulative</b>	<b>Moral</b>	<b>Cognitive</b>	<b>Pragmatic</b>
<b>Mechanism</b>	coercive	normative	Mimetic	exchange
<b>Basis of legitimacy</b>	legally sanctioned	morally governed	culturally supportive	self-interest
<b>Indicators</b>	rules, laws and sanctions	social obligation and certification	taken-for granted and isomorphism	expected value provided by firm

Table 3: Overview of the dimensions of legitimacy

When discussing the legitimacy of banks, Pava & Krausz' (1997) four distinct criteria for evaluating the concept for the sake of institutionalizing CSR are relevant: (1) a firm's *local knowledge* about the specific cause or initiative, (2) the *level of responsibility* held by the firm related to a specific cause, (3) *shared consensus among stakeholders* as to whether the initiative is relevant to support, and (4) a *healthy relationship to financial performance*. If these criteria are met a social responsibility project is ideal. Obviously, no initiative will meet all of the criteria and the model suggests a trade-off between the first three criteria and the last concerning the relationship between CSR and financial performance (Pava & Krausz, 1997). Researchers have still not found a credible way of measuring the financial effect of CSR, and I do not intend to discuss or measure this connection.

### 5.6.3 Dimensions of reputation

Fombrun (1996: 393) has argued that "the more a company pursues a strategy that differentiates it from rivals with each of its major constituent groups, the more likely are constituents to ascribe a strong reputation to the company." Hence, while conformity through isomorphism is claimed to create legitimacy, further efforts at differentiation may be necessary in order to achieve higher levels of reputation. Deephouse & Carter (2005) found that for firms with lower reputations, isomorphism was positively related to reputation, whereas for firms with better reputations, the results were opposite.

Critical media attention prompts firms to respond in ways that will preserve or restore their legitimacy (Ashforth & Gibbs, 1990) and reputation (Wartick, 1992). Legitimacy affects not only how people act toward firms, but also how they understand them. Weaver et al. (1999) argue that critical media attention influences the development of easily decoupled CSR programs. A response must be made to media critics, but since some initiatives not necessarily reflect real problems or are tied to organizational goals, responses can be of the easily decoupled sort.

#### **5.6.4 Strategies for repairing legitimacy**

The literature offer several strategies for gaining, maintaining and repairing legitimacy (see Suchman, 1995). Repairing legitimacy resembles the task of gaining legitimacy as both call for intense activity and dramatic displays of decisiveness. The legitimacy repairing strategies represents a reactive response to an unforeseen crisis. Strategies for gaining legitimacy, however, tend to be proactive, but according to Suchman (1995) most of these strategies can also serve to reestablish legitimacy following a crisis. The focus of this thesis is the reactive dimension as the analysis concentrates on efforts to repair legitimacy and reputation.

It is argued that in order to repair its legitimacy, a firm can either normalize its accounts or initiate a restructuring (Suchman, 1995; Wang, 2010). Firms are recommended to formulate a normalizing account separating threatening critique from larger assessments of the firm as a whole. This can be done by denying the problem, excuse it by questioning the firm's moral or justify the disruption by redefining means and ends retrospectively (Suchman, 1995). The narrowly tailored strategic restructuring technique, first introduced by Pfeffer (1981), can also serve damage-containment effectively. This may be done by confessing that limited areas of operations are flawed and consequently act visibly to remedy those specific faults. Suchman (1995) presents two types of restructuring strategies;

- A creation of monitors and watchdogs allows the firm to invite state regulation, chartering ombudspersons, or instituting grievance procedures. This strategy cannot reestablish legitimacy directly, but symbolizes contribution and may persuade some stakeholders that they can trust the firm.
- A disassociation strategy seeks to symbolically distance the firm from bad influences. The most common form of disassociation is executive replacement to signify a desire for change, but it may also take the form of modifying goals, methods of operation, structures, and even geographic locations.

In addition to the legitimacy repairing strategies recommended by Suchman (1995), Meyer & Rowan (1977) claim that instead of making substantive changes, firms can adopt certain highly visible and relevant practices consistent with social expectations. Most of the challenges with regard to legitimacy management rest on failures of meaning that can lead to skepticism from stakeholders. Suchman (1995) explains two main caveats that may create challenges: The *self-promoters paradox* is a term explaining the risk of losing legitimacy. The paradox argues that interpretations from the audience may occasionally diverge from expectations of the firm. The more codified and consistent the strategies become, the more likely skepticism will occur (Suchman, 1995). The *sector leader's paradox* explains how managers find themselves caught between the wish to encourage isomorphism in order to establish moral and cognitive hegemony, and the wish to restrain isomorphism in order to monopolize competitive advantages (Suchman, 1995).

## **5.7 Theory triangulation**

In order to answer the research questions it has been necessary to incorporate multiple theoretical frameworks in this thesis. Institutional theory is highly relevant when examining the current state of the banking sector. Campbell (2007) argues that in the absence of formal and informal institutions, firms are more likely to behave irresponsibly than they would if such institutions were present. Formal and informal institutions basically lay the foundation and guidelines for how firms should use CSR.

Furthermore, looking at coercive, mimetic and normative isomorphism gives us an understanding of which processes influences banks to act in certain ways with regard to CSR. The concept of isomorphism is also tightly linked to legitimacy and reputation. As already noted, Deephouse & Carter (2005) and DiMaggio & Powell (1983) suggest that firms seeking to improve legitimacy and reputation should imitate the strategies of competitors. Other researchers argue that firms should pursue a unique position. The complementarities of the different theoretical frameworks lead to a holistic understanding of how the case banks use CSR in dealing with organizational crises, and how the concept can be useful in repairing legitimacy and reputation.

## **5.8 Acknowledgement of alternative theories**

It should be acknowledged that other theories and concepts could be relevant in answering the research questions. The thesis could, for instance, have utilized the concept of Corporate Social Responsiveness (CSR<sub>2</sub>). An important concept distinction, first presented by Frederick (see Vallentin, 2007: 63), is the definition of CSR as abstract and vague, and CSR<sub>2</sub> as more practical and instrumental. In the introduction I noted that the number of CSR definitions and related concepts create confusion. In that connection, the practical dimensions of CSR<sub>2</sub> could certainly fit well to the focus area of this thesis relating to banks' ability to respond to social pressures in the pursuit of repairing legitimacy and reputation. However, while CSR<sub>2</sub> emphasizes whether the firm's actions are responsive to the pressures of stakeholders or not, the concept undermines the impact a firm's actions have on the society. This thesis is certainly concerned about the case firms' capacity to respond to social pressures, but a crucial focus area is also how these responses foster social betterment in society. As the latter point concerning responsibility of firms is underestimated in the concept of CSR<sub>2</sub>, the thesis at hand will concentrate on initiatives of CSR. As argued by Vallentin (2007), the emergence of CSR<sub>2</sub> should not be considered a replacement for responsibility, but rather an alternative, complementary research strategy.

Parts of the crisis communication literature have been presented in this thesis, but there are also other relevant perspectives that are omitted. Whether the case firms differentiate their CSR communication to different segments of stakeholders could be fruitful to examine. Discussing how explicit or direct the communication from the banks ideally should be could also be of interest.

## **6. Empirical analysis and discussion**

In this part of the thesis I will analyze and discuss the two case firms based on the qualitative interviews conducted as well as other internal and external documentation in the form of CSR reports, annual reports and media data. The findings will be linked to the theoretical discussion and frameworks presented in section five.

The thesis at hand takes a middle route between an institutional and a strategic perspective. Based on the institutional literature I will start by examining how the pressure from public policy and public opinion with regard to CSR is perceived by the case firms. The effects of

organizational crises on the banks' CSR commitments will also be examined. Following the strategic literature, I address how the banking sector use CSR in dealing with organizational crises, and how CSR can be useful in efforts to repair the legitimacy and reputation of banks.

