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Incorporating Corporate Social Responsibility Criteria into the Barclays Bank Lending Appraisal Process

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Abstract

In response to growing corporate power, corporate social responsibility (CSR) is increasing public demand that businesses should demonstrate greater responsibility for managing their impact on society beyond simply paying taxes and complying with regulations. Critical to this debate are commercial banks, which through the action of lending, play a pivotal role in society as financial intermediaries, and therefore, it is argued have an extraordinary potential to further sustainability.

The thesis, a case study, examines the feasibility for incorporating CSR criteria as part of the lending appraisal process at Barclays Bank. To begin, the thesis examines the literature on CSR and assesses the theory, application and reliability of this new and growing financial risk factor. For the methodology, the study adopts a process of engagement with a pre-selected group of Barclay's stakeholders to evaluate the issues key to the debate. Supporting this process of stakeholder engagement, a wider secondary stakeholder group was surveyed to assess the validity of Barclays' stakeholder responses. To assist the research, an analytical framework of the CSR appraisal process was constructed.

The results show correlation between the two stakeholder groups, illustrating not only the objectivity of the stakeholders put forward by Barclays but also the degree of commonality on societal and ethical issues amongst representatives from various organisations. The findings further illustrate that banks are being driven to adopt CSR by a combination of risk factors.

Finally, the study puts forward recommendations on facilitating CSR for the lending appraisal process. It draws upon new framework guidelines for CSR and existing environmental credit risk polices and procedures, but in addition, presents new arguments that reflect the opinions of the stakeholder process.

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Abbreviations

SEE	Social, Economic and Environmental
CSR	Corporate Social Responsibility
ECRA	Environmental Credit Risk Assessment
KPI	Key Performance Indicator
GRI	Global Reporting Initiative
OECD	Organisation for Economic Co-Operation and Development
EA	Environmental Assessment
IFC	International Finance Corporation

Chapter One: Introduction

1.1 Context

Described as 'businesses' contribution to sustainable development' (COM, 2002), the term Corporate Social Responsibility (CSR) has been widely adopted amongst the business sector to address the social, environmental and economic impacts of their operations. Divisions exist over the effectiveness of CSR as a tool for tackling the social inequalities that exist globally. Indeed, there is no single, commonly accepted definition of CSR. Companies are increasingly placing greater emphasis on demonstrating their role as responsible corporate citizens and have taken steps to illustrate their acceptance and understanding of the importance of adopting a social, ethical and environmentally responsible approach to business activity (www.bitc.org.uk). Commitment to the principles of CSR has won support from major corporations, organisations and political powers within the UK and abroad (see appendix 1).

Acknowledging the wider responsibilities for the consequences of their actions or inactions, many companies accept that they are responsible and accountable to a wide range of stakeholders – any individual, group or organisation with an interest in the actions/behaviour of a business. Historically shareholders were considered the only stakeholders of importance (Friedman, 1962). This observation has been redressed in recent years with corporations increasingly having to consider the opinions of a wider stakeholder group, who may have significantly differing perceptions on what vision and values the company should espouse. Today, stakeholders may include business partners, employees, board directors, governments, customers, competitors, NGOs and the general public, etc – not just shareholders.

The realisation that business has a fundamental role to play in safeguarding the environment has pushed financial institutions, particularly banks, to the forefront of this corporate challenge. Acting as both a bridge and a shield, banks play a pivotal role in society as financial intermediaries, between borrowers and savers, and therefore have extraordinary potential to further sustainability. Transforming capital in terms of duration, scale, spatial location and risk, banks can influence the pace and direction of economic growth both quantitatively and qualitatively (Bouma *et al*, 2001).

Banks began cutting their teeth on environmental sustainability issues over a decade ago. Many western banks, where tax incentives/penalties are in place to encourage higher environmental standards and their stakeholders are more environmentally aware, have taken steps to mitigate the negative impacts that their lending processes can have on the environment through the actions of their borrowers. Speaking in Melbourne at the 2001 Environment Credit Risk Seminar, (a United Nations Environment Program initiative), representatives from Britain's Barclays and Lloyds TSB banks joked that between them, they were responsible for the building of more protective walls around chemical storage sites in Britain than anyone else in the country, including the government and green lobby groups (Rouw, 2001).

Whilst reluctant to take on the mantle of environmental policemen, banks have adopted a partnership approach with business and other stakeholder groups, which has contributed significantly in helping to raise environmental standards whilst mitigating against credit risk. With developed environmental credit risk assessment (ECRA) policies increasingly commonplace amongst the financial services sector, there is mounting pressure from stakeholders for banks to widen their appraisal process and consider their social responsibilities. While some banks have begun to discuss this issue, their remains a considerable lack of knowledge and direction for its practical implementation across the banking sector.

Dr Andrea Coulson's 2002 report for ISIS Asset Management, which benchmarked ECRA practices of ten Pan-European banks, identifies social responsibilities as a future research consideration for the banking sector. "This study opens the way for further study beyond the relatively narrow range of environmental issues that were addressed here. ISIS expects to focus on certain areas related to social and human rights factors, as shareholders, customers and borrowers increasingly become aware of the implications of sustainable finance."

1.2 Problem Statement

Globalisation has become a double-edged sword for financial institutions and corporations in general. While on the one hand it offers unprecedented market expansion, it also increases the opportunity for mistakes that can prove financially costly, (a direct risk), and also damage ones reputation, (an indirect risk). Banks are increasingly aware that risk to their reputation from an association with a 'dirty borrower' can harm brand value, employee morale, ability to recruit, and in some cases, to write business. On the other hand, a bank is also aware that if it adopts unrealistically high environmental criteria, in isolation of its competitors the market and the regulators, it damages its ability to win business and act as a facilitator of change (Coulson, 2002). Therefore, the consideration of CSR criteria as part of the lending appraisal process at commercial banks, poses many socio-economic and environmentally related challenges.

Social values by their very nature are not static. They are a moving target for financial institutions and other businesses hoping to keep pace. They constantly fluctuate, change and evolve over time and across different geographical and demographic locations (Scheiwiller & Proske, 2001). Indeed, the concept of sustainable banking has yet to manifest itself within the broad banking sector, and some argue that it is only feasible for niche players such as Triodos Bank (in the Netherlands), or the Co-operative Bank - banks who have developed codes of conduct pertaining to environmental, social and ethical criteria. (Bouma *et al,* 2001).

The inherent difficulty in defining social responsibilities may indicate why major commercial lending banks have yet to formalise any policy/mission regarding social responsibilities and lending. There is concern that by publishing a formal document on CSR, which relates to the lending appraisal process, banks open themselves up to critical investigation from organised pressure groups that exert considerable power in their own right. Comparison of the declaratory policy with implementation may inadvertently prove damaging to the company's reputation.

There is therefore a need to develop a programme of research which engages with stakeholders from the banking sector, assess their expectations of social responsibility and identifies any barriers that must be overcome to ensure these opinions translate into a deliverable and practical framework, which can be implemented and which ensures a 'licence to operate'.

The potential benefits of social responsibility indicators as part of the lending appraisal process of commercial banks have yet to be examined in any great depth. While generic guidance exists on CSR for the financial services sector, it fails to provide practical implementation strategies for banks and address the issue of social responsibilities and lending in significant detail. According to Holme and Watts, (2000), companies must find their own approach to CSR, one which specifically reflects the social and ethical values of their stakeholders. There can be no 'one-size-fits-all' approach.

1.3 Conceptual and methodological framework of CSR research

Using Barclays Bank as a case study, this research sets out to explore questions related to the development of a CSR framework at Barclays Bank for the evaluation of societal indicators in the lending appraisal process. This will help Barclays to incorporate CSR risk issues into the broader lending appraisal process.

The objectives of the study are to:

1. Identify the drivers urging the commercial banking sector to consider CSR.

2. Determine the societal & ethical criteria expected of commercial banks by their stakeholders.

3. Determine CSR best practices and consider the suitability of external framework standards for guidance.

4. Determine mechanisms that may facilitate the commercial consideration of CSR criteria throughout the appraisal process.

5. Determine methods for measuring the social responsibilities of lending.

Conducting an analytical study of stakeholder responses to social and ethical responsibilities, the research will also examine the literature on CSR, corporate materials, industry guideline frameworks and relevant secondary sources in order to begin the consideration of a practical framework for the implementation of CSR criteria within the lending appraisal process. Whilst fundamentally, the thesis is a case study of Barclays Bank, it is anticipated that the information gathered from this research may extend to the operations of other major commercial banks considering CSR as part of its lending appraisal process. To support this view, stakeholders from the wider banking community will also be involved in the analysis program.

1.4 Thesis Outline

The remainder of this thesis comprises several chapters relating to the findings and conclusion of the study. Chapter two, the literature review, examines the historical context of CSR and charts the forces driving CSR across the mainstream business agenda. The review will also look at both the nature and benefits of CSR as an effective management tool to tackle the inequalities of society; it will also provide a balanced account from relevant sources, both for and against its use. The review then goes on to examine current CSR practices amongst commercial banks, focussing on Barclays Bank in particular. Finally, it examines current framework guidelines relating to CSR and the financial services sector.

Chapter three, the methodology, describes the research process that provides analyses for chapters four, the results and chapter five, the discussion.

Chapter six presents conclusions and recommendations for further work. These recommendations are extensive and illustrate the relative immaturity of the subject area, which requires continued study.

Chapter Two: Literature Review

This chapter focuses on the business case for the consideration of CSR performance criteria as part of the lending appraisal process at Barclays Bank. To begin, the review examines what is known about the relatively subjective and contentious topic of corporate social responsibility (CSR). The popularity of the Stakeholder Theory as a component within CSR and the factors driving this new dimension of corporate thinking are discussed. The review then examines the perceived importance of banks in facilitating the development of CSR, and current bank practices and guidance relating to CSR, specifically the indirect actions of the lending appraisal process. Finally, an assessment of recent guideline frameworks on CSR for the financial services sector is included.

2.1 Corporate Social Responsibility

A variety of terms are commonly used – sometimes interchangeably – to discuss CSR: business ethics, corporate citizenship, corporate accountability, sustainability, (BSR, 2003). According to Votaw & Sethi, 1973, it means something, but not always the same thing to everybody.

> *"To some it conveys the idea of legal responsibility or liability; to others it means socially responsible behaviour in an ethical sense; to still others the meaning transmitted is that of "responsible for," in a casual mode; many simply equate it with "charitable contributions"; some take it to mean socially "conscious" or "aware"; many of those who embrace it most fervently see it as a mere synonym for "legitimacy" in the context of "belonging" or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large. Even the antonyms, socially "irresponsible" and non-responsible," are subject to multiple interpretations."*

While no commonly accepted definition of CSR exists, it generally refers to business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment (BSR, 2003). "CSR is all about competing beyond technology, quality, service and price – all areas where competitive advantage is fleeting" (Marsteller, 2000). The World Business Council for Sustainable Development offers a definition of CSR, which states, "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." Further definitions of CSR are found in appendix two.

2.1.1 Why Do It?

Whether or not business should undertake CSR and the forms that responsibility should take often depends upon the economic perspective of the firm that is adopted. While few companies engage in CSR out of pure altruism, the so-called business case for sustainability lies in the potential financial benefit resulting from improved corporate image and cost savings (Schaltegger and Burritt, 2000). Other bottom line benefits cited by companies engaging in CSR include increased sales and customer loyalty, increased productivity, increased ability to attract and retain employees, reduced regulatory oversight, and access to capital (BSR, 2003; www.SustainAbility.co.uk, 2003).

Supporters of the neo-classical view of the firm believe that the only social responsibilities to be adopted by business are the provision of employment and regulatory compliance (Moir, 2003). This view is most famously reflected by the Nobel Prize winning economist, Milton Friedman (1962), an uncompromising advocate of laissez-faire capitalism, "Few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can."

Forty years on, Friedman's argument still enjoys strong support. The British Academic Economist and former Head of the Economics and Statistics Department at OECD, (Organisation for Economic Co-operation and Development), David Henderson, quotes Friedman to explain the rationale of the market economy and argues that "many advocates of CSR show a lack of understanding of the rationale of a market economy and the role of profits within it". In *Misguided Virtue: False Notions of Corporate Social Responsibility*, Henderson states that CSR is just a fad which is intellectually wrong and ultimately bad for business and the planet (Henderson 2001).

Holiday et al, (2002), dispute Henderson's claims, concluding that they are reliant on out-dated theories of how capitalism works and fails to consider the modern market issues of globalisation, deregulation, privatisation and a virtually instant and extreme corporate transparency. Moreover, Holiday et al, continue to explain why Henderson's failure to understand how being better at CSR than one's competitors is going to become more and more advantageous as time advances and society's expectations of business change. This they argue appears to be the single misunderstanding on which most other assumptions are based (Holiday et al, 2002).

In *Just Business: Business Ethics in Action*, Elaine Sternberg rebuts trendy but ethical demands for social responsibility in business. According to Sternberg "businesses' correct ethical concern is just business – nothing but business, but business which is just." Contra

Milton Friedman, Sternberg argues that business organisations which seek anything but long-term owner value are guilty of not socialism but of theft (Sternberg, 1994).

An advocate of business ethics, Sternberg argues the validity of an ethical approach to business, stating that ordinary decency, honesty and fairness should be expected of any corporation. More recently, Sternberg has argued that the stakeholder approach to management deprives shareholders of their property rights. But since shareholders often only fleetingly own a capital interest in an organisation, the responsibility for business, it is argued, can only fall to the management - the 'controlling mind' of the company, to manage the business in a responsible way (Mallenbaker, 2001)

Sternberg, like Henderson, fails to consider the modern phenomenon facing modern business and CSR's capacity to function as an effective management tool that has the ability to provide a company with a competitive advantage. Schwartz & Gibb, (1999), makes the point that business ethics was essentially driven by nationally based legal and regulatory systems whereas CSR begins to address the modern globalisation of business corporations.

Supporting the argument against the increasingly popular stakeholder approach to business, Coelho et al, 2003, describe CSR as "inherently vague and ambiguous, both in theory and in practice" and argue over its destructive potential to wither the bedrock of capitalism. Proponents of the fiduciary obligations owed to shareholders, Coelho et al support Friedman's position that "...there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud." The authors argue that the shareholder theory, which they refer to as the 'Friedman Paradigm', represents the only intellectually and ethically meritorious model for assessing corporate social responsibility.

In response to the argument laid down by Coelho et al, Fredrick Post from the University of Toledo (2003) argues that the report is outdated and relies upon factual and legal inaccuracies and fictions when evaluated in the context of the modern era. Post challenges the authors' assertion that the competing Stakeholder Theory is unworkable, arguing that the authors have misunderstood and misinterpreted the theory. Post concludes "refinements and clarifications about who qualifies as a stakeholder makes the theory both workable and a very useful way to improve corporate governance."

But while conjecture over CSR continues, there is an increasing focus by firms to consider their wider social, environmental and economic (SEE) responsibilities and contribute to the challenges of sustainable development. A scan of the new FTSE4Good index and the Dow Jones Sustainability Index, which count GlaxoSmithKline, AstraZeneca, Shell and BP as members, underlines CSR success in penetrating a variety of industry sectors. Indeed, Greenpeace regards oil giants Shell and BP as relative 'progressives' to CSR. Even the unlikeliest of organisations are engaging in CSR, producing reports on the social impacts of their activities – British American Tobacco published the tobacco industry's first social report in July 2002.

Supporting the action taken by many companies there is a growing body of research that supports the business case for a CSR approach to business. The research report, *Investing in Social Responsibility – risks and opportunities*, published by the Association of British Insurers (ABI), argues that CSR is itself a response to market pressures. It recognises that CSR is an approach to reducing risks and opening opportunities, which ultimately enhances shareholder value (ABI, 2001).

Despite the subjectivity of CSR, the business case for CSR is strengthening. Spurred on by modern market issues and the growing popularity of the stakeholder approach, more and more companies are demonstrating and reporting on CSR. This trend bodes well for banks; any assessment of a potential borrower will undoubtedly begin with a focus on evidence of social and environmental policies, procedures and reports.

2.2 Stakeholder Theory

The popularity of the stakeholder theory is widely attributed to the work of R. Edward Freeman who described the firm as a series of connections of stakeholders that the managers of the firm must attempt to manage. Freeman's classic definition of a stakeholder is "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman, 1984). Figure 1 depicts the stakeholders in a typical large corporation.

Freeman's notion of stakeholder is built around the Principle of Corporate Rights (PCR) – 'the corporation and its managers may not violate the legitimate rights of others to determine their own future' - and the Principle of Corporate Effects (PCE) – 'the corporation and its managers are responsible for the effects of their actions on others' (Freeman, 1984). More recently, Freeman has refined the theory to incorporate Kantian Deontology, which produced Kantian capitalism (Evan and Freeman, 1993)

Under Kant's principle of respect for (all) persons as ends in themselves, Freeman perceives the corporation serving at the pleasure of its stakeholders and none may be sacrificed as a means to the ends of another without participatory rights (Evan and Freeman, 1993). The stakeholder theory does not advocate primacy to one stakeholder group over another, although, Freeman recognises that there will be times when one group will benefit at the expense of others (Freeman, 1984).

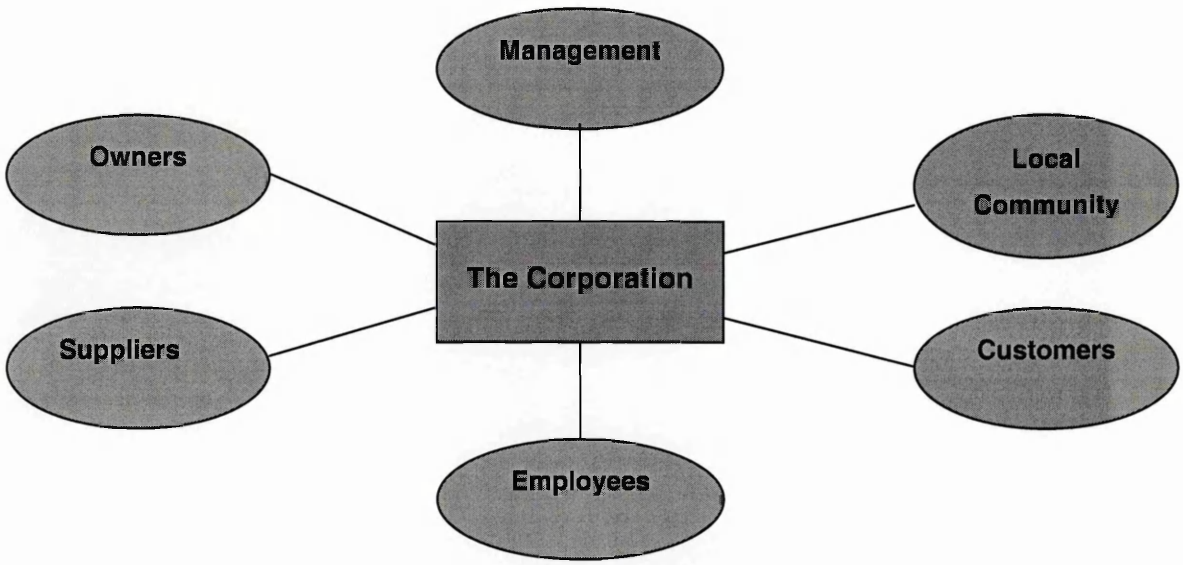


Figure 1: A stakeholder model of the corporation (Freeman, 1984)

Acting as a fiduciary to the stakeholder forum, management, in its capacity as operator of the corporate entity, should consider the interests of all stakeholders. The recent corporate collapses of Enron and WorldCom are examples where management focussed too heavily on their own interests. The result of this disregard for the interests of other stakeholders saw the loss of thousands of jobs, ruined executive careers and the decimation of thousands of retirement plans (Post, 2003)

In addition to Kant's dictum of respect for persons, Freeman puts forward two further principles to crystallise the particular applications of PCR and PCE to the stakeholder theory. These two stakeholder management principles are designed to focus and prioritise the decision making process.

P1 – The Principle of Corporate Legitimacy:

"The corporation should be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees and local communities. The rights of these groups must be ensured, and, further the groups must participate, in some sense, in decisions that substantially affect their welfare."

P2 – The Stakeholder Fiduciary Principle:

"Management bears a fiduciary relationship to its stakeholders and to the corporation as an abstract entity. It must act in the interests of the stakeholders as their agent, and it must act in the interests of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group."

P1 is considered the 'starting point' for guiding corporate decisions. According to Evan and Freeman (1993), groups with a stake in the success of the corporation are entitled to rights because there is a social contract required to justify the existence of the corporate form. The authors also argue that the stakeholder fiduciary principle (P2) requires management to recognize claims by groups other than the shareholders. The principle recognises the role of management to facilitate the long-term best interests of the corporation, above and beyond the interests of any one group or groups.

The stakeholder theory is also challenged over who actually qualifies as a stakeholder. Jennings, (1998), citing Singer (1983), Starik (1995) and Stone (1972), who include amongst their expansive view of stakeholders, dogs, slaves and a cluster of deciduous trees respectively, criticises the theory on the grounds of 'sloppy imprecision'.

This argument is unjustified; Freeman and Reed (1983) distinguish two senses of stakeholder. The 'narrow definition' includes those groups who are vital to the survival and success of the corporation. The 'wide definition' includes any group or individual who can affect or is affected by the corporation. Similarly, Clarkson, (1995), defines a primary stakeholder as "one without whose continuing participation the corporation cannot survive as a going concern" – with the primary group including "shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations mat be due." Clarkson goes on to define a secondary group as "those who influence or affect, or are influenced or affected by the corporation, but are not engaged in transactions with the corporation and are not essential for its survival." Kaler's (2002), "claimant definition" of a stakeholder" requires that "stakeholders in a business have to be people with a role specific, strong or weak, morally legitimate claim to have their interests served by business." Kaler argues that this definition significantly collapses the potential group of stakeholders envisioned by some scholars down to a small identifiable group.

2.2.1 Commercial Approaches to Stakeholder Analysis

By far the greater numbers of commentators that propose active CSR do this by means of stakeholder analysis (e.g. Holiday et al, 2002; Fredrick, Post and Davis, 1992; Carroll, 1996). This is also true for approaches within the corporate sector (e.g. Business impact, 2000). Volkswagen (2000) is just one example of a major blue chip company whose definition of CSR re-enforces the concept of stakeholder analysis.

Indeed, it is no coincidence, that many companies putting CSR on the map are those who have been targeted by stakeholder groups in anti-capitalist riots and media campaigns in the past. One only has to look at the barrage of negative publicity that Shell received over its controversial plan to dump the Brent Spar oil platform at the bottom of the North Sea in 1995. In the same year Shell were also accused of supporting a tyrannical regime in Nigeria to protect its business interests.

All industry sectors now live in fear of being fingered as guilty of irresponsible corporate practices. Nike received negative publicity after its NoLogo campaign and the Seattle riots, which led to World Trade Organisation talks being abandoned. Successful action was brought against Morgan Stanley by NGO's and 'shareholder activism' from socially responsible Investment fund managers who questioned the Three Gorges Project in China. The Swiss giant Nestlé has struggled to repair its reputation after aggressively marketing formula milk to women in third world countries. More recently, Nestlé has again risked its reputation by demanding $6 million from the Ethiopian Government despite the country's famine crisis.

While many companies react to CSR demands, some companies have already gained a competitive advantage by building brands that embrace and encourage core values that have a citizen component (Willmott, 2001). The most famous examples are The Body Shop, The Co-Operative Bank, Ben & Jerry's and Benetton.

While many modern examples of CSR re-enforce the concept of stakeholder analysis, historically, businesses perceived role in society has been very different and subject to change over time.

The importance of the stakeholder approach is widely recognised amongst companies engaging in CSR and is supported by various literary sources. Any decision to consider CSR criteria for the lending appraisal process would benefit from input from a range of key stakeholders who, increasingly, are recognised to have an impact on the success of the company.

2.3 CSR – A Historical Context

Business has always operated in a social structure, which is as much ethical as it is legal, political or economic, (Chryssides & Kaler, 1995). But while businesses behave with some degree of moral fortitude - they have to if commercial relations between businesses are to succeed, otherwise relations between organisations would be too uncertain to be worth the risk - the perception of business' role in society has changed over time (Chryssides & Kaler, 1995). For example, it was once accepted that business would wage war on behalf of the nation in the manner of Drake and Hawkins. Indeed, the activity of entrepreneurs like Raffles, and companies like the East India Company in the conquest of empire or its administration was considered acceptable but is rejected today (Cannon, 1994).

During the 19th century and before, early models of social responsibility adopted by business were focussed on a simple equation of profitability plus compliance plus philanthropy. Corporation owners and leaders participated in the development of societal standards and helped to finance the construction of houses, schools, libraries, museums and universities.

While generous, there was little that was utopian and even less that was socialist in these donations. North American philanthropists Henry Ford, John D. Rockefeller and James Buchanan Duke were ruthless in their commercial activities in pursuit of maximising profits. John D. Rockefeller, one of the most notorious US 'robber barons' and once described as 'the supreme villain of his age', had no apparent difficulty reconciling active membership of the Baptist church with a ruthless determination to build the most powerful Trust in North America – Standard Oil. Similarly, Ford was willing to use armed force to break strikes (Cannon, 1994).

For families such as the Whitbread's and the Truman's in brewing, the Lloyds and Darby's in iron making and merchanting, the Barclays and the Lloyds in banking, the Cadburys and Rowntrees in confectionary, the Pilkington's in glass making and many of the cotton families and tobacco families such as Wills and Players, who were members of a Victorian 'outgroup', persecuted because of their Nonconformist religious beliefs, entrepreneurship granted social mobility and the opportunity to promote their religious belief. The importance of the community and the responsibilities associated with wealth and success were greatly emphasised (Cannon, 1994).

According to Schwartz & Gibb, (1999), the signing of the Universal Declaration of Human Rights in 1948, marked one of the first significant influences on the concept of social responsibility, in relation to globalisation. Created by members of the United Nations, the Declaration established for the first time a measure of international consensus on the core rights of citizens and stated that protection of human rights was the responsibility of all societal institutions, not just governments.

The need for companies to undertake activities that are deemed socially responsible has been a topic of academic study for decades (Heald, 1957, cited in Ullmann, 1985). Indeed, Merrick Dodd first argued the expanded view of social responsibility in 1932, which considered that the powers of corporate management are held in trust for the entire community (Boatright, 1994). But while corporate responsibility has been the subject of academic discussion, it is argued that much of the early literature on the subject focussed on a simplified view of the role of business in society. In *Good Business*, Carmichael and Drummond, 1989, imply that the aim of good business is to make 'you feel good about yourself'.

In *Corporate Responsibility,* Cannon (1994) advances the study of CSR and examines the nature of the relationship between business, society and government from a post war perspective. Identifying that the primary role of business is to produce goods and services that society wants and needs, he refers to inter-dependence between business and society in the need for a stable environment with an educated workforce. Canon quotes Lord Sieff, the former chairman of British retailer, Marks and Spencer PLC: "Business only contributes fully to a society if it is efficient, profitable and socially responsible". Similarly, Wood (1991) remarks, "the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities".

Fredrick, 1994, identifies the development in understanding of CSR up to 1970 as an examination of 'corporations' obligations to work for social betterment. However, around 1970 he notes a move to 'corporate social responsiveness', which he defines as 'the capacity of a corporation to respond to social pressures'. This development in CSR marks a move from a philosophical approach to one that focuses on managerial action, that is to say, will a firm respond and how (Moir, 2001). Latterly, Fredrick expanded this analysis to include a more ethical base to managerial decision-making taking in the form of corporate social rectitude (Fredrick, 1994).

Indeed, the post war period marks a significant development in the consideration of the wider social aspects of how businesses operate. The concept mobilised into a collective force during the 1950s with the development of consumer power as a force to influence the behaviour of corporations. By the 1970s single-issue pressure groups were created in response to concerns over the environment. Coinciding with this period, and later into the so-called 'Me Decade' of the 1980s, the issues of corporate reputation, issues management and community relations became ever more visible amongst businesses. In addition, shareholder activism in the 1980s and market globalisation in the 1990s, contributed in forcing corporations to consider social investment more closely with business strategy. The 90s also marked a radical rethink of the respective roles of business and the state in society (Holiday *et al*, 2002).

2.4 CSR – A Modern Context

Having identified the growing importance of stakeholder analysis as a component within CSR and its historical context, it is necessary to identify the forces that have created this new dimension of corporate thinking. Sections 2.4.1 – 2.4.5 provide an overview of the significant forces influencing corporate behaviour in relation to CSR.

2.4.1 Globalisation

The modern resurgence in social responsibility issues amongst organisations has occurred primarily in response to globalisation. While economic international exchange has been taking place for thousands of years, what is new about the current phase of market globalisation is the speed and scale at which it is taking place. Fuelled by innovations in transportation and communication technologies, the market dimension of globalisation has been radically altered. As television and the Internet provide instantaneous access to a continuous stream of information, companies are increasingly being scrutinised and held accountable for their actions. Business opponents are better informed and organised, while consumers and customers are better educated and are prepared to exert their rights and potential power to influence corporate behaviour (Schwartz & Gibb, 1999).

According to Gladwin, (1998), globalisation in its widest sense refers to the rapid acceleration in the global exchange of goods, services, ideas, technology, values, culture, people, microbes, weapons, information and capital. It implies a rising level of broad based interdependence among nations in the three areas of sustainable development: social, economic and environmental.

The 1990 Tallberg conference on globalisation and business responsibility in Sweden, suggested the following phenomena as comprising globalisation:

- *An increasingly shared awareness across many publics*
- *A new, international financial web*
- *New open space into which dominating cultures can move*
- *Progress from "inter-national" to global institutions*
- *Declining importance of geography*
- *Dangerous new linkages possible*
- *Greater speed of events*
- *Trend away from nation-states and toward regions or "tribes"*

The economics of globalisation, and the creation of a worldwide market for the first time in a century, led commentators to begin questioning how corporations, and the financial institutions that supported them, would use their power. Globalisation and the market were placing power in the hands of the private sector, but public distrust in the reliability and honesty of corporations was high. Issues of accountability, monitoring and disclosure and standard setting are fundamental to the debate (OECD, 2001). Companies were expected to take on greater responsibilities for managing their impact on society beyond paying taxes and complying with national regulations. Moreover, aside from the economic challenges, increasingly public opinion considers globalisation to be 'a moral issue' (Ogrizek, 2002).

2.4.2 Privatisation

The privatisation process that advanced almost as quickly as globalisation triggered the consideration of further societal demands on business. Marking a radical rethink of the respective roles of the state and business in society, privatisation passed the provision of crucial services such as water, transport, energy and telecommunications into private sector ownership. With a further trend towards deregulation and corporate tax breaks, it appeared increasingly that there was a transfer of power from the public to the private sector.

2.4.3 Internal forces

The demands for change were not only driven by external societal sources. According to Holiday et al, (2002), driven largely by a generational shift, with younger managers more keenly aware of a need to align their personal and corporate values with society in general, companies are under increasing pressure to be more open and accountable for their actions and to report on their performance in social and environmental arenas.

The last Citypeople Index revealed that almost a quarter of all finance experts decided against applying for a job on ethical grounds. Citing third world exploitation, the arms trade, environmental pollution and animal exploitation amongst their primary concerns, the need to recognise graduate concerns and respond proactively to CSR is increasing (Ledger, 2001). Ken Costa of UBS Warburg confirms this:

> *"The majority of the generation of 20 and 30 year olds buy into an understanding that life consists of something more than the material side... The greed associated with the 1960s and early 1990s is tempered by a desire for organisations to behave in a socially responsible way. During our last round of graduate recruitment a surprising number of people asked "what are your policies regarding social responsibility?" That has never happened before" (Costa, 2001).*

Indeed, even respected business peers, Jack Welch of General Electric and Bill Gates of Microsoft, who in the past have been accused of ruthless business practices – Welch is remembered for the brutal downsizing of General Electric and for a number of environmental pollution incidents and prosecutions, while Microsoft has one of the highest profile cases of bullying market dominance of recent times - believe in moving CSR beyond the simple equation of profitability plus compliance plus philanthropy to a greater understanding of the societies in which business operates.

"I've always believed that the greatest contribution a business could make to society was its own success, which is a fountainhead of jobs, taxes and spending in the community. I still believe that – but I don't think that is enough anymore. And I don't believe that even generous financial philanthropy on top of that prosperity is enough. In these times, companies [cannot] remain aloof and prosperous while surrounding communities decline and decay." Jack Welch, Chairman, General Electric (Cited in Schwartz & Gibb, 1999)

> *Mapping internal stakeholder opinion is, it appears, equally important as engaging with external groups. The ability to understand, attract and retain 'the best' employees is a key factor driving the CSR debate. Any decision to develop a strategy of CSR must therefore consider the balanced opinion of both internal and external sources.*

2.4.4 Government Reaction

The response from many governments to these new market forces was to withdraw from norm-setting activity. According to Schwartz & Gibb, (1999), "National governments often seem not to be losing power but to be enthusiastically throwing it away in a race to deregulate, to divest, to down-size corporate style, and thereby please the taxpayers. It has become government, as well as corporate policy to let the market decide."

While the globalisation of commerce and depleting resources has contributed to a shrinking role for governments in regulating businesses both nationally and locally in many countries – How could a government effectively regulate a company active in many countries anyway? - There is unquestionable support for CSR. The European Union's (EU) paper *Corporate Social Responsibility: A Business Contribution to Sustainable Development* recognises the fundamental role of CSR to achieving the strategic goal of becoming by 2010, "the most competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (COM, 2002). Similarly in the UK, the government recognises the long-term benefits of a CSR approach to business and the respective roles of business and the state in society. "CSR means business taking action in their own self-interests and those of their shareholders, but in a way that helps society move towards a more sustainable path. It's government's job to smooth that path where we can" (ENDS, 2003).

The move towards a CSR regulatory framework model has received differing responses from various quarters. On the one hand, it is considered advantageous to have a policy of accountability and transparency that monitors the actions/inactions of companies in response to their SEE responsibilities. But on the other hand, there is concern that regulation would restrict the creation of innovative strategies and the development of CSR. Companies may also embrace CSR because they see voluntary participation as a way of avoiding political regulation and standards. This is an opinion supported by Credit Suisse in its participation of the SPI-Finance study, which has produced a voluntary guidance framework on CSR for the financial services sector (www.spi-finance.com).

A recent report prepared by the Federal Trust for the European Commission, 2002, concluded that despite economic and political cohesion in the EU, the time was not yet ripe for a single framework or model or for a mandatory reporting approach on CSR issues. Instead, the report recommended that at this stage, companies should single out and report on CSR issues that matter most to their business (Federal Trust for Education and Research, 2002).

Current guidance on CSR is driven largely by the private sector and not by governments. Decisions to develop and adopt CSR guidance frameworks or create bespoke corporate strategies is driven partly by a desire to avoid mandatory legislation, which it is argued, would stem the exchange of experiences and good practices about CSR, thus restricting the development of the concept further. Recognising the consequence of legislative compliance has accelerated the consideration of CSR amongst some banks.

2.4.5 Non-Governmental Organisations (NGO's)

As governments step back from their once perceived civic responsibilities, a vacuum of civic responsibility has been created into which the highly organised, resourceful and determined international NGO has stepped. Peter Sutherland, formerly head of the GATT and now chair of Goldman Sachs International, has stated that multinational corporations and NGO's are the only organisations capable of global thought and action in the twenty first century. Sutherland describes these two entities as starting across the table at each other, not only because many governments have left the room, but because their organizational and policy concerns are truly global (Cited in Schwartz & Gibb, 1999).

For many NGO's the concerns over globalisation and corporate behaviour are founded on a growing body of evidence, which illustrates the corporation as the dominant form of business enterprise in the world. According to Zadek, (2001), 51 of the 100 largest economies in the world today are corporations. And the top 200 corporations have sales equivalent to a quarter of the world's total economic activity.

Globalisation has created a dichotomy of opinion with people either for or against. According to Ogrizek (2002), the portrayal by the media and NGOs has muddied the water surrounding the complex economic effects of globalisation, but also the public's perception of CSR at the beginning of the 21st century. Leading to a state of confusion over the respective role of the public and private sectors within society, Ogrizek states 'that civil society has already chosen its scapegoats: the financiers and bankers who are historically the usual suspects in such a drama'.

2.5 Sustainable Banking

Banks play a pivotal role in society as financial intermediaries and therefore have an extraordinary potential to further sustainability. Certainly, due to the size of the sector the environmental and social impacts of banks' internal operations are significant, but it is the effects of customer actions, enabled by the financing provided, that is a distinguishing feature of the financial sector.

In *Financing Change* (1996), Schmidheiny and Zorraquín ask the fundamental question, whether banks are the driving force or a hindering force for sustainability:

> *'Do the financial markets encourage a short-termist, profits only mentality that ignores much human and environmental reality? Or are they simply tools that reflect human concerns, and so will eventually reflect disquiet over poverty and the degradation of nature by rewarding companies that treat people and the environment in a responsible manner? (Schmidheiny and Zorraquín 1996 xxi).'*

Based on interviews throughout the financial sector, Schmidheiny and Zorraquín conclude that banks are not hindering the achievement of sustainability. In contrast, Bouma *et al,* 2000, believe banks have a hindering role in the achievement of sustainable development. Preferring short-term payback periods and high rates of return, Bouma *et al*, 2000, cite long term pay back periods and low rates of return as conducive to sustainable development. Nonetheless, the authors recognise the development of stakeholder pressure – such as NGO's, shareholders and employees – as a reason for banks not to hinder progress toward acting 'sustainably'.

2.5.1 Banks, Lending and the Environment

The potential for banks to contribute towards the challenges of sustainable development was first recognised, in an environmental context, in the US during the 1980s, when the subject of lender liability and environmental risk was first explored. Under the 1980 Comprehensive Environmental Response, Compensation and Liability Act (CERLCA) banks could be held directly responsible for the environmental pollution of its borrowers and obliged to pay any necessary remediation costs. Such was the severity of this scheme that some banks went bankrupt.

Banks were initially slow to respond to the challenges of the environment for two reasons; firstly, banks generally regard themselves as relatively environmentally friendly (in terms of emissions and pollution), and whilst their borrowers have an impact on the environment, banks themselves do not pollute; Secondly banks were reluctant to interfere with their client's activities (Bouma, *et al*, 2001). Empirical research from 1990 concluded that European banks showed no interest in their own environmental situation or that of their clients (Bouma, *et al* 2001).

In the 1990s there was a growing consensus amongst academics and professionals that the lending and investment practices of banks were inextricably linked to commercial activity that degrades the natural environment (Sarokin and Schulkin, 1991; Smith, 1994). Increasingly, banks focussed their attention towards the emergent fears surrounding lender liability and the environment. Research studies and corporate statements by banks, illustrated that lenders feared they may incur financial losses if held directly or indirectly accountable for the environmental damage of their borrowers, or that their reputation through association with a polluter would be affected (BBA, 1993; Robbins and Bissett 1994). Empirical research on the environmental activities of banks by UNEP in 1995 stated that 80% of the respondents made some kind of assessment of environmental risks (UNEP 1995).

Thompson (1998) identifies the main way in which banks are integrating environmental issues and lending operations is through changes to credit risk criteria, a finding echoed by Hill et al. (1997) in their survey into the implementation of the UNEP *Statement by Banks on the Environment and Sustainable Development.*

Banks who had implemented environmental credit risk assessments in the early 1990's, can today, point to relatively mature and detailed review procedures, training systems and communications. These banks have also been strategically involved in the development of environmental credit risk policies at a national and international level (Coulson, 2002).

The environment is a component of CSR. Existing bank policies and procedures in this field to mitigate against credit risk may provide a platform for the future consideration of CSR at Barclays.

2.5.2 CSR & Risk

Put simply, risk can be defined as the exposure to uncertainty. Accordingly, risk management is not about seeking or avoiding risk, it is about optimising risk exposure (Lhabitant & Tinguely, 2001).

According to the report prepared by the Federal Trust for the European Commission during 2002, CSR risk presents special challenges to managers because social and environmental factors can only be properly understood by looking outside the business. Indeed the report identifies that the risks associated with CSR, reputational risk and customer loyalty, competitive threats and operational failure, are often vague and intangible, and hence difficult to quantify. The report therefore, encourages positive dialogue with customers, suppliers and other stakeholders crucial to the process (Federal Trust for Education and Research, 2002).

Increasingly, reputational risk has become a very important factor in the business case for CSR. It is argued that if an adequate standard of CSR is not met companies can find themselves subject to intensive media scrutiny and even to hostile NGO-led campaigns (Federal Trust for Education and Research, 2002). Ogrizek, 2002, argues that in response to these new forms of 'financial activism', the effective management of corporate social responsibility risk is likely to become an integrated part of any Business-to-Business, or in this context Bank-to-Business process. He states that the Maxim 'Know your Client' has never been as crucial for the banking sector as it is today Ogrizek (2002).

Risk to a bank's reputation can harm brand value, employee morale, ability to recruit and in some cases, ability to write business. On the other hand, a bank is also aware that if it adopts unrealistically high social or environmental criteria in isolation of its competitors, the market and the regulators, it affects its ability to win business (Coulson, 2002). Applying consistency amongst strategies that straddle political, economical, geographical and social boundaries, whilst appeasing its stakeholders, is a constant balancing act for financial institutions. According to Schwartz & Gibb, (1999), companies are punished as much for being hypocrites – for behaving inconsistently with their public claims – as for the behaviour itself. So although socially orientated consumers may amount to only 10 percent of the market, many more people make at least some of their purchasing and shareholding decisions on the basis of company reputation.

Indeed, the market capitalisation of a company can often far exceed the 'property' value of the company. For instance, as much as 96% of Coca Cola is made up of 'intangibles' – a major part of which rests on the reputation of the company, (Mallenbaker, 2001).

In Ulph's 1999 report, 90% of UK banks participating in the Economic and Social Research Council (ESRC) study, viewed reputation risk as the greatest concern with fewer respondents (80%) considering borrower default rates and the recovery value of collateral with less importance. Deutsche Bank's decision to restore R800m to the South African government's reserve after an inquiry following the 40% slump in the value of the Rand is indicative of the extent to which a company values its reputation (The Banker, 2002).

Whether directly or indirectly, banks are subject to risks associated with the actions/inactions of their borrowers, for CSR this may relate to issues of loan default (direct risk) and reputational risk (indirect risk). The decision to incorporate CSR into the lending appraisal process should first try to determine the potential risks and their relative importance.

2.6 CSR & Banking

This section examines what progress has been made amongst the banking sector with regards to incorporating corporate social responsibility issues into operations. Beginning with arguably the most famous bank to have embraced the issues of sustainable development, at least in the UK if not internationally, the Co-Operative Bank, the section then examines the actions of larger, mainstream commercial banks.

2.6.1 Co-Operative Bank

With an ethical banking policy applying to all its business operations, the Co-Operative bank is regularly heralded as an example of 'best practice' amongst literary sources (Jetter, 1993; Cowton, 2002).

Why pursue a strategy of ethical banking? It could be argued that the Co-Operative Bank was in the position to develop an ethical policy with little or no risk to its existing corporate accounts. Local authorities, non-governmental organisations, churches, cooperatives, care homes, nurseries and small to medium sized businesses, made up the majority of its corporate customers (Jetter, 1993). Indeed, in many respects, the bank was already considered to have had an ethical image because of its part in the cooperative movement.

Whilst it is not the intention to undermine the bank's achievements, it does appear, however, that their ethical policy was a matter of formalising ethical standards for an image they were already perceived to have had. Indeed, it could be argued that the launch of the Co-op's ethical policy was driven principally, to ensure their own economic survival, not because of some overwhelming belief in the good of mankind. According to Jetter, 1993, there were three key factors that gave rise to the launch of an ethical policy. Between 1987 and 1991, the bank's market share in personal current accounts fell from 2.7%-2.1%. Compared to the 'big four' high street banks, the co-op performed poorly in an awareness survey amongst the general public. In addition, the Co-op's policy of free banking began losing its uniqueness as other banks were adopting it.

The bank's ethical policy continues to be defined in response to customer opinion, setting out with whom it will and will not do business. For example, it refuses to supply financial services to oppressive regimes, nor will it provide finance to tobacco product manufacturers. It does however, encourage, and seek to do business with companies that avoid repeated environmental damage and who support the bank's general ethical stance (Cowton, 2002). The Bank also produces an annual Partnership Report, which charts it progress and is considered to be a significant factor in its success in recent years (Cowton and Thompson, 1999; Davis and Worthington, 1993, Harvey, 1995; Kitson, 1996; Thompson, 1999).

2.6.2 Larger Lending Banks

For larger commercial lending banks, the development of a strategy that assesses their social responsibilities has been more gradual, if at all. More recently however, there is evidence to suggest that some large commercial banks are taking positive steps towards sustainability. The Banker's December 2002 report, in association with Innovest Strategic Value Advisors, (an investment research firm specialising in CSR), cites Barclays Bank, Deutsche Bank and ABN AMRO as companies whose CSR records are among the most advanced, and who display some of the best CSR practices in the banking sector.

ABN AMRO believes that by highlighting the sustainability benefits of its services it enhances its market image and positions itself for long-term success. Furthermore, by acknowledging sustainable development as part of its mainstream strategy, it believes this position will aid the development of innovative financial products and services that may contribute towards a more sustainable society (The Banker 2002).