## 6.1 Institutional perspective

### 6.1.1 Stakeholder pressure on banks

CSR pressures on banks in Scandinavia have been close to absent up until recently. However, as a result of organizational crises resulting from accusations of irresponsible behavior, the banking sector is now experiencing more external pressure and demand for CSR accountability and transparency as the public are changing norms and expectations in the society. This is also the view of Danske Bank's CR Manager Tina Lope (2010);

*Up until very recently I don't feel there have been a lot of expectations towards us and what we should do. Actually I have seen the opposite, where some people have said "well, why should Danske Bank be concerned with those things? Just focus on doing your banking business." And actually, we have sometimes even hoped for a little more public pressure and public expectations to push our agenda forward [...] I think more after the financial crisis there are some growing expectations from retail customers and from the public. (Lope, Danske Bank)*

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As the values and expectations that form public opinion changes, social initiatives may become more important than other business areas for strengthening a firm's public image. From the interview with the CR department of Danske Bank, it is interesting to note that increased pressure is desired by the bank. The irresponsible actions of banks leading to weakened legitimacy and lost trust of the whole sector may have convinced some that change was needed. However, it can also be connected to the concept of first-mover advantages as a firm already possessing CSR structures is more likely to welcome legislation, contrary to those with a disadvantage. In addition to reducing the firms' freedom, the rising focus in the society actually provide opportunities, both brand wise and business wise, according to Lope (2010): "We are continuously hunting down the business opportunities to be able to tie it closer to our business". A lack of pressure might actually act as a break on progress for firms that would like to go further. Increased pressure can certainly help the internal sale of the concept and make it more prioritized in the firm. Actors at the organizational level possess different mechanisms to influence CSR decisions. The top management team has the most direct power to influence the firm's engagement in CSR by developing corporate strategy and allocating resources to different firm programs and practices.

*[..] Seen from our perspective as CR practitioners we think it has actually pushed our agenda forward to have the financial crisis. And it has also made people who are more skeptical in the bank before to see that this is actually important. And our customers actually do care about us taking responsibility and being ethical. So it sort of helped us move away from philanthropy to something more core to us. (Lope, Danske Bank)*

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With regard to informal institutions, DnB NOR experience a pressure from non-governmental organizations and the media that together is strong. As a result of their agenda, the consciousness of CSR has risen in the minds of the public and it is easier to get these programs implemented in the firm (Røed, 2010). The case banks will likely be forced to show an even stronger engagement in the future.

Keith Davis (1960) notes that businesses can only remain competitive if the demands of society are met. In the case of Danske Bank it is shown that despite irresponsible practices, the customer base stayed equal from 2007-2008, and actually increased from 2008-2009 (Danske Bank CR report, 2009). It should be noted that these figures are based on the banks' internal documents, and the credibility can therefore be questioned. Firms do have an incentive to appear healthy and stable, as a negative trend for instance can affect the share price value and the perception of current and future customers. Numerous banks, including the case firms, have suffered financially as a result of irresponsible lending practices and investment decisions among other things. However, in general, it seems that people stick to their bank for a long time, even if they have experienced bad treatment. Nowadays, we might see a tendency that consumers switch banks more often and choose the one with the most favorable terms. Reasons for this may be the higher transparency with regard to prices and terms, and benchmarks made through media channels and so-called bank calculators.

Banks in Denmark have not experienced much pressure from the state with regard to CSR during the last decades, especially compared to practices in the U.S. context. According to Tina Lope (2010) this might be about to change;

*[..] Especially if you compare it to the U.S. you would say that the formal institutions haven't really been such a big challenge for us yet in the CR agenda. Up until now, they have maybe been a bit easy on the Danish firms and on the banks with respect to this. Of course you see now some signs that things are changing. Especially with the focus being so much on the banks now, and politicians really wanting to make a statement and making some regulatory changes which actually are very welcome by Danske Bank, because we also find that there is a need to make some adjustment and regulatory changes that might also sort of spill over to the CR area. And then of course you have seen the new legislation on reporting on CSR that was passed last year. I think it's sort of a sign that things are changing. (Lope, Danske Bank)*

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Tina Lope (2010) acknowledges that the roles of formal institutions are changing in society and that regulatory adjustments are wanted and seems necessary. The latter view regarding regulatory adjustments contradicts the findings from Vigano & Nicolai's (2009) study on European banks, where it was found that firms did not wish policy makers to introduce new laws or better regulation. The majority of banks expected policy makers to help increasing CSR awareness and to build receptive environments through encouraging voluntary initiatives (Vigano & Nicolai, 2009). Again, the welcoming of regulation can be linked to first-mover advantages. Those players who are lagging behind within the field of CSR are likely to be more critical toward new regulations. Since 2006, the CR secretariat of Danske Bank have unsolicited informed stakeholders about CSR practices. Similar to the opinions provided by Danske Bank, Hilde Røed (2010) of DnB NOR claims that the state has demanded little from Norwegian firms up until now. Currently, the bank is experiencing increased pressure from governmental bodies and the public in general with regard to their CSR engagement:

*CSR is developing rapidly as expectations toward businesses and the financial sector have risen immensely in the last 10 years. Up until recently the Norwegian Ministry of Foreign Affairs has been the most visible promoter of CSR. Now the concept is also on the agenda in governmental bodies like GIEK<sup>9</sup> and Ministry of Trade and Industry, but also Finance Norway<sup>10</sup>. There have been an increased number of requirements for publicly owned firms like DnB NOR, but these are still not translated into binding legislation. Some formal requirements on CSR disclosure, climate report and GRI are for instance required by regulation in the U.K. and Sweden. In Norway there is still just a strong encouragement in these areas. (Røed, DnB NOR)*

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The case interviews have indicated that public policy and the public opinion are changing expectations toward banks. Røed (2010) notes that the ownership structure affects CSR initiatives, as authorities now expresses clear CSR guidelines to state-owned firms. In Danske Bank, the case is somewhat different with the largest shareholders being foundations. Tina Lope (2010) claims that the bank does not experience any specific effects on CSR because of their ownership structure. Majority shareholders like the state, which is common in the Norwegian bank sector, tend to set longer term expectations and include a broader set of stakeholders in their strategic thinking. The government's role as public regulator leads them to set broader and more complex objectives than a private investor. Foundations, however, which represent a common set of majority shareholders in Danish businesses, tend to have diverse objectives that are often philanthropically based. Instrumental motives of the state

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<sup>9</sup> GIEK is the central government agency responsible for furnishing guarantees and insurance of export credits. ([www.giek.no/index\\_en.asp](http://www.giek.no/index_en.asp)).

<sup>10</sup> Finance Norway is the trade organization for banks, insurance firms and other financial institutions ([www.fno.no/en/Main/Home](http://www.fno.no/en/Main/Home)).



could for instance involve the promotion of long-term employee welfare or educational programs favoring the sustainability of society, but also sustainable lending policies, healthy bank procedures and increased competencies in the sector. There is currently a strong focus on increasing competencies of bank employees in Norway as all advisors are required to pass an authorization program. This initiative can certainly help repairing the legitimacy of banks.

In the absence of pressure from formal institutions, firms are more likely to behave irresponsibly, according to Røed (2010). The CSR manager of DnB NOR lists some of the main costs or downsides of a firm being on collision course with society: weakened reputation is certainly ruining the competitiveness, it is hard to get the best employees, the firm may use a lot of resources on risk response, and it will be more challenging getting project approval. The reliance on welfare states providing a security net has hindered businesses in their development of CSR. Subsequently, this has led to Scandinavian firms being immature with regard to sustainability, according to Røed (2010).

*[..] The Danish banks have been lagging a bit behind in CSR, before Danske Bank a few years back started engaging in the concept. They were far behind the Swedish banks in particular but also the Norwegian banks when it comes to Socially Responsible Investments for instance. This is a bit surprising as Danish firms in other sectors have been in the forefront of CSR. However, Danske Bank has definitely started now. (Røed, DnB NOR)*

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Tina Lope (2010) proposes two reasons for the shortcomings of Danske Bank: It could be due to the bank's conscience about the concept that has not really been developed. The absence of pressure from the state and public opinion are also mentioned as reasons why the bank and the sector in general have not been more active within CSR (Lope, 2010). Even though firms are improving their efforts nowadays, Røed (2010) also notes that there has been a tendency of firms getting awarded on talk instead of action in the CSR field. It is argued that measuring performance is the key to understanding whether CSR policies and structures are efficient in contributing to societal and environmental prosperity (Vigano & Nicolai, 2009). The importance of moving beyond words in a CSR report to effective and observable actions and societal impacts should not be overlooked. Transparency, which is a moral virtue stressing sincerity, truthfulness and openness, has long been underestimated in the banking sector. Since bank operators are trustees in a sense, current conditions illustrate that they necessarily must be open and honest; otherwise, banks will not obtain confidence and trust by clients.

## 6.1.2 Organizational crises in the case banks

### The impact of financial crisis

In a presentation at Copenhagen Business School (The Future Bank, 2010), executives of Danske Bank informed the listeners about the unbalance in the position of the brand. Before the financial crisis, the bank was perceived as having the best banking competencies in the Danish market. During the crisis, however, this parameter slumped as the public opinion perceived the bank as arrogant and distant. The management's handling of the crisis was also highly criticized, as the bank went from a 1<sup>st</sup> to 139<sup>th</sup> place on a reputation ranking presented by Berlingske Nyhedsmagasin (The Future Bank, 2010).

*[..] It is our competencies that have been questioned and our ability to make the right decisions, and then also which was not really a new thing to us – the fact that a lot of customers have experienced the bank, some say arrogant, but very reserved and closed. (Lope, Danske Bank)*

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Various surveys were undertaken to identify the root of the reputational problem. The results revealed that the crisis had affected stakeholder confidence considerably with regard to the bank's competencies and ability to inform the public sufficiently about how they handle agency problems and their costs related to the bank packages (The future bank, 2010). More open and honest communication was desired, and in June 2009 a new dialogue section on the bank's website sought to obtain the Danish peoples' thoughts, views and experiences with the bank. To ensure a continuing dialogue with the customers an online customer panel was set up (Danske Bank CR report, 2009).

Despite the tough times experienced by Danske Bank, their strategies, goals and objectives with regard to CSR have stayed the same during the financial crisis. As in all other parts of the bank however, the CR department have been forced to assess current projects in terms of efficiency and prioritize initiatives linked to core business. Tina Lope (2010) explains the following about the financial crisis' impact on the bank's CSR initiatives;

*[..] We have sort of cut it [CSR budget] a bit down, but not a lot actually. We are really sticking to our overall objectives set out in our CR strategy. But on the other hand I think that the crisis has really meant that we have pushed CR even closer to our core business, in the actual contact with our end customers, and I think that's actually quite a positive development. I think actually it [the financial crisis] has affected our CR work in a way that it has maybe shifted our focus a bit. (Lope, Danske Bank)*

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Even though the CSR strategy has stayed the same, some areas of the bank have naturally experienced cut-backs. The number of branches has for instance been cut down, and hours of

voluntary work have been reduced significantly. In addition, the firm's donations to society have stayed approximately the same (Danske Bank CR report, 2009). Connecting CSR initiatives to net profit and total income, reveals that even if the initiatives have been slightly reduced, it still amounts a higher percentage of total earnings. Prioritization and cut-backs can certainly be termed as a responsible act when firms are experiencing declining profits.

According to Hilde Røed (2010) the financial crisis has not significantly affected DnB NOR's CSR commitments and internal procedures. She acknowledges that CSR is now higher on the management's and the board's agenda than before, making it easier to sell the concept internally. There have been no reductions in the budget and the CSR stab has increased from one to two employees (Røed, 2010). Conversely, Danske Bank has four full time employees within their CR department (Lope, 2010). The low number of resources allocated to the CSR departments of the banks might give us an indication of their real engagement in the area. One could certainly argue that keeping the costs at a minimum and allocating resources to actual initiatives are fruitful. However, the small departments can be perceived as showing a lesser focus on the concept. According to Røed (2010), the most visible correction of DnB NOR as a result of the organizational crises is a new set of visions and values with an increased focus on customers' needs.

### **Accusations of irresponsible banking**

The brand damage of the case firms have also been caused by unfortunate cases not directly linked to the financial crisis. The insider trade in DnB NOR and the IT-Factory case in Danske Bank can be linked to the concept of regulative legitimacy. Breaking rules set by the government have weakened the reputation and legitimacy of the banks. Public opinion has also revealed widespread doubts about whether frontline employees are giving credible advices to customers or if commissions are the guiding factor. A number of private investors have experienced that despite the designation bank advisor, their actual role has been more of a salesperson than one helping customers with investments and loans. There is a pitfall of perceiving bank advisors as objective in a situation where they have the interest of selling a product. Remuneration systems in banks can be criticized for not giving the advisers proper incentives to provide their customers optimal advisory, but in fact pursuing another agenda which is directly against the customers' interest. The Danish Finance Foundation argues that the management of banks should publicly defend the bank advisors who have been given most of the blame for the sale of unethical financial products (Finansforbundet, 2009). After

all, the management is responsible for setting the guidelines and rules in the firm. This move could potentially raise the customers' trust in bank advisors. Management bonuses have also been questioned when executives receive sky high salaries in spite of the banks' bad performance. Incentive-based remuneration systems have issued bonuses in upturns, while punishment has been less applied during downturns, resulting in higher risk-taking and unsustainable bank practices.

The case banks' sale of loan-financed structured products and violations of good business conduct have also led to weakened legitimacy and reputation. Recent trials against the case banks, however, have been ruled in favor of the customer (TV2, 2010; Børsen, 2010a). This is obviously good news for those who have lost money on structured products and now receive compensation. It also sends a strong signal to the bank sector that times are changing and customers are getting more rights. Carsten Holdum, Chief Economist in the Danish Consumer Council, argues that the outcome of the Fokus Bank case can be critical for trials in many countries. The Norwegian case is highly interesting, as one is trying to place a product level responsibility on banks. Similar to the practices in the car industry, this will mean that an investment product shall be withdrawn if it's badly structured and does not work (Børsen, 2010a). The Fokus Bank case is controversial also in Denmark as it traces back to the Danish owner, namely Danske Bank, who contributed with marketing material, information material as well as teaching of Fokus Bank's employees (Politiken, 2010). If the appeals from the banks are being declined it could lead to a spillover effect on the court practices in the rest of Europe. In the case of Roskilde Bank, where customers were advised to buying shares in *a sinking ship*, the court decision ended in favor of the bank. Acquittal was given as it was argued that customers should have known about the risk involved (Finansforbundet, 2009).

## **6.2 Strategic perspective**

The latter section indicates that the government and public opinion in particular are increasing the pressure toward CSR in banking. Recently this pressure has been particularly profound due to the financial crisis and accusations of irresponsible behavior. As a result of the institutional pressure the CSR agenda of banks have been pushed forward. CSR provides a channel through which stakeholders can assert to firms their norms and expectations regarding sustainable development. While traditionally, these demands have been directed towards the state, pressure groups are increasingly targeting firms. Due to these pressures, engaging in strategic CSR is more important than ever before. As indicated by the CSR

managers of the case banks, the pressure is certainly reducing the freedom of banks. However, it also provides opportunities, both brand wise and business wise.

### 6.2.1 Developing a strategic CSR agenda

*[..] as in any other business it takes time to change old processes and practices around and sort of implement a new mindset in a very old and conservative organization.  
(Lope, Danske Bank)*

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The banking sector has been lagging behind in CSR relative to other industries. As a result of heightened criticism of banks with regard to unsustainable behavior and short-term thinking the actions of banks have been scrutinized by the government and public opinion among others. The two case banks examined have been engaged in strategic CSR for some years now, but implemented the concept at different times. Danske Bank started working strategically with CSR in 2006, when a policy designed by the newly established CSR secretariat was implemented. The overall responsibility of this unit was to coordinate, systematize, create goals and report on the bank's CSR engagement. The objective of including this unit was to incorporate CSR in the daily business as well as communicating their engagement to stakeholders (Lope, 2010). Lope (2010) argues that their main objective is to promote CR in the firm and internalize the principles inside every employee.

DnB NOR started working with CSR in the beginning of 2000, but it was after the merger with the insurance group Gjensidige, in 2003, that a CSR department was developed and the bank started working systematically and strategically with the concept (Røed, 2010). Closely linked to Danske Bank's overall objective, the aim of the department is to get CSR integrated into the whole of the organization. According to the CSR manager the department's main responsibility is establishing policies, guidelines, strategies and following up on accountability. The real CSR work, however, is the behavior and actions seen in the bank's everyday operations and practices (Røed, 2010).