Deutsche Bank has been particularly successful in terms of climate change and micro-finance initiatives. Its micro-credit fund extends small loans to less advantaged people for self-employment purposes, globally. Traditionally this type of initiative has maintained very high repayment rates because they function on the principle of social collateral – syndicates of people receive a small loan and have the collective responsibility for repayment (The Banker, 2002).

2.7 Barclays Bank

A global financial services group with market capitalisation at ~£23bn, 1800 offices in the UK, overseas offices in more than 70 countries, and 65,000 staff worldwide, Barclays is an excellent example of a large financial corporation with a powerful, identifiable brand and which operates in the dynamics of the global marketplace, justifying its selection as the focus for this study.

2.7.1 Stakeholder Approach

As with most organisations, Barclays recognises the importance of engaging with stakeholders, both internal and external, as part of a comprehensive strategy of CSR: "our strategy is founded on creating a 'virtuous circle' of satisfied stakeholders. This is not just the right thing for a business to do: it is also the smart thing to do because it enables us to achieve our full potential" (www.barclays.co.uk). Figure 2 illustrates a bank's internal and external stakeholders.

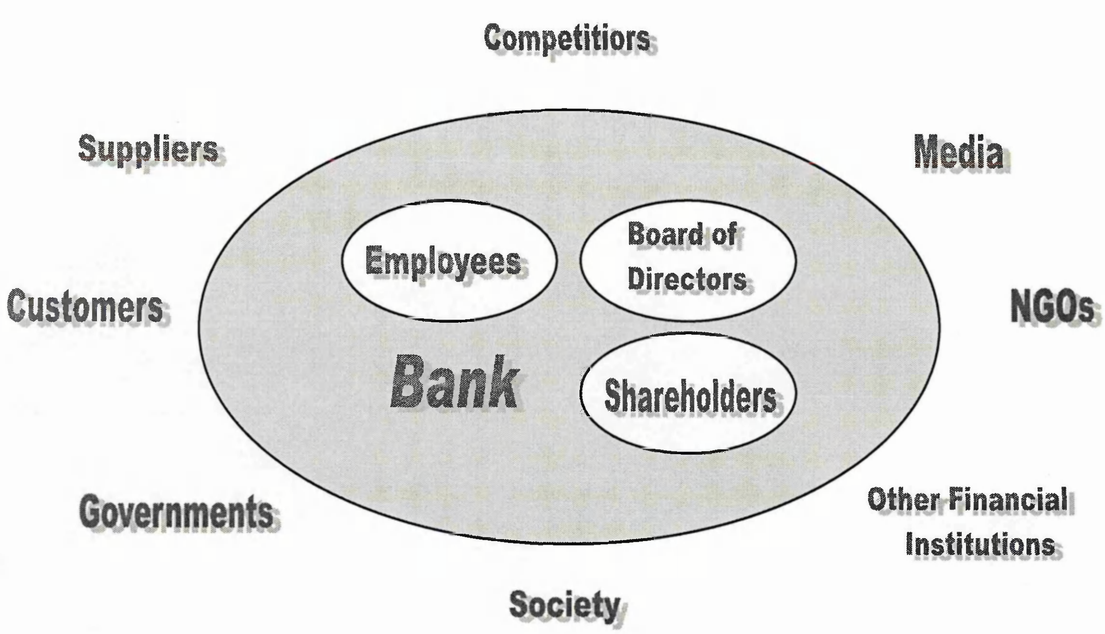


Figure 2: A banks internal and external stakeholders (Jeuken, 1998)

But while Barclays advocates engaging with its stakeholders, this is not a guarantee against acts of 'financial activism'. Barclays enjoys the principled status of a large, powerful and ultimately successful financial institution, nationally and internationally, but has found itself the figurehead for a number of campaigns against the financial services sector in the past. Most notably was Barclays' presence in South Africa during much of the apartheid regime.

2.7.2 South Africa

Barclays engaged on a strategy of 'constructive engagement' in South Africa, believing that this policy was in their best interest as well as the interests of the South African people. Despite offering a number of benefits for its black employees, and actively complying with the 1977 EEC Code of Conduct governing European firms in South Africa, Barclays was singled out by anti apartheid groups in a public boycott campaign. Anti-apartheid groups campaigned for coercive measures to deal with the apartheid regime arguing that constructive engagement was a cosmetic policy incapable of bringing down the apartheid regime (Smith, 1987).

Whilst most British Banks lent to South Africa, Barclays had a major subsidiary in the country and enjoyed a visible retail presence on most British High Streets. As a Barclays Manager commented at the time:

> *"You see, we have three thousand branches, and they're all on street corners, they're very vulnerable. We're the easy target. And a lot of our critics, if you really got them to sit down quietly and talk to you – and they have done this to me – will tell you that, OK, they appreciate that Barclays is a damn good employer, they appreciate that we're trying hard, but we're still the Aunt Sallies of the bunch. If they knock us down, then maybe others will follow." (Smith, 1987).*

Barclays suffered account losses during the boycott campaign period from a number of non-commercial institutions (local authorities and religious organisations). Barclays also performed disappointedly in the student sector, having dropped 10% (27%-17%) in student accounts during 1983-1985. Students are traditionally an important sector for banks because of their likely future prosperity and high level of customer loyalty (Smith, 1987).

Pressure groups celebrated the boycott as a major success influencing Barclays' withdrawal from South Africa. However, Smith, 1987, cites that the impact to Barclays corporate image and low employee morale were important, if not the overriding considerations for the withdrawal from South Africa.

Additionally, Barclays had already begun considering its expansion into the US market, (US were vociferous in their condemnation of the apartheid regime), and had begun downsizing its interests in the country. Increasingly the Barclays Board became disappointed with the slow rate of change within the country and the growing concern over the morality of apartheid (Smith, 1987).

Barclay's position in South Africa illustrates the inherent difficulty in appeasing all stakeholder groups. Advocates of the constructive engagement argument would say that they have washed their hands of the problem. Indeed, whom should Barclays have sold their business too? Furthermore, what was the feeling of Barclay's Black employees? The difficulty in a process stakeholder engagement is that the person/group who shouts the loudest doesn't necessarily have the most to say or lose but can inflict the greatest damage.

2.7.3 Negative Press

More recently Barclays bank found itself the recipient of active attention by animal rights campaigners trying to close down Huntingdon Life Sciences. The focus centred upon the contention that Barclays had business connections with Stephens, the Huntingdon financial backer, which recently announced it was selling its stake (Business Respect Newsletter, 2002).

The bank has also suffered negatively for its decision to close 250 branches, shedding 7,500 employees only a couple of weeks after the beginning of a campaign, claiming "the Bank is BIG". This, according to Ogrizek, (2001), was a typical example of a mistimed corporate and financial message, which was out of step within the social context. Moreover, The UK bank, Nat West, turned this landscape of adverse public opinion into an opportunity to differentiate itself from its competitors on the issue of social responsibility, abolishing its own branch closure programme, using the combined strap lines, "Something you wouldn't expect from a bank", and, "Another way" during its last advertising campaign. The bank's campaign reconnects the commercial messages with its *rasion d'etre* in society (Ogrizek, 2001).

Even with a mature ECRA policy, the bank has come under criticism more recently for breaking its "green" pledges after backing a highly controversial dam project in Iceland that threatens three species of goose. An adoptee of the recent equator principles, (a voluntary set of guidelines for promoting social and environmental responsibility in financing development projects, especially in emerging markets), the bank's finance arm, Barclays Capital, agreed to help arrange a $400m (£240m) loan for Iceland's national power company. The decision has led to British environmental groups threatening consumer boycotts and shareholder action (The Independent, 2003).

Barclays is also featured on the Friends of the Earth website (www.foe.co.uk) in a corporate campaign for investing millions in Asia Pulp and Paper, a company known to have already destroyed 280,000 hectares of Indonesian rainforest, one of the most diverse habitats on earth. While Barclays is not the only bank to have been named in providing debt finance to Asia Pulp and Paper, and consequently supported their activities (FoE May, 2001), the website has produced a campaign image (see figure 3) to raise awareness on the issue which specifically targets Barclays Bank.

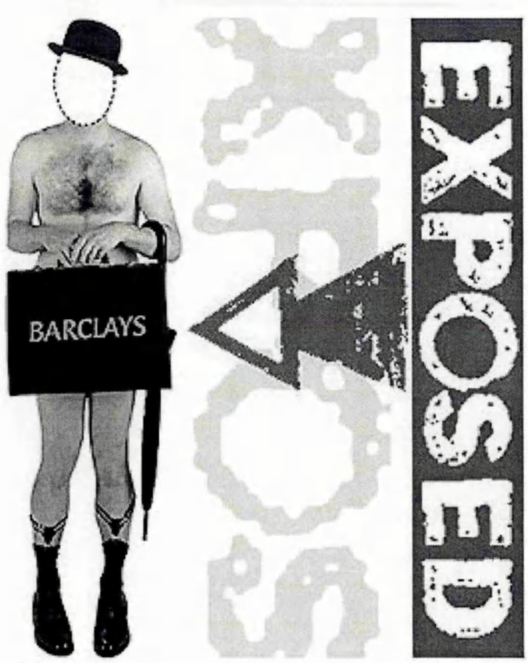


Figure 3: Barclays exposed campaign image (www.foe.co.uk)

Once again, these examples illustrate how the subjectivity of social issues makes it increasingly difficult to determine a clear and concise strategy for stakeholder dialogue. Ultimately a strategy of CSR that applies to lending must consider the impacts of each loan application on its own merits and marry the opinion of stakeholders to ensure the mitigation of direct and indirect forms of risk, whilst also ensuring the satisfaction of the client and any agreements of confidentiality.

2.7.4 Leading by Example

While Barclays may be the target for high profile attacks amongst the banking sector, it has achieved a considerable record amongst the UK and international financial services sector for its work both in the environmental field and more recently in considering the social impacts of its operations.

Modelling its environmental policy on the Global Reporting Initiative guidelines for sustainability reporting, Barclays has clearly set out its approach to lending, monitoring via targets, supply chain management and community support, and responding to changing legislation (The Banker, 2002). For its approach in managing environmental credit risk the bank has been described as a "race leader" amongst Pan-European banks (Coulson, 2002). Moreover, Scott & John, (2002), cite Barclays, of all the major banks, for disclosing a relative wealth of information on issues on lending and investment decisions against social, environmental and ethical criteria.

The group has a sophisticated monitoring and targeting scheme that is reviewed an updated annually. In its latest Corporate Social Responsibility report for 2002, *Making Business Sense*, the company lists its key corporate social responsibility achievements as:

- *Increased global investment in the community to £32 million*
- *The first UK high-street bank to receive ISO 14001 environmental certification*
- *Provided access to mainstream banking through the Barclays Cash Card account for 85,000 new customers, many of whom had not previously had a bank account for 85,000 new customers*
- *Supported more than 16,000 UK employees in their volunteering and fundraising activity*
- *Set up Global Diversity Council to ensure commitment to ensure our commitment to equality and diversity in our businesses worldwide*
- *Introduced a new Performance Development system to encourage employees to achieve high levels of performance*
- *Invested a further £7.7 million in an ongoing project to make our branches more accessible to customers with disabilities*
- *Offered employees in Botswana and Zambia free, voluntary and confidential HIV/Aids testing, and rolled out and HIV/Aids employee education and awareness programme in our other sub-Saharan operations*
- *Reduced our UK CO2 emissions by 10.2%*
- *Provided £2.3 million for independent money advice services and financial education*

While data published on the community, marketplace, workplace and the direct environmental impacts of the company are substantial, reference to the indirect impacts of the corporate lending process focus on the environment, and are relatively scant of quantitative data. No mention of any social assessment relating to commercial lending is included. Indeed, the group define its objective relating to commercial lending as 'to ensure that risk and relationship management personnel have the awareness, tools and training needed to take due account of environmental risk issues in appraising business lending propositions worldwide, (Barclays, 2002). According to Scott & John, (2002), the majority of banks still focus on direct environmental impacts; firstly, because it is easier to measure and manage direct impacts than the more challenging issues surrounding sustainability/CSR; and secondly, guidance on the wider and thorny category is far less abundant.

With interest in CSR increasingly popular, the decision to incorporate social awareness as part of the lending process is justifiable and demands further investigation. Coulson's 2002 report for ISIS Asset Management, which benchmarked ECRA practices of ten Pan-European banks, identifies social responsibilities as a future research consideration for the banking sector. "Whilst the study focuses on environmental risk factors, ISIS recognises that credit risk assessment of banks' social impacts is an area that has received less attention in the past, and therefore benefits from less well-developed internal procedures. This is clearly an area that merits further study."

2.7.5 The Lending Appraisal Process

This section considers the current lending practices amongst commercial lending banks, in particular Barclays, with regards to managing environmental credit risk. The environment, a component factor of CSR, has been the subject of study within the lending appraisal process for over a decade and it is hoped that it may offer a framework for considering social criteria as part of this study. Indeed, environmental credit risk assessment (ECRA), whether directly or indirectly, considers ethical and social criteria currently as part of it processes, because ultimately a desire to raise environmental standards results in societal improvements. At Barclays, ECRA performance is contained within the banks, *Corporate Social Responsibility Report 2002: Making business sense*.

Whilst information pertaining to Barclays' ECRA practices exist in the public domain, (In addition to formal reporting, the bank discloses information about its ECRA practices as a result of research studies and public engagements), disclosure of information outlining internal lending processes, as with many banks, is strictly regulated. Lenders generally express a reticence to provide any internal documentation to external parties because it is often procedural differences that contribute to a bank's competitive advantage and drive its desire to maintain confidentiality of its processes (Coulson, 2002). Much of what is known and is provided in this section relies heavily on Andrea Coulson's report for ISIS Asset Management, *A Benchmarking Study: Environmental Credit Risk Factors in the Pan-European Banking Sector*, 2002, to outline current lending practices.

2.7.6 Lending Practices at Barclays

It is not a Barclays mission to 'redline' any commercial industry sectors in the investment appraisal process; they encourage their lending officers to work with potential borrowers to improve environmental performance. This may involve alerting a borrower to potential environmental risks during the appraisal process of the loan, and requiring the borrower to undertake certain measures to reduce risk before financing is provided. Furthermore, Barclays do not attempt to influence the pricing of a loan depending on the perceived environmental risk of the borrower. Once finance has been agreed, the bank will consider a 'suite' of environmental covenants and waivers to be included into the loan contract, along with standard financial terms (Coulson, 2002). However, the bank does make a formal statement to reflect and promote the standards enshrined in the UN Declaration of Human Rights, specifying a commitment to refuse finance to areas such as instruments of torture, land mines, and chemical, biological and nuclear weapons (The Banker, 2002).

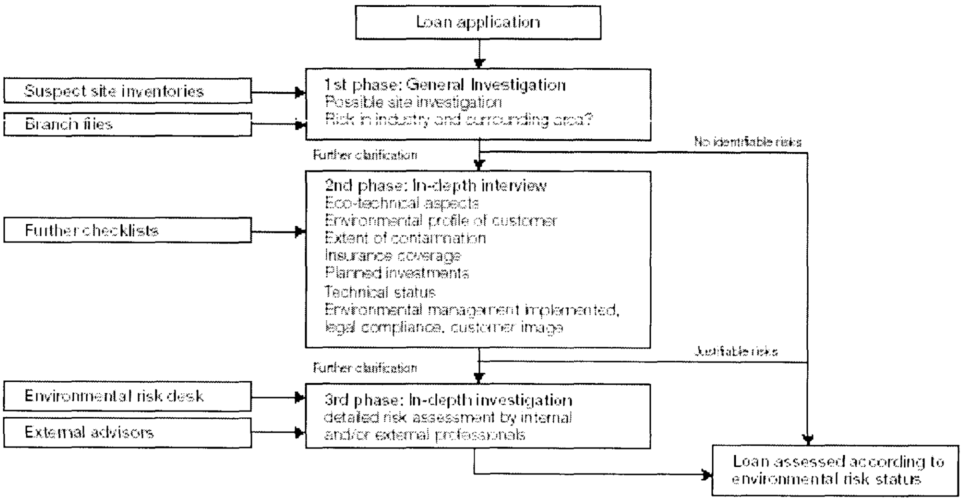
Barclays, as with most banks, do not consider themselves the corporate enforcers for moral codes of practice, but recognise their position to facilitate the development of sustainable standards, positioning themselves, as corporate lenders who are 'risk aware' not risk averse.

This appraisal approach is a common held perception amongst banks and other financial institutions. Thompson's 1998 report on UK bank lending and the environment found that, of the twelve banks interviewed, there was no evidence to suggest any tendency to disqualify automatically specific industry sectors from obtaining credit.

2.7.7 The Lending Officer

Barclays approach to lending is common to all banks. The responsibility for credit risk ultimately rests with the individual lending managers. These officers have the authority to lend a specific lending limit based on their lending experience and expertise. This system reflects the unique nature of lending decisions, and the practical need for lenders to consider the details of each case on its individual merits (Coulson, 2002).

At best, lending procedures, including ECRA policies, provide a common 'guidance' framework for bank-lending officers reviewing a broad range of lending scenarios. In general, banks engaging in a policy of ECRA use flowcharts, questionnaires or risk matrices to offer guidance to the lending officer through a three 'phased' or 'staged' process (General Investigation, In-depth Interview, In-depth Investigation). The tools recognise potential risks based on policy assessment priorities and then prompt the lender as to when, and how, they should move between assessment stages (Coulson, 2002). For example, Barclays requires a land use questionnaire to be completed by its valuer so that the ERMU team can evaluate the possible environmental risks, associated with the site, or activities on it (Coulson, 2002). Figure 4 illustrates a common guidance framework of the three-staged loan assessment process (Cited in Coulson, 2002).



Source: UNEP and Swiss Bank Association (OBU) guidelines

Figure 4: Flowchart depicting the staged process of lending for Environmental Risk

Barclays currently use a sector classification index to evaluate environmental risk activities of industries and processes. A full list of high environmental risk activities by Standard Industrial Classification (SIC) code may be found in Appendix 3 (Case, 2000). The index is the primary trigger for environmental assessment. This process of analytical sophistication, with the industrial activity of a potential borrower classed into risk categories such as high, medium and low, with the level of risk dictating the required degree of detailed follow-up assessment, was employed by all the banks featured in Coulson's 2002 Pan-European study.

As part of its index process, Barclays specifically isolates high-risk sectors in order for them to be referred to centralised environmental risk specialists – The ERMU team. Barclays have also developed and implemented detailed computerised risk databases that refer to sector-specific issues and interface with standard credit assessment procedures (Coulson, 2002).

Incorporating CSR into the lending appraisal process will require lending officers to develop new skills to identify and understand social impact assessment issues. Whilst certain social issues feature as a factor of ECRA they are not its primary focus. Developing such skills will require further training and support resources, which will ultimately impact upon the bottom line.

2.7.8 Environmental Risk Management Unit

In 1992 Barclays established the Environmental Risk Management Unit (ERMU) to form part of its credit risk assessment of potential investments. The nine strong unit, whose backgrounds are primarily from financial risk, work with the groups credit teams worldwide to raise awareness of the environmental considerations to be factored into the lending decisions. The unit is often responsible for environmental performance measurement. Barclays has a specialist environmental expert within its ERMU team who is responsible for preliminary site reviews. The bank also relies on external consultants to help inform them of general environmental matters and environmental assessment processes (Coulson, 2002).

Any decision to implement CSR indicators in the lending process would require some system of measurement to quantify its relative success. The inherent difficulty of identifying and separating the influence of environmental performance from overall business performance has resulted in a lack of ECRA performance measurement indicators. Indeed, discussions by a number of financial industry associations, including the British Banking Association and United Nations Environment Programme Financial Initiative on ECRA performance measurement, have been widely, but largely unsuccessful. Consequently, ECRA performance measurement indicators tend to focus on the extent of ECRA being conducted, rather than the impact that ECRA has on the loan portfolio (Coulson, 2002). In addition, Barclays provide details on their annual expenditure on ECRA). Figure 5, an extract from

Barclays Corporate Social Responsibility Report 2002: Making business Sense, illustrates the non-monetary performance indicators Barclays uses to help establish levels of ECRA.

Commercial lending

Group objective
To ensure that risk and relationship management personnel have the awareness, tools and training needed to take due account of environmental risk issues in appraising business lending propositions worldwide.

Commercial lending	Unit of measurement	2002	2001	2000
Land use questionnaires received	No.	5,663	6,180	6,138
Percentage needing further enquiry	%	32	32	25
Additional case referrals/enquiries	No.	512	430	457

Figure 5: ECRA measurement indicators (Barclays Bank, 2002)

Barclay's policy on environmental issues is modelled on the Global Reporting Initiative (GRI) guidelines for sustainability reporting (The Banker, 2002). Guidelines that may assist the development of an approach to CSR as part of the lending appraisal process are now discussed.

2.8 CSR Framework Guidelines

Existing guidelines on CSR for the finance sector are numerous, and include a European Union white paper, the institutional shareholder committee's new statement of principles, Standard & Poor's new transparency ratings and a study from the United Nations Environment Programme finance initiative (Ogrizek, 2001).

This section reviews three of the most recent guideline frameworks relating to the financial services sector; the GRI financial services sector supplement on social performance, the FORGE group's guidance for the financial services sector, and the Equator Principles, specifically focussing on areas which consider CSR as part of the lending appraisal process.

2.8.1 The Global Reporting Initiative

Established in 1997, the Global Reporting Initiative (GRI) is seeking common ground on which to build a consistent reporting framework. Specifically the mission of the GRI is to "develop and disseminate globally applicable reporting guidelines for voluntary use by organisations reporting on the economic, environmental, and social dimensions of their activities, products and services" (Cited in: Holiday et al, 2002).

Recognising that a generic set of indicators may fail to consider all aspects of sustainability performance that are unique to a specific industry sector, GRI are piloting a set of indicators for the financial services sector which are supported by its core set of guidelines (GRI, 2002). The social performance indicators outlined in the GRI Sustainability Reporting Guidelines have identified key performance aspects surrounding human rights, labour rights and other broader social issues that are based predominantly upon internationally recognised standards.

The indicators – qualitative and quantitative – are the result of a group process among participating institutions and stakeholders, which it is hoped will offer guidance to financial institutions on how to design social performance management and reporting within their institution (GRI, 2002). Figure 6 provides an overview of the indicators GRI has put forward for all social performance areas in the financial services sector.