The responses of the case firms illustrate the function of an ideal CSR department. Recent examples of irresponsible banking, however, reveal that it is not unproblematic to incorporate CSR policies holistically in a firm. Taken the fact that this thesis is based on the views of the CSR practitioners of the banks, who can be characterized as the CSR experts in the firms, may suggest that the findings do not represent the view of all employees. It could be

questioned whether the same findings would appear if employees from other departments were interviewed concerning CSR practices. Nevertheless, for CSR initiatives to seem reliable it is necessary for the banks to make it an integrated part of the culture. The effects of CSR can only become benefiting if the employees of the banks believe in the idea and in the firm's practice of it – if not it can have the complete opposite effect. The story of Enron is a well-known example of the latter point, as the firm publicly appeared to be doing all the right things in terms of CSR, but beyond the surface it became clear that CSR values were not integrated.

The launch of CSR departments and increased communication with regard to CSR in the two case banks can be labeled as an isomorphic process, meaning that the banks engages in what the society consider as a legitimate and healthy operation (Matten & Moon, 2008). It can be argued that CSR is employed in the banks both as a cognitive and a descriptive discipline. Cognitive in the way that there has been an increased focus on CSR and it has become a taken for granted discipline in many firms. Furthermore, if some institutions within their respective organizational field focus on the concept, it will influence the rest of the field. CSR can also be a descriptive discipline in the sense that many firms brand themselves through similar ethical statements, such as company networks and core values. Pressures toward explicit CSR in Europe have influenced firms to take action within the area of CSR.

### 6.2.2 CSR versus CR

What is relevant to note about the two case firms is that they apply different working terms related to their social, ethical and environmental engagement. DnB NOR has applied CSR since they started working strategically with the concept in 2003. In 2008, Danske Bank chose to re-label their CSR framework launched in 2006, and took on the term Corporate Responsibility.

*[..] We find that CR is broader than CSR because it signals that the responsibility of the firm extends beyond social responsibility. We believe that our principles for responsible behavior should apply to all our activities both as a financial institution and as an employer. The decision [to re-label] was closely linked to our overall targets of integrating CR in all areas of our organization. (Løpe, Danske Bank)*

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In Danske Bank, the aim of CR is to incorporate the concept holistically in all strategies implemented by the firm. It could be mentioned that a successful Danish firm like Novo Nordisk also use the term CR. DnB NOR, however, has chosen CSR as their responsibility

term. The rationale for choosing CSR is, according to Røed (2010), because the concept is in better accordance with the Norwegian term or translation. She also highlights that firms have a wide range of responsibilities, and that DnB NOR find it useful to underline exactly what kind of responsibilities they are discussing. How are the stakeholders likely to perceive the choices taken by the banks, and how could the different approaches to CSR relate to the work on repairing legitimacy and reputation?

Danske Bank and DnB NOR are influenced by specific expectations connected to their activities. Their approaches certainly have an impact on reputation and legitimacy. The more narrow approach of CSR can make it easier for stakeholders to capture what the bank is really engaging in and focusing on. However, a firm taking a narrow focus could be accused of not taking enough responsibility or engaging only in the areas positively linked to financial performance. By taking on a broader approach like CR, it may be more complex for stakeholders to identify the firm's core focus areas and values. The pitfall of taking on too many projects is the lack of ability to go deep into a specific cause, but rather scrape the surface of multiple. Despite the different working terms and definitions both banks seem to aim broadly, as they have adopted several standards and initiatives related to responsible investments, employees, the financial crisis and the society in general.

As a bank there are not necessarily any obvious areas that they should engage in. Their activities have typically been considered to have a low direct impact on the environment compared to other sectors. In that sense it may be challenging for stakeholders to relate to CSR in the first place. In their strategic approach to CSR, Porter & Kramer (2006) emphasize the importance of linking CSR initiatives to core business.

*[..] Sometimes we are a bit concerned that something will be perceived the wrong way, as if we are spending our stakeholders' money on something that's not really relevant to them [...] you might see that we have started with some things that weren't really that crucial to the business and then worked our way into the core. And I think we are getting closer and closer. Now we are taking a big step with making a policy for responsible investments, and also joining the principles for responsible investments issued by UN, and then maybe the next step for us, a challenge that we have realized now is in credit granting and looking into our lending policies, to implement some guidelines there. (Lope, Danske Bank)*

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As Lope (2010) proposes above, banks do have serious indirect impact on the environment through their credit and investment policies, industrial portfolio engagement as well as within asset management. Danske Bank has shown significant improvements within CR after their



first non-financial report was released in 2006. In the 2009 report, their open discussion and communication with regard to bank challenges and failures is one example of heightened transparency. Another improvement is the bank's involvement and depth in numerous CSR initiatives: Implementing guidelines for responsible investments is one important initiative. Lope (2010) also mentions a highly important focus area for the future, namely credit granting and lending policies. In a study of European banks, Vigano & Nicolai (2009) found an emerging role of indirect aspects of CSR, exemplified by banks' recognition of the impact of their lending and investment operations. Also the adoption of certain CSR instruments, like the Equator principles, was found to have a substantial influence on the loan appraisal process and clients' behavior (Vigano & Nicolai, 2009). Irresponsible lending practices were among the core failures causing the current financial crisis.

### 6.2.3 Legitimacy repairing strategies

*[..] I think that confidence was really damaged during the crisis. We have a journey ahead of us to start rebuilding that (Lope, Danske Bank)*

*[..] We have been highly exposed to bad attention in critical periods. There have been many unfortunate cases for the sector and also for the firm (Røed, DnB NOR)*

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Speaking at the CSR Forum in Brussels in 2009, Günther Verheugen, former VP of the European Commission responsible for enterprise and industry, said that “the task of rebuilding trust in business has to start now. It has to be a priority for the business community” (Euractive, 2010). As stressed by Verheugen, the falling level of trust in business, especially in banking, illustrates the need to better the CSR practices and introduce repairing strategies aiming to boost reputation and legitimacy. Both case firms have responded to the scrutiny from public opinion and the state by applying more elements of formal CSR programs in order to demonstrate their intentions for future good behavior. Legitimacy repairing strategies are strategic moves in that they seek to change the society's perceptions and expectations toward the firm.

#### **Strategic CSR as shared value**

An example of how the case firms use CSR in promoting legitimacy and reputation is through their Financial Literacy programs. In DnB NOR the development of the initiative started in year 2000. According to Røed (2010), the bank has a strong focus on educating the consumers which is mutually beneficial for the bank and its customers. In Danske Bank, the Financial

Literacy program is a recent CSR initiative launched in 2008. Apart from the climate program, this is the bank's largest initiative within CSR (Lope, 2010). The objective of Danske Bank's program is to educate present or future customers to better manage their private economy. The program targeting 5-9 year olds is not branded. However, the bank plans to extend the program in the coming years to also involve the age groups 10-15 and 16-28. This initiative will be branded so that the firm also can exploit the advantages of marketing (Lope, 2010). Danske Bank argues that the initiative may create more financially skilled future customers. The Financial Literacy initiatives are examples of strategic CSR, where the banks can exploit their core competencies to favor the society.

*[..] We find that this makes a lot of sense to us. We see that there is a challenge in society and we have the competencies to help fix it and maybe we get some really good customers in the future. So for us it's sort of the ideal CR project because we really want to be able to have some projects where we can use our competencies in a good way. (Lope, Danske Bank)*

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DnB NOR also find it useful to show accountability in cases where they can apply their core competencies (Røed, 2010). The bank's financial literacy program includes consumer economists and pension experts,<sup>11</sup> who give advice on the bank's website and blogs. Negative impacts of the financial crisis have also led Danske Bank to enlist debt advisors<sup>12</sup> to help people manage their finances. The financial crisis has clearly demonstrated the importance of financial skills and education for the well being of individuals, families and society at large. The financial literacy and advisory services are following what Porter & Kramer (2006) defines as shared value, as it benefits the society as well as the firm itself. The initiatives also fall under the third level of Carroll's pyramid, namely ethical responsibilities. Banks, while making money and fulfilling the first two levels of economic and legal responsibilities, can also use their positions in society, both physical and virtual, to try and improve the quality of life wherever they can. Observing that the banks are raising and acting upon important societal challenges, and simultaneously possesses the expertise to develop initiatives, are likely to raise the moral legitimacy, as it can be perceived as *the right thing to do*. It is argued that moral legitimacy is not about whether it benefits the evaluator, but if it promotes social welfare (Suchman, 1995). Pava & Krausz' (1997) criteria for legitimacy can also be incorporated in this connection. CSR projects are claimed to be ideal when firms possess knowledge about a specific problem and its solution. The case banks can potentially meet

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<sup>11</sup> see [www.sunnokonomi.no](http://www.sunnokonomi.no); [www.pengebloggen.no](http://www.pengebloggen.no)

<sup>12</sup> see [www.danskebank.com/en-uk/CSR/society/Pages/volunteer-debt-advisers.aspx](http://www.danskebank.com/en-uk/CSR/society/Pages/volunteer-debt-advisers.aspx)

perceived social obligations and stimulate shared values. Danske Bank has identified several opportunities resulting from their focus on the program:

*[..] The program gives us an opportunity to create new products and services that benefit our current and future customers, society at large, and ultimately our own business. (Danske Bank CR report 2009: 32)*

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This is where the CSR initiative gets strategic. The aim is obviously to change the society's norms, values and expectations. Both case banks aim at differentiating itself from competitors, which indeed can create a competitive advantage. What I discover in the market today however, is that other large banks offer similar versions of the Financial Literacy program. CECP found in a survey of European banks that 65% of the sample was running Financial Literacy projects (Arbak, 2009). The survey also indicated that reputation management was stated as the most important reason for engaging in CSR.

Whether the case firms are actually responsible for engaging in this specific initiative is another criterion of repairing legitimacy raised by Pava & Krausz (1997). One could argue that the bank sector alone is not responsible for educating the society with regard to financial skills. The researchers further claim that educational programs are almost impossible to defend from a purely strategic viewpoint. Nevertheless, the interest of the economy as a whole are enhanced to the extent that these programs exist and are successful. Whether it is socially responsible to involve young kids in this sort of game, which clearly involves a hidden agenda, is another matter.

*I think it's actually quite important. The program is for children in the ages 5-9 and our studies show that a lot of the children in this age group get pocket money and have their own cell phones. They early reach the consumer mode and we find it important to develop some good habits with regard to savings and spending. (Lope, Danske Bank)*

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Helping the youth develop a strong financial literacy foundation can encourage wise financial decisions in the future. In addition, the initiative was not developed by the bank alone, but in close cooperation with stakeholders and experts: The bank held a group of meetings with relevant stakeholders like EU, the UN Global Compact, politicians, consumer councils and schools among others before implementing the initiative (Danske Bank CR report, 2009). However, it can be argued that the age group 5-9 is far too young to worry about finance, and as a result some public spectators may perceive the initiative as illegitimate.

## Strategic restructuring

Danske Bank has confessed through media channels that limited areas of operations have been flawed (DR1 TV-avisen, 2008) and are now acting visibly to remedy these faults. One area where restructuring has been implemented is through the CR secretariats role as monitors and watchdogs. The secretariat cannot re-establish legitimacy directly, but symbolizes contribution by for instance welcoming new government regulations publicly. The disassociation strategy, introduced in the theoretical discussion, seeks to symbolically distance the firm from bad influences. Suchman (1995) argues that a caveat of this strategy is that the bank may appear unstable, but the irresponsible actions of banks have necessitated a change of practices.

*[..] I think the only way to regain trust is to really show that we might have had a bit of a rocky time, we might have become a bit sloppy while everything was going well, but now we want to get back on track. (Lope, Danske Bank)*

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The “Better Bank” campaign for instance, launched by Danske Bank during the financial crisis, seeks to inform the public that the bank has acted sloppy for a while, but is now highly disposed on improving and simultaneously innovating some internal procedures and structures. First, the bank left their famous slogan “do what you do best, that is what we do”. Second, to erase all doubts about agency problems the Group decided to abolish bonus payments to all branch staff in Denmark (Danske Bank CR report, 2009). With branch profit being the core factor in bonus determination, it was extremely hard for the customers to reveal the underlying motives of their advisors. There were obvious elements of asymmetric information. Third, they are moving away from their conservative image by implementing a blog and opinion website, by taking a stronger part in the new social media and investing huge sums in digital banking (Future bank, 2010).

*You could say that it [Better Bank] is sort of a strategic move that we have made in order to restore faith – of course also to save our image but also trying to get the CR principles implemented better in the bank brand, and closer to the customer [...] We want to be more responsible and really show that when we get some input, feedback or complaints we actually do respond, and we have already launched a lot of initiatives under the “Better Bank” campaign that are aimed at just that. But of course it will take some time for people to actually experience that it is real, that we are actually doing what we say that we want to do (Lope, Danske Bank).*

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The importance of responding to stakeholder demands is highlighted by Lope (2010). Danske Bank’s focus on blogs and opinion websites can be termed a reactive strategy in that it respond to negative attention from the public by inviting discussion. However, it also contains proactive elements as the strategy seeks to gain input on how to behave in the future. This

initiative aims at aligning the business objectives with societal expectations. Cultivating a sense of common purpose is crucial for effectively implementing CSR programs, according to Pava & Krausz (1997). By inviting and establishing a frequent, systematic and proactive dialogue with stakeholders, banks are likely to build stronger relations with stakeholders and secure continuous improvement within CSR. Rather than giving an exclusively positive impression that can create scepticism, the firm shows that they are aware that they still have a way to go.

DnB NOR has also implemented elements of the so-called disassociation strategy. The modification of remuneration policies was the bank's biggest strategic move made in times of crisis, according to Røed (2010).

*What we have experienced earlier is that if incentive structures are not changed it is hard to make other remedies (Røed, DnB NOR)*

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DnB NOR has certainly made some corrections in times of crisis, but is still keeping structures that have been criticized heavily in the media. Bonus systems related to branch staff and top managers for instance are kept intact, but parameters have been changed in order to minimize agency problems and foster ethical behavior. The CEO of the bank, however, chose to refrain from bonuses during the financial crisis. CSR initiatives have mainly concentrated on satisfying the retail customers and emphasizing product responsibility. The bank has, for instance, implemented routines with regard to which products are offered to different consumer segments (Røed, 2010). To repair pragmatic legitimacy following irresponsible behavior the firm needs to convince the market that they no longer has an incentive to act unethical. CSR initiatives represent a means of promoting societal norms and interests in exchange for legitimacy. The disassociation strategies implemented by banks may lead the public opinion toward assessing the firms' utility at a higher level.

Whether the strategic CSR programs are credible and integrated in the case firms, however, can certainly be questioned. With regard to the abolished bonus system in Danske Bank, it could be termed as an easily decoupled initiative as it is expected that it will be re-implemented when things have cooled down in the sector. When and if these are re-implemented, it will be crucial for the bank to communicate how they are working on diminishing the agency problems related to remuneration. Restructuring the bonus system could be an idea. The former practice of linking bonuses to branch profit is likely to stimulate

unethical practices. A new system could for instance involve that the advisor gets part of a limited premium based on the profit of the investment, instead of getting commission for selling certain products. A new system should seek to create an incentive for the advisors to give the best advice possible.

*[..] The most integrated you can do is to modify products and incentive models. In addition to reputation, customer satisfaction has also increasingly been built into our models. We have to look at the duration. I do not think that this is an easily decoupled initiative, rather the contrary. (Røed, DnB NOR)*

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Røed (2010) argues that the modification of products and incentive models is among the most integrated moves that can be made by firms. This point is relevant, and can certainly be connected to Pava & Krausz' (1997) criteria of legitimacy. One could argue that banks have the full responsibility with regard to minimizing agency problems and acting transparent. Røed (2010) further notes that it is still a question of duration. If the incentive systems are turned back to normal when the bad publicity has cooled down it can certainly be termed as easily decoupled (Røed, 2010). Currently, DnB NOR is also working on updating the tools on creditworthiness. This is a CSR initiative where it is hard to get appraisal from stakeholders, as these initiatives are not visible to the public, but they can certainly be risk mitigating.

With brands located in different institutional contexts the need to tailor crisis management approaches and CSR initiatives is important. An example of a locally responsive strategy is Danske Bank's staff training in their Irish brands during the financial crisis. Due to the lack of experience with regard to bank crises, the staff was trained to handle both the business side of the challenge as well as the psychological aspects (Lope, 2010).