	Management System	Internal Performance	Suppliers	Society
Management Performance Policies & Activities	• CSR Policy (CSR 1) • CSR Organisation (CSR 2) • CSR Audits (CSR 3) • Mgmt of Sensitive Issues (CSR 4) • Stakeholder Dialogue (CSR 6)	• Internal CSR Policy (INT 1)	• Screening of Major Suppliers (SUP 1)	
Operational Performance Results	• Non-Compliance (CSR 5)	• Staff Turnover & Job Creation (INT 2) • Employee Satisfaction (INT 3) • Senior Management Remuneration (INT 4) • Bonuses Fostering Sustainable Success (INT 5) * • Female-Male Salary Ratio (INT 6) * • Employee Profile (INT 7)	• Supplier Satisfaction (SUP 2)	• Charitable Contributions (SOC 1) • Economic Value Added (SOC 2)

	Retail Banking	Investment Banking	Asset Management	Insurance
Management Performance Policies & Activities	• Retail Banking Policy (socially relevant elements) (RB 1)	• Investment Policy (socially relevant elements) (IB 1)	• Asset Management Policy (socially relevant elements) (AM 1)	• Underwriting Policy (socially relevant elements) (INS 1)
Operational Performance Results	• Lending Profile (RB 2) • Lending with High Social Benefit (RB 3)	• Customer Profile: Global Transaction Structure (IB 2) • Transactions with High Social Benefit (IB 3)	• Assets under Management with High Social Benefit (AM 2) • SRI Oriented Shareholder Activity (AM 3)	• Customer Profile (INS 2) • Customer Complaints (INS 3) • Insurances with High Social Benefit (INS 4)

* additional indicator = the indicator is important for measuring performance, but does not qualify as a KPI due to local, regional or legal context

Figure 6: GRI social performance indicators for the financial services sector (GRI, 2002)

Social performance issues relating to lending require that social criteria pertaining to sensitive issues should be described in a text format. Indeed, the guidelines also recommend that reporting banks describe their social elements in a written CSR policy which should include CSR policies for separate business sectors (e.g. human resources, suppliers, lending policy, investment policy, etc) (GRI, 2002).

GRI also push for banks to provide qualitative data (monetary and percentages) on the repartition of lending business, including industrial sectors & small and medium size enterprises. The guidelines also recommend that banks report on the provision of products and services that apply to ethical/sustainable criteria.

The analytical process for the development of the guidelines involved the opinion of ten financial institutions and 25 stakeholder groups. The first stage in the process, it is expected that recommendations to the guidelines will extend into 2004 after a structured feedback and review process. Advocating that the document represents the best thinking to date on social performance indicators, GRI supports the theory, "learning by doing" as the key driving force to continued improvement of the framework.

2.8.2 The Forge Group

The FORGE group, a consortium of some of the UK's leading financial service organisations (see figure 7) launched its CSR management and reporting guidelines for the UK financial services sector in November 2002.

Figure 7: The FORGE team involved with the development of the guidelines (FORGE, 2002)

Devised by the industry for the industry, the guidelines address the financial services sector's unique set of direct and indirect impacts, which require special management and reporting guidelines specifically for the UK. Following on from the groups 'Guidelines on Environmental Management and Reporting for the Financial Services Sector,' launched in November 2000, the guidance is described as the 'next step, but not the last word, in addressing CSR in the financial services sector (FORGE, 2002).'

The guidelines outline a framework for developing and managing a process for reporting CSR, which begin with a review of the business case for CSR. The guidance notes also include a list of risks, benefits and potential challenges for considering CSR and put forward a number of suggested action points relating to key functions and business units within the financial services sector to begin the process of review. Figure 8 represents a modified extract of the guidance notes form the FORGE Group on CSR for the financial services sector relating to the lending process (Case, 2002)

Guidance extract: Commercial & Corporate Lending/Investment

Scope of application: Includes guidance applicable to the provision of financial services, such as money transmission, cash management and lending services to business customers.

Risks:
- Insufficient market demand for, or return on, new CSR related products/services

Benefits:
- Reduces incidence of bad debt due to increased financial literacy among clients and improved risk management policies and procedures

Challenges:
- Determining the limits of financial service sector role and demonstrating and delivering an appropriate scope of control and influence

Action plan:
1. Establish a team with a single management point responsible for considering CSR in the context of commercial investment/lending
2. Involve other business units and functions, as appropriate, as well as the CSR team/individual
3. . . .

Figure 8: Guidance extract from FORGE Group on CSR

Both reporting frameworks are clearly very new and have drawn, in part, on existing environmental management and reporting disciplines. However, even environmental management and reporting has not been in widespread use for much more than a decade. According to Anthony Sampson, Director of Corporate Social Responsibility at Aviva, which chairs the FORGE Group, there are great variations in the policies, strategies, structures, practices and processes that companies employ to embed environmental responsibility. Moreover, this variety - and uncertainty - is far greater in respect of CSR, because it is so new. Sampson argues that it will take years before a solid international consensus emerges on what should constitute CSR and how companies can best manage and report on their performance. He considers it unwise, if not a little premature, to talk of mandatory reporting and is supportive of a voluntary approach for the experimentation in management and reporting, which he describes as the right environment to develop our thinking and practice. It is unsurprising therefore, that he welcomes the approach taken by the European Commission, which in July 2002, recognised that voluntary reporting is currently the right route forward (Sampson, 2002)

2.8.3 The Equator Principles

The Equator principles are the latest contribution form the finance sector on the subject of CSR and are designed to prevent project finance lenders exposing high profile projects to reputational risk. Initially adopted by ten leading financial centres from around the world, (ABN Amro, Barclays, Citigroup, Credit Lyonnais, Credit Suisse First Boston, HypoVereinsbank, Rabobank, Royal Bank of Scotland, WestLB and Westpac), the principles are intended to serve as a common baseline and framework for the implementation of environmental and social procedures and standards for project financing activities globally. Indeed, the documents preamble states, "we will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes"

The Principles will see the ten banks, which last year collectively underwrote $14.5billion (£8.7bn) of project loans, or a third of the global project loan syndication market, classify projects into three groups, based on IFC policies (Ethical Performance, 2003).

The Principles will not, however, require that participating banks avoid financing any particular class of project. They will also only apply to projects with a total cost of more than $50 million.

Low risk projects (category C) represents a project with no or minimal potential environmental and social impact, For medium to high-risk projects (B and A respectively), the borrower is required to conduct an environmental assessment (EA) of any social and environmental impacts identified by the banks, such as the project's impact on indigenous populations and biodiversity, pollution prevention and the efficient use of energy. Borrowers will have to consult with the interested parties and prepare a management plan to mitigate and monitor the risks. Using independent monitor's banks will ask for covenants requiring borrowers to comply with the management plans. If covenants are breached, banks may declare the loans in default.

Chris Bray, Head of the Environmental Risk Management Unit at Barclays Bank, which has adopted the principles, said: "I don't envisage a sudden massive drop-off in the number of project finance deals as a result of this agreement, but it will mean that such deals will be done differently and there will be a far more structured approach to making sure that environmental and social issues are taken into account" (Ethical Performance, 2003).

The decision to draft and adopt these principles is in part due to increased stakeholder pressures and the threat of reputational risk. According to Peter Woicke, executive vice-president of the IFC, "...The impetus behind the principles was that some of the banks came under pressure from NGOs. They also realised that without the best graduates they cannot compete, and the best people want to work for companies which pay attention to environmental and social issues" (Sevastopulo, 2003).

Generally, the response from NGOs towards the Equator Principles has been warmly welcomed. A coalition of 100 NGOs, among them Friends of the Earth and WWF, described the principles as a 'helpful springboard', but stressed the need for banks to be transparent. According to Michelle Chan-Fishel of Friends of the Earth, who helped develop the Colleveccio Declaration, which calls on financial institutions to implement more socially and environmentally responsible lending policies, "...one of the key weaknesses of most corporate-led voluntary initiatives is the lack of accountability in implementation mechanisms. This may be the fatal flaw of the Equator Principles" (Sevastopulo, 2003).

Barclays is involved either directly or indirectly in all three guidance frameworks. However, ultimately its success will be judged on demonstrating evidence of implementation and performance mechanisms.

2.9 Conclusion

CSR can be interpreted to mean many different things but ultimately should contribute to one overwhelming goal; sustainable development. What is unquestionable is the sweeping move by organisations to factor CSR into their operational processes. Increasingly, as the arguments of the Friedman-ite school are held up as last century's debate, companies have come to recognise that their responsibilities extend beyond the financial bottom line, and that far from being an issue of conflict, businesses can benefit by incorporating CSR into their mainstream business strategy, thereby improving the bottom line as well as managing their risks more effectively.

The trend towards CSR affects all industry sectors, but none more so than the financial services sector. Recognised for its pivotal role in providing finance to the corporate sector, and having already demonstrated its potential to raise the environmental standards of its borrowers, banks are under increasing pressure from stakeholders to consider their social responsibilities within the lending process. For smaller niche banks, the move towards a strategy of sustainable development has been relatively straightforward, whilst for larger banks the move has been more gradual, if at all. Barclays has taken positive steps towards an approach to CSR and is commended for its work in this field, but like other commercial banks has yet to formalise a strategy on CSR within the lending appraisal process. It recognises that a CSR campaign that is too ambitious may result in unachievable goals that can be as damaging as a 'green-washing' approach to CSR. The literature review further illustrates that whilst guidance frameworks exist, they are generally a generic set of principles, which ultimately recognise the need for individual banks to implement strategies that reflect their own business and stakeholder demands.

While banks wrestle with the logistics for developing a strategy of CSR, the debate for stakeholders has moved on, from 'tell me what you are doing', to 'show me what you are doing'.

The decision therefore to consider CSR within the appraisal process is fundamental to the issue of sustainable development within banks, and a key stakeholder concern and also illustrates the relevance of this programme of research.

Chapter Three: Methodology

This section outlines the methods used to satisfy the research objectives set out in section 1.3. To begin, the literature review is revisited, which was undertaken to establish the current level of knowledge on CSR and its use in the lending appraisal process of commercial banks established. Following on, details regarding exploratory meetings held with Barclay's Bank representatives, to highlight pertinent issues surrounding CSR and the appraisal lending process, are discussed. A framework model of the appraisal process for CSR is then constructed which provides a basis for analysing the stages of assessment for lending. Details of all aspects of the data collection process are then provided, with each question included in the stakeholder analysis survey supported with an explanation of its intent in order to justify the data needs and information requirements of the collection method process. Finally, the methodological process used for this research is critically evaluated.

3.1 Secondary Research

The secondary research included an extensive literature review of the existing information on CSR, the commercial banking sector and ultimately the lending appraisal process at Barclays Bank. It highlighted that whilst the validity of the theory is still contested, increasingly companies are taking steps to consider their social, economic and environmental impacts through a process of stakeholder engagement, and that while some banks have taken steps to address CSR there remains a distinct lack of progress in the area of lending.

As outcomes of the literature review, drivers forcing CSR into the mainstream business arena were identified (research objective 1) and societal and ethical criteria discussed (research objective 2). The research also highlights a number of companies who are proactively engaging in CSR and comments on the suitability of external standards for guidance which are under development for the financial services sector (research objective 3). The review then examines possible mechanisms that may facilitate the commercial consideration of CSR criteria throughout the appraisal process (research objective 4). Finally, performance measures are discussed (objective five).

Relying on the academic journals, books, the professional press and associated publications, the Internet and Cranfield University Library (Silsoe) proved an invaluable source of secondary information for the purposes of this study.

3.2 Primary Research

Coupled with the literature review, an exploratory process of research analysis began with a series of informal meetings with Chris Bray (Head of Environmental Risk Management) and Carolyn Spence (Environmental Risk Manager) from the Environmental Management Risk Unit (EMRU) at Barclays Bank. The aim of this exercise was to gather first hand knowledge from a major UK bank, increasingly 'encouraged' by internal and external sources to consider the broader issues of CSR indicators within the appraisal process, and to discuss the relative benefits and possible restrictions of the proposed study. Supporting this process, opinions from academic sources, Andrea Coulson Strathclyde University and Lance Moir Cranfield University, were explored to further establish the suitability of the study area.

Barclays bank was approached for several reasons to support this study. Firstly Cranfield University enjoys an existing relationship with Barclays Bank, and in particular, Chris Bray, Head of Environmental Risk Management. Secondly, Dr Andrea Coulson's recent report for ISIS Asset Management identifies Barclays Bank as a "race leader" for its environmental credit risk assessment (ECRA) policy. The bank is also commended for its current work in the field of CSR (The Banker, 2002; Scott & John, 2002). Thirdly, conscious of time and logistical restrictions, and acutely aware that access to information and the feasibility of the study would to some degree be dictated by the involvement of any financial institution, a case research method was considered most practical and achievable. Supporting this view, the literature review illustrates that companies must find their own approach to developing CSR. Finally, whilst access to internal documentation is strictly regulated, Barclays have provided a relative wealth of information about issues pertaining to CSR within the financial services sector, as a result of formal reporting (The Corporate Social Responsibility Report, 2002) research studies (ECRA) and public engagements.

3.3 CSR Lending Framework

To assist the research a conceptual model is constructed in order to represent the stages of the appraisal process for CSR (Figure 9). The framework is a simplified schematic that illustrates the direction and stages of the lending process and is a subset of the overall credit risk process.

The framework is the result of a process of deductive and inductive reasoning, which draws upon ECRA and CSR frameworks illustrated in the literature review. It is particularly useful for this research because it allows the whole appraisal process to be represented and summarised in one figure. This makes it easier to appreciate the linkages within the process and to understand the potential stages of appraisal for the lending officer and risk management unit.

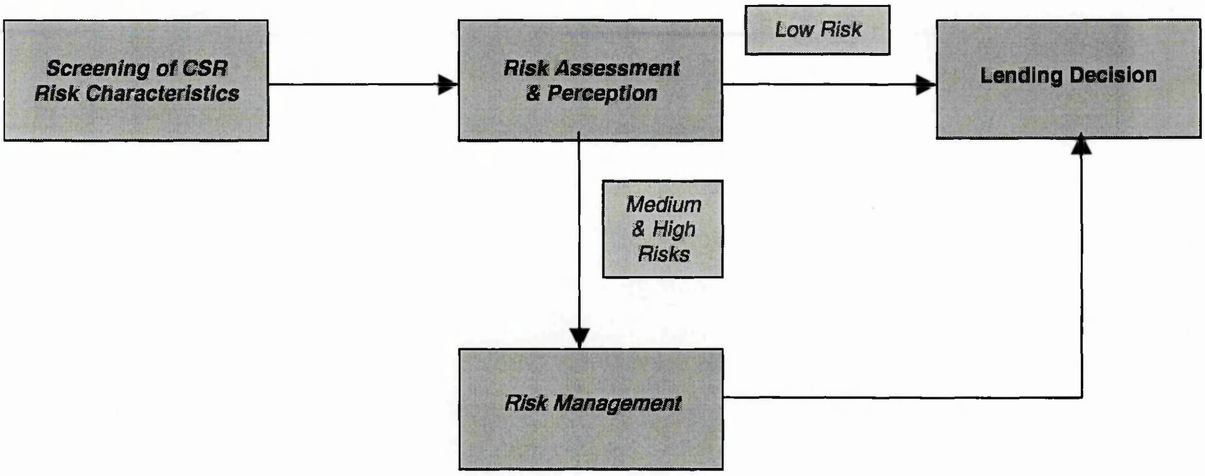


Figure 9: A conceptual model of CSR appraisal process

3.4 Questionnaire Survey Design

Issues pertaining to the scope and practicalities concerning the potential benefits of CSR indicators in the appraisal process were discussed in the exploratory phase of research. To investigate further, how CSR criteria can be incorporated into the lending appraisal process at Barclays Bank, a questionnaire survey mapping stakeholder opinion was designed. Consisting principally of open-ended questions - the survey did include some close ended questions to elicit uniform, comparable and measurable responses – the study attempts to provide relevant information to satisfy the research objectives outlined in section 1.3. A copy of the questionnaire is reproduced in appendix six.

3.5 Stakeholder Profile

Due to the sensitivity of the subject area, only a 'selected' stakeholder audience was invited to participate by Barclays Bank (appendix four). It was also important that the stakeholders involved in the research had knowledge of the lending appraisal process and CSR. The specifics of this criteria meant that only seven stakeholders were considered for the data collection process from across the stakeholder spectrum.

To ensure the range of stakeholders invited satisfied a comprehensive range of views and opinions, the study was extended to include stakeholder opinions from both the banking and CSR community, with a recognised knowledge and interest in the purpose of the study. Several of the stakeholders have been involved in guidance frameworks mentioned in the literature review. Stakeholder responses gathered during the wider analysis study were used to compare and contrast with the select Barclays study group, and extend the level of knowledge on CSR and lending. Due to the sensitivity of the subject area the questionnaire sent to the wider stakeholder group did not divulge Barclays as the study source.

Understandably, Barclays remain sensitive to broadcasting their commitment to a strategy that considers CSR for their lending process. Such an admission could leave Barclays open to hypercriticism that could affect the company's reputation negatively. Instead the survey generalised about commercial banks, which involved only one of the nine questions having to be adapted. A copy of the questionnaire used for this aspect of the research is reproduced in appendix seven.

It should be noted that the stakeholders involved in the consultative process for both Forge and GRI guidelines, pertaining to the financial services sector, are relatively small, concentrated study groups. It was therefore, never anticipated that it would be possible to involve large numbers of stakeholders in the data collection process for this research study.

3.6 Survey Logistics

Questionnaires were distributed by email to Barclay's stakeholders during May 2003. Failure by a stakeholder to respond within a two-week timeframe resulted with a follow-up email reminder. Failure to respond within three weeks of distribution resulted with a follow-up phone call with a request for a response and the offer to carry out the questionnaire by phone.

With such a small focussed group of research subjects, with a strong professional relationship with the ERMU team at Barclays, the decision to communicate with each respondent individually and then by email was taken. It was felt that completed questionnaires would be returned more speedily due to the ease of response and personal contact. A pilot survey supported this view.

Forty questionnaires were distributed via email or by post during June 2003 to stakeholders targeted in the wider research study. Contact details for each stakeholder was collected as part of the exploratory stages of research primarily through Internet research and stakeholder referrals. Where possible, stakeholders were contacted via telephone before sending the questionnaire. This was considered beneficial for several reasons. Firstly it confirmed whether or not the person still worked at that company and ensured the relative accuracy of the methodological approach to the research. This process also meant that if someone had moved on from a post it was possible to discover whether another suitable person existed to participate in the questionnaire and also the movements of the former colleague. Finally it had the desired effect of personalising the relationship between the stakeholder and research student, which it was hoped, would ensure a greater response to the questionnaires. The companies targeted in this sample frame can be found in appendix five.

3.7 Survey Design

A covering letter accompanied each questionnaire outlining the broad aim and objectives of the study (appendix eight). It also illustrated that the questions were the first stage of analysis and provide a provisional guide for a subsequent follow-up discussion and that each participant is encouraged to provide as much information as they consider important to the development of CSR as part of a bank's lending criteria. Furthermore, stakeholders were encouraged to illustrate issues, which they believe are integral to the study and which are not included in this initial stage of analysis. Alternatively, stakeholders were free to express in their opinion about the relevance of the questions posed and any areas that didn't relate to their personal position as a stakeholder or knowledge of CSR. Personal contact details for the author were provided should any questions require further discussion.

The questionnaire comprised nine question areas and was subject to review by Carolyn Spence, Risk Manager, ERMU, Barclays bank and Professor Joe Morris (MSc Supervisor), Institute of Water and the Environment, Cranfield University, Silsoe Campus.

Prior to distribution, a stakeholder representative from ISIS Asset Management tested the relevance of the questions and survey mechanics in May 2003. The candidate was considered the most suitable applicant for this role because of their externality to Barclays and the company's existing interest in social responsibilities.

3.8 Survey Questions

Each question included in the initial stage of the stakeholder analysis process is supported with an explanation of its intent in order to justify the data needs and information requirements of the collection method process.

3.8.1 (a) Please provide a brief outline of your understanding of the following terms: corporate social responsibility (CSR), societal performance and ethical performance. (b) In your opinion, how should these terms apply to commercial banks?

To date there is no commonly accepted definition on CSR. It appears from the literature that CSR is a relatively subjective study, depending on the perceptions and background of the individual or organisation. It is therefore desirable to understand each stakeholder's perception of CSR and its relevance to the banking sector. The question will also determine stakeholder perceptions regarding the concepts of societal end ethical performance, terms that are also relatively subjective.

3.8.2 In your opinion, please provide examples of CSR 'best practice' amongst organisations.

With the exception of the Co-op bank there is no UK Bank actively filtering its borrowers on ethical and societal criteria. To date, CSR is being championed by ethically conscience organisations or large multinationals that have had to respond to damaging attacks on its reputation in light of poor ethical and social practices. With a general lack of knowledge/ best practice to support this study, specific to the financial services sector, the processes and policies of other organisations to use as a benchmark for success is examined.

3.8.3 In your opinion, what do you perceive are the key drivers behind commercial banks incorporating a consideration of CSR into their lending appraisal process?

The drivers put forward to support this question were identified by a member of Barclays Environmental Risk Management Unit (ERMU), who is charged with the task of examining the potential role of CSR as part of the appraisal process in-house at Barclays. The purpose of this question is to discover which driver's stakeholders regard principally and whether other stakeholders share the drivers identified.

3.8.4 List six driving forces and restraining forces, which in your opinion may affect the development of CSR criteria as a consideration in a commercial bank's lending appraisal process.

Question three concerns itself with the drivers urging banks to consider CSR. Question four focuses on the forces for (driving) and against (restraining) the development of a proposed strategy towards CSR within the lending process. Based on the work of social psychologist Kurt Lewin, the question adopts the simple but powerful technique of Force Field Analysis for building an understanding of the forces that will drive and resist a proposed change. Thomas, 1985, suggested that force field analysis could provide new insights into the evaluation and implementation of corporate strategies.

For each force, a respondent is asked to assign a score from 1(weak) to 5 (strong). The score a force receives is dependant on (i) the strength of the force and (ii) the degree to which it is possible to influence this force. The process for scoring each force is an effective method for identifying the overall feasibility for a proposed change.

3.8.5 (a) What, if any, difference(s) has the environmental credit risk assessment (ECRA) strategy at Barclays had on (i) the environmental performance of borrowers (ii) the lending appraisal process? (b) Does ECRA provide a platform/basis for the development of CSR strategy?

Barclays began formalising its approach to ECRA in 1992. Since that time much work has been done to address the many environmental issues that may affect Barclays through the direct and indirect actions of its borrowers. Within the sphere of environmental risk management the issue of 'reputational risk' is also being addressed in an attempt to mitigate all possible risks. By identifying the key forces that embedded environmental criteria to be considered as part of the appraisal process, it is hoped those triggers may be translated to assist with a CSR framework of evaluation.

This question differs slightly for those involved in the wider stakeholder study. Barclay's identity is omitted; instead, the question refers to commercial banking in general (see appendix seven).

3.8.6 Please indicate the ethical and societal concerns that you would want to be featured in the lending appraisal process?

As mentioned in the justification for question one, individual perceptions regarding the definitions of societal and ethical performance may differ. For the purposes of the study it is desirable to identify and evaluate the societal and ethical criteria put forward by the various stakeholders. The Co-operative Bank's initial research, based on the development of its ethical policy in the early 90's, indicated that issues of concern were either very specific (animal testing, apartheid, fur trade) or broader, generic issues, such as the environment, armaments or oppression. Overall it was the broader issues that emerged as most important to respondents with Human rights (90%), armaments exports to oppressive regimes (87%) and animal exploitation (80%) scoring most significantly (Jetter, 1993).

3.8.7 Which industry sectors do you feel are particularly associated to poor social and ethical standards?

Most lenders currently use an index to evaluate environmental risk activities of industries and their processes. Whilst an index that illustrates high social and ethical risk activities is desirable, it is not a feasible consideration of this study. However, identifying the issues and industries regarded as most sensitive will further the consideration of CSR development at lending banks and further illustrates a commitment to stakeholder involvement in the decision making process.

3.8.8 In your opinion, does CSR have an impact on the profitability of banks and/or shareholder value?

Those who remonstrate that the "business of business is business", do so on the premise that the purpose of a corporation is to maximise profits and reward shareholders. They fail to understand that CSR may have 'bottom line' benefits, or at least act as a form of risk assessment. This question will gauge the response of stakeholders as to the potential impact of assessing CSR, whether positively or negatively, on bank profitability and/or shareholder value.

3.8.9 In your opinion, what indicators of measurement can be used to assess CSR performance as part of the appraisal process? Please comment, giving particular reference to what success criteria could be used to illustrate how CSR has made a difference.

The introduction of CSR framework as part of a bank's appraisal process would require sustained investment and resource availability thus affecting the company's bottom line. Additionally, it is argued, CSR has the potential to improve organisations tangible and intangible assets. It would be considered beneficial therefore, to justify the existence of a CSR strategy in quantitative and qualitative terms wherever possible, thus alleviating stakeholder concerns regarding the transparency and accountability of CSR within the appraisal process.

3.9 Survey Response

One stakeholder who had provisionally agreed to participate as part of the Barclays stakeholder group withdrew from the data collection process due to work commitments. The stakeholder, a Barclays' representative from the environmental team was unable to put forward a replacement team member.

Ten out of forty potential respondents (25%) completed and returned the wider stakeholder survey. The individual respondents are principally senior CSR managers, NGO representatives or academic experts. Others include senior representatives with responsibilities for sustainability, CSR and corporate governance issues. Reasons for not participating in the study generally centred on outstanding work/time commitments, although many expressed an interest in the results of the study. A representation of all the companies approached in this research process is illustrated in appendix five.

3.10 Critique of Methodology

On the whole, the methodological approach undertaken for this thesis proved satisfactory. Nonetheless, this section seeks to identify any limitations with the chosen research.

The decision to follow-up the questionnaire with an interview/discussion, via telephone, with Barclay's stakeholders was relatively unproductive. Whilst stakeholders did help to clarify on issues/remarks included in their questionnaire, it did not pave the way for a much greater insight into CSR and lending. On reflection, it would have been advantageous to include a stakeholder workshop into the methodological process, whereby all Barclays stakeholder could focus on specific issues and where more instructive discussions could be accomplished.

At the outset it appeared useful to incorporate a quantitative element into the results to compare and contrast findings from both stakeholder groups. But, because of the subjective nature of CSR and the relatively small sample frame this did give rise to some problems, in particular, question seven. The question asked, which industry sectors stakeholders feel are particularly associated to poor social and ethical standards. Responses to this question illustrated that whilst some industries sectors are associated with poor social and ethical standards, certain companies have done much work to tackle these issues. As a result, some stakeholders felt that to rank industry sectors in an order of importance was unfair and thus failed to provide a quantitative response.

Additionally, the decision to structure the questionnaire to include some 'closed' questions, would, it was hoped, aid the speed and ease of completion of the questionnaire. Whilst piloted successfully, some respondents commented on the depth of thought required to complete each question and may be a contributing factor why some stakeholders did not respond to the questionnaire. This was particularly the case for the wider stakeholder group.

Whilst some of the stakeholders participating in this questionnaire may have no direct involvement with ECRA, it was expected that they would be familiar with the concept that is illustrated briefly in Barclay's, and other banks, annual reports. However, one stakeholder from Barclays and six from the wider stakeholder group confessed to having little specific knowledge on the issue of ECRA and failed to provide an answer question 5(a). This point illustrates the relative infancy of issues pertaining to aspects of CSR within the lending process and the limited availability and access to internal data on processes and operations in this field.

3.11 Conclusion

The research has taken a stakeholder approach to investigate issues of CSR within the lending appraisal process. Engaging with a sample frame of six stakeholders from Barclays Bank the research captures current thinking on CSR and the process of lending. Mitigating against possible sample bias, a number of secondary stakeholders were invited to participate in this research study and their responses compared against the case study group. Supporting the study a conceptual framework was developed and used to illustrate the stages of assessment within the appraisal process.

Undertaken at a time when the consideration of CSR criteria as part of the lending appraisal process has yet to gain any significant momentum amongst commercial banks, the research is a pioneering study, and as such, was subject to certain methodological limitations.

The following chapter presents the results form the data collection process. It is followed by a discussion of the results in chapter five.

Chapter Four: Key Findings

This section of the thesis seeks to present the summarised data generated by the research questionnaire. The structure of this section follows the general question format as it appears in the questionnaire (appendix six). Key points arising from stakeholder discussions support the questions.

This chapter is followed by the discussion, which evaluates the results of the research in the context of the literature review and provides a critical assessment of research methodologies and opportunities for further research.

4.1 CSR, Societal and Ethical Performance

In general, there was agreement amongst stakeholders over the interpretation of these terms. However, how these terms should apply to commercial banks sported a wider range of opinion.

4.1.1 CSR

Responses from Barclay's stakeholders concerning CSR focussed on ways in which a company identifies, manages and mitigates against the social (and ethical), economic and environmental impacts of its operations and products.

In addition, one respondent included the role of the stakeholder in their understanding, stating, "CSR is the responsibility placed upon a company by its stakeholders…and by its own set of corporate values".

Responses from the wider stakeholder group also illustrate the significance of the role of the stakeholder in their understanding of CSR. Similarly, the obligations of a company to contribute to the long-term improvement of society were shared.

Only one stakeholder commented specifically on the actual term CSR, describing it as "…a misnomer, because it has come to embrace many more things than just 'social' responsibility." The respondent puts forward the simpler term 'Corporate Responsibility', stating, "to me it means corporate behaviour that takes into account its economic, social and environmental impacts, trying to maximise the positive and minimise the negative ones both today and in the future."

The response from the study group, referring to CSR, reflects the point raised in the lit review, that whilst CSR has no commonly accepted definition there is a general understanding of its over-riding aim and purpose.

4.1.2 Societal & Ethical Performance

Responses to stakeholder understanding of societal and ethical performance, illustrates, once again, a general consensus of opinion. Barclay's stakeholders illustrate that societal performance focuses on an organisations impact on society. Communities, employees and customers are examples provided to illustrate the internal and external stakeholder sources an organisation must consider within society. A respondent also commented that societal performance is "a measure of the company's compliance with legislation and international standards of good practice".

Similarly, societal performance described by the wider stakeholder group was generally thought to mean the impact of an organisation on society (i.e. its stakeholders). To put it simply, societal performance is "...a company's behaviour as a citizen".

Barclay's stakeholders describe ethical performance in terms of a company's moral and ethical standards. The response from the wider stakeholder group also illustrates that ethical performance relates to a policy on standards of ethical behaviour.

4.1.3 Application of Terms

Unsurprisingly, it was widely believed that the terms CSR, societal and ethical performance relate to Barclays in the same way as they apply to all other banks and businesses: "If a business is to be sustainable and preserve its licence to operate in the long-term, it is important to demonstrate an appreciation of the socially significant aspects of its operations". Furthermore, certain stakeholders expressed the fundamental relevance of these terms in relation to the banks indirect operations (i.e. lending). Indeed it was argued that a key intangible value of any bank is trust and that CSR should therefore become the footprint of the bank through its investment decisions.

Comments from the wider stakeholder group mirrored those shared by the Barclays group. Two respondents commented on the importance of developing a strategy to begin this process of evaluation rather than focussing too much on semantics and definitions relevant to the banks process of lending.

4.2 CSR 'Best Practice'

This question offers an insight into what stakeholders believe to be current CSR best practices amongst corporate sector (Table 1). Interestingly, many of the companies cited as having demonstrated best practice are multi-national companies who, it is argued, have responded to CSR in response to criticisms of poor social and environmental behaviour, not as a result of act of altruism.

Table 1: Stakeholder responses to examples of 'best practice'

Company	***Industry Sector***	***Areas of Best Practice***
BP	*Energy*	*Global Reporting and Transparency standards; Climate Change*
Shell	*Energy*	*Global Reporting and Transparency standards; Corporate values; Stakeholder engagement*
Anglo American	*Mining*	*Policies for treating HIV/Aids infected employees*
Kingfisher	*Retail*	*Practical solutions and communicating from the business rather than external CSR agenda*
Novo Nordisk	*Pharmaceuticals*	*Access to essential medicines; Reporting*
GSK	*Pharmaceuticals*	*In response to an ethical issue – animal testing and engagement*
Barclays	*Finance*	*Integration of environmental risk into large banking operation*
Co-Operative Bank	*Finance*	*Integration of principles in day-to-day practice; Sports for schools campaign*
DuPont	*Chemicals*	*Social and environmental reporting*
AVIVA	*Finance*	*CSR policy and programme*
Adidas Salomon	*Retail*	*Supply chain management*

Additionally, one stakeholder cited the ACCA awards as a suitable benchmark of best practice in relation to CSR. Last years winners included; Best Sustainability Report, Co-operative Bank; Best First-timer Social Report, British American Tobacco plc; Best social report, Furniture Resource Centre Group.

4.3 CSR Drivers

Table two represents the response from Barclay's stakeholders in relation to the drivers fuelling the consideration of CSR criteria as an aspect of the lending process. The chart illustrates that banks are being influenced to adopt CSR by a combination of non-financial factors such as reputation and financial factors principally income generation/protection.

Stakeholder	*O'Connor*	*Coulson*	*Birtwell*	*Sweeny*	*King*	*Thomas*
Reputation	3	1	1	2	2	2
Regulation	2	6	6	6	-	3
Benchmarking of corporate performance (e.g. FTSE4Good)	9	3	5	4	-	8
Political pressure	8	8	4	9	5	7
Peer group/competitive pressure	5	2	-	7	3	4
Institutional investors	4	4	3	3	-	5
Income generation/ protection	1	5	-	8	1	1
Public expectation	7	9	2	1	4	6
Employee pressure	6	7	-	5	-	9

Table 2: CSR drivers – Barclay's stakeholders
(Ranked in order of importance: 1 being the most important)

Table three represents the response from the wider stakeholder group. While reputational risk is widely reflected as the main driver urging the consideration of CSR criteria, there is remarkable divergence on secondary motivations.

Stakeholder	*One*	*Two*	*Three*	*Four*	*Five*	*Six*	*Seven*	*Eight*	*Nine*	*Ten*
Reputation	1	2	3	4	1	1	1	1	7	1
Regulation	3	6	7	-	5	3	-	-	8	7
Benchmarking of corporate performance (e.g. FTSE4Good)	7	9	9	-	8	2	2	4	3	9
Political pressure	9	7	8	-	7	7	4	-	5	4
Peer group/competitive pressure	4	8	2	1	4	6	5	5	6	8
Institutional investors	8	5	5	-	9	8	-	2	2	3
Income generation/ protection	2	3	6	5	2	9	-	6	9	5
Public expectation	6	1	1	2	6	4	3	3	1	2
Employee pressure	5	4	4	3	3	5	6	-	4	6

Table 3: CSR drivers – Wider stakeholder group
(Ranked in order of importance: 1 being the most important)

4.4 Driving and Restraining Forces

Figure 10 illustrates the forces acting for and against the incorporation of CSR criteria into the lending appraisal process. Each force is awarded an averaged score from both stakeholder groups. The score indicates the strength of the force and the degree to which it is possible to influence the force.

The combined responses illustrate support for the aim with a total score of 27:25 in favour of the plan. Individual group scores for Barclay's and secondary stakeholders were, 27:25 and 27:24 respectively. Discussions on strategies to reduce the strength of the opposing forces and increase the forces pushing the proposal are pursued in chapter five. Table 1 illustrates a summary of stakeholder perceptions associated with each force.

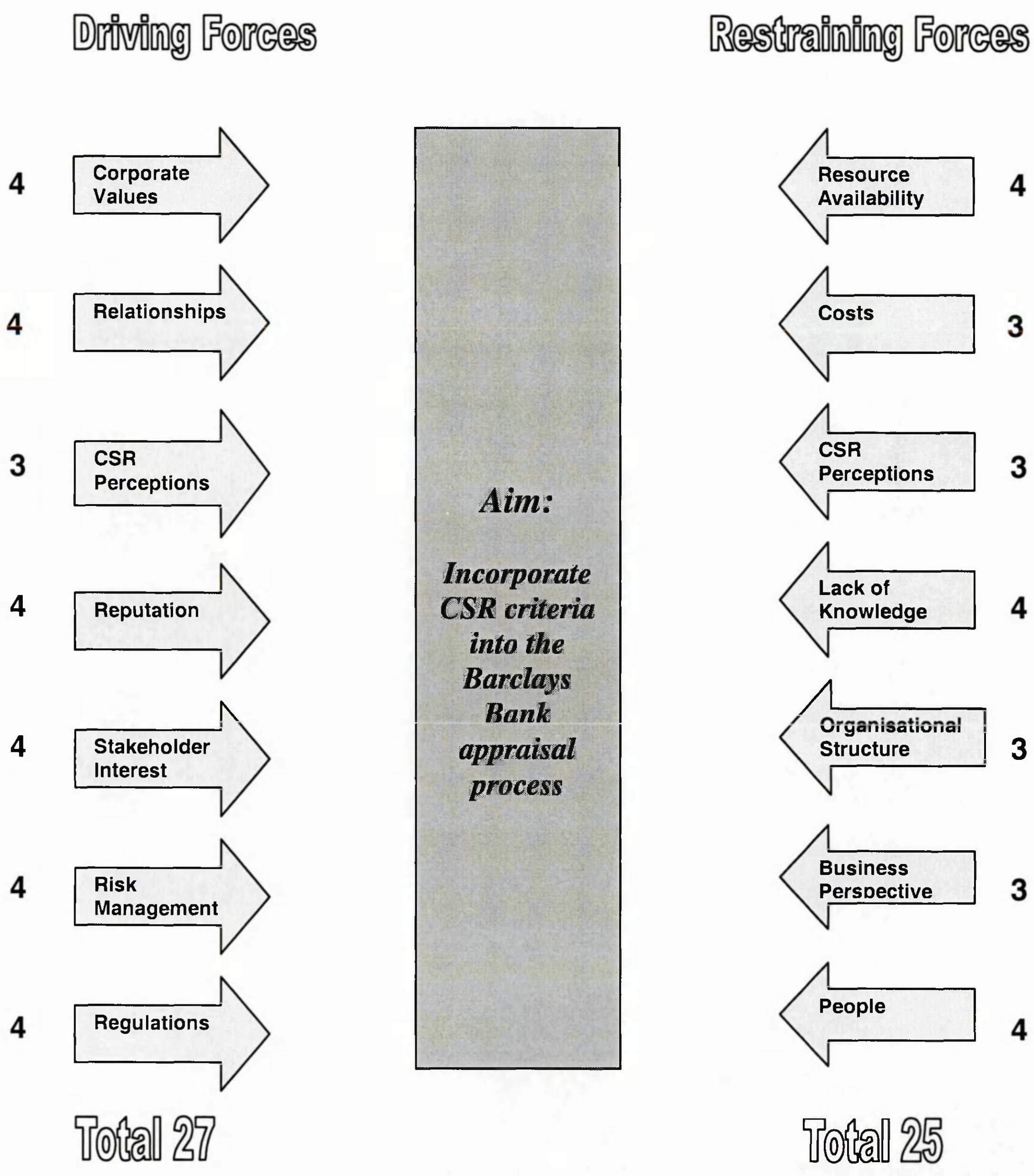


Figure 10: The forces for and against the proposed incorporation of CSR criteria into the lending process

Table 4: Summary of the issues relating to the driving and restraining forces

Driving Forces	Characteristics	Restraining Forces	Characteristics
Corporate Values	Benefits brand value, corporate reputation, human capital and revenue generation. Creates a sounder 'licence to operate'	Resource Availability	Inadequate resources: Knowledge, people, time, money, leadership
Relationships	Improves stakeholder relations, reducing conflict resolution	Costs	Expense involved in developing and implementing CSR Educating bank staff Tight decision timeframe on loan agreements Short-term profit focus
CSR Perceptions	Changing perceptions of corporate responsibility Increasing accountability and transparency on CSR issues Herd mentality to new areas of corporate strategy (follow the leader)	CSR Perceptions	Social responsibility issues are complex, intangible, ill-defined and subjective in nature Press intolerance to failure may stem CSR development
Reputation	Reaffirms Barclay's leadership approach to sustainable development amongst financial services sector Enhancement of public/corporate image Positive media exposure Failure/Loss of trust: trend from trust me to show me	Lack of Knowledge	Difficult to verify the social impacts of a borrowers operation Lack of expertise and understanding Lack of profile of issue
Stakeholder Interest	Various internal and external stakeholder group support for CSR	Organisational Structure	Few supportive structures
Risk Management	Existing environmental policies already incorporate some social assessment aspects. Improve quality of loan/equity portfolio Improve risk minimisation/mitigation Improve intellectual capital	Business Perspective	Lack of Inertia. Finance culture slow to respond Management myopia, Short-term target requirements Capitalist mentality Legalistic consultancy
Regulation	CSR promotes knowledge and innovation-based strategies. Voluntary adoption of CSR strategy lessens the likelihood of an imposed mandatory framework	People	Requires buy-in from board of directors, senior management and lending officers Requires leadership & direction

4.5 Environmental Credit Risk Assessment

Four of the six Barclays stakeholders agreed that ECRA has led to a greater focus on assessing environmental risks and mitigating them within Barclays, which has ultimately improved the environmental performance of its borrowers. The remaining stakeholders felt unqualified to compare the systems before and after ECRA implementation because of a lack of insight and therefore omitted to provide an answer.

In response to part (ii) of this question, stakeholders considered that the development of an ECRA strategy at Barclays has improved the quality of knowledge of credit risk officers, and intellectual capital of the Group, thus reducing potential risks in the lending process. It is also argued that this action may have increased opportunities/performance of loan book. Finally, one respondent cited ECRA for reducing reputational risk at Barclay's, which has put it ahead of curve in complying with new legislation.

Responses from the wider stakeholder group were less assured. Six stakeholders felt unsuitably informed on ECRA matters to provide a relevant answer. The remaining four stakeholders felt that environmental assessments only had a marginal effect on the performance of many banks because borrowers can shop around. Indeed three of the stakeholders commented that ECRA was only really undertaken in high risk, project finance initiatives.

Stakeholder group responses for these two questions may differ slightly because of the focus of the question. Barclay's stakeholders are referring to ECRA at Barclays, whereas the wider stakeholder group are referring to ECRA amongst the general commercial banking sector.

4.5.1 ECRA as a platform for CSR

All Barclay's stakeholders consider ECRA to provide a suitable platform/basis for the initial development of a CSR strategy as it relates to the lending process where a banks exposure to CSR is considered most acute. Indeed, as one stakeholder remarked, "if an ECRA is in place employees should already be sensitised to some of the CSR issues." Ultimately, it is felt that ECRA should become an integral part of a broader strategy on CSR, which is consistent between the various departments of the bank, (i.e. human resources, supply chain, marketing, investments, etc).

The opinion of the wider stakeholder group reflected the points raised by Barclay's stakeholders. Whilst ECRA provides a starting point with which to begin the development of a strategy for evaluating CSR criteria as part of the lending appraisal process, it was considered that ECRA might not cover in enough depth, all issues relating to CSR (i.e. employees).

4.6 Ethical and Societal Stakeholder Concerns

Figure 11 illustrates the response from Barclay's stakeholders with regards to ethical and social concerns. It illustrates the relative importance of a number of key issues. The response from the wider stakeholder group (figure 12) illustrates a degree of commonality on a number of similar issues.

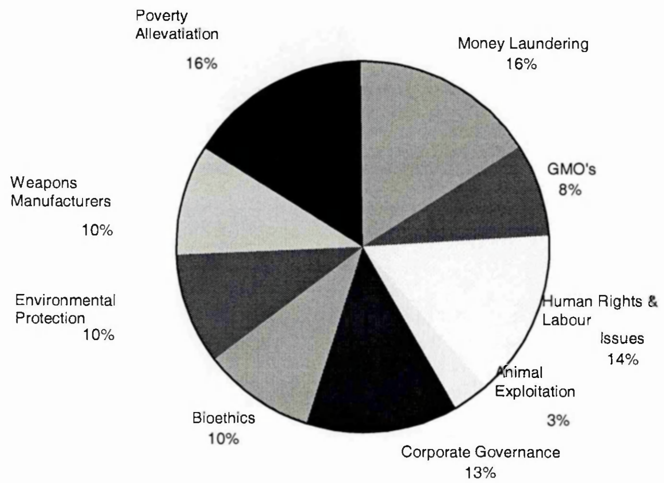


Figure 11: Societal and ethical concerns of Barclay's stakeholders

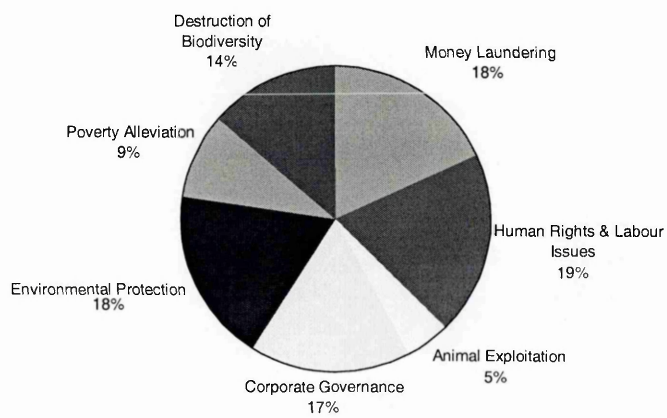


Figure 12: Societal and ethical concerns of wider stakeholder group

4.7 Industry Sectors Standards – Societal & Ethical

Figure 13 illustrates the cumulative data gathered from Barclay's stakeholders on industry sectors poorly associated with poor social and ethical standards. The literature review indicates that despite the best efforts of individual companies to address CSR issues, certain industries are more associated with poor social and ethical standards than others. Indeed, responses from several stakeholders illustrated the difficulty in answering the question because of this fact. Figure 14 illustrates the responses from those who participated as part of the wider stakeholder group.