### **Executive replacement and bank packages**

A survey conducted by Edelman Trust Barometer in 2010 shows improved reputation in the banking sector. The overall rise in trust is tenuous, however, with nearly 70 percent saying business and financial institutions will revert to old habits when the financial crisis has passed. In addition, most expect government to influence banks and financial institutions in the future (Edelman Trust Barometer, 2010). The latter point was also acknowledged by the CSR secretariats of the case firms, and was discussed in the institutional perspective. In the U.S., Western Europe, and BRIC countries, more than 70 percent say that actions such as firing non-performing managers, repaying bailout money, or reducing the pay gap between senior executives and rank and file workers would restore their trust in the firm (Edelman

Trust Barometer 2010). According to Pfeffer (1981) the most common form of disassociation is executive replacement to signify a desire for change. It is natural to assess the management when organizational crises appear and a bank suffers from lack of legitimacy. Executive replacement could be a relevant move from the board of directors in the case banks examined. However, managers in Danske Bank and DnB NOR have not been replaced despite heavy critique from the public.

The bank packages can also be discussed in terms of legitimacy. The banks themselves argue that engaging in the plans is a responsible move toward stakeholders (Lope, 2010; Røed, 2010). A benefit of the packages is the strengthened liquidity of banks that make them better able to provide loans to market actors. However, in relation to the last paragraph, it could be argued that one of the biggest problems with the bank packages is that they have not removed underperforming executives. The nationalization of banks has allowed executives to collect large salaries and bonuses despite taxpayer outrage. This has been more evident in the U.S. than in Scandinavia.

When resources from the community are offered, requirements with regard to the remuneration systems of banks are needed. Regulations for freezing the wages of bank executives were implemented in Norway in 2009, and new regulatory moves are expected during 2010 (DN, 2010). It is reasonable to offer these requirements as it is the taxpayers' money that is at stake. These actions have also been seen in the U.S., the U.K., Sweden, Denmark and Germany. It has been argued that both case firms were highly dominant in the governments' preparation of the bank packages. CBS professor Jesper Rangvid argues the importance of listening to the banks, as it is launched in order to help them. However, he finds it to be absurd that one single bank can have as much influence on the end result (Politiken, 2009).

### **Improvement in sight**

Recent surveys have verified improvement for the Danske Bank brand (Lope, 2010), which may indicate that the legitimacy repairing steps taken by the firm so far have been successful. Customer satisfaction surveys conducted by DnB NOR also show that retail customers became more satisfied with the Norwegian bank during 2009. In the corporate market however, satisfaction levels fell within most customer segments (DnB NOR CSR report,



2009). Nevertheless, Danske Bank and DnB NOR are still not fully recovered indicating that repairing legitimacy and reputation is a long process.

#### **6.2.4 CSR standards and transparency**

The lack of stakeholder pressure on banks with regard to CSR has for years put a hold on their development within the field, and self-regulation has been the norm. However, recent corporate scandals are raising the expectations toward banks and especially with regard to transparency. Edelman Trust Barometer (2010) noted that a vastly different set of factors, led by trust and transparency, now influences corporate reputation. These results indicate that banks need to appear transparent and lucid for stakeholders to view them as legitimate.

CSR initiatives and common principles have been implemented, but currently the lack of transparency makes it hard for stakeholders to keep track of how responsible banks really are. There is a shortage of information with regard to what the banks involve in and also how they live up to CSR standards. Several attempts aiming at reaching alignment in the sector have been introduced. Institutional standards like UN's Global Compact, the Equator Principles and UNEP-FI are all known networks in the corporate community, and especially so for large financial institutions. The standards provide useful global frameworks that are pending on the domestic regulation. However, the benefits, relevance and implications of engaging in all these networks will be discussed in the context of legitimacy and reputation.

A consequence of establishing industry standards and company networks in the banking sector is obviously that banks will not stand out in the crowd; hence homogeneous initiatives are introduced. In addition, engaging in multiple networks and adopting several standards can be viewed as less lucid and transparent by stakeholders. The banking sector is not regulated on a global basis and no overarching framework exists. Codes of conduct that have been established may be criticized for "lacking teeth" if no accountability mechanisms exist to assess how well they are being implemented in day-to-day business practices (Baue, 2005). Nevertheless, raising the bar in a sector characterized by low reputation, lack of legitimacy and stakeholder skepticism would certainly turn out positive for banks. Following certain industry standards is still considered a quality mark.

Ideally, an overarching standard that all banks and stakeholders could relate to would be

fruitful. An important reason for agreeing on a common standard is that the concept of CSR is vague and can be defined in multiple ways. Numerous competing principles and standards, however, illustrate the challenge of reaching a common set of principles and conditions. The case firms examined have focused on similar CSR initiatives and implemented some of the same global standards. But they have also taken on CSR strategies and focus areas that differentiate the two. It could be hard to reach a higher legitimacy in the banking sector unless transparency is raised. A shared definition and reference that is culturally supported could in turn raise cognitive legitimacy.

It could be argued that there is no such thing as complete transparency in organizations. As long as firms comply with the CSR standards within their organizational field, they are perceived to do virtuous business. CSR can in this connection be a tool to hide unethical issues from stakeholders. It is left to the standards to ensure ethical behavior of the firms or at least they set the minimum requirements of ethical behavior. It is possible to receive positive attention if going beyond these standards – so to say being first movers within their field. A first-mover may force the other actors in the field to change practices, as it can cause them negative attention not to follow. In that sense CSR can also be a competitive tool. Actions of one firm are influencing the actions of other actors in the field.

### **6.2.5 Compliance or voluntarism**

The main reasons for the lack of alignment are obviously the different interests of banks related to CSR and the different institutional contexts in which they operate. What is voluntary in one context may be a legal requirement in another. As earlier noted by Røed (2010), voluntarism within CSR is still the norm in Norway despite increasing pressure from formal institutions. According to Løpe (2010), after years of self-regulation, the new law concerning disclosure may indicate a shift in Denmark.

*[..] I think there is no doubt that we also recognize that some of the reasons for the crisis has been that the banks have been able to move too freely in some areas. More consensus are needed around what is proper behavior and also on EU level to get some alignment in the sector. (Løpe, Danske Bank)*

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Similar to the above statement, alignment in the sector is also valued by Røed (2010). She notes that it is of crucial importance to have some common norms and standards so that firms are not only focusing on their own ethics, but rather work together on sector-specific challenges (Røed, 2010). If consensus in the sector is reached, legitimacy repairing strategies

are likely to get more effective. Some steps have been taken by the EU with the aim of reaching alignment. In its Europe 2020 strategy, published in March 2010, the commission flagged the need for a new agenda “that puts people and responsibility first.” However, overcoming the issue of whether the disclosure of CSR shall be voluntary or mandatory has muddled progress in recent years (Euractive, 2010).

The area of CSR has to a great extent been based on voluntarism. There has been an absence of clear requirements on firms, especially in the Scandinavian context where the welfare states provide a security net. Instead the “comply or explain” principle has guided firms. They are not required to change practices, but firms choosing not to comply have to explain why. This is a clear incentive to act according to the recommendations when considering the threat of criticism from stakeholders like the government and public opinion. A relevant question to ask is whether these voluntary CSR standards are sufficient to promote responsible banking? It could be argued that laws passed on by the state are likely to achieve broader coverage than voluntary initiatives. This is especially the case for regulations where compliance is mandatory. Voluntary in nature, CSR initiatives like UN’s Global Compact, UNEP-FI and the Equator Principles build on self-interest, but they only rarely require verification of compliance and are by definition unenforceable. The case banks’ engagement can be termed as so-called soft-law and contrasts with traditional regulation. According to Shelton (2000), it fills a gap left by traditional law. Soft law can evolve into industry standards and create a “focal point” around which firms structure their behavior. As such, self-regulation may lead to stricter norms, rules and policies than usual, and may positively impact upon the firm’s reputation (Shelton, 2000). As the above discussion indicates, self-regulation may create stronger norms in the sector, but as argued by the CSR managers of the case banks some regulatory involvement is needed.