Figure 13: Industry sectors associated with poor social and ethical standards (Barclay's stakeholders)

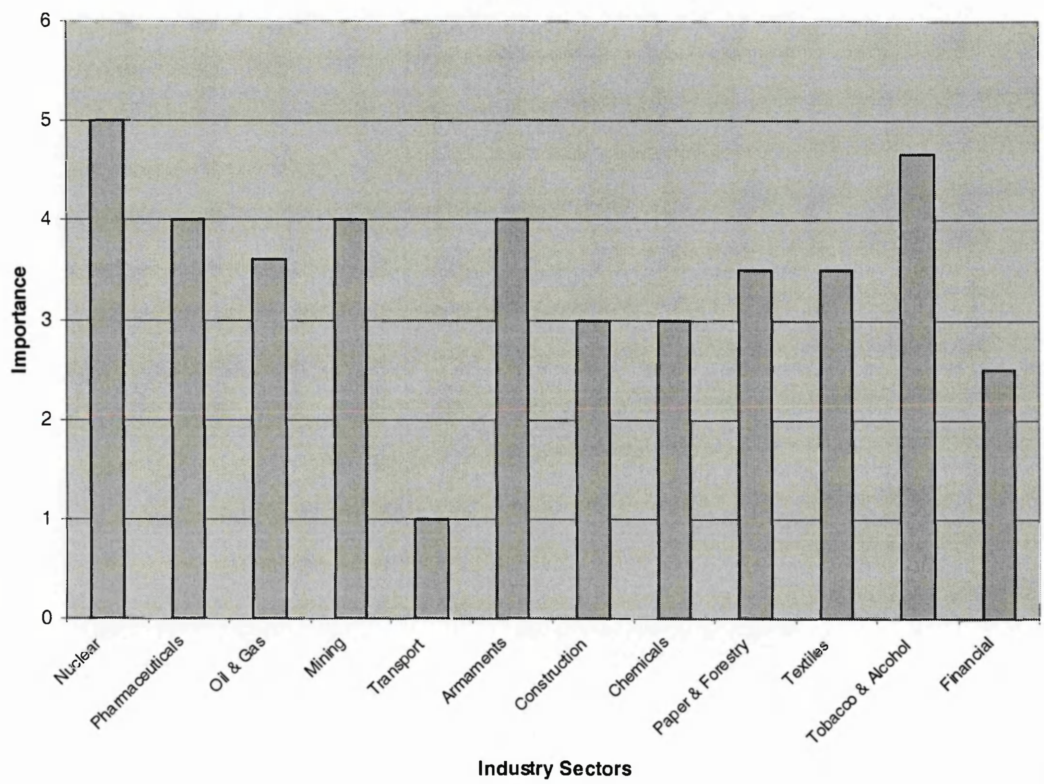
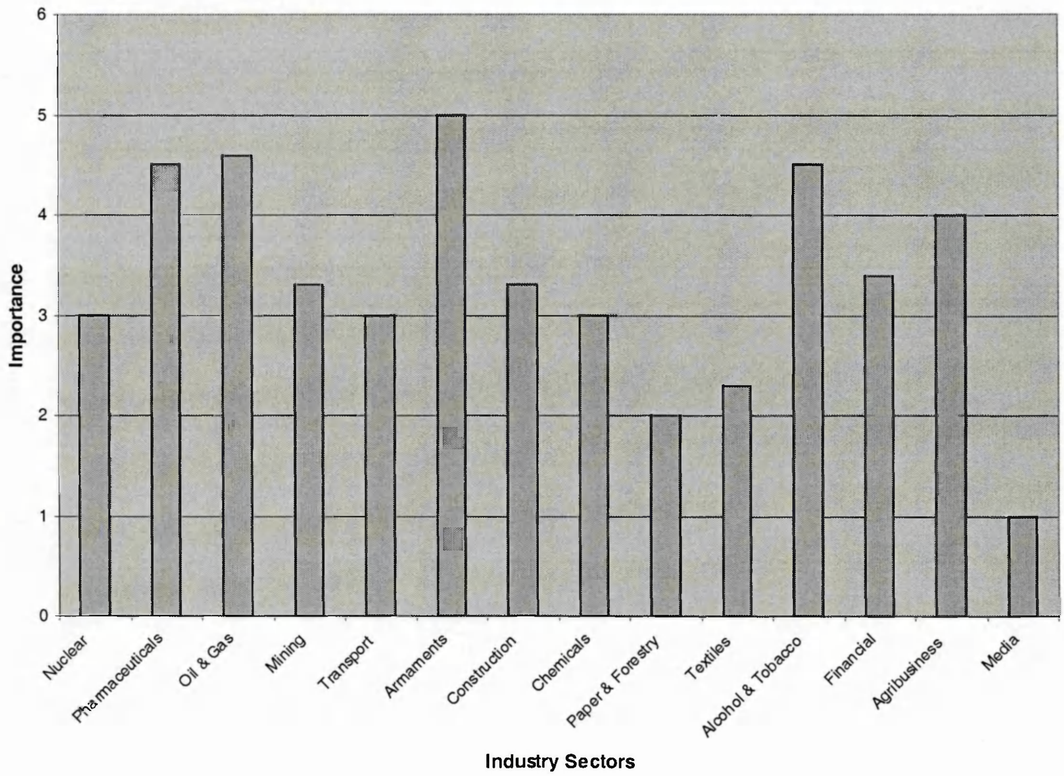


Figure 14: Industry sectors associated with poor social and ethical standards (wider stakeholder group)



4.8 CSR Bottom Line Impact

Comments from survey respondents appear to support the notion that CSR impacts positively on the profitability of banks and/or shareholder value. This perception is based on a long-term perspective of corporate performance and includes tangible and intangible factors. One stakeholder cites a recent PricewaterhouseCoopers survey to support their statement. The survey illustrates that 75% of a company's valuation lies outside traditional financial reporting.

Responses from both stakeholder groups illustrate that increasingly there is widespread recognition that the function of a company extends beyond short-term shareholder successes but instead focuses on market orientated yet responsible behaviour, which considers a long-term approach to sustainable development.

4.9 CSR Performance Measure Indicators

Responses from both stakeholder groups were wide ranging concerning this issue but generally answers focus upon qualitative non-monetary performance indicators. Table 5 illustrates the range of answers provided by both stakeholder groups.

Performance Indicators	Measures
Governance	Board commitment/appropriate incentives and removal of conflicts of interest throughout organisation or clear guidance on how to deal with such conflicts.
Materiality	Explanation of what is/isn't material risk regarding CSR areas/issues
Business ethics	Illustrate lobbying positions are consistent with stated values/policies
Intangible values	What are CSR areas that add most value to the company
Litigation and non-compliance with regulation	Details and response
Performance over time and stretching targets	Health & Safety, environmental key performance indicators (KPI's) (certification/audits etc), diversity reporting, training and development (as a measure of intellectual capital/ implementation of group policy), attendance and success at CSR training modules and leadership in training/raising awareness of others Indirect impacts – suppliers/contractors/investments (evidence of specification in contracts, site visits, engagement.) Loan performance where environmental/social assessment has taken place and recommendations adopted as result of assessment
Employee surveys	KPI satisfaction/ recruitment & retention of best; customer surveys – KPI satisfaction/loyalty; reputational analysis – with stakeholder groups/c.f. peers.
Active engagement	Extent to which individuals have actively sought out/referenced external advice from experts on specific CSR issues and challenges. Involvement in working groups, thought leadership groups Favourable media comments

Table 5: Summary of proposed stakeholder performance indicators

4.10 Conclusion

The results from the stakeholder engagement process suggest the following broad conclusions.

There exists a strong correlation of opinion between Barclays and the wider stakeholder group. This vindicates Barclay's selection of stakeholders from any insinuation of sample bias

Barclay's stakeholders are not demanding the development of a strict ethical policy that restricts lending to any particular industry sector, but are keen to see the development of a sensitive strategy that successfully screens against a number of societal and ethical concerns.

Respondents acknowledged that while certain industry sectors are more closely associated with poor ethical and social standards, they could also be sources of examples of best practice.

Current ECRA practices provide a platform on which to base a future strategy of CSR, but do not successfully consider all relevant social issues in its current context. Indeed, it is argued that ECRA should be incorporated as an aspect of any future CSR strategy.

Stakeholders share the opinion the CSR impacts on the profitability of banks and/or shareholder value positively. This perception is based on a long-term perspective of corporate performance and includes tangible and intangible factors

Respondents from both stakeholder groups recommend a number of qualitative non-monetary indicators to assess the development of CSR within the lending appraisal process.

Chapter five critically examines the literature review and the results from this section in light of the objectives outlined in section 1.3.

Chapter Five: Discussion

This chapter critically examines the literature review and the results from the stakeholder engagement process to provide insights, if not answers, to the research question and objectives stated in chapter 1.3. Arguments are developed to evaluate the significance of the data generated by the survey and options for appropriate responses will be proposed.

The concluding section of this thesis, which examines whether the objectives stated in section 1.3 have been met, follows this discussion. Research limitations and implications for further research are also discussed.

5.1 Driving and Restraining Forces

The research has identified the key drivers forcing the consideration of CSR amongst commercial banks, it has also identified driving and restraining forces that may affect the proposed incorporation of CSR criteria as part of the lending appraisal process. The importance of identifying these forces, and how they may affect a process of CSR relevant to lending operations at commercial banks, facilitates a process of assessment with which to devise a manageable course of action that addresses these strategic issues.

The literature review identifies how CSR has generally moved beyond the simple equation of profitability plus compliance plus philanthropy to becoming more about understanding the societies in which business operates. In light of current market expansion, management expectations, government down-sizing and the development of organised and aggressive stakeholder pressure groups, the revived focus of CSR is far broader based and includes local, regional, national and international issues.

Many of the key points raised in the literature review mirror those expressed by both stakeholder groups. Barclays' stakeholder analysis illustrated that banks are being influenced to adopt CSR by a combination of non-financial factors such as reputation, and financial factors such as income generation/protection. Indeed, Ulph's 1999 report of UK banks viewed reputation risk as the greatest concern with fewer respondents considering borrower default rates and the recovery value of collateral with less importance. Similarly, the findings of Andrea Coulson's Pan-European study, (2002), discovered default risk minimisation and reputation risk as the principal reasons why environmental policies – a component of CSR – were developed by banks to mitigate against associated credit risks.

Such a varied representation of opinion with regards to secondary motivations driving CSR possibly indicates that stakeholders have selected drivers that reflect or influence their own specific area of interest or expertise. Alternatively, it may simply reflect the subjectivity in the debate over CSR.

As the literature illustrates, the historical context of the relationship between business and society have been subject to changing perceptions of risk and ethical behaviour. CSR requires progressive thinking and research, as public perceptions of risk will be constantly redefined in light of new impacts and issues. Indeed, the drivers, which are prioritised in this study, may be subject to change.

The strategic and growing importance of managing risks to reputation was recognised by stakeholders and is supported in the literature review. Indeed, much of the current thinking with regards to CSR is shaped by environmental experience. Environmental credit risk was created off the back of increasing legislative regulations in Europe and the US where tax incentives and penalties were in place to encourage higher environmental standards and stakeholders were considered more environmentally aware. Subsequently, ECRA has been developed to include non-OECD countries and emerging markets. The decision to include CSR as a component of future credit risk decision-making will, in the light of modern pressures, require a more integrated, holistic approach to the development of a strategy on CSR. As the literature confirms, with specific examples from Barclays Bank, breaches of perceived social responsibilities from activities anywhere in the world can result in aggressive pressure campaigns that may result in damaging corporate reputation. Confounding this issue, banks must strike the appropriate level of engagement with their borrower, one that presents them as an understanding and constructive partner who can assure an appropriate level of confidentiality and maintain competitiveness by avoiding the introduction of unnecessarily high societal criteria. In many respects, banks entering into a process of CSR do so with their shoelaces tied.together.

Questionnaire respondents concurred with those views highlighted in the literature review that CSR has the potential to impact positively on the profitability of banks and /or shareholder value. While several stakeholders expressed doubts that CSR has any direct impact on short-term profitability, they were convinced of its long-term benefits, they were however not able to quantify this effect. Indeed, it was argued that in the short-term besides raising the aesthetic profile of the business, a sound CSR strategy could have a detrimental impact, as it may reduce the universe of clients and investment opportunities. However, this would be offset by many medium to long-term risks and benefits. Despite this, the Co-Operatives Bank's ethical policy did not result in any negative short-term impacts, even though it could be argued that the company was already perceived to have an ethical image. Barclays foray into a strategy of CSR that relates to lending, will be less prescriptive and definitive in its approach as it is not the intention to 'redline' any industry sectors, rather to raise the social responsibilities of its borrowers. Nonetheless, a strategy that selects criteria which is too ambitious or too vague and fails to demonstrate evidence of performance may be as damaging as doing nothing at all. Indeed, Chris Bray's response to Barclays' adoption of the Equator Principles indicates that applying societal standards to borrower applications is unlikely to affect business, but will require a structured approach to this new aspect of lending.

Furthermore, reflecting on ECRA as a benchmark on which to consider the broader issues of CSR, it is generally regarded by banks that, 'a company with good environmental performance generally reflects a company with good management and strong financials' (Coulson, 2002). With that in mind, the same thinking might be extended to CSR? Indeed, as one stakeholder stated "it is likely that the best companies – those who are most successful – will have also thought through their stance on CSR related issues, and will look to do business with likeminded organisations."

5.1.1 Force Field Analysis

In attempting to determine the forces that are urging Barclays towards CSR, the research explored the driving and restraining forces that impinged on any proposal to incorporate CSR criteria into the lending appraisal process

It was shown that support for the proposed development of social responsibility criteria for loan assessments outweighs any disinclination 27:25 (Figure ten). Such a trade-off between the driving and restraining forces is essentially a subjective one that for many banks is likely to be driven by capital and revenue cost considerations and the motivation to mitigate reputational and investment risk. Additionally, decisions may be directed by a desire to gain competitiveness. However, unless CSR is adopted enthusiastically by all those involved in its assessment process and applied across the loan portfolio, it will not evolve beyond being a tokenistic marketing/PR tool, which may in turn prove damaging to the business if inaction/complacency is exposed.

Faced with the task of pushing through a project of CSR for the appraisal process at Barclays, the analysis process suggests a number of points to reduce the impact of opposing forces and strengthen and reinforce the supporting forces. Figure 15 illustrates the revised analysis points from the original findings (Figure ten), with changes shown in red. These changes help to strengthen the viability of a proposal to incorporate CSR into lending processes from 27:25 to 30:16 in favour of the plan.

- By training lending officers and ERMU staff (increase cost by +1), resource availability and intellectual knowledge would be improved (reduce scores by -2).
- Stakeholder engagement process moves CSR from a subjective issue towards an objective assessment of critical issues (CSR perception (restraining forces) –1, CSR perception (driving forces) +1).
- CSR will improve the stakeholder relations, reducing exposure to conflict (relationships +1, reputation +1)
- Evidence of the strengthening business case for CSR empower senior management buy-in (people –1)
- Illustrating how CSR is not an add-on to business operations but a core component of every aspect of future operations (-2 organisational structure)

The analytical concept is simplistic in its application but serves a valuable purpose for directing banks - in this case Barclays Bank – towards a manageable course of action for determining a strategy of CSR for the appraisal process of lending, a strategy based on a process of stakeholder engagement that takes into account all interests. However given the subjectivity and relatively immature status of CSR within banking, in particular lending, these factors serve only as a short-term focus of attention. Ensuring stakeholder interests are understood requires regular analysis and redesign to reflect developments in societal expectations, research and guidance frameworks. For example, the revised force field diagram (Figure 15), illustrates that costs have risen. A later review of stakeholder opinion may indicate that this force is no longer so relevant, as resources have been allocated, staff training exercised and initial costs accounted.

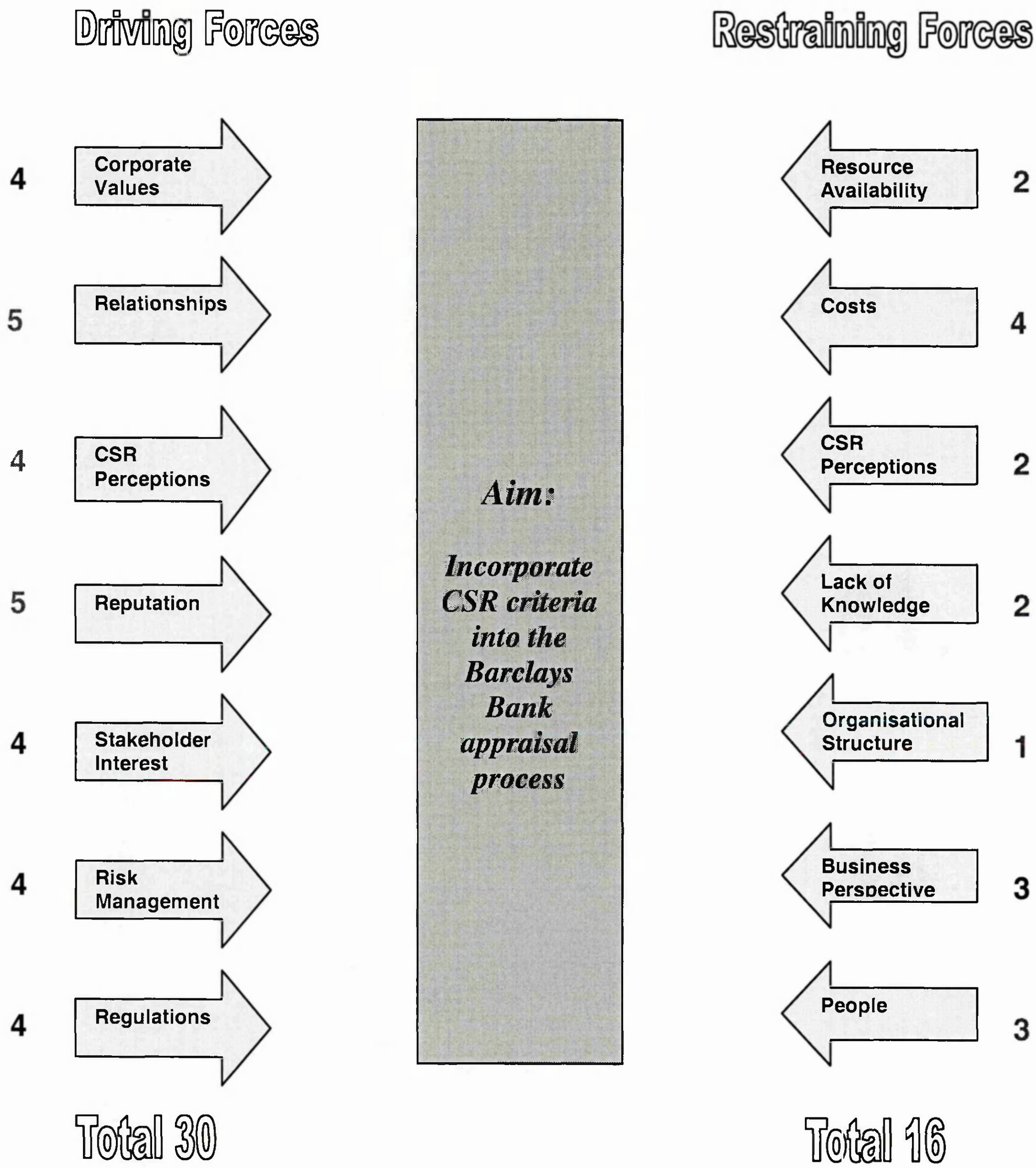


Figure 15: The revised forces for and against the proposed incorporation of CSR criteria into the lending process

5.2 Societal and Ethical Criteria

The response from the study group, referring to CSR, reflects the points raised in the literature review, that whilst definitions may vary there is a general understanding of its over-riding aim and purpose. Indeed, it was generally supposed that CSR focussed on ways in which a company identifies, manages and mitigates against the social (and ethical), economic and environmental impacts of its operations and products by engaging with stakeholders. This sentiment echoes the corporate examples referenced in the literature and the growing body of support from a number of commentators for the stakeholder theory as a component of CSR thinking. Reflecting Freeman's view, (1984), the stakeholder theory avoids advocating primacy to one stakeholder group over another. Similarly, there was a consensus of opinion on the understanding of societal and ethical performance (section 4.1).

Unsurprisingly, it was widely believed by Barclays stakeholders, that the terms CSR, societal and ethical performance relate to Barclays in the same way as they apply to all other banks and businesses, although, their direct retail relationship with millions of customers and businesses means that CSR has heightened importance for the banks. Certain stakeholders expressed the fundamental relevance of these terms in relation to the banks indirect operations (i.e. lending). Furthermore, it was argued that a key intangible value of any bank is trust, and that CSR should therefore become the footprint of the bank through its investment decisions.

While stakeholders share opinion on the understanding of these terms it was not the intention of this study to offer a definition/mission statement of CSR for Barclays, or the process of lending. Barclays are pensive about a strategy on CSR that is too definitive or prescriptive at such an early stage in the process of consideration. As reflected in the literature, engaging on a process of CSR that is too ambitious may be as damaging as doing nothing at all. Furthermore, this action is supported by stakeholder responses that felt that the issue relating to CSR was not defining its purpose but focussing on the issues/impacts of borrower actions and the assessment process for mitigating these risks. It is actions, not words that will satisfy stakeholders. Quoting one stakeholder, "companies should not worry too much about definitions, but concentrate on impacts. Companies have a long way to go before we get to a stage where definitions matter."

Stakeholder concerns regarding societal and ethical criteria reflect some similarities with the Co-operatives Bank's ethical policy research from the early 90's, which indicated that issues of significant concern were generally broader, generic issues, such as human rights, armaments exports to oppressive regimes, and animal exploitation. Similarly, Barclays stakeholders cite these issues among nine broad concerns that share relatively equal importance (Section 4.6).

What differentiates these two financial players is their position on how to tackle these issues. The Co-operative Bank adopts a strict ethical policy, which is averse to involvement in certain industry sectors and business operations. Barclays, on the other hand, considers itself to be risk aware not risk averse. Barclays are therefore prepared to constructively engage with companies in order to help improve standards. This has been the case with ECRA and further back, Barclay's involvement in South Africa. While both camps have their supporters and cynics, it was interesting to note that Barclay's stakeholders did not infer the need for Barclays to omit any industry sector from its loan portfolio on ethical grounds. Indeed, as illustrated in the literature, Barclays already makes a formal statement to reflect and promote the standards enshrined in the UN Declaration of Human Rights, specifying a commitment to refuse finance to areas such as instruments of torture, land mines, and chemical, biological and nuclear weapons (The Banker, 2002). Furthermore, as stakeholders have illustrated, many societal issues are already factored into environmental risk assessments. Indeed, aspects such as money laundering prevention, bribery and corruption prevention, access to finance, equality and diversity etc are integral to Barclays' governance and management systems (Barclays, 2002). Human rights are also an important aspect.

Demonstrating awareness to many societal and ethical issues, the challenge for Barclays therefore, is not primarily the societal and ethical issues they should address, indeed, stakeholder responses indicate that the debate is not on what but on how social responsibilities are considered amongst the lending process.

Referring to the comment from Michelle Chan-Fishel of Friends of the Earth, one of the key weaknesses of most corporate-led voluntary initiatives is the lack of accountability in implementation mechanisms. Supporting this observation, Coulson, (2002), illustrates how "...social impacts is an area that has received less attention in the past, and therefore benefits from less well-developed internal procedures." According to Scott & John, (2002), the majority of banks still focus on direct environmental impacts; firstly, because it is easier to measure and manage direct impacts than the more challenging issues surrounding sustainability/CSR; and secondly, guidance on the wider and thorny category is far less abundant. Indeed, Barclays' CSR report focuses solely on the environment in relation to lending operations.

Ideally, to assist the development of a social assessment process at Barclays, borrowers would already be reviewing their social responsibilities in response to their own process of stakeholder engagement prior to any loan request. As the literature suggests, there is an increasing focus by firms to consider their wider social, environmental and economic (SEE) responsibilities and contribute to the challenges of sustainable development. This corporate trend would ultimately make the loan process more fluid and ease the responsibility of the lender and supporting team to verify many intangible factors. Responses from stakeholders support this opinion: "it is likely that the best companies - those who are most successful – will also have thought through their stance on these issues, as the penalty for getting them wrong can be enormous."

A lack of competence on CSR issues is no longer defensible. These issues are increasingly receiving coverage and are shared to some degree amongst corporate sectors and stakeholder sources. Increasingly, CSR is perceived as striking a balance between what is right with what is profitable. Banks who fail to accommodate this principle into lending operations run the risk of negative media exposure.

5.3 CSR Best Practice and Framework Guidelines

The literature review discussed the relative merits of GRI, FORGE and the Equator Principle guidelines and their applicability to the commercial lending processes at banks. The development of these framework guidelines leaned heavily on existing environmental management and reporting disciplines. However, few stakeholders were aware that Barclay's environmental policy was modelled on GRI guidelines. Similarly, the level of stakeholder understanding of the equator principles, FORGE and GRI guidelines varied.

The guidelines are substantial pieces of work and involve input from various key financial organisations, NGO, CSR commentators and not-for-profit organisations. Indeed, Barclays is represented, whether directly or indirectly, in the development of all three guidelines. However, given the relatively immature status of formal policy in social criteria assessment as part of the lending process amongst banks, these guidelines serve only to point banks in the right direction in terms of screening broad social responsibilities. It is also important to recognise that these guidelines are directed towards a strategy of learning by doing. Attempting to evaluate them at such an early stage of development is premature, particularly in relation to lending. Sampson, (2002), argues in the literature, that it will take years before a solid international consensus emerges on what should constitute CSR and how companies can best manage and report on their performance. Additionally, the literature illustrates the need for companies to find their own approach to developing CSR; a one-size-fits-all approach, which fails to reflect the differing product mix and customer exposure of individual banks is unlikely to satisfy stakeholder concerns.

Barclay's position in all three guidance frameworks illustrates leadership and a commitment, for whatever motive, towards sustainable development. Nevertheless, stakeholder satisfaction will be assessed on verifiable actions of social performance not commitments. Media exposure over Barclays' involvement in funding a controversial dam project in Iceland soon after its adoption of the equator principles, illustrates the delicacy in balancing relations with a variety of stakeholders and the potential embarrassment associated with failure.

However, there is scope for these frameworks to have greater influence in the future, if common guidance frameworks are developed to aid the further understanding and implementation of social responsibilities. Indeed, voluntary participation in these types of framework guidelines is seen as a way of avoiding political regulation and standards. This is an opinion supported by Credit Suisse in its participation of the GRI framework study.

Responses from the stakeholder survey illustrate that CSR best practice is not the reserve of small niche organisations, but is in fact, recognised as the action of many large multinational organisations (section 4.2, Table 1).

Except for the Co-Operative Bank, the companies put forward by stakeholders have in the past been the subjects of different forms of stakeholder pressure to demonstrate greater social responsibilities. Shell's perceived transformation since its bruising encounter with Greenpeace over Brent Spar and its involvement in Nigeria is well documented. Indeed, how gratifying it must be to have your former nemesis, Greenpeace, now describe you as relative progressives in the field of CSR. Similarly, Barclay's has received its fair share of criticism. Its involvement in South Africa was a hugely sensitive issue for which it received much negative media coverage.

Indeed, citing best practice often means identifying companies from industry sectors associated with poor social and ethical standards. Responses from the stakeholder engagement process revealed reluctance in determining industry sectors with poor social and ethical standards when certain companies have made huge efforts, "This is highly subjective – e.g. mining is highly controversial, but the sector has been very proactive recently in addressing its SEE risks." Arguably, to distinguish between industry sectors based on sweeping generalities of industry practice would surely be considered socially irresponsible behaviour and degrade the ideal of CSR which is to facilitate sustainable development. Nonetheless certain industries sectors were identified as particularly sensitive and provide the basis upon which to direct a strategy of CSR (section 4.7, figure 13). Indeed, many of those industries selected are also associated with sensitive environmental issues.

Whilst certain companies are recognised for their work in CSR, they do not aid the provision of a strategy at Barclays, although they do serve to reiterate the importance of stakeholder engagement in the process of development. However, any potential assessment process will want to evaluate industry/sector best practice, which, in the eyes of stakeholders and the wider public, is considered socially responsible. Subsequently, these companies act as an excellent benchmarking tool for lending officers, with the issues for which they are recognised factored into future CSR resources that are focussed at improving intellectual knowledge.

How far banks are prepared to share best practice is questionable. ECRA practices demonstrate that banks are keen to preserve operational secrecy on internal policies and procedures. Differentiation, after all, is a key factor in determining competitiveness amongst banks. If adoption patterns mimic the development of ECRA, standardisation of social responsibility information provided by banks (indicators) and benchmarking between banks will only be explored after an initial period of experimentation and innovation, which may take several years. However, mounting pressure from stakeholders for greater transparency and accountability can only help to speed-up the transfer of knowledge on CSR management and reporting for all banking operational processes. Banks therefore, attempting to begin the process of CSR, find themselves very much on their own.

An interesting point to have surfaced from this aspect of the study is Barclays' own public perception in facilitating CSR development. Interestingly, only one stakeholder mentioned Barclays as an example of best practice. However, reviewing the social and environmental literature on this subject area from a commercial banking perspective, Barclays has contributed significantly, yet its achievements are not broadly recognised.

Why Barclays has not received the broad applause that Shell and others enjoy may be in part due to the focus of its contribution towards social responsibility. It is the indirect actions of lending rather than the direct actions of its business processes that are of greatest significance to stakeholders. Direct corporate actions and their impacts are much easier to determine and quantify, whereas the success of distinguishing environmental performance as part of the credit risk loan process has shown, there is an inherent difficulty in separating one performance factor from overall business performance, therefore quantifying impacts is made more difficult.

Arguably, as the literature illustrates, Barclays may still be perceived as the 'Aunt Sallies' of the banking community. A stigma it must shake off if it is to move forward and realise the potential market capitalisation benefits associated with CSR. Whether this issue is a reflection of Barclays' own failure to communicate it achievements could be the subject of further research and internal review.

5.4 Mechanisms to Facilitate CSR

Based on an interpretation of existing guidance frameworks for both ECRA and CSR, the conceptual model offered in the methodology was constructed as a common CSR guidance framework to illustrate the stages of assessment of lending. Mechanisms to facilitate the commercial consideration of CSR criteria throughout the Barclays Bank lending appraisal process are discussed in this section in relation to this model. The mechanisms put forward are based on a generic understanding of credit risk management processes drawn from the literature, and stakeholder research processes. Comments from supportive meetings with Carolyn Spence from Barclays Bank ERMU team also influence the discussion.

5.4.1 Screening of CSR Risk Characteristics

Barclays stakeholders consider ECRA to provide a suitable platform for the initial development of a CSR strategy as it relates to the lending process where a bank's exposure to CSR is considered most acute. Indeed, as one stakeholder remarked, "if an ECRA is in place, employees should already be sensitised to some of the CSR issues."

Whilst ECRA provides a starting point with which to begin the development of a strategy for screening CSR criteria as part of the lending appraisal process, it was considered that ECRA was not a sufficient condition to have an impact on all issues relating to CSR. Indeed, Barclays admit that current social assessments focus as aspects of environmental risk.

However, as illustrated previously in this discussion, Barclays contribute either directly or indirectly towards the three frameworks reviewed in the literature which focus on CSR issues for the financial services sector. While the frameworks are recent creations, combined, they help to provide relevant information to identify and screen broader CSR risk characteristics. For example, the social performance indicators outlined in the GRI Sustainability Reporting Guidelines, have identified key performance aspects surrounding human rights, labour rights and other broader social issues – issues which reflect a strong degree of similarity with those put forward by Barclays stakeholders. These are based predominantly on internationally recognised standards through its detailed consultative process.

Stakeholder feedback indicated that developing a strategy on CSR would benefit from an external expert with field experience being brought into the loop on screening human rights and social policies in particular. However, according to Carolyn Spence at Barclays, previous discussions with external sources have identified a comparable level of understanding on CSR issues, and therefore are unsure of these benefits. Indeed, the environmental expert employed by the ERMU team at Barclays fulfils a purely technical role and has no influence over the decision of a loan, whereas broader social responsibilities are primarily non-technical and subjective. The Bank cites this as a new area of work for consultancies and other organisations that ultimately rely on the same information and standards as themselves. Indeed, Barclays is arguably better informed than most, contributing to all three frameworks, which place it in a strong position to understand relevant CSR issues.

Furthermore, the literature demonstrates that procedural differences can often contribute towards a bank's competitive advantage. Banks therefore express a reticence to provide any internal documentation to external parties on operational procedures, which is considered commercially sensitive. Indeed, responses during the stakeholder engagement revealed a comparable understanding across the group on the principles of CSR. However, stakeholder understanding on ECRA practices varied significantly with some stakeholders feeling unqualified to provide an answer to question 5a. Although, this study marks only the first step in a strategy towards CSR, it is questionable whether stakeholders are necessarily best placed to guide the strategic development of CSR at Barclays unless operational processes are 'opened' to facilitate a 'thorough' engagement process.

Screening all credit risk factors as part of the lending appraisal process is the responsibility of the lending officer. Based on their lending experience and expertise, the officer has the authority to lend a specific lending limit. According to Coulson, (2002), this system reflects the unique nature of lending decisions, and demonstrates the practical need for lenders to consider the details of each case on its individual merit.

Lending officers currently rely on a series of training and support resources (e.g. ERMU) to facilitate their understanding and reasoning in determining environmental risk factors. Stakeholders have illustrated the need for social responsibility training to be incorporated into these processes and for evidence of lender training to be demonstrated as part of future performance indicators with the level and degree of training involved included. Stakeholder responses also cited the importance of working in partnerships with charities, community groups and conservation groups to achieve this. Lectures were recommended to facilitate this goal as well as voluntary workdays to aid a better understanding of specific social issues.

5.4.2 Risk Assessment & Perception

The literature reveals how it is not Barclays' mission to automatically disqualify specific industry sectors from obtaining credit. Instead, the bank adopts a policy which is 'risk aware', encouraging their lending officers to work with potential borrowers to improve environmental performance. Supporting this policy, Barclays stakeholders did not infer the need for the bank to omit any particular industry sector from its loan portfolio.

The literature identified that Barclays provide lending officers a set of briefing notes to guide the environmental assessment process that refer to sector specific issues and interface with standards credit risk assessment procedures. Sectors are, in turn, classed into risk categories such as 'high, medium and low' with the level of risk dictating the required degree of detailed follow-up assessment based on an established sector classification code (appendix three). Barclays specifically isolates 'high-medium' risk sectors in order for them to be referred to centralised ERMU team. Similarly, the guidance framework for the equator principles follows a similar classification process for determining the level of risk associated with a project finance loan and the level of assessment. This trend towards determining risk by industry category and level of risk for the environment appears to be successfully tested, and as illustrated by stakeholders, provides a useful platform upon which to base further CSR assessment. However, given the banks reticence to produce operational information pertaining to its appraisal processes beyond generic guidance, it has been difficult to produce greater insight into specific assessment strategies for broader social responsibilities.

Unfortunately, the complexity of CSR hinders the development of any clear-cut process of assessment, whilst an appropriate referral process will support officers in assessing any aspects which are unclear or set precedents. Stakeholders stressed that no list of concerns will be able to cover every issue of ethical significance and that lending officers should screen transactions from an ethical perspective, whether the issues are listed or not. Furthermore, particular societal issues may be specific to certain sectors and require bespoke guidance to be provided to lending managers. Indeed, Carolyn Spence commented on Barclay's current discussions with the IFC to improve training for lending officers on assessing and categorising project finance risks.

A blanket consideration of industry sectors was generally considered a crude representation of risk from stakeholders, although it did serve to determine industry sectors associated with poor social and ethical standards, guiding the further development of a strategy towards CSR. Nonetheless, stakeholders recognise that within industry sectors, certain companies provide examples of best practice and guide the development of acceptable levels of behaviour. Indeed, most industry sectors identified by stakeholders (figure 13) feature heavily in existing environmental risk assessments and will be familiar to lending officers.

5.4.3 Risk Management

The engagement process revealed that several stakeholders considered that Barclays should consider giving preferential treatment to borrowers who display exemplary social performance. However, another stakeholder source illustrated that such a decision may have only a marginal effect on performance lending as many banks with poor social performance could shop elsewhere. Indeed, as the literature illustrates, it is the job of the ERMU team to work with the borrower in order to identify and mitigate all possible environmental risks rather than denying or raising finance. Furthermore, ECRA has illustrated the limitations of one individual risk factor, whether high, medium or low, to influence the overall pricing of a loan.

However, ECRA is more likely to influence the setting of the terms than the pricing, which may rely on the borrower to comply with certain measures or react to market conditions before financing is provided. This is also true for CSR which is more likely to influence the setting of terms of a loan, which may result in the borrower having to comply with certain social, economic and environmental conditions.

A general consensus amongst stakeholders indicates that, at a minimum, banks should seek to ensure that the borrower does not materially breach significant corporate responsibilities which are based on widely recognised international standards. Furthermore, stakeholders recognise the difficulty in assessing the activity of borrowers' suppliers but indicate that wherever possible, every effort should be made to ensure consistency in CSR strategy. Stakeholders suggested a guarantee from the borrower to ensure the standards of its suppliers would offer possible indemnity against reputational risk.

5.4.4 Lending Decision

The literature review identified how it is standard procedure at Barclays to add a 'suite' of covenants and waivers to loan contracts, along with standard financial terms once the financing decision has been agreed. However, the literature and engagement process illustrates the subjectivity of social responsibilities as they are applied throughout industry sectors and businesses. Therefore, it is advisable that social covenants and waivers be applied on a case-by–case basis depending on the individual merits of each loan application. Indeed, the equator principles recommend that Banks use independent monitors for covenants, requiring borrowers to comply with management plans. If covenants are breached, banks may declare the loans in default although it is likely that this decision will only be made if attempts to seek solutions to bring it back into compliance with its covenants fail.

All three frameworks reviewed advocate a long-term approach to CSR, which is illustrated in the literature and supported by stakeholder responses, by advocating the provision of verifiable reports on compliance from both the borrower and lender.

5.5 Methods for Measuring the Social Responsibilities of Lending

The literature review discusses the performance indicators used by Barclays Bank to represent its activities in the area of ECRA. It illustrates that current performance methods concentrate on non-monetary indicators due to the inherent difficulty of identifying and separating the influence of environmental performance from overall business performance. Furthermore the potential risks associated with these issues have yet to be clearly understood. An assessment of the recent guidance frameworks for the financial services sector illustrates the provision of generic guidance for representing CSR performance issues in light of the subjectivity of quantifying corporate responsibilities.

Responses from stakeholders support the need for clearer evidence that banks are considering the driving and restraining forces in delivering corporate values/mission statements and CSR policies. The vast majority of the proposals put forward for measuring the social responsibilities of lending; focus on non-monetary qualitative indicators that involve engagement with stakeholders to facilitate the relative merits of a proposed framework of CSR for corporate lending. Stakeholder responses also illustrate that attention should focus on the evaluation of policy outcomes – usually anything but straight forward due to the subjectivity of particular issues. For example, one stakeholder cited how policies on child labour can have some negative outcomes if not carefully monitored.

The measurement indicators recommended are relatively simplistic in understanding, application, and interpretation (section 4.9, table 5). However, given the embryonic stage of CSR assessment in the appraisal process of corporate lending, its relative subjectivity, and in light of the difficulty in developing environmental performance measures, these criteria serve the purpose of gauging initial impacts and activity responses. Furthermore, responses suggest that strategies put forward for CSR during its developmental process may be designed with evidence of demonstrable performance outcomes in mind.

Developing assessment performance measures requires time, money and resources, and any decision on suitable methods must satisfy each bank's specific business model. It is likely that this decision will rest with the ERMU team at Barclays who are currently responsible for measuring environmental performance indicators.

5.5 Conclusion

The position taken here on Barclays is that the bank should pursue a strategy for CSR based on the overwhelming response from their stakeholders, the wider stakeholder group and supporting literature.

The role of CSR as part of the lending appraisal process should not be defined in the abstract, because ultimately Barclays will be judged not on its intentions but on its actions. The focus of attention should therefore rest on a strategy which is not over-prescriptive, one that does not adopt criteria which is too high, too vague or too insignificant to action any real changes, but which demonstrates evidence of improved societal performance of borrowers and which is worked out in the concrete reality of lending operations.

Also, the discussion illustrates that stakeholder input is valuable to ascertain the issues relating to CSR and the desired outcomes, but are not sufficiently informed to guide the implementation and direction of policy and procedures based on an understanding of operational processes. Indeed, the relationship between Barclays and its stakeholders would benefit from a more 'open' and 'thorough' engagement process in what is a highly subjective discipline.

Barclays' involvement in this study illustrates their commitment to this area of research and reaffirms Barclay's leadership in tackling the challenges of sustainable development amongst the commercial banking sector.

Finally, it should be emphasised that this research on corporate social responsibility has relevance beyond Barclays and may be considered by the wider banking community.

Chapter Six: Conclusion

This research study aimed to explore questions related to the development of CSR criteria as part of the lending appraisal process at Barclays Bank. This was in order to provide recommendations based on a process stakeholder engagement. The results of the study also provide guidance for the wider commercial banking sector.

In order to satisfy the aim, the following research objectives were devised:

1. Identify the drivers urging Barclays Bank to consider CSR.

2. Determine the societal & ethical criteria expected of Barclays by their stakeholders

3. Determine CSR best practices and consider the suitability of external standards for guidance

4. Determine mechanisms that may facilitate the commercial consideration of CSR criteria throughout the appraisal process.

5. Determine methods for measuring the social responsibilities of lending

6.1 Research Objectives

In relation to the drivers urging Barclays to consider CSR, this work has identified that principally the issues are both tangible and intangible risk factors, namely financial and reputational risk management, and confirms that CSR is as much an act of defence as it is of opportunity.

Furthermore, the forces, which may act for and against any proposed plan to include CSR criteria as part of the lending process, indicate that driving forces outweigh any barriers. Indeed, by identifying the perceived barriers to implementing CSR the research has established areas of support, which weaken the restraining forces, create new and strengthen existing driving forces.

In relation to objective two, the wider stakeholder community positively reflects the societal and ethical criteria of Barclay's stakeholders. Despite the subjectivity of CSR, the issues identified enjoyed a relatively shared level of importance. All were considered fundamental to developing CSR criteria, which it is hoped will facilitate the improved societal standards of borrowers. However, considering these issues in a generic context may also have associated problems. For example, policies on child labour may have some negative outcomes if not carefully monitored, and therefore any decision to assess the social responsibilities of borrowers should be on a case-by-case approach.

In relation to objective three, current guidelines offer general supportive instruction but fail to provide a clear framework for the development of CSR processes relating to the lending appraisal process. Indeed, the guidelines illustrate the necessity for banks to develop policies that represent their specific areas of business and stakeholder concerns and advocate a strategy of 'learning by doing'. Additionally, whilst certain industry best practices may provide suitable guidance for future lending officer training and support, the specificity of this study area meant that best practices from the financial services sector were limited. Furthermore the research recognises that whilst Barclays are proactive in respects to many issues of CSR, they enjoy very little public applause for their achievements.

Objective four of the research aimed to determine mechanisms that may begin the commercial consideration of CSR as part of the process of corporate lending. The framework constructed in the methodology provided a sound basis for discussing each factor, as it was possible to focus on each element of the lending process separately. Stakeholders illustrated that ECRA provides a platform on which to consider CSR but is not suitably in-depth to cover all issues relating to CSR. However, stakeholder understanding was not sufficiently informed to guide the implementation and direction of CSR policy and procedures based their current overall level of operational knowledge. Difficulty in gaining access to sensitive operational literature, which banks regard as a source of competitiveness, was to be expected. Indeed, in defence of Barclays, they have produced a relative wealth of information on CSR/ECRA information available to the public, which was a contributing factor for there selection as a case study subject.

Finally, objective five, a number of performance indicator measures are recommended to further consider the development of CSR within the lending process. The indicators generally rely on non-financial measures to demonstrate evidence of performance. The inherent difficulty of isolating environmental performance from the overall loan process makes this an advisable course of action for the subjectivity of CSR.

Based on the information provided in the literature review and by stakeholder groups, adequate responses have been provided for all the research objectives set out in chapter one, for incorporating CSR criteria as part of the lending appraisal process at Barclays Bank. However, it should be noted that this study is only the starting point with which to begin a continuous and long-term approach to CSR that involves the opinion of key stakeholders.

6.2 Research Limitations

The thesis is a pioneering study, as yet few banks have actively adopted CSR criteria within their process of lending and guidance frameworks hoping to facilitate this trend are in the initial phase of testing. Until more banks begin to develop and implement CSR strategies it is difficult to quantify/benchmark the effectiveness of the method and results used in the research.

This work would have benefited from input from lending officers, giving a first-hand insight into their approach to the lending process, potential benefits and barriers, and practical guidance for the development and understanding of CSR criteria. Such an opportunity did not present itself as part of the exploratory research process with Barclay's representatives.