### **6.2.6 The impact of homogeneity**

Deephouse & Carter (2005) have argued that weaker reputation, as experienced in the financial sector nowadays, can be improved by isomorphism. DiMaggio & Powell (1983; 1991) also note that isomorphism is likely to lead to increased legitimacy. The case firms have implemented several similar CSR initiatives and guidelines, revealing a tendency of homogeneity in times of crisis. Imitation with regard to CSR initiatives can indeed be fruitful and in fact turn out to be profitable. Meyer & Rowan (1977) argue that the rationalized myths become a part of the formal organizational structure. In an institutional perspective one could

say that the banks are homogenizing at the level of the organizational field. A consequence of being institutionalized and homogeneous is that formal structure elements, such as for example core values become general or vague and similar to other actors within the field. A neo-institutionalist would argue that the level of engagement in CSR depends on the organizational field that the firm finds itself in. This would indicate that banks, for instance, adopt a certain level of CSR engagement that becomes the norm in the sector. In the banking sector today CSR engagement is increasing as a result of strong institutional pressure. Is it sufficient to follow only the norm and copying the CSR strategies of others?

Firms conforming to commonly used strategies, standards and practices may appear rational and prudent. Heightened expectations of public opinion and public policy however, arising from the financial crisis and cases of irresponsible behavior, is likely to demand more from banks. In that connection, imitating the image of the environment may no longer be sufficient to succeed. It is suggested that customers will punish the firm that is perceived as insincere (Simmons & Becker-Olsen, 2006). Hence, there is a need to move beyond conformity toward other proactive strategies (Suchman, 1995). Porter & Kramer (2006) and Fombrun's (1996) arguments can be fruitful in this regard as the researchers stress firms' need to differentiate. However, this requires that the initiative offered provides distinctive benefits, exceeding those of competitors. In the area of CSR, differentiation can be a crucial element in order to repair legitimacy and reputation, and simultaneously ensure competitive edge. Processes of isomorphism, which will be discussed in the following, might lead to the entire industry following the same practices and standards.

### **Coercive isomorphism**

Coercive and sector-specific involvements like the authorization plan in Norway will likely standardize the bank advisors' role. As the competencies of bank advisors have been questioned by the public, authorization may be an important step in repairing the legitimacy of banks. The same steps have not yet been taken by the Danish government, but new legislation aiming at tightening the rules for bank advisors and investment products are currently being developed (Børsen, 2010b).

The case banks' choice to engage in voluntary networks may also be imposed by powerful entities like the state, implying strong incentives to conform (Scott, 1995) and which involve processes of coercive isomorphism. Danish firms engaged in the Global Compact can, for

instance, choose to follow the guidelines of the standard when disclosing information about CSR practices, which are required by law.

### **Mimetic and normative isomorphism**

Firms have relational motives to engage in the CSR practices of their industry in order to be seen as legitimate by complying with industry norms and regulations, as well as instrumental motives to preempt bad publicity. Managers seeking legitimacy find it easiest simply to position their firm within a pre-existing regime. Firms gain cognitive legitimacy primarily by conforming to established models or standards. Suchman (1995) point out that firms operating in uncertain environments often pursue comprehensibility and taken-for-grantedness through mimetic isomorphism. Thus, firms are likely to engage in CSR to emulate their peers in order to preserve their legitimacy (Suchman, 1995). The key argument is that organizational practices change and become institutionalized because they are considered legitimate.

Knowledge is generated in many ways, and the success or failure of CSR projects is often a function of the manner in which the knowledge is obtained. One way for a bank to learn more about its responsibilities is through the activities of pressure groups. Another way to gain knowledge is by engaging in professional colleague networks. The learning aspect and development of CSR practices internally in the case banks is indeed a positive feature of these networks and represent processes of normative isomorphism. In Global Compact and UNEP-FI, Nordic networks have been established with the aim of sharing knowledge and ideas through workshops and seminars. The increasing number of members in the Compact is creating a lateral pressure toward CSR engagement in the organizational field. Røed (2010) argues that Global Compact is one of the most fruitful networks that DnB NOR engages in.

*[..] There are company networks sharing best practices, professionalizing the field of CSR, developing a common understanding that one cannot choose not to engage in any longer. We are engaged in UN's Global Compact, where we have a Nordic network. In the start it was only the biggest Norwegian firms like Telenor, Statoil and DnB NOR participating, but the number of members have increased and we have certainly learned a lot from this process, for example exchanging ideas and experiences on CSR reporting, communications, supply chain management etc. (Røed, DnB NOR)*

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This is also verified by Lope (2010) who argues that the network is highly useful for discussions and inspiration within the field of CSR. The presence of standards and models for explaining organizational activity can prove predictable, meaningful and inviting, but the absence of transparency could possibly undermine cognitive legitimacy. In order to promote

innovativeness and stimulate idea creation it is according to the CSR managers of the banks important to participate in these networks and follow the development within own industry and the CSR field. In 2007, it was argued by member firms that most CSR initiatives in the Nordic region referred to the Global Compact as an overall framework with regard to CSR (Global Compact Nordic Network, 2007). The report also claimed that a growing competition by CSR networks and learning forums was identified. Would it be rational to argue that the more networks a firm participate in and the more standards followed, the more socially responsible the firm is? By involving in multiple initiatives the banks can possibly reach a greater number of stakeholders. Firms that are not participating in UN-PRI, for instance, may not capture the customers who require a firm to follow principles for socially responsible investments. Participating in several seminars and workshops with industry peers as well as firms from other sectors is also likely to raise CSR knowledge in the firm. However, the less transparent picture presented to stakeholders is likely to enhance confusion rather than legitimacy and trust.

There is no doubt that engaging in company networks is seen as an important move by the case banks, as it is probably perceived as an authoritative source as well as a good window for the enhancement of corporate reputation. Banks are likely to engage in company networks if the perceived benefits exceed the associated costs. Benefits might include a better reputation and legitimacy and better market access, but also the possibility to gain crucial knowledge and inspiration from peers. The cooperation among banks may however lead to firms telling the same story, and that responsible moves taken are perceived as *business as usual*. The absence of differentiation is therefore not likely to enhance the reputation relative to competitors, and therefore the competitive edge of a firm is not strengthened. It may however raise the standing of the sector as a whole. Løpe (2010) argues that it is fruitful to engage in company networks, but she acknowledges that the value of them varies a great deal:

*There are many networks and the value of them varies a great deal. The more sector specific topics the better I would say. Therefore, we have chosen to only participate in a handful of networks that we feel are particularly useful to us. (Løpe, Danske Bank)*

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Røed (2010) also acknowledges UNEP Finance Initiative, a highly finance-specific network strongly focused on Socially Responsible Investments. She further notes that the network has been extremely important for their development within the field of CSR. In addition to the above mentioned company networks DnB NOR also engages in the World Bank's practices on environment and social practices on project financing as well as the World Business

Council for sustainable development, which is providing participants with best practice notes and standards within the field of CSR (Røed, 2010). The expertise that the banks gain by participating in these networks may in turn enable them to better advise clients and control risks. However, it is certainly also an important arena for building social capital and networking.

These coalitions are crucially important, according to Røed (2010), because “if a firm like DnB NOR should start from scratch within all these fields it would be a cumbersome process.” She further notes that “[engaging in company networks] is a deliberate choice, as we investigate what the other big players in the market are doing when we develop new tools, and harvest others’ expertise.” This certainly follows what Aguilera et al. (2007) term as relational motives, meaning that the firm participates in business networks in order to enhance effectiveness and learn by the actions of others. The normative isomorphism that has been identified in this empirical analysis is likely to be one of the main reasons behind the homogeneous CSR practices of banks.

*[..] I certainly experience similarities in the sector. I think it may have something to do with the field being more professionalized and subsequently we learn from each other. The finance sector is not much differentiated when it comes to products and services. Therefore it is maybe natural that the CSR initiatives taken are similar as well. The differences will be much more evident if you move to other institutional contexts.  
(Røed, DnB NOR)*

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Røed (2010) claims that standardized products and services with minimal differences are one of the main reasons behind the similar CSR initiatives found in the financial sector. However, the results would most likely appear different if case firms were compared to players outside of the region, especially those outside of EU. Henrik Normann (2010) follows up on the issue stating that “since Danske Bank experiences the same challenges as other financial institutions in Scandinavia it is not surprising that the same CSR programs are being implemented”. Lope (2010) also acknowledges the similarities among banks with regard to CSR initiatives. However, she notes that there are differences in maturity level and focus depending on size and market presence. For instance, it is expected that large and visible players like Danske Bank and DnB NOR show a stronger CSR engagement than small and medium sized banks. As the empirical analysis indicates, the case banks show certain similarities in terms of CSR initiatives, but are still implementing some different strategies distinguishing the banks. If the trend toward homogeneity continues there is a threat that CSR initiatives will be termed *business as usual* and appear less sincere.