Similarly, the study would have benefited from a more in-depth understanding of Barclays specific procedures and policies relating to ECRA. The fact that banks regard their internal processes as contributing towards its competitiveness limited the availability of documentation/information for review. All information used for this research can be found in the public domain, which restricts a specific understanding of Barclay's operational processes to generic data sources. Indeed, as mentioned previously, stakeholder understanding of operational processes was not sufficiently informed to guide the implementation and direction of CSR policy and procedures. This point illustrates that CSR is a sensitive issue for banks that is unlikely to change in the short-term. Furthermore, it illustrates that dialogue with what it regards as its key stakeholders is kept on a formal footing and could enjoy greater development. Indeed, both Chris Bray and Carolyn Spence sought clarification on the issue of confidentiality surrounding thesis publications during the exploratory phase of research. Both Barclay's representatives were unwilling to see the publication of sensitive stakeholder material that may damage their reputation or affect their market position.

Finally, the answers given by each stakeholder is regarded as their opinion but one, which embodies the social and ethical conscience of the organisation it represents. Each answer is therefore open to some interpretation on its accuracy in reflecting the overall opinion of the organisation and not the influences/interests of the individual stakeholder. Furthermore, findings presented for the consideration of CSR are the result of a group process amongst two participating stakeholder groups. It is not supposed that each stakeholder endorses each and every outcome, which in turn may be subject to change over time.

6.3 Recommendations for Future Research

The adoption of CSR criteria in the lending appraisal process is at an embryonic stage. Enhanced by formal rigorous study the issue of CSR could lead to further debate/research on best practices amongst banks, which should ultimately focus on whether CSR has the capacity to influence the social behaviour of its corporate borrowers. Additionally, research on how and under which circumstances bank's adopting CSR can satisfy the objective of enhanced competitiveness and a more sustainable approach to business would be desirable.

Similarly, there may be potential for research into whether lending strategies that consider the social responsibilities of borrowers attracts socially aware consumers to a greater degree than standard lending banking procedures.

This thesis 'green lights' Barclays to begin a strategy of CSR for the lending appraisal process based on the opinion of its stakeholders. It also paves the way for further academic studies on Barclay's progress in implementing a CSR framework and the evaluation of policy outcomes and verifying procedures. Furthermore, the stakeholder group may be widened to incorporate a broader set of opinions, as the operations surrounding the appraisal process are better understood. Additionally, future research in this field may focus on specific stakeholder positions, for example, NGO's, Institutional investors or lending officers/internal employees.

Future research could also be directed towards examining the societal perception of Barclay's corporate reputation. Barclays have contributed significantly to the development of environmental and now social considerations across its operations, but has failed to capitalise in communicating its achievements.

Finally, this work highlighted the framework guidelines from GRI, FORGE and Equator Principles. It is recommended that with further refinement and the wider adoption of these guidelines there will be many opportunities to evaluate best practices and common procedural processes across national and international banking operations. Furthermore, a comparative study of the respective guidance frameworks and their adoptive success is considered a recommendation for future research.

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Appendices

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Appendix One: CSR Endorsements from Political & Business Leaders

"Development can no longer be regarded as the responsibility of government alone. It requires...partnership...with [the] private sector, labour and non-governmental organisations... There are many ways in which the special skills and know-how of the business community can help achieve development objectives."
Nelson Mandela, Former South African President

"Business decisions can profoundly affect the dignity and rights of individuals and communities... It is not a question of asking business to fulfil the role of government, but of asking business to promote human rights in its own competence."
Mary Robinson, UN High Commissioner for Human Rights

"You can't have the biggest force in society, business, concerned only with maximising profits and still have a socially responsible society."
Ben Cohen, Ben & Jerry's

"... I call on UK business to make corporate responsibility not a side show but the centrepiece of your mission statements; not a part of what you do but at the heart of what you do; not incidental but integral to your company's progress. And the government takes responsibility for changing its ways too - creating an environment in which corporate social responsibility has the opportunity to flourish."
Gordon Brown, Chancellor of the Exchequer

"The strength of the new BP will be judged not just by our financial results, but also by the aspirations we set, and how we treat our environment and society."
Lord John Browne, BP Group Chief Executive

Appendix Two: Definitions of CSR

Author	Definition
World Business Council for Sustainable Development (WBCSD)	Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.
Department of Trade and Industry	"Corporate Social Responsibility" is a wide ranging agenda and involves businesses looking at how to improve their social, environmental and local economic impact, their influence on society, social cohesion and human rights, fair trade and on the ways in which that fairness can be corrupted. CSR is an issue both for large multinationals and for small, locally based business.
European Commission's White Paper on CSR	Corporate Social Responsibility is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large. By expressing their Social Responsibility, companies are affirming their role in social and territorial cohesion, quality and environment. Through production, employment relations, and their investments, companies are able to influence employment, the quality of jobs and the quality of industrial relations, including respecting fundamental rights, equal opportunities, non-discrimination, the quality of goods and services, health and the environment.
CSR Forum	Corporate Social Responsibility means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders. The subject is as broad as it is complex.
Business for Social Responsibility (BSR)	"CSR is defined as operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is seen by leadership companies as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management."
Ethics in Action	"CSR is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit."

Appendix Three:
Full BIC Code Listing High Environmental Risk Activities

AGRICULTURE

Pig farming	0123
Poultry farming	0124
Other/miscellaneous animal farming	0125
Dairy farming	0128

MINING & QUARRYING

Mining of coal & lignite	1010
Extraction of peat	1030
Extraction of crude petroleum, natural gas, bituminous shale & sand	1110
Mining of uranium & thorium ores	1200
Mining of iron ores	1310
Mining of non-ferrous ores	1320
Quarrying of stone (including limestone, gypsum, chalk & slate)	1410
Quarrying of sand & clay, operation of sand & gravel pits	1420
Mining of chemicals & fertiliser minerals	1430
Other mining & quarrying	1450

MANUFACTURE OF FOOD PRODUCTS & BEVERAGES

Animal slaughtering & basic processing of meat other than poultry.	1509
Animal by products and fellmongery	1510
Poultry & rabbit meat processing	1512
Meat & poultry meat products	1513
Processing & preserving of fish & fish products	1520
Processing of fruit & vegetables	1530
Vegetable & animal oils & fats, margarine & similar products	1540
Manufacture of starches & starch products	1562
Manufacture of prepared feeds for farm animals	1571
Pet foods	1572
Manufacture of tobacco products	1600

MANUFACTURE OF TEXTILES & TEXTILE PRODUCTS

Cotton preparation – spinning & weaving	1711
Woollen & worsted	1712
Manufacture of sewing threads	1716

Basic processing, spinning & weaving of other natural fibres (eg. silk, throwing & texturing of continuous filament yarns)	1717
Textile finishing	1730
Carpets & rugs	1751
Other textile manufacturing (including rope)	1754

MANUFACTURE OF CLOTHING: FUR DRESSING

Fur processing & manufacture of fur articles	1830

MANUFACTURE OF LEATHER & LEATHER PRODUCTS

Leather tanning & dressing	1910

MANUFACTURE OF WOOD & WOOD PRODUCTS

Sawmilling, planning & impregnation	2010
Veneer sheets; plywood & other panels & boards	2020

MANUFACTURE OF PULP, PAPER & PAPER PRODUCTS

Pulp, commodity grade paper, paperboard manufacture	2110
Paper packaging products	2121
Other paper products	2125

PUBLISHING & PRINTING

Printing of newspapers	2221
Other printing	2222
Bookbinding and finishing	2222
Composition and platemaking	2225
Reproduction of recorded media (including manufacture of CDs, records, audio, visual & computer tapes)	2230

MANUFACTURE OF COKE, REFINED PETROLEUM PRODUCTS & NUCLEAR FUEL

Manufacture of coke oven products	2310
Oil & petroleum refining	2321
Other treatment of petroleum products	2322
Processing of nuclear fuel **(PLEASE NOTE THAT ENVIRONMENTAL RISK POLICY MAY APPLY TO THIS BIC CODE)**	2330

MANUFACTURE OF CHEMICALS, CHEMICAL PRODUCTS & MAN-MADE FIBRES

Industrial gases	2411
Dyes & pigments	2412
Other inorganic basic chemicals	2413

Petrochemicals & other organic-based chemicals	2414
Fertilisers	2415
Plastics in primary forms	2416
Synthetic rubber in primary forms	2417
Pesticides & other agrochemical products	2420
Paints, varnishes, printing inks, mastics & sealants	2430
Pharmaceuticals	2440
Soaps & detergents, cleaning & polishing preparations	2451
Perfumes & toiletries	2452
Other chemical products (including explosives, glues, gelatines & recording tapes)	2460
Man-made fibres	2470

MANUFACTURE OF RUBBER & PLASTIC PRODUCTS

Rubber tyres & tubes (including retreads)	2511
Other rubber products	2513
Plastic plates, tubes, sheets & profiles	2521
Plastic packaging goods	2522
Plastic building products	2523
Other plastic products	2524

MANUFACTURE OF OTHER NON-METALLIC MINERAL PRODUCTS

Flat glass manufacture	2611
Other glass & glass products	2615
Tableware & other ceramics	2621
Ceramic building products	2622
Refractory products	2626
Clay bricks & tiles	2640
Cement, lime & plaster manufacture	2650
Concrete, cement & plaster products	2660
Other non-metallic mineral products (including abrasives & asbestos)	2680

MANUFACTURE OF BASIC METALS

Basic iron, steel & ferroalloys	2710
Iron & steel tubes	2720
Iron & steel processing (including rolling & drawing)	2730
Precious & non-ferrous metals	2740
Metal casting/foundries	2750

MANUFACTURING OF FABRICATED METAL PRODUCTS EXCEPT MACHINERY & EQUIPMENT

Constructional steelwork, metal structures & building materials	2810
Metal tanks, reservoirs & containers, central heating radiators & boilers	2820
Steam generators	2830
Metal forging, pressing, stamping & other processing	2840
Treatment & coating of metals	2851
General mechanical engineering	2852
Cutlery, hand tools & hardware	2860
Metal packaging	2872
Metal fasteners, chain & springs	2874
Other fabricated metal & wire products	2875

MANUFACTURE OF MACHINERY & EQUIPMENT NOT ELSEWHERE CLASSIFIED

Weapons & ammunition	2960

MANUFACTURE OF ELECTRICAL & OPTICAL EQUIPMENT

Office machinery & computers	3001/2
Electric motors, generators & transformers	3110
Insulated wire & cable	3130
Batteries, accumulators & primary cells	3140

MANUFACTURE OF MOTOR VEHICLES

Manufacture of motor vehicles	3410
Manufacture of bodies for motor vehicles	3420
Manufacture of parts and accessories for motor vehicles	3430

MANUFACTURE OF OTHER TRANSPORT EQUIPMENT

Building & repairing of ships	3511
Building & repairing of pleasure & sporting boats	3512
Railway & tramway engines & rolling stock	3520
Aerospace	3530
Manufacture of motorcycles	3541

RECYCLING
(PLEASE NOTE THAT ENVIRONMENTAL RISK POLICY MAY APPLY TO THESE BIC CODES)

Recycling of metal waste & scrap metal	3710
Recycling of non-metal waste & scrap	3720

ELECTRICITY, GAS & WATER SUPPLY

Electricity production & distribution	4010
Gas manufacture & distribution	4020

CONSTRUCTION

Site preparation (including demolition)	4510

WHOLESALE AND RETAIL TRADE : MOTOR VEHICLES

Maintenance & repair of motor vehicles	5020
Sale, maintenance & repair of motor-cycles, parts & accessories	5040
Retail sale of automotive fuel	5050

WHOLESALE TRADE & COMMISSION TRADE, EXCEPT OF MOTOR VEHICLES & MOTOR-CYCLES

Wholesale: chemical products, waste & scrap	5155
Wholesale: fuels, metals, paper and other intermediate products	5156

TRANSPORT, STORAGE & COMMUNICATION

Railways	6010
Bus services	6021
Coach hire operators	6023
Specialist road haulage	6025
General road haulage	6026
Pipelines	6030
Sea & coastal water transport	6110
Inland water transport	6120
Scheduled air transport	6210
Non-scheduled air transport	6220
Space transport	6230
Ports, bridges, roads and other land or water transport support services	6320
Air transport support services	6323

SEWAGE & REFUSE DISPOSAL, SANITATION & SIMILAR ACTIVITIES

(PLEASE NOTE THAT ENVIRONMENTAL RISK POLICY MAY APPLY TO THIS BIC CODE)

Sewage & refuse disposal & sanitation activities	9000

OTHER SERVICE ACTIVITIES

Laundries & dry cleaning	9301

Appendix Four: Barclays Bank Stakeholders

Name	Position	Company
Kirsty Thomas	Senior Analyst, Governance and Socially Responsible Investment	ISIS Asset Management
Anne-Marie O'Connor	Managing Director, Research	Core Ratings Ltd
Andreas King	Principal Consultant	RPS Consultants
Philippa Birtwell	Senior Public Affairs Manager, Public Policy	Barclays Bank Plc
Dr Andrea Coulson	Lecturer in Accounting Department of Accounting and Finance	University of Strathclyde
Phil Case*	Group Environmental Director	Barclays Bank Plc
Stuart Sweeney	Business Group Member	Amnesty International

**Unable to participate in study due to work commitments*

Appendix Five: The Wider Stakeholder Group

- Article 13
- APAX Partners
- Ashridge Business Centre for Business & Society
- Association of British Insurers*
- British Banking Association
- Business in the Community
- Calvert Social Research
- Centre for Social Markets
- Centre for Sustainable Investment (CSI) – Forum for the Future
- Connectpoint PR*
- DEFRA
- Department of Trade and Industry (DTI)
- E2 Management Consulting AG
- Environics International*
- ERM Environmental Consultants
- Ethical Corporation
- Ethical Investment Research Service - EIRIS
- Financial Services Authority (FSA)*
- Friends of the Earth
- Huddersfield University*
- Insight Investment
- Institute of Social & Ethical Accountability
- International Labour Organisation
- MHC International
- National Consumer Council
- New Economics Foundation
- Pensions and Investment Research Consultants (PIRC)

- PriceWaterhouseCoopers
- Rathbone Investment Management Ltd
- Royal Bank of Scotland
- Royal Society for the Protection of Birds (RSPB)*
- SustainAbility*
- The Good Corporation*
- The Prince of Wales International Business Leaders Forum
- Trade Union Council (TUC)
- Transparency International UK*
- UK Social Investment Forum
- UNUM Provident*
- World Economic Forum
- World Wildlife Foundation WWF

**** Indicates participants of wider stakeholder group***

Appendix Six: CSR Research Questionnaire

(Barclays Stakeholder Group)

1. (a) Please provide a brief outline of your understanding of the following terms:

(i) Corporate social responsibility (CSR)

(ii) Societal performance

(iii) Ethical performance

(b) In your opinion, how should these terms apply to the lending appraisal process at commercial banks?

2. In your opinion, please provide examples of CSR 'best practice' amongst organisations.

3. **In your opinion, what do you perceive are the key drivers behind commercial banks incorporating a consideration of CSR into their lending appraisal process? Please rank in order of importance (from 1 onwards):**

- Political pressure
- Peer group/competitive pressure
- Employee pressure
- Public expectation
- Benchmarking of corporate performance, e.g. FTSE4Good
- Institutional investors, e.g. Fund Management companies
- Regulation
- Reputation risk
- Income generation
- Other?

4. **List six driving forces and restraining forces, which in your opinion may affect the development of CSR criteria as a consideration in a commercial bank's lending appraisal process.**

The types of forces to consider may include:

Available resources	Attitudes of people	Values
Traditions	Regulations	Desires
Vested interests	Personal or group needs	Costs
Organisational structures	Present or past practices	People
Relationships	Institutional policies or norms	Events
Social or organisational trends		

Please assign a score for each force, from 1(weak) to 5 (strong). The score a force receives is dependant on (i) the strength of the force and (ii) the degree to which it is possible to influence this force.

Driving Forces	*Score*	*Restraining Forces*	*Score*

5. **(a) What, if any, difference(s) has the environmental credit risk assessment strategy at Barclays bank had on (i) the environmental performance of borrowers (ii) the lending appraisal process?**

(b) Does ECRA provide a platform/basis for the development of CSR strategy? Please provide a statement of opinion and justification for discussion.

6. **Please indicate the ethical and societal concerns that you would want to be featured in the lending appraisal process? Please rank these considerations in order of importance (from 1 onwards):**

(e.g. genetically modified organisms, human rights & labour issues, money laundering, animal exploitation, corporate governance, bioethics, etc.)

7. **Which industry sectors do you feel are particularly associated to poor social and ethical standards? Please rank in order of importance (from 1–5).**

8. **In your opinion, does CSR have an impact on the profitability of banks and/or shareholder value? Please provide a statement of opinion and justification for discussion.**

9. **In your opinion, what indicators of measurement can be used to assess CSR performance as part of the appraisal process? Please comment, giving particular reference to what success criteria could be used to illustrate how CSR has made a difference.**

Comments:

Appendix Seven: CSR Research Questionnaire

(Wider Stakeholder Group)

1. (a) Please provide a brief outline of your understanding of the following terms:

(i) Corporate social responsibility (CSR)

(ii) Societal performance

(iii) Ethical performance

(b) In your opinion, how should these terms apply to the lending appraisal process at commercial banks?

2. In your opinion, please provide examples of CSR 'best practice' amongst organisations.

4. **In your opinion, what do you perceive are the key drivers behind commercial banks incorporating a consideration of CSR into their lending appraisal process? Please rank in order of importance (from 1 onwards):**

- Political pressure
- Peer group/competitive pressure
- Employee pressure
- Public expectation
- Benchmarking of corporate performance, e.g. FTSE4Good
- Institutional investors, e.g. Fund Management companies
- Regulation
- Reputation risk
- Income generation
- Other?

4. **List six driving forces and restraining forces, which in your opinion may affect the development of CSR criteria as a consideration in a commercial bank's lending appraisal process.**

The types of forces to consider may include:

Available resources	Attitudes of people	Values
Traditions	Regulations	Desires
Vested interests	Personal or group needs	Costs
Organisational structures	Present or past practices	People
Relationships	Institutional policies or norms	Events
Social or organisational trends		

Please assign a score for each force, from 1(weak) to 5 (strong). The score a force receives is dependant on (i) the strength of the force and (ii) the degree to which it is possible to influence this force.

Driving Forces	*Score*	*Restraining Forces*	*Score*

5. **(a) What, if any, difference(s) has the environmental credit risk strategies of many major commercial banks had on (i) the environmental performance of borrowers (ii) the lending appraisal process?**

(b) Does environmental credit risk provide a platform/basis for the development of CSR strategy? Please provide a statement of opinion and justification for discussion.

6. **Please indicate the ethical and societal concerns that you would want to be featured in the lending appraisal process? Please rank these considerations in order of importance (from 1 onwards):**

(e.g. genetically modified organisms, human rights & labour issues, money laundering, animal exploitation, corporate governance, bioethics, etc.)

7. **Which industry sectors do you feel are particularly associated to poor social and ethical standards? Please rank in order of importance (from 1–5).**

8. **In your opinion, does CSR have an impact on the profitability of banks and/or shareholder value? Please provide a statement of opinion and justification for discussion.**

9. **In your opinion, what indicators of measurement can be used to assess CSR performance as part of the appraisal process? Please comment, giving particular reference to what success criteria could be used to illustrate how CSR has made a difference.**

Comments:

Appendix Eight: Questionnaire Covering Letter (Barclays Stakeholder Group)

Name...
Position...
Company...
Address...
Address...
Address...

Date...2003

Dear...

Re: MSc Thesis - Research questionnaire

Thank you for agreeing to participate in the initial stage of my research, the questionnaire. As I mentioned to you earlier on the phone, I am a postgraduate student currently studying an MSc by Research in Environmental Management for Business at Cranfield University. The thesis examines the criteria and feasibility for incorporating corporate social responsibilities (CSR) into the investment appraisal process at commercial banks.

The thesis is a qualitative study relying on the participation of Barclays Bank stakeholders and representatives. The data collection process begins with a list of questions to map stakeholder opinion regarding the consideration of corporate social responsibility criteria as part of the lending appraisal process of commercial banks. The questions are the first stage of analysis and provide a provisional guide for a subsequent follow-up discussion. Each participant is encouraged to provide as much information as they consider important to the development of CSR as part of a bank's lending criteria.

The response from the data collection process should help to determine the societal and ethical criteria expected of commercial banks in their lending appraisal process by their stakeholders, elicit current CSR best practices and provide guidance for the development of a framework process for the consideration of CSR indicators.

Space is provided at the end of the set of questions, giving you the opportunity to illustrate issues, which you believe are integral to this study and which are not included in this initial stage of analysis. Alternatively, please feel free to express in your opinion the relevance of the questions posed and any areas that didn't relate to your personal position as a stakeholder or your knowledge of CSR.

If you would like to discuss any of the questions listed, please feel free to contact me at home on: **020 8842 1...** or via email: **k.d.considine.s02@cranfield.ac.uk**

Your commitment to this research study is greatly appreciated and I look forward to receiving your responses.

Yours sincerely,

Kevin Considine
Cranfield University

Appendix Nine: Questionnaire Covering Letter (Wider Stakeholder Group)

Name...
Position...
Company...
Address...
Address...
Address...

Date...2003

Dear...,

Re: MSc Thesis - Research Questionnaire

I am a postgraduate student currently studying an MSc by Research in Environmental Management for Business at Cranfield University. The thesis examines the criteria and feasibility for incorporating corporate social responsibilities (CSR) into the investment appraisal process at commercial banks. Your point of view is valuable to me and I would be grateful if you would take 10-15 minutes to complete the attached questionnaire.

The response from the data collection process should help to determine the societal and ethical criteria expected of commercial banks in their lending appraisal process by stakeholders, elicit current CSR best practices and provide guidance for the development of a framework process for the consideration of CSR indicators.

Each participant is encouraged to provide as much information as they consider important to the development of CSR as part of a banks lending criteria. Space is provided at the end of the set of questions, giving you the opportunity to illustrate issues, which you believe are integral to this study and which are not included in this stage of analysis. Alternatively, please feel free to express in your opinion the relevance of the questions posed and any areas that didn't relate to your personal position as a stakeholder or your knowledge of CSR. You are also welcome to forward this questionnaire onto colleagues or interested parties who may wish to be involved with this study.

If you would like to discuss any of the questions listed, please do not hesitate to contact me on: **020 8842 1...** or via email: **k.d.considine.s02@cranfield.ac.uk**

This survey is part of my academic research and your participation will help me to complete my thesis.

I would like to take this opportunity to thank you in advance for your co-operation and willingness to help me achieve my goals.

Yours sincerely,

Kevin Considine
Cranfield University