## **7. Concluding remarks**

### **7.1 Conclusion**

The purpose of this research has been to examine how banks use CSR in dealing with organizational crises, and how CSR can be useful in efforts to repair their legitimacy and reputation. The case firms Danske Bank and DnB NOR have experienced weakened reputation and legitimacy due to organizational crises. The financial crisis has been a strong contributor in that connection, but cases of irresponsible banking have also weakened their positions.

Public policies and public opinion have formed the set of key stakeholders in this thesis. In order to answer the research question it has been necessary to examine how the pressures from these are perceived by the case banks. The banks do not operate in a vacuum, but are embedded in national and industry institutional settings that enable their strategic decisions. Responding to an organizational crisis and changes in the external environment is a critical aspect of successful strategic management. Even though crisis is often characterized as a creator of bad influence on a firm, this thesis has shown that there certainly are opportunities involved as well. Findings from the case interviews indicate that expectations from public policy and public opinion with regard to CSR are increasing. This pressure is certainly decreasing the freedom of banks, but simultaneously the pressure groups are pushing the CSR agenda forward in a sector that has been lagging behind in CSR for decades.

Researchers indicate that neglecting CSR commitments is the most likely consequence of organizational crises and weakened financial performance of firms. The results of my research however, indicate an even stronger focus on CSR in the case banks, and especially so as a strategic tool to repair legitimacy and reputation. Both banks have maintained their CSR commitments as well as their overall strategies in these challenging times.

There are certain similarities found between the two cases with regard to CSR practices. Firstly, it has been part of their corporate agenda for several years now and the concept has not been implemented in the firms as a result of organizational crises. Nevertheless, as the banking sector has experienced slumping reputation and some firms have been viewed as illegitimate, both case banks have taken concrete steps within CSR in order to repair their weakened positions in the market. An example where the case banks have applied CSR is

through their implementation and continuous development of Financial Literacy programs. These are likely to raise moral legitimacy as the banks use their core competencies to create shared value. However, their hidden agenda and focus on youngsters may seem too extreme and can create negative attention. Another strategic move taken by both firms, though slightly different in scope, is their modification of incentive structures with the aim of mitigating agency problems, appearing more transparent and less greedy. Modifying incentive systems can be viewed as *the right thing to do*, but if old practices are re-implemented as soon as the market has cooled down it is likely to backfire on the banks. In order to repair pragmatic legitimacy following irresponsible behavior the banks need to convince the market that they no longer have an incentive to act unethical.

The CSR managers of the case firms find that a common framework within CSR would be highly useful in order to solve industry challenges. The two banks engage heavily in CSR networks like UN's Global Compact, the Equator Principles and UNEP-FI among others, seeking inspiration and heightened knowledge through meetings, seminars and workshops. The effect of isomorphism on repairing legitimacy and reputation in the sector can be multiple: Cooperating on initiatives and imitating competitors can certainly create synergies and improve the efficiency of banks. If all banks should work individually on CSR issues, it would be a cumbersome and costly process. The increased expertise that firms gain by joining business coalitions may enable them to better advise clients and control risks. However, the large number of standards that banks engage in could make it hard for stakeholders to assess and compare their actions. A lack of transparency, which is a crucial factor in stakeholders' assessment of banks, could undermine the process of repairing legitimacy.

Furthermore, a consequence of being institutionalized and homogeneous is that formal structure elements, such as core values become general or vague and similar to other actors within the field. Differentiating CSR initiatives may be necessary for the individual banks to surpass the reputation of the sector as a whole and thereby strengthen the firm's competitive position. If the trend toward homogeneity continues, CSR initiatives implemented by the case firms may be termed *business as usual* and the public may question the degree of sincerity and true accountability of banks' CSR initiatives.

## **7.2 Limitations**

The qualitative research method employed in this thesis is not designed to give a fixed conclusion. Instead, my findings make the conclusion more advisory than absolute. The limitations of this thesis were dealt with in the methodology section. This part of the thesis aims at summarizing the main points.

As earlier noted, there are a huge number of stakeholders linked to the activities of banks. This thesis has concentrated on public policy and public opinion. This has been necessary in order to limit the scope of the thesis, but it may fail to give a comprehensive picture of the external and internal pressures that banks experience.

The secondary sources applied in this thesis can potentially weaken the credibility of the findings as the specific purpose might differ from the purpose of the research project at hand. Furthermore, focusing on the CSR actions of two banks makes it hard to generalize on behalf of the findings. I have incorporated cases from other institutional settings in order to build a stronger argument, but a quantitative study of a representative number of banks would be necessary in order to create new theories. Lastly, concentrating on the views of the CSR practitioners in the case banks may fail to give the holistic view of the organizations. The findings could appear different if executives from other departments or other employees from the operative level had been interviewed.

## **7.3 Putting the paper into perspective**

Banks have experienced a crisis of responsibility, or the lack thereof. Legitimacy and reputation will only be repaired by the re-establishment of trust between firms, especially those in the financial sector, and with their stakeholders. To move away from the bad reputation of greediness and fraud, banks need to continue their work on strategic CSR. Some may use it as window-dressing initiatives, but in order for it to create credibility and trust it has to be aligned with the firm's strategy and business practice. The financial crisis and cases of irresponsible banking may be the beginning of an ethical era, with an enhanced focus on CSR.

In terms of future research, it could be fruitful to interview with banks operating in different institutional environments to assess the differences and similarities in stakeholder pressure,

the degree of isomorphism, how banks use CSR in dealing with organizational crises, and ultimately how CSR can be useful in efforts to repair legitimacy and reputation. Differences between large and small banks could also be investigated as well as firms facing varying levels of legitimacy and reputation threat.

Another area that could be worth examining is how homogeneous CSR initiatives in the banking sector are viewed by customers and other stakeholders. Whether the heightened expectations from stakeholders demand banks to implement unique approaches, or if copying the mainstream is sufficient, could be interesting to assess in connection with legitimacy and reputation. The CSR developments in the coming years will also be interesting to follow, as new regulations are likely to change practices in the banking sector. Whether the sector intends to continue their development of CSR in the future, or if they will return to old practices as soon as the market cools down, could also be a relevant topic for future research.

A relevant case nowadays in terms of legitimacy and reputational damage, yet in a different sector, is BP's recent oil spill in the Mexican Gulf. As oil firms to a lesser extent than banks trade directly with consumers, the cases are less comparable. Nevertheless it could be interesting to examine how CSR can be useful in counteracting the organizational crisis that BP is experiencing nowadays.

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## 9. Appendix

### Interview guide

1. What kind of institutional challenges (formal and informal) with regard to CSR do you find in the Norwegian / Danish context?
2. What do you find to be particularly challenging about CSR in the banking sector?
3. How has the financial crisis and accusations of irresponsible banking affected the FIRM's CSR commitments?
4. What is the FIRM's rationale for using the term CR/CSR? Inspired by other firms?
5. Have the CSR strategy of the FIRM changed as a result of organizational crises? How?
6. How would you describe the FIRM's reputation and legitimacy before the financial crisis? How would you describe the reputation and legitimacy today?
7. Which factors influence the reputation and legitimacy of the bank?
8. Has the FIRM made any strategic moves in response to organizational crises, and the weakened legitimacy and reputation?
9. What do you think the banking sector, and the FIRM in particular, can do in order to repair legitimacy and reputation?
10. How does the bank assure that the advisors and the management are being monitored adequately, so that agency problems are minimized?
11. What kind of company networks / professional colleague networks does the FIRM engage in?
12. How useful do you find these networks?



13. In which specific areas within CSR do you get useful knowledge from participating in the networks?

14. Do you experience homogeneity in the Scandinavian banking sector?

15. How can isomorphism affect the pursuit toward repairing reputation and legitimacy?

16. Do you think the ownership structure in the FIRM has an impact on CSR strategies and initiatives?